

Pursuant to the Rules of the Ljubljana Stock Exchange and the Securities Market Act (ZTVP-1, Official Gazette of the Republic of Slovenia, no 56/99), Krka d.d., Novo Mesto, Šmarješka cesta 6, 8501 Novo Mesto, hereby issues the following

## IMPORTANT NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE KRKA GROUP FOR 2005

### Profile of the Krka Group

Krka d.d. Novo Mesto (the Krka company) is the controlling company of the Krka Group, which includes the following subsidiaries:

	Ownership share (%)
<b>Subsidiaries in Slovenia</b>	
KRKA ZDRAVILIŠČA d.o.o. Novo Mesto	100
<b>Subsidiaries abroad</b>	
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 ČR, s.r.o., Prague, Czech Republic*	100
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100
Krka Sverige AB, Stockholm, Sweden	100
KRKA Magyarorszá g Kft, Budapest, Hungary	100
"KRKA-FARMA" D. O. O. Novi Sad, Serbia & Montenegro	100
DP "KRKA Ukraina" Kyiv, Ukraine*	100
HELVETIUS-srl Trieste, Italy**	80

The subsidiary Krka Zdravilišča d.o.o. Novo Mesto has a participating interest in the following companies:

- Krka-Zdravilišče Strunjan, d.o.o. (51%) and
- Golf Grad Otočec d.o.o. (43.8%).

Abbreviated company names are used in the text below.

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\* Non-operating companies.

\*\* Company under cessation.

## Group Sales

In the 2005 financial year, the Krka Group operated in accordance with its plans for 2005 and strategic guidelines for 2005-2008. Sales of SIT 132.8 billion represent a 17% increase on the previous year. The proportion of exports in overall Krka Group sales continued to increase. In 2005 Krka exports were worth SIT 108.6 billion, which is 82% of overall sales. The Krka Group's sales were 14% greater than sales by the controlling company. Significant performances by subsidiaries include sales by Krka Polska of SIT 18.2 billion, sales by Farma Zagreb of SIT 8.5 billion, and sales by Krka Zdravilišča of SIT 5.9 billion.

## Sales by Region

The highest sales by region in 2005 (SIT 33.5 billion) were recorded in Central Europe region, representing 25% of overall sales and growing 35% over previous year. The highest sales within that region were achieved in Poland, where they were worth SIT 18.9 billion, which is 32% up on the previous year. In Hungary the Group achieved sales of SIT 2.9 billion, a growth of 140%.

Compared to the 2004 figures, the largest increase in sales was recorded in the East Europe region, where the group achieved 48% growth, with sales worth SIT 32.8 billion, representing 25%. The largest market in the region is the Russian Federation, which generated SIT 2.8 billion in sales, making it Krka's second largest single market. Sales growth in Russia was 47% compared to the previous year. The highest growth figures in the region were achieved in Ukraine, with 67% growth.

Slovenia remains the largest single market for the Krka Group, and in 2005 it achieved sales of products and services worth SIT 24.2 billion (including sales by the Group's health resort subsidiary, Krka Zdravilišča), representing 18% of overall sales.

Krka achieved a 11 per cent growth in its South East Europe region sales which represent 17% of its overall sales. The West Europe and Overseas Markets region represents 15% of Group sales.

## Sales by Product Group

The most important product group is prescription pharmaceuticals, which generated SIT 105.7 billion in sales, 80% of the company's overall sales. Sales of self-medication products in 2005 totalled SIT 14.1 billion (11% of overall sales), veterinary product sales were worth SIT 4.8 billion, and cosmetic product sales SIT 2 billion. The subsidiary Krka Zdravilišča sales were SIT 5.8 billion, 4% of the Group's overall sales. Compared to the previous year, the Group increased its sales of pharmaceutical products (by 20%), self medication products (by 19%), and veterinary products (by 16%).

## Explanation of the Transition to the International Financial Reporting Standards

Unaudited consolidated financial statements of the Krka Group for 2005 and comparative statements for 2004 are prepared in accordance with the International Financial Reporting Standards (IFRS) for the first time.

The transition to IFRS reporting is determined by IFRS 1. In accordance with this standard the opening consolidated balance sheet as of 1 January 2004 as well as the consolidated balance sheet as of 31 December 2004 was prepared under IFRS. Furthermore, the comprehensive explanation of transition from the Slovenian Accounting Standards (SAS) to IFRS reporting was also prepared. Due to the comprehensiveness of the full explanation of the transition, complete explanation is not included in this release, however it will be included in the annual report for 2005.

The 2005 consolidated statements were prepared only under IFRS. Hence, we present the comparison of key financial statement items under both standards for 2004, as of 31 December 2004. The table below indicates the major impact of the transition in terms on certain financial statements items.

In millions of SIT

	2004		
	IFRS	SAS	Difference
Assets	155,596	154,214	0.9%
– non-current assets	106,933	105,486	1.4%
– current assets	48,663	48,728	-0.1%
Equity and liabilities	155,596	154,214	0.9%
– Equity	97,126	106,416	-8.7%
– non-current liabilities	37,472	26,800	39.8%
– current liabilities	20,998	20,998	0.0%
Revenues	117,841	117,681	0.1%
Net sales	113,317	113,317	0.0%
Operating profit	17,950	17,390	3.2%
Profit	15,661	14,660	6.8%

### Non-current assets

#### Buildings and Equipment

The group checked the expected life span for higher value buildings and equipment. Furthermore individual component parts of assets that have different anticipated life spans were defined as separate assets for the purposes of calculating depreciation. The adjusted calculation was made for the entire period from activation of certain assets onwards.

The lower depreciation charge means that the present value of buildings and equipment is higher in the IFRS financial statements. The operating costs in the income statement are also lower because of the lower depreciation.

### **Deferred Tax**

In the SAS-compliant financial statements certain subsidiaries have been accounting for deferred tax already in the past. However, the parent company first calculated deferred tax in 2005, while in the IFRS statements it is also calculated for 2004 and given as a separate item under non-current assets.

### **Other Non-current Assets**

The SAS financial statements include treasury shares of the parent company within the fixed assets, while in the IFRS balance sheet these are given as a negative item under equity.

### **Equity**

The transition to the IFRS meant a reduction in equity due to the formation of provisions for liabilities to employees from retained profits, and due to the inclusion of treasury shares as a negative equity item, while there was an increase due to the increase in the present value of buildings and equipment.

### **Non-Current Liabilities**

#### **Provisions**

The increased provisions included within non-current liabilities due to the transition to the IFRS are a consequence of the formation of provisions for liabilities to employees for long-service awards and termination pay on retirement. Liabilities are calculated on the basis of actuarial tables. An actuarial loss, which is the difference between the calculation at the year's start and end, increases operating expenses in the income statement for an individual year.

## Performance Indicators

The Krka Group's unaudited consolidated financial statements for 2005 and the comparative figures for 2004 were prepared in accordance with the International Financial Reporting Standards (IFRS).

All Krka's major performance indicators improved compared to the previous year. The operating profit was 59% greater than the previous year, pre-tax profit was 61% up on the previous year, and the net operating profit increased by 49%.

	<b>In millions of SIT</b>	
<b>Financial highlights for Krka Group</b>	<b>2005</b>	<b>2004</b>
Net sales	132,758	113,317
Operating profit	28,523	17,950
Profit before tax	29,530	18,300
Profit for the period	23,319	15,661
Non-current assets (end of period)	120,455	106,933
Current assets (end of period)	68,394	48,663
Equity (end of period)	114,897	97,126
Non-current liabilities (end of period)	36,048	37,721
Current liabilities (end of period)	37,904	20,998
Headcount (end of period)	5 224	4 781
<b>Ratios for Krka Group</b>	<b>2005</b>	<b>2004</b>
Profit / Revenues (in %)	15.7	13.0
ROE (in %)	22.0	17.4
ROA (in %)	13.6	10.5
EPS (in SIT)*	6,899	4,634
BVPS (in SIT)**	32,433	27,417

\* Considering total of 3,379,950 shares, excluding own shares of 162,662.

\*\* Equity balance as of 31 December / total number of shares issued.

## Personnel

At the end of the 2005, the Krka Group employed 5 224 people, 2 976 of which were employed in the Krka company in Slovenia, 1 024 in representative offices abroad, 620 in companies abroad, and 626 in the Krka Zdravilišča company. This was an increase of 443 or 8.4% over the previous

years. A total of 1 644 employees worked in companies outside Slovenia, representing 31% of all employees in the Group.

The influx of new employees has increased the proportion of university-educated staff in the Krka Group, which now stands at 39 per cent of all Group employees. At the end of 2005, 2 222 employees held university degrees. The international orientation of the Krka Group is further affirmed by the fact that 65% of its employees with university degrees work in representative offices and subsidiaries abroad.

## Investments

In 2005 the Krka Group allocated SIT 21.5 billion to investment, 16.2% of net sales. The most important investment project was the construction of the new chemical synthesis plant (Sinteza 4) for the production of active pharmaceutical ingredients, which should be completed in autumn of this year. A new liquid raw material storage facility was constructed at the controlling company's central Novo Mesto site, while production capacity was increased in one of the existing plants (Specifika), and the capacity of the finished product warehouse was almost doubled. The co-investment in the town water treatment plant in Ljutomer was completed, while the technology at the water treatment plant in Novo Mesto was upgraded. The construction of a production and distribution centre in Croatia was completed, and all the permits required to produce pharmaceutical in solid dosage form were obtained. The Krka Zdravilišča subsidiary primarily invested in increasing and improving health and tourism complex at the Zdravilišče Šmarješke Toplice health resort, and increasing and improving capacity at the Balnea wellness centre in Dolenjske Toplice.

## Plans for 2006

The Krka Group anticipates 13 per cent growth in Group sales in 2006, which will mean sales worth SIT 150 billion. The Krka Group will create over 80% of its overall sales on markets outside Slovenia. The Group anticipates that the largest individual market will be the Russian Federation, and the largest growth in sales is expected in the Central Europe and East Europe regions. Products for human consumption (prescription pharmaceuticals and self medication products, and cosmetics) will remain by far the most important product group, representing 92 per cent of sales.

The controlling company will conclude construction of the Sinteza 4 plant in 2006. The plant is intended to ensure capacity for the production of active generic pharmaceutical ingredients for the Group's best selling pharmaceutical products. Krka will commence construction of the new ampoule production plant. The plant should come online in the first half of 2008. Packaging capacity for solid form pharmaceuticals will be increased in three locations (starting provisionally in 2006), and by the end of 2007 Krka will have extended its packaging facilities at the Notol plant, and pellet production will also be increased. The key investment for the Krka Zdravilišča subsidiary in 2006 will be the construction of an extension to the Hotel Kristal and a connecting corridor between the Hotel Kristal and the Balnea wellness centre at the Zdravilišče Dolenjske Toplice health resort.

At the end of 2006, the Krka Group will employ an estimated 5 700 people, over 2 000 of which will be working in companies outside Slovenia.

## Other Significant Information

Since 1 January 2005, Jože Colarič has held office as CEO and President of the Board of Krka's controlling company, while Zvezdana Bajc has been a member of the Management Board since 1 April 2005.

At the beginning of April 2005, Krka received notice from the Ljubljana District Court of a legal action filed against the Krka company by the US companies Warner-Lambert Company LLC and Pfizer H.C.P. Corporation concerning alleged infringement of two patents protecting the procedure for production of two forms of the active ingredient atorvastatin.

In the middle of April 2005 the Ljubljana District Court the claim filed by the US company Merck & Co. Inc. (Rahway, New Jersey) against Krka concerning an alleged infringement of a patent protecting the medicament simvastatin. This brought the simvastatin dispute to its legal conclusion.

At Krka d.d.'s 10th general meeting on 17 June 2005, a new supervisory board was elected, with six shareholder representatives and three employee representatives. All members commenced their four-year term in office on 21 June 2005. At the founding session of the new supervisory board, Dr Gregor Gomišček was elected president, and Dr Marko Kranjc as vice-president of the Supervisory Board. On 15 September 2005, Dr Gregor Gomišček tendered his resignation, which will be placed on the agenda of the next Annual General Meeting.

No significant events have occurred since 31 December 2005 that could affect the items published in the financial statements in any way. On 28 February 2006, the Pfizer company withdrew the action it lodged against Krka in 2002, alleging Krka was guilty of unfair competition in relation to acquiring a market authorisation for the Yasnal medicament. No provisions were held to cover this action.

The company regularly publishes any significant amendments in the data contained in its stock exchange prospectus on the Ljubljana Stock Exchange's electronic information system SEOnet. The statements can also be accessed on Krka's official website ([www.krka.si](http://www.krka.si)) without restriction, from the day the statement is issued onwards.

Novo Mesto, March 2006

Krka d.d. Novo Mesto  
Management Board

## Consolidated balance sheet

in thousands of SIT

	31/12/2005	31/12/2004
<b>Assets</b>		
Property, plant and equipment	108,165,231	98,539,914
Intangible assets	5,058,450	4,151,803
Investments in associates	270,761	120,635
Deferred tax assets	4,778,324	1,913,542
Other non-current assets	2,182,301	2,206,966
<b>Non-current assets</b>	<b>120,455,067</b>	<b>106,932,860</b>
Inventories	28,966,629	20,035,072
Trade and other receivables	33,008,703	23,910,769
Investments	3,391,005	1,875,683
Cash and cash equivalents	3,027,752	2,841,099
<b>Current assets</b>	<b>68,394,089</b>	<b>48,662,623</b>
<b>Total assets</b>	<b>188,849,156</b>	<b>155,595,483</b>
Off- balance sheet assets	20,201,775	18,537,041
<b>Equity</b>		
Issued capital	14,170,448	14,170,448
Own shares	-4,670,280	-4,670,280
Reserves	34,885,325	34,085,325
Retained earnings	68,131,642	51,140,710
Fair value reserve	561,602	519,987
Consolidated equity adjustment	4,648	59,959
<b>Total equity attributable to equity holders of the parent</b>	<b>113,083,385</b>	<b>95,306,149</b>
Minority interest	1,813,556	1,819,476
<b>Total equity</b>	<b>114,896,941</b>	<b>97,125,625</b>
<b>Liabilities</b>		
Interest-bearing loans and borrowings	11,669,435	14,596,143
Provisions	23,883,615	22,404,081
Received grants	209,882	222,769
Deferred tax liabilities	285,236	248,948
<b>Total non-current liabilities</b>	<b>36,048,168</b>	<b>37,471,941</b>
Trade and other payables	14,163,219	9,073,437
Interest-bearing loans and borrowings	9,120,664	5,282,943
Income tax liabilities	6,689,431	1,490,963
Provisions and other liabilities	7,930,733	5,150,574
<b>Total current liabilities</b>	<b>37,904,047</b>	<b>20,997,917</b>
<b>Total liabilities</b>	<b>73,952,215</b>	<b>58,469,858</b>
<b>Total equity and liabilities</b>	<b>188,849,156</b>	<b>155,595,483</b>
Off- balance sheet liabilities	20,201,775	18,537,041

## Consolidated income statement

in thousands of SIT

	2005	2004
Net sales	132,757,626	113,317,141
Cost of sales	51,847,673	51,676,455
<b>GROSS PROFIT</b>	<b>80,909,953</b>	<b>61,640,686</b>
Marketing & sales expenses	41,609,639	26,869,490
Research & development expenses	9,611,856	8,313,591
General & administration expenses	13,386,461	13,031,883
Other operating income	12,221,261	4,524,293
<b>OPERATING PROFIT</b>	<b>28,523,258</b>	<b>17,950,015</b>
Financial income	3,989,327	3,545,539
Financial expenses	2,982,607	3,195,485
<b>Net financing costs</b>	<b>1,006,720</b>	<b>350,054</b>
<b>PROFIT BEFORE TAX</b>	<b>29,529,978</b>	<b>18,300,069</b>
Income tax expense	6,210,850	2,639,051
<b>PROFIT FOR THE PERIOD</b>	<b>23,319,128</b>	<b>15,661,018</b>
<b>Attributable to holders of the parent</b>	<b>23,288,582</b>	<b>15,637,826</b>
<b>Attributable to minority interest</b>	<b>30,546</b>	<b>23,192</b>
Earnings per share (SIT)	6,899	4,634

## Consolidated statement of cash flows

in thousands of SIT

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit for the period</b>	<b>23,319,128</b>	<b>15,637,826</b>
<b>Adjustments for:</b>	<b>18,452,153</b>	<b>14,334,987</b>
Depreciation	10,989,907	10,496,664
FX gains	-572,441	-685,066
FX losses	836,799	1,026,136
Investment income	-9,694	4,772
Financial income	-70,253	-253,034
Financial expense	1,012,153	1,106,463
Income tax expense not included in operating expenses	6,210,850	2,639,052
Other	54,832	0
<b>Operating profit before changes in working capital and provisions</b>	<b>-15,496,974</b>	<b>2,574,503</b>
Change in trade and other receivables	-8,954,104	1,511,716
Change in inventories	-8,931,557	2,853,588
Change in trade and other payables	3,254,225	1,158,966
Change in other current liabilities	3,662,565	-1,125,278
Income taxes paid	-4,528,103	-1,824,489
<b>Net cash from operating activities</b>	<b>26,274,307</b>	<b>32,547,316</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	116,262	171,402
Proceeds from sale of investments	64,744	71,004
Dividends received	40,496	19,812
Disposals of property, plant and equipment	365,498	124,074
Disposal of subsidiary	0	31,698
Acquisition of intangible assets	-1,847,877	-2,670,483
Acquisition of property, plant and equipment	-18,037,481	-20,547,650
Acquisitions of long-term financial investments	84,621	428,823
Acquisitions of short-term financial investments	-1,820,853	-1,119,762
Acquisition of derivative financial instruments	-334,251	27,673
<b>Net cash from investing activities</b>	<b>-21,368,841</b>	<b>-23,463,409</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from increase in non-current borrowings	0	8,854,051
Proceeds from increase in current borrowings	3,965,392	0
Payment of interest for financing	-547,754	-1,093,274
Payment of non-current financial liabilities	-3,337,574	0
Payment of current financial liabilities	0	-11,813,907
Dividends paid	-4,809,077	-4,092,768
<b>Net cash from financing activities</b>	<b>-4,729,013</b>	<b>-8,145,898</b>
Net increase in cash and cash equivalents	176,453	938,009
Cash and cash equivalents at the beginning of the period	2,841,099	1,955,342
Effect of exchange rate fluctuations on cash and cash equivalents	10,200	-52,252
<b>CASH AND CASH EQUIVALENTS AT THE END OF PERIOD</b>	<b>3,027,752</b>	<b>2,841,099</b>



## Consolidated statement of changes in equity

in thousands of SIT

	Issued capital	Reserves	Own shares	Retained earnings	Fair value reserve	Consolidated equity adjustment	Minority interest	Total equity
<b>Balance at 1 January 2004</b>	<b>14,170,448</b>	<b>33,585,325</b>	<b>-4,670,280</b>	<b>40,226,095</b>	<b>29,605</b>	<b>17,938</b>	<b>1,813,103</b>	<b>85,172,234</b>
Entry of profit for the period	0	0	0	15,637,826	0	0	23,192	15,661,018
Formation of the statutory reserves	0	500,000	0	-500,000	0	0	0	0
Dividends paid	0	0	0	-4,106,280	0	0	-22,176	-4,128,456
Recognised income and expense	0	0	0	-116,931	490,381	42,021	5,357	420,828
<b>Balance at 31 December 2004</b>	<b>14,170,448</b>	<b>34,085,325</b>	<b>-4,670,280</b>	<b>51,140,710</b>	<b>519,986</b>	<b>59,959</b>	<b>1,819,476</b>	<b>97,125,624</b>
Entry of profit for the period	0	0	0	23,288,582	0	0	30,546	23,319,128
Formation of the statutory reserves	0	800,000	0	-800,000	0	0	0	0
Dividends paid	0	0	0	-4,786,297	0	0	-31,850	-4,818,147
Recognised income and expense	0	0	0	-711,352	41,616	-55,311	-4,616	-729,663
<b>Balance at 31 December 2005</b>	<b>14,170,448</b>	<b>34,885,325</b>	<b>-4,670,280</b>	<b>68,131,643</b>	<b>561,602</b>	<b>4,648</b>	<b>1,813,556</b>	<b>114,896,942</b>