



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

AUDITED FINANCIAL STATEMENTS OF KRKA COMPANY FOR 2005

March 2006

**AUDITED FINANCIAL STATEMENTS OF KRKA COMPANY IN
ACCORDANCE WITH THE SLOVENIAN ACCOUNTING STANDARDS**

Balance sheet – under SAS

in thousands 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
OFF-BALANCE SHEET ASSETS	19,352,546	18,599,067
LIABILITIES	182,826,119	151,080,787
EQUITY	125,045,772	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	23,479,001	22,026,590
PROVISIONS	13,027,768	12,025,182
FINANCIAL AND OPERATING LIABILITIES	40,918,261	30,972,198
Long-term financial and operating liabilities	10,011,560	13,786,543
Short-term financial and operating liabilities	30,906,701	17,185,655
ACCRUED COSTS AND DEFERRED REVENUES	3,834,318	1,372,234
OFF-BALANCE SHEET LIABILITIES	19,352,546	18,599,067

Income statement – under SAS

in thousands of 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
TOTAL REVENUES	133,180,660	101,045,636
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
TOTAL OPERATING EXPENSES	-104,992,097	-83,461,079
OPERATING PROFIT	28,188,563	17,584,557
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
TOTAL FINANCIAL INCOME	3,162,387	3,549,249
Financial expenses for long-term and short-term financial investment write-offs	-2,095,761	-1,816,727
Interest expenses and financial expenses for other liabilities	-1,879,116	-2,353,173
TOTAL FINANCIAL EXPENSES	-3,974,877	-4,169,900
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

Statement of cash flows – under SAS

in thousands of SIT

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows from operating activities	114,887,674	100,953,333
Operating revenues	122,930,717	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	90,962,569	72,022,595
Operating expenses, excluding depreciation (amortisation) and long-term provisions	82,675,482	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	23,925,105	28,930,738
FLOW FROM INVESTING ACTIVITIES		
Inflows from investing activities	252,506	303,878
Financial revenues associated with investment activities (excluding revaluation)	252,506	303,878
Outflows from investing activities	16,475,164	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)	11,856,076	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)	378,218	354,865
Net outflows from investing activities	-16,222,658	-20,590,255
FLOW 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 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	1,526,956	786,882
Effect of exchange rate fluctuations on cash and cash equivalents	10,200	-52,252
Opening balance of cash and cash equivalents	2,263,745	1,529,115

*The balance for 2005 includes cash equivalents such as securities and options, in the amount of SIT 3,042,133 thousand.

The balance of cash equivalents at the end of 2004 was SIT 1,162,791 thousand.



Statement of changes in equity for 2005 – under SAS

in thousands of 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



Statement of changes in equity for 2004 – under SAS

in thousands of 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	96,504,037
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
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
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	302,478	106,711,175

Accumulated profit

in thousands of SIT

	2005	2004
Compulsory appropriation of net profit		
Net profit for the financial year	21,580,823	14,101,384
- to cover the loss from previous periods	0	0
- allocation to legal reserves	0	0
- allocation to reserves for own shares	0	0
- allocation to statutory reserves	800,000	500,000
Net profit after compulsory appropriation	20,780,823	13,601,384
- formation of other reserves (Management Board and Supervisory Board resolution)	6,500,000	4,500,000
Surplus of net profit	14,280,823	9,101,384
Identification of accumulated profit		
Surplus of net profit	14,280,823	9,101,384
+ profit from previous periods	5,974,464	3,583,658
+ decrease in revenue reserves	0	3,874,858
Accumulated profit	20,255,287	16,559,900

	2005	2004
Appropriation of accumulated profit		
- to dividends		4,731,930
- to other revenue reserves		5,886,801
- carry forward into the next period		5,886,801
- for other purposes (Supervisory Board's participation in profit)		54,368



**AUDITED FINANCIAL STATEMENTS OF KRKA COMPANY
IN ACCORDANCE WITH THE
INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Balance sheet – under IFRS

in thousands of SIT

	31/12/2005	31/12/2004
ASSETS		
Property, plant and equipment	78,103,851	71,527,763
Intangible assets	4,897,744	3,947,586
Investments in associates	27,756,710	25,307,556
Deferred tax assets	3,732,861	1,103,451
Other non-current assets	2,097,824	2,120,726
NON-CURRENT ASSETS	116,588,990	104,007,082
Inventories	26,883,175	18,483,216
Trade and other receivables	33,774,998	25,745,309
Investments	3,933,668	1,981,639
Cash and cash equivalents	758,768	1,100,954
CURRENT ASSETS	65,350,609	47,311,118
TOTAL ASSETS	181,939,599	151,318,200
OFF-BALANCE SHEET ASSETS	19,352,546	18,599,067
EQUITY		
Issued capital	14,170,448	14,170,448
Own shares	-4,670,280	-4,670,280
Reserves	30,215,045	29,415,045
Retained earnings	73,863,812	57,702,271
Fair value reserve	561,602	519,986
TOTAL EQUITY	114,140,627	97,137,470
LIABILITIES		
Interest-bearing loans and borrowings	10,011,560	13,786,543
Provisions	22,692,910	21,488,397
Received grants	87,605	100,492
Deferred tax liabilities	265,879	248,949
TOTAL NON-CURRENT LIABILITIES	33,057,954	35,624,381
Trade and other payables	12,713,863	8,312,672
Interest-bearing loans and borrowings	8,495,030	4,628,896
Income tax liabilities	6,598,933	1,347,211
Provisions and other liabilities	6,933,192	4,267,570
TOTAL CURRENT LIABILITIES	34,741,018	18,556,349
TOTAL LIABILITIES	67,798,972	54,180,730
TOTAL EQUITY AND LIABILITIES	181,939,599	151,318,200
OFF-BALANCE SHEET LIABILITIES	19,352,546	18,599,067

Income statement – under IFRS

in thousands of SIT

	2005	2004
Net sales	116,570,332	97,977,511
Cost of sales	45,055,228	43,918,709
GROSS PROFIT	71,515,104	54,058,802
Marketing & sales expenses	35,056,183	22,022,101
Research & development expenses	9,487,512	8,313,591
General & administration expenses	10,050,639	9,961,612
Other operating income	11,880,171	4,255,175
OPERATING PROFIT	28,800,941	18,016,673
Financial income	3,283,180	3,043,936
Financial expenses	3,734,629	3,066,041
Net financing costs	-451,449	-22,105
PROFIT BEFORE TAX	28,349,492	17,994,568
Income tax expense	5,890,302	2,684,951
PROFIT FOR THE PERIOD	22,459,190	15,309,617
Earnings per share (SIT)	6,645	4,530

Statement of cash flows – under IFRS

in thousands of SIT

	2005	2004
Cash flows from operating activities		
Profit for the period	22,459,190	15,309,617
Adjustments for:	15,927,547	10,853,166
Depreciation	8,378,685	7,739,468
FX gains	-1,523,964	-1,384,488
FX losses	842,959	1,274,430
Investment income	-6,219	-195,228
Investment expense - associates	1,150,399	0
Financial income	-70,253	-260,034
Financial expense	1,180,260	994,067
Income tax expense not included in operating expenses	5,890,302	2,684,951
Other	85,378	0
Operating profit before changes in working capital and provisions	-14,378,897	2,616,999
Change in trade and other receivables	-7,785,501	2,790,362
Change in inventories	-8,399,959	2,555,573
Change in trade and other payables	2,504,351	-47,238
Change in other current liabilities	3,387,544	-1,221,832
Income taxes paid	-4,085,332	-1,459,866
Net cash from operating activities	24,007,840	28,779,782
Cash flows from investing activities		
Interest received	92,450	171,402
Proceeds from sale of investments	64,744	71,004
Dividends received	25,886	219,812
Disposals of property, plant and equipment	150,165	124,074
Disposal of subsidiary	0	31,698
Acquisition of intangible assets	-1,853,563	-2,670,036
Acquisition of property, plant and equipment	-12,164,575	-17,237,391
Acquisitions of long-term financial investments	-2,378,695	-1,111,968
Acquisitions of short-term financial investments	-2,257,560	-816,991
Acquisition of derivative financial instruments	-334,251	27,673
Net cash from investing activities	-18,655,399	-21,190,723
Cash flows from financing activities		
Proceeds from increase in non-current borrowings	0	9,407,773
Proceeds from increase in current borrowings	3,993,805	0
Payment of interest for financing	-625,317	-980,878
Payment of non-current financial liabilities	-4,264,238	0
Payment of current financial liabilities	0	-11,598,430
Dividends paid	-4,809,077	-4,092,768
Net cash from financing activities	-5,704,827	-7,264,303
Net increase in cash and cash equivalents	-352,386	324,756
Cash and cash equivalents at the beginning of the period	1,100,954	828,450
Effect of exchange rate fluctuations on cash and cash equivalents	10,200	-52,252
Cash and cash equivalents at the end of the period	758,768	1,100,954



Statement of changes in equity – under IFRS

in thousands of SIT

	Issued capital	Reserves	Own shares	Retained earnings	Fair value reserve	Total equity
Balance at 1 January 2004	14,170,448	28,915,045	-4,670,280	47,115,865	29,605	85,560,683
Entry of profit for the period	0	0	0	15,309,617	0	15,309,617
Formation of the statutory reserves	0	500,000	0	-500,000	0	0
Dividends paid	0	0	0	-4,106,280	0	-4,106,280
Income and expense recognised in equity	0	0	0	-116,931	490,381	373,450
Balance at 31 December 2004	14,170,448	29,415,045	-4,670,280	57,702,271	519,986	97,137,470
Entry of profit for the period	0	0	0	22,459,190	0	22,459,190
Formation of the statutory reserves	0	800,000	0	-800,000	0	0
Dividends paid	0	0	0	-4,786,297	0	-4,786,297
Income and expense recognised in equity	0	0	0	-711,352	41,616	-669,736
Balance at 31 December 2005	14,170,448	30,215,045	-4,670,280	73,863,812	561,602	114,140,627

Explanation of the Transition to International Financial Reporting Standards

The Krka company has prepared its financial statements in accordance with the International Financial Reporting Standards (IFRS) for the first time.

In the opening balance of the IFRS-compliant financial statement individual items which the company previously prepared in accordance with Slovenian Accounting Standards (SAS) now comply with the IFRS. The table below indicates the impact of the transition in terms of changes in the value of individual items in the financial statements. The explanations set out the reasons for the impact of changes on individual financial statement items, where the move to the IFRS led to large changes in value.

Comparison of Selected Financial Statement Items under the SAS and IFRS

In millions of SIT

	2005			2004		
	IFRS	SAS	Difference	IFRS	SAS	Difference
Assets	181,940	182,826	-0.5 %	151,318	151,081	0.2 %
– non-current assets	116,589	117,494	-0.8 %	104,007	103,768	0.2 %
– current assets	65,351	65,332	0.0 %	47,311	47,313	0.0 %
Equity and liabilities	181,940	182,826	-0.5 %	151,318	151,081	0.2 %
– equity	114,141	125,046	-8.7 %	97,138	106,711	-9.0 %
– non-current liabilities	33,058	23,039	43.5 %	35,624	25,812	38.0 %
– current liabilities	34,741	34,741	0.0 %	18,556	18,558	0.0 %
Revenues	128,451	128,386	0.1 %	10,233	102,121	0.1 %
Net sales	116,570	116,570	0.0 %	97,978	97,978	0.0 %
Operating profit	28,801	28,189	2.2 %	18,017	17,585	2.5 %
Profit	22,459	21,581	4.1 %	15,310	14,101	8.6 %

Non-current assets

Buildings and Equipment

The company 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 an asset 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 the company calculated deferred tax in 2005 for the first time, while in the IFRS statements it is also calculated for 2004 and given as a separate item under non-current assets.

Investments in Subsidiaries

In accordance with the SAS, the company used the equity method to evaluate investments in its subsidiaries. Profit and loss were accrued to the investment, and the financial revenue or expense increased in controlling company's income statement. In the opening balance of the IFRS statements on 1 January 2004, investments are reduced by the accrued profit from previous years, where the controlling company's participation in a subsidiary's profit will be recognized in the controlling company's income statement when it acquires the right to participate in the profit. The balance of investments in subsidiaries on 31 December 2004 was also affected by the elimination of subsidiary company profit and loss for 2004, within the process of adapting to the IFRS.

Other Non-current Assets

The SAS financial statements include treasury shares 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.