

Unaudited Business Report for
Krka, d. d., Novo mesto
and the Krka Group
for January – March 2007



Novo mesto, May 2007

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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), in accordance with a resolution of the 11th General Meeting of 6 July 2006. In line with that resolution the Krka Company no longer prepares any reports in accordance with the Slovenian Accounting Standards. The statements are unaudited.

The conversion from SIT to EUR for 2006 was carried out with reference to Note 1 to the Introduction to the Slovenian Accounting Standards (2006) – Change in Reporting Currency, which was adopted at the 80th meeting of the Slovenian Institute of Auditor's expert commission. In line with the note, every item in each of the financial statements is converted from SIT to EUR at the official exchange rate of the Bank of Slovenia on the final day of the period of comparison. The conversion rate used was 1 EUR = 239.6400 SIT for conversions for 2006 and 1 EUR = 239.5871 SIT for conversions for the period January – March 2006.

The company regularly announces any significant changes in the data contained in its listing 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 March 2007 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 quarter of 2007 at its meeting on 16 May 2007.

Significant achievements

- In the first quarter of 2007, the Krka Company generated an operating profit of 45.4 million EUR, which is 11% greater than for the same period last year, while the Krka Group generated a profit of 51.0 million EUR (21% growth compared to the same period last year).
- The net profit was 34.5 million EUR for the Krka Company (17% growth on the same period last year), and 38.1 million EUR (30% growth) for the Krka Group.
- The Krka Company generated sales of products and services worth 182.9 million EUR, while the Krka Group's sold products and services worth 204.2 million EUR.
- The Krka Company achieved 12% growth in sales, and the Krka Group achieved 13% growth, compared to the same period last year.
- The highest growth in sales and highest proportion of overall sales for the Krka Group were recorded in its Region Central Europe.
- The proportion of sales on markets outside Slovenia was 87% for the Krka Group, and 90% for the Krka Company.
- At the end of March 2007 the price for Krka shares quoted on the Ljubljana Stock Exchange was 834.24 EUR per share.
- The Krka Group allocated 30.5 million EUR to investments, 28.4 million EUR of which was invested by the Krka Company and 2.1 million EUR by subsidiaries.
- The number of Krka Group employees increased by 6%. Most new employment was abroad. At the end of the first quarter 2007 the Krka Group had a total of 6089 employees.
- The major business objectives of the Krka Company and the Krka Group for the first quarter of the year have been realised.

Highlights

	Krka Group		Krka, d. d., Novo mesto	
	1-3/2007	1-3/2006	1-3/2007	1-3/2006
in thousand euros	Unaudited	Unaudited	Unaudited	Unaudited
Sales revenues	204,213	181,020	182,874	162,986
EBIT	50,986	42,309	45,359	40,890
EBITDA	64,360	54,384	55,720	50,024
Net profit	38,108	29,232	34,482	29,568
R&D costs	14,316	11,176	14,180	11,030
Investments	30,531	20,850	27,987	16,878
RATIOS				
Net profit/Sales revenues (ROS)	18.7%	16.1%	18.9%	18.1%
EBIT/Sales revenues	25.0%	23.4%	24.8%	25.1%
EBITDA/Sales revenues	31.5%	30.0%	30.5%	30.7%
Return on equity (ROE) ¹ – converted to annual bases	25.8%	23.7%	23.5%	24.0%
Return on assets (ROA) ² – converted to annual bases	17.0%	14.3%	15.9%	15.0%
Liabilities/equity	0.487	0.540	0.457	0.499
R&D costs/Sales revenues	7.0%	6.2%	7.8%	6.8%
	31 Mar 2007	31 Dec 2006	31 Mar 2007	31 Dec 2006
in thousand euros	Unaudited	Audited	Unaudited	Audited
Non-current assets	592,931	574,846	578,094	561,033
Current assets	316,766	304,282	304,241	293,253
Equity	611,591	570,905	605,524	569,918
Non-current liabilities	168,762	163,940	155,250	150,351
Current liabilities	129,344	144,283	121,561	134,017
Number of employees (end of the period)	6089	5410	4509	4098

SHARE INFORMATION (Krka Group)	1-3/2007	1-3/2006
Total number of shares issued	3,542,612	3,542,612
Earnings per share in EUR ³	45.07	34.59
Share price at the end of period in EUR	834.24	525.58
Price/earnings ratio (P/E)	18.51	15.19
Carrying value of share in EUR	172.64	161.15
Market capitalisation at the end of period in thousand EUR	2,955,389	1,861,926

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

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

3 Net profit of the majority owner, converted to annual basis/average number of shares issued excluding treasury shares

4 The calculation of carrying value takes into account the total number of shares issued by the Company. For the comparable period, the equity balance at 31 December 2006 was taken into account.

Key strategies and objectives – to 2010

- Achieving average annual growth in sales of over 10%.
- Maintaining independence and utilising opportunities in the consolidation of the pharmaceutical industry.
- Expanding the range of prescription pharmaceuticals in our key therapeutic areas: medicines for cardiovascular diseases, for diseases of the alimentary tract and metabolism, for the treatment of infections and the central nervous system, the strengthening of other groups, and the launch of new therapeutic area.
- Focusing on European and Central Asian markets and pharmaceutical-chemical operations with objective of achieving a leading position on selected key markets.
- Continued organic growth and growth on the basis of acquiring product lines, market shares or companies.
- Increasing the proportion of products that result from the vertical business model.
- Strengthening expertise and cost synergies within the Krka Group.
- Expanding own marketing and sales network and establishing own companies abroad.
- Promoting creativity and innovation, motivation, and an entrepreneurial and target-oriented approach.
- Upholding our economic, social and ecological responsibilities to the environment in which we operate.

Performance criteria are used to assess the implementation of strategic objectives. A range of specific strategic criteria have been defined, both financial and non-financial, at the corporate level, at the level of individual product groups and for individual business functions. The guiding principle in establishing the criteria system is increasing the competitiveness of individual companies and the entire Group. The criteria are monitored by individual committees and the Management Board.

Due to the very dynamic nature of the pharmaceutical industry and the business environment in general, the Group reviews and updates its strategy every two years. The Krka Group strategy for 2008–2012 is currently in preparation, and is set for adoption by the end of 2007.

The Krka Group's business objectives for 2007

- At the forecast growth of 12% we will generate products and service sales of SIT 750 million.
- Highest sales growth will be on the markets of East, Central and West Europe; the Russian Federation remains the most important individual market.
- The proportion of sales on markets outside Slovenia is anticipated at over 85%.
- Prescription pharmaceuticals will remain the most important product group. It is anticipated that they will represent over 85% of overall sales.
- New prescription pharmaceuticals products will be marketed in key indication groups.
- The planned net profit is 130 million EUR.
- By the end of 2007 the Group will have 6300 employees, almost 40% of them abroad.
- Investments planned at 130 million EUR will primarily be used to increase and modernise R&D and production capacity and infrastructure.

ID Card of the Krka Group

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: ++ 386 7 331 21 11

Fax: ++ 386 7 332 15 37

E-mail: info@krka.biz

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

Activity code: 24.420

Year established: 1954

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

VAT number: 82646716

Company ID 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:

	Ownership share 31 Mar 2007
Terme Krka, d. o. o., Novo mesto**	100%
KRKA-FARMA d. o. o., Zagreb, Croatia	100%
»KRKA-FARMA«, d. o. o., Novi Sad, Serbia	100%
KRKA-FARMA DOOEL, Skopje, Macedonia	100%
OOO »KRKA-RUS«, Istra, Russian Federation	100%
OOO »KRKA FARMA«, Sergiev Posad, Russian Federation	100%
KRKA-Polska, Sp. z o. o., Warsaw, Poland	100%
KRKA Magyarország Kft, Budapest, Hungary	100%
KRKA ČR, s. r. o., Prague, Czech Republic *	100%
KRKA Pharma Dublin Limited, Dublin, Ireland	100%
KRKA Sverige AB, Stockholm, Sweden	100%
KRKA Aussenhandels GmbH, Munich, Germany*	100%
KRKA FARMACÊUTICA, LDA, Estoril, Portugal	100%
KRKA USA, LLC, Delaware, USA,	100%
HELVETIUS- S. R. L., Trieste, Italy**	80%

* Companies, where no operations are carried out

** Company in the process of dissolution

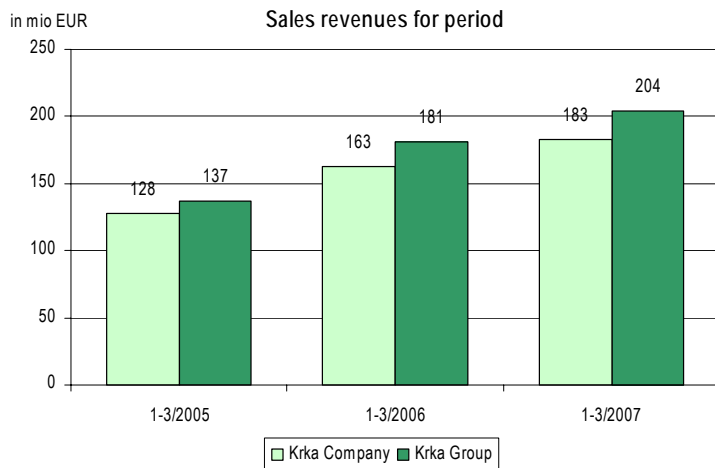
The subsidiary Terme Krka, d.o.o., Novo mesto holds ownership shares in the companies Terme Krka – Strunjan, d.o.o. (51%) and Golf Grad Otočec, d. o. o. (49.71%).

In 2007 the parent company Krka, d. d., Novo mesto paid up the founding capital for two new subsidiary companies, registered as KRKA FARMACÊUTICA, LDA, Estoril, Portugal and KRKA USA, LLC, Delaware, United States, and is the 100% owner of both companies.

Business operations analysis of the Krka Company and Krka Group

In the first quarter 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 first-quarter operating results are an improvement on the same period last year.

Revenues



The net sale revenues of the Krka Group increased by 13% while the Krka Company recorded an increase of 12%. The Krka Company generated 182.9 million EUR in net sales revenues from the sale of prescription pharmaceuticals, self-medication products and animal health and cosmetic products, while the Krka Group generated 204.2 million EUR from sales of these products plus sales of health and tourist services. The major contribution to Krka Group sales revenue (at 82%) came from the sale of

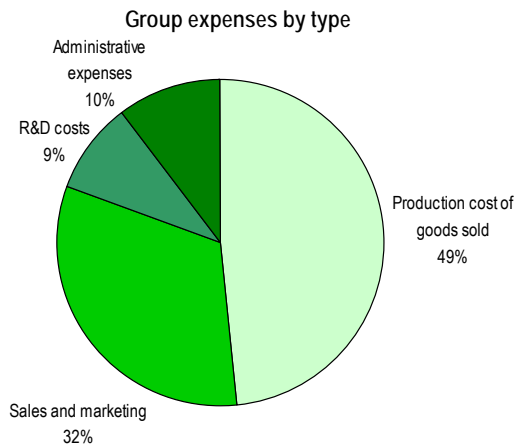
prescription pharmaceuticals, while the highest growth by product group (of 23%) was achieved for self-medication products. Most of the net sales revenues was generated from the sale of products, services and goods outside Slovenia. A more detailed analysis of the sales results achieved by individual market and product group is given in the section Marketing and Sales.

Together with other operating and financial revenues, the Company generated total revenues of 185.8 million EUR, while the Krka Group generated 208.8 million EUR, which represents growth of 12% and 13% respectively, compared to the same period last year.

Expenses

The Krka Group's expenses of 159.7 million EUR were 11%, higher than for the same period last year. The growth in expenses was 1.5 percentage points less than sales growth.

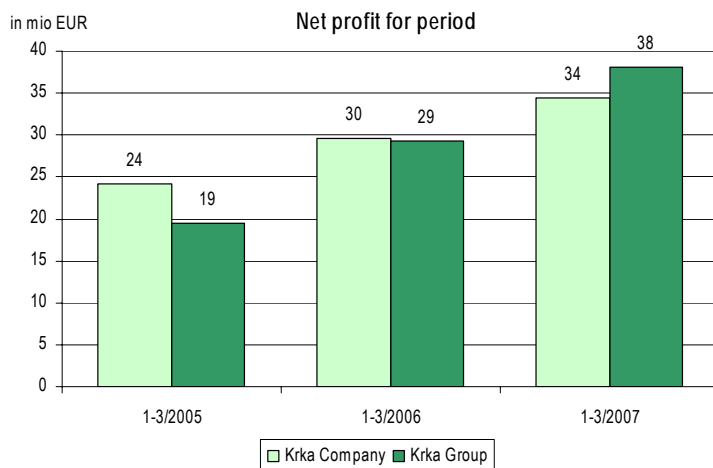
The Krka Group records operating expenses in the amount of 154 million EUR of which 74.4 million EUR related to the production cost of goods sold, 49.6 million EUR to marketing and sales, 14.3 million EUR to R&D costs and 15.7 million EUR to administrative expenses.



Compared to the first quarter last year, the production costs of goods sold increased for the Krka Group by 1%, which is 12 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 increasing competition require higher investment every year. The expansion of the marketing network on all Krka's major markets led to growth in marketing and sales costs, which were up by one quarter on the same period last year. R&D costs were up by 28% and are accounted in full as expenses, since they are not

capitalised. The Group's administrative expenses remained practically unchanged compared to the same period last year.

Operating results



The Krka Group's operating profit of 51.0 million EUR was 21% higher than for the same period last year, while the pre-tax profit increased by 20% to 49.2 million EUR. Corporate income tax totalled 11.1 million EUR, of which 11.9 million EUR was levied tax and 0.8 million EUR deferred tax. The effective tax rate for the Group was 22.5%.

The Krka Group's net profit was 38.1 million EUR, an increase of 30%, while the Krka Company recorded a net profit of 34.5 million EUR, an increase of 17% in comparison to the previous year.

Assets

The Krka Group's assets were worth 909.7 million EUR on 31 March 2007, an increase of 3% from the start of the year. The ratio of current to non-current assets remained almost unchanged compared to the start of the year.

Property, plant and equipment was by far the major item under non-current assets, representing 524.9 million EUR of the total value of 592.9 million EUR. Compared to the start of the year their value increased by 4%, representing 58% of all assets.

Current assets increased by 4% to 316.8 million EUR. Trade and other receivables increased in the first quarter by 10% and were worth 169.6 million EUR, while the value of inventories remained practically unchanged compared to the start of the year at 116.4 million EUR. Financial investments fell by 10% (primarily shares available-for-sale) and at the end of March 2007 were worth 21.8 million EUR.

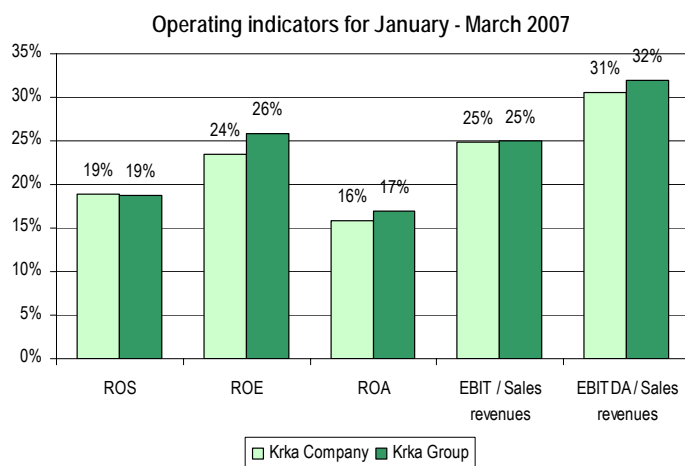
Equity and liabilities

The Group's equity increased by 7% and now represents 67% of total equity and liabilities.

Long-term provisions increased by 4%, while long-term loans remained unchanged from the end of 2006.

Current liabilities were down 10% compared to the start of the year to 129.3 million EUR, which is 14% of total equity and liabilities. Among current liabilities, loans were down by 57%. Operating liabilities were worth 69.3 million EUR, an increase of 14%, while other current liabilities increased by 10%, and were worth 30.3 million EUR at the end of March 2007.

Indicators



The operational indicators for the Krka Group are in compliance with strategic guidelines and objectives and had improved compared to the same period last year. The Krka Group's net profit margin was 18.7% (Krka Company 18.9%), return on assets 17.0% (Krka Company: 15.9%), return on equity 25.8% (Krka Company: 23.5%), EBIT margin 25.0% (Krka Company: 24.8%) and EBITDA margin 31.5 % (Krka Company: 30.5%).

BUSINESS REPORT

Marketing and sales

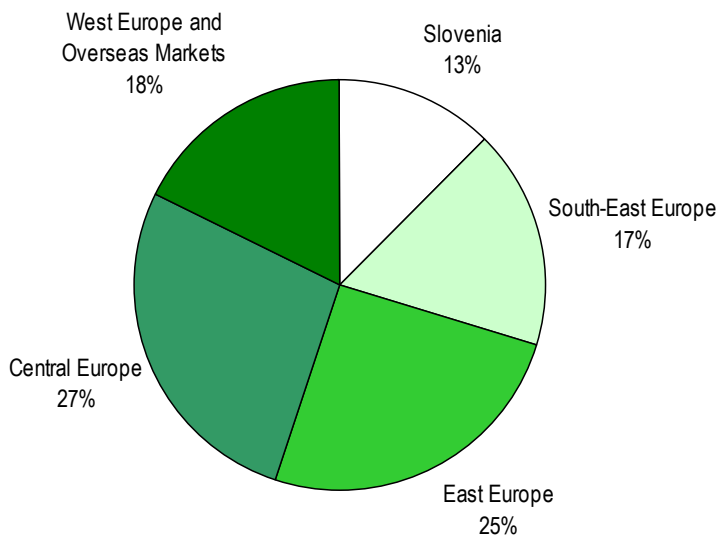
In the first quarter of the year, both the Krka Company and Group exceeded last year's sales figures for the same period. The Krka Group's sales of 204.2 million EUR, growth of 13% compared to the same period last year, while the Krka Company's sales reached 182.9 million EUR, or 12% growth. Group sales were 21.3 million EUR or 12% higher than sales by the Krka Company.

Krka Group and Krka Company sales by region

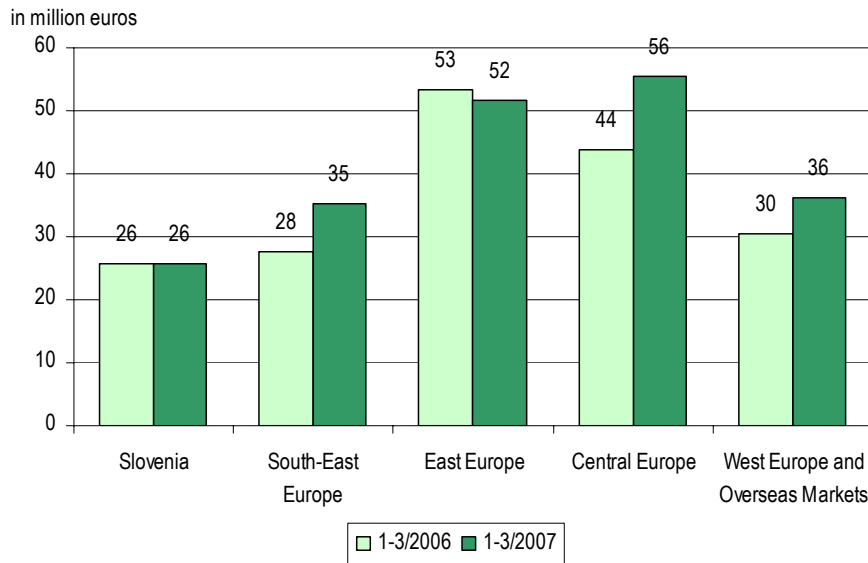
The highest sales by region were achieved in Region Central Europe, which represented 27% of total Krka Group sales at 55.6 million EUR. The next by size was Region East Europe by 51.6 million EUR and a 25% share. The same sales growth rate as in Region Central Europe (27%) was achieved in Region South-East Europe, which with sales worth 35.2 million EUR represents a significant contribution to overall sales. High growth of sales (19%) was achieved in the Region West Europe and Overseas Market, while sales in Slovenia were unchanged compared to the same period last year.

in thousand euros	Krka Group			Krka Company		
	1-3/2007	1-3/2006	Ind.	1-3/2007	1-3/2006	Ind.
Slovenia	25,715	25,781	100	18,599	19,764	94
South-East Europe	35,175	27,595	127	32,436	24,350	133
East Europe	51,582	53,374	97	49,775	53,192	94
Central Europe	55,572	43,851	127	46,214	35,098	132
West Europe and Overseas Markets	36,169	30,419	119	35,850	30,582	117
Total	204,213	181,020	113	182,874	162,986	112

Structure of Krka Group sales by region, January-March 2007



Krka Group sales by region in first quarter of 2006 and 2007



Slovenia

The sales generated in Slovenia were worth 25.7 million EUR. Krka's market share in Slovenia has been falling from year to year, but with market share of 15.5% on the market for prescription pharmaceutical we are still the number one pharmaceutical company on the market. We are also market leaders in individual therapeutic groups such as: statins, ACE inhibitors, anti-ulcer medicines, sartans, throat antiseptics. We are also gaining market share for medicines for the central nervous system.

The best-selling products are Enap[®], Lorista[®], Ultop[®], Vasilip[®] and Atoris[®].

In the promotional and marketing field, we have placed a major emphasis on the new products launched in 2006. The competition is growing fiercer and fiercer, with more and more generics appearing on the market. Five to six generics are already present in a number of therapeutic groups (simvastatin, paroxetine, glimepiride, fluconazole).

Mention must be made of the launch of a new Vitaskin[®] Pharma collection exclusively for pharmacies within the self-medication and cosmetics programme.

In the animal health programme, we intensified work on visits to primary veterinarians from individual veterinary stations due to improved health conditions on farms.

At the start of 2007 the new Rules on Medicine Prices was issued. Its negative impact will largely be felt in the second half of the year. A general public tender for all hospitals was also held, which further reduced medicine prices.

South-East Europe

In the countries of South-East Europe we generated sales worth 35.2 million EUR, which is 27% more than for the same period last year.

The highest sales growth compared to the same period last year was achieved in Serbia (72%), Bulgaria (51%) and Romania (42 %). The relatively high growth of sales in these countries is largely due to increased activity and the expansion of marketing and sales networks, as well as the continuing favourable economic trends in South-

East Europe due to Romania and Bulgaria joining the European Union. Furthermore, more and more countries in the region started to harmonize their legislation with the EU law that also supported our performance.

Krka's key market in this region and key market in general is Croatia with 10% sales growth. Krka has a 6.5% market share and is ranked fourth. Sales in Croatia represent one third of the Group's sales in the region. The products with highest sales growth are Atoris[®], Laaven[®], Lanzul[®], Fromilid[®] and Zyllt[®]. Krka also produces pharmaceutical preparations in Croatia (Zyllt[®], Laaven[®] and Tenox[®]), mainly for the needs of the Croatian market, while Zyllt[®] is also sold in other countries in this region.

In Romania, where we generated sales of 10.1 million EUR, with Vasilip[®], Fromilid[®], Ultop[®] and the newly launched Rawel[®] being the best sellers. High sales growth also continued for Enap[®] and Ciprinol[®]. Of the self-medication products, sales of Septolete[®] tripled and sales of Daleron[®] doubled. We also recorded growth in the sales of Bilobil[®], which is one of the best-selling medical brands in Romania.

Sales continued to grow in Bulgaria and were worth 2.9 million EUR in the first three months of the year. The biggest contribution to overall sales and the growth came from seasonal preparations, especially Fromilid[®] and Macropen, as well as sales of Lorista[®], Rawel[®], Atoris[®], Vasilip[®] and Holetar[®]. Tenox[®], which was only launched this year, can be added to that list of products. Growing sales of Solvolan[®], Septolete[®] and Pikovit[®] resulted in higher sales of self-medication products.

In Serbia, where we have managed to double sales this quarter compared to the same period last year, we would outline the sales growth of the following products: Vasilip[®], Zyllt[®], Atoris[®], Fromilid[®], Ampri[®], Lorista[®] and Asentra[®]. The positive sales results were largely due to intensive marketing work in the field, and placement of our products on the official Serbian health insurance fund list. Sales of self-medication products were also higher than for the same period last year (up 12%). Somewhat more moderate growth were achieved for animal health products, which is largely due to restructuring within the sector, with the privatisation process of veterinary stations and farms continuing this quarter.

Moderate growth was also achieved in other countries in South-East Europe in the first quarter, particularly in Albania and Macedonia. We assess that the somewhat higher sales growth in Bosnia and Herzegovina in the first quarter compared to the same period last year is largely due to an increase in marketing and sales activities in the field, as well as the increasing purchasing power of the local population.

East Europe

In Region East Europe, the Krka Group achieved sales worth 51.6 million EUR over the January–March 2007 period, equivalent to 97% of sales for the same period last year. Sales increased significantly on all markets in the region, except the Russian Federation. The sale of self-medication products was significantly higher than last year (up 24%).

In the Russian Federation we achieved sales worth 36 million EUR or 87% of sales for the same period last year. Last year's sales figures for self-medication products over the same period were exceeded by 29%, and by 21% for animal health products. Sales of prescription pharmaceuticals were 20% down on the same period last year. The negative trend is mainly attributable to reductions in orders from the DLO programme (supplementary medicine supply to specific social groups), where due to a deficit in the budget the state restricted prescriptions and the number of products on the approved list, it actively influenced the pricing policy and gave priority to the cheapest medicines (mainly from domestic producers) or expensive original products with no generic alternatives (such as for diabetes, oncology, haemophilia). The proportion of DLO sales in Krka's overall sales on the Russian market fell as a result of these changes from 25% in 2006 to 10%. Excessive government spending in 2006 also meant that receivables from the 2006 DLO programme have not yet been settled.

Krka's production capacity in its subsidiary Krka-Rus produces five products, while the company is also licensed to package over 20 products.

Staff recruitment and organisational changes will further strengthen our position on this market. We also anticipate the stabilisation of products sales under the DLO programme, although we assess they will be lower than last year.

On 12 April 2007, Enap® was selected as 2006 medicine of the year at the Platinum Ounce award ceremony (sponsored by the Ministry of Health and Social Care, and the Federation Council), which each year recognises excellence in the Russian pharmaceutical industry.

Sales in Ukraine are in line with plans, which aim to achieve sales growth of 30% compared to last year. Despite an uncertain situation, 15% growth has been achieved in the first quarter compared to the same period in 2006. Krka's active marketing policy in pharmacies and institutional purchasers (public tenders from hospitals), and the growth in the number of med reps, and the new, dual organisation for their work will make a significant contribution to consolidating Krka's position as a leading medicines supplier in Ukraine. According to Farmexpert data for 2006, Krka is the 8th ranking supplier in Ukraine, with a 2.5% market share and above average growth compared to the overall market.

Krka increased its sales in Belarus by 15.5% compared to the same period last year, however growth is restricted by the active protectionist policy of the Ministry of Health, which sent a letter to all state-owned pharmacies in February of this year with instructions not to issue foreign pharmaceuticals, if a locally produced equivalent exists. Similar instructions are given to doctors regarding prescriptions. The situation is similar in the field of animal health product sales, as the state banned the import of equivalents of domestically produced products, which means only three of Krka's range of 15 products registered in Belarus can actually be sold.

The 45% growth in sales achieved in Moldova this year compared to the same period last year is due to the increased number of med reps and a range of commercial activities. Negotiations are underway on a more advanced form of business cooperation - working with the only local pharmaceutical company, which will indirectly ensure greater sales for our selected prescription products by the state.

In Kazakhstan sales in the first quarter of 2007 were 10% higher than the same period in 2006. The sale of prescription pharmaceuticals grew by 51% compared to last year, animal health products by 32%, while sales of self-medication products were down 20% than for the same period last year. According to data from the leading distributors in the country, Krka's secondary sales of products for human health were 26% higher than last year.

The expected growth on Kazakhstan's pharmaceutical market is between 15 and 20 %. We are planning for growth above the market average, due to tenders from hospitals and regional health institutions, which will continue throughout the year, as well as launching new cardiovascular medicines, and closer cooperation with pharmacy chains owned by our direct customers. The new director of the representative office in Alma-Ata and the reorganisation of the staff there now underway are sure to have a major impact.

This year's sales in Uzbekistan have been three times higher than for the first quarter of last year. The number of med reps has almost doubled since last year, strengthening marketing activities, and the realisation of the annual plan is threatened only by problems relating to the FX market and shortages of foreign currency. As in many previous years, we can expect a slowdown in the conversion of local currency into foreign currency in the second half of the year that will lead to slower sales dynamics.

At the end of 2006 a reorganised approach to sales and marketing in Georgia led to 53% growth in the first quarter compared to the same period last year.

In February a law was passed in Azerbaijan prohibiting the advertising of medicines in public media. Due to this prohibition, which largely affects sales of our self-medication products, particularly Pikovit® and Duovit®, our marketing effort is now focused on health professionals and cooperation with leading pharmaceutical distributors for self-medication products as well. Nevertheless, we still achieved growth in the first quarter of 30% compared to last year.

Our sales growth in Armenia (up by 116 %) is based on closer cooperation with a leading local pharmaceutical distributor, within which we provide also the marketing support for our sales. Krka's Enap® H has become the leading preparation to treat high blood pressure.

On the remaining Central Asia markets, Krka has a presence in Mongolia, Kyrgyzstan and Tajikistan, which are not very developed in terms of healthcare, so the consumption of medicines is below 20 US dollars per capita.

Central Europe

On the markets of our Region Central Europe we generated sales worth 55.6 million EUR in the first quarter of 2007, which is 27% more than for the same period last year. Sales of prescription pharmaceuticals, representing 92% of overall sales, grew by 28%, sales of self-medication products grew by 25% and sales of animal health products grew by 14%.

In Poland, a Krka key market, and the largest in the region, representing 46% of all Krka's Central Europe sales, we achieved sales of 25.8 million EUR, which 3% more than in the first quarter of 2006. The leading products in the prescription pharmaceutical group were Atoris®, Zalasta®, Lanzul® and Lorista®, which together constituted 40% of total sales. The success launch of Lorista® and Zyllt® deserves mentioning. Sales of self-medication products in the first quarter grew by 5%, which is largely due to very successful sales of products under the umbrella brand Septolete® (22%). Growth of 15% was recorded for animal health products, with a major contribution coming from sales of Enroxil®.

The highest growth in sales in the region was recorded in the Czech Republic, which is also Krka's second largest market in the region. Sales were worth 12.6 million EUR, and were 89% than for the same period in 2006. The best selling products were: Atoris®, Lorista®, Enap®, Ampri® and Lanzul®, which represented over half of overall sales on this market. The sound, high growth in sales of Septolete® should be mentioned from the self-medication product group.

In Hungary we generated sales of 8.7 million EUR (50% growth) in the first quarter of 2007, largely from prescription pharmaceuticals. The major products are Atoris®, Tenox®, Prenessa® and Fromilid®. Mention must also be made of Tenox®, which recorded 90%-plus growth in sales compared to the same period last year, and Prenessa®, which has become the third best selling product since its successful launch in 2005. Sales of self-medication products and animal health products were down on figures for the same period last year.

In Slovakia Krka's sales in the first quarter of 2007 reached 3.8 million EUR, which is 46% more than for the same period last year. The market share also grew, from 1.6% in 2006 (first quarter) to 1.9% this year. Highest sales are achieved by Fromilid®, followed by Atoris®, Septolete®, Enap® and Lexaurin®. Prenessa® was successfully launched as a new product on the market.

Sales in Lithuania in the first three months were worth 3.1 million EUR, which is 38% higher than the first quarter last year. The best selling product is still Enap®, followed by Lorista® and Fromilid®. Our top-selling self-medication product is now Triovit®, which recorded growth of 160%, significantly contributing to the 67% growth for the product group as a whole.

In Latvia we generated sales worth 1.3 million EUR, which is 23% more than for the same period last year. As in Lithuania, Enap is still the most important product, although its share of sales fell. Atoris stays in second place, with its sales having grown by 36%. Self-medication product sales were also good, with 38% growth on last year.

Sales in Estonia in the first quarter of 2007 were worth 0.4 million EUR, growth of 4% on the same period last year. The most important products remain Fromilid®, followed by Enap® and Ciprinol®. Significantly, Fromilid® sales growth by almost 100% on the same period last year. In the self-medication product group, sales of which grew overall by 6%, Septolete® remains the best-selling product.

West Europe and Overseas Markets

In Krka's Region West Europe and Overseas Market we achieved products sales worth 36.2 million EUR in the first quarter of 2007, an increase of 19% on the same period last year.

Prescription pharmaceuticals represent some 95% of sales in the region, which is largely achieved by selling via partners. Around 86% of sales for this Krka Region are achieved in the countries of western Europe, which are key markets for Krka. The most important markets are still Germany, the UK and the Netherlands, however recently sales have been increasing in the Nordic countries and European Mediterranean states (Italy, Portugal, France, and Spain). In the latter two groups of countries, we have started to sell pharmaceutical products directly under Krka brand names. Since the beginning of 2005, the subsidiary Krka Sverige AB has been successfully increasing sales of pharmaceutical products with the Krka brand name in Nordic countries. In the first quarter of the year we increased sales there by over 35%, compared to the same period last year. At the beginning of this year we also opened a subsidiary in Portugal, Krka Farmaceutica. The first realisation of sales is expected in the third quarter of this year, when the first market authorisation procedures conclude.

The sales results for the region in the first quarter of 2007 were largely based on sales of lanzoprazole, enalapril and amlodipine, which we are the leading generic supplier of on some markets. Price pressures are minimised by the launch of new products, which will largely take place in the second half of the year.

Sales of prescription pharmaceuticals on overseas markets were very successful in the first quarter of 2007, in Iran and Hong Kong, where positive results are also promised in future.

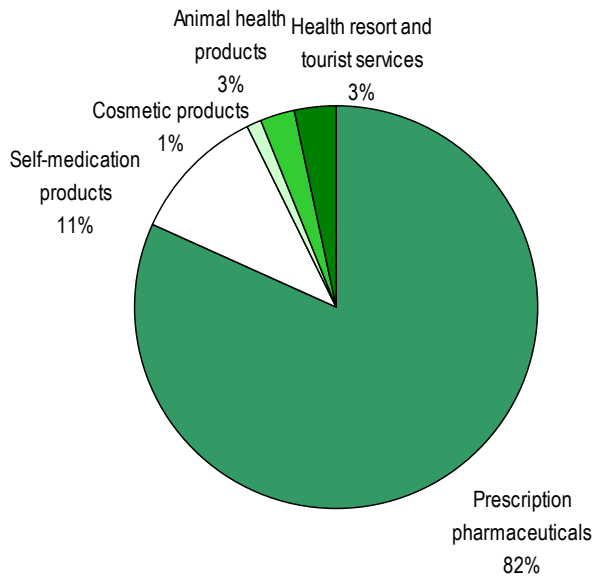
Sales of the animal health product programme represent below 5% of total sales in this Krka Region. In the first quarter we successfully launched Enrofloxacin® on the markets of the European Union. Preparations are underway to launch additional forms of Enrofloxacin and Florfenikol® injections at the start of the third quarter.

Krka Group and Krka Company sales by product and service group

Prescription pharmaceuticals represent by far the largest proportion in the structure of sales by product and service group (82%), which together with self-medication products and cosmetics form the human health product range. The human health product range represented 94% of all sales in the first three months of the year.

in thousand euros	Krka Group			Krka Company		
	1-3/2007	1-3/2006	Ind.	1-3/2007	1-3/2006	Ind.
Human health products	191,798	168,883	114	177,226	156,938	113
– prescription pharmaceuticals	166,598	147,892	113	152,230	136,029	112
– self-medication products	22,869	18,571	123	22,529	18,369	123
– cosmetic products	2,331	2,420	96	2,467	2,540	97
Animal health products	5,465	5,978	91	5,465	5,793	94
Health resort and tourist services	6,767	5,988	113			
Other	183	171	107	183	255	72
Total	204,213	181,020	113	182,874	162,986	112

Structure of Krka Group sales by product and service group, January-March 2007



Prescription pharmaceuticals

In the first quarter of 2007, prescription pharmaceuticals generated sales of 166.6 million EUR, 82% of overall sales, exceeding sales for the same period last year by 13%. The highest sales growth was achieved in Regions South-East Europe, Central Europe and West Europe and Overseas Markets.

Of the larger Krka markets, the highest growth in the first quarter of the year was achieved in the Czech Republic (89%), Hungary (57%), Romania (43%), and Ukraine (20%), while mention must also be made of high sales growth on some of Krka's smaller to medium-sized markets such as Serbia (127%), Bulgaria (47%), Slovakia (45%) while 50%-plus growth was also recorded on the markets of central Asia and the Caucasus. Sales growth was recorded on every market except Slovenia, the Russian Federation and some northerly markets in western Europe.

The leading prescription pharmaceuticals are Enap[®], Lanzul[®], Atoris[®], Vasilip[®], Fromilid[®], Lorista[®], Tenox[®], Nolicin[®], Coryol[®], and Ciprinol[®]. The slightly lower sales achieved this quarter compared to the same period last year on the Russian market was reflected in sales of some of these leading products, such as Enap[®] and Vasilip[®], while all other leading products grew, except Tenox[®], for which sales fell due to lower sales on western European markets, however sales on traditional markets grew. The 25 leading products still include Zyllt[®], Mirzaten[®], Zalasta[®], Prenessa, Ampril/Amprilan[®] and Rawel[®], which were all launched in the last three years.

In the first three months of 2007 we started to market individual products on new markets, eg.: Ampril/Amprilan[®] (ramipril) and Tenox[®] (amlodipine) on some East Europe markets, Lorista[®] (losartan) on some markets in South-East Europe, Torendo[®]/Rorendo[®] (risperidone) and Alventa[®]/Olwexya[®] (venlafaxine) on some markets in Central Europe, etc.

The leading therapeutic group for Krka's prescription pharmaceuticals is medicines for reducing blood pressure (anti-hypertensives). We have a wide range of products for all major medicine groups, including Prenessa[®] (perindopril), Rawel[®] SR (indapamide) and Valsacor[®] (valsartan), which are the latest additions to the range.

Krka is also a market leader for products to reduce plasma lipids on its traditional markets of Central, East and South-East Europe. Vasilip[®] and Atoris[®] are the leading generic statins on those markets.

Zyllt® (clopidogrel), a platelet aggregation inhibitor, is the best-selling products of those launched in the past three years, and is already available on numerous different markets, where it is the first product of its kind to at more accessible price.

Medicines for diseases of the alimentary tract and metabolism are the second most important group in the prescription pharmaceutical product range. In the first three months of the year, the highest growth in sales was achieved by the anti-ulcer products Lanzul® and Ultop®.

Anti-microbial medicines were among the highest growing products in the first quarter of 2007, compared to the same period last year. This year, the leading product in this group – Fromilid® – will have been on the market 10 years.

The highest growth among products for diseases of the central nervous system is for anti-depressants and medicines to treat Alzheimer's, which together with anti-psychotics represent our range of modern pharmaceutical products for this therapeutic group. Krka's role in this field is also being strengthened by the launch of products to treat the central nervous system on new markets.

At the end of 2006 we updated the range of products for the treatment of benign prostatic hypertrophy, sales of which were on the increase at the start of 2007.

The beginning of 2007 also saw a significant expansion of the marketing and sales network on most of our markets, while we continue to focus practical employee training on the marketing and sales field, as well as on more efficient organisation and leadership.

Self-medication products

In the first three months of the year we generated sales of self-medication products worth 22.9 million EUR, growth of 23% on the same period last year.

In Region East Europe we achieved sales worth 12.5 million EUR (24% growth), in Region South-East Europe sales worth 5.2 million EUR (35%), in Slovenia 1.7 million EUR (12% growth) and in Region Central Europe sales worth 3.5 million EUR (25%).

The highest growth on the larger markets was recorded in the Russian Federation (29%), Romania (40%) and Croatia (10%).

The highest sales were achieved with the products Septolete®, Bilobil®, Pikovit®, Duovit® and Herbion®. The highest growth of these products was achieved by Septolete® (69%) and Bilobil® (35%)

Promotional activities backed by appropriate investment were targeted at priority products (Septolete®, Pikovit®, Duovit®, Bilobil® and Herbion®) and the most promising potential markets (Russian Federation, Ukraine, Kazakhstan), with sufficient growth also being achieved on other markets (e.g. Poland, and Croatia). New product launches mainly involved adding new products to umbrella brands (e.g. new flavours of Septolete®). We also advertised some creative new solutions for Septolete®, Bilobil® and Herbion®.

Cosmetic products

In the first three months of the year cosmetic products generated sales of 2.3 million EUR, which was 4% down on the sales figures for the same period last year.

Looked at region by region, positive sales trends compared to last year were achieved in Region South East Europe (2%), and Region Central Europe (23%). Sales in Region East Europe were 5% down on the same period last year, as there were problems importing preparations that contain alcohol. Sales in Slovenia were also down.

Animal health products

The sale of veterinary products in the first quarter of 2007 was 9% down on sales for the same period in 2006. The fall in sales is exclusively due to lower sales in Region West Europe and Overseas Market, where sales fell by 36%. Sales restructuring is underway in the region, moving from raw materials to finished products with higher value added. Other regions matched or exceeded sales from the same period last year.

Sales in Region South East Europe increased by 4%. In Croatia they fell by 8%, while in Romania they grew by 27%. Meanwhile in Region Central Europe, sales almost doubled in the Czech Republic, while sales exceeded last year's results for the same period on all markets in the region, except Hungary. The main contribution to growth came from Poland on the traditional sectors of veterinary care of poultry and pigs. There was a clear increase in sales of injection solutions, which is mainly due to intense marketing activities.

In Region East Europe, sound sales growth was achieved in the Russian Federation, consolidating last year's high growth. The uncertain conditions in Ukraine had a direct impact on lower sales this year.

The best selling brand is still Enroxil[®], which achieved sales growth of 48%. This is closely followed by Floron[®] which offers great growth potential. Dehinel plus[®] is undergoing intense growth, while growth of Calfoset is slightly lower. There has been a noticeable fall in sales of the licensed product Virkon[®] S – following the initial launches of Krka's own product Ecocid[®] S.

The leading product in veterinary care for pigs is Floron[®]. 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 having launched Floron[®] premix we plan to launch injection solutions and oral solutions.

The sale of Krka poultry health care products is heavily dependent on poultry production in Russia, and particularly Krka's presence on the markets of western Europe.

Health and tourism services

Sales of health and tourism services by Terme Krka over the period were worth 6.8 million EUR, which represents 13% growth compared to the same period last year. Particularly welcome was the 20% growth in the sale of wellness services, which now represent 14% of overall sales revenues. The growth of these revenues – which are highest at Terme Šmarješke Toplice (up 63%) – means they are gradually replacing revenues from health care segment, where with considerable effort we maintained 7% growth, against a backdrop of restrictive conditions in the public health care provision.

Over the period, 77,473 overnight stays were realised, which means 77% occupancy of spa accommodation, and a 6% increase compared to the same period last year. In comparison, over the same period the average monthly hotel occupancy at natural spas around Slovenia was 59%. While overall the number of foreign guests increased by 15% compared to the same period last year, they again represented 25% of all overnight stays, mention should be made of the growth in overnight stays by foreign guests at Terme Šmarješke Toplice (up by 72%), which also had the highest growth in overall overnight stays (up by 17%).

The Terme Krka Group this year focused on sales of services and programmes offering high added value, with an emphasis on wellness services and sport, linked to catering services and golf.

Research and development

In the field of research and development, the first quarter of 2007 was marked by the successful management and conclusion of new market authorisation procedures. We concluded our first DCP (Decentralised Procedure), a procedure to acquire market authorisation in the European Union for venlafaxine in the form of modified release capsule. This enabled us to gain market authorisation for the product on all major European markets.

At the same time we also acquired 189 market authorisations for various products. On behalf of the Krka Company and Krka Sverige AB – Krka's Swedish based subsidiary – Krka obtained 36 marketing authorisations for 2 products in 6 forms in the countries of western Europe.

We achieved first market authorisations for two new products in three pharmaceutical forms. Significant regulatory results were achieved with gastro-resistant tablets with the active ingredient pantoprazole and film-coated tablets, containing the active ingredient montelukast. We completed our range of medicines for the treatment of cardiovascular diseases with the combination of perindopril and hydrochlorothiazide.

Market authorisations were acquired for the new product in Krka's range of biocide range – Ecocid® – on the markets of the Russian Federation, Ukraine and Hungary.

In the cosmetics fields we successfully acquired a marketing permit for Vitaskin® Pharma products. This allowed us to place two new product lines on the market: the Vitaskin® Pharma Age Formula products and the products for sensitive skin prone to flushes, Vitaskin® Pharma Reactive Skin. At the same time we gained market authorisation for the Vitaskin® Pharma Age Formula nutritional supplements in capsule form for skin firmness and flexibility, which offer a complete package of care for mature skin in tandem with the cosmetic products.

Investments

In the first quarter of 2007, the Krka Group allocated 30.5 million EUR to investment, with 28.0 million EUR invested by the parent company, and 2.5 million EUR by subsidiaries. In accordance with the set timetables, we continued investments underway, which represented 74% of all spending for the period, and we started preparatory, project-based work for new investments.

Below are described some projects currently underway, which involve extremely intense work.

Sinteza 4 Plant

Most of the work has already been completed, and technological sections and validation work is now being concluded as well. During the test production phase that will take place up until the official opening in summer 2007, we will be monitoring adequacy of the works and functioning of the system.

Pelete IV

After a successful technical inspection we started production and purchased additional equipment. Investments increased pellet production capacity.

New ampoule plant

We completed the main installation work on the plant, and are starting the testing of the built-in systems and equipment. Test production should start by the end of the year.

Central raw material weighing and warehousing facility

We concluded the modernisation of the existing raw material warehousing facilities, and at present are focused on building a warehouse extension.

Notol Phase III

The project has been supplemented by construction of an additional facility for small-batch production.

Krka Rus subsidiary

The expansion of production facilities in the existing plant is underway, while work to expand the laboratories is also underway.

Employees

The Krka Group's ambitious sales plans for 2007 led it to further increase staff recruitment, especially in the fields of marketing and sales at home and abroad, and in research and development. For 2007 the Krka Group has planned an increase in the number of employees of 562, 65% of which in companies and representatives abroad. In Slovenia 75 new employees were engaged in the first quarter of 2007, 21 of which held university degrees, while 19 staff left the company at the same time. Over the same period we engaged 414 new staff in companies and representative offices abroad, mainly with university degrees, while 171 staff left. Now 56% of employees in the Krka Group hold at least a higher education qualification.

The technical and technological advances and new products demand careful and continual investment in new knowledge and training for employees. At present 109 Krka employees are following specialisation or master's degree courses, 25 are taking doctorate degrees, and a total of 350 people are involved in part-time studies. There are currently 69 people on scholarships, mainly in the fields of pharmacy, chemistry and chemical technology. Our employees are also studying at home and abroad in the fields of specialist knowledge, management, personal development, quality assurance, foreign languages and information science. Most education takes place in Krka's own training centre.

Since 2001 we have been carrying out testing and verifying knowledge via a certification system that recognises and favours employees' practical knowledge. So far 244 certificates for four national vocation qualifications have been awarded to employees within this system, and 70 employees are currently in the process of training to acquire new vocational qualifications.

At the end of 2006 we measured our organisational culture and employee satisfaction in a representative sample, the results of which were presented at the beginning of 2007. The study revealed there was a high level of employee satisfaction and commitment to the company. The scores for all elements of organisational culture and employee satisfaction were higher than the 2004 scores.

We are upgrading Krka's employee information system to integrate its functioning across the entire Krka Group. 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 managers takes place in Krka's own international management school, which involves directors and managers from Krka subsidiaries and representatives offices abroad and from Krka's organisational units in Slovenia. This also contributes to strengthening the international culture of the Krka Group.

In the field of preventive care and healthcare, we ensure that employees enjoy quality work and lifestyle with a wide range of activities, which contributes to greater overall business success.

Education structure of Krka Group employees

Educational level	31 Mar 2007		31 Dec 2006	
	Headcount	Share (in %)	Headcount	Share (in %)
PhD	61	1.0	63	1.1
MSc	162	2.7	162	2.8
University education	2655	43.6	2408	41.8
Higher professional education	360	5.9	324	5.6
Vocational college education	223	3.7	222	3.9
Secondary school education	1175	19.3	1138	19.8
Total	1453	23.9	1442	25.0
Total	6089	100	5759	100
- in Slovenia	3711	60.9	3646	63.3
- abroad	2378	39.1	2113	36.7

Shareholders and share trading

At the end of March 2007 Krka had a slightly more than 55,000 shareholders, which is one and a half per cent more than at the end of 2006. The total number of shareholders increased primarily due to increased additional number of Slovenian individual and international investors. The ownership share of international investors increased by over 0.7 percentage points to 8.7%. In the first three months of 2007, the ownership share of investment companies and funds fell, as did the ownership share held by other Slovenian companies.

Ownership structure (%)

	31 Mar 2007	31 Dec 2006
Individual Slovenian investors	41.4	41.0
Investments funds & companies	10.5	11.0
SOD Fund	15.0	15.0
Other Slovenian companies	9.6	10.2
KAD & PPS Funds	10.2	10.2
Treasury shares	4.6	4.6
International investors	8.7	8.0
Total	100.0	100.0

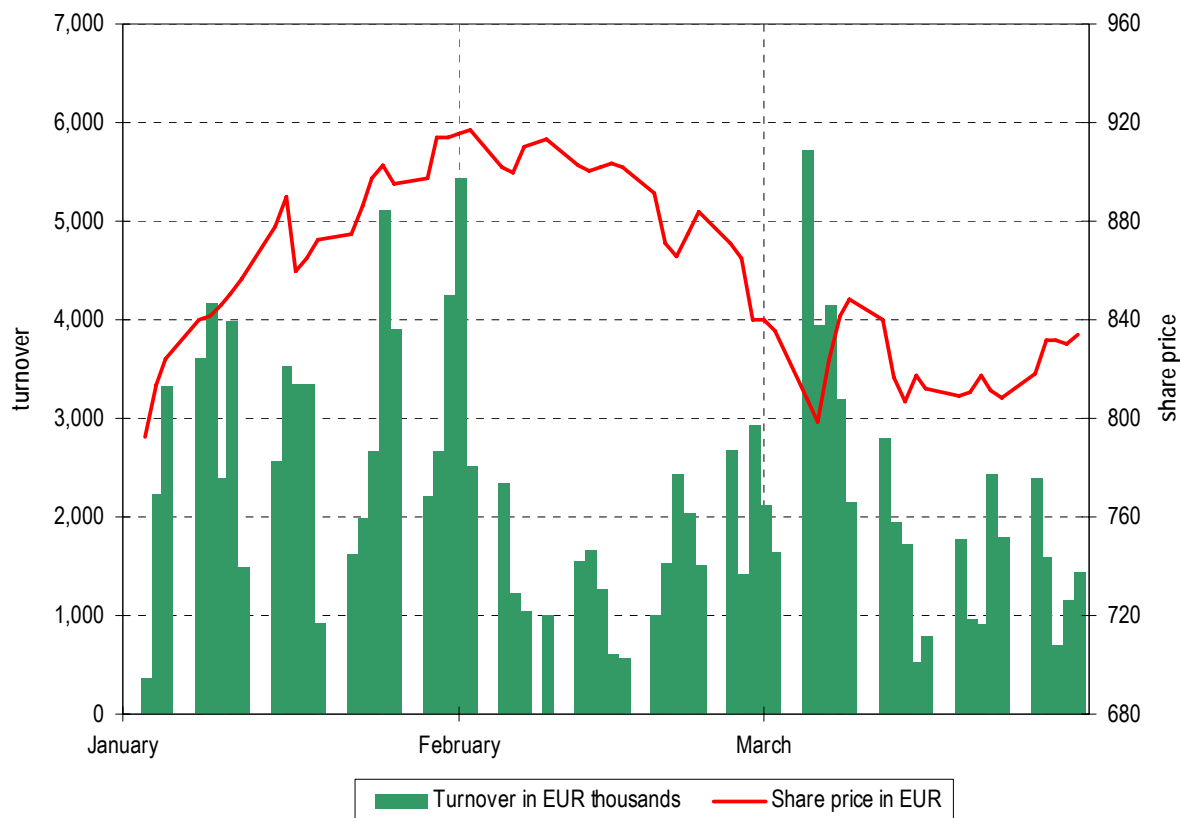
On 31 March 2007 the Krka Company held 162,662 treasury shares, which was 4.6% of the share capital. In the first half year of 2007 the company did not repurchase any treasury shares. The ten largest shareholders on 31 March 2007 held a total of 1,300,526 or 36.7% of company shares.

Ten largest shareholders in Krka

	Country	Number of shares	Proportion (in %)
SLOVENSKA ODŠKODNINSKA DRUŽBA, D.D.	Slovenia	531,207	14.99
KAPITALSKA DRUŽBA, D.D.	Slovenia	349,303	9.86
NFD 1 DELNIŠKI INVESTICIJSKI SKLAD D.D.	Slovenia	93,356	2.64
NEW WORLD FUND INC	USA	91,400	2.58
BANK AUSTRIA CREDITANSTALT AG	Austria	45,344	1.28
LUKA KOPER	Slovenia	44,004	1.24
DELNIŠKI VZAJEMNI SKLAD TRIGLAV STEBER I	Slovenia	41,558	1.17
ZAVAROVALNICA TRIGLAV, D.D.	Slovenia	38,830	1.10
RAIFFEISEN ZENTRALBANK OESTERREICH AG	Austria	35,524	1.00
MARIBORSKE LEKARNE	Slovenia	30,000	0.85
Total		1,300,526	36.71

As at 31 March 2007, members of the management board and supervisory board together held 6,582 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 shares), Janez Poljanec – 2,206 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%), Draško Veselinovič – 1 share (0.00003%), 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 three months of 2007



The Krka share price grew significantly in January and reached its highest value of 917 EUR at the end of that month. In February there was a correction of the price, which settled around EUR 800 at the start of March. By the end of March the share price strengthened again, rising to 834 EUR. Average daily trading in company shares on Ljubljana Stock Exchange in the first quarter 2007 was 2.3 million EUR. Krka's market capitalisation on 31 March 2007 was 2.96 billion EUR.

Risk management

Foreign exchange risk

The main foreign exchange risk for the Krka Group comes from changes in the US dollar exchange rate, which is actively managed. Changes in other key foreign currency exchange rates (Polish zloty, Russian rouble, Croatian kuna, and Macedonian denar) are regularly monitored, however no active risk management measures were implemented.

In the first quarter of 2007 the value of the US dollar against the euro fell by 1.5%.

Most of the long position in the first quarter had previously been hedged by financial derivatives. The instruments created positive financial effects in the first quarter, and largely neutralised any negative impact of the US dollar's fall against the euro.

In the first quarter we continued to hedge against the US dollar risk. Hedging instruments that matured during the period were replaced.

Interest rate risk

There were no actions to manage interest rate risk over the first quarter of 2007.

Since the risk of changes in the two key interest rates (6-month LIBOR for the US dollar and 6-month EURIBOR for the euro) had already been addressed in the past, the growth in both of them did not have any impact on the Krka Company's borrowing costs.

Credit risk

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

In the first quarter of 2007, we successfully extended the credit control process to the subsidiary Krka Sverige AB. At the end of the first quarter, we concluded the first of this year's credit rating and credit limit checks for customers of the parent company and subsidiaries. We found that changes in the credit rating and the calculated credit limits were minimal, from which we can conclude that the credit risk from Krka Group customers has not changed.

Liquidity risk

The liquidity of the Krka Group and the related risks were managed in the first quarter of the year by means of effective short-term and long-term cash flow planning. We fulfil our short-term liquidity needs by monitoring and planning cash inflows and outflows, with short-term credit lines at banks, and a portfolio of short-term liquid investments. Short-term and periodic financing needs are largely managed by utilising the pre-arranged lines of short-term credit.

We assess our liquidity risk as low, as the cash flow generated has been sufficient to settle operating liabilities, and to service debts, and other financing liabilities.

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 arranging insurance and making claims are internally standardised, with the same processes used at home and in the subsidiaries and representative offices abroad.

In 2007 we introduced some changes to our insurance that reduce premiums and ensure optimal compensation for damage to property, and increase protection against damage claims. The changes are based on past loss events and various projections and scenarios. We also updated our property insurance, taking into account technological, technical and economic factors, and health and safety at work measures, and the Group's increased capacity for in-house management of threats. The changes included cancelling mechanical breakdown insurance, and reducing the scope of other insurance relating to minor damage to facilities, and machinery and plant faults. Replacements from own funds, particularly from maintenance and preventive resources took the place of the insurance.

Changes were also made in the field of civil liability insurance, which involves protection against damage claims from civil law cases. The insurance was divided into three sources of risk: employer liability, ecological damage liability, and third party liability. These changes increased the sum insured and extended cover to representative offices abroad.

The value of insurance premiums and 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.

FINANCIAL STATEMENTS OF THE KRKA GROUP WITH NOTES

Consolidated balance sheet

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind. 07/06
Assets			
Property, plant and equipment	524,890	506,820	104
Intangible assets	23,060	23,608	98
Investments in associates	0	2,024	0
Long-term loans	3,700	3,564	104
Other investments	8,215	6,737	122
Deferred tax assets	32,764	31,840	103
Other non-current assets	302	253	119
Non-current assets	592,931	574,846	103
Inventories	116,376	115,926	100
Trade and other receivables	169,585	153,890	110
Current investments	21,750	24,067	90
Cash and cash equivalents	9,055	10,399	87
Current assets	316,766	304,282	104
Total assets	909,697	879,128	103
Equity			
Share capital	59,132	59,132	100
Own shares	-19,489	-19,489	100
Reserves	147,660	147,660	100
Retained earnings	410,144	372,061	110
Reserves for fair value	4,604	3,480	132
Translation reserve	-4	154	-3
Equity holders of the parent	602,047	562,998	107
Minority interest	9,544	7,907	121
Total equity	611,591	570,905	107
Liabilities			
Borrowings	34,528	34,584	100
Provisions	127,496	122,554	104
Grants received	2,725	2,777	98
Deferred tax liabilities	4,013	4,025	100
Total non-current liabilities	168,762	163,940	103
Trade payables	69,330	60,889	114
Borrowings	20,943	48,769	43
Income tax liabilities	8,787	7,020	125
Other liabilities	30,284	27,605	110
Total current liabilities	129,344	144,283	90
Total liabilities	298,106	308,223	97
Total equity and liabilities	909,697	879,128	103

Consolidated income statement

in thousand euros	1-3/2007 Unaudited	1-3/2006 Unaudited	Ind, 07/06
Sales revenues	204,213	181,020	113
Production cost of goods sold	74,358	73,316	101
Gross operating yield	129,855	107,704	121
Sales and marketing	49,634	39,597	125
R&D costs	14,316	11,176	128
Administrative expenses	15,667	15,606	100
Other operating income	748	984	76
Operating profit	50,986	42,309	121
Financial income	3,881	2,340	166
Financial expenses	5,686	3,719	153
Net financial expenses	-1,805	-1,379	131
Profit before tax	49,181	40,930	120
Income tax expense	11,073	11,698	95
Profit for the period	38,108	29,232	130
Equity holders of the parent	38,085	29,248	130
Minority interest	23	-16	
Earnings per share (in EUR)*	11,27	8,65	130

* Net profit of the majority owner / average number of shares issued excluding treasury shares

Consolidated statement of changes in equity

in thousand euros	Called capital	Own shares	Reserves			Retained earnings			Fair value reserves	Minority interest	Total equity
			Share premium	Legal reserves	Statutory reserves	Profit reserves	Net profit for the period	Net profit carried forward			
Balance at 01 Jan 2006	59,145	-19,493	121,013	14,993	9,600	225,304	66,734	-7,666	2,363	7,570	479,562
Entry of net profit for the period	0	0	0	0	0	0	29,248	0	0	-16	29,232
Formation of statutory reserves	0	0	0	0	0	0	0	0	0	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board of the Krka Company	0	0	0	0	0	0	0	0	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	-66,734	66,734	0	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	0	0
Recognised income and expenses	0	0	0	0	0	0	0	0	1,007	0	1,007
Balance at 31 Mar 2006	59,145	-19,493	121,013	14,993	9,600	225,304	29,248	59,068	3,370	7,553	509,801
Balance at 01 Jan 2007	59,132	-19,489	120,986	14,990	11,684	275,796	89,565	6,698	3,634	7,907	570,905
Entry of net profit for the period	0	0	0	0	0	0	38,085	0	0	23	38,108
Entry of minority interest	0	0	0	0	0	0	0	0	0	1,613	1,613
Formation of statutory reserves	0	0	0	0	0	0	0	0	0	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board of the Krka Company	0	0	0	0	0	0	0	0	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	-89,565	89,565	0	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	0	0
Recognised income and expenses	0	0	0	0	0	0	0	0	965	0	965
Balance at 31 Mar 2007	59,132	-19,489	120,986	14,990	11,684	275,796	38,085	96,263	4,599	9,544	611,591

Consolidated cash flow statement

in thousand euros	1-3/2007	1-3/2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	38,108	29,232
Adjustments for:	27,570	24,660
– amortisation / depreciation	13,374	12,074
– foreign exchange gain	-1,048	-615
– foreign exchange loss	1,788	1,337
– investment income	-1,953	-1,497
– financial income	1,596	998
– financial expenses	1,127	665
– income taxes and other taxes not included in operating expenses	11,073	11,698
– other	1,613	0
Operating profit before changes in net operating current assets	65,678	53,892
Change in trade receivables	-16,722	-13,358
Change in inventories	-450	1,357
Change in operating liabilities	9,713	5,239
Change in other current liabilities and provisions	7,573	10,929
Income taxes paid	-10,579	-4,083
Cash generated from operations	55,213	53,976
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	88	207
Proceeds from sale of current investments	232	136
Dividends received	39	10
Proceeds from property, plant and equipment	126	653
Purchase of intangible assets	-705	-1,458
Purchase of property, plant and equipment	-29,677	-23,765
Payments in connection with long-term loans	-147	-102
Payments / proceeds in connection with non-current assets	-72	123
Acquisition of current investments	1,935	-13,884
Acquisition of derivative financial instruments	603	-212
Net cash used in investing activities	-27,578	-38,292
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments / proceeds from an increase in current financial liabilities	-27,133	3,979
Interest paid	-1,820	-1,188
Payment of non-current financial liabilities	-22	7
Dividends paid	-5	-18
Net cash used in financing activities	-28,980	2,780
Net increase in cash and cash equivalents	-1,345	18,464
Cash and cash equivalents at beginning of period	10,399	12,638
Effect of exchange rate fluctuations on cash held	1	-27
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD	9,055	31,075

Notes to the consolidated financial statements

Sales revenues **204,213 thousand EUR**

The sales revenues included sales from products, services and merchandise on the domestic market in the amount of 25,715 thousand EUR (13% of sales revenues) and sales on foreign markets in the amount of 178,498 thousand EUR (87% of sales revenues). Compared to the results for the same period last year, there was growth of 13%.

Production cost of goods sold **74,358 thousand EUR**

In the first three months of 2007, the production cost of goods sold increased by 1% compared to the same period last year. The ratio of production costs to sales revenues decreased from 40.5% 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 **49,634 thousand EUR**

Sales and marketing expenses comprise the costs of the Slovenian and foreign marketing sales network, as well as provisions formed for lawsuits in the amount of 5,000 thousand EUR. Sales and marketing expenses were 25% higher than in the same period in 2006.

R&D costs **14,316 thousand EUR**

Compared to the same period last year, R&D costs increased by 28%, while their share among the sales revenues records an increase from 6.2% to 7.0%. All R&D costs recorded are charged against the current income statement, since research and development costs are not capitalised.

Administrative expenses **15,667 thousand EUR**

Administrative expenses remained practically unchanged compared to the same period last year, and their ratio to sales revenues fell from 8.6% to 7.7%. Administrative expenses includes other operating expenses.

Costs in terms of type **154,577 thousand EUR**

in thousand euros	1-3/2007 Unaudited	1-3/2006 Unaudited	Ind, 07/06
Cost of goods and materials	57,011	53,743	106
Cost of services	32,023	27,733	115
Employee benefits expense	43,270	37,958	114
Depreciation	13,374	12,075	111
Provisions formed	5,179	8,486	61
Other operating expenses	3,720	4,271	87
Total costs in terms of type	154,577	144,265	107
Changes in the value of inventories	602	4,570	13
Total	153,975	139,695	110

Employee benefits cost

43,270 thousand EUR

in thousand euros	1-3/2007 Unaudited	1-3/2006 Unaudited	Ind, 07/06
Gross wages and salaries and continued pay	35,815	29,805	120
Social security contributions and payroll tax	6,180	6,758	91
Other employee benefits cost	1,275	1,394	91
Total	43,270	37,958	114

Other operating expenses

3,720 thousand EUR

in thousand euros	1-3/2007 Unaudited	1-3/2006 Unaudited	Ind, 07/06
Grants, assistance	554	476	116
Environmental levies	347	469	74
Fiscal charges irrespective of operating results	458	996	46
Loss in the sale of fixed assets	357	309	115
Impairments and inventory write-offs	1,030	453	227
Impairments and receivable write-offs	390	773	50
Other costs	584	794	74
Total	3,720	4,271	87

Financial income and financial expenses

in thousand euros	1-3/2007 Unaudited	1-3/2006 Unaudited	Ind, 07/06
Exchange differences	1,676	843	199
Interest income	86	169	51
Change in fair value of investments (through profit or loss)	702	345	203
Other income	1,417	983	144
Total financial income	3,881	2,340	166
Exchange differences	3,320	2,363	140
Interest paid	617	575	107
Impairments due to revaluation of investments at fair value	817	295	277
Other expenses	932	486	192
Total financial expenses	5,686	3,719	153
Net financial expenses	-1,805	-1,379	131

Income tax expense

11,073 thousand EUR

The corporate income tax levied amounts to 11,898 thousand EUR, which is 24.2% of profit before tax. Taking into account the deferred tax of 825 thousand EUR, income tax expense in the income statement totals 11,073 thousand EUR, and the effective tax rate is 22.5%.

Property, plant and equipment

524,890 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Property	23,571	22,641	104
Plant	250,534	251,022	100
Equipment	169,019	171,532	99
PPE under construction	81,766	61,625	133
Total	524,890	506,820	104

The value of property, plant and equipment represented 58% of the total assets of the Group and recorded an increase of 4% compared to the start of the year. The reason for increase is growth of the value of PPE under construction because of new investments in the Group. The largest investments by value were the 3th phase of Notol, completing 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 ampoule plant and the central weighing room and the raw materials warehouse, all in the controlling company. The production capacities in existent plant in the subsidiary company Krka Rus are being extended.

Intangible assets

23,060 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
R&D cost	2,534	2,847	89
Long-term property rights	15,987	16,704	96
Intangible assets under construction	4,539	4,057	112
Total	23,060	23,608	98

Compared to the balance at the end of 2006, the value of intangible assets decreased by 2%. Property rights from computer software represented 69% of all intangible assets. Intangible assets under construction mainly include registration document for new pharmaceuticals.

Other non-current investments

8,215 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Instruments available-for-sale	7,955	6,477	123
Other non-current investments	260	260	100
Total	8,215	6,737	122

Inventories

116,376 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Material	35,640	36,641	97
Work in progress	30,518	30,415	100
Products	34,793	46,723	74
Merchandise	14,721	1,877	784
Advances	704	269	262
Total	116,376	115,926	100

The value of inventories at the end of March 2007 was almost at the same level as at the end of 2006.

In the inventories structure, 31% of inventories are materials, 26% work in progress and 43% finished products and merchandise.

Receivables

169,585 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Trade receivables	154,545	140,563	110
Other receivables	15,040	13,328	113
Total	169,585	153,890	110

Receivables increased by 10% compared to year-end 2006. The reason for this increase over the period is higher sales.

Current investments

21,750 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Instruments held for trading	10,481	11,890	88
Interest bearing current investments	3,354	3,774	89
Other current investments	7,059	7,307	97
Short-term loans granted	856	1,095	78
Total	21,750	24,067	90

Cash and cash equivalents

9,055 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Cash in hand	119	77	154
Bank balances	8,514	9,734	87
Other	422	587	72
Total	9,055	10,399	87

Equity

611,591 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Share capital	59,132	59,132	100
Own shares	-19,489	-19,489	100
Reserves	147,660	147,660	100
– share premium	120,986	120,986	100
– legal reserves	14,990	14,990	100
– statutory reserves	11,684	11,684	100
Retained earnings	410,145	372,060	110
Fair value reserves	4,603	3,480	132
Translation reserve	-4	154	-3
Equity holders of the parent	602,047	562,998	107
Minority interest	9,544	7,907	121
Total equity	611,591	570,905	107

The equity of the Group increased by 7% compared to the end of 2006. The increase is mainly attributable to the Group's profit for the first three months of the year 2007 of 38,108 thousand EUR and income and expenses recognised directly in equity of 965 thousand EUR.

Borrowings

55,471 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Long-term borrowings	34,528	34,584	100
– borrowings from domestic banks	34,528	34,584	100
Short-term borrowings	20,800	47,959	43
– borrowings from domestic banks	5,342	24,838	22
– borrowings from foreign banks	6,222	11,756	53
– borrowings from other entities	9,236	11,366	81
Interest payable	143	809	18
Total	55,471	83,353	67

Provisions

127,496 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Provisions for termination pay and anniversary bonuses	45,772	45,775	100
Other provisions	81,724	76,779	106
– provisions for lawsuits	81,236	76,254	107
– provisions for ecological restoration	289	360	80
– other provisions	199	164	121
Total	127,496	122,554	104

The major item of the total provisions involves provisions for the lawsuits which are increased by 7% on account of forming new provisions in the amount of 5,000 thousand EUR.

Grants received

2,725 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Grants for the subsidiary Krka-Rus	7	10	73
Grants for the plant BETA in Šentjernej	291	302	96
Assets for the health resorts Dolenjske and Šmarješke Toplice	2,293	2,329	98
Grants by the European Regional Development Fund	26	26	100
Free receipt of fixed assets	108	111	98
Total	2,725	2,777	98

Trade payables

69,330 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Payables to domestic suppliers	35,514	35,704	99
Payables to foreign suppliers	33,398	24,719	135
Payables from advances	418	466	90
Total	69,330	60,889	114

Other current liabilities

30,284 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Accrued contractual discounts on products sold to other customers	7,895	7,416	106
Payables to employees – gross wages, other charges	17,978	17,240	104
Other	4,411	2,948	150
Total	30,284	27,605	110

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

Balance sheet

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Assets			
Property, plant and equipment	392,686	377,441	104
Intangible assets	21,885	22,400	98
Investments in subsidiaries	121,338	121,513	100
Long-term loans	5,504	5,324	103
Other investments	8,007	6,529	123
Deferred tax assets	28,447	27,648	103
Other non-current assets	227	178	128
Non-current assets	578,094	561,033	103
Inventories	96,501	99,480	97
Trade and other receivables	173,086	157,484	110
Current investments	30,150	31,790	95
Cash and cash equivalents	4,504	4,498	100
Current assets	304,241	293,253	104
Total assets	882,335	854,286	103
Equity			
Share capital	59,132	59,132	100
Own shares	-19,489	-19,489	100
Reserves	147,660	147,660	100
Retained earnings	413,617	379,135	109
Reserves for fair value	4,604	3,480	132
Total equity	605,524	569,918	106
Liabilities			
Borrowings	29,093	29,143	100
Provisions	121,800	116,805	104
Grants received	432	449	96
Deferred tax liabilities	3,925	3,954	99
Total non-current liabilities	155,250	150,351	103
Trade payables	68,501	56,304	122
Borrowings	19,824	47,105	42
Income tax liabilities	8,200	6,698	122
Provisions and other liabilities	25,036	23,910	105
Total current liabilities	121,561	134,017	91
Total liabilities	276,811	284,368	97
Total equity and liabilities	882,335	854,286	103

Income statement

in thousand euros	1-3/2007 Unaudited	1-3/2006 Unaudited	Ind, 07/06
Sales revenues	182,874	162,986	112
Production cost of goods sold	68,791	66,257	104
Gross operating yield	114,083	96,729	118
Sales and marketing	42,334	32,408	131
R&D costs	14,180	11,030	129
Administrative expenses	12,498	12,883	97
Other operating income	288	482	60
Operating profit	45,359	40,890	111
Financial income	2,615	2,193	119
Financial expenses	3,356	2,902	116
Net financial income / expenses	-741	-709	104
Profit before tax	44,618	40,181	111
Income tax expense	10,136	10,613	96
Profit for the period	34,482	29,568	117
Earnings per share (in EUR)	10,20	8,75	117

* Net profit of the majority owner / average number of shares issued excluding treasury shares

Statement of changes in equity

in thousand euros	Called capital	Own shares	Reserves			Retained earnings			Fair value reserves	Total
			Share premium	Legal reserves	Statutory reserves	Profit reserves	Net profit for the period	Net profit carried forward		
Balance at 01 Jan 2006	59,145	-19,493	121,013	14,993	9,600	225,304	59,606	5,192	2,344	477,703
Entry of net profit for the period	0	0	0	0	0	0	29,568	0	0	29,568
Formation of statutory reserves	0	0	0	0	0	0	0	0	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	0	0	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	-59,606	59,606	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	0
Recognised income and expenses	0	0	0	0	0	0	0	0	912	912
Balance at 31 Mar 2006	59,145	-19,493	121,013	14,993	9,600	225,304	29,568	64,798	3,256	508,184
Balance at 01 Jan 2007	59,132	-19,489	120,986	14,990	11,684	275,796	90,911	12,427	3,480	569,918
Entry of net profit for the period	0	0	0	0	0	0	34,482	0	0	34,482
Formation of statutory reserves	0	0	0	0	0	0	0	0	0	0
Formation of other revenue reserves under the resolution of the Management and the Supervisory Board	0	0	0	0	0	0	0	0	0	0
Transfer of previous period's net profit to retained earnings	0	0	0	0	0	0	-90,911	90,911	0	0
Transfer to other revenue reserves under the resolution of the Annual Meeting	0	0	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	0
Recognised income and expenses	0	0	0	0	0	0	0	0	1,124	1,124
Balance at 31 Mar 2007	59,132	-19,489	120,986	14,990	11,684	275,796	34,482	103,338	4,604	605,524

Cash flow statement

in thousand euros	1–3/2007	1–3/2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	34,482	29,568
Adjustments for:	20,753	19,919
– amortisation /depreciation	10,362	9,133
– foreign exchange gain	-208	-48
– foreign exchange loss	522	1,445
– investment income	-2,026	-2,417
– investment expense	1,426	710
– financial income	541	484
– financial expense	10,136	10,612
Operating loss before changes in net operating current assets and provisions	55,235	49,487
Change in trade receivables	-15,980	-14,790
Change in inventories	2,980	3,391
Change in operating debts (liabilities)	12,233	7,267
Change in other current liabilities and provisions	6,108	10,972
Income taxes paid	-9,797	-3,132
Cash generated from operations	50,779	53,195
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	143	205
Proceeds from sale of current investments	232	136
Dividends received	39	10
Profits from subsidiaries	0	600
Proceeds from sale of current investments	126	306
Dividends received	56	0
Proceeds from property, plant and equipment	-660	-816
Purchase of intangible assets	-24,482	-21,316
Purchase of property, plant and equipment	-18	0
Proceeds / payments in connection with long-term loans	-211	-48
Proceeds / payments in connection with non-current assets	-22	-1
Acquisition of current investments	1,262	-17,134
Acquisition of derivative financial instruments	603	-212
Net cash used in investing activities	-22,932	-38,270
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from an increase in current financial liabilities	-26,696	4,158
Interest paid	-1,126	-1,047
Payment of non-current financial liabilities	-16	-2
Dividends paid	-5	-18
Net cash used in financing activities	-27,843	3,091
Net increase in cash and cash equivalents	4	18,016
Cash and cash equivalents at beginning of period	4,498	3,167
Effect of exchange rate fluctuations on cash held	2	-27
NET CASH AND CASH EQUIVALENTS AT END OF PERIOD	4,504	21,156

Notes to the financial statements of the Krka Company

Sales revenues **182,874 thousand EUR**

The sales revenues included sales from products, services and merchandise on the domestic market in the amount of 18,688 thousand EUR (12% of sales revenues) and sales on foreign markets in the amount of 164,186 thousand EUR (88% of sales revenues). Compared to the results for the same period last year, there was growth of 12%.

Production cost of goods sold **68,791 thousand EUR**

In the first three months of 2007, the production cost of goods sold increased by 4% compared to the same period last year. The ratio of production costs to sales revenues decreased from 40.7% to 37.6%. The decrease is a result of a more favourable product mix of goods sold, as well as stronger cost efficiency.

Sales and marketing **42,334 thousand EUR**

Sales and marketing expenses comprise the costs of the Slovenian and foreign marketing sales network, as well as provisions formed for lawsuits in the amount of 5,000 thousand EUR. Sales and marketing expenses were 31% higher than in the same period in 2006.

R&D costs **14,180 thousand EUR**

Compared to the same period last year, R&D costs increased by 29%, while their share among the sales revenues records an increase from 6.8% to 7.8%. All R&D costs recorded are charged against the current income statement, since research and development costs are not capitalised.

Administrative expenses **12,498 thousand EUR**

Compared to the same period last year, administrative expenses decreased by 3%, whereby its share in the structure of sales revenues decreased from 7.9% to 6.8%. Administrative expenses includes other operating expenses.

Costs in terms of type **136,307 thousand EUR**

in thousand euros	1-3/2007 Unaudited	1-3/2006 Unaudited	Ind, 07/06
Cost of goods and materials	50,249	50,333	100
Cost of services	32,495	21,095	154
Employee benefits cost	35,354	31,733	111
Depreciation	10,362	9,134	113
Provisions formed	5,179	8,683	60
Other operating expenses	2,668	2,870	93
Total costs in terms of type	136,307	123,848	110
Changes in the value of inventories	-1,496	1,270	-118
Total	137,803	122,578	112

Employee benefit cost

35,354 thousand EUR

in thousand euros	1-3/2007 Unaudited	1-3/2006 Unaudited	Ind, 07/06
Gross wages and salaries and continued pay	29,775	24,988	119
Social security contributions and payroll tax	4,731	5,742	82
Other employee benefits cost	848	1,003	85
Total	35,354	31,733	111

Other operating expenses

2,668 thousand EUR

in thousand euros	1-3/2007 Unaudited	1-3/2006 Unaudited	Ind, 07/06
Grants, assistance	442	403	110
Environmental levies	303	422	72
Fiscal charges irrespective of operating results	80	750	11
Loss in the sale of fixed assets	106	21	505
Impairments and inventory write-offs	1,087	423	257
Impairments and receivable write-offs	120	305	39
Other costs	530	546	97
Total	2,668	2,870	93

Financial income and expenses

in thousand euros	1-3/2007 Unaudited	1-3/2006 Unaudited	Ind, 07/06
Exchange differences	715	82	872
Interest income	159	183	87
Change in fair value of investments (through profit or loss)	690	345	200
Other income	1,051	1,583	66
Total financial income	2,615	2,193	119
Exchange differences	1,489	1,727	86
Interest paid	536	474	113
Impairments due to remeasurement of investments at fair value	817	295	277
Other expenses	514	406	127
Total financial expenses	3,356	2,902	116
Net financial expenses	-741	-709	105

Income tax expense

10,136 thousand EUR

The corporate income tax levied amounts to 10,935 thousand EUR, which is 24.5% of profit before tax. Taking into account the deferred tax of 799 thousand EUR, income tax expense in the income statement totals 10,136 thousand EUR, and the effective tax rate is 22.7%.

Property, plant and equipment
392,686 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Property	13,153	13,153	100
Plant	165,455	168,781	98
Equipment	136,965	141,431	97
PPE under construction	77,113	54,076	143
Total	392,686	377,441	104

The value of property, plant and equipment represented 45% of the total assets of the Company and recorded an increase of 4% compared to the start of the year. The reason for increase is growth of the value of PPE under construction because of new investments in the Company. The largest investments by value were the 3th phase of Notal, completing 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 ampoule plant and the central weighing room and raw material warehouse.

Intangible assets
21,885 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
R&D cost	2,316	2,617	88
Long-term property rights	15,034	15,730	96
Intangible assets under construction	4,535	4,053	112
Total	21,885	22,400	98

Compared to the balance at the end of 2006, the value of intangible assets decreased by 2%. Property rights from computer software represented 69% of all intangible assets. Intangible assets under construction mainly include registration document for new pharmaceuticals.

Long-term loans
5,504 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Long-term loans to subsidiaries	1,947	1,898	103
Long-term loans to other entities	3,557	3,426	104
Total	5,504	5,324	103

Other non-current investments
8,007 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Financial assets available-for-sale	7,747	6,269	124
Other non-current investments	260	260	100
Total	8,007	6,529	123

Other non-current investments include items of historical and cultural value.

Inventories
96,501 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Material	31,265	31,465	99
Work in progress	27,240	25,444	107
Products	36,790	40,754	90
Merchandise	1,175	1,804	65
Advances	31	14	230
Total	96,501	99,480	97

Inventories decreased in value by 3% compared to the start of the year, mainly due to high sales over the first-quarterly period.

In the inventories structure, 32% of inventories are materials, 28% work in progress and 39% finished products and merchandise.

Receivables
173,086 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Short-term receivables due from subsidiaries	84,599	84,278	100
Trade receivables	79,010	64,882	122
Receivables due from other entities	9,477	8,324	114
Total	173,086	157,484	110

Receivables increased by 10% compared to year-end 2006. The reason for this increase over the period is higher sales.

Current investments
30,150 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Current investments	20,540	22,618	91
– instruments held for trading	10,481	11,890	88
– Interest-bearing current investments	3,004	3,424	88
– other current investments	7,055	7,303	97
Short-term loans	9,610	9,172	105
– short-term loans to subsidiaries	8,819	8,148	108
– short-term loans to other entities	791	1,025	77
Total	30,150	31,790	95

The biggest decrease among the current investment are marketable shares, i.e. shares issued by Slovenian companies in the amount 860 thousand EUR and by foreign companies in the amount 419 thousand EUR. The major growth of short-term loans involves the short-term loan to the subsidiary Krka Terme in the amount of 661 thousand EUR.

Cash and cash equivalents

4,504 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Cash in hand	66	70	95
Bank balances	4,438	4,429	100
Total	4,504	4,498	100

Equity

605,524 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Share capital	59,132	59,132	100
Own shares	-19,489	-19,489	100
Reserves	147,660	147,660	100
– share premium	120,986	120,986	100
– legal reserves	14,990	14,990	100
– statutory reserves	11,684	11,684	100
Retained earnings	413,617	379,135	109
Fair value reserves	4,604	3,480	132
Total	605,524	569,918	106

The equity of the Company increased by 6% compared to the end of 2006. The increase is mainly attributable to the profit for the first three months of the year 2007 of 34,482 thousand EUR and income and expenses recognised directly in equity of 1,124 thousand EUR.

Borrowings

48,917 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Long-term borrowings	29,093	29,143	100
– borrowings from domestic banks	29,093	29,143	100
Short-term borrowings	19,708	46,404	42
– borrowings from domestic banks	4,250	23,380	18
– borrowings from foreign banks	6,222	11,756	53
– borrowings from other entities	9,236	11,268	82
Interest payable	116	701	17
Total	48,917	76,248	64

Provisions
121,800 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Provisions for termination pay and anniversary bonuses	42,005	41,969	100
Other provisions	79,795	74,836	107
– provisions for lawsuits	79,506	74,506	107
– provisions for ecological restoration	289	330	87
Total	121,800	116,805	104

The major item of the total provisions involves provisions for the lawsuits which are increased by 7% on account of forming new provisions in the amount of 5,000 thousand EUR.

Grant received
432 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Grants for the subsidiary Krka-Rus	7	10	73
Grants for the plant BETA in Šentjernej	291	302	96
Grants by the European Regional Development Fund	26	26	100
Free receipt of fixed assets	108	111	98
Total	432	449	96

Trade payables
68,501 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Payables to subsidiaries	6,124	1,677	365
Payables to domestic suppliers	31,598	32,657	97
Payables to foreign suppliers	30,361	21,641	140
Payables from advances	418	329	127
Total	68,501	56,304	122

Other current liabilities
25,036 thousand EUR

in thousand euros	31 Mar 2007 Unaudited	31 Dec 2006 Audited	Ind, 07/06
Accrued contractual discounts on products sold to subsidiaries	535	528	101
Accrued contractual discounts on products sold to other customers	7,416	7,416	100
Payables to employees – gross wages, other charges	16,514	15,305	108
Other	571	661	86
Total	25,036	23,910	105