2002

Consolidated Annual Report for the Krka Group

Table of

Contents

1. An introduction to the Krka group

- The Krka group consists of the main company, Krka, d. d., Novo mesto (henceforth referred to as 'Krka'), 13 group enterprises at home and abroad, and 4 associates – 3 at home and 1 abroad.
- In 2002, the group's sales revenue was 88,338,464 thousand SIT, of which 23% achieved on domestic market and 77% abroad. Most subsidiaries abroad are part of the sales network through which Krka sells its products. The sales of Krka products totalled 83,405,505 thousand SIT, representing 94.4%, and the remaining 5.6% were generated by Spa Tourist services of Krka Zdravilišča (including Krka Strunjan), totalling 4,932,959 thousand SIT.
- The net profit for 2002 is 11,080,208 SIT thousand, an increase of 29% compared to the year before.

	in thousand SIT	Index 2002 / 2001
Sales revenue	88,338,464	11%
Net profit	11,080,208	29%
Assets	127,749,801	6%
Number of employees	4,332	7%

- In 2002, intensive investment activity was conducted in the parent company as well as in subsidiaries. The parent company's biggest investments were finishing the solid-dose pharmaceuticals production plant; finishing the Development and Control Centre II; and building the beta-lactame production plant. The subsidiaries abroad continued building production and distribution centres. In the Croatian and Russian plants only the warehouse part is functional, at the moment, whereas the plant in Poland is already completely functional. In 2003, our Warsaw-based subsidiary sold its own products, manufactured in Poland, as well as Krka products. With our new production and distribution centres abroad, where mostly the new generic product range will be produced, Krka will acquire domestic manufacturer status.

Krka, d. d., Novo mesto is the parent company of the Krka group, which includes these subsidiaries and associates:

	Ownership share	Share capital in thousands	Currency
Domestic subsidiaries:			
KRKA Zdravilišča, d. o. o., Novo mesto	100%	2,657,097	SIT
Subsidiaries abroad:			
KRKA FARMA, d. o. o., Zagreb, Croatia	100%	49,262,800	HRK
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	49,060,618	MKD
KRKA KOZMETIKA DOOEL, Skopje, Macedonia	100%	8,222,000	MKD
KRKA Polska, Sp. z o. o., Warsaw, Poland	100%	70,173,806	PLZ
KRKA Aussenhandels GmbH, Munich, Germany	100%	255,646	EUR
OOO KRKA-RUS, Istra, Russian Federation	100%	264,722,539	RUB
OOO KRKA FARMA, Sergiev posad, Russian Federation	100%	130,000	RUB
KRKA ČR, s. r. o., Prague, Czech Republic	100%	100,000	CZK
KRKA Pharma Dublin Limited, Dublin, Ireland	100%	1,000	EUR
KRKA Magyarország, Kft, Budapest, Hungary	99%	12,600,000	HUF
HELVETIUS S.R.L., Triest, Italy	80%	51,600	EUR
KRKA-FARMA, d. o. o., Novi Sad, Serbia and Montenegro	60%	111,080	YUM
Domestic associates:			
* Finsvet, d. o. o., Novo mesto	24.35%		
* Golf Grad Otočec, d. o. o.	25.00%		
* SRC Rog Črmošnjice, d. o. o.	45.33%		
Associate abroad:			
* Dawa, Nairobi, Kenya	34.78%		

• The Consolidated Annual Report for the year ending 31 December 2002 can be obtained from the parent company.

1.1. Management and Supervisory Boards of group enterprises

• The Management Board of the parent company, Krka, consists of: Miloš Kovačič, President of the Management Board and Chief Executive; Jože Colarič, Deputy to the President of the Management Board and Chief Executive and Director of Marketing and Sales; Janez Poljanec, Member of the Management Board and Director of Product Supply; Aleš Rotar, Member of the Management Board and Director of Research and Development; and Danica Novak Malnar, Worker Director.

• The Supervisory Board of Krka consists of: shareholders' representatives: Janez Prijatelj, President; Bojan Dejak, Borut Jamnik, Janko Kastelic, Mojca Osolnik and Stanislav Valant; and employee's representatives: Sonja Kermc, Mihaela Korent, Miroslav Kramarič, Darinka Kure, Boris Petančič and Božena Šuštar.

In the 2002 business year, the companies were managed by these directors:

Company	Director
KRKA Zdravilišča, d. o. o., Novo mesto	Vladimir Petrovič
KRKA FARMA, d. o. o., Zagreb, Croatia	Mladen Pavletić
KRKA-FARMA DOOEL, Skopje, Macedonia	Stefan Kostadinov
KRKA KOZMETIKA DOOEL, Skopje, Macedonia	Zlatko Kolečevski
KRKA Polska, Sp. z o. o., Warsaw, Poland	Jože Kolarič
KRKA Aussenhandels GmbH, Munich, Germany	Irena Bostič
OOO KRKA-RUS, Istra, Russian Federation	Roman Kokalj
OOO KRKA FARMA, Sergiev posad, Russian Federation	Aleš Cuderman
KRKA ČR, s. r. o., Prague, Czech Republic	Andrej Dobovišek
KRKA Pharma Dublin Limited, Dublin, Ireland	Viktor Kozjan
KRKA Magyarország, Kft, Budapest, Hungary	Marko Oblak
HELVETIUS S.R.L., Triest, Italy	Tanja Šega
KRKA-FARMA, d. o. o., Novi Sad, Serbia and Montenegro	Adam Frenc

1.2. Number of employees in group enterprises

The number of employees, 31 December 2002 were:

Company	2002	2001
KRKA d. d., Novo mesto	3,399	3,257
KRKA Zdravilišča, d. o. o., Novo mesto*	540	541
KRKA FARMA, d. o. o., Zagreb, Croatia	75	65
KRKA-FARMA DOOEL, Skopje, Macedonia	20	19
KRKA KOZMETIKA DOOEL, Skopje, Macedonia	3	3
KRKA Polska, Sp. z o. o., Warsaw, Poland	248	153
KRKA Aussenhandels GmbH, Munich, Germany	2	2
OOO KRKA-RUS, Istra, Russian Federation	22	7
OOO KRKA FARMA, Sergiev posad, Russian Federation	10	5
KRKA ČR, s. r. o., Prague, Czech Republic	0	0
KRKA Pharma Dublin Limited, Dublin, Ireland	3	0
KRKA Magyarország, Kft, Budapest, Hungary	0	0
HELVETIUS S.R.L., Triest, Italy	6	5
KRKA-FARMA, d. o. o., Novi Sad, Serbia and Montenegro	4	4
Total	**4,332**	**4,061**

* Data includes the total number of employees including the number of employees in Zdravilišče Strunjan (number of employees on 31 December 2001 = 125, on 31 December 2002 = 127).

Average number of employees by education:

	2002	composition in %
PhD	37	0.9
MSc	109	2.6
University education	1,113	26.6
Higher professional education	84	2.0
Vocational college education	223	5.3
Secondary school education	1,028	24.5
Qualified and unqualified workers	1,596	38.1
Total	**4,190**	**100.0**

Krka, d. d., Novo mesto

- Krka's beginnings go back to 1954, when the pharmaceutical laboratory Krka was founded. In less than half a century Krka grew into one of the leading generic pharmaceutical companies in Central and Eastern Europe and markets its products in more than 70 countries across the world. Krka's fast growth and reliable development assure high quality, affordable pharmaceutical products, and enable people all around the world to retain their health.
- Krka's operations consist of pharmaceutical and chemical activities which, apart from manufacture and sale of prescription pharmaceuticals and self-medication products, also includes the manufacture and sale of veterinary and cosmetic products.
- The parent company's profits for 2002 were 10.4 billion SIT, a 15% increase compared to the year before. With 77.7 billion SIT in sales, the sales increased by 10%, and a 35% increase was recorded in West European markets, thus approaching the targeted share of one fifth of Krka's total sales. A fifth of Krka's sales were in Slovenia and South-East Europe, a bit less (19%) in Central Europe, and 28% in East Europe.
- Good business results depend on a strong and extensive marketing network at home and abroad. Therefore, Krka's presence on foreign markets was increased in 2002, and the 39 company and representative offices in: Croatia, Bosnia and Herzegovina, Macedonia, Serbia and Montenegro, Albania, Bulgaria, Romania, the Russian Federation, Ukraine, Moldavia, Belarus, Azerbaijan, Kazakhstan, Lithuania, Latvia, Estonia, Uzbekistan, Poland, Hungary, the Czech republic, Slovakia, Italy, Germany, Ireland and India; employ nearly a fifth of total group's employees. The number of Krka's employees at the end of 2002 was 3,399 of which 2,990 in Slovenia and 409 in representative offices abroad. Krka promotes and sells its products through its representative offices and companies abroad.
- Thanks to its innovative activity, the company is penetrating Western markets whilst keeping its advantages in traditional markets. Such innovative approach is enabled by investments into the new Development and Control Centre II, the new manufacturing plant solid-dosage forms, Notol; and into the new production and distribution centres in Istra, the Russian Federation, and others.
- Understanding and consideration of the specifics of the pharmaceutical market of various countries, as well as the knowledge of intellectual property protection and the legislation concerned with registration of drugs, enables us to create a product range that is well adjusted to the particular needs of individual markets. With newly acquired registrations, we confirm our position as a generics manufacturer with a product range covering the leading therapeutic classes and that are adjusted to individual markets and their requirements.

- In 2002, Krka acquired first marketing authorizations for 14 products, including 9 prescription pharmaceuticals. One of the most important marketing authorisation amongst these was acquired by Krka Polska, confirming our assertion that in key markets we will produce a new range of generic products on our own production lines.
- By continuously investing into modern infrastructure and equipment since the early 90's we have been adapting to even harder conditions in the development of new pharmaceutical generic products. In 2002 we opened the new Development and Control Centre II, which is equipped with state-of-art equipment and is primarily aimed at development and analytical assessment of new projects, in accordance with European demands. Only by continuous investment into all development areas are we able to follow the latest scientific findings and thus keep pace.

KRKA Zdravilišča, d. o. o., Novo mesto

- The company was founded in 1991. The company Krka Zdravilišča, d.o.o., Novo mesto, includes following business units: Dolenjske Toplice, Šmarješke Toplice and Hotel Otočec. Since 1998 Krka Zdravilišča has held a 51% ownership share in the Krka Zdravilišče Strunjan d.o.o. company.
- The share capital of the company is 2,657,097 thousand SIT. The founder and the sole proprietor of the company is Krka, d. d., Novo mesto.
- The company's main activities are hotel management and specialist, non-hospital health care services. Treatment of rheumatic indications, cardiovascular indications, pulmonary and other indications, is complemented by active vacations and other forms of relaxation. These programmes include recreation, relaxation therapy, body cosmetics and physical fitness improvement.
- In 2002, the sales revenue was 3,837,982 thousand SIT, an increase of 10% over the previous year. The year was concluded with a net profit of 363,448 thousand SIT, an increase of 10% over the profit of 257,025 thousand SIT in 2001.
- In 2002, the company recorded 220,516 overnight guests, with 84,050 overnight guests in Šmarješke Toplice, followed by Dolenjske Toplice with 91,191 overnight guests, and Hotel Otočec with 42,275 overnight guests. Hotel capacities had a 71% occupancy, on average. Šmarješke Toplice had the highest occupancy (96.6%) with Dolenjske Toplice in second place (86%), representing the highest occupancy among Slovene natural health resorts.
- At the end of the business year, Krka Zdravilišča employed 413 employees.
- The development of non-hospital health care services is traditionally based on exploitation of healing thermal waters supported by the newest medical developments in the treatment programmes. By consistently investing in the development of health resort, tourism and other hotel services, the company achieves a high quality of service, which can meet the needs of even the most demanding guests.

KRKA FARMA, d. o. o., Zagreb, Croatia

- The company was established in 1992, with 100% of its share capital held by Krka, d. d., Novo mesto. The company's basic activity is the sale of Krka's product in the Croatian market. The Croatian market is among the five largest Krka markets by sales-value. In 1999, development of a production and distribution centre was started, which should enable Krka to acquire domestic, pharmaceuticals manufacturer status, resulting in faster and more efficient supply to the Croatian market. In the first half of 2001 the warehouse and distribution parts were completed, and has been in operation ever since. In 2003, the beginning of a trial operation of the production plant is planned. The company had 75 employees at the end of 2002.

KRKA-FARMA DOOEL, Skopje, Macedonia

• The company was founded in 1992 and is 100% owned by Krka, d. d., Novo mesto. The company's basic activity is sales of Krka's prescription pharmaceuticals, self-medication pharmaceuticals and animal health products on Macedonian market. At the end of 2002, the company had 20 employees.

KRKA KOZMETIKA DOOEL, Skopje, Macedonia

• The company was founded in 1992 and is 100% owned by Krka, d. d., Novo mesto. It exclusively sells Krka's cosmetic products on Macedonian and neighbouring export markets. At the end of 2002, it had 3 employees.

KRKA Polska, Sp. z o. o., Warsaw, Poland

• Krka's Poland company is based in Warsaw and was established in 1994. Its basic activities are sales, production and storage of Krka's products in Poland. The company is the first among the three companies abroad which started regular production. In 2003, the company is planning to start selling products manufactured in Poland, besides the products manufactured by Krka, d. d., Novo mesto. At the end of 2002, the company had 248 employees.

OOO KRKA FARMA, Sergiev posad, Russian Federation

• OOO KRKA FARMA was established in 2000, with 100% of its share capital held Krka. The company's main activity is selling Krka products on the Russian market. Last year the company employed 20 employees.

OOO KRKA-RUS, Istra, Russian Federation

• OOO KRKA-RUS, Istra, was established in 1998. The company's activities include sales of Krka products on the Russian market, and manufacturing and storage of products. At the moment, investments are underway into the production and distribution centre for the start of production. At the end of last year, the company employed 22 people.

HELVETIUS S.R.L., Triest, Italy

• Krka bought a 49% share in HELVETIUS S.R.L. in 1992. In 1997, Krka bought a further 31%, increasing its share in the company to 80%. Krka purchases reproduction material and equipment and sells its products to the markets of Western Europe. At the end of 2002, the company had 6 employees.

KRKA Aussenhandels GmbH, Munich, Germany

• KRKA Aussenhandels GmbH was registered in Munich, Germany, in 1995 and is wholly owned by Krka. Its activities include sales of Krka products on Western European markets and purchase of reproduction materials and equipment for Krka, d. d., Novo mesto. At the end of 2002, the company had 2 employees.

KRKA Pharma Dublin Limited, Dublin, Ireland

• Through the Ireland-based company, established in 2000, we conduct industrial generics-product registration. The company's basic activities are conducting registration procedures in the European Union and sales of Krka products in EU markets. At the end of the year, the company employed 3 employees.

• In 1992, **KRKA-RARMA, d. o. o., Novi Sad** was registered, with a 60% ownership by Krka and a 40% ownership by Helvetius. The company's basic activity are sales of Krka products on the Serbian and Montenegrian market. At the end of 2002, the company had 4 employees.

• **KRKA ČR, s. r. o., Prague** and **KRKA Magyarország, Kft, Budapest** are dormant.

1.3. The expected development of the Krka group

• In the Krka group revenues, 84% of revenues are the sale of prescription and self-medication products; therefore its further development depends largely on this basic activities of the parent company. Because of the parent company's clear direction in developing its own generic pharmaceuticals, it will continue to consolidate relationships with its licensing partners. In the long term, it will only keep the ones who will help to make its product range complete with their products or technologies. At the same time it will actively network with medium to small companies throughout the world. Together with them it will prepare development projects which could not be manageable individually, either because of insufficient technological or financial potential, or because of intellectual property limitations. It will deepen its various forms of co-operation with partner companies and maintain its principles of high added-value in generic products, with special emphasis on high quality, in the mid-price segment.

• The broad range of cardiovascular, digestive system and central nervous system drugs, as well as infection countering drugs, will be supplemented by drugs which allay and heal the specific hardships encountered by a rapidly ageing European population, all of which are in various phases of development. Due to the predicted ageing of the population and price growth of new pharmaceuticals, that surpass the economic growth in Krka's markets, the share of self-medication pharmaceuticals in (preventive) health care is bound to increase.

• In 2003 and 2004, a phase of intensive investment into production and distribution capacities, at home and on traditional markets, will be concluded. The Krka group will embark on a new phase, when the strength of the group will be increased not only by greenfield investments but also with takeovers, joint ventures and joint market appearances. In that way, a synergistic effect will be achieved in the field of research, development, production, and marketing and sales, of both the already established products as well as those that were registered in the last few years, or, are still in development.

1.4. Audited consolidated accounting report for 2002

• Accounting reports for 2002 were audited, and all companies received an unqualified audit opinion. Most group enterprises were audited by the local subsidiaries of KPMG, whereas KRKA Polska, Sp. z o. o. was audited by PriceWaterhouseCoopers Sp. z o. o.; KRKA Aussenhandels GmbH, Munich, Germany was audited by W. Jürgen von Freyburg Munich; and KRKA Pharma Dublin Limited, Dublin, Ireland, was audited by Doggett & Co.

1.5. Auditor's Report

KPMG

To the Supervisory Board of Krka, d. d., Novo mesto

• We have audited the accompanying consolidated financial statements of the Krka group, Novo mesto, consisting of the consolidated balance sheet as of 31 December 2002, the consolidated income statement, the consolidated cash flow statement, the consolidated statement of changes in equity, and the notes to consolidated financial statements for the year then ended. We have read the management's report on operations of the Group. These consolidated financial statements and the notes to consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

• We conducted our audit in accordance with International Standards on Auditing issued by International Federation of Accountants and other auditing regulations issued by Slovenian Institute of Auditors. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. It also includes an assessment of the compliance of the management's report on operations with the financial statements, which form a constituent part of the annual report. We believe that our audit provides a reasonable basis for our opinion.

• In our opinion, the consolidated financial statements referred to above give a true and fair view of the financial position of the Group as of 31 December 2002, the results of its operations, its cash flows and the changes in equity for the year then ended in conformity with Slovenian Accounting Standards issued by Slovenian Institute of Auditors.

• The management's report on operations is in conformity with the audited consolidated financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje in poslovno svetovanje, d. o. o.

Marjan Mahnič, BSc.Ec.
Managing Partner
and Certified Auditor

Andrej Korinšek, BSc.Ec.
Managing Partner
and Certified Auditor

Ljubljana, 31 March 2003

KPMG Slovenija, d.o.o.

2. Consolidated Financial Statements

2.1. Consolidated Balance Sheet

(in thousand SIT)

	Notes	31 Dec 2002	31 Dec 2001
Assets		**127,749,801**	**120,534,672**
Fixed assets		**81,000,088**	**77,449,364**
Intangible fixed assets	5.1.1.	1,335,635	989,865
Tangible fixed assets	5.1.2.	73,314,362	70,221,034
Long-term investments	5.1.3.	6,350,091	6,238,465
Current Assets		**46,582,015**	**42,971,119**
Inventories	5.1.4.	18,518,571	16,756,708
Operating receivables	5.1.5.	24,155,082	21,062,316
Short-term investments	5.1.6.	947,897	3,052,364
Cash and cash equivalents	5.1.7.	2,960,465	2,099,731
Deferred costs (expenses) and accrued revenues		**167,698**	**114,189**
Off-balance sheet assets		**7,207,302**	**6,089,364**
Liabilities and capital		**127,749,801**	**120,534,672**
Capital	**5.1.8.**	**88,606,306**	**80,913,534**
Called-up capital		14,170,448	14,170,448
Capital reserves		2,566,886	2,536,533
Revenue reserves		36,817,324	26,078,113
Retained net profit (or loss) from previous years		5,530,894	10,465,851
Net profit (or loss) for the financial year		5,831,778	3,979,262
Equity revaluation adjustments		21,734,645	21,751,127
Capital of minority owners		1,954,331	1,932,200
Provisions	**5.1.9.**	**14,076,712**	**15,594,338**
Financial and operating liabilities	**5.1.10.**	**24,558,050**	**23,568,049**
Long-term liabilities		4,909,864	4,940,588
Short-term liabilities		19,648,186	18,627,461
Accrued costs (expenses) and deferred revenues	**5.1.11.**	**508,733**	**458,751**
Off-balance sheet liabilities	**5.1.12.**	**7,207,302**	**6,089,364**

- For the expanded version of the Consolidated Balance Sheet refer to Appendix 7.1.

2.2. Consolidated Income Statement

(in thousand SIT)

	Notes	2002	2001
Net sales revenues	5.2.1.	88,338,464	79,321,816
– domestic market		20,454,016	18,886,356
– foreign market		67,884,448	60,435,460
Change in value of inventory of products and work-in-process		1,813,417	-229,836
Capitalised own products and services		19,827	736,304
Other operating revenues	5.2.2.	2,987,664	520,981
Cost of goods, materials and services	5.2.3.	-40,805,994	-36,103,559
Labour cost	5.2.4.	-25,301,260	-23,757,046
Amortization / depreciation, write-off	5.2.5.	-10,641,630	-8,083,362
– Amortisation of intangible fixed assets, depreciation of tangible fixed assets, operating expenses from revaluation of tangible and intangible fixed assets		-9,169,568	-7,029,879
– Operating expenses from revaluation of operating current assets		-1,472,062	-1,053,483
Other operating expenses	5.2.6.	-1,393,461	-2,558,149
Financial revenues from shares	5.2.7.	51,809	27,149
Financial revenues from long-term receivables	5.2.7.	528,758	59,105
Financial revenues from short-term receivables	5.2.7.	2,469,750	3,950,471
Financial expenses from long-term and short-term investment write-off	5.2.8.	-62,158	-53,518
Interest expenses and expenses from other liabilities	5.2.8.	-4,939,125	-3,626,335
Profit (or loss) from ordinary activities		**13,066,061**	**10,204,021**
Extraordinary revenues		188,702	216,405
Extraordinary expenses		-26,218	-91,754
Extraordinary profit (or loss)		**162,484**	**124,651**
Profit (or loss) before tax		**13,228,545**	**10,328,672**
Income tax	5.2.9.	-2,148,337	-1,775,760
Net profit (or loss) for the financial year	**5.2.10.**	**11,080,208**	**8,552,912**
Share of minority owners		41,803	33,007
Net profit (or loss) for majority owners		**11,038,405**	**8,519,905**

• For the expanded version of the Consolidated Income Statements refer to Appendix 7.2.

2.3. Consolidated Statement of Changes in Equity

(in thousand SIT)

	Called-up capital	Capital reserves	Legal reserves	Reserves for own shares
Balance at 1 January 2002	**14,170,448**	**2,536,533**	**3,592,196**	**4,715,127**
Transfer to equity	**0**	**7,585**	**0**	**0**
Net profit for the financial year	0	0	0	0
Special equity revaluation adjustments	0	0	0	0
Other increase in equity	0	7,585	0	0
Transfer within equity	**0**	**22,768**	**0**	**-22,768**
Appropriation of net profit for the financial year in compliance with the resolutions adopted by the Management Board and the Supervisory Board	0	0	0	0
Appropriation of net profit for the financial year to additional reserves in accordance with the resolution adopted by the shareholders' meeting	0	0	0	0
Other transfers within equity	0	22,768	0	-22,768
Transfer from equity	**0**	**0**	**0**	**0**
Dividends paid	0	0	0	0
Decrease of currency conversion variances	0	0	0	0
Other decrease in equity	0	0	0	0
Balance at 31 December 2002	**14,170,448**	**2,566,886**	**3,592,196**	**4,692,359**

Revenue reserves	Retained net profit from previous periods	Net profit for the financial year	General equity revaluation adjustment	Special equity revaluation adjustments	Capital of minority owners	Total capital
17,770,790	**10,465,852**	**3,979,262**	**21,751,127**	**0**	**1,932,201**	**80,913,536**
0	**0**	**11,038,405**	**0**	**10,532**	**41,803**	**11,098,325**
0	0	11,038,405	0	0	41,803	11,080,208
0	0	0	0	10,532	0	10,532
0	0	0	0	0	0	7,585
13,761,980	**-4,549,077**	**-9,185,889**	**-27,014**	**0**	**0**	**0**
0	3,979,262	-3,979,262	0	0	0	0
5,206,627	0	-5,206,627	0	0	0	0
8,555,353	-8,528,339	0	-27,014	0	0	0
3,000,000	**385,881**	**0**	**0**	**0**	**19,673**	**3,405,554**
3,000,000	209,468	0	0	0	17,833	3,227,301
0	0	0	0	0	1,840	1,840
0	176,413	0	0	0	0	176,413
28,532,770	**5,530,894**	**5,831,778**	**21,724,113**	**10,532**	**1,954,331**	**88,606,306**

2.4. Consolidated Cash Flow Statement

(in thousand SIT)

		2002	2001
A.	Cash flows from operating activities		
a)	**Inflows**	**87,518,229**	**80,431,125**
	Operating revenues	90,285,059	83,441,788
	Extraordinary revenues arising from operating activities	188,702	216,405
	Change in operating receivables	-2,902,023	-3,265,304
	Change in deferred costs, deferred expenses		
	and accrued revenues	-53,509	38,236
b)	**Outflows**	**71,162,841**	**66,431,220**
	Operating expenses, excl. of depreciation and long-term provisions	68,930,377	62,316,724
	Extraordinary expenses arising from operating activities	26,218	91,754
	Income tax and other taxes not shown under operating expenses	2,148,337	1,775,760
	Change in inventories	2,718,325	-663,055
	Change in operating liabilities	-2,610,434	3,175,210
	Change in accrued costs, accrued expenses and deferred revenues	-49,982	-265,173
c)	**Net cash from operating activities**	**16,355,388**	**13,999,905**
B.	Cash flows from investing activities		
a)	**Inflows**	**2,853,951**	**2,048,122**
	Financial revenues arising from investment activities	755,570	196,686
	Decrease in long-term investments	0	312,873
	Decrease in short-term investments	2,098,381	1,538,563
b)	**Outflows**	**12,739,137**	**15,267,943**
	Increase in intangible fixed assets	539,070	571,871
	Increase in tangible fixed assets	12,049,769	14,696,072
	Increase in long-term investments	150,298	0
c)	**Net cash used in investing activities**	**-9,885,186**	**-13,219,821**
C.	Cash flows from financing activities		
a)	**Inflows**	**344,102**	**3,311,572**
	Financial revenues arising from financing activities	96,841	75,447
	Increase in capital (excluding of net profit)	7,585	0
	Increase in long-term financial liabilities	239,676	423,557
	Increase in short-term financial liabilities	0	2,812,568
b)	**Outflows**	**5,859,919**	**3,443,017**
	Financial expenses arising from financing activities	997,966	900,842
	Decrease in long-term provisions	23,485	46,489
	Decrease in short-term financial liabilities	1,432,914	0
	Decrease in dividends payable	3,405,554	2,495,686
c)	**Net cash used in financing activities**	**-5,515,817**	**-131,445**
D.	Cash and cash equivalents at end of period	2,960,465	2,099,731
x)	Net increase / decrease in cash and cash equivalents	954,385	648,639
	Effect of change in exchange rate on cash and cash equivalents	-93,651	141,978
y)	Cash and cash equivalents at beginning of period	2,099,731	1,309,114

2.5. Accumulated Profit

• Accumulated net profit is not identified at the level of the Krka group, so only accumulated net profit of the parent company is presented hereafter.

(in thousand SIT)

	2002	2001
Net profit for the financial year	**10,413,254**	**9,081,284**
+ Retained net profit from previous years	8,555,352	12,955,943
+ Reversal of revenue reserves	0	3,000,000
– Allocation to revenue reserves – in accordance with the proposition made by the Management Board and the Supervisory Board	5,206,627	4,540,642
Accumulated profit	**13,761,979**	**20,496,585**
Appropriation of accumulated profit		
– for dividends		3,209,469
– for other revenue reserves		8,555,352
– for carry forward to the following year		8,555,351
– for other purposes (profit sharing of the Management Board and the Supervisory Board)		176,413

3. Baseline for the preparation of Consolidated Financial Statements

- The consolidated financial statements with notes in this report are prepared in accordance with the Slovenian Accounting Standards, published by the Slovenian Institute of Audit in 2001, and they follow the regulations of the Corporations Act and the No. 1 note of the Slovenian Institute of Audit to SAS 24, 25 and 26 about stating data for 2001. Basic accounting principles are applied: the accrual concept, operations unlimited by time and fair and realistic presentation, given the changing EUR exchange rate, and individual prices.
- The consolidated financial statements for 2002 are not comparable with 2001 due to new accounting standards. The data of the previous account period were not calculated according to updated Slovenian standards. The data was logically presented through corresponding items, all in conformity with the principle of importance. Business results from the previous account period remained unchanged.
- The consolidated financial statements are prepared in Slovenian Tolars, rounded to thousands.

Foreign exchange-rate and principles of conversion into local currency

- All the operations in foreign currencies are converted according to the Bank of Slovenia's mid exchange rate on the closing day of the transaction, and all relating open balances were converted on December 31, 2002. Foreign exchange losses / profits, which result from the accruals, are recognised in the income statement in financial revenues or expenses.

Reporting by product group and region

- The product group sections are: prescription pharmaceuticals, self-medication products, animal-health products, cosmetics, health resorts, and others. The criterion applied are shared therapeutic characteristics of products, marketing and promotion characteristics, and associated risk.
- The regional sections are Slovenia, Central Europe, South-East Europe, East Europe, West Europe and Overseas Markets. Countries within a region share a similar level of economic development, purchasing power, similar economic and political features and geographic connection.
- At the product group / region level, the company reports net sales revenues, which can be attributed directly to the product group / region.

Accounting policies for the Krka group

- For stating and valuing accounts, the regulations of Slovenian Accounting Standards are applied directly, except for valuing those accounts, where the standards permit a company to choose from different valuation models. The company has applied the policies that are described hereafter.

Intangible fixed assets

- Intangible fixed assets include investments in acquired industrial property rights to intellectual property and long-term deferred operating costs.
- An intangible fixed asset is valued at its purchase value at the moment of initial receipt. The purchase value comprises also import and non-returnable purchase taxes.
- Intangible fixed assets are not revalued.

Tangible fixed assets

- Tangible fixed assets are valued at their purchase value less accumulated depreciation, computed on a straight-line basis.
- The purchase value of a tangible fixed asset comprises its purchase price and all the costs related to preparing the asset for its intended use.
- Tangible fixed assets are no longer subject to bookkeeping if they are stolen or disposed of, because no benefit can be anticipated from them in that case. The amount realised by selling a tangible fixed asset is shown in revaluing operating revenues, while its current value is registered among revaluing operating expenses.
- If the subsequently incurred costs, related to a tangible fixed asset, add to its future benefits compared with prior estimates, its purchase value is increased. If the subsequently incurred costs extend the life time of the asset, the accounted adjustment of the asset's value is decreased.
- Repair or maintenance of tangible fixed assets is intended for regeneration or preservation of their future economic benefit, expected on the grounds of initially estimated efficiency of assets. They are acknowledged as expenses when they occur.
- In 2002 a preliminary audit of the fair value of land, premises and main groups of the production equipment was conducted. The results indicated no need for asset de-valuation.

Amortization / depreciation

- The depreciated value of a tangible fixed asset and an intangible fixed asset decreases through amortisation.
- A tangible fixed asset starts to depreciate on the first day of the month that follows the beginning of the asset's utilisation for its intended purpose.
- An intangible fixed asset starts to depreciate when it is available for use.
- The company depreciates intangible fixed assets and tangible fixed assets individually, following the method of invariable straight-line depreciation.
- Land is not subject to depreciation.

The amortization and / or depreciation rates are as follows:

	Depreciation rates in %
Intangible fixed assets	3.0-20.0
Long-term operating lease	6.0
Buildings	1.8-10.0
Computer equipment	30.0-50.0
Transport equipment	20.0-33.3
Production equipment	24.7
Other equipment	12.0-20.0

Financial investments

- All types of financial investments are initially stated at the purchase value. Long-term and short-term financial investments are separately stated.
- Long-term financial investments into the equity of associates are valued following the equity method. In associates the value of investments increases by the value of profit and forms a special equity revaluation adjustment.
- Long-term financial investments, in the form of long-term financial receivables, increase by related interest and decrease by encashed amounts, and by amounts which are ascribed to short-term financial investments that fall due in a year, or sooner.
- Short-term financial investments into equity and debt securities of other companies or the state, are valued at the purchase value at the initial assessment.
- The company assessed the fair market value only for the investments into shares of quoted companies. The company did not opt for possible revaluation.

Receivables

- All types of accounts receivable are initially stated by recorded amounts and the related payment is justifiably expected. Receivables nominated in foreign currency are converted into local currency, applying the relevant middle-exchange rate of Bank of Slovenia, or other local currency, depending on the country where a company from the group is situated. The rate variance represents financial revenues or expenses.
- Subsequent increases or decreases of receivables add to operating or financial revenues or expenses. All increases or decreases have to be justified through a corresponding document.
- The value adjustment of receivables includes the value adjustment of dubious and litigious receivables, from local and foreign customers, and additional value adjustment of receivables from local and foreign customers, formed according to the maturity structure of receivables.

The criteria for the value adjustment of receivables, according to the currency of a bill and different risk level in individual markets, are as follows:

			Maturity of receivables
	Up to ½ a year	From ½ to 1 year	Over 1 year
Slovenia	2%	10%	18%
South-East Europe	10%	50%	90%
East Europe	10%	50%	90%
Central Europe	5%	27%	48%
West Europe and Overseas Markets	2%	10%	18%

- A 70% adjustment of receivables from local customers, and a 90% adjustment of receivables from foreign customers, are formed in case of litigious receivables or receivables under legal claim.
- When the write-off of a receivable is justified by a corresponding document, it is accounted to the debit of the arising value adjustment of receivables.
- In some subsidiaries other criteria, than those shown above, were applied to form the value adjustment of receivables. The variances result from the assessed risk levels in individual markets and customers.

Inventories

- The inventories of raw materials and materials, as well as supporting and packaging materials, are valued at purchase prices, with all associated purchase costs. The company uses fixed prices for stating inventories of materials. Purchase variances for material groups are identified on a monthly basis, and they serve as the basis for determining variances in the usage of materials.
- Inventories of work-in-process and products and merchandise are valued at true production costs. The company uses fixed prices for stating inventories of work-in-process, products and merchandise. Variances for inventory groups are identified on a monthly basis, and they serve as the basis for determining variances in sales.
- Quantified units of resale goods are valued at purchase price with all dependent purchase costs. The company uses fixed prices for stating inventories of resale goods. Purchase variances for resale goods groups are identified on a monthly basis, and they serve as the basis for determining variances in resale.
- Inventory value adjustments are created for inventories ranked as questionable items, inactive, expired sell-by date or perishable goods.
- Inventories are revalued if their book value, including purchase value or cost price, exceeds their market value, which is identified at least at the end of a business year.

Cash

- Cash consists of cash, cash in the accounts and cash in transit. Cash represents money in hand, in the form of bank notes, coins and received cheques, or immediately cashable securities. Cash in the books represents the money on accounts at a bank or another financial institution, with paying capacities. Cash in transit represents the money which is transferred from the safe to a corresponding account at a bank or another financial institution, and which is not yet registered on the day of transfer.
- Cash expressed in local currency is stated at face value. Foreign currencies are converted into local currency at the exchange-rate on the day of transaction. The exchange-rate variance constitutes financial revenues or expenses.

Capital

- The total capital consists of called-up capital, capital reserves, revenue reserves, retained net profit or loss from previous years, equity revaluation adjustments, and the undistributed net profit or loss for the financial year. Share capital is stated in local currency.

Provisions

- Beside ecology provisions, which have been actually used up already or are, in bookkeeping, decreased by the depreciation amount, the company states provisions for appeals related to presumed patent infringement. Every year the company verifies the justification of the formed provisions, according to the litigation status and the prospects for a favourable or unfavourable lawsuit outcome. The amounts of provisions are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated potential amount, if the indemnification claim is not yet disclosed.

Liabilities

- Liabilities are of the following types: financial and operating, short-term and long-term.

Short-term and long-term liabilities of all sorts are initially stated in recorded amounts, pre-supposing that creditors demand repayment.

- Long-term liabilities are subsequently increased through ascribed returns (interests, other compensations), which have been agreed with a creditor. Accounted interests from long-term liabilities are financial expenses. Long-term liabilities decrease by paid-off amounts and potential different compounding with a creditor. Likewise, long-term liabilities decrease by the part of debts that will have to be paid off in less than a year, which is stated among short-term liabilities.
- Long-term liabilities to foreign legal entities or individual clients are converted to local currency on an accrual basis. The exchange-rate variance, arising from up-to-date compounding or up to the balance date, constitutes financial expenses or revenues.
- Short-term liabilities can subsequently increase or decrease, directly or with no relation to the payment, by the amount accorded with the creditor. Subsequent increases of short-term liabilities augment corresponding operating or financial expenses.

Deferred costs (expenses) and accrued revenues / Accrued costs (expenses) and deferred revenues

- Deferred costs (expenses) and accrued revenues comprise deferred costs and non-invoiced revenues. Deferred costs comprise amounts which, at the time of accrual, are not yet stated as the expense of the company's activity. Non-invoiced revenues are those that are justifiably taken into account when establishing financial results, even if the company has not received payment yet, nor has it invoiced them.
- Accrued costs (expenses) and deferred revenues comprise costs (expenses) settled in advance and postponed revenues. Accrued expenses comprise expected expenses, related to the account period, which have not yet appeared. Deferred revenues arise when the payments for the company's services are already settled, but the company has not yet performed them. Revenues can be deferred also in the case of dubious justification for the revenue acknowledgement at the moment of sale.

Recognition of revenues

- Revenues are recognised if the increase in economic benefits, in the account period, relates to the asset increase or debt decrease, and the increase can be reliably measured.
- Revenues are recognised when it is justifiably expected that they will produce receipts, if they are not realised already at the accrual.

Operating revenues

- Revenues from the sales of products, resale goods and materials, are measured on the basis of the selling prices stated on invoices or other documents, decreased by discounts, approved at the moment of sale or later, or for an early payment.
- Revenues from performed services, excluding performed services resulting in financial revenues, are measured on the basis of the selling prices of finished services, or on the basis of the selling prices of unfinished services, depending on the level of completion.
- Revaluing operating revenues arise on sale of tangible fixed assets and intangible fixed assets, with prior equity revaluation adjustment taken into account.

Financial revenues

- Financial revenues are revenues from investment activity. They arise in relation to long-term and short-term financial investments, and also in relation to receivables.
- Financial revenues are recognised at the establishment of Statement of Accounts, regardless of receipts, if there is no justifiable doubt related to their volume, expiration and repayability.
- Interest is accounted for in proportion with the expiry period and according to the non-repaid principal part and the valid interest rate.
- Dividends obtained from subsidiaries are taken into account when the accounted part is contained in the net profit of subsidiaries, while dividends from associates are taken into account when they are repaid.
- Revaluing financial revenues arise at disposal of long-term and short-term financial investments with prior equity revaluation adjustment from prior financial investment taken into account.

Extraordinary revenues

- Extraordinary revenues consist of non-standard items. They appear in actually realised amounts.

Recognition of expenses

• Expenses are recognised if the decrease in economic benefit in the account period relates to the asset decrease or debt increase, and the decrease can be reliably measured.

Operating expenses

• Operating expenses are recognised when the costs are no longer retained in the inventory value of products and work-in-process, or when the resale goods are sold.
• Operating expenses in principle equal the calculated costs in the account period, increased by costs that are retained in opening stock of products and work-in-process, and decreased by costs that are retained in the closing stock of products and work-in-process. Operating expenses also include the purchase value of sold materials and resale goods.
• Revaluing operating expenses are recognised when the corresponding revaluation is performed, regardless of their impact on profit.
• Expense revaluation for depreciation, materials, services and labour, increases revalued operating expenses.
• Revalued operating expenses appear in relation to tangible fixed assets, intangible fixed assets, and circulating capital.

Financial expenses

• Financial expenses are expenses for financing and investing activities.
• Financial expenses are recognised in the Statement of Accounts, regardless of corresponding payments.
• Revaluing financial expenses appear in relation to long-term and short-term financial investments, in relation to the reinforcement of long-term and short-term debts.

Extraordinary expenses

• Extraordinary expenses consist of non-standard items. They are stated in actually realised amounts. Extraordinary expenses include also the revalued profit adjustment which, in conformity with the financial conceptualisation of capital, maintains its purchasing power measured in EUR.

Cash Flow Statement

• The cash flow statement is established on the basis of the indirect method and from the following data: the balance sheet at December 31, 2002, income statement for 2002, and other data needed for adjusting inflows and outflows, and for a corresponding breakdown of relevant items.
• Revaluation adjustment by operation divisions is not stated in the cash flow statement for 2002 since it is not related to receipts and disbursements.

Corporate risk management

Foreign exchange risk

• The course of events in the world and the recession in some developed economies, in 2002, provoked substantial currency movements in the international money market. The majority of foreign currency inflows and outflows are distributed between the American Dollar and the Euro. In conformity with the policy of modest Euro appreciation against the Tolar of the Bank of Slovenia, in 2002 the EUR / SIT exchange-rate steadily rose and achieved a 4.0 % annual growth. The USD / SIT fluctuation in 2002 was negative, with the greater exchange-rate drop registered in the second half of the year. Thus, in 2002, the drop in the USD / SIT exchange-rate on an annual basis amounted to 10.6 %, which is the exact opposite of the situation in 2001, when the exchange-rate achieved a 10.4 % annual growth.
• The Group's foreign operations are mostly related to the Euro and the American Dollar. The Group is not exposed to a great extent to Euro exchange risk, mainly because of the equilibrium between Euro inflows and outflows. And at the same time the EUR / SIT exchange-rate grows steadily and almost linearly, following the targets of the exchange-rate policy of the Central Bank of Slovenia, which accounts for negligible Euro foreign exchange risk.
• The drop in the USD / SIT exchange-rate substantially influenced the Group's operating results, both sales in local currency and the Group's operating result through foreign exchenge currency losses. The influence of the drop in the USD / SIT exchange-rate on the Group's operating results derives from the fact that the Group performs more inflows than outflows in this currency. The imbalance between inflows and outflows, expressed in USD, shows the Group's exposure to the USD related foreign exchange risk.
• The Group hedges itself against the foreign exchange risk exposure at balance level through raising long-term loans in American Dollars, which results in future financial liabilities and consequently in outflows in this currency. Thanks to operating plans in West Europe, and a gradual movement from invoicing in Dollars to invoicing in Euros in some Central European countries, the Group will achieve a greater balance between inflows and outflows in Dollars and simultaneously maintained optimum equilibrium with Euros. The Group hedges the foreign exchange risk exposure through internal methods, but does not use external methods (executed financial instruments, such as futures contracts).

Interest risk

• Interest risk is the risk of financial instrument value fluctuations due to a change in market interest rates.
• Due to considerable reductions of interest rates in global financial markets, and based on expectations about future interest-rate fluctuation, at the end of 2002 the company signed a long-term loan with a variable interest rate, while in previous years it also raised loans with fixed interest rate. The combination of fixed and variable interest rates is used for hedging interest risk.

Credit risk

• The Group manages the credit risk by considering the risk level of both the individual client and the market, where the client operates, when forming annual sale-payment terms. To hedge itself against risk, the Group does not use payment instruments, such as guarantees, letters of credit, etc. The remaining credit risk is managed through establishing value adjustments for receivables, which is described under Accounting policies.

Property and liability insurance

- The policies of insurance covering changes to property growth, application of new technologies, products and markets, and simultaneous risk exposure, varies. The scope of insurance cover gives the range of hazards against which an item is covered; and the level of insurance states the depth, or amount of cover. Naturally, the Group does not arrange insurance against all risks, nor the entire damage, because it actively monitors the costs, minor and less frequent damages and dangers, which can be hindered by preventive measures. Therefore, insurance is of higher quality and better value, and the risk management process is centralised.
- Property insurance comprises the insurance of damages in buildings, equipment, machines and inventories. Indemnities following a business interruption include labour costs, depreciation, other operating costs and profit for the period of one year. An increase of the Group's own participation in indemnity added to the premium savings, while it did not worsen the insurance cover.
- A very big and important part of risk insurance is that for the new plant Notol, which became a part of the operational production premises from fixed assets under construction. Thus the fire insurance category reached a new dimension. Professional staff re-conducted a fire risk assessment, defined fire protection measures, estimated the maximum possible loss (MPL), and arranged corresponding insurance.
- As for the third party insurance, in comparison with property insurance, it is much more difficult to appraise the volume of financial consequences allocated by courts for ascertained damages to third parties. For this reason international standards, recommendations and sometimes legal provisions are applied. Beside third party insurance, specific liabilities characteristic to the pharmaceutical industry are insured as well, such as: product liability, product recall, clinical trials liability, environmental liability, and others.

4. Principles for the preparation of Consolidated Financial Statements

• The consolidated financial statements for 2002 are prepared in accordance with basic accounting suppositions and Slovenian Accounting Standards.

Conversion of financial statements of subsidiaries in the Group

• Balance sheets of subsidiaries abroad are converted into Tolars according to the Central Bank of Slovenia's middle exchange-rate on December 31, 2002, while income statements are converted according to the average exchange-rate in 2002.

• Exchange-rate variances, resulting from the conversion of financial statements according to different exchange-rates, are calculated and stated as exchange-rate variances within revenues or expenses from financing activity in the income statements.

Principles for consolidation and separation

Capital consolidation

• Investments of the parent company Krka, d. d., Novo mesto into subsidiaries are valued according to the equity method and calculated with the proportionate capital of these companies, which belongs to the Krka group.

• The investment of Helvetius in the companies Krka-Farma, d. o. o., Novi Sad and KRKA Magyarország, KFT, Budapest, is valued following the investing method and calculated by the proportionate capital of the company, while the variance between the investment and the capital is calculated within the capital entries.

• Shares of minority owners in the capital of subsidiaries are stated separately within the capital item. Likewise, shares of minority owners in the profit for the financial year are stated separately.

Separation of receivables and liabilities

• During consolidation procedures all interacting receivables and liabilities, related to companies in the Krka group, that are to be settled between the companies, are separated. The main source of differences between receivables and liabilities is exchange-rate variances (between the local and transaction currency).

• The deviation between the variance of consolidated receivables and liabilities at the opening and closing of a year is calculated in the consolidated income statement. The positive effect under this title amounts to 87,349 thousand SIT.

Separation of intermediate profits

- Consolidated financial statements exclude the profit earned by the inter-group sales of products, which had not yet been sold out of the Group by December 31, 2002.

Inventories

- Consolidated financial statements exclude the profit earned by the inter-group sales of materials and products, which are, at the end of the year, still in stock in individual companies. The deviation between intermediate profits in inventories at the opening and closing of a year is calculated in the consolidated income statement.
- After the separation of intermediate profits the part of resale goods, which was supplied to foreign trade companies by the parent company, is re-allocated to the balance item of finished products. The item of resale goods retains only inventories supplied from companies outside the Krka group.
- The balance of profits in inventories at the beginning of the year amounted to 2,872,208 thousand SIT, and at the end of the year to 1,892,033 thousand SIT.
- The consolidated income statement for 2002 is only influenced by the variance between intermediate profit in inventories at the opening and closing of the year and it amounts to 980,175 thousand SIT.
- Since the total of profits in inventories at the end of the year is smaller than at the beginning, the variance represents a positive effect in the income statement.

Fixed assets

- Consolidated financial statements exclude the profit earned by the inter-group sales of fixed assets. In the year of the sale, the total profit earned by the sale of fixed assets within the Group is separated, and in the following years the depreciation cost is adjusted, which is calculated at the customer from a greater value than it could be according to the Group. The total effect related to fixed assets to the value of 51,856 thousand SIT negatively influenced the net profit.

Other impacts on the profit

- Due to the adjustment of original financial statements of subsidiaries, which were prepared in conformity with the local legislation, to uniform accounting policies of the Krka group, a negative impact on the Group's profit was recorded in 2002 to the value of 390,519 thousand SIT. The negative impact derives from depreciation adjustments of fixed assets and value adjustments of trade receivables.

Separation of revenues and expenses

- Consolidated financial statements exclude revenues and expenses in-between companies in the Krka group to the volume stated by individual companies. Basic accounting suppositions and Slovenian Accounting Standards were taken into account while preparing the consolidated financial statements for 2001.

5. Notes to Consolidated Financial Statements

5.1. Consolidated Balance Sheet

5.1.1. Intangible fixed assets 1,335,635 thousand SIT

(in thousand SIT)

	31 Dec 2002	31 Dec 2001
Long-term deferred operating costs	637,782	525,921
Long-term industrial property rights	697,853	463,944
Total	**1,335,635**	**989,865**

• Of the Krka group's intangible fixed assets, 72% are represented by Krka's assets, of which the majority is represented by long-term industrial property rights (licences for computer programmes).

Movement of intangible fixed assets

(in thousand SIT)

	Long-term deferred operating costs	Long-term industrial property rights			Total
		Licences	Long-term operating lease	Investments in foreign fixed assets	
Purchase value:					
Balance at 31 Dec 2001	675,430	655,634	99,004	213,682	1,643,750
– Additions, capitalization	273,938	336,914	0	90,291	701,143
– Write-offs	0	122,354	0	558	122,912
– Revaluation	0	0	0	0	0
Balance at 31 Dec 2002	949,368	870,194	99,004	303,415	2,221,981
Accumulated amortization:					
Balance at 31 Dec 2001	273,249	214,089	40,598	125,949	653,885
– Additions	0	0	0	0	0
– Write-offs	0	85,969	0	0	86,486
– Amortisation	77,784	193,700	5,940	41,523	318,947
Balance at 31 Dec 2002	351,033	321,820	46,538	166,955	886,346
Carrying amount as of					
31 Dec 2001	**402,181**	**441,545**	**58,406**	**87,733**	**989,865**
Carrying amount as of					
31 Dec 2002	**598,335**	**548,374**	**52,466**	**136,460**	**1,335,635**

5.1.2. Tangible fixed assets 73,314,362 thousand SIT

(in thousand SIT)

	31 Dec 2002	31 Dec 2001
Land	4,502,733	4,112,295
Buildings	45,229,088	41,392,745
Equipment:	15,869,832	15,243,989
– plant and machinery	13,893,885	13,191,205
– other equipment	1,975,947	2,052,784
Tangible fixed assets under construction and manufacture	7,712,709	9,472,005
– advances for fixed assets	487,252	793,340
Total	**73,314,362**	**70,221,035**

- In the parent company the largest, and almost finished, investments in 2002 were the Notol plant, with 1,555,949 thousand SIT invested in 2002, and project RKC II solid dosage-form pharmaceutical pilots with 1,099,990 thousand SIT. Among other bigger unfinished investment projects are also the Šentjernej plant for beta-lactam Production, renovation of the warehouse for finished products, reconstruction of premises for the ointment plant, and reconstruction of premises for the lozenge plant in Ljutomer.
- In subsidiaries in the Krka group bigger investments were made in the Krka-Rus company, where the investments into the production-distribution centre in 2002 amounted to 1,607,537 thousand SIT, in the Krka Polska company with 1,068,639 thousand SIT, and in Krka Zdravilišča company with 1,063,567 thousand SIT.

Movement of tangible fixed assets

(in thousand SIT)

	Land	Buildings	Equipment	Fixed assets under construction	Advances	Total
Purchase value:						
Balance at 31 Dec 2001	4,112,295	67,105,476	58,342,926	8,678,635	793,370	139,032,702
– Activation and purchase	400,211	6,673,912	6,400,427	-1,453,178	-306,118	11,715,254
– Inventory surplus	0	0	55,965	0	0	55,965
– Write-offs	-22,743	-212,725	-1,857,815	0	0	-2,093,283
– Transfer	12,970	-12,970	0	0	0	0
Balance at 31 Dec 2002	4,502,733	73,553,693	62,941,503	7,225,457	487,252	148,710,638
Accumulated depreciation:						
Balance at 31 Dec 2001	0	25,712,730	43,098,938	0	0	68,811,668
– Additions	0	-226,128	-40,745	0	0	-266,873
– Write-offs	0	-174,521	-1,841,626	0	0	-2,016,147
– Depreciation	0	3,012,524	5,799,139	0	0	8,811,663
– Inventory surplus	0	0	55,965	0	0	55,965
Balance at 31 Dec 2002	0	28,324,605	47,071,671	0	0	75,396,276
Carrying amount						
as of 31 Dec 2001	**4,112,295**	**41,392,746**	**15,243,988**	**8,678,635**	**793,370**	**70,221,034**
Carrying amount						
as of 31 Dec 2002	**4,502,733**	**45,229,088**	**15,869,832**	**7,225,457**	**487,252**	**73,314,362**

5.1.3. Long-term investments 6,350,091 thousand SIT

(in thousand SIT)

	31 Dec 2002	31 Dec 2001
Shares in associates	134,312	84,978
Other long-term shares	526,857	509,690
Other long-term financial receivables	996,563	928,669
Own shares	4,692,359	4,715,127
Total	**6,350,091**	**6,238,465**

Movement of long-term investments

(in thousand SIT)

	Shares in associates	Other long-term shares	Other long-term financial receivables	Own shares	Total
Gross value					
Balance at 1 Jan 2002	84,978	509,690	940,309	4,715,127	6,250,104
Increase	92,228	56,513	304,679	0	453,420
Decrease	39,681	43,284	279,269	22,768	305,002
Revaluing	3,213	10,439	39,213	0	46,439
Balance at 31 Dec 2002	134,312	533,358	1,004,932	4,692,359	6,364,961
Value adjustment					
Balance at 1 Jan 2002	0	0	11,640	0	11,640
Increase	0	6,501	0	0	6,501
Decrease	0	0	3,271	0	3,271
Balance at 31 Dec 2002	0	6,501	8,369	0	14,870
Net value 1 Jan 2002	**84,978**	**509,690**	**938,669**	**4,715,127**	**6,238,465**
Net value 31 Dec 2002	**134,312**	**526,857**	**996,563**	**4,692,359**	**6,350,091**

Shares in associates 134,312 thousand SIT

(in thousand SIT)

	Proportion in %	Balance at 31 Dec 2002
Companies in Slovenia		
– Finsvet, d. o. o., Novo mesto	24.35	51,417
– Golf Grad Otočec, d. o. o.	25.00	69,507
– SRC Rog Črmošnjice, d. o. o.	45.33	13,388
Companies abroad		
– Dawa, Nairobi, Kenya	34.78	0
Total		**134,312**

• For the Dawa, Nairobi, Kenya investment, the company made an adjustment to the total value of the investment.

Other long-term financial receivables 996,563 thousand SIT

• The main part of other long-term financial receivables is represented by housing loans, which Krka d.d., Novo mesto grants to its employees. The loans are awarded in Euros with 3% annual interest-rate.

Own shares 4,692,359 thousand SIT

• Own shares on December 31, 2002, include 163,431 own shares to the total value of 4,692,359 thousand SIT. Other notes related to own shares are included in the chapter on capital – reserves for own shares.

5.1.4. Inventories 18,518,571 thousand SIT

(in thousand SIT)

	31 Dec 2002	31 Dec 2001
Materials	5,694,822	5,001,685
Work-in-process	3,318,338	2,030,530
Products and merchandise	9,504,930	9,724,493
Advances for inventories	481	0
Total	**18,518,571**	**16,756,708**

• In 2002 the value of inventories increased by 11%, mainly on the grounds of inventory increase in work-in-process and materials for bigger production volumes in 2003. The biggest part of the inventory is represented by products and merchandise with good 51%.

5.1.5. Operating receivables 24,155,082 thousand SIT

• At the end of the year the Group only had short-term operating receivables.

(in thousand SIT)

	Gross value	Value adjustment	Net value 31 Dec 2002	Net value 31 Dec 2001
Short-term trade receivables	23,034,645	-2,101,986	20,932,659	18,849,151
– in Slovenia	1,822,603	-21,107	1,801,496	2,141,468
– abroad	21,212,042	-2,080,879	19,131,163	16,707,683
Advances and bails paid	1,061,991	0	1,061,991	558,568
Receivables from employees	43,893	0	43,893	34,492
Receivables from the state	1,956,921	0	1,956,921	1,596,833
Other short-term receivables	159,618	0	159,618	23,271
Total	**26,257,068**	**-2,101,986**	**24,155,082**	**21,062,316**

• The Group forms a value adjustment for receivables in conformity with the criteria indicated in the chapter about accounting policies. In 2002 the parent company re-assessed the risk of individual markets and individual customers, as well as actual re-payability of receivables in the past. Based on the assessment findings the parent company defined new measures for the formation of adjustment, and partially eliminated it. The elimination of the adjustment is included in other operating revenues as revalued operating revenue of 1,256,853 thousand SIT. In this amount the value, due to modified measures for the formation of adjustment, represents 763,501 thousand SIT.

• Short term operating receivables from customers are mostly non-secured. The maturity structure of receivables at the end of 2002 was as follows: 93% of receivables up to half a year old, 4% of receivables from a half to one year old, and 3% of receivables older than a year.

• Advances and bails paid include mainly advances of the companies Helvetius and Aussenhandels paid to the suppliers of equipment and repro-materials, while receivables from the state include mainly receivables for the return of value added tax.

5.1.6. Short-term investments 947,897 thousand SIT

Short-term investments in other entities include:

(in thousand SIT)

	Net value 31 Dec 2002	Net value 31 Dec 2001
Other shares, purchased for sale	313,731	463,214
Loans made for a short term	533,161	2,252,494
Other securities, purchased for sale	75,521	91,749
Interest from short-term loans and other short-term financial investments	25,484	244,907
Total	**947,897**	**3,052,364**

- Loans made for a short term in 2001 also comprised 1,477,806 thousand SIT of Tolar and foreign exchange of 30-days deposits with banks.
- With short-term securities, where we registered lower market value than purchase value at the end of the account period, we reduced the value by 6,161 thousand SIT. We did not opt for the allowable revaluation of 29,085 thousand SIT as the fair market value.
- The value adjustment of loans made for a short term of 70,573 thousand SIT includes adjustments of loans made to companies with the faint possibility of repayment from contractors in bankruptcy, forced agreements, lawsuits, etc.

5.1.7. Cash and cash equivalents 2,960,465 thousand SIT

(in thousand SIT)

	31 Dec 2002	31 Dec 2001
Cash on hand and received cheques	17,610	14,236
Cash on bank accounts	2,942,855	2,085,495
Total	**2,960,465**	**2,099,731**

5.1.8. Capital 88,606,306 thousand SIT

(in thousand SIT)

	31 Dec 2002	1 Jan 2002
I. Called-up capital	14,170,448	14,170,448
1. Share capital	14,170,448	14,170,448
II. Capital reserves	2,566,886	2,536,533
III. Revenue reserves	36,817,324	26,078,113
1. Legal reserves	3,592,196	3,592,196
2. Reserves for own shares	4,692,359	4,715,127
4. Other revenue reserves	28,532,769	17,770,790
IV. Retained net profit (or loss) from previous years	5,530,894	10,465,852
V. Net profit (or loss) for the financial year	5,831,778	3,979,262
VI. Equity revaluation adjustments	21,734,645	21,751,127
1. General equity revaluation adjustment	21,724,113	21,751,127
2. Special equity revaluation adjustments	10,532	0
VII. Capital of minority owners	1,954,331	1,932,201
Total	**88,606,306**	**80,913,534**

- In 2002 the value of capital increased by the net profit belonging to the majority owner, by 10,413,254 thousand SIT, by special revaluing equity adjustments to the value of 10,532 thousand SIT, by the difference between book and actual values of disposed own shares of 7,585 thousand SIT, and by the capital increase of minority owners of 41,803 thousand SIT.
- Internal capital movements result from the allocation of the retained net profit or loss from previous years and the net profit or loss for the financial year to other revenue reserves. On disposal of own shares, a part of reserves for own shares was re-allocated to capital reserves.
- Outward capital movements result from dividend repayment of 3,209,468 thousand SIT and from the participation of the Management and Supervisory Boards in profit distribution, following the annual general meeting's decision, of 176,413 thousand SIT, of which the participation of non-owners represents 17,383 thousand SIT.
- Within short-term liabilities related to profit distribution, the value of 83,989 thousand SIT is stated as non-repaid dividends after previous annual general meetings of Krka, d. d., Novo mesto.

Share capital

- Share capital comprises 3,542,612 common nominal Krka's shares with a face value of 4,000 SIT. Since we only have one class of shares, this also represents the weighted average number of ordinary shares. The first and only issue of shares was in 1995.

Capital reserves

- In the process of ownership restructuring, Krka created reserves in conformity with the then valid regulations. The revaluation of capital reserves, as of December 31, 2001, amounted to 2,926,164 thousand SIT. A part of these reserves, which were created from profit, of 396,632 thousand SIT, is stated in the balance sheet among other revenue reserves. The remaining part of reserves, which were created on the basis of a special regulation and not from profit, of 2,529,532 thousand SIT, is stated in the balance sheet among capital reserves. In 2001 the latter increased by 7,585 thousand SIT, which is the difference between the book-value of own shares and the value on disposal. In 2002 capital reserves further increased by the value of disposed own shares by the amount of 22,768 thousand SIT.

Revenue reserves

Legal reserves

• Legal reserves to the value of 10% of the share capital represent the legal reserves of the parent company. With the revaluation impact the value of reserves amounted to 3,592,196 thousand SIT.

Reserves for own shares

• Krka's own shares as of December 31, 2002 include 163,431 own shares. In 2002 the number of own shares decreased by 793 shares, which were, in conformity with the annual general meeting's decision of July 2,2002, paid to the Management Board as a participation in profit. The face value of own shares as of December 31, 2002 is 653,724 thousand SIT, which represents 4.6% of share capital. The face value of the disposed shares was 3,172 thousand SIT, while the value at disposal was 30,353 thousand SIT.
• For the assessment of own shares on December 31, 2002, the market value of December 29, 2001 was taken into account, which is 28,711.56 SIT. On December 30, 2002, the last trading day, the quotation per share was 42,458.41 SIT , which was higher than the book-value of purchased shares by 47.9%. Thus the fair value of own shares amounted to 6,939,020 thousand SIT.

Other revenue reserves

• In conformity with the decision of annual general meeting on July 2, 2002, a part of the disposable profit from 2001, of 8,555,352 thousand SIT, was allocated to other revenue reserves.

Retained net profit (or loss) from previous years

• Net profit brought forward of 5,530,894 thousand SIT includes net profits brought forward and losses from previous periods of all group enterprises.

Net profit (or loss) for the financial year

• In 2002 the Krka group earned net profit of 11,038,405 thousand SIT. 5,206,627 thousand SIT of it was allocated into other revenue reserves, and 5,831,778 thousand SIT was included in the item of net profit or loss for the financial year.

Equity revaluation adjustments

• General equity revaluation adjustment derives from previous years (former equity revaluation adjustment).
• Special equity revaluation adjustments represent the profit from associates Finsvet d.o.o. and Golf Grad Otočec d.o.o. The investments in both associates are assessed according to the capital method. Thus the value of investments is increased by the earned profit of 10,532 thousand SIT, and equally, a special equity revaluation adjustment is created in the same amount.

Capital of minority owners

- The greatest part (1,943,793 thousand SIT) is represented by the capital of minority owners of the Krka Zdravilišče Strunjan, d. o. o. company, in which the company Krka Zdravilišča, d. o. o., Novo mesto has 51% of ownership.

5.1.9. Provisions 14,076,712 thousand SIT

(in thousand SIT)

	Balance at 1 Jan 2002	Depletion and release	Creation	Balance at 31 Dec 2002
Other provisions				
– for law suits	14,991,177	1,321,991		13,669,186
– for ecological improvement	438,891	177,431		261,460
– other provisions	164,270	18,204		146,066
Total	**15,594,338**	**1,517,626**		**14,076,712**

- The total of provisions at the end of 2002 is represented by the provisions of the parent company, of 13,930,646 thousand SIT, of which the majority is represented by provisions for law suits, which decreased by 1,321,991 thousand SIT in 2002. 1,316,710 thousand SIT of it represents the elimination of a provision, which was created in 1999 for commercial risks at the moment of entering the American market, because in 2002 the company got out of it. The remaining part of the provisions of 13,669,186 thousand SIT relates to law suits due to alleged patent infringements related to drugs for cardiovascular diseases.

5.1.10. Financial and operating liabilities 24,558,050 thousand SIT

Long-term liabilities 4,909,864 thousand SIT

(in thousand SIT)

	31 Dec 2002	31 Dec 2001
Long-term financial liabilities to banks	4,775,057	4,851,910
– long-term loans obtained from local banks	1,153,408	2,188,479
– long-term loans obtained from foreign banks	3,621,649	2,663,431
Long-term financial and operating liabilities to other entities	134,807	88,678
Total	**4,909,864**	**4,940,588**

Long-term financial liabilities to banks

• Long-term loans have been raised with one local and three foreign banks, in EUR or USD, and for a period of up to seven years for the purpose of financing investments and circulating capital. All of them fall due in less than five years, while the repayment of the principal and interest is half-yearly by rule. Long-term loans of the parent company, obtained from banks, are not secured with mortgages nor with bank guarantees. The parent company issued bills of exchange for some loans and they are registered in off-balance sheet records. The loans of subsidiaries are guaranteed by the parent company.

Short-term liabilities 19,648,186 thousand SIT

(in thousand SIT)

	31 Dec 2002	31 Dec 2001
Short-term liabilities to banks	5,809,585	5,603,299
Short-term liabilities for advances	122,199	159,246
Short-term liabilities to suppliers	7,453,782	7,672,741
Short-term financial and operating liabilities to other entities	6,260,620	5,192,175
Total	**19,648,186**	**18,627,461**

• Short-term loans obtained from banks are not secured by mortgages or bank guarantees. The parent company issued bills of exchange for these loans and they are registered in off-balance sheet records.
• Short-term financial liabilities to others comprise short-term loans obtained from companies in Slovenia of 3,178,044 thousand SIT and their interest of 51,505 thousand SIT.
• Loans are raised for a period of one to six months, and some also for an indefinite period or at call. Loans are not specially secured.
• The majority of short-term financial and operating liabilities to other entities is represented by liabilities to the state (1,421,211 thousand SIT).

5.1.11. Accrued cost (expenses) / Deferred revenues 508,733 thousand SIT

(in thousand SIT)

	Balance at 31 Dec 2002	Balance at 1 Jan 2002
Short-term deferred revenues - others	270,201	39,970
Short-term accrued expenses - others	198,532	418,781
Total	**508,733**	**458,751**

5.1.12. Off-balance sheet assets / liabilities 7,207,302 thousand SIT

(in thousand SIT)

	31 Dec 2002	31 Dec 2001
Bills of exchange issued for insuring loans	3,243,928	0
Guarantees given to group enterprises for raised loans	2,530,942	2,467,057
Other guarantees given	343,927	142,120
Others	1,088,505	3,480,187
Total	**7,207,302**	**6,089,364**

5.2. Consolidated Income Statement

• The consolidated income statement is prepared according to the types of revenues and expenses, the latter being presented also according to functional groups based on cost accounting data.

Expenses by functional groups 76,328,928 thousand SIT

(in thousand SIT)

	2002	2001
Manufacturing costs of products sold	40,999,460	38,913,566
Development costs	6,775,783	6,278,935
Selling costs	20,210,428	17,807,981
General activity and administrative costs	8,343,257	7,731,470
Total	**76,328,928**	**70,731,952**

5.2.1. Net sales revenues 88,338,464 thousand SIT

• In the structure of net sales revenues, those earned in the domestic market represent 23%, and those earned in the foreign market represent 77%.

Net sales revenues classified by group products sections:

(in thousand SIT)

	2002	2001
Drugs for human use	74,144,632	65,232,006
– prescription pharmaceuticals	62,351,699	54,884,799
– self-medication drugs	11,792,933	10,347,207
Animal health products	4,850,790	5,180,975
Cosmetics	4,069,752	3,878,138
Health-resorts	4,932,959	4,489,796
Others	340,332	540,901
Total	**88,338,465**	**79,321,816**

Net sales revenues classified by regions:

(in thousand SIT)

	2002	2001
Slovenia	20,454,016	18,886,357
South-East Europe	17,404,852	16,334,418
East Europe	22,041,828	19,316,286
Central Europe	18,479,172	16,376,788
West Europe and Overseas Markets	9,958,597	8,407,967
Total	**88,338,465**	**79,321,816**

5.2.2. Other operating revenues 2,987,664 thousand SIT

(in thousand SIT)

	2002	2001
Depletion and elimination of provisions (note No. 5.1.9.)	1,516,641	0
Other income related revenues	122,024	490,238
Revalued operating revenues (note No. 5.1.5.)	1,348,998	30,743
Total	**2,987,664**	**520,981**

5.2.3. Cost of goods, materials and services 40,805,994 thousand SIT

(in thousand SIT)

	2002	2001
Cost of raw materials and consumables	25,265,363	22,652,615
Cost of services	15,540,631	13,450,944
Total	**40,805,994**	**36,103,559**

• Cost of goods, materials and services increased by 11% in comparison with the previous year. The total of costs in the financial year 2002 is also influenced by the increase in the value of inventories of finished products and work-in-process in the parent company, the reason for a part of the costs being contained in inventories.

Cost of raw materials and consumables

(in thousand SIT)

	2002	2001
Costs of basic materials and goods sold	21,738,450	19,404,504
Costs of energy used	1,795,093	1,768,558
Other material costs	1,731,820	1,479,553
Total	**25,265,363**	**22,652,615**

• Other material costs comprise costs of spare parts and maintenance materials, of 536,177 thousand SIT, office supplies and expert literature, of 423,566 thousand SIT, write-off of minor items, of 125,963 thousand SIT, and other material costs, of 646,114 thousand SIT.

Cost of services

(in thousand SIT)

	2002	2001
Costs of trade fairs, advertising and entertainment	5,677,113	5,135,641
Costs of intellectual and personal services	2,192,756	2,074,087
Costs of services related to asset maintenance	1,601,011	1,322,876
Delivery costs	1,115,978	1,081,002
Repayments of labour related costs to employees	894,577	771,352
Costs of services by individuals not performing activities,		
together with company coresponding expenses	838,311	172,987
Costs of other services	3,220,886	2,893,000
Total	**15,540,631**	**13,450,944**

• Costs of other services comprise the costs of payment operations, banking services and insurance premiums, rents, dealers' commissions, and other services.

5.2.4. Labour cost 25,301,260 thousand SIT

(in thousand SIT)

	2002	2001
Costs of salaries and compensations	18,865,164	16,919,833
Costs of contibutions for social insurance and salary tax	4,767,410	3,911,130
Other labour cost	1,668,686	2,474,248
Total	**25,301,260**	**23,305,211**

• Other labour cost in 2001 include food allowances, labour contracts, labour contracts and session fees, and some work-safety costs. In 2002 these types of costs are included in costs of materials and services.
• Other labour cost in 2002 include compensations, travel allowances, tenure awards, and some other employee allowances.

5.2.5. Amortization / depreciation, write-off 10,641,630 thousand SIT

Depreciation / amortization

(in thousand SIT)

	2002	2001
Amortization of intangible fixed assets	318,947	162,699
Depreciation of tangible fixed assets	8,799,285	6,595,298
Operating expenses from revaluation of tangible and intagible fixed assets	51,336	271,882
Total	**9,169,568**	**7,029,879**

Operating expenses from revaluation of operating current assets

(in thousand SIT)

	2002	2001
Inventory value adjustment	939,634	339,872
Receivable value adjustment	532,428	713,611
Total	**1,472,062**	**1,053,483**

• The value adjustment of inventories of materials, goods, products and work-in-process is created for the inventories ranked as questionable items, inactive, expired sell-by date or perishable goods.

5.2.6. Other operating expenses 1,393,461 thousand SIT

(in thousand SIT)

	2002	2001
Disbursements for the environment protection	267,144	219,502
Donations, aids, co-financing	436,762	417,269
Scholarships and rewards for pupils and students	35,943	22,946
Taxes independent of labour cost or other cost types	341,317	260,941
Other costs	312,295	1,637,490
Total	**1,393,461**	**2,558,148**

• The decrease of other operating expenses mainly results from 1,105,624 thousand SIT of provisions created by Krka in 2001.

5.2.7. Financial revenues 3,050,317 thousand SIT

• A direct comparison of data for 2001 and 2002 is not possible due to revaluation effects in 2001, which were registered according to the former SAS.

(in thousand SIT)

	2002	2001
Financial revenues from shares	51,809	27,149
Financial revenues from long-term receivables	528,758	59,105
Financial revenues from short-term receivables	2,469,750	3,950,471
Total	**3,050,317**	**4,036,725**

• Other financial revenues from long-term receivables in 2002 include positive exchange-rate variances with payments, revaluation of long-term loans, granted and raised, of 494,484 thousand SIT, and from interests from long-term loans to the amount of 34,274 thousand SIT.
• A more important item in other financial revenues from short-term receivables is positive exchange-rate variances of 1,848,545 thousand SIT, financial revenues of 474,240 thousand SIT from the sale of short-term financial investments, and interests from loans granted of 146,219 thousand SIT.

5.2.8. Financial expenses 5,001,283 thousand SIT

(in thousand SIT)

	2002	2001
Financial expenses from long-term and short-term investment write-off	62,158	53,518
– financial expenses from revaluation of investments in associates	42,896	
– other financial expenses from revaluation	19,262	53,518
Interest expenses and expenses from other liabilities	4,939,126	3,626,335
Total	**5,001,283**	**3,679,853**

- Financial expenses in 2001 decreased by the amount of discounts for advanced payments by 615,135 thousand SIT and according to the new standards, they decrease revenues from total sales. Financial expenses for interests and from other liabilities in 2001 include also the deficit revaluation of 1,511,447 thousand SIT.
- The greatest item in other interest expenses and expenses from other liabilities is represented by negative exchange-rate variances of 3,919,142 thousand SIT, which arose in relation to receivables and liabilities, both with payments and revaluation on balance day, mainly connected with the USD exchange-rate. Interest from short-term loans raised amounts to 672,640 thousand SIT, and those from long-term loans, 259,832 thousand SIT.

5.2.9. Income tax 2,148,337 thousand SIT

- The income tax is assessed in consideration of tax rates prescribed in the countries, where group enterprises are situated.

5.2.10. Net profit (or loss) for the financial year 11,080,208 thousand SIT

(in thousand SIT)

	2002	2001
Operating profit	15,017,027	9,847,149
Extraordinary profit (or loss)	162,484	124,651
Net profit (or loss) for the financial year	11,080,208	8,552,912

- In 2002 the Group earned an operating profit of 15,017,027 thousand SIT, which is a 52% improvement in comparison with the previous year.
- But financial expenses exceeded financial revenues by 1,950,966 thousand SIT, mainly due to negative exchange-rate variances arising from payments, revaluation of receivables and long-term financial investments. This influenced the value of net profit earned, which amounted to 11,080,208 thousand SIT in 2002 and that was a 30% increase compared with 2001. The share of minority owners in the net operating profit amounts to 41,803 thousand SIT.

The influence of capital adjustment, conducted in conformity with the growth of Euro rate and prices of basic necessities on net profit, is as follows:

(in thousand SIT)

	Amount of capital*	% growth	Calculated effect	Decreased profit — net income
Capital adjustment — Euro rate growth	77,526,098	4,0006	3,101,509	7,978,699
Capital adjustment — basic necessity price growth	77,526,098	7,2	5,581,879	5,498,329

* The amount of capital exclusive of net profit for 2002.

6. Other disclosures

The total amount of all receipts that employee groups received for performing their functions or assignments in the financial year, in conformity with act 253 of ZGD, Corporate Law; or a disclosure of wages and shares in profit belonging to the Management Board members and other bodies:

(in thousand SIT)

Employee groups according to the Corporate Law	Total receipts	Participation in the profit as per assembly's decision
– members of the Management Board of the parent company and Management Boards group enterprises	508,795	116,896
– members of the Supervisory Board of the parent company and Supervisory Boards group enterprises	137,703	34,117
– employees employed on the basis of an agreement, for which the tariff part of the collective agreement does not apply	3,202,525	0
Total	**3,849,023**	**151,013**

All amounts are stated at gross value, excluding employer's contributions.

- Receipts of the Management Board members and those Supervisory Board members, who are representatives of employees, consist of: salary, benefits, allowance for annual leave, potential other receipts, profit participation based on the assembly's decision, and repayment of expenses. Receipts of employees employed on the basis of an agreement for which the tariff part of the collective agreement does not apply consist of: salary, benefits, allowance for annual leave, and potential other receipts (tenure awards). Receipts of the Supervisory Board members, who are representatives of shareholders, consist of: session fees, travel allowances and profit participation based on the assembly's decision.
- Receipts of Supervisory Boards members of group enterprises who are also members of the Supervisory Board of the parent company and receipts of employees employed on the basis of an agreement for which the tariff part of the collective agreement does not apply include only receipts for their engagement within Supervisory Boards.

Data on loans (that the company granted) for the liabilities of these persons:

(in thousand SIT)

Employee groups according to the Corporate Law	Loans as at 31 Dec 2002	Advances and loans as at 31 Dec 2002
– members of the Management Board of the parent company	6,385	1,143
– members of the Supervisory Board of the parent company and Supervisory Boards of group enterprises	2,924	321
– employees employed on the basis of an agreement, for which the tariff part of the collective agreement does not apply	129,076	7,087
Total	**138,385**	**8,551**

- The awarded loans mainly refer to housing and are awarded in Euros with 3% annual interest-rate.

7. Appendix

7.1. Consolidated Balance Sheet – the expanded version under SAS

7.2. Consolidated Income Statement – the expanded version under SAS

7.3. Ratios

7.1. Consolidated Balance Sheet – the expanded version under SAS

(in thousand SIT)

		31 Dec 2002	31 Dec 2001
Assets		127,749,801	120,534,672
A.	**Fixed assets**	**81,000,088**	**77,449,364**
I.	Intangible fixed assets	1,335,635	989,865
	1. Long-term deferred operating costs	637,782	525,921
	3. Long-term industrial property rights	697,853	463,944
II.	Tangible fixed assets	73,314,362	70,221,034
	1. Land and buildings	49,731,821	45,505,041
	a) Land	4,502,733	4,112,295
	b) Buildings	45,229,088	41,392,746
	2. Plant and machinery	13,893,885	13,191,204
	3. Other equipment	1,975,947	2,052,784
	4. Tangible fixed assets under construction	7,712,709	9,472,005
	a) Advances for tangible fixed assets	487,252	793,370
	b) Tangible fixed assets under costruction and manufacture	7,225,457	8,678,635
III.	Long-term investments	6,350,091	6,238,465
	3. Shares in associates	134,312	84,978
	5. Other long-term shares	526,857	509,690
	6. Other long-term financial receivables	996,563	928,669
	7. Own shares	4,692,359	4,715,127
B.	**Current Assets**	**46,582,015**	**42,971,119**
I.	Inventories	18,518,571	16,756,708
	1. Materials	5,694,822	5,001,685
	2. Work-in-process	3,318,338	2,030,530
	3. Products and merchandise	9,504,930	9,724,493
	4. Advances for inventories	481	0
II.	Operating receivables	24,155,082	21,062,316
	b) Short-term operating receivables	24,155,082	21,062,316
	1. Short-term trade receivables	20,932,659	18,849,152
	4. Short-term operating receivables from other entities	3,222,423	2,213,164
III.	Short-term investments	947,897	3,052,364
	4. Short-term investments in other entities	947,897	3,052,364
IV.	Cash and cash equivalents	2,960,465	2,099,731

		31 Dec 2002	31 Dec 2001
C.	**Deferred costs (expenses) and accrued revenues**	**167,698**	**114,189**
Off-balance sheet assets		**7,207,302**	**6,089,364**
Liabilities and capital		**127,749,801**	**120,534,672**
A.	**Capital**	**88,606,306**	**80,913,534**
I.	Called-up capital	14,170,448	14,170,448
	1. Share capital	14,170,448	14,170,448
II.	Capital reserves	2,566,886	2,536,533
III.	Revenue reserves	36,817,324	26,078,113
	1. Legal reserves	3,592,196	3,592,196
	2. Reserves for own shares	4,692,359	4,715,127
	4. Other revenue reserves	28,532,770	17,770,790
IV.	Retained net profit (or loss) from previous years	5,530,894	10,465,851
V.	Net profit (or loss) for the financial year	5,831,778	3,979,262
VI.	Equity revaluation adjustments	21,734,645	21,751,127
	1. General equity revaluation adjustment	21,724,113	21,751,127
	2. Special equity revaluation adjustments	10,532	0
VII.	Capital of minority owners	1,954,331	1,932,200
B.	**Provisions**	**14,076,712**	**15,594,338**
3.	Other provisions	14,076,712	15,594,338
C.	**Financial and operating liabilities**	**24,558,050**	**23,568,049**
a)	Long-term liabilities	4,909,864	4,940,588
	2. Long-term financial liabilities to banks	4,775,057	4,851,910
	8. Long-term financial and operating liabilities to other entities	134,807	88,678
b)	Short-term liabilities	19,648,186	18,627,461
	2. Short-term liabilities to banks	5,809,585	5,603,299
	3. Short-term liabilities for advances	122,199	159,246
	4. Short-term liabilities to suppliers	7,455,782	7,672,741
	8. Short-term financial and operating liabilities to other entities	6,260,620	5,192,175
D.	**Accrued costs (expenses) and deferred revenues**	**508,733**	**458,751**
Off-balance sheet liabilities		**7,207,302**	**6,089,364**

7.2. Consolidated Income Statement – the expanded version under SAS

(in thousand SIT)

		2002	2001
1.	Net sales revenues	88,338,464	79,321,816
	a) domestic market	20,454,016	18,886,356
	b) foreign market	67,884,448	60,435,460
2.	Change in value of inventory of products and work-in-process	1,813,417	-229,836
3.	Capitalised own products and services	19,827	736,304
4.	Other operating revenues	2,987,664	520,981
5.	Cost of goods, materials and services	-40,805,994	-36,103,559
	a) Cost of raw materials and consumables	-25,265,363	-22,652,615
	b) Cost of services	-15,540,631	-13,450,944
6.	Labour cost	-25,301,260	-23,757,046
	a) Wages and salaries	-18,865,164	-17,158,113
	b) Social security contributions	-4,767,410	-3,963,099
	c) Other labour cost	-1,668,686	-2,635,834
7.	Amortization / depreciation, write-off	-10,641,630	-8,083,362
	a) Amortisation of intangible fixed assets, depreciation of tangible fixed assets and operating expenses from revaluation of tangible and intangible fixed assets	-9,169,568	-7,029,879
	b) Operating expenses from revaluation of operating current assets	-1,472,062	-1,053,483
8.	Other operating expenses	-1,393,461	-2,558,149
9.	Financial revenues from shares	51,809	27,149
	c) Other financial revenues from shares	51,809	27,149
10.	Financial revenues from long-term receivables	528,758	59,105
	c) Other financial revenues from long-term receivables	528,758	59,105
11.	Financial revenues from short-term receivables	2,469,750	3,950,471
	c) Other financial revenues from interests and short-term receivables	2,469,750	3,950,471
12.	Financial expenses from long-term and short-term investment write-off	-62,158	-53,518
	b) Financial expenses from revaluation of investments in associates	-42,896	0
	c) Other financial expenses from revaluation	-19,262	-53,518
13.	Interest expenses and expenses from other liabilities	-4,939,125	-3,626,335
	c) Other interest expenses and expenses from other liabilities	-4,939,125	-3,626,335
15.	**Profit (or loss) from ordinary activities**	**13,066,061**	**10,204,021**
16.	Extraordinary revenues	188,702	216,405
17.	Extraordinary expenses	-26,218	-91,754
18.	Extraordinary profit (or loss)	162,484	124,651
	Profit (or loss) before tax	**13,228,545**	**10,328,672**
	Income tax	-2,148,337	-1,775,760
21.	**Net profit (or loss) for the financial year**	**11,080,208**	**8,552,912**
	Share of minority owners	41,803	33,007
	Net profit (or loss) of majority owners	**11,038,405**	**8,519,905**

7.3. Ratios

		2002	2001
1.	**Capital to liabilities:**		
	capital / liabilities	0.694	0.671
2.	**Long-term financing ratio:**		
	capital		
	+ provisions		
	+ long-term liabilities / total capital & liabilities	0.842	0.842
3.	**Fixed operating assets to total assets:**		
	fixed assets (at net book value) / assets	0.574	0.583
4.	**Long-term assets to total assets:**		
	fixed assets (at net book value)		
	+ long-term investments		
	+ long-term operating receivables / assets	0.624	0.634
5.	**Capital to fixed operating assets:**		
	capital / fixed assets (at net book value)	1.209	1.152
6.	**Immediate ratio:**		
	short-term financial investments		
	+ cash and cash equivalents / short-term liabilities	0.199	0.277
7.	**Quick ratio:**		
	short-term financial investments		
	+ cash and cash equivalents		
	+ short-term receivables / short-term liabilities	1.428	1.407
8.	**Current ratio:**		
	inventories		
	+ short-term financial investments		
	+ cash and cash equivalents		
	+ short-term receivables / short-term liabilities	2.371	2.307
9.	**Operating effectiveness ratio:**		
	operating revenues / operating expenses	1.197	1.139
10.	**Net return on capital:**		
	net profit for the financial year / average capital		
	(less net profit for the account period)	0.140	0.120
11.	**Ordinary share dividends to share capital:***		
	sum of dividends for the financial year / average share capital	0.226	0.167

* The item refers to Krka, d. d., Novo mesto.

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