



Unaudited Interim Report for
Krka, d. d., Novo mesto
and the Krka Group
for January – September 2006

November 2006

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INTRODUCTION

All the financial statements of Krka, d. d., Novo mesto (the Krka Company) and the Krka Group in this report have been prepared in accordance with the International Financial Reporting Standards (IFRS) and are unaudited.

The company regularly announces any significant changes in the data contained in its share prospectus on the Ljubljana Stock Exchange's electronic information system SEOnet and/or the Delo newspaper.

The business report for the Krka Group for January to September can be reviewed at Krka's registered office at Šmarješka cesta 6, 8501 Novo mesto, every working day from 08.00 to 15.00, and is also available on the Krka website: www.krka.si.

The Supervisory Board discussed and approved the business report for the Krka Company and Group for the first nine months of 2006 at its meeting on 15 November 2006.

Significant achievements

- The Krka Company generated sales of products and services worth 105.1 billion SIT, while the Krka Group's sold products and services worth 120.1 billion SIT.
- The Krka Company achieved 20% growth in sales, and the Krka Group achieved 23% growth, compared to the same period last year.
- The highest growth in sales and highest proportion of overall sales for both the Krka Company and the Krka Group were recorded in its Region East Europe and Region Central Europe.
- The proportion of sales on foreign markets was 84% for the Krka Group, and 87% for the Krka Company.
- In the first nine months of 2006, the Krka Company generated an operating profit of 24.8 billion SIT, which is 16% greater than for the same period last year, while the Krka Group generated a profit of 26.8 billion SIT (34% growth compared to the same period last year).
- The net profit was 18.6 billion SIT for the Krka Company (23% growth on the same period last year), and 19.1 billion SIT (28% growth) for the Krka Group.
- At the Krka Company's 11th Annual General Meeting, the shareholders passed a resolution to pay a dividend of 1,650 SIT gross per share.
- At the end of September 2006 the price for Krka shares quoted on the Ljubljana Stock Exchange was 173,970 SIT per share.
- The Krka Group allocated 17.6 billion SIT to investments, 14.6 billion SIT of which was invested by the Krka Company and 3 billion SIT by subsidiaries.
- The number of Krka Group employees increased by 10%. Most new employment was abroad. At the end of September 2006 the Krka Group had a total of 5596 employees.

Significant operating indicators

	Krka, d. d., Novo mesto		Krka Group	
	1-9/2006 Unaudited	1-9/2005 Unaudited	1-9/ 2006 Unaudited	1-9/2005 Unaudited
Net sales in million SIT	105,054	87,761	120,093	97,851
EBIT in million SIT	24,798	21,343	26,807	19,954
<i>Share in net sales</i>	23.6%	24.3%	22.3%	20.4%
EBITDA in million SIT	31,213	27,699	35,220	28,281
<i>Share in net sales</i>	29.7%	31.6%	29.3%	28.9%
Net profit in million SIT	18,593	15,077	19,122	14,989
<i>Share in net sales</i>	17.7%	17.2%	15.9%	15.3%
R&D costs in million SIT	9,702	7,889	9,841	7,968
<i>Share in net sales</i>	9.2%	9.0%	8.2%	8.1%
Investments in billion SIT	14.6	10.4	17.6	13.1
RATIOS				
Net profit/ Revenues	17.2%	16.7%	15.6%	14.8%
Return On Equity (ROE) ¹ - converted to annual basis	20.6%	19.7%	21.0%	19.6%
Return On Assets (ROA) ² - converted to annual basis	12.9%	12.4%	12.9%	11.9%
Liabilities / Capital	0.589	0.620	0.624	0.644

	30 Sep 06 Unaudited	31 Dec 06 Audited	30 Sep 06 Unaudited	31 Dec 06 Audited
Non-current assets in million SIT	128,426	116,589	131,109	120,455
Current assets in million SIT	72,739	65,351	76,157	68,394
Capital in million SIT	126,593	114,141	127,586	114,897
Non-current liabilities in million SIT	39,358	33,058	42,591	36,048
Current liabilities in million SIT	35,213	34,741	37,090	37,904
Number of employees	4159	3908	5596	5090

EXCHANGE RATES	1-9/2006	1-9/2005
USD (average)	192.72 SIT	189.77 SIT
USD (30 Sept)	189.11 SIT	198.70 SIT
EUR (average)	239.60 SIT	239.66 SIT
EUR (30 Sept)	239.60 SIT	239.58 SIT

SHARE INFORMATION (Krka Group)	1-9/2006	1-9/2005
Total number of shares issued	3,542,612	3,542,612
Earnings per share in SIT ³	5,658	4,435
Dividend per share in SIT	1,650	1,400
Share price at the end of the period in SIT	173,970	85,896
Price/Earnings ratio per share (P/E)	30.7	19.4
Carrying value of share ⁴ in SIT	36,015	32,433
Market capitalisation at period end in million SIT	616,308	304,297

1 Net profit, converted to annual basis / average equity balance in the period

2 Net profit, converted to annual basis / average assets balance in the period

3 Net profit, converted to annual basis / average number of shares issued in the period (no own shares)

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

Chronological overview of significant events

- On 24 January 2006, during an official two-day tour of the Dolenjska and Bela Krajina regions, the Slovenian Prime Minister Janez Janša visited Krka, accompanied by the Minister for the Economy Andrej Vizjak, the Minister for Health Andrej Bručan, and the Minister for Reform Jože P. Damijan.
- Krka's umbrella brand Septotele®, which includes a wide range of medicines for a sore or pain throat marked 25 years this year. In February this anniversary was celebrated by the presentation of some new products: NeoSeptotele®-green apple flavour, NeoSeptotele® -lemon flavour, and NeoSeptotele® -wild cherry flavour.
- On 7 March the company received notice that Pfizer Inc from New York had withdrawn its actions relating to Yasnal®. The action was worth 10 million SIT.
- In April Krka received two awards in Poland for its Bilobil® and Septotele® brands. Bilobil® was given the Product of the Year award in the category of memory improvement products, while the Septotele® Plus won the gold OTIS award for reliability in the oral antiseptic category.
- On 12 April 2006, the President of the Management Board and CEO Jože Colarič was awarded the director of the year award at the 2006 Kapital finance conference, voted for by business journalists. On 25 May 2006 he was awarded the grand prize for excellence and craftsmanship at the 18th Forum of Excellence and Craftsmanship organised by the Dolenjska and Bela Krajina Association of Economists.
- On 14 April 2006, Gregor Gomišček – president of the Krka Company's Supervisory Board – informed the company of a notification issued by the Securities Markets Agency on 5 April 2006, stating that the suspicion he had traded Krka shares in August 2005 on the basis of insider information was unfounded, that he had therefore not committed an offence, and that no charges would be made. He therefore withdrew the resignation from the position of president of the Supervisory Board that he had offered on 14 September 2005.
- On 2 June, 391 employees received long-service awards for completing 10, 20, 30, 35 and 35 years of service to Krka. We also presented awards for inventive work and awards for the best Krka employees and best Krka managers. A total of 55 staff and 20 managers were put forward at organisational unit level, with nine staff and five managers winning special awards for their achievements.
- On 19 June the company Les Laboratoires Servier (12, Place de la Defense, Courbevoie Cedex, France) filed a claim at the Ljubljana District Court against the company Salus, d.d. (Mašera Spasičeva ulica 10, Ljubljana) and a motion for a temporary injunction prohibiting the marketing of the Prenessa® product due to alleged patent infringements relating to use of the active ingredient perindopril in Slovenia. Salus, d.d. markets Prenessa®, which is produced by Krka-Polska Sp. z o. o., Warsaw, Poland, a 100%-owned subsidiary of Krka d. d. Novo mesto. If the temporary injunction is issued the loss of earnings from the sale of Prenessa® for Krka-Polska Sp. z o. o. would amount to around 0.5 million EUR by the end of the year.
- In June the company Sanofi Aventis (174, Av. de France, Paris, France) filed a motion for temporary injunction due to alleged patent violation relating to the use of the active ingredient clopidogrel in Serbia. On 30 June 2006, after an appeal by Krka-Farme d. o. o. Novi Sad, the Higher Court of Commerce in Novi Sad revoked the temporary injunction and returned the case to the court of first instance to be heard again.
- Krka's 11th Annual General Meeting took place at Otočec on 6 July. The shareholders present represented 37.18% of equity. This year the share dividend was set at 1,650 SIT gross per share. The AGM also passed a resolution stating that from 1 January 2006 all financial data in the Company's Annual Report will be disclosed in accordance with the International Financial Reporting Standards (IFRS) only, so all financial statements in this report for both Company and Group have also been prepared in accordance with the IFRS.

- The companies Les Laboratoires Servier (22, Rue Garnier, Neuilly sur Seine, France) and Servier Laboratories Limited (Fulmer Hall, Windmill Road, Fulmer, Slough, United Kingdom) filed an action at the High Court of Justice, Chancery Division, Patents Court, London, UK against Krka, d. d., Novo mesto, Slovenia and Krka-Polska Sp. z o. o., Warsaw, Poland, on 28 July 2006 alleging a patent violation relating to the process for acquiring one of the intermediate compounds of the active ingredient perindopril. Krka-Polska holds a marketing authorisation for the sales of products containing the perindopril active ingredient in the United Kingdom. To date it has not sold any perindopril products in the UK, but planned sales in August 2006 worth 450,000 GBP. Krka-Polska delayed sales of these products to study the court action together with the parent company. Both the Krka Company and Krka-Polska Sp. z o. o. assessed the action as completely unfounded. Krka's perindopril products use an independent process and have properties that do not infringe patent in the United Kingdom.
- At the proposal of the CEO Jože Colarič, the Krka Company's Supervisory Board reappointed Janez Poljanec and Aleš Rotar to the Management Board from 1 August 2007 to 31 December 2009, i.e. until the end of the term in office of the President of the Management Board Jože Colarič and board member Zvezdana Bajc, at its meeting of 2 August 2006.
- The company Sanofi Pharma BristolMyers Squibb SNC, (Paris, France) filed a motion against Krka Polska Sp. z o.o., Warsaw, Poland, which is 100%-owned by Krka, d. d., Novo mesto, at the Warsaw District Court for a temporary injunction prohibiting the market of the Zyllt product (API - clopidogrel) in Poland due to alleged unfair competition. The plaintiff alleges that Krka Polska Sp. z o.o., Warsaw, acquired its market authorisation for the Zyllt product in Poland in an unlawful manner. The Warsaw District Court fully rejected the plaintiff's motion for temporary injunction as unfounded. The Krka Company announced the outcome to the relevant parties on 28 August 2006.
- On 3 May 2006, Krka d.d. Novo mesto informed the relevant parties that the Schering Corporation (Kenilworth, New Jersey, USA) had filed an action against Krka's subsidiary Krka Aussenhandels GmbH (Munich, Germany) and Krka in Germany. The lawsuit related to the alleged violation of Schering Corporation patents in Germany, where the plaintiff alleges that Krka was marketing the product Floron® which contains the active ingredient florfenicol, and which the plaintiff alleges was produced using a process for which it holds the patent. The first-instance court took the position that just stating an active ingredient in the general presentation section of a company's website could be construed as actively offering the product in Germany. The Federal Court in Düsseldorf issued a judgment prohibiting Krka and its subsidiary, Krka Aussenhandels GmbH from marketing a product in Germany with the active ingredient florfenicol produced using the process subject to patent no EP 0 922 040. This patent protects the process to acquire intermediate compounds for the production of the florfenicol active ingredient. Krka and Krka Aussenhandels GmbH have not offered or marketed products with the florfenicol active ingredient in Germany, but if it decides to market a florfenicol product it will use a proprietary Krka process that does not infringe patent EP 0 922 040. Krka and its German subsidiary will appeal against the judgment stating they had offered a product with the active ingredient florfenicol produced using patent EP 0 922 040 on the German market, within the legal deadline for appeal. The Krka Company informed the relevant parties on 28 August 2006.
- On 14 September 2006, an official opening ceremony was held at the Terme Šmarješke Toplice spa complex to celebrate Terme Krka's two new developments, Hotel Vitarium with its relaxation centre at Šmarješke Toplice and the new golf course at Struga near Otočec. The investments are worth 3 billion SIT.

Significant events after the accounting period

- On 5 October 2006, the President of the Management Board, was presented with the Manager of the Year award by the Managers' Association.
- The High Court of Justice, Chancery Division, Patents Court, London, UK upheld the patent rights relating to the perindopril active ingredient of the Servier companies, Les Laboratoires Servier (22, Rue

Garnier, Neuilly sur Seine, France) and Servier Laboratories Limited (Fulmer Hall, Windmill Road, Fulmer, Slough, United Kingdom) against Krka, d. d., Novo mesto, Slovenia and Krka-Polska Sp. z o. o., Warsaw, Poland. The High Court of Justice, London approved the Servier motion for temporary injunction relating to its patent protecting alpha-crystalline-form perindopril. To maintain the existing state pending the trial on Servier's allegation of violation of patent, and Krka's counter-claim to find the patent null and void, the court issued a temporary injunction and prohibited Krka from promoting and marketing Krka products in the UK that contain alpha-crystalline-form perindopril until the trial takes place. Krka has not yet sold products with the perindopril active ingredient on the UK market. Both the Krka Company and Krka-Polska Sp. z o. o. assess the grounds for the temporary injunction and the action itself as completely unfounded and consider the patent in question to be void. The Krka Company informed the relevant parties on 10 October 2006.

- In the commercial dispute between the plaintiff Les Laboratoires Servier (12, Place de la Defense, Courbevoie Cedex, France), and the defendant Salus, d. d., (Mašera Spasičeva ulica 10, Ljubljana, Slovenia), the Ljubljana District Court rejected Servier's motion for a temporary injunction prohibiting the marketing of the Prenessa product in Slovenia. The plaintiff filed the motion for temporary injunction after the legally defined deadline for submission, and the court rejected it due to late submission. The plaintiff can appeal with the legally defined period.

The plaintiff filed an action and a motion for temporary injunction in the Ljubljana District Court to prohibit the marketing of the Prenessa product due to the alleged infringement of the plaintiff's patent protecting the active ingredient perindopril in alpha-crystalline form in Slovenia. Krka d.d. Novo mesto made an announcement on the action and the temporary injunction on 5 July 2006. It responded to action and submitted a counter action claiming the patent is void. Salus, d. d. markets Prenessa®, which is produced by Krka-Polska Sp. z o. o., Warsaw, Poland, a 100%-owned subsidiary of Krka d. d. Novo mesto. The Krka Company made an announcement to the relevant parties on 20 October 2006.

- The plaintiff Les Laboratoires Servier (12, Place de la Defense, Courbevoie Cedex, France) filed an action and a motion for temporary injunction at court in Budapest against the defendants Krka Magyarorszag Kft. and Krka Polska Sp. z o.o., for the prohibition of the marketing of the Prenessa product, which contains the active ingredient perindopril, in Hungary due to the alleged infringement of the plaintiff's patent protecting perindopril in alpha-crystalline form in Hungary. The Budapest court rejected the temporary injunction on the prohibition of marketing Prenessa in Hungary, as it found that the probability that the defendants had infringed the patent had not been proven. The plaintiff can appeal with the legally defined period. The Krka Company informed the relevant parties on 20 October 2006.
- On 27 October 2006, Krka Farma d.o.o., Novi Sad received a decision from the Court of Commerce in Novi Sad upholding the motion by the company Sanofi Aventis (174, Av. de France, Paris, France) for a temporary injunction due to alleged infringement of a patent protecting the active ingredient clopidogrel in the form of hydrogen-sulfate salts and prohibiting the import and sale of this pharmaceutical product on the Serbian market. This was a second decision by the court on the Sanofi Aventis company's action, after the Higher Court of Commerce in Belgrade reversed the decision on temporary injunction issued by the same court on 31 May 2006 as unlawful. Krka also filed an appeal with the Higher Court of Commerce against the decision, as it considers that the legal conditions for issuing a temporary injunction have still not been met. As Krka has already stated in previous public announcements relating to the case, Krka has also filed a motion to annul the disputed patent of the Sanofi Aventis company, as it considers it was issued unlawfully.
- Krka, d. d., Novo mesto, Slovenia and Les Laboratoires Servier, France concluded all disputes relating to the patent protecting perindopril in an out-of-court settlement. Krka published information on patent-related disputes in public announcements issued on the Ljubljana Stock Exchange website on 5 July 2006, 31 July 2006, 10 October 2006 and 20 October 2006. Based on the settlement the companies will withdraw all legal actions filed against each other in various countries. Based on the settlement, Krka will market a product with the active ingredient perindopril in alpha-crystalline form on the markets of Slovenia, the Czech Republic, Hungary, Latvia, Lithuania, Poland and Slovakia.

ID Card

The controlling company is Krka, tovarna zdravil, d. d., Novo mesto.

Data on the controlling company:

Registered office: Šmarješka cesta 6

8501 Novo mesto

Slovenia

Telephone: 07 331 21 11

Fax: 07 332 15 37

E-mail: info@krka.biz

Basic activity: Production of chemical, pharmaceutical raw materials and finished products

Activity code: 24.420

Year of establishment: 1954

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

VAT number: 82646716

Registration number: 5043611

Called-up capital: 14,170,448,000 SIT

Shares: 3 542 612 ordinary registered shares at par value of 4 000 SIT. Krka's shares were listed on the Ljubljana Stock Exchange in 1997 with the trading code KRKG.

The Krka Group consists of the controlling company, Krka d. d. Novo mesto, and the following subsidiaries and associated companies:

	Ownership share (%)
Subsidiaries in Slovenia	
TERME KRKA, 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, Munich, Germany*	100
OOO"KRKA-RUS", Istra, Russian Federation	100
OOO "KRKA FARMA", Sergiev posad, Russian Federation	100
KRKA CR, s. r. o., Prague, Czech Republic*	100
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100
KRKA Sverige AB, Stockholm, Sweden	100
KRKA Magyarország Kft, Budapest, Hungary	100
"KRKA-FARMA" d.o.o., NOVI SAD, Serbia and Montenegro	100
DP "KRKA Ukraina", Kijev, Ukraine*	100
KRKA USA, LLC, Delaware, United States	100
HELVETIUS-S.R.L., Trieste, Italy**	80

* company not operating

** company being wound up

Abbreviated company names are used in the text below.

During the year, the previously non-operating company in Hungary started operations, and Krka registered the company Krka USA, LLC, Delaware in the United States.

The production of human health products takes place at the controlling company and in three production and distribution centres, located in Croatia, Poland and the Russian Federation.

In mid-June 2006 the subsidiary Krka Zdravilišča d.o.o. Novo mesto was renamed as Terme Krka, d.o.o. Novo mesto. Its business activities will remain the same: health spa, tourism and catering and hospitality services. The Terme Krka subsidiary has a participating interest in Terme Krka – Strunjan, d. o. o. (51%) and Golf Grad Otočec, d. o. o. (43.8%).

All companies in the Group have the controlling company as founder or co-founder. Investments by the Krka Company in subsidiaries are valued at their historical cost.

Business operations analysis of the Krka Company and Krka Group

In the first nine months of this year both the Krka Company and Group performed successfully. The positive results were due not only to increased sales revenues, but were also significantly affected by lower growth in operating expenses compared to revenues. Most of this year's nine-month operating results are better than last year and the planned results for the period.

Key operating data for the January to September of 2005 and 2006

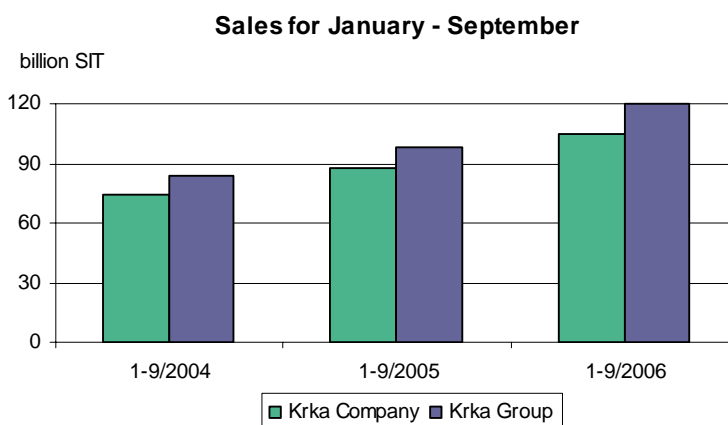
in million SIT	Krka Group			Krka Company		
	1-9/2006	1-9/2005	Index	1-9/2006	1-9/2005	Index
Net sales revenues	120,092	97,851	123	105,054	87,761	120
Operating profit	26,807	19,954	134	24,798	21,343	116
Pre-tax profit	26,005	20,457	127	24,638	20,382	121
Net profit for the period	19,122	14,989	128	18,592	15,077	123

Revenues

Net sales of the Krka Group increased by 23% while the Krka Company recorded an increase of 20%. The Krka Company generated 105.1 billion SIT in net sales from the sale of prescription pharmaceuticals, self-medication products and animal health and cosmetic products, while the Krka Group generated 120.1 billion SIT from sales of these products plus sales of health and tourist services. The major contribution

to Krka Group net sales (at 82%) came from the sale of prescription pharmaceuticals, which with a 25% increase also recorded the highest growth in sales of any product group. Most of the net sales was generated from the sale of products, services and goods outside Slovenia. The growth differs from market to market, with the highest growth achieved in the Russian Federation. Group net sales for the first nine months of the year were somewhat above the planned targets. A more detailed analysis of the sales results achieved by individual market and product group is given in the section Marketing and Sales.

The Company generated revenue of 107.6 billion SIT and the Group 122.4 billion SIT, a 20% and 22% increase respectively on the same period in 2005. Net sales represented most of the revenues generated by both the Company and the Group (98%).



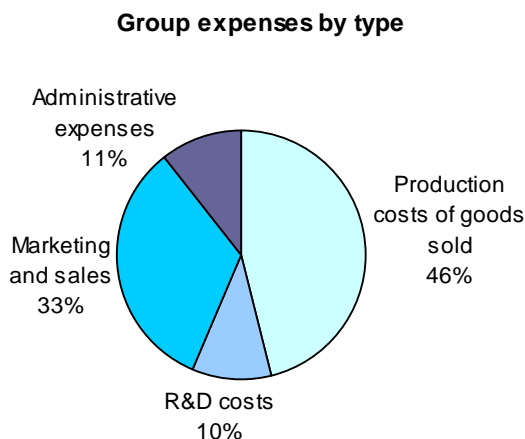
Expenses

The Krka Group's expenses increased by 20%, or 96.6 billion SIT more than in the same period last year. Without taking into account newly formed provisions, the Group's expenses increased by 13 percent, which is 10 percentage points less than the growth in sales.

The Krka Group recorded operating expenses of 93.8 billion SIT, 43.2 billion SIT of which being production costs of goods sold, 30.9 billion SIT sales and marketing costs, 9.8 billion SIT R&D costs and 10 billion SIT from administrative expenses.

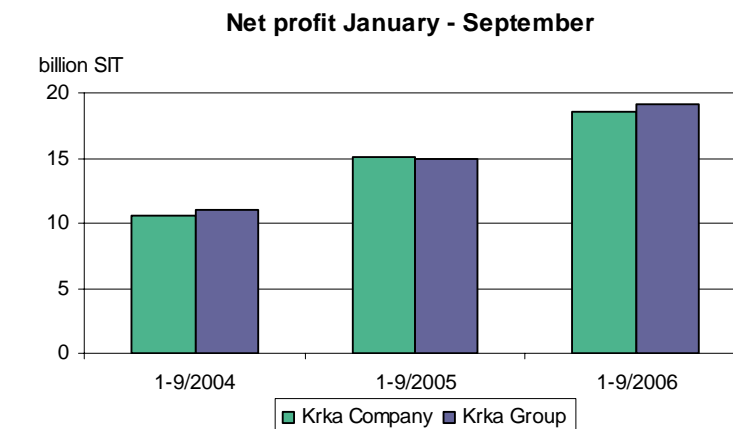
Compared to the same period last year, the production costs of goods sold increased for the Krka Group by 8%, which is 15 percentage points less than the growth in sales. The change in sales and marketing costs and R&D costs was different, where greater market demands and ever sterner competition mean more investment is needed every year. Expanding the Krka marketing network on all Krka's major markets led to an increase

in sales and marketing costs. These increased by 51% compared to the same period last year, representing 33% of all operating expenses. In addition to the expansion of Krka's own marketing network on all major markets, the high growth has also been due to provisions formed by the controlling company this year due to actions relating to allegations of patents protecting the pharmaceutical atorvastatin. Excluding provisions, the growth in sales and marketing costs was 22%. The Krka Group's R&D costs were 24% higher were mainly incurred by the controlling company. Overall R&D costs are deemed as expenses, since they are not capitalised. The Group's administrative expenses were 1% higher than for the first nine months of 2005.



Operating profit

The Krka Group's operating profit of 26.8 billion SIT represents an increase of 34%, compared to the same period last year. Pre-tax profits increased by 27% to 26 billion SIT. Corporate income tax amounted to 6.9 billion SIT, 8.2 billion SIT of which was taxes levied and 1.3 billion SIT deferred taxes. The effective tax rate for the Group was 26.5%, which is somewhat lower than for the same period last year.



2004 data according to SAS, 2005 and 2006 according to IFRS

The Krka Group's net profit was 19.1 billion SIT, an increase of 28%, while the Krka Company recorded a net profit of 18.6 billion SIT, an increase of 3.5 billion SIT or 23% in comparison to the previous year.

Assets

The Krka Group's assets were worth 207.3 billion SIT on 30 September 2006, growing by 10% from the start of the year. The ratio of current to non-current assets remained almost unchanged compared to the start of the year.

Of the non-current assets, with a total value of 131.1 billion SIT, the most important item is property, plant and equipment at 116.9 billion SIT, which has increased by 8% or 8.7 billion SIT over the nine-month period due to new investments, now representing 56% of total assets.

Current assets increased by 11% to 76.2 billion SIT. The main contribution to growth came from increased financial investments (purchase of shares and bonds), which increased by 84% in the first nine months of this year to 6.2 billion SIT. Compared to the start of the year, the value of inventories fell by 3% to 28.2 billion SIT, while operating receivables increased due to increased sales by 18% to 38.9 billion SIT.

Equity and liabilities

The Group's equity increased by 11% and now represents 62% of total liabilities. The main factor in the growth was the net profit of the Krka Group in the first nine months of the year, which was 19.1 billion SIT.

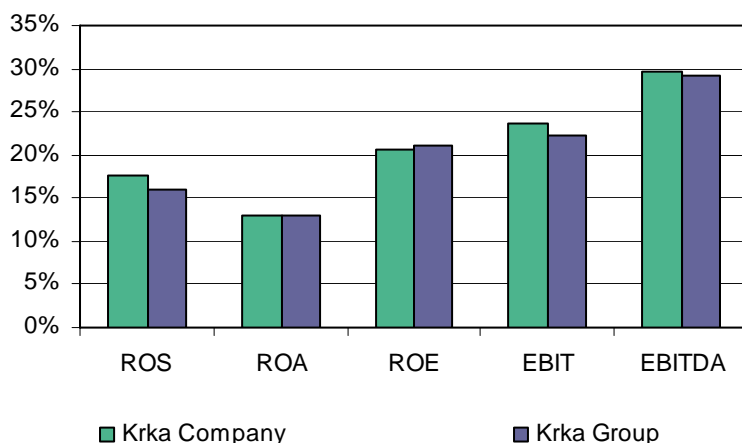
Long-term provisions increased by 27%, i.e. the amount of newly formed provisions for lawsuits, primarily in relation to pharmaceuticals for treatment of cardiovascular disease.

Long-term loans remained unchanged from the end of 2005. The Krka Company did not increase its borrowing. The subsidiaries Terme Krka and Krka-Farma Zagreb did increase their borrowing, though only by a small amount.

Current liabilities were down 2% compared to the start of the year to 37.1 billion SIT, which is 18% of total assets. The largest increase among current liabilities was loans, which increased by 4.2 billion SIT, which is 46%, due to loans taken out by the parent company. Operating liabilities also decreased by 2%, to 13.8 billion SIT, while provisions and other current liabilities fell by 4% to 7.7 billion SIT at the end of September. Compared to the start of the year, the largest decrease among current assets was the corporate income tax liabilities, which were down 65%. This is mainly due to the very high tax liabilities at the end of 2005, relating to Krka's net provisioning (release and formation of provisions).

Ratios

Operating indicators January - September 2006



The operating indicators for the Krka Group are in compliance with strategic guidelines and objectives and improved compared to the same period last year. The Krka Group's net profit margin was 15.9% (Krka Company 17.7%), return on assets 12.9% (Krka Company: 12.9%), return on equity 21.0% (Krka Company: 20.6%), operating profit to sales ratio 22.3% (Krka Company: 23.6%) and EBITDA to sales ratio 29.3% (Krka Company: 29.7%).

BUSINESS REPORT

Marketing and sales

In the first nine months of the year, the Krka Company and Group operated according to their plans and exceeded last year's sales figures for the same period. The Krka Group, with sales of 120.1 billion SIT, exceeded last year's sales for the first nine months by 23%, and achieved 80% of the planned sales. The Krka Company generated 105.1 billion SIT in sales, a 20% growth, and achieved 80% of planned sales for 2006. Group sales were 15 billion SIT or 14% higher than sales by the Krka Company. The Group's higher sales come primarily from sales by subsidiaries in Croatia, Poland and the Russian Federation, and by the Terme Krka Group. Sales outside Slovenia continue to increase, as the proportion of exports in overall sales is already 84%.

Region East Europe recorded the highest growth in sales compared to the same period last year, as well as the highest proportion of sales by region for both the Krka Company and Group. The Krka Group's Region East Europe represented 28% of overall Group sales, recording product sales of 34.1 billion SIT, a growth of 37%. Its share in the overall sales structure increased by 13% compared to the same period last year. The leading market in the Region is the Russian Federation, which is Krka largest individual market, where sales of 25.7 billion SIT were achieved in the first nine months of this year – 46% more than the same period last year.

The next ranked region in terms of growth and proportion of overall sales was Region Central Europe, which with growth of 25% and sales worth 29.6 billion SIT, represented a quarter of overall Krka Group sales. The most important market in this Krka region is Poland, where sales of 16.5 billion SIT represented growth of 24%.

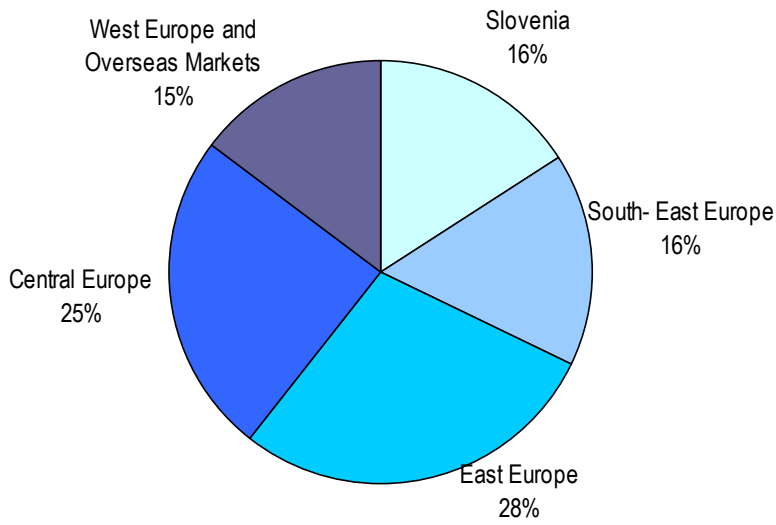
The Region South-East Europe achieved 19% growth. The most important market in Region South-East Europe is Croatia where sales were worth 7.3 billion SIT, over one third of all sales in the region. It is followed by Romania, with sales of 5.1 billion SIT (26% of overall regional sales). The major markets in Region West Europe and Overseas Markets are the northerly European Union member states, where sales of over 13.7 billion SIT have been generated, which represents over three-quarters of the overall sales for the region.

Sales of products and services on the Slovenian market were worth 19 billion SIT and achieved 4% growth. The proportion of sales on the domestic market in overall sales is gradually decreasing, and is now 16% of overall sales.

Krka Group and Krka Company sales by region

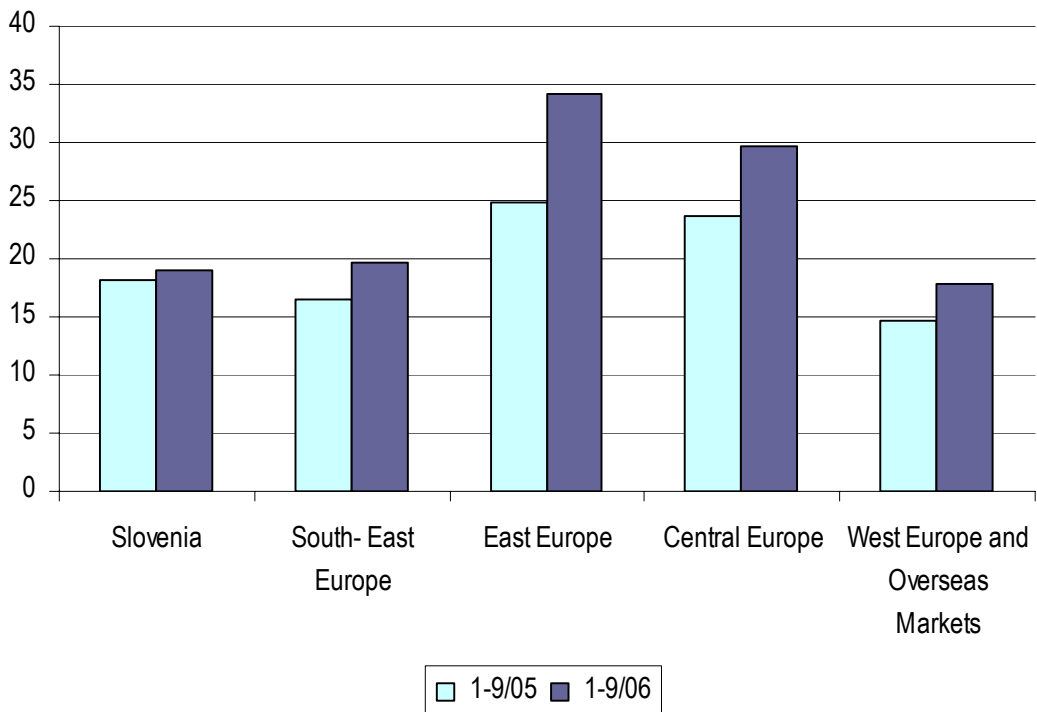
in million SIT	Krka Group			Krka Company		
	1-9/2006	1-9/2005	Index	1-9/2006	1-9/2005	Index
Slovenia	18,969	18,185	104	13,608	13,738	99
South-East Europe	19,619	16,431	119	17,300	15,086	115
East Europe	34,098	24,861	137	33,132	24,347	136
Central Europe	29,592	23,744	125	23,405	19,765	118
West Europe and Overseas Markets	17,815	14,614	122	17,609	14,809	119
Total	120,093	97,835	123	105,054	87,745	120

Structure of Krka Group and Krka company sales by region, January-September 2006



Structure of Krka Group and Krka company sales by region, January-September 2006

billion SIT



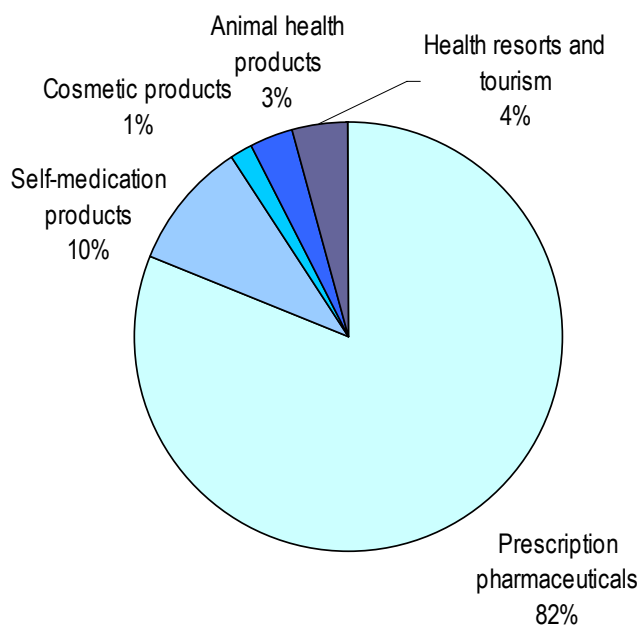
Sales by product group

Prescription pharmaceuticals represent by far the largest proportion in the structure of sales by product group (82%), which together with self-medication products and cosmetics form the human health product range. The human health product range represented 93% of all sales in the first nine months of the year.

Krka Group and Krka Company sales by product groups

SIT million	Krka Group			Krka Company		
	1-9/2006	1-9/2005	Index	1-9/2006	1-9/2005	Index
Human health products	110,834	89,522	124	100,926	84,171	120
- prescription pharmaceuticals	97,143	77,463	125	87,369	72,594	120
- self-medication products	11,938	10,581	113	11,857	10,136	117
- cosmetic products	1,753	1,478	119	1,700	1,441	118
Animal health products	4,093	3,589	114	3,991	3,500	114
Health resorts and tourism	5,010	4,447	113			
Others	156	277	56	137	74	185
Total	120,093	97,835	123	105,054	87,745	120

Structure of Krka Group and Krka Company sales by product group, January-September 2006



Prescription pharmaceuticals

Prescription pharmaceuticals in the first nine months of 2006 generated sales of 97.1 billion SIT, 82% of overall sales, exceeding sales for the same period last year by 25%.

Of the larger Krka markets, the highest growth in the first nine-months of the year was achieved in Hungary (82%), Romania (70%), the Russian Federation (49%), Poland (27%) and Ukraine (15%), while mention must also be made of high sales growth on some of Krka's smaller to medium-sized markets such as Serbia (71%), Uzbekistan (90%), Lithuania (48%) and in Bulgaria (30%). Higher or lower sales growth was recorded on practically all markets except Macedonia and Kazakhstan.

The leading prescription pharmaceuticals are Enap[®], Vasilip[®], Lanzul[®], Atoris[®], Tenox[®], Fromilid[®], Lorista[®], Nolicin[®], Coryol[®], Zalasta[®], and Asentra[®]. Half of them are new, having been launched after 2000. Zalasta[®], which was launched as recently as the end of 2004, is the highest ranked of the newest products at tenth.

In 2006 we started marketing five completely new Krka products: the anti-psychotic Torendo[®], a pharmaceutical for treatment of benign prostatic hyperplasia Tanyz[®], the antidiabetic Meglimid[®], the antihypertensive Laaven[®] and the hypnotic Zolsana[®].

The leading therapeutic group for Krka's prescription pharmaceuticals is medicine for reducing blood pressure. In this field we are the leading producer across of all Central and East Europe. We have a wide range of products, offering the most appropriate products for every patient. There are now over six million patients using Krka anti-hypertensives in Europe.

On the fifth anniversary of marketing the antihypertensive Lorista[®] (losartan) we prepared a major symposium for over 300 guests from five countries. The sales figures for Lorista[®] have more than doubled compared to the same period last year. The growth was particularly strong in Poland, where the Angiotensin II receptor antagonists market is less developed, as well as on other Central Europe markets.

Two antihypertensives also recorded higher sales compared to last year. These are Tenox[®] (amlodipin) and Ampri[®] (ramipril), which were launched last year on most Central Europe markets and was supplemented this year by a combination with the diuretic Ampri[®] HD and HL. We also achieved good sales for the sole diuretic-only product in our indapamide range (Rawel SR).

Krka is also a market leader for products to reduce plasma lipids on its traditional markets. We offer a wide range of products: Atoris[®] (atorvastatin), Vasilip[®] (simvastatin) and Holetar[®] (lovastatin). Our marketing activities are primarily focused on Vasilip[®] and Atoris[®], where the organisation of symposiums, lectures and training on lipids are offered to help improve diagnostics and treatment of patients. We also offer education books for patients that increase awareness about the importance of treatment.

In the field of cardiovascular treatment mention must be made of Zyllt[®] (clopidogrel), which was first launched last year in Croatia, and this year in Bosnia, Serbia, Macedonia and Poland. It was recently launched in Slovenia and will be launched in Russian Federation as well by the end of the year.

Products to treat diseases of the central nervous system are increasingly important, and we have expanded our product range with two completely new medicines: Torendo[®] (risperidone) and Zolsana[®] (zolpidem), while the marketing of Asentra[®] (sertraline) and Zalasta[®] (olanzapine) was expanded from Central Europe to other markets, particularly in south-east Europe.

The anti-microbial field is starting to stagnate, primarily in the developed world but also on Krka traditional markets. Our marketing activities are therefore aimed at increasing our market share and outdoing competing products, while the growth in absolute sales is lower than in other rapidly expanding areas.

This year we paid particular attention to practical training for management staff in the marketing teams in our companies and representative offices. This covered our field and regional managers, local product managers and

internal trainers, whose work has a decisive impact on specialist staff, ensuring that their visits and presentations to business partners are effective in terms of sales. In the first nine months of the year we organised meetings and training for each of these management groups. The groups were organised internationally to ensure the best possible exchange of experiences, while the training was very practical, with numerous case studies and computer simulations. The training for people in positions involving direct work with subordinates and recruitment included special focus on these themes.

Self-medication products

In the first nine months of the year we generated sales of self-medication products worth 11.9 billion SIT, a 13% growth on compared to the same period last year. Regions worthy of mention are Region East Europe (6.4 billion SIT, 30% growth) and Region South-East Europe (2.7 billion SIT, 33% growth).

Sales in Slovenia were 11% lower than for the same period last year, while in Region Central Europe were down 6%. The highest growth on the larger markets was recorded in the Russian Federation (37%), and Romania (64%).

The highest sales were achieved with the products Bilobil[®], Pikovit[®], Septolete[®], Duovit[®] and Panzynom[®], which recorded the highest growth at 92%.

Promotional activities backed by appropriate investment were targeted at priority products (Pikovit[®], Duovit[®], Septolete[®], Bilobil[®]) and the most promising potential markets (Russian Federation, Ukraine, Kazakhstan), with sufficient growth also being achieved on other markets (such as Poland, and Croatia). New product launches mainly involved adding new products to umbrella brands (new flavours of Septolete[®], Duovit[®] for men, Duovit[®] for women, Duovit[®] memo).

Cosmetic products

In the first nine months of the year cosmetic products generated sales of 1.8 billion SIT, exceeding the sales figures for the same period last year by 19%.

Looked at region by region, positive sales trends compared to last year were achieved in South East Europe (15%), East Europe (43%) and Central Europe (30%). Sales in Slovenia were the same as last year.

Animal health products

Sales of animal health products in the first nine months of 2006 were up by 4.1 billion SIT (14%) on the same period in 2005. Sales in Central Europe contributed the most growth, with sales there up by 27%.

In Poland Krka maintained or improved sales in traditional segments of veterinary care for poultry and pigs, despite a fall in demand for poultry meat due to bird flu. There was a noticeable increase in sales in other segments (injection solutions), due to increased market pressures on these segments, while the effects of drawing on EU agricultural subsidies was also felt. Hungary and Lithuania achieved above average growth in Region Central Europe.

Region East Europe ranks second for growth. Sound sales growth was achieved in the Russian Federation, consolidating last year's high growth. In Region South-East Europe Romania with 23% growth and Serbia (21%) are worthy of mention. Sales in Croatia and Slovenia remained at the same level as the previous year. The

markets of the Region West Europe and Overseas Market were also of interest, and are already showing the results of their changed strategic priority.

The best selling brand is still Enroxil[®], which achieved a minimal growth in sales. It is closely followed by Floron[®], which offers significant potential for growth, and will probably become the leading brand by the end of this year.

The leading product in veterinary care for pigs is Floron[®]. It represents over 17% of animal health product sales, and has firm hold of second place in the best-selling animal health product rankings. Veterinary protection for pigs is becoming more important due to the growth in animal stocks in some key markets. There is great potential in Russia in particular, where we anticipate launching Floron[®] premix.

In the field of veterinary care for poultry, the negative trends caused by avian flu in numerous European countries abated during the first half of 2006. This led to lower sales of Enroxil[®] solution, but higher sales of Virkon[®] S. Poultry production on traditional markets is continuing to grow, so we anticipate growth in sales of Enroxil[®], Kokcisan and Mondolar.

Health resorts and tourism

The services of the Terme Krka Group cover five main fields: wellness, health, sport, seminars and catering. Sales of health resort and tourist services were worth 5 billion SIT, an increase of 13% compared to the same period last year. The highest growth (39%) was achieved for wellness programmes, which already represent one tenth of all revenues and are successfully making up the shortfall due to declining health service revenues. Revenues from accommodation were up by 12%, from catering by 22%, and revenues from health services by 7%. The proportion of health resort and tourism services in overall Krka Group sales is 4%.

Achieving the best possible occupancy rates for available capacity is vital for all Terme Krka business units. The Terme Krka units together achieved a total of 258,134 overnight stays over the first nine months of 2006, which is 16,610 or 7% higher than for the same period last year. The highest number of overnight stays in the Krka Group was achieved by the Terme Krka Strunjan (34% of total), followed by the Šmarješke Toplice (29%) and Dolenjske Toplice (22%) units. The largest growth in overnight stays (23%) was recorded at Šmarješke Toplice.

Overnight stays by foreign guests represented one third of all overnight stays, and were 5% higher than the same period last year. Results on the Italian market were particularly encouraging, with number of guests from that market increasing by 7%.

The Terme Krka Group this year vigorously marketed services and programmes offering high added value, which means wellness, catering services and sport. This achieved high price levels for the services offered. One new acquisition was the golf course, which will have a significant important on the occupancy of capacity in Otočec.

Research and development

The start of 2006 was marked by an increase in the number of new development projects, with the aim being to ensure the continue competitiveness of the Krka product portfolio. At present, research and development work at Krka includes around 100 projects in various developmental phases and across a wide range of fields.

Development work concludes with the successful completion of registration procedures. By the end of September 2006, we had been granted the first marketing authorisation for 11 new products in 24 different strengths. We also acquired 709 market authorisations for various products across a number of different markets.

A new product was added to the cardiovascular range when Valsacor[®] gained market authorisation in Slovenia, with the active ingredient valsartan in 40, 80 and 160mg film-coated tablets. A market authorisation for Prenessa[®] (perindopril) as 2mg and 4mg tablets has been acquired also in some Central European countries. We expanded our range to acquire the first market authorisation for the product Co-Prenessa (combination of perindopril and indapamide) in Hungary. The first market authorisation for new strengths of Lorista[®] in the forms of 12.5mg, 25mg and 100mg tablets in Slovenia consolidated the brand as a key product for the treatment of cardiovascular disease. We successfully concluded the MRP for Losartan[®] 50mg tablets and Losartan[®]/hydrochlorothiazide tablets, expanding the registration of the product to some western European markets. In Russian Federation we acquired the first market authorisation for the product Diab-Norm[®] (pioglitazone) in the form of 15mg and 30mg tablets. Obtaining market authorisation for the product Zyllt[®] (clopidogrel) in Russian Federation and Bulgaria was an important national registration.

The Krka range of products to treat the central nervous system expanded with the acquisition of market authorisation in Slovenia for the product Zolsana[®] with the active ingredient zolpidem, in the form of 10mg and 5mg film-coated tablets. A significant first market authorisation was acquired for the product Alventa[®] (venlafaxine) in the form of 37.5mg, 75mg, 150mg capsules with modified release in Slovenia; it was also registered in Hungary but with the name Olwexya[®]. Another important achievement in the marketing of products for the central nervous system was obtaining the market authorisation for the Zalasta[®] (olanzapine) tablet and Yasnal[®] (donepezil) in Croatia.

The range of products to treat benign prostatic hyperplasia was expanded at the end of last year with market authorisations being obtained for Tanyz[®] (tamsulosin) and the new product Finpros[®] with the active ingredient finasteride in the form of a 5mg film-coated tablet.

In the self-medication group we added to the existing market authorisations for the Septolete[®] brand products with market authorisations for flavoured Septolete[®] products in the Czech Republic, Slovakia and the Ukraine. We obtained new market authorisations for Norya[®] (probiotic bacteria) in capsule form in Poland, the Czech Republic, Slovakia, Croatia, Russian Federation and Ukraine and for the product Minart[®] with the active ingredient glucosamine in the strength 1500mg effervescent tablets in Romania.

Important results were also achieved in the animal health field. On western European markets, we were the first generic producer to obtain market authorisation for and launch an enrofloxacin product, which is used to treat infections in farm animals. In September we successfully concluded an MRP for enrofloxacin orally administered solutions and acquired market authorisations in Germany, Belgium and Luxembourg. Krka's biocide range was developed with the notification of Ecocid[®] for human and veterinary medicine in Slovenia and the Czech Republic and Slovakia.

Special care in the development of new technologies is given to developing formulations in tandem with the delivery system, and the development of formulations in the form of orodispersible tablets. We successfully conclude an MRP for a risperidone film-coated tablet and orodispersible tablets in most countries in western and central Europe, and also acquired a first market authorisation for the product Mirzaten[®] Q Tab[®] in the forms of 15mg, 30mg and 45mg orodispersible tablets in Hungary. In the development of synthesis paths for active

ingredient preparation, we consolidated the success of our innovative, new approaches to development by obtaining market authorisation for a ciprofloxacin product in injection form in western Europe.

We intensified external cooperation in research management through work with specialised development partners in the field of active ingredient synthesis and bio-synthesis, as well as in the field of pharmaceutical technology and ingredient and product evaluation.

Investments

In the first nine months of 2006, the Krka Group allocated 17.6 billion SIT to investment, with 14.6 billion SIT invested by the controlling company, and 3 billion SIT by subsidiaries. At present the Group is implementing over 25 projects mainly relating to the production of final products and raw materials and the modernisation of infrastructure to provide high quality support for the business functions of the entire group. Most of these projects take place in Slovenia, while the largest investments among the subsidiaries are being implemented by Terme Krka, Krka Farma Zagreb and Krka Polska.

The Sinteza 4 Plant

In August 2006 we started test production in the new Sinteza 4 active pharmaceutical ingredient (API) production plant, the largest investment project this year in terms of both technological complexity and financial commitment. The plant will be used for the production of pharmaceutical ingredients, which can then be incorporated into our own pharmaceutical products. In addition to statins, which are incorporated into cholesterol-reducing products, Sinteza 4 will also be used to produce other APIs for products to treat cardiovascular diseases and pharmaceuticals in other therapeutic areas. In August we acquired a permit for test operations from the administrative authority, and at the beginning of October the Agency for Medical Products and Medical Devices carried out a GMP inspection of the facility.

Pelete IV

The construction of Pelete IV, with test production set to commence at the beginning of 2007, should double pellet production capacity. The new pellet production facility and spatial capacity required for production and R&D work will be located in the new extension to the Sinteza plant, which enable further expansion. The facility has been completed, and the commissioning and start up of technological equipment will take place by the end of 2006.

New injection production plant

Work has started on the new injection production plant, which will be connected to the existing plant. The new plant will be used for production, from the preparation of solutions, ampoule filling, and autoclaving, while the renovated current plant will be used for optical control and packaging. The start of test production is planned for the end of next year. The trades work on the plant is already in full flow, and the assembly of installations has started. A large number of contracts for the delivery and assembly of technological equipment have been signed, and will be delivered in December 2006.

Capsule production plant

The expansion of the product range has raised the need to increase packaging capacity for solid pharmaceutical forms. The first phase of modernising the capsule production and packaging plant is now underway, and will increase the production capacity of the plant. The work has largely already been finished, and two high capacity packaging have been installed and are already in operation.

Notol III

In the third phase of the Notol project we will increase the packaging facility, which will allow six new packaging lines to be added. There will also be investment in additional capacity of the weighing, granulating and tableting facilities to coordinate the increased packaging capacity with intermediate product production capacity. In September the third phase of facility construction was completed, and installation assembly began. All packaging lines will be installed during this year, with production on the new equipment starting by the end of the year.

Information technology projects

A wide range of IT projects are underway, including a project on data consolidation and building a business intelligence system, which involves bringing in an information system that will update the reporting system for existing information systems; a project to improve the entire process from planning sales requirements to detailed production scheduling; a project for the euro changeover; and the introduction of the SAP information system module for salary calculation and work time records.

Other Group investments

The largest amount allocated to investment by a subsidiary in the first nine months of 2006 was a 1.1 billion SIT investment by Krka Polska, followed by an investment of 785 SIT million by the Terme Krka company. In Poland the purchase of a new packaging line, expanded boiler, and additional an air-drying installation in the production facility has increased plant production capacity, while the upgrade of the administrative facility is also underway.

The largest investment for Terme Krka was the renovation of the Krka Hotel at Šmarješke Toplice and the overhaul of the heating system between the hot water well shaft and the hotel, while the associated company Terme Krka, and the company Golf Grad Otočec completed phase one of the golf course construction at Struga pri Otočcu. The Krka Farma Zagreb subsidiary is upgrading its central energy control system, which will also enable direct control from Novo mesto.

Employees

The Krka Group's ambitious sales plans for 2006 led it to accelerate staff recruitment, especially in the fields of marketing and sales in its companies and representative offices abroad, and in research and development. In 2006 we planned an increase of 573 in the number of employees, 88% of which in companies and representatives abroad. In the first three-quarters of the year the number of employees in Slovenia increased by 24, while in companies and representative offices abroad we engaged 348 new employees over that period, most of whom held a university degree. On 30 September 2006 the Krka Group had 5596 employees, which was 7% more than at the end of 2005, with the Krka Company employing 4159, or 4.6% more than at the end of last year. More than half of employees in the Krka Group have at least a university or other further education qualification.

The technical and technological advances and expansion of the sales portfolio with new products demands careful and continual investment in new knowledge and training for employees. At present 130 Krka employees are involved in specialist, master's and doctoral studies, while a total of 376 employees have been involved in part-time studies alongside their work. This year 41 employees concluded studies at various levels, and 56 acquired a national vocational qualification. We also provide 76 scholarships, mainly in collaboration with the faculties of pharmacy and chemistry, with 23 new scholarships awarded this year. Our employees are also studying at home and abroad in the fields of specialist knowledge, management, personal development, foreign languages and information science. Most of this education and training is organised by the Training Centre, which is part of the controlling company. The average number of hours dedicated to education per employee in the Krka Group was 17 hours. In the Krka Terme Group, 343 employees were involved in education for a total of 3512 hours.

Since 2001 we have been carrying out testing and verifying knowledge via a certification system that recognises and favours employees' practical knowledge. So far 190 certificates have been awarded to employees within this system, and 82 employees are currently in the process of training to acquire new vocational qualifications. Development planning for key and promising staff includes giving such staff demanding tasks and educating and training them in management and professional fields to ensure they are provided with all they need for the highest quality development. The development of key and promising management employees takes place in Krka's own international management school, which involves directors and managers from Krka companies and representative offices abroad and from the controlling company's organisational units. Training for specialists takes place in specialist and project teams in Slovene and English. This also contributes to strengthening the international culture of the Krka Group.

Education structure of Krka Group employees

Level of education	30 Sep 2006		31 Dec 2005	
	Number of employees	Proportion (%)	Number of employees	Proportion (%)
Doctorate	61	1.0	51	1.0
Master of Science	157	2.8	153	2.9
University education	2303	41.2	2018	38.6
Higher professional education	302	5.4	221	4.2
Vocational college education	217	3.9	206	4.0
Secondary school education	1127	20.1	1104	21.1
Skilled workers	1185	21.2	1219	23.4
Unskilled workers	244	4.4	252	4.8
Total	5596	100.0	5224	100.0
- Slovenia	3604	64.4	3580	68.5
- abroad	1992	35.6	1644	31.5

Share trading and shareholding

At the end of September 2006 Krka had a little over 54,000 shareholders, which is one per cent more than at the end of 2005. The total number of shareholders increased primarily through more Slovenian individual investors and international investors being added; their ownership share increased by over 1.6 percentage points to 7.8%. In the first nine months of 2006 the ownership share of investment companies and funds fell by 3.5 percentage points, while the ownership share of other shareholder groups did not change significantly.

Ownership structure (%)

	30 Sep 2006	31 Dec 2005
Individual Slovenian investors	40.5	39.2
Investments funds & companies	11.7	15.2
SOD Fund	15.0	14.5
Other Slovenian companies	10.2	10.3
KAD & PPS Funds	10.2	10.0
Treasury stock	4.6	4.6
International investors	7.8	6.2
Total	100.0	100.0

On 30 September 2006 the Krka Company held treasury stock of 162,662 shares, which was 4.6% of the share capital. In the first nine months of 2006 the company did not repurchase any treasury stock. The ten largest shareholders on 30 September 2006 held a total of 1,259,388 or 35.55 % of company shares.

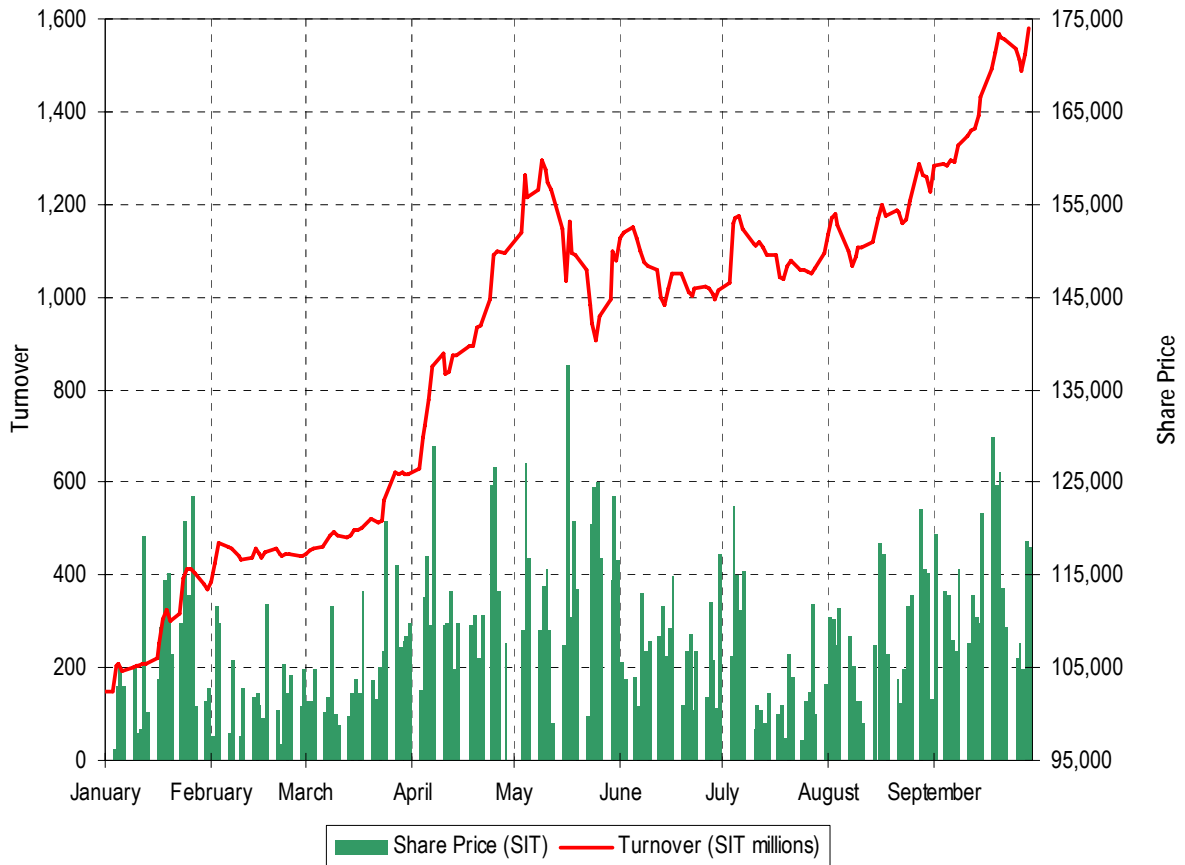
Ten largest shareholders in Krka as at 30 September 2006

	Number of shares	Proportion (%)
SLOVENSKA ODŠKODNINSKA DRUŽBA, D.D.	531,207	14.99
KAPITALSKA DRUŽBA, D.D.	349,303	9.86
NFD 1 DELNIŠKI INVESTICIJSKI SKLAD D.D.	95,773	2.70
NEW WORLD FUND INC	55,047	1.55
DELNIŠKI VS TRIGLAV STEBER I	46,856	1.32
BANK AUSTRIA CREDITANSTALT AGRICULTURAL	43,863	1.24
ZAVAROVALNICA TRIGLAV, D.D.	38,830	1.10
LUKA KOPER, D.D.	38,717	1.09
MARIBORSKE LEKARNE MARIBOR	30,000	0.85
KD GALILEO, VZAJEMNI SKLAD	39,792	0.84
Total	1,259,388	35.55

As at 30 September 2006, members of the management board and supervisory board together held 6,581 company shares or 0.19% of Krka shares. Members of the management board held the following number of shares: Jože Colarič 2,100 shares (0.059 % of total equity), Janez Poljanec 2206 shares (0.062%), Aleš Rotar

1,277 shares (0.036 %) and Zvezdana Bajc 110 shares (0.003%). Members of the supervisory board held the following number of shares: Gregor Gomišček 12 shares (0.0003%), Marko Kranjec 101 shares (0.003%), Alojz Zupančič 514 shares (0.015%), Sonja Kermc 211 shares (0.006%) and Tomaž Sever 50 shares (0.001%).

Trading in Krka shares in first nine months of 2006



The Krka share price increased most in April and May, reaching a value of 160,000 SIT. There followed a short correction to the price as it fell to 140,000 SIT. In the following months the price grew and at the end of September 2006 it reached its peak for the reporting period – 173,970 SIT. Average daily trading in company shares on Ljubljana Stock Exchange in the first nine months of 2006 was 273 million SIT. Krka's market capitalisation on 30 September 2006 was 616 billion SIT.

Risk management

Foreign exchange risk

Operating in foreign currencies exposes Krka to risks relating to foreign exchange movements.

The net long position in USD was higher in 2006 than for the same period last year. Most of the open position was hedged by derivative financial instruments taken out in 2005 and the start of 2006, so the fall in the value of the USD did not have a significant impact on the company's operations. In 2006 we continued to hedge against risk arising from changes in the value of the USD, as we assess that it remains probable that the USD will continue to lose value in the coming period.

Changes in the values of other key currencies (PLN, MKD, HRK, RUB) did not have a significant impact on company operations in the first nine months of 2006.

Interest rate risk

At the end of the third quarter of 2006, the Krka Company had four long-term loans linked to the 6-month LIBOR for the USD or the 6-month EURIBOR. We were already hedging the interest rate risk in 2004 with three loans, two of which were denominated in USD and the other in EUR. In the first nine months of the year the company achieved positive financial effects from hedging instruments, so the gradual increase in short-term interest rates did not have a negative effect on the costs of financing.

In the first nine months of the year the Company did not take out any new long-term loans, so the interest rate risk did not increase over the period.

Credit risk

The Company uses credit risk management to reduce the risk of purchasers failing to meet their contractual obligations. At present, 290 customers of the controlling company's customers, to which it sells products worth over EUR 100,000 per year, are covered by our credit control process.

In 2006 the credit control system was extended to include customers of subsidiaries in Poland, Croatia, Serbia, the Russian Federation, and Macedonia. There are now 180 subsidiary customers included in the system.

The Krka Group did not write-off any receivables that had a significant material impact, in the first nine months of this year.

Liquidity risk

Risks related to providing sufficient liquidity for the Krka Group are managed through short-term and long-term cash flow planning. We fulfil our short-term liquidity needs using weekly, monthly, and longer-term cash flow plans on a rolling basis, in conjunction with short-term credit lines and a portfolio of short-term liquid investments. Cashflow requirements are covered using short-term foreign currency and tolar loans, so the balance of short-term loans had increased at the end of the nine-month period, but no new long-term loans were taken out.

The liquidity risk was low during the reporting period.

Property, business interruption and liability insurance

Krka Group's insurance provides compensation for damage to property, and loss of earnings due to business interruption, and protects the company in case of third party claims for damages. Procedures for taking out insurance and making claims are internally standardised, with the same processes used at home and in the subsidiaries and representative offices abroad.

Fixed asset, equipment and inventory insurance is based on the current value, and buildings at acquisition price, which means that compensation is not reduced by depreciation due to use. The sum insured by business interruption insurance includes the labour costs, depreciation and other business expenses, and operating profit for a period of one year.

The Krka Group's liability insurance for material and non-material accidental damage to third parties that could be caused by the Group's activities, property, or placing products on the market. Liability insurance also covers contractual partners involved in construction and installation work, investment projects, and transport.

The number of loss events at the Group level fell compared to the same period last year, and the Group was not involved in any major damage or liability claims.

Transition to the euro

The Company's Management Board appointed a group with representatives for a number of different organisational units. The Group's objective is to ensure a successful euro changeover on 1 January 2007, and ensure that Krka's "central conversion" process takes place as quickly as possible without interruption to any business process. Given the Company has been using the SAP information system since 1 January 2005, preparations for the euro changeover have used the methodology of the SAP software supplier. The key users of the individual, business process-related SAP modules – purchasing, sales, finance, control, accounting – have been able to use a copy of the production system to run process tests under the conditions that will be in force in the SAP environment after 1 January 2007. Full tests have been carried out successfully twice. As each SAP module has its own special features, outside experts cooperating in the testing process. The Company will carry out its central conversion after the concluded audit of the 2006 financial statements, provisionally in the first half of March 2007.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the period January - September 2006 have been prepared for the Krka, d. d., Novo mesto and the Krka Group. Krka, d. d., Novo mesto is the controlling company of the Krka Group with its registered seat at Šmarješka cesta 6, 8501 Novo mesto in Slovenia. The consolidated financial statements of the Krka Group for the period ended 30 September 2006 comprise the Company, its subsidiaries in Slovenia and abroad (hereinafter referred to as Group) as well as Group's interests in associated companies.

Statement of compliance

These interim financial statements of the Company and the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) IAS 34 Interim Financial Reporting. In comparison with the annual financial statements these interim financial statements do not include all of the information required for full annual financial statements. That is why these condensed interim financial statements should be read in conjunction with annual financial statements for the year ended 31 December 2005. The comparable interim financial statements for 2005 of the Krka Company and the Krka Group are prepared in compliance with IAS 34 Interim Financial Reporting.

Basis of preparation

The financial statements are presented in Slovene tolar (SIT), rounded to the nearest thousand. They are prepared on the historical cost basis, while derivative financial instruments, financial instruments held for trading, and financial instruments classified as available-for-sale are stated at their fair value.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Group and the Company apply the same accounting policies in all periods, presented in the enclosed condensed interim financial statements.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the controlling company. Control exists when the controlling company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates

Associates are those entities in which the Group has significant influence but not control over the financial and operating policies of the Company. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on accounted basis from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment

Foreign currency

Foreign currency transactions

Transactions and balances in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Slovenian tolar at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Slovenian tolar at foreign exchange rates ruling at the dates the fair value was determined.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Slovenian tolar at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Slovenian tolar at the average annual rate that most suits the rate ruling at the date of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

Derivative financial instruments and hedging

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The recognition of subsequent changes to the fair value depends upon whether a certain derivative financial instrument qualifies for hedge accounting:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.
- For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.
- The effectiveness of the hedge can be reliably measured i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.

The derivative financial instrument is recorded differently in respect to its purpose in case of a specific hedge accounting.

Changes to fair values of derivative financial instruments earmarked for hedging the fair value of assets or liabilities are disclosed in the income statement. The income statement includes also changed values of assets or liabilities to which the derivative financial instruments refer.

Hedging of net investments in foreign operations is disclosed in the same manner as cash flow hedging. Exchange differences arising on this transaction are included in equity under joint exchange difference.

Changes to fair values of derivative financial instruments earmarked for hedging in various economic sense but not meeting the stated criteria, are recorded and subsequently valued as each other asset or liability. Gains and losses that occurred due to the changed fair value are disclosed in the income statement.

Property, plant and equipment

Items of property, plant and equipment are stated at cost as deemed cost less accumulated depreciation and impairment losses (see accounting policy 'Impairment'). The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 January 2004, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs

The subsequent cost of an item of property, plant and equipment is recognised in the carrying amount when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group. All other subsequent costs are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The depreciation rates are determined on the basis of the estimated useful lives. Land is not depreciated.

The estimated useful lives are as follows:

- | | |
|-----------------------|------------|
| • buildings | 8-40 years |
| • plant and equipment | 5-20 years |
| • furniture | 5 years |
| • computer equipment | 4-6 years |

- means of transportation 5-15 years

The residual value, if not insignificant, is reassessed annually.

Intangible assets

Research and development

As for the research and development activity, the item of intangible assets comprise the purchase of the registration documentation. All other costs referring to the research development work within the Group are recognised in the income statement as expense upon their accrual.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses (see accounting policy 'Impairment').

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets and starts, when the asset is available for its intended use. The estimated useful lives are as follows:

- recognised development costs 5 years
- software 2-10 years
- other intangible assets 5-10 years

Investments

Investments in subsidiaries

Investments made in equity of subsidiaries or associates included in consolidated financial statements are valued at cost. Participation in the profit of subsidiary is recognised in the income statement of the controlling company when the latter retains the right to profit distribution. If the investment is required to be impaired due to subsidiary's loss, the amount of loss due to impairment is measured as a difference between the carrying amount and the present value of expected future cash flows.

Investments in debt and equity securities

Financial instruments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement.

Other financial instruments held by the Group are classified as being available-for-sale and are stated at fair value. Any resultant gain or loss is recognised directly in equity, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

The fair value of financial instruments classified as held for trading and available-for-sale is their quoted bid price at the balance sheet date.

Financial instruments classified as held for trading or available-for-sale investments are recognised/derecognised by the Group on the date it commits to purchase/sell the investments. Securities held-to-maturity are recognised/derecognised on the day they are transferred by the Group.

Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses (see accounting policy 'Impairment').

Inventories

An inventory unit of raw materials and materials, as well as supporting and packaging materials is valued at cost including all direct cost of purchase. Inventories of material are stated at the average cost of purchase. Inventories of finished products and work in progress are valued at fixed prices, which in addition to direct cost of material include also cost of production (direct labour, direct cost of depreciation, direct cost of services and indirect cost of production such as energy, maintenance, quality, etc.). Inventories of work in progress and finished products are carried at fixed prices. An inventory unit of merchandise is valued at cost including cost of purchase, import duties and all costs directly attributable to the acquisition, decreased by discounts. Inventories of merchandise are carried at fixed price variances.

Inventories of materials and merchandise are stated at the lower of cost and net realisable value, whereas inventories of finished products at the lower of fixed price and net realisable value.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. The recoverable amount is calculated as the present value of estimated future cash flows. Short-term receivables are not discounted.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Calculation of recoverable amount

The recoverable amount of the Group's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Short-term receivables are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversal of impairment

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Equity

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

Dividends

Dividends are recognised in the consolidated financial statements in the period, in which the annual meeting adopted the resolution on dividend payout.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions for lawsuits

The Group discloses provisions for lawsuits related to alleged patent infringements. Provisions entirely refer to drugs for heart and cardiovascular diseases. Each year it verifies the justification of the formed provisions with a view to the litigation status and the prospects for a favourable or unfavourable lawsuit outcome. The amounts of provisions are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated potential amount, if the indemnification claim is not yet disclosed.

Provisions for termination pay and anniversary bonuses

Pursuant to the local legislation in countries where the controlling company and its subsidiaries are located, the Group is liable to pay to its employees anniversary bonuses and termination pay upon retirement. For these obligations, long-term provisions are formed. There is no other obligation in respect of pension.

Provisions are determined by discounting, at the balance sheet date, the estimated future benefits in respect of termination pays and anniversary bonuses paid to employees in those countries, where this legal obligation exists. The obligation is calculated by estimating the costs of termination pay upon retirement and the costs of all expected anniversary bonuses until retirement. The selected discount rate is 2.75% p.a.. The calculation is performed by a certified actuary. Actuarial gains and losses are recognised in the income statement.

Provisions for ecological improvements and provisions for grants were both already used up and decreased by the depreciation amount.

Trade and other payables

Trade and other payables are stated at historical cost, indicated in relevant documents.

Net sales

Net sales or revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, also continuing managerial involvement with the goods. Revenues from the sale of goods and services rendered are measured at selling prices stated in invoices or other documents, reduced by discounts and rebates approved either when the sale is made or subsequently, including those granted for early payment

Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement and valued at market value.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Segment reporting

With respect to the strategic direction of its operations and criteria for the formation of business segments (common therapeutic characteristics of products, marketing and advertising methods and level of risk) the Group distinguishes between following three segments: human health products (prescription pharmaceuticals, self-medication products and cosmetics), animal health products and health-resort and tourist services.

Geographical segments, within which we find geographically related countries with a similar level of economic development and purchasing power, as well as similar economic and political characteristics are as follows: the European Union, South-East Europe, Eastern Europe and the remaining Western Europe and overseas markets.

The Group's basic form of reporting bases on geographical segments, which reflect the Group's internal organisation. Certain business functions are entirely or mostly carried out by the controlling company that holds the controlling share in terms of sale as well as asset value. The Group boasts of an own strong sales marketing network, with the emphasis on five key markets i.e. Slovenia, the Russian Federation, Croatia, Poland and the Western Europe. Each of these markets is involved in one of the geographical regions that are specified as geographical segments. In the light thereof the geographical segments are given priority during reporting. Operating results, assets and liabilities by geographical segments include items that may directly be attributable to the segment, as well as items that may reasonably be allocated to the segment.

As for business segments the Group reports solely on the net sales. Within the structure of business segments, the share of human health products represents more than 90% of the Group's sale in terms of value.

Cash Flow Statement

The cash flow statement has been prepared under the direct method based upon items from the balance sheet as at 30 September 2006 and 31 December 2005, the income statement for the period that ended 30 September 2006, as well as additional data required for the adjustment of inflows and outflows.

FINANCIAL STATEMENTS OF THE KRKA GROUP

Consolidated balance sheet

in thousand SIT	30 Sep 2006 Unaudited	31 Dec 2005 Audited	Ind. 06/05
Assets			
Property, plant and equipment	116,850,704	108,165,231	108
Intangible assets	5,271,199	5,058,450	104
Investments in associates	463,037	270,761	171
Deferred tax assets	5,751,584	4,778,324	120
Other non-current assets	2,772,765	2,182,301	127
Non-current assets	131,109,289	120,455,067	109
Inventories	28,190,629	28,966,629	97
Trade and other receivables	38,861,016	33,008,703	118
Current investments	6,231,460	3,391,005	184
Cash and cash equivalents	2,874,038	3,027,752	95
Current assets	76,157,143	68,394,089	111
Total assets	207,266,432	188,849,156	110
Off balance sheet items	16,740,118	20,201,775	83
Equity			
Share capital	14,170,448	14,170,448	100
Own shares	-4,670,280	-4,670,280	100
Reserves	34,885,325	34,885,325	100
Retained earnings	80,441,640	68,131,642	118
Reserves for fair value	849,097	561,602	151
Translation reserves	37,526	4,648	807
Equity holders of the parent	125,713,756	113,083,385	111
Minority interest	1,871,980	1,813,556	103
Total equity	127,585,736	114,896,941	111
Liabilities			
Borrowings	11,517,352	11,669,435	99
Provisions	30,079,706	23,647,648	127
Grants received	646,304	445,849	145
Deferred tax liabilities	347,249	285,236	122
Total non-current liabilities	42,590,611	36,048,168	118
Trade payables	13,753,435	14,043,571	98
Borrowings	13,299,410	9,120,664	146
Income tax liabilities	2,338,267	6,689,431	35
Provisions and other liabilities	7,698,973	8,050,381	96
Total current liabilities	37,090,085	37,904,047	98
Total liabilities	79,680,696	73,952,215	108
Total equity and liabilities	207,266,432	188,849,156	110
Off balance sheet items	16,740,118	20,201,775	83

Consolidated income statement

in thousand SIT	1-9/2006 Unaudited	1-9/2005 Unaudited	Ind. 06/05
Net sales	120,092,818	97,851,432	123
Production cost of goods sold	43,152,636	39,832,900	108
Gross operating yield	76,940,182	58,018,532	133
Sales and marketing	30,876,419	20,501,331	151
- without provisions formed	24,876,419	20,359,551	122
R&D costs	9,841,294	7,967,730	124
Administrative expenses	9,968,582	9,874,464	101
Other operating revenues	552,786	279,238	198
Operating profit	26,806,673	19,954,245	134
Financial income	2,310,014	2,831,327	82
Financial expenses	3,112,035	2,328,077	134
Net financial expenses	-802,021	503,250	
Profit before tax	26,004,652	20,457,495	127
Income tax expense	6,882,372	5,468,114	126
Profit for the period	19,122,280	14,989,381	128
Equity holders of the parent	19,048,178	14,946,726	127
Minority interest	74,102	42,655	174
Earnings per share (in SIT)	5,658	4,435	128

* Sales and marketing costs for January – September 2006 include 6 billion SIT for provisions formed for lawsuits.

Consolidated statement of recognised income and expenses

in thousand SIT	1-9/2006 Unaudited	1-9/2005 Unaudited
Translation reserve	32,878	-66,656
Revaluation of long-term investments to market price	383,430	41,300
Deferred taxes	-390,657	-10,324
Purchase of minority interests	0	-36,469
Tax on IFRS transition difference	-812,173	0
Net income and expense recognised directly in equity	-786,522	-72,149
Profit for the period	19,122,280	14,989,381
Total recognised income and expense for the period	18,335,758	14,917,232

Consolidated cash flow statement

in thousand SIT	1-9/2006 Unaudited	1-9/2005 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	18,722,280	14,989,381
Adjustments for	16,098,516	13,997,486
Amortisation /Depreciation	8,412,893	8,327,185
Foreign exchange gain	-389,088	-1,389,786
Foreign exchange loss	1,075,606	750,365
Investment income	-987,022	-255,086
Investment expenses	510,073	593,840
Financial expenses	593,682	502,854
Income taxes and other taxes not included in operating expenses	6,882,372	5,468,114
Operating loss before changes in net operating current assets and provisions	34,820,796	28,986,867
Change in trade receivables	-6,283,432	-7,607,650
Change in inventories	776,000	-9,190,716
Change in operating debts (liabilities)	914,530	3,386,682
Change in other trade payables and provisions	6,497,778	3,611,989
Income taxes paid	-13,347,613	-3,581,772
Cash generated from operations	23,378,059	15,605,400
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	125,144	175,556
Proceeds from sale of investments	0	1,040,309
Dividends received	34,459	17,454
Purchase of intangible assets	-1,087,714	-1,126,863
Purchase of property, plant and equipment	-17,404,695	-11,738,342
Acquisition of long-term investments	-723,328	0
Acquisition of short-term investments	-2,481,397	0
Proceeds/acquisition of derivative financial instruments	101,616	-203,976
Net cash used in investing activities	-21,435,915	-11,835,862
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from an increase in long-term financial liabilities	20,047	1,132,416
Proceeds from an increase in short-term financial liabilities	4,270,868	2,340,685
Payment of interest in respect of financing	-685,804	-682,655
Dividends paid	-5,628,795	-4,801,697
Net cash used in financing activities	-2,023,684	-2,011,251
Net increase in cash and cash equivalents	-81,540	1,758,287
Cash and cash equivalents at beginning of period	3,027,752	2,841,099
Effect of exchange rate fluctuations on cash held	-72,174	8,760
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,874,038	4,608,146
CASH FLOWS FROM OPERATING ACTIVITIES		

Consolidated statement of changes in equity

v thousand SIT	Share capital	Reserves	Own shares	Retained earnings	Reserves for fair value	Translation reserves	Minority interest	Total
Balance at 31 Dec 2004 (audited)	14,170,448	34,085,325	-4,670,280	51,140,710	519,986	59,959	1,819,476	97,125,624
Profit for the period	0	0	0	14,946,726	0	0	42,655	14,989,381
Formation of statutory reserves	0	800,000	0	-800,000	0	0	0	0
Dividends	0	0	0	-4,786,303	0	0	0	-4,786,303
Income and expense recognised directly in equity	0	0	0	0	30,976	-66,556	-36,469	-72,049
Balance at 30 Sept 2005 (unaudited)	14,170,448	34,885,325	-4,670,280	60,501,133	550,962	-6,597	1,825,662	107,256,653
Balance at 31 Dec 2005 (audited)	14,170,448	34,885,325	-4,670,280	68,131,643	561,602	4,648	1,813,556	114,896,942
Profit for the period	0	0	0	19,048,178	0	0	74,102	19,122,280
Formation of statutory reserves	0	0	0	0	0	0	0	0
Dividends	0	0	0	-5,631,286	0	0	-15,678	-5,646,964
Income and expense recognised directly in equity	0	0	0	-1,106,895	287,495	32,878	0	-786,522
Balance at 30 Sept 2006 (unaudited)	14,170,448	34,885,325	-4,670,280	80,441,640	849,097	37,526	1,871,980	127,585,736

Notes to the consolidated balance sheet

Property, plant and equipment 116,850,704 thousand SIT

in thousand SIT	30 Sep 2006 Unaudited	31 Dec 2005 Audited	Ind. 06/05
Property	5,359,025	5,168,315	104
Plant	51,981,807	52,732,547	99
Equipment	32,774,014	33,583,618	98
PPE under construction	26,735,858	16,680,751	160
Total	116,850,704	108,165,231	108

The value of property, plant and equipment represented 56% of the total assets of the Group and recorded an increase of 8% compared to the start of the year due to new investments. The largest investments by value were the construction of the new Sinteza 4 plant for the production of active pharmaceutical ingredients, a new plant for the production of pellets, a new injection production plant and the reconstruction of the capsule plant. For the subsidiaries the largest investments were to increase capacity of production plant and the upgrade to the administrative building at Krka Polska and the reconstruction of Hotel Krka at Šmarješke Toplice by the Terme Krka Group.

Intangible assets 5,271,199 thousand SIT

in thousand SIT	30 Sep 2006 Unaudited	31 Dec 2005 Audited	Ind. 06/05
Long-term deferred R&D cost	426,334	603,482	71
Long-term property rights	3,419,185	3,611,856	95
Intangible assets under construction	1,425,680	843,112	169
Total	5,271,199	5,058,450	104

Compared to the balance at the end of 2005, the value of intangible assets increased by 4%. Property rights from computer software represented two thirds of all intangible assets. Intangible assets under construction mainly include registration document for new pharmaceuticals.

Inventories 28,190,629 thousand SIT

in thousand SIT	30 Sep 2006 Unaudited	31 Dec 2005 Audited	Ind. 06/05
Material	9,025,184	9,900,962	91
Work in progress	6,889,624	4,986,820	138
Products	11,351,115	13,440,723	84
Merchandise	902,222	630,146	143
Advances	22,484	7,978	282
Total	28,190,629	28,966,629	97

The value of Group inventories at the end of September 2006 was down 3% compared to the start of 2006, due mainly to increased sales over the period.

The inventories are valued at actual cost of purchase. Inventories of material are disclosed at the average cost of purchase. Other inventories are carried at fixed prices which include, beside the cost of material also the production cost of goods sold.

In the inventories structure, 32% of inventories are materials, 24% work in progress and 43% finished products and merchandise.

Trade and other receivables 38,858,847 thousand SIT

in thousand SIT	30 Sep 2006 Unaudited	31 Dec 2005 Audited	Ind. 06/05
Trade receivables	35,604,013	30,255,828	118
Other receivables	3,254,834	2,752,875	118
Total	38,858,847	33,008,703	118

Trade and other receivables increased by 18% compared to year-end 2005. The reason for this increase over the period is higher sales, and in part the longer repayment periods for government procurements in the Russian Federation.

Current investments 6,231,460 thousand SIT

in thousand SIT	30 Sep 2006 Unaudited	31 Dec 2005 Audited	Ind. 06/05
Equity shares held for trading	2,806,189	1,524,869	184
Other current investments	3,340,881	1,659,977	201
Current loans	84,390	206,159	41
Total	6,231,460	3,391,005	184

Compared to the end of 2005, the largest increase for a current investment item was under other current investment (increasing 1,680,904 thousand SIT), while the value of investments in equity shares held for trading increased by 1,281,320 thousand SIT.

The increase in other current investments (totalling 1,680,904 thousand SIT), included investments worth 720,000 thousand SIT in domestic mutual funds 302,700 thousand SIT in foreign bonds, and 281,116 thousand SIT in government bonds. Investments in equity shares held for trading increased by 1,281,320 thousand SIT, mainly in foreign shares.

Equity

127,585,736 thousand SIT

in thousand SIT	30 Sep 2006 Unaudited	31 Dec 2005 Audited	Ind. 06/05
Share capital	14,170,448	14,170,448	100
Own shares	-4,670,280	-4,670,280	100
Reserves	34,885,325	34,885,325	100
Retained earnings	80,441,640	68,131,642	118
Reserves for fair value	849,097	561,602	151
Translation reserves	37,526	4,648	807
Equity holders of the parent	125,713,756	113,083,385	111
Minority interest	1,871,980	1,813,556	103
Total equity	127,585,736	114,896,941	111

The equity of the Group increased by 11% compared to the end of 2005. The increase is mainly attributable to the Group's profit for the first ninth months of the year of 19,122,280 thousand SIT, the reductions due to the payment of dividends and participation in profit, in line with a resolution of the 11th Annual General Meeting of 6 July 2006.

Borrowings

24,816,762 thousand SIT

in thousand SIT	30 Sep 2006 Unaudited	31 Dec 2005 Audited	Ind. 06/05
Long-term borrowings	11,517,352	11,669,435	99
- borrowings from domestic banks	11,516,078	11,631,002	99
- borrowings from other entities	1,274	38,433	3
Short-term borrowings	13,247,307	8,972,820	148
- borrowings from domestic banks	10,463,195	5,107,105	205
- borrowings from foreign banks	82,363	1,339,308	6
- borrowings from other entities	2,701,749	2,526,407	107
Interest payable	52,103	147,844	35
Total	24,816,762	20,790,099	119

The value of long-term and short-term borrowings together increased by 19% compared to year-end 2005. Long-term borrowings decreased due to repayment by an amortisation schedule, while the value of the short-term loans increased, mainly due to new loans taken out by the controlling company for the dividend payout in September.

Provisions and other long-term liabilities **30,079,706 thousand SIT**

in thousand SIT	30 Sep 2006 Unaudited	31 Dec 2005 Audited	Ind. 06/05
Provisions	29,606,938	23,647,648	125
- provisions for pensions and similar liabilities	31,448	32,358	97
- provisions for termination pay and anniversary bonuses	10,664,604	10,664,604	100
- provisions for tax liabilities	0	3,133	0
- provisions for lawsuits	18,819,756	12,821,356	147
- for ecological restoration	89,530	119,937	75
- for other purposes	1,600	6,260	26
Other long-term liabilities	472,768	0	
Total	30,079,706	23,647,648	127

The major item of the total provisions recorded by the Group involves provisions for the lawsuits which are, compared to the beginning of the year, increased by 47% on account of forming new provisions by the controlling company in the amount of 6,000,000 thousand SIT, primarily for a lawsuit due to alleged patent violation relating to the patent protection of atorvastatin.

Trade payables **13,753,435 thousand SIT**

in thousand SIT	30 Sep 2006 Unaudited	31 Dec 2005 Audited	Ind. 06/05
Payables to domestic suppliers	6,680,469	7,743,740	86
Payables to foreign suppliers	6,859,622	5,776,651	119
Payables from advances	213,344	523,180	41
Total	13,753,435	14,043,571	98

Notes to the consolidated income statement

Net sales **120,092,818 thousand SIT**

The net sales revenues included net sales from products, services and merchandise on the domestic market in the amount of 19,004,053 thousand SIT (16% of net sales) and net sales on foreign markets in the amount of 101,088,764 thousand SIT (84% of net sales). Compared to the results for the same period last year, there was growth of 23%.

Other operating revenues **552,786 thousand SIT**

in thousand SIT	1-9/2006 Unaudited	1-9/2005 Unaudited	Ind. 06/05
Reversal of non-current provisions	63,741	53,102	120
Profit from the sale of fixed assets	187,909	82,138	229
Other operating revenues	301,136	143,998	209
Total	552,786	279,238	198

Production cost of goods sold **43,152,636 thousand SIT**

In the first nine months of 2006, the production cost of goods sold increased by 8% compared to the same period last year. The ratio of production costs to net sales decreased from 43.5% to 36.4%. The decrease is a result of a more favourable product mix of goods sold, as well as stronger cost efficiency and better productivity.

Sales and marketing **30,876,419 thousand SIT**

Sales and marketing expenses comprise the costs of the Slovenian and foreign marketing sales network, as well as provisions of the controlling company formed for lawsuits in the amount of 6,000,000 thousand SIT. Excluding these newly formed provisions the sales and marketing expenses were up by 22%, but including these provisions they were 51% higher than in the same period in 2005.

R&D costs **9,841,294 thousand SIT**

Compared to the same period last year, R&D costs increased by 30%, and their ratio to net sales increased from 8.1% to 8.2%.

Administrative expenses **9,968,582 thousand SIT**

Administrative expenses increased compared to the same period last year by 1%, and their ratio to net sales fell from 10.1% to 8.3%. Administrative expenses includes other operating expenses.

Costs in terms of types **93,838,931 thousand SIT**

in thousand SIT	1-9/2006 Unaudited	1-9/2005 Unaudited	Ind. 06/05
Cost of goods and materials	29,830,532	26,930,262	111
Cost of services	20,829,340	21,040,535	99
Employee benefits expense	27,455,022	25,439,845	108
Depreciation	8,412,893	8,327,185	101
Provisions formed	6,000,000	141,780	4,232
Other operating expenses	2,675,479	2,004,090	134
Total costs	95,203,266	83,883,697	113
Changes in the value of inventories	1,364,335	5,707,272	24
Total	93,838,931	78,176,425	120

Employee benefits cost **27,455,022 thousand SIT**

in thousand SIT	1-9/2006 Unaudited	1-9/2005 Unaudited	Ind. 06/05
Gross wages and salaries and continued pay	21,307,307	18,967,511	112
Social security contributions and payroll tax	4,465,372	4,779,758	93
Other employee benefits cost	1,682,343	1,692,576	99
Total	27,455,022	25,439,845	108

Other operating expenses **2,675,479 thousand SIT**

in thousand SIT	1-9/2006 Unaudited	1-9/2005 Unaudited	Ind. 06/05
Grants, assistance	392,501	379,480	103
Environmental levies	267,640	186,796	143
Fiscal charges irrespective of operating results	389,290	415,687	94
Impairments and inventory write-offs	654,188	307,418	213
Impairments and receivable write-offs	390,438	139,359	280
Other costs	581,422	575,350	101
Total	2,675,479	2,004,090	134

Financial income and financial expenses

in thousand SIT	1-9/2006 Unaudited	1-9/2005 Unaudited	Ind. 06/05
Exchange gains	1,106,013	2,540,097	44
Interest income	116,265	179,672	65
Gain on remeasurement of investments at fair value	161,002	31,182	516
Other income	926,734	80,376	1,153
Total financial revenue	2,310,014	2,831,327	82
Exchange losses	2,170,716	1,231,383	176
Interest paid	544,582	534,753	102
Impairments due to remeasurement of investments at fair value	181,810	43,393	419
Other expenses	214,927	518,548	41
Total financial expenses	3,112,035	2,328,077	134
Net financial income	-802,021	503,250	

Income tax expense

6,882,372 thousand SIT

The corporate income tax levied amounts to 8,159,823 thousand SIT, which is 31.4% of profit before tax. Taking into account the deferred tax of 1,277,451 thousand SIT, income tax expense in the income statement totals 6,882,372 thousand SIT, and the effective tax rate is 26.5%.

FINANCIAL STATEMENTS OF THE KRKA COMPANY

Balance Sheet

in thousand SIT	30 Sep 2006 Unaudited	31 Dec 2005 Audited	Ind. 06/05
Assets			
Property, plant and equipment	86,590,607	78,103,851	111
Intangible assets	5,010,107	4,897,744	102
Investments in subsidiaries	29,288,131	27,756,710	106
Deferred tax assets	4,866,651	3,732,861	130
Other non-current assets	2,670,042	2,097,824	127
Non-current assets	128,425,538	116,588,990	110
Inventories	24,846,162	26,883,175	92
Trade and other receivables	38,751,241	33,774,998	115
Current investments	8,004,832	3,933,668	203
Cash and cash equivalents	1,136,302	758,768	150
Current assets	72,738,537	65,350,609	111
Total assets	201,164,075	181,939,599	111
Off balance sheet items	16,032,044	19,352,546	83
Equity			
Share capital	14,170,448	14,170,448	100
Own shares	-4,670,280	-4,670,280	100
Reserves	34,885,325	34,885,325	100
Retained earnings	81,358,802	69,193,532	118
Reserves for fair value	849,097	561,602	151
Total equity	126,593,392	114,140,627	111
Liabilities			
Borrowings	9,861,961	10,011,560	99
Provisions	29,134,847	22,692,910	128
Grants received	77,942	87,605	89
Deferred tax liabilities	283,032	265,879	106
Total non-current liabilities	39,357,782	33,057,954	119
Trade payables	13,322,482	12,713,863	105
Borrowings	13,174,330	8,495,030	155
Income tax liabilities	2,154,142	6,598,933	33
Provisions and other liabilities	6,561,947	6,933,192	95
Total current liabilities	35,212,901	34,741,018	101
Total liabilities	74,570,683	67,798,972	110
Total equity and liabilities	201,164,075	181,939,599	111
Off balance sheet items	16,032,044	19,352,546	83

Income statement

in thousand SIT	1-9/2006 Unaudited	1-9/2005 Unaudited	Ind. 06/05
Net sales	105,054,098	87,761,302	120
Production cost of goods sold	37,381,674	34,803,954	107
Gross operating yield	67,672,424	52,957,348	128
Sales and marketing	25,724,718	16,380,323	157
- without provisions formed	19,724,718	16,238,543	121
R&D costs	9,702,166	7,888,488	123
Administrative expenses	7,798,972	7,524,120	104
Other operating revenues	351,257	178,303	197
Operating profit	24,797,825	21,342,720	116
Financial income	2,545,600	2,224,869	114
Financial expenses	2,705,890	3,185,977	85
Net financial expenses	-160,290	-961,108	17
Profit before tax	24,637,535	20,381,612	121
Income tax expense	6,045,048	5,304,296	114
Profit for the period	18,592,487	15,077,316	123
Earnings per share	5,501	4,461	123

* Sales and marketing costs for January to September 2006 include 6 billion SIT for provisions formed for lawsuits.

Statement of recognised income and expenses

in thousand SIT	1-9/2006 Unaudited	1-9/2005 Unaudited
Revaluation of long-term investments to market price	694,396	41,300
Deferred taxes	-390,657	-10,324
Tax on IFRS transition difference	-812,175	0
Net income and expense recognised directly in equity	-508,436	30,976
Profit for the period	18,592,487	15,077,316
Total recognised income and expense for the period	18,084,051	15,108,292

Cash flow statement

in thousand SIT	1-9/2006 Unaudited	1-9/2005 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	18,592,487	15,077,316
Adjustments for:	12,433,957	13,447,056
Amortisation /Depreciation	6,414,901	6,356,448
Foreign exchange gain	-341,610	-966,734
Foreign exchange loss	1,034,858	576,705
Investment income	-1,596,061	-248,440
Investment expenses - subsidiaries	388,349	1,907,851
Financial expenses	488,472	475,630
Income taxes and other taxes not included in operating expenses	6,045,048	5,304,296
Other	0	41,300
Operating loss before changes in net operating current assets and provisions	31,026,444	28,524,372
Change in trade receivables	-5,410,316	-7,840,211
Change in inventories	2,037,013	-8,380,873
Change in operating debts (liabilities)	1,297,917	3,321,790
Change in other trade payables and provisions	5,404,934	3,899,502
Income taxes paid	-12,809,309	-3,323,060
Cash generated from operations	21,546,683	16,201,520
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	145,569	143,303
Proceeds from sale of investments	0	233,031
Dividends received	520,210	17,454
Purchase of intangible assets	-895,340	-1,116,073
Purchase of property, plant and equipment	-14,096,305	-8,276,813
Acquisition of long-term investments	-1,770,144	-2,544,258
Acquisition of short-term investments	-3,703,228	0
Proceeds/acquisition of derivative financial instruments	101,614	-203,976
Net cash used in investing activities	-19,697,624	-11,747,332
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from an increase in long-term financial liabilities	20,588	0
Proceeds from an increase in short-term financial liabilities	4,771,422	2,535,183
Payment of interest in respect of financing	-580,594	-655,431
Payment of long-term financial liabilities	0	-90,528
Dividends paid	-5,613,117	-4,801,691
Net cash used in financing activities	-1,401,701	-3,012,467
Net increase in cash and cash equivalents	447,358	1,441,721
Cash and cash equivalents at beginning of period	758,768	1,100,954
Effect of exchange rate fluctuations on cash held	-69,824	8,760
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,136,302	2,551,435

Statement of changes in equity

in thousand SIT	Share capital	Reserves	Own shares	Retained earnings	Reserves for fair value	Total
Balance at 31 Dec 2004 (audited)	14,170,448	34,085,325	-4,670,280	53,031,991	519,986	97,137,470
Profit for the period	0	0	0	15,077,316	0	15,077,316
Formation of statutory reserves	0	0	0	0	0	0
Dividends	0	0	0	-4,786,298	0	-4,786,298
Income and expense recognised directly in equity	0	0	0	0	30,976	30,976
Balance at 30 Sept 2005 (unaudited)	14,170,448	34,085,325	-4,670,280	63,323,009	550,962	107,459,464
Balance at 31 Dec 2005 (audited)	14,170,448	34,885,325	-4,670,280	69,193,532	561,602	114,140,627
Profit for the period	0	0	0	18,592,487	0	18,592,487
Formation of statutory reserves	0	0	0	0	0	0
Dividends	0	0	0	-5,631,286	0	-5,631,286
Income and expense recognised directly in equity	0	0	0	-795,931	287,495	-508,436
Balance at 30 Sept 2006 (unaudited)	14,170,448	34,885,325	-4,670,280	81,358,802	849,097	126,593,392

Notes to the balance sheet of the Krka Company

Property, plant and equipment 86,590,607 thousand SIT

in thousand SIT	30 Sep 2006 Unaudited	31 Dec 2005 Audited	Ind. 06/05
Property	3,087,771	2,908,502	106
Plant	32,093,964	33,550,558	96
Equipment	26,206,449	27,201,905	96
PPE under construction	25,202,423	14,442,886	174
Total	86,590,607	78,103,851	111

The value of property, plant and equipment represented 43% of the Company's total assets and increased by 11% compared to the start of the year. This was due to the increase in the value of property, plant and equipment under construction, due to the Company's investment projects. Krka's largest investments by value are the construction of the new Sinteza 4 plant for the production of active pharmaceutical ingredients, which started test production in August, a new plant for the production of pellets and a new injection production plant that will be completed by the end of next year, and the reconstruction of the capsule production and packaging plant.

Intangible assets 5,010,107 thousand SIT

in thousand SIT	30 Sep 2006 Unaudited	31 Dec 2005 Audited	Ind. 06/05
Long-term deferred R&D cost	368,143	530,924	69
Long-term property rights	3,216,284	3,532,260	91
Intangible assets under construction	1,425,680	834,560	171
Total	5,010,107	4,897,744	102

Intangible assets increased by 3% compared to the end of 2005. Property rights from computer software represent just under two thirds of all intangible assets. Intangible assets under construction mainly includes registration document for new pharmaceuticals.

Inventories 24,846,162 thousand SIT

in thousand SIT	30 Sep 2006 Unaudited	31 Dec 2005 Audited	Ind. 06/05
Material	7,997,335	9,510,900	84
Work in progress	5,647,893	4,929,239	115
Products	10,696,495	11,812,302	91
Merchandise	503,408	630,146	80
Advances	1,031	588	175
Total	24,846,162	26,883,175	92

The inventories are valued at actual cost of purchase. Inventories of material are disclosed at the average cost of purchase. Other inventories are carried at fixed prices which include, beside the direct cost of material also the production cost of goods sold.

Inventories decreased in value by 8% compared to the start of the year, mainly due to high sales over the three-quarterly period.

Materials represent 32%, work-in-progress 23%, and products and merchandise represent 45% of the total inventories.

Trade and other receivables 38,751,241 thousand SIT

in thousand SIT	30 Sep 2006 Unaudited	31 Dec 2005 Audited	Ind. 06/05
Receivables due from Group companies	17,514,958	15,314,474	114
Trade receivables	19,345,870	16,907,748	114
Other receivables	1,890,413	1,552,776	122
Total	38,751,241	33,774,998	115

Trade and other receivables increased by 15% compared to year-end 2005. The reason for this increase over the period is higher sales, and in part the longer repayment periods for government procurements in the Russian Federation.

Current investments 8,004,832 thousand SIT

in thousand SIT	30 Sep 2006 Unaudited	31 Dec 2005 Audited	Ind. 06/05
Equity shares held for trading	2,806,189	1,524,869	184
Other current investment	3,253,474	1,544,129	211
Short-term loans	1,945,169	864,670	225
- short-term loans to subsidiaries	1,871,548	672,111	278
- short-term loans to other entities	73,621	192,559	38
Skupaj	8,004,832	3,933,668	203

The increase in other current investment (totalling 1,709,345 thousand SIT), included investments of 720,000 thousand SIT in domestic mutual funds, of 302,700 thousand SIT in foreign bonds, and of 281,116 thousand SIT in government bonds. The value of investments in equity shares held for trading increased by 1,284,320 thousand SIT, mainly in foreign shares.

The major increase in short-term loans compared to the end of 2005 was the short-term loan issued to the Terme Krka subsidiary.

Equity

126,593,392 thousand SIT

in thousand SIT	30 Sep 2006 Unaudited	31 Dec 2005 Audited	Ind. 06/05
Share capital	14,170,448	14,170,448	100
Own shares	-4,670,280	-4,670,280	100
Reserves	34,885,325	34,885,325	100
Retained earnings	81,358,802	69,193,532	118
Reserves for fair value	849,097	561,602	151
Total equity	126,593,392	114,140,627	111

The Company's equity increased by 11% compared to the end of 2005. The increase was due to the profit generated in the first nine months of the year of 18,592,487 thousand SIT, while the decrease was due to the payment of dividends and participation in profit of 5,631,286 thousand SIT, and the revenues and expenses recognised as capital which had a negative joint value (- 508,436 thousand SIT).

Borrowings

23,036,291 thousand SIT

in thousand SIT	30 Sep 2006 Unaudited	31 Dec 2005 Audited	Ind. 06/05
Long-term borrowings	9,861,961	10,011,560	99
- borrowings from domestic banks	9,860,687	9,973,126	99
- borrowings from other entities	1,274	38,434	3
Short-term borrowings	13,124,393	8,352,968	157
- borrowings from domestic banks	10,374,956	4,846,617	214
- borrowings from foreign banks	82,363	979,945	8
- borrowings from other entities	2,667,074	2,526,406	106
Interest payable	49,937	142,062	35
Total	23,036,291	18,506,590	124

The Company did not take out any new long-term loans in the first nine months of this year.

Provisions and other long-term liabilities **29,134,847 thousand SIT**

in thousand SIT	30 Sep 2006 Unaudited	31 Dec 2005 Audited	Ind. 06/05
Provisions	28,662,079	22,692,910	126
- provisions for termination pay and anniversary bonuses	9,752,747	9,752,747	100
- provisions for lawsuits	18,819,756	12,820,158	147
- for ecological restoration	89,530	119,937	75
- for other purposes	46	68	68
Other long-term liabilities	472,768	0	
Total	29,134,847	22,692,910	128

The major item in provisions is provisions for lawsuits which increased by 47% due to the formation of new provisions by the controlling company in the amount of 6,000,000 thousand SIT, mostly for the lawsuit due to alleged patent violation relating to the patent protection of atorvastatin.

Trade payables **13,322,482 thousand SIT**

in thousand SIT	30 Sep 2006 Unaudited	31 Dec 2005 Audited	Ind. 06/05
Short-term operating liabilities to subsidiaries	232,797	157,079	148
Payables to suppliers	12,958,366	12,102,580	107
Payables from advances	131,319	454,204	29
Total	13,322,482	12,713,863	105

Notes to the income statement of the Krka Company

Net sales **105,054,098 thousand SIT**

The net sales revenues included net sales from products, services and merchandise on the domestic market in the amount of 13,643,035 thousand SIT (13% of net sales) and net sales on foreign markets in the amount of 91,411,063 thousand SIT (87% of net sales). Compared to the results for the same period last year, there was a growth of 19%.

Other operating revenues **351,257 thousand SIT**

in thousand SIT	1-9/2006 Unaudited	1-9/2005 Unaudited	Ind. 06/05
Reversal of non-current provisions	40,072	40,481	99
Profit from the sale of fixed assets	93,566	63,441	147
Other operating revenues	217,619	74,381	293
Total	351,257	178,303	197

The major item under other operating revenues, at 98,837 thousand SIT, involves the subsidies from the European Bank for Reconstruction and Development (EBRD) for ecological investments, followed by a refund of 25,237 thousand SIT from the Agency for Agricultural Markets and Rural Development.

Production cost of goods sold **37,781,674 thousand SIT**

In the first nine months of 2006, the production cost of goods sold increased by 7% compared to the same period last year. The ratio of production costs to net sales decreased from 39.7% to 35.6% over the January to September period. The decrease is a result of a more favourable product mix of goods sold, as well as stronger cost efficiency and better productivity.

Sales and marketing **25,724,718 thousand SIT**

Sales and marketing expenses comprise the costs of the Slovenian and foreign marketing sales network, and new provisions formed for lawsuits in the amount of 6,000,000 thousand SIT. Sales and marketing costs in the first nine months of 2006 are 21% higher than for the same period last year, but are 57% higher than last year when provisions are included.

R&D costs **9,702,166 thousand SIT**

Compared to the same period last year, R&D costs increased by 23%, and their ratio to net sales increased from 9% to 9.2%. The Company's R&D costs are not capitalised, and are fully disclosed in the current income statement.

Administrative expenses **7,798,972 thousand SIT**

Administrative expenses increased compared to January to September 2005 last year by 4%, and their ratio to net sales fell from 8.6% to 7.4%. Administrative expenses includes other operating expenses.

Costs in terms of types **80,607,530 thousand SIT**

in thousand SIT	1-9/2006 Unaudited	1-9/2005 Unaudited	Ind. 06/05
Cost of goods and materials	26,794,539	25,251,228	106
Cost of services	16,765,110	17,532,813	96
Employee benefits expense	22,577,462	21,174,176	107
Depreciation	6,414,901	6,356,448	101
Provisions formed	6,000,000	141,780	4,232
Other operating expenses	1,937,273	1,656,182	117
Total costs	80,489,285	72,112,627	112
Changes in the value of inventories	-118,245	5,515,742	
Total	80,607,530	66,596,885	121

Employee benefits cost **22,577,462 thousand SIT**

in thousand SIT	1-9/2006 Unaudited	1-9/2005 Unaudited	Ind. 06/05
Gross wages and salaries and continued pay	17,559,481	15,777,298	111
Social security contributions and payroll tax	3,593,194	4,028,474	89
Other employee benefits cost	1,424,787	1,368,404	104
Total	22,577,462	21,174,176	107

Drugi poslovni odhodki **1,937,273 thousand SIT**

in thousand SIT	1-9/2006 Unaudited	1-9/2005 Unaudited	Ind. 06/05
Grants, assistance	357,242	363,140	98
Environmental levies	238,729	182,082	131
Fiscal charges irrespective of operating results	252,213	213,487	118
Impairments and inventory write-offs	608,697	294,662	207
Impairments and receivable write-offs	136,951	161,235	85
Other costs	343,441	441,576	78
Total	1,937,273	1,656,182	117

Financial income and financial expenses

in thousand SIT	1-9/2006 Unaudited	1-9/2005 Unaudited	Ind. 06/05
Exchange gainss	828,149	1,976,429	42
Interest income	145,212	168,705	86
Gain on remeasurement of investments at fair value	161,002	31,182	516
Other income	1,411,237	48,553	2,907
Total financial revenue	2,545,600	2,224,869	114
Exchange losses	1,869,780	966,108	194
Interest paid	476,136	464,334	103
Impairments due to remeasurement of investments at fair value	181,810	43,393	419
Other expenses	178,164	1,712,142	10
Total financial expenses	2,705,890	3,185,977	85
Net financial income	-160,290	-961,108	17

Income tax expense

6.045.048 thousand SIT

The corporate income tax levied amounts to 7,552,343 thousand SIT, which is 31.2% of profit before tax. Taking into account the deferred tax of 1,507,295 thousand SIT, income tax expense in the income statement totals 6,045,048 thousand SIT, and the effective tax rate is 24.5%.