


**Summary of  
the Audited Annual Report  
for Krka, d. d., Novo mesto  
and the Krka Group for 2007**



Novo mesto, April 2008



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## INTRODUCTION

### Opening clarification

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.

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 2 April 2008.

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 2007, 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 20 March 2008.

Audited financial statements of the Group and the Company for the financial year 2007 differ from the published unaudited financial statements mostly in terms of more detailed breakdown of individual items in the balance sheet and the statement of changes in equity, as well as partly modified methodology in the income statement. 2006 financial statements were adequately adjusted as well.

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 10 April 2008 on the Ljubljana Stock Exchange's electronic information system (SEOnet) and on the company website: [www.krka.si](http://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](http://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 2007 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 2007.

The Management Board hereby acknowledges that:

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

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

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

Novo mesto, March 2008

## The Krka Group financial highlights

EUR thousand	2007	2006	2005	2004	2003
Sales revenues	780,918	667,955	554,137	472,660	408,757
EBIT	182,933	150,495	119,057	74,872	61,008
EBITDA	239,880	198,199	164,849	118,039	101,474
Net profit	132,853	112,086	97,335	65,324	44,627
Non-current assets	749,707	574,846	502,786	446,032	398,059
Current assets	371,711	304,282	285,480	202,980	220,259
Equity	680,913	570,905	479,585	405,125	403,998
Non-current liabilities	253,773	163,941	151,804	156,301	81,686
Current liabilities	186,732	144,282	156,877	87,585	132,634
R&D costs	59,071	52,650	40,120	34,679	30,960
Investments	112,977	107,200	89,537	87,907	91,402
RATIOS	2007	2006	2005	2004	2003
ROS	17.0%	16.8%	17.6%	13.8%	10.9%
EBIT margin	23.4%	22.5%	21.5%	15.8%	14.9%
EBITDA margin	30.7%	29.7%	29.7%	25.0%	24.8%
ROE <sup>1</sup>	21.2%	21.3%	22.0%	17.4%	11.4%
ROA <sup>2</sup>	13.3%	13.4%	13.5%	10.5%	7.7%
Liabilities/Equity	0.647	0.540	0.644	0.602	0.530
R&D costs/Sales revenues	7.6%	7.9%	7.2%	7.3%	7.6%
NUMBER OF EMPLOYEES	2007	2006	2005	2004	2003
Year end	6777	5759	5224	4781	4522
Average	6209	5494	5030	4678	4424
SHARE INFORMATION <sup>3</sup>	2007	2006	2005	2004	2003
Total number of shares issued	35,426,120	35,426,120	35,426,120	35,426,120	35,426,120
Earnings per share in EUR <sup>4</sup>	3.92	3.30	2.88	1.93	1.32
Dividend per share in EUR	0.80	0.69	0.58	0.50	0.44
Share price at the end of year in EUR	124.29	78.48	42.72	35.24	22.05
Price/earnings ratio (P/E)	31.71	23.75	14.85	18.26	16.76
Book value of share in EUR <sup>5</sup>	19.22	16.12	13.54	11.44	11.4
Share price/book value (P/B)	6.47	4.87	3.16	3.08	1.93
Market capitalisation EUR thousand (31 December)	4,403,112	2,780,058	1,513,334	1,248,374	781,115
EXCHANGE RATES	2007	2006	2005	2004	2003
USD (average)	1.370	1.255	1.243	1.242	1.129
USD (31 December)	1.472	1.317	1.183	1.360	1.250

<sup>1</sup> Net profit/average equity balance over period

<sup>2</sup> Net profit/average total asset balance over period

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

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

<sup>5</sup> Share capital on 31 December/ Total number of shares issued

## ID Card of the Krka Group

### Data on the controlling company

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

Krka, d. d., Novo mesto	
• <b>Registered office:</b>	Šmarješka cesta 6, 8501 Novo mesto, Slovenia
• <b>Telephone:</b>	07 331 21 11
• <b>Fax:</b>	07 332 15 37
• <b>E-mail:</b>	info@krka.biz
• <b>Website:</b>	www.krka.si
• <b>Principal activity:</b>	Production of pharmaceutical preparations
• <b>Activity code:</b>	21.200
• <b>Year established:</b>	1954
• <b>Registration entry:</b>	1/00097/00, Novo mesto District Court
• <b>VAT number:</b>	82646716
• <b>Company ID number:</b>	5043611
• <b>Called-up capital:</b>	EUR 59,126,194.28
• <b>Number of shares issued:</b>	35,426,120 ordinary no-par value shares

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

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

Abbreviated company names are used in the text below.



## Krka's Subsidiaries in Slovenia and in foreign countries

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

in thousand EUR	Ownership share
	31 Dec 2007
Terme Krka, d.o.o., Novo mesto, Slovenia	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«, Sergjev 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, Munic, Germany	100 %
KRKA PHARMA GMBH, Frankfurt, Germany	100 %
KRKA FARMACÊUTICA, Unipessoal Lda., Estoril, Portugal	100 %
KRKA USA, LLC, Delaware, USA	100 %
TAD Pharma GmbH, Cuxhaven, Germany	100 %

Three new subsidiaries were established abroad in 2007, in which the Company holds a 100-percent share: KRKA PHARMA GMBH, Frankfurt, Germany, KRKA FARMACÊUTICA, Unipessoal Lda., Estoril, Portugal and KRKA USA, LLC, Delaware, USA.

Krka carried out an acquisition of the company TAD Pharma GmbH, Cuxhaven, Germany in 2007, thus becoming its sole shareholder.

In 2008 the companies KRKA Aussenhandels-GmbH, Munich and KRKA PHARMA GMBH, Frankfurt will be merged with TAD Pharma and consequently deleted from the Register of Companies. TAD Pharma will assume all its assets, capital, rights and obligations.

The subsidiary HELVETIUS-S. R. L. in Trieste, in which the Company had held an 80% participating interest, was finally dissolved.

## Significant events and awards in 2007

JANUARY	The Krka Company registered the subsidiary KRKA, FARMACÊUTICA, LDA, Estoril, Portugal.
FEBRUARY	Research carried out by a Russian market research centre, Farmekspert, and the review Farmaceutski Vestnik, ranked Krka's Enap® (enalapril) in second place in the most popular prescription pharmaceuticals category on the Russian pharmaceutical market in 2006.
MARCH	<p>The Krka Company paid the founding capital for the subsidiary KRKA USA, LLC, Delaware, United States.</p> <p>The CEO and President of the Krka Management Board, Jože Colarič, received an award from Slovenia's Chamber of Commerce and Industry for outstanding achievements in business and enterprise in 2006.</p>
APRIL	Enap® won a 2006 "Platinum Ounce" award in the best prescription pharmaceutical category in the Russian Federation.
MAY	At the 19th Forum of Excellence and Craftsmanship organised by the Dolenjska and Bela Krajina Association of Economists Krka received an award for employing the highest number of people with a further education qualification in 2005 and 2006 in the regions of Dolenjska and Bela Krajina.
JUNE	<p>The Sinteza 4 plant for the production of pharmaceutical ingredients was opened. Krka has invested over EUR 80 million in the plant, which provides total process management, from raw materials to final product.</p> <p>Krka organised its traditional Krka Awards, at which the CEO and President of the Management Board, Jože Colarič, presented awards to employees celebrating long-service anniversaries, employees and managers of the year, and for the best initiatives of the year.</p> <p>Krka received recognition from the Slovenian Federation of Disabled Workers for its effort and success in the exercise of disabled people's rights.</p>
JULY	The 12th Annual General Meeting took place, at which shareholders passed a resolution to introduce no-par value shares at a 1:10 ratio.
SEPTEMBER	Krka received a gold award for innovative solutions for its formulation of a perindopril-erbumin preparation (Prenessa® tablets).
OCTOBER	<p>Krka acquired the ISO/IEC 27001 certificate for its information security system.</p> <p>Krka won the IR Magazine's first prize in the category for best investor relations in Slovenia, for the fourth time.</p> <p>The 37th Krka Awards for Young Researchers were granted.</p>
NOVEMBER	<p>The Krka Company signed a contract with the PHW business group to buy the company TAD Pharma GmbH and acquire 100% ownership of the company.</p> <p>At the seventh management training conference in Bled, Krka received the TOP 10 award for the third time. The awards have been made to companies since 2002 by Planet GV – Sofos, Management Training Institute, for systemic investment in employee education and training.</p>

Krka received three Superbrand titles – for the corporate brand Krka and for the brands Septotele® and Sun Mix®.

Krka's 2006 Annual Report received the first prize in the competition for the best annual report of the year, organised by the Slovenian business daily, *Finance*. As well as gaining the top prize it also gathered awards for the best financial report and best business analysis and business plans.

At the Kariera 07 fair, Krka was voted the employer with the best reputation in Slovenia. This recognition is the result of professional research into reputation or brand name power from a wider circle of employers on the Slovenian labour market, which was carried out by the company Moje Delo.

The Slovenian Chamber of Engineers (IZS) awarded Krka an innovation prize for its Sinteza 4 project.

DECEMBER Krka received the highest national award for quality – the Business Excellence Award of the Republic of Slovenia (PRSP) for 2007.

The Ljubljana Stock Exchange granted Krka its Portal 2007 award recognising it as the most transparent public limited company (d.d.) in Slovenia.

According to the Company Reputations 2007 research prepared by the agency Kline & Partner, the Slovenian business community considered Krka as the best reputed company.

Krka opened its new injection production plant. This EUR 15.5 million investment increased injection production by 30%.

## Events after the accounting period

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

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

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

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

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

## Statement by the President of the Management Board

Dear shareholders and business partners,

It is with great satisfaction that I can report on another successful business year, in which our excellent business results were backed by some important long-term decision-making. Our previous successful operations and the laid foundation for the future growth had a positive impact on the wealth of our shareholders, as the value of Krka share increased by over a half in 2007.

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

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

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

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

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

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

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

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

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

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

Jože Colarič  
President of the Management Board and Chief Executive

## 2007 Report of the Supervisory Board

### Dear Shareholders,

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

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

- It discussed the 2006 Annual Report of the Krka Group and Krka Company and assessed the operations of the Krka Group and Krka Company and the work of the Management Board.
- It adopted the 2006 Annual Report of the Krka Company and Group, the report on the work of the Supervisory Board in 2006, and the Statement of Compliance with the Corporate Governance Code issued jointly by the Krka Management and Supervisory Boards.
- It supported the Management Board's proposal to the company's Annual Meeting on the use of the accumulated profit, and issued its approval (discharge of liability) for the Management and Supervisory Boards. It also approved amendments to the Articles of Association, including bringing them into compliance with the amended Companies Act, adding the basic objectives of company operations, the share split dividing the company's share capital into ordinary no-par value shares, with each nominal share being replaced by ten no-par value shares, and extending the term-in-office of management and supervisory board members by one year.
- It proposed that the Annual Meeting reappoint KPMG Slovenija, podjetje za revidiranje, d.o.o., Ljubljana as the company auditor for the 2007 financial year.
- In line with a resolution by the Slovenian Government, it proposed that the Annual Meeting adopt a new resolution on attendance fees and remuneration of supervisory board members.
- At the final meeting of 2007, the Supervisory Board was presented the Krka Group business strategy for 2008-2012, an update to the 2006-2010 strategy adopted two years ago, extended for two years.
- At the same meeting, it discussed the 2008 business plan for the Krka Group and Krka Company, which included the planned sales figures, planned scale of capital expenditure, R&D investment, recruitment, and the planned financial performance indicators.
- Every quarter it discussed the interim reports on Krka Company and Group operations, and monitored their compliance with existing business and development plans, assessing the Group's operations and the work of the Management Board on each occasion.
- At the final meeting of 2007 the members of the Supervisory Board were informed of the Management Board's intention to acquire the company TAD Pharma GmbH from Cuxhaven, Germany, which it supported.
- As every year, the Supervisory Board twice deliberated data (for 2006 and the first half of 2007) benchmarking Krka operations with those of a select group of other pharmaceutical companies.
- In accordance with the Rules on Treasury Shares it also studied information on the acquisition and disposal of treasury shares each quarter.
- As each year, it also studied the state of legal claims brought against the Krka Company and the Krka Group by foreign companies in 2007.

- At the July meeting, the Board was informed of Marko Kranjec's letter of resignation from the Supervisory Board, following his appointment as Governor of the Bank of Slovenia by the National Assembly. Since Kranjec was also the Deputy President of the Supervisory Board, Mateja Božič, MSc, was appointed Deputy President.
- The President of the Supervisory Board signed a contract with Janez Poljanec and Aleš Rotar on 1 August 2007 for work on the Management Board until 31 December 2009, in line with a Supervisory Board resolution from 2006 on their reappointment.
- As Danica Novak Malnar's term-in-office as the worker director was coming to an end at the end of 2007, at the proposal of the Works Council and with the President of the Management Board's consent, the Supervisory Board reappointed her as worker director.
- In line with the Rules on Management Board Remuneration, the Supervisory Board decided on bonus for the Management Board for work in 2006 and the first half of 2007, based on the operating results of the Krka Company and Group.
- It amended a number of quantitative performance indicators in the Rules on the Management Board Remuneration, which were taken into account in calculations. Qualitative performance indicators were included to take account of social responsibility (attitude to the environment, etc.), company reputation, public relations (with employees and external public) and investor relations, with the Management Board's report used to assess performance under these criteria.
- At the Supervisory Board's request, Aleš Rotar, Management Board member and Director of Research and Development, who also has responsibility for the Quality Management Division within the Management Board, presented the Krka Group's research and development at one meeting and the quality management at another.
- During 2007, members of the Supervisory Board inspected production at Krka's Beta plant, as well as reviewing the Wellness Centre at Terme Šmarješke Toplice, and attending the opening and tour of the new Sinteza 4 plant.

### The work of the Supervisory Board committees

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

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

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

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

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

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

In accordance with a resolution by the Human Resource Committee, the Audit Committee was involved in preparing amendments to the Rules on Management Board Remuneration. Members of the Committee primarily

proposed amendments to the quantitative performance indicators to be used in measuring the Management Board's performance.

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

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

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

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

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

### **Work of the Management Board and Supervisory Board**

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

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

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

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

The members acted independently, but outwardly functioned as a unanimous group. Critical discussions and the expression of different opinions are encouraged at Supervisory Board meetings, but disagreement and different points of view are always reconciled via constructive dialogue. Supervisory Board members agreed in discussion that the organisation of meetings, the course of work, and relations between board members was very good.



These discussions also raised potential improvements to the board's work, which were subsequently introduced. No conflicts of interest arose in relation to the discussion of an item on the agenda or in Supervisory Board decision making.

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

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

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

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

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

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

Gregor Gomišček, PhD  
President of the Supervisory Board

## Corporate Governance

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

The company's governing bodies are:

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

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

## General Meeting

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

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

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

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

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

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

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

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

## Supervisory Board

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

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

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

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

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

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

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

### Shareholder representatives

#### **Gregor Gomišček, PhD, 51 years**

*President of the Supervisory Board*

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

#### **Marko Kranjec, PhD, 68 years**

*Deputy President of the Supervisory Board*

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

#### **Mateja Božič, MSc, 41 years**

*Deputy President of the Supervisory Board*

Mateja Božič's master's degree is in management and organisation. She was employed at the Petrol company, where she was actively involved in the restructuring process and the company's strategic development. Since

2003 she has worked as a consultant to the member of the Management Board for finance and energy management, being involved in controlling and the implementation of activity-based costing (ABC). She is currently a member of the management board of Kapitalska Družba.

**Draško Veselinovič, PhD, 49 years**

*President of the Supervisory Board's Audit Committee*

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

**Anton Rous, 68 years**

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

**Alojz Zupančič, 69 years**

*President of the Supervisory Board's Human Resource Committee*

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

**Employee representatives**

**Sonja Kermc, 56 years**

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

**Mateja Vrečer, PhD, 41 years**

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

**Tomaž Sever, MSc, 40 years**

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

## Management Board

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

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

The Management Board **comprises** five members:

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

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

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

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

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

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

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

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

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

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

### Members of the Management Board

#### **Jože Colarič, 52 years**

*President of the Management Board and Chief Executive*

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

#### **Janez Poljanec, 61 years**

*Member of the Management Board and Director of Product Supply*

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

#### **Aleš Rotar, PhD, 48 years**

*Member of the Management Board and Director of Research and Development*

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

#### **Zvezdana Bajc, 55 years**

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

Zvezdana Bajc is a graduate of the Faculty of Economics in Ljubljana and has worked for Krka since 1977. Her career began in the Economics Division, and in 1979 she moved to the Investment Services. In 1986 she took over as director of the Economic Planning Division. Since 1999 she has been the Director of Economics and Information Processing. Her term-in-office as Management Board member started on 1 April 2005, and she remains director of Economics and Information Processing. Her term-in-office expires on 31 December 2009.

#### **Danica Novak Malnar, 51 years**

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

Danica Novak Malnar is a graduate of the Faculty of Natural Science and Technology in Ljubljana and has worked for Krka since 1982. In 1986 she became Head of the Pharmaceutical Division in Ljutomer, and then for six years led the Division for Operative Production Planning. In 1994 she was placed in charge of the Production Planning Department. In 1998 she was appointed to the Management Board as the worker director, and was

most recently reappointed by the Works Council and approved by the Supervisory Board in 2007, with her latest term-in-office beginning on 1 January 2008. Since 1999 she has been in charge of pharmaceutical production.

## Governance of the Krka Group

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

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

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

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

## Internal auditing

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

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

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

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

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

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

## External auditing

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

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

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

## Corporate Governance Code Compliance Statement

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

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

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

Jože Colarič  
President of the Management Board

Gregor Gomišček, PhD  
President of the Supervisory Board

Novo mesto, 2 April 2008



## The Krka Group development strategy

### • Development strategy

#### MISSION

Living a healthy life.

#### VISION

We are continually consolidating our position as one of the leading generic pharmaceutical companies on the European market.

#### VALUES

- speed and flexibility
- partnership and trust
- creativity and efficiency

### Key strategic objectives – to 2012

Achieving average annual growth in sales value of over 10%.

Maintaining the proportion of new products in overall sales above at least 40%.

Strengthening the competitive advantage of the product portfolio via vertical integration and launching select products as the first generic on selected key markets.

Improving performance indicators.

Making effective use of assets and improving product cost-effectiveness.

Increasing innovation.

Maintaining independence.

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

### Key strategies – to 2012

Prioritising European and central Asian markets.

Prioritising the strengthening of the pharmaceutical and chemical activities.

Developing generic medicines and preparing market authorisation documentation at least three years before the expiry of the product patent for the original medicine.

Strengthening competitiveness on western European markets by establishing its own marketing companies.

Strengthening synergy within the Krka Group (in expertise and costs), and maximising utilisation of competitive advantages in the business environments of Krka companies abroad.

Restructuring the purchasing market to ensure the continual reduction of purchase prices.

Strengthening the internationalisation of all business functions

Reducing the impact of financial risk and economic risk on Krka Group's operations.

Pursuing a moderate dividend increase policy.

Continued growth of market shares through the purchase of local pharmaceutical companies or business acquisition on selected markets.

Maintaining our economic, social and protection responsibilities for the environment in which we operate.

Operating according to principles of business excellence.

### Krka Group's business objectives for 2008

Anticipated growth in product and service sales of EUR 950 million (22% growth).

The most important sales region will be Region Central Europe, with highest growth anticipated in Region Western Europe and Overseas Markets; the Russian Federation will remain the single most important market.

The proportion of sales on markets outside Slovenia is anticipated at 89%.

Prescription pharmaceuticals – with anticipated growth of 23% - will remain the most important product group (82% of overall sales).

New prescription pharmaceuticals products will be marketed in key indication groups.

The planned net profit is EUR 160 million.

At the end of 2006 the Group will have 7700 employees, almost 46% of them abroad.

Investments planned at EUR 160 million will primarily be used to increase and modernise R&D and production capacity and infrastructure.

## SUMMARY OF BUSINESS REPORT

### Risk management

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

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

The Finance Division monitors and manages financial risk on a centralised basis. The company management approves appropriate actions and mechanisms to manage risk, and also receives reports on the effectiveness of approved actions.

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

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

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

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

## Operational risk

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

### Research and Development

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

- **Intellectual property.** Current situation analysis is used for every product to check exposure to risk of lawsuits relating to violations and potential lawsuits arising from alleged violations of the intellectual property of third parties. On the other hand, we protect our own solutions with patents as early as possible in the R&D phase, and use appropriate mechanisms to participate in patent-granting processes from the competent authorities. We also protect our own brands as a major element of industrial property.
- **Regulatory risk.** Regulatory risk management, which is related to changes in legislation and its interpretation, begins in the early stages of developing a new medicine and lasts throughout the entire life cycle of a product. We assess our development solutions for an individual product together with the regulatory authorities using official advisory mechanisms and the planned content of marketing authorisation documentation. This reduces the risk of problems or even failure occurring during the product registration and extended authorisation procedures. Krka actively participates in the preparation of legislation via working groups of industry associations.

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

### **Reliability of suppliers and contractual partners**

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

### **Availability of production capacity**

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

### **Environmental protection**

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

### **Information resources**

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

## **Workforce**

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

## **Health and safety at work**

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

## **Asset protection**

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

## **Financial risk**

### **Foreign exchange risk**

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

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

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

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

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

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

### Interest rate risk

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

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

### Credit risk

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

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

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

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

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

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

### Liquidity risk

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

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

### Property, business interruption and liability insurance

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

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

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

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

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



## Investor information

### Shareholder return

#### Krka share price

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

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

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

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

#### Dividend policy

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

#### Dividends

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

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

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

<sup>3</sup> Gross dividend per share / earnings per share from previous period

<sup>4</sup> Gross dividend per share / share price on 31 December of year

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

## Share trading and shareholding

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

Krka shares can be freely traded through brokerage firms and banks that are members of the Ljubljana Stock Exchange.

### Trading in Krka shares

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

### 10 largest shareholders on 31 December

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

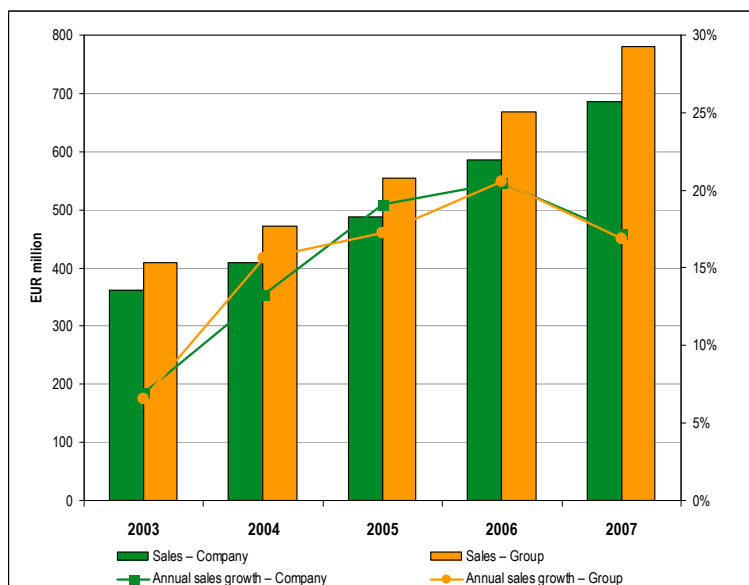
On 3 September 2007 Krka carried out a share split – at the ratio of 1:10 – each share was split into ten shares. The split increased the number of shares issued tenfold, up to 35,426,120. The purpose of the split was to increase liquidity and make the shares available to a wider range of investors.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

## Business operations analysis

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

### Sales

#### Sales and sales growth for the Krka Company and Krka Group

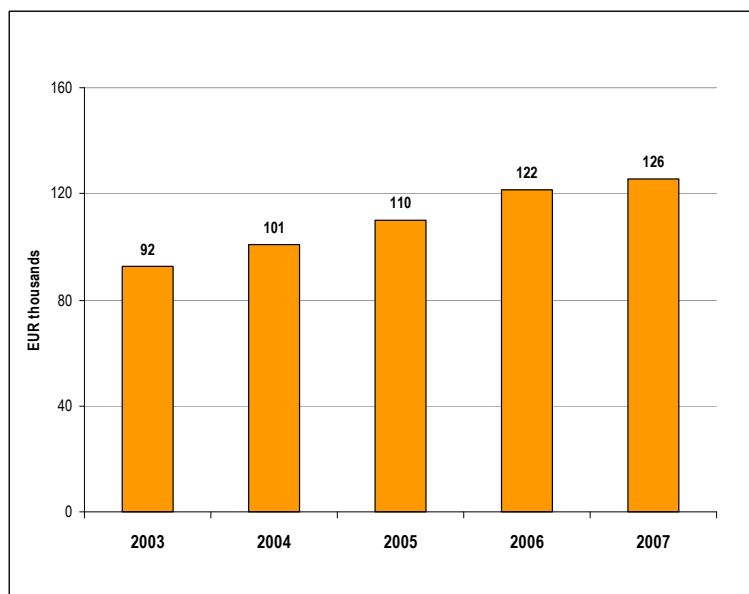


Krka Group's main strategic objective defined in the 2008-2012 development strategy remains focused on the average annual overall sales growth of over 10%. The graph illustrates the stable growth achieved. The average annual sales growth over the past five years has been 17%.

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

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

#### Sales per employee for the Krka Group



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

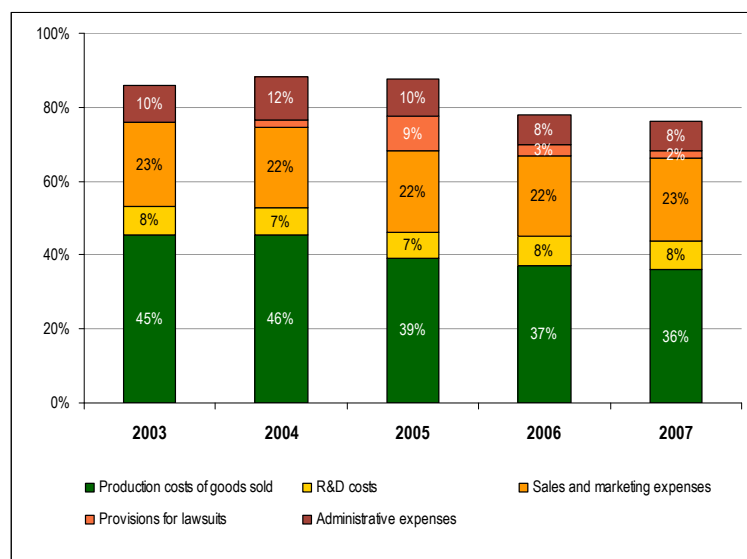
Given that the marketing and sales network is organised across the representative offices and subsidiaries abroad, the sales per employee figure is only given for the Group.

## Operating expenses

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

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

### Structure of operating expenses



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

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

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

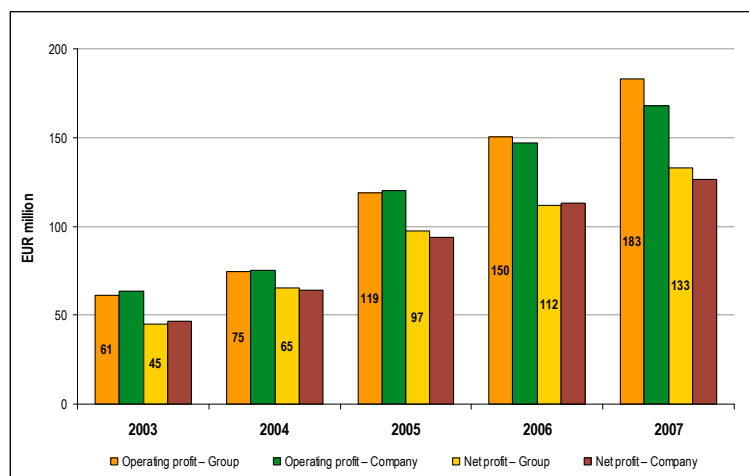
## Financing income and expenses

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

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

## Operating results

### Operating profit and net profit



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

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

## Assets

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

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

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

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

The proportion of current assets in total assets fell slightly to 33%. Current assets increased by 22% compared to the start of the year, reaching EUR 371.7 million. The main contribution to this growth came from inventories, which increased by 48% to EUR 171.6 million. Receivables were up 17% to EUR 179.8 million. Among the other current assets, the investments item, including derivatives, was down by EUR 20.0 million, largely due to sale of securities held for trading. Most of the current investments were sold to finance the acquisition of the company TAD Pharma.

## Equity and liabilities

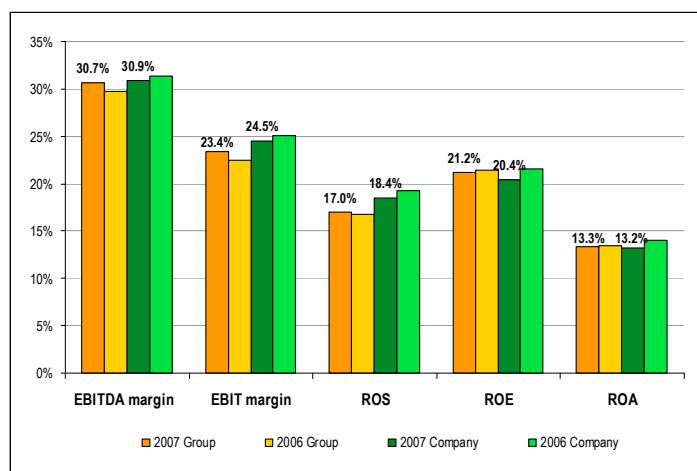
EUR thousand	Krka Group					Krka Company				
	2007	Prop. (%)	2006	Prop. (%)	Index	2007	Prop. (%)	2006	Prop. (%)	Index
Equity	680,913	60.7	570,905	64.9	119	672,010	63.6	569,918	66.7	118
Non-current liabilities	253,773	22.6	163,941	18.7	155	219,426	20.7	150,351	17.6	146
Current liabilities	186,732	16.7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

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

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

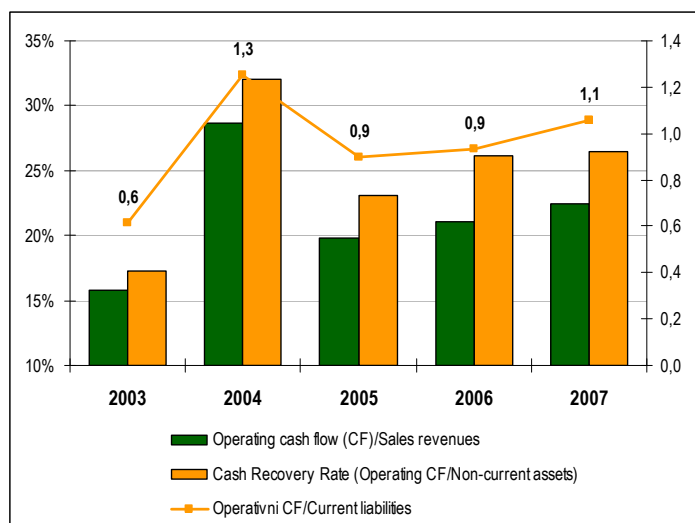
## Performance ratios

### Profitability ratios



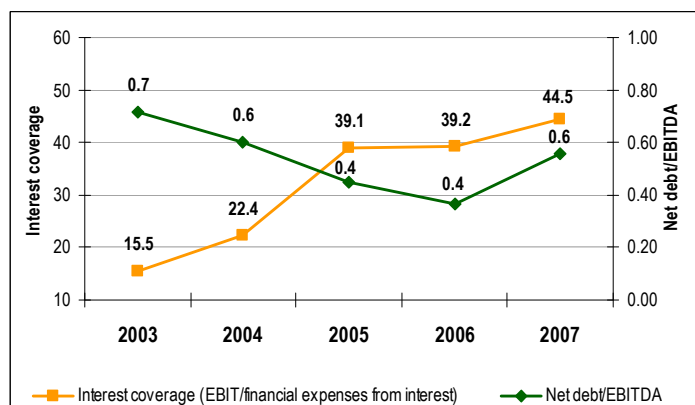
In 2006 the performance ratios were in compliance with the strategic guidelines and annual objectives. Compared to 2006 the Group achieved a higher return on sales. The return on equity and return on assets ratios remained at 2006 levels.

### Cash flow ratios



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

### Liquidity ratios



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

### Operating figures 2003-2007

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

## Marketing and sales

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

### Krka Group and Krka Company sales by Region

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

### Slovenia

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

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

### South-East Europe

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

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

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

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



## East Europe

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

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

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

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

## Central Europe

The Krka Group achieved sales worth EUR 202.4 million on the markets of Region Central Europe, almost 19% higher than in 2007. Sales of pharmaceutical products – which represent 92% of total sales – grew by almost 20%, sales of self-medication products were up almost 8% and animal health products by almost 7%. In **Poland**, the largest market in the region with 47% of all sales, and one of Krka's key markets, Krka achieved sales of EUR 95.8 million. The most important products in terms of sales were Zalasta<sup>®</sup>, the best selling product, followed by Atoris<sup>®</sup>, Lanzul<sup>®</sup>, Lorista<sup>®</sup> and Vasilip<sup>®</sup>. We were able to generate growth in sales of self-medication products, primarily through successful sales of products under the Septolete<sup>®</sup> umbrella brand. The largest contribution to animal health product sales came from Floron<sup>®</sup> and Enroxil<sup>®</sup>.

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

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

## West Europe and Overseas Markets

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

The most important markets in the region are Germany, the United Kingdom, the Nordic countries, Portugal where Krka started selling its own products via its own marketing work, and Italy. The Region recorded its highest growth in sales compared to the previous year in southern EU member states, Africa and on the Arabian

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

## Product and service groups

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

### Krka Group and Krka Company sales by product and service group

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

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

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

## New products

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

## Prescription pharmaceuticals

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

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

### Medicines for treatment of cardiovascular diseases

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

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

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

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

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

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

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

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

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

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

**Proton pump inhibitors.** Proton pump inhibitors are used to treat diseases of the upper alimentary tract, such as heartburn and ulcers of the stomach or duodenum. Krka produces three medicines from this group – **Ultop®** (omeprazole), **Lanzul®** (lansoprazole) and **Nolpaza®** (pantoprazole), making it one of the producers with the widest range of such medicines.

**Ultop®** is one of the best known and most popular medicines in Slovenia. Despite a market presence of almost 20 years and numerous newer medicines in this group, it remains the leading proton pump inhibitor, and has been one of the leading pharmaceutical products overall in Slovenia, which confirms it as a high-quality and very effective medicine.

Over the ten years that **Lanzul®** has been on the market, it has been used to treat over 15 million people in over 20 countries. To mark its tenth anniversary, Krka prepared a large international symposium in Poland attended by over 200 doctors from central and south-east Europe. In addition to the good market shares achieved with this product on its traditional markets, this Krka lansoprazole is also the leading generic lansoprazole on western European markets.

In 2007 Krka placed a new proton pump inhibitor on the market, called **Nolpaza®** (pantoprazole).

### Medicines for the treatment of infections

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

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

### Medicines for the treatment of central nervous system diseases

**Antipsychotics.** Krka's range includes the leading global antipsychotics, olanzapine and risperidone. **Zalasta®** (olanzapine) is one of the leading prescription pharmaceuticals in Poland, with a market share of almost 25% among the olanzapines. At the end of 2007 Krka started marketing its olanzapine in Germany, where it is now one of the leading generic suppliers of this medicine. **Zalasta®** is also available as an orodispersible tablet, the first generic olanzapine in this form on all of Krka's markets. **Torendo® / Rorendo®** (risperidone) is Krka's second

medicine in the antipsychotic group. Krka was the first to offer this generic in orodispersible form as well, producing the tablets called **Torendo® Q-Tab® / Rorendo® OroTab®**, which eases administration and improves patient compliance. Krka started to market Torendo® / Rorendo® on most markets in 2007.

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

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

### Medicines for the urinary tract

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

### Self-medication products

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

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

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

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

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

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

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

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

## Cosmetic products

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

Marketing and sales activities focused on two key brands – Vitaskin<sup>®</sup> Pharma and Fitoval<sup>®</sup>.

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

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

## Animal health products

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

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

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

## Health resort and tourist services

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

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

The average occupancy for accommodation capacity was 70%, while the average occupancy of health resort capacity was 82%. Close attention is being paid to developing and expanding programmes to maintain and improve health, as well as programmes for relaxation and improving quality of life, while further investments are also being made in health and rehabilitation programmes and equipment. Krka's market share of health resort care within the public health service increased in 2007, reaching 35.8% of the overall programme realised in the

Slovenia in this field. Terme Krka's major achievements in 2007 include increasing revenues and overnight stays, especially by foreign guests, and acquiring co-financing for investment work from the European Union, under the European Regional Development Fund. Terme Krka employees achieved high rankings in professional competitions in Slovenia and abroad, and Golf Grad Otočec won the 2007 award for Slovenian golf course of the year.

## Research and development

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

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

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

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

### Increasing R&D capacity

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

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

### Developing advanced delivery systems

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



form. It has also been used to produce prolonged-release **Alventa**<sup>®</sup> (venlafaxine) capsules, for which marketing authorisation has been granted on most European markets. The capsules are filled with pellets that provide the prolonged release of venlafaxine and enables administration to take place once a day.

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

### Protecting our know-how and intellectual property

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

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

### Prescription pharmaceuticals

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

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

### Self-medication products

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

### Animal health products

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

### **Cosmetic products**

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

### **Health resort and tourist services**

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

## Investments

At present Krka is implementing over thirty projects relating primarily 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 are taking place in Slovenia, Croatia, the Russian Federation and Poland.

### Sinteza 4

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

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

### Injection production plant

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

### Notol III

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

### Pelete IV

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

### Central weighing facility and raw material warehouse

In 2007 Krka constructed an extension to the new weighing facility and support warehouse, and reconstructed the existing raw material warehouse. The investment in the central weighing facility has modernised the weighing

premises and weighing processes, while enlarging the raw material warehouse has provided additional pallet spaces and automated the warehouse.

### **Terme Krka**

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

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

### **Abroad**

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

## Integrated management system

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

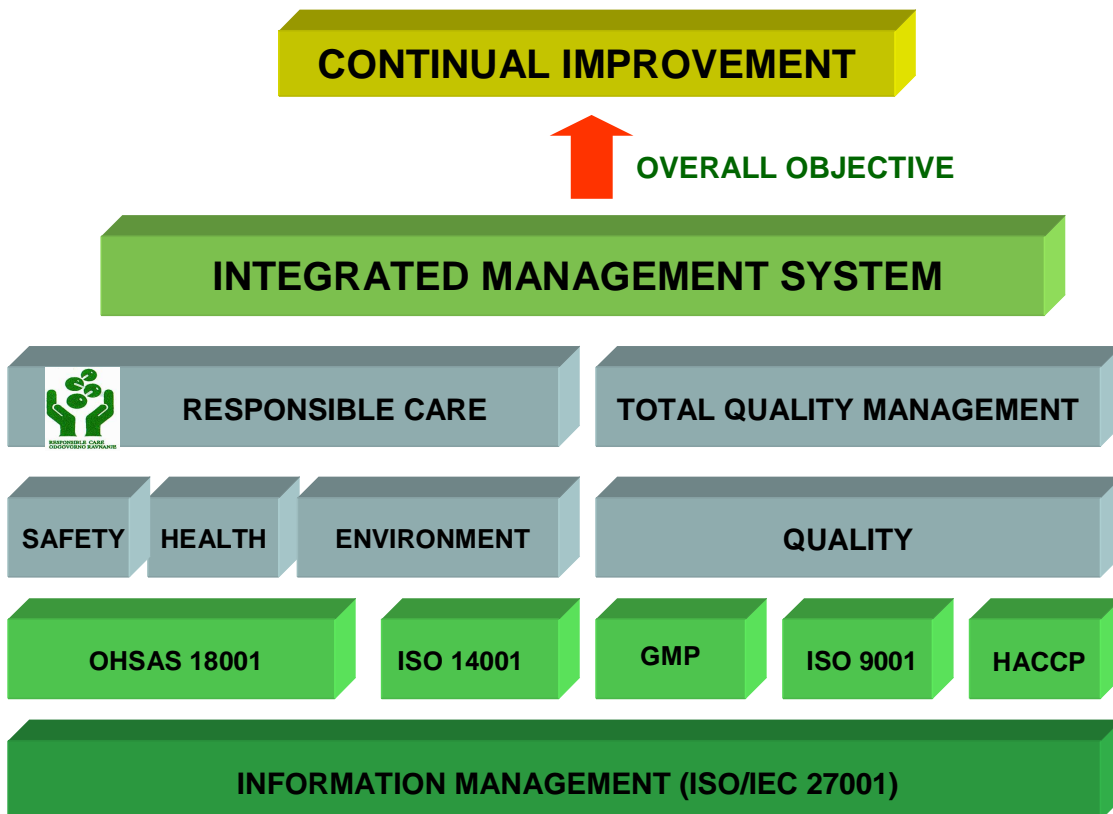
## Management system

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

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

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

## Integrated management system



## Pharmaceutical Quality System

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

- Inspectors from the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia (AMPMD) carried out regular follow-up inspections on the quality management system, warehouses, production plants and quality control laboratories and confirmed our compliance with the EU's GMP requirements, which form the basis for re-issuing the GMP certificate and pharmaceutical manufacturing licence.
- Krka also passed an AMPMD verification procedure for the pilot plant for API production, which means that the production of batches for clinical testing can now start.
- Regular inspections were also carried out by the Veterinary Administration of the Republic of Slovenia. They inspected the safety and quality assurance system for products for animal consumption. Krka was approved as a feed business operator in accordance with Regulation (EC) No 183/2005. The inspectorate also verified the performance of wholesale trade in animal medicines, and found that Krka met the requirements set out by the applicable Medicinal Products Act.
- The compliance of the safety and quality assurance system for foodstuffs and food was subject to regular inspections by the Health Inspectorate of the Republic of Slovenia, which did not find any compliance failures.
- The performance of Krka's IMS was reconfirmed by successfully passing an inspection by SIQ Ljubljana (Slovenian Institute of Quality and Metrology). No compliance failures were found in any of the systems inspected. The 2007 verification was particularly important, since it also certified the information security management system (ISO/IEC 27001). Krka is the first major Slovenian manufacturer to acquire the certificate.

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

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

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

## Business Excellence Award of the Republic of Slovenia

One of Krka's key objectives is to achieve excellence in every area of operation, so it has introduced self-assessment based on the EFQM model, and also takes part in the public competition for the Business Excellence Award of the Republic of Slovenia (PRSP0). This is the highest national recognition in Slovenia in the field of quality, and covers achievements in the field of quality of operations that are the results of knowledge, innovation and continual improvement. Krka received its 2007 PRSP0 award at an official ceremony held on 5 December 2007.

## Employees

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

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

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

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

### Number of employees (on 31 December)

	2007	2006	2005	2004	2003	2007/2006 Index
Krka Company in Slovenia	3213	3016	2954	2932	2973	107
Krka Company representative offices outside Slovenia	1678	1256	1024	716	555	131
<b>Krka Company</b>	<b>4891</b>	<b>4272</b>	<b>3978</b>	<b>3648</b>	<b>3528</b>	<b>114</b>
Subsidiaries outside Slovenia	1240	857	620	539	442	145
Terme Krka	646	630	626	594	552	103
<b>Krka Group</b>	<b>6777</b>	<b>5759</b>	<b>5224</b>	<b>4781</b>	<b>4522</b>	<b>118</b>

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

## Environmental protection

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

### Improving the environment

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

### The environmental standard and environmental legislation

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

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

### Environmental protection training

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

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

### Significant achievements in the field of environmental protection in 2007

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



## Environmental protection objectives and programmes for 2008

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

## Environmental protection at Krka's foreign subsidiaries

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

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

## Transactions with related parties

As at the year-end, the members of the Management Board of the Krka Company held 58990 of shares in the Krka Company, representing a 0.167% of the total equity, and the Managing Directors of subsidiaries held 7655 of shares or 0.022% of the total equity. A questionnaire on related entities is completed by the members of the Management Board and other management staff on a yearly basis, which is afterwards used by the Company to check the occurrence of any other business relations between the Company and the employees. No such business relations were recorded in 2007.

As at the balance sheet date, the members of the Supervisory Board held 6,630 shares in the Company, representing 0.019% of the total equity.

	2007		2006	
	Number of shares	Share (in %)	Number of shares	Share (in %)
<b>Management Board members</b>				
Jože Colarič	22,500	0.0635	21,000	0.0593
Janez Poljanec	22,060	0.0623	22,060	0.0623
Aleš Rotar	12,770	0.0360	12,770	0.0360
Zvezdana Bajc	1,660	0.0047	1,100	0.0031
Danica Novak Malnar	0	0.0000	0	0.0000
<b>Total Management Board</b>	<b>58,990</b>	<b>0.1665</b>	<b>56,930</b>	<b>0.1607</b>
<b>Supervisory Board members</b>				
Gregor Gomišček	120	0.0003	120	0.0003
Mateja Božič	0	0	0	0
Anton Rous	0	0	0	0
Draško Veselinović	10	0.0000	0	0
Alojz Zupančič	3,890	0.0110	5140	0.0145
Sonja Kermc	2,110	0.0060	2110	0.0060
Tomaž Sever	500	0.0014	500	0.0014
Mateja Vrečer	0	0	0	0
<b>Total Supervisory Board</b>	<b>6,630</b>	<b>0.0187</b>	<b>8,880</b>	<b>0.0251</b>

## Emoluments of groups of persons in 2007

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

Emoluments of the Management board members in the controlling company and of managers in subsidiaries include salaries and wages, fringe benefits and any other receipts.

**Emoluments of the Management Board in 2007**

in EUR thousand	Gross remuneration – fixed portion	Gross remuneration – variable portion	Fringe benefits and other receipts	Total emoluments
Jože Colarič	275	247	9	531
Janez Poljanec	230	204	16	450
Aleš Rotar	217	193	16	426
Zvezdana Bajc	182	163	10	355
Danica Novak Malnar	111	0	6	117
<b>Total emoluments of the Management Board</b>	<b>1,015</b>	<b>807</b>	<b>57</b>	<b>1,879</b>

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

Pursuant to the resolution adopted at the Annual Meeting on 5 July 2007, the members of the Supervisory Board shall receive remuneration in the form of participation in profit in accordance with the Company's Articles of Association, and attendance fees shall be paid to the members of the Supervisory Board for attending the supervisory board meetings and its committees. New amounts of attendance fees were approved at the Annual Meeting, effective as at the date when the Annual Meeting took place.

**Emoluments of the Supervisory Board in 2007**

in EUR thousand	Monthly remuneration	Attendance fees	Total
Gregor Gomišček, President	13	8	21
Marko Kranjec	10	4	14
Mateja Božič	11	6	17
Sonja Kermc	10	5	15
Anton Rous	12	3	15
Tomaž Sever	11	6	17
Draško Veselinovič	10	6	16
Mateja Vrečer	10	6	16
Alojz Zupančič	10	5	15
<b>Total</b>	<b>97</b>	<b>49</b>	<b>146</b>

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

Loans granted to group of persons:

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

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 consolidated financial statements and the related notes of the KRKA Group for the year ended 31 December 2007, prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, from which the summarized consolidated financial statements are derived, in accordance with International Standards on Auditing. As stated in our Auditor's Reports of 20 March 2008 the consolidated financial statements with notes, used for the preparation of the summarized financial statements, give a true and fair view of the Group's operations in 2007.

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

For a better understanding of the financial position of the KRKA Group as of 31 December 2007, the results of its operations, and its cash flows for the year then ended, and the scope of our audit, it is necessary to read the summarized consolidated financial statements together with the consolidated financial statements and the notes thereto, and our audit report on these financial statements.

The Annual Report of the KRKA Group has not yet been presented to the institution which is authorised for the processing and publishing of data.

**KPMG SLOVENIJA,**  
podjetje za revidiranje, d.o.o.

Marjan Mahnič, B.Sc.Ec.

*Certified Auditor*

*Partner*

Andrej Korinšek, B.Sc.Ec.

*Certified Auditor*

*Director*

KPMG Slovenija, d.o.o.

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Ljubljana, 10 April 2008

## Consolidated balance sheet

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

## Consolidated income statement

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

## Consolidated statements of changes in equity

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

## Consolidated cash flow statement

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



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

### Auditor's Report



#### Auditor's Report for Public Reporting purposes

We have audited the financial statements and the related notes of the company KRKA d.d., for the year ended 31 December 2007, prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, from which the summarized financial statements are derived, in accordance with International Standards on Auditing. As stated in our Auditor's Reports of 20 March 2008, the financial statements with notes, used for the preparation of the summarized financial statements, give a true and fair view of the Company's operations in 2007.

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

For a better understanding of the financial position of KRKA d.d. as of 31 December 2007, the results of its operations, and its cash flows 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 audit report on these financial statements.

The Annual Report of the KRKA d.d has not yet been presented to the institution which is authorised for the processing and publishing of data.

Marjan Mahnič, B.Sc.Ec.

*Certified Auditor*

*Partner*

**KPMG SLOVENIJA,**  
podjetje za revidiranje, d.o.o.

Andrej Korinšek, B.Sc.Ec.

*Certified Auditor*

*Director*

*KPMG Slovenija, d.o.o.*

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Ljubljana, 10 April 2008

## Balance sheet

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

## Income statement

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

## Statement of changes in equity

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

## Cash flow statement

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