



**Non-audited interim report for
Krka, d. d., Novo mesto and for Krka
Group**

January - June 2004

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KEY ACHIEVEMENTS

- In the first half of 2004 Krka, d. d. Novo mesto achieved net sales of 51.9 billion SIT, and the Krka Group achieved net sales of 58.1 billion SIT.
- 17 percent increase in net sales by Krka, d. d., Novo mesto and 23 percent increase in net sales by the Krka Group, compared to the same period last year.
- The highest yet, 88 percent net sales growth on West Europe and overseas markets.
- 7.9 billion SIT net profit achieved by Krka, d. d., Novo mesto and 8.3 billion SIT by the Krka Group.
- Krka, d. d., Novo mesto continued introducing new products and implementing the strategy of an innovative generic manufacturer of pharmaceutical products. In this period the company acquired 90 first marketing authorizations for new products and filed 82 applications for new approvals.
- The Supervisory Board appointed, at its meeting held on 12 July, Jože Colarič, the current Deputy to the President of the Management Board and Chief Executive, as the future President of the Management Board with a five year mandate commencing on January 1, 2005. Miloš Kovačič will terminate his function as President of the Management Board, effective from December 31, 2004. He will stay at Krka as the Management Board consultant, responsible particularly for the relationship with government institutions and other institutions in the countries where Krka is operating, and he will also perform a supervisory function in Krka's subsidiaries in the Russian Federation, Poland and Croatia.
- The Supreme Court of the Republic of Slovenia issued a verdict on July 7, 2004, in the dispute between the plaintiff Merck & Co., Inc. and the defendant Krka, in view of alleged infringement of the patent for the production of enalapril, refusing the request for revision of the Ljubljana High Court verdict, filed by Merck & Co., Inc. There are no other legal means available against the verdict of the Supreme Court and the dispute between Merck & Co., Inc. and Krka in the case of enalapril in Slovenia has therefore ended. At the end of June the dispute between Merck & Co., Inc. and Krka because of

alleged infringement of the lovastatin patent was also brought to an end. Merck & Co., Inc. withdrew this suit and the District Court in Ljubljana issued a verdict rejecting all plaintiffs' claims. The dispute in the Czech Republic between Merck & Co., Inc. and Krka in the case of simvastatin has also ended. Since Merck & Co., Inc. withdrew the suit the City Court in Prague issued a resolution to stop the proceedings.

- Krka celebrated 50 years of its existence – on April 23, 1954 a decree was issued in Novo mesto on the establishment of the Krka Pharmaceutical Laboratory under the leadership of the founder and father of the idea of Krka, Mr. Boris Andrijanič.
- In March this year Miloš Kovačič, President of the Management Board and Chief Executive of Krka awarded in Moscow, as the first Slovene, the highest decoration that the Russian President may confer on a person who is not a Russian citizen – the Order of Friendship.
- On the basis of market researches the Russian Pharmaceutical Journal news agency ranked Krka second among the most influential pharmaceutical manufacturers in the Russian Federation.
- In April the British publishing and consulting company Nicholas Hall presented award for the most creative advertising to Krka for its Bilobil advertising campaign.
- In June Krka opened new offices of its Representative Office in Sarajevo, Bosnia and Herzegovina.
- At the 9th Annual General Meeting convened on July 1, 2004, the shareholders adopted the decision to pay out a gross dividend of SIT 1,200 per share. Last year the paid out gross dividend was SIT 1,050 per share.

FINANCIAL HIGHLIGHTS

	Krka, d. d., Novo mesto		Krka Group	
	1-6/2004	1-6/2003	1-6/2004	1-6/2003
Net Sales (SIT Millions)	51,879	44,300	58,078	47,164
EBITDA (SIT Millions)	14,238	13,102	15,333	12,523
EBITDA margin	27,4 %	29,5 %	26,4 %	26,6 %
EBIT (SIT Millions)	10,268	9,224	10,085	7,785
EBIT margin	19,8 %	20,8 %	17,4 %	16,5 %
Net profit (SIT Millions)	7,948	5,773	8,262	5,020
Net profit margin	15,3 %	13 %	14,2 %	10,6 %
Investments (SIT Billions)	9.4	8.3	9.7	10.6
Fixed assets (SIT Millions)	99,039	86,073	99,381	88,152
Current assets (SIT Millions)	52,380	52,104	53,300	51,495
Equity (SIT Millions)	104,295	94,824	103,657	93,624
Provisions (SIT Millions)	13,482	13,891	13,658	14,035
Long-term liabilities (SIT Millions)	14,248	6,536	15,583	8,515
Short-term liabilities (SIT Millions)	17,841	22,069	19,173	23,594
Number of employees (end of period)	3,639	3,499	4,730	4,469
Net profit / Revenues	14,8 %	12,5 %	13,8 %	10,3 %
ROA *	10,7 %	8,7 %	11,0 %	7,5 %
ROE *	15,8 %	12,6 %	16,6 %	11,0 %
Liabilities / Equity	0.308	0.302	0.335	0.343

*annualized

Share Information (Krka Group)	1-6/2004	1-12/2003	1-6/2003
Nominal share value in SIT (end of period)	4,000	4,000	4,000
Book share value in SIT (end of period)	29,260	26,992	26,428
Market share value in SIT (end of period)	67,199	52,188	41,309
Market to book share value in SIT (end of period)	2.30	1.93	1.56
Earnings per share – annualized	4,654	2,970	2,833
Price / Earnings	14.4	17.6	14.6

Note: the total number of share issued (3,542,612) was applied in calculations

Exchange Rates	1-6/2004	1-6/2003
USD (average for the period)	193.91	210.56
USD (as per 30. 6.)	196.76	204.71
EUR (average for the period)	237.95	232.11
EUR (as per 30. 6.)	239.13	233.75

ACHIEVED SALES RESULTS

In the first half of 2004 the Krka Group achieved 58.1 billion SIT in net sales, of which 22 percent in Slovenia and 78 percent on other markets. This is an increase of 23 percent over the same period last year. The net sales of the Krka Group by 12 percent exceed the sales of Krka, d. d., Novo mesto, mainly on account of tourist and health-resort services by Krka Zdravilišča on the domestic market and of the pharmaceuticals sales on the Polish market, as a result of using the subsidiary's own production capacities.

Sales of Krka and Krka Group by regions

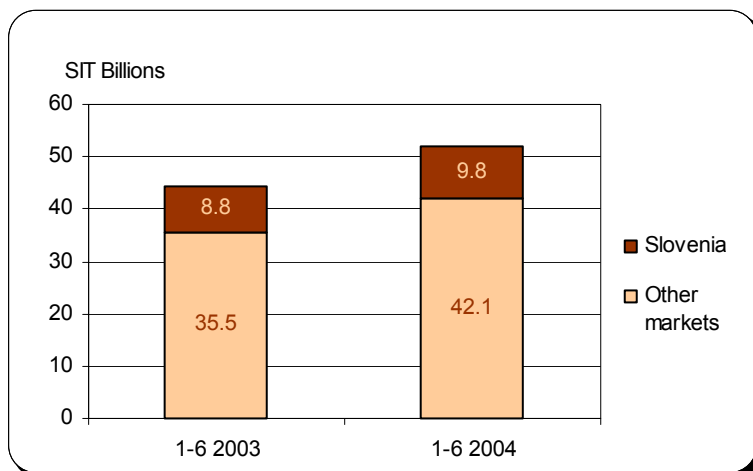
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	Krka	Str. %	Krka Group	Str. %	Index
Slovenia	9,751,771	18.8	12,506,097	21.5	128
South-East Europe	9,443,626	18.2	10,759,006	18.5	114
East Europe	11,180,201	21.6	11,348,044	19.5	102
Central Europe	7,889,374	15.2	9,850,849	17.0	125
West Europe and Overseas Markets	13,614,127	26.2	13,614,127	23.4	100
Total	51,879,099	100.0	58,078,123	100.0	112

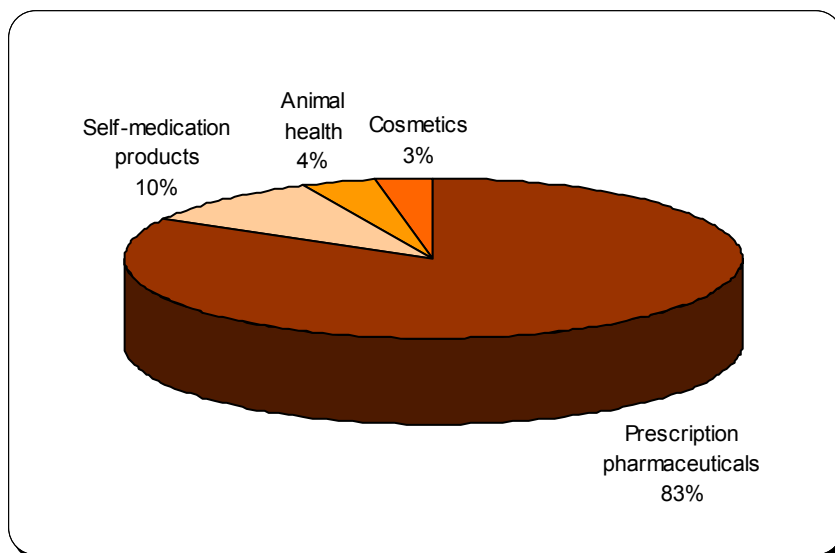
Sales of Krka and Krka Group by product groups

in 000
SIT

	Krka	Str.%	Krka Group	Str.%	Index
Human health products	48,141,379	92.8	51,449,107	88.6	107
- Prescription pharmaceuticals	43,044,408	83.0	46,016,527	79.2	107
- Self-medication products	5,096,971	9.8	5,432,580	9.4	107
Animal health products	2,103,700	4.1	2,165,674	3.7	103
Cosmetic products	1,550,308	3.0	1,625,304	2.8	105
Krka health resorts			2,754,326	4.7	
Other	83,712	0.2	83,712	0.1	100
Total	51,879,099	100.0	58,078,123	100.0	112

Krka net sales in the first half of 2003 and 2004

In the first half of 2004 Krka, d. d., Novo mesto sold 51.9 billion SIT of products and thus achieved 54 percent of the annual plan and exceeded last year's half yearly sales by 17 percent. The launching of two products for the treatment of cardiovascular diseases on the markets of West Europe, contributed most to significant sales increase in this year, i.e. of Tenox (amlodipine maleate) and Coryol (carvedilol). More than four fifths of the sales (81 percent) were realized on the markets outside Slovenia.

Sales structure of Krka by product groups in the first half of 2004

Almost 93 percent of total sales were achieved through sales of pharmaceuticals for human use (prescription pharmaceuticals representing 83 and self-medication products approximately 10 percent of total sales). The two are followed by animal health products sales with 4 percent and cosmetic products sales with 3 percent in total sales.

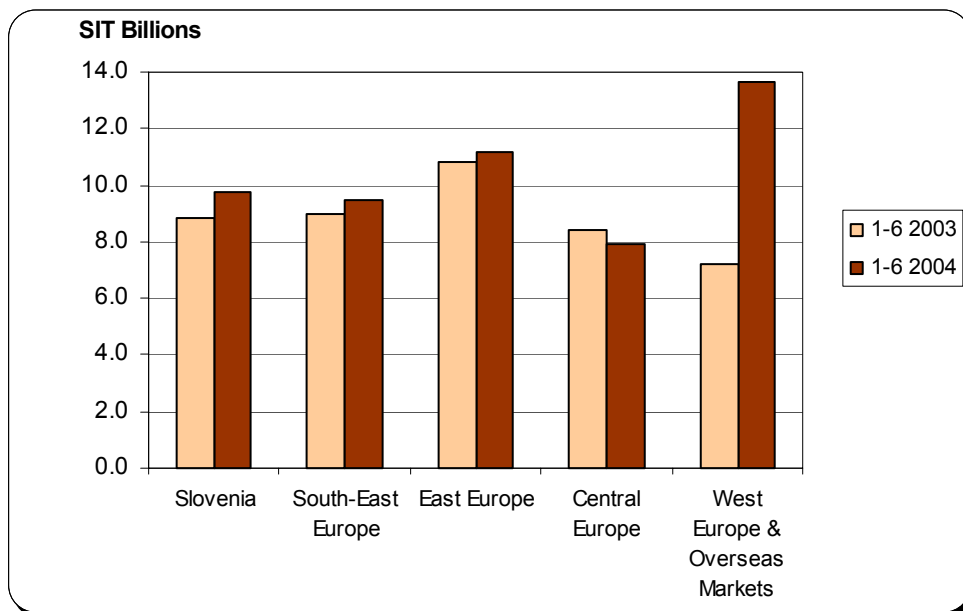
The largest sales growth was achieved with **prescription pharmaceuticals**. The sales increased by 24 percent in the first half of this year compared to the same period last year. This was mainly influenced by high sales volumes on the markets of Western Europe with the sales

index 216 compared to same period last year. Furthermore, the sales on the markets of Slovenia, Bulgaria, Czech Republic, Macedonia and the majority of East European markets also grew over 10 percent. In Poland Krka sold less than in the same period last year, mainly on account of increased sales of products, manufactured by the subsidiary Krka Polska (the sales of this company increased by 35 percent compared to the same period last year). Krka's most important products are still the pharmaceuticals for cardiovascular diseases, diseases of the central nervous system, alimentary tract and metabolism and pharmaceuticals for systemic treatment of infections. To achieve the planned sales growth in the future, we have strengthened the sales network on our traditional markets with new sales force, and have changed the local organizational structure on several markets, adjusting it to changed market conditions.

The sales of **self-medication products** decreased by one percent compared to the same period last year, mainly due to reduced sales on the highly competitive Polish market. However, the monitoring of market trends (market shares, brand recognition and awareness) indicates that sales plans will be achieved on most South-East and East European markets.

The sales of **animal health products** were slightly higher than expected, but the structure of sales has changed. Due to heavy competition on prices within the EU we sold less raw material and more finished veterinary products. The sales of **cosmetic products** are lower compared to the same period last year, due to reduced product portfolio and also due to lower sales of seasonal products.

The sales structure of Krka by regions in the first half of 2003 and 2004



The largest Krka's market with a 26 percent of total sales is Region West Europe and Overseas Markets, followed by Region East Europe with 22, Slovenia with 19, South-East Europe with 18 and Central Europe with a 15 percent in total sales. Compared to the same period last year, the largest sales growth of 88 percent was achieved in Region West Europe and Overseas Markets. Within this Region the most remarkable growth was achieved on the West European market, where the sales have doubled, compared to the same period last year.

Most important for sales growth is an increased demand for generic drugs, due to restrictive policies of health insurance budgets.

The reason for lower sales in Central Europe compared to last year mainly lies in the fact that part of production and likewise part of sales was transferred to the subsidiary Krka Polska in Warsaw, which currently manufactures the most important product for the Polish market. As a result we have increased the market share in this country.

In other regions the sales performance met the sales targets.

INVESTMENT ACTIVITIES

Investment activities at home and abroad in the first half of this year were in accordance with set goals. In this period we allocated 9.7 billion SIT at the Group level, of which 8.4 billion SIT for investments at the parent company level and 1.3 billion SIT for investments in subsidiaries.

Most of the capital expenditure was used for further development of the Notol plant, where we have been intensively installing equipment, for the plant to be fully equipped within this year.

The development of Synthesis 4, which will enable own API production for best-selling Krka's pharmaceuticals, continued according to planned project time schedule. The installation of large-scale equipment is planned for the end of September this year.

Krka is intensively implementing the SAP project for business information system upgrade. The aim is to achieve an integration of all business functions, which will offer improved transparency & traceability of business operations and information flow as well as optimization of business processes, thus resulting in operating cost savings. Migration to the new, upgraded IT system is planned for the beginning of 2005.

In March, we completed the renovation of the sterile solutions facility, thus increasing our production capacities and the filling volumes range. We are also completing the development of new warehouse for liquid raw materials.

Investments in subsidiaries are mainly related to production and distribution centres development in Croatia and the Russian Federation.

RESEARCH AND DEVELOPMENT

In the first half of 2004 Krka continued the implementation of its strategy of an innovative generic manufacturer of pharmaceutical products, by the development of additional new products. In this period we acquired 90 first marketing authorizations and filed 82 applications for new approvals.

Among more significant achievements in the first half of 2004 is the registration of antidepressive Mirzaten® (mirtazapine) according to the MRP procedure in 12 countries of the European Union and national marketing authorizations in Bulgaria, Lithuania, Latvia and Hungary.

We are planning to obtain the marketing authorization in the countries of Western Europe for the antidepressive Asentra® (sertraline), and have therefore already acquired national registrations in Holland and Denmark.

For one of the most efficient and world leading statins Atoris® (atorvastatin), which is used for lowering elevated cholesterol, we have already acquired national marketing authorizations in Bulgaria, Hungary, Russia and Slovakia and have thus registered this product on the majority of our traditional markets.

Lorista® H (losartan + HCTZ), an angiotensin II receptor antagonist in combination with a diuretic, obtained the first marketing authorization in the Czech Republic and Lithuania, whereas in Slovenia we have also registered an additional concentration of this combination – Lorista® HD.

We renewed the marketing authorization in Bulgaria, Latvia, Lithuania, Hungary, Slovakia and Ukraine for the antimicrobial drug Fromilid Uno® (clarithromycin) for once-per-day use.

We filed an application for obtaining the first marketing authorization for the systemic fluoroquinolone Ciprinol® (ciprofloxacin inf.) in infusion, namely in Great Britain and Sweden. This product is already registered in most Central and East European countries.

For the chemotherapeutic Enroxil® (enrofloxacin), used in veterinary medicine, we filed a marketing authorization application in Holland to obtain marketing authorization in the European Union. For Septotele Plus®, an antiseptic for the throat, we expanded the marketing authorization to Russia and Poland, and we also registered Herbion® echinacea (for improvement of the immune system) in Poland and Great Britain.

Within the Vitaskin skincare cosmetic products we developed a new line with phytoisoflavones Fitolift, intended for skin care after the age of 45. We added new products to the Sun Mix line – suntan milk for kids' skin, suntan oil for intensive sunbathing and after sun facial cream.

EMPLOYEES

Ambitious business goals set for the first half of 2004 demanded increased employment especially in the Marketing and Sales, both in Slovenia and abroad and in the Research and Development. For the year 2004 the plan was to add 403 new posts at the group level, of which more than 70 percent in the companies and representative offices abroad. In the first half of 2004 63 new employees joined our company in Slovenia, among them 30 university graduates. Whereas in the companies and representative offices abroad 253 new employees joined, of which 243 university graduates. The total number of employees in the Krka Group was 4,730 at the end of the first half of 2004, of which 3,565 in Slovenia and 1,165 in the companies and representative offices abroad. On June 30, 2004 Krka alone had 3,639 employees.

Of all those employed in the Krka Group 40 percent have university education, however new production capacities and technology development require permanent and elaborate new skills & knowledge development. Currently, 234 of employees participate in post-graduate

studies, and 370 of our employees take evening classes. We have awarded 72 scholarships, particularly to pharmacy and chemistry students.

We shall further strengthen our involvement in the field of human resources development in Krka as well as in subsidiaries and representative offices abroad, especially for key and promising personnel. Two groups of managers successfully finished Krka's management school, which provided them with additional skills for a more open, dynamic leadership and use of new methods for efficient subordinate management and development.

SHARES AND SHAREHOLDERS

In the first half of this year the trend towards a more dispersed ownership of the company that was started in 2003 continued. On June 30, 2004 Krka had 53,951 shareholders. The total number of shareholders increased primarily due to increased shareholdings of domestic individual shareholders, who held, at the end of 2004, almost 39 percent of all shares. The shareholdings of other Slovene companies, including other financial companies (banks, insurance companies) and other companies, fell to 12.3 percent during the first six months of 2004, however the number of shareholders within this group has increased. The shareholdings of Slovene state financial companies (Slovenska odškodninska družba and Kapitalska družba together with Prvi pokojninski sklad - PPS) remained unchanged in the first half of 2004. In this period the share of Slovene investment companies and investment funds increased significantly to 17.1 percent. The shareholdings of foreign investors were at 2.7 percent at the end of the first half of 2004, and have almost not changed compared to the end of 2003.

Ownership structure

	30. 6. 2004	30. 6. 2003
Domestic individual shareholders	38.9 %	36.9 %
Investment funds	17.1 %	13.5 %
Slovenian Compensation Corporation	14.4 %	14.4 %
Pension Fund Management + PPS	12.3 %	18.0 %
Domestic companies	10.0 %	10.0%
Own shares	4.6 %	4.6 %
Foreign investors	2.7 %	2.6 %
Total	100 %	100 %

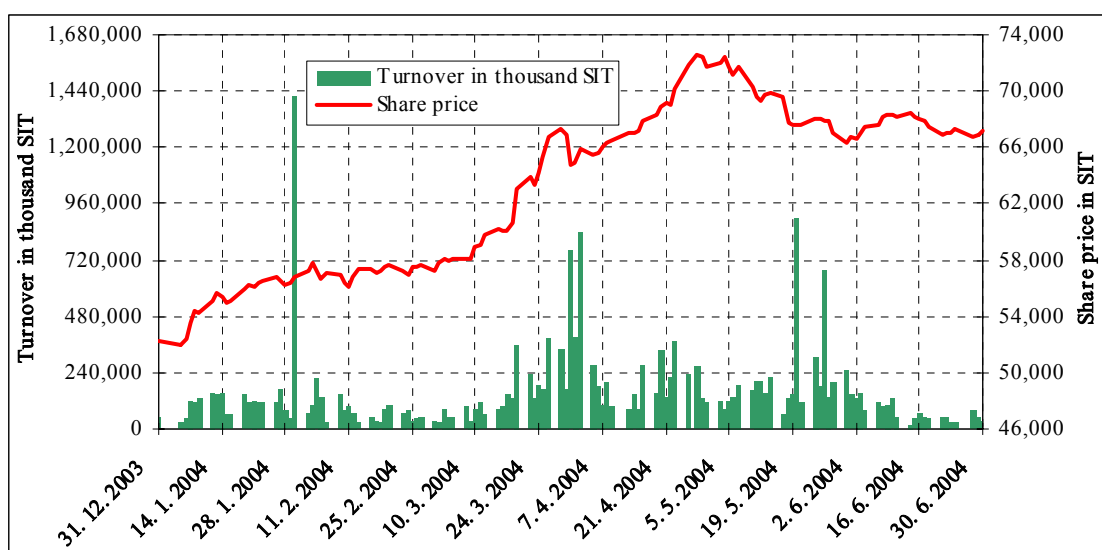
On June 30, 2004 Krka had 162,662 own shares or 4.59 percent of the issued capital. The value of investment in own shares is shown under long-term financial investments in the balance sheet in the amount of 4,670,280 thousand SIT, and is valued at the share market price as per December 29, 2001 (28,711.56 SIT per share). In the first half of 2004 the company did not purchase any own shares.

On June 30, 2004 ten major shareholders owned 1,420,581 or 40.1 percent of Krka's shares.

Krka's ten major shareholders on 30. 6. 2004

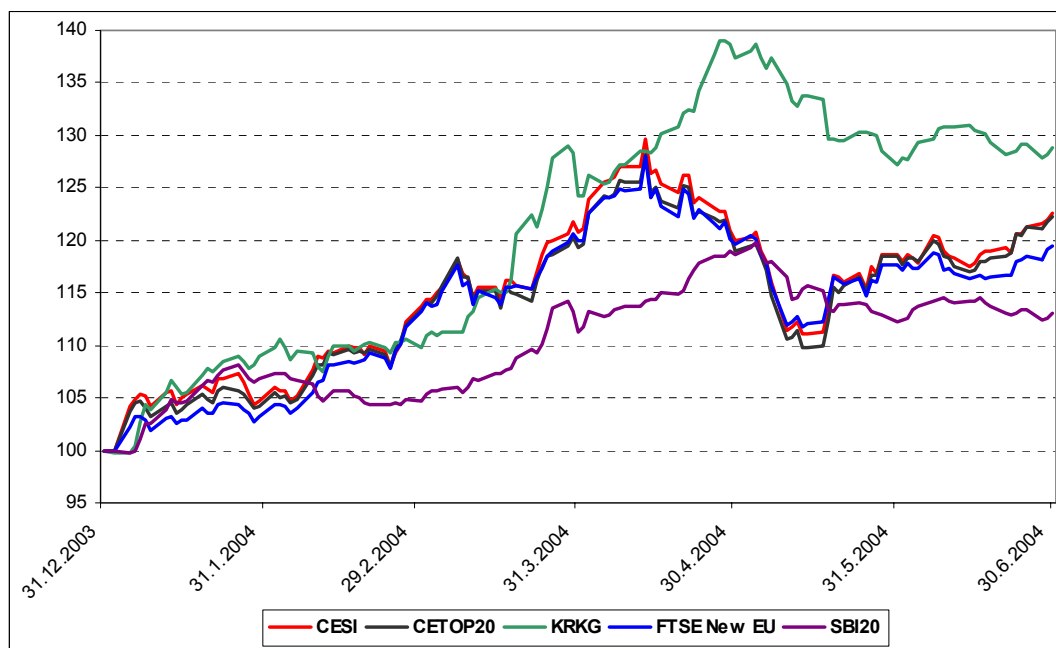
Shareholder	No. of shares	Share (%)
Slovenska odškodninska družba, d. d.	510,814	14.42
Kapitalska družba, d. d.	341,390	9.64
Krka, d. d., Novo mesto	162,662	4.59
NFD 1, delniški investicijski sklad, d. d.	108,968	3.08
Triglav Steber 1, ID, d. d.	86,249	2.43
KD Investments, PVS Galileo	59,106	1.67
Bank Austria – Creditanstalt, d. d.	42,826	1.21
Zavarovalnica Triglav, d. d.	38,830	1.10
ID Maksima, d. d.	35,282	1.00
KD ID. d. d.	34,454	0.97
Total	1,420,581	40.10

On June 30, 2004 the members of the Management Board and the Supervisory Board held 10,204 shares or 0.288 percent of all Krka's shares. Members of the Management Board owned the following number of shares: Miloš Kovačič, President of the Management Board 2,339 shares or 0.06602 percent; Jože Colarič, Deputy to the President of the Management Board, 3,200 shares or 0.09033 percent; Janez Poljanec, Member of the Management Board, 2,558 shares or 0.07221 percent and Aleš Rotar, Member of the Management Board, 1,157 shares or 0.03266 percent. Members of the Supervisory Board held the following number of shares: Sonja Kercm 211 shares or 0.00596 percent; Mihaela Korent 513 shares or 0.01448 percent; Darinka Kure 116 shares or 0.00327 percent; Boris Petančič 100 shares or 0.00282 percent and Božena Šuštar 10 shares or 0.00028 percent.

Krka share trading in the first half of 2004

From the beginning of the year until the end of June 2004 the Krka share price gained 29 percent by rising to 67,199 SIT. The highest value in the first half of 2004 was reached on April 28, 2004 (72,512 SIT), and the lowest on January 5, 2004 (52,024 SIT). The share price growth accelerated in the second half of March. In the beginning of April the growth slowed down, but rose again in the second half of April, thus reaching the highest value of the period at the end of April. In May and June there was a slight downward correction, yet the share price was still at a slightly higher level than in the beginning of April.

Comparison of Krka share performance with performance of relevant indexes



The Krka share is included, besides in SBI 20 index, also in CETOP20 and CESI indexes published by the Budapest Stock Exchange, and FTSE New EU Index, which includes blue chip companies of ten new members of the European Union. In the first half of 2004 the Krka share outperformed all indexes, where Krka is one of the index constituents.

CORPORATE RISK MANAGEMENT

Foreign exchange risk

The majority of Krka Group business transactions are executed in major foreign currencies, with EUR and USD being by far the most important. Due to different reporting currency any major unfavourable shifts in the value of aforementioned currencies and their respective volatility (potentially) significantly impact the company's performance. In view of the scope and currency structure of export and import activities within the Group, we actively manage foreign exchange risk related to both currencies. The foreign exchange risk exposure is managed within the Group by the parent company at balance sheet level (matching assets and liabilities denominated in foreign currencies) and with the help of derivatives. The foreign exchange risk of long-term investments, denominated in foreign currencies (i.e. the risks of long-term investments revaluation or translation risk), is not specifically managed.

In the first half of 2004 the company's net long EUR position was, on average, higher than in the comparable period last year. This was caused by the fact that Region Central Europe started issuing invoices in EUR as from 1 January 2004 and the fact that Krka arranged a long-term euro loan in March. However, due to nominal depreciation of SIT against EUR, this exposure did not have any net negative effects on the Groups' performance. Due to Slovenia entering ERM 2 and the political commitment for a stable nominal EUR / SIT exchange rate, we estimate the potential EUR foreign exchange risk to be quite low.

A different currency used for invoicing in Central Europe had an impact on decreasing exposure to USD foreign exchange risk. In the first half of 2004 the average monthly net long USD position of the company was by 9 percent lower than in the comparable period last year. However due to the difference (lag) between the invoice date and the due date (sales on open account) the effects of this measure were not yet fully evident in the discussed time frame. Due to stronger depreciation of USD against all important currencies (and SIT), the net effect was negative in individual shorter periods within the first half of 2004 (particularly in the first quarter). Despite this fact foreign exchange losses (transaction and translation losses) were significantly lower compared to the same period last year due to lower EUR/USD exchange rate on June 30, 2004 compared to the 2003 year-end EUR/USD exchange rate. In the second quarter 2004 the company recorded foreign exchange gains. For hedging USD foreign exchange exposure we used put options for USD.

Interest rate risk

The company defines the interest rate risk in terms of uncertainty related to the changes in variable reference interest rates values in the future that define interest payments from long-term borrowings. The Group's exposure to interest rate risk is entirely managed by the parent company. Currently, the Krka Group is exposed to the risk of unfavourable short-term interest rates movements for USD and EUR loans. Key interest rates are 6M LIBOR for USD and 6M EURIBOR.

In the first half of this year there were seven long-term loans in our portfolio (one with fixed interest rate; at the end of June there were six loans, of which one with fixed interest rate). Due to the historically low interest rates we started transforming interest rates in the portfolio of existing long-term loans, in the first half of 2004, to limit the financing costs without unnecessary over-hedging.

The company has not hedged and will not hedge its exposure related to two loans where their short remaining maturities (up to two years) imply negative net effects of hedging. Furthermore the company did not hedge the loan that was finally repaid in the first half of 2004. In addition and in view of less likely rapid increases of interest rates in EMU, we reached the same decision for the loan that was arranged in March this year, with maturity of seven years with 6M EURIBOR as the reference interest rate too. We have estimated that hedging (fixing the financing cost associated with this loan) the above-mentioned long-term loan is not reasonable at the moment. The two USD loans with final maturity in 2008, with 6M LIBOR being their reference interest rate, were hedged by purchasing plain interest swap instruments in February 2004.

Credit risk

In 2003, we started working on preventive activities and measures in the field of credit risk management, i.e. managing the risk of customer default. We have created the Group's credit policy that will enable us to reduce (potential) losses due to customers' defaults and at the same time maximizing our sales. On this basis we have started introducing internal system for analyzing credit risk of major customers at the Group level in all sales regions, which will be fully integrated into the SAP business information system. The ratings (assessment of customer credit risk) of key customers, defining the maximum level of sales on open account, will be revised twice annually. In the first half of 2004 we formed data files for approximately 200 key customers, which will be monitored in detail in the remaining period of the current financial year. In the discussed period the company did not have any significant write-offs due to customer defaults.

Property and liability insurance

According to the number of losses and claims in 2004, the majority of property damages were related to car damages, followed by damage of goods during warehousing and transport, water leakage and machine breakdown. In the relevant period we received three compensation claims for public liability. The level of compensation claims in the first half of 2004 exceeded 1 million SIT just in one case. Within the discussed period we were audited by AssTech from Munich and the audit lasted two days. This company is authorized by the world largest reinsurance companies (Munich Re, Swiss Re) for evaluation of fire and explosion exposure and adequacy of the relevant risk management measures implemented. The first preliminary assessment was most favourable (»above average«).

The property insurance includes insurance of buildings, equipment, machines and inventories, i.e. against losses caused by business interruptions, including labour costs, depreciation, other operating expenses and operating profit for the period of one year. Additionally, we also insure product liability, product recall, clinical trials liability, liability for ecological damage and other types of liabilities. Both types of insurance are also used for representative offices abroad. The applied deductibles at car insurance, machine breakdown insurance and insurance of goods during international transports enable considerable insurance premium savings.

In the first half of 2004, we have also arranged, in addition to the existing insurance arrangements, a construction and erection all risks insurance for existing projects, covering third party liability for property damage and personal injury, damages of neighbouring facilities and perils associated with construction and installation. In the first half of 2004 we also arranged D&O liability insurance covering the Management Board's and Supervisory Board's liability and have centralized the entire insurance system that provides cover for relevant losses to all subsidiaries abroad according to the parent company's standards, allowing for local specific requirements as well.

KRKA GROUP PRESENTATION

The net profit of the Krka Group amounts to 8.3 billion SIT, which is an increase of 65 percent over last year. The value of total assets as at June 30, 2004 amounted to 153.4 billion SIT and was by 5 percent higher than at the end of 2003. The net profit to revenues ratio was 13.8 percent, the return on equity 16.6 percent, and the return on assets 11 percent.

Krka, d. d., Novo mesto is a parent company of the Krka Group, which includes the following subsidiaries and associated companies:

	Ownership
Subsidiaries in Slovenia	
• KRKA Zdravilišča, d. o. o., Novo mesto	100 %
Subsidiaries abroad:	
• KRKA FARMA, d. o. o., Zagreb, Croatia	100 %
• KRKA-FARMA DOOEL, Skopje, Macedonia	100 %
• KRKA Polska, Sp.z o. o., Warsaw, Poland	100 %
• KRKA Aussenhandels GmbH, München, Germany	100 %
• OOO KRKA-RUS, Istra, Russian Federation	100 %
• OOO KRKA FARMA, Sergiev posad, Russian Federation	100 %
• KRKA ČR, s. r. o., Prague, Czech Republic	100 %
• KRKA Pharma Dublin Limited, Dublin, Ireland	100 %
• KRKA Magyarország, Kft, Budapest, Hungary	99 %
• HELVETIUS S.R.L., Trieste, Italy	80 %
• KRKA-FARMA, d. o. o., Novi Sad, Serbia and Montenegro	60 %
Associated companies in Slovenia:	
• SRC Rog Črmošnjice, d. o. o.	45.33 %
Associated companies abroad:	
• Dawa, Nairobi, Kenya	34.78 %

The company Krka Zdravilišča, d. o. o., Novo mesto has a 51 percent ownership in the company Krka - Zdravilišče Strunjan, d. o. o. The financial statements of this company are included in the consolidated financial statements of the company Krka Zdravilišča, d. o. o., Novo mesto and indirectly also in the consolidated financial statements of the Krka Group.

Krka has its own production and distribution centres on three important markets. The factory in Poland is first among three, where the production part is already fully operating. In the Russian Federation (OOO KRKA-RUS) we have also started with the production of certain products, and the company will be in full operation at the end of next year. In Croatia just the warehousing part is operational at the moment. The parent company sells its products via its subsidiaries in Macedonia, the Russian Federation (OOO KRKA FARMA) and Serbia and Montenegro, whereas via its companies in Italy and Germany, it mainly imports equipment and raw intermediate goods, and sells its products to a lower extent only. Via its company in Ireland Krka acquires marketing authorizations for industrial generics and also sells Krka's products, whereas the companies in the Czech Republic and Hungary are dormant.

In the first half of the year Krka sold the subsidiary Krka Kozmetika DOOEL, Skopje, Macedonia, and increased share capital in the subsidiary Krka Zdravilišča, d. o. o., Novo mesto by transferring equity investment in the associated company (Golf Grad Otočec, d. o. o.) to this subsidiary.

All companies in the Group were founded or co-founded by the parent company. Investments of Krka, d. d., Novo mesto into subsidiaries are valued according to the equity method, and investments into associated companies according to the investment method.

The consolidated balance sheet excludes receivables and liabilities between companies in the Group.

The consolidated income statement excludes revenues and expenses between companies in the Group.

FINANCIAL REVIEW

Krka, d. d., Novo mesto

In the first half of 2004 Krka, d. d., Novo mesto generated 53.6 billion SIT of revenues, which accounts for 55 percent of revenues planned for 2004, or exceeds by 16 percent last year's semiannual sales. In the first half of 2004, the net sales amounted to 51.9 billion SIT, thus exceeding the net sales in the same period last year, by 17 percent. The majority of net sales (81 percent) were attributed to the sales of products, goods and services on the markets outside Slovenia. The net sales on the domestic market exceeded the last year's semiannual sales by 11 percent, and even more in other markets, where we have achieved 19 percent higher net sales. The largest sales growth is recorded on the West European market where the sales have almost doubled.

Net operating profit amounts to 10.3 billion SIT, with operating profit margin of 19.8 percent. The net profit of 7.9 billion SIT exceeds last years' semiannual result by 38 percent. This achieved result was due to, importantly, more favourable financial revenues / expenses ratio compared to the same period last year in addition to the increased net sales.

At the end of June 2004 the total assets of Krka, d. d., Novo mesto amounted to 151.6 billion SIT, which is an increase of 7.3 billion SIT or 5 percent over the total assets at the end of 2003.

In the total asset structure the largest share of 65 percent is attributed to fixed assets. Tangible fixed assets have increased by 8 percent, compared to the end of 2003, due to new investments, thus representing 42.2 percent of the total assets.

The long-term financial investments of Krka, d. d., Novo mesto have increased by 7 percent compared to the end of 2003, due to additional equity investments in subsidiaries and entry of net profit of subsidiaries.

The current assets represent 35 percent of the total assets. This percentage has decreased by 1.7 percentage points, because of inventories and operating receivables decrease. The inventories decreased by 7 percent, compared to the end of 2003, mainly due to increased sales on West European markets. The operating receivables have decreased by one percent compared to the end of 2003, despite higher sales volumes on almost all markets.

The equity represents slightly less than 68 percent of the total liabilities, an increase of two percentage points compared to the end of 2003. This is mainly due to the fact that the dividends have not been paid yet according to the last Annual General Meeting resolution (dividend payment has started at the end of August) and due to the entry of net profit for the current half-year period.

Compared to the end of 2003, total long-term and short-term liabilities have decreased by 3 percent. Due to additional long-term loans arranged, the long-term liabilities share in the total liabilities has considerably increased (from 3.1 to 9.4 percent) and the short-term liabilities share has concurrently decreased (from 19.8 to 11.8 percent), mainly due to short-term financial liabilities decrease.

Krka Group

In the first half of 2004, the revenues of the Krka Group amounted to 59.9 billion SIT, which is an increase of 23 percent over the same period last year.

The majority of revenues can be attributed to net sales, of which 22 percent attributed to net sales were achieved on the Slovenian market and 78 percent on other markets. Compared to the parent company, the Slovenian net sales share in total revenues is higher by slightly less than 3 percent, due to the revenues of the subsidiary Krka Zdravilišča, which were achieved in Slovenia only. The net sales of the Krka Group exceeded the sales of Krka, d. d., Novo mesto by 12 percent, mainly due to the net sales of Krka Zdravilišča, including also the Strunjan health resort, in the amount of 2.8 billion SIT, and the revenues of the subsidiaries through which the Krka Group sells its products outside Slovenia. With the latter the most important role has Krka Polska, contributing 2.1 billion SIT and Krka Farma Zagreb contributing 1.1 billion SIT to the Group's revenues.

The operating profit amounts to 10.1 billion SIT, with operating profit margin of 17.3 percent. The Krka Group generated 8.3 billion SIT net profit, which represents a 65 percent increase over the same period last year. The Group's net profit is slightly higher than net profit of the parent company, mainly due to realized profits from intra-group inventories of parent Krka products in the half-year period (i.e. realized profits from Krka products inventory sale by subsidiaries). The net profit of minority owners amounts to 17.8 million SIT within total Group net profit.

At the end of June 2004 the total assets of the Krka Group amounted to 153.4 billion SIT, an increase of 5 percent compared to the end of 2003. The fixed assets represent 65 percent of the total assets, hereof 90 percent are tangible fixed assets. The long-term financial investments represent no more than a 6 percent in total assets. Hereof the highest value is attributed to own shares of Krka, d. d., Novo mesto.

The current assets have increased by 3 percent (to 53.3 billion SIT) compared to the end of 2003, mainly due to increase in cash, whereas the inventories and receivables have slightly decreased.

The long-term and short-term liabilities ("liabilities") have decreased by 4 percent. As most of the Group liabilities are parent company liabilities, the changes in Group liability structure are similar to changes in parent company liability structure, i.e. relative increase of long-term liabilities on account of relative decrease in short-term liabilities.

NON-AUDITED FINANCIAL STATEMENTS OF KRKA, D. D., NOVO MESTO AND KRKA GROUP

BALANCE SHEET

in 000 SIT

	Krka, d. d., Novo mesto		Krka Group	
	30.06.2004	30.06.2003	30.06.2004	30.06.2003
ASSETS	151,630,070	138,289,719	153,410,422	139,990,541
FIXED ASSETS	99,038,904	86,072,889	99,380,722	88,152,145
Intangible fixed assets	2,463,317	1,197,062	2,859,898	1,536,805
Tangible fixed assets	64,041,540	56,286,912	90,213,160	79,897,173
Long-term financial investments	32,534,047	28,588,915	6,307,664	6,718,167
CURRENT ASSETS	52,379,995	52,104,292	53,299,588	51,495,347
Inventories	19,663,624	18,357,365	22,016,796	21,407,629
Operating receivables	28,606,533	31,043,187	25,806,169	25,567,111
Short-term financial investments	2,066,823	1,369,974	1,482,665	1,460,767
Bank balance, cheques and cash on hand	2,043,015	1,333,765	3,993,958	3,059,840
DEFERRED COSTS AND ACCRUED REVENUES	211,171	112,538	730,112	343,049
OFF-BALANCE SHEET ASSETS	17,254,236	7,714,411	17,931,101	8,159,690
LIABILITIES	151,630,070	138,289,719	153,410,422	139,990,541
EQUITY	104,294,716	94,824,301	103,656,838	93,624,077
Called capital	14,170,448	14,170,448	14,170,448	14,170,448
Capital reserves	2,598,736	2,566,886	2,598,736	2,566,886
Revenue reserves	47,820,807	36,817,324	47,820,807	36,817,324
Net profit (or loss) from previous periods	10,025,563	13,761,979	7,126,229	11,362,672
Net profit (or loss) for the period	7,948,364	5,773,019	8,244,296	5,017,864
Equity revaluation adjustments	21,730,798	21,734,645	21,698,309	21,734,645
Minority owners' capital			1,998,013	1,954,238
PROVISIONS	13,482,227	13,890,770	13,658,476	14,034,954
FINANCIAL AND OPERATING LIABILITIES	32,088,709	28,604,548	34,756,261	32,109,079
Long-term financial and operating liabilities	14,247,622	6,536,027	15,583,009	8,514,829
Short-term financial and operating liabilities	17,841,087	22,068,521	19,173,252	23,594,250
ACCRUED COSTS AND DEFERRED REVENUES	1,764,418	970,100	1,338,847	222,431
OFF-BALANCE SHEET LIABILITIES	17,254,236	7,714,411	17,931,101	8,159,690

INCOME STATEMENT

in 000 SIT

	Krka, d. d., Novo mesto		Krka Group	
	01-06/2004	01-06/2003	01-06/2004	01-06/2003
Net sales	51,879,099	44,299,937	58,078,123	47,164,396
- on domestic market	9,751,771	8,804,418	12,506,097	11,410,575
- on foreign market	42,127,328	35,495,519	45,572,026	35,753,821
Changes in inventories	-52,534	1,809,493	374,603	2,227,063
Capitalized own products and services	27,977	3,839	27,977	3,838
Other operating revenues	53,877	57,851	186,135	114,530
Cost of goods, material and services	-23,249,750	-20,611,827	-26,177,889	-22,370,041
Labour costs	-13,236,498	-11,353,205	-15,586,539	-13,443,822
Depreciation and amortisation expenses	-4,421,725	-4,348,942	-5,902,730	-5,141,335
- Amortisation and revaluatory operating expenses associated with intangible fixed assets and tangible fixed assets	-3,970,631	-3,878,228	-5,248,498	-4,738,158
- Revaluatory operating expenses associated with operating current assets	-451,094	-470,714	-654,232	-403,177
Other operating expenses	-732,743	-632,990	-914,785	-770,124
Financial revenue from equity interests	583,679	652,326	30,625	44,303
Financial revenue from long-term receivables	69,346	566,051	46,666	552,312
Financial revenue from short-term receivables	929,591	536,978	1,427,387	833,841
Financial expenses for long-term and short-term financial investment write-offs	-1,147,740	-2,164,066	-545,838	-890,337
Interest expenses and financial expenses for other liabilities	-1,128,294	-1,782,615	-1,256,717	-2,081,421
NET PROFIT (OR LOSS) FROM ORDINARY ACTIVITIES	9,574,285	7,032,830	9,787,018	6,243,203
Extraordinary revenue	58,599	49,050	67,024	96,472
Extraordinary expenses	-6,269	-8,973	-10,905	-16,238
PROFIT (OR LOSS) FROM EXTRAORDINARY ACTIVITIES	52,330	40,077	56,119	80,234
PROFIT OR LOSS BEFORE TAX	9,626,615	7,072,907	9,843,137	6,323,437
Income tax	-1,678,251	-1,299,888	-1,581,033	-1,303,296
NET PROFIT (OR LOSS) FOR THE PERIOD	7,948,364	5,773,019	8,262,104	5,020,141
Minority owners' share			17,808	2,277
MAJORITY OWNERS' NET PROFIT (OR LOSS)			8,244,296	5,017,864

CASH FLOW STATEMENT

in 000 SIT

	Krka, d. d., Novo mesto		Krka Group	
	01-06/2004	01-06/2003	01-06/2004	01-06/2003
CASH FLOWS FROM OPERATING ACTIVITIES				
Inflows from operating activities	52,551,844	40,599,784	58,331,875	45,802,346
Operating revenues	52,537,539	44,607,923	58,916,703	47,558,304
Extraordinary revenues associated with operations	58,599	49,050	67,024	96,472
Operating receivables at the beginning of period less operating receivables at end of period	107,678	-3,990,082	-116,767	-1,677,079
Operating receivables at the beginning less deferred costs and accrued revenues at end of period	-151,972	-67,107	-535,085	-175,351
Outflows from operating activities	36,843,439	31,654,164	45,288,922	37,706,764
Operating expenses, excluding depreciation and long-term provisions	37,544,642	33,375,795	42,683,712	38,188,099
Extraordinary expenses associated with operations	6,270	8,973	10,905	16,238
Income tax and other taxes not included in operating expenses	785,785	1,299,888	688,567	1,303,296
Ending inventories less beginning inventories	-1,135,256	452,033	-549,489	1,110,859
Operating liabilities at beginning of period less operating liabilities at end of period	86	-3,551,032	2,736,639	-3,198,030
Accrued costs and deferred revenues at beginning of period less accrued costs and deferred revenues at end of period	-358,088	68,507	-281,412	286,302
Net inflows (outflows) from operating activity	15,708,405	8,945,620	13,042,953	8,095,582
FLOWS FROM INVESTING ACTIVITIES				
Inflows from investing activities	161,694	208,025	186,565	491,149
Financial revenues associated with investment activities (excluding revaluation)	161,694	208,025	130,946	491,149
Offset decrease in long-term financial investments (excluding revaluation)	0	0	55,619	0
Outflows from investing activities	12,327,875	10,837,756	10,423,278	12,453,698
Offset increase in intangible fixed assets (excluding revaluation adjustment)	493,466	376,111	556,114	363,210
Offset increase in tangible fixed assets (excluding revaluation adjustment and increases of non-cash equity)	8,824,412	7,823,050	9,525,876	11,166,953
Offset increase in long-term financial investments (excluding revaluation)	1,785,613	2,072,953	0	388,503
Offset increase in short-term financial investments (excluding revaluation)	1,224,384	565,642	341,288	535,032
Net inflows (outflows) from investing activities	-12,166,181	-10,629,731	-10,236,713	-11,962,549
FLOWS FROM FINANCING ACTIVITIES				
Inflows from financing activities	9,725,814	3,301,214	9,755,915	4,819,383
Financial revenues associated with financing activities (excluding revaluation)	245,092	21,771	241,328	21,771
Offset increase in long-term provisions (excluding revaluation)	0	0	5,766	0
Offset increase in long-term financial liabilities (excluding revaluation)	9,480,722	3,279,443	9,508,821	4,021,621
Offset increase in short-term financial liabilities (excluding revaluation)	0	0	0	775,991
Outflows from financing activities	12,284,336	1,337,248	10,053,735	791,369
Financial expenses associated with financing activities (excluding revaluation)	943,723	922,795	643,464	768,988
Offset decrease in long-term provisions (excluding revaluation)	0	10,202	0	12,084
Offset increase in short-term financial liabilities (excluding revaluation)	11,327,855	397,225	9,397,513	0
Decrease in liabilities to owners associated with profit sharing (payments of dividends and other profit participations)	12,758	7,026	12,758	10,297
Net inflows (outflows) from financing activities	-2,558,522	1,963,966	-297,820	4,028,014
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	3,043,037	1,333,765	4,993,980	3,059,840
Net flow for the financial year	983,702	279,855	2,508,420	161,047
Effect of exchange rate fluctuations on cash	-170,445	-61,672	-170,445	-61,672
Opening balance of cash and cash equivalents	2,229,780	1,115,582	2,656,005	2,960,465

STATEMENT OF CHANGES IN EQUITY

Krka, d. d., Novo mesto

in 000 SIT

	Called capital	Capital reserves	Legal reserves	Reserves for own shares	Statutory reserves	Other revenue reserves	Retained net profit or loss	Net profit or loss for the period	General equity revaluation adjustment	Special equity revaluation adjustment	Total equity
Balance at 31.12.2003	14,170,448	2,598,736	3,592,196	4,670,280	1,000,000	38,558,332	5,014,357	5,011,206	21,724,113	164,368	96,504,036
Equity inflows	0	0	0	0	0	0	0	7,948,364	0	0	7,948,364
Entry of the net profit or loss for the period								7,948,364			7,948,364
Changes in equity	0	0	0	0	0	0	5,011,206	-5,011,206	0	0	0
Other reclassification of equity components							5,011,206	-5,011,206			0
Equity outflows	0	0	0	0	0	0	0	0	0	157,684	157,684
Other decreases in equity components										157,684	157,684
Balance at 30.06.2004	14,170,448	2,598,736	3,592,196	4,670,280	1,000,000	38,558,332	10,025,563	7,948,364	21,724,113	6,684	104,294,716

in 000 SIT

	Called capital	Capital reserves	Legal reserves	Reserves for own shares	Statutory reserves	Other revenue reserves	Retained net profit or loss	Net profit or loss for the period	General equity revaluation adjustment	Special equity revaluation adjustment	Total equity
Balance at 31.12.2002	14,170,448	2,566,886	3,592,196	4,692,359	0	28,532,770	8,555,351	5,206,627	21,724,113	10,532	89,051,282
Equity inflows	0	0	0	0	0	0	0	5,773,019	0	0	5,773,019
Entry of the net profit or loss for the period								5,773,019			5,773,019
Changes in equity	0	0	0	0	0	0	5,206,627	-5,206,627	0	0	0
Distribution of net profit for the period based on the decision of the Management and Supervisory Board							5,206,627	-5,206,627			0
Equity outflows	0	0	0	0	0	0	0	0	0	0	0
Balance at 30.06.2003	14,170,448	2,566,886	3,592,196	4,692,359	0	28,532,770	13,761,978	5,773,019	21,724,113	10,532	94,824,301

STATEMENT OF CHANGES IN EQUITY

Krka Group

in 000 SIT

	Called capital	Capital reserves	Legal reserves	Reserves for own shares	Statutory reserves	Other revenue reserves	Retained net profit or loss	Net profit or loss for the period	General equity revaluation adjustment	Special equity revaluation adjustment	Consolidated equity adjustment	Minority owners equity	Total equity
Balance at 31.12.2003	14,170,448	2,598,736	3,592,196	4,670,280	1,000,000	38,558,332	2,615,050	4,511,179	21,724,113	164,368	37,446	1,980,140	95,622,288
Equity inflows	0	0	0	0	0	0	0	8,244,296	0	0		17,873	8,262,169
Entry of the net profit or loss for the period								8,244,296				17,808	8,262,104
Entry of the amount of specific equity revaluation adjustments												65	65
Changes in equity	0	0	0	0	0	0	4,511,179	-4,511,179	0	0		0	0
Other reclassification of equity components							4,511,179	-4,511,179					0
Equity outflows	0	0	0	0	0	0	0	0	0	157,684	69,935	0	227,619
Decrease in translation exchange rate balances											69,935		69,935
Other decrease in equity										157,684			157,684
Balance at 30.06.2004	14,170,448	2,598,736	3,592,196	4,670,280	1,000,000	38,558,332	7,126,229	8,244,296	21,724,113	6,684	-32,489	1,998,013	103,656,838

in 000 SIT

	Called capital	Capital reserves	Legal reserves	Reserves for own shares	Statutory reserves	Other revenue reserves	Retained net profit or loss	Net profit or loss for the period	General equity revaluation adjustment	Special equity revaluation adjustment	Consolidated equity adjustment	Minority owners equity	Total equity
Balance at 31.12.2002	14,170,448	2,566,886	3,592,196	4,692,359	0	28,532,770	5,530,894	5,831,778	21,724,113	10,532	0	1,954,331	88,606,307
Equity inflows	0	0	0	0	0	0	0	5,017,864	0	0	0	2,277	5,020,141
Entry of net profit or loss for the period								5,017,864				2,277	5,020,141
Changes in equity	0	0	0	0	0	0	5,831,778	-5,831,778	0	0	0	0	0
Other reclassification of equity components							5,831,778	-5,831,778					0
Equity outflows	0	0	0	0	0	0	0	0	0	0	0	2,370	2,370
Payments of dividends												3,271	3,271
Decrease in translation exchange rate balances												-901	-901
Balance at 30.06.2003	14,170,448	2,566,886	3,592,196	4,692,359	0	28,532,770	11,362,672	5,017,864	21,724,113	10,532	0	1,954,238	93,624,077