

**Unaudited Interim Report
for the Krka Group
and Krka, d. d., Novo mesto
January – June 2008**



Novo mesto, July 2008

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INTRODUCTION

The statements for the first half of 2008, and the first half of 2007 are unaudited, while the full-year statements for 2007 are audited.

The company has no authorised capital and has not made a conditional share capital increase.

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 2008 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.

The Supervisory Board discussed and approved the business report for the first half of 2008 for the Krka Company and Group at its regular meeting on 29 July 2008.

Significant achievements in the first half of 2008

- In the first half of 2008 the Krka Group generated sales of products and services worth EUR 469.3 million, while the Krka Company generated sales worth EUR 416.2 million.
- Group sales grew by 20% compared to the same period last year, while Company sales were up 21%.
- The Krka Group's operating profit over the first half of 2008 was EUR 108.5 million, an increase of 19%, compared to the same period last year. The Krka Company's operating profit of EUR 108.2 million was an increase of 30% on the same period last year.
- The Krka Group's net profit was EUR 78.4 million (15% growth on the same period last year), and EUR 81.1 million (28% growth) for the Krka Company.
- The highest proportion of sales by Krka Group region (26%) was achieved in Region Central Europe, while the highest sales growth (46%) was achieved in Region West Europe and Overseas Markets.
- Over 89% of the Group's sales and 91% of the Company's sales were generated on markets outside Slovenia.
- The share price listed on the Ljubljana Stock Exchange reached EUR 89.57 on the final day of June 2008.
- The Krka Group allocated EUR 73.3 million to investments, EUR 63.1 million of which was invested by the Krka Company and EUR 10.2 million by subsidiaries.
- The Krka Group had 7362 employees on the 30 June 2008. This was an increase of 8.6% compared to the start of the year.
- The main business objectives of the Krka Company and the Krka Group were realised.

Events after the accounting period

Shareholders passed a resolution at the Krka Company's 13th Annual General Meeting, held on 3 July 2008, on the use of the 2007 accumulated profit which amounted to EUR 118,436,389.59; EUR 30,757,545.00 was allocated to dividends, EUR 43,804,922.30 to other revenue reserves, EUR 43,804,922.29 was carried forward to next year, and EUR 69,000.00 gross was allocated to the Supervisory Board's participation in profit.

The dividend payment of EUR 0.91 gross per share (in last year the dividend was EUR 0.80 gross per share) will start within 60 days of the General Meeting's conclusion, i.e. 1 September. The shareholder records in the share register at the KDD-Central Securities Clearing Corporation, Ljubljana on 8 July 2008 will apply for the purposes of dividend payment.

Shareholders also decided at the General Meeting on amendments to the articles of association,

passing a resolution on harmonising the definition of activity with the standard classification of activities and amending the articles of association to include a provision enabling employees of Krka d. d., Novo mesto to participate in the company's accumulated profit.

The shareholders passed a resolution on bringing the term-in-office of Supervisory Board members into compliance with provisions of the articles of association (Item 6.11 of the articles of association). The terms-in-office of the Supervisory Board members Mateja Božič MSc, Dr Gregor Gomišček, Dr Draško Veselinovič, Anton Rous and Alojz Zupančič, the shareholder representatives, will now last until 21 June 2010.

The shareholders appointed KPMG Slovenija, podjetje za revidiranje, d.o.o., Ljubljana as the company auditor for the 2008 financial year.

Highlights

in EUR thousand	Krka Group		Krka Company	
	1-6/2008	1-6/2007	1-6/2008	1-6/2007
Sales revenues	469,268	392,532	469,268	392,532
EBIT	108,478	90,925	108,478	90,925
EBITDA	141,709	118,362	141,709	118,362
Net profit	78,396	68,184	78,396	68,184
R&D costs	38,559	30,002	38,559	30,002
Investments	73,265	58,409	73,265	58,409

	30 Jun 2008	31 Dec 2007	30 Jun 2008	31 Dec 2007
Non-current assets	787,469	749,707	787,469	749,707
Current assets	442,225	371,711	442,225	371,711
Equity	759,692	680,913	759,692	680,913
Non-current liabilities	263,692	253,773	263,692	253,773
Current liabilities	206,310	186,732	206,310	186,732

RATIOS	1-6/2008	1-6/2007	1-6/2008	1-6/2007
Net profit margin	16.7 %	17.4 %	16.7 %	17.4 %
EBIT margin	23.1 %	23.2 %	23.1 %	23.2 %
EBITDA margin	30.2 %	30.2 %	30.2 %	30.2 %
ROE ¹	21.8 %	22.5 %	21.8 %	22.5 %
ROA ²	13.3 %	14.9 %	13.3 %	14.9 %
Liabilities/Equity	0.619	0.473	0.619	0.473
R&D costs/Sales revenues	8.2 %	7.6 %	8.2 %	7.6 %

NUMBER OF EMPLOYEES	30 Jun 2008	30 Jun 2007	30 Jun 2008	30 Jun 2007
At the day	7362	6178	7362	6178

SHARE INFORMATIONS (Krka Group)	1-6/2008	1-6/2007
Total number of shares issued	35,426,120	35,426,120
Earnings per share in EUR ³	4.64	4.03
Share price at the end of period in EUR	89.57	99.22
Price/earnings ratio (P/E)	19.31	24.59
Book value of share in EUR ⁴	21.44	18.14
Share price/book value (P/B)	4.18	5.47
Market capitalisation in EUR thousand (at the end of period)	3,173,118	3,514,980

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 2012

- Achieving average annual growth in sales value of over 10%.
- Maintaining the proportion of new products in overall sales of at least 40%.
- Strengthening the competitive advantage of the product portfolio via vertical integration and launching selected products as the first generic products within selected key markets.
- Improving performance indicators.
- Making effective use of assets and improving product cost-effectiveness.
- Increasing innovation.
- Maintaining independence.

Key strategies – to 2012

- Prioritising European and central Asian markets.
- Prioritising the strengthening of pharmaceutical and chemical activities.
- Developing generic medicines and preparing market authorisation documentation at least three years before the expiry of the product patent for the original medicine.
- Strengthening competitiveness in western European markets by establishing its own marketing companies.
- Strengthening synergy within the Krka Group (in expertise and costs), and maximising utilisation of competitive advantages in the business environments of Krka companies abroad.
- Restructuring the purchasing market to ensure the continual reduction of purchase prices.
- Strengthening the internationalisation of all business functions.
- Reducing the impact of financial risk and economic risk on Krka Group's operations.
- Pursuing a moderate dividend increase policy.
- Continued growth of market shares through the purchase of local pharmaceutical companies or business acquisition in selected markets.
- Maintaining our economic, social and protection responsibilities for the environment in which we operate.
- Operating according to principles of business excellence.

Krka Group's business objectives for 2008

- Sales of product and service sales planned to reach EUR 950 million (22% growth).
- The most important sales region will be Region Central Europe, with the highest growth anticipated in Region Western Europe and Overseas Markets; the Russian Federation will remain the single most important market.
- The anticipated proportion of sales in markets outside Slovenia is 89%.
- Prescription pharmaceuticals – with anticipated growth of 23% – will remain the most important product group (82% of overall sales).
- New prescription pharmaceutical products will be marketed in key indication groups.
- The planned net profit is EUR 160 million.
- At the end of 2008 the Krka Group will have 7700 employees, almost 46% of them abroad.
- Investments planned at EUR 160 million will primarily be used to increase and modernise R&D, 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: 07 331 21 11

Fax: 07 332 15 37

E-mail: info@krka.biz

Website: www.krka.si

Basic line of business: production of pharmaceutical preparations

Activity code: 21.200

Year established: 1954

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

VAT number: 82646716

Company ID number: 5043611

Called-up capital: EUR 59,126,194.28

Shares: 35,426,120 ordinary no par-value registered shares with nominal value of EUR 1,669 per share. Krka's shares have been listed on the Ljubljana Stock Exchange since 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 2008
Terme Krka, d.o.o., Novo mesto, Slovenia	100 %
KRKA-FARMA d. o. o., Zagreb, Croatia	100 %
KRKA-FARMA, d. o. o., Novi Sad, Serbia	100 %
KRKA-FARMA DOOEL, Skopje, Macedonia	100 %
OOO KRKA-RUS, Istra, Russian Federation	100 %
OOO KRKA FARMA, 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 Slovensko, s. r. o., Bratislava, Slovakia	100 %
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100 %
KRKA Sverige AB, Stockholm, Sweden	100 %
TAD Pharma GmbH, Cuxhaven, Germany	100 %
KRKA FARMACÊUTICA, Unipessoal Lda., Estoril, Portugal	100 %
KRKA USA, LLC, Delaware, USA	100 %

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

The subsidiaries KRKA ČR s.r.o. in the Czech Republic and KRKA Slovensko, s.r.o. in Slovakia, both 100%-owned by Krka, started operations in

January 2008. The Slovakian company is new, while the company in the Czech Republic was previously dormant. In the first half of the year KRKA Aussenhandels GmbH, Munich and KRKA PHARMA GmbH, Frankfurt were merged with TAD Pharma. TAD Pharma has taken over all their assets, capital, rights and obligations.

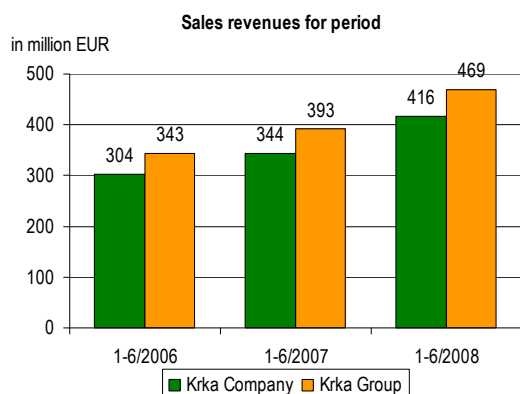
Business operations analysis of the Krka Group and Krka Company

Both the Krka Group and Company operated successfully in the first half of the year. The Group's operating expenses grew at the same rate as sales and their ratio to sales revenues was the same as for the first half of 2008. The growth in the Company's operating expenses was lower than

sales growth, making the profit-to-sales ratios higher than for the same period last year.

The analysis includes data for the Krka Company and Krka Group, while the commentary relates primarily to the Krka Group.

Revenues



The net sale revenues of the Krka Group increased by 20% compared to the same period last year, while the Krka Company recorded an increase of 21%. The Krka Company generated net sales revenues of EUR 416.2 million from the sale of prescription pharmaceuticals, self-medication products, cosmetics and animal health products, while the Krka Group generated EUR 469.3 million

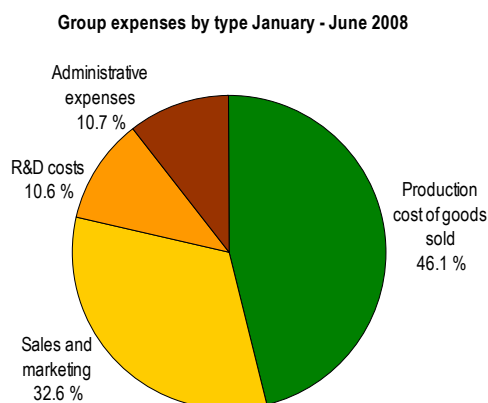
from sales of these products plus sales of health and tourist services.

The Krka Group generated most of its net sales (82%) from prescription pharmaceutical sales. This was also the highest-growing product group, at 21%, while the self-medication product group grew by 20%. The majority of the sales revenues (89%) was generated from the sale of products, services and goods on markets outside Slovenia.

The Group generated total revenues of EUR 480.8 million, and the Krka Company EUR 425.5 million.

A more detailed analysis of the sales results achieved by individual market and product group is provided within this half-year report in the Marketing and Sales section.

Expenses



The Krka Group's total expenses for the first half of 2008 reached EUR 378.3 million, 21.5% higher than for the same period last year.

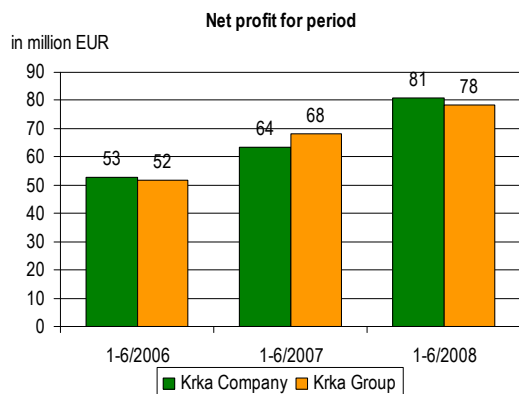
The Krka Group recorded operating expenses of EUR 363.2 million, EUR 167.6 million of which were related to production costs of goods sold, EUR 118.3 million to sales and marketing costs, EUR 38.6 million to R&D costs and EUR 38.7 million to administrative expenses.

The production costs of goods sold increased by 16% for the Group compared to the first half of 2007, and their ratio to sales revenues was 35.7%. Sales and marketing costs grew by 20% compared to the same period last year, due to Krka expanding its market network in all major Krka markets, and their ratio to sales revenues was 25.2%.

R&D costs increased by 29% (their ratio to sales revenues was 8.2%). Overall R&D costs are recognised as expenses, since they are not

capitalised. Administrative expenses increased by 32%, and their ratio to sales revenues was 8.3%.

Operating results



The Krka Group's operating profit of EUR 108.5 million represents an increase of 19% on the same period last year. The pre-tax profit was up 12% and amounted to EUR 102.4 million. Corporate income tax totalled EUR 24.0 million, of which EUR 26.5 million was levied tax and EUR 2.5 million deferred tax. The Group's effective tax rate was 23.4%.

The Krka Group's net profit was EUR 78.4 million, an increase of 15% on last year's half-year results, while the net profit of the Krka Company totalled EUR 81.1 million, up 28%.

Assets

The Krka Group's assets at the end of June were worth EUR 1,229.7 million, up by a tenth since the start of the year. The ratio of non-current assets to total assets was 64%, a reduction of 2.9 percentage points compared to the start of the year.

Property, plant and equipment (PPE), worth a total of EUR 613.6 million was by far the most significant non-current asset item, out of a total of EUR 787.5 million. PPE alone was worth half of total assets, with their value increasing by

7% compared to the start of the year.

Current assets increased by 19% to EUR 442.2 million compared to the start of the year. Inventories increased by 15% over the period, reaching a value of EUR 197.3 million, while trade and other receivables increased by 29% to EUR 232.2 million. Current financial investments fell by 40 % (primarily shares available-for-sale and derivatives) and were worth EUR 1.7 million at the end of the period.

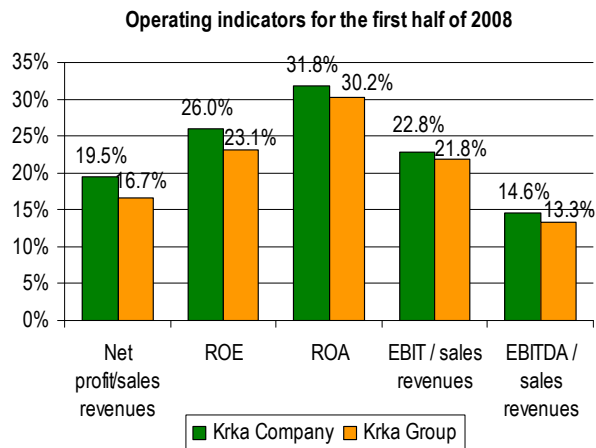
Equity and liabilities

The Group's equity increased by 12% compared to the end of 2007, and now represents 62% of total equity and liabilities. The main factor in the increase was the Group's profits over the first half of the year.

Long-term provisions increased by 3%, while long-term loans were up 9%.

Current liabilities increased by a tenth compared to the end of 2007, and were worth EUR 206.3 million or 17% of total assets. In the current liability structure, operating liabilities increased by 13% to EUR 88.9 million, while short-term loans were up by 4% to EUR 64.9 million. Other current liabilities were worth EUR 44.9 million, an increase of 7% compared to the end of last year.

Performance ratios



The operational indicators were in line with strategic targets and objectives for both the Group and the Company.

The Krka Group's net profit margin was 16.7% (Krka Company: 19.5%), the EBIT margin was 23.1% (Krka Company: 26.0%), and the EBITDA margin 30.2 % (Krka Company: 31.8 %). The Krka Group's ROE was 21.8% (Krka Company: 22.8%), and the ROA was 13.3% (Krka Company: 14.6%).

BUSINESS REPORT

Marketing and sales

In the first half of 2008 the Krka Group and Company both exceeded the sales figures for the same period last year. The Krka Group's sales were

worth EUR 469.3 million and exceeding the 2007 half-year results by 20%, while the Krka Company's sales grew by 21% to EUR 416.2 million.

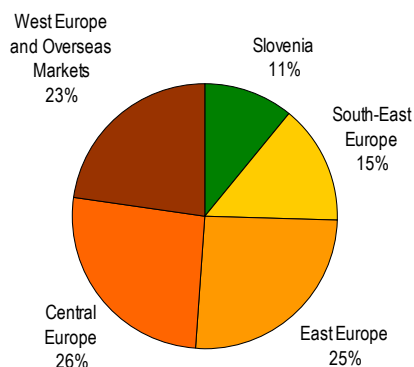
Sales by region

The Group's highest sales by region were in Region Central Europe, where sales were worth EUR 123.6 million, representing growth of 22%. The region represented 26% of total Group sales. It was followed in sales volume by Region East Europe, with EUR 119.4 million or a 25% share of Group sales. Region West Europe and Overseas Market

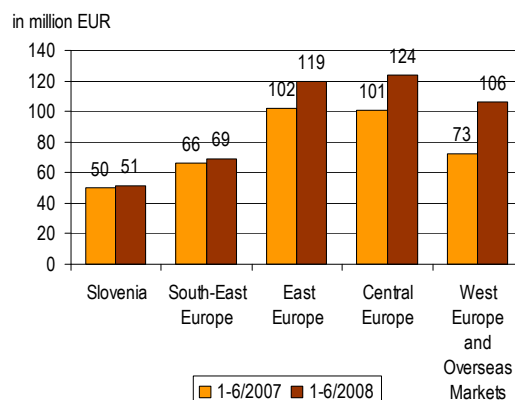
was the third largest region by sales (23% of overall sales) and also recorded the highest growth of any region (46%). Product sales in Region South-East Europe were worth EUR 68.7 million, or 15% of total sales. Sales on the Slovene market were worth 9% of the Krka Company's total sales and 11% of the Group's total sales.

in EUR thousand	Krka Group			Krka Company		
	1-6/2008	1-6/2007	Ind.	1-6/2008	1-6/2007	Ind.
Slovenia	51,201	50,283	102	35,640	34,892	102
South-East Europe	68,707	66,229	104	65,792	60,213	109
East Europe	119,415	102,419	117	116,191	97,196	120
Central Europe	123,641	100,961	122	114,218	84,690	135
West Europe and Overseas Markets	106,304	72,640	146	84,368	67,327	125
Total	469,268	392,532	120	416,209	344,318	121

Krka Group sales by region for the first half of 2008



Krka Group first-half sales by region for 2007 and 2008



Slovenia

On our domestic market we achieved sales worth EUR 51.2 million in the first half of the year, with

EUR 30.1 million generated from prescription pharmaceutical sales, EUR 3.1 million generated

from self-medication products, EUR 1.3 million from animal health products, and EUR 1.1 million from cosmetics. Sales of health and tourism services contributed EUR 15.2 million to total sales in Slovenia, an increase of 3% on the first half of 2007.

In the first quarter of the year, Krka experienced a fall in sales caused by the prescription pharmaceutical pricing system, but a small amount of growth could be reported by the end of the first half of 2008. Krka retained its position as the

South-East Europe

Krka generated sales worth EUR 68.7 million in the countries of South-East Europe, which is 4% higher than for the same period last year. The highest growth compared to the same period last year was achieved in Bulgaria (29%), Bosnia and Herzegovina (24%), Kosovo (20%) and Albania (26%). Significant growth of 11% was also achieved on the Croatian market. The sales growth on these markets can be attributed largely to an increase in marketing and commercial activities. Sales in Serbia and Romania were somewhat down on the same period last year.

One of the key Krka markets, Croatia represented one third of sales in the region. With a market share of over 6%, Krka has maintained third place on the Croatian market in terms of sales, immediately after two domestic producers. The best-selling products over the period were Atoris®, Coryol®, Lorista® and Zyllt®, while the newly launched products Ampril®, Nolpaza®, Lorista H® and Zalasta Q® all sold successfully.

Krka's subsidiary in Croatia produces Zyllt®, Laaven®, Giraxa®, Tenox® and Atoris® for the Croatian and other markets.

Romania, where Krka remains the leading foreign generics producer with a 3% market share, remained the second most important market in the region. The fall in sales compared to the first half of last year was due to changes in the US dollar exchange rate and changes in the prescription system, with the existing system replaced by prescriptions based on product brand names. The best-selling products remained Bilobil®, Enap®, Vasilip® and Ciprinol®, with other important products

leading prescription pharmaceutical producer in Slovenia.

Krka remains the market leader in a number of individual therapeutic groups, such as statins, ACE inhibitors (angiotensin-converting enzyme), proton pump inhibitors and sartans, while is also increasing its market share in medicines to treat the central nervous system. The following Krka products remain market leaders: Ultop®, Atoris®, Enap®, Lorista®, Prenessa® and Vasilip®.

in terms of sales volume including Rawel®, Fromilid®, Tramadol®, Coryol® and Nolicin®.

The somewhat lower sales volume in Serbia compared to the same period last year is largely due to a general reduction in prices in the pharmaceutical market. The best-selling products are Lorista® and Fromilid®. Sales of self-medication products were 44% up on the same period last year, largely due to the successful launch of new Septolete® flavours and enhanced promotional and commercial work in pharmacies. The sale of animal health products was somewhat lower than for the same period last year because of market restructuring.

In **Bosnia and Herzegovina** we achieved product sales worth EUR 6.9 million. Prescription pharmaceuticals (sales up by 27%) contributed most to the overall sales growth of 24%. Worthy of particular mention is the growth in sales of Enap®-H that occurred after it was placed on the approved list, with enhanced promotional activities on the market considered responsible for improving sales results.

In **Bulgaria** Krka sold products worth EUR 5.6 million, representing growth of 29%. The highest sales growth was achieved by the products Lorista®, Rawel®, Enap®, Vasilip®, Tenox® and Atoris®, with Fromilid® and Holetar® also making an important contribution to total sales.

Sales were higher than for the same period last year on all other south-east European markets, due mainly to an increase in marketing and sales activities in the field.

East Europe

In the first half of 2008 sales on the markets of East Europe increased by 17%. The largest market in the region remains the Russian Federation, which is also Krka's largest individual market.

Krka sold products in the Russian Federation worth EUR 78.5 million, representing growth of 12%. Prescription pharmaceutical sales remained a mainstay, growing 9% to EUR 57.9 million. Self-medication product sales came next and were worth EUR 17.3 million, representing growth of 21%, while animal health product sales were worth EUR 2.0 million (16% growth), and cosmetics sales were worth EUR 1.3 million (28% growth) compared to the first half of 2007.

The best-selling Krka product in the Russian Federation remained Enap[®], with good sales also achieved by Vasilip[®], Atoris[®], Nolicin[®], Macropen[®], Fromilid[®], Ultop[®], Cordipin[®], Zyllt[®], Bilobil[®], Pikovit[®], Duovit[®], Herbion[®] and Septotele[®]. The highest growth among these products was achieved by Atoris[®], Zyllt[®], Ultop[®], Herbion[®] and Septotele[®].

The strengthening of the marketing network is a point of note, and particularly the improved field coverage achieved, as well as the successful operation of the Krka Rus production company, which is expanding production capacity.

Operations in Ukraine in the first half of 2008 were marked by an increase in the number of specialist staff and a subsequent improvement in cooperation with doctors and pharmacy chains, which are an increasingly important component of the medicine supply chain in Ukraine. The result of this move was a 39% growth in total sales compared to the same period last year. Prescription pharmaceutical sales represented the major share of overall sales (72%) and were worth EUR 25.4 million, followed by sales of self-medication products (22%), and animal health products (4%). Our best-selling products are Enap[®], Duovit[®] and the Herbion[®] product group.

Central Europe

The Krka Group generated sales worth EUR 123.6 million in the markets of Central Europe in the first half of 2008, which is 22% higher than for the same period last year. Sales of prescription pharmaceuticals, which represent 93% of overall sales in the region, grew by 23%, while sales of self-

In Kazakhstan Krka recorded sales worth EUR 3.5 million. The leading product group was prescription pharmaceuticals with 62% of overall sales, followed by self-medication products with 37% of the total. The best-selling products are Enap[®], Pikovit[®], Duovit[®], Vasilip[®] and Fromilid[®].

In Uzbekistan sales were worth EUR 3.2 million, which is 17% up on the same period last year. The increase in sales was largely the consequence of heightened promotional activities and more specialist staff. Prescription pharmaceuticals remained the leading product group with 58% of overall sales and self-medication pharmaceuticals 41%. The best-selling products were Pikovit[®] and Enap[®].

In Belarus sales were worth EUR 3.1 million, which is 17% up on the same period last year. Prescription pharmaceuticals formed the largest product group by sales (69%), followed by self-medication products (27%), and animal health products (3%). The best-selling products were Enap[®], Macropen[®], Atoris[®], Septotele[®] and Pikovit[®]. Active and aggressive pricing from domestic pharmaceutical producers remains a feature of this market.

Operations in Moldova over the period were marked by a fall in sales in Transnistria, but growth of over 50% in other parts of the state. Overall sales grew by 5% compared to the same period last year.

Sales in Georgia grew by 16%. The most important product group by sales was prescription pharmaceuticals (74% of overall sales), followed by self-medication products sales, which represented 19% of total sales. Sales in Azerbaijan increased by 18%, and sales in Armenia by 21%. The best-selling products in Armenia are Enap[®], Ciprinol[®] and Pikovit[®]. In Mongolia sales increased by 52%, while rising 51% in Tajikistan and 21% in Kyrgyzstan.

medication products grew by 13%, cosmetics by 55% and animal health products sales by 16%.

On the Polish market, which represented 48% of sales in the region, Krka sold products worth EUR 58.9 million, representing growth of 14% compared to the same period last year. The most

important prescription pharmaceutical remains Zalasta[®], followed by Atoris[®], Lorista[®], Lanzul[®], Vasilip[®] and Nolpaza[®]. These products represented almost half of all prescription pharmaceutical sales. Prenessa[®] and Zyllt[®] produced in Poland itself also contributed to the positive sales results. The most important medicines also include Rawel[®] and Prenessa[®], sales of which doubled compared to the same period last year. Sales of self-medication products were slightly down on the previous half-year, while sales of animal health products grew by 29%.

In the Czech Republic we achieved sales worth EUR 23.2 million, sales growth of 15% compared to the same period last year. The best-selling products are Atoris[®], Lorista[®], Ampri[®], Prenessa[®], Enap[®], Asentra[®], Lanzul[®] and Fromilid[®]. In the self-medication product group, Septolete[®] and Nalgesin[®] products sold well, representing almost 80% of total self-medication product sales, with product group sales increasing overall by 33% compared to the same period last year.

Hungary is Krka's third largest market in the region by sales. Krka recorded sales worth EUR 20.8 million, growth of 23% compared to the same period last year. The most important products Atoris[®], Prenessa[®], Tenox[®], Fromilid[®] and Nolpaza[®]. Particular mention must be made of the product Nolpaza[®], launched last autumn, which has become the fifth best-selling Krka product in Hungary.

In Slovakia sales were worth EUR 10.7 million, which is 40% up on the same period last year. The

highest growth was achieved by Atoris[®], Prenessa[®], Alventa[®] and Valsacor[®]. The best-selling product in the self-medication group – which grew by 11% – was Septolete[®].

Sales in Lithuania in the first half-year of 2008 were worth EUR 6.4 million, which means growth of 14% compared to the same period last year. Krka's most important products on this market are Lorista[®], Zalasta[®], Enap[®], Kaptopril[®], Ultop[®] and Yasnal[®]. Zalasta[®], launched this year, is worth specific mention, since it has already become the second best selling Krka product on the market. A fall in sales was recorded for self-medication products compared to the same period last year. Despite this, Krka's overall market share is improving, which is due to improvements in the organisation of activities.

Sales in Latvia were worth EUR 2.7 million, with growth of 15%. The most important product was still Enap[®], which recorded growth of 10%, and was followed by Atoris[®], Tenox[®] and Fromilid[®]. Sales of self-medication products fell by 11% compared to the same period last year.

Krka sold products worth EUR 0.9 million in Estonia, growth of 21% compared to the first half of last year. Our most important products on this market remain Fromilid[®], Enap[®] and Ciprinol[®]. The successful launch of Lorista[®] and Valsacor[®] is also worth mentioning, while sales of self-medication products were also successful, almost doubling in volume due largely to Septolete[®] products.

West Europe and Overseas Markets

In Region West Europe and Overseas Market product sales were worth EUR 106.3 million, an increase of over 46% on the same period last year. Prescription pharmaceuticals represent as much as 96% of overall sales in the region, with animal health product representing 3% and self-medication products 1%.

Some 88% of sales in this Krka region were achieved in the EU-15 countries, which Krka considers as key markets. The most important markets are Germany, the United Kingdom, Italy, and France. The best sellers are lansoprazole, olanzapine, carvedilol, venlafaxine, amlodipin and enalapril, which place Krka among the leading

generic suppliers on some markets. Sales growth was also achieved risperidon, mirtazapine, sertraline and atorvastatin. Animal health product sales were up by 30% compared to the same period last year, and increased by 70% in the EU15 countries.

Krka successfully strengthened sales of its own branded products via its subsidiaries in western Europe, particularly in Germany, where Krka also sells products under the brand of its subsidiary, TAD Pharma.

On its overseas markets, Krka is continuing to realise its objectives, for example, in Africa where it

sells its own brand products via partners. In Asia, where Krka's most important market is Malaysia, sales volumes increased by 12% compared to the same period last year. Despite procedures taking longer, Krka successfully acquired new market authorisations for its products, which augurs well for continued sales growth.

Iran remains an important overseas market, where we managed to increase pharmaceutical sales by 13% compared to the same period last year. Krka has also increased sales and broadened its sales portfolio in Yemen.

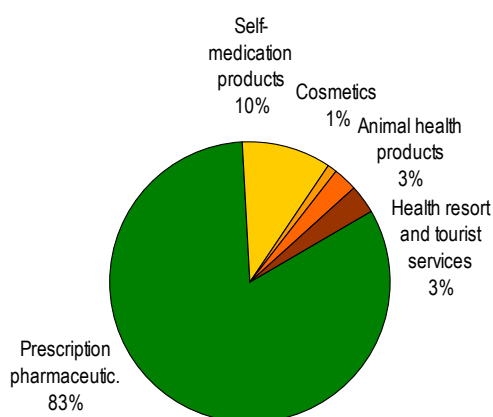
Sales by product and service group

Krka's most important line of business is the production and marketing of prescription pharmaceuticals. Sales of prescription pharmaceuticals grew by 21% over the period, and together with self-medication and cosmetics

represented 94% of overall Krka Group sales. Krka also markets and sells animal health products, sales of which grew by 11% over the six-month period. The value of health and tourism services were worth EUR 15.2 million, achieving growth of 3%.

in EUR thousand	Krka Group			Krka Company		
	1-6/2008	1-6/2007	Ind.	1-6/2008	1-6/2007	Ind.
Human health products	440,849	365,907	120	403,181	332,691	121
- prescription pharmaceuticals	386,973	320,523	121	351,765	288,612	122
- self-medication products	48,372	40,196	120	45,930	38,920	118
- cosmetics	5,504	5,188	106	5,486	5,159	106
Animal health products	12,810	11,495	111	12,522	11,141	112
Health resort and tourist services	15,228	14,734	103			
Other	381	396	96	506	486	104
Total	469,268	392,532	120	416,209	344,318	121

Structure of Krka Group sales by product and service group for the first half of 2008



Prescription pharmaceuticals

In the first half of 2008 the Krka Group sold prescription pharmaceutical products worth EUR 387.0 million, which is 21% higher than for the first half of 2007. The highest year-on-year growth, (45%) was achieved in Region West Europe and Overseas Markets, with sales worth EUR 101.6

million. This region is followed by Regions Central Europe (23% growth) and Eastern Europe (15% growth)

On Krka's larger markets, the highest growth in prescription pharmaceuticals compared to the same period in 2007 was achieved in the northern EU-15

countries (64%), Ukraine (43%), Poland (25%), and Hungary (21%). On the medium-sized markets, mention should be made of the high sales growth achieved in Slovakia (43%), Bulgaria (29%), Bosnia-Herzegovina (20%), Uzbekistan (24%), and Latvia (21%).

The leading prescription pharmaceuticals by sales are Enap[®], Lanzul[®], Vasilip[®], Atoris[®], Fromilid[®], Lorista[®], Tenox[®], Coryol[®], Nolicin[®] and Ciprinol[®]. The products recording the highest sales growth were Zalasta[®], Prenessa, Tenox[®], Zyllt[®], Lorista[®] and Atoris[®].

New products were the key generator of continued growth. This is clearly reflected by the fact Zalasta[®], Zyllt[®] and Prenessa[®], all launched in the past five years, are posting impressive growth indices and already rank 4th, 10th and 13th respectively in Krka's leading product list.

In the first quarter of 2008 Krka started marketing a larger number of products on new markets, including most notably the launch of Nolzapa[®] (pantoprazole) and Kventiax[®] (quetiapine) on most central European markets, the launch of Zalasta[®] (olanzapine) in orodispersible tablet form in Poland, and the launch of Lorista[®] (losartan) in Ukraine and Valsacor[®] (valsartan) in Poland. The second quarter of 2008 saw another large round of product launches, such as the release of Zalasta[®] (olanzapine) in orodispersible tablet form in Croatia and Bosnia and Herzegovina, Valsacor[®] (valsartan) in Ukraine, Kventiax[®] (quetiapine) in Poland and

Self-medication products

The Krka Group sold self-medication products worth EUR 48.4 million in the first half of 2008, an increase of 20% on the same period in 2007.

Sales of this product group were up in all regions. Compared to the first half of 2007, sales grew 11% in Slovenia, 9% in south-eastern European markets, 22% in eastern European states, and 14% growth on central European markets.

The highest growth achieved among the large markets was in the Russian Federation (21%), Ukraine (37%), Croatia (30%), the Czech Republic (24%), and Uzbekistan (8%).

Hungary, and Co-Prenessa/Prenewel[®] on most markets in Region Central Europe. All launches were backed by active promotional support carried out by Krka's own marketing network.

Most marketing activities were aimed at promoting products in key therapeutic groups, and that focus will continue throughout 2008. These key areas are pharmaceutical products to reduce high blood pressure (Enap[®], Prenessa[®], Ampril[®], Lorista[®], Valsacor[®], Tenox[®] and Coryol[®]), pharmaceuticals to reduce plasma lipids (Atoris[®] and Vasilip[®]), anti-ulcer pharmaceuticals (Utop[®], Lanzul[®] and Nolzapa[®]), medicines to treat the central nervous system (Asentra[®], Alventa[®], Mirzaten[®], Kventiax[®], Torendo[®], Zalasta[®] and Yasnal[®]), and anti-microbials (Fromilid[®]).

The most important event of 2008 so far was the 20-year anniversary of medicines affecting the RAAS system (renin-angiotensin-aldosterone system). These include ACE inhibitors (angiotensin-converting enzyme), Enap[®], Prenessa[®] and Ampril[®] and the sartans Lorista[®] and Valsacor[®]. The anniversary was marked with by a major international symposium in Slovenia, with 400 participants from 23 countries attending. Krka will continue to organise a series of events on individual Krka markets throughout the rest of the year.

A number of important international symposiums for this autumn are already in preparation; they will be dedicated to Krka products that treat diseases of the alimentary tract, and the central nervous system.

The best-selling product was Bilobil[®] (which also recorded 19% growth), second was Septolete[®] (26% growth), third Pikovit[®] (7%), and fourth Herbion[®] (62% growth). The ten best-selling products represented 85% of all self-medication product sales.

Financially well-supported marketing activities were directed towards key products (Septolete[®], Pikovit[®], Bilobil[®], and Duovit[®]), which received appropriate support on the markets with most potential, i.e. the Russian Federation, Ukraine, Romania, Poland and Croatia.

Cosmetic products

In the first half of 2008 Krka achieved cosmetics sales of EUR 5.5 million, exceeding last year's half-year figures by 6%.

Positive sales results were achieved on the markets of eastern Europe (16% growth), with growth of 28% in the Russian Federation.

The best-selling product is Fitoval®, which recorded 28% growth, and represents 35% of overall cosmetics sales.

Sales from the Vitaskin® line were around the same level as last year, and represent 27% of overall cosmetics sales. Vitaskin® Pharma-branded products, which were launched in 2007 represent 14% of total Vitaskin® brand sales.

Vitaskin® and Vitaskin® Pharma and Fitoval® will remain key brands in the future, with considerable development planned, meaning Krka has high expectations for them.

Animal health products

The Krka Group's animal health product sales in the first half of 2008 were worth EUR 12.8 million, which represents growth of 11% compared to the first half of 2007.

Sales in Slovenia were around the same level as the first half of 2007, while growth of 30% was achieved in Region West Europe and Overseas Market, 24% growth in Region East Europe, and 16% in Region Central Europe; sales were down slightly on the same period last year on the markets of Region South-East Europe. The highest growth on the large markets was achieved in the northerly markets of the EU15 (89% growth), followed by Ukraine (40%), Poland (29%) and the Russian Federation (16%).

The leading brand remained Enroxil® (which grew by 29%), followed by Floron® (41%). In third place by sales is Kokcisan®, which remained at the same level as in the first half of 2007. Ecocid S® is already the fourth best-selling product, despite only being launched last year. Sales of established products such as Calfoset® (up 28%) and Dehinel plus® (up 39%) also continued to grow. The ten best-selling products together represented 89% of all animal health product sales.

Marketing activities focused on the leading brands, while intense sales growth this year was boosted by the strengthening of the Krka marketing network on foreign markets.

Health and tourism services

The value of health and tourism services sold in the first half of 2008 was EUR 15.2 million, exceeding the figures for first half of 2007 by 3%. The highest growth in revenues (8%) came from sporting activities, swimming pools and sales of cosmetic services. Revenues from hotels were up 5%, healthcare service sales grew by 4%, and revenues from catering services remained at the same level as the first half of last year.

The average occupancy rate for the Terme Krka Group hotels in the first half of 2008 was 65%, with

the hotel in Strunjan receiving the most visitors and achieving an occupancy rate of 84%.

At the start of the year, Hotel Grad Otočec welcomed its first guests after a four-month restoration project; it is the only Terme Krka hotel to offer five-star accommodation. Activities are continuing at full pace to extend the Otočec golf course, in order to offer a full 18-hole course, a new hotel with capacity for 116 is being built at Dolenjske Toplice, which will be aimed at guests interested in high-end four-star accommodation.

Research and development

The achievements of Krka Group's research and development sector over the first half of 2008 include the acquisition of first marketing authorisations for 8 new products in 19 pharmaceutical forms. We also acquired 348 marketing authorisations for various products across a number of different markets.

Krka successfully concluded another of the most demanding marketing authorisation procedures, a Centralised Procedure (CP), for the product Oprymea® (pramipexole) in the form of 0.088mg, 0.18mg, 0.35mg, 0.7mg and 1.1mg tablets. The CP provides marketing authorisation for a product in all 27 EU member states. Oprymea® is intended to treat Parkinson's disease.

First marketing authorisations were achieved for the Lertazin® product in a tablet form containing the active ingredient levocetirizine on a number of European markets. This product is for adults and children over the age of 6 to treat acute and chronic allergic reactions, such as hay-fever and skin reactions.

During the first half of the year, Krka successfully concluded five DCPs (Decentralised Procedure), acquiring product marketing authorisations for a number of key markets. It also acquired marketing authorisations for Montelukast Krka in 4mg and 5mg chewable tablet form in a number of western and central Europe countries.

The Pikovit® brand of child vitamins was expanded with the acquisition of a first notification to include chewable tablets that contain all minerals required for healthy child development as well as vitamins.

The Pikovit® complex product offers a complex of vitamins and minerals, with the taste and chewable form adapted for child consumption. We have acquired a notification for Pikovit® complex in the markets of Slovenia, the Czech Republic, Poland, Bulgaria, Slovakia and Macedonia. The successful acquisition of notifications has continued for food supplement products, including a notification for Duovit® Energija and Duovit® Vision in the Russian Federation.

Having concluded an EU centralised procedure, in the animal health product sector we acquired a permit for use in the first half of 2008 for the coccidiostatic **Kokcisan**® 120 as a granulate mix. It prevents coccidiosis in poultry. We successfully concluded a decentralised marketing authorisation procedure for the anti-microbial medicine Giraxa® in the form of a powder for preparation as an oral solution for the treatment of farm livestock, in the markets of Slovenia, the Czech Republic, Poland, Romania, Lithuania and Latvia. The marketing authorisation procedure was also concluded for Enroxil® Max, in injection solution form, in 14 markets in western, central and eastern Europe. The product contains the active ingredient enrofloxacin and is part of the modern treatment of respiratory disease in cattle. The single dose form is a major advantage of the product.

Krka is continuing to acquire cosmetics marketing authorisations for products from the new Vitaskin® Pharma Pure Expert line, which is aimed at greasy, problem skin. This year a marketing authorisation has been acquired for the line in the Russian Federation and Ukraine.

Investment

From January to June 2008 the Krka Group allocated EUR 73.3 million to investment, of which EUR 63.1 million was within the controlling company, and EUR 10.2 million in subsidiaries. Intense work continued on investments already

underway, which represented 46% of investment spending over the period, while preparatory and project work for new investments was also carried on. Below are a number of the most important projects.

NOTOL Phase III – Building 4

Building 4 is an extension to the existing plant and

will expand the production capacity of the Notol

plant. The facility will be used for small-batch production of solid pharmaceutical forms, and the new equipment will increase existing tablet-coating capacity by 50%.

Phase IV of the construction project was completed

Pelete V plant

This project will significantly increase pellet production capacity. The project documentation was prepared in 2007 and the technical equipment was prepared for installation; construction started this

Beta III Plant

A new solid-dosage pharmaceutical form production plant will be built at Krka's location in Šentjernej, which will have six packaging lines with a total capacity of 1.2 billion tablets per year, with the option of later expansion. Work on these projects is

Capsule production plant

The construction of the capsule production plant will increase capsule production capacity. The planned capacity of the new plant is 2 billion capsules per year in the first phase. The preliminary design project for the technology, architectural plan and environment impact assessment was prepared last

Reconstruction of the Bršljin plant

Reconstruction work at Krka's plant in Bršljin, Novo mesto, will take place in two phases. A biocide production plant will be constructed this year, while the reconstruction and increase in syrup production capacity will be completed next year.

The preparation of project documentation started in 2007 and continued into this year. The building

Extension and connecting corridor to Balnea wellness centre at Hotel Kristal

Krka is constructing a new 116-bed hotel at Dolenjske Toplice, which is being co-financed with a grant from the European Regional Development Fund (ERDF). Works started in December 2007 are

Expansion of the Otočec golf course

The investment will add a further nine holes and an irrigation system to the golf course, and is also co-

Works at TAD Pharma

Production facilities in the TAD Pharma subsidiary are being modernised and optimised and warehouse capacity is being expanded. The

by the end of 2007, while installation work started at the beginning of this year. The technical equipment has been assembled and installed, and a clean environment created. The technical inspection and production start-up will take place this summer.

year. All technical equipment has already been installed, and is currently in the test phase. Production start-up is expected at the start of September 2008.

fully underway, with the start of construction planned for autumn 2008. A change in the spatial planning documentation is underway, as are activities to arrange the energy supply required for plant operation.

year. In the first half of 2008 we continued to prepare documentation for a building permit, which should be acquired this autumn; construction will start as soon as the permit is issued. The start of production at the plant is planned for spring 2010.

permit has been acquired and intense construction work is now ongoing. At the start of 2009 a replacement syrup production facility will be set up in the new building, allowing the start of reconstruction work on the existing syrup production facility.

now in the final phase, with major plumbing, electrical, heating and sanitation installations being implemented. Construction will be completed this year.

financed by an ERDF grant. The new holes should be ready for play by June 2009.

production plant has been linked to the warehouse on all three levels, with a two-way conveyor belt system installed on two levels. The remaining works

should be completed by autumn.

Works at Krka Farma in Croatia

This year the production capacity of the facilities at the subsidiary Krka Farma in Jastrebarsko has been expanded by the addition of a granulation line, a new organic solvent warehouse and nitrogen

inertisation plant. These works are now complete. We got all the requisite permits for the start-up of regular production and test production started in mid-June.

Employees

Given its ambitious sales plans for 2008, Krka has accelerated the recruitment of marketing and sales staff in its companies and representative offices abroad and in research and development staff at home in Slovenia.

Terme Krka Group by 29, while companies and representative offices abroad the number of staff rose by 450; 46 % of all Krka Group employees are now employed outside Slovenia. Forty-nine per cent of employees in the Krka Group now hold at least a university or other further education qualification.

In the first half of 2008, the controlling company in Slovenia increased its staff numbers by 106, the

Education structure of Krka Group employees

Educational level	30 Jun 2008		31 Dec 2007	
	Headcount	Share (in %)	Headcount	Share (in %)
PhD	70	1.0	68	1.0
MSc	179	2.4	174	2.6
University education	3350	45.5	3067	45.3
Higher professional education	626	8.5	413	6.1
Vocational college education	241	3.3	229	3.4
Secondary school education	1432	19.5	1366	20.2
Other	1464	19.9	1460	21.4
Total	7362	100.0	6777	100.0
- in Slovenia	3994	54.3	3859	56.9
- abroad	3368	45.7	2918	43.1

We promote the engagement of new capable and talented staff through a scholarship programme. At present there are 112 Krka scholarships, largely in the fields of pharmacy and chemistry, though scholarships are also available to outstanding students in other fields of interest to Krka.

employees selected for career development are included in demanding projects, and are offered specialised training and studies in specific areas of expertise, as well as participating in the specialist and project teams programme, which has been developed within the company. Krka organises training, themed conferences and other international events to ensure the exchange of best practice and the development of an international corporate culture.

Krka takes care of the personal and professional development of its staff, and systematically plans the development of key and promising staff. Their development is supported by Krka's own International Management School, which involves directors and managers from Krka companies and representatives offices abroad and from Krka's organisational units in Slovenia. Promising

Krka continually invests in new knowledge and training for employees. Our employees are also engaged in further studies in the fields of specialist knowledge, management, personal development,

foreign languages and information science. Krka organises most training in-house.

Krka employees show considerable interest in acquiring new knowledge and gaining higher qualifications. At present 115 Krka employees are involved in specialist, master's and doctoral studies, while a total of 456 employees are involved in part-time studies alongside their work. In the first half of this year, 21 employees completed study programmes.

The Krka Group's testing and recognition of knowledge takes place via a certification system that prioritises employees' practical knowledge relating to their work in the production of active ingredients, final products and logistics. Since 2002, 309 certificates have been awarded according to this system, 63 of which in 2008, while another 140 are still studying in relation to the jobs in the production of active ingredients and final products.

The new SAP HR information came online at the start of the year for companies and representative offices abroad; the system integrates the human resource administration and organisational structure

of Krka companies and representative offices abroad.

Krka also takes care of its employees' health, offering a wide range of voluntary activities to ensure they enjoy overall quality of life and work, which makes them more satisfied, and helps the company attract high quality employees and, indirectly, good corporate performance.

A range of material and cash bonuses and awards offer additional staff motivation, and Krka also pays particular attention to its best and longest serving employees. At the Krka Awards Day in June, 335 employees received long-service awards, while manager and employee of the year awards and innovation awards were also presented. In 2007, 268 employees put forwards 347 useful proposals. In June Krka also organised a joint social and sports event for all its employees.

In April, Krka was awarded the Golden Thread award for the best employer among large Slovenian enterprises by the Dnevnik newspaper, based on a survey of 10,500 employees throughout Slovenia.

Investor information

At the end of June 2008 Krka had 71,206 shareholders, almost 16% more than at the end of 2007. The increase in the total number of shareholders was largely due to an increase in the

number of individual Slovenian investors. At the end of June 2008 the ownership share of Slovenian investment companies and funds and foreign investors had decreased.

Ownership structure (%)

	30 Jun 2008	31 Dec 2007
Individual Slovenian investors	43.3	42.4
Slovenian investment funds & companies	9.0	9.3
SOD Fund	15.0	15.0
KAD & PPS Funds	10.2	10.2
Other Slovenian companies	10.0	10.0
Treasury shares	4.6	4.6
International investors	7.9	8.5
Skupaj	100.0	100.0

On 30 June 2008, Krka held 1,626,620 treasury shares, representing 4.6% of share capital. In the

first half of 2008 the company did not repurchase any treasury shares.

Ten largest shareholders in Krka as at 30 June 2008

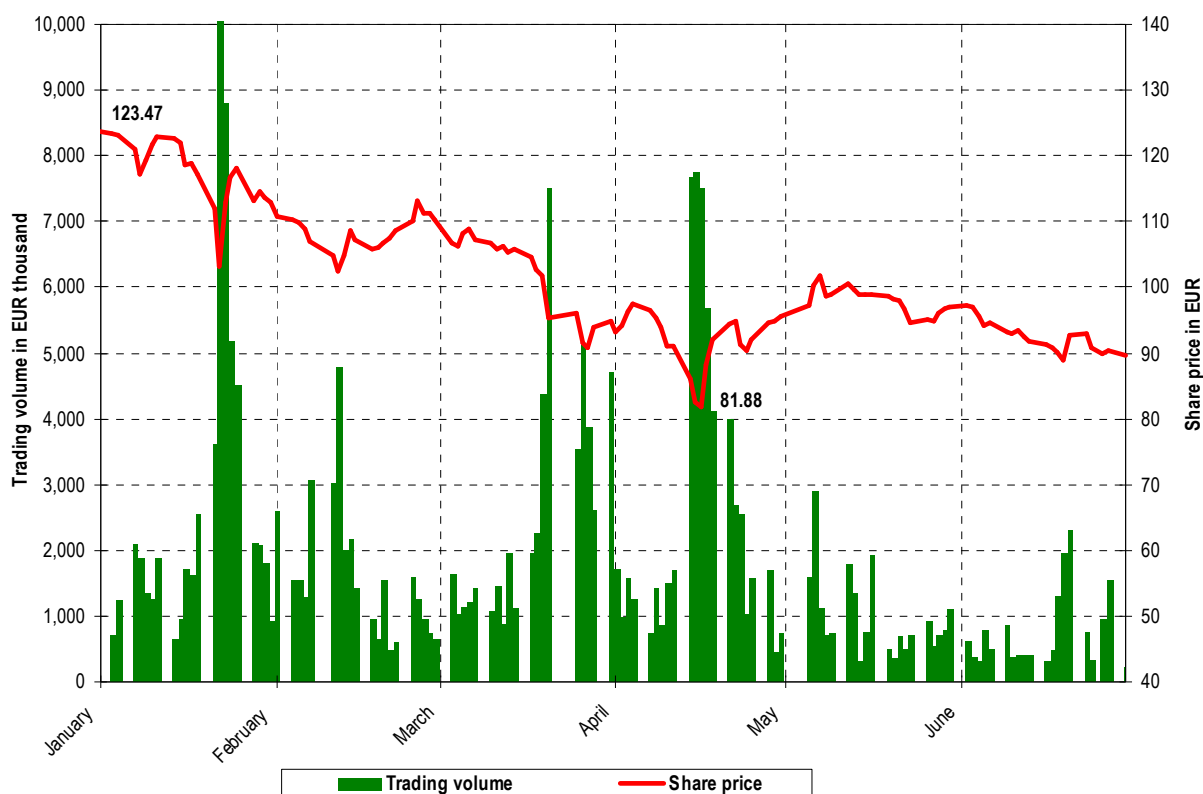
	Country	Number of shares	Proportion in equity in %	Proportion in voting rights in %
SLOVENSKA ODŠKODNINSKA DRUŽBA, D.D.	Slovenia	5,312,070	14.99	15.72
KAPITALSKA DRUŽBA, D.D.	Slovenia	3,493,030	9.86	10.33
NEW WORLD FUND INC	USA	910,700	2.57	2.69
NFD 1 DELNIŠKI INVESTICIJSKI SKLAD D.D.	Slovenia	690,241	1.95	2.04
BANK AUSTRIA CREDITANSTALT AG	Austria	491,257	1.39	1.45
LUKA KOPER, D.D.	Slovenia	429,970	1.21	1.27
ZAVAROVALNICA TRIGLAV, D.D.	Slovenia	388,300	1.10	1.15
DELNIŠKI VZAJEMNI SKLAD TRIGLAV STEBER I	Slovenia	370,000	1.04	1.09
BANKA CELJE D.D.	Slovenia	291,030	0.82	0.86
KD GALILEO VS	Slovenia	252,244	0.71	0.75
Skupaj		12,628,842	35.64	37.35

On 30 June 2008, members of the management board and supervisory board together held 65,320 company shares or 0.18% of Krka shares.

Shares in Equity and Voting Rights of Krka Management Board and Supervisory Board Members on 30 June 2008

	Number of shares	Proportion in equity in %	Proportion in voting rights in %
Management Board members			
Jože Colarič	22,500	0.0635	0.0666
Janez Poljanec	22,060	0.0623	0.0653
Aleš Rotar	12,770	0.0360	0.0378
Zvezdana Bajc	1,660	0.0047	0.0049
Danica Novak Malnar	0	0.0000	0.0000
Supervisory Board Members			0.0000
Gregor Gomišček	220	0.0006	0.0007
Mateja Božič	0	0.0000	0.0000
Anton Rous	0	0.0000	0.0000
Draško Veselinović	10	0.0000	0.0000
Alojz Zupančič	3,490	0.0099	0.0103
Sonja Kermc	2,110	0.0060	0.0062
Tomaž Sever	500	0.0014	0.0015
Mateja Vrečer	0	0.0000	0.0000

Trading in Krka shares in the first half of 2008



The Krka share price started to fall in mid-January. A brief correction upwards followed, before the downward trend continued. In mid-April there was another correction upwards, before it again declined in May and June. In the first half of 2008 the share price fell by 27%, reaching EUR 89.57 by the end of June. The reasons for this fall in the share price do not lie in Krka's operations, or in the Group's future business opportunities. Krka's ambitious business plans remain unchanged. The reasons for the fall in share price are linked to the crisis on international

financial markets, which has also affected the Slovenian capital market. The value of the Slovenian Stock Exchange Index (SBI 20) also fell significantly during the first half of 2008, and is down 31%.

The average daily trading in company shares on the Ljubljana Stock Exchange in the first half of 2008 was EUR 1.9 million, and Krka's market capitalisation on 30 June 2008 was EUR 3.2 billion.

Corporate risk management

Foreign exchange risk

The Krka Group's main foreign exchange risk lies in the variability of the US dollar exchange rate, as well as Polish zloty, Croatian kuna and Russian rouble.

The Krka Group actively manages the risk arising from changes in the US dollar's value. There was less activity managing this form of risk in the first half of 2008, as the Krka Group's exposure to the

US dollar was reduced. Since January 2008 sales on most eastern European markets, including the Russian Federation, are now invoiced in euros.

Exposure to the Polish zloty, Croatian kuna and Russian rouble in the first half of the year was closely monitored, but no special measures were taken to reduce this risk.

Interest rate risk

At the end of the first half of 2008, Krka had four long-term loans linked to the 6-month LIBOR for the US dollar or the 6-month EURIBOR for the euro.

The interest rate risk for the loans linked to the 6-month LIBOR has been hedged in full. At present, 18% of the principal for loans linked to the 6-month

EURIBOR is hedged with regular interest rate swaps.

In the first half of 2008, the company did not carrying out any new hedging to manage interest rate risk.

Credit risk

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

At the end of the first half of 2008, 400 of the Group's customers were included in the credit control system. The credit control system is in operation in the controlling company, and also in subsidiaries in Poland, Croatia, Sweden, Serbia, the

Russian Federation, Macedonia and Germany.

The Krka Group's credit exposure did not change over the first half of 2008. The maturity structure and value of trade receivables remained favourable, and the average repayment term measured by days required to clear did not change in the first half-year.

Receivables write-offs had no material impact on our financial position in the first half of 2008.

Liquidity risk

Risks relating to the Group's solvency were controlled over the first half of the year by means of effective short-term cash flow planning. In the short term, liquidity needs are fulfilled by means of agreed credit lines at banks, short-term deposits, and daily, weekly, monthly and longer-term cash flow plans on a rolling basis. The cash balance in the accounts of

all subsidiaries has been optimised and in March cash pooling was introduced for subsidiaries in Slovenia.

Despite the current state of financial markets, Krka's liquidity risk is assessed as low, given Krka's low level of borrowing and positive operating indicators.

Property, business interruption and liability insurance

The Krka Group renewed its insurance contracts on the basis of insurance offers at the end of last year. Earthquake insurance and business interruption by earthquake insurance was introduced in the field of property insurance, and the sum insured for business interruption due to fire was increased. The coverage limits for additional fire risk due to floods, precipitation and other water damage were increased and standardised.

Insurance of goods in international transport was lower, due to favourable loss results in past years, and increased transport on all routes. Favourable loss results also led to lower premiums being agreed for insuring manufacturer's liability for products, third-party motor liability insurance and motor vehicle casco insurance.

Subsidiary TAD Pharma GmbH was added to the insurance system, starting from 1 July.

FINANCIAL STATEMENTS OF THE KRKA GROUP WITH NOTES

Balance sheet of the Krka Group

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Assets			
Property, plant and equipment	613,565	572,244	107
Intangible assets	129,305	129,854	100
Deferred tax assets	32,959	32,687	101
Long-term loans	3,952	3,531	112
Non-current investments	7,344	10,981	67
Other non-current assets	344	410	84
Total non-current assets	787,469	749,707	105
Inventories	197,293	171,647	115
Trade and other receivables	232,156	179,834	129
Short-term loans	1,009	1,510	67
Current investments, including derivatives	1,749	2,936	60
Cash and cash equivalents	10,018	15,784	63
Total current assets	442,225	371,711	119
Total assets	1,229,694	1,121,418	110
Equity			
Share capital	59,126	59,126	100
Own shares	-19,489	-19,489	100
Reserves	157,863	157,094	100
Retained earnings	552,163	474,146	116
Equity holders of the parent	749,663	670,877	112
Minority interest	10,029	10,036	100
Total equity	759,692	680,913	112
Liabilities			
Long-term borrowings	94,967	87,183	109
Provisions	148,603	143,641	103
Government grants and EU grants	2,998	3,099	97
Deferred tax liabilities	17,124	19,850	86
Total non-current liabilities	263,692	253,773	104
Trade payables	88,853	78,462	113
Short-term borrowings	64,877	62,528	104
Income tax liabilities	7,634	3,612	211
Other current liabilities	44,946	42,130	107
Total current liabilities	206,310	186,732	110
Total liabilities	470,002	440,505	107
Total equity and liabilities	1,229,694	1,121,418	110

Income statement of the Krka Group

in EUR thousand	1-6/2008	1-6/2007	Ind. 03/07
Sales revenues	469,268	392,532	120
Production cost of goods sold	-167,577	-144,835	116
Gross profit	301,691	247,697	122
Other operating income	2,410	1,340	180
Sales and marketing	-118,341	-98,720	120
R&D costs	-38,559	-30,002	129
Administrative expenses	-38,723	-29,390	132
Result from operating activities	108,478	90,925	119
Financial income	9,073	9,286	98
Financial expenses	-15,158	-8,498	178
Net financial expenses / income	-6,085	788	-772
Profit before tax	102,393	91,713	112
Income tax expense	-23,997	-23,529	102
Profit for the period	78,396	68,184	115
Attributable to:			
– equity holders of the parent	78,290	67,975	115
– minority interest	106	209	51
Earnings per share (in EUR)	2.32	2.02	115
Diluted earnings per share (in EUR)	2.32	2.02	115

* Net profit of majority shareholders / average number of shares issued, excluding own shares.

** All shares issued by the controlling are ordinary shares, hence the diluted earnings per share ratio was equal to the basic earnings per share.

Statement of changes in equity of the Krka Group

in EUR thousand	Called capital	Own shares	Reserves					Retained earnings			Equity holders of the parent	Minority interest	Total equity
			Share premium	Legal reserves	Statutory reserves	Fair value reserves	Translation reserves	Other revenue reserves	Net profit for the period	Net profit carried forward			
Balance at 1 Jan 2007	59,132	-19,489	120,986	14,990	11,683	3,481	154	275,796	89,566	6,698	562,997	7,908	570,905
Entry of net profit for the period	0	0	0	0	0	0	0	0	67,975	0	67,975	209	68,184
Entry of minority interest	0	0	0	0	0	0	0	0	0	0	0	1,666	1,666
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	0	0	-89,565	89,565	0	0	0
Changes in the fair value of financial assets available for sale	0	0	0	0	0	2,904	11	0	0	0	2,915	0	2,915
Tax effects of the transition and adjustment to IFRS	0	0	0	0	0	0	0	0	0	-1,187	-1,187	0	-1,187
Balance at 30 Jun 2007	59,132	-19,489	120,986	14,990	11,683	6,385	165	275,796	67,976	95,076	632,700	9,783	642,483
Balance at 1 Jan 2008	59,126	-19,489	120,992	14,990	14,183	6,825	104	356,945	87,052	30,149	670,877	10,036	680,913
Entry of net profit for the period	0	0	0	0	0	0	0	0	78,290	0	78,290	106	78,396
Formation of statutory reserves	0	0	0	0	1	0	0	0	0	0	1	0	1
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	0	0	-87,052	87,052	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	0	0	-113	-113
Translation reserve	0	0	0	0	0	0	3,661	0	0	0	3,661	0	3,661
Changes in the fair value of financial assets available for sale	0	0	0	0	0	-2,893	0	0	0	0	-2,893	0	-2,893
Refund of default interest that had been overcharged by the tax office	0	0	0	0	0	0	0	0	0	-273	-273	0	-273
Balance at 30 Jun 2008	59,126	-19,489	120,992	14,990	14,184	3,932	3,765	356,945	78,290	116,928	749,663	10,029	759,692

Cash flow statement of the Krka Group

in EUR thousand	1–6/2008	1–6/2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	78,396	68,184
Adjustments for:	63,342	50,069
– amortisation /depreciation	33,231	27,437
– foreign exchange gain	-110	-1,684
– foreign exchange loss	1,585	1,468
– investment income	-1,960	-4,827
– investment expense	2,400	2,304
– interest expense and other financial expense	4,199	1,842
– income tax	23,997	23,529
Operating profit before changes in net operating current assets and provisions	141,738	118,253
Change in trade receivables	-51,021	-29,441
Change in inventories	-25,646	-5,386
Change in operating debts (liabilities)	11,425	13,125
Change in provisions	4,963	10,032
Change in grants received	-101	-105
Change in other current liabilities	2,838	3,139
Income taxes paid	-22,442	-25,305
Cash generated from operations	61,754	84,312
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	209	223
Proceeds from sale of current investments	0	338
Dividends received	1	91
Proceeds from sale of property, plant and equipment	189	338
Purchase of intangible assets	-3,723	-1,411
Purchase of property, plant and equipment	-71,091	-58,180
Given long-term loans	-446	-1,173
Proceeds from repayment of long-term loans	426	710
Acquisition of non-current investments	-75	-75
Proceeds from sale of non-current investments	78	0
Acquisition of current investments	-3,719	-744
Proceeds from sale of current investments and repayment of short-term loans	3,544	3,816
Payments in connection with derivative financial instruments	-277	-27
Proceeds from derivative financial instruments	1,605	1,404
Net cash used in investing activities	-73,279	-54,690
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	-2,361	-2,100
Repayment of long-term borrowings	-7,993	-5,962
Repayment of short-term borrowings	-119,948	-118,640
Proceeds from short-term borrowings	136,269	99,097
Dividends paid	-135	-12
Net cash used in financing activities	5,832	-27,617
Net increase in cash and cash equivalents	-5,693	2,005
Cash and cash equivalents at beginning of period	15,784	10,399
Effect of exchange rate fluctuations on cash held	-73	-135
Net cash and cash equivalents at end of period	10,018	12,269

Notes to the consolidated financial statements

Sales revenues

EUR 469,268 thousand

Sales revenues comprise revenues from the sale of products, services and goods on the domestic market in the amount of EUR 51,201 thousand (11% of net sales revenues) and revenues from

sales on foreign markets in the amount of EUR 418,067 thousand (89% of net sales revenues). The growth in sales revenues was 20% compared to the results from the first half of 2007.

Production cost of goods sold

EUR 167,577 thousand

The Group's production costs of goods sold increased by 16% compared to the same period last

year. Their ratio to sales revenues was 35.7%.

Sales and marketing

EUR 118,341 thousand

Sales and marketing expenses comprise the costs of marketing sales networks in Slovenia and abroad, and new provisions for lawsuits on alleged patent violations relating to atorvastatin worth

EUR 3,000 thousand. Sales and marketing expenses were 20% higher than for the same period last year. Their ratio to sales revenues was 25.2%.

R&D costs

EUR 38,559 thousand

The Company does not capitalise R&D costs, and they are fully disclosed in the current income statement.

Compared to the first half of last year they increased by 29%, and their ratio to sales revenues increased to 8.2%.

Administrative expenses

EUR 38,723 thousand

Administrative expenses, which include the item 'other operating expenses', increased compared to the same period last year by 32%, and their ratio to sales revenues fell to 8.3%. Administrative

expenses also include provisions newly formed by the controlling company for an intellectual property case, amounting to EUR 1,000 thousand.

Employee benefit cost

EUR 110,709 thousand

in EUR thousand	1-6/2008	1-6/2007	Ind. 08/07
Gross wages and salaries and continued pay	87,181	66,232	132
Social security contributions and payroll tax	15,027	12,741	118
Other employee benefits cost	6,017	5,098	118
Termination pay and anniversary bonuses	2,484	875	284
Total employee benefits cost	110,709	84,946	130

Other operating expenses

EUR 20,380 thousand

in EUR thousand	1-6/2008	1-6/2007	Ind. 08/07
Grants, assistance	966	1,317	73
Environmental levies	1,060	683	155
Other charges	3,084	1,940	159
Loss in the sale of property, plant and equipment	1,000	732	137
Write-offs and allowances for inventories	5,033	1,428	352
Impairments and receivable write-offs	2,406	891	270
Other costs	6,831	1,229	556
Total other operating expenses	20,380	8,220	248

Financial income and financial expenses

v tisočih EUR	1-6/2008	1-6/2007	Ind. 08/07
Exchange differences	7,293	3,731	195
Interest income	163	222	73
Change in fair value of investments through profit or loss	0	2,229	0
Gain on the sale of securities	0	365	0
Income from derivative financial instruments:	1,615	1,581	102
– inflows	1,605	1,405	114
– changes in fair value	10	176	6
Dividend income	2	91	2
Other financial income	0	1,067	0
Total financial income	9,073	9,286	98
Exchange differences	9,371	5,252	178
Interest expense	3,991	1,466	272
Change in fair value of investments through profit or loss	366	703	52
Income from derivative financial instruments:	1,188	762	156
– outflows	278	28	993
– changes in fair value	910	734	124
Other financial expenses	242	315	77
Total financial expenses	15,158	8,498	178
Net financial income/expenses	-6,085	788	-772

Income tax expenses

EUR 23,997 thousand

The corporate income tax levied amounts to EUR 25,538 thousand, which is 25.9% of the pre-tax profit. Taking into account the deferred tax of EUR 2,541 thousand, the income tax expense in the

income statement totals EUR 23,997 thousand. Compared to the same period last year the effective tax rate fell from 25.7% to 23.4%.

Property, plant and equipment

EUR 613,565 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Property	25,266	25,234	100
Plant	266,460	263,249	101
Equipment	232,914	208,512	112
PPE under construction	86,303	71,277	121
Advances for PPE	2,622	3,972	66
Total property, plant and equipment	613,565	572,244	107

Property, plant and equipment represented half of the Group's total assets. The 7% increase in PPE value over the first half of 2008 was largely due to the investment projects currently underway within

the Group. The largest Krka investments over the first half of the year were described in the chapter 'Investments' on pages 19 and 20.

Intangible assets

EUR 129,305 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Goodwill	42,278	42,278	100
R&D costs	2,305	2,784	83
Concessions, patents, licences, trademarks and similar rights	76,619	76,398	100
Intangible assets under construction	8,103	8,394	97
Total intangible assets	129,305	129,854	100

The value of intangible assets remained practically unchanged since the start of 2008. The Group disclosed the goodwill accrued in the purchase of the subsidiary TAD Pharma, completed in November 2007.

comprised non-current property rights, which include the TAD Pharma brand worth EUR 43,741 thousand, in addition to market authorisation documentation and software. Assets under construction represented 6% of all intangible assets, and largely comprised market authorisation documentation for new pharmaceuticals.

The largest proportion of intangible assets (59%)

Loans

EUR 4,961 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Long-term loans	3,952	3,531	112
Short-term loans	1,009	1,510	67
Total loans	4,961	5,041	98

Financial investments

EUR 9,093 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Non-current investments	7,344	10,981	67
- financial assets available for sale	7,097	10,721	66
- other non-current investments	247	260	95
Current investments, including derivatives	1,749	2,936	60
- instruments held for trading	409	538	76
- derivatives	683	1,583	43
- other current investments	657	815	81
Total investments	9,093	13,917	65

The shares available-for-sale include investments worth EUR 1,047 thousand of the controlling company in Slovenia, and EUR 5,842 thousand in investments by the controlling company abroad. 'Other non-current investments' includes items of cultural and historical value.

Derivatives include an interest change worth EUR 683 thousand.

Other current financial investments comprise assets under management in the amount of EUR 365 thousand and Slovenian mutual fund units in the amount of EUR 292 thousand.

Inventories

EUR 197,293 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Material	63,737	52,906	120
Work in progress	52,800	45,531	116
Products	79,746	58,824	136
Merchandise	7,822	20,221	39
Advances	183	146	125
Allowances and write-off of inventories	-6,995	-5,981	117
Total inventories	197,293	171,647	115

Trade and other receivables

EUR 232,156 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Short-term trade receivables	210,346	160,295	131
Other short-term receivables	21,810	19,539	112
Total receivables	232,156	179,834	129

Cash and cash equivalents

EUR 10,018 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Cash in hand	132	230	57
Bank balances	9,886	15,554	64
Total cash and cash equivalents	10,018	15,784	63

Equity

EUR 759,692 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Share capital	59,126	59,126	100
Own shares	-19,489	-19,489	100
Reserves	157,863	157,094	100
– share premium	120,992	120,992	100
– legal reserves	14,990	14,990	100
– statutory reserves	14,184	14,183	100
– fair value reserves	3,932	6,825	58
– translation reserve	3,765	104	3,620
Retained earnings	552,163	474,146	116
Equity holders of the parent	749,663	670,877	112
Minority interest	10,029	10,036	100
Total equity	759,692	680,913	112

Borrowings

EUR 159,844 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Long-term borrowings	94,967	87,183	109
– borrowings from domestic banks	94,967	87,183	109
Short-term borrowings	64,877	62,528	104
– borrowings from domestic banks	54,594	53,094	103
– borrowings from foreign banks	5,038	320	1,574
– borrowings from other entities	2,140	7,824	27
– interest payable	3,105	1,290	241
Total borrowings	159,844	149,711	107

Provisions

EUR 148,603 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Provisions for termination pay and anniversary bonuses	48,449	47,408	102
Other provisions	100,154	96,233	104
– provisions for lawsuits	94,663	90,356	105
– provisions for ecological restoration	78	162	48
– other provisions	5,413	5,715	95
Total provisions	148,603	143,641	103

Provisions for lawsuits comprise 64% of all provisions. These increased by 4% compared to the end of last year, largely due to the formation of new

provisions for lawsuits totalling EUR 4,000 thousand by the controlling company.

Government grants and EU grants

EUR 2,998 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Grants for the plant Beta in Šentjernej	236	258	91
Grants for the health resorts Dolenjske and Šmarješke Toplice	2,115	2,186	97
Grants by the European Regional Development Fund	37	39	95
Free receipt of property, plant and equipment	610	616	99
Total grants received	2,998	3,099	97

Trade payables

EUR 88,853 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Payables to domestic suppliers	37,570	36,633	103
Payables to foreign suppliers	49,046	41,145	119
Payables from advances	2,237	684	327
Total trade payables	88,853	78,462	113

Other current liabilities

EUR 44,946 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Accrued contractual discounts on products sold to other customers	10,897	14,263	76
Payables to employees – gross wages, other charges	20,538	20,966	98
Other	13,511	6,901	196
Total other current liabilities	44,946	42,130	107

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

Balance sheet of Krka, d. d., Novo mesto

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Assets			
Property, plant and equipment	455,513	422,891	108
Intangible assets	25,341	24,466	104
Investments in subsidiaries	224,029	218,178	103
Deferred tax assets	29,504	28,653	103
Long-term loans	5,691	6,936	82
Non-current investments	7,136	10,773	66
Other non-current assets	301	366	82
Total non-current assets	747,515	712,263	105
Inventories	148,613	127,276	117
Trade and other receivables	244,202	188,872	129
Short-term loans	22,195	23,575	94
Current investments, including derivatives	1,623	2,932	55
Cash and cash equivalents	3,853	2,340	165
Total current assets	420,486	344,995	122
Total assets	1,168,001	1,057,258	110
Equity			
Share capital	59,126	59,126	100
Own shares	-19,489	-19,489	100
Reserves	154,098	156,990	98
Retained earnings	556,163	475,383	117
Total equity	749,898	672,010	112
Liabilities			
Long-term borrowings	91,054	83,200	109
Provisions	136,894	131,994	104
Government grants and EU grants	883	913	97
Deferred tax liabilities	2,512	3,319	76
Total non-current liabilities	231,343	219,426	105
Trade payables	88,328	67,542	131
Short-term borrowings	60,659	65,747	92
Income tax liabilities	6,396	2,132	300
Other current liabilities	31,377	30,401	103
Total current liabilities	186,760	165,822	113
Total liabilities	418,103	385,248	109
Total equity and liabilities	1,168,001	1,057,258	110

Income statement of Krka, d. d., Novo mesto

in EUR thousand	1-6/2008	1-6/2007	Ind. 03/07
Sales revenues	416,209	344,318	121
Production cost of goods sold	-145,149	-126,597	115
Gross profit	271,060	217,721	124
Other operating income	580	510	114
Sales and marketing	-100,578	-81,685	123
R&D costs	-35,390	-29,722	119
Administrative expenses	-27,477	-23,665	116
Result from operating activities	108,195	83,159	130
Financial income	8,742	5,985	146
Financial expenses	-13,556	-6,228	218
Net financial income / expenses	-4,814	-243	1981
Profit before tax	103,381	82,916	125
Income tax expense	-22,327	-19,388	115
Profit for the period	81,054	63,528	128
Earnings per share (in EUR)	2.40	1.88	128
Diluted earnings per share (in EUR)	2.40	1.88	128

* Net profit of majority shareholders / average number of shares issued, excluding own shares.

** All shares issued by the controlling are ordinary shares, hence the diluted earnings per share ratio was equal to the basic earnings per share.

Statement of changes in equity of Krka, d. d., Novo mesto

in EUR thousand	Called capital	Own shares	Reserves				Retained earnings			Total equity
			Share premium	Legal reserves	Statutory reserves	Fair value reserves	Other revenue reserves	Net profit for the period	Net profit carried forward	
Balance at 1 Jan 2007	59,132	-19,489	120,986	14,990	11,684	3,480	275,796	90,911	12,428	569,918
Entry of net profit for the period	0	0	0	0	0	0	0	63,528	0	63,528
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	0	-90,911	90,911	0
Changes in the fair value of financial assets available for sale	0	0	0	0	0	2,906	0	0	0	2,906
Recognised income and expenses	0	0	0	0	0	0	0	0	-1,188	-1,188
Balance at 30 Jun 2007	59,132	-19,489	120,986	14,990	11,684	6,386	275,796	63,528	102,151	635,164
Balance at 1 Jan 2008	59,126	-19,489	120,992	14,990	14,184	6,824	356,945	81,021	37,417	672,010
Entry of net profit for the period	0	0	0	0	0	0	0	81,054	0	81,054
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	0	-81,021	81,021	0
Changes in the fair value of financial assets available for sale	0	0	0	0	0	-2,892	0	0	0	-2,892
Tax effects of the transition and adjustment to IFRS	0	0	0	0	0	0	-274	0	0	-274
Balance at 30 Jun 2008	59,126	-19,489	120,992	14,990	14,184	3,932	356,671	81,054	118,438	749,898

Cash flow statement of Krka, d. d., Novo mesto

in thousand EUR	1–6/2008	1–6/2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	79,054	63,528
Adjustments for:	47,907	39,950
– amortisation /depreciation	24,102	21,575
– foreign exchange gain	-2,838	-414
– foreign exchange loss	1,264	721
– investment income	-5,812	-4,904
– investment expense	5,018	2,269
– interest expense and other financial expense	3,845	1,315
– income tax	22,328	19,388
Operating profit before changes in net operating current assets and provisions	126,961	103,478
Change in trade receivables	-53,470	-29,615
Change in inventories	-21,336	-8,998
Change in operating debts (liabilities)	20,748	17,730
Change in provisions	6,900	9,989
Change in government grants and EU grants received	-30	-34
Change in other current liabilities	1,009	1,871
Income taxes paid	-19,189	-24,336
Cash generated from operations	61,593	70,085
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,387	356
Proceeds from sale of current investments	0	338
Dividends received	0	91
Profits of subsidiaries	682	0
Proceeds from sale of property, plant and equipment	2,691	338
Sale of subsidiary	0	56
Purchase of intangible assets	-3,308	-1,396
Purchase of property, plant and equipment	-57,754	-46,607
Acquisition of subsidiaries and capital increase	-5,851	167
Given long-term loans	-593	-901
Proceeds from repayment of long-term loans	2,162	710
Acquisition of non-current investments	-75	-25
Proceeds from sale of non-current investments	78	0
Acquisition of current investments	-12,573	-12,505
Proceeds from sale of current investments and repayment of short-term loans	12,909	14,167
Payments in connection with derivative financial instruments	-277	-27
Proceeds from derivative financial instruments	1,605	1,320
Net cash used in investing activities	-58,917	-43,918
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	-2,365	-1,486
Repayment of long-term borrowings	-7,862	-6,003
Repayment of short-term borrowings	-129,044	-123,845
Proceeds from short-term borrowings	138,216	105,084
Dividends paid	-36	-12
Net cash used in financing activities	-1,091	-26,262
Net increase in cash and cash equivalents	1,585	-95
Cash and cash equivalents at beginning of period	2,340	4,498
Effect of exchange rate fluctuations on cash held	-72	-135
Net cash and cash equivalents at end of period	3,853	4,268

Notes to the financial statements of Krka, d. d., Novo mesto

Sales revenues

EUR 416,209 thousand

The sales revenues included revenues from products, services and goods on the domestic market in the amount of EUR 35,640 thousand (9% of net sales revenues) and sales on foreign markets

in the amount of EUR 380,569 thousand (91% of net sales revenues). Compared to the results for the same period last year there was growth of 21%.

Production cost of goods sold

EUR 145,149 thousand

The production costs of goods sold increased by 15% compared to the same period last year.

Their ratio to sales revenues was 34.9%.

Sales and marketing

EUR 100,578 thousand

Sales and marketing expenses comprise the costs of marketing sales networks in Slovenia and abroad, and new provisions for lawsuits on alleged patent violations relating to atorvastatin worth

EUR 3,000 thousand. Sales and marketing expenses increased by 23% compared to the same period last year, and their ratio to sales revenues was 24.2%.

R&D costs

EUR 35,390 thousand

The Company does not capitalise R&D costs, so they are fully disclosed in the current income statement. Compared to the first half of last year

they increased by 19%, and their ratio to sales revenues was 8.5%.

Administrative expenses

EUR 27,477 thousand

Administrative expenses increased by 16% compared to the same period last year, and their ratio to sales revenues was 6.6%. Administrative expenses, which include the item 'other operating

expenses', included EUR 1,000 thousand of newly formed provisions for an intellectual property lawsuit.

Employee benefit cost

EUR 82,367 thousand

in EUR thousand	1-6/2008	1-6/2007	Ind. 08/07
Gross wages and salaries and continued pay	64,746	53,625	121
Social security contributions and payroll tax	10,684	9,675	110
Other employee benefits cost	4,704	4,314	109
Termination pay and anniversary bonuses	2,233	805	277
Total employee benefits cost	82,367	68,419	120

Other operating expenses

EUR 10,456 thousand

in EUR thousand	1-6/2008	1-6/2007	Ind. 08/07
Grants, assistance	816	1,161	70
Environmental levies	963	626	154
Other charges	1,608	1,228	131
Loss in the sale of property, plant and equipment	937	610	154
Allowance and inventory write-offs	3,027	1,351	224
Impairments and receivable write-offs	666	260	256
Other costs	2,439	1,151	212
Total other operating expenses	10,456	6,387	164

Finance income and expenses

in EUR thousand	1-6/2008	1-6/2007	Ind. 08/07
Exchange differences	5,620	1,420	396
Interest income	823	383	215
Change in fair value of investments through profit or loss	0	2,229	0
Gain on the sale of securities	0	365	0
Income from derivative financial instruments	1,615	1,497	108
– inflows	1,605	1,321	121
– changes in fair value	10	176	6
Dividend income	684	91	752
Total financial income	8,742	5,985	146
Exchange differences	8,151	3,422	238
Interest expense	3,759	1,302	289
Change in fair value of investments through profit or loss	366	703	52
Income from derivative financial instruments	1,187	762	156
– outflows	277	28	989
– changes in fair value	910	734	124
Other financial expenses	93	39	238
Total financial expenses	13,556	6,228	218
Net financial income/expenses	-4,814	-243	1,981

Income tax expenses

EUR 22,327 thousand

The corporate income tax levied amounts to EUR 23,893 thousand, which is 23.6% of the pre-tax profit. Taking into account the deferred tax of EUR 1,566 thousand, the income tax expense in the

income statement totals EUR 22,327 thousand. Compared to the same period last year the effective tax rate fell 1.3 percentage points to 22.0%.

Property, plant and equipment

EUR 455.513 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Property	13,662	13,662	100
Plant	176,251	172,362	102
Equipment	186,110	165,489	112
PPE under construction	77,590	67,447	115
Advances for PPE	1,900	3,931	48
Total property, plant and equipment	455,513	422,891	108

Property, plant and equipment represented 39% of the Group's total assets. The 8% increase in PPE value compared to the start of 2008 was largely due to the investment projects currently underway within

the Company. The largest Krka investments over the first half of the year were described in the chapter 'Investments' on pages 19 and 20.

Intangible assets

EUR 25,341 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
R&D costs	2,207	2,602	85
Concessions, patents, licences, trademarks and similar rights	17,584	17,656	100
Intangible assets under construction	5,550	4,208	132
Total intangible assets	25,341	24,466	104

The value of intangible assets had decreased by 4% since the start of 2008. Property rights from computer software and market authorisation documentation represented the largest intangible

asset item (69%). Assets under construction represented 20% of all intangible assets, and largely comprised market authorisation documentation for new pharmaceuticals.

Loans

EUR 27,886 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Long-term loans:	5,691	6,936	82
– long-term loans to subsidiaries	1,859	3,524	53
– long-term loans to other entities	3,832	3,412	112
Short-term loans:	22,195	23,575	94
– short-term loans to subsidiaries	21,421	22,289	96
– short-term loans to other entities	774	1,286	60
Total loans	27,886	30,511	91

Long-term loans granted represent a fifth of all loans granted.

Long-term loans to others include loans granted by the company to employees, primarily for housing purposes, in line with internal acts.

Investments
EUR 8,759 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Non-current investments	7,136	10,773	66
– financial assets available for sale	6,889	10,513	66
– other non-current investments	247	260	95
Current investments, including derivatives	1,623	2,932	55
– instruments held for trading	283	538	53
– derivatives	683	1,583	43
– other current investments	657	811	81
Total investments	8,759	13,705	64

The shares available-for-sale include investments worth EUR 1,047 thousand in Slovenia, and EUR 5,842 thousand in investments abroad. 'Other non-current investments' includes items of cultural and historical value.

Derivatives include an interest change worth EUR 683 thousand.

Other current financial investments comprise assets under management in the amount of EUR 365 thousand and Slovenian mutual fund units in the amount of EUR 292 thousand.

Inventories
EUR 148,613 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Material	50,835	45,936	111
Work in progress	43,649	37,222	117
Products	54,973	46,390	119
Merchandise	3,721	2,122	175
Advances	167	66	253
Impairment and write-off of inventories	-4,732	-4,460	106
Total inventories	148,613	127,276	117

Trade and other receivables
EUR 244,202 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Short-term receivables due from subsidiaries	125,385	100,953	124
Trade receivables	108,029	77,654	139
Receivables due from other entities	10,788	10,265	105
Total receivables	244,202	188,872	129

Cash and cash equivalents
EUR 3,853 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Cash in hand	55	33	167
Bank balances	3,798	2,307	165
Total cash and cash equivalents	3,853	2,340	165

Equity

EUR 749,898 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Share premium	59,126	59,126	100
Own shares	-19,489	-19,489	100
Reserves	154,098	156,990	98
– share premium	120,992	120,992	100
– legal reserves	14,990	14,990	100
– statutory reserves	14,184	14,184	100
– fair value reserves	3,932	6,824	58
Retained earnings	556,163	475,383	117
Total equity	749,898	672,010	112

Borrowings

EUR 151,713 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Long-term borrowings	91,054	83,200	109
– borrowings from domestic banks	91,054	83,200	109
Short-term borrowings	60,659	65,747	92
– borrowings from subsidiaries	1,664	5,000	33
– borrowings from domestic banks	53,749	51,638	104
– borrowings from other entities	2,140	7,824	27
– interest payable	3,106	1,285	242
Total borrowings	151,713	148,947	102

Provisions

EUR 136,894 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Provisions for termination pay and anniversary bonuses	44,296	43,311	102
Other provisions:	92,598	88,683	104
– provisions for lawsuits	92,489	88,490	105
– provisions for ecological restoration	78	162	48
– other provisions	31	31	100
Total provisions	136,894	131,994	104

Provisions for lawsuits comprise 68% of all provisions. These increased by 4% compared to the end of 2007, largely due to the formation of new

provisions for lawsuits totalling EUR 4,000 thousand by the controlling company.

Government grants and EU grants

EUR 883 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Grants for the plant Beta in Šentjernej	236	258	91
Grants by the European Regional Development Fund	37	39	95
Free receipt of property, plant and equipment	610	616	99
Total grants	883	913	97

Trade payables

EUR 88,328 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Payables to subsidiaries	14,350	10,050	143
Payables to domestic suppliers	33,070	29,269	113
Payables to foreign suppliers	38,768	27,769	140
Payables from advances	2,140	454	471
Total trade payables	88,328	67,542	131

Other current liabilities

EUR 31,377 thousand

in EUR thousand	30 Jun 2008	31 Dec 2007	Ind. 08/07
Accrued contractual discounts on products sold to subsidiaries	804	347	232
Accrued contractual discounts on products sold to other customers	10,906	10,906	100
Payables to employees – gross wages, other charges	18,288	17,154	107
Other	1,379	1,994	69
Total other current liabilities	31,377	30,401	103