



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

IMPORTANT NOTES TO THE UNAUDITED UNCONSOLIDATED FINANCIAL STATEMENTS OF THE KRKA COMPANY FOR 2005

Sales

In the 2005 financial year, Krka d.d., Novo Mesto (Krka d.d.) operated in accordance with its plans for 2005 and strategic guidelines for 2005-2008. Sales of SIT 116.6 billion represent a 19% increase over the previous year. The proportion of exports in overall Krka sales continued to increase. In 2005 Krka exports were worth SIT 98.2 billion, which is 84% of overall sales.

Sales by Region

Compared to the 2004, the largest increase in sales was recorded in the East Europe region, where Krka achieved 42% growth. The largest market in the region is the Russian Federation, which generated SIT 21.6 billion in net sales revenue, making it Krka's largest single market. Krka achieved its highest sales growth in the region in Ukraine, at 67% growth. The East Europe region represents 27% of Krka's overall sales. The next ranked region in terms of growth and sales volume was Central Europe, where Krka achieved sales of SIT 26.8 billion, 38% more than in 2004, representing 23% in total sales. The South East Europe region, where a 19% growth in sales was achieved, represented 17% of overall sales. The West Europe and Overseas region stood at 17% of overall sales while sales in Slovenia represented 16%.

Sales by Product Group

The most important product group is prescription pharmaceuticals, which generated SIT 96 billion in sales, 82% of the company's overall sales. Sales of self-medication products totalled SIT 13.8 billion (12% of overall sales), animal health product sales were worth SIT 4.6 billion, and cosmetic product sales SIT 2 billion. Compared to the previous year, Krka increased its sales of pharmaceutical products (by 20%), self-medication products (by 22%), and animal health products (by 18%), while sales of cosmetic products decreased.

Performance Indicators

Krka's unaudited financial statements for 2005 and the comparative figures for 2004 were prepared in accordance with the Slovenian Accounting Standards.

The introduction of the International Financial Reporting Standards (IFRS) is comprehensive and demanding exercise. The company accountants are still reconciling individual accounting items with the auditors. Hence, the release of the unconsolidated financial statements in accordance with IFRS by the statutory release date was not possible. However, audited unconsolidated and unaudited consolidated financial statements (both in accordance with IFRS) will be released presumably in the last week of March 2006.

All Krka's major performance indicators improved, compared to the previous year. The operating profit grew 60% over the previous year, the profit from ordinary activities was 61% up on the previous year, and the net profit increased by 53%.

	SIT Millions	
	2004	2005
Krka company financial highlights		
Net sales	97,978	116,570
Operating profit	17,585	28,189
Profit from ordinary activities	16,964	27,376
Net profit	14,101	21,581
Fixed assets (end of period)	103,768	114,013
Current assets (end of period)	47,176	68,731
Equity (end of period)	106,711	125,046
Provisions (end of period)	12,025	13,028
Financial and operating liabilities (end of period)	30,972	40,918
No. of employees (end of period)	3 648	3 978
Krka company performance ratios		
Net profit / Revenues (in %)	13.3	16.4
ROE (in %)	13.9	18.6
ROA (in %)	9.5	12.9
Earnings per share (in SIT)*	3,980	6,092
Book value per share (in SIT)**	30,122	35,298

* applying total number of shares issued.

** Equity value as per 31. 12. / total number of shares issued.

In accordance with the Companies Act provisions regarding appropriation of the net profit, the Management Board earmarked SIT 800 million of 2005 net profit for statutory reserves and SIT



6,500 million for other revenue reserves. The unaudited accumulated profit of the company for 2005 amounts to SIT 20,255 million. The final proposal of accumulated profit will be formed when Supervisory Board will discuss and confirm the annual report.

Research and Development

In 2005 the company submitted patent applications for 14 new inventions, and 17 international patent applications on the basis of prioritised applications from 2004.

The company markets its products under its own brands, which further enhances the added value of Krka products. In 2005 Krka registered 42 trademarks in Slovenia and submitted 54 applications for international trademark registration.

During 2005 Krka acquired marketing authorisations for 282 products, in 552 pharmaceutical forms on its traditional markets. On behalf of Krka d.d., its Swedish based subsidiary, Krka Sverige, and the company's other partners, Krka acquired 113 registrations for 12 products in 41 forms in the countries of West Europe.

Investments

In 2005 Krka d.d. allocated SIT 18 billion to investment. The most important investment project was the construction of the new chemical synthesis plant (Sinteza IV) 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 company's central Novo Mesto site, while production capacity was increased in one of the existing plants, 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.

Share and Ownership Structure

On the last trading day of the year, 30 December 2005, the share price on the Ljubljana Stock Exchange was SIT 102 342, which is 190% higher than the book value (SIT 35 298). In 2005 the company's share price increased by 22%. At the end of 2005 the market capitalisation of Krka d.d. stood at SIT 362.6 billion, which is the highest market capitalisation among companies quoted on the Ljubljana Stock Exchange, representing 11% of the stock exchange's total market capitalisation.

The share price increased significantly in the final months of 2005, reaching record values. At the end of September Krka's share price stood at SIT 85 896, and by 10 November 2005 it had passed SIT 100 000 for the first time. The share price reached highest value of 2005 on 15 November, when it stood at SIT 107 502.60. After settling above SIT 100 000 at the end of the year, the share price continued to grow in 2006, reaching its highest value of SIT 118 408 on 3 February.

Minor changes in the ownership structure of Krka shares were noticeable in 2005. The proportion of shares held by foreigners increased from 2.8% to 6.2%, the proportion held by Slovenian investment companies and funds fell from 17.6% to 14.8%, and the proportion held by private individuals from Slovenia fell from 39.9% to 39.2%. The proportions held by KAD and its funds, SOD, and other Slovenian legal entities remained practically unchanged. The number of Krka shareholders fell during 2005 from 54 911 to 53 635, with an increase in the number of foreign shareholders from 320 at the start of the year, to 383 at the end.

Plans for 2006

Krka's effective performance in 2005 forms the basis for the optimistic operating plan for 2006, for which it has forecast a 13% growth in sales. The highest sales growth (of 40%) is forecast in the Central Europe followed by East Europe with a predicted growth of 24%. The East Europe region should again record the highest regional sales – its proportion of overall sales is forecast at 30%. The forecast growth in sales for the South-East Europe is 17%. The proportions of the different product groups in overall sales are forecast to remain practically the same.

The construction of the Sinteza IV plant will be completed in 2006. The plant is intended to ensure capacity for the production of active generic pharmaceutical ingredients for Krka's biggest selling pharmaceutical products. Krka will commence construction of the new ampoule production plant, which will have an annual capacity of 80 to 100 million ampoules per year. 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.

Other Significant Events

Since 1 January 2005, Jože Colarič has held office as Krka's CEO and President of the Board. On 1 April 2005 Zvevdana Bajc joined the Management Board.

At the beginning of April 2005, Krka received notice from the Ljubljana District Court of a legal action filed against Krka 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 annual 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 Annual General Meeting.

After the reporting period there were no events that could influence reported operating performance of the company.

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) without restriction, from the day the statement is issued onwards.

Novo Mesto, February 2006

Krka, d. d., Novo Mesto
Management Board

BALANCE SHEET

	in 000 SIT	
	31. 12. 2005	31. 12. 2004
ASSETS	182,826,119	151,080,787
FIXED ASSETS	114,012,826	103,768,324
Intangible fixed assets	5,240,167	4,337,508
Tangible fixed assets	73,440,344	67,607,520
Long-term financial investments	35,332,315	31,823,296
CURRENT ASSETS	68,731,246	47,176,096
Inventories	26,926,295	18,538,074
Operating receivables	37,182,590	25,617,311
Short-term financial investments	3,863,593	1,919,757
Bank balance, cheques and cash on hand	758,768	1,100,954
DEFERRED COSTS AND ACCRUED REVENUES	82,047	136,367
LIABILITIES	182,826,119	151,080,787
EQUITY	125,045,773	106,711,173
Called capital	14,170,448	14,170,448
Capital reserves	2,598,736	2,598,736
Revenue reserves	64,542,300	55,230,357
Net profit (or loss) from previous periods	5,974,464	3,583,658
Net profit (or loss) for the period	14,280,823	9,101,384
Equity revaluation adjustments	23,479,002	22,026,590
PROVISIONS	13,027,768	12,025,182
FINANCIAL AND OPERATING LIABILITIES	40,918,260	30,972,198
Long-term financial and operating liabilities	10,011,560	13,786,543
Short-term financial and operating liabilities	30,906,700	17,185,655
ACCRUED COSTS AND DEFERRED REVENUES	3,834,318	1,372,234

INCOME STATEMENT

in 000 SIT

	2005	2004
Net sales	116,570,332	97,977,511
- on domestic market	18,336,745	18,474,969
- on foreign market	98,233,587	79,502,542
Changes in inventories	4,794,880	-1,074,999
Capitalized own products and services	19,143	44,949
Other operating revenues	11,796,305	4,098,175
Cost of goods, material and services	-52,173,899	-43,518,841
Labour costs	-28,657,196	-26,359,527
Depreciation and amortisation expenses	-10,252,992	-9,750,662
- Amortisation and revaluatory operating expenses associated with intangible fixed assets and tangible fixed assets	-9,327,315	-8,604,262
- Revaluatory operating expenses associated with operating current assets	-925,677	-1,146,400
Other operating expenses	-13,908,010	-3,832,049
Financial revenue from equity interests	1,019,272	1,545,028
Financial revenue from long-term receivables	146,652	404,541
Financial revenue from short-term receivables	1,996,463	1,599,680
Financial expenses for long-term and short-term financial investment write-off	-2,095,761	-1,816,727
Interest expenses and financial expenses for other liabilities	-1,879,116	-2,353,173
NET PROFIT (OR LOSS) FROM ORDINARY ACTIVITIES	27,376,073	16,963,906
Extraordinary revenue	64,723	112,051
Extraordinary expenses	-25,220	-10,799
PROFIT (OR LOSS) FROM EXTRAORDINARY ACTIVITIES	39,503	101,252
PROFIT OR LOSS BEFORE TAX	27,415,576	17,065,158
Income tax	-5,834,753	-2,963,774
NET PROFIT (OR LOSS) FOR THE PERIOD	21,580,823	14,101,384

CASH FLOW STATEMENT

in 000 SIT

	01-12/2005	01-12/2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows from operating activities	114,933,869	100,953,333
Operating revenues	122,976,912	98,307,948
Extraordinary revenues associated with operations	64,723	112,051
Operating receivables at the beginning of period less operating receivables at end of period	-8,162,086	2,610,502
Deferred costs, deferred expenses and accrued revenues at the beginning less deferred costs, deferred expenses and accrued revenues at end of period	54,320	-77,168
Outflows from operating activities	91,033,705	72,022,595
Operating expenses, excluding depreciation (amortisation) and long-term provisions	82,746,618	72,032,895
Extraordinary expenses associated with operations	25,220	10,799
Income tax and other taxes not included in operating expenses	4,085,332	1,459,866
Ending inventories less beginning inventories	8,925,893	-1,610,308
Operating liabilities at beginning of period less operating liabilities at end of period	-2,287,273	95,246
Accrued costs, accrued expenses and deferred revenues at beginning of period less accrued costs, accrued expenses and deferred revenues at end of period	-2,462,085	34,097
Net cash inflows from operating activities	23,900,164	28,930,738
FLWS FROM INVESTING ACTIVITIES		
Inflows from investing activities	252,506	303,878
Financial revenues associated with investment activities (excluding revaluation)	252,506	303,878
Offset decrease in long-term financial investments (excluding revaluation)	0	0
Offset decrease in short-term financial investments (excluding revaluation)	0	0
Outflows from investing activities	18,329,565	20,894,133
Financial expenses associated with investment activities (excluding revaluation)	1,150,399	0
Offset increase in intangible fixed assets (excluding revaluation adjustment)	1,861,732	2,670,036
Offset increase in tangible fixed assets (excluding revaluation adjustment and increases of non-cash equity)	11,831,135	17,113,317
Offset increase in long-term financial investments (excluding revaluation adjustment)	1,228,739	755,915
Offset increase in short-term financial investments (excluding revaluation adjustment)	2,257,560	354,865
Net outflows from investing activities	-18,077,059	-20,590,255
FLWS FROM FINANCING ACTIVITIES		
Inflows from financing activities	4,042,482	9,752,356
Financial revenues associated with financing activities (excluding revaluation)	70,253	260,034
Offset increase in long-term provisions (excluding revaluation adjustment)	0	0
Offset increase in long-term financial liabilities (excluding revaluation adjustment)	0	9,492,322
Offset increase in short-term financial liabilities (excluding revaluation adjustment)	3,972,229	0
Outflows from financing activities	10,217,973	17,305,957
Financial expenses associated with financing activities (excluding revaluation)	1,237,572	1,359,046
Offset decrease in long-term financial liabilities (excluding revaluation adjustment)	4,171,324	0
Offset decrease in short-term financial liabilities (excluding revaluation adjustment)	0	11,854,143
Decrease in liabilities to owners associated with profit sharing (payments of dividends and other profit participations)	4,809,077	4,092,768
Net inflows (outflows) from financing activities	-6,175,491	-7,553,601
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	3,800,901	2,263,745
Net flow for the financial year	-352,386	786,882
Effect of exchange rate fluctuations on cash and cash equivalents	10,200	-52,252
Opening balance of cash and cash equivalents	4,143,087	1,529,115



STATEMENT OF CHANGES IN EQUITY

2005

in 000 SIT

	Called capital	Capital reserves	Legal reserves	Reserves for own shares	Statutory reserves	Other revenue reserves	Retained net profit or loss	Net profit or loss for the period	General equity revaluation adjustment	Special equity revaluation adjustment	Total equity
Balance at 31. 12. 2004	14,170,448	2,598,736	3,592,196	4,670,280	1,500,000	45,467,881	3,583,658	9,101,384	21,724,113	302,477	106,711,173
Equity inflows	0	0	0	0	0	0	87,663	21,580,823	0	1,509,832	23,178,318
Entry of the net profit or loss for the period	0	0	0	0	0	0	0	21,580,823	0	0	21,580,823
Entry of amount of specific equity revaluation adjustments	0	0	0	0	0	0	0	0	0	0	0
Other increases in equity components	0	0	0	0	0	0	87,663	0	0	1,509,832	1,597,495
Changes in equity	0	0	0	0	800,000	12,386,801	3,214,583	-16,401,384	0	0	0
Distribution of net profit as an equity component based on the decision of the Management and Supervisory Board	0	0	0	0	800,000	6,500,000	0	-7,300,000	0	0	0
Distribution of net profit to additional reserves based on the decision of the Annual General Meeting	0	0	0	0	0	5,886,801	-5,886,801	0	0	0	0
Other reclassifications of equity components	0	0	0	0	0	0	9,101,384	-9,101,384	0	0	0
Equity outflows	0	0	0	0	0	3,874,858	911,440	0	0	57,420	4,843,718
Payments of dividends	0	0	0	0	0	3,874,858	857,072	0	0	0	4,731,930
Other decreases in equity components	0	0	0	0	0	0	54,368	0	0	57,420	111,788
Balance at 31. 12. 2005	14,170,448	2,598,736	3,592,196	4,670,280	2,300,000	53,979,824	5,974,464	14,280,823	21,724,113	1,754,889	125,045,773

2004

in 000 SIT

	Called capital	Capital reserves	Legal reserves	Reserves for own shares	Statutory reserves	Other revenue reserves	Retained net profit or loss	Net profit or loss for the period	General equity revaluation adjustment	Special equity revaluation adjustment	Total equity
Balance at 31. 12. 2003	14,170,448	2,598,736	3,592,196	4,670,280	1,000,000	38,558,333	5,014,356	5,011,206	21,724,113	164,369	96,504,036
Equity inflows	0	0	0	0	0	0	73,925	14,101,384	0	138,109	14,313,418
Entry of the net profit or loss for the period	0	0	0	0	0	0	0	14,101,384	0	0	14,101,384
Entry of amount of specific equity revaluation adjustments	0	0	0	0	0	0	0	0	0	0	0
Other increases in equity components	0	0	0	0	0	0	73,925	0	0	138,109	212,034
Changes in equity	0	0	0	0	500,000	9,459,641	51,565	-10,011,206	0	0	0
Distribution of net profit for the period based on the decision of the Management and Supervisory Board	0	0	0	0	500,000	4,500,000	0	-5,000,000	0	0	0
Distribution of net profit to additional reserves based on the decision of the Annual General Meeting	0	0	0	0	0	4,959,641	-4,959,641	0	0	0	0
Other reclassifications of equity components	0	0	0	0	0	0	5,011,206	-5,011,206	0	0	0
Equity outflows	0	0	0	0	0	2,550,091	1,556,189	0	0	0	4,106,280
Payments of dividends	0	0	0	0	0	2,550,091	1,556,189	0	0	0	4,106,280
Other decreases in equity components	0	0	0	0	0	0	0	0	0	0	0
Balance at 31. 12. 2004	14,170,448	2,598,736	3,592,196	4,670,280	1,500,000	45,467,883	3,583,657	9,101,384	21,724,113	302,477	106,711,173