

## Krka's business performance in 2006

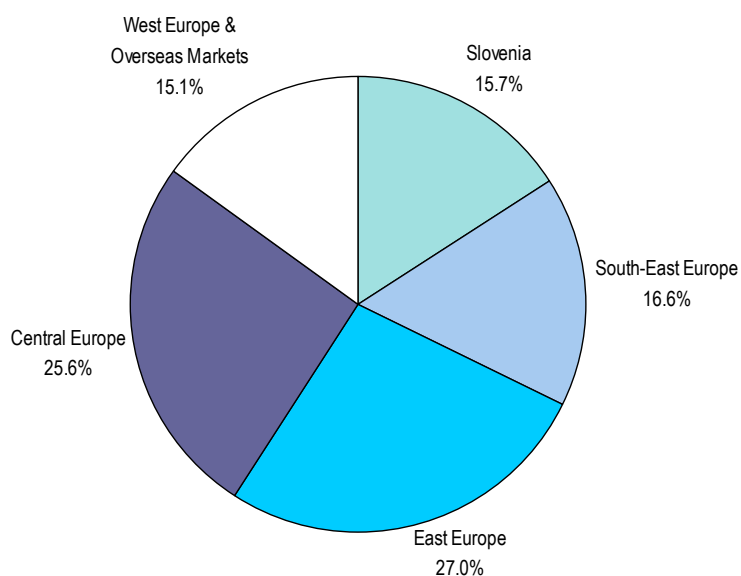
Novo mesto, 25 January 2007 – At today's press conference the Krka Management Board presented estimated non-audited business results for Krka Company for the year 2006, which were also discussed and evaluated as most successful by the Company's Supervisory Board at their yesterday's meeting. Jože Colarič, President of the Management Board said that the sales of products and services of the Krka company, which has been recording, since the beginning of this year, additional share price growth, were at EUR 586.1 million (SIT 140.5 billion), which is a 20% increase over 2005. The Krka company's net profit at the level of EUR 113.0 million (SIT 27.1 billion), growing 21% over the previous year. The Krka Group sales also grew by 20% and amount to EUR 667.4 million (SIT 160.0 billion), while group net profit will, according to the first estimates, not substantially differ from the Krka company's net profit. The profit of the Krka Group will be published at the beginning of March.

### Krka Group sales by key markets and regions

In 2006 the Krka Group sold products and services, on the markets outside Slovenia, worth EUR 562.9 million (SIT 134.9 billion), which represents 84% of the Group's sales.

In 2006, a high sales growth was achieved on some of Krka's **key markets**:

- **Russian Federation** (*region Eastern Europe*): is Krka's most important individual market and the sales were EUR 130.1 million (SIT 31.2 billion), growing **37%** over the same period last year or an increase of EUR 34.8 million (SIT 8.4 billion),
- **Poland** (*region Central Europe*): the sales grew by **21%** to EUR 95.2 million (SIT 22.8 billion). This is an increase of EUR 16.8 million (SIT 4.0 billion) and
- **Countries EU 15** (*region Western Europe and Overseas Markets*): the sales were EUR 87.2 million (SIT 20.9 billion), growing **22%**. In absolute figures the sales went up by EUR 15.6 million (SIT 3.7 billion).



In *Slovenia*, which is also a key market, the Krka Group sold products worth EUR 104.5 million (SIT 25.0 billion), which is an increase of 4% over the previous year.

The sales of products in the *region South-Eastern Europe* were EUR 110.8 million (SIT 26.6 billion), growing 17% over the same period last year. On the key market within the region, i.e. in Croatia, the sales were EUR 40.0

million (SIT 9.6 billion). One of the highest sales growths in the region, i.e. 47%, was again recorded in Rumania with the sales of products worth EUR 29.7 million (SIT 7.1 billion).

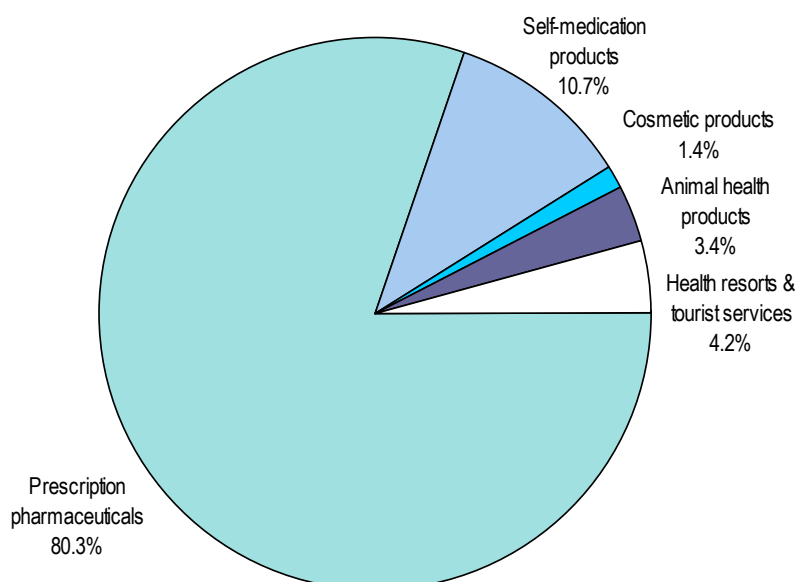
On the markets of the *region Eastern Europe*, representing a 27% share in the Group's overall sales structure, EUR 180.6 million (SIT 43.3 billion) products were sold, thus recording a 32% growth. Apart from the Russian Federation, which is the most important market in this region, with the sales growing by 37%, a high sales growth (of 25%) was also recorded in Ukraine, which represents the second largest market in the region with the sales amounting to EUR 31.4 million (SIT 7.5 billion).

In the countries belonging to the *region Central Europe*, net sales of EUR 170.8 million were generated (SIT 40.9 billion), which is a 22% increase over 2005. The sales in Poland recorded a 21% growth and with a 56% share in the region's sales, the Polish market is the largest in the region, which is also due to successful business performance of the Company's subsidiary Krka Polska. The second largest market is the Czech Republic with the sales of EUR 30.5 million (SIT 7.3 billion), followed by Hungary, with a sales growth of 64%, thus reaching EUR 19.9 million (SIT 4.8 billion).

The sales to the *region Western Europe and Overseas Markets* at the level EUR 100.7 million (SIT 24.2 billion) account for 15% of overall Group sales, which grew 22% compared to the year 2005. The most important markets are still Germany, Great Britain, Scandinavian countries and the Netherlands.

## Sales by product groups

Krka's major activity involves **prescription pharmaceuticals** whose sales recorded a 21% growth and with EUR 535.5 million (SIT 128.3 billion) they represent the largest, 80% share in Group's sales. The sales of **self-medication products** were EUR 71.0 million (SIT 17.0 billion), growing 21% over the year 2005. The sales of **cosmetic products** grew by 13% in 2006 and were EUR 9.6 million (SIT 2.3 billion). The sales of **animal health products** increased by 14% to EUR 22.8 million (SIT 5.5 billion). The sales of **health resort and tourist services** were EUR 27.9 million (SIT 6.7 billion), representing a sales growth of 14%.



The **leading products** among the prescription pharmaceuticals are Enap®, Lanzul®, Atoris®, Vasilip®, Fromilid®, Lorista®, Tenox®, Nolicin®, Coryol® and Ultop®, and among the self-mediation products Bilobil®, Septolete® and Pikovit®. The best selling cosmetic products are skin care products of the Vitaskin® brand, and among animal health products, the Enroxil® brand preserved the leading position, and is followed by Floron®.

## Estimated non-audited business results for the Krka Company

The estimated non-audited operating profit of Krka company increased by 23% over the last year and it amounts to EUR 147.9 million (SIT 35.4 billion). The pre-tax profit is up 25% at EUR 148.2 million (SIT 35.5 billion). The net profit at the level of EUR 113.0 million (SIT 27.1 billion) was up 21% over the previous year. Compared to the year 2005, the Company has also improved its business performance ratios used to monitor the effectiveness of implementing its current business objectives and the goals specified in the business development strategy.

The net profit of the Krka Group will be published at the beginning of March.

## Research and Development

As in R&D area the beginning of 2006 was focused into an increased activity in new development projects, the investment share into R&D from Krka Group sales in the last year amounted to 9.7%.

Development projects are successfully concluded by gaining marketing authorisation which allows launch of the product on the market. The development activities last year resulted in obtaining the first marketing authorisation for 11 new products in 24 different strengths, while in the same period different products were granted 390 marketing authorisations on various markets. Under the name of the companies Krka and Krka Sverige AB and on behalf of marketing partners, 109 marketing authorisations for 17 products in 40 formulations or strengths were obtained in western European countries.

In Slovenia, an important new marketing authorisation for the product Alventa<sup>®</sup> (venlafaxine) in the form of 37.5 mg, 75 mg and 150 mg modified-release capsules has been added to Krka's range of medicines that act on the central nervous system. The product is also authorised in Hungary under the name Olwexya<sup>®</sup>. For marketing of CNS products, the marketing authorisations for Zalasta<sup>®</sup> (olanzapine) and Yasnal<sup>®</sup> (donepezil) tablets that were granted in Croatia are also very important. The range of cardiovascular medicines has in Slovenia been extended with the new product Valsacor<sup>®</sup> containing the active substance valsartan in 40 mg, 80 mg and 160 mg film-coated tablets. Marketing authorisation for Prenessa<sup>®</sup> (perindopril) in 2 mg and 4 mg tablets has been obtained in the majority of European countries. The range has been further extended with obtaining the first marketing authorisation for the product Co-Prenessa<sup>®</sup> (perindopril and indapamide) in Hungary. The successful completion of MRP (Mutual Recognition Procedure) for Losartan<sup>®</sup> 50 mg tablets and Losartan<sup>®</sup>/hydrochlorothiazide tablets allowed Krka to expand marketing authorisations on some western European markets. Important national marketing authorisations for the product Zyllt<sup>®</sup> (clopidogrel) were obtained in the Russian Federation and Bulgaria. A new product was also added to the range of medicines for the treatment of benign prostatic hyperplasia. Finpros<sup>®</sup> containing the active substance finasteride is available in 5 mg film-coated tablets.

In the development of new technologies a special attention has been given to the development of formulations and delivery systems and orodispersible tablet formulations. A successful completion of MRP for film-coated tablets and orodispersible tablets containing risperidone allowed requesting marketing authorisations in several countries of western and central Europe. The first marketing authorisation for the product Mirzaten Q -Tab<sup>®</sup> in 15 mg, 30 mg and 45 mg orodispersible tablets was obtained in Hungary.

Among self-medication products, new products from the Septolete<sup>®</sup> brand range, Septolete<sup>®</sup> in three flavours, were authorised in the Czech Republic, Slovakia and Ukraine.

Important results were achieved in the range of animal health products. Several authorisation procedures were successfully concluded on the western European markets, primarily for enrofloxacin that is used for the treatment of infections in farm animals. Among other countries, the marketing authorisation was granted also in Germany, Belgium and Luxemburg.

In the field of cosmetics, last year was primarily marked with intensive activities related with the development of the new strategic brand Vitaskin<sup>®</sup> Pharma.

Management of development activities included more intensive outsourcing cooperation with specialised partners in the development of synthesis and biosynthesis of active substances, in pharmaceutical technology, and evaluation of active ingredients and products.

The results of the key research and development projects are protected with patent applications and defensive publications. In 2006 Krka filed patent applications for 17 new inventions, while on the basis of priority applications from 2005, 14 international patent applications were filed.

Krka's products are marketed under own brands, which adds value to these products. In 2006 Krka submitted applications for 31 brands in Slovenia, and 7 in other countries, and submitted applications for 29 international brand registrations.

## Investments

In 2006 the Krka Group allocated to investments EUR 107.1 million (SIT 25.7 billion), which is a 20% increase over last year. The major part of it, i.e. EUR 88.9 million (SIT 21.3 billion) represent investments in Krka company. The Group is carrying out over twenty-five projects, mainly intended for the production of finished products and raw materials, and the modernisation of infrastructure to offer quality support to the business functions of the entire Group. Most of these projects are implemented in Slovenia, Croatia, the Russian Federation and Poland.

In August 2006 the pilot production started in the facility for new pharmaceutical active ingredients – Synthesis 4, the largest investment project in the last year, in terms of technological complexity as well as financially. For this investment with budgeted cost of EUR 72.1 million (SIT 17.3 billion), EUR 16.4 million (SIT 3.9 billion) was allocated in 2006. This is a facility for the production of active pharmaceutical ingredients, incorporated into Krka's own finished pharmaceutical products.

The construction of the facility Pelete IV will double the capacities for the production of pellets–capsules with modified release. New lines for the production of pellets and the necessary space for the production and development-research activities are being set up in the newly built extension to the Specifika plant, which will also allow possible future extensions. The building was completed, the first technical examination was also made, technical equipment and installation qualifications have been accomplished, and we received a decree allowing pilot production. The value of investments, in 2006, into Pelete IV amounted to EUR 11.2 million (SIT 2.7 billion).

The works started on the new ampoule plant, which will be connected with the old one. The preliminary cost was estimated to reach EUR 20.1 million (SIT 4.8 billion). In this plant not only the solutions will be prepared, but also the filling of ampoules and the autoclaving process will be performed, while the optical survey and packaging will be performed in the reconstructed present facility. The start-up of pilot production is planned for the end of 2007.

Due to product range expansion the packaging capacities for solid pharmaceutical dosage forms have to be enlarged, therefore we have just started with the first phase of renovation of the plant for capsule production and packaging, which will help us increase the plant's production capacities. The construction works have mostly been completed, and two high-capacity packaging lines were installed, which are already in operation.

During the third stage of the Notol project whose value was estimated to be EUR 39.8 million (SIT 9.5 billion), we will increase the packaging room, allowing the installation of six new lines, and by investing into additional capacities of the weighing room, the granulation machines and tablet presses, we shall adjust the increased packaging room capacities with the capacities for the production of intermediate products. In 2006 we finished the fourth building phase, and already started with craft and installation works.

The largest investment in the Terme Krka was the renovation of the Krka Hotel in Šmarješke Toplice and the upgrading of the heating system between the hot water well and the hotel. The Golf Otočec Hotel completed the first phase of the golf course construction at Struga pri Otočcu. By purchasing another packaging line in Poland, and by increasing the capacity of the boiler room, as well as by additional air drying installation in the production, they have succeeded to increase the production capacities of the plant. They have also added an administrative facility. The production capacities in the Russian Federation have been increased by the purchase of a new table press, and they plan to purchase, in 2007, a new packaging line, a coating pan and a capsule-filling machine. The subsidiary Krka Farma Zagreb upgraded the central power control system.

## Employees

The Krka Group had, at the end of last year, 5 759 employees; 3 646 in Slovenia and 2 113 abroad. The Krka Company had 4 272 employees, of which 3 016 in Slovenia and 1 256 in representative offices abroad. Compared with the year 2005, the Group had 535 more employees (10% increase) and the Krka Company had 294 more employees (7% increase).

The number of employees abroad counting 2 113 persons or as much as 37% of all employees in the Krka Group, has increased by 29%. They mainly employed new associates in marketing and sales. The Krka Company in Slovenia employed 62 persons more than before (2% growth), while this number in the Terme Krka Group is 4. The share of employees with university education in the Krka Group went up and it now represents 46%.

## Shares and shareholders

In 2006 Krka's share price rose from EUR 427 (SIT 102,411) at the beginning of the year to EUR 785 (SIT 188,057) at the end of the year, representing 84% increase. The Slovenian SBI 20 index went up by 38% in the same period. The annual value of Krka's share trading amounted to EUR 410.3 million (SIT 98.3 billion) and compared to the year 2005, it rose by 128%. The average daily trading volume with Krka's share amounted to EUR 1.66 million (SIT 398 million) and it is by 131% higher than in the year 2005.

At the end of the year the market capitalisation of the Krka Company was EUR 2.78 billion (SIT 666.2 billion), which is the highest market capitalisation among all companies listed on Ljubljana Stock Exchange. Krka's market capitalisation represented, at the end of 2006, 15% of the entire stock exchange capitalisation.

The number of Krka's shareholders at the end of 2006 was 54 555 (while at the end of 2005 this number was 53 635).