



**Unaudited Interim Report for the
Krka Group
and the Krka Company
January – September 2008**



Novo mesto, November 2008

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INTRODUCTION

The statements for the period January-March 2008 and January-September 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 for January to September 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 January-September 2008 business report for the Krka Company and Group at its regular meeting on 12 November 2008.

Significant achievements during January-September 2008

Despite the global financial and economic crisis, Krka's operations remain stable, and the main business objectives of the Group and Company have been realised in line with the strategy and annual plan. The volume of customer orders has not fallen. The Krka leadership expects the crisis and consequent reduction in funds available for medicines will even led to an increase in demand for the generic pharmaceuticals that Krka produces and sells. Given the conditions on most Krka markets, customer solvency is subject to particular scrutiny. Krka's financial standing is sound, and net borrowing is relatively low, despite the continual increase in operations.

Information is given below on major achievements over the period:

- Over the first nine months of 2008 the Krka Group generated sales of products and services worth EUR 687.9 million, while the Krka Company generated sales worth EUR 604.9 million.
- Group sales were worth 21% more than sales for the same period last year, while Krka Company sales were worth 22% more than for the comparable period last year.
- The Krka Group's operating profit over the first nine months of 2008 was EUR 151.8 million, an increase of 12% compared to the same period last year. The Krka Company's operating profit of EUR 155.5 million was an increase of 27 % on the same period last year.
- The Krka Group's net profit was EUR 111.2 million (13% up on the same period last year), and EUR 117.6 million (30% growth) for the Krka Company.
- The highest proportion of sales by Krka Group region (27%) was achieved in Region Central Europe, while the highest sales growth (41%) was achieved in Region West Europe and Overseas Markets.
- Sales on markets outside Slovenia over the period represented 89% of the Group's sales and 91% of the Company's.
- The Krka share price as listed on the Ljubljana Stock Exchange on the final day of September 2008 was EUR 74.40, while the Krka Company's market capitalisation was EUR 2,635.7 million.
- The Krka Group allocated EUR 108.2 million to investments, EUR 85.9 million of which was invested by the Krka Company and EUR 22.3 million by subsidiaries.
- At the end of September 2008 the Krka Group had 7,475 employees, a tenth more than at the start of the year.
- The main business objectives of the Krka Company and the Krka Group were realised.

Events after the accounting period

- On 8 October 2008, the subsidiary, Terme Krka, signed a contract with the Slovenia Association of War Veterans' Organisations purchasing its 49% stake in the company Terme Krka – Strunjan, d.o.o. to become its 100% owner.

The purchase price was EUR 8 million, and will ensure that Terme Krka can continue its

successful development of the coastal health resort centre Talaso Strunjan. In the near future investment is planned to renew the Salia sea relaxation centre, to modernise existing accommodation at Hotel Laguna and add new capacity.

- On 27 October 2008, Krka received a decision from the Ljubljana District Court in which it upheld Krka's appeal and reversed a decision by the same court from 1 February 2008 which had prevented Krka from producing and marketing the medical product Zolrix®, or any other product containing the API olanzapine in Slovenia. Krka is now able once more to produce and market Zolrix® in Slovenia.

Krka considers that its Zolrix® product does not violate the patented rights of the Eli Lilly company in Slovenia.

In 2007 sales of Zolrix® in Slovenia were worth under EUR 100,000. Estimates for 2008 indicate that sales will total EUR 200,000 in Slovenia in 2008, and EUR 1 million in 2009.

- On 6 November 2008 Krka, d. d., Novo mesto signed a contract purchasing a 100% stake in the company Alternova Arzneimittel GmbH, Vienna, Austria, from the company Paranova Group A/S, Ballerup, from Denmark for EUR 1,3 million in cash. Krka did not previously have a direct presence on the Austrian market,

but its products were sold via partners, including Alternova AT. The purchase of this company will allow Krka to respond more rapidly on the Austrian market, and to benefit from the launch of new products planned for 2009 and beyond.

Highlights

in EUR thousand	Krka Group		Krka Company	
	1-9/2008	1-9/2007	1-9/2008	1-9/2007
Sales revenues	687.938	570.890	604.875	497.031
EBIT	151.819	136.124	155.477	122.357
EBITDA	202.702	177.514	192.751	155.053
Net profit	111.198	97.975	117.613	90.127
R&D costs	61.770	42.036	57.012	41.559
Investments	108.230	79.856	85.899	68.978

	30 Sep 2008	31 Dec 2007	30 Sep 2008	31 Dec 2007
Non-current assets	807,334	749,707	757,828	712,263
Current assets	461,983	371,711	443,124	344,995
Equity	759,634	680,913	754,473	672,010
Non-current liabilities	255,998	253,773	223,684	219,426
Current liabilities	253,685	186,732	222,795	165,822

RATIOS	30 Sep 2008	31 Dec 2007	30 Sep 2008	31 Dec 2007
Net profit margin	16.2 %	17.2 %	19.4 %	18.1 %
EBIT margin	22.1 %	23.8 %	25.7 %	24.6 %
EBITDA margin	29.5 %	31.1 %	31.9 %	31.2 %
ROE ¹	20.6 %	21.5 %	22.0 %	19.9 %
ROA ²	12.4 %	14.2 %	13.9 %	13.4 %
Liabilities/Equity	0.671	0.495	0.592	0.474
R&D costs/Sales revenues	9.0 %	7.4 %	9.4 %	8.4 %

NUMBER OF EMPLOYEES	30 Sep 2008	30 Sep 2007	30 Sep 2008	30 Sep 2007
At the day	7475	6253	5164	4629

SHARE INFORMATIONS (Krka Group)	1-9/2008	1-9/2007
Total number of shares issued	35,426,120	35,426,120
Earnings per share in EUR ³	4.39	3.86
Share price at the end of period in EUR	74.40	115,64
Price/earnings ratio (P/E)	16.96	29,92
Book value of share in EUR ⁴	21.44	18,22
Share price/book value (P/B)	3.47	6,35
Market capitalisation in EUR thousand (at the end of period)	2,635,703	4,096,677

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 of over 10%.
- Maintaining a proportion of new products in overall sales of at least 40%.
- Strengthening the competitive advantage of the product portfolio through vertical integration and launching selected products as the first generic on 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

- The product and service sales target is 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 the year the Krka Group will have 7700 employees, almost 46% of them abroad.
- Investments worth a planned EUR 160 million will primarily be aimed at increasing and modernising 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:

	Ownership share 30 Sep 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%

As of 30 September 2008, the subsidiary Terme Krka has a participating interest in Terme Krka – Strunjan d.o.o. (51%) and Golf Grad Otočec d.o.o. (56.37%). On 8 October 2008 the company Terme Krka purchased the 49% stake in Terme Krka-Strunjan held by the Slovenian Association of War Veterans' Organisations, becoming the 100% owner.

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 2008 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.

On 6 November 2008 Krka, d. d., Novo mesto signed a contract purchasing a 100% stake in the company Alternova Arzneimittel GmbH, Vienna from the Danish company Paranova Group A/S, Ballerup.

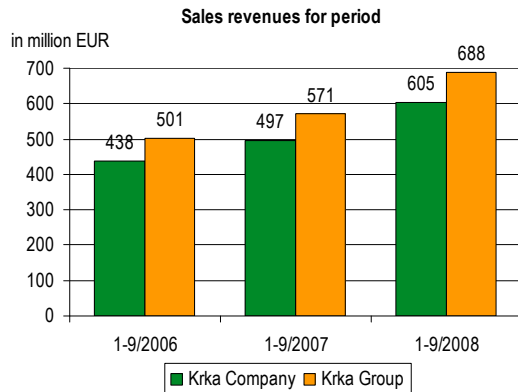
BUSINESS REPORT

Business operations analysis of the Krka Group and Krka Company

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

primarily to the Krka Group.

Revenues



Net sale revenues of the Krka Group increased by 21% compared to the same period last year, while the Krka Company recorded an increase of 22%. The Krka Company generated net sales revenues of EUR 604.9 million from the sale of prescription pharmaceuticals, self-medication products, cosmetics and animal health products, while the Krka Group generated EUR 687.9 million from sales

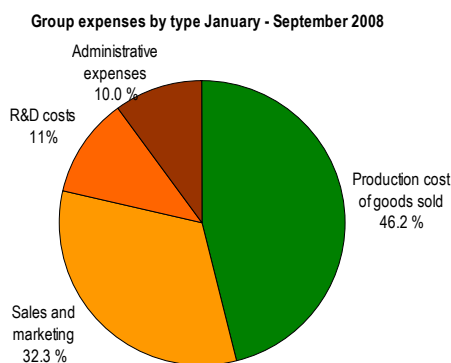
of these products plus sales of health and tourist services.

The Krka Group generated over 82% of its net sales from prescription pharmaceutical sales. This was also the highest-growing product group, with sales up 23%. Revenues from the sale of products, services and goods on markets outside Slovenia represented 89% of sales revenues.

The Group generated total sales revenues of EUR 712.6 million, and the Krka Company EUR 622.0 million.

A more detailed analysis of the sales results achieved by individual market and product groups 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 565.4 million.

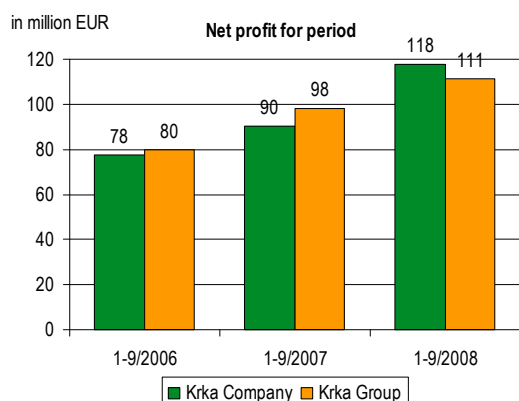
The Krka Group recorded operating expenses of EUR 539.9 million, EUR 249.4 million of which were from production costs of goods sold, EUR 174.6 million sales and marketing costs, EUR 61.8 million

R&D costs and EUR 54.1 million administrative expenses.

The production costs of goods sold increased by 17% for the Group compared to the same period last year, and their ratio to sales revenues was 36.3%. Sales and marketing costs grew by 29% 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 25.4%.

Administrative expenses increased by 47% and their ratio to sales revenues was 9.0%. Overall R&D costs are recognised as expenses for the period, since they are not capitalised. Administrative expenses increased by 22% compared to the first nine months of last year, and their ratio to sales revenues was 7.9%.

Operating results



The Krka Group's operating profit of EUR 151.8 million represents an increase of 12% on the same period last year. The pre-tax profit was up 11% to EUR 147.2 million. Corporate income tax totalled EUR 35.9 million, of which EUR 39.2 million was levied tax and EUR 3.3 million deferred tax. The Group's effective tax rate was 24.4%.

The Group's net profit was EUR 111.2 million, an increase of 23% on last year's nine-month figures, while the net profit of the Krka Company totalled EUR 117.6 million, up 30%.

Assets

The Krka Group's assets at the end of June were worth EUR 1,269.3 million, up by 13% from the start of the year. The ratio of non-current assets to total assets was 63.6%, a reduction of 3.3 percentage points compared to the start of the year.

The most significant item under important non-current assets, which overall were worth EUR 807.3 million, is property, plant and equipment, representing over half the value of all Group assets. Their value stood at EUR 634.2 million, an increase

of 11% on the start of the year.

Current assets increased by 24% to EUR 462.0 million compared to the start of the year. Inventories increased by 23% over the period, reaching a value of EUR 210.7 million, while trade and other receivables increased by 31% to EUR 235.4 million. Current financial investments fell by a third (primarily shares available-for-sale and derivatives) and were worth EUR 2.0 million at the end of the period.

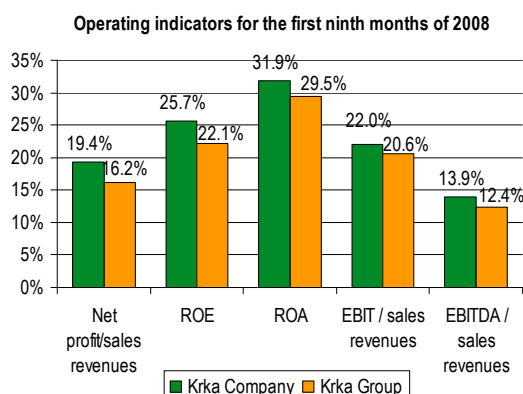
Equity and liabilities

The Group's equity increased by 12% compared to the start of 2008, and now represents 60% of total equity and liabilities. The main factor in the increase was the profits realised by the Group from January to September 2008.

Long-term provisions were worth EUR 149.2 million at the end of September 2008, an increase of 4% on the start of the year (new provisions for lawsuits), while long-term loans remained practically constant.

Current liabilities increased by 36% compared to the end of the previous year, to EUR 253.7 million or 20% of total assets. In the current liability structure, operating liabilities increased by 15% to EUR 90.1 million, while short-term loans were up 70% to EUR 106.5 million. Other current liabilities were worth EUR 49.1 million, an increase of 16% compared to the end of last year.

Performance ratios



The performance ratios were in line with strategic targets and objectives for both the Group and the Company.

The Krka Group's net profit margin was 16.2% (Krka Company: 19.4%), the EBIT margin was 22.1% (Krka Company: 25.7%), and the EBITDA margin 29.5 % (Krka Company: 31.9%). The Krka Group's ROE was 20.6% (Krka Company: 22.0%), and the ROA was 12.4% (Krka Company: 13.9%).

Marketing and sales

In the first nine months 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 687.9 million, exceeding the 2007 three-quarter figures by 20%, while the Krka Company's sales grew by 21% to EUR 604.7 million.

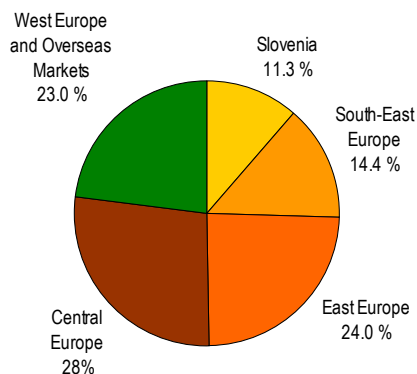
Sales by region

Krka's largest sales region with a 27% share in overall Group sales was Region Central Europe, in which it achieved sales worth EUR 188.2 million, representing growth of 25%. It is followed in size by Region East Europe (24% of overall Group sales), where sales were worth EUR 164.9 million. Region West Europe and Overseas Market was the third largest region by sales (23% of overall sales) and

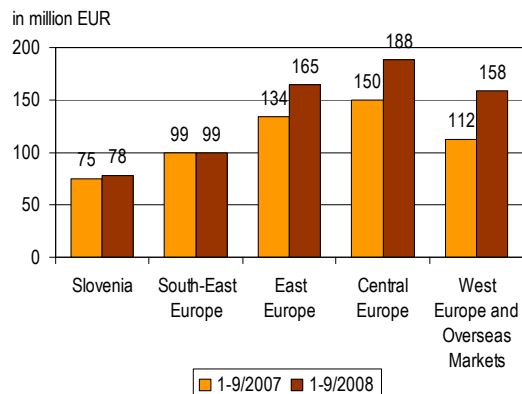
returned the highest growth of any region at 41%. Product sales in Region South-East Europe were worth EUR 99.0 million, or 14% of total sales. Sales on the Slovene market were worth 9% of the Krka Company's total sales and 11% of the Group's total sales.

in EUR thousand	Krka Group			Krka Company		
	1-9/2008	1-9/2007	Ind.	1-9/2008	1-9/2007	Ind.
Slovenia	77,618	75,118	103	52,712	50,085	105
South-East Europe	99,024	99,110	100	91,588	89,515	102
East Europe	164,857	134,348	123	161,023	126,245	128
Central Europe	188,244	150,165	125	171,371	125,972	136
West Europe and Overseas Markets	158,195	112,149	141	128,181	105,214	122
Total	687,938	570,890	121	604,875	497,031	122

Krka Group sales by region for January-September 2008



Krka Group sales by region for January-September 2007 and 2008



Slovenia

Krka's sales of products and services on the Slovenian market were worth EUR 77.6 million, EUR 44.2 million of which was from prescription pharmaceuticals, EUR 4.4 million from self-medication products, EUR 1.8 million from animal health products, and EUR 1.6 million from cosmetic products. Sales of health and tourism services contributed EUR 24.6 million to total sales in Slovenia, an increase of 5% on the first half of 2008.

In the first quarter of 2008 the prescription pharmaceutical pricing system had already led to a fall in sales, but by the end of the half-year, and

even more by the end of the third quarter, an increase was seen in the value of sales. Krka retained its position as the 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 it is also increasing its market share in medicines to treat the central nervous system. The following Krka products remain market leaders in their therapeutic group: Ultop[®], Atoris[®], Enap[®], Prenessa[®], Lorista[®] and Vasilip[®].

South-East Europe

Over the first nine months of 2008 Krka sold products in South-East Europe worth EUR 99.0 million, which almost equalled the value of sales for the same period last year. The largest market in the region was still Croatia, where sales increased by 10%. High sales growth was also recorded in Kosovo (27%), in Bosnia and Herzegovina (20%) and in Bulgaria (17%), which was largely due to the strengthening of marketing and commercial activities on these markets.

As one of the key Krka markets, **Croatia** represented one third of sales in the region. Compared to the same period last year, Krka achieved a 10% growth in sales, which reached a value of EUR 37.3 million. With a market share of 6.6%, Krka has maintained third place on the market, behind two domestic producers. The best-selling products over the accounting period were

Atoris[®], Coryol[®], Lorista[®] and Zyllt[®], while the newly launched products Ampiril[®], Nolpaza[®] and Lorista H[®] all sold successfully. These were joined in the third quarter by Meglimid[®] and Torendo[®].

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

In **Romania** Krka sold products worth EUR 20.8 million, which put this market in second place in Region South-East Europe by sales volume. The fall in sales compared to the same period 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 branded products.

The leading products by sales remained Bilobil[®],

Enap[®], Ciprinol[®], Vasilip[®], Nolicin[®] and Coryol[®]. The highest growth compared to the same period last year was achieved by the products Lanzul[®], Torendo[®], Ampri[®], Mirzaten[®] and Ciprinol[®].

In **Bosnia and Herzegovina** Krka recorded sales worth EUR 10.4 million and growth of 20% compared to the same period last year. The best selling products in the prescription pharmaceutical group were Enap[®], Coryol[®], Naklofen[®], Lexaurin[®], Apaurin[®], Vasilip[®] and Atoris[®]. Also worthy of mention is the cosmetic product group, which recorded 28% growth in sales compared to the same period last year, primarily due to positive sales for Fitoval[®] and Tricia[®].

In **Serbia** Krka achieved sales worth EUR 8.7 million, which is one per cent more than for the same period last year. The attenuated growth is due to the general fall in the price of medicines on the market. The best-selling products were Zyllt[®] and Vasilip[®]. Special mention should be made of the 23% sales growth for self-medication products, which was boosted by the launch of Septolete[®] in new flavours and the intense 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

East Europe

Krka generated sales worth EUR 164.9 million on the markets in its Region East Europe over the first nine months of 2008, which is 23% higher than for the same period last year. Sales of prescription pharmaceuticals, which represent 72% of overall sales in the region, grew by 23%, while sales of self-medication products grew by 22%, and animal health products sales by 24%.

In the **Russian Federation**, which is Krka's largest single market, sales this year up until the end of September 2008 were worth EUR 110.7 million, representing growth of 22%. Prescription pharmaceutical sales remained the mainstay, growing 20% to EUR 81.3 million. Self-medication product sales came next and were worth EUR 24.5 million, representing growth of 29%, while animal health product sales were worth EUR 3.3 million (18% growth), and cosmetics sales were worth EUR 1.7 million (27% growth) compared to the first three-quarters of 2008.

restructuring.

In **Bulgaria** Krka achieved sales of EUR 7.7 million, which is 17% more than for the same period last year. Prescription pharmaceutical sales represented 94% of total sales on this market. One of the most notable products was Lorista[®], Krka's best-selling product, and the fifth best selling product on the Bulgarian market. Lorista[®] won the "Bulgarian Pharmaceutical Congress" 2008 pharmaceutical product of the year award. Other products making major contributions to overall sales were Rawel[®], Enap[®], Vasilip[®], Tenox[®], Atoris[®] and Fromilid[®].

In **Macedonia** Krka achieved product sales worth EUR 6.8 million, making it the top-ranking foreign generic producer in the country by sales. The leading pharmaceutical products were Enap[®], Lanzul[®], Cordipin[®] and Atoris[®], and the leading self-medication products were B-Complex[®], Daleron[®] and Bilobil[®].

Sales on other markets in the region exceeded those for the same period last year, with 27% growth in **Kosovo**, 16% in **Albania** and 16% in **Montenegro** can be ascribed to intense promotional and commercial activity in the field.

The best-selling Krka products in the Russian Federation remained Enap[®], with other leading products including Vasilip[®], Nolicin[®], Macropen[®], Fromilid[®], Ultop[®], Atoris[®], Cordipin[®], Zyllt[®], Bilobil[®], Pikovit[®], Duovit[®], Herbion[®] and Septolete[®]. The highest growth among these products was achieved by Atoris[®], Zyllt[®], Ultop[®], Herbion[®] and Septolete[®]. June and July 2008 saw the launch of Lorista[®], a new product to treat high blood pressure.

Coverage in the field was improved over the period by strengthening the marketing network. Production capacity is also being expanded at the Krka Rus company, which has increased production by working on a double shift basis. It produces seven products, including Krka's best-selling product, Enap[®], production of which has been partially transferred to Krka Rus from the controlling company in Novo mesto.

In **Ukraine** we achieved sales worth EUR 33.2 million, with sales growth at 35% compared to the same period last year. We

strengthened cooperation with pharmacies and pharmacy chains, which are an increasingly important part of the business. The best selling products over the period were Enap H[®], Enap HL[®], Enap[®] and Herbion[®].

In **Kazakhstan** Krka achieved product sales worth EUR 4.7 million. The leading product group was prescription pharmaceuticals with a 60% share in overall sales, followed by self-medication products and cosmetics (together equalling 39%) while the remainder, under one per cent, came from animal health product sales. The best-selling products were Enap[®], Pikovit[®], Duovit[®], Vasilip[®] and Fromilid[®].

Krka achieved product sales worth EUR 4.5 million in **Uzbekistan** over the period. The largest contribution to overall sales came from prescription pharmaceuticals, sales of which were 20% higher than for the first nine months of last year. Also notable was the 64% growth in the sales figures for Enap[®], attributable to increased promotional activities and more specialised staff.

In **Belarus** Krka sold products worth EUR 3.9 million, 17% higher than for the same

period in 2007. The leading product group, with 67% of sales were prescription pharmaceuticals, followed by self-medication and cosmetic products with 31%. Animal health products represented 2% of total sales. The best-selling products were Enap[®], Macropen[®], Septolete[®], Duovit[®] and Atoris[®]. Krka continues to face fierce competition from domestic medicine producers.

Operations in **Moldova** were stable and there were no major disruptions to the market. The volume of Krka product sales was similar to the same period last year, but promoted products stand out, achieving growth of 40%; The leading products on the Moldovan market are Enap[®], Ciprinol[®], Septolete[®] and Duovit[®].

High sales growth was achieved on the remaining markets in Krka's Region East Europe: 66% in **Tajikistan**, 52% in **Mongolia**, 35% in **Azerbaijan**, 25% in **Kyrgystan**, 16% in **Armenia** and 10% in **Georgia**. The sales growth is due largely to the strengthened promotional and commercial activities in the field.

Central Europe

Krka generated sales worth EUR 188.2 million on markets in its Region Central Europe in the first nine months of 2008, which is 25% higher than for the same period last year. Sales of prescription pharmaceuticals, which represent 93% of overall sales in the region, grew by 27%, while sales of self-medication products grew by 9%, and animal health products sales by 8%.

Half of the region's sales were generated in **Poland**, which is one of Krka's key markets. Product sales were worth EUR 93.4 million, which is 29% up on the same period last year. The most important prescription pharmaceutical remains Zalasta[®], followed by Atoris[®], Lorista[®], Lanzul[®], Vasilip[®] and Nolpaza[®]. These products represented half of all prescription pharmaceutical sales. As during the first half of the year, the most important products included Prenessa[®], Zyllt[®] and Prenewel[®], sales of which grew more than 160%. Self-medication products returned a 5% drop in sales, while animal health products were 15% down.

The Krka Polska production and distribution centre also manufactures products intended either for the

Polish market or for other Krka markets: Zalasta[®], Prenessa[®], Vasilip[®], Zyllt[®], Tenox[®] and Azibiot[®].

In the **Czech Republic** Krka achieved sales worth EUR 33.7 million, with sales growth at 19% compared to the same period last year. The best-selling products are Atoris[®], Lorista[®], Ampril[®], Prenessa[®], Enap[®], Asentra[®], Lanzul[®] and Fromilid[®]. Mention should also be made of products to treat diseases of the central nervous system: Yasnal[®], Mirzaten[®] and Kventiax[®]. In the self-medication product group, Septolete[®] and Nalgessin[®] products sold well, representing almost 80% of total self-medication product sales, with product group sales increasing overall by 27% compared to the same period last year.

Hungary is Krka's third largest market in the region by sales. Product sales were worth EUR 30.2 million, with growth of 22% compared to the same period last year. The best-selling products were Atoris[®], Prenessa[®], Lanzul[®], Tenox[®], Bilobil[®], Fromilid[®] and Nolpaza[®], which since its launch in autumn 2007 has already become Krka's third best selling product on this market.

In **Slovakia** Krka achieved sales of EUR 15.9 million, which is 44% more than in the same period last year. This makes Slovakia the fastest growing market in the region. The highest growth was achieved by Alventa[®], Prenessa[®], Lorista[®], Rawel[®], Atoris[®] and Valsacor[®]. The self-medication product group grew 20%, with the Septolete[®] products remaining the best sellers, representing 46% of sales in this product group.

Sales in **Lithuania** reached EUR 9.7 million, which is a growth of 12% compared to the same period last year. Krka's most important products on this market are Lorista[®], Zalasta[®], Enap[®], Kaptopril[®], Ultop[®] and Yasnal[®]. A drop in sales was recorded in the self-medication product group.

West Europe and Overseas Markets

In Region West Europe and Overseas Market product sales were worth EUR 158.2 million, an increase of over 41 % on the same period last year. Prescription pharmaceuticals represent almost 96% of sales, with the remainder contributed by animal health products and, to a lesser extent, self-medication products.

Over 90% of sales in this Krka region were achieved in **western European countries**, which Krka considers as key markets. The most important markets are Germany, France, the United Kingdom, Italy, and the Nordic countries. The best sellers are lansoprazole, olanzapine, enalapril, amlodipin, carvedilol and mirtazapine, which place Krka among the leading generic suppliers on some markets. Sales growth has also been achieved with gliclazide SR, venlafaxine SR, risperidon and sertraline. The volume of animal health sales in this region increased by 12%, while sales of new products in the overall sales structure almost doubled,

Sales in **Latvia** were worth EUR 3.8 million, with growth of 3%. The most important product was Atoris[®], followed by Enap[®], Daleron[®], Tenox[®] and Prenessa[®]. Prenessa[®] and Lanzul[®] were the best selling products. Sales of self-medication products fell by 13% compared to the same period last year.

In **Estonia** we sold products worth EUR 1.4 million, a growth of 10% compared to the same period last year. Krka's most important products on this market remain Enap[®], Fromilid[®], Ciprinol[®] and Atoris[®], which recorded the highest sales growth. Sales of self-medication products were also successful, largely due to Septolete[®] sales almost doubling.

especially in the EU-15 countries. The sale of Krka products under its own brands was strengthened in western Europe via associated countries, especially in Germany, where they are also sold under the brand of the Krka subsidiary, TAD Pharma.

On **overseas markets** Krka is continuing to realise its objectives in **Africa**, where own-brand products are generally sold via partners. Prescription pharmaceuticals represent the majority of sales, especially analgesics and antibiotics. In **south-east Asia**, where Krka's most important market is Malaysia, sales volumes increased by 11% 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 the most important market in the **Middle East**. In Yemen sales volumes continued to increase, and the product portfolio is being supplemented with new products.

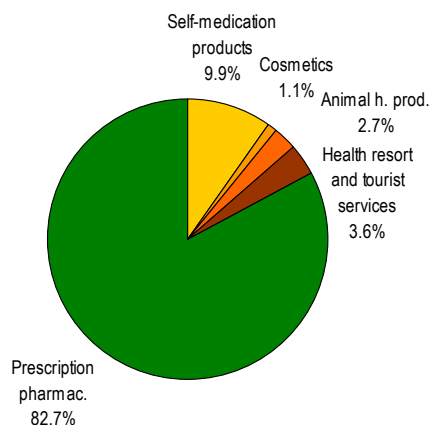
Sales by product and service group

Krka's most important line of business is the production and marketing of prescription pharmaceuticals. Sales of prescription pharmaceuticals grew by 23% over the period, and together with self-medication and cosmetics

represented 93% of overall Krka Group sales. Krka also markets and sells animal health products, with sales growing by 4% over the nine months. The value of health and tourism services were worth EUR 24.6 million, representing growth of 5%.

in EUR thousand	Krka Group			Krka Company		
	1-9/2008	1-9/2007	Ind.	1-9/2008	1-9/2007	Ind.
Human health products	643,843	528,332	122	585,755	478,516	122
- prescription pharmaceuticals	567,894	461,952	123	511,616	414,279	123
- self-medication products	68,186	59,075	115	66,345	57,115	116
- cosmetics	7,763	7,305	106	7,794	7,122	109
Animal health products	18,542	17,868	104	18,174	17,524	104
Health resort and tourist services	24,612	23,490	105			
Other	941	1,200	78	946	991	95
Total	687,938	570,890	121	604,875	497,031	122

Krka Group sales by product and service group – January-September 2008



Prescription pharmaceuticals

The Krka Group sold prescription pharmaceuticals worth EUR 567.9 million, which is 23% higher than for the equivalent period in 2007. Sales on Krka's traditional markets – Slovenia and the markets of central, south-east and eastern Europe – were worth EUR 416.5 million, up 17% on the first three-quarters of 2007. Sales were up most in central Europe (27% growth) and eastern Europe (23% growth). In Krka's Region West Europe and Overseas Markets, which returned the highest growth by region (41%), prescription pharmaceutical sales were worth EUR 151.4 million.

The highest growth in prescription pharmaceutical sales on the larger markets compared to the

equivalent period in 2007 were achieved in Germany (up 139%), Ukraine (48%), Poland (32%), the Russian Federation (20%), Hungary (20%) and the Czech Republic (19%). The smaller markets with notable growth figures include Portugal (78%), Slovakia (48%), Italy (28%), Bosnia (21%) and Uzbekistan (20%).

The leading prescription pharmaceuticals by sales are Enap®, Atoris®, Lanzul®, Zalasta®, Vasilip®, Lorista®, Tenox®, Coryol®, Fromilid® in Prenessa®. The highest relative growth in sales was achieved by Zalasta® and Prenessa®.

New products are a prime generator of continued sales growth, as evidenced by Zalasta® (olanzapine), Zyllt® (clopidogrel), Prenessa® (perindopril) and Nolpaza® (pantoprazole). In the first nine months of 2008 Krka started marketing several products on new markets, including most notably the launch of Nolpaza® (pantoprazole) and Kventiax® (quetiapine) on most central European markets, the launch of Zalasta® (olanzapine) in orodispersible tablet form in Poland, and individual markets in south-east Europe, and the launch of Lorista® (losartan) in the Russian Federation and Ukraine, and Valsacor® (valsartan) in Poland and Ukraine. Co-Prenessa®/Prenewel® (perindopril + indapamide) and the new oral antidiabetic Gliclada® (gliclazide) in prolonged-release tablet form were launched on most central European markets.

Most marketing activities were aimed at promoting products in key therapeutic groups. 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®), pharmaceuticals to treat diseases of the alimentary tract (Ultop®, Lanzul® and Nolpaza®), 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 has been 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 by a major international symposium in Slovenia, with numerous other events celebrating the milestone being organised across our different markets.

In September Krka took part in the World Congress of Psychiatry in Prague, where a large number of professionals visited Krka's exhibition space and attended a Krka symposium. In recent years Krka has also offered a wide range of products to treat depression (Alventa®, Asentra® and Mirzaten®), bipolar disorder (Zalasta®, Torendo® and Kventiax®) and Alzheimer's disease (Yasnal®).

In September Krka dedicated two major international symposiums during professional congresses to diseases of the alimentary tract and metabolism and Krka products (Ultop®, Lanzul®, Nolpaza®).

Self-medication products

The Krka Group sold self-medication products worth EUR 68.2 million in the first nine months of the year, an increase of 15% on the equivalent period in 2008.

Positive sales trends were recorded in all regions for this product group, except in Region South-East Europe. In Slovenia growth of 13% was achieved, 22% on the markets of Region East Europe, and 9% on the markets of Region Central Europe.

The highest growth achieved on the large markets was in the Russian Federation (29%), Ukraine

(10%), Croatia (11%), Uzbekistan (10 %) and the Czech Republic (27%).

The leading products are Bilobil®, Septolete®, Pikovit® and Herbion®, among which Herbion® returned the highest growth (up 52%), while sales of Septolete® and Pikovit® were both up by over 10%.

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 and Croatia.

Cosmetic products

Cosmetics sales in the first nine months of 2008 reached EUR 7.8 million, which is 6% more than during the equivalent period in 2007.

Good sales results were achieved in Slovenia, where growth was at 5%, and in Region East

Europe where it reached 12%. Within that region, sales in the Russian Federation were up by 27%.

The best-selling product is Fitoval®, sales of which grew by 20%, followed by Vitaskin®.

Fitoval® will remain the key brand in future, and will receive the most marketing development and

support.

Animal health products

The Krka Group's animal health product sales in the first nine months of 2008 were worth EUR 18.5 million, which represents growth of 4% compared to the same period in 2007.

Sales in Slovenia were up 4% on the equivalent period last year, in Region East Europe they were up 24%, in Region Central Europe up 8%, while in the regions South-East Europe and West Europe and Overseas Markets sales were slightly down. The highest growth on larger markets was achieved in Ireland and the UK (up 63%), followed by the Benelux countries (up 50%), Ukraine (34%), the Russian Federation (18%) and Poland (15%).

Enroxil® (enrofloxacin) strengthened its position as the leading brand, followed by Floron® (florfenicol) – both recording sales growth over 20% – and Kokcisan® (salinomycin). Ecocid S® is already one of Krka's best-selling animal health products, despite only being launched last year. Sales of established products such as Calfoset® and Dehinel plus® also continued to grow.

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 nine months of 2008 was EUR 24.6 million, exceeding the figures for the equivalent period in 2007 by 5%. Revenues from health services were up most, at 7%. Hotel revenues were 5% up, sports activities and cosmetics services were up 4%, while catering revenues grew by 2%. The average occupancy rate for the Terme Krka Group hotels in the first nine months of 2008 was 73%, with the most-visited hotel in Strunjan achieving an occupancy rate of 88%.

In October Krka purchased the 49% stake in Terme Krka–Strunjan d.o.o. held by the Association of War

Veterans' Organisations for EUR 8 million, making it the 100% owner of the coastal health resort.

Final work is being carried out at the new Balnea hotel in Dolenjske Toplice, which will have 62 rooms and 116 beds. The hotel will offer superior four-star accommodation, as well as three seminar halls, recreation facilities on the hotel roof with a view over the surroundings, a children's playroom, bar, and outdoor terrace. A special feature of the new hotel will be the panoramic corridor linking the hotel to the Balnea wellness centre. The investment project was co-funded by the European Regional Development Fund.

Research and development

The achievements of Krka Group's research and development sector over the first three-quarters of 2008 include the acquisition of first market authorisations for 11 new products in 25 pharmaceutical forms. Over the period 374 market authorisations were also acquired for various products across a number of different markets. Krka was successful in the most demanding marketing authorisation procedure, a CP (Centralised Procedure), concluding the process for the product Opryme® (pramipexole) and Irbesartan Krka. The

CPs provided market authorisation for both products in all 27 EU member states. By registering the product Irbesartan Krka, with the API irbesartan in the form of 75mg, 150mg and 300mg film-coated tablets, Krka expanded its range of products to treat high blood pressure. Opryme® is available as 0.088mg, 0.18mg, 0.35mg, 0.7mg and 1.1mg tablets and is used to treat Parkinson's disease. Over the same period, Krka successfully concluded seven DCPs (Decentralised Procedure), acquiring

significant product market authorisations for a

number of key markets.

Prescription pharmaceuticals

Krka expanded its anti-psychotic range within the central nervous system therapeutic group. The market authorisation procedure was concluded this year in all central and eastern European countries for the product Zypsilan® (ziprasidone) in the form of 20mg, 40mg, 60mg and 80mg solid capsules. The medicine treats psychosis and schizophrenia, particularly in younger patients, since it does not lead to weight gain during treatment and has a major impact on patient quality of life.

Market authorisations were achieved for the

Lertazin® product in 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 and treats acute and chronic allergic reactions, such as hay-fever and skin reactions, and has already been launched on some markets.

Market authorisations were also successfully acquired for Monkasta® in 4mg and 5mg chewable tablet form in a number of western and central Europe countries which is used for the prevention and treatment of asthma.

Self-medication products

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 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, Macedonia and Kazakhstan. The first notification procedure was also concluded

in Slovenia for the products Pikovit® IQ syrup and Pikovit® Balance syrup. Pikovit® IQ syrup is a dietary supplement with vitamins and Omega 3 acids, which are important for the correct development of the brain and the central nervous system in children. Pikovit® Balance syrup contains vitamins and prebiotic fibres, which accentuate the function of healthy gastrointestinal microflora in children. Krka is continuing to acquire notifications for dietary supplements in the Russian Federation, for example, for Duovit® Energija and Duovit® Vision.

Animal health products

Having concluded an EU centralised procedure during the first nine months of the year, in the animal health product sector we acquired a permit for use for the coccidiostatic Kokcisan® 120 as a granulate mix. It prevents coccidiosis in poultry. Krka also concluded a decentralised market 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 market authorisation procedure was also concluded for Enroxil® Max in injection solution form for 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.

Cosmetic products

Krka is continuing to successfully acquire cosmetics registrations for products from the new Vitaskin® Pharma Pure Expert line, which is aimed at greasy,

problem skin. This year a permit for use has been acquired for this product line in the Russian Federation and Ukraine.

Expanded R&D capacity for API development

Krka acquired some major new R&D infrastructure in the field of active pharmaceutical ingredient (API) development – one of the main R&D areas at Krka – in 2008 with the opening of new chemical development laboratories. The new acquisition is the focus of synthesis and analysis-related knowledge, which is an essential part of product research throughout the entire chain, from theoretical study of chemical synthesis to the introduction of new synthesised technology into industrial processes. The construction of new

laboratory infrastructure has optimised development capacity, while staff training and the latest development equipment will enable Krka to produce the most technically demanding projects. The entire synthesis development, and isolation and physical processing of APIs for application in the development of pharmaceutical products will take place in the laboratories. The laboratories will support the performance of experiments ranging from milligrams to kilograms in scale.

Investment

Over the first nine months of 2008 the Krka Group allocated EUR 108.2 million to investment, of which EUR 85.9 million (79% of total Krka Group value) was within the controlling company, and EUR 22.3 million in subsidiaries. Krka is currently implementing over 30 projects at home and abroad relating primarily to final products and raw materials and the construction of tourist, laboratory and other

infrastructure. The intense investment activity over the period was concluded with the opening of new chemical development laboratories at the start of October 2008 (for more see the section Research and Development).

Below are a number of the most important projects.

NOTOL Phase III – Building 4

Phase III of the Notol expansion – currently Krka's largest investment project – is being concluded on schedule. Building 4 is an extension to the existing plant and represents an expansion of the Notol plant's production capacity. It will be used for small-batch, solid dosage pharmaceutical production. The newly installed equipment will increase current

tablet-coating capacity by half.

All trades and installation work in the building is complete, while most technological equipment has also been installed, and the production permit-for-use acquired.

Pelete V plant

Final work was carried out in the summer on the Pelete V project, which will increase pellet production capacity. The installation work in the facility started in January 2008, all technological equipment has been installed, and the testing of production and technological procedures and

equipment has been carried out. All the necessary technical permits have been acquired, and test production can take place according to plan. Venlafaxine production will take place on the new line.

Service and technical centre

A service-technical centre has been constructed at the eastern end of the Krka complex in Ločna, to which a waste sorting facility, firefighting equipment facility and carpentry workshop will be transferred.

This transfer is necessitated by the construction of a capsule production plant and Development Control Centre 3. Work on the facility has already finished.

All project and technical documentation for the

technical review has been acquired.

Sinteza 4 – Line 5

Work has started on an additional fifth line at the Sinteza 4 plant. The upgrade and equipping of an additional line was dictated by the need to produce

increasing quantities of a range of new APIs. Line 5 is set to come online in February next year.

Reconstruction of the Bršljín plant

The Bršljín plant reconstruction project includes the building of a new facility for biocide production, and the reconstruction of the facility to increase syrup

production capacity for the self-medication programme.

Extension and connecting corridor to Balnea wellness centre at Hotel Kristal

The final work on the new 116-bed hotel at Dolenjske Toplice spa complex is underway. The investment is being co-financed by a grant from the European Regional Development Fund (ERDF).

The final installation works, equipment assembly and external infrastructure and finishing works are all underway. The technical review and handover of the facility to the users are scheduled for November 2008.

Expansion of the Otočec golf course

An additional nine holes and watering system are being added to the Otočec golf course, making it an 18-hole course. The investment is being co-

financed by a grant from the European Regional Development Fund (ERDF). The new holes should be ready for play by June 2009.

Works at TAD Pharma

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

Works at Krka Farma in Croatia

Production capacity at the Jastrebarsko plant has been expanded this year by the addition of a granulation line, a new organic solvent warehouse and nitrogen inertisation plant. Test production

started in mid-June and all the requisite permits for the start-up of regular production have been acquired.

Works at Krka Polska

The need to increase production capacity in Poland means the existing small packaging line will be

replaced with a system with greater capacity.

Employees

Given its ambitious sales plans for 2008, Krka has accelerated recruitment, particularly of marketing and sales staff in its companies and representative offices abroad and in research and development staff at home in Slovenia. The number of employees in Slovenia increased by 164 during the first three

quarters of the year, and by 453 in subsidiaries and representative offices abroad. Forty-six per cent of all Krka Group employees are now employed outside Slovenia, and 57% of employees in the Krka Group have at least a further education qualification.

Education structure of Krka Group employees

Educational level	30 Sep 2008		31 Dec 2007	
	Headcount	Share (in %)	Headcount	Share (in %)
PhD	68	0,9	68	1,0
MSc	175	2,3	174	2,6
University education	3356	44,9	3067	45,3
Higher professional education	693	9,3	413	6,1
Vocational college education	218	2,9	229	3,4
Secondary school education	1440	19,3	1366	20,2
Other	1525	20,4	1460	21,4
Total	7475	100,0	6777	100,0
- in Slovenia	4023	53,8	3859	56,9
- abroad	3452	46,2	2918	43,1

Krka ensures the influx of gifted new colleagues with scholarships. At present Krka provides 93 young people with scholarships, primarily in the field of pharmacy and chemistry, and scholarships are also offered to exceptional students in other areas of interest to Krka.

Investment in knowledge and staff development is a lever for successful performance at Krka, so the development of key and promising staff development system – which includes 11% of employees – is planned with great care. 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 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.

Our employees are also studying at home and abroad in the fields of quality, personal development, foreign languages and information science. The training is adapted to the needs of our employees, the technological process, market conditions and the company's development needs, so most education is organised in-house. The relatively high growth in the number of employees makes high demands for new employee training.

Krka employees show great interest in acquiring new knowledge and gaining higher qualifications. At present 107 Krka employees are involved in specialist, master's and doctoral studies, while a total of 405 employees are involved in part-time studies alongside their work. In the first three quarters of 2008, 124 staff concluded their studies. At present there are 74 requests for study benefits being processed.

The testing and recognition of knowledge continues via a certification system that prioritises employees' practical knowledge relating to their work in the production of raw materials, final products and pharmaceutical production logistics. Since 2002, 309 certificates have been awarded to staff after

completing training to acquire national vocation qualifications, and 120 certificates to staff to carry out testing and certification in other pharmaceutical organisations. Krka is a verified examiner for national vocational qualifications in Slovenia in the field of pharmaceuticals.

In 2008, 94 employees (three groups of staff within the company or via an agency) acquired a national vocational qualification. In spring six new groups started lectures and workplace training for two national vocational standards, and in the final quarter of the year another two groups will start a national standard qualification in logistics. This will include 176 employees.

The new SAP HR information came online at the start of 2008 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 increases employee satisfaction, and helps the company attract high quality employees and, ensure good corporate performance.

Staff receive additional motivation from a range of material and cash bonuses and awards, 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 submitted 347 useful proposals, while from January to September this year 273 employees have submitted 311 proposals. As every year, Krka organised a joint social and sports event for all its employees.

In April 2008, 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 September 2008 Krka had 73,465 shareholders, which 19% higher 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. Over the period the ownership share of Slovenian investment companies and funds, and of international investors, fell.

Ownership structure (%)

	30. 9. 2008	31. 12. 2007
Individual Slovenian investors	43.4	42.4
Slovenian investment funds & companies	8.7	9.3
SOD Fund	15.0	15.0
KAD & PPS Funds	10.2	10.2
Other Slovenian companies	10.1	10.0
Treasury shares	4.6	4.6
International investors	8.0	8.5
Skupaj	100.0	100.0

On 30 September 2008, Krka held 1,626,620 treasury shares, representing 4.6% of nominal

capital. In the first half nine months of 2008 the company did not repurchase any treasury shares.

Ten largest shareholders in Krka on 30 September 2008

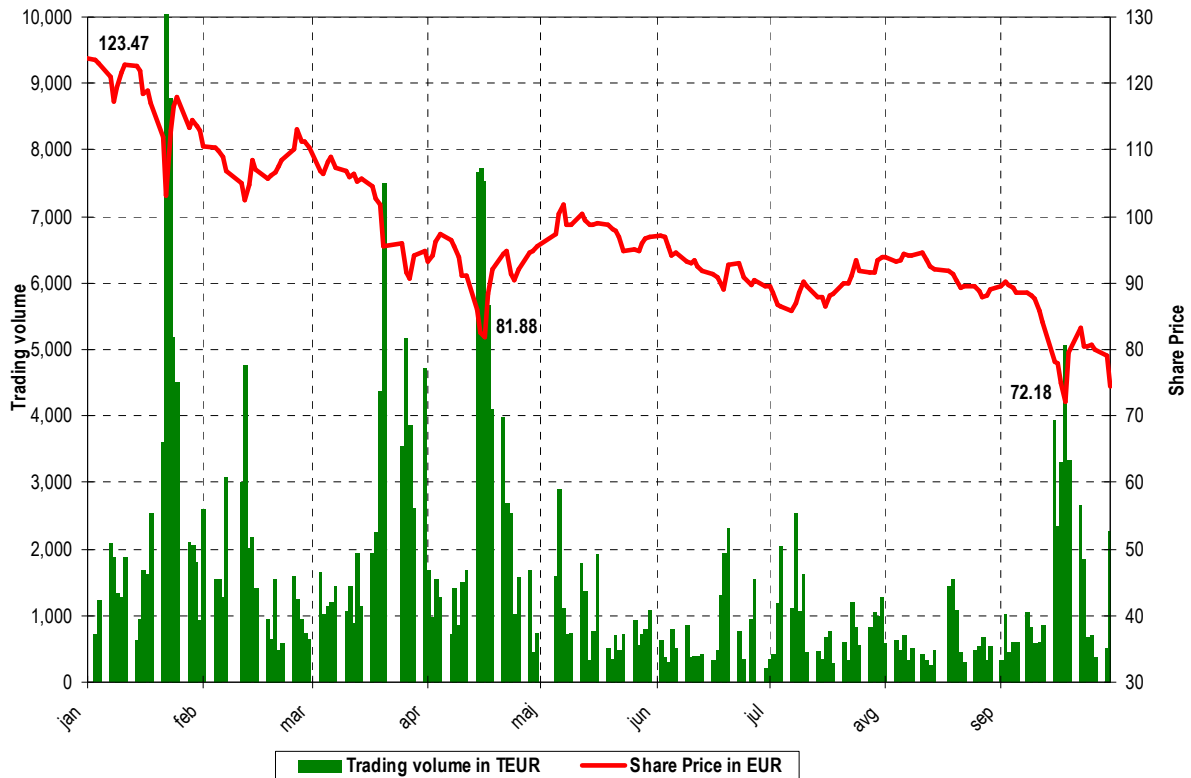
	Country	Number of shares	Proportion in equity in %	Proportion in voting rights in %
SLOVENSKA ODŠKODNINSKA DRUŽBA, D.D.	Slovenia	5,312,070	14.99	15.72
KAPITALSKA DRUŽBA, D.D.	Slovenia	3,493,030	9.86	10.33
NEW WORLD FUND INC	USA	910,700	2.57	2.69
NFD 1 DELNIŠKI INVESTICIJSKI SKLAD D.D.	Slovenia	779,812	2.20	2.31
BANK AUSTRIA CREDITANSTALT AG	Austria	439,449	1.24	1.30
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	Slovenia	363,167	1.03	1.07
KD GALILEO VS	Slovenia	242,779	0.69	0.72
FARMADENT D.O.O.	Slovenia	225,000	0.64	0.67
Total		12,584,277	35.53	37.23

On 30 September 2008 members of the Krka Management Board and Supervisory Board held a total of 65,420 shares in the company, or 0.185 % of all shares issued.

Shares in equity and voting rights of Krka Management Board and Supervisory Board Members on 30 September 2008

	Number of shares	Proportion in equity in %	Proportion in voting rights in %
Management Board members			
Jože Colarič	22,500	0.06351	0.06657
Janez Poljanec	22,060	0.06227	0.06527
Aleš Rotar	12,770	0.03605	0.03778
Zvezdana Bajc	1,660	0.00469	0.00491
Danica Novak Malnar	0		
Total Management Board members	58,990	0.16652	0.17453
Supervisory Board Members			
Gregor Gomišček	320	0.00090	0.00095
Mateja Božič	0		
Anton Rous	0		
Draško Veselinović	10	0.00003	0.00003
Alojz Zupančič	3,490	0.00985	0.01033
Sonja Kermc	2,110	0.00596	0.00624
Tomaž Sever	500	0.00141	0.00148
Mateja Vrečer	0		
Total Supervisory Board Members	6,430	0.01815	0.01902

Trading in Krka shares during the first nine months of 2008



The Krka share price started to fall in mid-January this year. A brief correction upwards followed, before the downward trend continued. In mid-April there was another correction upwards, before it declined moderately in May and June. In July the price rose slightly again, but this did not halt the overall downward trend. The price fell over the following months and in September reached its lowest point for 2008. Over the first nine months of 2008 the share price fell by 40% and stood at EUR 74.40 at the end of September. The reasons for the fall are not to be found in Krka's operations.

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 same period, and is down 46%.

The average daily trading in company shares on the Ljubljana Stock Exchange in the first nine months of 2008 was EUR 1.6 million, and Krka's market capitalisation on 30 September 2008 was EUR 2.6 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 the US dollar's variability. Activities to manage this risk were down in the first three quarters of this year compared to 2007, as the Group's exposure to

changes in the US dollar fell.

Nevertheless, Krka has hedged most of the potential losses from potential falls in the value of the US dollar with forward contracts.

Exposure to the Polish zloty, Croatian kuna and Russian rouble was actively monitored, but no special measures were taken to reduce this risk.

Interest rate risk

At the end of the third quarter of 2008, Krka had three long-term loans linked to the 6-month EURIBOR.

At present, 16.3% of the principal of all long-term

loans is hedged by regular interest rate swaps.

No new interest rate risk hedging was carried out this year.

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 third quarter of 2008, 410 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.

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

Liquidity risk

Risks relating to the Krka Group's solvency were controlled over the first nine months 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 the

Terme Krka company and its subsidiaries in Slovenia, which simplified the system for ensuring liquidity within these companies.

Despite the current state of financial markets, liquidity risk is assessed as low. The Group's short-term borrowing increased compared to the end of 2007, but the agreed revolving credit agreements are sufficient to ensure liquidity without difficulty.

Insurance

During the January-September 2008 Krka Group managed its insurance and claim procedures in line with standardised requirements and internal insurance standards in Slovenia and in companies and representative offices abroad. The Krka Group introduced insurance for damage and business interruption caused by earthquakes and renewed its insurance contracts in full. Improved transport conditions reduced premiums for international goods transport. The growth in assets and sales led Krka to increase its insured sums and deductibles, while the coverage limits for additional fire risk due to floods, precipitation and other water damage were increased and standardised.

non-material accidental damage to third parties that could be caused by the Group's activities, property, or placing products on the market. This covers general civil liability, employer's liability, liability for ecological impairment, and manufacturer's liability for products and clinical trials. In addition to existing insurance, as a works contractor, Krka has issued rules on insurance for construction and installation work in current investment works and maintenance, which requires the contractors to take out insurance in line with Krka's demands. This form of insurance covers personal and property liability, damage to nearby facilities and dangers during construction, installation and maintenance.

The TAD Pharma subsidiary was brought into the insurance system from 1 July 2008, while it has liability insurance with an insurance company that is a member of the pharmaceutical pool.

Over the January-September 2008 period Krka had 80 loss events, led by motor vehicle damage, followed by damage to goods during transit and storage, and damage to equipment and inventories due to the entry of precipitation.

The Group has liability insurance for material and

FINANCIAL STATEMENTS OF THE KRKA GROUP WITH NOTES

Balance sheet of the Krka Group

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Assets			
Property, plant and equipment	634,197	572,244	111
Intangible assets	128,389	129,854	99
Investments in associates	1,010	0	
Deferred tax assets	33,284	32,687	102
Long-term loans	4,002	3,531	113
Non-current investments	5,972	10,981	54
Other non-current assets	480	410	117
Total non-current assets	807,334	749,707	108
Inventories	210,684	171,647	123
Trade and other receivables	235,359	179,834	131
Short-term loans	1,226	1,510	81
Current investments, including derivatives	1,958	2,936	67
Cash and cash equivalents	12,756	15,784	81
Total current assets	461,983	371,711	124
Total assets	1,269,317	1,121,418	113
Equity			
Share capital	59,126	59,126	100
Own shares	-19,489	-19,489	100
Reserves	156,285	157,094	99
Retained earnings	553,420	474,146	117
Equity holders of the parent	749,342	670,877	112
Minority interest	10,292	10,036	103
Total equity	759,634	680,913	112
Liabilities			
Long-term borrowings	87,121	87,183	100
Provisions	149,150	143,641	104
Government grants and EU grants	2,948	3,099	95
Deferred tax liabilities	16,779	19,850	85
Total non-current liabilities	255,998	253,773	101
Trade payables	90,119	78,462	115
Short-term borrowings	106,466	62,528	170
Income tax liabilities	8,030	3,612	222
Other current liabilities	49,070	42,130	116
Total current liabilities	253,685	186,732	136
Total liabilities	509,683	440,505	116
Total equity and liabilities	1,269,317	1,121,418	113

Income statement of the Krka Group

in EUR thousand	1-9/2008	1-9/2007	Ind. 08/07
Sales revenues	687,938	570,890	121
Production cost of goods sold	-249,403	-214,067	117
Gross profit	438,535	356,823	123
Other operating income	3,756	1,547	243
Sales and marketing	-174,590	-135,684	129
R&D costs	-61,770	-42,036	147
Administrative expenses	-54,112	-44,526	122
Result from operating activities	151,819	136,124	112
Financial income	20,898	11,419	183
Financial expenses	-25,567	-14,926	171
Net financial expenses / income	-4,669	-3,507	133
Profit before tax	147,150	132,617	111
Income tax expense	-35,952	-34,642	104
Profit for the period	111,198	97,975	113
Attributable to:			
– equity holders of the parent	110,829	97,518	114
– minority interest	369	457	81
Earnings per share (in EUR)	3.29	2.90	113
Diluted earnings per share (in EUR)	3.29	2.90	113

* 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 thousand EUR	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	11,684	3,481	154	275,796	89,566	6,698	562,998	7,907	570,905
Entry of net profit for the period	0	0	0	0	0	0	0	0	97,518	0	97,518	457	97,975
Entry of minority interest	0	0	0	0	0	0	0	0	0	0	0	1,676	1,676
Transfer of previous period's net profit to net profit carried forward	0	0	0	0	0	0	0	0	-89,566	89,566	0	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	-6	0	6	0	0	0	0	38,149	0	-38,149	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	-27,040	-27,040	-106	-27,146
Tax effects of the transition and adjustment to IFRS	0	0	0	0	0	2,557	23	0	0	-564	2,016	0	2,016
Balance at 30 Sep 2007	59,126	-19,489	120,992	14,990	11,684	6,038	177	313,945	97,518	30,511	635,492	9,934	645,426
Balance at 1 Jan 2008	59,126	-19,489	120,992	14,990	14,184	6,824	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	110,829	0	110,829	369	111,198
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	0	43,472	0	-43,472	0	0	0
Transfer of previous period's net profit to net profit carried forward	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	-30,827	-30,827	-113	-30,940
Translation reserve	0	0	0	0	0	0	3,122	0	0	0	3,122	0	3,122
Changes in the fair value of financial assets available for sale	0	0	0	0	0	-3,931	0	0	0	0	-3,931	0	-3,931
Tax effects of the transition and adjustment to IFRS	0	0	0	0	0	0	0	0	0	-728	-728	0	-728
Balance at 30 Sep 2008	59,126	-19,489	120,992	14,990	14,184	2,893	3,226	400,417	110,829	42,174	749,342	10,292	759,634

Cash flow statement of the Krka Group

in EUR thousand	1–9/2008	1–9/2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	111,198	97,975
Adjustments for:	90,391	77,122
– amortisation /depreciation	50,883	41,390
– foreign exchange gain	-4,991	-2,355
– foreign exchange loss	2,507	4,287
– investment income	-4,562	-6,034
– investment expense	4,165	2,746
– interest expense and other financial expense	6,772	2,447
– income tax	35,952	34,642
– other	-336	0
Operating profit before changes in net operating current assets and provisions	201,589	175,097
Change in trade receivables	-50,333	-31,369
Change in inventories	-39,037	-15,653
Change in operating debts (liabilities)	12,312	8,255
Change in provisions	5,509	14,033
Change in grants received	-151	-157
Change in other current liabilities	6,379	2,109
Income taxes paid	-34,485	-38,336
Cash generated from operations	101,783	113,979
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	289	280
Proceeds from sale of current investments	14	456
Dividends received	21	136
Proceeds from sale of property, plant and equipment	2,493	681
Purchase of intangible assets	-5,569	-3,104
Purchase of property, plant and equipment	-107,536	-83,611
Acquisition of associates	-1,010	0
Given long-term loans	-639	-714
Proceeds from repayment of long-term loans	599	7
Acquisition of non-current investments	-75	-274
Proceeds from sale of non-current investments	142	0
Acquisition of current investments	-1,706	-855
Proceeds from sale of current investments and repayment of short-term loans	607	4,266
Payments in connection with derivative financial instruments	-278	-53
Proceeds from derivative financial instruments	1,761	1,912
Net cash used in investing activities	-110,887	-80,873
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	-6,307	-3,036
Repayment of long-term borrowings	-20,167	-11,367
Repayment of short-term borrowings	269,929	-199,757
Proceeds from short-term borrowings	-206,333	213,034
Dividends paid	-30,838	-27,154
Net cash used in financing activities	6,284	-28,280
Net increase in cash and cash equivalents	-2,820	4,826
Cash and cash equivalents at beginning of period	15,784	10,399
Effect of exchange rate fluctuations on cash held	-208	-9
Net cash and cash equivalents at end of period	12,756	15,216

Notes to the consolidated financial statements

Sales revenues

EUR 687,938 thousand

Sales revenues comprise revenues from the sale of products, services and goods on the domestic market in the amount of EUR 77,618 thousand (11.3% of the Group's net sales revenues) and revenues from sales on foreign markets in the

amount of EUR 610,320 thousand (88.7% of net sales revenues). The growth in sales revenues was 21%, compared to the results from the same period last year.

Production cost of goods sold

EUR 249,403 thousand

The Group's production costs of goods sold increased by 17% compared to the same period last year, and their ratio to sales revenues was 36.3%.

Sales and marketing expenses

EUR 174,590 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 29% higher than for the same period last year, and their ratio to sales revenues was 25.4%.

R&D costs

EUR 61,770 thousand

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

R&D costs were 47% higher than for the same period last year, and their ratio to sales revenues was 9.0%.

Administrative expenses

EUR 54,112 thousand

Administrative expenses, which include the item 'other operating expenses', increased compared to the same period last year by 22%, and their ratio to sales revenues fell to 7.9%. 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 168,103 thousand

in EUR thousand	1-9/2008	1-9/2007	Ind. 08/07
Gross wages and salaries and continued pay	131,067	100,966	130
Social security contributions and payroll tax	25,874	20,387	127
Other employee benefits cost	7,412	6,631	112
Termination pay and anniversary bonuses	3,750	1,388	270
Total employee benefits cost	168,103	129,372	130

Other operating expenses
EUR 20,104 thousand

in EUR thousand	1-9/2008	1-9/2007	Ind. 08/07
Grants, assistance	1,550	1,911	81
Environmental levies	1,439	1,061	136
Other charges	3,901	3,013	129
Loss in the sale of property, plant and equipment	1,279	847	151
Write-offs and allowances for inventories	2,845	3,048	93
Impairments and receivable write-offs	2,758	948	291
Other costs	6,332	559	1133
Total other operating expenses	20,104	11,387	177

Other operating expenses are recognised in the income statement under administrative expenses.

Finance income and financial expenses

in EUR thousand	1-9/2008	1-9/2007	Ind. 08/07
Exchange differences	18,799	5,014	375
Interest income	236	280	84
Change in fair value of investments through profit or loss	0	2,516	0
Gain on the sale of securities	51	496	10
Income from derivative financial instruments:	1,766	1,840	96
– inflows	1,766	1,827	97
– changes in fair value	0	13	0
Dividend income	21	136	15
Other financial income	25	1,137	2
Total financial income	20,898	11,419	183
Exchange differences	16,367	10,103	162
Interest expense	6,393	2,332	274
Change in fair value of investments through profit or loss	525	1,210	43
Income from derivative financial instruments:	1,903	379	502
– outflows	278	53	525
– changes in fair value	1,625	326	498
Other financial expenses	379	902	42
Total financial expenses	25,567	14,926	171
Net financial income/expenses	-4,669	-3,507	133

Income tax expenses
EUR 35,952 thousand

The corporate income tax levied the amount of EUR 39,240 thousand, which is 26.7% of the pre-tax profit. Taking into account the deferred tax of EUR 3,288 thousand, the income tax expense in the

income statement totals EUR 35,952 thousand. Compared to the same period last year the effective tax rate fell from 26.1 % to 24.4 %.

Property, plant and equipment
EUR 634,197 thousand

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Property	25,305	25,234	100
Plant	275,745	263,249	105
Equipment	238,399	208,512	114
PPE under construction	91,292	71,277	128
Advances for PPE	3,456	3,972	87
Total property, plant and equipment	634,197	572,244	111

Property, plant and equipment represented half of the Group's total assets. The 7% increase in PPE value over the reporting period was largely due to

the investment projects currently underway within the Group. Krka's major investments are described in the chapter "Investments" in the business report.

Intangible assets
EUR 128,389 thousand

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Goodwill	42,278	42,278	100
R&D costs	2,753	2,784	99
Concessions, patents, licences, trademarks and similar rights	74,926	76,398	98
Intangible assets under construction	8,432	8,394	100
Total intangible assets	128,389	129,854	99

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.

The largest proportion of intangible assets (58%)

comprised non-current property rights, which include the TAD Pharma brand worth EUR 43,915 thousand, in addition to market authorisation documentation and software. Assets under construction represented 7% of all intangible assets, and largely comprised market authorisation documentation for new pharmaceuticals.

Loans
EUR 5,228 thousand

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Long-term loans	4,002	3,531	113
Short-term loans	1,226	1,510	81
Total loans	5,228	5,041	104

Financial investments**EUR 7,930 thousand**

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Non-current investments	5,972	10,981	54
- financial assets available for sale	5,725	10,721	53
- other non-current investments	247	260	95
Current investments, including derivatives	1,958	2,936	67
- instruments held for trading	175	538	33
- derivatives	418	1,583	26
- other current investments	1,365	815	167
Total investments	7,930	13,917	57

The shares available-for-sale include investments worth EUR 890 thousand in Slovenia and EUR 4,627 thousand in investments abroad. 'Other non-current investments' includes items of cultural and historical value.

Derivatives include an interest rate swap worth EUR 418 thousand.

Other current financial investments comprise assets under the management of the controlling company in the amount of EUR 298 thousand, and Slovenian mutual fund units in the amount of EUR 292 thousand, and investments by the subsidiary Krka Farma Zagreb worth EUR 775 thousand.

Inventories**EUR 210,684 thousand**

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Material	65,825	52,906	124
Work in progress	55,822	45,531	123
Products	78,768	58,824	134
Merchandise	17,555	20,221	87
Advances	142	146	97
Allowances and write-off of inventories	-7,428	-5,981	124
Total inventories	210,684	171,647	123

Trade and other receivables**EUR 235,359 thousand**

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Short-term trade receivables	211,578	160,295	132
Other short-term receivables	23,781	19,539	122
Total receivables	235,359	179,834	131

Cash and cash equivalents**EUR 12,756 thousand**

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Cash in hand	263	230	114
Bank balances	12,493	15,554	80
Total cash and cash equivalents	12,756	15,784	81

Equity
EUR 759,634 thousand

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Share capital	59,126	59,126	100
Own shares	-19,489	-19,489	100
Reserves	156,285	157,094	99
– share premium	120,992	120,992	100
– legal reserves	14,990	14,990	100
– statutory reserves	14,184	14,184	100
– fair value reserves	2,893	6,825	42
– translation reserve	3,226	103	3.102
Retained earnings	553,420	474,146	117
Equity holders of the parent	749,342	670,877	112
Minority interest	10,292	10,036	103
Total equity	759,634	680,913	112

Borrowings
EUR 193,587 thousand

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Long-term borrowings	87,121	87,183	100
– borrowings from domestic banks	87,121	87,183	100
Short-term borrowings	106,466	62,528	170
– borrowings from domestic banks	97,437	53,094	184
– borrowings from foreign banks	6,819	320	2.131
– borrowings from other entities	478	7,824	6
– interest payable	1,732	1,290	134
Total borrowings	193,587	149,711	129

Provisions
EUR 149,150 thousand

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Provisions for termination pay and anniversary bonuses	48,999	47,408	103
Other provisions	100,151	96,233	104
– provisions for lawsuits	94,644	90,356	105
– provisions for ecological restoration	35	162	22
– other provisions	5,472	5,715	96
Total provisions	149,150	143,641	104

Provisions for lawsuits comprise 63% 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 2,948 thousand

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Grants for the plant Beta in Šentjernej	225	258	87
Grants for the health resorts Dolenjske and Šmarješke Toplice	2,080	2,186	95
Grants by the European Regional Development Fund	36	39	92
Free receipt of property, plant and equipment	607	616	99
Total grants received	2,948	3,099	95

Trade payables

EUR 90,119 thousand

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Payables to domestic suppliers	44,046	36,633	120
Payables to foreign suppliers	45,486	41,145	111
Payables from advances	587	684	86
Total trade payables	90,119	78,462	115

Other current liabilities

EUR 49,070 thousand

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Accrued contractual discounts on products sold to other customers	18,314	14,263	128
Payables to employees – gross wages, other charges	27,226	20,966	130
Other	3,530	6,901	51
Total other current liabilities	49,070	42,130	116

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

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

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Assets			
Property, plant and equipment	466,778	422,891	110
Intangible assets	25,214	24,466	103
Investments in associates	223,169	218,178	102
Investments in subsidiaries	1,010	0	
Deferred tax assets	29,730	28,653	104
Long-term loans	5,861	6,936	85
Non-current investments	5,764	10,773	54
Other non-current assets	302	366	83
Total non-current assets	757,828	712,263	106
Inventories	161,906	127,276	127
Trade and other receivables	251,288	188,872	133
Short-term loans	24,780	23,575	105
Current investments, including derivatives	1,183	2,932	40
Cash and cash equivalents	3,967	2,340	170
Total current assets	443,124	344,995	128
Total assets	1,200,952	1,057,258	114
Equity			
Share capital	59,126	59,126	100
Own shares	-19,489	-19,489	100
Reserves	153,059	156,990	97
Retained earnings	561,777	475,383	118
Total equity	754,473	672,010	112
Liabilities			
Long-term borrowings	83,200	83,200	100
Provisions	137,406	131,994	104
Government grants and EU grants	868	913	95
Deferred tax liabilities	2,210	3,319	67
Total non-current liabilities	223,684	219,426	102
Trade payables	81,761	67,542	121
Short-term borrowings	100,770	65,747	153
Income tax liabilities	7,351	2,132	345
Other current liabilities	32,913	30,401	108
Total current liabilities	222,795	165,822	134
Total liabilities	446,479	385,248	116
Total equity and liabilities	1,200,952	1,057,258	114

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

in EUR thousand	1-9/2008	1-9/2007	Ind. 08/07
Sales revenues	604,875	497,031	122
Production cost of goods sold	-208,973	-176,674	118
Gross profit	395,902	320,357	124
Other operating income	2,151	736	292
Sales and marketing	-143,403	-122,232	117
R&D costs	-57,012	-41,559	137
Administrative expenses	-42,161	-34,945	121
Result from operating activities	155,477	122,357	127
Financial income	14,948	8,292	180
Financial expenses	-19,639	-12,626	156
Net financial income / expenses	-4,691	-4,334	108
Profit before tax	150,786	118,023	128
Income tax expense	-33,173	-27,896	119
Profit for the period	117,613	90,127	130
Earnings per share (in EUR)	3.48	2.67	130
Diluted earnings per share (in EUR)	3.48	2.67	130

* 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			Skupaj kapital
			Share premium	Other revenue reserves	Total equity	Other revenue 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	12,427	569,917
Entry of net profit for the period	0	0	0	0	0	0	0	90,127	0	90,127
Transfer of previous period's net profit to net profit carried forward	0	0	0	0	0	0	0	-90,911	90,911	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	-6	0	6	0	0	0	38,149	0	-38,149	0
Dividends paid	0	0	0	0	0	0	0	0	-27,040	-27,040
Changes in the fair value of financial assets available for sale	0	0	0	0	0	2,557	0	0	0	2,557
Tax effects of the transition and adjustment to IFRS	0	0	0	0	0	0	0	0	-563	-563
Balance at 30 Sep 2007	59,126	-19,489	120,992	14,990	11,684	6,037	313,945	90,127	37,586	634,998
Balance at 1 Jan 2007	59,126	-19,489	120,992	14,990	14,184	6,824	356,946	81,021	37,416	672,010
Entry of net profit for the period	0	0	0	0	0	0	0	117,613	0	117,613
Transfer of previous period's net profit to net profit carried forward	0	0	0	0	0	0	0	-81,021	81,021	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	43,472	0	-43,472	0
Dividends paid	0	0	0	0	0	0	0	0	-30,827	-30,827
Changes in the fair value of financial assets available for sale	0	0	0	0	0	-3,931	0	0	0	-3,931
Tax effects of the transition and adjustment to IFRS	0	0	0	0	0	0	0	0	-392	-392
Balance at 30 Sep 2007	59,126	-19,489	120,992	14,990	14,184	2,893	400,418	117,613	43,746	754,473

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

in thousand EUR	1–9/2008	1–9/2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	117,613	90,127
Adjustments for:	70,548	62,481
– amortisation /depreciation	37,274	32,696
– foreign exchange gain	-6,519	-776
– foreign exchange loss	2,105	4,382
– investment income	-8,449	-6,507
– investment expense	6,726	2,645
– interest expense and other financial expense	6,238	2,145
– income tax	33,173	27,896
Operating profit before changes in net operating current assets and provisions	188,161	152,608
Change in trade receivables	-57,281	-25,900
Change in inventories	-34,630	-19,857
Change in operating debts (liabilities)	13,841	2,767
Change in provisions	5,412	13,985
Change in government grants and EU grants received	-45	-51
Change in other current liabilities	1,949	293
Income taxes paid	-29,423	-34,919
Cash generated from operations	87,984	88,926
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,759	532
Proceeds from sale of current investments	14	456
Dividends received	21	136
Profits of subsidiaries	682	400
Proceeds from sale of property, plant and equipment	4,693	565
Sale of subsidiary	0	56
Purchase of intangible assets	-4,379	-3,106
Purchase of property, plant and equipment	-81,828	-63,743
Nakup odvisnih družb in dokapitalizacije	-4,990	142
Acquisition of associates	-1,010	0
Given long-term loans	-773	-2,623
Proceeds from repayment of long-term loans	2,378	1,007
Acquisition of non-current investments	-75	-137
Proceeds from sale of non-current investments	142	0
Acquisition of current investments	-19,989	-16,876
Proceeds from sale of current investments and repayment of short-term loans	17,608	20,004
Payments in connection with derivative financial instruments	-278	-53
Proceeds from derivative financial instruments	1,761	1,827
Net cash used in investing activities	-84,264	-61,413
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	-5,780	-2,626
Repayment of long-term borrowings	-20,033	-11,373
Repayment of short-term borrowings	-216,333	-199,015
Proceeds from short-term borrowings	270,949	216,456
Dividends paid	-30,725	-26,949
Net cash used in financing activities	-1,922	-23,507
Net increase in cash and cash equivalents	1,798	4,006
Cash and cash equivalents at beginning of period	2,340	4,498
Effect of exchange rate fluctuations on cash held	-171	-9
Net cash and cash equivalents at end of period	3,967	8,495

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

Sales revenues

EUR 604,875 thousand

Sales revenues include revenues from the sale of products, services and goods on the domestic market in the amount of EUR 52,712 thousand (8.7% of net sales revenues) and revenues from sales on foreign markets in the amount of

EUR 552,163 thousand (91.3% of net sales revenues). The growth in sales revenues was 22% compared to the results from the first nine months of last year.

Production cost of goods sold

EUR 208,973 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 34.5%.

Sales and marketing

EUR 143,403 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 17% compared to the same period last year, and their ratio to sales revenues was 23.7%.

R&D costs

EUR 57,012 thousand

The Company does not capitalise R&D costs, so they are fully disclosed in the current income statement. R&D costs were 37% higher than for the

comparable period last year, and their ratio to sales revenues was 9.4%.

Administrative expenses

EUR 42,161 thousand

Administrative expenses increased by 21% compared to the same period last year, and their ratio to sales revenues was 7.0%. 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 124,704 thousand

in EUR thousand	1-9/2008	1-9/2007	Ind. 08/07
Gross wages and salaries and continued pay	97,485	82,045	119
Social security contributions and payroll tax	18,392	15,707	117
Other employee benefits cost	5,478	5,054	108
Termination pay and anniversary bonuses	3,349	1,294	259
Total employee benefits cost	124,704	104,100	120

Other operating expenses**EUR 12,056 thousand**

in EUR thousand	1-9/2008	1-9/2007	Ind. 08/07
Grants, assistance	1,339	1,692	79
Environmental levies	1,296	896	145
Other charges	2,008	1,962	102
Loss in the sale of property, plant and equipment	1,077	747	144
Allowance and inventory write-offs	3,284	2,714	121
Impairments and receivable write-offs	1,175	444	265
Other costs	1,877	1,557	121
Total other operating expenses	12,056	10,012	120

Other operating expenses are recognised in the income statement under administrative expenses.

Finance income and financial expenses

v tisočih EUR	1-9/2008	1-9/2007	Ind. 08/07
Exchange differences	11,192	2,350	476
Interest income	1,241	554	224
Change in fair value of investments through profit or loss	0	2,516	0
Gain on the sale of securities	51	496	10
Income from derivative financial instruments	1,761	1,840	96
– inflows	1,761	1,827	96
– changes in fair value	0	13	0
Dividend income	21	136	15
Profit of subsidiaries	682	400	171
Total financial income	14,948	8,292	180
Exchange differences	10,972	8,853	124
Interest expense	6,094	2,102	290
Change in fair value of investments through profit or loss	525	1,210	43
Income from derivative financial instruments	1,903	379	502
– outflows	278	53	525
– changes in fair value	1,625	326	498
Other financial expenses	145	82	177
Total financial expenses	19,639	12,626	156
Net financial income/expenses	-4,691	-4,334	108

Income tax expenses**EUR 33,173 thousand**

The corporate income tax levied amounts to EUR 34,641 thousand, which is 23.0% of the pre-tax profit. Taking into account the deferred tax of EUR 1,468 thousand, the income tax expense in the

income statement totals EUR 33,173 thousand. Compared to the same period last year the effective tax rate fell 1.6 percentage points to 22.0%.

Property, plant and equipment
EUR 466,778 thousand

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Property	13,684	13,662	100
Plant	186,441	172,362	108
Equipment	192,309	165,489	116
PPE under construction	71,568	67,447	106
Advances for PPE	2,776	3,931	71
Total property, plant and equipment	466,778	422,891	110

The value of property, plant and equipment represented 39% of the company's total assets. The 10% increase in PPE value compared to the start of 2008 was largely due to the investment projects

currently underway within the Company. Krka's major investments are described in the chapter "Investments" in the business report.

Intangible assets
EUR 25,214 thousand

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
R&D costs	2,470	2,602	95
Concessions, patents, licences, trademarks and similar rights	16,603	17,656	94
Intangible assets under construction	6,141	4,208	146
Total intangible assets	25,214	24,466	103

The value of intangible assets had decreased by 3% since the start of 2008. Property rights from computer software and market authorisation documentation represented two-thirds of intangible

assets. Assets under construction represented 24% of all intangible assets, and largely comprised market authorisation documentation for new pharmaceuticals.

Loans
EUR 30,641 thousand

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Long-term loans:	5,861	6,936	85
– long-term loans to subsidiaries	1,859	3,524	53
– long-term loans to other entities	4,002	3,412	117
Short-term loans:	24,780	23,575	105
– short-term loans to subsidiaries	24,228	22,289	109
– short-term loans to other entities	552	1,286	43
Total loans	30,641	30,511	100

Long-term loans granted represent 19% of all loans granted.

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

Financial investments
EUR 6,947 thousand

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Non-current investments	5,764	10,773	54
– financial assets available for sale	5,517	10,513	52
– other non-current investments	247	260	95
Current investments, including derivatives	1,183	2,932	40
– instruments held for trading	175	538	33
– derivatives	418	1,583	26
– other current investments	590	811	73
Total investments	6,947	13,705	51

The shares available-for-sale include investments worth EUR 890 thousand in Slovenia, and EUR 4,627 thousand in investments abroad. 'Other non-current investments' includes items of cultural and historical value.

Derivatives include an interest rate swap worth

EUR 418 thousand.

Other current financial investments comprise assets under management in the amount of EUR 298 thousand and Slovenian mutual fund units in the amount of EUR 292 thousand.

Inventories
EUR 161,906 thousand

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Material	55,565	45,936	122
Work in progress	46,223	37,222	124
Products	59,931	46,390	129
Merchandise	4,559	2,122	215
Advances	103	66	156
Impairment and write-off of inventories	-4,475	-4,460	110
Total inventories	161,906	127,276	127

Trade and other receivables
EUR 251,288 thousand

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Short-term receivables due from subsidiaries	130,575	100,953	129
Trade receivables	109,333	77,654	141
Receivables due from other entities	11,380	10,265	111
Total receivables	251,288	188,872	133

Cash and cash equivalents
EUR 3,967 thousand

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Cash in hand	8	33	24
Bank balances	3,959	2,307	172
Total cash and cash equivalents	3,967	2,340	170

Equity
EUR 754,473 thousand

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Share premium	59,126	59,126	100
Own shares	-19,489	-19,489	100
Reserves	153,059	156,990	97
– share premium	120,992	120,992	100
– legal reserves	14,990	14,990	100
– statutory reserves	14,184	14,184	100
– fair value reserves	2,893	6,824	42
Retained earnings	561,777	475,383	118
Total equity	754,473	672,010	112

Borrowings
EUR 183,970 thousand

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Long-term borrowings	83,200	83,200	100
– borrowings from domestic banks	83,200	83,200	100
Short-term borrowings	100,770	65,747	153
– borrowings from subsidiaries	1,567	5,000	31
– borrowings from domestic banks	96,982	51,638	188
– borrowings from other entities	478	7,824	6
– interest payable	1,743	1,285	136
Total borrowings	183,970	148,947	124

Provisions
EUR 137,406 thousand

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Provisions for termination pay and anniversary bonuses	44,881	43,311	104
Other provisions:	92,525	88,683	104
– provisions for lawsuits	92,490	88,490	105
– provisions for ecological restoration	35	162	22
– other provisions	0	31	0
Total provisions	137,406	131,994	104

Provisions for lawsuits comprise 67% of all provisions. These increased by 4% compared to the end of 2008, 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 868 thousand

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Grants for the plant Beta in Šentjernej	225	258	87
Grants by the European Regional Development Fund	36	39	92
Free receipt of property, plant and equipment	607	616	99
Total grants	868	913	95

Trade payables

EUR 81,761 thousand

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Payables to subsidiaries	10,868	10,050	108
Payables to domestic suppliers	33,328	29,269	114
Payables to foreign suppliers	37,103	27,769	134
Payables from advances	462	454	102
Total trade payables	81,761	67,542	121

Other current liabilities

EUR 32,913 thousand

in EUR thousand	30 Sep 2008	31 Dec 2007	Ind. 08/07
Accrued contractual discounts on products sold to subsidiaries	824	347	237
Accrued contractual discounts on products sold to other customers	10,906	10,906	100
Payables to employees – gross wages, other charges	18,514	17,154	108
Other	2,669	1,994	134
Total other current liabilities	32,913	30,401	108