



Summary of the Audited Annual Report
for Krka, d. d., Novo mesto
and the Krka Group for 2006



Living the healthy life

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INTRODUCTION

Opening clarifications

The publication of the audited non-consolidated and consolidated financial statements of Krka d. d., Novo Mesto, Šmarješka cesta 6, 8501 Novo Mesto and the Krka Group is in accordance with the Rules of the Ljubljana Stock Exchange and the Securities Market Act (ZTVP-1, Official Gazette of the Republic of Slovenia, no 56/99).

The audited annual report of Krka d.d., Novo Mesto (the Krka company) and the Krka Group was approved by the company's supervisory board at its regular session of 3 April 2007.

The financial statements have been prepared in compliance with the International Financial Reporting Standards (hereinafter IFRS), which is in compliance with the resolution adopted at the 11th annual meeting held on 6 June 2006. As defined by the said resolution, the Company no longer prepares reports according to provisions of the Slovenian Accounting Standards.

KPMG Slovenija, d.o.o. has audited each section separately and prepared two individual reports. In the auditor's opinion, the financial statements present fairly, in all material respects, the financial position of Krka, d.d., Novo mesto and the Krka Group as at 31 December 2006, the result of their operations and their cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union. The Management Report is in conformity with the audited financial statements. The Auditor's Reports for Krka and the Krka Group were issued as at 15 March 2007.

There is no difference between the audited and non-audited financial statements of Krka. Compared to the non-audited, the audited consolidated financial statements of the Krka Group record higher deferred taxes and consequently a higher net profit by 104,864 thousand SIT; as a result, deferred tax assets and equity are higher by the same amount.

The company does not have authorized capital and neither conditional increase in share capital.

The summary of the audited annual report for the Krka company and Krka Group is available from 26 April 2006 on the Ljubljana Stock Exchange's electronic information system (SEOnet) and on the company website: www.krka.si.

The company regularly makes public any significant change to the data contained in its listing prospectus via the Ljubljana Stock Exchange's electronic information system SEOnet or the Delo newspaper. These announcements can also be accessed via the official Krka website (www.krka.si).

The audited annual report of the Krka company pursuant to the SAS and IFRS and the Krka Group pursuant to the IFRS can be reviewed at Krka's registered office at Šmarješka cesta 6, 8501 Novo Mesto, Slovenia every working day from 8am to 3pm. Pursuant to Article 55 of the Companies Act, the 2005 audited annual report of the company and group will be sent with the auditor's option to the Agency of the Republic of Slovenia for Public and Legal Records and Services.

Statement of compliance

The Company's Management Board is responsible for the preparation of the annual report of the Company and the Krka Group including the financial statements so as to provide the general public with a true and fair view of the financial position and the results of operations of the Company and its subsidiaries in 2006.

The Management Board hereby acknowledges that:

- the financial statements were prepared on a going concern basis,
- the selected accounting policies are applied consistently and any changes in accounting policies have been reported,
- the accounting estimates have been prepared in a fair and reasonable manner and are in compliance with the principles of prudence and due diligence,
- the financial statements and the notes thereto both for the Company and the Group have been prepared in accordance with the effective legislation and the IFRS.

The Company's Management Board is responsible for taking the measures required to maintain the company's and the Group's value and to prevent and detect fraud and other forms of misconduct.

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

Novo mesto, March 2007

Profile of the Krka Group

Krka Group comprises the Krka company and its subsidiaries in Slovenia and in foreign countries:

| | Ownership share 31 Dec 2006 |
|--|--------------------------------|
| TERME KRKA, d. o. o., Novo mesto* | 100% |
| KRKA-FARMA d. o. o., Zagreb, Croatia | 100% |
| »KRKA-FARMA«, d. o. o., Novi Sad, Serbia | 100% |
| KRKA-FARMA DOOEL, Skopje, Macedonia | 100% |
| OOO »KRKA-RUS«, Istra, Russian Federation | 100% |
| OOO »KRKA FARMA«, Sergijev Posad, Russian Federation | 100% |
| KRKA-Polska, Sp. z o. o., Warsaw, Poland | 100% |
| KRKA Magyarország Kft, Budapest, Hungary | 100% |
| KRKA ČR, s. r. o., Prague, Czech Republic * | 100% |
| KRKA Pharma Dublin Limited, Dublin, Ireland | 100% |
| KRKA Sverige AB, Stockholm, Sweden | 100% |
| KRKA Aussenhandels GmbH, Munich, Germany* | 100% |
| HELVETIUS- S. R. L., Trieste, Italy** | 80% |

* companies, where no operations are carried out

** company in the process of dissolution

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

Group financial highlights

| | 2006 | | 2005 | |
|-------------------------------------|----------------|-----------------|----------------|-----------------|
| | in million SIT | in thousand EUR | in million SIT | in thousand EUR |
| Sales revenues | 160,069 | 667,955 | 132,758 | 554,137 |
| EBIT | 36,065 | 150,495 | 28,523 | 119,057 |
| EBITDA | 47,497 | 198,200 | 39,494 | 164,849 |
| Net profit | 26,860 | 112,086 | 23,319 | 97,335 |
| Non-current assets | 137,756 | 574,847 | 120,455 | 502,785 |
| Current assets | 72,918 | 304,282 | 68,394 | 285,480 |
| Equity | 136,812 | 570,905 | 114,897 | 479,585 |
| Non-current liabilities | 39,287 | 163,940 | 36,368 | 151,804 |
| Current liabilities | 34,576 | 144,283 | 37,584 | 156,877 |
| R&D costs | 12,617 | 52,650 | 9,612 | 40,120 |
| Investments | 25,689 | 107,200 | 21,451 | 89,537 |
| RATIOS | | | 2006 | 2005 |
| Net profit/Sales revenues (ROS) | | | 16.8% | 17.6% |
| EBIT/Sales revenues | | | 22.5% | 21.5% |
| EBITDA/Sales revenues | | | 29.7% | 29.7% |
| Return On Equity (ROE) ¹ | | | 21.3% | 22.0% |
| Return On Assets (ROA) ² | | | 13.4% | 13.5% |
| Liabilities/Equity | | | 0.540 | 0.644 |
| R&D costs/Sales revenues | | | 7.9% | 7.2% |
| Number of employees (year end) | | | 5759 | 5224 |

| EXCHANGE RATES | 2006 | 2005 |
|-----------------------|-------------|-------------|
| EUR (average) | 239.601 SIT | 239.636 SIT |
| EUR (31 December) | 239.640 SIT | 239.576 SIT |
| USD (average) | 190.993 SIT | 192.819 SIT |
| USD (31 December) | 181.931 SIT | 202.430 SIT |

| SHARE INFORMATION | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|-----------|-----------|-----------|-----------|-----------|
| Total number of shares issued | 3,542,612 | 3,542,612 | 3,542,612 | 3,542,612 | 3,542,612 |
| Earnings per share in SIT ³ | 7,918 | 6,890 | 4,627 | 3,113 | 3,266 |
| Earnings per share in EUR ³ | 33.04 | 28.76 | 19.30 | 13.15 | 14.18 |
| Dividend per share in SIT | 1,650 | 1,400 | 1,200 | 1,050 | 950 |
| Dividend per share in EUR | 6.89 | 5.84 | 5.01 | 4.44 | 4.13 |
| Share price at the end of year in SIT | 188,057 | 102,342 | 84,482 | 52,188 | 42,458 |
| Share price at the end of year in EUR | 784.75 | 427.18 | 352.39 | 220.49 | 184.39 |
| Price/earnings ratio (P/E) | 23.75 | 14.85 | 18.26 | 16.76 | 13.00 |
| Market capitalisation at year end in million SIT (31 December) | 666,213 | 362,558 | 299,289 | 184,882 | 150,414 |
| Market capitalisation at year end in thousand EUR (31 December) | 2,780,058 | 1,513,334 | 1,248,374 | 781,115 | 653,216 |

¹ Net profit/average equity balance in the period

² Net profit/average total assets balance in the period

³ Net profit of the majority owners/average number of shares issued excluding treasury shares

Significant events and awards

The President of the Management Board and CEO Jože Colarič won the Manager of the Year award from the Managers' Association. At the *Kapital 2006* finance conference, he was awarded the Director of the Year award, voted for by business journalists, while at the 18th Forum of Excellence and Craftsmanship organised by the Dolenjska and Bela Krajina Association of Economists he was awarded the grand prize for excellence and craftsmanship.

According to the 2006 Corporate Reputation Survey by PR agency Kline & Partner, Krka is a company with the highest reputation in Slovenia according to the business and general community opinion.

In the Russian Federation, Krka was made the third most influential pharmaceutical producer, following a survey by the trade review, *Farmaceutvski Vestnik*. Krka's Enap® was the third-ranked pharmaceutical product.

For the third time, Krka won the IR Magazine's first prize in the category for best investor relations in Slovenia.

After being granted official authorisation from the Croatian and Slovenian GMP inspectorates, regular production of products started at the Jastrebarsko plant intended for local market and export markets, among others also for EU markets.

Pfizer Inc, New York, USA withdrew its action against Krka relating to the Yasnal® (donepezil) product, and an out-of-court settlement was reached with the French company Servier on Prennesa® (perindopril).

The 11th Krka Annual General Meeting, with shareholders present representing 37.18% of equity, passed a resolution that from 1 January 2006 onwards the Annual Report will only be prepared in accordance with the International Financial Reporting Standards (IFRS).

After a successful GMP verification, the Agency for Medicinal Products and Medical Devices of Republic of Slovenia issued Krka with a manufacturing licence for the new Sinteza 4 plant for the production of active pharmaceutical ingredients (APIs). The first OHSAS assessment was also successfully carried out.

In Poland Krka received two awards for self-medication products, Bilobil® and Septolete.®

The traditional Krka Awards for Young Researchers were bestowed for the 36th year in succession.

The Slovenian Science Foundation made Krka its 2006 Sponsor of the Year.

In the 2005 Best Annual Report Awards organised by the Slovenian business daily *Finance*, Krka received first prize for its financial report, and third prize in the overall best annual report of 2005 category.

Terme Krka Company officially opened public Hotel Vitarium, featuring a relaxation centre, at Terme Šmarješke Toplice and the golf course at Otočec.

The Tourist Association of Slovenia's award for the best spa resorts, part of its My Country – Beautiful and Welcoming promotional campaign, went to the Krka spa resorts in Strunjan and Šmarješke Toplice.

Events after the accounting period

In 2007 the controlling company, Krka, d. d., Novo mesto paid the founding capital for two new subsidiaries, which were registered as KRKA FARMACEUTICA, LDA, Estoril, Portugal and KRKA USA, LLC, Delaware, United States, in which it has 100% ownership.

Key strategies and objectives – to 2010

- Achieving average annual growth in sales of over 10%.
- Maintaining independence and making use of opportunities in the consolidation of the pharmaceutical industry.
- Expanding the range of prescription pharmaceuticals in key therapeutic areas: medicines for cardiovascular diseases, for diseases of the alimentary tract and metabolism, for the treatment of infections and the central nervous system, and the launch of new therapeutic areas.
- Focusing on European and Central Asian markets and pharmaceutical-chemical operations with objective of achieving a leading position on selected key markets.
- Continued organic growth and growth on the basis of acquiring product lines, market shares and companies.
- Increasing the proportion of products that result from the vertical business model.
- Strengthening expertise and cost synergies within the Krka Group.
- Expanding own marketing and sales network and establishing own companies abroad.
- Promoting creativity and innovation, motivation, and an entrepreneurial and target-oriented approach.
- Upholding our economic, social and ecological responsibilities to the environment in which we operate.

Performance criteria are used to assess the implementation of strategic objectives. There are 90 strategic criteria, financial and non-financial, at the corporate level, at the level of individual product groups and individual business functions. The guiding principle in establishing the criteria system is increasing the competitive of individual companies and the entire Group. The criteria are monitored by individual committees and the Management Board.

Because of the very dynamic nature of the pharmaceutical industry and the business environment in general, the Group reviews and updates its strategy every two years. The Krka Group strategy for 2008–2012 is currently in preparation, and is set for adoption by the end of 2007.

The Krka Group's business objectives for 2007

- 12% growth, generating products and service sales of 750 million euros.
- Highest sales growth is planned on the markets of Central and East Europe; the Russian Federation remains the most important individual market.
- The proportion of sales on markets outside Slovenia is anticipated at 85%.
- Prescription pharmaceuticals will remain the most important product group, representing, it is anticipated, over 85% of overall sales.
- New prescription pharmaceuticals products will be marketed in key indication groups.
- The planned net profit is 130 million euros.
- At the end of 2006 the Group will have 6300 employees, almost 40% of them abroad.
- Investments planned at 130 million euros will primarily be used to increase and modernisation R&D and production capacity and infrastructure.

Statement by the President of the Management Board

Dear Shareholders and Business Partners,

Krka's performance in 2006 has confirmed the wisdom of our planned strategies. Once more, we have completed a successful year, one in which our rapid response to changes on different markets and to our customers' needs produced results that we can all be most proud of. Increasing competition, pressure to lower prices, and stricter health legislation are, on the one hand, obstacles to even better results, and on the other hand, offer a constant trial and challenge to acquire knowledge and skills and to increase the creativity of all our employees.

In the Krka Group achieved sales worth 668 million euros, with growth at 21 per cent. In recent years we have achieved our highest growth in Region East Europe and Region Central Europe, where two Krka production and distribution companies are successfully operating. Sales have grown by over one third on Krka's largest single market, the Russian Federation. Significant sales potential and our lengthy presence in the region have made the decision to expand our production capacity in the Russian Federation, where a tenth of overall Krka sales now come from. On another key market, Poland, growth reached 21%, which is much higher than growth for the Polish pharmaceutical market overall. We have also grown more quickly than our competitors in Croatia, another key market where Krka has its own production capacity. In the EU-15 (the 15 countries already member states before May 2004), our sales grew by 22% on the previous year. We remain the number one pharmaceutical company on the Slovenian market, and are also successful in the health tourism sector. In addition to these key markets, I must also focus on the positive sales results achieved in Romania – where growth reached 47% – and in Ukraine and Hungary. I believe that the positive macroeconomic circumstances forecast on our key markets will, in addition to the high quality of our work, contribute to the realisation of our strategic sales objectives for this year. Our plan is that in 2007 the Russian Federation will remain Krka's largest market, where in past months we have recorded delays in payment within the federal health programme. At the same time we are working intensely to market products outside that sales sector. The major markets this year will still be Poland, Slovenia, western Europe, Romania and Ukraine, but our smaller markets will also contribute to meeting this year's sales target for the Group of 750 million euros.

Our commitment to pharmaceutical-chemical operations and the continued focus on sales results remain essential policies for the coming strategic period. Prescription and self-medication pharmaceuticals represent over 90% of overall sales, and are the fastest growing product group. Sales of animal health products and health resort and tourism services are also growing. Following the strategic decision to reduce our range of cosmetic products over a number of years, in 2006 we recorded a growth in sales. In 2007 sales will continue to grow in all products and service categories.

Our wide marketing and sales network of representative offices and companies, and excellent range of high quality, effective and safe products are the key to our positive sales performance. The share of products launched in the past five years in overall Krka sales is constantly increasing, as is the share of products from our vertically integrated business model. Vertical integration, which involves managing the entire process from raw materials to the final product, reduces risk in the fields of intellectual property rights, which are a constant factor in the pharmaceutical industry. As prudent management requires, we have formed the necessary provisions for all as yet unsettled lawsuits, in line with our analyses of all the relevant facts. To counter the constant changes in the business environment, which sometimes prove difficult to predict, we have a systematic approach to managing other operating and financial risks, which is a vital element in ensuring stability for the Group.

The success of the Krka Group's operations is confirmed by the high growth in sales, and also by the 26% growth in operating profit and 21% growth in our pre-tax profit. The Group's net profit was 112 million euros.

It is now ten years since Krka became a public limited company. To date, the Group's sales have increased by almost four times, the net profit by nine times, and the share price by seven times. Krka's market capitalisation, which totalled 2.8 billion euros at the end of 2006, increased by 84% in one year, and is the highest for any company listed on the Ljubljana stock exchange. The growth in the Krka share price and its liquidity can be

ascribed to a sound business performance and a number of well organised presentations and meetings with investors, as well as the change in Slovenia's currency at the start of 2007. International investors have also demonstrated their trust in Krka shares as individual shareholders, and as a group they now represented 8% of all shareholders, the number of which is once more over 54,000. At Krka we assess the stock split will further increase share liquidity.

In the interests of sustainable development, we have allocated significant resources to grants and sponsorships, offering assistance to institutions in the fields of health, education, culture, sport and to charities. This is also part of the Krka mission.

Krka's international, global orientation is reflected in the fact that not only are 84% of our products sold abroad – in over 70 countries around the world, that we have own production capacity in our major markets, and that we establish subsidiaries abroad, but also in the fact that more than one third of all Krka employees are employed outside Slovenia. We employ higher educated and highly motivated specialists. People are the key to our success, so we have a range of incentives to encourage staff to work creatively and effectively, which increases overall satisfaction on all sides.

The dynamism of the pharmaceutical industry and the overall business environment means we continually review and update our development strategy. We are currently working on a five-year development strategy for the Krka Group for 2007-2012. Our vision is to consolidate our position as a leading generic pharmaceutical company on the European market and the markets of Central Asia, and we will realise that vision by maintaining our independence, and strengthening our long-term business networks and partnerships. At the same time we will take advantage of any opportunities in the consolidation of the pharmaceutical industry, and will strengthen the professional and cost synergy within the Group. Our objective is to achieve excellence in all areas of operation.

I have every confidence in the knowledge and skills of the Krka staff, and would like to take this opportunity to thank them for their contribution to the results that Krka has achieved. I would also like to thank the Supervisory Board for their excellent and committed work, and particularly their support for the Krka Group's development strategy, and indeed all those who have helped to build the excellent reputation that Krka enjoys today. I am sure that together we will achieve the planned objectives, that you, as shareholders, will continue to place your trust in Krka and its shares, and that customers will continue to put their trust in Krka's high quality products.

Jože Colarič
President of the Management Board and CEO

Report of the Supervisory Board

The composition of the Supervisory Board remained unchanged throughout 2006: the shareholder representatives are Mateja Božič, MSc, Gregor Gomišček, PhD (President), Marko Kranjec, PhD (Deputy President), Anton Rous, Draško Veselinovič, PhD, and Alojz Zupančič; the employee representatives are: Sonja Kermc, Tomaž Sever, MSc, and Mateja Vrečer, PhD.

The functioning of the Supervisory Board

In 2006 the Supervisory Board held five regular meetings, where the main focus was on the realisation of the business objectives defined in the Krka Group's 2006–2010 development strategy, and the annual business plan. Below is a detailed description of the Supervisory Board's functioning and the issues it has addressed at its meetings.

- The Supervisory Board adopted 2005 annual report of the Krka Company and Krka Group.
- Discussed the quarterly and half-year business reports for the Krka Group and Krka Company and assessed the operations of the Krka Group and Krka Company and the work of the Management Board as for each period.
- Studied comparisons between the periodic operating results for Krka and a selection of other pharmaceutical companies.
- Approved some draft amendments to the company's Articles of Association, which will be put to the shareholders at their 2007 Annual General Meeting.
- The President of the Management Board gave a detailed presentation, at the Supervisory Board's request, of human resource management within the Krka Group, with an emphasis on key elements of human resource strategy, organisational climate, provisions for employee development, motivational methods, health and safety at work, relations with the Works Council and trade unions, etc.
- Discussed the 2007 business plan for the Krka Group and Krka Company and studied the planned sales figures, planned scale of investment, including R&D investment, new employments, and the planned performance indicators.
- In line with the Rules on Treasury Shares, the Management Board reported the state of treasury shares and current ownership structure to the Supervisory Board each quarter.
- The Management Board reports at least once a year to the Supervisory Board on the state of legal claims against Krka, d. d., Novo mesto and other companies within the Krka Group.
- As the term-in-office will expire in 2007 for two members of the Management Board, in accordance with the Companies Act, and the recommendations of the Corporate Governance Code, around one year before the expiry of these terms, the Supervisory Board reappointed Janez Poljanec and Aleš Rotar, PhD, as Management Board members until 31 December 2009, so that the term-in-office will be the same for all Management Board members, except the worker director.
- In line with the Rules on Management Board Remuneration, the Supervisory Board decided on the bonuses for management board members for 2005 and the first half of 2006, taking into account the Recommendations of the Association of Supervisory Board Members on the Appointment, Dismissal and Earnings of Management Board Members and the Recommendations of the Managers' Association on Concluding Individual Senior Management Contracts in Companies.
- Taking into account the recommendations of the Association of Supervisory Board Members, the Supervisory Board proposed to the General Meeting that the method of remunerating supervisory board members be amended to ensure that payments are more closely linked to the tasks and duties of individual supervisory board members. The Supervisory Board accepted the proposal.
- The Supervisory Board adopted new Rules of Procedure in response to amendments to the Companies Act and the Corporate Governance Code.

The Supervisory Board found that the diverse and specialist composition of the Supervisory Board's shareholder representatives and its employee representatives contributed to its successful work.

The Supervisory Board includes four people holding doctorates (two in economics, and two in natural sciences), two people with MBAs and two specialists with university level education. Their areas of expertise cover economics, law and finance, as well as construction, pharmacy, physics, chemistry and engineering. They all have considerable experience in business and in research and development. They also offer a wide range of international experience. Draško Veselinovič, PhD, holds a B-licence for supervisory board membership, while the other members all received statements of qualification to serve as supervisory board and management board members in 2006.

The members work independently, but with a great deal of sensitivity for their shared work and responsibilities. No conflict of interests arose in relation to discussions on the items from the agenda or when making Supervisory Board decisions. In its amended Rules of Procedure, the Supervisory Board clearly states how individual members and the Board should act in case of a conflict of interests.

The Supervisory Board assessed that it had available sufficient reports, information and data, which Management Board members had been 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 also assessed the work of the Management board as very good.

The work of the Supervisory Board committees

The five-member Audit Committee met four times. It drew up positions on the 2005 annual report for the Krka Group and Krka Company, the auditor's report, and the report of the Supervisory Board on its verification of the Group and Company's operations. Before that, in the presence of the authorised auditor, it discussed a special report prepared by the auditing company KPMG on the auditing committee's request. The report covered an assessment of IT systems risk, interest rate risk and credit risk, and the transfer pricing issue. The auditor informed the audit committee members of the preliminary audit findings for 2006, the main purpose of which was to check the functioning of internal controls. The audit committee members took the opportunity to propose that, before concluding the audit, the auditor should review the calculation of corporate income tax, and any potential tax optimisation at the Group level, as well as reviewing current financial investments, and producing reports on these two matters. The audit committee received both reports before the discussion of the 2006 annual report. The audit committee gave its approval to the report on the work of the Internal Audit Service in 2005, the medium-term work programme for the period 2006 to 2009 and the work programme for 2006. It also discussed the report on the work of the Internal Audit Service for the first half year of 2006.

The three-member Human Resource Committee met three times. It produced a proposal on the amount of the Supervisory Board's participation in the accumulated profit for 2005, a proposal on the level of session fees and monthly salary for Supervisory Board members for work on the Supervisory Board and its committees, a proposal on work bonuses for Management Board members for 2005 and the first half of 2006, and a proposal that the Supervisory Board reappoint Janez Poljanec and Aleš Rotar, PhD, as Management Board members until 31 December 2009, before their current terms-in-office expire.

Both committees adopted the new Rules of Procedures for their work and changes in their name in Slovene.

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

The Supervisory Board examined the 2006 annual report of the Krka Company and Krka Group within the legal deadline. It also discussed the auditor's report, in which the auditing company KPMG Slovenija, d.o.o. stated that the financial statements that are part of this Annual Report give a true and fair view of the financial position of the Krka Company and the Krka Group, the results of operations, its cash flows and changes in equity and that the

business report is in compliance with the financial statements. The Supervisory Board did not make any comments on the auditor's report. After the verification, the Supervisory Board also had no comments regarding the Annual Report and unanimously approved it at its meeting of 3 April 2007. 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 2006 the Company achieved a net profit of 27,085,839,664 SIT, of which 500,000,000 SIT was appropriated to statutory reserves and 4,800,000,000 SIT to other revenue reserves. The remaining net profit of 21,785,839,664 SIT and the retained net profit of 2,978,037,409 SIT comprise the accumulated profit, which stood at 24,763,877,074 SIT on 31 December 2006. The Management Board and Supervisory Board propose that the General Meeting uses the accumulated profit for the following purposes:

- 6,479,769,744 SIT for dividends (1,917.12 SIT or 8.00 EUR gross per share)
- 9,142,053,665 SIT for other revenue reserves, and
- 9,142,053,665 SIT to be carried forward to next year.

The Supervisory Board accepted this report unanimously at its meeting of 3 April 2007.

Gregor Gomišček, PhD
President of the Supervisory Board

Governance of the Krka Group and the Krka Company

Governance of the Krka Group

The Krka Group consists of the controlling company Krka, d. d., Novo mesto, a number of subsidiaries abroad, and one in Slovenia. 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 rules and instructions for the operation of companies in the Krka Group, which are adopted by the Management Board of the controlling company.

To improve the cohesion of the Group and offer the best possible supervision of subsidiaries' operations, the Krka Company's Management Board functions as the general meeting for the subsidiaries. The members of the Management Board, depending on the provisions of the legislation of the country in which the subsidiary operates, also function as members of the supervisory boards, supervisory committees or management committees 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.

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 governance bodies comprise:

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

Krka responsibly exercises its rights and fulfils its obligations in relation to a range of stakeholders or interest groups (shareholders, employees, creditors, customers, suppliers, the natural and business environment, and the state).

Members of the Supervisory Board

The Supervisory Board has comprised nine members.

Shareholder Representatives:

- Gregor Gomišček, PhD, President
- Marko Kranjec, PhD, Deputy President
- Mateja Božič, MSc, member
- Anton Rous, member
- Draško Veselinovič, PhD, member
- Alojz Zupančič, member.

Worker Representatives:

- Sonja Kermc, member
- Tomaž Sever, MSc, member
- Mateja Vrečer, PhD, member.

Members of the Management Board

- Jože Colarič, President of the Management Board
- Janez Poljanec, member
- Aleš Rotar, PhD, member
- Zvezdana Bajc, member
- Danica Novak Malnar, member.

Members of the Management Board are not at the same time members of the managing or supervisory bodies of unrelated companies

A more detailed presentation is available on the company website: www.krka.si.

Corporate Governance Code Compliance Statement

The Management Board and Supervisory Board of Krka, tovarna zdravil, d. d., Novo mesto hereby state:

That in 2006 individual members of the Management and Supervisory Board, and the Management and Supervisory Boards as bodies of a public limited company, have acted in compliance with the principles of the governance for public limited companies and have worked to ensure their implementation within the company. In 2006 the Rules of Procedure for the Supervisory Board, the Auditing Committee, the Human Resource Committee, and the Management Board were all updated. All these documents are in full compliance with the provisions of the Companies Act and the Corporate Governance Code. Particularly emphasis was placed on potential conflicts of interest of individual members of the boards, with statements being made on when they occur and the conduct of individual members or of the boards, if any conflict of interest arises. The Rules of Procedure for the Supervisory Board was also published on the company website.

The company's objectives – as required by provision 1.1.1. of the Code – have been incorporated into the draft of the amended articles of association, which will go before the company's general meeting for approval in 2007. We assess this to be a minor deviation from the Code.

Except for the minor divergences mentioned above, Krka complies with 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.

Jože Colarič
President of the Management Board

Gregor Gomišček, PhD
President of the Supervisory Board

Novo mesto, 7 March 2007

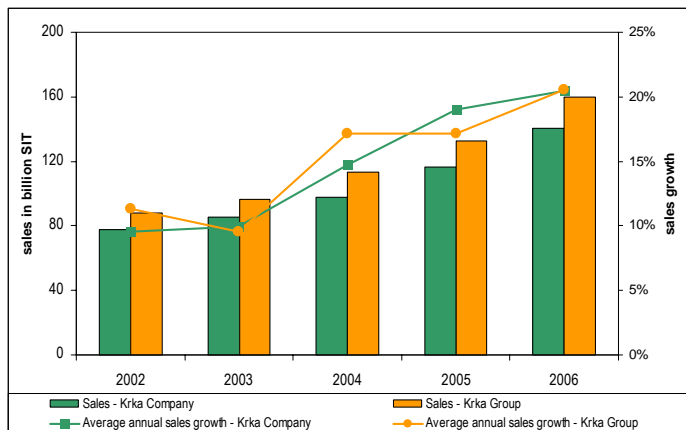
SUMMARY OF BUSINESS REPORT

Business operations analysis

All financial data for the period from 2004 to 2006, presented in the business operations analysis have been prepared in accordance with the International Financial Reporting Standards (IFRS), while the Slovenian Accounting Standards (SAS) were used for other years. The analysis includes data for the Krka Company and Krka Group, while the commentary relates primarily to the Group.

Sales

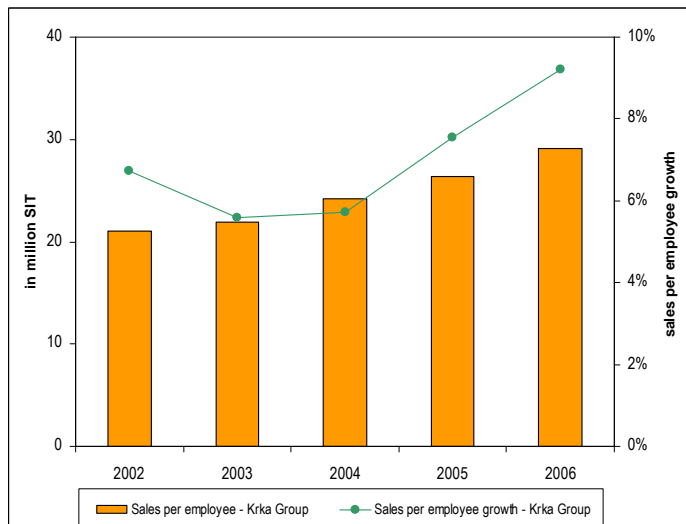
Sales and sales growth for the Krka Company and Krka Group



The main strategic objective in the Krka Group's 2006–2010 development strategy is to achieve annual growth in overall sales of over 10%. The graph below indicates the stable growth achieved. The average annual sales growth over the past five years has been 15%. In 2006 the Group achieved sales of products and services worth 160.1 billion SIT, with growth at 21%. Growth in sales was achieved in all five sales regions and in every product group. 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 and sales per employee growth for the Krka Group



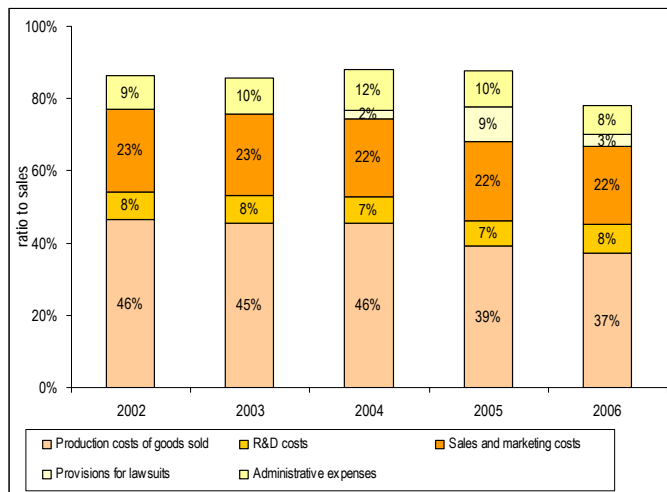
The average sales per employee growth for the Group was 7%, which is lower than overall sales growth, but has been increasing since 2004. The modest growth in the past has largely been due to intense recruitment activities abroad, in representative offices and in subsidiaries. A comparison of companies indicates that recruitment has been highest in the production and distribution centres, which have only started to make significant contributions to Group sales in the past three years. Given that the marketing and sales network is organised across the representative offices and subsidiaries abroad, the sales per employee is only given for the Group.

Expenses

The Krka Group incurred operating expenses of 124.9 billion SIT, an increase of 7% compared to the previous year. Excluding newly formed provisions for lawsuits for the two years indicates that the increase in operating expenses was 15%, which is six percentage points less than the growth in sales.

The Krka Group operating expenses include 59.7 billion SIT of production costs of goods sold, 39.7 billion SIT of sales and marketing costs (including 5.1 billion SIT for new provisions for lawsuits), 12.6 billion SIT of R&D costs, and 12.8 billion SIT of administrative expenses. The ratio of operating expenses to sales has fallen over a five-year period from 86% to 78% in 2006.

Structure of operating expenses



Compared to 2005, the production costs of goods sold, which are the largest expenses item at 48% of the total, increased for the Krka Group by 15%, which is 6 percentage points less than the sales growth. Their ratio to sales has fallen by nine percentage points over a five-year period to 37% in 2006.

Sales and marketing costs (excluding provisions) came to 22% of sales. In 2006 they increased by 18%, primarily due to the expansion of the Krka sales network. The controlling company formed 5.0 billion SIT as provisions for lawsuits, compared to 12.5 billion SIT in 2005.

Intense investment in R&D, particularly many new development projects, new employees and contractual cooperation, led to a 31% increase in development costs, which represents 8% of sales. All R&D costs are recognized as expenses, since they are not capitalised.

The administrative expenses to sales ratio has been falling and is 8%.

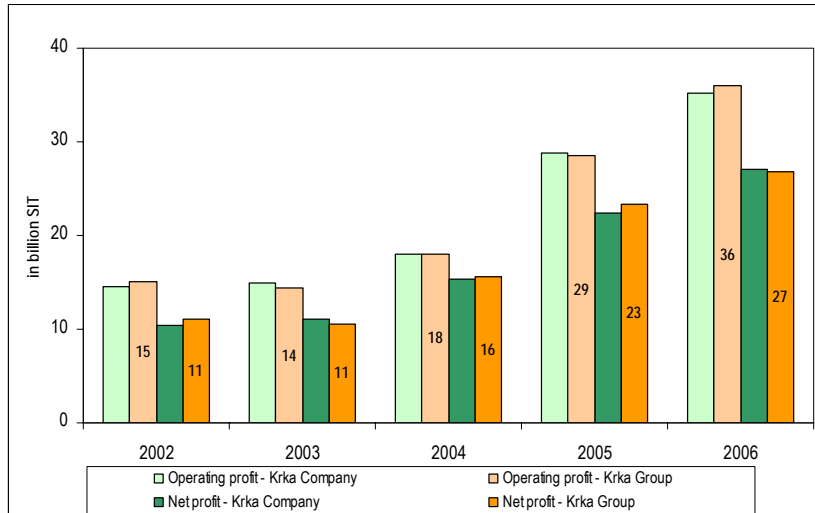
Financial income and expenses

The systematic management of foreign exchange and interest risk in the Krka Company and Group has led to significant changes in the financial result in recent years, so that their effect on the net profit has been largely neutral, unlike in the past when there was a negative impact on the net profit.

| in million SIT | Krka Group | | | | | Krka Company | | | | |
|--------------------|------------|-------|-------|--------|--------|--------------|-------|-------|--------|--------|
| | 2006 | 2005 | 2004 | 2003 | 2002 | 2006 | 2005 | 2004 | 2003 | 2002 |
| Financial income | 3,714 | 3,989 | 3,546 | 3,256 | 3,050 | 3,541 | 3,283 | 3,044 | 3,870 | 3,180 |
| Financial expenses | 4,131 | 2,983 | 3,195 | 5,387 | 5,001 | 3,473 | 3,735 | 3,066 | 6,046 | 5,358 |
| Difference | -417 | 1,006 | 351 | -2,131 | -1,951 | 68 | -452 | -22 | -2,176 | -2,178 |

Operating results

Operating profit and net profit



The Group's operating profit of 36.1 billion SIT was 26% higher than in 2005. The profit before tax increased by 21% to 35.6 billion SIT. Income tax totalled 8.8 billion SIT, of which 10.3 billion was actual income tax and 1.5 billion SIT deferred tax. Corporate income tax increased by 41%, which was mainly due to the termination of investment relief in Slovenia. The effective tax rate for the Group was 24.7%, which was 3.6 percentage points higher than last year.

The Krka Group's net profit was 26.9 billion SIT and increased by 15% compared to 2005 or 3.5 billion SIT.

Assets

| in million SIT | Krka Group | | | | | Krka Company | | | | |
|---------------------------|----------------|--------------|----------------|--------------|------------|----------------|--------------|----------------|--------------|------------|
| | 2006 | % | 2005 | % | 06/05 | 2006 | % | 2005 | % | 06/05 |
| Non-current assets | 137,756 | 65.4 | 120,455 | 63.8 | 114 | 134,446 | 65.7 | 116,900 | 64.1 | 115 |
| – tangible | 121,455 | 57.7 | 108,165 | 57.3 | 112 | 90,450 | 44.2 | 87,104 | 47.8 | 104 |
| – financial investments | 2,954 | 1.4 | 2,441 | 1.3 | 121 | 31,960 | 15.6 | 30,158 | 16.5 | 106 |
| – other | 13,347 | 6.3 | 9,849 | 5.2 | 136 | 12,036 | 5.9 | 8,638 | 4.7 | 139 |
| Current assets | 72,918 | 34.6 | 68,394 | 36.2 | 107 | 70,275 | 34.3 | 65,351 | 35.9 | 108 |
| – inventories | 27,780 | 13.2 | 28,967 | 15.3 | 96 | 23,839 | 11.6 | 26,883 | 14.8 | 89 |
| – receivables | 36,878 | 17.5 | 33,009 | 17.5 | 112 | 37,740 | 18.4 | 33,775 | 18.5 | 112 |
| – other | 8,260 | 3.9 | 6,418 | 3.4 | 129 | 8,696 | 4.2 | 4,693 | 2.6 | 185 |
| Total assets | 210,674 | 100.0 | 188,849 | 100.0 | 112 | 204,721 | 100.0 | 182,251 | 100.0 | 112 |

The Krka Group's assets were worth 210.7 billion SIT on 31 December 2006, an increase of 12% from the start of the year. The ratio of current to non-current assets remained almost unchanged compared to the start of the year.

Of the non-current assets, with a total value of 137.8 billion SIT, the most important item is property, plant and equipment at 121.5 billion SIT, which has increased by 12% (13.3 billion SIT) due to new investments, and now represents 58% of total assets.

Current assets grew by 7% to 72.9 billion SIT and represent a 34.6% share in the asset structure. The main contribution to growth came from increased financial investments (purchase of shares and bonds), which increased by 70% over the year to 5.8 billion SIT. Compared to the start of the year, the value of inventories fell by 4% to 27.8 billion SIT, while operating receivables increased by 12% to 36.9 billion SIT due to increased sales, which is 9 percentage points less than the sales growth.

Equity and liabilities

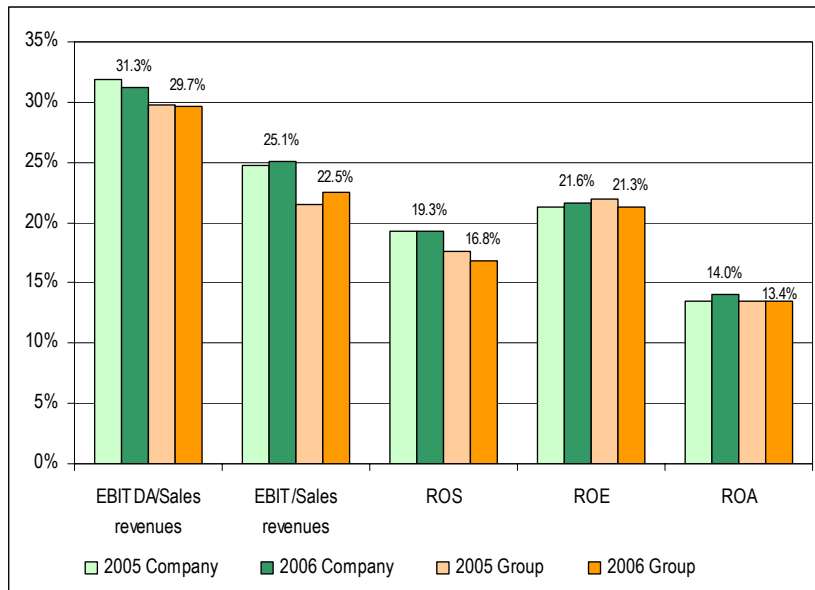
| in million SIT | Krka Group | | | | | Krka Company | | | | |
|------------------------------|------------|-------|---------|-------|-------|--------------|-------|---------|-------|-------|
| | 2006 | % | 2005 | % | 06/05 | 2006 | % | 2005 | % | 06/05 |
| Equity | 136,812 | 64.9 | 114,897 | 60.8 | 119 | 136,575 | 66.7 | 114,452 | 62.8 | 119 |
| Non-current liabilities | 39,286 | 18.7 | 36,368 | 19.3 | 108 | 36,030 | 17.6 | 33,058 | 18.1 | 109 |
| Current liabilities | 34,576 | 16.4 | 37,584 | 19.9 | 92 | 32,116 | 15.7 | 34,741 | 19.1 | 92 |
| Total equity and liabilities | 210,674 | 100.0 | 188,849 | 100.0 | 112 | 204,721 | 100.0 | 182,251 | 100.0 | 112 |

In the Group's non-current liabilities structure non-current provisions increased by 5.4 billion SIT, primarily due to newly formed provisions for lawsuits relating to pharmaceuticals for the treatment of cardiovascular diseases. Long-term borrowings were down by 29%, due to the ongoing repayment of borrowings.

Compared to the start of the year, the largest decrease among current liabilities was for income tax liabilities, which were down 75%. This was mainly due to the very high tax liabilities at the end of 2005, relating to Krka's net provisioning (release and formation of provisions) in 2005. Short-term borrowings increased by 28% or 2.6 billion SIT, which was mainly due to borrowings taken out by the controlling company. Operating liabilities increased by 4%.

Performance ratios

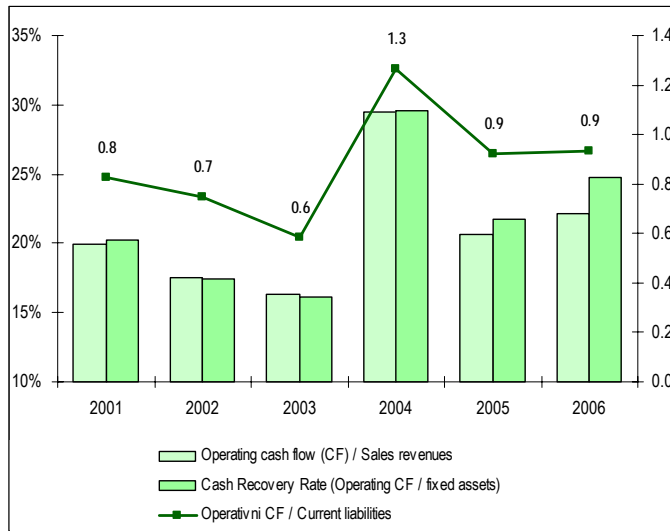
Profitability ratios



In 2006 the operating indicators were in compliance with the strategic guidelines and annual objectives. Compared to last year the Group achieved slightly lower return on assets, return on equity and return on sales. The reason is largely the increase in inventories of materials and products from sales within the Group, so part of the profit remains unrealised. The Group's net profit increased by just 15% compared to 2005, while the Krka Company's net profit increased by 21%, which had an impact on the profitability ratios. The increase in inventories held

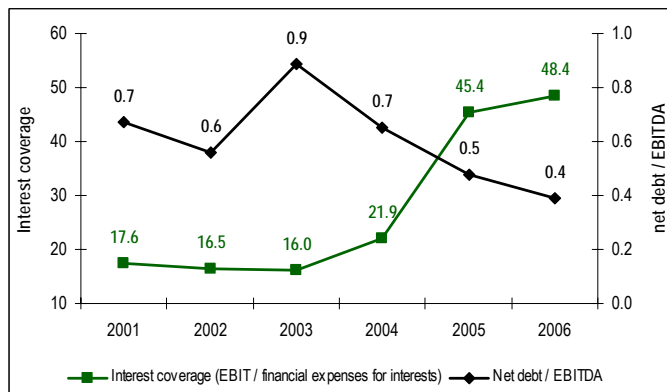
by subsidiaries was largely due to reciprocal supplies of materials and products in the final months of the year.

Cash flow ratios



The cash flow ratio of operating cash flow (i.e. surplus operating inflows) to sales revenues was well above average compared to the other years, primarily due to sales from inventories, which were reduced by 1.6 billion SIT compared to the start of the year (due to preparations for increased sales in western Europe at the start of 2004, the value of inventories had fallen significantly at the end of 2003), and lower ongoing operating costs. For the same reason the cash recovery rate (operating cash flow/fixed assets) and operating cash flow/ current liabilities ratios were also higher in 2004.

Liquidity indicators



Interest coverage indicate a positive trend. There was a significant increase in 2005, and in 2006 the trend continued. The 2006 operating profit covered interest liabilities for 48 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 just 9. In recent years, credit rating has been calculated using the net debt/EBITDA ratio, which is improving due to the higher cash flow and reduced debt. In 2006

the ratio stood at 0.4, which is well above the banking sector's required level (1.5).

Operating figures 2002–2006

| in million SIT | Krka Group | | | | | Krka Company | | | | |
|-------------------|------------|---------|---------|---------|---------|--------------|---------|---------|---------|---------|
| | 2006 | 2005 | 2004 | 2003 | 2002 | 2006 | 2005 | 2004 | 2003 | 2002 |
| Sales | 160,069 | 132,758 | 113,317 | 96,749 | 88,338 | 140,454 | 116,570 | 97,978 | 85,388 | 77,665 |
| EBIT | 36,065 | 28,523 | 17,950 | 14,440 | 15,017 | 35,219 | 28,801 | 18,017 | 14,928 | 14,479 |
| EBIT margin | 22.5% | 21.5% | 15.8% | 14.9% | 17.0% | 25.1% | 24.7% | 18.4% | 17.5% | 18.6% |
| EBITDA | 47,497 | 39,494 | 28,299 | 24,018 | 24,187 | 43,892 | 37,180 | 25,756 | 22,750 | 21,840 |
| EBITDA margin | 29.7% | 29.7% | 25.0% | 24.8% | 27.4% | 31.3% | 31.9% | 26.3% | 26.6% | 28.1% |
| Net profit | 26,860 | 23,319 | 15,661 | 10,563 | 11,080 | 27,086 | 22,459 | 15,310 | 11,022 | 10,413 |
| Net profit margin | 16.8% | 17.6% | 13.8% | 10.9% | 12.5% | 19.3% | 19.3% | 15.6% | 12.9% | 13.4% |
| Assets | 210,674 | 188,949 | 155,595 | 146,155 | 127,582 | 204,721 | 182,251 | 151,318 | 144,249 | 126,591 |
| ROA | 13.4% | 13.5% | 10.5% | 7.7% | 8.9% | 14.0% | 13.5% | 10.4% | 8.1% | 8.5% |
| Equity | 136,812 | 114,897 | 97,126 | 95,622 | 88,606 | 136,575 | 114,452 | 97,137 | 96,504 | 89,051 |
| ROE | 21.3% | 22.0% | 17.4% | 11.4% | 13.0% | 21.6% | 21.2% | 16.8% | 11.9% | 12.2% |

Risk management

Due to activities and business spread across 70 countries, the Krka Group meets a range of risks, which can basically be divided into operating and financial risk. Operating risk is managed as part of the responsibilities and powers built into individual processes and companies within the Krka Group, and via the development committee, quality committee, sales committee, investment committee and the human resource committee. Financial risks are dealt with systematically by the Financial Division, which monitors and manages key financial risks, in accordance with the strategic guidelines to neutralise individual types of risk, and with respect to the international spread of Krka's import and export operations, currently monitors and manages key financial risks.

In recent years we have perfected and implemented risk assessment methods with the aim of systematically recognising risk, and we define the exposure level or probability of risk occurring, the size of potential losses and activities to improve the reliability of processes.

| <i>OPERATIONAL RISK</i> | | | |
|---|---|---|-----------------|
| Risk area | Description of risk | Risk management method | Exposure |
| Intellectual property | Risks relating to patents and patent law disputes. | Monitoring patent processes, forming provisions. | Moderate |
| Regulatory procedures | Risk of potential changes in legislation. | Consultation with regulatory authorities. | Moderate |
| Development process | Risk that a product development process will not be successfully concluded. | Vertically integrated business model and introduction of new development processes and methods. | Moderate |
| Reliability of suppliers and contractual partners | Risk of supplies being uncompetitive or erratic. | Performing risk analyses of contractual partners, suppliers, and pharmaceutical ingredient producers. | Moderate |
| Availability of production capacity | Risk of interrupted operation of production capacity. | Regular preventive maintenance and measurements. | Low |
| Environmental protection | Risk of accidents with a negative impact on the environment occurring. | Regular preventive activities. | Low |
| Information sources | Risk of errors in the field of information sources. | Independent security checks on information infrastructure. | Moderate |
| Health and safety at work | Risk of injuries and accidents in the workplace. | Risk assessment in the workplace and implementing appropriate measures. | Moderate |
| Asset protection | Risk of assets being stolen or removed. | Systematic threat assessment and taking measures in line with security plan. | Moderate |
| <i>FINANCIAL RISK</i> | | | |
| Risk area | Description of risk | Risk management method | Exposure |
| Foreign exchange risk | Possibility of losses due to unfavourable movements in exchange rates. | Protection with appropriate financial derivatives. | Moderate |
| Interest rate risk | Risk relating to changing financing and borrowing conditions. | Protection with appropriate financial derivatives. | Low |
| Credit risk | Risk of customers defaulting on payment. | Calculating credit ratings and restricting maximum exposure to customers at the Group level. | Moderate |
| Liquidity risk | Risk that the company cannot settle current liabilities. | Planning and monitoring liquidity and established credit lines. | Low |
| Risk of damage to property | Risk of fire, explosion, business interruption and civil lawsuits. | Systematic threat assessment and taking measures in line with fire prevention studies and taking out appropriate insurance. | Moderate |

Operational risk

We have a systemic approach to dealing with operational risk, which includes the following areas: research and development, environment management, managing input materials (suppliers, contractual partners), managing the production process and production capacity, information resources and computer-managed processes, health and safety at work, foodstuffs safety, and asset protection.

Research and development

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

- **Intellectual property.** For every product, current situation analysis is used to check exposure to risk of lawsuits relating to violations and lawsuits relating to the intellectual property of others. The risk of unsanctioned use of Krka's intellectual property is reduced passively and actively. We protect our solutions with patents as early as possible in the development process, and use appropriate mechanisms to participate in patent granting processes from the competent authorities. In unresolved lawsuits we actively defend our position, and demonstrate the absence of any violation, but as prudent management requires we form the provisions required. To date all major patent law disputes have been settled in Krka's favour.
- **Regulatory risk.** Managing regulatory risks, which are related to changes in legislation and its interpretation, begins in the early stages of developing a new medicine and lasts throughout the whole product life cycle. We assess our product development solutions together with the regulatory authorities using official advisory mechanisms and plan the content of marketing authorisation documentation. This reduces the risk of problems or even failure occurring during the product registration and extended authorisation procedures. Krka actively cooperates in the preparation phase of legislative amendments via the 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 the development process. 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 with acquired knowledge in the research and development field. We introduce processes that in the early development phases can reduce risk by predicting final product properties, which have to be high quality, safe and effective. An important factor in improving the management of this kind of risk is the vertically integrated production and development model, which is used to control the entire production process from raw materials to the final product.

Reliability of suppliers and contractual partners

Krka has a system of using two to three suppliers for key input materials, to ensure secure and competitive supplies. In 2005 Krka started performing risk analyses of contractual partners, suppliers, and pharmaceutical ingredient producers. The results of the risk analyses are used to define priority assessments, which the Quality Management Division can use in dealings with partners. Based on the findings of these assessments, agreements are reached with partners on measures to be taken, while in unusual cases a decision could be made to change supplier or partner.

Availability of production capacity

Production takes place in line with good manufacturing practice standards, European and international standards, and the provisions of other technological and technical regulations. Uninterrupted production capacity is provided by means of regular preventive maintenance. Measurements are also taken directly on production lines to rapidly determine the cause of unplanned stoppages, and take action to prevent or eliminate delays. The system of continuously including operators in line set-up reduces the time taken up by planned or anticipated stoppages. Internal risks relating to the energy supply have been reduced by modernising energy supply systems and using reliable devices with sufficient capacity.

Environmental protection

An important step towards realising the objective of maintaining and improving the state of the environment has been reducing the risk of accidents and improvements in response procedures. Krka has an internal procedure *Recognising Accidents* which sets out all the potential accident and emergency situations possible on site and the actions or responses to take if they occur. People have been appointed to take charge of such measures. We carry out preventive activities on a regular basis. In the past years there has been two to three accident per year (e.g. spillage of hazardous substances). Taking effective action in accordance with internal instructions has meant there has been no case of harmful environment impact.

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 a process. The major information resources are individual information services and applications. The criticality level is summarised for all infrastructural elements on which an 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.

Health and safety at work

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

Asset protection

The first systematic threat assessment of individual facilities was carried out in 2004, and then again 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 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 are also very important. These include the Polish zloty, the Russian rouble, the Croatian kuna and the Macedonian denar.

In 2006 Krka actively managed the US dollar risk. We assessed that the foreign exchange risk for other currencies was relatively low, due to the low exposure levels, so active risk management policies were not used.

A significant element of foreign exchange risk management is the difference between inflows and outflows in a specific foreign currency, which is called an open currency position. Krka has a surplus of inflows over outflows in both euros and US dollars. The Krka Group's open position in US dollars is gradually increasing, as the inflows in this currency are growing faster than outflows.

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 normal forward contracts and currency options.

In 2006 the US dollar lost 10.5% of its value against the euro. The foreign exchange losses from payments that occurred due to the long position in US dollars and the falling exchange rate were largely neutralised by inflows from hedging.

Interest rate risk

At the end of 2006, Krka had four long-term borrowings linked to the 6-month LIBOR for the US dollar or the 6-month EURIBOR for the euro.

Exposure to interest rate changes related to existing long-term borrowings was dealt with by fixing the interest rate in the past using interest rate swaps. The gradual increase in the basic interest rates by the US and European central banks in 2006 did not therefore have an impact on the costs of the company's long-term borrowing.

Credit risk

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

Credit control has a positive impact seen in:

- reducing the total value of outstanding receivables
- improving the maturity structure of outstanding and overall receivables
- reducing the average payment period, and
- a better ratio of average trade receivables to sale value.

By the end of 2006 the controlling company had included 286 customers in regular credit control. We also successfully concluded a project to implement credit control in companies in Poland, Croatia, Serbia, the Russian Federation and Macedonia. This led to another 150 customers being included in the credit control system, including some customers with annual sales below 100,000 EUR.

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 2006.

Liquidity risk

Liquidity risk involves two aspects: can the company settle its current operating liabilities and is it possible to settle its financing liabilities using the cashflows it generates. Both aspects are studied using specific indicators.

The indicators make clear that the Krka Group and the Krka Company's liquidity risk was low and stable throughout the entire year. According to the indicators, Krka is one of the world's leading pharmaceutical company and far stronger than the Slovenian average. The liquidity indicators improved in 2006 both in

comparison with the preceding year, and the average over the past five years, due to more effective management of inventories, receivables and other liquidity categories.

In addition to the settlement of current liabilities, we also monitor whether the company can service its debts and other financing liabilities using the cash flows it generates. The ratio set out in the table (net debt/EBITDA) indicates that the Krka Group can pay its net debt within a period of 4.4 months, which is a very short period.

Property, business interruption and liability insurance

Krka Group's insurance provides compensation for damage to property, and loss of earnings due to business interruption, and protects the Group in case of third party claims for damages. The procedures for taking out insurance and making claims are internally standardised for all companies in the Krka Group.

Plant, equipment and inventory 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. The Krka Group has introduced deductibles when insuring losses from minor or frequent risks and closely monitors loss ratios, which significantly reduces the insurance premium and encourages preventive action.

The Krka Group's liability insurance for material and non-material accidental damage to third parties that could be caused by the Group's activities or property, or by placing products on the market. Liability insurance also covers contractual partners involved in construction and installation work, investment projects, and transport.

Share trading and shareholding

Krka shares have been listed on the Ljubljana Stock Exchange since 1997 and are quoted under the trading code KRKG. All issued shares are in the same class (ordinary, transferable without limitations). Each share enables one vote on the general meeting of shareholders. Resident and non-resident investors can trade the share without limitation through brokerage firms and banks that are members of the Ljubljana Stock Exchange.

Krka's shares are one of the more liquid securities on the Ljubljana Stock Exchange. In 2006 the trading turnover in Krka shares was 98 billion SIT, an increase of 128% compared to 2005. The average daily turnover in Krka shares was 398 million SIT in 2006, an increase of 131% compared to 2005.

In relation to the possible issue of global depository receipts (GDRs) on the London Stock Exchange, Krka considers that there is no need at present to issue any GDRs, given the following wide range of factors: the increased liquidity of the shares in the recent past; the introduction of the euro as the Slovenian currency; additional promotion activities of the Ljubljana Stock Exchange on international capital markets; the potential partnership between the Ljubljana Stock Exchange and larger European stock markets; and the increasing research coverage.

Over 2006 the Krka share price increased by 84%, while the Slovenian Stock Exchange Index (SBI 20) grew 38% over the same period.

The book value per share on 31 December 2006 was 38,619 SIT, while on 31 December 2005 it was 32,433 SIT. The book value per share is calculated as the ratio of total equity (minus the value of reserves for treasury shares) to the number of shares issued (minus the number of treasury shares).

On 31 December 2006 Krka had 162,662 treasury shares with a nominal value on that day of 650,648 thousand SIT which is 4.6% of the share capital. The number of treasury shares remained unchanged compared to 31 December 2005.

The growth of the Krka share price outperformed selected share indices: the Slovenian Stock Exchange Index (SBI 20), Standard & Poor's Pharmaceuticals Industry Index, and FTSE (All Share Pharmaceuticals & Biotechnology Index).

Krka is pursuing a policy of moderate increase of dividends. The dividends are paid once per year, within 60 days of the Annual General Meeting. On the meeting shareholders decide on the dividend for the past business year. The proposition of the Management and Supervisory Board of gross dividend payment for will be included in AGM convocation.

At the end of 2006, the Krka Company had 54 555 shareholders (2005: 53 635). The proportion of shares held by international investors increased from 6.1% at year-end 2005 to 8.0%, the proportion held by private investors from Slovenia increased from 39.2% to 41.0%, while the proportion held by the SOD Fund moved from 14.5% to 15.0%. The proportion held by Slovenian legal entities fell (from 15.2% to 11.0%), while the proportion held by other investor groups remained practically unchanged.

10 largest shareholders on 31 December 2006

| | Shareholder domicile | Number of shares | Share (%) |
|--|----------------------|------------------|--------------|
| SLOVENSKA ODŠKODNINSKA DRUŽBA, D. D. | Slovenia | 531,207 | 14.99 |
| KAPITALSKA DRUŽBA, D.D. | Slovenia | 349,303 | 9.86 |
| NFD 1 DELNIŠKI INVESTICIJSKI SKLAD D. D. | Slovenia | 93,930 | 2.65 |
| NEW WORLD FUND INC | USA | 64,051 | 1.81 |
| BANK AUSTRIA CREDITANSTALT AG | Austria | 47,857 | 1.35 |
| DELNIŠKI VZAJEMNI SKLAD TRIGLAV PILLAR I | Slovenia | 44,790 | 1.26 |
| LUKA KOPER, D.D. | Slovenia | 42,103 | 1.19 |
| ZAVAROVALNICA TRIGLAV, D.D. | Slovenia | 38,830 | 1.10 |
| MARIBORSKE LEKARNE MARIBOR | Slovenia | 30,000 | 0.85 |
| KD GALILEO, VZAJEMNI SKLAD | Slovenia | 29,227 | 0.83 |
| Total | | 1,271,298 | 35.89 |

Marketing and sales

In 2006 the Krka Group sold 160.1 billion SIT worth of products and services, which is a 21% increase on 2005. In 2006, the Krka Company sold 140.5 billion SIT worth of products, achieving a 20% increase in sales compared to 2005.

In 2006 the Krka Group achieved its highest sales growth in its Region East Europe, Region Central Europe and Region West Europe & Overseas Market, while growth in Region South-East Europe was not quite as high, but still in double digits. Sales in Region Slovenia grew by 4% compared to 2005.

Krka Group and Krka Company sales by region

| in million SIT | Krka Group | | | Krka Company | | |
|----------------------------------|----------------|----------------|--------------------|----------------|----------------|--------------------|
| | 2006 | 2005 | Index 2006/2005 | 2006 | 2005 | Index 2006/2005 |
| Slovenia | 25,061 | 24,185 | 104 | 18,051 | 18,337 | 98 |
| South-East Europe | 26,592 | 22,629 | 118 | 23,375 | 20,027 | 117 |
| East Europe | 43,300 | 32,763 | 132 | 42,505 | 31,501 | 135 |
| Central Europe | 40,921 | 33,425 | 122 | 32,626 | 26,708 | 122 |
| West Europe and Overseas Markets | 24,195 | 19,756 | 122 | 23,897 | 19,997 | 120 |
| Total | 160,069 | 132,758 | 121 | 140,454 | 116,570 | 120 |

Slovenia

Sales by the Group in Slovenia grew by 4% compared to the previous year, reaching 25.1 billion SIT, of which 18.1 billion SIT was generated by the Krka Company, and 6.7 billion SIT by Terme Krka. Prescription pharmaceuticals contribute most to sales.

The leading products by sales on the Slovenian market are also Krka's most important products. These are: Ultop[®], Vasilip[®], Atoris[®] and Enap[®]. The increasing number of products on the market has notably increased competition among generics, and we adapted our new product launch policy accordingly, including, for example, the launch of Prenessa[®], expanding the product range with Ultop[®] in intravenous form (the only generic on the market), expanding the product range with urological products, Torendo[®] Q-Tab[®] (only generic with an orodispersible pharmaceutical form), and expanding the self-medication product range with anti-cold products. Our price policy aims to make our prescription pharmaceuticals available without supplementary payments for patients. Significant reductions in the price of certain key products occurred, due to amendments to the Rules on Pricing, which take into account the price of the cheapest generic medicine in reference countries.

South-East Europe

On the markets of Region South-East Europe, Krka Group sold products worth 26.6 billion SIT, which is 18% higher than the preceding year. The highest growth in sales in the region was again achieved in Romania and Serbia, followed by Bulgaria and Albania. Sales growth was recorded in all product groups.

In Croatia, the largest individual market in the region with more than one third of sales, and one of Krka's key markets, the Krka Group achieved sales of 9.6 billion SIT. We continue to be the leading foreign pharmaceutical producer, just behind the two largest domestic producers. The product range at the production plant in Jastrebarsko was expanded to include Laaven[®], while production of Zyllt[®] for other markets was started.

In Romania, the second most important market in the region, product sales were worth 7.1 billion SIT. Since Krka's sales growth was significantly higher than the sales growth for the overall market, our market share increased by 18% to 2.6% of the market. The growth in sales came largely from newer products, primarily Vasilip[®], Tenox[®], Ultop[®] and the successful launch of Rawel[®] SR. We also increased sales of products that already held leading market shares – Enap[®], Bilobil[®] and Ciprinol[®].

The high sales growth in Serbia and Bulgaria was achieved thanks to successfully introduce new prescription pharmaceuticals onto the market. Sales trends on other markets in the region depended very much on the local economic climate.

East Europe

The Krka Group recorded 32% growth in markets in the region compared to last year, recording sales of 43.3 billion SIT. The largest proportion of sales by product group came from prescription pharmaceuticals (75%), followed by self-medication products and cosmetics (23%), with animal health products representing under 3% of sale.

On the most important market in the region, the Russian Federation, the Group recorded 37% growth, and sales worth 31.4 billion SIT. Prescription pharmaceuticals represented the largest proportion of sales at 79%. The best selling product remains Enap[®], while the products with highest growth came from the statins group, Atoris[®] and Vasilip[®]. Initial sales of Asestra[®] were significant, which marked a move into the new indication group of treatment for the central nervous system. Successful sales are expected in coming years, following the launch of the cardiological product, Zyllt[®] in November 2006. The best-selling self-medication and cosmetics products in the region are those under the Pikovit[®] and Duovit[®] umbrella brands (both groups were supplemented with new products), as well as Septolete[®], Bilobil[®], Panzynom[®] and the Vitaskin[®] cosmetic line. The subsidiary production company Krka-Rus acquired domestic producer status and is operating successfully.

Ukraine is the second largest market in the region. In the first half of 2006 the unstable political situation led to customers acting noticeably more conservatively in orders and reducing their stocks. The situation improved in the second half of the year, and over the entire year sales increased by 25% on 2005. The best-selling products were Enap[®], Herbion[®], Macropen[®], Duovit[®], Naklofen, Fromilid[®] and Vasilip[®].

Sales results on our Central Asia markets were also successful, with growth of 21% achieved compared to the previous year.

We are strengthening our marketing and sales activities in Kazakhstan, Uzbekistan, Georgia and Azerbaijan, which are the most promising countries in terms of sales.

Central Europe

The Krka Group recorded 22% growth on markets in this region compared to the previous year, achieving sales of 40.9 billion SIT. Sales of prescription pharmaceuticals, which represent 90% of overall sales in the region, grew by 25%.

In Poland, the largest individual market in the region with 57% of all sales, and one of Krka's key markets, Krka achieved sales of 22.8 billion SIT. This successfully increased our share of the Polish market to 2.6%. Lanzul[®] and Atoris[®] remain among the most important prescription pharmaceuticals. Also very successful was the launch of the Tanyz[®] and Lorista[®] medicines, which became the third best-selling product in Poland with a market share of over 8%. Sales of self-medication products fell by 14% due to a 49% drop in sales of the Bilobil[®] product, despite successful sales under the Pikovit[®] umbrella brand. The growth in animal health product sales reached 18%, with Floron[®] contributing most to that figure (index 152).

In the Czech Republic, the second most important market for Krka in the region, sales growth of 7% was recorded, which achieved a 2.4% market share. The best-selling product was Atoris[®]. The highest growth in the

region was once more achieved in Hungary (64%), where product sales were worth 4.8 billion SIT. The market share almost doubled, reaching 0.8%. Sales of animal health products were also successful with 41% growth in sales achieved. Product sales in Slovakia were worth 2.4 billion SIT, a growth of 19% on the previous year. The best-selling product was Atoris[®], followed by Fromilid[®], Enap[®] and Lexaurin[®]. We also launched the Rawel[®] SR product. The second highest growth in the region of 30% was achieved on the Lithuanian market, which for Krka is the most dynamic of the Baltic markets.

West Europe and Overseas Markets

Sales of 24.2 billion SIT were achieved on these markets, which represents growth of 22% compared to the previous year. The sale of generic prescription pharmaceuticals in western Europe, one of Krka's key markets, represents the bulk of sales in this Krka Region. Most generic medicines were sold via partners whose sales networks give them a presence in every western European country.

The Region recorded its highest growth in sales compared to the previous year in southern EU member states and Africa and on the Arabian Peninsula. In 2007 we are planning the largest increase in sales on the Arabian Peninsula, in the Far East, and above all on the south European markets, where the subsidiary Krka Farmacêutica – based in Estoril, Portugal – is already operating, via which Krka will sell its own brand generic medicines on the Portuguese market. We are achieving high market shares for individual generic products on the markets of western Europe. Significant sales shares are being achieved for generic amlodipin, enalapril, simvastatin and mirtazapine. Krka also introduced generic glimepiride, doxazosin, indapamide and risperidone to the market.

Product groups

Prescription pharmaceuticals represent Krka's main activity, and the largest proportion of its sales. This is followed by the self-medication pharmaceuticals group, including non-prescription or "over-the-counter" medicines, dietary supplements, and cosmetic products. The cosmetics product range was restructured in 2004 and 2005 and the decorative cosmetics and most perfume cosmetics were discontinued. The first growth from the new policy direction was seen in 2006. Krka produces and markets animal health products, and the Group also offers health resort and tourist services.

| in million SIT | Krka Group | | | Krka Company | | |
|------------------------------------|----------------|----------------|--------------------|----------------|----------------|--------------------|
| | 2006 | 2005 | Index 2006/2005 | 2006 | 2005 | Index 2006/2005 |
| Human health products | 147,734 | 121,884 | 121 | 134,971 | 111,762 | 121 |
| – prescription pharmaceuticals | 128,434 | 105,743 | 121 | 115,668 | 95,974 | 121 |
| – self-medication products | 17,006 | 14,108 | 121 | 17,083 | 13,826 | 123 |
| – cosmetic products | 2,295 | 2,033 | 113 | 2,220 | 1,962 | 113 |
| Animal health products | 5,472 | 4,796 | 114 | 5,323 | 4,603 | 116 |
| Health resort and tourist services | 6,702 | 5,848 | 115 | – | – | – |
| Other | 160 | 230 | 69 | 160 | 205 | 78 |
| Total | 160,069 | 132,758 | 121 | 140,454 | 116,570 | 120 |

Krka produces numerous products across most key therapeutic groups. The leading products remain those for treating cardiovascular disease. Compared to 2005 the proportion of products for the treatment of diseases of the

alimentary tract and metabolism in overall sales increased (by over 2 percentage points), while the proportion of products for the treatment of infections decreased (by just under 2 percentage points).

Compared to sales five years ago, the largest increase has been in the proportion of medicines to treat cardiovascular disease (up over 5 percentage points) and medicines for the central nervous system (up almost 4 percentage points), while the proportion of products for the treatment of infections decreased (by over 4 percentage points).

New products

The proportion of overall sales represented by new products is significant, and has remained high for the past two years. Products launched in the past few years have made a significant contribution to sales success and growth. In 2006 Krka again began starts the sale and marketing of a number of new products, while expanding the existing range with new strengths, new packaging, and new pharmaceutical forms.

Prescription pharmaceuticals

The Krka Group achieved prescription pharmaceutical sales worth 128.3 billion SIT in 2006, a growth of 21% on the previous year. Almost 85% of those products were sold under its own trademarked brands, and the remainder via partners in the Region West Europe.

On the 10 largest markets the largest increases in sales were in Hungary, the United Kingdom, Romania, the Russian Federation, Ukraine and Poland, while the highest increases on other markets came in Serbia, Azerbaijan, Armenia, Uzbekistan, Africa, the Arabian Peninsula, Lithuania, Bulgaria and Latvia.

Medicines for treatment of cardiovascular disease

Statins. On the markets of central, east and south-east Europe, Krka retains its positions as the leading producer of statins – the basic medicine group for treating dyslipidaemias, i.e. for lowering cholesterol levels. Krka's statins, **Vasilip[®]** (simvastatin) and **Atoris[®]** (atorvastatin), are the best-selling generic statins on the markets mentioned above. Krka started its involvement in treating dyslipidaemias 10 years ago, when it launched the first Krka statin, **Holetar[®]** (lovastatin) in Slovenia. Today Krka is making a significant contribution to better treatment of dislipidaemias on numerous markets, which is helping to establish the market for our medicines. Krka is the leading statin producer on the individual markets of Slovenia, the Russian Federation, Poland and Lithuania, where it holds a high market share, and is also the leading generic statin producer in Croatia and Latvia. In 2006 Krka continued its rolling launch programme for the new 40 mg form of **Atoris[®]** (atorvastatin) on the markets of Region Central Europe.

ACE inhibitors. Krka has a very wide range of medicines to treat high blood pressure, which allows doctors to select just the right form of medicine for each patient. The best-selling medicine in this group remains **Enap[®]** (enalapril), together with the fixed combinations of enalapril and hydrochlorothiazide **Enap[®]-H**, **Enap[®]-HL** and **Enap[®]-HL 20**. **Enap[®]** remains the leading enalapril in Slovenia, the Russian Federation, Croatia, the Czech Republic and many other markets, and Krka is also one of the leading generic enapril producers on the markets in its Region West Europe. **Ampril[®]** (ramipril), also marketed as **Amprilan[®]**, is Krka's latest ACE inhibitor, which has a market share of approximately 20% among ramiprils in Slovenia and the Czech Republic. In 2006 it was offered on most other markets in Regions Central Europe and South-East Europe, with the fixed combinations of ramipril and hydrochlorothiazide, **Ampril[®] HL** and **Ampril[®] HD/Amprilan[®] H**, being launched on the original markets. **Prelessa[®]** (perindopril), produced by the Krka subsidiary in Poland, is Krka's very latest ACE inhibitor, which was launched in Hungary and Slovenia just before the end of 2005, and in Poland, the Czech Republic, Lithuania and Slovakia during 2006. In Croatia the range of ACE inhibitors was supplemented by two new products produced by the Krka production plant there in Jastrebarsko: **Laaven[®]** (lisinopril) and **Laaven[®]-HL 20** (lisinopril and hydrochlorothiazide).

Sartans. Krka is one of the leading producers of the most important group of medicines for treatment of high blood pressure, ACE inhibitors and sartans, on the markets of central, eastern and south-eastern Europe. These are among the most modern and most used treatments for high blood pressure. In 2006 Krka organised an international symposium to mark the fifth anniversary of Lorista® (losartan), which has a market share of 30% in Slovenia, and almost 50% in Lithuania and is the leading sartan on these two markets, and is also one of the leading sartans in Poland, the Czech Republic and Bulgaria, where it also enjoys a market share of over 30%. In future we are planned to expand Lorista® to other markets at the same time as establishing Krka's new sartan Valsacor® (valsartan) across a wide range of markets, as we have already started marketing it in Slovenia.

Other medicines. Also successful on Krka's traditional markets in central, eastern and south-eastern Europe are the calcium channel blocker Tenox® (amlodipine) and the beta blocker Coryol® (carvedilol). Both are also successful in western Europe where Krka's amlodipine has been one of the leading generic amlodipines, and its carvedilol is also one of the leading generics in its class.

Since 2005 the Krka product range has also included the dedicated diurectic Rawel® SR (indapamide), in a modern tablet form with prolonged release. Rawel is only present on a smaller number of markets as yet, where it is achieving market shares between 20 and 40%. Expansion to new markets is already underway.

Thrombocyte aggregation inhibitors. Zyllt® (clopidogrel), a medicine that prevents thrombocyte aggregation and the formation of blood clots, is mainly produced by Krka's Croatian subsidiary, and achieved a 20% market share of the entire platelet aggregation inhibitor market in Croatia. Since 2006 it has also been available on various other markets in Krka's Region Central Europe, Region East Europe and Region South-East Europe.

Medicines for treatment of diseases of the alimentary tract and metabolism

Proton pump inhibitors. The major medicines for treating diseases of the upper alimentary tract are proton pump inhibitors, and Krka produces two medicines in this group: Lanzul® (lansoprazole) and Ultop® (omeprazole), which have already been used to treat over 10 million patients. Lanzul®, which has a rapid effect on stomach secretion, is achieving significant market shares. In 2006 it was launched on a number of new markets in Region Central Europe. In 2006 Krka became the leading producer of generic lansoprazole for western European markets as well. Ultop® – produced by Krka for almost 20 years – remains an important proton pump inhibitor. Since spring 2006 it has also been available in parenteral form in Slovenia.

Oral antidiabetics. Krka has actively entered a new treatment area – diabetes – by introducing a new product to its range, Meglimid® (glimepiride), also sold under the name Eglymad.® This medicine is from the sulfonylurea group, which are intended for oral treatment of diabetes. The product is available in Lithuania and the Czech Republic, while Krka glimepiride tablets are also available in western Europe.

Medicines for the treatment of infections

Clarithromycin is the leading macrolide antibiotic in Europe, and has been part of the Krka product range since 1997. Fromilid® (clarithromycin) is today the leading generic clarithromycin on most of Krka's markets in its central, eastern and south-eastern regions, and achieves high market shares. On most markets Krka also offers a supplementary product, Fromilid® uno, which is the first generic clarithromycin in a prolonged release form. In addition to macrolide antibiotics, Krka also has two products from another group of modern antimicrobial medicines – fluoroquinolones. For 15 years now Krka has been marketing Ciprinol® (ciprofloxacin), which is the leading ciprofloxacin on numerous markets. Nolicin® (norfloxacin) has been part of the range even longer. Both are still achieving growth in sales.

Medicines for the central nervous system

In 2006 Krka supplemented its range of medicines for the central nervous system with the addition of three new products: Torendo®, Alventa® and Zolsana®.

Antipsychotics. Torendo® (risperidone) is an atypical anti-psychotic used to treat schizophrenia and bipolar disorder, and behavioural disorders in patients with dementia. Risperidone is the second best-selling anti-psychotic in the world, immediately after olanzapine; both are among the two best-selling medicines overall. Krka offers both of these best-selling medicines within its product range, in addition to the new Torendo® product, it has also been marketing Zalasta® (olanzapine) for two years. Torendo® also represents another approach to modern medical treatment. The launch of Torendo® Q-Tab® was the first generic risperidone in oral dispersible tablet form. After six months on the market in Slovenia, Torendo® and Torendo® Q-Tab® have achieved a market share of over 20% among risperidone. Zalasta® – a product produced by Krka Polska is also successful, with just under a 30% market share among olanzapines in Poland.

Antidepressives. Krka's range of anti-depressants was expanded in 2006 to include Alventa® (venlafaxine). Venlafaxine is a modern, global leader among anti-depressants and has a double function, being used to treat depression and anxiety disorders. It is followed by sertraline, which Krka has been selling successfully under the Asentra® brand name for several years. Asentra® (sertraline) is the leading generic sertraline on the markets of central, south-eastern and eastern Europe, and in Slovenia, Lithuania and Poland has a 50% market share. Mirzaten® (mirtazapine) is also the leading generic mirtazapine on these markets.

Other medicines. Yasnal® (donepezil) represents the Krka presence in the field of medicines to treat Alzheimer's disease. Today, Yasnal® is one of the best-selling generic donepezils on Krka's traditional markets and one of the leading medicines for Alzheimer's on the global level. In Slovenia and Slovakia, Yasnal® has a market share of over 80% on the donepezil market, while its market share was 60% in Lithuania, and over 30% in Poland. Since 2006 Yasnal® has also been available on the Czech market. Last year saw the launch of Zolsan® (zolpidem), a medicine for treatment of insomnia, which is currently available in Slovenia, the Czech Republic and Poland.

Medicines for the urinary tract

Krka's range of modern products for the treatment of benign prostatic hypertrophy was completed by adding Tanyz® and Finpros® to the existing Kamiren® (doxazosin) and Kamiren® XL (prolonged-release doxazosin).

Tanyz® (tamsulosin) is a modern medicine that reduces the symptoms of benign prostatic hyperplasia. Tamsulosin is the world's best selling medicine for this disease. In 2006 Tanyz® had already been made available in Slovenia and most of the markets of central Europe and Romania. Just before the end of the year, we were the first generic producer to release Finpros® (finasteride), a product for prostate enlargement.

Self-medication products

The Krka Group achieved self-medication product sales worth 17 billion SIT in 2006, a growth of 21% on the previous year. On the 10 largest markets the largest increases in sales were in Romania, Uzbekistan, the Russian Federation, and Ukraine while the highest increases on other markets came in Azerbaijan, Latvia, Africa, Hungary and Albania. On the larger markets, there was a noticeable fall in Poland, where a turnaround was planned in 2006, which will only be attainable in 2007, due to delays in a number of planned launches.

In 2006 activities focused on the key brands – Septolete®, Bilobil®, Duovit®, Pikovit® and Herbion®.

Bilobil® (ginkgo biloba extract) was selected in 2006 as the winner in the category of products for improving memory and concentration. It is the leading seller in its category in Romania, Slovenia and Poland, and just behind the market leader in the Russian Federation. The overall sales of Bilobil® are increasing, and were particularly high in 2006, when growth of 34% was achieved compared to the previous year. A new higher strength version Bilobil® forte was expanded to new markets. Products under the Herbion® brand name, which combines herbal medicines were the most successful cough syrups enjoying growth on numerous markets in eastern and south-eastern Europe.

The Duovit® brand offers mineral-vitamin products that satisfy daily requirements for vitamin and mineral intake. The main Duovit® product has recently been joined by Duovit® for men and Duovit® for women, which were

launched on a number of new markets in 2006. The market and sales activities for Duovit® have been targeted at the markets of eastern Europe, particularly the Russian Federation and Ukraine. The Pikovit® brand is the umbrella trademark for a group of vitamin and mineral products for children that has been on the market for over 20 years. The line has been supplemented with products such as Pikovit® plus, launched in 15 new countries in 2006, as Pikovit® D and Pikovit® forte on a number of specific markets.

Septolete® is an oral antiseptic brand that includes a number of clinically tested products for self-treatment of mild infections of the mouth and throat. In 2006 Krka launched three new products in the range: NeoSeptolete® with lemon flavour, NeoSeptolete® with wild cherry flavour, and NeoSeptolete® with green apple flavour. They were launched in Slovenia at the beginning of the year, followed by launches across Krka's Region Central Europe. Septolete® plus, which was launched in Croatia in 2006, won the Gold OTIS award in Poland for mouth and throat medicines, as selected by consumers, while it is officially recommended by the association of otolaryngologists (ear, nose, throat specialists) in the Russian Federation.

Cosmetic products

The Krka Group achieved sales of cosmetics worth 2.3 billion SIT in 2006, a growth of 13% on the previous year. Of the five largest markets, sales increased in the Russian Federation, Ukraine and Serbia. A small fall in sales was recorded in Slovenia and Croatia, due to the recent rationalisation of the product range to focus on higher yield products and other sales channels.

The best selling products include the Vitaskin® line of skincare products, which was expanded in 2006 to include Vitaskin® Biobalance for women over 30. The Fitoval® haircare brand also returned high sales compared to the previous year. The range of products to strengthen hair and prevent hair loss was expanded to include an anti-dandruff shampoo and lotion. Products under the Sun Mix® trademark, available in Slovenia and Region South-East Europe are, of course, very seasonal.

Animal health products

The Krka Group achieved sales of animal health products worth 5.5 billion SIT in 2006, a growth of 14% on the previous year. On the ten largest markets sales increased most in the Netherlands, where they more than doubled, in the Russian Federation and Hungary. Sales also increased on all the top-10 markets with exception of Croatia (where one product was discontinued).

The most important brand, Enroxil® (enrofloxacin) retains its leading position in the animal health product range. Another impressive performance came with the high sales growth for Floron® (florfenicol) in the anti-microbial medicine range, which grew by 59%, and has already overtaken Enroxil® in Poland.

Health resort and tourist services

Sales of health resort and tourist services were worth 6.7 billion SIT, which is 15% up on 2005.

Terme Krka company facilities realised a total of 340,048 overnight stays, which represents a 7%-growth on the preceding year. Foreign guests recorded 111,404 overnight stays in total, which is 33% of the total.

The average occupancy of accommodation capacity was 69%, while the average occupancy of our health resort capacity was 82%. Particularly attention will be paid to developing and expanding programmes for relaxation and improving quality of life, while further investments will also be made in health and rehabilitation programmes and equipment. Our objective is to retain our market share in the field of health treatments within the public health service, which already stood at 34% of the overall programme in Slovenia in this field.

Research and development

The basic objectives of Krka's research and development policy are to develop technologies for the production of active pharmaceutical ingredients and pharmaceutical 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. The vital role this work plays in consolidating our position as a successful European pharmaceutical company means that development is one of our key function areas.

The start of 2006 was marked by an increase in the number of new development projects, with the aim being to ensure the continue competitiveness of the Krka product portfolio. At present, Krka's R&D work includes around 100 projects in various developmental phases and across a wide range of fields. We successfully concluded R&D activities for a range of products, submitting 11 new products in 28 different forms for marketing authorisation.

The generic industry's product development has to respect the regulatory requirements and patent situation in individual markets. Products have to be adapted to individual groups of markets. Krka's ability to integrate research knowledge in the field of active pharmaceutical ingredient (API) preparation processes with research techniques in the development of pharmaceutical forms and their behaviour within the body significantly increase its flexibility in realising products targeted to individual markets and hence increasing the competitiveness of its portfolio.

The main area of work is the development of APIs, particularly the development of innovative synthesis processes and the preparation of solutions for API properties that are adequate to meet the requirements of the regulatory authorities as well as intellectual property requirements. Chemical synthesis, pharmaceutical technology and evaluation techniques are essential fields of knowledge in the process. These have all proved to be key factors in the successful launch and acquisition of marketing authorisations on individual markets of the following products: Prenessa[®] (perindopril) tablets and Co-Prenessa[®] (perindopril, indapamide) tablets and Zyllt[®] (clopidogrel) tablets.

Effective work in the field of gaining marketing authorisations demands the use of optimal procedures within national and European legislation. Past experience is used to full effect in the marketing authorisation management process. We are continually managing national procedures as well as MRPs (Mutual Recognition Procedures). Twelve MRPs have been successfully concluded. Some MRPs were managed in Central European countries and the selection of RMSs (Reference Member State) was expanded. In 2006 Krka started to acquire experience in managing the latest marketing authorisation products that will significantly increase the speed of acquiring marketing authorisations for products on desired markets. The so-called DCPs (Decentralised Procedures) that are only now being employed in Europe are of particular importance. Managing national procedures is also very important on markets that are not part of the European Union, such as Croatia and the Russian Federation. In the Russian Federation the Krka Company and the subsidiary Krka Rus have both successfully acquired marketing authorisation.

Development work concludes with the successful acquisition of a marketing authorisation for the product, which then enables the product to be launched. Our development results have led to us being granted the first marketing authorisation for 11 new products in 24 different strengths. At the same time we also acquired 436 marketing authorisations for various products. On behalf of Krka, d. d., Novo mesto and Krka Sverige AB – Krka's Swedish-based subsidiary – Krka obtained 38 marketing authorisations for 11 products in 31 forms in the countries of western Europe.

Krka respects the intellectual property of others and protects its own property. It uses patent applications to protect the results of its work in key fields. In 2006 the company submitted patent applications for 17 inventions on the basis of prioritised applications from 2005, and submitted 14 international patent applications.

The company markets its products under its own trademarked brands, which further enhances the added value of Krka products. In 2006 Krka made 31 application to register trademarks in Slovenia, and seven abroad, and submitted 29 applications for marketing authorisations internationally.

Investments

The Krka Group allocated 25.7 billion SIT or 16.1% of sales revenue.

At present the Group is implementing over thirty projects mainly relating to the production of final 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 take place in Slovenia, Croatia, the Russian Federation and Poland.

Sinteza 4

In September test production started in the new Sinteza 4 active pharmaceutical ingredient (API) production plant, the largest investment project of 2006 in terms of both technological complexity and financial commitment. The plant will be used for the production of APIs, which can then be incorporated into our own final products. In addition to statins, which are the main API into cholesterol-reducing products, Sinteza 4 will also be used to produce other APIs for products to treat cardiovascular diseases and pharmaceuticals in other indication areas.

Pelete IV

The upgrading of the Pelete IV plant will double pellet production capacity. We will set up two new production lines in the new extension to the Specifika plant, where the spatial capacity required for production and R&D work will also be built.

New ampoule plant

The new ampoule plant will be used for production from the preparation of solutions, ampoule filling, and autoclaving, while the present plant will be renovated and used for optical control and packaging. The two plants are connected. The start of test production is planned for the end of 2007.

Capsule production and packaging plant

The first phase of modernising the capsule production and packaging plant is underway, and will increase the production capacity of the plant. The work has largely already been finished, and two high capacity packaging have been installed and are already in operation.

Notol III

In the third phase of the Notol project we will increase the packaging facility, which will allow new packaging lines to be added. There will also be investment in additional capacity of the weighing, granulating and tableting facilities to coordinate the increased packaging capacity with intermediate product production capacity.

Terme Krka

The Terme Krka company carried out a full renovation of Hotel Krka at the Šmarješke Toplice spa resort to complete the investment cycle of construction and renovation of accommodation and relaxation capacity at that site. The investment received co-financing from the European Regional Development Fund worth 503.9 million SIT. The company Golf Grad Otočec completed phase one of the golf course construction at Struga pri Otočcu.

Production and distribution companies in Poland, Croatia and the Russian Federation

In Poland the purchase of a new packaging line, expanded boiler, and additional an air-drying installation in the production facility has increased plant production capacity. The administrative facility has also been upgraded. Production capacity in the Russian Federation was increased with a new tableting facility. In 2007 a new packaging line, coating drum and capsule facility. The Krka-Farma Zagreb subsidiary upgraded its central energy supply control system.

Employees

The rapid growth of business and market expansion is reflected in the increasing staff numbers. The highest growth in employment in Slovenia is in research and development and marketing, while the representative offices and companies abroad significantly increased the number of employees in marketing and sales. A total of 2113 employees worked in companies and representative offices outside Slovenia, which is 37% of all employees in the Krka Group.

Number of employees (on 31 December)

| | 2006 | 2005 | 2004 | 2003 | 2002 | Index 2006/2005 |
|---|-------------|-------------|-------------|-------------|-------------|--------------------|
| Krka Company in Slovenia | 3016 | 2954 | 2932 | 2973 | 2975 | 102 |
| Krka Company representatives outside Slovenia | 1256 | 1024 | 716 | 555 | 424 | 123 |
| Krka Company | 4272 | 3978 | 3648 | 3528 | 3399 | 107 |
| Subsidiaries outside Slovenia | 857 | 620 | 539 | 442 | 393 | 138 |
| Terme Krka Group | 630 | 626 | 594 | 552 | 540 | 101 |
| Krka Group | 5759 | 5224 | 4781 | 4522 | 4332 | 110 |

The timely development of products, investment in new production capacity and effective performance on the global markets requires highly trained specialists in all areas. The proportion of university-educated employees is continually on the increase and now represents 46% of all employees. At the end of 2006 there were 2633 employees holding at least a first university degree. Their numbers include 63 people with doctorates, and 162 people holding master-of-science degrees and specialisation qualifications. Sixty-nine per cent of those with a university degree work in Krka companies and representative offices abroad.

We promote the engagement of new specialists with 69 scholarships, primarily for students of pharmacy and chemistry and through close links and contacts with students that enable them to get to know the company through internships or preparing thesis research. A special form of encouragement for the most creative is the Krka Awards for Young Researchers and Scientists, which have been awarded 36 times to date.

Krka's burgeoning internationalisation and its dedication to development, and the intensely competitive environment in which it operates demands investment in the knowledge and skills of all employees. Most education takes place in Krka's own training centre.

The key education areas are management and personal development training, teaching foreign languages – primarily English and Russian, information technology, quality and various specialist areas. On average each Krka employee participated in four different forms of training, spending an average of 30 hours updating their knowledge; 92% of that time was spent at internal seminars, 6% at external seminars in Slovenia and 2% abroad.

Krka's long-term investment in knowledge is continuing with support for employees that are studying; 350 Krka employees are engaged in part-time studies, 134 of these at postgraduate level for MSc or PhD degrees. Fifty-six employees in the production sector completed training for the national vocation qualification, and another 56 employees started NVQ studies.

Environmental protection

The basic principle of environmental protection in Krka is to coordinate all the activities on a sustainable and future-oriented basis. For many years, we have dedicated considerable attention to the use of natural resources and reducing the environmental impact. By focusing on a set of prioritised objectives, which we have achieved in recent years, and by raising the environmental awareness of all employees we have managed to improve in every area of environmental protection. In 2006 we submitted an application for an integrated environmental protection licence for the central location in Novo mesto, which will be compulsory after 31 October 2007.

The basic objective of our environmental policy is to improve the state of the environment. We successfully achieve this objective by fulfilling our annual plans, objectives and programmes. The ISO 14001 standard is a vital part of this work, and its now part of every organisational unit.

Significant achievements in the field of environmental protection in 2006

- Reduced outflow of environmental load units (ELU) from waste water treatment plant by 24%.
- Reduced consumption of river water by 14%.
- Reduced quantity of landfill waste by 10%.
- Increased the quantity of useful separated waste by 20%.
- Reduced specific energy use by 17%.
- Started waste air cleaning system for the Sinteza 4 plant.

Environmental protection objectives and programmes for 2007

- To acquire the environmental protection licence.
- To upgrade the waste air cleaning system at the waste water treatment plant.
- To increase the quantity of useful separated waste by 5%.
- To maintain the quantity of landfilled waste at the level already achieved.
- To guarantee the quality of waste water treatment plant effluent remains within the legally defined limits.
- Reducing emissions to air of volatile organic compounds to below 5% of total consumption.

Related parties

As at the year-end, the members of the Management Board of Krka d.d. held 5693 of shares in Krka, representing a 0.16 % of the total equity, and the Managing Directors of subsidiaries held 2514 of shares or 0.07 % of the total equity. A questionnaire on related entities is filled in by the members of the Management Board and other management staff on a yearly basis, which is afterwards used by the Company to check the occurrence of any other business relations between the Company and the employees. No such business relations were recorded in 2006.

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

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

Emoluments of groups of persons in 2006

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

Emoluments of the Management Board members represent salaries and wages, fringe benefits and any other receipts. Emoluments of the Management Board members in 2006 are presented below:

Summary of the Audited Annual Report 2006

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

Emoluments of the employees also represent salaries and wages, fringe benefits, vacation bonus and any other receipts (tenure awards, etc.).

Emoluments of the Supervisory Board members represent remuneration for the tasks performed within the Supervisory Board.

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

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

Emoluments of the Supervisory Board members in 2006 are presented below:

| in thousand SIT | Monthly remuneration | Attendance fees | Participation in profit | Total |
|--|----------------------|-----------------|-------------------------|---------------|
| Supervisory Board until 21 June 2005 (12 members) | | | | |
| Janez Prijatelj, President | 0 | 0 | 4,460 | 4,460 |
| Janko Kastelic, Deputy President | 0 | 0 | 2,230 | 2,230 |
| Bojan Dejak | 0 | 0 | 2,230 | 2,230 |
| Borut Jamnik | 0 | 0 | 2,230 | 2,230 |
| Sonja Kermc | 0 | 0 | 2,230 | 2,230 |
| Mihaela Korent | 0 | 0 | 2,230 | 2,230 |
| Miroslav Kramarič | 0 | 0 | 2,230 | 2,230 |
| Darinka Kure | 0 | 0 | 2,230 | 2,230 |
| Mojca Osolnik | 0 | 0 | 2,230 | 2,230 |
| Boris Petančič | 0 | 0 | 2,230 | 2,230 |
| Božena Šuštar | 0 | 0 | 2,230 | 2,230 |
| Stanislav Valant | 0 | 0 | 2,230 | 2,230 |
| Total | 0 | 0 | 28,990 | 28,990 |
| Supervisory Board since 22 June 2005 (9 members) | | | | |
| Gregor Gomišček, President | 6,060 | 1,316 | 4,460 | 11,836 |

Summary of the Audited Annual Report 2006

| | | | | |
|---------------------------------|---------------|--------------|---------------|----------------|
| Marko Kranjec, Deputy President | 5,799 | 774 | 2,230 | 8,803 |
| Mateja Božič | 4,744 | 542 | 2,230 | 7,516 |
| Sonja Kermc | 4,744 | 697 | 2,230 | 7,671 |
| Anton Rous | 4,744 | 697 | 2,230 | 7,671 |
| Tomaž Sever | 4,744 | 774 | 2,230 | 7,748 |
| Draško Veselinovič | 5,270 | 852 | 2,230 | 8,352 |
| Mateja Vrečer | 4,744 | 774 | 2,230 | 7,748 |
| Alojz Zupančič | 5,270 | 735 | 2,230 | 8,235 |
| Total | 46,119 | 7,161 | 22,300 | 75,580 |
| GRAND TOTAL | 46,119 | 7,161 | 51,290 | 104,570 |

Loans granted to groups of persons in 2006 are presented below :

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

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

CONSOLIDATED FINANCIAL STATEMENTS OF THE KRKA GROUP

Auditor's Report



Auditor's Report for Public Reporting Purposes

We have audited the financial statements of the company Krka d.d. and the consolidated financial statements of the Krka Group for the year ended 31 December 2006, prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union, from which the summarized financial statements and the summarized consolidated financial statements are derived, in accordance with International Standards on Auditing. As stated in our Auditor's Reports of 15 March 2007, the financial statements and the consolidated financial statements with notes, used for the preparation of the summarized financial statements, give a true and fair view of the financial situation of the Company and the Group as of 31 December 2006.

In our opinion, the attached summarized financial statements and the summarized consolidated financial statements comply, in all material aspects, with the financial statements and the notes thereto and with the consolidated financial statements and the notes thereto from which they originate and on which we have expressed an unqualified opinion.

For a better understanding of the financial situation of the company Krka d.d. and the Krka Group as of 31 December 2006, the results of its operations, its cash flows and the changes in equity for the year then ended, and the scope of our audit, it is necessary to read the summarized financial statements together with the financial statements and the notes thereto, and our auditor's reports on these financial statements.

KPMG SLOVENIJA,

podjetje za revizijske, d.o.o.

Anžej Korjček, B.Sc.Ba.

Certified Auditor

Partner

Ljubljana, 11 April 2007

KPMG Slovenija, d.o.o.

Consolidated Balance Sheet

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

Consolidated Income Statement

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

Consolidated Statements of Changes in Equity

| in thousand SIT | Called capital | Own shares | Reserves | Retained earnings | Reserve for fair value | Translation reserve | Equity holders of the parent | Minority interest | Total equity |
|---|----------------|------------|------------|-------------------|------------------------|---------------------|------------------------------|-------------------|--------------|
| Balance at 01 Jan 2005 | 14,170,448 | -4,670,280 | 34,085,325 | 51,140,709 | 519,986 | 59,958 | 95,306,146 | 1,819,476 | 97,125,622 |
| Entry of the net profit for the period | 0 | 0 | 0 | 23,288,582 | 0 | 0 | 23,288,582 | 30,546 | 23,319,128 |
| Formation of statutory reserves | 0 | 0 | 800,000 | -800,000 | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | 0 | 0 | 0 | -4,786,297 | 0 | 0 | -4,786,297 | -31,850 | -4,818,147 |
| Change in fair value of investments | 0 | 0 | 0 | 0 | 41,616 | 0 | 41,616 | 0 | 41,616 |
| Income and expenses recognised directly in equity | 0 | 0 | 0 | -711,352 | 0 | -55,312 | -766,664 | -4,616 | -771,280 |
| Balance at 31 Dec 2005 | 14,170,448 | -4,670,280 | 34,885,325 | 68,131,642 | 561,602 | 4,648 | 113,083,385 | 1,813,556 | 114,896,941 |
| Entry of the net profit for the period | 0 | 0 | 0 | 26,763,403 | 0 | 0 | 26,763,403 | 96,991 | 26,860,394 |
| Formation of statutory reserves | 0 | 0 | 500,000 | -500,000 | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | 0 | 0 | 0 | -5,631,286 | 0 | 0 | -5,631,286 | -15,676 | -5,646,962 |
| Change in fair value of investments | 0 | 0 | 0 | 0 | 272,336 | 0 | 272,336 | 0 | 272,336 |
| Income and expenses recognised directly in equity | 0 | 0 | 0 | 396,650 | 0 | 32,314 | 428,964 | 0 | 428,964 |
| Balance at 31 Dec 2006 | 14,170,448 | -4,670,280 | 35,385,325 | 89,160,409 | 833,938 | 36,962 | 134,916,802 | 1,894,871 | 136,811,673 |

Consolidated Cash Flow Statement

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

FINANCIAL STATEMENTS OF KRKA, D. D., NOVO MESTO

Auditor's Report



Auditor's Report for Public Reporting Purposes

We have audited the financial statements of the company Krka d.d. and the consolidated financial statements of the Krka Group for the year ended 31 December 2006, prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union, from which the summarized financial statements and the summarized consolidated financial statements are derived, in accordance with International Standards on Auditing. As stated in our Auditor's Reports of 15 March 2007, the financial statements and the consolidated financial statements with notes, used for the preparation of the summarized financial statements, give a true and fair view of the financial situation of the Company and the Group as of 31 December 2006.

In our opinion, the attached summarized financial statements and the summarized consolidated financial statements comply, in all material aspects, with the financial statements and the notes thereto and with the consolidated financial statements and the notes thereto from which they originate and on which we have expressed an unqualified opinion.

For a better understanding of the financial situation of the company Krka d.d. and the Krka Group as of 31 December 2006, the results of its operations, its cash flows and the changes in equity for the year then ended, and the scope of our audit, it is necessary to read the summarized financial statements together with the financial statements and the notes thereto and our auditor's reports on these financial statements.

KPMG SLOVENIJA,

podjetje za revizijsko delo.

Andrej Korjsek, B.Sc.Ba.

Certified Auditor

Partner

Ljubljana, 11 April 2007

KPMG Slovenija, d.o.o.

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Balance Sheet

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

Income Statement

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

Statement of changes in equity

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

Cash Flow Statement

| in thousand SIT | 2006 | 2005 |
|---|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit for the period | 27,085,840 | 22,459,190 |
| Adjustments for: | 16,398,326 | 15,927,547 |
| - amortisation /depreciation | 8,673,366 | 8,378,685 |
| - foreign exchange gain | -361,039 | -1,523,964 |
| - foreign exchange loss | 1,145,677 | 842,959 |
| - investment income | -2,788,654 | -6,219 |
| - investment expense | 713,646 | 1,150,399 |
| - financial income | 0 | -70,253 |
| - financial expense | 747,438 | 1,180,260 |
| - income taxes and other taxes not included in operating expenses | 8,201,153 | 5,890,302 |
| - other | 66,739 | 85,378 |
| Operating loss before changes in net operating current assets and provisions | 43,484,166 | 38,386,737 |
| Change in trade receivables | -4,813,688 | -7,785,501 |
| Change in inventories | 3,043,741 | -8,399,959 |
| Change in operating debts (liabilities) | -376,424 | 2,504,351 |
| Change in other current liabilities and provisions | 4,342,526 | 3,387,544 |
| Income taxes paid | -15,138,201 | -4,085,332 |
| Cash generated from operations | 30,542,120 | 24,007,840 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received | 215,829 | 92,450 |
| Proceeds from sale of investments | 243,050 | 64,744 |
| Dividends received | 48,200 | 25,886 |
| Proportionate profit of subsidiaries | 485,751 | 0 |
| Proceeds from sale of property, plant and equipment | 281,907 | 150,165 |
| Purchase of intangible assets | -1,547,755 | -1,853,563 |
| Purchase of property, plant and equipment | -19,138,163 | -12,164,575 |
| Payments related to subsidiaries – capital increase and loss coverage | -1,557,816 | -2,434,057 |
| Proceeds/payments in connection with long-term loans | 21,533 | 56,891 |
| Payments in connection with other non-current assets | -33,727 | -1,529 |
| Acquisition of current investments | -3,210,646 | -2,257,560 |
| Acquisition of derivative financial instruments | 435,486 | -334,251 |
| Net cash used in investing activities | -23,756,351 | -18,655,399 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from an increase in short-term financial liabilities | 2,764,802 | 3,993,805 |
| Interest paid | -721,549 | -625,317 |
| Payment of long-term financial liabilities | -2,797,968 | -4264238 |
| Dividends paid | -5,623,905 | -4,809,077 |
| Net cash used in financing activities | -6,378,620 | -5,704,827 |
| Net increase in cash and cash equivalents | 407,148 | -352,386 |
| Cash and cash equivalents at beginning of period | 758,768 | 1,100,954 |
| Effect of exchange rate fluctuations on cash held | -87,942 | 10,200 |
| Net cash and cash equivalents at end of period | 1,077,974 | 758,768 |

APPENDIX: FINANCIAL STATEMENTS OF THE KRKA GROUP AND KRKA, D. D., NOVO MESTO, PRESENTED IN EUROS

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

Consolidated Balance Sheet

| in thousands of euros | 31 Dec 2006 | 31 Dec 2005 |
|--------------------------------------|----------------|----------------|
| Assets | | |
| Property, plant and equipment | 506,821 | 451,487 |
| Intangible assets | 23,608 | 21,114 |
| Investments in associates | 2,024 | 1,130 |
| Long-term loans | 3,564 | 3,714 |
| Other investments | 6,737 | 5,343 |
| Deferred tax assets | 31,840 | 19,945 |
| Other non-current assets | 253 | 51 |
| Non-current assets | 574,847 | 502,785 |
| Inventories | 115,926 | 120,908 |
| Trade and other receivables | 153,890 | 137,780 |
| Current investments | 24,067 | 14,154 |
| Cash and cash equivalents | 10,399 | 12,638 |
| Current assets | 304,282 | 285,480 |
| Total assets | 879,128 | 788,265 |
| Equity | | |
| Share capital | 59,132 | 59,148 |
| Own shares | -19,489 | -19,494 |
| Reserves | 147,660 | 145,613 |
| Retained earnings | 372,060 | 284,385 |
| Reserves for fair value | 3,480 | 2,344 |
| Translation reserves | 154 | 19 |
| Equity holders of the parent | 562,998 | 472,015 |
| Minority interest | 7,907 | 7,570 |
| Total equity | 570,905 | 479,585 |
| Liabilities | | |
| Borrowings | 34,584 | 48,709 |
| Provisions | 122,554 | 100,043 |
| Grants received | 2,777 | 1,861 |
| Deferred tax liabilities | 4,025 | 1,191 |
| Total non-current liabilities | 163,940 | 151,804 |
| Trade payables | 60,889 | 58,619 |
| Borrowings | 48,769 | 38,070 |
| Income tax liabilities | 7,020 | 27,922 |
| Other liabilities | 27,605 | 32,266 |
| Total current liabilities | 144,283 | 156,877 |
| Total liabilities | 308,223 | 308,680 |
| Total equity and liabilities | 879,128 | 788,265 |

Consolidated Income Statement

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

Consolidated Statement of Changes in Equity

| in thousands of euros | | | | | | | | | |
|---|----------------|------------|----------|-------------------|------------------------|---------------------|------------------------------|-------------------|--------------|
| | Called capital | Own shares | Reserves | Retained earnings | Reserve for fair value | Translation reserve | Equity holders of the parent | Minority interest | Total equity |
| Balance at 01 Jan 2005 | 59,148 | -19,494 | 142,274 | 213,464 | 2,170 | 250 | 397,812 | 7,595 | 405,407 |
| Entry of the net profit for the period | 0 | 0 | 0 | 97,208 | 0 | 0 | 97,208 | 128 | 97,335 |
| Formation of statutory reserves | 0 | 0 | 3,339 | -3,339 | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | 0 | 0 | 0 | -19,978 | 0 | 0 | -19,978 | -133 | -20,111 |
| Change in fair value of investments | 0 | 0 | 0 | 0 | 174 | 0 | 174 | 0 | 174 |
| Income and expenses recognised directly in equity | 0 | 0 | 0 | -2,969 | 0 | -231 | -3,200 | -19 | -3,219 |
| Balance at 31 Dec 2005 | 59,148 | -19,494 | 145,613 | 284,385 | 2,344 | 19 | 472,015 | 7,570 | 479,585 |
| Entry of the net profit for the period | 0 | 0 | 0 | 111,682 | 0 | 0 | 111,682 | 405 | 112,086 |
| Formation of statutory reserves | 0 | 0 | 2,086 | -2,086 | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | 0 | 0 | 0 | -23,499 | 0 | 0 | -23,499 | -65 | -23,564 |
| Change in fair value of investments | 0 | 0 | 0 | 0 | 1,136 | 0 | 1,136 | 0 | 1,136 |
| Income and expenses recognised directly in equity | 0 | 0 | 0 | 1,655 | 0 | 135 | 1,790 | 0 | 1,790 |
| Balance at 31 Dec 2006 | 59,132 | -19,489 | 147,660 | 372,060 | 3,480 | 154 | 562,998 | 7,907 | 570,905 |

Consolidated Cash Flow Statement

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

Balance Sheet of the Krka Company

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

Income Statement of the Krka Company

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

Statement of changes in equity of the Krka Company

| in thousand euros | Called capital | Own shares | Share premium | Legal reserves | Statutory reserves | Other revenue reserves | Reserve for fair value | Retained earnings | Net profit for the period | Total |
|--|----------------|------------|---------------|----------------|--------------------|------------------------|------------------------|-------------------|---------------------------|---------|
| Balance at 31 Dec 2004 | 59,148 | -19,494 | 121,019 | 14,994 | 6,261 | 189,785 | 2,170 | -11,460 | 43,033 | 405,456 |
| Correction | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,298 | 0 | 1,298 |
| Balance at 01 Jan 2005 | 59,148 | -19,494 | 121,019 | 14,994 | 6,261 | 189,785 | 2,170 | -10,162 | 43,033 | 406,754 |
| Entry of net profit for the period | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 93,746 | 93,746 |
| Formation of statutory reserves | 0 | 0 | 0 | 0 | 3,339 | 0 | 0 | 0 | -3,339 | 0 |
| Formation of other revenue reserves under the resolution of the Management and the Supervisory Board | 0 | 0 | 0 | 0 | 0 | 27,131 | 0 | 0 | -27,131 | 0 |
| Transfer of previous period's net profit to retained earnings | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 46,699 | -46,699 | 0 |
| Transfer to other revenue reserves under the resolution of the Annual Meeting | 0 | 0 | 0 | 0 | 0 | 24,572 | 0 | -24,572 | 0 | 0 |
| Dividends paid | 0 | 0 | 0 | 0 | 0 | -16,174 | 0 | -3,804 | 0 | -19,978 |
| Income and expenses recognised directly in equity | 0 | 0 | 0 | 0 | 0 | 0 | 174 | -2,969 | 0 | -2,796 |
| Balance at 31 Dec 2005 | 59,148 | -19,494 | 121,019 | 14,994 | 9,600 | 225,314 | 2,344 | 5,192 | 59,609 | 477,726 |
| Entry of net profit for the period | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 113,027 | 113,027 |
| Formation of statutory reserves | 0 | 0 | 0 | 0 | 2,086 | 0 | 0 | 0 | -2,086 | 0 |
| Formation of other revenue reserves under the resolution of the Management and the Supervisory Board | 0 | 0 | 0 | 0 | 0 | 20,030 | 0 | 0 | -20,030 | 0 |
| Transfer of previous period's net profit to retained earnings | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 59,593 | -59,593 | 0 |
| Transfer to other revenue reserves under the resolution of the Annual Meeting | 0 | 0 | 0 | 0 | 0 | 30,512 | 0 | -30,512 | 0 | 0 |
| Dividends paid | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -23,499 | 0 | -23,499 |
| Income and expenses recognised directly in equity | 0 | 0 | 0 | 0 | 0 | 0 | 1,136 | 1,655 | 0 | 2,792 |
| Balance at 31 Dec 2006 | 59,132 | -19,489 | 120,986 | 14,990 | 11,684 | 275,796 | 3,480 | 12,427 | 90,911 | 569,918 |

Cash Flow Statement of the Krka Company

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