



In accordance with the rules of the Ljubljana Stock Exchange, d.d., Ljubljana and the Securities Market Act (ZTVP-1) Krka, d. d., Novo mesto, Šmarješka cesta 6, 8501 Novo mesto is hereby releasing the following

## **IMPORTANT NOTES TO NON-AUDITED UNCONSOLIDATED FINANCIAL STATEMENTS FOR 2004**

### **Sales**

In 2004 the business operations of the joint-stock company Krka mainly run in accordance with set plans and strategic goals. The sales amounting to SIT 98.1 billion mark an increase of 15 percent over the previous year, and of 2 percent compared with planned sales. The highest sales growth was recorded on account of launching two cardiovascular products, i.e. Tenox (amlodipine maleate) and Coryol (carvedilol) on the markets of West Europe. Compared to 2003, Krka has recorded a growth in all regions, with the highest sales growth of 57 percent achieved in region West Europe and Overseas Market. A two-digit growth was also achieved on the markets of East Europe. On the markets outside Slovenia Krka sold SIT 79.6 billion worth of products, representing 81 percent of total sales.

The highest sales growth inside individual regions was recorded on the markets of West Europe, with a 68 percent growth rate compared to the previous year, with sales amounting to SIT 18.7 billion. This made the region West Europe and Overseas Market, with a 22 percent share in total sales, the second most important region. More products (one fourth of total sales) were sold only in region East Europe, with the Russian Federation still remaining our biggest market. Last year we sold in this country by 12 percent more products than a year before. The largest individual market is again Slovenia, where Krka generated sales amounting to SIT 18.5 billion, representing a 19 percent share in total sales. The regions South-East Europe and Central Europe each reached 17 percent share in total sales.

In the entire sales structure over 93 percent of sales are covered by pharmaceuticals for human use, divided in prescription pharmaceuticals (81.5 percent of total sales) and self-medications products (11.6 percent). The animal health products represent a 4 percent and the cosmetic products a 3 percent share. Compared to the year 2003, the highest growth was recorded in prescription pharmaceuticals (19 percent).

### **Performance indicators data**

Non-audited net profit for 2004 achieved the planned value and amounts to SIT 14,041 Million. This is a 27 percent increase compared to the year 2003, with the reversal of provisions for the lawsuit related to enalapril already considered in the result. The lawsuit was brought to an end last year in Krka's favour. However, some additional provisions were allocated for other lawsuits still in process. The net profit to revenues grew to 13.2 percent, the return on equity to 13.8 percent and the return on assets to 9.5 percent. All the above indicators are in compliance with the planned strategic goals of the company and are higher than in the year 2003.

At the end of last year the company's assets amounted to SIT 151 billion, which is an increase of 5 percent compared to the beginning of the year. Due to new investments the fixed assets increased by



13 percent, whereas the current assets decreased, as the inventories and receivables went down by 10 percent. Compared to the balance at the end of 2003 the structure of financial and operating liabilities changed substantially, as the company arranged long-term instead of short-term loans, and accordingly the share of long-term liabilities grew (from 3.1 to 9.1 percent), whereas at the same time the share of short-term, mainly financial liabilities, fell (from 19.8 to 11.3 percent).

In accordance with the provisions of the Companies Act about utilisation of net profit, the company's Management Board earmarked SIT 500 Million of net profit from 2003 for the formation of statutory reserves and SIT 4,500 Million for the formation of additional other reserves from profit. The company's non-audited net profit for 2004 amounts to SIT 16,500 Million. The final proposal as to the level of distributable net profit amount will be submitted after the annual report has been discussed and confirmed by the company's Supervisory Board.

### **Research and development**

In the field of research and development Krka continued, in 2004, by introducing new products, with the implementation of its policy of an innovative generic manufacturer of pharmaceutical products. The harmonisation of regulatory requirements with those set by the legislation of the European Union valid for the markets of Central and East Europe called for rapid completion of the marketing authorisation procedures and creativity in setting up new regulatory strategies. Accordingly, in the past year we acquired, on our traditional markets, 365 marketing authorisation approvals for 576 dosage forms, and further 39 marketing authorisation approvals in the countries of West Europe. The advantages of Krka in the development field can be observed in its mastering all the product stages, from active ingredients and formulations to the documentation and running the marketing authorisation procedures, which is demonstrated by leading prescription pharmaceuticals, which are mostly vertically integrated.

### **Investment activities**

In 2004, the company allocated for investments SIT 19 billion, thus continuing the extensive investment activities of the previous year. As many as 71 percent of all investments were earmarked for the production of finished products and raw materials. In the past year Krka allocated 19.4 percent of net sales revenues for investments.

In 2004 we started with the construction of a new plant for the production of active pharmaceutical ingredients, called Synthesis 4, which is one of the largest investments in the history of Krka. It will enable the production of active pharmaceutical ingredients for the products, expected to sell well in the forthcoming years. The renovation of the sterile solutions plant was also completed last year, and we also continued with the installation works on the Notol plant for the production of solid pharmaceutical dosage forms. The technological equipment installed will allow for a 100 percent operation performance, not including pilot production.

Intensive activities were implemented in Krka, in 2004, connected with overhaul of the IT system called the SAP project. The biggest advantage of this new system, which was implemented at the beginning of this year is the integration of all business functions, thus offering better transparency and traceability of business operations, better information flow, optimisation of business processes and consequently lower operating costs. This will result in fewer mistakes made in our business operations and will provide for a more simple system maintenance.



## **Information on shares and ownership structure**

The price of Krka's shares listed on the Ljubljana Stock Exchange, reached on 30 December 2004, the value of SIT 84,482 and exceeded its book value amounting to SIT 30,055 SIT by 181 percent. The earnings per share amounted to SIT 3,963 in 2004. When calculating the share performance, the total number of shares issued by the company was considered.

The year 2004 recorded only minor changes in the ownership structure of Krka's shares. The percentage of domestic individual shareholders increased from 36.9 to 39.9 percent, whereas the ownership share of foreign investors rose from 2.6 to 2.8 percent. The ownership share of the Slovene state financial company (Kapitalska družba) together with its funds remained practically unchanged (grew from 10 to 10.1 percent). The ownership shares of investment companies and investment funds fell from 18 to 16.3 percent, whereas the share of other Slovenian legal entities including financial companies (banks, insurance companies) and other companies fell from 13.5 to 11.9 percent. The number of Krka's shareholders increased within all the above-mentioned groups, except with the number of foreign investors, which fell from 391 to 320 shareholders.

## **Other important information on business results and plans**

On 1 January 2005 Miloš Kovačič handed over the function of President of the Management Board to Jože Colarič, who was appointed to this position in July 2004 by the Supervisory Board.

An important event in 2004 is also the verdict passed in favour of Krka by the Supreme Court of the Republic of Slovenia in the dispute between the plaintiff Merck & Co., Inc. and the defendant Krka, d. d., Novo mesto in view of alleged infringement of the patent for the production of enalapril.

Last year Krka celebrated the 50<sup>th</sup> anniversary of its existence.

Good business results in 2004 stand as a basis for optimistic business outlooks for 2005. We anticipate a 14 percent sales growth. The highest, 23 percent growth, is planned in the regions South-East Europe and East Europe. This year the latter will contribute the largest share to the total sales volume, expected to reach 24 percent. The most important investment in 2005 will be the continuation of works in the Synthesis 4 plant, aimed at providing the company's own capacities for the production of generic active ingredients for the best-sold medicaments. The trial start-ups and plant validations are anticipated for the year 2006.

Non-audited annual financial statements of Krka, d. d., Novo mesto were discussed by the Supervisory Board at the regular meeting held on 24 February 2005.

Important information amendments, contained in the prospectus issued for the stock exchange listing, are regularly available via the Ljubljana Stock Exchange electronic information system called SEOnet. They are also published on official Krka's website ([www.krka.si](http://www.krka.si)), with unlimited access from the date of publication of these notes.

Novo mesto, February 2005

Krka, d. d., Novo mesto  
Management Board