

**Unaudited Interim Report  
for the Krka Group  
and the Krka Company  
January - September 2007**



Novo mesto, October 2007

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## INTRODUCTION

All the financial statements of the Krka Group and Krka d. d., Novo mesto (the Krka Company) in this report have been prepared in accordance with the International Financial Reporting Standards (IFRS) following a resolution to that effect of the 11th General Meeting of 6 July 2006. In line with the resolution the Krka Company no longer prepares financial reports in accordance with Slovenian Accounting Standards.

The conversion from SIT to EUR for 2006 was carried out in accordance with Note 1 to the Introduction to the Slovenian Accounting Standards (2006) – Change in Reporting Currency, which was adopted at the 80th meeting of the expert council of the Slovenian Institute of Auditors. This prescribes using the official Bank of Slovenia exchange rate on the final day of the comparable period for the conversion of all items in all financial statements from SIT to EUR. The exchange rate 1 EUR = 239.6400 SIT is used for conversions for 2006 and 1 EUR = 239.5987 SIT for conversions for the period January – September 2006. Financial statements in SIT used for the conversion for the period 1 January 2006 and 31 December 2006 are presented in audited form, while statements for the

30 September 2006 reporting period are unaudited. The financial statements presented for the January-September 2007 period are also unaudited.

The Company does not have authorised capital or a conditional increase in share capital.

The company regularly announces any significant changes in the data contained in its share prospectus on the Ljubljana Stock Exchange's electronic information system SEOnet and/or the Delo newspaper.

The business report for the Krka Group for January to September 2007 can be reviewed at Krka's registered office at Šmarješka cesta 6, 8501 Novo mesto, every working day from 08.00 to 15.00, and is also available on the Krka website: [www.krka.si](http://www.krka.si).

The Supervisory Board discussed and approved the January-September 2007 business report for the Krka Company and Group at its regular meeting on 7 November 2007.

## Significant achievements

- Over the period January - September 2007 the Krka Group generated sales of products and services worth 570.9 million EUR, while the Krka Company generated sales worth 497.0 million EUR.
- The Krka Group achieved 14% growth in sales, and the Krka Company achieved 13% growth, compared to the same period last year.
- The Krka Group generated an operating profit of 136.1 million EUR, which is 22% higher than for the same period last year, while the Krka Company generated an operating profit of 122.4 million EUR or 18% higher than for the same period last year.
- The net profit was 98.0 million EUR for the Krka Group (23% growth on the same period last year), and 90.1 million EUR (16% growth) for the Krka Company.
- The highest proportion of sales for the Krka Group was achieved in Region Central Europe, while the highest sales growth was achieved in Region West Europe and Overseas Markets.
- The proportion of sales on foreign markets was 87% for the Krka Group, and 90% for the Krka Company.
- The share price listed on the Ljubljana Stock Exchange reached 115.64 EUR at the end of the period.
- The Krka Group allocated 79.9 million EUR to investments, 69.9 million EUR of which was invested by the Krka Company and 10.0 million EUR by subsidiaries.

- The Krka Group had 6253 employees at the end of the period. This was an increase of 9% compared to the start of the year.
- The 1:10 share-split was carried out successfully. Since 3 September 2007 investors have traded in an increased number of shares, now totalling 35,426,120 shares.
- The major business objectives of the Krka Company and the Krka Group have been realised.

## Significant events after the accounting period

On 10 October 2007, Krka Farma d. o. o., Novi Sad received the decision on temporary injunction issued by the Commercial Court in Novi Sad, Serbia.

The Commercial Court in Novi Sad upheld the motion by Sanofi Aventis, 174, Av. de France, Paris, and (again) prohibited the import and sale of products containing the active ingredient clopidogrel-hydrogen sulfate, i.e. the Zyllt product, which Krka Group produces and sales in Serbia. The prohibition applies until the legal case on an

infringement of a Sanofi patent alleged by that company becomes final, but not beyond 5 February 2008, when the Sanofi patent in Serbia expires.

Krka will file an appeal against the temporary injunction. Krka's view is that the Sanofi patent in Serbia does not protect medical products containing the active ingredient clopidogrel hydrogen sulfate, and will make every effort to prove this before the relevant authorities, or else contends that the patent was awarded unlawfully and in contravention of applicable Serbian legislation.

## Highlights

in thousand EUR	Krka Group		Krka, d. d., Novo mesto	
	1-9/2007	1-9/2006	1-9/2007	1-9/2006
Sales revenues	570,890	501,225	497,031	438,459
EBIT	136,124	111,882	122,357	103,497
EBITDA	177,514	146,994	155,054	130,271
Net profit	97,975	79,810	90,127	77,598
R&D costs	42,036	41,074	41,559	40,493
Investments	79,856	73,443	68,978	60,935
<b>RATIOS</b>				
Net profit/Sales revenues (ROS)	17.2%	15.9%	18.1%	17.7%
EBIT/Sales Revenues	23.8%	22.3%	24.6%	23.6%
EBITDA/Sales revenues	31.1%	29.3%	31.2%	29.7%
Return on equity (ROE) <sup>1</sup> – converted to annual bases	21.5%	21.0%	19.7%	20.6%
Return on assets (ROA) <sup>2</sup> - converted to annual bases	14.2%	12.9%	13.3%	12.9%
Liabilities/equity	0.495	0.624	0.474	0.589
R&D costs/Sales revenues	7.4%	8.2%	8.4%	9.2%
in thousand EUR	30 Sep 2007	31 Dec 2006	30 Sep 2007	31 Dec 2006
Non-current assets	614,543	574,846	599,681	561,034
Current assets	350,361	304,282	336,559	293,252
Equity	645,426	570,905	634,998	569,918
Non-current liabilities	177,155	163,940	163,588	150,351
Current liabilities	142,323	144,283	137,654	134,017
Number of employees	6253	5759	4629	4272

<b>Per Share Information (Krka Group)<sup>3</sup></b>	<b>1-9/2007</b>	<b>1-9/2006</b>
Total number of shares issued	35,426,120	3,542,612
Earnings per share in EUR <sup>4</sup>	3.87	31.40
Share price at the end of period in EUR	115.64	726.09
Price/earnings ratio (P/E)	29.91	23.12
Book value of share in EUR <sup>5</sup>	18.22	150.30
<b>Market capitalisation at the end of period in thousand EUR</b>	<b>4,096,677</b>	<b>2,572,255</b>

1 Net profit, converted to annual basis / average equity balance in period

2 Net profit, converted to annual basis / average assets balance in period

3 At the beginning of September 2007, Krka carried out a 1:10 share-split based on the state of the shareholder register on 31 August 2007. Since 3 September 2007 investors have traded in an increased number of shares, now totalling 35,426,120 shares.

4 Net profit of the majority owner, converted to annual basis / average number of shares issued excluding treasury shares

5 The calculation of carrying value takes into account the total number of shares issued by the Company.

## Key strategies and objectives – to 2010

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

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

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

## Krka Group's business objectives for 2007

- Generating products and service sales of 750 million EUR at a forecast growth of 12%.
- The most important sales regions will be East, Central and West Europe; the Russian Federation remains the single most important market.
- The proportion of sales on markets outside Slovenia is anticipated at 85%.
- New prescription pharmaceuticals products will be marketed in key indication groups.
- The planned net profit is 130 million EUR.
- At the end of 2007 the Group will have 6300 employees, almost 40% of them abroad.
- Investments planned at 130 million EUR will primarily be used to increase and modernise R&D and production capacity and infrastructure.

## Krka Group ID

The controlling company is Krka, tovarna zdravil, d.d., Novo mesto.

**Registered office:** Šmarješka cesta 6

8501 Novo mesto

Slovenia

**Telephone:** +386 7 331 21 11

**Fax:** +386 7 332 15 37

**E-mail:** info@krka.biz

**Website:** www.krka.si

**Basic activity:** Production of pharmaceutical preparations

**Activity code:** 24.420

**Year established:** 1954

**Registration entry:** 1/00097/00, District Court Novo mesto

**VAT number:** SI 82646716

**Company ID number:** 5043611

**Called-up capital:** 59,126,194.28 EUR

**Shares:** 35,426,120 ordinary registered shares at par value of 1.669 EUR per share. Krka's shares have been listed on the Ljubljana Stock Exchange in 1997 with the trading code KRKG.

The Krka Group consists of the controlling company, Krka d.d. Novo mesto, and the following subsidiaries and associated companies:

	Ownership share 30 Sep 2007
Terme Krka, d. o. o., Novo mesto	100 %
KRKA-FARMA d. o. o., Zagreb, Croatia	100 %
»KRKA-FARMA«, d. o. o., Novi Sad, Serbia	100 %
KRKA-FARMA DOOEL, Skopje, Macedonia	100 %
OOO »KRKA-RUS«, Istra, Russian Federation	100 %
OOO »KRKA FARMA«, Sergiev Posad, Russian Federation	100 %
KRKA-Polska, Sp. z o. o., Warsaw, Poland	100 %
KRKA Magyarország Kft, Budapest, Hungary	100 %
KRKA ČR, s. r. o., Prague, Czech Republic *	100 %
KRKA Pharma Dublin Limited, Dublin, Ireland	100 %
KRKA Sverige AB, Stockholm, Sweden	100 %
KRKA Aussenhandels GmbH, Munich, Germany*	100 %
KRKA PHARMA GMBH, Frankfurt, Germany	100 %
KRKA FARMACÊUTICA, LDA, Estoril, Portugal	100 %
KRKA USA, LLC, Delaware, USA	100 %

\* Companies, where no operations are carried out

The subsidiary Terme Krka has a participating interest in Terme Krka – Strunjan d.o.o. (51%) and Golf Grad Otočec d.o.o. (56.37%).

In 2007 the controlling company, Krka, d. d., Novo mesto established and paid the founding capital for the new companies, registered as KRKA

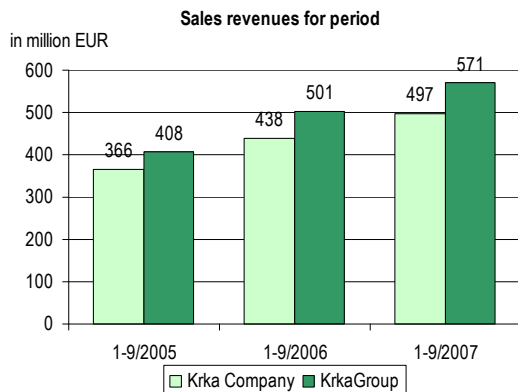
PHARMACEUTICAL GMBH in Frankfurt, Germany, KRKA FARMACEUTICA, LDA, Estoril, Portugal, and KRKA USA, LLC, Delaware, United States, in which it holds 100% ownership. The subsidiary HELVETIUS-S. R. L. in Trieste, Italy, in which the controlling company had had an 80% participating interest, was finally wound up.

## Business operations analysis of the Krka Group and Krka Company

The Krka Group and Company performed successfully in the first three quarters of 2007. The positive results were due not only to increased sales revenues, but were also significantly affected by

lower growth in operating expenses compared to operating revenue growth. Most of this year's nine-month operating results are better than for the same period last year.

### Revenues



The net sales revenues of the Krka Group increased by 14% compared to the same period last year, while the Krka Company recorded an increase of 13%. The Krka Company generated net sales revenues of 497.0 million EUR from the sale of prescription pharmaceuticals, self-medication products and animal health and cosmetic products, while the Krka Group generated 570.9 million EUR

from sales of these products plus sales of health and tourist services.

The major contribution to Krka Group sales revenues (at 81%) came from the sale of prescription pharmaceuticals, while the highest relative growth in sales (up 19%) was recorded for self-medication products. The majority of sales revenues (87%) was generated from the sale of products, services and goods on markets outside Slovenia. A more detailed analysis of the sales results by individual market and product group is given in the section Marketing and Sales.

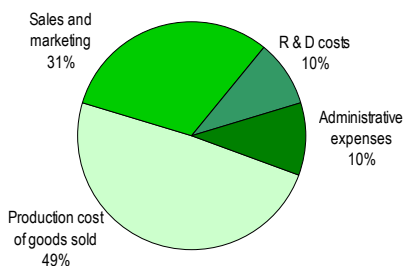
The Krka Group generated total revenues of 583.9 million EUR, and the Krka Company 506.1 million EUR, which is 14% and 12% more than the same period last year, respectively.

### Expenses

The Krka Group's expenses increased by 12%, or 451.2 million EUR more than for the same period last year, but their increase was 2.4 percentage points less than the growth in sales.

The Krka Group recorded operating expenses of 436.3 million EUR, 214.1 million EUR of which related to production costs of goods sold, 135.7 million EUR to sales and marketing costs, 42.0 million EUR to R&D costs and 44.5 million EUR to administrative expenses.

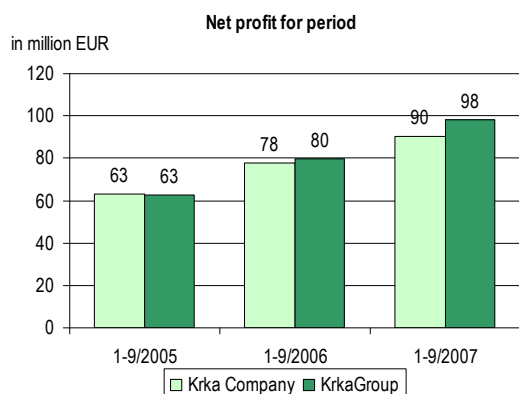
Group expenses by type for January - September 2007



Compared to the same period last year, the Krka Group's production cost of goods sold increased by 19%. Sales and marketing costs grew by 5% due to expansion of the market network in all major Krka markets, while administrative costs grew by 7%. The Krka Group's R&D costs were 2% higher expenses, and are accounted in full as expenses in the financial year, as the Group does not capitalise them.



## Operating results



The Krka Group's operating profit of 136.1 million EUR represents an increase of 22%, compared to the same period last year. The profit before tax was up 22% and amounted to 132.6 million EUR. Corporate income tax totalled 34.6 million EUR, of which 35.2 million EUR was levied tax and 0.5 million EUR deferred tax. The Group's effective tax rate was 26.1%.

The Group's net profit was 98.0 million EUR, an increase of 23% last year's nine-month figures, while the net profit of the Krka Company totalled 90.1 million EUR, up 16%.

## Assets

The Krka Group's assets stood at 964.9 million EUR on 30 September 2007, an increase of 10% on the start of the year. The ratio of non-current assets to total assets was 63.7%, a reduction of 1.7 percentage points compared to the start of the year.

Property, plant and equipment (PPE), worth a total of 545.6 million EUR was by far the largest non-current asset item, out of a total of 614.5 million EUR. PPE alone was worth 57% of total

assets, with their value increasing by 8% compared to the start of the year.

Current assets increased by 18% to 350.3 million EUR compared to the start of the year. Trade and other receivables increased by 19% to 182.9 million EUR over the period, while inventories increased 14% to 131.6 million EUR. Financial investments fell by 14% (primarily shares available-for-sale) and were worth 20.7 million EUR on 30 September 2007.

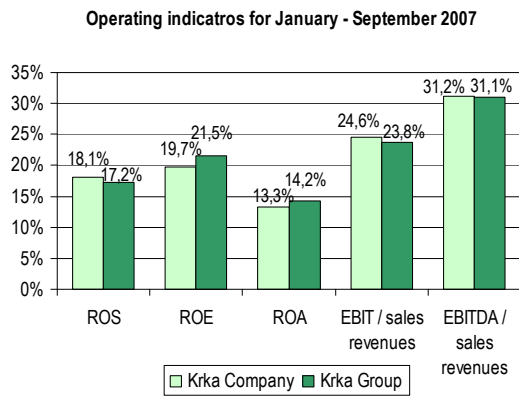
## Equity and liabilities

The Group's equity had increased by 13% by the end of September and now represents 67% of total equity liabilities. The main factor in the increase was the Group's profits over the period.

Long-term provisions increased by 11%, while long-term loans remained practically unchanged over the period.

Current liabilities were down 1% to 142.3 million EUR, which is 15% of total assets. Among current liabilities, short-term loans increased by 3% to 50.0 million EUR. Operating liabilities fell 5% to 57.8 million EUR, while other current liabilities increased by 8% to 29.7 million EUR.

Performance ratios



The operating indicators for the Krka Group were in line with strategic guidelines and targets, and were better than for the same period last year.

The Krka Group's net profit margin was 17.2% (Krka Company: 18.1%), ROE 21.5% (Krka Company: 19.7%), ROA 14.2% (Krka Company: 13.3%), operating profit (EBIT) to sales 23.8% (Krka Company: 24.6%), and EBITDA to sales 31.1% (Krka Company: 31.2%).

## BUSINESS REPORT

### Marketing and sales

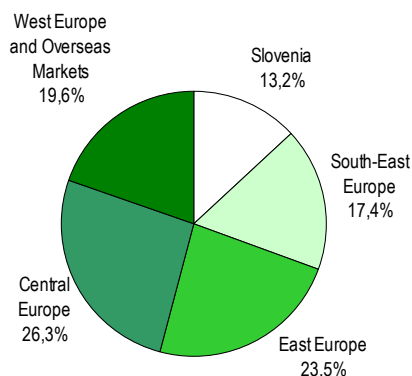
In the first nine months of the year, the Krka Group and Company operated in line with planned objectives and exceeded last year's sales figures for the same period. The Krka Group's sales of 570.9 million EUR represented 14% growth compared to the same period last year, while the

Krka Company's sales of 497.0 million EUR represented growth of 13%. The comments on sales by region and product group provided below all refer to sales by the Krka Group.

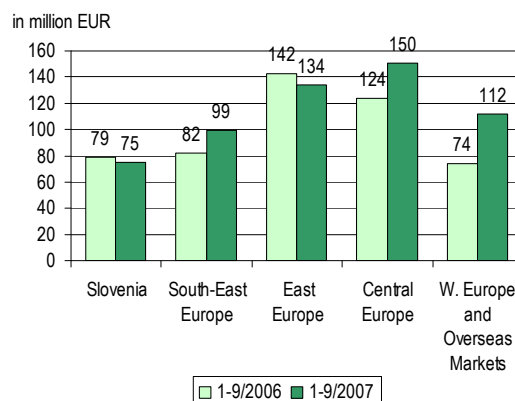
### Sales by region

In thousand EUR	Krka Group			Krka Company		
	1-9/2007	1-9/2006	Ind.	1-9/2007	1-9/2006	Ind.
Slovenia	75,118	79,170	95	50,085	56,795	88
South-East Europe	99,110	81,883	121	89,515	72,204	124
East Europe	134,348	142,312	94	126,245	138,281	91
Central Europe	150,165	123,507	122	125,972	97,684	129
West Europe and Overseas Markets	112,149	74,353	151	105,214	73,494	143
<b>Total</b>	<b>570,890</b>	<b>501,225</b>	<b>114</b>	<b>497,031</b>	<b>438,459</b>	<b>113</b>

*Krka Group sales by region for January-September 2007*



*Krka Group sales by region for January-September 2007*



The highest sales by region were recorded in Region Central Europe, where sales reached 150.2 million EUR, representing over 26% of overall sales. It is followed in sales volume by Region East Europe, with 134.3 million EUR or a 24% share. The highest rate of growth (51%) achieved in this

period was in Region West Europe and Overseas Markets, which is the third ranking region overall by sales volume. Region South-East Europe and Slovenia also represent a significant proportion of sales.

## Slovenia

Sales worth 75.1 million EUR were generated on the domestic market, which was a 5% fall compared to sales for the same period last year. A total of 43.4 million EUR was generated from sales of prescription pharmaceuticals, 3.9 million EUR from self-medication products, 1.7 million EUR from animal health products, and 1.5 million EUR from cosmetics, while health and tourism services in Slovenia generated 23.5 million EUR, a 12% increase on the same period last year.

The effect of the prescription pharmaceutical pricing system has led to lower sales compared to the

same period last year. Nevertheless, Krka remains the leading prescription pharmaceuticals company in Slovenia, with a market share of almost 15%.

We are market leaders by sales in therapeutic groups such as: statins, ACE inhibitors, proton pump inhibitors, and sartans. Our market share of medicines for the central nervous system is also growing. The following Krka products remain market leaders: Vasilip<sup>®</sup>, Atoris<sup>®</sup>, Enap<sup>®</sup>, Ultop<sup>®</sup> and Lorista<sup>®</sup>.

## South-East Europe

In the first nine months of the year, Krka generated over 17% of total Group sales in the countries of South-East Europe. Sales in the region increased by 21% compared to the same period last year, reaching 99.1 million EUR.

The highest sales growth compared to the same period last year was achieved in Serbia (71%), Romania (33%) and Bulgaria (26%). The relatively high growth of sales in these countries is largely due to increased activity and the expansion of marketing and sales networks in the field, as well as the continuing relatively favourable economic trends in South-East Europe. Romania and Bulgaria's entry to the EU has had a positive impact on Krka's results, while other countries in the region are increasingly integrating their commercial legislation with EU law.

Another significant market in South-East Europe is **Croatia**, one of Krka's key markets, which represents approximately one third of sales in the region. With a market share of over 6% in Croatia, Krka was the third-ranking pharmaceuticals company by sales volume, immediately behind two domestic producers. The most notable products in terms of sales growth for the first nine months of 2007 were Atoris<sup>®</sup>, Laaven<sup>®</sup>, Lanzul<sup>®</sup>, Ciprinol<sup>®</sup>, Fromilid<sup>®</sup>, Asentra<sup>®</sup> and Zyllt<sup>®</sup>.

The increase in specialist staff has strengthened the promotional and sales activities in the field for the Bilobil<sup>®</sup>, Septotele<sup>®</sup> and Herbion<sup>®</sup> products from the self-medication field, and – among the cosmetics – Fitoval<sup>®</sup> and products from the Vitaskin<sup>®</sup> Pharma

line. Production of Zyllt<sup>®</sup>, Laaven<sup>®</sup>, Tenox<sup>®</sup> and Atoris<sup>®</sup> is also underway in Croatia, mainly to meet the needs of the Croatian market, though Zyllt<sup>®</sup> produced in Croatia is sold in other eastern and south-eastern European countries.

Sales of animal health products were roughly the same as for the same period last year, largely due to redirecting product sales from smaller breeders to larger agricultural concerns, where the pig population did not fall following the outbreak of swine fever in Croatia.

In **Romania** Krka's market share was over 3%, which makes it the second most important market in the region, and potentially one of Krka's key markets. The most important products in terms of sales growth were Vasilip<sup>®</sup>, Fromilid<sup>®</sup>, Ultop<sup>®</sup> and the newly-launched Rawel<sup>®</sup>. Established products such as Enap<sup>®</sup>, Ciprinol<sup>®</sup> and Tramadol<sup>®</sup> retained their high market shares.

Among the self-medication products, sales growth of over 30% has been achieved for Bilobil<sup>®</sup> compared to the same period last year. Bilobil<sup>®</sup> is not only the best-selling Krka product on the market, but also one of the best selling brands on the Romanian market overall. Self-medication sales included significant increases in Septotele<sup>®</sup> and Daleron<sup>®</sup>. The growth in Septotele<sup>®</sup> sales was largely due to the successful launch of Septotele<sup>®</sup> products with new flavours.

Sales growth also continued in **Bulgaria**. Product

sales were worth 6.6 million EUR, 95% of which came from prescription pharmaceuticals. The largest contribution to overall sales came from Lorista® and Holetar®, and from Fromilid® and Macropen® of the seasonal preparations. The highest sales growth compared to the same period last year was for Lorista®, Rawel® and Vasilip®. Worth of mention was the launch of Tenox® in March and Lanzul® in September. The increased sales of Solvolan®, Septolete® and Pikovit® has gradually increased the volume of sales on the Bulgarian self-medication market.

The most important figures from **Serbia** came from the growth in sales of Vasilip®, Atoris®, Fromilid®, Ampriol®, Lorista® and Asentra®. The positive sales results were largely due to intensive marketing work in the field, and having Krka preparations placed on

## East Europe

In Region East Europe Krka achieved sales worth 134.3 million EUR. Sales were down in the Russian Federation compared to the same period last year, but increased on all other markets in the region. The fall in sales was largely in prescription pharmaceuticals, while sales of other product groups increased: self-medication products grew by 18%, animal health products by 16%, and cosmetics by 11%.

Sales in **Russian Federation** were worth 90.8 million EUR over the period, the highest of which was 67.5 million EUR from prescription pharmaceuticals, 19.0 million EUR from self-medication products, 2.8 million EUR from animal health products, and 1.3 million EUR from cosmetics.

The best-selling products were Enap®, the statins Vasilip® and Atoris®, Macropen®, Nolicin®, Cordipin®, Pikovit®, Duovit® and Fromilid®. The launch of Zyllt® was assessed as successful.

The lower sales figures compared to the same period last year are due to the fall in prescription pharmaceutical sales. This is due to problems in the financing and restricted functioning of Russia's DLO programme (supplementary medicine supply), which had significantly contributed to significant sales growth in 2006. The DLO programme now favours medicines for treating a selection of serious diseases (cancer, haemophilia, diabetes, etc.), so there are fewer funds available for other medicines.

the official Serbian health insurance fund list.

Sales of self-medication products were 22% up compared to the same period last year. Somewhat lower growth compared to the same period last year was recorded for animal health products, largely due to restructuring within the sector involving the privatisation of agricultural concerns and farms.

The moderate sales growth in **Bosnia and Herzegovina** has been based on increased marketing and sales activities in the field, and the increasing purchasing power of the population.

Moderate growth was also achieved in all other south-east European countries in the first nine months of this year.

Krka sales outside the DLO system achieved growth of 40%, despite the fact that the entire market is facing a sales stagnation.

In **Ukraine**, where marketing activities took place against a backdrop of intense and aggressive competition during the first nine months of the year (particularly on the market for self-medication products), Krka's marketing and sales work achieved sales worth 24.6 million EUR, growth of 18%. We strengthened cooperation with pharmacies, particularly pharmacy chains, which are an increasingly important part of the business. The best-selling products were Enap®, Duovit®, Macropen®, and products under the Herbion® and Vasilip® umbrella brands. The sales dynamics and volume in Ukraine makes it a serious candidate for inclusion in Krka's key markets.

Product sales in **Kazakhstan** were worth 5.1 million EUR and exceeded sales for the same period last year by 24%. The growth in prescription pharmaceuticals was 42%. Distributors assess that the market has grown at a similar rate to Krka's overall growth over the first nine months of the year. The main increase in prescription pharmaceuticals came from Vasilip®, Fromilid®, Hiconcil® and Macropen® and the newly launched Atoris® and Tenox®.

The major increase in self-medication product sales came from Septolete® and Kalcinova® sales, and in June we introduced products from the Vitaskin®

Pharmaceutical line.

Increasing numbers of cheaper products from Asia on the animal health market has had an impact on sales of Enroxil® and Kokcisan®, but continued sales growth is nevertheless expected from the launch of two new products, Abamitel® and Ecocid®S.

The successful sales performance continued in **Uzbekistan**, with 70% growth compared to the same period last year, with sales worth 3.9 million EUR. Sales of prescription pharmaceuticals grew by 95%, and self-medication products and cosmetics grew by 54%. The top-selling prescription pharmaceutical is Enap®, while Pikovit® was the top-selling self-medication product. A slowdown is forecast in the conversion of local currency into euros or US dollars in the second half of the year has in part heightened the credit exposure of our direct Uzbek purchasers.

During the first nine months of the year Krka recorded 9% growth in sales in **Belarus**. Prescription pharmaceuticals are also the leading group by sales here, but again sales were restricted by the active and very aggressive pricing competition from domestic producers, due to support from state institutions on the Belarus pharmaceutical market.

In **Azerbaijan** Krka achieved 51% sales growth compared to the same period last year, with sales of prescription pharmaceuticals almost doubling. There has been a noticeable slowdown in growth on the market and a lack of certain implementing

regulations on market authorisations and marketing of pharmaceuticals. After the expiry of market authorisations for animal health products this year, the Kokcisan® market authorisation was acquired on time. We are currently waiting for other renewals.

Krka strengthened its position on the **Armenian** market. According to market authorisation agency data, which gathers data on pharmaceutical imports, Krka is the third-ranking producer in Armenia. Enap® H is the leading product to reduce high blood pressure, and one of the leading pharmaceutical products overall. Sales of self-medication products increased by 69% overall.

Product sales increased in **Georgia** overall, with 30% growth achieved compared to the same period last year. The problems acquiring market authorisations have been solved, so that renewals and new authorisations are acquired in line with plans.

In the first nine months of 2007 Krka sold products worth 1.4 million EUR in the remaining Central Asian states, 72% more than in the same period last year. The high sales growth in **Mongolia** and over 5% market share is achieved through sales of Enap®, Ciprinol® and Macropen®. Septolete® remains the leading self-medication product. In **Kyrgyzstan** the top sellers are Enap® and Macropen®, with Pikovit® in Duovit® the leading self-medication products. Most sales achieved in **Tajikistan** are based on self-medication products.

## Central Europe

Krka generated sales worth 150.2 million EUR on markets in its Region Central Europe in the first nine months of 2007, which is 22% higher than for the same period last year. Sales of prescription pharmaceuticals, which represent 92% of overall sales in the region, grew for the same percent (22%), while sales of self-medication products grew by 20%, and animal health products sales by 3%.

In **Poland**, the largest single market in the region with 48% of total sales, and one of Krka's key markets, Krka achieved 5% growth and sales worth 72.3 million EUR. The most important prescription pharmaceuticals remain Zalasta® (produced in Poland), followed by Atoris®, Lanzul®, Lorista® and Vasilip®. These products represent over half of total

prescription pharmaceutical sales. Prenessa® and Zyllt® have also contributed to positive sales, which were launched last year as was Torendo® Q-Tab® which is used to treat schizophrenia, complementing the top-selling Zalasta®. Krka has significantly developed its range of products to treat prostate enlargement with the products Kamiren® XL and Finpros®. This helped increase sales of urological pharmaceuticals by 23% compared to the same period last year, and they are the fastest growing group within pharmaceutical products.

Following the launch of new flavours, Septolete® products contributed most to self-medication product sales worth a total of 4.4 million EUR, with growth of 50% recorded. A new self-medication



product was launched – Dermabion®, which is used to maintain healthy skin.

The growth in animal health products was largely due to growth in Enroxil® and Dehinel®.

In the **Czech Republic**, Krka recorded sales worth 28.3 million EUR, representing 25% growth compared to the same period last year. The best-selling products remain Atoris®, Lorista®, Ampril®, Enap®, Lanzul® and Asetra®, which together represented 60% of total sales. The most significant self-medication product was Septotele®, which with an excellent 48% growth, represented almost half of all sales in this product group.

Krka recorded its highest sales growth in the region (79%) in **Hungary**, which is Krka's third most important market in the region with sales of 24.8 million EUR. The most important products are Atoris®, Tenox®, Prenessa® and Lanzul®. Particularly mention must also be made of Prenessa®, which has become Krka second best selling product, and Lanzul®, which is now the fourth best selling product. Results for self-medication products and animal health products were somewhat less successful, with the figures down in the first nine months of the year, compared to the same period last year.

In **Slovakia** sales grew 62% compared to the same period last year, and were worth 11.1 million EUR.

## West Europe and Overseas Markets

In Region West Europe and Overseas Market product sales were worth 112.1 million EUR, an increase of over 50% on the same period last year.

The majority of sales in the region came from prescription pharmaceuticals (95%), largely through sales via partners, while the remaining sales in the region come from animal products.

Around 90% of sales in this Krka region were achieved in the older EU member states (EU15), which Krka considers as key markets. The most important markets are the United Kingdom, Germany, Italy, and the Nordic countries. The best sellers are lansoprazole, enalapril, carvedilol and amlodipin, with Krka one of the leading generic suppliers on some of the markets. Products such as venlafaxine, mirtazapine, sertraline and atorvastatin are becoming more important. Since the beginning

The best selling products are Atoris®, Fromilid®, Prenessa®, Enap® and Lanzul®. Prenessa® is worthy of specific mention, becoming the third best selling product very soon after its launch.

Sales in **Lithuania** were worth 8.6 million EUR in the first nine months of the year, which is 23% higher than for the same period last year. The most important products remain Enap®, followed by Lorista®, Kaptopril® and Yasnal®. Yasnal® sales grew a very impressive 94%. Septotele® products became the leading self-medication products, recording 53% growth and making a major contribution to the overall 12% growth in self-medication products.

The sales dynamic in **Latvia** was similar to that in Lithuania, with sales of 3.7 million EUR in the first nine months of the year. Enap® remains the most important product here as well, followed by Atoris® with growth of over 50%, and Hiconcil® and Fromilid®. Sales of self-medication products were also successful with 39% growth in sales compared to the same period last year.

Sales in **Estonia** were worth 1.3 million EUR and growth of 10%. Fromilid®, remained the most important of the products with higher selling growth over 80%, followed by Enap® and Ciprinol®. Septotele® remains the best-selling self-medication product, though sales have fallen slightly.

of 2005 Krka has successfully increased sales of its own brand pharmaceuticals in the Nordic countries, via its Swedish subsidiary, Krka Sverige. These sales increased by over three times in the first nine months of the year compared to the same period last year, reaching 11.7 million EUR.

Sales of animal health products continued to grow in EU countries. Sales of enrofloxacin were above expectation, so it is anticipated that successful new market authorisations will lead to higher total sales figures for 2007 compared to 2006.

Sales activities on overseas markets continued with sales increasing by almost 20%. In Ghana we laid down a basis for new record sales in this west African state. Sales in Sudan are in line with expectations, and we also expect sales to develop in Nigeria. Opportunities for continued growth also

exist in Asian countries, particularly Vietnam.

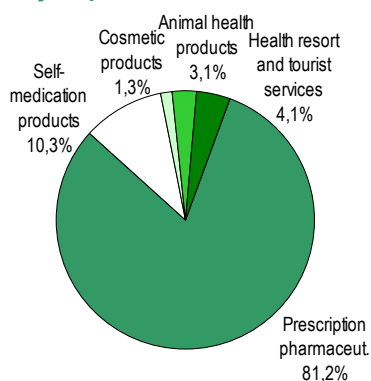
Successful sales were also achieved on the Arabian Peninsula. In Iran, where Krka successfully markets products under its own brand names, we exceeded

last year's sales figures by approximately 85%. Sales are growing in Yemen, largely due to the proportion of newer prescription pharmaceuticals, which are being actively promoted.

## Sales by product and service group

In thousand EUR	Krka Group			Krka Company		
	1-9/2007	1-9/2006	Ind.	1-9/2007	1-9/2006	Ind.
Human health products	528,332	462,581	114	478,516	421,230	114
- Prescription pharmaceuticals	461,952	405,440	114	414,279	364,648	114
- Self-medication products	59,075	49,825	119	57,115	49,487	115
- Cosmetic products	7,305	7,316	100	7,122	7,095	100
Animal health products	17,868	17,083	105	17,524	16,657	105
Health resort and tourist services	23,490	20,910	112			
Other	1,200	651	184	991	572	173
<b>Total</b>	<b>570,890</b>	<b>501,225</b>	<b>114</b>	<b>497,031</b>	<b>438,459</b>	<b>113</b>

### Krka Group sales by product and service group for January-September 2007



focusing on include Uzbekistan (96%), Serbia (91%), Slovakia (64%), Kazakhstan (42%), and the Arabian Peninsula (140%). There was no major change in the list of best-selling prescription pharmaceuticals compared to the same period last year, though there were some changes in order. For many years the leading prescription pharmaceutical has been Enap®, followed by Lanzul®, Atoris®, Vasilip®, Lorista®, Fromilid®, Tenox®, Coryol®, Nolicin® and Ciprinol®. Growth was recorded for most of these products compared to last year, for Lanzul® and Coryol® most clearly, both up around 50%, followed by Atoris®, Lorista® and Ciprinol® (up around 20%).

### Prescription pharmaceuticals

The Krka Group generated sales of prescription pharmaceuticals worth 461.9 million EUR, which is 14% higher than for the same period last year. Sales on traditional markets, which includes Slovenia and the markets of central, south-eastern and eastern Europe, were worth 354.8 million EUR.

Sales of prescription pharmaceuticals on the larger markets grew most in comparison to the same period in 2006 in West Europe (up 53%), Hungary (90%), Romania (33%), and in the Czech Republic (26%). The smaller markets with high growth worth

New products are the key generator of continued growth in the generics industry, an industry axiom that Krka is very much aware of. Krka's product range includes 16 parallels for 30 of the world's best-selling prescription pharmaceuticals. Eight products launched since 2004 are ranked in Krka's top-30 prescription pharmaceuticals, the highest being Zalasta® (olanzapine), Zyllt® (clopidogrel) and Prenessa® (perindopril).

In 2007 Krka started marketing two products with completely new active ingredients: the anti-asthmatic Monkasta® (montelukast) and the anti-



ulcer product Nolpaza® (pantoprazole). Krka plans to launch some prescription pharmaceuticals with new active ingredients for the Krka product range in the final quarter of the year. The existing range of products has been supplemented with new combinations and new pharmaceutical forms: with a product to prevent increased blood pressure which combines the active pharmaceutical ingredients perindopril and indapamide under the brand name Prenewel® in Slovenia (which will be called Co-Prenessa® on other markets). Other completely new forms include an oral dispersible tablet form for Mirzaten®.

In first ninth months of 2007 we launched following products on our markets:

- Slovenia: Monkasta®, Nolpaza®, Prenewel®,
- Croatia: Coryol®, Fromilid® Uno, Lorista®,
- Bosnia and Herzegovina: Lorista®, Zyllt®, Ampril®,
- Macedonia: Ampril®,
- Romania: Lanzul®, Torendo®, Tramadol® R,
- Bulgaria: Asentra®, Tenox®, Lanzul®,
- Albania: Atoris®, Zyllt®,
- Russian Federation: Amprilan®, Kamiren® XL, Atifin®, Torendo®,
- Ukraine: Amprilan®,
- Kazakhstan: Atoris®, Tenox®,
- Belarus: Fromilid® Uno
- Moldova: Tenox®,
- Poland: Kamiren® XL, Torendo® Q-Tab®, Finpros®, Alventa®,
- Czech Republic: Finpros®, Rorendo® Orotab
- Slovakia: Ampril® HD, Finpros®, Tenox®, Alventa®,
- Hungary: Co-Prenessa®, Mirzaten® ODT, Olwexya®, Torendo® Q-Tab®, Lavestra®,
- Lithuania: Lorista® H, Finster®, Alventa®, Ampril® HL, HD, Lanzul®,
- Latvia : Lanzul®.

This makes a total of over 40 launches on 26 of Krka's traditional markets, which were all given active promotional support via Krka's own marketing activities and its marketing network.

### Self-medication products

Sales of self-medication products were worth 59.1 million EUR and exceeded sales for the same period last year by 19%.

Sales grew in comparison with the same period last

Most marketing activities were aimed at promoting products in key therapeutic groups. These are primarily pharmaceutical products to reduce high blood pressure (Enap®, Ampril®, Prenessa®, Lorista®, Valsacor®, Tenox® and Coryol®), pharmaceuticals to reduce plasma lipids (Atoris® and Vasilip®), anti-ulcer pharmaceuticals (Ultop®, Lanzul®), medicines to treat the central nervous system (Asentra®, Alventa®, Mirzaten®, Torendo®, Zalasta® and Yasnal®), medicines to treat benign prostatic hyperplasia (Kamiren®XL, Tanyz®, and Finpros®), and anti-microbials (Fromilid®).

Major events in 2007 include a number of large-scale international symposiums to mark the anniversaries of several key prescription pharmaceuticals. In April an international symposium was organised in Warsaw with around 300 participants from eight countries dedicated to the tenth anniversary of the anti-ulcer pharmaceutical Lanzul®. In May Krka organised its largest and most important event to date, which was to market the tenth anniversary of Krka's medicines to reduce plasma lipids (Holetar®, Vasilip®, and Atoris®) and the fifth anniversary of Atoris®, with 400 participants in attendance from 19 countries. The symposium included a large exhibition illustrating the decade of developmental, marketing and sales results of Krka's statins. In October Krka organised a satellite symposium at the Central European Meeting on Hypertension and the Prevention of Cardiovascular Disease in Krakow, Poland, which promoted Krka's Angiotensin enzyme inhibitors and sartans (Enap®, Prenessa®, Ampril®, Lorista®, and Valsacor®). Noted international experts appeared at all the symposiums, presenting the results of their own clinical research into these products.

Training, managing and monitoring the work of more than 2000 employees working in marketing networks is a vital factor in prescription pharmaceuticals sales, because it is their everyday work that contributes most to consolidating and increasing demand for Krka products.

year on all traditional markets. Krka recorded 3% growth in Slovenia, 27% growth on south-eastern European markets, 18% growth in eastern European states, and 20% growth on central European markets.

The highest growth on Krka's largest markets was achieved in the Russian Federation (15% growth and sales worth 19 million EUR) and in Romania (40% and sales worth 7.7 million EUR). Two smaller markets in Central Europe also recorded positive growth, 30% in the Czech Republic and 53% in Slovakia.

This year the top-selling products again included Bilobil® (26% growth), Septolete® (41%), Pikovit® (5%), Duovit® (21%) and Herbion® (49%). These are also key products for this product group.

### Cosmetic products

Sales of cosmetic products were worth 7.3 million EUR, maintaining the same level as the same period last year.

Looked at region by region, Krka achieved positive sales trend on the markets of East Europe compared to the same period last year, with sales of 2.6 million EUR and growth of 10%, while sales on

### Animal health products

Sales of animal health products were 5% higher than sales for the same period in 2006, and sales were not lower than for the same period last year in any region.

The sales growth in Region East Europe continued from last year, largely based on the 27% sales growth achieved in the Russian Federation. High growth was also achieved in Ukraine, while sales in smaller countries in eastern Europe were below expectation.

Sales in Region South-East Europe remained at the same level as last year. On its larger markets, Krka managed to increase sales in Romania. Sales in Croatia remained at almost the same level as last year, while sales in Bosnia and Herzegovina and Macedonia were significantly higher.

The biggest contribution to the growth in sales in Region Central Europe came from the biggest market in that region, Poland. There was also a relatively significant increase in sales in smaller countries in this region – Lithuania and Slovakia, while Hungary matched its sales figures for last

Promotional activities backed by appropriate investment were targeted at priority products (Duovit®, Septolete®, Herbion® and Bilobil®) and the most promising potential markets (Russian Federation, Ukraine, Slovenia and Romania), with sufficient growth also being achieved on other markets (such as Poland, the Czech Republic, Croatia and other markets).

Krka has not yet launched any new brands this year, but new products have been added to existing product lines.

south-eastern European and central European markets remained at the same level as last year.

Considerable work was put into the international project Vitaskin® Pharmaceutical line, which was launched this year, and was aimed at pharmacy sales only. Higher sales results are expected in future.

year. The high sales of injection solutions typical of the Polish market continued, outstripping other pharmaceutical forms.

Sales matched those achieved in the same period last year in Region West Europe and Overseas Markets. There was a major restructuring of sales with final products replacing raw materials.

The best selling brand is still Enroxil®, which achieved 43% growth in sales, particularly thanks to sales in west Europe. This is followed by sales of Floron®, while sales of Kokcisan® remained at the same level as last year. Dehinel® plus is going through a phase of intense growth (78%), while the growth in sales of Calfoset® calmed.

The leading product in veterinary care for pigs is Floron®. Veterinary protection for pigs is becoming more important due to the growth in animal stocks in some key markets. There is great potential in the Russian Federation, where there are high expectations following the launch of Floron® premix for two other pharmaceutical forms of Floron® - injection and oral solutions.

### Health tourism services

Sales of health and tourism services reached 23.5 million EUR, which meant growth of 12% compared to same period last year. We assess that Krka achieved a successful summer season, as hotels in the Terme Krka Group were fully occupied for the summer season, and sales of catering, health and other wellness services were also good.

The highest growth of individual units of 15% was achieved by the Šmarješke Toplice business unit, primarily due to the growth in revenues from private guests using preventive and wellness programmes. The average occupancy of the Krka Group's

accommodation capacity was 71%, with 3% more overnight stays than for the same period last year. Compared to the same period last year, there were 6% more foreign guests at Terme Krka, which increased the proportion of foreign overnight stays by one percentage point to 34%.

Terme Krka continues to develop and market services and programmes offering higher added value. A high level of medical rehabilitation services is being maintained on the one hand, while new services are being developed in the fields of preventive medicine quality of life.

## Research and development

Research and development at Krka in the first nine months of the year was marked by the successful acquisition of market authorisations based on new market authorisation procedures. Krka was the first generic producer in the European Union to manage and conclude a Centralised (CP). Seven DCPs (Decentralised Procedures) and three MRPs (Mutual Recognition Procedure) were also concluded.

Over the period, 304 market authorisations were acquired for products in 936 pharmaceutical forms on a variety of markets. The first market authorisation was achieved for nine new products in 25 pharmaceutical forms.

Through the CP Krka simultaneously acquired market authorisations for the 27 EU member states for the olanzapine product under Krka's own trademarked name Zalasta® in 2.5mg, 7.5mg, 10mg, 15mg in 20mg classic and oral dispersible tablets. The product is used to treat schizophrenia and is a major addition to Krka's range of medicines for the central nervous system. Krka is the first generic producer to have obtained a market authorisation for the entire territory of the European Union in this manner.

The first nationally acquired market authorisation for a product with the API quetiapine, an anti-psychotic, in the form of 25mg, 100mg, 150mg, 200mg and 300mg film-coated tablets was extended to another 11 EU countries by means of DCPs. An MRP was used to acquire market authorisation for a donepezil medicine, in the form of 5mg and 10mg tablets, which are used to treat Alzheimer's disease. This will make it possible to market the product in other European Union countries. A market authorisation has also been acquired in Croatia, one of Krka's key markets. A new product was added to Krka's cardiovascular range when market authorisation was acquired in Slovenia for a product with the active ingredient valsartan in the form of 40mg, 80mg and 160mg film-coated tablets, and for a product in the form of tablets containing perindopril in combination with indapamide. The market authorisation for both products has been acquired on all key Krka markets. By means of a CADREAC procedure (the procedure is defined in the

legislation of European Union candidate countries as a procedure where a market authorisation holder can submit the same market authorisation documentation as used for a concluded MRP or DCP) Krka became the first generic producer to be granted market authorisation for the losartan product - Lorista® in Croatia. The range of medicines to treat gastrointestinal and metabolic diseases was expanded after market authorisation was granted in 23 countries to include an anti-ulcer pharmaceutical product containing the active ingredient pantoprazole in the form of 20 mg and 40 mg gastro-resistant tablet.

The self-medication product range was expanded with new market authorisations were successfully acquired for lemon flavour Septolete®, green-apple flavour Septolete®, and wild-cherry flavour Septolete® on all key Krka markets, which is making a major contribution to maintaining the competitive advantage of Krka's brands. The Duovit® brand has been expanded with new pharmaceutical forms for a range of indication groups.

In the third quarter Krka expanded its animal health product range by acquiring a market authorisation for a florfenicol product – Floron® – two pharmaceutical forms for the Russian Federation.

The innovativeness of individual technologies and success of our research and development is confirmed by the products that Krka produces and launches on the basis of these technologies. The quality of Krka's oral dispersible tablet technology is demonstrated in products such as risperidone – Torendo® Q-Tab®, mirtazapine – Mirzaten® Q-Tab® and olanzapine – Zalasta® that make use of it. Krka's mastery of pellet technology has been further confirmed by the successful launch of a venlafaxine product in the form of 37.5mg, 75mg and 150mg modified release capsules, where the right pellet formulation ensures the product's desired effect.

In the cosmetics sector, Krka acquired trading licences for Vitaskin® Pharmaceutical products, with an emphasis on Vitaskin® Pharma Age Formula products, on remaining markets (e.g. Serbia), where Krka cosmetics are present.

## Investments

The Krka Group allocated 79.9 million EUR to investment, with 69.0 million EUR invested by the controlling company, and 10.9 million EUR by subsidiaries. Investment schedules continued with investments already underway representing 63% of all funds allocated over the period, while work, largely preparatory and project-based started or continued for new investments.

Information is given below for some of the projects on which the most intensive work took place in the first nine months of 2007.

### The Sinteza 4 Plant

In May 2007 Krka acquired a permit-for-use for its new Sinteza 4 plant for the production of pharmaceutical ingredients, which was officially opened in June. Planning and construction of the plant goes back to 2002 and the overall investment was worth over 80 million EUR. This plant provides Krka with vertically integrated production, controlling the entire process from the development and production of active pharmaceutical ingredients to the final pharmaceutical forms, so it can offer products whose quality, efficiency and safety are globally at the very highest level. The plant will produce ingredients for the medicinal products that will comprise Krka's most promising sales programme over the next five to ten years, supplying production plants in Slovenia and in subsidiaries abroad.

### Notol Phase III

The plant for solid dosage pharmaceutical forms will be upgraded by construction of a facility for low volume production runs. Preparatory works are underway, and the third phase of the new facility is set for completion this year.

### Central weighing facility and raw material storage facility

At the beginning of 2007 work was completed in the central weighing facility, and the electrical and machinery installations implemented concluded.

Assembly of the weighing systems started in March. The technical inspection of the facility has been carried out, and a permit for test production issued. In August 2007 the QA approval was acquired (approval that the plant functions in line with Good Manufacturing Practice) for the operation of new weighing systems, which was a condition for starting operation.

Work at present is focused on the construction a warehouse extension, which should start in mid-2008.

### Finished-product storage facility

Installation work in the facility has been finished. Start-up and the commissioning of systems and technological equipment is taking place at present, and documentation being prepared for the technical inspection which will take place in November 2007.

### Pelete IV

All trades works have been completed, and all the main technological equipment installed. This investment will increase pellet production capacity, and the permit-for-use is expected till the end of the year.

### New ampoule plant

Work on the facility has finished, the technological equipment installed, and commissioning is underway. The technical inspection has been passed, and all validation checks should be completed and test production started by the end of the year. According to the validation schedule it should be possible to carry out the QA inspection of the new plant in November 2007.

### The Krka Rus subsidiary

Production capacity at the existing plant has been expanded. Technological and laboratory equipment have been installed and certified, and the equipment and premises are already in use.

## Employees

Krka is continuing to recruit, especially in the fields of marketing and sales in its subsidiaries and representative offices abroad, and in research and development in Slovenia. During the first nine months of 2007 the number of Krka Group employees has increased by 494, mainly people with university-level qualifications. A total of 1085

new staff have been employed, 591 of whom to replace departing staff. The number of employees in companies and representative offices increased by 377, which means 40% of all Krka Group staff is now employed abroad. More than half of employees in the Krka Group have at least a further education qualification.

### Education structure of Krka Group employees

Educational level	30 Sep 2007		31 Dec 2006	
	Headcount	Share (in %)	Headcount	Share (in %)
PhD	65	1.0	63	1.1
MSc	167	2.7	162	2.8
University education	2765	44.2	2408	41.8
Higher professional education	383	6.1	324	5.6
Vocational college education	227	3.6	222	3.9
Secondary school education	1205	19.3	1138	19.8
Other	1441	23.0	1442	25.0
<b>Total</b>	<b>6253</b>	<b>100.0</b>	<b>5759</b>	<b>100.0</b>
- in Slovenia	3763	60.2	3646	63.3
- abroad	2490	39.8	2113	36.7

Krka places great emphasis on investment in new knowledge and training for employees. At present 142 Krka employees are involved in specialist, master's and doctoral studies, while 373 employees are involved in part-time studies. Krka also provides 80 scholarships, mainly to students of pharmacy, chemistry and chemical technology. Our employees are also studying at home and abroad in the fields of specialist knowledge, management, personal development, foreign languages and information science. Most education is organised via Krka's own training centre.

The testing and recognition of knowledge continues via a certification system that prioritises employees' practical knowledge relating to their work in the production of raw materials, final products and logistics. So far 297 certificates have been awarded to employees within this system, and 97 employees are currently in the process of training to acquire new Level III and IV national vocational qualifications.

Krka is continuing to upgrade its staff information

system, which will supported integrated functioning throughout the Krka Group. Development planning for key and promising staff includes giving such staff demanding tasks and educating and training them in management and professional fields to ensure they are provided with all they need for top quality development. The third cycle of the Krka international management school to develop key and promising management employees has been completed and the fourth is still underway, which involves directors and managers from Krka companies and representative offices abroad and from Krka's organisational units in Slovenia. This helps consolidate the multicultural, global nature of the Krka Group.

Krka also provides preventive and curative health care for employees. A wide range of activities also helps provide for overall quality of work and life of employees, which also contributes to successful business results. Krka also pays particular attention its best and longest serving employees, and again organised the traditional sporting and social events for all Krka employees.



## Shareholders and share trading

At the beginning of September 2007, Krka carried out a 1:10 share-split with record date of 31 August 2007 in the shareholder register. Since 3 September 2007 investors have traded in an increased number of shares, now totalling 35,426,120 shares.

At the end of September 2007 Krka had just over 57,915 shareholders, which is 6.2% more than at

the end of 2006. The total number of shareholders increased primarily through an increase in individual Slovenian investors and international investors; the ownership share of international investors increased by over 1 percentage point to 9%. In the first nine months of 2007 the ownership shares of investment companies and funds and other domestic legal entities decreased.

### Ownership structure (%)

	30 Sep 2007	31 Dec 2006
Individual Slovenian investors	41.5	41.0
SOD Fund	15.0	15.0
KAD & PPS Funds	10.2	10.2
Investment funds & companies	9.8	11.0
Other Slovenian companies	9.9	10.2
International investors	9.0	8.0
Treasury shares	4.6	4.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

On 30 September 2007, Krka held 1,626,620 treasury shares, representing 4.6% of share capital. In the first half year of 2007 the company did not repurchase any treasury shares.

The ten largest shareholders together held 13,043,571 shares, representing 36.9% of all shares issued.

### Ten largest holders of Krka shares

	Country	Number of shares	Proportion in equity (in %)	Proportion in voting rights (in %)
SLOVENSKA ODŠKODNINSKA DRUŽBA, D.D.	Slovenia	5,312,070	15.00	15.72
KAPITALSKA DRUŽBA, D.D.	Slovenia	3,493,030	9.90	10.33
NFD 1 DELNIŠKI INVESTICIJSKI SKLAD D.D.	Slovenia	944,620	2.70	2.79
NEW WORLD FUND INC	USA	914,000	2.60	2.70
BANK AUSTRIA CREDITANSTALT AG	Austria	531,610	1.50	1.57
LUKA KOPER, D.D.	Slovenia	447,090	1.30	1.32
DELNIŠKI VZAJEMNI SKLAD TRIGLAV STEBER I	Slovenia	398,500	1.10	1.18
ZAVAROVALNICA TRIGLAV, D.D.	Slovenia	388,300	1.10	1.15
RAIFFEISEN ZENTRALBANK OESTERREICH AG	Austria	314,351	0.90	0.93
MARIBORSKE LEKARNE MARIBOR	Slovenia	300,000	0.80	0.89
<b>Total</b>		<b>13,043,571</b>	<b>36.90</b>	<b>38.59</b>

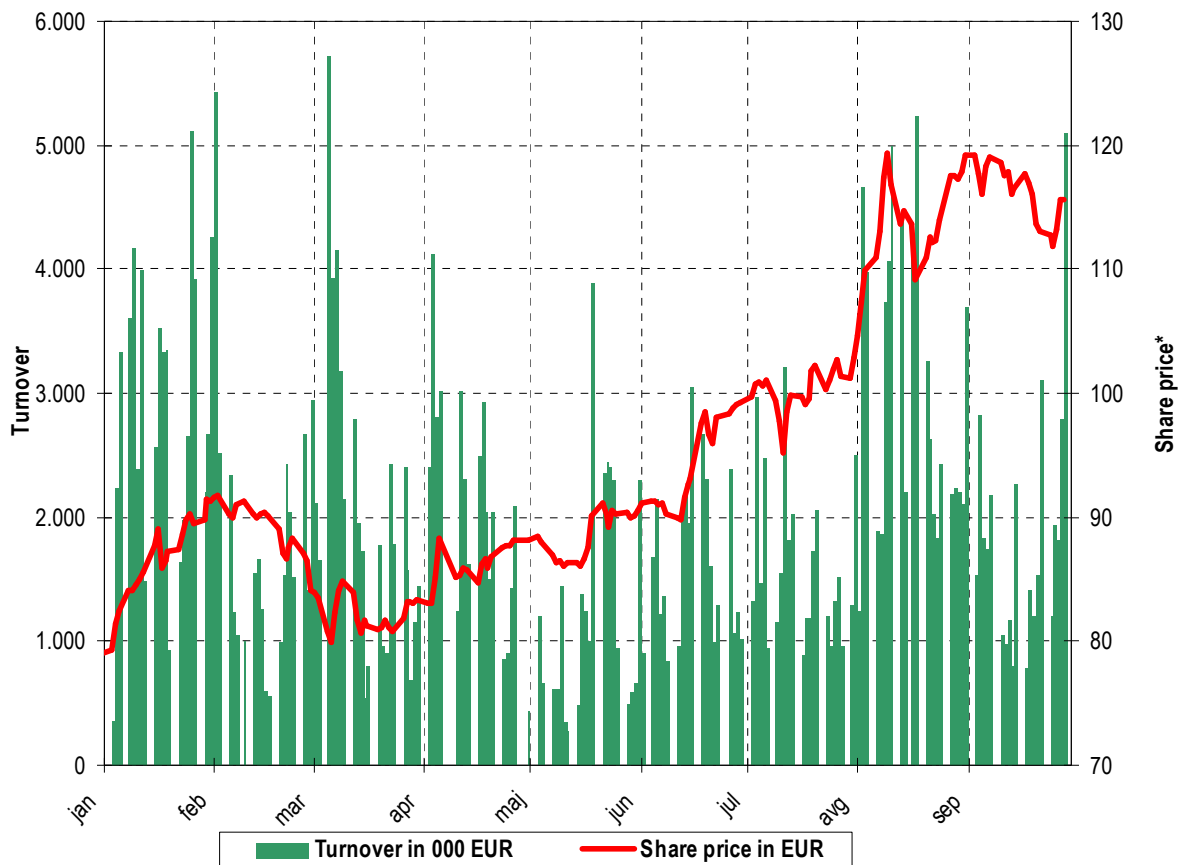
On 30 September 2007, members of the Management Board and Supervisory Board together held 63,560 company shares or 0.18% of all issued shares. Members of the Management Board held the following number of shares

(proportion of voting rights given in brackets): Jože Colarič – 21,000 shares or 0.0593% of total shares issued (0.0621%), Janez Poljanec – 22,060 shares or 0.0622% of total shares (0.0653%), Aleš Rotar – 12,770 shares or 0.0360% of total shares

(0.0378%) and Zvezdana Bajc – 1,100 shares or 0.0031% (0.0033%). Members of the Supervisory Board held the following number of shares (proportion of voting rights given in brackets): Gregor Gomišček – 120 shares or 0.0003% of all shares issued (0.0004%), Draško Veselinovič – 10

shares or 0.00003% of shares issued (0.00003%), Alojz Zupančič – 3,890 shares or 0.0110% of shares issued (0.0115%), Sonja Kermc – 2,110 shares or 0.0060% of shares issued (0.0062%), and Tomaž Sever – 500 shares or 0.0014% shares (0.0015%).

### Trading in Krka shares during the first nine months of 2007



\* Note: Prices before the share split of 3 September 2007 have been adjusted, taking the 1:10 ratio into account.

The Krka share price grew significantly in January 2007 and reached its highest value of 91.70 EUR at the end of that month (split-ratio adjusted value). February saw a correction to the price, which stabilised at the start of March. From April onwards the share price grew and at the start of August reached a high of 119.28 EUR. At the end of September 2007 the Krka share price was

115.64 EUR.

The average daily trading in company shares on the Ljubljana Stock Exchange in the first nine months of 2007 was 2 million EUR, and Krka's market capitalisation on 30 September 2007 was 4.1 billion EUR.



## Corporate risk management

### Exchange rate risk

The main risk for the Krka Group arises from the volatility of the US dollar exchange rate, which is something that Krka actively manages. Movements in other key foreign currencies (Polish zloty, Russian rouble, Croatian kuna and Macedonian denar) are regularly monitored, but not actively managed.

The US dollar's fall in value against the euro over the first nine months of 2007 led to foreign exchanges losses on payments and the revaluation

of assets denominated in US dollars. Most of the long position in US dollars was hedged by derivatives, which partially neutralised the negative impact of the dollar's fall.

Krka continued to hedge during the third quarter of 2007 given the likelihood of the US dollar continuing to fall against the euro. The hedging instruments that matured during this period were replaced with new ones.

### Interest rate risk

Krka did not take out any new long-term loans in the first nine months of the 2007, so the interest rate risk did not increase over the period. Krka generated positive financial effects from hedging instruments over the first nine months of 2007, so

the gradual increase in short-term interest rates did not have a negative effect on the costs of financing.

No additional action was taken in the field of interest rate risk management in the third quarter of 2007.

### Credit risk

On 30 September 2007, 366 customers to which Krka sells products worth over EUR 100,000 per year were covered by the Krka Group's credit control process.

Trade receivables in the first nine months of the 2007 are growing somewhat faster than sales, due to lengthy payment terms for some customers in

eastern Europe. Dynamic monitoring of customer payment discipline ensures continual control over due receivables, the value of which did not increase in the third quarter of 2007.

At the end of the third quarter of 2007 the second regular revision of customer credit ratings and credit limits for 2007 was carried out.

### Liquidity risk

Risks related to ensuring sufficient liquidity for the Krka Group are managed using weekly, monthly and longer-term cash flow forecasts on a rolling basis, which form the basis for agreeing short-term

loans and a portfolio of short-term liquid investments. Daily liquidity needs are met from revolving credit.

### Property, business interruption and liability insurance

In the first nine months of 2007, the Krka Group managed its insurance and claim procedures in line with standardised requirements and internal insurance standards in Slovenia and in subsidiaries and representative offices abroad.

In mid-May the company received an insurance inspection from the Swiss Re reinsurance company, intended to determine the maximum probable damage to property and to check the factors affecting the risk of business interruption. The preliminary assessment was favourable, which

means that insurance premiums will not be increased because of the increased concentration of assets.

Machinery breakdown insurance for production and transport machinery, installations and other machinery was cancelled from 1 January 2007. The action was taken on the basis of a risk assessment of exposure to damage and breakdown, and an analysis of past loss events.

In the first nine months of 2007 the Group held liability insurance for material and non-material accidental damage to third parties that could be caused by the Group's activities, property, or placing products on the market. This covers general civil liability, employer's liability, liability for ecological impairment, and manufacturer's liability

for products and clinical trials. The coverage limits are higher than last year, but the insurance premiums are lower.

Krka has issued rules on insurance for construction and installation work in current investment works and maintenance, which requires the contractors to take out insurance in line with Krka's requirements. This form of insurance covers personal and property liability, damages to nearby facilities and dangers during construction, installation and maintenance.

Over the first nine months of 2007, there were 89 loss events (compared to 80 for the same period last year), the most frequent of which by claim were motor vehicle damage, followed by damage to goods during transit and storage.

## FINANCIAL STATEMENTS OF THE KRKA GROUP WITH NOTES

### Consolidated balance sheet

in thousand EUR	30 Sep 2007	31 Dec 2006	Ind. 07/06
<b>Assets</b>			
Property, plant and equipment	545,572	506,820	108
Intangible assets	22,721	23,608	96
Investments in associates	0	2,024	0
Long-term loans	4,264	3,564	120
Other investments	9,972	6,737	148
Deferred tax assets	31,599	31,840	99
Other non-current assets	415	253	164
<b>Non-current assets</b>	<b>614,543</b>	<b>574,846</b>	<b>107</b>
Inventories	131,578	115,926	114
Trade and other receivables	182,890	153,890	119
Current investments	20,677	24,067	86
Cash and cash equivalents	15,216	10,399	146
<b>Current assets</b>	<b>350,361</b>	<b>304,282</b>	<b>115</b>
<b>Total assets</b>	<b>964,904</b>	<b>879,128</b>	<b>110</b>
<b>Equity</b>			
Share capital	59,126	59,132	100
Own shares	-19,489	-19,489	100
Reserves	147,666	147,660	100
Retained earnings	441,974	372,061	119
Fair value reserves	6,037	3,480	173
Translation reserve	177	154	115
<b>Equity holders of the parent</b>	<b>635,492</b>	<b>562,998</b>	<b>113</b>
Minority interest	9,934	7,907	126
<b>Total equity</b>	<b>645,426</b>	<b>570,905</b>	<b>113</b>
<b>Liabilities</b>			
Borrowings	34,402	34,584	99
Provisions	136,587	122,554	111
Grants received	2,620	2,777	94
Deferred tax liabilities	3,546	4,025	88
<b>Total non-current liabilities</b>	<b>177,155</b>	<b>163,940</b>	<b>108</b>
Trade payables	57,787	60,889	95
Borrowings	50,044	48,769	103
Income tax liabilities	5,021	7,020	72
Other liabilities	29,470	27,605	107
<b>Total current liabilities</b>	<b>142,322</b>	<b>144,283</b>	<b>99</b>
<b>Total liabilities</b>	<b>319,477</b>	<b>308,223</b>	<b>104</b>
<b>Total equity and liabilities</b>	<b>964,904</b>	<b>879,128</b>	<b>110</b>

## Consolidated income statement

in thousand EUR	1-9/2007	1-9/2006	Ind. 07/06
Sales revenues	570,890	501,225	114
Production cost of goods sold	214,067	180,104	119
<b>Gross profit</b>	<b>356,823</b>	<b>321,121</b>	<b>111</b>
Sales and marketing	135,684	128,867	105
R&D costs	42,036	41,074	102
Administrative expenses	44,526	41,605	107
Other operating income	1,547	2,307	67
<b>Operating profit</b>	<b>136,124</b>	<b>111,882</b>	<b>122</b>
Financial income	11,419	9,642	118
Financial expenses	14,926	12,990	115
<b>Net financial result</b>	<b>-3,507</b>	<b>-3,348</b>	<b>105</b>
<b>Profit before tax</b>	<b>132,617</b>	<b>108,534</b>	<b>122</b>
Income tax expense	34,642	28,724	121
<b>Profit for the period</b>	<b>97,975</b>	<b>79,810</b>	<b>123</b>
<b>Equity holders of the parent</b>	<b>97,518</b>	<b>79,500</b>	<b>123</b>
<b>Minority interest</b>	<b>457</b>	<b>309</b>	<b>148</b>
Earnings per share (in EUR)*	2.90	2.36	123

\* Net profit of majority shareholders / average number of shares issued, excluding treasury shares. Calculations take into account the number of shares after the 1:10 share split.

## Consolidated statement of changes in equity

in thousand EUR	Called capital	Own shares	Reserves			Retained earnings			Fair value reserves	Minority interest	Total equity
			Share premium	Legal reserves	Statutory reserves	Profit reserves	Net profit for the period	Net profit carried forward			
<b>Balance at 01 Jan 2006</b>	<b>59,142</b>	<b>-19,492</b>	<b>121,007</b>	<b>14,993</b>	<b>9,599</b>	<b>198,164</b>	<b>93,859</b>	<b>-7,666</b>	<b>2,363</b>	<b>7,569</b>	<b>479,539</b>
Entry of net profit for the period	0	0	0	0	0	0	79,500	0	0	309	<b>79,810</b>
Formation of statutory reserves	0	0	0	0	0	0	0	0	0	0	<b>0</b>
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board of the Krka Company	0	0	0	0	0	0	0	0	0	0	<b>0</b>
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	-93,859	93,859	0	0	<b>0</b>
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	0	0	0	0	<b>0</b>
Dividends paid	0	0	0	0	0	-23,503	0	0	0	-65	<b>-23,568</b>
Recognised income and expenses	0	0	0	0	0	-4,620	0	0	1,337		<b>-3,283</b>
<b>Balance at 30 Sep 2006</b>	<b>59,142</b>	<b>-19,492</b>	<b>121,007</b>	<b>14,993</b>	<b>9,599</b>	<b>170,041</b>	<b>79,500</b>	<b>86,193</b>	<b>3,700</b>	<b>7,813</b>	<b>532,498</b>
<b>Balance at 01 Jan 2007</b>	<b>59,132</b>	<b>-19,490</b>	<b>120,985</b>	<b>14,991</b>	<b>11,684</b>	<b>275,794</b>	<b>89,569</b>	<b>6,699</b>	<b>3,634</b>	<b>7,907</b>	<b>570,905</b>
Entry of net profit for the period	0	0	0	0	0	0	97,518	0	0	457	<b>97,975</b>
Entry of minority interest	0	0	0	0	0	0	0	0	0	1,676	<b>1,676</b>
Formation of statutory reserves	0	0	0	0	0	0	0	0	0	0	<b>0</b>
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board of the Krka Company	0	0	0	0	0	0	0	0	0	0	<b>0</b>
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	-89,569	89,569	0	0	<b>0</b>
Transfer to other revenue reserves under the resolution of the Annual Meeting	-6	0	6	0	0	38,151	0	-38,151	0	0	<b>0</b>
Dividends paid	0	0	0	0	0	0	0	-27,040	0	-106	<b>-27,146</b>
Recognised income and expenses	0	0	0	0	0	0	0	-564	2,580	0	<b>2,016</b>
<b>Balance at 30 Sep 2007</b>	<b>59,126</b>	<b>-19,490</b>	<b>120,991</b>	<b>14,991</b>	<b>11,684</b>	<b>313,945</b>	<b>97,518</b>	<b>30,513</b>	<b>6,214</b>	<b>9,934</b>	<b>645,426</b>

## Consolidated cash flow statement

in thousand EUR	1-9/2007	1-9/2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit for the period</b>	<b>107,975</b>	<b>78,140</b>
<b>Adjustments for:</b>	<b>77,122</b>	<b>67,189</b>
– amortisation / depreciation	41,390	35,112
– foreign exchange gain	-2,355	-1,624
– foreign exchange loss	4,287	4,489
– investment income	-6,034	-4,119
– investment expenses	2,746	2,129
– financial expenses	2,447	2,478
– income taxes and other taxes not included in operating expenses	34,642	28,725
<b>Operating profit before changes in net operating current assets</b>	<b>185,097</b>	<b>145,330</b>
Change in trade receivables	-31,368	-26,225
Change in inventories	-25,653	3,239
Change in operating liabilities	8,255	3,817
Change in other current liabilities and provisions	15,984	27,119
Income taxes paid	-38,336	-55,708
<b>Cash generated from operations</b>	<b>113,979</b>	<b>97,572</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	280	522
Proceeds from sale of current investments	456	429
Dividends received	136	144
Proceeds from property, plant and equipment	681	900
Purchase of intangible assets	-3,104	-4,540
Purchase of property, plant and equipment	-83,611	-73,541
Payments in connection with long-term loans	-707	-737
Payments in connection with non-current assets	-274	-2,282
Acquisition of current investments	3,411	-10,786
Acquisition of derivative financial instruments	1,859	424
<b>Net cash used in investing activities</b>	<b>-80,873</b>	<b>-89,466</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments from an increase in current financial liabilities	1,864	17,825
Interest paid	-3,036	-2,862
Payment of non-current financial liabilities	46	84
Dividends paid	-27,154	-23,493
<b>Net cash used in financing activities</b>	<b>-28,280</b>	<b>-8,446</b>
Net increase in cash and cash equivalents	4,826	-340
Cash and cash equivalents at beginning of period	10,399	12,637
Effect of exchange rate fluctuations on cash held	-9	-301
<b>NET CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>15,216</b>	<b>11,995</b>

## Notes to the consolidated financial statements

### Sales revenues

**570,890 thousand EUR**

The sales revenues included sales from products, services and merchandise on the domestic market in the amount of 75,118 thousand EUR (13% of sales revenues) and sales on foreign markets in the

amount of 495,772 thousand EUR (87% of sales revenues). Compared to the results for the same period last year, there was growth of 14%.

### Production cost of goods sold

**214,067 thousand EUR**

The production costs of goods sold increased by 19% compared to the same period last year, and

their ratio to sales revenues increased from 35.9% to 37.5%.

### Sales and marketing

**135,684 thousand EUR**

Sales and marketing expenses comprise the costs of the Slovenian and foreign marketing sales networks, and new provisions worth 14,000 thousand EUR. The expenses were 5% higher than

for the same period last year, and their ratio to sales revenues fell from 25.7% to 23.8%. Sales and marketing expenses have increased by 17%, provided that provisions are not taken into account

### R&D costs

**42,036 thousand EUR**

The income statement for the period analysed discloses all costs arising in relation to research and development activities. Compared to the same period last year they increased by 2%, and their

ratio to sales revenues fell from 8.2% to 7.4%. The Group's R&D costs are not capitalised, and are fully disclosed in the current income statement.

### Administrative expenses

**44,526 thousand EUR**

Administrative expenses increased compared to the same period last year by 7%, and their ratio to sales

revenues fell from 8.3% to 7.8%. Administrative expenses includes other operating expenses.

**Costs in terms of type****436,312 thousand EUR**

<b>In thousand EUR</b>	<b>1-9/2007</b>	<b>1-9/2006</b>	<b>Ind. 07/06</b>
Cost of goods and materials	151,497	124,502	122
Cost of services	101,407	86,934	117
Employee benefits cost	127,984	114,588	112
Depreciation	41,390	35,112	118
Provisions formed	15,389	25,042	61
Other operating expenses	12,775	11,167	114
<b>Total costs in terms of type</b>	<b>450,442</b>	<b>397,345</b>	<b>113</b>
Changes in the value of inventories	14,130	5,695	248
<b>Total</b>	<b>436,312</b>	<b>391,650</b>	<b>111</b>

**Employee benefit costs****127,984 thousand EUR**

<b>in thousand EUR</b>	<b>1-9/2007</b>	<b>1-9/2006</b>	<b>Ind. 07/06</b>
Gross wages and salaries and continued pay	100,966	88,929	114
Social security contributions and payroll tax	20,387	18,637	109
Other employee benefits cost	6,631	7,022	94
<b>Total</b>	<b>127,984</b>	<b>114,588</b>	<b>112</b>

**Other operating expenses****12,775 thousand EUR**

<b>in thousand EUR</b>	<b>1-9/2007</b>	<b>1-9/2006</b>	<b>Ind. 07/06</b>
Grants, assistance	1,911	1,638	117
Environmental levies	1,061	1,117	95
Membership fee, taxes, other duties	3,013	1,625	185
Loss in the sale of fixed assets	847	678	125
Impairments and inventory write-offs	3,048	2,730	112
Impairments and receivable write-offs	948	1,630	58
Other costs	1,947	1,749	111
<b>Total</b>	<b>12,775</b>	<b>11,167</b>	<b>114</b>



**Finance income and expenses**

in thousand EUR	1-9/2007	1-9/2006	Ind. 07/06
Exchange differences	5,014	4,616	109
Interest income	280	485	58
Change in fair value of investments (through profit or loss)	2,516	672	374
Other income	3,610	3,868	93
<b>Total financial income</b>	<b>11,419</b>	<b>9,641</b>	<b>118</b>
Exchange differences	10,103	9,060	112
Interest paid	2,332	2,273	103
Impairments due to revaluation of investments at fair value	1,210	759	159
Other expenses	1,281	897	143
<b>Total financial expenses</b>	<b>14,926</b>	<b>12,989</b>	<b>115</b>
<b>Net financial result</b>	<b>-3,507</b>	<b>-3,347</b>	<b>105</b>

**Income tax expense****34,642 thousand EUR**

The corporate income tax levied amounts to 35,178 thousand EUR, equivalent to 26.5% of the pre-tax profit. Taking into account the deferred tax of 536 thousand EUR, the income tax expense in the

income statement totals 34,642 thousand EUR. Compared to the same period last year the effective tax rate fell from 26.5% to 26.1%.

**Property, plant and equipment****545,572 thousand EUR**

in thousand EUR	30 Sep 2007	31 Dec 2006	Ind. 07/06
Property	23,427	22,641	103
Plant	250,577	251,022	100
Equipment	183,308	171,532	107
PPE under construction	88,260	61,625	143
<b>Total</b>	<b>545,572</b>	<b>506,820</b>	<b>108</b>

The value of property, plant and equipment represented 56% of the Group's total assets. The 8% increase in PPE value compared to the start of 2007 was largely due to the Group's investment projects. Krka's largest investments in the first nine months were the completion of the Sinteza 4 plant

and Pelete IV production plant, the third phase of the Notol plant, construction of a new ampoule plant and the central weighing facility and raw materials warehouse, which were all within the controlling company. Production capacity at the existing plant was expanded in the Krka Rus subsidiary.

**Intangible assets****22,721 thousand EUR**

<b>in thousand EUR</b>	<b>30 Sep 2007</b>	<b>31 Dec 2006</b>	<b>Ind. 07/06</b>
R&D cost	1,951	2,847	69
Long-term property rights	14,935	16,704	89
Intangible assets under construction	5,835	4,057	144
<b>Total</b>	<b>22,721</b>	<b>23,608</b>	<b>96</b>

The value of intangible assets had decreased by 4% since the start of 2007. Property rights from computer software represented the largest intangible asset item (66%). Assets under

construction represented 26% of all intangible assets, and largely comprised market authorisation documentation for new pharmaceuticals.

**Other non-current investments****9,972 thousand EUR**

<b>in thousand EUR</b>	<b>30 Sep 2007</b>	<b>31 Dec 2006</b>	<b>Ind. 07/06</b>
Instruments available-for-sale	9,712	6,477	150
Other non-current investments	260	260	100
<b>Total</b>	<b>9,972</b>	<b>6,737</b>	<b>148</b>

**Inventories****131,578 thousand EUR**

<b>in thousand EUR</b>	<b>30 Sep 2007</b>	<b>31 Dec 2006</b>	<b>Ind. 07/06</b>
Material	47,515	36,642	130
Work in progress	35,355	30,415	116
Products	27,969	46,723	60
Merchandise	20,103	1,877	1.071
Advances	636	269	237
<b>Total</b>	<b>131,578</b>	<b>115,926</b>	<b>114</b>

Inventories increased by 14% compared to the end of 2006, because of anticipated higher sales by the end of the year.

Materials represent 36% of total inventories, work-in-progress 27%, and finished products and merchandise 37%.

**Receivables****182,890 thousand EUR**

<b>in thousand EUR</b>	<b>30 Sep 2007</b>	<b>31 Dec 2006</b>	<b>Ind. 07/06</b>
Trade receivables	166,733	140,563	119
Other receivables	16,157	13,328	121
<b>Total</b>	<b>182,890</b>	<b>153,890</b>	<b>119</b>

Receivables increased by 19% compared to the end of 2006. The main reason for this increase lies in the higher sales achieved in the first nine months.

**Current investments****20,677 thousand EUR**

<b>in thousand EUR</b>	<b>30 Sep 2007</b>	<b>31 Dec 2006</b>	<b>Ind. 07/06</b>
Instruments held for trading	11,129	11,890	94
Interest bearing current investments	2,934	3,774	78
Other current investments	6,028	7,308	82
Short-term loans granted	586	1,095	53
<b>Total</b>	<b>20,677</b>	<b>24,067</b>	<b>86</b>

**Cash and cash equivalents****15,216 thousand EUR**

<b>in thousand EUR</b>	<b>30 Sep 2007</b>	<b>31 Dec 2006</b>	<b>Ind. 07/06</b>
Cash in hand	79	77	103
Bank balances	14,748	9,735	151
Other	389	587	66
<b>Total</b>	<b>15,216</b>	<b>10,399</b>	<b>146</b>

**Equity****645,426 thousand EUR**

<b>in thousand EUR</b>	<b>30 Sep 2007</b>	<b>31 Dec 2006</b>	<b>Ind. 07/06</b>
Share capital	59,126	59,132	100
Own shares	-19,489	-19,489	100
Reserves	147,666	147,660	100
– share premium	120,992	120,986	100
– legal reserves	14,990	14,990	100
– statutory reserves	11,684	11,684	100
Retained earnings	441,974	372,061	119
Fair value reserves	6,037	3,480	173
Translation reserve	177	154	115
<b>Equity holders of the parent</b>	<b>635,492</b>	<b>562,998</b>	<b>113</b>
Minority interest	9,934	7,907	126
<b>Total equity</b>	<b>645,426</b>	<b>570,905</b>	<b>113</b>

The equity of the Krka Group increased by 13% compared to the end of 2006 largely due to the profit of 97,975 thousand EUR generated in the first nine months and income and expenses recognised directly in equity with a total value of 2,016 thousand EUR. In line with a resolution taken

at the 12th Annual General Meeting of 5 July 2007, the called-up capital was reduced by 6 thousand EUR on the conversion of equity from SIT to EUR, and capital reserves increased by the same amount.

**Borrowings****84,446 thousand EUR**

<b>in thousand EUR</b>	<b>30 Sep 2007</b>	<b>31 Dec 2006</b>	<b>Ind. 07/06</b>
Long-term borrowings	34,402	34,584	99
– borrowings from domestic banks	34,402	34,584	99
Short-term borrowings	49,695	47,960	104
– borrowings from domestic banks	40,285	24,838	162
– borrowings from foreign banks	344	11,756	3
– borrowings from other entities	9,066	11,366	80
Interest payable	349	809	43
<b>Total</b>	<b>84,446</b>	<b>83,353</b>	<b>101</b>

**Provisions****136,587 thousand EUR**

<b>in thousand EUR</b>	<b>30 Sep 2007</b>	<b>31 Dec 2006</b>	<b>Ind. 07/06</b>
Provisions for termination pay and anniversary bonuses	45,888	45,775	100
Other provisions	90,699	76,779	118
– provisions for lawsuits	90,279	76,255	118
– provisions for ecological restoration	204	360	57
– other provisions	215	164	131
<b>Total</b>	<b>136,587</b>	<b>122,554</b>	<b>111</b>

The major provisions item is provisions for lawsuits, which increased by 18% compared to the end of

last year with the formation of new provisions totalling 14,000 thousand EUR.

**Grants received****2,620 thousand EUR**

<b>in thousand EUR</b>	<b>30 Sep 2007</b>	<b>31 Dec 2006</b>	<b>Ind. 07/06</b>
Grants for the subsidiary Krka-Rus	2	10	21
Grants for the plant BETA in Šentjernej	270	302	89
Assets for the health resorts Dolenjske and Šmarješke Toplice	2,222	2,329	95
Grants by the European Regional Development Fund	24	26	92
Free receipt of fixed assets	102	111	92
<b>Total</b>	<b>2,620</b>	<b>2,777</b>	<b>94</b>

**Trade payables****57,787 thousand EUR**

<b>in thousand EUR</b>	<b>30 Sep 2007</b>	<b>31 Dec 2006</b>	<b>Ind. 07/06</b>
Payables to domestic suppliers	30,361	35,704	85
Payables to foreign suppliers	27,320	24,719	111
Payables from advances	106	466	23
<b>Total</b>	<b>57,787</b>	<b>60,889</b>	<b>95</b>

**Other current liabilities**

**29,470 thousand EUR**

in thousand EUR	30 Sep 2007	31 Dec 2006	Ind. 07/06
Accrued contractual discounts on products sold to other customers	8,592	7,416	116
Payables to employees – gross wages, other charges	16,278	17,240	94
Other	4,600	2,949	156
<b>Total</b>	<b>29,470</b>	<b>27,605</b>	<b>107</b>

## FINANCIAL STATEMENTS OF KRKA D.D. NOVO MESTO WITH NOTES

### Balance sheet

in thousand EUR	30. 9. 2007	31. 12. 2006	Ind. 07/06
<b>Assets</b>			
Property, plant and equipment	411,231	377,442	109
Intangible assets	21,747	22,400	97
Investments in subsidiaries	121,178	121,513	100
Long-term loans	7,309	5,324	137
Other investments	9,764	6,529	150
Deferred tax assets	28,112	27,648	102
Other non-current assets	340	178	191
<b>Non-current assets</b>	<b>599,681</b>	<b>561,034</b>	<b>107</b>
Inventories	119,337	99,480	120
Trade and other receivables	180,611	157,484	115
Current investments	28,116	31,790	88
Cash and cash equivalents	8,495	4,498	189
<b>Current assets</b>	<b>336,559</b>	<b>293,252</b>	<b>115</b>
<b>Total assets</b>	<b>936,240</b>	<b>854,286</b>	<b>110</b>
<b>Equity</b>			
Share capital	59,126	59,132	100
Own shares	-19,489	-19,489	100
Reserves	147,666	147,660	100
Retained earnings	441,658	379,135	116
Fair value reserves	6,037	3,480	173
<b>Total equity</b>	<b>634,998</b>	<b>569,918</b>	<b>111</b>
<b>Liabilities</b>			
Borrowings	28,954	29,143	99
Provisions	130,791	116,806	112
Grants received	398	448	89
Deferred tax liabilities	3,445	3,954	87
<b>Total non-current liabilities</b>	<b>163,588</b>	<b>150,351</b>	<b>109</b>
Trade payables	58,831	56,304	104
Borrowings	52,653	47,105	112
Income tax liabilities	1,876	6,698	28
Provisions and other liabilities	24,294	23,910	102
<b>Total current liabilities</b>	<b>137,654</b>	<b>134,017</b>	<b>103</b>
<b>Total liabilities</b>	<b>301,242</b>	<b>284,368</b>	<b>106</b>
<b>Total equity and liabilities</b>	<b>936,240</b>	<b>854,286</b>	<b>110</b>

## Income statement

In thousand EUR	1-9/2007	1-9/2006	Ind. 07/06
Sales revenues	497.031	438.459	113
Production cost of goods sold	176.674	156.018	113
<b>Gross profit</b>	<b>320.357</b>	<b>282.441</b>	<b>113</b>
Sales and marketing	122.232	107.366	114
R&D costs	41.559	40.493	103
Administrative expenses	34.945	32.550	107
Other operating income	736	1.466	50
<b>Operating profit</b>	<b>122.357</b>	<b>103.497</b>	<b>118</b>
Financial income	8.292	10.624	78
Financial expenses	12.626	11.293	112
<b>Net financial result</b>	<b>-4.334</b>	<b>-669</b>	<b>648</b>
<b>Profit before tax</b>	<b>118.023</b>	<b>102.828</b>	<b>115</b>
Income tax expense	27.896	25.230	111
<b>Profit for the period</b>	<b>90.127</b>	<b>77.598</b>	<b>116</b>
Earnings per share (in EUR)	2.67	2.30	116

\* Net profit of majority shareholders / average number of shares issued, excluding treasury shares. Calculations take into account the number of shares after the 1:10 share split.

## Statement of changes in equity

In thousand EUR	Called capital	Own shares	Reserves			Retained earnings			Fair value reserves	Total equity
			Share premium	Legal reserves	Statutory reserves	Profit reserves	Net profit for the period	Net profit carried forward		
<b>Balance at 01 Jan 2006</b>	<b>59,142</b>	<b>-19,492</b>	<b>121,007</b>	<b>14,993</b>	<b>9,599</b>	<b>225,293</b>	<b>59,603</b>	<b>3,894</b>	<b>2,344</b>	<b>476,382</b>
Entry of net profit for the period	0	0	0	0	0	0	77,598	0	0	77,598
Formation of statutory reserves	0	0	0	0	0	0	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	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	29,085	-59,603	30,518	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	1,432	0	-1,432	0	0
Dividends paid	0	0	0	0	0	0	0	-23,503	0	-23,503
Recognised income and expenses	0	0	0	0	0	0	0	-3,322	1,200	-2,122
<b>Balance at 30 Sep 2006</b>	<b>59,142</b>	<b>-19,492</b>	<b>121,007</b>	<b>14,993</b>	<b>9,599</b>	<b>255,810</b>	<b>77,598</b>	<b>6,154</b>	<b>3,544</b>	<b>528,356</b>
<b>Balance at 01 Jan 2007</b>	<b>59,132</b>	<b>-19,489</b>	<b>120,986</b>	<b>14,990</b>	<b>11,684</b>	<b>275,796</b>	<b>90,911</b>	<b>12,427</b>	<b>3,480</b>	<b>569,918</b>
Entry of net profit for the period	0	0	0	0	0	0	90,127	0	0	90,127
Formation of statutory reserves	0	0	0	0	0	0	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	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	-90,911	90,911	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	-6	0	6	0	0	38,149	0	-38,149	0	0
Dividends paid	0	0	0	0	0	0	0	-27,040	0	-27,040
Recognised income and expenses	0	0	0	0	0	0	0	-564	2,557	1,992
<b>Balance at 30 Sep 2007</b>	<b>59,126</b>	<b>-19,489</b>	<b>120,992</b>	<b>14,990</b>	<b>11,684</b>	<b>313,945</b>	<b>90,127</b>	<b>37,585</b>	<b>6,037</b>	<b>634,998</b>



## Cash flow statement

in thousand EUR	1–9/2007	1–9/2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit for the period</b>	<b>90,127</b>	<b>77,598</b>
<b>Adjustments for:</b>	<b>62,481</b>	<b>51,895</b>
– amortisation /depreciation	32,696	26,774
– foreign exchange gain	-776	-1,426
– foreign exchange loss	4,382	4,319
– investment income	-6,507	-6,661
– investment expenses	2,645	1,621
– financial expenses	0	0
– income taxes and other taxes not included in operating expenses	2,145	2,039
<b>Operating profit before changes in net operating current assets and</b>	<b>152,608</b>	<b>129,493</b>
Change in trade receivables	-25,900	-22,581
Change in inventories	-19,857	8,502
Change in operating liabilities	11,243	5,417
Change in other current liabilities and provisions	14,227	22,558
Income taxes paid	-34,918	-53,462
<b>Cash generated from operations</b>	<b>97,402</b>	<b>89,928</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	532	608
Proceeds from sale of current investments	456	429
Dividends received	136	144
Profits from subsidiaries	400	2,027
Proceeds from property, plant and equipment	565	507
Proceeds from sale of subsidiary	56	0
Purchase of intangible assets	-3,106	-3,737
Purchase of property, plant and equipment	-72,219	-59,340
Payments related to subsidiaries – capital increase and loss coverage	142	-6,502
Payments in connection with long-term loans	-2,170	-684
Payments in connection with non-current assets	-138	-145
Acquisition of current investments	3,682	-15,942
Acquisition of derivative financial instruments	1,774	424
<b>Net cash used in investing activities</b>	<b>-69,890</b>	<b>-82,211</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from an increase in current financial liabilities	39	86
Interest paid	-2,626	-2,423
Payment of non-current financial liabilities	6,029	19,914
Dividends paid	-26,949	-23,427
<b>Net cash used in financing activities</b>	<b>-23,507</b>	<b>-5,850</b>
Net increase in cash and cash equivalents	4,006	1,867
Cash and cash equivalents at beginning of period	4,498	3,167
Effect of exchange rate fluctuations on cash held	-9	-291
<b>NET CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>8,495</b>	<b>4,743</b>

## Notes to the financial statements of the Krka Company

### Sales revenues

**497,031 thousand EUR**

The sales revenues included sales from products, services and merchandise on the domestic market in the amount of 50,085 thousand EUR (10% of sales revenues) and sales on foreign markets in the

amount of 446,946 thousand EUR (90% of sales revenues). Compared to the results for the same period last year, there was growth of 13%.

### Production cost of goods sold

**176,674 thousand EUR**

Production cost of goods sold increased by 13% on the same period last year. Their ratio to sales

revenues is 35.5%, practically the same as for the comparable period in 2006 (35.6%).

### Sales and marketing

**122,232 thousand EUR**

Sales and marketing expenses comprise the costs of marketing sales network in Slovenia and in foreign representative offices, and new provisions for lawsuits worth 14,000 thousand EUR. Sales and marketing expenses were 14% higher than for the

same period last year, and their ratio to sales revenues increased from 24.5% to 24.6%. Sales and marketing expenses have increased by 31%, provided that provisions are not taken into account.

### R&D costs

**41,559 thousand EUR**

Compared to the same period last year, R&D costs increased by 3%, and their ratio to sales revenues fell from 9.2% to 8.4%. The Company's R&D costs

are not capitalised, and are fully disclosed in the current income statement.

### Administrative expenses

**34,945 thousand EUR**

Administrative expenses increased by 7% compared to the same period last year, and their ratio to sales revenues fell from 7.4% to 7.0%.

Administrative expenses include other operating expenses.

### Costs in terms of type

**375,409 thousand EUR**

in thousand EUR	1-9/2007	1-9/2006	Ind. 07/06
Cost of goods and materials	128,153	111,831	115
Cost of services	96,291	69,972	138
Employee benefits cost	102,806	94,230	109
Depreciation	32,696	26,774	122
Provisions formed	15,294	25,042	61
Other operating expenses	10,012	8,085	124
<b>Total costs in terms of type</b>	<b>385,252</b>	<b>335,934</b>	<b>115</b>
Changes in the value of inventories	9,844	-494	-1,995
<b>Total</b>	<b>375,409</b>	<b>336,427</b>	<b>112</b>

**Employee benefit costs****102,806 thousand EUR**

in thousand EUR			Ind.
	1-9/2007	1-9/2006	07/06
Gross wages and salaries and continued pay	82,045	73,287	112
Social security contributions and payroll tax	15,707	14,997	105
Other employee benefits cost	5,054	5,947	85
<b>Total</b>	<b>102,806</b>	<b>94,230</b>	<b>109</b>

**Other operating expenses****10,012 thousand EUR**

in thousand EUR			Ind,
	1-9/2007	1-9/2006	07/06
Grants, assistance	1,692	1,491	114
Environmental levies	896	996	90
Membership fee, taxes, other duties	1,962	1,053	186
Loss in the sale of fixed assets	747	162	461
Impairments and inventory write-offs	2,714	2,540	107
Impairments and receivable write-offs	444	572	78
Other costs	1,556	1,271	122
<b>Total</b>	<b>10,012</b>	<b>8,085</b>	<b>124</b>

**Finance income and expenses**

in thousand EUR			Ind,
	1-9/2007	1-9/2006	07/06
Exchange differences	2,350	3,456	68
Interest income	554	606	91
Change in fair value of investments (through profit or loss)	2,516	672	374
Other income	2,872	5,890	49
<b>Total financial income</b>	<b>8,292</b>	<b>10,624</b>	<b>78</b>
Exchange differences	8,853	7,804	113
Interest paid	2,103	1,987	106
Impairments due to remeasurement of investments at fair value	1,210	759	159
Other expenses	460	744	62
<b>Total financial expenses</b>	<b>12,626</b>	<b>11,293</b>	<b>112</b>
<b>Net financial result</b>	<b>-4,334</b>	<b>-669</b>	<b>648</b>

**Income tax expense****27,896 thousand EUR**

The corporate income tax levied amounts to 29,004 thousand EUR, which is 24.6% of the pre-tax profit. Taking into account the deferred tax of

1,108 thousand EUR, income tax expense in the income statement totals 27,896 thousand EUR, and the effective tax rate is 23.7%.

**Property, plant and equipment****411,231 thousand EUR**

in thousand EUR	30 Sep 2007	31 Dec 2006	Ind. 07/06
	Property	12,994	13,153
Plant	164,636	168,783	98
Equipment	148,473	141,430	105
PPE under construction	85,127	54,076	157
<b>Total</b>	<b>411,231</b>	<b>377,442</b>	<b>109</b>

The value of property, plant and equipment represented 44% of the Company's total assets, with their value increasing by 9% compared to the start of the year. This was due to the increase in the value of property, plant and equipment under construction, due to the Company's current investment projects.

The Krka Company's largest investments in the first nine months were the completion of the Sinteza 4 plant and Pelete IV production plant, the third phase of the Notol plant, construction of a new ampoule plant and the central weighing facility and raw materials warehouse.

**Intangible assets****21,747 thousand EUR**

in thousand EUR	30 Sep 2007	31 Dec 2006	Ind. 07/06
	R&D cost	1,772	2,617
Long-term property rights	14,140	15,730	90
Intangible assets under construction	5,835	4,053	144
<b>Total</b>	<b>21,747</b>	<b>22,400</b>	<b>97</b>

The value of intangible assets was 3% lower than at the start of the year. Property rights from computer software represented 65% of total intangible assets.

Intangible assets under construction mainly include market authorisation documentation for new pharmaceuticals.

**Long-term loans****7,309 thousand EUR**

in thousand EUR	30 Sep 2007	31 Dec 2006	Ind. 07/06
	Long-term loans to subsidiaries	3,186	1,898
Long-term loans to other entities	4,123	3,426	120
<b>Total</b>	<b>7,309</b>	<b>5,324</b>	<b>137</b>

**Other non-current investments****9,764 thousand EUR**

in thousand EUR	30 Sep 2007	31 Dec 2006	Ind. 07/06
	Financial assets available-for-sale	9,503	6,269
Other non-current investments	260	260	100
<b>Total</b>	<b>9,764</b>	<b>6,529</b>	<b>150</b>

'Other non-current investments' includes items of cultural and historical value.

**Inventories****119,337 thousand EUR**

in thousand EUR	30 Sep 2007	31 Dec 2006	Ind. 07/06
	Material	42,986	31,465
Work in progress	31,847	25,444	125
Products	42,695	40,754	105
Merchandise	1,786	1,804	99
Advances	23	13	176
<b>Total</b>	<b>119,337</b>	<b>99,480</b>	<b>120</b>

Inventories increased in value by 20%, largely due to the expectation of higher sales by the end of the year.

Materials represent 36% of total inventories, work-in-progress 27%, and finished products and merchandise 37%.

**Receivables****180,611 thousand EUR**

in thousand EUR	30 Sep 2007	31 Dec 2006	Ind. 07/06
	Short-term receivables due from subsidiaries	86,243	84,278
Trade receivables	84,618	64,882	130
Receivables due from other entities	9,750	8,324	117
<b>Total</b>	<b>180,611</b>	<b>157,484</b>	<b>115</b>

Receivables increased by 15% over the first nine months of the year, primarily due to increased sales.

**Current investments****28,116 thousand EUR**

in thousand EUR	30 Sep 2007	31 Dec 2006	Ind. 07/06
	Current investments	20,087	22,617
– instruments held for trading	11,129	11,890	94
– Interest-bearing current investments	2,934	3,424	86
– other current investments	6,024	7,303	82
Short-term loans	8,029	9,173	88
– short-term loans to subsidiaries	7,612	8,148	93
– short-term loans to other entities	417	1,025	41
<b>Total</b>	<b>28,116</b>	<b>31,790</b>	<b>88</b>

Marketable shares issued by Slovenian companies decreased by 669 thousand EUR compared to the end of 2006, while shares issued by foreign companies decreased by 1,277 thousand EUR.

**Cash and cash equivalents****8,495 thousand EUR**

in thousand EUR	30 Sep 2007	31 Dec 2006	Ind. 07/06
	Cash in hand	34	70
Bank balances	8,461	4,428	191
<b>Total</b>	<b>8,495</b>	<b>4,498</b>	<b>189</b>

**Equity****634,998 thousand EUR**

in thousand EUR	30 Sep 2007	31 Dec 2006	Ind. 07/06
	Share capital	59,126	59,132
Own shares	-19,489	-19,489	100
Reserves	147,666	147,660	100
– share premium	120,292	120,986	99
– legal reserves	14,990	14,990	100
– statutory reserves	11,684	11,684	100
Retained earnings	441,658	379,135	116
Fair value reserves	6,037	3,480	173
<b>Total</b>	<b>634,998</b>	<b>569,918</b>	<b>111</b>

The Company's equity increased by 11% in the first nine months of 2007. This was largely due to the profit of 90,127 thousand EUR generated in the first nine months and income and expenses recognised directly in equity with a total value of

1,992 thousand EUR. In line with a resolution from the 12th Annual General Meeting of 5 July 2007, the called-up capital was reduced by 6 thousand EUR on the conversion of equity from SIT to EUR, and capital reserves increased by the same amount.

**Borrowings****81,608 thousand EUR**

in thousand EUR	30 Sep 2007	31 Dec 2006	Ind. 07/06
	Long-term borrowings	28,954	29,143
– borrowings from domestic banks	28,954	29,143	99
Short-term borrowings	52,327	46,404	113
- borrowings from subsidiaries	3,000	0	
– borrowings from domestic banks	39,920	23,380	171
– borrowings from foreign banks	344	11,756	3
– borrowings from other entities	9,063	11,268	80
Interest payable	327	701	47
<b>Total</b>	<b>81,608</b>	<b>76,248</b>	<b>107</b>

## Provisions

130,791 thousand EUR

in thousand EUR	30 Sep 2007	31 Dec 2006	Ind. 07/06
	Provisions for termination pay and anniversary bonuses	42,081	41,969
Other provisions	88,710	74,837	119
– provisions for lawsuits	88,505	74,506	119
– provisions for ecological restoration	204	331	62
<b>Total</b>	<b>130,791</b>	<b>116,806</b>	<b>112</b>

Provisions increased by 12% over the first nine months of the year. The major provisions item is provisions for lawsuits, which increased by 19%

compared to the end of 2006 with the formation of new provisions totalling 14,000 thousand EUR.

## Grants received

398 thousand EUR

in thousand EUR	30 Sep 2007	31 Dec 2006	Ind. 07/06
	Grants for the subsidiary Krka-Rus	2	9
Grants for the plant BETA in Šentjernej	270	302	89
Grants by the European Regional Development Fund	102	26	392
Free receipt of fixed assets	24	111	22
<b>Total</b>	<b>398</b>	<b>448</b>	<b>89</b>

## Trade payables

58,831 thousand EUR

in thousand EUR	30 Sep 2007	31 Dec 2006	Ind. 07/06
	Payables to subsidiaries	5,323	1,677
Payables to domestic suppliers	28,027	32,657	86
Payables to foreign suppliers	25,407	21,641	117
Payables from advances	74	329	22
<b>Total</b>	<b>58,831</b>	<b>56,304</b>	<b>104</b>

## Other current liabilities

24,294 thousand EUR

in thousand EUR	30 Sep 2007	31 Dec 2006	Ind. 07/06
	Accrued contractual discounts on products sold to subsidiaries	510	528
Accrued contractual discounts on products sold to other customers	7,416	7,416	100
Payables to employees – gross wages, other charges	14,878	15,305	97
Other	1,490	661	226
<b>Total</b>	<b>24,294</b>	<b>23,910</b>	<b>102</b>