



**Unaudited Interim Report for the Krka  
Group and Krka Company  
January-March 2010**

Novo mesto, May 2010

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## INTRODUCTION

The condensed financial statements of the Krka Group and the condensed financial statements of Krka, d. d., Novo mesto (the Krka Company) for January-March 2009 and January-March 2010 are unaudited, but the statements for the full 2009 business year present audited figures. The company has no authorised capital and has not made a conditional share capital increase.

The company regularly announces any significant changes to 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 Company and Group is also available on the Krka website: [www.krka.si](http://www.krka.si).

The Supervisory Board discussed the January-March 2010 business report for the Krka Group and Company at its regular meeting on 12 May 2010.

### Significant achievements – January-March 2010

- The Krka Group achieved sales of products and services worth EUR 246.1 million, while the Krka Company's sales were worth EUR 231.4 million.
- Group sales, expressed in euros, remained at the same level as last year, while the Company's sales were 7% up on the same period last year.
- The Krka Group's operating profit was EUR 54.2 million and the Krka Company's operating profit was EUR 52.4 million.
- The net profit for the Krka Group was EUR 47.1 million, 7% higher than on the same period last year, while the net profit of the Krka Company was EUR 49.5 million, growth of 17%.
- The highest relative growth in sales (7%) was achieved in Region South-East Europe, and the highest absolute growth in sales was in Region Central Europe, which remained Krka's largest sales region with a 31% proportion of overall sales.
- Sales on markets outside Slovenia over the period represented 90% of the Group's sales and 92% of the Company's.
- The Krka share price as listed on the Ljubljana Stock Exchange on 31 March 2010 was EUR 72.38, which was a 13% increase from the end of 2009. The Krka Company's market capitalisation was EUR 2,564.1 million.
- The Krka Group allocated EUR 18.4 million to investments, EUR 13.2 million of which was invested by the Krka Company and EUR 5.2 million by subsidiaries.
- At the end of March 2010 the Krka Group had 8175 employees, 3% more than at the start of the year.

## Highlights

in EUR thousand	Krka Group		Krka Company	
	1-3/2010	1-3/2009	1-3/2010	1-3/2009
Sales revenues	246,107	245,186	231,425	216,220
EBIT	54,249	67,460	52,401	58,608
EBITDA	73,714	85,820	66,974	72,682
Net profit	47,061	43,862	49,537	42,189
R&D costs	23,372	22,047	21,721	20,651
Investments	18,365	22,250	13,227	20,139

	31 Mar 2010	31 Dec 2009	31 Mar 2010	31 Dec 2009
Non-current assets	810,204	808,022	781,435	784,594
Current assets	574,195	533,010	564,303	528,345
Equity	973,044	920,369	981,305	932,010
Non-current liabilities	239,584	237,834	207,718	205,785
Current liabilities	171,771	182,829	156,715	175,144

<b>RATIOS</b>	1-3/2010	1-3/2009	1-3/2010	1-3/2009
Net profit margin	19.1%	17.9%	21.4%	19.5%
EBIT margin	22.0%	27.5%	22.6%	27.1%
EBITDA margin	30.0%	35.0%	28.9%	33.6%
ROE <sup>1</sup>	19.9%	21.9%	20.7%	20.6%
ROA <sup>2</sup>	13.8%	13.7%	14.9%	13.6%
Liabilities/Equity	0.423	0.566	0.371	0.490
R&D costs/Sales revenues	9.5%	9.0%	9.4%	9.6%

<b>NUMBER OF EMPLOYEES</b>	31 Mar 2010	31 Mar 2009	31 Mar 2010	31 Mar 2009
At the day	8175	7763	4371	5119

<b>SHARE INFORMATIONS (Krka Group)</b>	1-3/2010	1-3/2009
Total number of shares issued	35,426,120	35,426,120
Earnings per share in EUR <sup>3</sup>	5.57	5.19
Share price at the end of period in EUR	72.38	52.61
Price/earnings ratio (P/E)	13.00	10.14
Book value of share in EUR <sup>4</sup>	27.47	23.12
Share price/book value (P/B)	2.64	2.28
Market capitalisation in EUR thousand (at the end of period)	2,564,143	1,863,768

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 own shares

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

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## Significant events after the accounting period

- At the regular meeting of Krka's Supervisory Board on 7 April 2010, the Supervisory and Management Board drew up the proposal that Krka pay its shareholders a dividend of EUR 1.10 gross per share, which is an increase of over 5% on last year's dividend.

At its meeting the Supervisory Board prepared a proposal on the use of the 2009 accumulated

- On 14 April 2010 Krka acquired the IPPC (Integrated Pollution Prevention Control) permit for a plant at the Ločna site. The IPPC permit is essential for plant operation and the most important environmental permit. It is based on EU requirements set out in the Council Directive concerning integrated pollution prevention and control (Directive 96/61/EC, adopted in 1996) and the Slovenian Environmental Protection Act. The environmental protection permit

- At the regular meeting on 12 May 2010, the Supervisory Board of Krka discussed and approved the proposal of the Nomination Committee and the Supervisory Board's Human Resource Committee for new members of the Supervisory Board, which will be submitted for decision making to the shareholder's General Meeting, taking place in June. The following persons were proposed as new members of Krka Supervisory Board and they will start their five-year term-in-office on 21 June 2010: Prof. Dr. Julijana Kristl, Vice-Rector at the University of Ljubljana responsible for graduate and post-graduate studies and enrolment, Jože Lenič, Master in International Economics employed at Aksum d.o.o. as Head of projects, Vincenc

profit, together with the Management Board. It will propose to the Company's General Meeting, which takes place on 17 June 2010 that the Krka Company's accumulated profit for 2009 of EUR 161,749,148.26 be allocated as follows: EUR 37,179,450.00 for dividends (EUR 1.10 gross per share), which is a 4.8% increase on last year's dividend, EUR 62,284,849.13 for other revenue reserves, and EUR 62,284,849.13 to be carried forward to next year.

incorporates the requirements of the directive and national legislation and defines the measures to prevent and reduce environmental pollution. This covers all of the company's areas of operation: warehousing, raw materials, handling of hazardous substances, production, energy supply, air cleaning, waste water cleaning, waste management, noise and monitoring emissions.

Manček, retired university graduate of chemical technology, Mojca Videmšek Osolnik, university graduate of economics, employed at NLB, d.d., Ljubljana as assistant to the director of the NLB group's Agency of corporation-and-business management and director of Capital investment and supervision division, Matjaž Rakovec, university graduate of economics, president of the management board of the Triglav insurance company, Ljubljana and Dr. Sergeja Slapničar, Assistant Professor holding a PhD in the field of management and organisation and Chair of Fundamentals of Financial and Management Accounting as well as lecturer of more courses at the Faculty of Economics in Ljubljana.

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## ID Card of the Krka Group

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 activity:** Production of pharmaceutical preparations

**Activity code:** 21.200

**Year established:** 1954

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

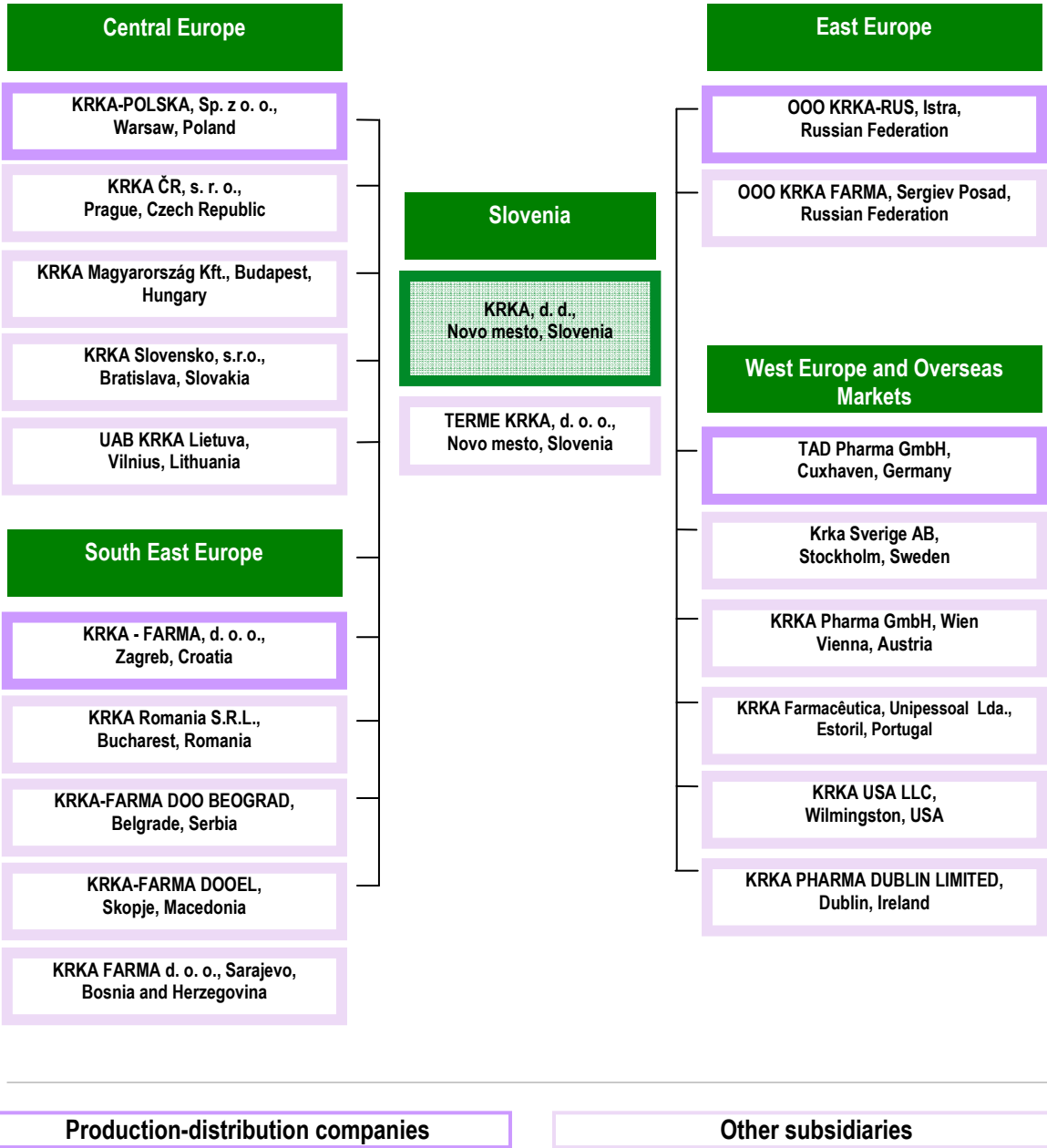
**VAT number:** 82646716

**Company ID number:** 5043611

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

**Shares:** 35,426,120 ordinary no-par value shares. Krka's shares have been listed on the Ljubljana Stock Exchange in 1997 with the trading code KRKG.

# Organisational chart of the Krka Group



The controlling company Krka, d. d., Novo mesto, holds a 100% ownership share of all these subsidiaries.

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## Krka Group business model

Krka is a public company and one of the world's leading generic pharmaceutical companies. It has its registered office in Slovenia, and has over 50 years experience and history as a company.

Krka has a leading position on its domestic market and a strong presence on generic pharmaceutical markets in:

- South East Europe – Croatia and Romania
- Central Europe – Poland, Czech Republic, and Hungary
- East Europe – Russian Federation and Ukraine.

In recent years Krka has built up its presence in western European markets, especially the UK, Germany, France, Italy, the Nordic countries and Benelux.

Production and distribution capacity is located in Slovenia, Poland, Croatia, the Russian Federation, and Germany.

Modern pharmaceutical production and a vertically integrated business model allow us to offer customers in over 70 countries a broad range of safe, high quality and effective prescription

pharmaceuticals, self-medication products and animal health and cosmetic products. The majority of Krka products are in solid dosage pharmaceutical forms. The company's activities are supplemented by health resort and tourist services.

We focus on a range of generic prescription pharmaceuticals, which are marketed under Krka's own brands. In future we will continue to focus on marketing and developing our own marketing and sales network, by founding companies, purchasing local pharmaceutical companies, or business acquisitions in selected markets. Our objective is to strengthen the Krka Group's market position (market shares) on the markets of Europe and central Asia.

Over 9% of sales revenues were allocated to research and development work on new products in order to increase the competitive advantage of our product and retain a high proportion of vertically integrated products. Almost half of sales revenues is generated from sales of new products, i.e. products launched on a market in the past five years. In future we will continue to invest in research and development, as we currently have over 100 new products in development.

## The 2010-2014 Krka Group development strategy

The Krka Group updates its development strategy every two years. At its meeting on 4 November 2009 the Krka Supervisory Board studied the Group's development strategy for the next five-year period (2010-2014). Krka's key strategies and objectives for 2010-2014 are set out below.

### Key strategies and objectives – to 2014

- Achieving an average annual sales growth of at least 5%, expressed in euros.
- Maintaining the proportion of new products in overall sales over 40% at least.
- Increasing the cost efficiency of products.
- Strengthening the competitive advantage of the product portfolio by maintaining as big proportion of vertical product integration as possible and launching selected products as the first generic pharmaceutical on selected key markets.
- Improving cost-effectiveness use of assets. .

- 
- Improving innovation.
  - Maintaining independence.

### **Key strategies – to 2014**

- Prioritising focus on European and central Asian markets.
- Strengthening pharmaceutical and chemical activities.
- Developing generic medicines and preparing market authorisation documentation before the expiry of the patent for the original medicine.
- Strengthening competitiveness in western European markets by establishing own marketing companies.
- Strengthening the professional and cost synergy of the Krka Group, and maximising utilisation of competitive advantages in the business environments in which Krka companies abroad operate.
- Restructuring purchasing market and achieving ongoing reduction in purchasing 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.
- 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 2010**

- The product and service sales target is EUR 1,008 million, growth of 6%.
- The largest sales region is set to be Central Europe, where the highest sales growth is also planned. The Russian Federation will remain the most important individual market.
- The planned proportion of sales on markets outside Slovenia is more than 89%.
- Prescription pharmaceuticals, with growth anticipated at 6%, will remain the most important product group, and are expected to represent over 83% of overall sales.
- The planned net profit is EUR 159 million.
- At the end of the year the Krka Group will have 8430 employees, 46% of them abroad.
- Investments worth a planned EUR 176 million will primarily be aimed at increasing and modernising R&D, production capacity and infrastructure.

# BUSINESS REPORT

## Corporate risk management

### Foreign exchange risk

The Krka Group's main foreign exchange risk lies in the volatility of the Russian rouble, Croatian kuna, Romanian lei, Polish zloty, Czech krona, Hungarian forint, Ukrainian hryvnia and the Serbian dinar.

Open currency positions in the first quarter of 2010 were not hedged. Due to large interest rate differences between the eurozone and the

currencies listed above, the financial markets did not offer any financial derivatives suitable for effectively eliminating foreign exchange risk.

Due to the appreciation against the euro of most of the currencies mentioned above, a positive exchange rate difference was recorded in the first quarter of 2010.

### Interest rate risk

At the end of the first quarter of 2010 the Krka Group had seven long-term loans, linked to the 6-month EURIBOR.

The movement in the reference interest rate was

favourable for the Krka Group over the first quarter. Due to forecasts of low interest rates over the long term, Krka did not carry out any hedging against growth in the reference interest rate.

### Credit risk

The credit control process involves obtaining credit ratings for customers to which companies within Krka Group make annual product sales of EUR 100,000 or over, and regular, dynamic monitoring of customer payment discipline. Over 400 of the Group's customers are included in the credit control system.

Total receivables had increased by the end of the first quarter, due to regular changes in the sales dynamic. Total outstanding receivables did not increase and remained within the limited that Krka considers normal and acceptable. Due to active receivables management, particularly past-due receivables, there were no materially significant receivables write-offs in the first quarter.

### Liquidity risk

Risks relating to the Krka Group's solvency were controlled over the first quarter of the year by means of effective short-term cash flow planning. In the short term, liquidity needs are met by means of regular cash flow provision, agreed credit lines at banks, short-term deposits, and daily, floating weekly, monthly and longer-term planning and monitoring of cash inflows and outflows on a rolling basis. The cash balance was optimised in the accounts of all subsidiaries.

We assess liquidity risk as low. During the first quarter of 2010, Krka generated a positive net cash flow from operations, which financed working capital and investment spending. Temporary liquidity deficits were covered by agreed current credit lines at banks. Short-term borrowing was slightly higher at the end of the first quarter of 2010 than at the end of 2009, but significantly lower than at the end of the first quarter of 2009. Krka pays its liabilities regularly and punctually.

## Property, business interruption and liability insurance

At the start of this year, Krka continued the process of centralised insurance across the group. This simplified general civil liability insurance, employer insurance, and ecological liability insurance in subsidiaries.

The insurance service is actively engaged in new projects, and is already involved at the planning phase. It is working specifically on establishing new fire protection complexes in order to limit maximum

potential loss to property and hence also losses from business interruption. Their work is aided by recommendations from insurance company inspections and modern approaches to risk management.

Krka added a new company to its international insurance programme, Krka Litva (Lithuania), and transferred insurance in the Russian Federation from the representative office to Krka Farma.

## Investor information

At the end of March 2010 Krka had 82,119 shareholders, just over 0.5% fewer than at the end of 2009. The slight drop in the total number of shareholders was largely due to a fall in the number of individual Slovenian investors.

In the first quarter of 2010, the ownership share of international investors increased, while the share for individual Slovenian investors, investment companies and funds and other companies slightly fell.

**The ownership share of international increased to more than 10%.**

## Ownership structure (%)

	31 Mar 2010	31 Dec 2009
Individual Slovenian investors	44.4	44.6
Slovenska odškodninska družba (SOD)	15.0	15.0
Kapitalska družba (KAD) & Prvi pokojninski sklad (PPS)	10.2	10.2
Slovenian investment companies & funds	6.5	7.0
Other Slovenian companies	8.8	8.9
International investors	10.5	9.7
Own shares	4.6	4.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

At the end of March 2010, Krka held 1,626,620 treasury shares, representing 4.6% of nominal

capital. In the first quarter of 2010 the company did not repurchase any treasury shares.

### Ten largest shareholders in Krka as at 31 March 2010

	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	835,400	2.36	2.47
LUKA KOPER, D.D.	Slovenia	434,870	1.23	1.29
NFD 1 DELNIŠKI INVESTICIJSKI SKLAD D.D.	Slovenia	419,815	1.18	1.24
UNICREDIT BANK AUSTRIA AG	Austria	416,870	1.18	1.23
ZAVAROVALNICA TRIGLAV, D.D.	Slovenia	388,300	1.10	1.15
DELNIŠKI VZAJEMNI SKLAD TIRGLAV STEBER I	Slovenia	387,161	1.09	1.14
MARIFARM D.O.O.	Slovenia	225,000	0.64	0.67
AMERICAN FUNDS INSURANCE SERIES	USA	209,640	0.59	0.62
<b>Total</b>		<b>12,122,156</b>	<b>34.22</b>	<b>35.86</b>

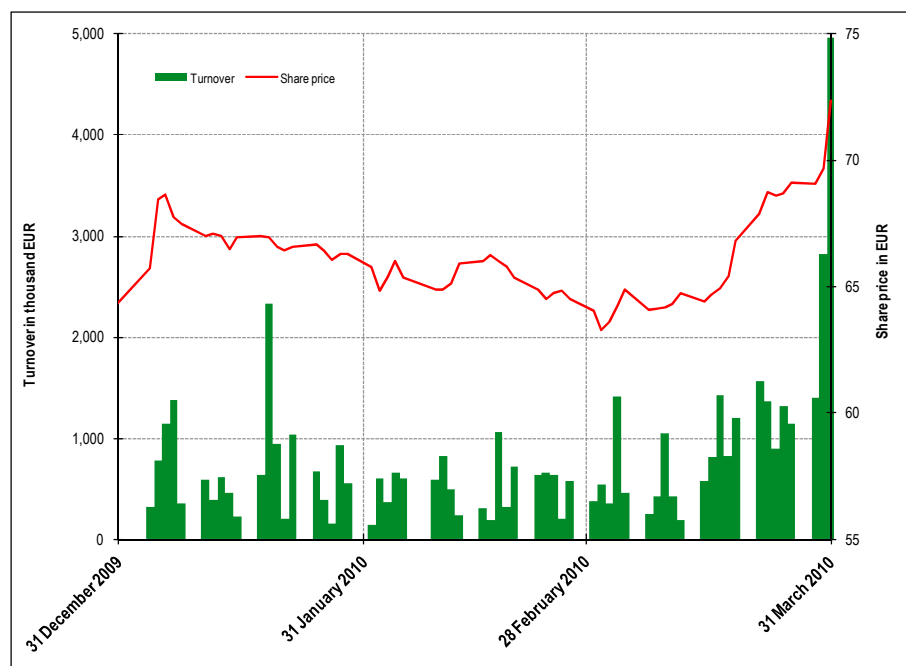
The ten largest Krka shareholders at the end of March 2010 together held 12,122,156 shares, representing approximately 34% of all shares issued.

On 31 March 2010 members of the Krka Management Board and Supervisory Board held a total of 42,187 shares in the company, or 0.119% of all shares issued.

### Shares of Krka Management Board and Supervisory Board Members in the Company and their voting rights as at 31 March 2010

	Number of shares	Proportion in equity in %	Proportion in voting rights in %
<b>Management Board members</b>			
Jože Colarič	22,500	0.06351	0.06657
Vinko Zupančič	120	0.00034	0.00036
Aleš Rotar	12,770	0.03605	0.03778
Zvezdana Bajc	1,660	0.00469	0.00491
Danica Novak Malnar	0		
<b>Total Management Board members</b>	<b>37,050</b>	<b>0.10459</b>	<b>0.10962</b>
<b>Supervisory Board Members</b>			
Gregor Gomišček	320	0.00090	0.00095
Mateja Božič	0		
Anton Rous	0		
Draško Veselinović	60	0.00017	0.00018
Alojz Zupančič	3,265	0.00922	0.00966
Mojca Osolnik Videmšek	452	0.00128	0.00134
Franc Šašek	540	0.00152	0.00160
Tomaž Sever	500	0.00141	0.00148
Mateja Vrečer	0		
<b>Total Supervisory Board Members</b>	<b>5,137</b>	<b>0.01450</b>	<b>0.01520</b>

## Trading in Krka shares – January to March 2010



The Krka share price grew by 13% from the end of 2009 until the end of March and stood at EUR 72.38 on 31 March 2010. The value of the Slovenian Stock Exchange Index (SBI 20) fell by 2% over the same period. The market capitalisation of Krka as at 31 March 2010 was EUR 2.6 billion.

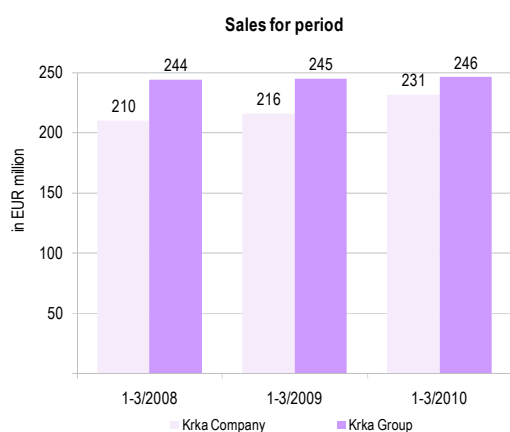
The average daily trading volume in Krka shares during the first quarter of 2010 was EUR 0.8 million, making it the most traded security on the Ljubljana Stock Exchange.

**Krka shares have been the most traded security on the Ljubljana stock exchange for some years.**

## Business operations analysis

The business operations analysis includes data for the Group and the controlling company, whereas the commentary relates primarily to the Group.

### Income



The Group's sales remained at the same level as the comparable period last year, while the Company recorded an increase of 7%. The Company

generated sales worth EUR 231.4 million from the sale of prescription pharmaceuticals, self-medication products, cosmetics and animal health products, while the Group generated EUR 246.1 million from sales of these products plus sales of health and tourist services.

**The Group's sales remained at the same level as the comparable period last year, while the Company recorded an increase of 7%.**

The Group generated over 83% of its sales from prescription pharmaceutical sales, which remained at the same level as the first quarter of last year. Over 90% of Group sales were generated on markets outside Slovenia.

Together with other operating and financial revenues, the Group generated total revenues of EUR 259.5 million, and the Krka Company EUR 244.7 million.

## Expenses

**Total Group expenses were 1% higher than for the first quarter of 2009.**

The Krka Group's expenses for the first quarter of 2010 totalled EUR 196.1 million, 1% higher than for the same period last year.

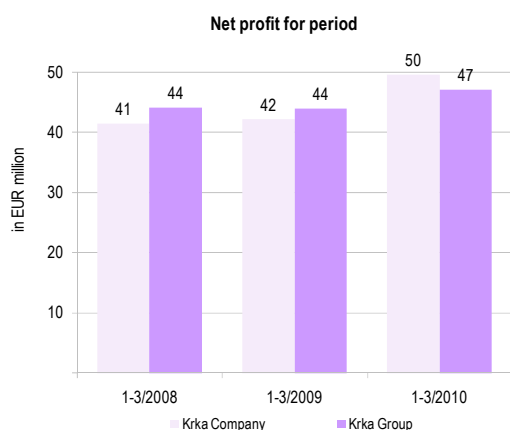
The Krka Group recorded operating expenses of EUR 194.8 million, EUR 91.5 million of which were from production costs of goods sold, EUR 60.1 million from distribution expenses, EUR 23.4 million R&D costs and EUR 19.8 million administrative expenses.

A more detailed analysis of the sales results achieved by individual market and product groups is provided within this report in the chapter Marketing and Sales.

The Group's production costs of goods sold increased by 7% compared to the same period last year, and their ratio to sales was 37.2%. The distribution expenses to sales ratio was 24.4%, with the value of the item up by 6% on the same period last year.

Administrative expenses increased by 6% and their ratio to sales was 9.5%. Overall R&D costs are recognised as expenses for the period, since they are not capitalised. Administrative expenses increased by 14% compared to the first quarter of last year, and their ratio to sales was 8.0%.

## Operating result



The Krka Group's operating profit of EUR 54.2 million was one fifth lower than for the same period last year. At EUR 63.3 million, the profit before tax was 15% higher than for the same period last year.

Corporate income tax totalled EUR 16.3 million, of which EUR 16.4 million was levied tax and EUR 0.1 million deferred tax. The effective tax rate for the Group was 25.7%.

The Group's net profit was EUR 47.1 million, which was 7% up on the net profit for the first quarter of 2009, while the net profit of the Krka Company totalled EUR 49.5 million, up 17% on the same period last year.

**The Group's net profit was 7% up on the net profit for the first quarter of 2009, while the net profit of the Krka Company was up 17%.**

## Assets

**Value of Krka assets increased by 3%.**

The Group's assets at the end of March totalled EUR 1,384.4 million, growth of 3% from the end of 2009. The ratio of non-current assets to total assets was 58.5%, a reduction of 1.8 percentage points compared to the start of the year.

The most significant item under non-current assets, which overall were worth EUR 810.2 million, was property, plant and equipment, which at

EUR 652.7 million represented 47.1% of total Group assets. This was an increase of 1% compared to the start of the year. Intangible assets were worth EUR 124.9 million at the end of March.

During the first quarter of 2010, current assets increased by 8% to EUR 574.2 million compared to the start of the year. Inventories increased by 5% over the period to EUR 190.7 million, while receivables increased by a tenth to

EUR 368.9 million.

### Equity and liabilities

The Group's equity increased by 6% compared to the end of 2009, and now represents 70.3% of total equity and liabilities.

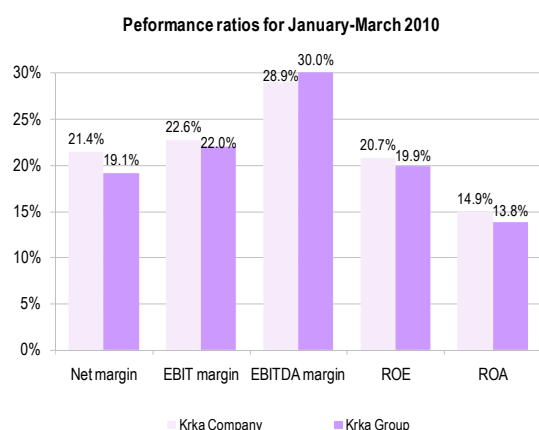
Non-current liabilities were worth EUR 239.6 million, 17.3% of the Group's total assets. Long-term provisions, which were worth EUR 108.8 million at the end of March, were 1% up on the end of 2009, while the value of long-term borrowing did not change.

Current liabilities fell by 6% compared to the end of

2009, down to EUR 171.8 million, or 12.4% of total Group assets. In the current liability structure, operating liabilities remained at around the same level as the end of 2009 at EUR 72.6 million, while short-term borrowings were down 29% to EUR 36.1 million. The combined value of long-term and short-term borrowing was one tenth lower than at the end of 2009.

Other current liabilities were worth EUR 61.0 million, an increase of 6% compared to the end of last year.

### Performance ratios



The Krka Group's net margin was 19.1% (Krka Company: 21.4%), the EBIT margin was 22.0% (Company: 22.6%), and the EBITDA margin 30.0% (Company: 28.9%). The Group's ROE was 19.9% (Company: 20.7%), and the ROA was 13.8% (Company: 14.9%).

## Marketing and sales

The Group achieved sales worth EUR 246.1 million, exceeding the figure for the same period last year by EUR 0.9 million. The controlling company sold

products worth EUR 231.4 million, which was EUR 15.2 million more than in the first quarter of 2009.

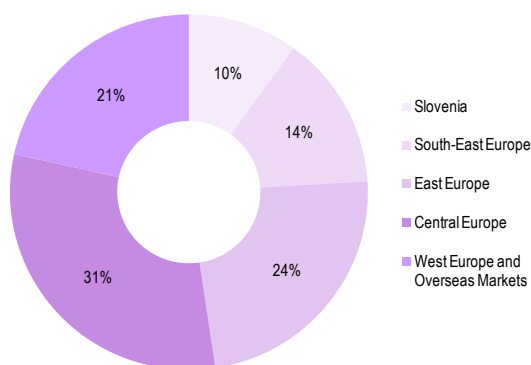
## Sales by region

The Group's largest sales region was Region Central Europe with sales of EUR 75.9 million or 31% of overall Group sales. It is followed in sales volume by Region East Europe, with EUR 58.1 million or a 24% share of Group sales. Region Western Europe and Overseas Markets was

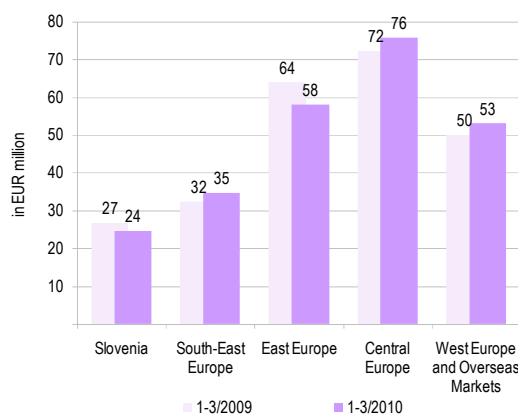
the third largest sales region for the period, with EUR 53.1 million. Sales in Region South-East Europe reached EUR 34.6 million, while sales on the Slovenian market totalled EUR 24.5 million, one tenth of total Group sales.

in EUR thousand	Krka Group			Krka Company		
	1-3/2010	1-3/2009	Ind.	1-3/2010	1-3/2009	Ind.
Slovenia	24,499	26,753	92	18,834	19,300	98
South-East Europe	34,593	32,273	107	34,828	31,686	110
East Europe	58,074	63,970	91	60,271	52,605	115
Central Europe	75,863	72,237	105	74,789	70,969	105
West Europe and Overseas Markets	53,078	49,953	106	42,703	41,660	103
<b>Total</b>	<b>246,107</b>	<b>245,186</b>	<b>100</b>	<b>231,425</b>	<b>216,220</b>	<b>107</b>

## Krka Group and Krka Company sales by region, January-March 2010



## Krka Group sales by region for January-March 2009 and 2010



## Slovenia

In the first quarter of 2010 we sold products and services worth EUR 24.5 million on our domestic market. The highest proportion of sales by product group came from prescription pharmaceuticals with EUR 15.9 million, while sales of EUR 1.9 million were achieved for self-medication products and cosmetics, and EUR 0.6 million for animal health products. Sales of health and tourist services over

the period were worth EUR 5.8 million, with the Talaso Strunjan business unit operating at much reduced capacity due to renovation works.

Krka maintained its position as market leader on the Slovenian prescription pharmaceutical market with

**Krka has been the leading pharmaceutical company on its domestic market for many years.**

a 13% share. Our products have a particularly high profile in the following therapeutic groups: proton pump inhibitors, statins, ACE (angiotensin-converting enzyme) inhibitors, angiotensin II receptor antagonists and oral antiseptics. The product range is constantly being expanded through the introduction of new pharmaceuticals to keep pace with increasing competition. The leading

## South-East Europe

Krka achieved product sales worth EUR 34.6 million on the markets of south-eastern Europe, which is 7% more than for the same period in 2009. Lower sales were recorded in Serbia and Bulgaria, while the highest sales were on the Romanian market.

**We are the leading foreign generic producer in Croatia.**

Sales in **Croatia**, which is one of Krka's key markets, contributed EUR 10.5 million to overall regional sales,

which is 2% more than for the same period last year. Krka retains third place in Croatia among generic pharmaceutical producers, right behind two domestic producers, and remains the leading foreign generic pharmaceutical company.

Our bestselling pharmaceuticals in Croatia are Zyllt (clopidogrel), Atoris (atorvastatin), Lanzul (lansoprazole), Enap (enalapril), Ciprinol (ciprofloxacin), Helex (alprazolam), Vasilip (simvastatin), Ampril (ramipril) and Tenox (amlodipine). We remain leaders in the therapeutic groups of statins and antimicrobials, and also retain a high market share in the proton pump inhibitor and benzodiazepine groups. The production plant at Jastrebarsko is also working well, where the production volume has achieved optimal utilisation of production capacity.

**Romania** was the largest market in the region by sales, where we achieved 42% growth and product sales worth EUR 10.8 million. Sales growth was recorded for both products for human consumption and animal health products. The ten bestselling products, including Bilobil (ginkgo biloba), Enap (enalapril), Ciprinol (ciprofloxacin), Oprymeia (pramipexole), Prenessa (perindopril), Rawel (indapamide), Tenox (amlodipine) and Tramadol (tramadol), constituted two-thirds of the sales achieved.

prescription pharmaceuticals by sales, most notably Prenessa (perindopril), Atoris (atorvastatin), Ultop (omeprazole) and Lorista (losartan), have now been joined by Zyllt (clopidogrel) and Emozul (esomeprazole), which will strengthen Krka's leading market position. The best selling self-medication pharmaceuticals are Nalgesin (naproxen) Septolete and Panatus.

In Romania we are the third-largest generic supplier, and are market leaders in individual therapeutic groups such as antimicrobials, cerebral and peripheral vasotherapeutics, single component ACE inhibitors and macrolide and pyranoside antibiotics.

In **Serbia** we established cooperative production for select pharmaceuticals, however, we recorded lower sales than for the same period last year due to price reductions and a number of pharmaceuticals being deselected from the approved list. Total sales on the Serbian market were worth EUR 1.3 million. Our most important products on this market are Zyllt (clopidogrel), Stugeron (cinnarizine), Vasilip (simvastatin) and Atoris (atorvastatin).

On the market of **Bosnia-Herzegovina** we sold products worth EUR 3.9 million over the period, growth of 5%. The bestselling products are Enap (enalapril), Zyllt (clopidogrel), Coryol (carvedilol) and Lorista (losartan).

In **Bulgaria** Krka achieved product sales worth EUR 2.1 million. Sales were lower than in the comparable period last year due in part to a change in the purchasing policy by Bulgarian pharmaceutical distributors moving towards reducing operational inventories. Our leading sales products on the Bulgarian market are Lorista (losartan), Atoris (atorvastatin), Enap (enalapril) and Rawel (indapamide).

In **Macedonia** we have confirmed our leading position among foreign generic producers with total sales of EUR 2.9 million, up by 18%. Sales in **Albania** were up by 14%, while sales in **Kosovo** remained at the level of the comparable period last year. Sales in **Montenegro** increased by 71% compared to the same period last year.

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## East Europe

The Krka Group achieved sales of EUR 58.1 million in Region East Europe, with sales growth on the markets of Kazakhstan, Uzbekistan, Moldavia, Azerbaijan and Turkmenistan. Prescription pharmaceuticals represent the largest proportion of overall sales by product group at 70%.

The key market, the **Russian Federation**, remains Krka's largest individual market. Sales of EUR 44.1 million in the first quarter of 2010 were lower than those for the same period last year, which was primarily due to the mandatory registration of prices for prescription pharmaceuticals from the "vital pharmaceuticals" group.

**Krka was ranked as second most influential and well-reputed pharmaceutical company in the Russian Federation.**

The bestselling products were Enap (enalapril), Pikovit, Vasilip (simvastatin), Herbion, Atoris (atorvastatin), Lorista (losartan), Duovit, Zyllt (clopidogrel), Macropen (midecamycin), Ultop (omeprazole), Cordipin (nifedipine), Fromilid (clarithromycin), Panzynom and Nolicin (norfloxacin). Sales of Orsoten (orlistat), a product launched last year, have been particularly successful. The leading animal health products were Enroxil (enrofloxacin), Kokcisan (salinomycin) and Floron (florfenicol). Krka products are market leaders in the therapeutic groups of statins, non-mineral multivitamin preparations for paediatric use, and in the group of pharmaceuticals to treat colds, they have a high market share in the groups of macrolide antibiotics and ACE inhibitors, and their combination with diuretics, as well as the platelet aggregation inhibitor group.

Krka has consolidated its position as a domestic producer on the Russian market. The production capacity of the Krka Rus subsidiary – which covers a quarter of the market's requirement for Krka products – is continually being expanded, and the product range broadened. In the second half of 2010 we are planning the start-up of the third packaging line in our production plant.

Business in **Ukraine** was marked by the gradually stabilisation of economic conditions on the pharmaceutical market. Nevertheless, sales were 8% down on sales in the first quarter of 2009,

largely due to lower prescription pharmaceutical sales, which constituted 67.5% of overall sales. In contrast there was 65% growth in sales of self-medication products, which represent a quarter of total sales. Our most important products on the Ukrainian market are Enap (enalapril), Dexamethason (dexamethazone), Atoris (atorvastatin) and Herbion.

In **Kazakhstan**, where the pharmaceutical market is still feeling the effects of the local currency falling over 20% last year, we achieved sales growth of 15%. With a share of 89% of sales the prescription pharmaceutical group includes our leading products on the market, including Enap (enalapril), Zyllt (clopidogrel), Vasilip (simvastatin), Rawel (indapamide) and Lorista (losartan).

In **Uzbekistan**, where we achieved 43% sales growth, operations continued to be affected by customers' problems in acquiring currency to settle their trade payables. The highest growth of 84% was for prescription pharmaceuticals, with the leading products being Enap (enalapril), Dexamethason (dexamethazone), Hiconcil (amoxicillin) and Nolicin (norfloxacin).

In **Belarus** we recorded a fall in sales over the first quarter compared to the same period last year. The bestselling products were Enap (enalapril), Ampril (ramipril), Sulfasalazin (sulfasalazine) and Lorista (losartan).

In **Moldova** we recorded 31% growth in sales, powered mainly the 40% increase in prescription pharmaceutical sales, with Enap (enalapril) retaining first place among them.

In **Azerbaijan**, relatively stable conditions allowed Krka to record 7% growth. In **Georgia** product sales did not fall by volume, but price adjustments due to a new law on pharmaceutical prices and imports reduced sales by value by 25%. Slightly lower sales were also recorded against a backdrop of difficult economic circumstances on the markets of **Armenia** (down 11%), **Mongolia** (2%), **Tajikistan** (26%) and **Kyrgyzstan** (11%). Increased purchases by state pharmacies in **Turkmenistan** helped Krka achieved 241% sales growth compared to the same period last year.

## Central Europe

In Region Central Europe, which, in addition to Krka's key market of Poland, includes the Czech Republic, Hungary, Slovakia and the Baltic states, we achieved product sales of EUR 75.9 million in the first quarter of 2010, an increase of 5% on the same period last year. These products represented 93% of all prescription pharmaceutical sales.

**Krka has the market leaders in the statins therapeutic group in Poland.**

**Poland** is the most important market in the region with a 43% share in regional sales, where we achieved product sales of EUR 33.0 million, growth of 11%. Atoris (atorvastatin) is still the most important product in the prescription pharmaceutical group, with high sales also achieved for Lorista (losartan), Nolpaza (pantoprazole), Zalasta (olanzapine), Valsacor (valsartan), Vasilip (simvastatin) and Zyllt (clopidogrel). Among the products that contributed to over half of total sales on this market are Atoris (atorvastatin), the leading cholesterol reduction pharmaceutical and Nolpaza (pantoprazole), which is the number one generic pantoprazole on the Polish market. Over the first quarter of the year, we launched a pain relief product, Doreta (paracetamol / tramadol), enhanced our product range with the allergy product Cezera (levocetirizine), and the modern pharmaceutical for depression Elicea (escitalopram) and broadened the Valsacor brand (valsartan) with a combined form, Co-Valsacor (valsartan / hydrochlorothiazide), with a diuretic. Sales of self-medication products decreased by 2%, while the leading products in the group remained Septotele and Bilobil (ginkgo biloba). In March we launched the full Fitoval range of hair and scalp care products, which is the time Krka's cosmetics have appeared on the Polish market. Krka products from the Krka Polska production and distribution centre go either exclusively to the Polish market, or also to other Group markets.

The **Czech** market is Krka's second largest in Region Central Europe, and Krka is one of the leading generic producers, lying in third place. In the first quarter of the year, Krka sold products worth

EUR 15.0 million in the Czech Republic, less than for the same period last year. The drop in sales is largely due to a health system reform. Over half of total sales come from the bestselling prescription pharmaceutical products, Atoris (atorvastatin), Lorista (losartan), Lanzul (lansoprazole), Prenessa (perindopril), Asentra (sertraline), Ampril (ramipril) and Lexaurin (bromazepam). Sales of self-medication products were also down compared to the same period last year, with Septotele the most important product for sales.

The sales growth achieved in **Hungary** was 23%, with total sales reaching EUR 13.5 million. The highest sales came from Atoris (atorvastatin), Prenessa (perindopril), Nolpaza (pantoprazole), Lorista (losartan), Lanzul (lansoprazole) and Zyllt (clopidogrel). Products that should be highlighted include Nolpaza (pantoprazole) with 65% growth in sales, Lorista (losartan) with 58% growth, and Zyllt (clopidogrel), which was launched in 2009 and has become the sixth bestselling Krka pharmaceutical on this market. Sales of self-medication products were two-thirds higher than for the same period last year, primarily due the performance of Bilobil (ginkgo biloba). Animal health product sales grew by 133%.

Over the first quarter product sales were worth EUR 7.8 million in **Slovakia**, which is comparable with last year's first quarter result. The bestselling pharmaceuticals were Atoris (atorvastatin), Prenessa (perindopril), Valsacor (valsartan), Fromilid (clarithromycin) and Nolpaza (pantoprazole), sales of which grew 94% to make it the fifth highest selling Krka pharmaceutical on the Slovakian market. Self-medication product sales were lower than last year's first quarter and were worth EUR 0.5 million.

We achieved a notable result on the smallest market in the region, **Estonia**, where sales grew by 46%. Double-digit growth was also achieved in **Lithuania**, while the sales result in **Latvia** were down one tenth on the figure from last year's first quarter.

## West Europe and Overseas Markets

On the markets of Region **Western Europe and Overseas Markets** the Krka Group achieved sales worth EUR 53.1 million during the first quarter of

2010, exceeding the 2009 first-quarter figure by 6%. Prescription pharmaceuticals represent the largest proportion of overall sales by product group at 94%.

Despite sales of Krka trademarked generics strengthening in western Europe, the bulk of sales still came via partners. We market our own trademarked products via subsidiaries in Portugal, the Nordic countries and in Austria, and most of all in Germany via the TAD Pharma subsidiary.

**We are the leading supplier of generic clopidogrel, lansoprazole, olanzapin, donepezil, florfenicol, enrofloxacin and salinomycin on western European markets.**

The most important markets in the region are **Germany, France, UK, Italy** and the **Nordic countries**, and sales in Spain and Portugal are increasing significantly. We achieved high-volume market shares on the markets of western Europe for individual generic products, primarily generic clopidogrel,

lansoprazole, gliclazide, perindopril, pantoprazole and enalapril. In March 2010 we launched generic losartan and combinations of losartan with hydrochlorothiazide, and in Denmark we launched the first generic esomeprazole.

Sales of animal health products in western European countries increased by a quarter compared to the same period last year. The most important markets are Germany and France, and in France we started marketing generic florfenicol tablets under a Krka trademark. On our overseas markets we recorded highest growth on the markets of the **Arabian peninsula with Iran**, where we exceeded sales for the first quarter of last year by almost one half, and further sales growth is promised in future.

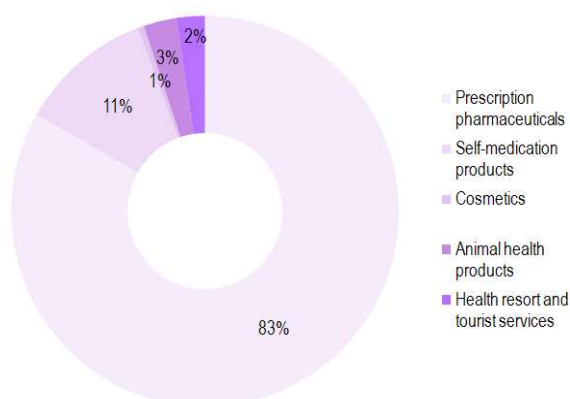
## Krka Group and Company sales by product and service group

Human health products were the most important in the Group's overall sales during the January-March 2010 period, with a share of almost 95%. The highest sales in within this product group, with a value of EUR 204.7 million, were achieved for prescription pharmaceuticals, while self-medication

and cosmetics sales were together worth EUR 28.6 million. Sales of animal health products were worth EUR 6.7 million, representing 3% of Krka Group sales. Health and tourism service sales reached EUR 5.8 million, 2% of total sales.

in EUR thousand	Krka Group			Krka Company		
	1-3/2010	1-3/2009	Ind.	1-3/2010	1-3/2009	Ind.
Human health products	233,301	231,459	101	224,396	210,013	107
- prescription pharmaceuticals	204,659	204,612	100	196,007	184,132	106
- self-medication products	27,353	25,039	109	26,946	24,330	111
- cosmetics	1,289	1,808	71	1,443	1,551	93
Animal health products	6,734	5,836	115	6,623	5,782	115
Health resort and tourist services	5,843	7,668	76			
Other	229	223	103	406	425	96
<b>Total</b>	<b>246,107</b>	<b>245,186</b>	<b>100</b>	<b>231,425</b>	<b>216,220</b>	<b>107</b>

## Krka Group sales by product and service group for January-March 2010



### Prescription pharmaceuticals

**The highest prescription pharmaceutical growth in the first quarter was in south-east Europe.**

The Krka Group achieved sales of prescription pharmaceutical worth EUR 204.7 million, which is around the same level as

the first quarter of 2009. Sales increased in Region South-East Europe (9% growth), Central Europe (6%) and Western Europe and Overseas Markets (5%). In Slovenia sales were 1% lower than for the same period last year, and 17% lower in East Europe.

On Krka's larger markets, the highest growth in prescription pharmaceuticals compared to the same period in 2009 was achieved in France (43% growth), Hungary (20%), Poland (12%) and the United Kingdom (11%). On medium-sized markets, mention should be made of the high sales growth achieved in Romania (48%), the Nordic countries (24%), and Lithuania and Bosnia-Herzegovina (both 14%). On the smaller markets in terms of Krka prescription pharmaceuticals sales, high growth was achieved in Spain (500% growth), Portugal (142%), Uzbekistan (84%), Estonia (52%), Kazakhstan (43%), Moldova (40%), Macedonia (19%) and even more on very small markets.

The leading prescription pharmaceuticals by sales are Atoris (atorvastatin), Enap (enalapril), Zyllt (clopidogrel), Lorista (losartan), Prenessa (perindopril), Lanzul (lansoprazole), Nolpaza (pantoprazole), Vasilip (simvastatin), Fromilid (clarithromycin) and Glyclada (gliclazide). The highest sales growth was achieved with Zyllt (clopidogrel), Nolpaza (pantoprazole), Prenessa (perindopril), Valsacor (valsartan) and Lorista (losartan).

In the first three months of 2010 Krka launched its own-branded esomeprazole, an important addition to the

range of proton pump inhibitors, in Denmark, and Olimestra (olmesartan), a new product for the treatment of high blood pressure, in Latvia. We launched many products first launched in 2009 on new markets, such as Elicea (escitalopram), a modern pharmaceutical to treat depression, which was launched in Poland, Slovakia, Lithuania, Latvia and Estonia, Co-Valsacor/Valsacombi (valsartan with hydrochlorothiazide) for treatment of high blood pressure in Poland and Slovakia, Nimvastid (rivastigmine) for treatment of Parkinson's disease was also launched in orodispersible tablet form in Romania and Slovakia, and the analgesic Doreta (paracetamol + tramadole) in Poland. Major products were launched on many new markets: Zyllt (clopidogrel) in Romania, Kazakhstan and Estonia, Krka's own-branded losartan on western European markets and Lorista (losartan) on many eastern European markets.

**We launched two new products - esomeprazole and olmesartan.**

Marketing activities are focused on our key therapeutic fields of pharmaceuticals for the treatment of high blood pressure, pharmaceuticals to reduce blood fat levels and platelet aggregation inhibitors in the treatment of cardiovascular disease, proton pump inhibitors for diseases of the alimentary tract and metabolism and antidepressives and antipsychotics in the treatment of diseases of the central nervous system. All these areas are key generators of Krka's prescription pharmaceutical sales and their growth.

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## Self-medication products

The Krka Group achieved self-medication product sales of EUR 27.4 million, an increase of 9% on the same period last year. Over this period, there has been a positive trend on the markets of south-eastern and eastern Europe, while in Slovenia and central Europe sales fell.

Sales increased most in Region East Europe (20%), with growth highest in Ukraine (65%) and the Russian Federation (28%). Sales in southeast Europe increased by 4%, with growth highest in Romania (35%) and Macedonia (15%). Sales in Region Central Europe were somewhat lower than for the same period last year, but achieved the same level as the first quarter of 2009 in Poland, the largest market.

The leading products are Bilobil, Pikovit, Septotele, Herbion and Duovit, to which the majority of

advertising and other promotional activities are dedicated.

The new product Septotele plus honey/lime was launched this year in Slovenia, Lithuania and Latvia, a new Bilobil 120 mg product in Slovenia, Croatia, Romania, the Czech Republic and Hungary, new products for children – Pikovit Prebio and Pikovit IQ/Omega syrups in Serbia, Bosnia-Herzegovina, Macedonia, Romania, Kazakhstan, the Czech Republic, Slovakia and Poland and Herbion syrups in Kazakhstan.

**We supplement the portfolio of Septotele and Pikovit products with Septotele plus honey/lime, Pikovit Prebio and Pikovit IQ/Omega.**

## Cosmetic products

The Krka Group achieved cosmetic product sales worth EUR 1.3 million, a fall of 29% on the same period last year. In Slovenia we increased sales by 2%, while sales fell in the Russian Federation where

the economic situation has affected sales of cosmetics. The most important products are those from the Fitoval range of hair and scalp care products.

## Animal health products

Sales in the first three months of 2010 were worth EUR 6.7 million, growth of 15% compared to the same period in 2009. The highest sales growth was achieved on the markets of eastern Europe (33%), followed by western Europe (25%). Sales decreased slightly on the Slovenian market, while in other regions it remained at the same level as the first quarter of 2009.

The largest increases by individual market were achieved in France, Spain, the Russian Federation, Hungary and Serbia and on some of the smaller markets.

Enroxil/Enrox (enrofloxacin) retained its position as the leading trademark, followed by Floron/Shotaflo/Fenflor (florfenicol), with Kokcisan (salinomycin) in third place, with Ecocid S, Egocin and Calfoset also recording high growth. Marketing on most of the major markets is carried out by our own marketing network, which is focused on strategic sections of the market, leading trademarks, and new launches.

**High growth in animal health product sales was achieved in eastern and western Europe.**

## Health and tourism services

In this first quarter of 2010, Krka achieved health and tourism services sales worth EUR 5.8 million, which is 24% down on the same period last year. The reason for the reduced sales was the extensive renovation work underway at Talaso Strunjan.

The Terme Dolenjske Toplice business unit generated sales of EUR 2.5 million, growth of 4%,

and at 73% had the highest occupancy rate of any unit. Terme Šmarješke Toplice also improved its performance compared to the first quarter of 2009, with sales growing 3% to EUR 2.5 million. Hoteli Otočec generated sales of EUR 0.6 million, a 3% decrease compared to the first quarter of last year. The Talaso Strunjan business unit operated at much reduced capacity.

Revenues from hotel and healthcare services represented two-thirds of the income structure, with the remaining third generated from catering,

swimming pool use, wellness services, sports activities and cosmetics services.

## Research and development

The first quarter of 2010 was marked by the acquisition of first market authorisations for 4 new products in 12 pharmaceutical forms. Over the same period we have acquired 220 new market

authorisations across a number of different markets.

**Market authorisation was achieved for 4 new human health and animal products via demanding EU procedures.**

### Prescription pharmaceuticals

Over the period we acquired market authorisation for 3 new products in 7 pharmaceutical forms and strengths. We registered a new product, **Candecor**, which contains the active substance **candesartan**, in tablet form in four different strengths. We concluded an EU decentralised procedure (DCP), acquiring market authorisation for candesartan in 8 European countries. The selection of pharmaceuticals for treatment of cardiovascular disease was therefore supplemented with pharmaceuticals from the range sartans, which globally are the leading pharmaceutical group for treatment of high blood pressure.

National procedures are also continually underway; these are important for supplying a good selection of new products in eastern and southeastern European countries. New market authorisations were acquired on the Russian market for pharmaceuticals from the **sartan** group. After the national procedures, market authorisation was acquired for **Firmasta**, film-coated tablets in three strengths including the active substance **irbesartan**, and the combined pharmaceutical Valsacor H 80, **Valsacor H 160**, **Valsacor HD 160** with the active substances **valsartan** and **hydrochlorothiazide** in film-coated tablet form. Market authorisation was acquired in south-eastern European countries for the product **Elicea** with the active substance **escitalopram** in film-coated tablet form.

**New market authorisations were acquired on the Russian market for pharmaceuticals from the sartan group.**

**Market authorisation was acquired in south-eastern European countries for the product Elicea with the active substance escitalopram.**

We completed DCPs for 2 new products – **esomeprazole** in the form of gastroresistant capsules in 2 strengths and **pantoprazole** in **powder form for preparation as an injection solution**, which is a new pharmaceutical form and a new method for administering the established active substance, pantoprazole. The market authorisation for these products has expanded the sales potential for our range of proton pump inhibitors on western European markets.

### Self-medication products

In the self-medication field, over the period we concluded notification procedures for 2 products, **Pikovit Omega 3** and **Pikovit Prebiotik** in the Russian Federation, which represents the key market for both products. The products are significant addition to the Pikovit range of vitamin products in the food supplement market segment. In addition to vitamins, the products include Omega 3 acids (Pikovit Omega 3) and prebiotic fibres (Pikovit Prebiotik).

Duovit, the well-established, leading brand, was strengthened with the notification of products on new eastern European markets. Notification procedures were concluded in the Russian Federation for **Duovit Elegance**, which includes all the ingredients required for the biological nutrition of skin during the day and night, in two capsules, one for day-time and one for night-time. The Duovit range was supplemented in Ukraine with a new

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product **Duovit Sila** (Power), in chewable tablet form, is a source of natural caffeine in a balanced combination of natural extracts and vitamins for additional energy and greater productivity.

Important notifications were acquired for the **Orsoslim capsule** product on the key markets of Kazakhstan and Ukraine. The product contains a combination of important vitamins, L-carnitine,

### Animal health products

In the animal health product field, we successfully concluded a DCP during the first quarter for the new pharmaceutical **Fypzyst** in solution form for application on skin to prevent infestation by ticks, fleas and lice in cats and dogs. Market authorisation was gained for the product via a DCP in 10 EU states: Slovenia, Hungary, Poland, the Czech

### Cosmetic products

In the cosmetics field, we concluded a notification procedure in the first quarter for a new cosmetic product from the **Sun mix** line, **Sun mix Active care lotion SPF 15**.

We also expanded the market possibilities for the

### Investments

The Krka Group allocated EUR 18.4 million to investment in the first quarter of 2010, with EUR 13.2 million invested by the controlling company, and EUR 5.2 million by subsidiaries. Some of the investment activities that were put on hold in 2009 due to the uncertain conditions were added to the 2010 plan. This means we now have

### Solid dosage pharmaceutical production plant

Construction of a solid dosage pharmaceutical production plant is Krka's largest investment at present.

The largest current Krka investment is the construction of a plant for production of solid pharmaceutical forms, with a capacity of 2.5 billion capsules, tablets or coated tablets per year. In 2010 we continued construction work on the plant, which

caffeine and green tea extract and was aimed at helping people to reach and maintain a balanced body weight.

The market authorisation procedure was concluded for **Septolete Plus honey/lime** pastilles in Bulgaria and in the Czech Republic, which is one of the key markets for Septolete branded products.

Republic, Slovakia, Bulgaria, Romania, Estonia, Lithuania and Latvia. The product, which contains the active substance **fipronil**, offers a modern form of treatment for external parasites, and is important in taking Krka's pharmaceutical range to animal lovers.

**Fitoval** line. The **Fitoval** range was successfully launched in Poland. In Ukraine we gained market authorisation for Fitoval capsules registering Fitoval shampoo, Fitoval shampoo for damaged hair, and Fitoval anti-hair loss lotion as cosmetic products.

over 30 investment projects currently underway, in various phases of implementation.

**Over 30 investment projects in the Krka Group are currently underway.**

Below are a number of the projects currently undergoing the most work.

started in June 2009. Installation work started in January. In 2010 we will complete the major construction and installation work, making the facilities ready for the phased fitting of technological equipment, starting in the second half of the year. EUR 40 million will be allocated to this investment this year.

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### Development control centre (RKC) 3

The construction of the new RKC3 development and control centre began in September 2009, which will meet the needs of research and development work and quality assurance and control. The facility has a total surface area of 13,000 m<sup>2</sup>.

According to plans, the main construction work will

### Spray production line

The planning of new products in spray form led to the start of renovation works at the production facilities in September 2009 to ensure the required

### Expansion of packaging warehouse

The investment will be used to modernise and maximise the capacity of the high-bay packaging warehouse at the existing location. The building permit was acquired in December 2009.

### Expansion of liquid raw material storage facility

The construction of four 40 m<sup>3</sup>-reservoirs will expand solvent warehousing capacity, the use of which has expanded with the start up of an extra production line in the Sinteza 4 plant. The building

### FBD project

Technical equipment had been installed by the end of April for a development investment project to develop new FBD (fluid bed dryer) technologies.

Operation (project) is partially co-financed by European Union, European Regional Development Fund. Operation is executed within framework of

### New projects

New projects are in the conceptual and planning stage that will address the need for new production capacity for active substances and solid dosage oral pharmaceutical forms.

The strategic location for the development of chemical production plants in the coming years is in Krško, where we will construction an active

be completed in the third quarter of 2010, including the roof and façade. Equipment fitting will start at the end of 2010.

The estimated value of the entire investment is EUR 22 million, EUR 15 million of which will be spent this year.

cleanliness and explosion-proofing standards. The entire renovation was concluded on schedule, and production started in February 2010.

The warehouse extension will be fitted with a photovoltaic system, which will enable use of solar energy, which is supported by government grants.

permit to expand the liquid raw material storage facility was acquired in February 2010. The expansion is planned for completion at the end of this year.

Operative Programme for the strengthening of the regional development potentials for the period 2007 – 2013, 1st development priority: Competitiveness of the companies and research excellence, priority aim 1.1. Improvement of the competitive capabilities of the companies and research excellence.

substance production plant – Sinteza 1. The location will also need construction of all the energy and other infrastructure required for production.

In 2010 we are planning to produce the project documentation for construction of a new production plant for solid dosage oral pharmaceutical forms – NOTOL 2.

## Subsidiaries

The logistics centre in Russia will be upgraded and extended and a new solid dosage pharmaceutical factory will be built.

In the Russian Federation we will upgrade and increase a logistics centre and a new factory for solid dosage pharmaceutical production. The design concept of the new factory

permits flexible and modular construction of production capacity over several phases. In phase one, 6 packaging lines are planned with an annual capacity of 1.5 billion tablets and capsules.

We have acquired a building permit, implementation

plans are in preparation and should be completed by the end of May 2010. According to the timetable, the facility will be constructed by the end of 2012, and production start-up will be in early 2013.

We will increase the tablet and capsule packaging capacity at the TAD Pharma and Krka Rus subsidiaries by purchasing new packaging lines.

The spa and swimming pool areas underwent renovation at Terme Krka in Strunjan and hotel capacity was increased with an overall investment value of EUR 7 million.

## Employees

The Krka Group is continuing to recruit, especially in the fields of marketing and sales in its subsidiaries and representative offices abroad, and in Product Supply. The number of employees in Slovenia increased by 70 in the first quarter of the year, and by 130 outside Slovenia. At the end of March 2009 the Krka Group had 8175 employees, which is 200

more than at the start of the year.

The proportion of employees working in subsidiaries and representative offices outside Slovenia is 47% of all Krka Group employees, and 51% of employees in the Krka Group have at least a university degree.

### Education structure of Krka Group employees

Educational level	31 Mar 2010		31 Dec 2009	
	Headcount	Share (in %)	Headcount	Share (in %)
PhD	86	1.1	82	1.0
MSc	216	2.6	215	2.7
University education	3855	47.2	3730	46.8
Higher professional education	723	8.8	698	8.8
Vocational college education	245	3.0	240	3.0
Secondary school education	1629	19.9	1599	20.1
Other	1421	17.4	1411	17.6
<b>Total</b>	<b>8175</b>	<b>100.0</b>	<b>7975</b>	<b>100.0</b>
- in Slovenia	4312	52.7	4242	53.2
- abroad	3863	47.3	3733	46.8

Krka ensures a continual influx of new quality staff through its scholarship system. At present there are 114 Krka scholarships, largely in the fields of pharmacy and chemistry, though scholarships are also available to outstanding students in other fields of interest to Krka.

The growth in employee numbers also requires intensive investment in employee training. Our

employees at home and abroad also study specialist areas of knowledge, quality, leadership, personal development, foreign languages and information technology. The training is adapted to the needs of our employees, the technological process, market conditions and Krka's developmental needs, so most education is organised in-house.

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Krka employees show great interest in gaining higher qualifications. At present Krka is supporting 93 of its employees in specialist, master's and doctoral studies, while a further 395 employees are involved in part-time studies alongside their work.

Krka appraisal interviews, the competence system and employee development system enables our employees' development to be monitored and directed in a planned manner, with their managers' the guidance. Krka is provided with a high quality platform and continuity in key work positions through the annual formation and updating of the portfolio of key and promising staff and the planned investment in their development, education and skills development.

Krka is the only verified examiner for national vocational qualifications (NVQs) in Slovenia in the field of pharmaceuticals. Between 2002 and the end of 2009 a total of 620 certificates were awarded, 142 certificates to staff from other pharmaceutical companies and pharmacies within the Krka-run NVQ training system.

Krka regularly measures organisational culture and employee satisfaction. The results indicates a high

level of staff loyalty, motivation and commitment. These results were confirmed by being made a finalist in the Dnevnik newspaper's Golden Thread best employer awards for the third time.

The development of the SAP HR information system continued in 2010. The system integrates operations in the human resource administration and the organisational structure of Krka companies and representative offices abroad.

We continue to work hard to ensure the overall quality of work and quality of life of employees. Krka employees have a wide choice of activities through which we they can realise our mission of living a healthy life. The current "Together We'll Scale the Heights" campaign encourages employees to get moving and to inform them of the importance of a health lifestyle. Therefore last year, together with the Slovenian Mountaineering and Climbing Association, we signposted and did maintenance work on 15 popular hiking routes around Slovenia. The participation of employees and their families and friends on organised walks along these routes is very high, including over 500 people on one walk alone.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE KRKA GROUP WITH NOTES

## Consolidated statement of the financial position (balance sheet) of the Krka Group

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
<b>Assets</b>			
Property, plant and equipment	652,702	649,146	101
Intangible assets	124,906	126,581	99
Deferred tax assets	23,049	22,392	103
Long-term loans	4,000	4,064	98
Investments	5,356	5,658	95
Other non-current assets	191	181	106
<b>Total non-current assets</b>	<b>810,204</b>	<b>808,022</b>	<b>100</b>
Inventories	190,652	181,646	105
Trade and other receivables	368,891	334,906	110
Short-term loans	1,322	2,213	60
Current investments, including derivatives	675	834	81
Cash and cash equivalents	12,655	13,411	94
<b>Total current assets</b>	<b>574,195</b>	<b>533,010</b>	<b>108</b>
<b>Total assets</b>	<b>1,384,399</b>	<b>1,341,032</b>	<b>103</b>
<b>Equity</b>			
Share capital	59,126	59,126	100
Own shares	-19,489	-19,489	100
Reserves	156,108	150,494	104
Retained earnings	775,637	728,554	106
<b>Equity holders of the parent</b>	<b>971,382</b>	<b>918,685</b>	<b>106</b>
Minority interest	1,662	1,684	99
<b>Total equity</b>	<b>973,044</b>	<b>920,369</b>	<b>106</b>
<b>Liabilities</b>			
Long-term borrowings	105,115	105,113	100
Provisions	108,819	107,536	101
Government grants and grants by the European Union	6,670	6,763	99
Deferred tax liabilities	18,980	18,422	103
<b>Total non-current liabilities</b>	<b>239,584</b>	<b>237,834</b>	<b>101</b>
Trade payables	72,647	72,500	100
Short-term borrowings	36,093	51,084	71
Income tax liabilities	2,009	1,695	119
Other current liabilities	61,022	57,550	106
<b>Total current liabilities</b>	<b>171,771</b>	<b>182,829</b>	<b>94</b>
<b>Total liabilities</b>	<b>411,355</b>	<b>420,663</b>	<b>98</b>
<b>Total equity and liabilities</b>	<b>1,384,399</b>	<b>1,341,032</b>	<b>103</b>

## Consolidated income statement of the Krka Group

in EUR thousand	1-3/2010	1-3/2009	Ind. 10/09
Revenues	246,107	245,186	100
Production cost of goods sold	-91,546	-85,278	107
<b>Gross profit</b>	<b>154,561</b>	<b>159,908</b>	<b>97</b>
Other operating income	2,953	3,886	76
Distribution expenses	-60,142	-56,934	106
R&D expenses	-23,372	-22,047	106
Administrative expenses	-19,751	-17,353	114
<b>Result from operating activities</b>	<b>54,249</b>	<b>67,460</b>	<b>80</b>
Financial income	10,427	100	10427
Financial costs	-1,333	-12,472	11
<b>Net financial costs</b>	<b>9,094</b>	<b>-12,372</b>	<b>-74</b>
<b>Profit before tax</b>	<b>63,343</b>	<b>55,088</b>	<b>115</b>
Income tax expense	-16,282	-11,226	145
<b>Profit for the period</b>	<b>47,061</b>	<b>43,862</b>	<b>107</b>
<b>Attributable to:</b>			
– equity holders of the parent	47,083	43,867	107
– minority interest	-22	-5	440
<b>Basic earnings per share (in EUR)*</b>	<b>1.39</b>	<b>1.30</b>	<b>107</b>
<b>Diluted earnings per share (in EUR)**</b>	<b>1.39</b>	<b>1.30</b>	<b>107</b>

\* 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.

## Consolidated statement of comprehensive income of the Krka Group

in EUR thousand	1-3/2010	1-3/2009	Ind. 10/09
<b>Profit for the period</b>	<b>47,061</b>	<b>43,862</b>	<b>107</b>
<b>Other comprehensive income for the period:</b>			
Changes in retained earnings	0	-35	0
Changes in fair value of financial assets available for sale	-302	-796	38
Deferred tax effect - change in fair value of financial assets available for sale	0	167	0
Deferred tax effect and tax effect of transition to IFRS	61	-35	-174
Translation reserve	5,855	-7,524	-78
<b>Total other comprehensive income for the period</b>	<b>5,614</b>	<b>-8,223</b>	<b>-68</b>
<b>Total comprehensive income for the period</b>	<b>52,675</b>	<b>35,639</b>	<b>148</b>
<b>Attributable to:</b>			
– equity holders of the parent	52,697	35,644	148
– minority interest	-22	-5	440

## Consolidated statement of changes in equity of the Krka Group

	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			
in EUR thousand													
<b>Balance at 01 Jan 2010</b>	59,126	-19,489	120,992	14,990	22,184	2,104	-9,776	570,354	106,766	51,434	918,685	1,684	920,369
<b>Net profit for the period</b>	0	0	0	0	0	0	0	0	47,083	0	47,083	-22	47,061
<b>Other comprehensive income for the period</b>													
Changes in fair value of financial assets available for sale	0	0	0	0	0	-302	0	0	0	0	-302	0	-302
Deferred tax effect and tax effect of transition to IFRS	0	0	0	0	0	61	0	0	0	0	61	0	61
Translation reserve	0	0	0	0	0	0	5,855	0	0	0	5,855	0	5,855
<b>Total other comprehensive income for the period</b>	0	0	0	0	0	-241	5,855	0	0	0	5,614	0	5,614
<b>Total comprehensive income for the period</b>	0	0	0	0	0	-241	5,855	0	47,083	0	52,697	-22	52,675
<b>Transactions with owners recorded in equity</b>													
Formation of statutory reserves	0	0	0	0	0	0	0	0	0	0	0	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	0	0	-106,766	106,766	0	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total transactions with owners recorded in equity</b>	0	0	0	0	0	0	0	0	-106,766	106,766	0	0	0
<b>Balance at 31 Mar 2010</b>	59,126	-19,489	120,992	14,990	22,184	1,863	-3,921	570,354	47,083	158,200	971,382	1,662	973,044

	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			
in EUR thousand													
<b>Balance at 01 Jan 2009</b>	<b>59,126</b>	<b>-19,489</b>	<b>120,992</b>	<b>14,990</b>	<b>17,184</b>	<b>2,620</b>	<b>-9,332</b>	<b>450,417</b>	<b>102,955</b>	<b>42,010</b>	<b>781,473</b>	<b>1,823</b>	<b>783,296</b>
<b>Net profit for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>43,867</b>	<b>0</b>	<b>43,867</b>	<b>-5</b>	<b>43,862</b>
<b>Other comprehensive income for the period</b>													
Changes in retained earnings	0	0	0	0	0	0	0	0	0	-35	-35	0	-35
Changes in fair value of financial assets available for sale	0	0	0	0	0	-796	0	0	0	0	-796	0	-796
Deferred tax effect - change in fair value of financial assets available for sale	0	0	0	0	0	167	0	0	0	0	167	0	167
Deferred tax effect and tax effect of transition to IFRS	0	0	0	0	0	0	0	0	0	-35	-35	0	-35
Translation reserve	0	0	0	0	0	0	-7,524	0	0	0	-7,524	0	-7,524
<b>Total other comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-629</b>	<b>-7,524</b>	<b>0</b>	<b>0</b>	<b>-70</b>	<b>-8,223</b>	<b>0</b>	<b>-8,223</b>
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-629</b>	<b>-7,524</b>	<b>0</b>	<b>43,867</b>	<b>-70</b>	<b>35,644</b>	<b>-5</b>	<b>35,639</b>
<b>Transactions with owners recorded in equity</b>													
Formation of statutory reserves	0	0	0	0	0	0	0	0	0	0	0	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	0	0	-102,955	102,955	0	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total transactions with owners recorded in equity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-102,955</b>	<b>102,955</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Balance at 31 Mar 2009</b>	<b>59,126</b>	<b>-19,489</b>	<b>120,992</b>	<b>14,990</b>	<b>17,184</b>	<b>1,991</b>	<b>-16,856</b>	<b>450,417</b>	<b>43,867</b>	<b>144,895</b>	<b>817,117</b>	<b>1,818</b>	<b>818,935</b>

## Consolidated statement of cash flows of the Krka Group

in EUR thousand	1-3/2010	1-3/2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit for the period</b>	<b>47,061</b>	<b>43,862</b>
<b>Adjustments for:</b>	<b>35,576</b>	<b>28,512</b>
– amortisation /depreciation	19,465	18,360
– foreign exchange differences	-1,551	-4,043
– investment income	-709	-215
– investment expense	1,123	1,468
– interest expense and other financial expense	966	1,750
– income tax	16,282	11,226
– other	0	-34
<b>Operating profit before changes in net operating current assets and provisions</b>	<b>82,637</b>	<b>72,374</b>
Change in trade receivables	-28,964	-25,932
Change in inventories	-9,006	15,472
Change in operating debts (liabilities)	319	-12,696
Change in provisions	1,284	545
Change in grants received from the government and the European Union	-93	-51
Change in other current liabilities	3,483	538
Income taxes paid	-14,166	-10,819
<b>Cash generated from operations</b>	<b>35,494</b>	<b>39,431</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	176	53
Proceeds from sale of property, plant and equipment	314	2,421
Purchase of intangible assets	-783	-2,077
Purchase of property, plant and equipment	-21,492	-18,072
Given long-term loans	-345	-122
Proceeds from repayment of long-term loans	644	257
Acquisition of non-current investments	-24	-2
Proceeds from sale of non-current investments	15	0
Acquisition of current investments and loans	-382	-1,870
Proceeds from sale of current investments and repayment of short-term loans	1,652	1,127
Payments in connection with derivative financial instruments	0	-1,035
<b>Net cash used in investing activities</b>	<b>-20,225</b>	<b>-19,320</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Interest paid	-2,137	-4,090
Repayment of long-term borrowings	-14,535	-11,536
Repayment of short-term borrowings	-49,897	-97,850
Proceeds from short-term borrowings	50,613	95,091
Dividends paid	-10	-14
<b>Net cash used in financing activities</b>	<b>-15,966</b>	<b>-18,399</b>
<b>Net increase in cash and cash equivalents</b>	<b>-697</b>	<b>1,712</b>
Cash and cash equivalents at beginning of period	13,411	7,604
Effect of exchange rate fluctuations on cash held	-59	-38
<b>Net cash and cash equivalents at end of period</b>	<b>12,655</b>	<b>9,278</b>

## Segment reporting of the Krka Group

in EUR thousand	European Union		South-east Europe		Eastern Europe		Other markets		Total	
	1-3/2010	1-3/2009	1-3/2010	1-3/2009	1-3/2010	1-3/2009	1-3/2010	1-3/2009	1-3/2010	1-3/2009
<b>Revenues to non-Group companies</b>	<b>162,382</b>	<b>155,935</b>	<b>21,713</b>	<b>21,657</b>	<b>58,074</b>	<b>63,970</b>	<b>3,938</b>	<b>3,624</b>	<b>246,107</b>	<b>245,186</b>
<b>Revenues to Group companies</b>	<b>36,557</b>	<b>30,198</b>	<b>14,858</b>	<b>14,220</b>	<b>31,692</b>	<b>21,400</b>	<b>0</b>	<b>0</b>	<b>83,107</b>	<b>65,817</b>
Other revenues	2,524	3,120	11	18	418	747	0	0	2,953	3,886
<b>Operating profit</b>	<b>44,119</b>	<b>47,360</b>	<b>3,899</b>	<b>6,299</b>	<b>6,018</b>	<b>12,838</b>	<b>213</b>	<b>964</b>	<b>54,249</b>	<b>67,460</b>
Interest revenue	174	50	2	3	4	1	0	0	180	54
Interest expense	907	1,682	7	9	0	0	0	0	914	1,691
<b>Net financial income/expenses</b>									<b>9,094</b>	<b>-12,372</b>
Income tax expense									-16,282	-11,226
<b>Profit for the period</b>									<b>47,061</b>	<b>43,862</b>
Capital expenditure	17,103	22,237	17	0	1,245	13	0	0	18,365	22,250
Depreciation of property, plant and equipment	12,685	11,246	1,183	1,123	3,055	2,952	85	134	17,008	15,455
Amortisation of intangible assets	1,863	1,879	177	624	395	381	22	20	2,457	2,905
	<b>31 Mar 2010</b>	<b>31 Dec 2009</b>	<b>31 Mar 2010</b>	<b>31 Dec 2009</b>	<b>31 Mar 2010</b>	<b>31 Dec 2009</b>	<b>31 Mar 2010</b>	<b>31 Dec 2009</b>	<b>31 Mar 2010</b>	<b>31 Dec 2009</b>
<b>Total assets</b>	<b>1,042,208</b>	<b>1,032,585</b>	<b>90,406</b>	<b>89,927</b>	<b>242,765</b>	<b>208,465</b>	<b>9,020</b>	<b>10,055</b>	<b>1,384,399</b>	<b>1,341,032</b>
<b>Total liabilities</b>	<b>264,124</b>	<b>267,338</b>	<b>33,981</b>	<b>34,936</b>	<b>107,619</b>	<b>112,526</b>	<b>5,631</b>	<b>5,863</b>	<b>411,355</b>	<b>420,663</b>

## Notes to the consolidated financial statements

### Sales revenues

**EUR 246,107 thousand**

Sales revenues comprise revenues from the sale of products, services and goods on the domestic market worth EUR 24,499 thousand (10.0% of the Group's net sales revenues) and on foreign markets

worth EUR 221,608 thousand (90.0% of net sales revenues). The growth in sales revenues was 0.4% higher compared to the result for the same period last year.

### Production cost of goods sold

**EUR 91,546 thousand**

The Group's production costs of goods sold increased by 7% compared to the same period last year, and their ratio to sales was 37.2%.

### Distribution expenses

**EUR 60,142 thousand**

Distribution expenses comprise the costs of the Slovenian and foreign marketing sales networks.

They grow by 6% compared to the same period last year, and their ratio to sales was 24.4%.

### R&D expenses

**EUR 23,372 thousand**

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

R&D expenses were 6% higher than for the comparable period last year, and their ratio to sales revenues was 9.5%.

### Administrative expenses

**EUR 19,751 thousand**

Administrative expenses increased by 14% compared to the same period last year, and their ratio to sales was 8.0%.

### Costs by nature

**EUR 194,811 thousand**

in EUR thousand	1-3/2010	1-3/2009	Ind. 10/09
Cost of goods and material	-73,796	-47,725	155
Cost of services	-50,041	-45,011	111
Employee benefits cost	-59,645	-56,029	106
Amortisation / Depreciation	-19,465	-18,360	106
Other operating expenses	-6,565	-4,883	134
<b>Total costs</b>	<b>-209,512</b>	<b>-172,008</b>	<b>122</b>
Change in the value of inventories	14,701	-9,604	-153
<b>Total</b>	<b>-194,811</b>	<b>-181,612</b>	<b>107</b>

## Employee benefit cost

EUR 59,645 thousand

in EUR thousand	1-3/2010	1-3/2009	Ind. 10/09
Gross wages and salaries and continued pay	48,073	44,945	107
Social security contributions and payroll tax	8,947	8,451	106
Retirement benefits and anniversary bonuses	599	964	62
Other employee benefits cost	2,026	1,669	121
<b>Total employee benefits cost</b>	<b>59,645</b>	<b>56,029</b>	<b>106</b>

## Other operating expenses

EUR 6,565 thousand

in EUR thousand	1-3/2010	1-3/2009	Ind. 10/09
Grants and assistance for humanitarian and other purposes	784	576	136
Environmental levies	502	409	123
Other levies	1,107	1,135	98
Loss in the sale of property, plant and equipment and intangible assets	1,111	229	485
Write-offs and allowances for inventories	1,464	854	171
Other costs	1,597	1,680	95
<b>Total other operating expenses</b>	<b>6,565</b>	<b>4,883</b>	<b>134</b>

## Finance income and financial costs

in EUR thousand	1-3/2010	1-3/2009	Ind. 10/09
Exchange differences	9,772	/	
Interest income	180	54	333
Change in fair value of investments through profit or loss	33	22	150
Other income	4	6	67
Reversal of impairment	438	18	2.433
<b>Total financial income</b>	<b>10,427</b>	<b>100</b>	<b>10.427</b>
Exchange differences	/	-8,932	-109
Interest expense	-913	-1,691	54
Change in fair value of investments through profit or loss	-12	-15	80
Income from derivative financial instruments, thereof:	0	-1,225	0
– outflows	0	-1,035	0
– changes in fair value	0	-190	0
Other expenses	-53	-59	90
Write-offs and allowances for receivables	-355	-550	65
<b>Total financial expenses</b>	<b>-1,333</b>	<b>-12,472</b>	<b>11</b>
<b>Net financial expenses</b>	<b>9,094</b>	<b>-12,372</b>	<b>-74</b>

## Income tax expenses

EUR 16,282 thousand

The corporate income tax levied amounts to EUR 16,396 thousand, which is 25.9% of the pre-tax profit. Taking into account the deferred tax of

minus EUR 114 thousand, the income tax expense in the income statement totals EUR 16,282 thousand. The effective tax rate is 25.7%.

## Property, plant and equipment

EUR 652,702 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Property	29,152	29,253	100
Plant	296,591	300,078	99
Equipment	267,187	269,803	99
Property, plant and equipment under construction	59,772	50,012	120
<b>Total property, plant and equipment</b>	<b>652,702</b>	<b>649,146</b>	<b>101</b>

The value of property, plant and equipment represented 47% of the Group's total assets. Krka's

major investments are described in the Investments chapter in the business report.

## Intangible assets

EUR 124,906 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Goodwill	42,644	42,644	100
Trademark	42,403	42,403	100
Concessions, patents, licences, trademarks and similar rights	35,751	35,302	101
Intangible assets under construction	4,108	6,232	66
<b>Total intangible assets</b>	<b>124,906</b>	<b>126,581</b>	<b>99</b>

Long-term industrial property rights and intangible assets in progress include software and market authorisation documentation for new medicines.

## Loans

EUR 5,322 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Long-term loans	4,000	4,064	98
Short-term loans	1,314	2,209	59
Short-term interest receivable	8	4	200
<b>Total loans</b>	<b>5,322</b>	<b>6,277</b>	<b>85</b>

## Investments

EUR 6,031 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
<b>Non-current investments</b>	<b>5,356</b>	<b>5,658</b>	<b>95</b>
- financial assets available for sale	5,356	5,658	95
<b>Current investments, including derivatives</b>	<b>675</b>	<b>834</b>	<b>81</b>
- instruments held for trading	134	145	92
- other current investments	541	689	79
<b>Total investments</b>	<b>6,031</b>	<b>6,492</b>	<b>93</b>

The financial assets available-for-sale include shares and stakes worth EUR 947 thousand in Slovenia, and EUR 4,409 thousand in shares and stakes held abroad.

Other current financial investments comprise Slovenian mutual fund units worth EUR 263 thousand and assets under management worth EUR 278 thousand.

## Inventories

EUR 190,652 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Material	56,285	58,036	97
Work in progress	48,980	47,076	104
Products	63,814	59,421	107
Merchandise	21,573	17,113	126
<b>Total inventories</b>	<b>190,652</b>	<b>181,646</b>	<b>105</b>

## Trade and other receivables

EUR 368,891 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Short-term trade receivables	334,146	305,572	109
Other short-term receivables	34,745	29,334	118
<b>Total receivables</b>	<b>368,891</b>	<b>334,906</b>	<b>110</b>

## Cash and cash equivalents

EUR 12,655 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Cash in hand	79	90	88
Bank balances	12,576	13,321	94
<b>Total cash and cash equivalents</b>	<b>12,655</b>	<b>13,411</b>	<b>94</b>

## Equity

EUR 973,044 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Share capital	59,126	59,126	100
Own shares	-19,489	-19,489	100
Reserves	156,108	150,494	104
– share premium	120,992	120,992	100
– legal reserves	14,990	14,990	100
– statutory reserves	22,184	22,184	100
– fair value reserve	1,863	2,104	89
– translation reserves	-3,921	-9,776	40
Retained earnings	775,637	728,554	106
<b>Equity holders of the parent</b>	<b>971,382</b>	<b>918,685</b>	<b>106</b>
Minority interest	1,662	1,684	99
<b>Total equity</b>	<b>973,044</b>	<b>920,369</b>	<b>106</b>

## Borrowings

EUR 141,208 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
<b>Long-term borrowings</b>	<b>105,115</b>	<b>105,113</b>	<b>100</b>
– borrowings from domestic banks	104,828	104,828	100
– borrowings from foreign banks	287	285	101
<b>Short-term borrowings</b>	<b>36,093</b>	<b>51,084</b>	<b>71</b>
– current portion of long term borrowings	23,734	38,622	61
– borrowings from domestic banks	11,000	10,000	110
– borrowings from foreign banks	440	415	106
– borrowings from other entities	420	378	111
– interest payable	499	1,669	30
<b>Total borrowings</b>	<b>141,208</b>	<b>156,197</b>	<b>90</b>

## Provisions

EUR 108,819 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Provisions for retirement benefits and anniversary bonuses	55,139	53,958	102
Other provisions:	53,680	53,578	100
– provisions for lawsuits	49,000	49,000	100
– other provisions	4,680	4,578	102
<b>Total provisions</b>	<b>108,819</b>	<b>107,536</b>	<b>101</b>

## Government grants and EU grants

EUR 6,670 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Grants received for the Beta plant in Šentjernej	159	169	94
Grants received for the health resorts Dolenjske and Šmarješke Toplice and Golf Grad Otočec	5,506	5,584	99
Grants by the European Regional Development Fund	29	30	97
Grants by the European Fund – development of new technologies (FBD project)	385	385	100
Properties, plant and equipment received for free	591	595	99
<b>Total grants received</b>	<b>6,670</b>	<b>6,763</b>	<b>99</b>

Operation (project) FBD is partially co-financed by European Union, European Regional Development Fund. Operation is executed within framework of Operative Programme for the strengthening of the regional development potentials for the period 2007

– 2013, 1st development priority: Competitiveness of the companies and research excellence, priority aim 1.1. Improvement of the competitive capabilities of the companies and research excellence.

## Trade payables

EUR 72,647 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Payables to domestic suppliers	30,017	31,900	94
Payables to foreign suppliers	42,314	40,078	106
Payables from advances	316	522	61
<b>Total trade payables</b>	<b>72,647</b>	<b>72,500</b>	<b>100</b>

## Other current liabilities

EUR 61,022 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Accrued contractual discounts on products sold to customers outside the Group	20,914	20,643	101
Payables to employees – gross wages, other charges	23,837	24,428	98
Other	16,271	12,479	130
<b>Total other current liabilities</b>	<b>61,022</b>	<b>57,550</b>	<b>106</b>

## Contingent liabilities

EUR 4,355 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Guarantees issued	2,593	2,303	113
Other	1,762	1,749	101
<b>Total contingent liabilities</b>	<b>4,355</b>	<b>4,052</b>	<b>107</b>

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE KRKA COMPANY WITH NOTES

## Statement of the financial position (balance sheet) of Krka, d. d., Novo mesto

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
<b>Assets</b>			
Property, plant and equipment	482,763	485,653	99
Intangible assets	28,618	29,683	96
Investments in subsidiaries	227,585	227,585	100
Deferred tax assets	19,035	18,977	100
Long-term loans	18,108	17,080	106
Non-current investments	5,147	5,449	94
Other non-current assets	179	167	107
<b>Total non-current assets</b>	<b>781,435</b>	<b>784,594</b>	<b>100</b>
Inventories	138,082	138,612	100
Trade and other receivables	384,092	346,881	111
Short-term loans	37,057	34,711	107
Current investments, including derivatives	674	654	103
Cash and cash equivalents	4,398	7,487	59
<b>Total current assets</b>	<b>564,303</b>	<b>528,345</b>	<b>107</b>
<b>Total assets</b>	<b>1,345,738</b>	<b>1,312,939</b>	<b>102</b>
<b>Equity</b>			
Share capital	59,126	59,126	100
Own shares	-19,489	-19,489	100
Reserves	160,028	160,270	100
Retained earnings	781,640	732,103	107
<b>Total equity</b>	<b>981,305</b>	<b>932,010</b>	<b>105</b>
<b>Liabilities</b>			
Long-term borrowings	103,836	103,836	100
Provisions	102,252	100,244	102
Government grants and grants by the European Union	1,164	1,179	99
Deferred tax liabilities	466	526	89
<b>Total non-current liabilities</b>	<b>207,718</b>	<b>205,785</b>	<b>101</b>
Trade payables	85,061	88,534	96
Short-term borrowings	34,784	49,458	70
Income tax liabilities	0	0	
Other current liabilities	36,870	37,152	99
<b>Total current liabilities</b>	<b>156,715</b>	<b>175,144</b>	<b>89</b>
<b>Total liabilities</b>	<b>364,433</b>	<b>380,929</b>	<b>96</b>
<b>Total equity and liabilities</b>	<b>1,345,738</b>	<b>1,312,939</b>	<b>102</b>

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

in EUR thousand	1-3/2010	1-3/2009	Ind. 10/09
Revenues	231,425	216,220	107
Production cost of goods sold	-91,128	-75,884	120
<b>Gross profit</b>	<b>140,297</b>	<b>140,336</b>	<b>100</b>
Other operating income	2,906	2,165	134
Distribution expenses	-54,830	-49,997	110
R&D costs	-21,721	-20,651	105
Administrative expenses	-14,251	-13,245	108
<b>Operating profit</b>	<b>52,401</b>	<b>58,608</b>	<b>89</b>
Financial income	10,379	554	1.873
Financial expenses	-932	-5,758	16
<b>Net financial income/expenses</b>	<b>9,447</b>	<b>-5,204</b>	<b>-182</b>
<b>Profit before tax</b>	<b>61,848</b>	<b>53,404</b>	<b>116</b>
Income tax expense	-12,311	-11,215	110
<b>Profit for the period</b>	<b>49,537</b>	<b>42,189</b>	<b>117</b>
<b>Basic earnings per share (in EUR)*</b>	<b>1.47</b>	<b>1.25</b>	<b>117</b>
<b>Diluted earnings per share (in EUR)**</b>	<b>1.47</b>	<b>1.25</b>	<b>117</b>

\* 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 comprehensive income of Krka, d. d., Novo mesto

in EUR thousand	1-3/2010	1-3/2009	Ind. 10/09
<b>Net profit for the period</b>	<b>49,537</b>	<b>42,189</b>	117
<b>Other comprehensive income for the period:</b>			
Changes in fair value of financial assets available for sale	-302	-796	38
Deferred tax effect – change in fair value of financial assets available for sale	60	167	36
Deferred tax effect and tax effect of transition to IFRS	0	-35	0
<b>Total other comprehensive income for the period</b>	<b>-242</b>	<b>-664</b>	<b>36</b>
<b>Total comprehensive income for the period</b>	<b>49,295</b>	<b>41,525</b>	<b>119</b>

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

	Share capital	Own shares	Reserves				Retained earnings			Total equity
			Share premium	Legal reserves	Statutory reserves	Fair value reserves	Other revenue reserves	Net profit for the period	Net profit carried forward	
in EUR thousand										
<b>Balance at 01 Jan 2010</b>	<b>59,126</b>	<b>-19,489</b>	<b>120,992</b>	<b>14,990</b>	<b>22,184</b>	<b>2,104</b>	<b>570,354</b>	<b>103,812</b>	<b>57,937</b>	<b>932,010</b>
<b>Net profit for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>49,537</b>	<b>0</b>	<b>49,537</b>
<b>Other comprehensive income for the period</b>										
Changes in fair value of financial assets available for sale	0	0	0	0	0	-302	0	0	0	-302
Deferred tax effects – changes in fair value of financial assets available for sale	0	0	0	0	0	60	0	0	0	60
<b>Total other comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-242</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-242</b>
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-242</b>	<b>0</b>	<b>49,537</b>	<b>0</b>	<b>49,295</b>
<b>Transactions with owners recorded in equity</b>										
Formation of statutory reserves	0	0	0	0	0	0	0	0	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	0	0	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	0	-103,812	103,812	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	0
<b>Total transactions with owners recorded in equity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-103,812</b>	<b>103,812</b>	<b>0</b>
<b>Balance at 31 Mar 2010</b>	<b>59,126</b>	<b>-19,489</b>	<b>120,992</b>	<b>14,990</b>	<b>22,184</b>	<b>1,862</b>	<b>570,354</b>	<b>49,537</b>	<b>161,749</b>	<b>981,305</b>

	Share capital	Own shares	Reserves				Retained earnings			Total equity
			Share premium	Legal reserves	Statutory reserves	Fair value reserves	Other revenue reserves	Net profit for the period	Net profit carried forward	
in EUR thousand										
<b>Balance at 01 Jan 2009</b>	<b>59,126</b>	<b>-19,489</b>	<b>120,992</b>	<b>14,990</b>	<b>17,184</b>	<b>2,620</b>	<b>450,417</b>	<b>108,130</b>	<b>43,233</b>	<b>797,203</b>
<b>Net profit for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>42,189</b>	<b>0</b>	<b>42,189</b>
<b>Other comprehensive income for the period</b>										
Changes in fair value of financial assets available for sale	0	0	0	0	0	-796	0	0	0	-796
Deferred tax effects – changes in fair value of financial assets available for sale	0	0	0	0	0	167	0	0	0	167
Deferred tax effect and tax effect of transition to IFRS	0	0	0	0	0	0	0	0	-35	-35
<b>Total other comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-629</b>	<b>0</b>	<b>0</b>	<b>-35</b>	<b>-664</b>
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-629</b>	<b>0</b>	<b>42,189</b>	<b>-35</b>	<b>41,525</b>
<b>Transactions with owners recorded in equity</b>										
Formation of statutory reserves	0	0	0	0	0	0	0	0	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	0	0	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	0	-108,130	108,130	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	0
<b>Total transactions with owners recorded in equity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-108,130</b>	<b>108,130</b>	<b>0</b>
<b>Balance at 31 Mar 2009</b>	<b>59,126</b>	<b>-19,489</b>	<b>120,992</b>	<b>14,990</b>	<b>17,184</b>	<b>1,991</b>	<b>450,417</b>	<b>42,189</b>	<b>151,328</b>	<b>838,728</b>

## Statement of cash flows of Krka, d. d., Novo mesto

in EUR thousand	1-3/2010	1-3/2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit for the period</b>	<b>49,537</b>	<b>42,189</b>
<b>Adjustments for:</b>	<b>20,094</b>	<b>25,780</b>
– amortisation /depreciation	14,573	14,074
– exchange differences	-7,767	-1,867
– investment income	-1,005	-692
– investment expense	1,062	1,446
– interest expense and other financial expense	920	1,604
– income tax	12,311	11,215
<b>Operating profit before changes in net operating current assets and provisions</b>	<b>69,631</b>	<b>67,969</b>
Change in trade receivables	-31,365	-24,409
Change in inventories	529	11,625
Change in operating debts (liabilities)	-3,439	-2,161
Change in provisions	2,008	774
Change in grants received from the government and the European Union	-15	-15
Change in other current liabilities	-273	-268
Income taxes paid	-10,858	-10,235
<b>Cash generated from operations</b>	<b>26,218</b>	<b>43,280</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	498	543
Proceeds from sale of property, plant and equipment	2,034	2,399
Purchase of intangible assets	-367	-1,627
Purchase of property, plant and equipment	-12,853	-18,505
Acquisition of subsidiaries	0	-275
Long-term loans	-4,095	-2,326
Proceeds from repayment of long-term loans	3,448	306
Acquisition of non-current investments	-24	-2
Proceeds from sale of non-current investments	14	0
Acquisition of current investments and loans	-4,591	-6,086
Proceeds from sale of current investments and repayment of short-term loans	2,260	2,593
Payments in connection with derivative financial instruments	0	-1,035
<b>Net cash used in investing activities</b>	<b>-13,676</b>	<b>-24,015</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Interest paid	-2,088	-3,942
Repayment of long-term borrowings	-14,536	-11,536
Repayment of short-term borrowings	-49,897	-97,130
Acquisition of short-term borrowings	50,929	95,092
Dividends paid	-10	-14
<b>Net cash used in financing activities</b>	<b>-15,602</b>	<b>-17,530</b>
<b>Net increase in cash and cash equivalents</b>	<b>-3,060</b>	<b>1,735</b>
Cash and cash equivalents at beginning of period	7,487	294
Effect of exchange rate fluctuations on cash held	-29	-38
<b>Net cash and cash equivalents at end of period</b>	<b>4,398</b>	<b>1,991</b>

## Segment reporting of Krka, d. d., Novo mesto

in EUR thousand	European Union		South-East Europe		Eastern Europe		Other markets		Total	
	1-3/2010	1-3/2009	1-3/2010	1-3/2009	1-3/2010	1-3/2009	1-3/2010	1-3/2009	1-3/2010	1-3/2009
<b>Revenues</b>	<b>145,630</b>	<b>139,487</b>	<b>21,948</b>	<b>21,070</b>	<b>60,271</b>	<b>52,605</b>	<b>3,576</b>	<b>3,058</b>	<b>231,425</b>	<b>216,220</b>
Revenues from reversal of long-term provisions and other revenues	2,906	2,165							2,906	2,165
<b>Operating profit</b>	<b>42,683</b>	<b>47,621</b>	<b>6,087</b>	<b>6,813</b>	<b>3,466</b>	<b>3,776</b>	<b>165</b>	<b>398</b>	<b>52,401</b>	<b>58,608</b>
Interest income	442	519	0	13	49	0	0	0	491	532
Interest expense	895	1,587	0	0	0	0	0	0	895	1,587
Net financial income/expenses									9,447	-5,204
Income tax expense									-12,311	-11,215
<b>Profit for the period</b>									<b>49,537</b>	<b>42,189</b>
Capital expenditure	<b>13,227</b>	<b>113,440</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>13,227</b>	<b>113,440</b>
Depreciation of property, plant and equipment	10,262	9,033	631	1,025	2,163	2,464	86	134	13,142	12,656
Amortisation of intangible assets	901	915	135	138	373	345	22	20	1,431	1,418
	<b>31 Mar 2010</b>	<b>31 Dec 2009</b>	<b>31 Mar 2010</b>	<b>31 Dec 2009</b>	<b>31 Mar 2010</b>	<b>31 Dec 2009</b>	<b>31 Mar 2010</b>	<b>31 Dec 2009</b>	<b>31 Mar 2010</b>	<b>31 Dec 2009</b>
<b>Total assets</b>	<b>1,046,486</b>	<b>1,046,954</b>	<b>66,002</b>	<b>68,156</b>	<b>224,238</b>	<b>187,780</b>	<b>9,012</b>	<b>10,049</b>	<b>1,345,738</b>	<b>1,312,939</b>
<b>Total liabilities</b>	<b>229,328</b>	<b>240,247</b>	<b>34,562</b>	<b>35,989</b>	<b>94,911</b>	<b>98,829</b>	<b>5,631</b>	<b>5,864</b>	<b>364,432</b>	<b>380,929</b>

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

### Sales revenues

**EUR 231,425 thousand**

Sales revenues include revenues from the sale of products, services and goods on the domestic market worth EUR 18,834 (8.1% of net sales revenues) and revenues from sales on foreign

markets worth EUR 212,591 thousand (91.9% of net sales revenues). The growth in sales revenues was 7% higher compared to the result for the same period last year.

### Production cost of goods sold

**EUR 91,128 thousand**

The Company's production costs of goods sold increased by one fifth compared to the same period last year.

Their ratio to sales was 39.4%.

### Distribution expenses

**EUR 54,830 thousand**

Distribution expenses comprise the costs of the Slovenian and foreign marketing sales networks.

Distribution expenses increased by one tenth compared to the same period last year, and their ratio to sales was 23.7%.

### R&D expenses

**EUR 21,721 thousand**

The Company does not capitalise R&D expenses, and they are fully disclosed in the current income statement. R&D expenses were 5% higher than for

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

### Administrative expenses

**EUR 14,251 thousand**

Administrative expenses increased by 8% on the same period last year, and their ratio to sales was 6.2%.

### Costs by nature

**EUR 181,930 thousand**

in EUR thousand	1-3/2010	1-3/2009	Ind. 10/09
Cost of goods and material	-70,526	-51,073	138
Cost of services	-59,030	-46,165	128
Employee benefits cost	-38,880	-41,263	94
Amortisation / Depreciation	-14,573	-14,074	104
Other operating expenses	-3,761	-3,081	122
<b>Total costs</b>	<b>-186,770</b>	<b>-155,656</b>	120
Change in the value of inventories	4,840	-4,121	
<b>Total</b>	<b>-181,930</b>	<b>-159,777</b>	114

## Employee benefit cost

EUR 38,880 thousand

in EUR thousand	1-3/2010	1-3/2009	Ind. 10/09
Gross wages and salaries and continued pay	30,997	33,926	91
Social security contributions and payroll tax	4,970	5,409	92
Retirement benefits and anniversary bonuses	1,775	951	187
Other employee benefits cost	1,138	977	116
<b>Total employee benefits cost</b>	<b>38,880</b>	<b>41,263</b>	<b>94</b>

## Other operating expenses

EUR 3,761 thousand

in EUR thousand	1-3/2010	1-3/2009	Ind. 10/09
Grants and assistance for humanitarian and other purposes	492	507	97
Environmental levies	479	390	123
Other levies	485	554	88
Loss in the sale of property, plant and equipment and intangible assets	1,050	207	507
Write-offs and allowances for inventories	671	730	92
Other costs	584	693	84
<b>Total other operating expense</b>	<b>3,761</b>	<b>3,081</b>	<b>122</b>

## Finance income and financial costs

in EUR thousand	1-3/2010	1-3/2009	Ind. 10/09
Exchange differences	9,855	/	
Interest income	491	532	92
Change in fair value of investments through profit or loss	33	22	150
<b>Total financial income</b>	<b>10,379</b>	<b>554</b>	<b>1.873</b>
Exchange differences	/	-2,837	
Interest expense	-895	-1,587	56
Change in fair value of investments through profit or loss	-12	-15	80
Income from derivative financial instruments, thereof:	0	-1,225	0
– outflows	0	-1,035	0
– changes in fair value	0	-190	0
Other financial expenses	-25	-17	147
Write-offs and allowances for receivables	0	-77	0
<b>Total financial expenses</b>	<b>-932</b>	<b>-5,758</b>	<b>16</b>
<b>Net financial income/expenses</b>	<b>9,447</b>	<b>-5,204</b>	

## Income tax expenses

EUR 12,311 thousand

The corporate income tax levied amounts to EUR 12,370 thousand, which is 20.0% of the pre-tax profit. Taking into account the deferred tax of *minus* EUR 59 thousand, the income tax expense in

the income statement totals EUR 12,311 thousand. The effective tax rate is 19.9%, which is 1.1 percentage points less than for the same period last year.

## Property, plant and equipment

EUR 482,763 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Property	17,073	17,228	99
Plant	194,973	198,409	98
Equipment	217,829	222,710	98
Property, plant and equipment under construction	52,888	47,306	112
<b>Total property, plant and equipment</b>	<b>482,763</b>	<b>485,653</b>	<b>99</b>

The value of property, plant and equipment represented just under 36% of the company's total

assets. Krka's major investments are described in the Investments chapter in the business report.

## Intangible assets

EUR 28,618 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Concessions, patents, licences, trademarks and similar rights	24,668	25,871	95
Intangible assets under construction	3,950	3,812	104
<b>Total intangible assets</b>	<b>28,618</b>	<b>29,683</b>	<b>96</b>

Intangible assets include software and market authorisation documentation for new medicines.

## Loans

EUR 55,165 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
<b>Long-term loans:</b>	<b>18,108</b>	<b>17,080</b>	<b>106</b>
– long-term loans to subsidiaries	14,344	13,272	108
– long-term loans to other entities	3,764	3,808	99
<b>Short-term loans:</b>	<b>37,057</b>	<b>34,711</b>	<b>107</b>
– short-term loans to subsidiaries	36,098	33,678	107
– short-term loans to other entities	712	778	92
– short-term interest receivables	247	255	97
<b>Total loans</b>	<b>55,165</b>	<b>51,791</b>	<b>107</b>

Long-term loans granted represent 33% of all loans granted.

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

## Investments

EUR 5,822 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
<b>Non-current investments</b>	<b>5,147</b>	<b>5,449</b>	<b>94</b>
– financial assets available for sale	5,147	5,449	94
<b>Current investments, including derivatives</b>	<b>675</b>	<b>654</b>	<b>103</b>
– instruments held for trading	134	145	92
– other current investments	541	509	106
<b>Total investments</b>	<b>5,822</b>	<b>6,103</b>	<b>95</b>

The financial assets available-for-sale include shares and stakes worth EUR 739 thousand in Slovenia, and EUR 4,408 thousand in shares and stakes held abroad.

Other current financial investments comprise Slovenian mutual fund units worth EUR 263 thousand and assets under management worth EUR 278 thousand.

## Inventories

EUR 138,082 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Material	43,812	47,744	92
Work in progress	43,719	41,677	105
Products	44,693	42,399	105
Merchandise	5,858	6,792	86
<b>Total inventories</b>	<b>138,082</b>	<b>138,612</b>	<b>100</b>

## Trade and other receivables

EUR 384,092 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Short-term receivables due from subsidiaries	190,493	171,298	111
Trade receivables	172,523	155,310	111
Receivables due from other entities	21,076	20,273	104
<b>Total trade and other receivables</b>	<b>384,092</b>	<b>346,881</b>	<b>111</b>

## Cash and cash equivalents

EUR 4,398 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Cash in hand	22	10	220
Bank balances	4,376	7,477	59
<b>Total cash and cash equivalents</b>	<b>4,398</b>	<b>7,487</b>	<b>59</b>

## Equity

EUR 981,305 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Share capital	59,126	59,126	100
Own shares	-19,489	-19,489	100
Reserves	160,028	160,270	100
– share premium	120,992	120,992	100
– legal reserves	14,990	14,990	100
– statutory reserves	22,184	22,184	100
– fair value reserve	1,862	2,104	88
Retained earnings	781,640	732,103	107
<b>Total equity</b>	<b>981,305</b>	<b>932,010</b>	<b>105</b>

## Borrowings

EUR 138,620 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
<b>Long-term borrowings</b>	<b>103,836</b>	<b>103,836</b>	<b>100</b>
– borrowings from domestic banks	103,836	103,836	100
<b>Short-term borrowings</b>	<b>34,784</b>	<b>49,458</b>	<b>70</b>
– current portion of long-term borrowings	22,836	37,373	61
– borrowings from subsidiaries	32	42	76
– borrowings from domestic banks	11,000	10,000	110
– borrowings from other entities	420	379	111
– interest payable	496	1,664	30
<b>Total borrowings</b>	<b>138,620</b>	<b>153,294</b>	<b>90</b>

## Provisions

EUR 102,252 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Provisions for retirement benefits and anniversary bonuses	52,261	51,079	102
Other provisions	49,022	49,022	100
– provisions for lawsuits	49,000	49,000	100
– other provisions	22	22	100
Long/term deferred revenue	969	143	678
<b>Total provisions</b>	<b>102,252</b>	<b>100,244</b>	<b>102</b>

Provisions for lawsuits comprise 48% of all provisions. These increased compared to the start of the year, largely due to the formation of new

provisions retirement severance pay and loyalty bonuses.

## Government grants and EU grants

EUR 1,164 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Grants received for the Beta plant in Šentjernej	159	169	94
Grants by the European Regional Development Fund	29	30	97
Grants by the European Fund – development of new technologies (FBD project)	385	385	100
Property, plant and equipment received free-of-charge	591	595	99
<b>Total grants received</b>	<b>1,164</b>	<b>1,179</b>	<b>99</b>

Operation (project) FBD is partially co-financed by European Union, European Regional Development Fund. Operation is executed within framework of Operative Programme for the strengthening of the regional development potentials for the period 2007

– 2013, 1st development priority: Competitiveness of the companies and research excellence, priority aim 1.1. Improvement of the competitive capabilities of the companies and research excellence.

## Trade payables

EUR 85,061 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Payables to subsidiaries	20,687	24,679	84
Payables to domestic suppliers	26,326	29,781	88
Payables to foreign suppliers	37,806	33,805	112
Payables from advances	242	269	90
<b>Total trade payables</b>	<b>85,061</b>	<b>88,534</b>	<b>96</b>

## Other current liabilities

EUR 36,870 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Accrued contractual discounts on products sold to customers outside the Group	12,159	12,910	94
Payables to employees – gross wages, other charges	19,939	20,970	95
Other	4,772	3,272	146
<b>Total current liabilities</b>	<b>36,870</b>	<b>37,152</b>	<b>99</b>

## Contingent liabilities

EUR 5,680 thousand

in EUR thousand	31 Mar 2010	31 Dec 2009	Ind. 10/09
Guarantees issued	5,059	5,086	99
Other	621	620	100
<b>Total contingent liabilities</b>	<b>5,680</b>	<b>5,706</b>	<b>100</b>

## MANAGEMENT BOARD'S DECLARATION OF RESPONSIBILITY

The Management Board of the company Krka, d. d., Novo mesto hereby states that the consolidated financial statements of the Krka Company and the consolidated financial statements of the Krka Group for the period ending on 31 March 2010 were prepared in a manner that provides a true and fair picture of the financial standing and operating results of the Krka Company and Group. The condensed statements for the period January-March 2010 were prepared using the same accounting principles as used to prepare the annual financial statements of the Krka Company and Group for 2009.

The condensed year-on-year statements for the period ending 31 March 2010 were prepared in accordance with IAS 34 – Interim Financial Reporting, and must be read in conjunction with the annual financial statements prepared for the business year ending on 31 December 2009.

The Management Board is responsible for implementing measures to maintain the value of the Krka Company and Group assets and to prevent and detect any fraud or other irregular practice.

The Management Board also states that transactions between related persons within the Krka Group are executed on the basis of contracts of sales that use market prices for products and services.

Novo mesto, 12 May 2010



Jože Colarič  
President of the Management Board and Chief Executive



Dr Aleš Rotar  
Member of the Management Board



Zvezdana Bajc  
Member of the Management Board



Vinko Zupančič  
Member of the Management Board



Danica Novak Malnar  
Member of the Management Board – Worker Director