



According to the Rules of Ljubljana Stock Exchange and the Securities Market Act (ZTVP-1, Official Gazette No. 56/99) Krka, d. d., Novo mesto, Šmarješka cesta 6, 8501 Novo mesto is hereby releasing the following

IMPORTANT NOTES TO NON-AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR 2004

Krka Group Overview

Krka Group comprises the parent company Krka, d. d., Novo mesto and the following subsidiaries and associated companies:

Subsidiaries in Slovenia:

KRKA Zdravilišča, d. o. o., Novo mesto	100 %
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Subsidiaries abroad:

KRKA FARMA, d. o. o., Zagreb, Croatia	100 %
KRKA-FARMA DOOEL, Skopje, Macedonia	100 %
KRKA Polska, Sp. z o. o., Warsaw, Poland	100 %
KRKA Aussenhandels GmbH, Munich, Germany	100 %
OOO KRKA-RUS, Istra, Russian Federation	100 %
OOO KRKA FARMA, Sergiev posad, Russian Federation	100 %
KRKA ČR, s. r. o., Prague, Czech Republic	100 %
KRKA Pharma Dublin Limited, Dublin, Ireland	100 %
KRKA Sverige AB, Sweden	100 %
KRKA Magyarország, Kft, Budapest, Hungary	99 %
HELVETIUS S. R. L., Trieste, Italy	80 %
KRKA-FARMA, d.o.o., Novi Sad, Serbia & Montenegro	60 %

Associated companies abroad:

Dawa, Nairobi, Kenya	34.78 %
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In the beginning of 2004 Krka, d. d., Novo mesto divested Krka Kozmetika Doel, Skopje, Macedonia, in the second half of the same year it established Krka Sverige AB, Stockholm, Sweden.

Among subsidiaries, the production-distribution companies, Krka Polska in Poland, Krka Farma in Croatia and OOO Krka RUS in the Russian Federation, contributed significantly to the sales performance, apart from Krka Zdravilišča, d. o. o., Novo mesto.

The first subsidiary with regular production of its own products, is **Krka Polska**. The sales of products, such as Vasilip, Zalasta and Tenox that were produced in this company in 2004, have significantly contributed to improved Krka's market share on the Polish market. Consequently, 2004 sales in Poland were SIT 14.3 billion, growing 27% over previous year, while the sales of parent Krka stagnated at the 2003 level.

The production also started in another production-distribution centre abroad, in **Krka RUS** subsidiary in the Russian Federation. In 2004, the company continued with intensive acquisition of licences and approvals for



manufacturing of new products. Another subsidiary on the Russian market, **OOO Krka Farma**, also performed effectively and achieved planned sales results. In the fourth quarter 2004, a comprehensive reorganization of Krka's presence on the market was executed that will lead to improved performance during this year. The sales on the Russian market grew 12% compared to 2003.

The group sales in Croatia, where **Krka Farma, d. o. o., Zagreb** operates, were SIT 7.9 billion. Krka is ranked 3rd among all pharmaceuticals suppliers, closely following two largest domestic suppliers. Krka's position in Croatia is further strengthened by the production-distribution centre Jastrebarsko near Zagreb, whose construction was completed in 2004 with the first production starting in 2005.

Krka Zdravilišča, d. o. o., Novo mesto, incorporating the business units of Dolenjske Toplice Health Resorts, Šmarješke Toplice Health Resorts, Otočec Hotels and Krka Hotel in Novo mesto, is Krka's single subsidiary in Slovenia. At the same time, the subsidiary has a 51% ownership share in Krka – Health Resort Strunjan, a 25% share in Golf Grad Otočec company and a 45.33% share in SRC Rog Črmošnjice company. In the beginning of 2004, the business unit of Krka Hotel, which was operating within parent Krka, was incorporated into the subsidiary. Krka Health Resorts had 317,225 overnight stays in 2004, hereof the overnight stays by foreign visitors represent almost a third of the total number registered. The average overall capacity utilization was 67%, with health resort capacity utilisation at 80%. The sales of Krka Health Resorts were SIT 6 billion, growing 12% over 2003.

Krka Group Performance

Sales

Krka Group business performance in 2004 was in line with set plans and strategic objectives. The sales were SIT 113 billion, which is an increase of 17% compared to 2003. The sales in the Slovenian market represented 12% in total sales and the sales on foreign markets 78%.

The majority of subsidiaries abroad are part of sales network, which Krka uses for selling its products. Core pharmaceutical business generated sales of SIT 107 billion or almost 95% of overall sales respectively, while health resort & tourist services sales of Krka Health Resorts (including Krka Strunjan Health Resort) were SIT 6 billion or 5% of overall sales respectively.

Notes to financial statements

Krka Group net profit for 2004 was SIT 14.7 billion, growing 39% compared to the previous year. Besides the sales expansion, the increased financial result (by SIT 1.6 billion compared to 2003) was the main profit growth driver. The minority owners' share in net profit was SIT 30 million, which decreased by 27% compared to the year before.

The achieved key performance metrics for 2004 were in accordance with Krka Group planned and strategic directions. The net profit to revenues ratio for 2004 was 12.1%, ROE 14.5%, ROA 9.8%. All 2004 performance metrics improved over 2003. 2004 earnings per share were SIT 4,130 and increased by 39% compared to 2003. The book value per share was SIT 29,476 and increased by 12% compared to 2003. For 'per share' metrics calculation, the total number of shares issued by the parent company was considered.

Total assets at the end of 2004 were SIT 154.2 billion. Over the year, the total assets increased by 5% and SIT 7.9 billion respectively. Due to new investment projects, the fixed assets increased by 11%, current assets decreased by 5% due to decreased inventories. At the end of 2004, long-term provisions were lower by SIT 1.3 billion compared to the end of 2003, mainly due to provisions reversal related to enalapril patent infringement litigation, which has ended in 2004 in parent company's favour. Simultaneously, additional provisions for other ongoing litigations associated with medicines for the treatment of cardiovascular indications, were formed. Compared to 2003, operating and financial liabilities term structure changed, as parent company arranged long-term instead of short-term loans. Therefore, the share of 'long-term liabilities' in 'total equity and liabilities' significantly increased (from 4% to 9.5%), simultaneously, the share of short-term liabilities, especially financial liabilities, decreased (from 20.7% to 12.6%).

Investments

In 2004, the Krka Group capital expenditures were SIT 20.9 billion and 18.4% of net sales respectively and thus continued its intensive investment cycle from previous year. The majority of investment projects were implemented in Krka parent company for refurbishment, expansion and equipment of end products production facilities and active ingredient production facilities as well as for modernization of the corporate business information system. More important investment projects in subsidiaries were implemented in Krka Health Resorts and production-distribution centre in Croatia.

Business Objectives

The planned group sales growth for 2005 is 14%, with 2005 group sales of SIT 129 billion. The most significant sales growth is foreseen in South-East and East Europe sales regions, with Slovenia as the largest individual market. The sales on the foreign markets should reach 80% of total sales. The products for human use (prescription pharmaceuticals and self-medication products) should remain the dominating product group with planned 89% share in overall sales. The largest investment in Slovenia will be the ongoing construction of the plant for active pharmaceutical substances and abroad, the conclusion of the production-distribution centre Jastrebarsko in Croatia. At the end of 2005, the total number of employees within the group is foreseen to reach 5,157; hereof one third are located abroad.

The Supervisory Board discussed the non-audited consolidated financial statements of Krka Group at its regular meeting on 29 March 2005.

The Krka company simultaneously releases all important changes to the stock exchange listing prospectus through the electronic information system – SEOnet of the Ljubljana Stock Exchange. The access to the releases is also enabled on the Krka's corporate web site (www.krka.si), without any time limitations, from the date of this release forward.

Novo mesto, 31 March 2005

The Management Board
Krka, d. d., Novo mesto