



Symbiosis

JANEZ VAJKARD VALVASOR

Author of the book *The Glory of the Duchy of Carniola* (1689), which contains exceptional inventory of Slovenian flora and fauna and other characteristics of the natural environment. His work was intended to present his homeland to an international audience.



Sustainable Development

There is a perfect balance in nature that we have to preserve.

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

Employees

Employees' potential and their actions makes a decisive contribution to Krka's business performance. Krka allows capable individuals to develop their personal and professional skills 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, sexual orientation or other personal circumstances.

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

NUMBER OF EMPLOYEES (ON 31 DECEMBER)

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

GROWTH IN THE NUMBER OF EMPLOYEES IN THE KRKA COMPANY AND KRKA GROUP



Educational structure

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

LEVEL OF EDUCATION

| | 2006 | 2005 |
|-------------------------------|-------------|-------------|
| Doctorate | 63 | 51 |
| Master of Science | 162 | 153 |
| University education | 2408 | 2018 |
| Higher professional education | 324 | 221 |
| Vocational college education | 222 | 206 |
| Secondary school education | 1138 | 1104 |
| Other | 1442 | 1471 |
| On 31 December | 5759 | 5224 |

We promote the engagement of new specialists with 69 scholarships, primarily for students of pharmacy and chemistry and through close links and contacts with students that enable them to get to know the company through internships

or preparing thesis research. A special form of encouragement for the most creative is the Krka Prizes for Young Researchers and Scientists, which have been awarded 36 times to date.

Education and training

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

The key education areas are management and personal development training, learning foreign languages - primarily English and Russian, information technology, quality and various specialist areas. On average each Krka employee participated in four different forms of training,

spending an average of 30 hours updating their knowledge; 92% of that time was spent at internal seminars, 6% at external seminars in Slovenia and 2% abroad.

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

Measuring organisational culture

Krka regularly evaluates its organisational culture and employee satisfaction. It uses its findings to plan and implement measures to improve internal organisation, interpersonal relations, leadership, the conditions required for employee initiative and development, and a unified understanding of the Krka mission, vision and objectives. This is all intended to release the inner potential of employees in order to realise Krka's long-term objectives. In parallel with the growth

in the business results, 2006 also saw a significant increase in scores for organisational culture and employee satisfaction. Activities and investments aimed at leadership development, improving information, efficient organisation, training, a more target-oriented culture, excellence in all fields have borne growth for employees, as they are very committed to the company, dedicated to their work, and motivated for personal and professional development.

Leadership

Krka builds its leadership quality via the Krka international leadership school and the school for operational level leadership and specialist teams. This helps consolidate the multicultural, global nature of Krka. Direct work with employees is enhanced by the Krka appraisal interview, which has been grown in importance over the past two years, as senior management have used the interviews with all key staff and staff iden-

tified as potential leaders, as well as employees with a university education. The cycle of interviews was also expanded to cover employees with secondary education as well. The Krka appraisal interviews are used to set objectives for work and responsibilities and expectations relating to an employee's educational and professional development.

Management-employee relations

Two unions are organised within the company, which are representative at the national level in Slovenia: the KNG Krka Novo mesto and the Krka Sindikat. Approximately half of all employees are union members. The Works Council has 15 members via whom all employees participate directly in the company management.

The President of the Management Board participates at all meetings of the Works Council, which has been operating at Krka for ten years, as well as at all 15 worker assemblies in 2006, in which over 1800 employees participated in. He informed those present of the business results for 2005 and the plans for 2006, and emphasised the importance of every organisational unit and every employee, and the fact that we can only be effective if everyone is working together to achieve the common objectives - the development and growth of an independent Krka.

Clear and comprehensive replies were also given to every question and initiative, both at the Works Council and at the worker assembly.

Members of the Works Council are very aware of their duties, and inform their colleagues of any information and replies given to the questions and initiatives raised. The Works Council website is used to public minutes of Council meetings and all the questions and initiatives raised at Works Council meetings and worker assemblies. Every employee can raise questions and make initiatives via the website, and will receive a response on the website.

The major events in this area in 2006 include the signing of the Agreement on Employee Participation in Company Management (Participation Agreement), with which the Management Board and Works Council defined their reciprocal rights and obligations within company management, in accordance with the Act on Employee Participation in Management, and the signing of a significantly revised Collective Enterprise Agreement.

Employee care

The high level of employee commitment to the company is evident from the low employee turnover level. At the Krka awards ceremony 391 employees received awards in recognition of long service ranging from 10 to 40 years' work at Krka. Taking care of health and interpersonal relations at Krka includes organising preventive, recreational and social programmes at a wide range of cultural and sporting events. The Krka Trim Club organises preventive sporting activities in which over 800 employees take part. Krka's Culture and Arts Society brings together gallery activities, a choir, a drama club, creative workshops and organising visits to events, which all goes towards further enriching the quality of life for our employees.

Employee gatherings are an important part of Krka culture. Employees get together at the Krka sports day, the Krka awards ceremony, New Year's events for different organisational unit and oth-

er gatherings (meetings for disabled staff, blood donors, volunteer firefighters, and others). Meetings for retired employees are also organised every year.

As part of our commitment to healthcare for everyone, we created a programme to cut down and give up smoking, in agreement with employees. In the past two years smoking has only been permitted in a small number of smoking rooms. Smokers are offered advice and help on stopping smoking. The project will conclude with a complete ban on smoking within the Krka Group in April 2008. This will be backed up by a range of specialist seminars for employees on healthy lifestyles.

To help Krka employees who have dependency problems, we have a club for recovering alcoholics led by Krka's two social workers.

Health and safety at work

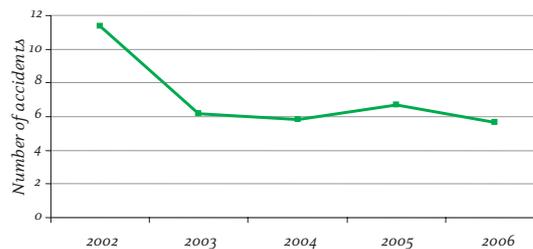
Krka provides a safe working environment for its employees. The latest developments in occupational health and safety and fire prevention are incorporated into every new project and technology. The risk of accident and potential health implications is monitored for every work position and technology.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

The heads of individual organisation units, personal physicians and occupational health specialists, and the Health and Safety at Work Service are all involved in caring for employee health. Special health teams are organised within every organisation unit to resolve social and health problems. The Reciprocal Relations and Sick Leave project, which contributes to reducing sick leave, is continuing. There has been a significant fall in sick leave taken since the project started, and was 4.6% last year.

The health and safety at work management system is part of the integrated management system and meets the OHSAS 18001 standard. It involves active health and safety at work working groups for each organisational unit, which include an authorised health and safety officer. At the company level, there is a health and safety team that prepare key objectives and programmes that are

submitted to the Management Board for approval. At the end of 2006, the Management Board approved the key objectives and programmes for the next two years.

NUMBER OF WORKPLACE ACCIDENTS



Accident data is monitored continually. The indicator in the graph, which indicates the number of accidents in the workplace requiring three or more days of sick leave per million hours of work, had a value of 5.6.

In 2006 organisational culture measurements, employee satisfaction with working conditions increased to 4.1 (on a scale of 1 to 5).

Krka has a Fire Safety Department and industrial fire service crew to ensure an adequate response in case of accidents. Ten exercises were organised in 2006.

Encouraging inventive work

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

The inventive work system is incorporated into the continual improvement system, the quality system and hence, the integrated management system. Twice a year, heads of organisational units select the fields of innovation for their or-

ganisational unit in the coming period. These are areas where useful proposals and improvement should improve processes and or eliminate problems that have arisen.

The number of proposals increased by 79% compared to 2005, and the number of people putting forward proposals by 108%. The inventive work system is becoming a system involving more and more staff from a range of organisational units. In addition to the monetary rewards they receive, the proposers are also included in the Krka awards ceremony, which is an additional stimulus for innovative thinking.

Communications

Krka uses communications with all those who come into contact with Krka - our investments, customers, employees, the media and social environment - to create and strengthen long-term relationships. Through open dialogue we affirm their trust, promoting awareness of Krka and its brands, and enhancing the reputation of the Company on every market.

Krka's has a very good and very stable reputation. According to a research work entitled Company Reputations (Kline & Partner), Krka is one of the best reputed companies in Slovenia among the business public and the general public.

Communications with investors

We aim to provide regular, transparent and accurate communication with existing and potential shareholders. The main communication content relates to past business performance and the company's future strategy and development, taking into account the company's information disclosure policy.

The main objectives are:

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

We achieve these objectives as follows:

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

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

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

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

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

Any questions may be submitted by e-mail to the following address: finance@krka.biz.

Communications with customers

At Krka, we divide our customers into four groups:

- institutions (health, regulatory, industrial property services, health insurance etc.)
- direct customers (distributors, other pharmaceutical companies)

- indirect customers (pharmacies, hospitals, pharmacists, and doctors)
- final consumers (patients, customers).

We actively cooperate with institutions as part of regular working meetings, and in various joint projects. These initiatives include working visits, and inspections from regulatory bodies, which help us to continually improve processes and approaches and to adapt our work to regulatory requirements and good practice. Krka participates in creating the regulatory environment through direct contact with authorities, and via industrial and professional associations. We propose amendments to legislation, monitoring amendment procedures and adapted to any such changes, depending on the specifics of the individual markets.

Regular personal contact is the main way in which we ensure our direct and indirect customers are satisfied. We can achieve this due to our very expansive network abroad, which enables quarterly, and often also monthly, meetings with individual customers. We regularly check the satisfaction of our direct customers, using surveys and taking effective action too, based on feedback. In general, we find that customer satisfaction with Krka is growing. We monitor the satisfaction of indirect customers and final consumers with our products and services in various ways, including market research data and various analyses, which offer pointers for continued work.

We are particularly active in preparing information and professional material for our indirect customers, physicians and pharmacists, and organising numerous professional gatherings, such as conferences, symposia, and workshops. Our activities and projects help them offer better treatment to patients.

Communications with employees

Satisfied and motivated employees are a key factor in the company's success, which plays a vital role in customer satisfaction. We plan our internal communication strategies very carefully. We ensure positive relations between the management and employees and for good all-round reciprocal relations (see Employees chapter). This increases employee loyalty and creates a pleasant and positive organisational culture. We use various communications tools to achieve this.

For some years now, we have prepared booklets entitled *Caring for Your Health and Your Doctor has Prescribed You*, which are primarily aimed at patients but are also of use to doctors. The *Caring for Your Health* booklet provides information on health problems and treatment advice. *Your Doctor has Prescribed You* provides patients with additional information on safer and more effective use of the pharmaceuticals prescribed by their doctor.

We only address final consumers directly within the legally permitted framework, which means self-medication products and cosmetics. We prepare informational material, advertisements, and television advertisements for both product groups.

In 2006 we started to issue a magazine called *Caring for Your Health* in Slovenia as well, aimed at the general public and available in pharmacies. People can also subscribe to the magazine. The magazine focusing on selected themes, with individual issues addressing a specific health problem from a range of different points of view, and providing advice on the healthy lifestyles. For some years we have also been preparing the e-newspaper *E-zdravje* (E-Health). There is also a related, public access website (*www.ezdravje.com*) intended to educate and disseminate knowledge about healthier lifestyles.

All our publications are also published on our website *www.krka.si*. There is also information on our pharmaceutical products aimed at the general public, while there is also a restricted access section with information for health professional target audiences.

Krkanet A key communications tool, which employees use on a daily basis, is the internal website, called Krkanet. In addition to current information on events in the company, there are also various documents, internal acts, forms, and other aids to ensure better quality and more effective work.

Bilten Each week we issue Bilten, an electronic and printed bulletin. We use this publication to inform employees about current events, inside and outside the company.

Utrip For over 40 years, we have been publishing the monthly internal magazine Utrip (which means pulse) for all employees and retired former workers, which makes a significant contribution to people sharing and spreading the Krka vision, mission and values. It lets employees know

about major business decisions, achievements in individual areas, and actual events within the company and on Krka's markets. It comes with a supplement called Utrip zdravja (Utrip Health), which addresses health issues, and promotes a healthy way of life.

Communications with the media

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

In 2006 we held meetings with the media on a quarterly basis at conferences for business jour-

nalists, and other formal and informal events. We responded actively and quickly to their questions, and informed them of significant events and business decisions by means of press releases. On average the media published 32 press releases per month in 2006. A total of 179 media operators reported on Krka, 135 of which were print media, and 44 electronic media.

Communications with the community

Krka has built good relations with the community on the basis of respect, understanding, and dialogue. Our basic guideline in decisions to support activities in the wider community is the Krka mission - Living a Healthy Life, so our aim is to place caring for health and quality of life at the centre of our activities.

We commit most funds to humanitarian projects relating to health and humanitarian institutions. We also support sport, science, school and other

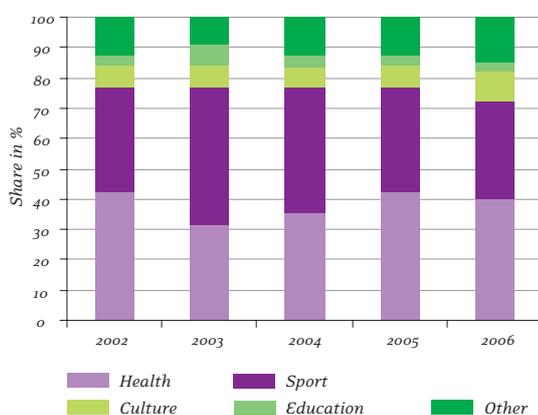
forms of education, culture, keeping the environment clean campaigns, and other activities aimed at increasing the quality of life in the community. We also donate Krka products, in special cases, especially natural catastrophes.

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

Last year, the Krka Company allocated 791 million SIT to sponsorship and grants, which is 0.6% of total sales revenues.

We also supported numerous projects, associations, clubs and institutions. A selection of the main ones is listed below.

KRKA SPONSORSHIPS AND GRANTS



Healthcare

In cooperation with the Slovenian Hypertension Society of the Slovenian Medical Association, last year we organised the second campaign to measure blood pressure and raise awareness about healthy lifestyles among passers-by in nine towns around Slovenia. We co-founded the Slovenian Society for Cardiovascular Health, and have supported its work every year. Last year we were the general sponsor of World Heart Day, and the publication of a book called Evidence-Based Medical Guidelines.

Humanitarian actions

For a number of years, we have been the major donor to the Novo mesto-based society Sožitje za pomoč osebam z motnjami v duševnem razvoju, a charity helping people with mental health problems. We always respond to initiatives of the Slovenian Red Cross with donations, either in Slovenia or in other countries. In different ways we also help those in need, and also donate our products to people affected by natural disasters. Last year, Red Cross Slovenia gave us an award for our responses to calls for help.

Science and education

Professional achievements go hand in hand with economic achievements. For almost 40 years we have been using the Krka Prizes to encourage young researchers and mentors to participate in research and development projects. Last year, we were also the silver sponsor for the 12th Slovenian International Science Festival, which led the Slovenian Science Foundation to make us its 2006 Sponsor of the Year.

Sport

We primarily sponsor projects and associations that support large-scale participation and work with young people. For many years, we have supported the ski-flying competition at Slovenia's famous ski-jumping centre in Planica, and the Slovenian racing yacht, Maxi Jena, as well as donating considerable funds to a range of sports clubs.

Culture

In January our sponsorship enabled the performance of the Sergey Prokofiev opera *The Love for Three Oranges* at the Cankarjev Dom cultural centre in Ljubljana. We also gave a grant to a new theatre in Novo mesto, the Anton Podbevšek theatre, and also support numerous other cultural institutions and their projects.

Employees and the community

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

Environmental protection

The basic principle of environmental protection in Krka is to coordinate all the activities on a sustainable and future-oriented basis. For many years, we have dedicated considerable attention to the use of natural resources and reducing the environmental impact. By focusing on a set of prioritised objectives, which we have achieved in

recent years, and by raising the environmental awareness of all employees we have managed to improve in every area of environmental protection. In 2006 we submitted an application for an integrated environmental protection licence for the central location in Novo mesto, which will be compulsory after 31 October 2007.

Environmental policy

The basic objective of our environmental policy is to improve the state of the environment. We successfully achieve this objective by fulfilling our

annual plans, objectives and programmes. The ISO 14001 standard is a vital part of this work, and its now part of every organisational unit.

Significant achievements in the field of environmental protection in 2006

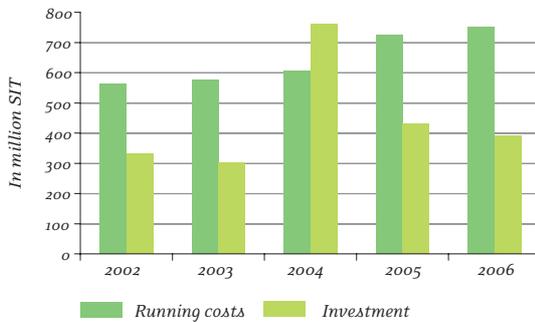
- Reduced outflow of environmental load units (ELU) from waste water treatment plant by 24%.
- Reduced consumption of river water by 14%.
- Reduced quantity of landfill waste by 10%.
- Increased the quantity of useful separated waste by 20%.
- Reduced specific energy use by 17%.
- Started waste air cleaning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

Environmental protection objectives and programmes for 2007

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

Environmental protection costs

INVESTMENT IN ENVIRONMENTAL PROTECTION



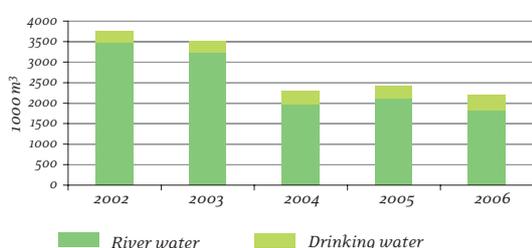
Krka invests over 1 billion SIT in environmental protection every year. The running costs of environmental management in 2006 came to 751 million SIT, while investments were worth 390 million SIT.

Use of natural resources

Water

Water is increasingly an economic issue for industry, as the costs of water consumption and protecting water sources are continually increasing. Regular maintenance of the water supply network prevents losses, and where the process permits, we replace drinking water with process water from the Krka river. The slight increase in consumption of drinking water in 2006, was due to the reconstruction of the water plant, and the temporary switch on of all water preparation systems on the water supply network.

DRINKING WATER AND RIVER WATER



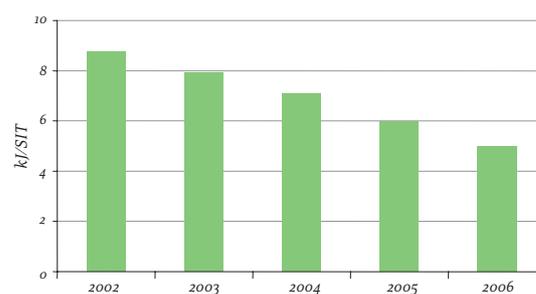
In the last five year period, Krka has used 2,551,000 m³ less drinking water, which is a 58% decrease.

Energy

Krka's main sources of energy are:

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

SPECIFIC ENERGY USE



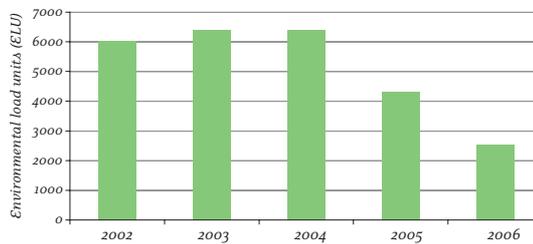
A wide range of measures to ensure efficient use of energy has allowed us to reduce our specific energy use - calculated as the ratio between energy consumption in kJ and production value. Since 2005, by purchasing part of our electrical energy from renewable sources, we have been contributing to a fund intended to promote research and development and the improvement of existing and construction of new renewable sources of electricity in Slovenia.

Emissions

Waste water

Our approach to finding a solution to the waste water issue is a very comprehensive one, as the aim is to achieve the best possible quality of cleaned waste water. The total load from Krka's waste water discharge ducts has been reduced by 61% over the past two years.

WASTE WATER MANAGEMENT



With the help of the recently-constructed waste water treatment plant we have reduced the load on the Krka river by a quarter. In 2006 we reduced the load on the river by a further 24%. We carried out an extensive pilot tests on the additional waste water outflow from the waste water treatment plant using ultrafiltration technology. The tests served a dual purpose:

- additional reduction of waste water outflow load, and
- achieving a waste water quality level where the water is suitable for reuse.

By cofinancing construction of a central waste water treatment plant in Ljutomer we have ensured smooth long-term operation for Krka's plant there, and reduced the pharmaceutical process water load on the Ščavnica river by 95%.

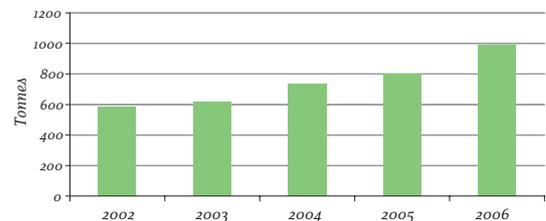
Noise

Excess noise in a residential environment is very disturbing, so Krka has been sure to install modern equipment and use preventive measures to correct some sources of noise, achieving significant reductions. Annual noise measurements carried out by a certified external organisation, indicate that the legally permissible limits are not exceeded.

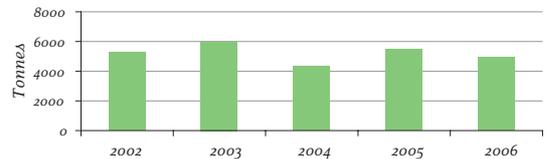
Waste

For many years Krka has been reducing the quantity of waste it landfills, and increasing the quantity of separately collected packaging. The company has set up its own system for separated collection, waste management and waste packaging management. Hazardous waste is collected via a specially controlled system, suitably packaged, and handed over to contracted collectors.

USEFUL SEPARATED WASTE



LANDFILL WASTE



In 2006 we increased the quantity of useful separated waste by 195 tonnes (20%), while reducing the quantity of landfill waste by 10%.

Air emissions

Krka has made significant reductions to its air emissions in recent years. With absolute filtration of all particle emissions, we have reduced dust emission to below 0.5 mg/m³, which is as low as under 0.3% of the legally defined limit value. The commissioning of the Sinteza 4 plant, saw the start of a modern waste air cleaning system. Special care is taken to reduce emissions with an unpleasant odour, which often occur around the waste water treatment plant, and which are the most disturbing source of air pollution for local residents. Krka uses consistent management of waste water cleaning technology, and air cleaning devices to reduce emissions into the environ-

ment. In future we will continue to upgrade our air cleaning systems.

Hazardous substance storage

All hazardous substances are stored in suitable facilities that provide a high level of safety during normal working conditions and in emergencies. The very highest environmental protection standards were applied in the construction of the liquid raw material storage facility in Novomesto.

Environmental protection in Krka's foreign subsidiaries

Our responsible environment management principles are gradually spreading throughout our subsidiaries abroad, which all operate in full compliance with local environmental protection

legislation. Emissions that occur in these companies are low, as they are involved in pharmaceutical activities with lower load levels. The Krka operating plants in Croatia, Poland and Russia are only involved in production of solid dosage form pharmaceutical products, so lower quantities of process water are required for equipment cleaning in those plants. Waste water with a low load level is discharged into the public sewerage system. The exception is the Krka-Rus plant, where a slightly heavier load means that pre-cleaning of waste water does take place in an on-site treatment plant.

The entire Group pursues the same waste management objectives and guidelines, and the separated waste collection system has been put into practice in all subsidiaries abroad. Hazardous waste is collected separately and sent to appropriate destruction facilities. Particle emissions are being reduced by installing modern filtration systems that completely eradicate particle emissions.