

**Unaudited Interim Report  
for the Krka Group and  
Krka d. d., Novo mesto  
January-June 2007**



Novo mesto, August 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 Slovenian Institute of Auditors' expert council. 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=239.6285 SIT for conversions for the periods January–June 2006. Financial statements in SIT used for the reporting period of 1 January 2006 and 31 December 2006 are presented in audited form, while the statements used for the reporting period of 30 June 2006 are unaudited. The financial statements presented for the January-June 2007 period are also presented in unaudited form.

The Company does not have authorized capital and neither 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 and Krka Company for the first half of 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 half-year business report for Krka Group and Krka Company at its meeting on 31 July 2007.

## Significant achievements

- In the first six months of 2007, the Krka Group generated sales of products and services worth 392.5 million EUR, while the Krka Company sold products and services worth 344.3 million EUR.
- The Krka Group achieved 14% growth in sales, and the Krka Company achieved 13% growth, compared to the same period last year.
- In the first six months of 2007, the Krka Group generated an operating profit of 90.9 million EUR, which is 15% higher than for the same period last year, while the Krka Company generated a profit of 83.2 million EUR (10% growth compared to the same period last year).
- The net profit was 68.2 million EUR for the Krka Group (31% growth on the same period last year), and 63.5 million EUR (20% growth) for the Krka Company.
- The highest proportion of overall sales for the Krka Group and the Krka Company were recorded in its Region East Europe, while the highest growth in sales was recorded in Region West Europe and Overseas Markets.
- The proportion of sales on markets outside Slovenia was 87% for the Krka Group, and 90% for the Krka Company.

- At the end of June 2007 the price for Krka shares quoted on the Ljubljana Stock Exchange was 922.20 EUR per share.
- The Krka Group allocated 58.4 million EUR to investments, 50.2 million EUR of which was invested by the Krka Company and 8.2 million EUR by subsidiaries.
- The number of Krka Group employees increased by 7%. Most new employment was abroad. At the end of the first six months of 2007 the Krka Group had a total of 6178 employees.
- The major business objectives of the Krka Group and the Krka Company for the first half of the year have been realised.

### Significant events after the accounting period

- A resolution was adopted by the 12th General Meeting of the Krka Company, held on 5 July 2007, which pursuant to the provisions of the Articles of Association of the Krka Company, introduced no par-value shares, with each nominal share of value 4,000 SIT being replaced by ten no par-value shares, and following the conversion of the company's share capital, which amounts to 59,126,194.28 EUR, divided into 35,426,120 ordinary no-par value shares that are bearer securities.
- A resolution was adopted at the same General Meeting to the effect that the company's share capital, which amounts to 14,170,448,000 SIT, shall be converted into euros in the method defined in the first paragraph of Article 693 of the Companies Act (ZGD-1), and shall amount to 59,126,194.28 EUR. The difference, amounting to 6,037.40 EUR that arises in the conversion pursuant to the provision mentioned shall be transferred to the capital reserves and the share capital share be reduced by that amount.
- At the General Meeting, shareholders set the dividend at 8.00 EUR gross per share.
- Due to his appointment as Governor of the Bank of Slovenia on 14 July 2007, Marko Kranjec, PhD, resigned from his post as Supervisory Board of the Krka Company. He tendered his resignation on 19 June 2007.

## Highlights

in thousand EUR	Krka Group		Krka, d. d., Novo mesto	
	1-6/2007	1-6/2006	1-6/2007	1-6/2006
Sales revenues	392,532	343,414	344,318	303,528
EBIT	90,925	79,174	83,159	75,531
EBITDA	118,362	103,322	104,734	93,813
Net profit	68,184	51,918	63,528	52,978
R&D costs	30,002	25,610	29,711	25,267
Investments	58,409	41,571	50,197	33,631
<b>RATIOS</b>				
Net profit/Sales revenues (ROS)	17.4%	15.1%	18.5%	17.5%
EBIT/Sales revenues	23.2%	23.1%	24.2%	24.9%
EBITDA/Sales revenues	30.2%	30.1%	30.4%	30.9%
Return on equity (ROE) <sup>1</sup> – converted to annual bases	22.5%	20.6%	21.1%	21.1%
Return on assets (ROA) <sup>2</sup> – converted to annual bases	14.9%	12.8%	14.3%	13.5%
Liabilities/equity	0.473	0.566	0.450	0.525
R&D costs/Sales revenues	7.6%	7.5%	8.6%	8.3%
in thousand EUR	30 Jun 2007	31 Dec 2006	30 Jun 2007	31 Dec 2006
Non-current assets	608,131	574,846	590,585	561,034
Current assets	338,540	304,282	330,489	293,252
Equity	642,484	570,905	635,165	569,918
Non-current liabilities	173,769	163,940	160,130	150,351
Current liabilities	130,418	144,283	125,779	134,017
Number of employees (end of the period)	6178	5759	4605	4272

SHARE INFORMATION (Krka Group)	1-6/2007	1-6/2006
Total number of shares issued	3,542,612	3,542,612
Earnings per share in EUR <sup>3</sup>	40.35	30.65
Share price at the end of period in EUR	992.20	607.79
Price/earnings ratio (P/E)	24.59	19.83
Carrying value of share in EUR	181.36	149.55
<b>Market capitalisation at the end of period in thousand EUR</b>	<b>3,514,980</b>	<b>2,153,164</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 Net profit of the majority owner, converted to annual basis / average number of shares issued excluding treasury shares

4 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 utilising opportunities in the consolidation of the pharmaceutical industry.
- Expanding the range of prescription pharmaceuticals in our key therapeutic areas: medicines for cardiovascular diseases, for diseases of the alimentary tract and metabolism, for the treatment of infections and the central nervous system, the strengthening of other groups, and the launch of 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 acquiring product lines, market shares or 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. A range of specific strategic criteria have been defined, both financial and non-financial, at the corporate level, at the level of individual product groups and for individual business functions. The guiding principle in establishing the criteria system is increasing the competitiveness of individual companies and the entire Group. The criteria are monitored by individual committees and the Management Board.

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

## The Krka Group's business objectives for 2007

- At the forecast growth of 12% we will generate products and service sales of 750 million EUR.
- Highest sales growth will be on the markets of East, Central and West Europe; the Russian Federation remains the most important individual market.
- The proportion of sales on markets outside Slovenia is anticipated at over 85%.
- New prescription pharmaceuticals products will be marketed in key indication groups.
- The planned net profit is 130 million EUR.
- By 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

**Web pages:** 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:** 82646716

**Company ID number:** 5043611

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

**Shares:** 3,542,612 ordinary registered shares at par value of 16.69 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 Jun 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 FARMACÊUTICA, LDA, Estoril, Portugal	100 %
KRKA USA, LLC, Delaware, USA,	100 %

\* Companies, where no operations are carried out

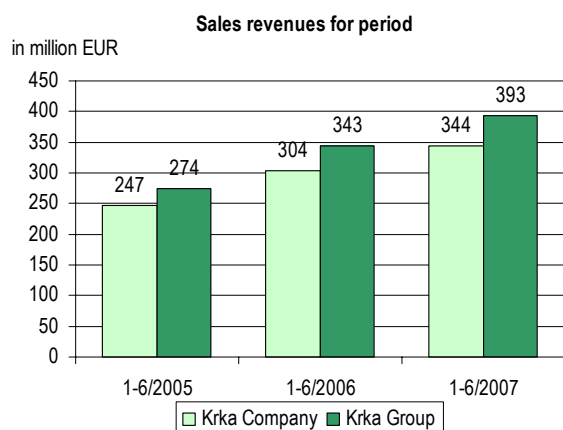
The Terme Krka subsidiary has a participating interest in Terme Krka – Strunjan, d.o.o. (51%) and Golf Grad Otočec, d.o.o. (56.37%).

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

In the first six months of this year both the Krka Group and Krka Company have performed successfully. The positive results were due not only to increased sales revenues, but were also affected by lower growth in operating expenses compared to revenues. Most of this half-year's operating results are an improvement on the same period last year.

### Revenues



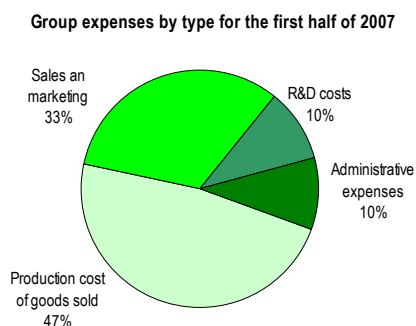
The **net sales revenues** of the Krka Group increased by 14% while the Krka Company recorded an increase of 13%. The Krka Company generated 344.3 million EUR in net sales revenues from the sale of prescription pharmaceuticals, self-medication products and cosmetic and animal health products, while the Krka Group generated

392.5 million EUR from sales of these products plus sales of health resort and tourist services. The major contribution to Krka Group sales revenue (at 82%) came from the sale of prescription pharmaceuticals, while the highest growth by product group (of 22%) was achieved for self-medication products. Most of the net sales revenues was generated from the sale of products, services and goods outside Slovenia. A more detailed analysis of the sales results achieved by individual market and product group is given in the section Marketing and Sales.

Together with other operating and financial revenues, the Company generated total revenues of 350.8 million EUR, while the Krka Group generated 403.2 million EUR, which represents growth of 12% and 14% respectively, compared to the same period last year.

### Expenses

The Krka Group's expenses of 311.4 million EUR were 12% higher than for the same period last year. The growth in expenses was 2.2 percentage points less than sales growth.

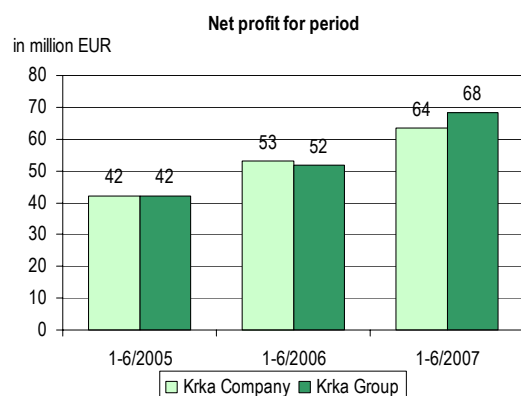


The Krka Group records operating expenses in the amount of 302.9 million EUR of which 144.8 million EUR related to the production cost of goods sold, 98.7 million EUR to marketing and sales, 30.0 million EUR to R&D costs and 29.4 million EUR to administrative expenses.

Compared to the same period last year, the production costs of goods sold increased for the Krka Group by 16%, which is 1.7 percentage points more than the growth in sales. The expansion of the marketing network on all Krka's major markets led to growth in marketing and sales costs by 13%. The Group's administrative expenses increased by 4% and R&D costs by 17% and are accounted in full as expenses, since they are not capitalised.



## Operating results



The Krka Group's operating profit of 90.9 million EUR was 15% higher than for the same period last year, while the pre-tax profit increased by 20% to 91.7 million EUR. Corporate income tax totaled 23.5 million EUR, of which 24.9 million EUR was levied tax and 1.4 million EUR deferred tax. The effective tax rate for the Group was 25.7%.

The Krka Group's net profit was 68.2 million EUR, an increase of 31%, while the Krka Company recorded a net profit of 63.5 million EUR, an increase of 20% in comparison to the previous half year.

## Assets

The Krka Group's assets were worth 946.7 million EUR on 30 June 2007, an increase of 8% from the start of the year. The ratio of current to non-current assets remained almost unchanged compared to the start of the year. The non-current assets presented almost two thirds of all assets.

Property, plant and equipment was by far the major item under non-current assets, representing 539.3 million EUR of the total value of 608.1 million EUR. Compared to the start of the year their value

increased by 6%, representing 57% of all assets.

Current assets increased by 11% to 338.5 million EUR. Trade and other receivables increased in the first half of this year by 19% and were worth 183.0 million EUR, while the inventories increased by 5% to 121.3 million EUR. Financial investments fell by 9% (primarily shares available-for-sale) and at the end of June 2007 were worth 22.0 million EUR.

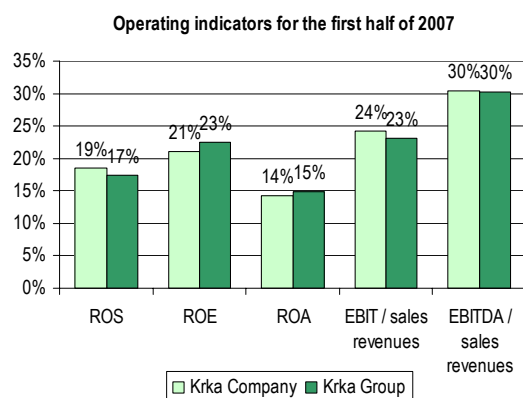
## Equity and liabilities

The Group's equity increased by 13% and now represents 68% of total equity and liabilities. The main factor in the growth was the net profit of the Krka Group in the first half of the year.

Long-term provisions increased by 8%, while long-term loans remained unchanged from the end of 2006.

Current liabilities were down 10% compared to the start of the year to 130.4 million EUR, which is 14% of total equity and liabilities. Among current liabilities, loans were down by 53%. Operating liabilities were worth 69.4 million EUR, an increase of 14%, while other current liabilities increased by 11%, and were worth 30.7 million EUR at the end of June 2007.

## Performance ratios



The operating indicators for the Krka Group are in compliance with strategic guidelines and objectives and had mostly improved compared to the same period last year. The Krka Group's net profit margin was 17.4% (Krka Company: 18.5%), ROE 22.5% (Krka Company: 21.1%), ROA 14.9% (Krka Company: 14.3%), EBIT margin 23.2% (Krka Company: 24.2%) and EBITDA margin 30.2 % (Krka Company: 30.4%).

## BUSINESS REPORT

### Marketing and sales

In the first half of 2007 the Krka Group and Company both exceeded the sales figures for the same period last year. The Krka Group's sales of 392.5 million EUR represented 14% growth compared to the same period last year, while the

Krka Company sales of 344.3 million EUR represented 13% growth. The comments on sales by region and product group provided below all refer to sales by the Krka Group.

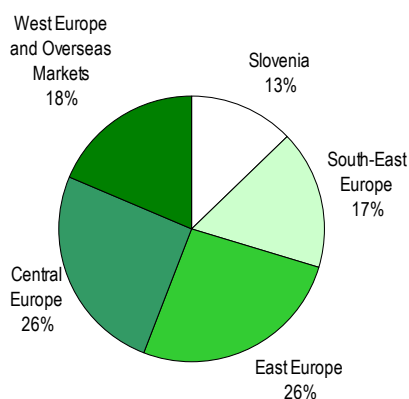
### Sales by region

The highest sales by region were recorded in Region East Europe, where sales reached 102.4 million EUR, representing 26% of overall group sales. It is followed in sales volume by Region Central Europe with 101.0 million EUR or a 26% share. The highest rate of growth (40%) was

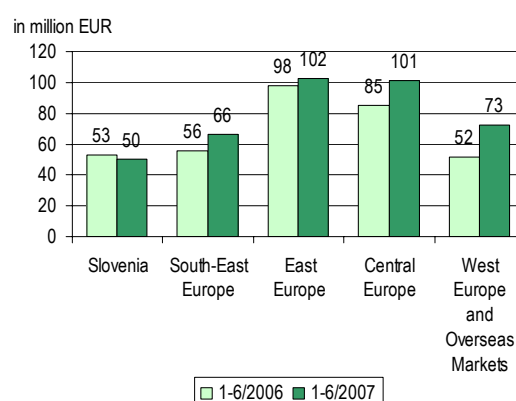
achieved in this period in Region West Europe and Overseas Markets, which is the third ranking region overall by sales volume. Region South-East Europe and Slovenia also represent a significant proportion of sales.

In thousand EUR	Krka Group			Krka Company		
	1-6/2007	1-6/2006	Ind.	1-6/2007	1-6/2006	Ind.
Slovenia	50,283	52,944	95	34,892	39,444	88
South-East Europe	66,229	55,887	119	60,213	48,755	124
East Europe	102,419	97,910	105	97,196	96,483	101
Central Europe	100,961	84,961	119	84,690	67,162	126
West Europe and Overseas Markets	72,640	51,713	140	67,327	51,684	130
<b>Total</b>	<b>392,532</b>	<b>343,415</b>	<b>114</b>	<b>344,318</b>	<b>303,528</b>	<b>113</b>

*Krka Group sales by region for the first half of 2007*



*Krka Group sales by region for the first half of the year*



## Slovenia

In Slovenia the half-year sales reached 50.3 million EUR, 30.0 million EUR from prescription pharmaceuticals, 2.8 million EUR from self-medication products, 1.3 million EUR from animal health products, 1.0 million EUR from cosmetics and 14.7 million EUR from health resort and tourist services. There was no significant change in the structure of sales broken down by product group compared to the first quarter of 2007.

Krka remains the leading prescription pharmaceuticals company in Slovenia. Krka has also managed to retain its leading position on the

Slovenian market in the therapeutic groups of statins, ACE inhibitors, proton pump inhibitors, sartans, and throat antiseptics, and is continuing to increase its market share of the medicines for the central nervous system.

The following products remain market leaders in the half-year sales figures: Ultop®, Vasilip®, Atoris® and Enap®.

Sales of health tourism services were up by 13% on the same period last year.

## South-East Europe

Krka generated sales worth 66.2 million EUR in the countries of South-East Europe, which is 19% higher than for the same period last year.

The highest sales growth compared to the same period last year was achieved in Serbia (82% higher) and in Romania (39%) – with sales of 6.5 million EUR and 19.4 million EUR generated on the two markets respectively. 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 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 market, which represents one third of sales in the region. With a market share of over 6%, Krka is the third-ranking prescription pharmaceuticals company in Croatia. The most notable products in terms of sales growth for the first six months of 2007 were Atoris®, Laaven®, Lanzul®, Ciprinol®, Fromilid® and Asentra®.

The increase in specialist staff for the self-medication product and cosmetics range has strengthened the promotional and sales activities in the field for the Bilobil®, Septolete® and Herbion® products, and – among the cosmetics – Fitoval® and products from the Vitaskin® Pharma line.

Production of Zyllt®, Laaven® and Tenox® is also underway in the Croatian subsidiary. Zyllt® produced in Croatia is also sold in other countries of eastern and south-eastern Europe.

Growth was also recorded for animal health products, primarily due to redirecting sales of our products from smaller breeders to larger agricultural concerns.

A market share of over 3% was reached in the first half of 2007 in **Romania**, the second-most important market in the region. The most important products in terms of sales growth were Vasilip®, Fromilid®, Ultop® and the newly-launched Rawel®. Established products such as Enap®, Ciprinol® and Tramadol® retained their high market shares.

Among the self-medication products, sales growth of over 30% has been achieved for Bilobil® compared to the same period last year. Bilobil® is not only the best-selling Krka product on the market, but also one of the best selling brands on the Romanian market overall. Changes to the official list of medicines (financed by the state health insurance system) to include new, direct competitors will present a challenge to Bilobil® sales.

Sales growth also continued in **Bulgaria**, with sales of 4.4 million EUR generated. The largest contribution to overall sales and their growth came from seasonal preparations, especially Fromilid® and Macropen®, and sales of Lorista®, Rawel®, Atoris®, Vasilip® and Holetar® and from the launch of Tenox®. The growth in sales of Solvolan®,

Septotele® and Pikovit® has increased Krka's presence on the Bulgarian self-medication market.

In **Serbia**, where Krka was able to double sales of prescription pharmaceuticals compared to the same period last year, growth in sales of Vasilip®, Zyllt®, Atoris®, Fromilid®, Ampril®, Lorista® and Asentra® was particularly pronounced. The positive sales results were largely due to intensive marketing work in the field, and having preparations placed on the official Serbian health insurance fund list.

Sales of self-medication products were also higher for the first half of 2007 than the first half of 2006. Somewhat more moderate growth was recorded for animal health products, which is largely due to

restructuring within the sector involving the privatisation of agricultural concerns and farms.

Krka assesses that the moderate sales growth achieved in Bosnia and Herzegovina for the first half of the year was largely due to increasing marketing and commercial activities in the field, and the slight increase in the population's purchasing power. The growth in sales was achieved despite a doctors' strike lasting almost two months in the Federation of Bosnia and Herzegovina.

Moderate sales growth was also achieved in other countries in Region South-East Europe in the first half of the year, particularly in Albania, Kosovo and Macedonia.

## East Europe

In Region East Europe, the Krka Group achieved sales of 102.4 million EUR in the first half of 2007, exceeding last year's sales for the same period by 5%. Sales in the Russian Federation were at around the same level as last half year, while growth was particularly high on all other markets in the region. Sales of self-medication products were significantly higher than for the same period last year (up by 28%).

Krka generated product sales in the **Russian Federation** worth 69.8 million EUR, which is 95% of the value of sales achieved in the same period last year on the same market. Prescription pharmaceuticals are the highest selling product group with sales worth 52.8 million EUR. The best results in terms of sales growth were achieved for self-medication products and animal health products. Sales in the first half of the year were somewhat down on the same period last year, due to a certain part of pharmaceutical programme being removed from Russia's DLO programme (supplementary medicine supply to specific social groups), where a deficit in the social-medical fund has led to a reduction in the prescription of medicines.

Krka is successfully developing production at its subsidiary – Krka Rus – where five products are now produced and over 20 licensed products are packaged. Zyllt® (clopidogrel) was successfully introduced to the Russian market in first half of this year, and almost reached its sales target for the whole year within the first six months. Additional staff have strengthened Krka's presence in the field,

and a number of organisational changes have been made that will strengthen Krka's position on the Russian market.

Sales on the **Ukraine** market are as planned, and in the first half of 2007 grew by 29% to 18.2 million EUR compared to the same period last year. Krka's active marketing policy for pharmacies and institutional purchasers (public tenders from hospitals), the growth in the number of specialist staff, and the new, dual organisation for their work have made a significant contribution to consolidating Krka's position as a leading medicines supplier in Ukraine. According to Farmexpert date for the first quarter of 2007, Krka is ranked fifth on the market with a 2.6% market share.

Sales in **Belarus** increased by almost 10% compared to the same period last year. Growth was held back by the active and very fierce competition from domestic producers, which enjoy prioritised treatment from state institutions on the Belarusian medicines market. The animal health product market is similarly regulated, as medicines produced within the country cannot be imported. This means Krka can only sell three of the fifteen products it has actually registered in the country.

In the first half of 2007 sales in **Kazakhstan** increased by 40% compared to the same period last year, reaching 4.0 million EUR, with sales of prescription pharmaceuticals 78% higher, while animal health products were only slightly up on the 2006 half-year results. Distributors assess that the market has grown by 25% over the same period.

The significant sales growth was achieved through sales of the prescription pharmaceuticals Vasilip®, Fromilid®, Hiconcil® and Macropen®, and the successful launch of Atoris® and Tenox®. Septotele® and Kalcinova® performed well among the self-medication products.

Krka's above-average sales growth is also based on successful indirect cooperation in tenders issued by hospitals and regional health institutions for the supply of medicines, and closer cooperation with pharmacy chains owned by our direct purchasers.

The high growth in sales of Krka products in **Uzbekistan** continued reaching 104% compared to last year's half-year figures, reaching a value of 2.7 million EUR. Sales of prescription pharmaceuticals grew by 164% over the period, mainly due to the strengthening of marketing activities, with almost twice the number of specialist staff compared to last year. As in many previous years, we can expect a slowdown in the conversion of local currency into foreign currency in the second half of the year that will lead to a reduction in sales.

The combination of marketing activities in the field and commercial initiatives aimed at pharmacies in

**Moldova** was reflected in 20% sales growth compared to the same period last year.

At the end of 2006, the reorganised approach to sales and marketing in **Georgia** paid off with 27% growth in sales, compared to the same period last year. A temporary slowdown in renewing and acquiring new market authorisations at the end of 2006 was dealt with, which means Krka can now launch new products on the market.

Krka's position on the **Azerbaijani** and **Armenian** markets improved further, with growth of over 40% backed by increases in the size of marketing departments. Krka is one of the top five suppliers on the Armenian medical market, and Enap® H remains the leading product for high blood pressure.

The markets of **Mongolia, Tajikistan, Kyrgyzstan** and **Turkmenistan** do not represent significant market potential due to the low consumption of medicines (these markets are only worth around 40 million EUR each per year), but nevertheless sales growth of over 90% was achieved in comparison to the same period last year.

## Central Europe

Krka generated sales worth 101 million EUR on markets in its Region Central Europe in the first half of 2007, which is 19% higher than for the same period last year. Sales of prescription pharmaceuticals, which represent 92% of overall sales in the region, grew by 20%, while sales of self-medication products grew by 14%. Sales of animal health products decreased by 2% compared to the same period last year.

In **Poland**, the largest individual market in the region with 47% of all sales, and one of Krka's key markets, Krka achieved sales of 47.5 million EUR, which is around the same level as the first half of last year. Zalasta®, Atoris®, Lanzul® in Lorista® remain among the most important prescription pharmaceuticals. Sales of self-medication products grew by 5% compared to the same period last year. This is mainly due to the very successful sales of products under the umbrella brand Septotele®, which achieved 37% growth compared to January-June 2006. Sales of animal health remained at the same level as last year.

In the **Czech Republic**, Krka recorded sales worth 20.1 million EUR, representing a pleasing 33% growth on sales in the first six months of last year. The best-selling products remain Atoris®, Lorista®, Enap®, Ampril® and Asentra®. The most significant self-medication product was Septotele®, which with an excellent 78% growth, represented almost half of all sales in this product group.

The Group recorded its highest growth by country for the first half of 2007 in **Hungary**, Krka's third most important market in the region. Sales were worth 16.9 million EUR, which is 80% higher than for the first half of 2006. The most important products were Atoris®, Tenox®, Prenessa® and Lanzul®. Results for self-medication products and animal health products were somewhat less successful, with the figures down on the same period last year.

In **Slovakia** Krka's sales in the first half of 2007 reached 7.6 million EUR, which is 62% more than for the same period in 2006. The market share also grew, from 1.6% in first half of 2006 to 2.0% this

year. The best-selling products were Atoris®, Fromilid®, Enap®, Prenessa®, Lorista® and Septolete®.

Sales in **Lithuania** were worth 5.7 million EUR, which is 12% higher than for the first six months of 2006. The most important products remain Enap®, followed by Lorista®, and Kaptopril®. Triovit® remains the leading self-medication product. Septolete® is worthy of specific mention, given the 115% increase in sales, which made a significant contribution to the 7% growth in overall sales of self-medication products.

In **Latvia** sales were worth 2.3 million EUR, which is 10% more than for the first six months of 2006. As

in Lithuania, Enap® remains the best-selling Krka product despite its proportion in total sales falling, followed by Atoris® and Fromilid®. Sales of self-medication products were also successful with 19% growth in sales compared to the same period last year.

Sales in **Estonia** in the first six months of 2007 reached 0.8 million EUR, 4% down on the same period in 2006. The leading product remains Fromilid®, followed by Enap® and Tramadol®. Given the overall rate of growth, the performance of Fromilid® is worthy of comment, up by 76% on the same period last year. Septolete® remains the best-selling self-medication product.

## West Europe and Overseas Markets

In Region West Europe and Overseas Market product sales for the first half of 2007 reached 72.6 million EUR, a 40% increase on the same period last year.

Prescription pharmaceuticals represent 96% of sales in this Krka region, which is achieved via partners, and over the last year, increasingly via own-brand products as well. Around 90% of sales in this Krka region were achieved in the countries of western Europe, which Krka considers as key markets. The sales results for this region in the first six months of 2007 were largely generated by lansoprazole, enalapril, carvedilol, simvastatin and amlodipin, and on some markets Krka is the leading generic supply for some of these medicines. The consequences of price pressures are minimised by the launch of new products, which will mainly take place in the second half of the year.

The most important markets for sales remain Germany and the United Kingdom, which together represented almost 40% of total sales in the region for January to June 2007. Sales in Mediterranean countries increased significantly, particularly in France and Italy, and closely followed by Spain and Portugal. At the start of the year a new subsidiary was opened in Portugal – Krka Farmacêutica, LDA

– and the market authorisations for the first five pharmaceuticals have already been acquired, with sales set to start in the third quarter. Krka Farmacêutica's product range will be expanded with another seven new products in the final quarter of 2007.

In the first six months of 2007, Krka has significantly increased sales in the Nordic states of EU, primarily due to Krka-branded products successfully breaking onto the markets via the subsidiary Krka Sverige AB. Since the start of 2005 Krka has successfully been increasing the sale of Krka-branded pharmaceutical products in the Nordic states of EU, which today represent over 10% of sales, realised in the region.

Successful sales of prescription pharmaceuticals on overseas markets were achieved in Iran and Hong Kong, where continued growth is also anticipated in future.

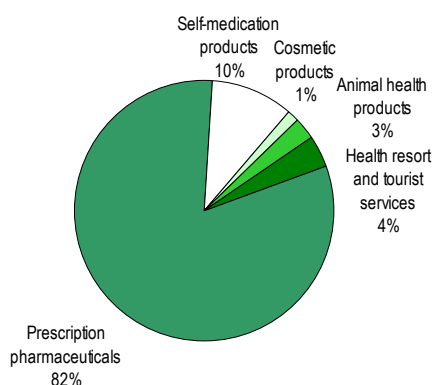
Sales of animal health products in the region are in line with plans, and represent 5% of total sales in the region. A 10%-orally administered enrofloxacin solution was launched in the first quarter on European Union markets.



## Sales by product and service group

In thousand EUR	Krka Group			Krka Company		
	1-6/2007	1-6/2006	Ind.	1-6/2006	1-6/2007	Ind.
Human health products	365,907	318,247	115	332,691	291,493	114
- Prescription pharmaceuticals	320,523	280,104	114	288,612	253,739	114
- Self-medication products	40,196	32,926	122	38,920	32,671	119
- Cosmetic products	5,188	5,216	99	5,159	5,083	101
Animal health products	11,495	11,814	97	11,141	11,676	95
Health resort and tourist services	14,734	13,008	113			
Other	396	346	114	486	359	135
<b>Skupaj</b>	<b>392,532</b>	<b>343,415</b>	<b>114</b>	<b>344,318</b>	<b>303,528</b>	<b>113</b>

### Structure of Krka Group sales by product and service group for the first half of 2007



## Prescription pharmaceuticals

The Krka Group generated sales of prescription pharmaceuticals worth 320.5 million EUR, which is 14% higher than for the same period last year.

On Krka's larger markets, the highest growth in prescription pharmaceutical sales was achieved in West Europe (40%), Hungary (92%), Romania (42%), the Czech Republic (33%) and Ukraine (37%). The smaller markets worth mentioning because of high growth in prescription pharmaceuticals sales are Serbia (129%), Kazakhstan (78%), Uzbekistan (165%), Slovakia (62%) and the Arabian Peninsula (156%).

There was no major change in the list of best-selling prescription pharmaceuticals compared to the first half of 2006, though there were some changes in order. For many years the leading prescription pharmaceutical has been Enap®, followed by

Lanzul®, Vasilip®, Atoris®, Fromilid®, Lorista®, Tenox®, Coryol®, Nolicin® and Ciprinol®.

New products are the key generator of continued growth in the generics industry, an industry axiom that Krka is very much aware of. Zyllt® and Prenessa® are two new products (both launched first in 2005) achieving significant sales results, together already exceeding 10 million EUR in the first six months of 2007. Both are among the top-20 selling prescription pharmaceuticals, and their high growth provides grounds for optimism in the years to come. Other new products include Mirzaten®, Rawel®, Ampri® (launched in 2004) and Tanyz® (2006), which have all taken their place in the top-30 prescription pharmaceuticals.

In June 2007 Krka started marketing two products with completely new active ingredients: the anti-



asthmatic Monkasta® (montelukast) and the anti-ulcer product Nalpaza® (pantoprazole).

The existing range of products was supplemented with new combinations and new pharmaceutical forms: a product to prevent increased blood pressure was introduced which combined the APIs perindopril and indapamide under the brand name Prenewel® (which will be called Co-Prenessa® on other markets). Other completely new forms include an oral dispersible tablet form for Mirzaten®.

The following products were introduced during the first half of 2007 on individual markets:

- Slovenia: Monkasta®, Nalpaza®, Prenewel®
- Croatia: Coryol®, Fromilid®uno, Lorista®
- Bosnia-Herzegovina: Lorista®, Zyllt®
- Macedonia: Ampri®
- Romania: Lanzul®, Lorista®
- Bulgaria: Asentra®
- Albania: Atoris®
- Russian Federation: Amprilan®, Kamiren®XL
- Ukraine: Amprilan®
- Kazakhstan: Atoris®, Tenox®
- Moldova: Tenox®
- Czech Republic: Finpros®, Rorendo® Oro tab®
- Slovakia: Ampri®HD, Finpros®, Tenox®
- Hungary: Co-Prenessa®, Mirzaten® ODT, Olwexya®
- Poland: Kamiren®XL, Torendo® Q Tab®
- Lithuania: Lorista®H.

This adds up to over 30 launches on 16 of Krka's traditional markets, which were all given active promotional support via Krka's own marketing activities and its marketing network. Fast-track preparations are already underway to launch new products in the second half of 2007 and the start of 2008.

## Self-medication products

Sales of self-medication products were worth 40.2 million EUR and exceeded sales for the first six months of 2006 by 22%. Sales grew in comparison to the figures for the first half of 2006 in every sales region: by 6% in Slovenia, by 22% in South-East Europe, by 28% in East Europe and by 14% in Central Europe.

The highest growth on the larger markets was achieved in the Russian Federation, where sales of

Most marketing activities were aimed at promoting products in key therapeutic groups. These are primarily pharmaceutical products to reduce high blood pressure (Enap®, Ampri®, 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 the first half of 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 mark 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. Noted international experts appeared at both 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 abroad is a vital factor in prescription pharmaceuticals sales, because it is their everyday work that contributes most to increasing demand for Krka products.

14.3 million EUR were generated and 37% growth. Growth of 37% was also achieved in Romania where sales were worth 4.8 million EUR. Two smaller markets in Central Europe are worthy of mention for high growth over the long term, 43% in the Czech Republic and 65% in Slovakia.

This year the top-selling products were again Bilobil® (33% growth), Pikovit® (12%), Septotele® (52%), Duovit® (22%) and Herbion® (47%). These

are also key products for this product group. The top-ten best-selling self-medication products represent 87% of overall self-medication product sales.

Promotional activities backed by appropriate investment were targeted at priority products (Pikovit®, Duovit®, Septotele®, 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 (new flavours of Septotele®, Duovit® memo).

## Cosmetic products

Sales of cosmetic products were worth 5.2 million EUR, maintaining the same level as the first half of 2006.

In April this year Krka launched the new Vitaskin® Pharma line, which is intended for pharmacy sales only. All activities were directed towards this

international project, which had not yet produced tangible results in the first six months of 2007.

Positive sales growth was achieved in Region South-East Europe (4% growth) and Region East Europe (6% growth).

## Animal health products

Sales of animal health products in the first half of 2007 were 3% less than sales for the comparable period in 2006. The fall in sales was due to poorer sales in Region West Europe and Overseas Markets, and in parts of Region Central Europe. Sales in other regions matched or exceeded sales for the first half year of 2006.

Sales in Region West Europe and Overseas Market are being redirected from raw materials towards finished products with higher added value, with sales in northern European Union states up 67% on the same period last year.

Sales in Region South-East Europe increased by 5%. Sales in Romania (up 13%) were the largest factor in this regional growth, sales in Croatia stayed at the same level as last year (the main reason lies in the reduction of the pig population, due to outbreaks of swine fever). Sales doubled in Bosnia and Herzegovina.

The highest sales growth in Region Central Europe was recorded in Lithuania and Slovakia (40%). There was a notable increase in the sales of injection solutions, which is a consequence of increased marketing work in this segment. The new Krka disinfectant Ecocid® S was successfully launched in Poland.

Solid sales growth was maintained in Region East

Europe (9%). After high growth last year in the Russian Federation, Krka recorded 20% growth again, while the economics issues in Ukraine were directly in lower sales growth this year (4%).

The best selling brand is still Enroxil®, which achieved 34% growth in sales, closely followed by Floron®. Sales of Kokcisan® also grew up 17% primarily due to sales in the Russian Federation, where its share of the coccidiostatics market again increased by over 50%. Dehinel® plus is going through a phase of intense growth (68%), while sales of Calfoset® were somewhat lower. There was a noticeable fall in the sale of the licensed product Virkon® S, following the launch of Krka's own brand Ecocid® S.

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 and in Romania. There is great potential in Russian Federation in particular, where Krka plans to follow the launch of the Floron® premix with the launch of injection solutions and oral solutions in October. The market authorisations were already acquired in May.

The growth of poultry production in the Russian Federation and Krka's increased presence on the markets of western Europe have a significant impact on sales of Krka products for poultry healthcare.

### Health resort and tourist services

In the first half of 2007 sales of health resort and tourist services reached 14.7 million EUR, growth of 13% compared to the first half of last year. The highest sales growth of 16% was achieved by the Šmarješke Toplice business unit, largely due to high growth in sales revenues from wellness services.

Over the first six months of 2007 a total of 166,391 overnight stays were realised, which is 3% more than for the same period last year, and average occupancy of all accommodation capacity was 67%.

The proportion of foreign guests grew from 30% to 32%.

The emphasis in the Terme Krka spa group is on developing and marketing services and programmes offering higher added value. A high level of medical rehabilitation services is being maintained on the one hand, while new services in the fields of preventive medicine and wellness treatments are being developed.

## Research and development

Research and development at Krka was marked by the successful management and conclusion of new market authorisation procedures in the first half of 2007. Several DCPs (Decentralised Procedures) to acquire market authorisation for the European Union were concluded, authorising a number of products for all major EU markets. Over the period, 187 market authorisations were acquired for products in 449 pharmaceutical forms on a variety of markets. The first market authorisation was achieved for eight new products in 23 pharmaceutical forms.

The market authorisation of a product with the active ingredient venlafaxine in the form of 37.5 mg, 75 mg and 150 mg modified-release capsules represented a significant addition to the Krka range of products in the field of treatments for the central nervous system. The product range was also expanded by acquiring market authorisations for pharmaceutical products with the API quetiapine, an anti-psychotic used to treat schizophrenia and bipolar disorder in the form of 25 mg, 100 mg, 150 mg, 200mg and 300 mg film-coated tablets. 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 40 mg, 80 mg and 160 mg film-coated tablets. New market authorisations for tablets containing perindopril in combination with indapamide have continued with the successful introduction of new medicines on individual markets. The range of medicines to treat gastrointestinal and metabolic diseases was expanded 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 range of pharmaceutical products to treat and prevent asthma has been expanded with new products in the form of 10 mg film-coated tablets, and 4 mg and 5 mg chewable tablets with the active ingredient montelukast. By using the centralized procedure (CP) we obtained a positive opinion in July for being granted the marketing authorisation for olanzapine to be sold on the EU markets

New market authorisations for self-medication products and dietary supplements were acquired in Slovenia for the product Duovit® Energija in the form of coated tablets used as a **tonic for reduced physical and mental productivity**. Market authorisations were acquired for lemon flavour

Septotele®, green-apple flavour Septotele®, and wild-cherry flavour Septotele® on the major markets of Croatia, the Russian Federation and Poland, which is making a major contribution to maintaining the competitive advantage of Krka's brands.

The range of animal health products was supplemented with the first market authorisation for Solvimin® Selen, which is intended to prevent and treat metabolic diseases in farm animals lacking vitamins or selenium. Important market authorisations were acquired for Ecocid®, the latest addition to Krka's biocide range on the markets of Russian Federation, Ukraine, Hungary, Germany and Lithuania. Market authorisations were also acquired for products containing the active ingredient florfenicol and enrofloxacin on a number of western European markets.

Krka devotes special attention to research and development and achieving patent protection for the results of its work in key fields. In the first half of 2007 Krka submitted patent applications for 12 inventions on the basis of prioritised applications from 2006, and submitted six international patent applications.

The company markets products under its own trademarked brands, which further enhances the added value of Krka products. In the first half of 2007 Krka registered 40 brands in Slovenia and submitted 30 applications for international registration.

The success achieved after many years of work developing new technologies for formulations in the form of oral dispersible tablets is demonstrated by the wide range of authorisations acquired for such products, their continued production and successful marketing. The product Torendo® Q-Tab® in the form of 0.5 mg, 1 mg and 2 mg oral dispersible tablets has a major competitive advantage because of its formulation that allows patients to take the medicine without the need for a liquid. In addition to Mirzaten® Q-Tab® in 15 mg, 30 mg and 45 mg oral dispersible tablets, Krka's range of products also includes Zalasta® in 5 mg, 7.5 mg, 10 mg, 15 mg and 20 mg oral dispersible tablets with the active ingredient olanzapine.

Moving to cosmetics, a trading licence was successfully achieved for Vitaskin® Pharma

products. This led the way for the market entry of the new lines, Vitaskin® Pharma Age Formula and a product for sensitive skin prone to flushes, Vitaskin® Pharma Reactive Skin. At the same time development work continued on the Vitaskin®

Pharma Age Formula dietary supplements for skin firmness and flexibility in capsule form, which offer an integrated package of care for mature skin in tandem with the cosmetic products.

## Investments

In the first six months of 2007, the Krka Group allocated 58.4 million EUR to investment, with 50.2 million EUR invested by the controlling company, and 8.2 million EUR by subsidiaries. In line with investment schedules, investments already underway were the main focus of investments, representing two-thirds of all funds allocated over the period, while preparatory, project-based work started for new investments.

Information is given below for some of the projects on which the most intensive work took place in the first half 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 modern plant will help Krka achieve total process management from development to raw materials and final products that offers quality, effectiveness, and safety of the highest global 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 should be completed this year.

### Central weighing facility and raw material storage facility

In February Krka concluded the modernisation of

the existing raw material storage facilities, and is at present focusing on building a warehouse extension, which should be ready for use at the beginning of 2008.

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 weighing systems should come online very soon, along with acquisition of a permit for test operations.

### 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 should take place at the end of 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 in autumn.

### 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 validations and the start-up of test production is anticipated by the end of this year.

### The Krka Rus subsidiary

Production capacity is currently being expanded in the existing plant (equipment installed and started up, packaging lines in test phase), while work to expand laboratories is also underway.

## Employees

The Krka Group's 2007 sales plans require accelerated recruitment, especially in the fields of marketing and sales in its subsidiaries and representative offices abroad, and in research and development. In 2007 Krka planned an increase in the number of employees of 562, 76% of which outside Slovenia.

In Slovenia (in the controlling company and the Terme Krka Group) a total of 149 new staff were employed in the first half of 2007. Over the same

period employment terminated for 43 people, meaning a net increase in staff numbers of 106 over the first half of the year. Thirty-five of the new employees held at least university level degrees. A total of 662 new staff were employed in representative offices and companies abroad, while employment terminated for 349 people, meaning a net increase of 313 staff members, largely with university education. Now, 54% of employees in the Krka Group have at least a higher professional education.

### Education structure of Krka Group employees

Educational level	30 Jun 2007		31 Dec 2006	
	Headcount	Share (in %)	Headcount	Share (in %)
PhD	62	1,0	63	1,1
MSc	163	2,6	162	2,8
University education	2704	43,8	2408	41,8
Higher professional education	376	6,1	324	5,6
Vocational college education	229	3,7	222	3,9
Secondary school education	1189	19,2	1138	19,8
Total	1455	23,6	1442	25,0
<b>Total</b>	<b>6178</b>	<b>100,0</b>	<b>5759</b>	<b>100,0</b>
- in Slovenia	3752	60,7	3646	63,3
- abroad	2426	39,3	2113	36,7

Technical and technological modernisations, and the continual development of new products requires careful, ongoing investment in new knowledge and staff training. This is one of the main reasons that 130 employees are pursuing specialist, master's and doctoral studies, with a further 380 employees involved in part-time studies alongside their work. 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 organised by Krka's own training centre. Krka also provides 58 scholarships, mainly to students at the pharmacy and chemistry faculties.

Krka promotes the personal and professional development of its employees. Additional staff motivation comes from a number of material and cash bonuses and awards for active cooperation in the realisation of internal training and education. The testing and recognition of knowledge continues via a certification system that prioritises employees' practical knowledge related to work in the

production of raw materials, final products and logistics. So far 244 certificates have been awarded to employees within this system, and 131 employees are currently in the process of training to acquire new vocational qualifications at the national level.

Krka is upgrading its staff information system, which will provide integrated functioning for the human resource sector throughout the Krka Group. Development planning for key and promising staff includes giving such staff complex tasks and educating and training them in management and professional fields. The development of key and promising management employees takes place in Krka's own international management school, which involves directors and managers from Krka companies and representative offices abroad and from the Krka's organisational units in Slovenia. This also contributes to strengthening the international culture of the Krka Group.

Measurements of organisational culture took place among staff in May and the results were presented to organisational units. The results indicated a high level of employee satisfaction and employee loyalty to the company. The scores for every element of organisational culture and employee satisfaction improved compared to the 2004 tests.

Krka takes care of its employees' health through a wide range of activities providing higher quality of

work and quality of life for employees, which indirectly contributes to successful operating results. In June the traditional Krka award ceremony was held to recognise employees and managers, employees celebrating long-service anniversaries, people responsible for useful proposals, and a sports and social event was held for all Krka employees.



## Shareholders and share trading

At the end of June 2007 Krka had almost 55500 shareholders, which is 1.7% more than at the end of 2006. The total number of shareholders increased primarily through an increase in Slovenian individual investors and international investors; the ownership

share of international investors increased by over 1.2 percentage points to 9.2%. In the first half of 2007 the ownership shares of investment companies and funds and other domestic legal entities decreased.

### Ownership structure (in %)

	30 Jun 2007	31 Dec 2006
Individual Slovenian investors	41.0	41.0
Investments funds & companies	10.2	11.0
SOD Fund	15.0	15.0
Other Slovenian companies	9.8	10.2
KAD & PPS Funds	10.2	10.2
Treasury shares	4.6	4.6
International investors	9.2	8.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

On 30 June 2007, Krka held 162,662 treasury shares, which represented 4.6% of the share capital. In the first half of 2007 the company did not

repurchase any treasury shares. The ten largest shareholders together held 1,311,553 shares, representing 37.0% 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	531,207	14.99	15.72
KAPITALSKA DRUŽBA, D.D.	Slovenia	349,303	9.86	10.33
NFD 1 DELNIŠKI INVESTICIJSKI SKLAD D.D.	Slovenia	96,946	2.74	2.87
NEW WORLD FUND INC	USA	91,400	2.58	2.70
BANK AUSTRIA CREDITANSTALT AG	Austria	52,323	1.48	1.55
LUKA KOPER, D.D.	Slovenia	44,709	1.26	1.32
DELNIŠKI VZAJEMNI SKLAD TRIGLAV STEBER I	Slovenia	41,400	1.17	1.22
ZAVAROVALNICA TRIGLAV, D.D.	Slovenia	38,830	1.10	1.15
RAIFFEISEN ZENTRALBANK OESTERREICH AG	Austria	35,435	1.00	1.05
MARIBORSKE LEKARNE MARIBOR	Slovenia	30,000	0.85	0.89
<b>Total</b>		<b>1,311,553</b>	<b>37.02</b>	<b>38.80</b>

As at 30 June 2007, members of the Management Board and Supervisory Board together held 6517 company shares or 0.18% of total shares issued.

Members of the Management Board held the following number of shares (proportion of voting rights given in brackets): Jože Colarič – 2100 shares or 0.0593% of total shares issued (0.0621%), Janez Poljanec – 2206 shares or 0.062% of total shares (0.0653%), Aleš Rotar –

1277 shares or 0.0360% of shares issued (0.0378%) and Zvezdana Bajc – 110 shares or 0.0031% of total shares issued (0.0033%).

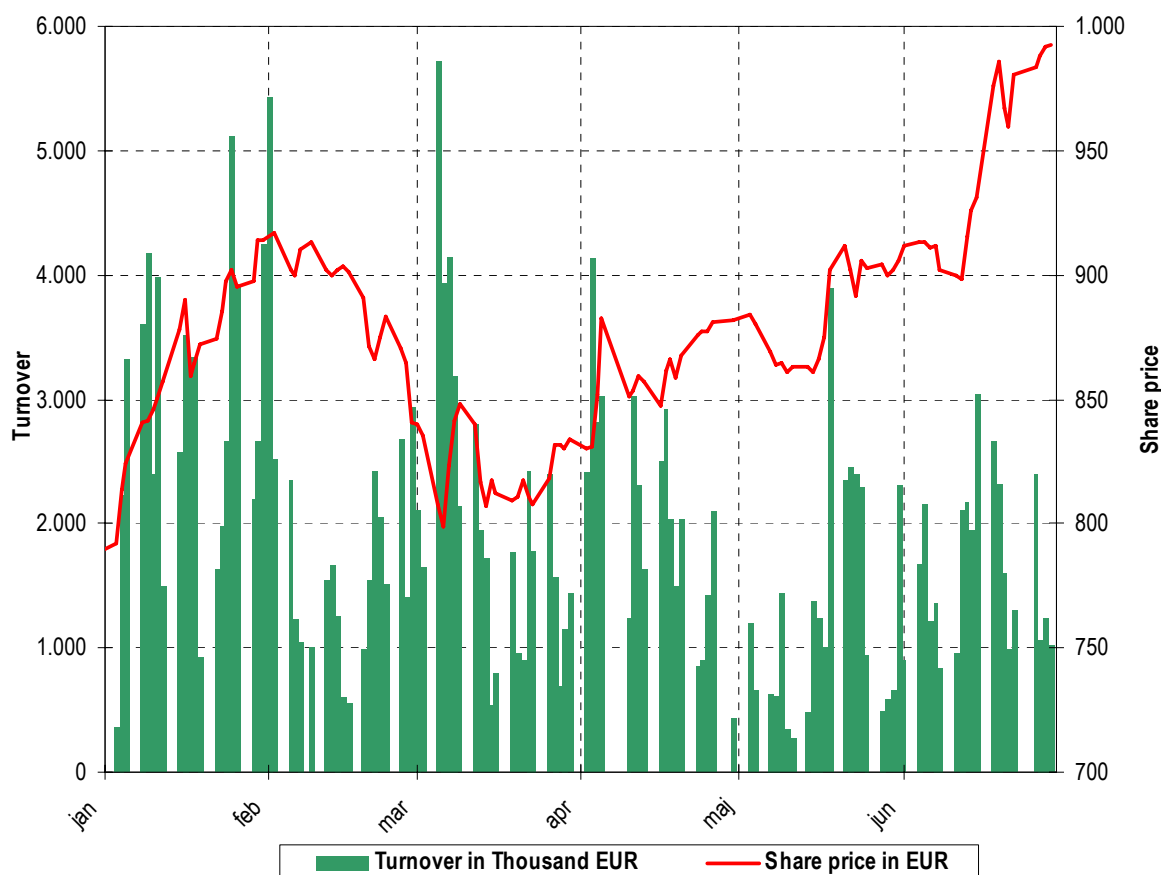
Members of the Supervisory Board held the following number of shares (proportion of voting rights given in brackets): Gregor Gomišček – 12 shares or 0.0003% of shares issued (0.0004%), Draško Veselinovič – 1 share or 0.00003% of shares issued (0.00003%), Marko Kranjec – 101



shares or 0.0029% of shares issued (0.0030%), Alojz Zupančič – 449 shares or 0.0127% of shares issued (0.0133%), Sonja Kermc – 211 shares or

0.0060% of shares issued (0.0062%), and Tomaž Sever – 50 shares or 0.0014% shares (0.0015%).

### Trading in Krka shares in the first half of 2007



The Krka share price increased in January in particular, reaching a value of 917 EUR at the end of the month. A correction to the share price took place in February, which remained steady at the start of March. From April onwards the share price

grew and at the end of June reached a high of 992 EUR. The average daily turnover in Krka shares on the Ljubljana Stock Exchange during the first half of 2007 was 2.2 million EUR, and Krka's market capitalisation on 30 June 2007 was 3.5 billion EUR.

## Corporate risk management

### Exchange rate risk

The main exchange rate 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 value of the US dollar fell by 2.5% against the euro over the first half of 2007.

Most of the open position was hedged in the past by derivatives, which generated positive financial effects in the first half of 2007, and largely neutralised the negative impact of the US dollar's fall against the euro.

In the first half of 2007, Krka continued to hedge against the risks arising from the volatility of the US dollar exchange rate. The hedging instruments that matured during this period were replaced with new ones.

### Interest rate risk

No action was taken in the field of interest rate risk management in the first half of 2007.

Since the interest rate risk arising from both key interest rate risk (the 6-month Libor for the US dollar and 6-month Euribor for the euro) had been dealt with in previous years, the growth in the interest

rates did not have an impact on the cost of Krka's borrowing.

In the first six months of 2007, Krka did not take out any new long-term loans, so the interest rate risk did not increase.

### Credit Risk

The credit control process involves obtaining credit ratings for customers to which the Krka Group makes annual product sales of 100,000 EUR or more, and regular, dynamic monitoring of customer payment discipline. The credit control process currently covers 470 customers of the controlling company and subsidiaries.

In the first half of 2007, the credit control process was also successfully implemented in the subsidiary Krka Sverige AB.

The calculation of credit ratings and credit limits for Krka customers carried out in March and April indicated that minimal changes for the controlling company and subsidiaries. Krka's opinion is that the quality of its customers is unchanged in terms of credit risk.

There was no increase in due receivables from customers over the first six months of 2007. The age structure of receivables and average repayment terms did not increase significant.

### Liquidity Risk

The Krka Group's liquidity and related risk was managed over the first six months of 2007 by means of effective short-term and long-term cash flow planning. We fulfil our short-term liquidity needs using daily monitoring of cash inflows and outflows, using weekly, monthly, and longer-term cash flow plans on a rolling basis, in conjunction with agreed short-term credit lines and a portfolio of short-term

liquid securities and short-term deposits. The cash balance in the accounts of all subsidiary companies is monitored daily in order to ensure the rapid transfer of surpluses to the controlling company's account. Occasional disparities in cash flow are mainly balanced by using short-term revolving credits.

Short-term borrowing was low at the end of the first half of 2007. Krka assesses its liquidity risk as low, as the cash flows generated on an ongoing basis

are sufficient to settle all due liabilities, and to service debts and other financial liabilities.

### Property, business interruption and liability insurance

In the first half of 2007 Krka Group managed its insurance and claim procedures in line with standardised requirements and internal insurance standards in Slovenia and in companies and representative offices abroad. Insurance is a risk management measure that provides compensation for damage to property and loss of earnings due to business interruption, and protects the company in case of third party claims for damages.

In mid-May the company received a insurance inspection from a 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 equipment, transport devices, 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. Cancelling this insurance is expected to bring significant savings.

The Group has 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.

In addition to existing insurance, 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 demands. This form of insurance covers personal and property liability, damages to nearby facilities and dangers during construction, installation and maintenance.

Over the first six months of 2007, there were 55 loss events at the Group level (compared to 57 last year and an anticipated 68), which were primarily 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 Jun 2007	31 Dec 2006	Ind. 07/06
<b>Assets</b>			
Property, plant and equipment	539,301	506,820	106
Intangible assets	22,180	23,608	94
Investments in associates	0	2,024	0
Long-term loans	3,963	3,564	111
Other investments	10,392	6,737	154
Deferred tax assets	31,960	31,840	100
Other non-current assets	335	253	132
<b>Non-current assets</b>	<b>608,131</b>	<b>574,846</b>	<b>106</b>
Inventories	121,312	115,926	105
Trade and other receivables	182,968	153,890	119
Current investments	21,991	24,067	91
Cash and cash equivalents	12,269	10,399	118
<b>Current assets</b>	<b>338,540</b>	<b>304,282</b>	<b>111</b>
<b>Total assets</b>	<b>946,671</b>	<b>879,128</b>	<b>108</b>
<b>Equity</b>			
Share capital	59,132	59,132	100
Own shares	-19,489	-19,489	100
Reserves	147,660	147,660	100
Retained earnings	438,847	372,061	118
Fair value reserves	6,386	3,480	184
Translation reserve	164	154	106
<b>Equity holders of the parent</b>	<b>632,700</b>	<b>562,998</b>	<b>112</b>
Minority interest	9,783	7,907	124
<b>Total equity</b>	<b>642,483</b>	<b>570,905</b>	<b>113</b>
<b>Liabilities</b>			
Borrowings	34,476	34,584	100
Provisions	132,586	122,554	108
Grants received	2,673	2,777	96
Deferred tax liabilities	4,035	4,025	100
<b>Total non-current liabilities</b>	<b>173,770</b>	<b>163,940</b>	<b>106</b>
Trade payables	69,437	60,889	114
Borrowings	22,950	48,769	47
Income tax liabilities	7,299	7,020	104
Other liabilities	30,732	27,605	111
<b>Total current liabilities</b>	<b>130,418</b>	<b>144,283</b>	<b>90</b>
<b>Total liabilities</b>	<b>304,188</b>	<b>308,223</b>	<b>99</b>
<b>Total equity and liabilities</b>	<b>946,671</b>	<b>879,128</b>	<b>108</b>

## Consolidated income statement

in thousand EUR	1-6/2007	1-6/2006	Ind. 07/06
Sales revenues	392,532	343,414	114
Production cost of goods sold	144,835	124,889	116
<b>Gross operating yield</b>	<b>247,697</b>	<b>218,525</b>	<b>113</b>
Sales and marketing	98,720	87,230	113
R&D costs	30,002	25,610	117
Administrative expenses	29,390	28,269	104
Other operating income	1,340	1,758	76
<b>Operating profit</b>	<b>90,925</b>	<b>79,174</b>	<b>115</b>
Financial income	9,286	8,775	106
Financial expenses	8,498	11,703	73
<b>Net financial result</b>	<b>788</b>	<b>-2,928</b>	<b>-27</b>
<b>Profit before tax</b>	<b>91,713</b>	<b>76,246</b>	<b>120</b>
Income tax expense	23,529	24,328	97
<b>Profit for the period</b>	<b>68,184</b>	<b>51,918</b>	<b>131</b>
<b>Equity holders of the parent</b>	<b>67,975</b>	<b>51,802</b>	<b>131</b>
<b>Minority interest</b>	<b>209</b>	<b>116</b>	<b>180</b>
Earnings per share (in EUR)*	20.17	15.36	131

\* Net profit of the majority owner / average number of shares issued excluding treasury shares

## 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>59,135</b>	<b>-19,490</b>	<b>120,992</b>	<b>14,991</b>	<b>9,598</b>	<b>225,264</b>	<b>65,888</b>	<b>-6,830</b>	<b>2,363</b>	<b>7,568</b>	<b>479,479</b>
Entry of net profit for the period	0	0	0	0	0	0	51,802	0	0	116	51,918
Formation of statutory reserves	0	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 of the Krka Company	0	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	-65,888	65,888	0	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	-65	-65
Recognised income and expenses	0	0	0	0	0	-2,205	0	0	663	0	-1,542
<b>Balance at 30 Jun 2006</b>	<b>59,135</b>	<b>-19,490</b>	<b>120,992</b>	<b>14,991</b>	<b>9,598</b>	<b>223,059</b>	<b>51,802</b>	<b>59,058</b>	<b>3,026</b>	<b>7,619</b>	<b>529,790</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>89,565</b>	<b>6,698</b>	<b>3,634</b>	<b>7,910</b>	<b>570,906</b>
Entry of net profit for the period	0	0	0	0	0	0	67,975	0	0	209	68,184
Entry of minority interest	0	0	0	0	0	0	0	0	0	1,664	1,664
Formation of statutory reserves	0	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 of the Krka Company	0	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	-89,565	89,565	0	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	0	0
Recognised income and expenses	0	0	0	0	0	0	0	-1,187	2,916	0	1,729
<b>Balance at 30 Jun 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>67,975</b>	<b>95,076</b>	<b>6,550</b>	<b>9,783</b>	<b>642,483</b>

## Consolidated cash flow statement

in thousand EUR	1-6/2007	1-6/2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit for the period</b>	<b>68,184</b>	<b>51,918</b>
<b>Adjustments for:</b>	<b>50,070</b>	<b>50,389</b>
– amortisation / depreciation	27,437	24,148
– foreign exchange gain	-1,684	-2,546
– foreign exchange loss	1,468	6,107
– investment income	-4,827	-5,445
– investment expenses	2,304	2,183
– financial expenses	1,842	1,615
– income taxes and other taxes not included in operating expenses	23,529	24,327
<b>Operating profit before changes in net operating current assets</b>	<b>118,253</b>	<b>102,307</b>
Change in trade receivables	-29,440	-10,677
Change in inventories	-5,386	329
Change in operating liabilities	13,125	7,106
Change in other current liabilities and provisions	13,066	17,314
Income taxes paid	-25,305	-45,657
<b>Cash generated from operations</b>	<b>84,313</b>	<b>70,722</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	223	344
Proceeds from sale of current investments	338	223
Dividends received	91	74
Proceeds from property, plant and equipment	338	752
Purchase of intangible assets	-1,411	-2,139
Purchase of property, plant and equipment	-58,180	-50,448
Payments in connection with long-term loans	-463	-2,155
Payments in connection with non-current assets	-76	-326
Acquisition of current investments	3,071	-8,202
Acquisition of derivative financial instruments	1,378	43
<b>Net cash used in investing activities</b>	<b>-54,690</b>	<b>-61,834</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments from an increase in current financial liabilities	-25,530	-3,483
Interest paid	-2,100	-1,653
Payment of non-current financial liabilities	24	-1,176
Dividends paid	-12	-93
<b>Net cash used in financing activities</b>	<b>-27,617</b>	<b>-6,404</b>
Net increase in cash and cash equivalents	2,006	2,484
Cash and cash equivalents at beginning of period	10,399	12,635
Effect of exchange rate fluctuations on cash held	-135	-229
<b>NET CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>12,269</b>	<b>14,890</b>

## Notes to the consolidated financial statements

### Sales revenues

**392,532 thousand EUR**

The sales revenues included sales from products, services and merchandise on the domestic market in the amount of 50,283 thousand EUR (13% of sales revenues) and sales on foreign markets in the

amount of 342,249 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

**144,835 thousand EUR**

In the first half of 2007, the production cost of goods sold increased by 16% compared to the same

period last year. The ratio of production costs to sales revenues increased from 36.4% to 36.9%.

### Sales and marketing

**98,720 thousand EUR**

Sales and marketing expenses comprise the costs of the Slovenian and foreign marketing sales network, as well as provisions formed for lawsuits in the amount of 10,000 thousand EUR. Sales and marketing expenses were 13% higher than in the

same period in 2006. The ratio of sales and marketing expenses to sales revenues decreased from 25.4% to 25.1%. Sales and marketing expense increased by 26%, provided that provisions are not taken into account.

### R&D costs

**30,002 thousand EUR**

Compared to the same period last year, R&D costs increased by 17%, while their share among the sales revenues records an increase from 7.5% to

7.6%. All R&D costs recorded are charged against the current income statement, since research and development costs are not capitalised.

### Administrative expenses

**29,390 thousand EUR**

Compared to the same period last year, administrative expenses increased by 4%, and their ratio to sales revenues fell from 8.2% to 7.5%.

Administrative expenses include other operating expenses.

### Costs in terms of type

**302,947 thousand EUR**

in thousand EUR	1-6/2007	1-6/2006	Ind. 07/06
Cost of goods and materials	115,542	91,009	127
Cost of services	65,679	55,114	119
Employee benefits cost	84,072	77,747	108
Depreciation	27,437	24,148	114
Provisions formed	10,875	16,693	65
Other operating expenses	8,220	7,784	106
<b>Total costs in terms of type</b>	<b>311,825</b>	<b>272,494</b>	<b>114</b>
Changes in the value of inventories	8,878	6,496	137
<b>Total</b>	<b>302,947</b>	<b>265,998</b>	<b>114</b>



## Employee benefits cost

84,072 thousand EUR

in thousand EUR	1-6/2007	1-6/2006	Ind. 07/06
Gross wages and salaries and continued pay	66,232	60,392	110
Social security contributions and payroll tax	12,741	11,866	107
Other employee benefits cost	5,098	5,489	93
<b>Total</b>	<b>84,072</b>	<b>77,747</b>	<b>108</b>

## Other operating expenses

8,220 thousand EUR

in thousand EUR	1-6/2007	1-6/2006	Ind. 07/06
Grants, assistance	1,317	1,128	117
Environmental levies	683	846	81
Membership fee, taxes, other duties	1,940	1,372	141
Loss in the sale of fixed assets	732	402	182
Impairments and inventory write-offs	1,428	1,663	86
Impairments and receivable write-offs	891	1,265	70
Other costs	1,229	1,108	111
<b>Total</b>	<b>8,220</b>	<b>7,784</b>	<b>106</b>

## Financial income and financial expenses

in thousand EUR	1-6/2007	1-6/2006	Ind. 07/06
Exchange differences	3,731	4,078	91
Interest income	222	346	64
Change in fair value of investments (through profit or loss)	2,229	238	937
Other income	3,105	4,113	75
<b>Total financial income</b>	<b>9,286</b>	<b>8,775</b>	<b>106</b>
Exchange differences	5,252	8,774	60
Interest paid	1,466	1,598	92
Impairments due to revaluation of investments at fair value	703	890	79
Other expenses	1,078	441	244
<b>Total financial expenses</b>	<b>8,498</b>	<b>11,703</b>	<b>73</b>
<b>Net financial result</b>	<b>788</b>	<b>-2,928</b>	

## Income tax expense

23,529 thousand EUR

The corporate income tax levied amounts to 24,924 thousand EUR, which is 27.2% of profit before tax. Taking into account the deferred tax of

1.395 thousand EUR, income tax expense in the income statement totals 23,529 thousand EUR, and the effective tax rate is 25.7%.

**Property, plant and equipment****539,301 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Property	23,537	22,641	104
Plant	251,000	251,022	100
Equipment	182,007	171,532	106
PPE under construction	82,757	61,625	134
<b>Total</b>	<b>539,301</b>	<b>506,820</b>	<b>106</b>

The value of property, plant and equipment represented 57% of the total assets of the Group and recorded an increase of 6% compared to the start of the year. The reason for increase is growth of the value of PPE under construction because of new investments in the Group. The largest investments in the first half of the year by value were the completing the construction of the new Sinteza 4 plant for the production of pharmaceutical

ingredients and a new plant for the production of pellets (Pelete IV), 3th phase of construction of the NotoI, a new ampoule plant and the central weighing room and the raw materials warehouse, all in the controlling company. The production capacities in existent plant in the subsidiary company Krka Rus are being extended and the activities for extension of laboratories are also being performed.

**Intangible assets****22,180 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
R&D cost	2,211	2,847	78
Long-term property rights	15,238	16,704	91
Intangible assets under construction	4,731	4,057	117
<b>Total</b>	<b>22,180</b>	<b>23,608</b>	<b>94</b>

In the first half of 2007, the value of intangible assets decreased by 6%. Property rights from computer software represented 69% of all intangible

assets. Intangible assets under construction mainly include registration documentation for new pharmaceuticals.

**Other non-current investments****10,392 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Instruments available-for-sale	10,132	6,477	156
Other non-current investments	260	260	100
<b>Total</b>	<b>10,392</b>	<b>6,737</b>	<b>154</b>

## Inventories

121,312 thousand EUR

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Material	40,806	36,642	111
Work in progress	35,977	30,415	118
Products	27,264	46,723	58
Merchandise	16,326	1,877	870
Advances	939	269	349
<b>Total</b>	<b>121,312</b>	<b>115,926</b>	<b>105</b>

In the first half of 2007, the value of inventories increased by 5% because of higher expected sales in the second half of the year.

In the inventories structure, 34% of inventories are materials, 30% work in progress and 35% finished products and merchandise.

## Receivables

182,968 thousand EUR

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Trade receivables	166,427	140,563	118
Other receivables	16,541	13,328	124
<b>Total</b>	<b>182,968</b>	<b>153,890</b>	<b>119</b>

Receivables increased by 19% compared to year-end 2006. The reason for this increase over the period is higher sales.

## Current investments

21,991 thousand EUR

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Instruments held for trading	11,931	11,890	100
Interest bearing current investments	2,934	3,774	78
Other current investments	6,327	7,308	87
Short-term loans granted	799	1,095	73
<b>Total</b>	<b>21,991</b>	<b>24,067</b>	<b>91</b>

## Cash and cash equivalents

12,269 thousand EUR

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Cash in hand	216	77	281
Bank balances	11,504	9,735	118
Other	549	587	94
<b>Total</b>	<b>12,269</b>	<b>10,399</b>	<b>118</b>

**Equity****642,483 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Share capital	59,132	59,132	100
Own shares	-19,489	-19,489	100
Reserves	147,660	147,660	100
– share premium	120,986	120,986	100
– legal reserves	14,990	14,990	100
– statutory reserves	11,684	11,684	100
Retained earnings	438,847	372,061	118
Fair value reserves	6,386	3,480	184
Translation reserve	164	154	106
<b>Equity holders of the parent</b>	<b>632,700</b>	<b>562,998</b>	<b>112</b>
Minority interest	9,783	7,907	124
<b>Total equity</b>	<b>642,483</b>	<b>570,905</b>	<b>113</b>

The equity of the Group increased by 13% compared to the end of 2006. The increase is mainly attributable to the Group's profit for the first

half of 2007 of 68,184 thousand EUR and income and expenses recognised directly in equity of 1,729 thousand EUR.

**Borrowings****57,426 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Long-term borrowings	34,476	34,584	100
– borrowings from domestic banks	34,476	34,584	100
Short-term borrowings	22,397	47,960	47
– borrowings from domestic banks	7,241	24,838	29
– borrowings from foreign banks	5,878	11,756	50
– borrowings from other entities	9,278	11,366	82
Interest payable	553	809	68
<b>Total</b>	<b>57,426</b>	<b>83,353</b>	<b>69</b>

**Provisions****132,586 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Provisions for termination pay and anniversary bonuses	45,850	45,775	100
Other provisions	86,736	76,779	113
– provisions for lawsuits	86,281	76,255	113
– provisions for ecological restoration	247	360	69
– other provisions	208	164	127
<b>Total</b>	<b>132,586</b>	<b>122,554</b>	<b>108</b>

The major item of the total provisions involves provisions for the lawsuits which are increased by 13% on account of forming new provisions in the

amount of 10,000 thousand EUR for pending legal actions resulting from alleged patent infringements related to the patent protection of atorvastatin.

**Grants received**
**2,673 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Grants for the subsidiary Krka-Rus	5	10	52
Grants for the plant BETA in Šentjernej	280	302	93
Assets for the health resorts Dolenjske and Šmarješke Toplice	2,258	2,329	97
Grants by the European Regional Development Fund	25	26	96
Free receipt of fixed assets	105	111	95
<b>Total</b>	<b>2,673</b>	<b>2,777</b>	<b>96</b>

**Trade payables**
**69,437 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Payables to domestic suppliers	34,911	35,704	98
Payables to foreign suppliers	34,258	24,719	139
Payables from advances	268	466	58
<b>Total</b>	<b>69,437</b>	<b>60,889</b>	<b>114</b>

**Other current liabilities**
**30,732 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Accrued contractual discounts on products sold to other customers	7,815	7,416	105
Payables to employees – gross wages, other charges	17,249	17,240	100
Other	5,668	2,949	192
<b>Total</b>	<b>30,732</b>	<b>27,605</b>	<b>111</b>

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

### Balance sheet

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
<b>Assets</b>			
Property, plant and equipment	404,379	377,442	107
Intangible assets	21,116	22,400	94
Investments in subsidiaries	121,153	121,513	100
Long-term loans	5,805	5,324	109
Other investments	10,184	6,529	156
Deferred tax assets	27,688	27,648	100
Other non-current assets	260	178	147
<b>Non-current assets</b>	<b>590,585</b>	<b>561,034</b>	<b>105</b>
Inventories	108,478	99,480	109
Trade and other receivables	186,928	157,484	119
Current investments	30,815	31,790	97
Cash and cash equivalents	4,268	4,498	95
<b>Current assets</b>	<b>330,489</b>	<b>293,252</b>	<b>113</b>
<b>Total assets</b>	<b>921,074</b>	<b>854,286</b>	<b>108</b>
<b>Equity</b>			
Share capital	59,132	59,132	100
Own shares	-19,489	-19,489	100
Reserves	147,660	147,660	100
Retained earnings	441,475	379,135	116
Fair value reserves	6,386	3,480	184
<b>Total equity</b>	<b>635,164</b>	<b>569,918</b>	<b>111</b>
<b>Liabilities</b>			
Borrowings	29,031	29,143	100
Provisions	126,795	116,806	109
Grants received	415	448	93
Deferred tax liabilities	3,889	3,954	98
<b>Total non-current liabilities</b>	<b>160,130</b>	<b>150,351</b>	<b>107</b>
Trade payables	74,023	56,304	131
Borrowings	22,186	47,105	47
Income tax liabilities	3,802	6,698	57
Provisions and other liabilities	25,769	23,910	108
<b>Total current liabilities</b>	<b>125,780</b>	<b>134,017</b>	<b>94</b>
<b>Total liabilities</b>	<b>285,910</b>	<b>284,368</b>	<b>101</b>
<b>Total equity and liabilities</b>	<b>921,074</b>	<b>854,286</b>	<b>108</b>

## Income statement

in thousand EUR	1–6/2007	1–6/2006	Ind. 07/06
Sales revenues	344,318	303,528	113
Production cost of goods sold	126,597	111,244	114
<b>Gross operating yield</b>	<b>217,721</b>	<b>192,284</b>	<b>113</b>
Sales and marketing	81,685	71,300	115
R&D costs	29,722	25,267	118
Administrative expenses	23,665	21,349	111
Other operating income	510	1,163	44
<b>Operating profit</b>	<b>83,159</b>	<b>75,531</b>	<b>110</b>
Financial income	5,985	9,888	61
Financial expenses	6,228	10,041	62
<b>Net financial result</b>	<b>-243</b>	<b>-153</b>	<b>159</b>
<b>Profit before tax</b>	<b>82,916</b>	<b>75,378</b>	<b>110</b>
Income tax expense	19,388	22,400	87
<b>Profit for the period</b>	<b>63,528</b>	<b>52,978</b>	<b>120</b>
Earnings per share (in EUR)	18.8	15.7	120

\* Net profit of the majority owner / average number of shares issued excluding treasury shares

## Statement of changes in equity

	Called capital	Own shares	Reserves			Retained earnings			Fair value reserves	Total
			Share premium	Legal reserves	Statutory reserves	Profit reserves	Net profit for the period	Net profit carried forward		
in thousand EUR										
<b>Balance at 01 Jan 2006</b>	<b>59,135</b>	<b>-19,490</b>	<b>120,992</b>	<b>14,991</b>	<b>9,598</b>	<b>225,265</b>	<b>59,596</b>	<b>5,191</b>	<b>2,344</b>	<b>477,622</b>
Entry of net profit for the period	0	0	0	0	0	0	52,978	0	0	52,978
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	-59,596	59,596	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	0
Recognised income and expenses	0	0	0	0	0	-2,205	0	0	878	-1,327
<b>Balance at 30 Jun 2006</b>	<b>59,135</b>	<b>-19,490</b>	<b>120,992</b>	<b>14,991</b>	<b>9,598</b>	<b>223,060</b>	<b>52,978</b>	<b>64,787</b>	<b>3,222</b>	<b>529,273</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>12,428</b>	<b>3,480</b>	<b>569,918</b>
Entry of net profit for the period	0	0	0	0	0	0	63,528	0	0	63,528
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	0	0	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	0
Recognised income and expenses	0	0	0	0	0	0	0	-1,188	2,906	1,718
<b>Balance at 30 Jun 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>63,528</b>	<b>102,151</b>	<b>6,386</b>	<b>635,164</b>



## Cash flow statement

in thousand EUR	1–6/2007	1–6/2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit for the period</b>	<b>63,528</b>	<b>52,978</b>
<b>Adjustments for:</b>	<b>39,950</b>	<b>39,917</b>
– amortisation /depreciation	21,575	18,282
– foreign exchange gain	-414	-1,756
– foreign exchange loss	721	5,329
– investment income	-4,904	-7,189
– investment expenses	2,269	1,429
– financial expenses	1,315	1,421
– income taxes and other taxes not included in operating expenses	19,388	22,401
<b>Operating profit before changes in net operating current assets and provisions</b>	<b>103,478</b>	<b>92,895</b>
Change in trade receivables	-29,616	-8,413
Change in inventories	-8,998	6,188
Change in operating liabilities	21,223	3,675
Change in other current liabilities and provisions	11,827	19,436
Income taxes paid	-24,336	-43,736
<b>Cash generated from operations</b>	<b>73,578</b>	<b>70,045</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	356	402
Proceeds from sale of current investments	338	223
Dividends received	91	74
Profits from subsidiaries	0	2,027
Proceeds from property, plant and equipment	338	411
Proceeds from sale of subsidiary	56	0
Purchase of intangible assets	-1,396	-1,373
Purchase of property, plant and equipment	-50,100	-42,226
Payments related to subsidiaries – capital increase and loss coverage	167	-6,501
Payments in connection with long-term loans	-546	-294
Payments in connection with non-current assets	-26	-150
Acquisition of current investments	2,017	-13,076
Acquisition of derivative financial instruments	1,293	43
<b>Net cash used in investing activities</b>	<b>-47,412</b>	<b>-60,440</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from an increase in current financial liabilities	-16	-1,676
Interest paid	-1,486	-1,459
Payment of non-current financial liabilities	-24,748	-1,192
Dividends paid	-12	-27
<b>Net cash used in financing activities</b>	<b>-26,262</b>	<b>-4,354</b>
Net increase in cash and cash equivalents	-95	5,251
Cash and cash equivalents at beginning of period	4,498	3,165
Effect of exchange rate fluctuations on cash held	-135	-232
<b>NET CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>4,268</b>	<b>8,184</b>

## Notes to the financial statements of the Krka Company

### Sales revenues

**344,318 thousand EUR**

The sales revenues included sales from products, services and merchandise on the domestic market in the amount of 34,892 thousand EUR (10% of sales revenues) and sales on foreign markets in the

amount of 309,426 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

**126,597 thousand EUR**

In the first six months of 2007, the production cost of goods sold increased by 14% compared to the same period last year. The ratio of production costs

to sales revenues is 36.8% and it is almost the same as it was in first half of 2006 (36.7%).

### Sales and marketing

**81,685 thousand EUR**

Sales and marketing expenses comprise the costs of the Slovenian and foreign marketing sales network, as well as provisions formed for lawsuits in the amount of 10,000 thousand EUR. Sales and marketing expenses were 15% higher than in the

same period in 2006 and their ratio to sales revenues increased from 23.5% to 23.7%. Sales and marketing expense increased by 31%, provided that provisions are not taken into account.

### R&D costs

**29,722 thousand EUR**

Compared to the same period last year, R&D costs increased by 18%, while their share among the sales revenues records an increase from 8.3% to

8.6%. All R&D costs recorded are charged against the current income statement, since research and development costs are not capitalised.

### Administrative expenses

**23,665 thousand EUR**

Compared to the first half of last year, administrative expenses increased by 11%, whereby its share in the structure of sales revenues decreased from

7.0% to 6.9%. Administrative expenses include other operating expenses.

### Costs in terms of type

**261,669 thousand EUR**

in thousand EUR	1-6/2007	1-6/2006	Ind. 07/06
Cost of goods and materials	97,657	83,881	116
Cost of services	63,668	41,665	153
Employee benefits cost	67,614	64,560	105
Depreciation	21,575	18,282	118
Provisions formed	10,805	16,693	65
Other operating expenses	6,387	5,708	112
<b>Total costs in terms of type</b>	<b>267,706</b>	<b>230,789</b>	<b>116</b>
Changes in the value of inventories	6,037	1,630	370
<b>Total</b>	<b>261,669</b>	<b>229,159</b>	<b>114</b>

**Employee benefit cost****67,614 thousand EUR**

in thousand EUR	1-6/2007	1-6/2006	Ind. 07/06
Gross wages and salaries and continued pay	53,625	50,243	107
Social security contributions and payroll tax	9,675	9,567	101
Other employee benefits cost	4,314	4,750	91
<b>Total</b>	<b>67,614</b>	<b>64,560</b>	<b>105</b>

**Other operating expenses****6,387 thousand EUR**

in thousand EUR	1-6/2007	1-6/2006	Ind. 07/06
Grants, assistance	1,161	989	117
Environmental levies	626	709	88
Membership fee, taxes, other duties	1,228	911	135
Loss in the sale of fixed assets	610	110	555
Impairments and inventory write-offs	1,351	1,467	92
Impairments and receivable write-offs	260	571	46
Other costs	1,151	952	121
<b>Total</b>	<b>6,387</b>	<b>5,708</b>	<b>112</b>

**Financial income and expenses**

in thousand EUR	1-6/2007	1-6/2006	Ind. 07/06
Exchange differences	1,420	3,110	46
Interest income	383	403	95
Change in fair value of investments (through profit or loss)	2,229	239	933
Other income	1,953	6,136	32
<b>Total financial income</b>	<b>5,985</b>	<b>9,888</b>	<b>61</b>
Exchange differences	3,422	7,191	48
Interest paid	1,302	1,404	93
Impairments due to remeasurement of investments at fair value	703	890	79
Other expenses	801	556	144
<b>Total financial expenses</b>	<b>6,228</b>	<b>10,041</b>	<b>62</b>
<b>Net financial result</b>	<b>-243</b>	<b>-153</b>	<b>159</b>

**Income tax expense****19,388 thousand EUR**

The corporate income tax levied amounts to 20,711 thousand EUR, which is 25.0% of profit before tax. Taking into account the deferred tax of

1,323 thousand EUR, income tax expense in the income statement totals 19,388 thousand EUR, and the effective tax rate is 23.4%.

**Property, plant and equipment****404,379 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Property	13,102	13,153	100
Plant	165,758	168,783	98
Equipment	148,445	141,430	105
PPE under construction	77,074	54,076	143
<b>Total</b>	<b>404,379</b>	<b>377,442</b>	<b>107</b>

The value of property, plant and equipment represented 44% of the total assets of the Company and recorded an increase of 7% compared to the start of the year. The reason for increase is growth of the value of PPE under construction because of new investments in the Company. The largest

investments by value were the 3th phase of Notal, completing the construction of the new Sinteza 4 plant for the production of pharmaceutical ingredients, a new plant for the production of pellets (Pelete IV), a new ampoule plant and the central weighing room and raw material warehouse.

**Intangible assets****21,116 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
R&D cost	2,016	2,617	77
Long-term property rights	14,374	15,730	91
Intangible assets under construction	4,726	4,053	117
<b>Total</b>	<b>21,116</b>	<b>22,400</b>	<b>94</b>

Compared to the balance at the end of 2006, the value of intangible assets decreased by 6%. Property rights from computer software represented

68% of all intangible assets. Intangible assets under construction mainly include registration documentation for new pharmaceuticals.

**Long-term loans****5,805 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Long-term loans to subsidiaries	1,981	1,898	104
Long-term loans to other entities	3,824	3,426	112
<b>Total</b>	<b>5,805</b>	<b>5,324</b>	<b>109</b>

**Other non-current investments****10,184 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Financial assets available-for-sale	9,923	6,269	158
Other non-current investments	261	260	100
<b>Total</b>	<b>10,184</b>	<b>6,529</b>	<b>156</b>

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

**Inventories****108,478 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Material	35,906	31,465	114
Work in progress	31,957	25,444	126
Products	39,408	40,754	97
Merchandise	1,181	1,804	65
Advances	26	13	203
<b>Total</b>	<b>108,478</b>	<b>99,480</b>	<b>109</b>

Inventories increased in value by 9% compared to the start of the year, mainly due to higher expected sales in the second half of the year.

In the inventories structure, 33% of inventories are materials, 29% work in progress and 38% finished products and merchandise.

**Receivables****186,928 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Short-term receivables due from subsidiaries	91,054	84,278	108
Trade receivables	85,508	64,882	132
Receivables due from other entities	10,366	8,324	125
<b>Total</b>	<b>186,928</b>	<b>157,484</b>	<b>119</b>

Receivables increased by 9% compared to year-end 2006. The reason for this increase over the period is higher sales.

**Current investments****30,815 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Current investments	21,188	22,617	94
– instruments held for trading	11,931	11,890	100
– Interest-bearing current investments	2,934	3,424	86
– other current investments	6,323	7,303	87
Short-term loans	9,627	9,173	105
– short-term loans to subsidiaries	9,010	8,148	111
– short-term loans to other entities	617	1,025	60
<b>Total</b>	<b>30,815</b>	<b>31,790</b>	<b>97</b>

Marketable shares, issued by Slovenian companies decreased in the amount of 999 thousand EUR and shares, issued by foreign companies decreased in the amount of 419 thousand EUR. Due to the new short-term loan to the subsidiary Krka Rus the value

of short-term loan to this subsidiary increased in the amount of 722 thousand EUR, while the short-term loan to the subsidiary Terme Krka increased in the amount of 112 thousand EUR.

**Cash and cash equivalents****4,268 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Cash in hand	147	70	210
Bank balances	4,121	4,428	93
<b>Total</b>	<b>4,268</b>	<b>4,498</b>	<b>95</b>

**Equity****635,164 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Share capital	59,132	59,132	100
Own shares	-19,489	-19,489	100
Reserves	147,660	147,660	100
– share premium	120,986	120,986	100
– legal reserves	14,990	14,990	100
– statutory reserves	11,684	11,684	100
Retained earnings	441,475	379,135	116
Fair value reserves	6,386	3,480	184
<b>Total</b>	<b>635,164</b>	<b>569,918</b>	<b>111</b>

The equity of the Company in first half of 2007 increased by 11%. The increase is mainly attributable to the profit for the first half of 2007 in the amount of 63,528 thousand EUR and income

and expenses recognised directly in equity in the amount of 2,906 thousand EUR.

**Borrowings****51,217 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Long-term borrowings	29,031	29,143	100
– borrowings from domestic banks	29,031	29,143	100
Short-term borrowings	21,656	46,404	47
– borrowings from domestic banks	6,500	23,380	28
– borrowings from foreign banks	5,878	11,756	50
– borrowings from other entities	9,278	11,268	82
Interest payable	530	701	76
<b>Total</b>	<b>51,217</b>	<b>76,248</b>	<b>67</b>

**Provisions****126,795 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Provisions for termination pay and anniversary bonuses	42,044	41,969	100
Other provisions	84,751	74,837	113
– provisions for lawsuits	84,505	74,506	113
– provisions for ecological restoration	246	331	74
<b>Total</b>	<b>126,795</b>	<b>116,806</b>	<b>109</b>

The major item of the total provisions involves provisions for the lawsuits which increased by 13% on account of forming new provisions in the amount

of 10,000 thousand EUR for pending legal actions resulting from alleged patent infringements related to the patent protection of atorvastatin.

**Grant received****415 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Grants for the subsidiary Krka-Rus	5	9	53
Grants for the plant BETA in Šentjernej	280	302	93
Grants by the European Regional Development Fund	25	26	95
Free receipt of fixed assets	105	111	95
<b>Total</b>	<b>415</b>	<b>448</b>	<b>93</b>

**Trade payables****74,023 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Payables to subsidiaries	8,834	1,677	527
Payables to domestic suppliers	32,042	32,657	98
Payables to foreign suppliers	32,879	21,641	152
Payables from advances	268	329	81
<b>Total</b>	<b>74,023</b>	<b>56,304</b>	<b>131</b>

**Other current liabilities****25,769 thousand EUR**

in thousand EUR	30 Jun 2007	31 Dec 2006	Ind. 07/06
Accrued contractual discounts on products sold to subsidiaries	558	528	106
Accrued contractual discounts on products sold to other customers	7,416	7,416	100
Payables to employees – gross wages, other charges	15,524	15,305	101
Other	2,271	661	344
<b>Total</b>	<b>25,769</b>	<b>23,910</b>	<b>108</b>