annual report 2003

KRKA

Annual Report 2003

KRKA

Living the healthy life - a full 50 years.

Business Report

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A BRIEF HISTORY

1954-1964
- Krka pharmaceutical laboratory founded
- Krka pharmaceutical factory founded
- first patent granted
- moved to a new location in Ločna, which is still the nexus of all Krka's units in Slovenia and abroad
- research institute founded
- first cosmetic products
- first exports

1965-1974
- new plant built to produce raw materials
- new plant for tablet and coated-tablet production completed
- new plant built to produce ointments, syrups and injections
- collecting and processing of medicinal herbs
- taking first steps into tourism and health resorts
- first Krka prizes

1975-1984
- Food and Drug Administration (FDA) approval for antibiotic production granted
- the Dawa plant starts operating in Kenya, co-founded by Krka
- fermentation capabilities increased by 50 percent
- new plant built to transform pharmaceutical raw materials into finished medicinal products
- investments into preserving clean water and environment
- Ljutomer plant built
- investments into tourism and health resorts

1985-1994
- insulation material plant built
- marketing network expanded abroad – companies and representative offices founded
- increased development of own generic pharmaceuticals and continuing to cooperate with leading pharmaceutical companies
- ranked amongst top Slovene companies and exporters
- fermentation production upgraded
- ensuring highly qualified workers using the human resources development programme
- intensive investments into research and development

1995-2000
- ranked amongst top pharmaceutical companies in central and eastern Europe, increased penetration of western European markets
- investments into research and development
- total quality control system completed
- transformed into joint stock company

2001-2003
- Notol, new modern plant for solid pharmaceutical dosage forms built
- development activities expanded with a new development centre
- new production and distribution centres abroad in Poland, the Russian Federation and Croatia
- new plant for production of solid pharmaceutical dosage forms in Šentjernej
- acquired ISO 14001 standard – new quality in environmental protection
- Krka Pharma Dublin Ltd. established – ensuring entrance into EU markets using own trade marks

MISSION

Living the healthy life.

Our basic task is to enable people to lead a healthy, good quality life. This we achieve through our rich range of products and services – with prescription pharmaceuticals, self-medication products, with cosmetic and animal health products, and with our health-resort services, with investment in people and the environment, and through sponsorship and donations.

VISION

We are continually consolidating our position as one of the leading pharmaceutical companies on the markets of central and eastern Europe, and are also expanding to the markets of the European Union. This is achieved through our own development, through international networking, flexibility, and effectiveness.

We intend to realise our vision as a renowned and penetrating innovative generic pharmaceutical company which will most rapidly develop its range of top quality, readily available pharmaceutical products, while enabling a broad spectrum of people worldwide to regain and maintain their health.

VALUES

Speed and flexibility

Our knowledge, our abilities, our capability to innovate, our productivity and our ingenuity enable us to be fast. We want to be first. Not just in sales, but in discovering the markets' new needs. We can do this by successfully shortening the development process, swift acquisition of registration documentation and our harmonised production and distribution.

With our responsiveness and the ability to adapt we overcome the obstacles in our path, be they of a marketing or legislative nature. We can cope with any and all challenges – regardless of the size and the site of the project. Using flexible solutions, we make sure our partners can rely on us.

Partnership and trust

Krka helps create good relationships. We strive for trust-based relationships with our partners: our customers, our suppliers, our owners and everyone else who surrounds us. Only good and open relationships can help us achieve both business success and our primary mission.

Creativity and efficiency

The only real way to achieve top-notch results is by creating an atmosphere that motivates our employees to be innovative and creative. Therefore, we encourage our employees to speak freely of their ideas and if these ideas prove to be good for the company, we encourage them to realise them.

Together, we seek new paths to make our customers satisfied.

We perform our tasks as well as we can. We strive to do what we do in the best, most efficient and most time conserving way.

ORGANISATIONAL STRUCTURE OF THE JOINT STOCK COMPANY

Management Board

- Economics and Information Processing Division
- Finance Division
- Quality Management Division
- Human Resources and Legal Affairs Division

- Information Technology and Telecommunications Department
- Public Relations Department
- Department of Companies and Representative Offices Abroad
- Cosmetics

RESEARCH AND DEVELOPMENT
- New Products Development
- Pharmaceutical Development
- Chemical Development
- Analytics Development
- Regulatory Affairs
- Preclinical Research
- Industrial Property

PRODUCT SUPPLY
- Supply Chain Department
- Purchasing Department
- Pharmaceutical Production Division
- Biochemistry Division
- Warehousing and Transport Service
- Laboratory Quality Control

MARKETING AND SALES
- Pharmaceuticals
- Self-Medication
- Animal Health
- Region Slovenia
- Region South-East Europe
- Region East Europe
- Region Central Europe
- Region West Europe and Overseas Markets
- Marketing Economics
- House Management Department – Ljubljana

ENGINEERING AND TECHNICAL SERVICES
- Development and Economy of Investments
- Technological and Technical Engineering
- Contracting Engineering
- Technical Services and Energy Supply Division
- Technical Supply

KEY ACHIEVEMENTS IN 2003

- Krka, d. d., Novo mesto achieved sales of 85.4 billion SIT, and the Krka Group achieved sales of 96.7 billion SIT.
- 10 percent increase in tolar based sales, 27 percent increase in US dollar based sales.
- The highest yet, 56 percent growth on western European markets.
- Krka, d. d., Novo mesto achieved a net profit of 11 billion SIT, and Krka Group achieved a net profit of 10.5 billion SIT.
- First marketing authorisations for 6 new products in Slovenia.
- Eight new products successfully registered on western European markets.
- New factory for solid pharmaceutical forms production opened near Moscow in the Russian Federation.
- New factory for solid pharmaceutical forms production opened in Šentjernej, Slovenia, near the mother company.
- 19.2 billion SIT spent on investment at home and abroad; Krka Group 21.6 billion SIT.
- 1,050 SIT dividends per share.
- Trading volume and value of Krka's share on the stock market grew; at the end of the year, the value of Krka's share was 52,188 SIT.
- SAP project initiated in Krka, d. d., Novo mesto an overhaul of the IT system.
- Krka Zdravilišča, d. o. o., Novo mesto opened Balnea, one of the biggest wellness centres in Slovenia, with a total value of 1.7 billion SIT.
- Krka' s own enalapril, Enap, produced using our own knowledge and technology, has been on market for 15 years.
- The official gazette of the Russian Federation, the Rossiyskaja Gazeta published an article in which the president of the Russian Federation, Vladimir V. Putin, awarded the Order of Friendship to the President of the Management Board and the CE of Krka, Miloš Kovačič, for his contribution to strengthening the economic and friendly bonds between the Russian Federation and the Republic of Slovenia.
- Start of construction of one of Krka's biggest investments, estimated value 17 billion SIT – active pharmaceutical ingredient production plant, Synthesis 4.
- Liquid raw material warehouse construction, value 1.8 billion SIT.

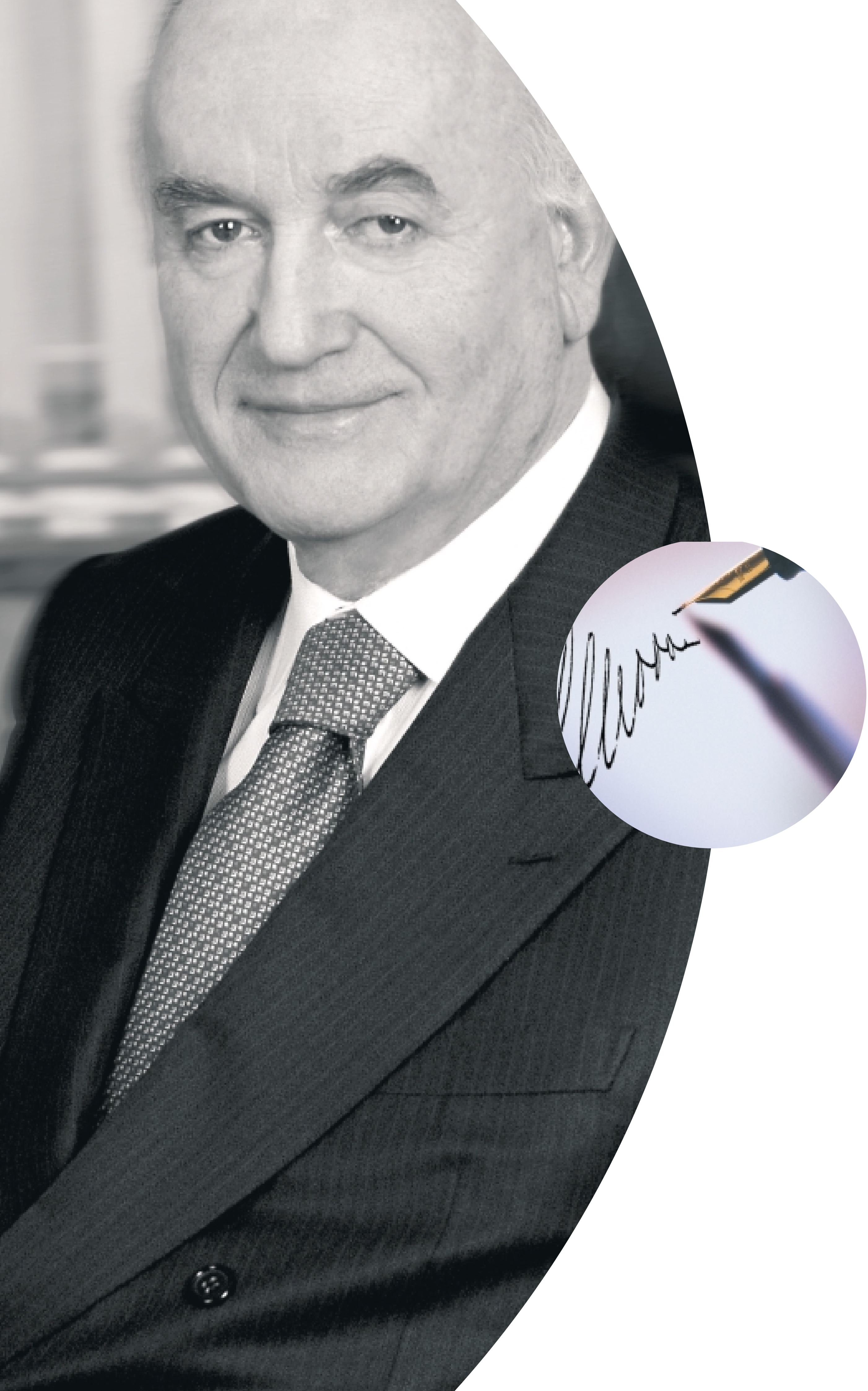
BUSINESS HIGHLIGHTS

	Krka, d. d., Novo mesto 2003	2002	Krka Group 2003	2002
Total net sales (in million SIT)	85,388	77,665	96,749	88,338
EBITDA[1] (in million SIT)	22,750	21,840	24,018	24,187
EBITDA margin	26.6%	28.1%	24.8%	27.4%
EBIT[2] (in million SIT)	14,928	14,479	14,440	15,017
EBIT margin	17.5%	18.6%	14.9%	17.0%
Net profit (in million SIT)	11,022	10,413	10,563	11,080
Net profit margin	12.9%	13.4%	10.9%	12.5%
R & D expenses (in million SIT)	7,003	6,463	7,328	6,776
as % in net sales	8.2%	8.3%	7.6%	7.7%
Investments (in million SIT)	19,238	11,887	21,634	13,741
Fixed assets (in million SIT)	91,978	80,707	94,217	81,000
Current assets (in million SIT)	52,271	45,884	51,938	46,582
Equity (in million SIT)	96,504	89,051	95,622	88,606
Provisions (in million SIT)	13,344	13,931	13,513	14,077
Long-term liabilities (in million SIT)	4,509	3,673	5,821	4,910
Short-term liabilities (in million SIT)	28,543	18,943	30,336	19,648
Number of employees (year end)	3,528	3,399	4,522	4,332
Ratios				
Net profit / Revenues	12.3%	12.5%	10.4%	11.7%
Return On Equity[3] (ROE)	11.9%	12.2%	11.4%	13.0%
Return On Assets[4] (ROA)	8.1%	8.5%	7.7%	8.9%
Liabilities / Equity	0.342	0.254	0.378	0.277

EXCHANGE RATES	**2003**	**2002**
USD (average)	207.115 SIT	240.245 SIT
USD (31. 12.)	189.367 SIT	221.071 SIT
EUR (average)	233.725 SIT	226.224 SIT
EUR (31. 12.)	236.690 SIT	230.267 SIT

SHARE INFORMATION	**2003**	**2002**	**2001**	**2000**
Total number of shares	3,542,612	3,542,612	3,542,612	3,542,612
Earnings per shares[5] in SIT	2,970	3,116	2,405	1,865
Dividend per share in SIT	1.050	950	700	550
Share price at the end of year in SIT	52,188	42,458	28,711	27,392
Price/earnings ratio	17.6	13.6	11.9	14.7
Market capitalisation in million SIT	**184,882**	**150,414**	**101,712**	**97,039**

1 Profit from ordinary activities + financial expenses - financial revenues + amortisation & depreciation
2 Profit from ordinary activities + financial expenses - financial revenues
3 Net profit / average equity balance in the year
4 Net profit / average assets balance in the year
5 Net profit of Krka Group majority shareholders / average number of shares issued



Statement by the President of the Management Board

I am pleased to announce that 2003 was a successful year for Krka. With a growth rate of 10 percent, the sales climbed up to 85.4 billion SIT, and the resulting net profit of 11 billion SIT ranks Krka amongst the highest achieving Slovene companies. The distinctive export orientation of Krka was increased further, as confirmed by the 79 percent share that export achieves in our sales structure. The Krka Group sold 96.7 billion SIT worth of products and services in 2003.

We are also satisfied with sales results on our traditional markets. We have retained our spot as Slovenia's leading pharmaceutical company, and our biggest export partners in the future remain the Russian Federation, Poland and Croatia. Important results were also achieved in the Czech Republic, Hungary, the Baltic states and on the Arabic peninsula. Our sales in western European markets were increased by 56 percent in comparison to 2002, an important and extraordinary achievement.

The Krka Group will continue on the course we plotted years ago. The expansion of the European Union will not hinder this course. On the contrary, due to our proactive approach in the past, we are prepared for it. This includes all aspects, including organisational, marketing, production and human resources. We registered eight new products last year, and our Irish company plays an important role in obtaining marketing authorisations and systematic expansion on the EU market.

In 2003, we concluded an important and financially demanding investment cycle, a result of well thought out strategic decisions. We already reap the fruits of our Poland plant and the Notol plant, and last year, two new solid form pharmaceutical production plants joined the Krka Group. In the Russian Federation, in Moscow's immediate vicinity, we opened a new plant that will produce predominantly our own generic products. The other plant which will provide for smaller markets with specific demands, was built at home, near the mother company. The construction of a production plant in Croatia was also concluded. This will enable us to have our own production and distribution capacities at our top three export markets.

The new capacities, together with the existing production capacities, will enable the Krka Group to produce 6 billion of solid pharmaceutical forms per year in the years to come. Rather than rest, we prepared new investment plans. Last year, construction works began on an active pharmaceutical ingredient production plant. We will use it to ensure our own production capacity for active pharmaceutical ingredients that we incorporate in our products.

The Krka Group is in good form, still in its development stride and rising in sales as well as in development and production. Our main advantage is a selection of current pharmaceuticals, which are at the very top of the best selling pharmaceuticals in the world. The products that enable us to be one of the biggest generic manufacturers in Europe and elsewhere are continuously joined by new ones. We market them all with the same intensity and quality that enabled us to be so successful so far. Long-term growth depends on incessant expansion of our product mix, one of Krka's key strategic goals.

The key to success lies in our people. It is my firm belief that all companies within the Krka Group have excellent teams that will enable us to offer our clients the best in products and services. As we enter this new era, I expect our operations to continue on their current successful course. After all, we have the right people, we have the right products, supremely adapted to the needs of the people of today, we have the most advanced technology and an excellent market position. I believe these are the most important guarantees for further growth and development of the Group, enabling the owners to increase their capital, bringing new professional challenges and social security to our employees, and at the same time represent an ongoing encouragement for development of our environment.

Miloš Kovačič
President of the Management Board and Chief Executive

MANAGEMENT BOARD OF THE JOINT STOCK COMPANY

- *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
- Danica Novak Malnar,
  Worker Director

Left to right: Aleš Rotar, Miloš Kovačič, Danica Novak Malnar, Jože Colarič, Janez Poljanec.

ADDRESS BY THE PRESIDENT OF THE SUPERVISORY BOARD

The 2003 Annual Report for Krka, d. d., Novo mesto and the Krka Group, is fuller in both content and size than in past years, giving shareholders, other interested parties, and general public, the necessary information and means on which to base their own objective evaluation of the company's operations, leadership and further development, using the data, explanations and comments contained in the Report.

In 2003, Krka's global operations achieved the objectives stated in the business plan for 2003 and in the Krka development strategy, 2001 to 2005. The business result was satisfactory, especially in terms of sales growth, as shown by the 10 percent increase in sales in Slovene tolars, or 27 percent increase in sales in US dollars. Sales continued the persistent growth trends of past years. Not only did they maintain and, in some cases, increase sales in traditional markets, but western European sales increased significantly, by 56 percent. The net profit of 11 billion SIT that was generated by Krka, d. d., Novo mesto is higher than in 2002, and while the profit for the whole Group is somewhat lower (10.5 billion SIT), it is appropriate and acceptable due to the strong currency influence, and other circumstances.

In the past year, Krka invested a relatively large share (22 percent) – the biggest in the last five years – of its net income into investments, i.e. developments that ensure good business forecasts for the future. Besides constructing manufacturing plants in Poland and Novo mesto, this was most apparent by opening plants in Russia and Šentjernej, and the nearly finished plant in Zagreb which will, including other initiated and planned investments, give significantly more positive results in future years, especially the active pharmaceutical ingredient production plant Synthesis 4. Planned investments into human resources were continued; other business and strategic decisions were realised or started; and new marketing authorisations for important products were granted. The Supervisory Board is closely monitoring the profitability of health resort tourism investments, which were further strengthened last year by opening Balnea, one of the biggest wellness centres in Slovenia, and by investing into the renovation of the pool complex in Dolenjske Toplice.

The Supervisory Board considers last year's Krka's business to be relatively good, especially considering ever increasing competition, currency fluctuations, restrictive measures by the national health security agencies, and all other risks and circumstances that affected business. The development and very ambitiously planned investment activities were also conducted successfully. Data from the company's 2003 Annual Report substantiate the evaluation that Krka will continue being a good company, which continuously and systematically adapts to changes and ever increasing competition. Or, in other words, a company which is continually developing and successfully manages known and anticipated business risks as well as other objective risks. Krka fulfils its owners' expectations relatively well, ensures them appropriate current returns and, based on the strategy, represents a safe and prospective investment for the future.

In 2003, Krka's Management Board was comprised as per the decision of the Supervisory Board, which named the company's Management Board for a term of five years, from 31 July 2002, according to Article 250 of the Companies Act. At that time, the Management Board, according to the already partially executed and announced gradual generational change of Krka's senior management, also planned by the President of the Management Board, announced to the general public that a generational change will be executed at the top management level during this Supervisory Board's term. In accordance with this, the Supervisory Board, with the consent of the President of the Management Board, Miloš Kovačič, nominated Jože Colarič, the current Management Board Deputy President, for the future Management Board President and the mandatory proposal for the new Management Board. This systematically planned human resource policy of the Supervisory Board will be realised by the end of 2004, enabling Krka a strategically planned, leadership continuity, using their own, highly trained people in the future.

The Supervisory Board checked the 2003 Annual Report of Krka, d. d., Novo mesto and the Krka Group, as required by the Companies Act, and also checked the company's operations and the performance of the Management Board throughout the year. During the year, the Supervisory Board's activities mainly consisted of discussing and checking plan items, quarterly management reports, including business indicators, and issuing suggestions, reminders and warnings regarding the operations of other pharmaceutical companies and managing all sorts of costs and business risks, including currency fluctuations and the expected profitability of investments.

The formal verification, as well as verification of the contents, was conducted at Supervisory Board revision committee meetings and Supervisory Board meetings in April 2004. The company's management prepared and submitted the Annual Report to the Supervisory Board by the regulatory deadline. The Supervisory Board also discussed the draft report and, following that submitted the final version, together with the unqualified audit opinions issued by KPMG Slovenia, and the management's proposal for the use of the accumulated profit.

In the discussion and checking of Krka, d. d., Novo mesto and Krka Group 2003 Annual Report, the Supervisory Board established the report to be compliant with Slovene Accounting Standards and to contain all regulatory required contents of a commercial company annual report: the financial statements of Krka, d. d., Novo mesto, and consolidated financial statements of Krka Group (i.e. balance sheet, income statement, cash flow statement and statement of changes in equity, including appendices, explanations and breakdowns of these statements); and a high quality business report.

The Supervisory Board had no comments on the Annual Report and confirmed it at a meeting in April 2004. The law states that the Annual Report is accepted on the day it is confirmed by the Supervisory Board. Based on this provision of the law, the Supervisory Board finds the Annual Report of Krka, d. d., Novo mesto and Krka Group, for 2003, to be accepted on 22 April 2004.

As required by the law, the Supervisory Board prepared a special written report for the annual meeting on the results of checking the Annual Report, results of checking the management's proposal for the distribution of the accumulated profit, the position regarding the Audit Report, and the methods and extent of verification of the company's management throughout the year. The annual meeting will discuss the report by the Supervisory Board in mid-2004. At the same time it will also discuss the proposal on the distribution of accumulated profit and its satisfaction with the Management and Supervisory Board performance, and whether they are to be awarded discharge papers for business year 2003.

Janez Prijatelj
President of the Supervisory Board

Left to right: Bojan Dejak, Božena Šuštar, Janko Kastelic, Boris Petančič, Miroslav Kramarič, Mojca Osolnik Videmšek, Janez Prijatelj, Sonja Kermc, Stanislav Valant, Darinka Kure, Borut Jamnik, Mihaela Korent.

SUPERVISORY BOARD OF THE JOINT STOCK COMPANY

SHAREHOLDERS' REPRESENTATIVES

- Janez Prijatelj, President
- Bojan Dejak
- Borut Jamnik
- Janko Kastelic
- Mojca Osolnik Videmšek
- Stanislav Valant

EMPLOYEES' REPRESENTATIVES

- Sonja Kermc
- Mihaela Korent
- Miroslav Kramarič
- Darinka Kure
- Boris Petančič
- Božena Šuštar

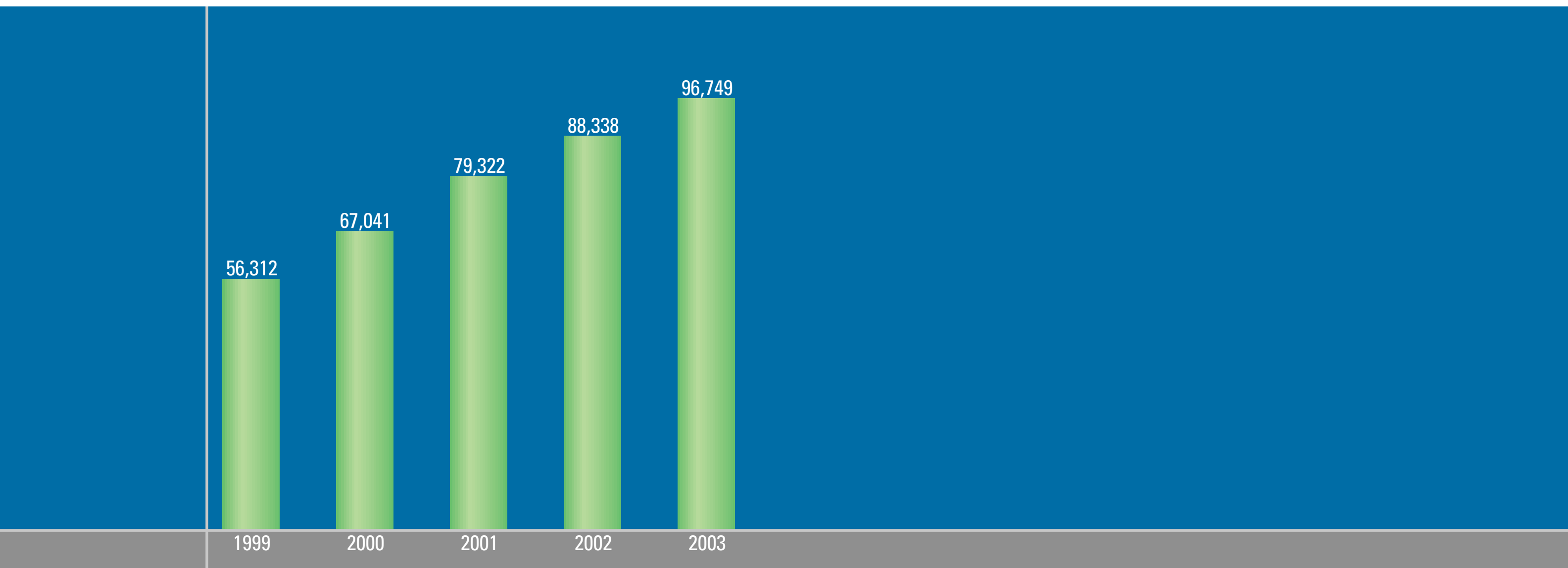
“… we enter the future with zest …”

MARKETING AND SALES

Planned sales growth was achieved

In 2003, Krka Group achieved 96.7 billion SIT in product and services sales, an increase of 10 percent over 2002, or 468 million USD, an increase of 27 percent over 2002. The weaker growth of sales in tolars can be attributed to the unfavourable course of the dollar.

The parent company sold 85.4 billion SIT worth of products in 2003, achieving a 10 percent increase in sales.



Krka Group sales from 1999 to 2003 (in million SIT) in million SIT

Value and structure of sales in 2003

	Krka, d. d., Novo mesto	Struct. %	Krka Group	Struct. %	Index
Slovenia	17,830	20.9	23,173	24.0	**130**
South-East Europe	16,194	19.0	18,859	19.5	**116**
East Europe	22,024	25.8	22,291	23.0	**101**
Central Europe	15,757	18.5	18,312	18.9	**116**
West Europe and Overseas Markets	13,583	15.9	14,114	14.6	**104**
TOTAL	**85,388**	**100.0**	**96,749**	**100.0**	**113**

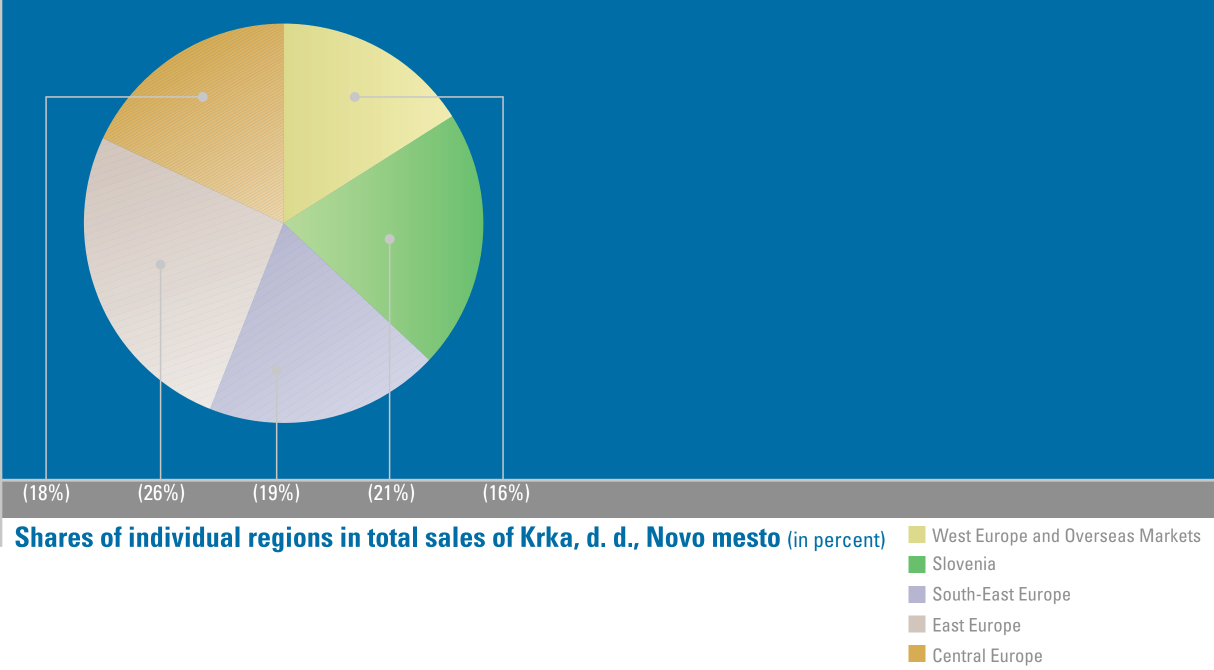
The share sales in Slovenia for the Krka Group is higher than Krka, d. d., Novo mesto by 3 percentage points due to the sales of Krka Zdravilišča, d. o. o., Novo mesto services.

In 2000, a balanced sales strategy was accepted for five regions: Slovenia, South-East Europe, East Europe, Central Europe and West Europe and Overseas Markets. This allows for more stable operations. In 2003, we recorded growth in all regions; two regions showed a two-digit growth, West Europe and Overseas Markets (37 percent) and Slovenia (15 percent).

in million SIT

Sales of Krka, d. d., Novo mesto by regions in 2003 and 2002

	2003	2002	Index 2003/2002
Slovenia	17,830	15,521	115
South-East Europe	16,194	15,593	104
East Europe	22,024	21,950	100
Central Europe	15,757	14,712	107
West Europe and Overseas Markets	13,583	9,889	137
TOTAL	**85,388**	**77,665**	**110**



Shares of individual regions in total sales of Krka, d. d., Novo mesto (in percent)

Slovenia

Krka achieved sales of 17.8 billion SIT in 2003, an increase of 15 percent over 2002. The highest growth was achieved in prescription pharmaceuticals (23 percent), which account for 61 percent of all sales in Slovenia. We also increased sales of other groups of products. The end of 2003 was significant due to introduction of reference prices for pharmaceuticals and a list of interchangeable pharmaceuticals, but these changes did not impact sales results of 2003 significantly.

South-East Europe

Krka achieved sales of 16.2 billion SIT in 2003 in south-eastern European market, an increase of 4 percent over 2002. The highest growth was achieved in prescription pharmaceuticals (16 percent), which account for 51 percent of all sales.

In Croatia, our second largest market in the Region South-East Europe, we recorded an 8 percent growth in sales. The sales increased particularly for our own prescription pharmaceuticals, amongst which Vasilip®, Enap®, Lanzul® and Letizen® were particularly successful.

Romania faced a major state medical system crisis in 2003. In mid-year, the reference price system was changed, negatively impacting the sales of our prescription pharmaceuticals on this market. We achieved good results with self-medication products, the sales of which increased by 12 percent compared to the year before. Among these products, the most notable increases in sales were for Bilobil®, and also for products from umbrella brands Pikovit®, Septolete® and Daleron®.

Good sales results were also recorded in minor south-eastern European markets, such as Serbia, Kosovo and Albania, with sales indexes between 116 and 164.

East Europe

In eastern European markets, Krka sold 22 billion SIT worth of products. The greatest growth was achieved with our own prescription pharmaceuticals (8 percent), which account for 51 percent of total sales.

The biggest market in this region is the Russian Federation, where a 3 percent sales growth was achieved. In average, the growth of sales of Krka's products in this region exceeded the market growth in this region, meaning our market share was increased in the last two quarters. Prescription pharmaceuticals sales were good, in particular for products such as Enap®, Vasilip®, Macropen®, Nolicin® and Cordipin®. Sales of Vasilip® were exceptionally successful, increasing more than threefold, as were the sales of Cordipin®, which doubled. Amongst self-medication products, Bilobil® sales stood out, more than doubling as well.

Ukraine, the second largest market of the Region East Europe, also saw increased sales in comparison to 2002, making us the third most important foreign supplier of pharmaceuticals. The biggest growth compared to the year before with a sales index of 123 was achieved by our own prescription pharmaceuticals, such as Enap®, Ciprinol®, Naklofen® and Fromilid®.

Despite missing the sales targets in Lithuania, we retained the fifth position among pharmaceuticals manufacturers. The sales of our products in pharmacies in this market increased in 2002 and in 2003, giving good prospects for the future.

In 2003, the central Asian market, with very strong sales in Uzbekistan and Kazakhstan, exceeded a billion tolars in sales. In both markets, the leading products in both prescription pharmaceuticals and self-medication products are establishing a good market position.

Central Europe

In the Region Central Europe, Krka achieved sales of 15.8 billion SIT, an increase of 7 percent over 2002. The highest growth was achieved in prescription pharmaceuticals (13 percent) and animal health finished products (15 percent), which account for 75 percent of all sales. The markedly increased sales of our prescription pharmaceuticals are mostly attributable to considerable sales growth of Vasilip®, Fromilid®, Lanzul® and Nolicin® and a successful launch of Lorista® in the Czech Republic, while the good growth of sales of animal health products is mostly attributable to successful launch of Floron®.

The biggest market for this region is Poland, where an 8 percent increase in sales was recorded. The sales results in this market show growth which outperforms market growth, improving our standing among pharmaceutical manufacturers. A part of prescription pharmaceutical sales in this market for 2003 was already produced at the Warsaw plant. The biggest increase was in our own prescription pharmaceuticals (index 121). Good results were also achieved with Vasilip®, Sulfasalazin, Fromilid® and Kamiren® and newly launched pharmaceuticals, where Atoris®, Asentra® and Yasnal® are expected to be the best performers. With self-medication products, we retain our market share, and increased sales are expected for new products in 2004.

The achieved results in the Czech Republic were consistent with the expectations. The biggest sales growth was achieved with animal health finished products (index 112) due to a successful launch of Floron®, and with self-medication products (index 111), where Septolete® and Nalgesin®-S achieved good increase in sales.

A Krka representative office was opened in Slovakia in 2003, thoroughly changing Krka's presence in this market. By reorganising the work of sales and promotional staff, better results are predicted for the years to come.

In the whole region, the biggest growth was achieved in Hungary (index 147), and growth was achieved in all product groups as a result of good sales of products such as Vasilip®, Fromilid®, Bilobil® and Floron®.

West Europe and Overseas Markets

West Europe and Overseas Markets achieved sales of 13.6 billion SIT in 2003. With a sales index of 137, this region achieved the quickest sales growth of all regions. The largest share of sales (82 percent) was achieved in western Europe, where sales increased by 56 percent compared to 2002. A large increase was also recorded on the Arabian Peninsula (index 153).

In the western European market, the majority of sales are prescription pharmaceuticals, which are sold in all countries of western Europe with the help of our partners. We tend to find new partners especially in the quickly growing markets and in markets whose potential is not yet fully realised, such as France and Italy. Our most important products, e.g. enalapril, norfloxacin and ciprofloxacin tablets were supplemented by lovastatin and simvastatin tablets, which rank second and third after enalapril tablet sales. With high volume market share, we are the leading supplier of enalapril and norfloxacin tablets and one of the leading simvastatin tablet suppliers in western Europe.

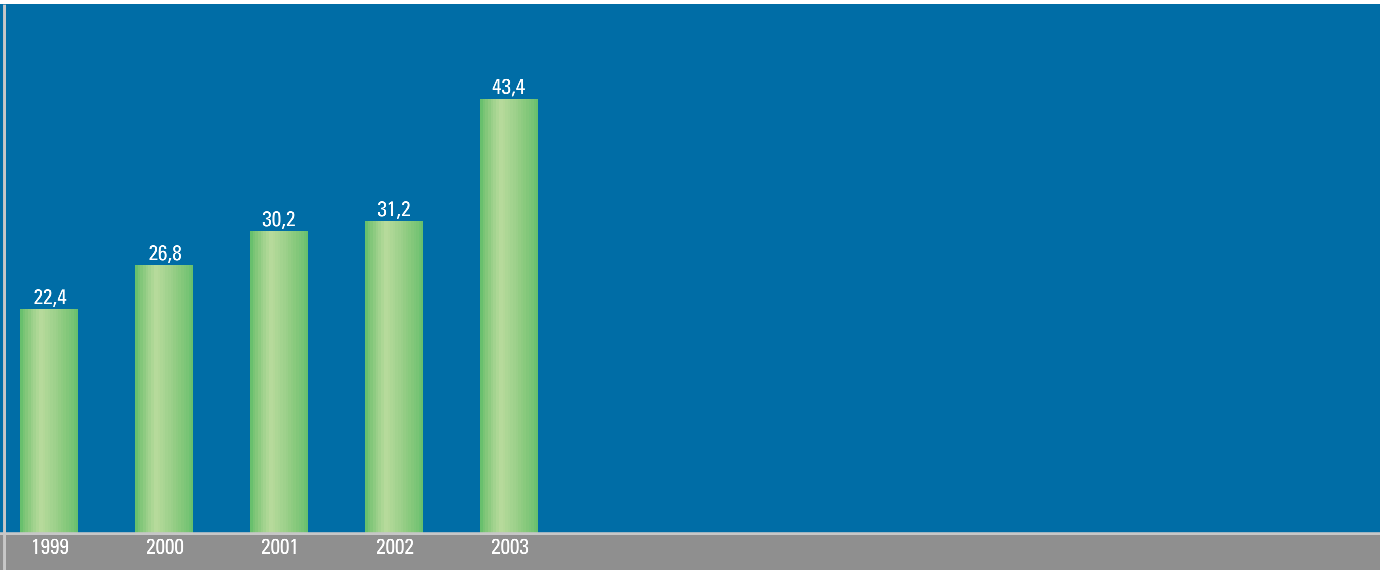
Wide marketing network

These sales results were achieved by a branched marketing activity at home and in representative offices and companies abroad. We have 27 representative offices and 12 companies abroad, employing a total of 1,000 people. We are also preparing the opening of another representative office in Tbilisi, Georgia.

Our marketing network at home and abroad employs highly qualified and trained people. The key products that are marketed under our own brands are supported with promotional activities which are primarily conducted by our medical representatives. We also organize symposia and other meetings for the expert public, where we present the results of our own clinical trials and promote modern doctrines of treating and preventing diseases. In 2003, we overhauled the internal system for educating our employees and their managers, ensuring suitable qualifications in both medical and marketing and sales area and an even greater work efficiency.

We wish to strengthen our role on various markets by producing the drugs locally. In 2003, Krka's plant in Poland was already operating successfully, and another plant was opened near Moscow (the Russian Federation).

We make sure our future looks bright by continually launching new, modern products, whose share is increasing according to plans and whose share in sales is sizeable. In 2003 we launched Tenox® (amlodipine), Samezil® (mesalazine), Lorista® H (losartan with hydrochlorothiazide), Fromilid® uno (clarithromycin) and Pektrol® (isosorbide mononitrate) and new pharmaceutical forms of already established products.



The share of new products in total sales of Krka, d. d., Novo mesto in years 1999 to 2003 (in percent)

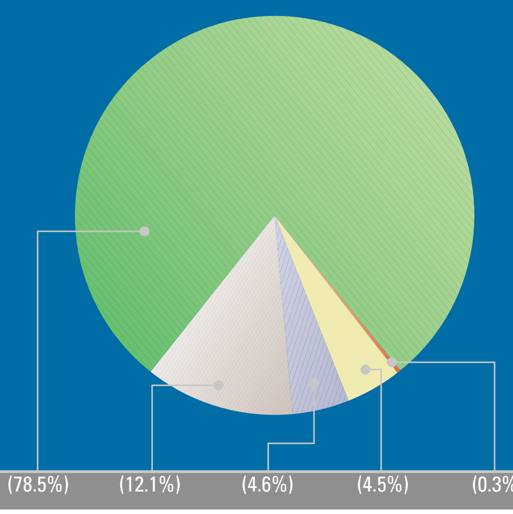
Product groups

The majority of sales structure, 67 billion SIT worth, is in prescription pharmaceuticals for human use. They are followed by self-medication products, whose sales were worth 10.3 billion SIT, and animal health products, the sales of which amounted to 3.9 billion SIT. Compared to 2002, we recorded the greatest growth in human health products (index 113) and within the group of prescription pharmaceuticals (index 117).

in million SIT

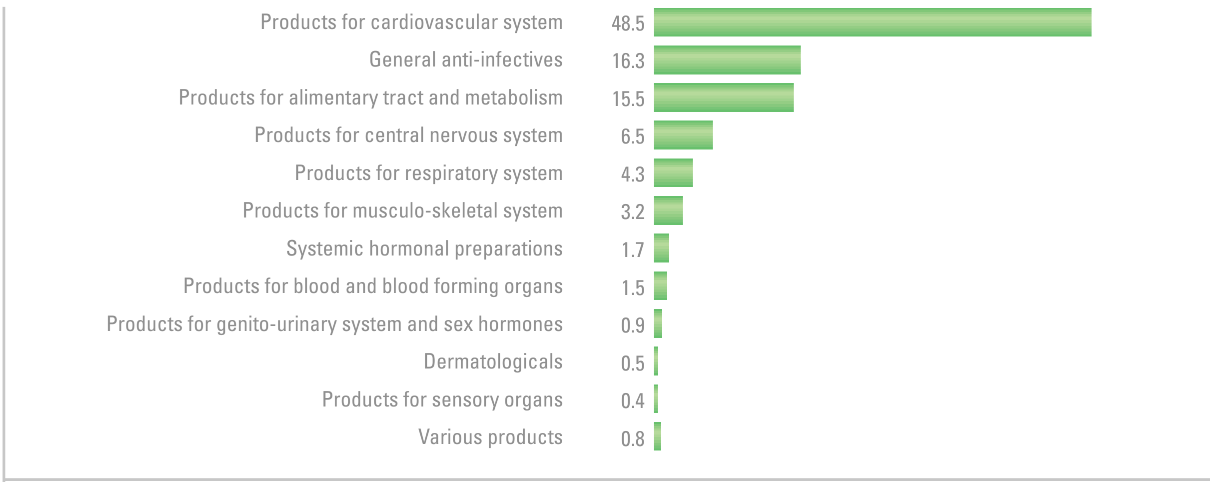
Sales of Krka, d. d., Novo mesto by product groups in 2002 and 2003

	2003	2002	Index 2003/2002
Human health products	77,322	68,681	113
prescription pharmaceuticals	67,019	57,628	116
self-medication products	10,302	11,053	93
Animal health products	3,890	4,759	82
Cosmetic products	3,890	3,932	99
Other	286	294	97
Total	**85,388**	**77,665**	**110**

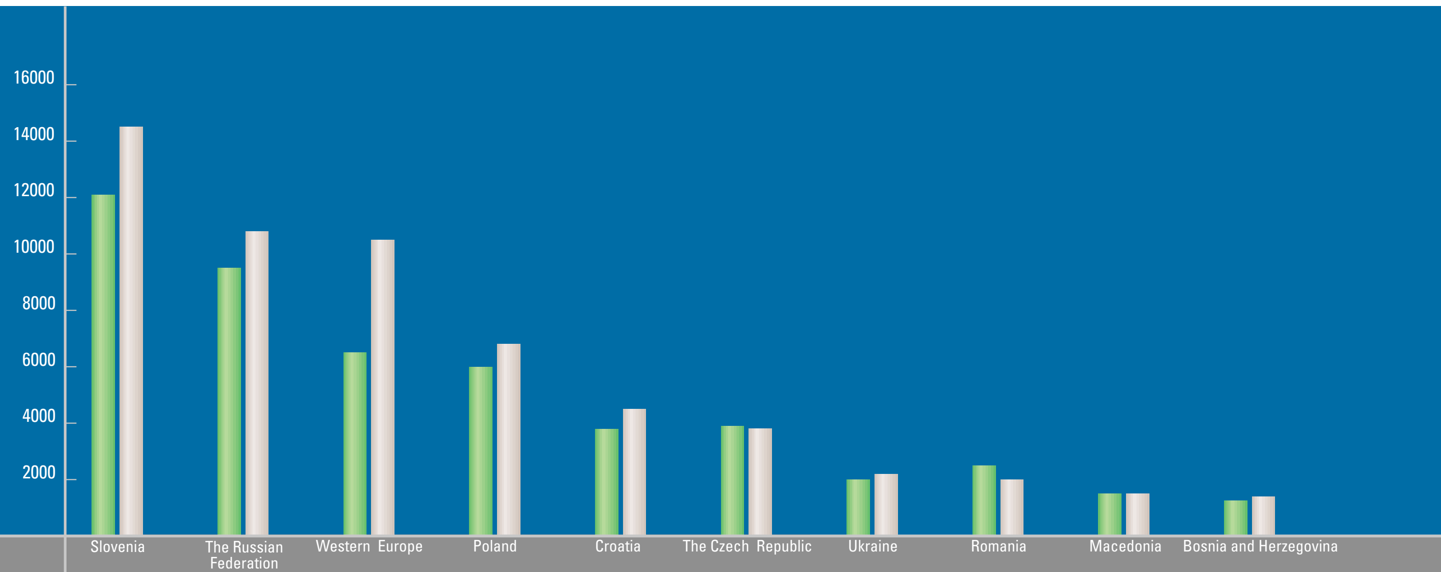


Sales structure of Krka, d. d., Novo mesto by product groups in 2003 (in percent)

Krka produces a wide spectrum of products for human health, which cover most important indication groups. The pharmaceuticals for cardiovascular diseases, systemic infection treatment and digestion and metabolism diseases top the list.



The sales of human health products by indication groups in 2003 for Krka, d. d., Novo mesto (in percent)



Sales of prescription pharmaceuticals in ten largest markets for Krka, d. d., Novo mesto (in million SIT) 2002 2003

Prescription pharmaceuticals

In 2003, we sold 67 billion SIT worth of prescription pharmaceuticals, 16 percent more than in 2002. In ten biggest markets, the sales indexes in regard to 2002 are up to 163, with all markets, except Romania and the Czech Republic, showing growth. Amongst the ten biggest markets, the biggest sales growth was recorded in the Russian Federation (index 109), Poland (index 114), Slovenia (117), Croatia (index 117) and western Europe (index 162).

The most noticeable increase was in sales of our own generic pharmaceuticals, which rose by 23 percent. They represent 79 percent of the whole group, with the rest being licenced pharmaceuticals.

Drugs for the treatment of cardiovascular diseases

Amongst the cardiovascular pharmaceuticals, Krka's leading brand is Enap® (enalapril maleate). In 2003, 15 years have passed since Enap® was launched in the first market. Today this brand covers one active substance in two pharmaceutical forms, three concentrations, four combinations and five different packagings. By 2003, more than 3.3 million patients were treated with Krka's enalapril maleate, an achievement we are proud of. Enap® is the leading enalapril in Slovenia, Croatia, Bosnia and Herzegovina, Macedonia, the Czech Republic, Slovakia, the Russian Federation and Lithuania, commanding market share of more than 40 percent. Krka is also the leading supplier of enalapril maleate tablets in western Europe, achieving volume market share of more than 50 percent in Germany and Scandinavia and more than 60 percent in the Netherlands.

Angiotensin II receptor antagonists (sartans) are pharmaceuticals that are still gaining ground in central, eastern and south-eastern European markets, even though the new EU recommendations of 2003 make them first choice pharmaceuticals for the treatment of hypertension. Krka also produces Lorista® (losartan) for Slovenia and Poland since 2000, for the Czech Republic since 2002, and for Slovakia since 2003. Lorista® sales are growing quickly especially in Slovenia and the Czech Republic. In only a year, Lorista® took over a 46-percent losartan market share, the fastest growing sartan in the Czech Republic. In 2003, Lorista® H was launched in Slovenia (a fixed combination of losartan and hydrochlorothiazide diuretic), which follows the modern directions for hypertension treatment, according to which a combination of two antihypertensives should be used to achieve target values of blood pressure.

In 2003, we launched Tenox® (amlodipine maleate), first in Poland and later in Lithuania. Tenox® is Krka's first product to be produced in the new Poland plant. Amlodipine is the world's leading pharmaceutical for hypertension treatment. The guidelines consider it first choice pharmaceutical that is especially indicated for older patients and for some other patient groups.

Coryol® (carvedilol), a non-selective beta-blocker with additional alpha-blocking activity, is also making progress on our markets. It is used for the treatment of hypertension, stable angina pectoris, while its use in the treatment of heart failure is increasing, as it is the drug of choice among beta-blockers. Market share among carvedilols in Slovenia and Lithuania is above 45 percent. In 2003 it was also launched in Romania and Bulgaria. We enter most markets as the first generic carvedilol. Krka's carvedilol was the first generic carvedilol to be awarded the Certificate of Suitability by the European Directorate for the Quality of Medicines.

Kamiren® (doxazosin), a selective long-acting α-1 adrenoreceptor antagonist, is used to treat symptoms of benign prostatic hyperplasia and increased blood pressure at the same time. The placement of alpha-blockers was further consolidated in 2003, as the latest American guidelines for benign prostatic hyperplasia make them first choice pharmaceuticals. Kamiren® is available in most central, eastern and south-eastern European markets, while its sales are best in Poland.

Statins are an important class of modern lipid-lowering drugs for the treatment and prevention of cardiovascular diseases. The usage of these drugs became even more intensive, using data from major clinical trials, as the target values for lipids for patients with cardiovascular disease or diabetes are decreasing. Vasilip® (simvastatin) and Atoris® (atorvastatin) are used to treat patients on 23 of Krka's traditional markets. Most of our markets show large market shares. In Slovenia, we have an overall 35 percent market share for statins. Market share for Vasilip® among simvastatins was increased in the Russian Federation (27 percent), Ukraine (62 percent) and Croatia (20 percent). In Poland, Vasilip® has a 23 percent market share, and in 2003, Atoris® was launched as well. Krka's simvastatin tablets were successfully launched on ten western European markets in 2003, and the resulting sales place us among the leading suppliers of simvastatin tablets in western Europe.

Drugs for the treatment of infections

Fromilid® (clarithromycin), is the first generic clarithromycin on eastern and central European markets and is among Krka's leading prescription pharmaceuticals. In Poland, the Czech Republic, Slovakia, the Russian Federation and Romania, its market share is 20 to 25 percent, 40 percent in Lithuania, 50 percent in Ukraine, more than 75 percent in Slovenia, and almost 100 percent in Croatia. In 2003, Fromilid® uno – clarithromycin prolonged-release tablets for once-daily administration – was launched in Slovenia.

In the field of macrolide antibiotics, we have been producing and marketing the licensed product Macropen® (midecamycin) in the Russian Federation for 10 years, and as usual, its sales increased in 2003. In eastern European markets, it has a market share between 10 and 20 percent among macrolide antibiotics.

Two very well established drugs for the treatment of infections are the fluoroquinolones – Nolicin® (norfloxacin) and Ciprinol® (ciprofloxacin). Nolicin® – tablets of norfloxacin are registered in 45 countries worldwide. Nolicin® is the leading norfloxacin in all major markets of eastern, central and south-eastern Europe with market shares of 50 percent or more in the Russian Federation, Romania and the Czech Republic and with a market share of more than 90 percent in Hungary, Poland, Croatia, Bulgaria and Slovenia. Krka's norfloxacin was the first generic norfloxacin, and is still the leading generic norfloxacin in western European markets.

Ciprinol® (ciprofloxacin) which has been in Krka's product line-up for almost 15 years, is still increasing its sales. It is being marketed in more than 30 countries, including most western European markets. It has significant market shares in Slovenia (37 percent), Ukraine (28 percent) and Poland (17 percent), and its market share among parenteral ciprofloxacins is between 70 and 100 percent in Romania, Lithuania, Bulgaria and Croatia.

Among antifungal pharmaceuticals, fluconazole is the world market leader, used particularly for vaginal candidiasis and systemic candidal infections. Diflazon® (fluconazole) has been in production since 1998 and is marketed in almost 20 traditional markets. Its highest market share is in Slovenia, but it also achieves good sales in the Russian Federation, Ukraine and Macedonia. The line-up is supplemented by new packagings, mostly used for treatment of recurring vaginal candidiasis.

Drugs for the treatment of gastrointestinal and metabolic diseases

In the field of pharmaceuticals for treatment of gastrointestinal and metabolic diseases, we were among the highest growing companies in central and eastern European markets in 2003. In Croatia, the Russian Federation and Poland, we increased the sales of our proton pump inhibitors (Lanzul®, Ultop®), the most important pharmaceuticals for treatment of upper digestive tract, by more than 30 percent.

Ultop® (omeprazole), has been the leading drug among proton pump inhibitors in Slovenia for the last 15 years. We started actively promoting Ultop® in the Russian Federation in 2003. Since 2003, Lanzul® (lansoprazole) is available in Slovenia, which excels mostly by its rapid effect on stomach secretion and absence of clinically significant metabolic interactions. Lanzul® has been marketed successfully in Poland, Croatia and Slovakia for a number of years. We plan to start promoting it actively in the Czech Republic in 2004.

We have been successfully marketing a drug for inflammatory bowel disease, Sulfasalazin (sulfasalazine). In 2003, we began marketing Samezil® (mesalazine), which is a more modern drug for treating this disease.

Drugs for the treatment of central nervous system diseases

Our psychiatric drug range was supplemented by Asentra® (sertraline) and Yasnal® (donepezil) in 2002. Asentra® (sertraline) is a more modern antidepressant and is intended for treatment of various forms and degrees of depressive disorders, obsessive-compulsive and panic disorders. A year after launch, Asentra® recorded the biggest sales growth among all selective serotonin re-uptake inhibitors in Slovenia, achieving a market share among sertralines of 26 percent. In 2003, Asentra® was launched in the Czech Republic, Poland, Macedonia and Romania.

A very important drug for treatment of central nervous system diseases is Yasnal® (donepezil). Yasnal® is used for symptomatic treatment of mild to moderate Alzheimer's disease. Alzheimer's disease is the most common form of dementia and the fourth most common cause of death in adults (after cardiovascular diseases, cancer and brain stroke). By decreasing dementia symptoms and reducing their progression, we can make lives easier for the patients and their families. The successfulness of launch of Yasnal® in Slovenia is confirmed by the fact that it achieved a 15 percent market share among dementia drugs and a 25 percent market share among donepezils in the first nine months following its launch. As the first generic manufacturer of donepezil, we launched Yasnal® in Poland in 2003.

Drugs for the treatment of allergies

Among drugs for allergy treatment, we produce and market Letizen® (cetirizine), a selective, second generation, long-lasting histamine H1-receptor antagonist. It was launched in 2003 in Slovakia, Bulgaria and Arabian Peninsula, and in some markets, children's suspension was added to tablet form.

Self-medication products

Sales of self-medication products generated revenues of 10.3 billion SIT in 2003 on Krka's traditional markets, which is less than sales in 2002. However, sales in 2002 were record breaking in comparison to 2001.

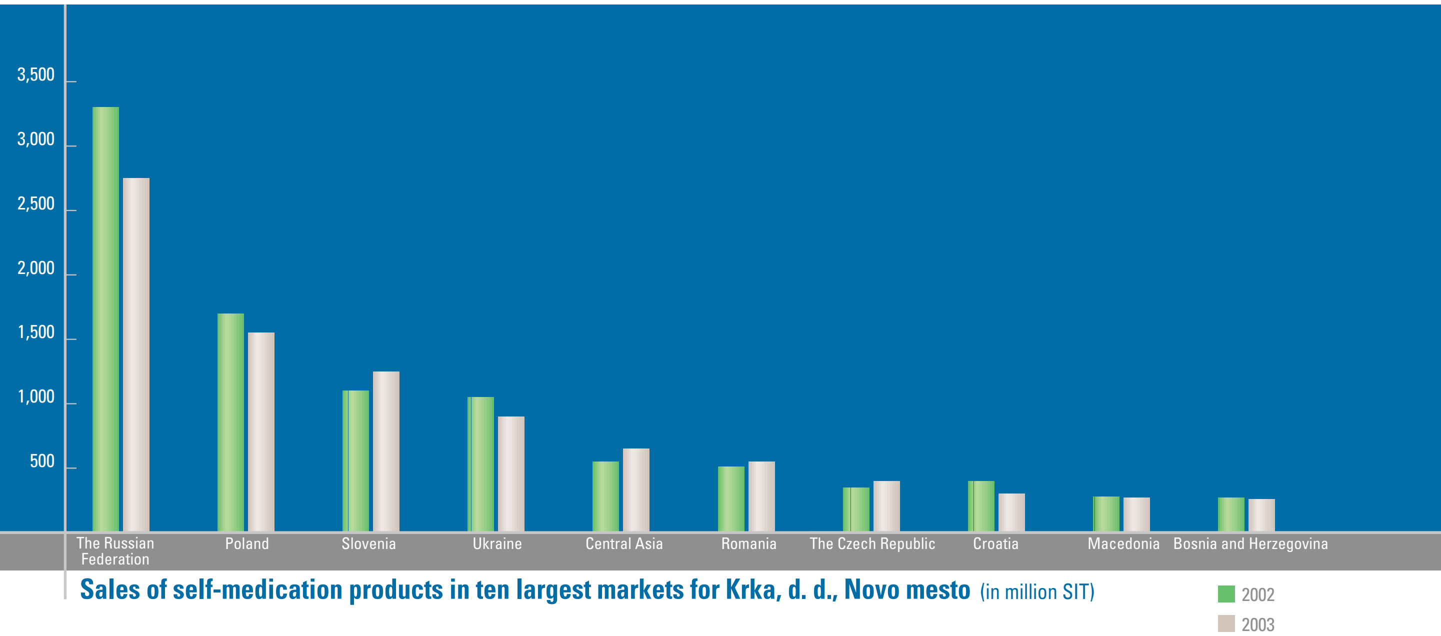
The biggest growth in sales was recorded in Serbia (index 188), Bulgaria (index 177), Latvia (index 148), Hungary (index 146) and Slovakia (index 132), and the biggest drop was recorded in Lithuania (index 52).

A lower sales result in the Russian Federation is attributable to slower sales of Duovit®, which has been present on this market for over 20 years and is therefore facing a crisis on its lifecycle curve.

Among the most important brand names of self-medication product groups are umbrella brand names Septolete® and Pikovit®. Bilobil® shows an increasing sales share. The abovementioned brands are still among the leading in their respective product categories in individual markets. For instance, Septolete® market share in Poland is 10 percent, the market share of Bilobil® is 26 percent and the market share of Pikovit® is 12 percent, whereas in the Russian Federation, the market share of Bilobil® is 19 percent and Pikovit® market share in children's vitamin supplement is 27 percent.

In 2003, the umbrella brand Herbion® got its final image on selected markets. It is used to market natural products, including the very promising Herbion® Echinacea, an immunostimulant from the purple coneflower (Echinacea purpurea).

By using advertising in public media, the self-medication programme contributes significantly towards greater recognition and public image of the corporate brand name. In the context of extended costumer care, the revamped web site ezdravje.com was introduced to the Slovene public, where the customer can acquire valuable information on health related themes. We also published several new educational booklets, including the very popular phytotherapy brochure titled "There is a herb for every ailment."



Sales of self-medication products in ten largest markets for Krka, d. d., Novo mesto (in million SIT)

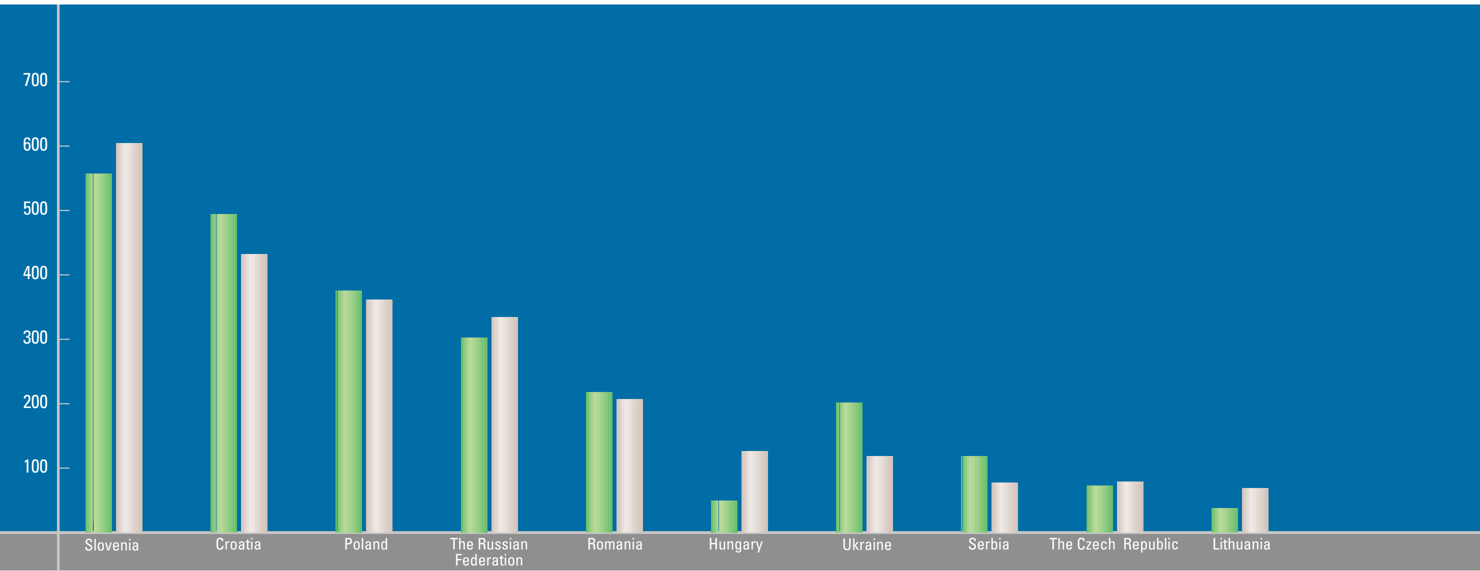
Animal health products

The animal health products achieved sales of 3.9 billion SIT in 2003, of those 2.6 billion SIT were for finished products and 1.3 billion SIT for raw materials.

Due to regulatory changes, the sales of raw materials keep dropping, especially Zn-bacitracin. This had a negative impact on overall sales of the animal health product group, which recorded a sales index of 82 in comparison to 2002. Of the ten largest markets where finished products are sold, the highest sales growth in comparison to 2002 was recorded in Hungary (index 248), Lithuania (index 168) and the Czech Republic (index 112).

Floron® (florfenicol) was especially successful in 2003, as it was launched in central European markets and is gaining ground in pig farming. Floron® is a broad spectrum antibiotic for treatment of various animals (pigs, cattle, poultry and fish). It is available as solution for injection, oral solution and as premix for medicated feedstuff.

Sales of Enroxil® (enrofloxacin), used mainly for protection of poultry, are also doing reasonably well.



Sales of finished animal health products in ten largest markets for Krka, d. d., Novo mesto (in million SIT)

We track customer satisfaction

The quality of our products and customer satisfaction are tracked using a large number of post-marketing clinical studies which confirm our products' safety and efficiency.

In 2003, we prepared standardised protocols for tracking safety of our prescription pharmaceuticals. We have prepared detailed operating procedures for reacting to and reporting of possible serious and unexpected adverse drug reaction in case it occurs. We also prepared operating procedures in case of complaints, constantly reducing our customer response time.

The whole production process is regularly monitored by the regulatory bodies of individual markets where we sell our products, as well as by our business partners.

Cosmetic products

We sold 3.9 billion SIT worth of cosmetic products in 2003. The operations of Krka Cosmetics were significantly impacted in Q4 by a change in strategy: dropping of retail products and decorative cosmetics and focusing on cosmeceutical products. Export share in total sales is 64 percent. The leading market in terms of sales is still Slovenia with 36 percent. It is followed by Croatia, Bosnia and Herzegovina, the Russian Federation and Serbia, where we performed our marketing activities with the maximum intensity. The highest growth was recorded in Bulgaria, Ukraine and the Russian Federation.

In total sales, our own brands account for 83 percent, with hair and skin care products sales increasing the most. Vitaskin® brand forms the basis for the whole cosmetic range.

We marketed a broad range of cosmetic products and some established brands with a large customer base. Our products mostly appear in retail chains, specialised shops (drugstores) and pharmacies. Our range of products follows the trends in development, however, our highest priority is still producing competitively priced high quality products.

Health resorts and tourism

Krka Zdravilišča, d. o. o., Novo mesto, forms a consistent part of Krka Group. It generates income by selling hotel services, health services, and catering services, and also generates income from collecting rents, organising sports activities and other sales income.

Together with its daughter company, Krka Zdravilišče Strunjan, d. o. o. it achieved income of 5.4 billion SIT from services, representing 8 percent annual growth. The income structure is as follows: hotel services account for something less than a third, the same goes for catering service, and the rest consists of income from health services and other income.

In 2003, 316,966 guests were registered, 26 percent of which came from abroad. Compared to the year before, the number of foreign guests increased by 7 percent, and the increase was most obvious in Dolenjske Toplice Health Resort, where it achieved 20 percent. Foreign guests come mostly from Austria, Germany, Croatia and Israel. In the near future, guests are expected from the Russian Federation, Switzerland and Scandinavia. The successful marketing of our hotel capabilities is also confirmed by the fact that the overall occupancy of our capabilities was 84 percent, ranking it among the highest in the country.

In Dolenjske Toplice Health Resort, a wellness centre opened in June, an important addition to our company and for the overall tourist offering of the Dolenjska region and the whole Slovenia. By activating this investment, the company positioned itself on the self-paying market with new programs and content. In the same period, in the associated health resort Krka Zdravilišče Strunjan, d. o. o. company, hotel capabilities were significantly increased by purchasing the Laguna Hotel with 57 beds.

sales

"... we strive to exceed
our achievements ..."

RESEARCH AND DEVELOPMENT

Open doors to the markets of western Europe

Development is one of Krka's top priority activities, covering all fields, including technology development for new active pharmaceutical ingredients as well as development of new pharmaceutical forms including all necessary tests and studies that enable the marketing authorisation of products in the field of pharmaceuticals, self-medication products and animal health products.

In 2003, our research activities were directed towards products that can be marketed in even the most competitive generic markets. With newly obtained marketing authorisations, we opened the possibility of marketing our products in the whole western European area. With 150 new product marketing authorisations covering 420 different forms we obtained on behalf of Krka, d. d., Novo mesto and on behalf of our partners, we keep confirming the quality of Krka's research and development.

We were among the first generic manufacturers to register some of the world's leading products in western Europe. Products such as enalapril, norfloxacin and ciprofloxacin, which we already market in western Europe, were joined by carvedilol – an adrenergic beta receptor blocker, amlodipine maleate – one of the world's leading drugs for the treatment of hypertension and angina pectoris, fluconazole – the leading antifungal drug, and mirtazapine – a psychologically active drug with antidepressant function.

Increasing number of new products on traditional markets

Our excellent knowledge of regulatory requirements on western, central and eastern European markets and our flexibility in regulatory procedures enable us to conform to regulatory changes that our classical markets experience due to the necessary harmonisation with European Union legislation. We successfully obtained marketing authorisations for our range of products that is adapted to specific markets. This enables us to enter the markets quickly.

Number of new marketing authorisations for Krka, d. d., Novo mesto by regions for 2003

Slovenia		South-East Europe		East Europe		Central Europe	
Products	Forms	Products	Forms	Products	Forms	Products	Forms
6	11	44	67	59	87	32	45

Prescription pharmaceuticals

In 2003, we obtained first marketing authorisation for 4 new products in 8 forms. We consider Fromilid® uno (clarithromycin) to be among the most important obtained first marketing authorisations in Slovenia, as it enabled us to expand the Fromilid® product range, which is used for infection treatment. The technology used in preparation of Fromilid® uno tablet enables the patients to only take the required dose once daily, assuring better patient compliance.

In 2003, we also obtained marketing authorisation for Azibiot® (azithromycin), which will supplement our antimicrobial line up. We registered it in tablet form and in the form of powder for oral suspension. In the field of gastroenterology, the existing range of Ultop® (omeprazole) products was expanded by the new Ultop® 40 mg capsules.

The range of drugs for central nervous system treatment was expanded by the Slovene marketing authorisation we obtained for the antidepressant Mirzaten® (mirtazapine).

We also continue to be successful in obtaining marketing authorisations for Atoris® (atorvastatin), which is quickly becoming one of the most important products in Krka's portfolio. In the past year, we obtained 7 new marketing authorisations in different countries for this drug, the most notable among which are Poland, Hungary and the Russian Federation.

In the field of cardiovascular drugs, one of Krka's most important additions was the grant of marketing authorisation for Tenox® (amlodipine maleate) in Slovenia. Marketing authorisation for Coryol® (carvedilol) was granted in Slovakia, Romania and Lithuania last year.

Number of prescription pharmaceuticals marketing authorisations by region for 2003

Slovenia		South-East Europe		East Europe		Central Europe	
Products	Forms	Products	Forms	Products	Forms	Products	Forms
4	9	19	27	43	66	17	26

Self-medication products

We obtained new marketing authorisations in the field of self-medication products. In 2003, we spread the marketing authorisation for Pikovit®, Septolete® and Daleron® across individual markets. We obtained marketing authorisations for Pikovit® forte and Pikovit® D in the Czech Republic and Latvia. Septolete® are being marketed gradually in individual markets using both new forms, Septolete® D and Septolete® Plus, which in 2003 were registered in the Czech Republic, Ukraine and Bulgaria. In Latvia, we also obtained marketing authorisation for the whole Daleron® range, and in the Czech Republic, the registered tablets and suspension forms of Daleron® were joined by Daleron Cold3®.

Number of self-medication product marketing authorisations by region for 2003

Slovenia		South-East Europe		East Europe		Central Europe	
Products	Forms	Products	Forms	Products	Forms	Products	Forms
1	1	12	18	14	17	5	5

Animal health products

In the field of animal health products, we obtained 26 marketing authorisations for products in 41 different forms. Ranking among the most important of these is Floron®, a broad spectrum chemotherapeutic in injection, powder or solution form, for which 7 marketing authorisations were obtained in 2003, including Poland, Slovakia and Hungary.

Number of new animal health product marketing authorisations by region for 2003

Slovenia		South-East Europe		East Europe		Central Europe	
Products	Forms	Products	Forms	Products	Forms	Products	Forms
1	1	13	22	2	4	10	14

Conforming to new regulatory requirements for existing products

Krka offers a wide range of products on a large number of markets. The existing products are continually improved using the latest developments and adapted to the newest requirements. In 2003, we renewed marketing authorisations for 229 products in 433 forms. Of those, 188 marketing authorisations in 350 forms represent prescription pharmaceuticals, 20 marketing authorisations in 26 forms represent self-medication pharmaceuticals, and 21 marketing authorisations in 30 forms represent animal health products. With newly added knowledge, we continue proving safety, efficacy and quality of our products even with the most recent regulatory requirements.

Protecting our own knowledge and the area of industrial property

In generic industry, the protection of own know-how is extremely important. It is this know-how that gives us the advantage in the area of morphological structures of the active pharmaceutical ingredients, technological processes and pharmaceutical forms, including active substance delivery systems. In 2003, we filed 5 patent claims that protect our know-how in key products. We also filed 6 international (PCT) patent claims based on priority documents, which protect the results of research work in Krka.

Krka markets its products under its own brand names. In these times of increasing competition, suitable protection of brand names is gaining importance among generic manufacturers. In 2003, we registered 18 brand names in Slovenia and filed claims for 26 international brand registrations and one European (CTM) brand.

Cosmetic product development

In 2003, we followed the trends for personal hygiene when developing our new cosmetic products. We developed 72 new products, 49 of those in decorative cosmetics. Dermatological and efficiency tests were conducted for the majority of the new products.

The majority of activity was in the area of development of cosmeceutical products. The Corident® and Sun mix® brands were overhauled. Vitaskin® Fitolift project was entering its final phase of development, as were the new products in the Vitaskin® Man line, which will be launched in 2004.

Technological and analytical documentation was obtained for new products and the existing cosmetic lines. Based on the changes in cosmetic legislation, we introduced changes in labels on packaging, declarations and formulations. All necessary documentation for marketing authorisation of new products on foreign markets and for renewal of marketing authorisation of existing products was also prepared.

Health resorts

The development of health resort and hotel activities is primarily directed towards providing new services that follow global tourism trends and guests' needs, their observations and their recommendations.

The development of health activities is based on the rich tradition of use of healing thermal waters and on inclusion of the newest medical developments into the healing programs. By consistently investing in the supplementation of our spa, tourism and catering services, we achieve the high quality of our services, which can satisfy even the most demanding guests.

Special attention is directed towards the so-called wellness programmes whose goal is maintaining and improving both health and physical fitness. This is clearly shown by the fact that Krka Zdravilišča built and opened one of the most technologically advanced wellness centres in our country in one of its spa facilities in Dolenjske Toplice.

opment

INVESTOR INFORMATION

Share return

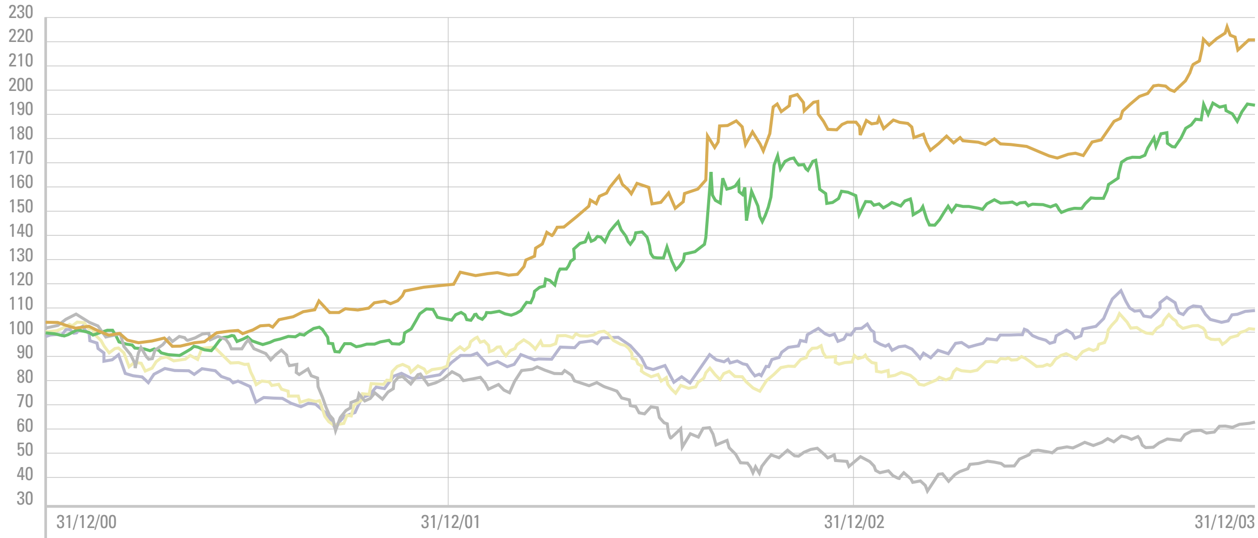
in SIT

Share price on the Ljubljana Stock Exchange	2003	2002	2001
1 January	**42,373**	28,505	27,442
Year highest	**52,807**	47,156	30,006
Year lowest	**38,790**	28,462	24,644
31 December	**52,188**	42,458	28,712
Increase	**23%**	49%	5%

In 2003, the Ljubljana Stock Exchange was still showing the same optimism as in 2002. The trading was very active and very profitable for investors, as the prices of most shares broke record highs. The Ljubljana Stock Exchange main index (SBI 20), which includes Krka, grew by 18 percent and for the first time broke through the 4,000 mark in December 2003.

The Krka share price gained 23 percent by rising from 42,373 tolars in the beginning of the year to 52,188 tolars at the end of 2003. The price growth in 2003 was more moderate than the growth in 2002, when takeovers triggered mass euphoria and enabled high capital gains.

share



Krka (KRKG) share performance from 2001 to 2003

The Krka share is included into the following indexes:

- SBI 20 – Slovene stock exchange index of the Ljubljana Stock Exchange,
- CETOP20 – Central European Blue Chip Index of the Budapest Stock Exchange,
- CESI – Central European Stock Index of the Budapest Stock Exchange,
- FTSE New EU – the newly formed FTSE index which includes the leading companies of the ten new members of the European Union.

Dividend policy

The company pursues a moderate dividend increase policy. Approximately one third of the net profit for the year is paid out to the shareholders as dividends. The company pays the dividends once yearly. This occurs within 60 days of the annual meeting, where the shareholders decide on the dividend proposal.

Dividend proposal by the management and the supervisory board for 2003 will be published in the annual meeting notice. The final dividend for 2003 will depend on the annual meeting decision.

	2003	2002	2001
Earnings per share1 (in SIT)	2,970	3,116	2,405
Gross dividend per share2 (in SIT)	1,050	950	700
Dividend pay out3	34%	40%	38%
Dividend yield4	*2.0%*	*2.2%*	*2.4%*

1 Net profit of majority group owners/average no. of shares outstanding
2 Dividend paid out from previous period earnings
3 Gross dividend per share / previous period earnings per share
4 Applying share price on 31 December of each year

Share trading and ownership

Krka's shares were listed on the Ljubljana Stock Exchange in 1997 with the trading symbol KRKG.

Resident and non-resident investors can trade the share freely through brokerage houses and banks that are members of the Ljubljana Stock Exchange. They are listed on the Ljubljana Stock Exchange website (www.ljse.si). Additional information on the Ljubljana Stock Exchange members can be found there as well.

The data on daily Krka share trading is available in daily newspapers, on the Ljubljana Stock Exchange website and with some business information providers. The company's website (www.krka.si) also offers on-line share trading view within trading time. The trading information is also available from Reuters (KRKG.LJ) and Bloomberg (KRKG_SV).

Krka share trading in 2003

Krka share was the most liquid security on the Ljubljana Stock Exchange again in 2003, with annual trading volume of 25.8 billion tolars (2002: 46.7 billion tolars), representing 7.6 percent of total trading volume on the stock exchange. (2002: 10.5 percent).

Market capitalisation of the company at the end of 2003 amounted to 184.9 million tolars (2002: 150.4 billion tolars), which is the highest capitalisation among companies listed on the Ljubljana Stock Exchange. The market capitalisation of the company was 7.6 percent of the total capitalisation of the stock exchange in 2003 (2002: 6.9 percent).

Krka share trading in 2003

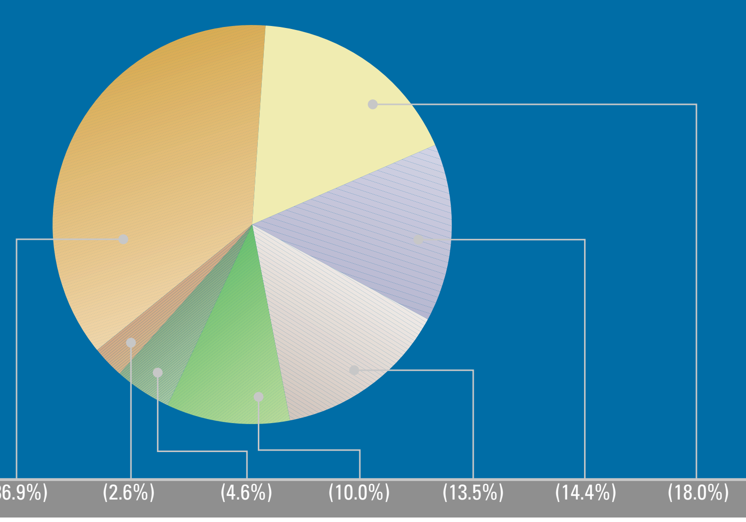
Volume in thousand SIT
Share price in SIT

In 2003, no significant changes occurred among the ten major shareholders. At the end of 2003, one of Slovenia's major banks decreased its share by 2 percentage points compared to 2002. The changes of ownership shares of other major shareholders were less significant, i.e. less than 1 percentage point.

Ten major shareholders on 31 December 2003

	Shareholder Country	No. of shares	Share (%)
SLOVENSKA ODŠKODNINSKA DRUŽBA, D. D.	Slovenia	510,814	14.42
KAPITALSKA DRUŽBA, D. D.	Slovenia	339,289	9.58
TRIGLAV STEBER I, ID, D. D.	Slovenia	103,027	2.91
NFD 1 INVESTICIJSKI SKLAD D. D.	Slovenia	102,928	2.91
KD INVESTMENTS D. D. VS GALILEO	Slovenia	61,224	1.73
KD ID D. D.	Slovenia	42,267	1.19
ID MAKSIMA D. D.	Slovenia	41,778	1.18
ABANKA D. D.	Slovenia	39,600	1.12
ZAVAROVALNICA TRIGLAV, D. D.	Slovenia	38,830	1.10
ZLATA MONETA I D. D.	Slovenia	37,222	1.05
Total		**1,316,979**	**37.19**

In 2003, the trend towards a more dispersed ownership of the company that was started in 2002 continued. At the end of 2003, the company had 52,370 shareholders (2002: 51,510). The total number of shareholders increased primarily due to increased share of domestic individual shareholders who held 36.9 percent of all shares (2002: 35.5 percent). The ownership share of Slovene state financial companies (Slovenska odškodninska družba and Kapitalska družba together with Prvi pokojninski sklad – PPS) has increased to 24.4 percent by the end of 2003 (2002: 22.6 percent). The ownership share of other Slovene companies, including other financial companies (banks, insurance companies) and other companies fell to 18 percent by the end of 2003 (2002: 20.6 percent). By the end of 2003, the share of Slovene investment companies and investment funds increased to 13.5 percent (2002: 13.2 percent). The part of own shares did not change in 2003 and was 4.6 percent at the end of the year. The ownership share of foreign investors was 2.6 percent at the end of 2003 (2002: 3.5 percent).



Shareholders' structure on 31 December 2003 (in percent)

Information for shareholders

Company reporting

All business results, both in Slovene and English language, are available through the Ljubljana Stock Exchange electronic information system – SEOnet (http://seonet.ljse.si). After being published on SEOnet, this information is also available on Krka's website (www.krka.si). A short summary of annual and semi-annual report is published in Delo newspaper.

Complete annual reports are available on the company's website (in electronic form) or at the headquarter offices (hard copy).

All published results and financial reports are submitted to the Securities Market Agency of the Republic of Slovenia in due time.

Annual meeting

The annual meeting for 2004 will be held on 1 July 2004. The annual meeting notice with proposed resolutions and the exact location will be published at least 30 days in advance through the Ljubljana Stock Exchange electronic information system (SEOnet) and Delo newspaper.

Shareholders recorded in the shareholders' registrar at the date, published in the annual meeting notice, can attend the meeting and vote. The annual meeting attendance and voting right is also enabled to shareholders' representatives and proxies who file the appropriate Power of Attorney upon registration to the annual meeting.

All issued shares are in the same class (ordinary, freely transferable), each share enabling one vote at the annual meeting.

PURCHASING AND SUPPLIERS

Due to the ever increasing competition between drug manufacturers and to ensure uninterrupted supply to our customers, we are forced into constant search for new potential suppliers. All of Krka's potential suppliers are first evaluated for fulfilment of commercial criteria. In cooperation with other services, we check the suitability of material specification and perform a supplier audit to ensure that the supplier meets the requirements for incoming material quality control. Materials provided by our long-term suppliers are also meticulously controlled and the suppliers are notified of eventual short-comings and improvement possibilities.

It is Krka's goal that each key incoming material can be supplied by several approved suppliers. Only in this way is it possible to develop a partnership between Krka and its suppliers based on long-term active cooperation.

Increased demand for Krka's products and Krka's limited production capabilities forced us to look for contractors who produce pharmaceuticals using Krka's ingredients and Krka's procedures or by using active ingredient intermediates.

The process of choosing a suitable contractor is complicated, as it requires cooperation of purchasing with experts from all fields, including research and development, quality control, quality assurance, logistics and other. In 2003 we picked a large number of contractors, particularly from Europe, and shipments have already been performed.

Slovene suppliers represent an important share in Krka's purchasing, therefore Krka pays special attention to them. We prepare annual presentations of new trends in packaging and other incoming materials, present our requirements for assuring total quality and how we recognise the excellence of suppliers.

The production of cosmetic products is only a small part of Krka's production. However, it is a field that must adapt to increasingly fast market changes. Therefore, this field also requires thorough study of purchase markets and suppliers to assure the purchase of the best incoming materials.

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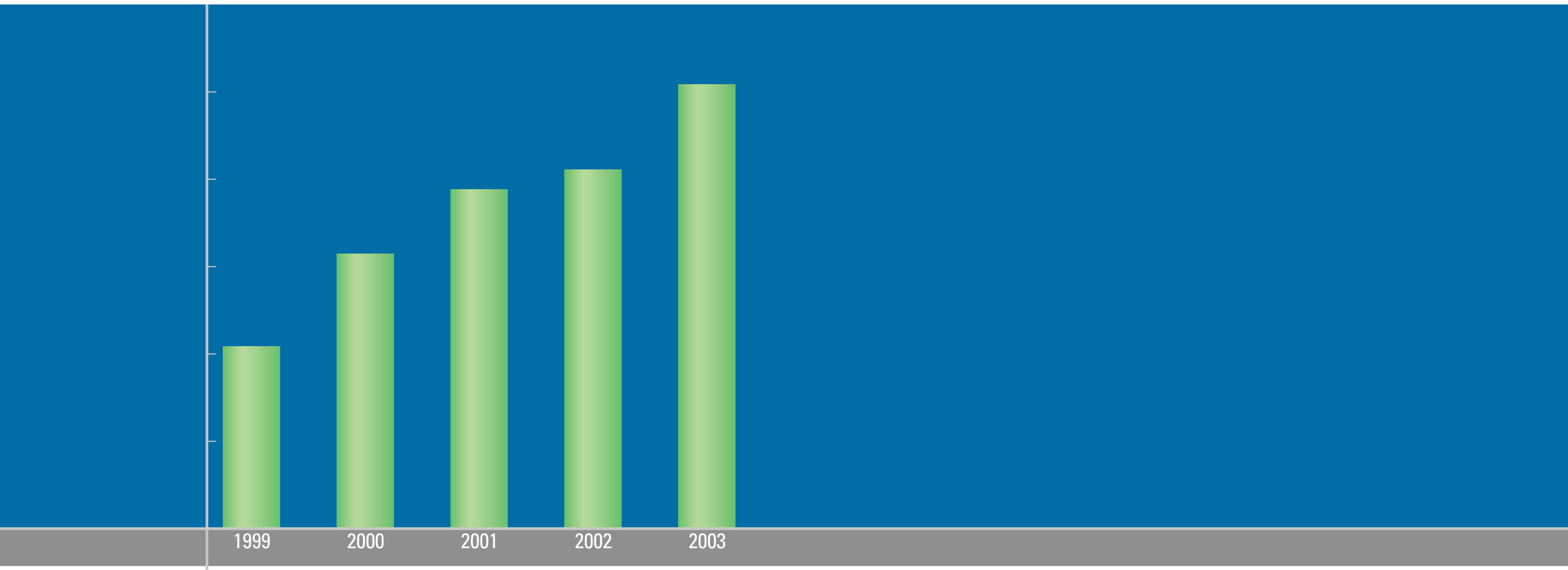
ENVIRONMENTAL PROTECTION

Environmental policy is a part of Krka's development strategy and organisational culture. It is directed towards sustainable improvement in the field of environmental protection. It is implemented by careful planning of environmental management, managing environmental programmes and by monitoring and adhering to legislative standards. Only with a high environmental awareness of all employees can we perform our activities in a planned, long-term and continuing manner. Two years after introducing environmental management system and acquiring ISO 14001 certificate, we find that the overall environmental protection has improved.

In 2003, we improved the quality of effluent by 5 percent by thorough management of waste water treatment plant and reducing water usage, thus reducing the amount of organic compounds that enter the river Krka. In order to further improve the waste water quality from the waste water treatment plant, we continued with extensive work on a long-term technology development that will enable us to effectively remove nitrogen compounds from waste waters. The project was led towards solutions that enable us to reduce all Krka river pollution parameters well below the legal threshold using only minor adjustments to the waste water treatment plant. The project was planned as a gradual transfer of technology from laboratory scale to industrial scale up. The concept of technology accounted actual technological parameters, capacity and place limitation of the existing waste water treatment plant and of course the necessity of introducing the new technology with the smallest possible adjustments.

In cooperation with local industry representatives – Ljutomer and Križevci municipalities, we signed a contract regarding co-financing the construction of a central Ljutomer waste water treatment plant. With this approach towards a common project, we will ensure high-quality waste water treatment for the Krka plant in Ljutomer and contribute towards a complete solution of the Ščavnica river pollution problem.

By informing our employees, constructing additional waste collection places and introducing separate waste paper collection in offices and laboratories, we have increased the quantity of collected waste paper by 18 percent and the total quantity of recyclable materials was increased by 23 percent. In 2003, we started the project of constructing a waste-sorting place in order to increase the quantities of recycling waste. This project will conclude in 2004.



Collected quantities of recyclable materials (in 100 t)

In the field of energy supply we continued with measures to keep the energy use efficient. By using waste heat recovery from compressed air system, we saved approximately 246,000 Sm^3 of natural gas, representing 2 percent of total annual use. We also continued with measures to reduce consumption of river water, decreasing the consumption in comparison to 2002 by 246,000 m^3 or 7.6 percent. By upgrading the water preparation system for the cooling towers, we reduced the amount of water entering our waste water treatment plant by approximately 7000 m^3. For all other processes in the field of energy supply that use water as their primary medium, we prepared project solutions for efficient use of river water, predominantly by reusing waste cooling water that is routed back into the Krka river. The project, which will reduce river water consumption by approximately 250,000 – 300,000 m^3, will be realised next year. We will set guidelines for continuation of projects for efficient use of energy based on complete energetic survey of the company, which was started this year and will be concluded in 2004.

Continuous improvement in the field of environmental protection requires sizeable financial investments in addition to technical and organisational measures. Despite reducing waste quantities, decreased use of river water and reduced water pollution, the environmental protection costs are rising due to the ever increasing environmental taxes, associated costs and cost of investments into environmental projects.

Since we realise that environmental protection is not a finished process, we strive to complete the activities we already began and open new projects for sustainable development in our annual environmental target and program plans. We want our positive attitude towards the environment to be respected and adhered to by our suppliers, customers, shareholders and local communities. After all, the environment is something we have to save for the generations to come.

Usage of river water for technological needs (in 1,000 m^3)

“... always with steady,
certain steps ...”

A COMMITMENT TO QUALITY

Quality, in the broadest sense of the word, is created, maintained and the responsibility of all employees. In such way the quality of the kind we perceive and live by, has transcended the standards, regulations and instructions, becoming a part of our everyday tasks and a constant companion of our life. Only so can we successfully assure that the pharmaceutical standards are adhered to and incorporate their requirements and instructions in our products.

The complete system of quality management is described in Krka's Quality Manual, which regards various aspects of operations with the same principles (quality – GMP, ISO 9001; environment – ISO 14001; workplace security and health protection – OHSAS 18001; foodstuffs safety – HACCP).

Constant improvements, dictated to us by pharmaceutical and other standards on one side and our commitment to continuous improvement on the other, represent the moving force of progress and continuous increase of quality in all areas. In 2003 we successfully continued with the upgrading and improvement of the existing system of quality and its expansion and introduction to our daughter companies abroad.

The checking of the quality system was conducted in the past year by self controls with internal audits and external audits by our business partners. The suitability of the quality assurance system is also reviewed and confirmed by regular inspections of foreign state regulatory bodies.

In 2003, we obtained the required permissions to produce drugs at our new Notol plant, an achievement we are very proud of. We obtained it based on an inspection by representatives of the Agency for Medicinal Products and Medicinal Devices of the Republic of Slovenia. We also confirmed conformity with ISO 9001 and ISO 14001 standards by an audit that was performed by SIQ of Ljubljana in the autumn 2003.

In accordance with the provisions of the Act Regulating the Sanitary Suitability of Foodstuffs, Products and Materials Coming into Contact with Foodstuffs (Official Gazette of the Republic of Slovenia, 52/00 and 42/00) and in accordance with the Rules on the Conditions to Be Met by Establishments Operating in the Animal Feed Sector (Official Gazette of the Republic of Slovenia, 8/03), the HACCP system was introduced and confirmed for some of Krka's operations.

Krka also strives towards a balanced development of its field with special emphasis on health and environmental protection (ISO 14001) with a fair and correct relationship with the public. A systematic and preventive approach in this field is ensured by transparent reporting of continuous improvement. The successfulness of this approach is confirmed every year by our right to use the Responsible Care logo.

INVESTMENT ACTIVITIES

The year 2003 was marked by extensive investment activities in accordance with our accepted mid-term strategy – both in the controlling company and in the dependent companies of the group.

Krka earmarked 15.5 billion SIT for tangible fixed assets and 3.7 billion SIT for long-term financial investments abroad.

In 2003, Krka invested 22.5 percent of net sales income, which is the most in the past five years. The most prominent among investments are investments into finished product production, which represent 44 percent of used assets in 2003.

Krka Group invested 21.6 billion SIT into tangible fixed assets.

At the end of September 2003, we opened a modern manufacturing plant for solid pharmaceutical dosage forms in the industrial zone of Istra on the northwest of Moscow. Using its own local production, Krka will be able to offer high-quality, efficient and safe products under Krka's own brand. In 2003, 3.2 billion SIT were invested into the plant.

A smaller plant for production of solid pharmaceutical dosage forms was opened in October 2003 in the vicinity of the central location in Novo mesto. The plant will further increase the flexibility of production process and enable us to better adapt to the specific needs of individual markets and also allow us to supply smaller markets and customers with specific orders more quickly. The value of invested assets in 2003 was 2.8 billion SIT.

Investments 1999 – 2003 in Krka, d. d., Novo mesto (in billion SIT)

Investments in billion SIT

Share of investments in percent of sales revenue

investments

In 2004, the plant in Zagreb will be finished, marking the finalisation of our basic strategic orientations up to 2005. These include increase of production capabilities and improved production condition and establishment of local production of high-quality products using Krka's brand on our key markets.

The beginning of construction of a new plant for production of active pharmaceutical ingredients, called Synthesis 4, marks an important step towards realising our strategic goals. The new investment will enable us to use our own capacities for production of active pharmaceutical ingredients of bestselling drugs. The plant is planned to be finished in the second half of 2006.

Investments into the associate company Krka Zdravilišča, d. o. o., Novo mesto amounted to 2.6 billion SIT in 2003. Most of this was spent on renovating the pool complex in Dolenjske Toplice, which was finished in the middle of 2003.

MANAGING HUMAN RESOURCES

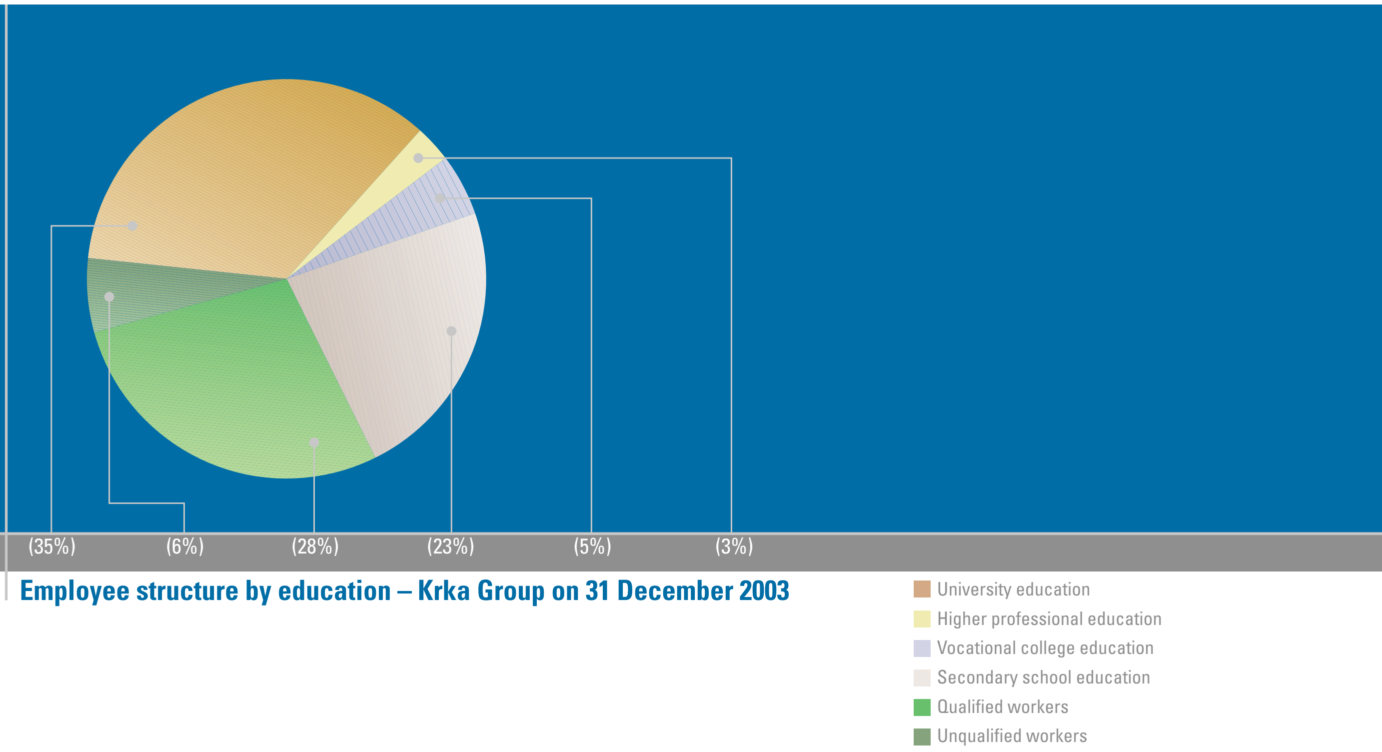
The ambitious business goals set for 2003 demanded increased employment in the Marketing and Sales both in Slovenia and abroad and in the Research and Development. In 2003, 190 new employees joined our companies, increasing the number of employees in the group by 4.4 percent.

Krka group had 4,522 employees by the end of last year, 3,525 of those in Slovenia and 997 in companies and representative offices abroad, representing 25 percent of all employees. The number of employees in Slovenia did not increase in 2003, whereas the number of employees in the companies and representative offices abroad in 2003 increased by 22 percent.

Highly qualified employees

Performing well on markets at home and abroad, research and development of new products and investing into new capacities make employees with the highest qualifications a must. The share of employees with university degrees increased by 4 percentage points.

By the end of 2003, 1,570 of our employees were university graduates, representing 35 percent of all employees in the group. These include 47 PhDs and 130 MScs. International orientation of our company is confirmed by the fact that 57 percent of our employees with university degrees work in companies and representative offices abroad.



Employee structure by education – Krka Group on 31 December 2003

To realise strategic and business goals, the company must use systematic and targeted investment into developing knowledge and abilities of its employees. Using its own Training Centre and other educational centres in Slovenia and abroad, on average, each employee participated in four different forms of education with a total duration of 33 hours.

In 2003, 421 of our employees took evening classes, 103 of those using certificate programmes of national vocational qualification for workers in pharmaceutical production. A total of 143 employees participated in graduate level (MSc or PhD) study. Studies were completed by 64 employees, 15 of those on graduate level studies.

Inflow of new experts is stimulated by awarding scholarships. In 2003, we awarded 95 scholarships, particulary to pharmacy and chemistry students.

Organisational culture

Within the Organisational Culture project, we paid special attention to challenges we face in leadership and interpersonal relations. In order to lead better and more effectively by motivating the employees, we started with Krka's management school, which enables the employees an in-depth understanding and use of new methods of efficient leadership and employee development.

In order to develop leadership even further, we formed the general competence profile of a Krka manager and a competence profile of a division director. For the development of key and promising leadership personnel, we designed development and educational plans that ensure they will systematically develop both as experts and personalities.

Average number of employees and structure by education

	Krka, d. d., Novo mesto				Krka Group			
	2003		2002		2003		2002	
	Headcount	Str. %	Headcount	Str. %	Headcount	Str. %	Headcount	Str. %
PhD	38	1.1	33	1.0	43	1.0	37	0.9
MSc	106	3.1	94	2.8	124	2.8	109	2.6
University education	948	27.4	820	24.6	1,314	29.7	1,113	26.6
Higher professional education	88	2.5	67	2.0	113	2.6	84	2.0
Vocational college education	157	4.5	164	4.9	216	4.9	223	5.3
Secondary school education	818	23.6	810	24.3	1,044	23.6	1,028	24.5
Qualified workers	1,086	31.4	1,107	33.3	1,270	28.7	1,287	30.7
Unqualified workers	222	6.4	232	7.0	300	6.8	309	7.4
Total (average)	**3,463**	**100.0**	**3,327**	**100.0**	**4,424**	**100.0**	**4,190**	**100.0**
State on 31 December, of those	**3,528**		**3,399**		**4,522**		**4,332**	
- in Slovenia	2,973		2,975		3,525		3,513	
- abroad	555		424		997		819	

SOCIAL RESPONSIBILITY

Krka is well aware of its social responsibility. Therefore, it has been nurturing dialogue with its environment and has been expanding its relationship with the surrounding community. Using sponsorship and donations, it helps the society. As Krka's primary mission is enabling people to live a healthy and high-quality life, it helps people in all parts of life. It directs funds into the local environment and into national level activities.

Our sponsor policy has been designed to sponsor various activities that follow our business policy or the goals we wish to achieve. When deciding on who to sponsor, we do not just sit back and read sponsorship applications which arrive at our address daily. We function proactively by searching for and creating those projects which match our sponsor policy.

As defined by the nature of Krka's activities and the global trends, we tend to direct more money into projects that are in connection with people's health and to selected donor and sponsor projects which confirm Krka's broad social responsibility. Amongst these, sponsoring clubs for youth development and activities take a special place. The sponsor projects are clearly separated from donor projects.

Krka helps on local scale with humanitarian actions, by sponsoring major local and regional actions for cleaner environment, by raising the overall quality of life, by providing funding for the educational system, health institutes and hospitals, by providing funding to develop cultural activity and various cultural projects, by funding sports clubs and sports events and also by helping various societies.

atention

On a national level, we support scientific and research activities, programme and projects on various faculties and institutes and education on graduate level and abroad, in addition to above mentioned projects. We also support various cultural events, sports clubs and national teams. We also occasionally cooperate in individual, predominantly humanitarian projects on key foreign markets through our companies and representative offices.

The amount of funding for donations and sponsorships is allotted each year within the business plan of the company. As in the past years, Krka spent 0.9 percent of its total sales income for sponsorship deals and donations.

The year 2003 was marked by several cultural events (such as the concert of the conductor Zubin Mehta and the renowned Brežice festival) as well as sports events (such as Planica, Krka Basketball Club and achievements of Dolenjska region cyclists). We also allotted a lot of donator funding to hospitals and other health-care institutions. By buying individual machines, we contributed to bringing the technology in the hospital to state-of-the-art status. Two of this year's major actions of this kind were the purchase of 41 machines for early detection of circulatory disturbances of lower extremities, which were donated to local clinics all over Slovenia in April, and our contribution towards the purchase of an X-ray machine for the Novo mesto General Hospital.

to environment!

Financial statements

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1. Summary of relevant accounting policies

Basis for the preparation of financial statements

The financial statements of Krka, d. d., Novo mesto and the consolidated Krka Group financial statements with notes in this report are prepared in accordance with the Slovenian Accounting Standards, published by the Slovenian Institute of Auditors in 2001, and follow the regulations of the Companies Act. Basic accounting assumptions applied are: the accrual basis of accounting, going concern and true and fair presentation, under the circumstances of euro exchange rate changes, and individual prices changes.

Financial statements are prepared in Slovenian tolars, rounded to thousands.

Foreign exchange-rate and translation into local currency

Items of financial statements that are denominated in foreign currencies are translated into tolars, at the effective middle exchange rate of the Bank of Slovenia. Foreign currency translation gains or losses are recognized in the income statement under financial revenues or expenses.

Reporting by business segments and geographical segments (Segment reporting)

The business segments are prescription pharmaceuticals, self-medication products, animal health products, cosmetic products and others, and within Krka Group also health resorts. The criteria for the formation of these segments are the mutual therapeutic characteristics of products, the marketing and advertising characteristics, and the risk level.

The geographical segments 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 conditions, and geographic connection.

The segment reporting of the company includes reporting of net sales which could be directly assigned to the reporting segments.

Accounting policies

The items in the balance sheet, income statement and other statements are recorded and valued in compliance with the provisions of Slovenian Accounting Standards, except for those items that may be, in accordance with the respective standards, accounted for at freely selected methods. The company and the Group have applied the policies that are described hereafter.

Intangible fixed assets

Intangible fixed assets include acquired intellectual property rights and long-term deferred expenses, and other intangible fixed assets.

An intangible fixed asset is initially recognized at cost. The original cost of intangible fixed assets also includes import duties and non-refundable purchase taxes.

Intangible fixed assets are not revalued if the revalued amount is higher than the carrying amount.

Tangible fixed assets (property, plant and equipment)

Tangible fixed assets are valued at their purchase value, less accumulated depreciation, computed on a straight-line basis.

The cost 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 book-keeping in case of asset retirement or disposal, as no economic benefits can be anticipated from such assets. The proceeds from disposal of tangible fixed assets are credited to revaluatory operating revenue, and its carrying value to revaluatory operating expenses.

Subsequent expenditures on an item of tangible fixed assets increases its cost when it increases its future economic benefits in excess of the originally assessed future economic benefits. The subsequent expenditure enabling extension of the useful life of the asset initially reduces the accumulated depreciation.

Repair or maintenance of tangible fixed assets is intended to restore or maintain the future economic benefits, expected on the originally assessed asset performance standard. Repair and maintenance expenditure is recognised as expense when incurred.

Depreciation (amortisation)

The carrying amount of a tangible fixed asset, and an intangible fixed asset, is decreased by depreciation and/or amortisation.

A tangible fixed asset is subject to depreciation on the first day of the month following the date on which the asset was put into intended service.

An intangible fixed asset is subject to amortisation when it is available for use.

The single asset depreciation and/or amortisation is applied. The straight-line method of depreciation and/or amortisation is applied.

Land is not subject to depreciation.

The depreciation and/or amortisation rates are as follows:

	Amortisation / Depreciation rates in %
Intangible fixed assets	20.0
Long-term operating lease	6.0
Buildings	5.0 - 10.0
Computer equipment	50.0
Transport equipment	33.3
Production equipment	24.7
Other equipment	20.0

In 2002 the company reviewed the fair value of relevant assets groups in collaboration with qualified real estate appraisers. The review did not reveal any need for assets impairment, but it identified the need to re-assess useful life estimates for relevant groups of equipment, mostly manufacturing equipment. Therefore, on the grounds of the anticipated useful life and intensity of use, for certain groups of fixed assets, the company applied different rates than those indicated above, namely 25% for computer equipment, 7% to 20% for manufacturing equipment, 5% to 15% for transport equipment, and 5% to 25% for other equipment. The effect of the depreciation rates modification results in lower depreciation charge for 2003 by 451,463 thousand tolar. Given the very large number of items within assets, which are subject to depreciation, the verification and adjustment of depreciation levels for assets, which were activated before 2003, are to be implemented after information technology update that is to be completed at the beginning of 2005.

Because of a totally different nature of activities in company Krka Zdravilišča, d. o. o., Novo mesto, slightly lower amortisation/depreciation rates were used.

Financial investments

All types of investments are initially stated at cost. Long-term and short-term financial investments are stated separately.

Long-term financial investments in subsidiaries and associated companies which are included in the group financial statements are accounted for by using the equity method. The value of investments in subsidiaries increases by the net profit allocated to the controlling company. Simultaneously, the net income increases the revenues from financing of the controlling company. In associates, the value of the investment increases by the value of the net profit forming a specific equity revaluation adjustment.

Long-term financial investments, in the form of long-term loans, increase by related interest and decrease by repaid amounts and by amounts which are transferred to short-term financial investments that fall due in a year, or sooner.

Short-term financial investments into equity and debt securi- ties of other companies or the state, are initially valued at cost.

The company assessed the fair market value only for the investments into shares of quoted companies. The company did not opt for possible revaluation.

The company does not disclose the value of interest for loans given, since it considers this a business secret.

The company uses currency options to hedge foreign exchange risks associated with foreign currency inflows and outflows. A part of the profit or loss from using currency options which is considered successful hedging is recognized as a change in specific equity revaluation adjustment, related to short-term financial investments, while the unsuccessful part is immediately recorded under revaluatory financial revenue, related to short-term financial investments or under revaluatory financial expense related to short-term financial investments.

Receivables

The receivables of all categories are initially recognized at amounts which originate from corresponding documents, assuming they would be collected.

Receivables nominated in foreign currencies are translated into local currency at the middle exchange rate of Bank of Slovenia at the balance sheet date. Foreign currency gains or losses are recorded as financial revenues or financial expenses.

Subsequent increases or decreases of receivables increase operating or financial revenues or expenses. All increases or decreases have to be justified through a corresponding document.

Allowances for receivables include allowances for doubtful and disputable receivables due from domestic and foreign customers and additional allowances for receivables due from domestic and foreign customers according to the maturity structure of receivables.

The criteria for allowances for receivables, according to the maturity date and different risk levels in individual markets, are as follows:

	Maturity of receivables		
	Up to 1/2 a year	From 1/2 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 due from domestic customers, and a 90% adjustment of receivables due from foreign customers are formed in case of doubtful or disputable receivables.

When the write-off of a receivable is justified by a corresponding document, it is charged against such allowances for receivables.

Allowances for bad receivables exclude receivables due from subsidiaries.

On the Krka Group level, the criteria applied for forming allowances for bad receivables were different for certain companies from the ones shown in the table. This is a consequence of an actual risk assessment of certain companies and markets.

Inventories

The inventories of raw materials and materials, as well as supporting and packaging materials, are valued at cost, including all direct cost of purchase. The company uses fixed prices for stating inventories of materials. Purchase deviations for material groups are identified on a monthly basis and they serve as the basis for determining deviations in the usage of materials.

Inventories of work-in-process, and semi-finished and finished goods, are valued at direct production costs. The company uses fixed prices for stating inventories of work-in-process, semi-finished and finished goods. Deviations for inventory groups are identified on a monthly basis, and they serve as the basis for determining deviations in sales.

Items of merchandise are valued at cost with all direct cost of purchase. The company uses fixed prices for stating the inventories of merchandise. Purchase deviations for merchandise groups are identified on a monthly basis, and serve as the basis for determining variances on merchandise.

Inventory allowances are formed for inventories ranked as questionable items, inactive, expired sell-by date, or perishable goods.

Inventories are revalued due to impairment if their book value, including purchase value or cost price, exceeds their market value, which is identified at the end of a business year.

Cash

Cash consists of cash on hand, cash in banks (deposits), and cash in transit. Cash on hand includes banknotes, coins, cheques received, and securities with immediate liquidity. Deposits comprise cash in banks and other financial institutions, which are readily available for payments. Cash in transit denotes cash transferred from the safe deposit box to the account with bank or other financial institution, and which is not recorded as cash in bank on the same day.

Cash in local currency is stated at face value. Foreign currencies are translated into local currency using market on the day of receipt. Foreign currency gains or losses are recorded as financial revenues or financial expenses.

Within the item "Closing balance of cash and cash equivalents" in the cash flow statement, the company includes securities available-for-sale and currency options.

Equity

The total equity consists of called capital, capital reserves, revenue reserves, net profit from previous periods brought forward, equity revaluation adjustments, and the undistributed net profit for the period. Share capital is stated in local currency.

Long-term provisions

In addition to provisions for ecological improvements and provisions for donations received in 2003, which have both been actually used up already, or are, in bookkeeping, decreased by the depreciation amount, the company states provisions for lawsuits related to alleged 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, and short-term and long-term.

An item of short-term and long-term liabilities is initially stated at the amount arising from the relevant documents, provided that its settlement is required by the creditor.

Long-term liabilities are subsequently increased through accrued return (interest, other compensations) which have been agreed with the creditor. Interest from long-term liabilities are financial expenses. Long-term liabilities decrease by paid-off amounts and potential other settlements with the 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 translated to local currency on an accrual basis. Foreign currency gains or losses incurred until the payment date or the balance date are recorded as financial revenues or financial expenses.

Short-term liabilities can subsequently increase or decrease, directly or irrespective of amounts paid, by the amount accorded with the creditor. Subsequent increases in short-term liabilities augment corresponding operating or financial expenses.

The company does not disclose the value of interest for loans given, since it considers this a business secret and since this is also requested by the creditors.

Short-term accrued and deferred items

Deferred costs (expenses) and accrued revenues comprise short-term deferred costs and accrued revenues. Deferred costs comprise amounts incurred but not yet charged off as costs of the company's activity. Accrued revenues are those that are justifiably taken into account while establishing financial results, even if the company has not received payment yet, nor has it invoiced them.

Accrued costs (expenses) and deferred revenues comprise accrued costs and short-term deferred revenues. Accrued expenses comprise expected expenses, related to the account period, which have not yet incurred. Deferred revenues arise when the company has invoiced payments for services but has not yet performed them. Revenues can also be deferred when eligibility to recognize revenues in the profit or loss is doubtful at the moment of sale.

Recognition of revenues

Revenues are recognized if the increase in economic benefits in the accounting period is related to the asset increase or debt decrease, and if this increase can be measured reliably.

Revenues are recognized when no significant uncertainty regarding their amount or collectability exists, if they are not realised at the accrual.

Operating revenues

Revenues from sales of products, merchandise and materials are measured on the basis of the selling prices stated in 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 services resulting in financial revenues, are measured on the basis of the selling prices of completed services, or on the basis of the selling prices of unfinished services, depending on the level of completion.

Revaluatory operating revenues arise at sale of tangible fixed assets and intangible long-term assets, with prior equity revaluation adjustments due to increase in value of assets 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 recognized at the preparation of the statement of accounts, regardless of receipts, if there is no justifiable doubt related to their volume, maturity, and collectability.

Interest is accounted in proportion with the expired period and according to the outstanding principal and the valid interest-rate.

Dividends obtained from subsidiaries are recognized when the respective share in net profit of a subsidiary is accounted for, while dividends from associated companies are taken into account when they are paid.

Revaluatory financial revenues arise at the disposal of long-term and short-term financial investments, with prior equity revaluation adjustment from prior financial investment due to an increase in value of investments taken into account.

Extraordinary revenues

Extraordinary revenues consist of non-standard items. They are recognized at actually realised amounts.

Recognition of expenses

Expenses are recognized if the decrease in economic benefits, in the accounting period, is related to the asset decrease or debt increase, and if this decrease can be measured reliably.

Operating expenses

Operating expenses are recognized when costs are no longer retained in the value of inventories of products and work-in-process, or when merchandise is sold.

Operating expenses, in principle, equal the accrued costs in the accounting period, increased by costs retained in the opening balance of inventories of products and work-in-process and decreased by costs retained in the closing balance of inventories of products and work-in-process. Operating expenses also include cost of goods and materials sold.

Operating expenses from revaluation are recognized when the corresponding revaluation is performed, irrespective of their impact on profit.

Revaluation of cost of depreciation, materials, services and labour increases operating expenses from revaluation.

Operating expenses from revaluation are incurred in connection with the impairment of tangible fixed assets, intangible long-term assets, and operating current assets.

Financial expenses

Financial expenses include expenses incurred in connection with financing and investing activities.

Financial expenses are recognized when accrued, irrespective of related payments.

Financial expenses from revaluation incur in connection with impairment of long-term and short-term investments and long-term and short-term debts.

Extraordinary expenses

Extraordinary expenses consist of non-standard items. They are recognized at actually realised amounts.

Extraordinary expenses also include the profit and loss revaluation adjustments; under financial concept of equity, they maintain purchasing power of equity measured in euros.

Cash flow statement

The cash flow statement is prepared using the indirect method on the basis of balance sheets as of December 31, 2003 and December 31, 2002, the income statement for 2003, and the additional data required for adjustment of inflows and outflows and corresponding breakdown of relevant items.

The revaluation adjustment of economic categories is not stated in the cash flow statement for 2003, since it is not related to receipts and disbursements.

Corporate risk management

Foreign exchange risks

In 2003, the international currency markets saw continued movements of major currencies in relation to the dollar. According to the Bank of Slovenia dollar fell by 13.7 percent versus tolar (2002: a fall of 10.6 percent). At the same time the euro/tolar exchange rate was relatively predictable due to the policy of monetary authorities in Slovenia. The Bank of Slovenia slowed the depreciation of the tolar against the euro to 2.8 percent (2002: 4.0 percent).

The Krka Group invoices most of its sales in dollars and euros. As the business results are reported in tolars, it is vulnerable to eventual unfavourable shifts in both currencies. Due to aforementioned policy of the Central Bank, the euro net long position does not present a major risk to the Group. More important is the net long position in dollars due to the risk of possible larger depreciation of the dollar.

Foreign exchange risks (i.e. mostly the risk of dollar weakness) are managed by the parent company on group level. This is achieved by means of dollar-denominated long-term loans, thus creating future financial obligations in dollars, and through increasing euro denominated sales revenues (by increasing sales in western European markets and by changing the invoicing currency on markets of new European Union members). Foreign currency inflows from sales are therefore becoming more balanced with foreign currency outflows, consequently lowering our net long dollar position. In addition, the company bought put dollar options to hedge the remainder of net long dollar position on group level, providing further relief to the group's bottom line.

The company does not hedge itself against the risks associated with values of long-term financial and capital investments that are denominated in foreign currencies. As these are long-term financial investments, we can expect that investment values changes as a consequence of fluctuations of foreign currency exchange rates, will in the long run equal the changes of real values of investments due to inflation.

Interest rate risks

Long-term financing on group level is centralised on parent company level. The parent company's long-term borrowing in the past was carried out mainly using variable interest rate loans. Current low interest rate environment lowered companies' interest payments. Due to substantial decreases in interest rates on global financial markets and based on expectations regarding future behaviour of interest rates, the parent company hedged part of its long-term financial liabilities in February 2004 by using interest swaps, which have capped companies' financing costs for loans with longer maturities. By using that instrument, the company expanded its portfolio of long-term loans with fixed interest rates. The company will continue taking on additional loans in the future in accordance with prevailing market conditions. It will keep reducing interest rate risk by combining loans with fixed and variable interest rates. Rationales for future buying of interest rate risk hedging instruments will be assessed individually for every new long-term loan with a variable interest rate.

Credit risks

In 2003, the company began developing preventive activities and measures in the field of credit risk management, i.e. the risk of customer insolvency. The company started introducing credit risk analysing system for our major customers in all sales regions of the Group. This so-called Group credit policy will be carried out by both the parent company and its companies abroad.

Property and liability insurance

Insurance allows for financial recovery in case of property and business losses due to destructive natural hazards or other accidents. With the growth of assets, sales scope and product range and by using new technologies, risks and vulnerability of the company are also increasing, while on the other side, the need to insure against minor losses is decreasing. This means that the company continually monitors insurance premiums and losses and takes preventive measures, which enable it to function with optimal insurance costs.

The amount of insurance premium is influenced by active and passive fire, explosion and break in protection measures, quality control systems on all levels, conformity with international ISO standards, retention capacity of the insured party - deductibles, past insurance loss results and other factors. The optimum premium is achieved by continuously monitoring these parameters, while at the same time the insured value must offer maximum possible security in case of catastrophic losses. Asset damages are always associated with business interruption and sales losses as well as with unforeseen costs, and can lead to high indemnification claims through legal proceedings. The company reduces the possible consequences of catastrophic losses by preventive limitation, distribution or risk refusal measures, whereas the consequences of minor damages are borne by either contractual or internal maintenance. The insurance is therefore better and more efficient, while the risk control system is centralised.

The property insurance includes buildings, equipment, machines and inventories. The business interruption consists of labour costs, depreciation, other operating costs and operating income for the period of one year. Property insurance is also used for representative offices abroad.

Compared to property insurance, financial consequences of liability insurance that are awarded by the courts due to indemnity claims for bodily injuries to third parties and their assets, are far more difficult to estimate. Besides, liability insurance conditions have grown more stringent in 2003, making it necessary for us to study both domestic and foreign offers. Liability insurance, especially the one specific to the pharmaceutical industry, is based on international standards, guidelines and in some cases even legislation. The company therefore insures product liability, the costs of product recall, liability for clinical trials, liability for environmental risks and other kinds of liabilities.

The great diversity of insurance policies, general insurance terms and conditions and the problem of ensuring the insurance capacities for foreign-based companies have led the company towards centralising the insurance system on a group level. The centralised insurance system provides cover for any loss according to the standards of parent company and allows for local requirements. A cover insurance company is included in the insurance process. The essential provisions of insurance contracts are negotiated with the cover company while the local company makes the insurance contract and conducts the claim settlement. The insurance premium is therefore set for the whole Group, making it lower, and thus preventing over/underinsurance. This harmonised insurance system between the parent company and companies abroad started functioning in January 2004.

Renewal of the IT system and transfer to international financial reporting standards

According to the requirements for companies quoted on the Stock Exchange, Krka is going to prepare its financial statements in conformity with international financial reporting standards, starting with the year 2005. Preparations for the transfer to IFRS (International Financial Reporting Standards) have been underway both in the controlling company and Slovenian and foreign subsidiaries. At the moment we are primarily getting acquainted with IFRS and their final modifications. The plans of staff training and actions related to the renewal of the IT system are in the phase of preparation, preceding the transfer to IFRS. Krka opted for a renewal of the IT system through the application of the SAP system also on the grounds of the ever sharpening requirements in the field of quality and validations that are particularly specific in the pharmaceutical industry, and on the grounds of the increasing business complexity. The biggest advantage of overall solutions offered by SAP is the integration of business functions that enable transparency and follow-up of the operations, better flow of communication, optimisation of business processes, and consequently, business rationalisation on the level of costs. IT systems have been previously renewed also in subsidiaries.

2. Financial statements of Krka, d. d., Novo mesto

2.1. Auditor's report

Auditor's Report

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

We have audited the accompanying financial statements of KRKA, d. d., Novo mesto, consisting of the balance sheet as of 31 December 2003, the income statement, the cash flow statement, the statement of changes in equity, and the notes to financial statements for the year then ended. We have read the management's report on operations. These financial statements and the notes to financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above give a true and fair view of the financial position of the Company as of 31 December 2003, 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 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

KPMG Slovenija, d.o.o.

Ljubljana, 19 March 2004

The Auditor's Report has been issued on the Financial Statements and the notes thereto in Slovene.

2.2. Financial statements

2.2.1. Balance sheet

in thousand SIT

	Notes	31. 12. 2003	31. 12. 2002
ASSETS		**144,307,300**	**126,636,445**
FIXED ASSETS		**91,977,531**	**80,706,680**
Intangible fixed assets	3.1.1.	2,198,129	962,379
Tangible fixed assets (property, plant and equipment)	3.1.2.	59,322,654	52,199,794
Long-term financial investments	3.1.3.	30,456,748	27,544,507
CURRENT ASSETS		**52,270,570**	**45,884,334**
Inventories	3.1.4.	21,038,789	16,544,703
Operating receivables	3.1.5.	28,931,309	27,397,555
Short-term financial investments	3.1.6.	1,472,022	826,494
Bank balance, cheques and cash on hand	3.1.7.	828,450	1,115,582
DEFERRED COSTS (EXPENSES) AND ACCRUED REVENUES		**59,199**	**45,431**
OFF-BALANCE SHEET ASSETS	3.1.13.	17,864,111	6,762,023
LIABILITIES		**144,307,300**	**126,636,445**
EQUITY	**3.1.8.**	**96,504,036**	**89,051,282**
Called capital		14,170,448	14,170,448
Capital reserves		2,598,736	2,566,886
Revenue reserves		47,820,807	36,817,324
Net profit (or loss) from previous periods		5,014,357	8,555,352
Net profit (or loss) for the period		5,011,206	5,206,627
Equity revaluation adjustments		21,888,482	21,734,645
PROVISIONS	**3.1.9.**	**13,344,329**	**13,930,646**
FINANCIAL AND OPERATING LIABILITIES		**33,052,605**	**22,615,910**
Long-term financial and operating liabilities	3.1.10.	4,509,154	3,673,241
Short-term financial and operating liabilities	3.1.11.	28,543,451	18,942,669
ACCRUED COSTS (EXPENSES) AND DEFERRED REVENUES	**3.1.12.**	**1,406,330**	**1,038,607**
OFF-BALANCE SHEET LIABILITIES	3.1.13.	17,864,111	6,762,023

For the expanded form of the balance sheet, refer to appendix 5.1.

2.2.2. Income statement

in thousand SIT

	Notes	2003	2002
Net sales	3.2.1.	85,387,877	77,664,814
- on domestic market		17,829,803	15,521,057
- on foreign market		67,558,074	62,143,756
Changes in inventories of finished goods and work-in-progress		4,330,415	1,726,264
Capitalized own products		3,839	19,827
Other operating revenues	3.2.2.	303,538	2,567,367
Cost of goods, materials and services	3.2.3.	-42,203,707	-36,636,883
Labour costs	3.2.4.	-22,902,209	-21,456,603
Depreciation and amortisation expenses	3.2.5.	-8,688,127	-8,285,604
- Depreciation and revaluatory operating expenses associated with intangible fixed assets and tangible fixed assets		-7,821,743	-7,360,939
- Revaluatory operating expenses associated with operating current assets		-866,384	-924,665
Other operating expenses	3.2.6.	-1,303,182	-1,120,592
Financial revenue from equity interests	3.2.7.	616,050	809,401
Financial revenue from long-term receivables	3.2.7.	1,952,736	620,649
Financial revenue from short-term receivables	3.2.7.	1,301,347	1,750,056
Financial expenses for long-term and short-term investment write-offs	3.2.8.	-1,896,149	-1,506,648
Interest expenses and financial expenses for other liabilities	3.2.8.	-4,149,384	-3,851,754
NET PROFIT (OR LOSS) FROM ORDINARY ACTIVITIES		**12,753,044**	**12,300,294**
Extraordinary revenue		112,715	151,183
Extraordinary expenses		-14,395	-5,947
PROFIT (OR LOSS) FROM EXTRAORDINARY ACTIVITIES		**98,320**	**145,236**
PROFIT (OR LOSS) BEFORE TAX		**12,851,364**	**12,445,530**
Income tax	3.2.9.	-1,828,952	-2,032,276
NET PROFIT (OR LOSS) FOR THE PERIOD	**3.2.10.**	**11,022,412**	**10,413,254**

For the expanded form of the income statement, refer to appendix 5.2.

2.2.3. Cash flow statement

in thousand SIT

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows from operating activities	**83,873,137**	**77,033,513**
Operating revenues	86,272,374	78,737,791
Extraordinary revenues associated with operations	112,715	151,183
Operating receivables at beginning of period less operating receivables at end of period	-2,498,184	-1,859,721
Deferred costs, deferred expenses and accrued revenues at beginning of period less deferred costs, deferred expenses and accrued revenues at end of period	-13,768	4,260
Outflows from operating activities	**69,945,234**	**63,425,987**
Operating expenses, excluding depreciation (amortisation) and long-term provisions	63,904,972	59,373,287
Extraordinary expenses associated with operations	14,395	5,947
Income tax and other taxes not included in operating expenses	2,490,281	2,032,276
Beginning inventories of period less ending inventories	5,207,438	2,483,068
Operating liabilities at beginning of period less operating liabilities at end of period	-1,304,129	347,901
Accrued costs, accrued expenses and deferred revenues at beginning of period less accrued costs, accrued expenses and deferred revenues at end of period	-367,723	-816,491
Net cash inflows from operating activities	**13,927,903**	**13,607,527**
FLOWS FROM INVESTING ACTIVITIES		
Inflows from investing activities	**396,616**	**2,532,050**
Financial revenues associated with investment activities (excluding revaluation)	339,517	755,570
Offset decrease in short-term financial investments (excluding revaluation)	57,099	1,776,480
Outflows from investing activities	**17,532,892**	**13,213,672**
Offset increase in intangible fixed assets (excluding revaluation adjustment)	1,576,193	463,296
Offset increase in tangible fixed assets (excluding revaluation adjustment and increases of non-cash equity)	12,577,745	9,540,491
Offset increase in long-term financial investments (excluding revaluation adjustment)	3,378,954	3,209,885
Net outflows from investing activities	**-17,136,276**	**-10,681,622**
FLOWS FROM FINANCING ACTIVITIES		
Inflows from financing activities	**9,123,852**	**1,982,402**
Financial revenues associated with financing activities (excluding revaluation)	204,679	96,841
Increase in equity (excluding net profit)	0	7,585
Offset increase in long-term provisions (excluding revaluation adjustment)	131,000	0
Offset increase in long-term financial liabilities (excluding revaluation adjustment)	1,799,840	0
Offset increase in short-term financial liabilities (excluding revaluation adjustment)	6,988,333	1,877,976
Outflows from financing activities	**5,589,366**	**4,997,927**
Financial expenses associated with financing activities (excluding revaluation)	1,842,417	997,966
Offset decrease in long-term provisions (excluding revaluation adjustment)	0	5,281
Offset decrease in long-term financial liabilities (excluding revaluation adjustment)	0	618,995
Decrease in liabilities to owners associated with profit sharing (payments of dividends and other profit participations)	3,746,949	3,375,685
Net inflows (outflows) from financing activities	**3,534,486**	**-3,015,525**
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS **	**1,529,115**	**1,115,582**
Net flow for the financial year	326,113	-89,620
Effect of exchange rate fluctuations on cash and cash equivalents	87,420	-93,651
Opening balance of cash and cash equivalents	1,115,582	1,298,853

* Offset increase in fixed assets in 2003 is reduced by the increase in liabilities for fixed assets to the value of SIT 2,033,229.
** The balance in 2003 also includes cash equivalents: securities and options to the value of SIT 700,665 thousand, the balance at the end of 2002 includes only bank balances, cheques and cash, the value of cash equivalents at the end of 2002 totalled SIT 371,637 thousand.

2.2.4. Statement of changes in equity from 31. 12. 2002 to 31. 12. 2003

in thousand SIT

	Called capital	Capital reserves	Legal reserves	Reserves for own shares	Statutory reserves	Revenue reserves	Retained net profit or loss	Net profit or loss for the period	General equity revaluation adjustment	Specific equity revaluation adjustment	Total equity
Balance at 31. 12. 2002	**14,170,448**	**2,566,886**	**3,592,196**	**4,692,359**	**0**	**28,532,769**	**8,555,352**	**5,206,627**	**21,724,113**	**10,532**	**89,051,282**
Equity inflows	**0**	**9,771**	**0**	**0**	**0**	**0**	**0**	**11,022,412**	**0**	**163,170**	**11,195,353**
Entry of the net profit or loss for the period	0	0	0	0	0	0	0	11,022,412	0	0	11,022,412
Entry of the amount of specific equity revaluation adjustments	0	0	0	0	0	0	0	0	0	163,170	163,170
Other increases in equity components	0	9,771	0	0	0	0	0	0	0	0	9,771
Changes in equity	**0**	**22,079**	**0**	**-22,079**	**1,000,000**	**10,025,563**	**192,270**	**-11,217,833**	**0**	**0**	**0**
Distribution of net profit as an equity component based on a decision of the Management and the Supervisory Board	0	0	0	0	1,000,000	5,011,206	0	-6,011,206	0	0	0
Distribution of net profit to additional reserves based on a resolution of the annual meeting	0	0	0	0	0	0	-5,014,357	0	0	0	0
Other reclassifications of equity components	0	22,079	0	-22,079	0		5,206,627	-5,206,627	0	0	0
Equity outflows	**0**	**0**	**0**	**0**	**0**	**0**	**3,733,265**	**0**	**0**	**9,334**	**3,742,599**
Payments of dividends	0	0	0	0	0	0	3,548,140	0	0	0	3,548,140
Other decrease in equity	0	0	0	0	0	0	185,125	0	0	9,334	194,459
Closing balance for the period	**14,170,448**	**2,598,736**	**3,592,196**	**4,670,280**	**1,000,000**	**38,558,332**	**5,014,357**	**5,011,206**	**21,724,113**	**164,368**	**96,504,036**

2.2.5. Statement of changes in equity from 31. 12. 2001 to 31. 12. 2002

in thousand SIT

	Called capital	Capital reserves	Legal reserves	Reserves for own shares	Revenue reserves	Retained net profit or loss	Net profit or loss for the period	General equity revaluation adjustment	Specific equity revaluation adjustment	Total equity
Balance at 31. 12. 2001	14,170,448	7,001	3,592,196	4,715,127	15,759,680	12,955,943	9,081,284	21,724,113	0	82,005,792
Adjustment in accordance with SAS		2,529,532			2,011,110		-4,540,642			0
Opening balance	**14,170,448**	**2,536,533**	**3,592,196**	**4,715,127**	**17,770,790**	**12,955,943**	**4,540,642**	**21,724,113**	**0**	**82,005,792**
Equity inflows	**0**	**7,585**	**0**	**0**	**0**	**0**	**10,413,254**	**0**	**10,532**	**10,431,371**
Entry of the net profit or loss for the period	0	0	0	0	0	0	10,413,254	0	0	10,413,254
Entry of the amount of specific equity revaluation adjustments	0	0	0	0	0	0	0	0	10,532	10,532
Other increases in equity components	0	7,585	0	0	0	0	0	0	0	7,585
Changes in equity	**0**	**22,768**	**0**	**-22,768**	**13,761,979**	**-4,014,710**	**-9,747,269**	**0**	**0**	**0**
Distribution of net profit an equity component based on a decision of the Management and the Supervisory Board	0	0	0	0	0	4,540,642	-4,540,642	0	0	0
Distribution of net profit to additional reserves based on the resolution of the annual meeting	0	0	0	0	5,206,627	0	-5,206,627	0	0	0
Other reclassifications of equity components	0	22,768	0	-22,768	8,555,352	-8,555,352	0	0	0	0
Equity outflows	**0**	**0**	**0**	**0**	**3,000,000**	**385,881**	**0**	**0**	**0**	**3,385,881**
Payments of dividends	0	0	0	0	3,000,000	209,468	0	0	0	3,209,468
Other decrease in equity	0	0	0	0	0	176,413	0	0	0	176,413
Closing balance for the period	**14,170,448**	**2,566,886**	**3,592,196**	**4,692,359**	**28,532,769**	**8,555,352**	**5,206,627**	**21,724,113**	**10,532**	**89,051,282**

2.2.6. Accumulated profit

in thousand SIT

	2003	2002
Obligatory use of distributable net profit		
Net profit or loss for the period	**11,022,412**	**10,413,254**
- to cover the loss from previous periods	0	0
- into legal reserves	0	0
- into reserves for own shares	0	0
- into statutory reserves	1,000,000	0
Net profit after obligatory use	**10,022,412**	**10,413,254**
- into other revenue reserves - decision of the Management Board and the Supervisory Board	5,011,206	5,206,627
Surplus of net profit	**5,011,206**	**5,206,627**
Identification of accumulated profit		
Surplus of net profit	5,011,206	5,206,627
+ retained net profit from previous years	5,014,357	8,555,352
+ decrease in revenue reserves	4,000,000	0
Accumulated profit	**14,025,563**	**13,761,979**
Appropriation of accumulated profit		
- for dividends		3,548,140
- for other reserves		5,014,357
- to carry forward to the following year		5,014,357
- for other purposes (profit sharing of the Management Board and the Supervisory Board)		185,125

3. Breakdowns and notes to financial statements

3.1. Balance sheet

3.1.1. Intangible fixed assets — 2,198,129 thousand SIT

	31. 12. 2003	31. 12. 2002
Deferred operating expenses	600,150	298,920
Concessions, patents, licences, trademarks, brand names and other rights	1,597,979	663,459
Total	**2,198,129**	**962,379**

In 2003, the company acquired intangible fixed assets in the amount of 1,638,303 thousand SIT, the majority representing licences (469,359 thousand SIT) and deferred operating expenses (425,300 thousand SIT). Information technology update (i.e. implementing of the SAP system, to be finished by the end of 2004) represents the biggest item among intangible fixed assets in the amount of 675,656 thousand SIT.

Movement of intangible fixed assets

in thousand SIT

	Deferred operating expenses	Concessions, patents, licences, trademarks, brand names and other rights			Intangible fixed assets being acquired	Total
		Licences	Long-term operating leases	Investments in foreign fixed assets		
Cost:						
Balance at 31. 12. 2002	**595,637**	**706,057**	**99,004**	**287,666**	**0**	**1,688,364**
- Purchases, capitalisations	425,300	469,359	0	15,327	728,407	1,638,303
- Disposals, write-offs	-85,839	-54,756	0	-7,538	0	-148,133
- Revaluation	0	0	0	0	0	0
Balance at 31. 12. 2003	**935,098**	**1,120,660**	**99,004**	**295,365**	**728,407**	**3,178,534**
Accumulated amortisation:						
Balance at 31. 12. 2002	**296,717**	**228,616**	**46,537**	**154,115**	**0**	**725,985**
- Purchases	0	0	0	0	0	0
- Carry forward from equipment	0	60,856	0	0	0	60,856
- Disposals, write-offs	-85,838	-54,756	5,940	-6,285	0	-140,939
- Amortisation	124,069	165,317	0	45,118	0	334,504
Balance at 31. 12. 2003	**334,948**	**400,033**	**52,477**	**192,948**	**0**	**980,406**
Carrying amount as of 31. 12. 2002	**298,920**	**477,441**	**52,467**	**133,551**	**0**	**962,379**
Carrying amount as of 31. 12. 2003	**600,150**	**720,627**	**46,527**	**102,417**	**728,407**	**2,198,129**

3.1.2. Tangible fixed assets (property, plant and equipment) 59,322,654 thousand SIT

in thousand SIT

	31. 12. 2003	31. 12. 2002
Land	2,745,570	2,756,954
Buildings	33,776,916	30,531,434
Equipment:	15,749,548	11,757,318
- manufacturing plant and equipment	15,384,441	11,403,743
- other plant and equipment	365,107	353,575
Fixed assets being acquired	7,050,620	7,154,088
- advances for acquisitions of tangible fixed assets	371,967	1,308,722
Total	**59,322,654**	**52,199,794**

In 2003 the company earmarked 15,554,890 thousand SIT for tangible fixed assets. The largest investment values were Notol, the plant for solid dosage pharmaceutical forms (3,803,589 thousand SIT); completion of the manufacturing plant in Šentjernej (2,806,637 thousand SIT); reconstruction of the sterile solution plant (2,302,634 thousand SIT); and modernisation of the fermentation plant (754,775 thousand SIT). As for the capitalised fixed assets, one third is represented by buildings and two thirds by equipment.

Movement of tangible fixed assets

in thousand SIT

	Land	Buildings	Equipment	Fixed assets being acquired	Advances	Total
Cost:						
Balance at 31. 12. 2002	**2,756,954**	**50,609,245**	**55,230,882**	**5,845,366**	**1,308,722**	**115,751,167**
- Purchases	0	0	0	15,554,890	-936,755	14,618,135
- Capitalisations	0	4,702,842	8,922,245	-14,721,603	0	-1,096,516
- Inventory surplus	0	0	3,111	0	0	3,111
- Disposals, write-offs	-11,384	-80,216	-1,968,538	0	0	-2,060,138
- Carry forward	0	0	-66,499	0	0	-66,499
- Revaluation	0	0	0	0	0	0
Balance at 31. 12. 2003	**2,745,570**	**55,231,869**	**62,121,201**	**6,678,653**	**371,967**	**127,149,260**
Accumulated depreciation:						
Balance at 31. 12. 2003	**0**	**20,077,809**	**43,473,564**	**0**	**0**	**63,551,373**
- Purchases	0	-1,071,470	-25,046	0	0	-1,096,516
- Write-offs	0	-53,945	-1,949,308	0	0	-2,003,253
- Depreciation	0	2,502,559	4,930,188	0	0	7,432,747
- Inventory surplus	0	0	3,111	0	0	3,111
- Carry forward	0	0	-60,856	0	0	-60,856
Balance at 31. 12. 2003	**0**	**21,454,953**	**46,371,653**	**0**	**0**	**67,826,606**
Carrying amount as of 31. 12. 2002	**2,756,954**	**30,531,434**	**11,757,318**	**5,845,366**	**1,308,722**	**52,199,794**
Carrying amount as of 31. 12. 2003	**2,745,570**	**33,776,916**	**15,749,548**	**6,678,653**	**371,967**	**59,322,654**

3.1.3. Long-term financial investments 30,456,748 thousand SIT

in thousand SIT

	31. 12. 2003	31. 12. 2002
Equity interests in the Group	23,435,550	20,169,524
Long-term receivables associated with investments in Group companies, excluding associates	742,942	1,228,580
Equity interests in associates	120,256	120,924
Other long-term investment participations	628,271	470,537
Other long-term receivables associated with loans and advances	859,449	862,583
Own shares	4,670,280	4,692,359
Total	**30,456,748**	**27,544,507**

Movement of long-term financial investments

in thousand SIT

	Equity interests in the Group	Long-term receivables associated with investments in Group companies, excluding associates	Equity interests in associates	Other long-term investment participations	Other long-term receivables associated with loans and advances	Own share	Total
Gross value							
Balance at 31. 12. 2002	**20,169,524**	**1,479,131**	**120,924**	**477,039**	**870,952**	**4,692,359**	**27,809,929**
Increase	4,241,831	0	45,262	151,468	227,481	0	4,666,042
Decrease	82,192	523,886	51,417	11,120	261,019	22,079	951,713
Revaluation	-893,613	94,682	5,487	18,222	27,611	0	-747,611
Balance at 31. 12. 2003	**23,435,550**	**1,049,927**	**120,256**	**635,609**	**865,025**	**4,670,280**	**30,776,647**
Value adjustment							
Balance at 31. 12. 2002	**0**	**250,551**	**0**	**6,501**	**8,369**	**0**	**265,421**
Increase	0	49,904	0	837	0	0	50,741
Decrease	0	0	0	0	2,793	0	2,793
Revaluation	0	6,530	0	0	0	0	6,530
Balance at 31. 12. 2003	**0**	**306,985**	**0**	**7,338**	**5,576**	**0**	**319,899**
Net value at 31. 12. 2002	**20,169,524**	**1,228,580**	**120,924**	**470,537**	**862,583**	**4,692,359**	**27,544,508**
Net value at 31. 12. 2003	**23,435,550**	**742,942**	**120,256**	**628,271**	**859,449**	**4,670,280**	**30,456,748**

• Equity interests in the Group

in thousand SIT

	Ownership share 31. 12. 2003	Share capital 31. 12. 2003	Shares in subsidiaries 31. 12. 2003	31. 12. 2002
KRKA Zdravilišča, d. o. o., Novo mesto	100%	2,657,097	10,882,224	10,605,214
KRKA FARMA, d. o. o., Zagreb, Croatia	100%	1,525,782	1,594,657	1,582,338
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	191,366	192,341	67,196
KRKA KOZMETIKA DOOEL, Skopje, Macedonia	100%	32,071	27,613	43,070
KRKA Polska, Sp. z o. o., Warsaw, Poland	100%	884,572	3,650,101	4,097,635
KRKA Aussenhandels GmbH, Munich, Germany	100%	60,509	95,554	83,033
OOO KRKA-RUS, Istra, Russian Federation	100%	7,169,327	6,824,588	3,596,740
OOO KRKA FARMA, Sergiev posad, Russian Federation	100%	861	86,146	28,970
KRKA ČR, s. r. o., Prague, Czech Republic	100%	728	727	732
KRKA Pharma Dublin Limited, Dublin, Ireland	100%	237	0	0
KRKA Magyarország, Kft, Budapest, Hungary	99%	11,424	10,075	10,882
HELVETIUS S. R. L., Trieste, Italy	80%	12,213	62,611	44,412
KRKA-FARMA, d. o. o., Novi Sad, Serbia and Montenegro	60%	380	8,913	0
Total			**23,435,550**	**20,169,524**

In 2003 the company increased its capital in the company OOO KRKA-RUS, Istra, the Russian Federation, by 3,682,984 thousand SIT.

Investments in subsidiaries were further increased by ascribed profits of subsidiaries in the amount of 558,847 thousand SIT. They were decreased by ascribed losses of subsidiaries (69,050 thousand SIT) and for paid dividends (13,086 thousand SIT). Ascribed losses in subsidiaries also include impairment of the short-term loan granted to Krka Pharma Dublin in the amount of the recorded negative capital (49,445 thousand SIT). In conformity with the first paragraph of Article 57 of the Companies Act, profits or losses of individual subsidiaries are not disclosed.

Long-term investments in subsidiaries were revalued according to the Bank of Slovenia's middle exchange-rate on 31 December 2003, resulting in financial expenses in the amount of 908,213 thousand SIT (KRKA Polska Sp.zo.o., Warsaw, Poland and OOO KRKA-RUS, Istra, Russian Federation) and financial revenues in the amount of 14,543 thousand SIT.

• Long-term receivables associated with investments in group companies, excluding associates

in thousand SIT

	31. 12. 2003	31. 12. 2002
OOO KRKA-RUS, Istra, Russian Federation	416,607	552,677
KRKA Farma, d. o. o., Zagreb, Croatia	111,709	253,581
KRKA Pharma Dublin Limited, Dublin, Ireland	214,626	422,322
Total	**742,942**	**1,228,580**

The company granted loans to subsidiaries for the continuation of investment projects and for financing current operations. Loans are denominated in euros or dollars and are granted for a period up to five years, mostly with fixed interest rates. Repayments of interest and principal are made quarterly or semi-annually. Last instalments are due in 2005, 2006 and 2008.

A part of loans in the amount of 344,083 thousand SIT, due in 2004, is stated within the short-term investments.

• Equity interests in associates

in thousand SIT

	Capital share	31. 12. 2003	31. 12. 2002
Dawa, Nairobi, Kenya	34.78%	0	0
Finsvet, d. o. o., Novo mesto	24.35%	0	51,417
Golf Grad Otočec, d. o. o.	25.00%	120,256	69,507
Total		**120,256**	**120,924**

For the Dawa, Nairobi, Kenya investment, the company formed an allowance in the total value of the investment. The company sold its share in the company Finsvet, in 2003. Increased investment in Golf Grad Otočec, d. o. o. results from the payment of the second part of the nominal capital, and from the ascribed share in profit from 2003.

• Other long-term receivables associated with loans and advances

in thousand SIT

	31. 12. 2003	31. 12. 2002
Long-term loans granted to employees	859,449	862,583
Total	**859,449**	**862,583**

In conformity with internal acts Krka, d. d., Novo mesto grants long-term loans to its employees. The awarded loans are mainly used for housing, scholarship, and insurance period repayment purposes. Loans are awarded in euros, bearing a fixed 3% annual interest-rate.

• Own shares

Own shares on 31 December 2003 include 162,662 own shares of Krka, d. d., Novo mesto in the total amount of 4,670,280 thousand SIT. Other notes related to own shares are included in the section on capital - reserves for own shares.

3.1.4. Inventories 21,038,789 thousand SIT

in thousand SIT

	31. 12. 2003	31. 12. 2002
Materials	6,191,291	5,562,777
Work-in-progress	4,214,701	3,318,338
Products	9,749,512	6,573,699
Marchandise	883,225	1,089,408
Advances for inventories	60	481
Total	**21,038,789**	**16,544,703**

In 2003 the value of inventories increased by 27%, mainly due to an increase of inventories of products, in light of preparations for increased sales in West Europe, in 2004. In addition, inventory increases were also influenced by wide range of products, numerous markets, increasingly specific demand of individual clients, and 'safety stock' for companies' core products, for reasons of flexibility and reliability in delivery. The biggest share of inventories (46%) is due to products.

3.1.5. Operating receivables 28,931,309 thousand SIT

in thousand SIT

	31. 12. 2003	31. 12. 2002
Long-term operating receivables due by subsidiaries	6,012	5,849
Short-term operating receivables	28,925,298	27,391,706
- short-term operating receivables due by subsidiaries	14,929,069	14,638,164
- short-term trade receivables	12,338,162	11,522,807
- short-term operating receivables due by others	1,658,067	1,230,735
Total	**28,931,309**	**27,397,555**

• Short-term operating receivables due by subsidiaries

in thousand SIT

	31. 12. 2003	31. 12. 2002
KRKA Polska Sp. z o. o., Warsaw, Poland	5,274,133	5,368,921
KRKA FARMA, d. o. o., Zagreb, Croatia	6,733,780	6,418,448
KRKA FARMA DOOEL, Skopje, Macedonia	1,307,060	1,758,706
OOO KRKA FARMA, Sergiev Posad, Russian Federation	813,131	529,691
Receivables from other subsidiaries	800,964	586,255
Total	**14,929,068**	**14,638,164**

• Short-term trade receivables

in thousand SIT

	Gross value	Allowance	Net value 31. 12. 2003	Net value 31. 12. 2002
Short-term trade receivables from domestic customers	1,635,895	-43,867	1,592,028	1,512,875
Short-term trade receivables from foreign customers	11,827,729	-1,081,595	10,746,134	10,009,932
Total	**13,463,624**	**-1,125,462**	**12,338,162**	**11,522,807**

The company forms an allowance for receivables, in conformity with the criteria described in the section on accounting policies, which are based on the risk of individual markets and individual clients, as well as on the actual repayability of accounts receivable in the past. These criteria remain unchanged compared with 2002. In 2003, the company partially eliminated the allowance for receivables (in the amount of 166,004 thousand SIT), which is recorded as revaluatory operating revenue. Additional formation of allowance for receivables in the amount of 23,491 thousand SIT is recorded among revaluatory operating expenses associated with operating current assets.

Short-term trade receivables are unsecured. Their maturity structure at the end of 2003 was as follows: 87% not older than six months, 5% between six months and one year, while 8% was older than one year.

• Short-term operating receivables due by others

Nearly all short-term operating receivables from others in the value of 1,658,067 thousand SIT refer to receivables from the state, mainly for the return of value added-tax.

3.1.6. Short-term financial investments 1,472,022 thousand SIT

Short-term financial investments in the amount of 1,472,022 thousand SIT, include 540,664 thousand SIT of short-term equity interests in subsidiaries, and 931,358 thousand SIT of short-term loans made to others.

• Short-term equity interests in the group, excluding associates

Short-term equity interests in subsidiaries include 344,083 thousand SIT of repayments of long-term loans to subsidiaries, due in 2004; a short-term loan in the amount of 108,000 thousand SIT to Krka Zdravilišča, d. o. o., Novo mesto; and 88,581 thousand SIT of interests from loans granted to subsidiaries.

- Short-term financial investments in others

in thousand SIT

	Gross value	Allowances	Net value 31. 12. 2003	Net value 31. 12. 2002
Other shares, available-for-sale	229,893	-4,199	225,694	313,731
Loans made for a short term	280,199	-48,114	232,085	282,603
Other securities, available-for-sale	470,772	0	470,772	51,745
Interests from short-term loans	2,807	0	2,807	2,681
Total	**983,671**	**-52,313**	**931,358**	**650,760**

With short-term securities, where we registered a lower market value than purchase value at the end of the account period, the company made impairments in the amount of 4,199 thousand SIT. On the other hand the company did not perform an increase in value in the amount of 15,289 thousand SIT in order to reach the fair market value.

The allowance for short-term loans (48,114 thousand SIT) refers to loans granted to companies that are not likely to be repaid (those facing bankruptcies, forced agreements, lawsuits).

Other securities available-for-sale include fair market-value of currency options in the amount of 385,959 thousand SIT that are used for hedging of the cash-flow in the amount of 30 million dollars.

3.1.7. Bank balance, cheques and cash on hand — 828,450 thousand SIT

in thousand SIT

	31. 12. 2003	31. 12. 2002
Cash on hand and received cheques	7,448	10,400
Bank balances	821,002	1,105,182
Total	**828,450**	**1,115,582**

3.1.8. Equity — 96,504,036 thousand SIT

in thousand SIT

	31. 12. 2003	31. 12. 2002
I. Called capital	14,170,448	14,170,448
1. Share capital	14,170,448	14,170,448
II. Capital reserves	2,598,736	2,566,886
III. Revenue reserves	47,820,807	36,817,324
1. Legal reserves	3,592,196	3,592,196
2. Reserves for own shares	4,670,280	4,692,359
3. Statutory reserves	1,000,000	0
4. Other revenue reserves	38,558,332	28,532,769
IV. Net profit (or loss) from previous periods	5,014,357	8,555,352
V. Net profit (or loss) for the period	5,011,206	5,206,627
VI. Equity revaluation adjustments	21,888,482	21,734,645
1. General equity revaluation adjustment	21,724,113	21,724,113
2. Specific equity revaluation adjustment	164,369	10,532
Total	**96,504,036**	**89,051,282**

In 2003 the value of equity increased by the net profit for the period (11,022,412 thousand SIT), by specific equity revaluation adjustment (163,170 thousand SIT) and by the difference between book and actual values of disposed own shares (9,771 thousand SIT).

Movements within equity result from allocation of net profit brought forward and net profit for the period to other revenue reserves, and from the formation of statutory reserves. On disposal of its own shares, a part of reserves for own shares was reallocated to capital reserves.

Movements from equity result from dividend repayments (3,548,140 thousand SIT) and from participation of the Management Board and the Supervisory Board in profit distribution, following the annual meeting resolution (185,125 thousand SIT), of which the participation of non-owners represents 22,326 thousand SIT. In addition, equity was further reduced by 9,334 thousand SIT due to specific equity revaluation adjustment, related to the share in the associated company Finsvet, d. o. o., Novo mesto that the company sold in 2003.

Within short-term liabilities related to profit distribution, 97,672 thousand SIT results from unpaid dividends after previous annual meetings of Krka.

• Share capital

Share capital comprises 3,542,612 common nominal shares with the 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.

Net profit per share amounts to 3,111.38 SIT. The calculation takes into consideration the total number of the company's issued shares.

• Capital reserves

In the process of ownership restructuring, the company created reserves in conformity with the then valid regulations. Their revaluation as of December 31, 2002, amounted to 2,926,164 thousand SIT. A part of these reserves, created from profit, of 396,632 thousand SIT, is stated in the balance sheet among other revenue reserves. The remaining part created on the basis of a special regulation and not from profit, in the amount of 2,529,532 thousand SIT, is stated in the balance sheet among capital reserves. In 2002 the latter increased by 7,585 thousand SIT, and in 2003 by 9,771 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 (22,768 thousand SIT) and in 2003 by 22,079 thousand SIT.

• Revenue reserves

Legal reserves

The company has formed legal reserves in the amount of 10% of share capital. With the revaluation impact the value of reserves amounted to 3,592,196 thousand SIT at the end of the year.

Reserves for own shares

As of December 31, 2003 the company recorded 162,662 own shares. The number of own shares decreased by 769 shares in 2003 which were, in conformity with the annual meeting resolution from July 4, 2003, paid to the Management Board as a participation in profit. The face value of own shares as of December 31, 2003, is 650,648 thousand SIT, which represents 4.6% of share capital. The face value of the disposed shares was 3,076 thousand SIT, while the value at disposal (on September 2, 2003) was 34,503 thousand SIT.

(Re)valuation of own shares on December 31, 2003 was made using the market value of companies' shares on December 29, 2001 (i.e. 28,711.56 SIT). On December 30, 2003, the last trading day of the period, the quotation per share was 52,187,85 SIT, which was higher than the book value of purchased shares by 91.6%. Thus the fair value of own shares amounted to 8,488,980 thousand SIT.

- Other revenue reserves

In conformity with the resolution of the annual meeting on July 4, 2003, a part of the disposable profit from 2002 in the amount of 5,014,357 thousand SIT, was allocated to other revenue reserves.

- Net profit (or loss) from previous periods

Net profit brought forward in the amount of 5,014,357 thousand SIT represents a part of the accumulated profit according to the annual meeting resolution in 2002.

- Net profit (or loss) for the period

In 2003, the company's net profit amounted to 11,022,412 thousand SIT. In conformity with the legal provisions on the obligatory use of the net profit, and in conformity with the statutory provisions, the company formed 1,000,000 thousand SIT of statutory reserves. According to the resolution of the Management and Supervisory Boards half of the net profit was allocated to other revenue reserves, and the other half of 5,011,206 thousand SIT was included under the item of 'net profit for the period'.

- Equity revaluation adjustments

General equity revaluation adjustment derives from previous years (former revaluation adjustment of the share capital).

The specific equity revaluation adjustment, which amounted to 164,368 thousand SIT on December 31, 2003, includes a profit of 157,684 thousand SIT from successful foreign exchange risks hedging with currency options. The remaining 6,685 thousand SIT represents the profit of the associated company Golf Grad Otočec, d. o. o.

3.1.9. Provisions 13,344,329 thousand SIT

in thousand SIT

	Balance at 31. 12. 2002	Formation	Utilisation and reversal	Balance at 31. 12. 2003
Other provisions				
- for lawsuits	13,669,186	0	640,349	13,028,837
- for ecological improvement	261,460	0	59,348	202,112
- from received donations	0	131,000	17,621	113,379
Total	**13,930,646**	**131,000**	**717,318**	**13,344,329**

In 2003, the company formed additional long-term provisions in the amount of 131,000 thousand SIT for two donations received from the Ministry of Economy for the investment in the Šentjernej plant and in the distribution centre in the Russian Federation. Provisions for ecological improvement and from received donations have been almost completely utilized. Their book value is decreasing by the amount of depreciation of fixed assets for ecological improvements, for which the provisions were formed. The depreciation value is stated under the item of utilisation.

Provisions for lawsuits in the amount of 13,028,837 thousand SIT relate to lawsuits concerning alleged patent infringements related to drugs for cardiovascular diseases. In 2003 the company decreased these provisions by the amount of exchange-rate differences related to aforementioned claims expressed in foreign currencies, and by the costs of legal services.

3.1.10. Long-term financial and operating liabilities 4,509,154 thousand SIT

in thousand SIT

	31. 12. 2003	31. 12. 2002
Long-term financial liabilities to banks	4,387,118	3,538,434
Long-term financial and operating liabilities to others	122,036	134,807
Total	**4,509,154**	**3,673,241**

A part of long-term loans due in the next financial year in the amount of 3,234,146 thousand SIT, is stated among short-term liabilities.

• Long-term financial liabilities to banks

in thousand SIT

	31. 12. 2003	31. 12. 2002
Long-term loans from local banks	2,107,426	1,153,408
Long-term loans from foreign banks	2,279,692	2,385,026
Total	**4,387,118**	**3,538,434**

In 2003 the bank facilitated two new long-term loans, both in dollars, one with a domestic bank and the other with a foreign bank. The purpose of both loans is to improve the duration of loan portfolio and financing of accounts payable in foreign countries.

Long-term loans used by company have been provided by two local and four foreign banks, mostly in dollars and euros for periods of up to seven years for financing capital expenditures and operating current assets. Long-term loans are not secured with mortgages nor bank guarantees. The company issued bills of exchange for some loans and they are registered in the off-balance sheet records. All loans fall due in less than five years. Repayments of principal and interest are generally semi-annually.

3.1.11. Short-term financial and operating liabilities 28,543,451 thousand SIT

in thousand SIT

	31. 12. 2003	31. 12. 2002
Short-term financial liabilities to banks	12,570,386	5,155,343
Short-term operating liabilities for advances	217,647	89,781
Short-term operating liabilities to suppliers	5,676,635	4,294,210
Short-term financial and operating liabilities to subsidiaries	3,930,618	3,809,729
Short-term financial and operating liabilities to other entities	6,148,165	5,593,606
Total	**28,543,451**	**18,942,669**

• Short-term liabilities to banks

in thousand SIT

	31. 12. 2003	31. 12. 2002
Short-term loans obtained from local banks	10,024,850	3,996,167
Short-term loans obtained from foreign banks	2,452,297	1,104,596
Interest payable	93,239	54,580
Total	**12,570,386**	**5,155,343**

'Short-term loans obtained from banks' are not secured by mortgages or bank guarantees. The company issued bills of exchange for these loans and they are presented in the off-balance sheet records.

• Short-term trade accounts payable

in thousand SIT

	31. 12. 2003	31. 12. 2002
Short-term trade accounts payable - local suppliers	3,956,841	2,728,523
Short-term trade accounts payable - foreign suppliers	1,719,794	1,565,687
Total	**5,676,635**	**4,294,210**

• Short-term financial and operating liabilities to subsidiaries

in thousand SIT

	31. 12. 2003	31. 12. 2002
HELVETIUS S. R. L., Trieste, Italy	1,668,060	1,369,032
KRKA Aussenhandels GmbH, Munich, Germany	1,848,898	881,127
KRKA FARMA, d. o. o., Zagreb, Croatia	325,805	303,233
KRKA Zdravilišča, d. o. o., Novo mesto, Slovenia	30,328	1,256,337
KRKA Pharma, Dublin, Ireland	57,527	0
Total	**3,930,618**	**3,809,729**

At the end of the year Krka had 3,930,267 thousand SIT short-term operating liabilities to subsidiaries. The rest is represented by financial liabilities.

• Short-term financial and operating liabilities to other entities

in thousant TSIT

	31. 12. 2003	31. 12. 2002
Short-term financial liabilities to other entities	4,039,854	3,229,548
Short-term operating liabilities:	2,108,311	2,364,058
- short-term operating liabilities to the state	407,618	990,771
- short-term operating liabilities to employees	1,587,565	1,280,604
- short-term operating liabilities related to profit allocation	97,673	83,989
- other short-term liabilities	15,455	8,754
Total	**6,148,165**	**5,593,606**

'Short-term financial liabilities to other entities' comprise short-term loans obtained from companies in Slovenia of 3,988,021 thousand SIT and their interest of 51,833 thousand SIT. Loans are raised in tolars for a period of 1-6 months, and some also for an indefinite period, or 'at call'. Loans are not specially secured.

3.1.12. Accrued costs (expenses) and deferred revenues 1,406,330 thousand SIT

in thousand SIT

	Balance at 1. 1. 2003	Utilisation	Formation	Balance at 31. 12. 2003
Short-term deferred revenues - subsidiaries	633,268	169,507	19,012	482,773
Short-term deferred revenues - others	229,362	229,362	482,057	482,057
Short-term accrued expenses - others	175,977	174,076	439,599	441,500
Total	**1,038,607**	**572,945**	**940,668**	**1,406,330**

The item of 'Short-term deferred revenues from subsidiaries' includes contractually based discounts that shall be granted on products sold to subsidiaries in 2003, of 475,442 thousand SIT plus interest from long-term loans paid in advance of 7,331 thousand SIT.

'Short-term deferred revenues from others' include calculated contractually based discounts, granted on products sold to other customers in 2003, of 482,057 thousand SIT.

3.1.13. Off-balance sheet assets / liabilities 17,864,111 SIT

in thousand SIT

	31. 12. 2003	31. 12. 2002
Bills of exchange issued as collateral for loans raised by the parent company	13,023,633	3,243,928
Guarantees of the parent company given to subsidiaries for raised loans	3,422,001	2,430,845
Other guarantees given	100,387	343,927
Others	1,318,090	743,323
Total	**17,864,111**	**6,762,023**

3.2. Income statement

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

Cost by functional groups 70,766,810 thousand SIT

in thousand SIT

	2003	2002
Cost of goods sold	39,662,656	37,317,396
Development costs	7,003,305	6,463,229
Selling costs	16,573,726	14,322,518
General & administrative costs	7,527,123	7,670,275
Total	**70,766,810**	**65,773,418**

The presentation of revenues and expenses by types.

3.2.1. Net sales 85,387,877 thousand SIT

in thousand SIT

	2003	2002
Revenues from sales of products and services in Slovenia	**16,833,939**	**15,499,135**
- to subsidiaries	2,997	1,084
- to others	16,830,942	15,498,051
Revenues from sales of products and services abroad	**64,251,135**	**61,100,774**
- to subsidiaries	16,847,771	16,899,163
- to others	47,403,364	44,201,611
Revenues from sales of goods and materials in Slovenia to others	**995,864**	**21,922**
Revenues from sales of goods and materials abroad	**3,306,939**	**1,042,982**
- to subsidiaries	1,537,645	73,377
- to others	1,769,294	969,605
Total	**85,387,877**	**77,664,814**

• Net sales revenues by bussines segments

in thousand SIT

	2003	2002
Human health products	77,321,562	68,680,186
-prescription pharmaceuticals	67,019,337	57,627,640
- self-medication products	10,302,225	11,052,546
Animal health products	3,889,515	4,758,513
Cosmetic products	3,890,374	3,931,903
Others	286,426	294,213
Total	**85,387,877**	**77,664,814**

• Net sales revenues by geographical segments

in thousand SIT

	2003	2002
Slovenia	17,829,803	15,521,057
South-East Europe	16,194,125	15,592,683
East Europe	22,023,874	21,950,241
Central Europe	15,756,695	14,711,884
West Europe and Overseas Markets	13,583,380	9,888,949
Total	**85,387,877**	**77,664,814**

3.2.2. Other operating revenues 303,538 thousand SIT

in thousand SIT

	2003	2002
Utilisation and reversal of provisions (Note 3.1.9.)	76,968	1,494,141
Other income related revenues	17,043	21,118
Revaluatory operating revenues (Note 3.1.5.)	209,527	1,052,108
Total	**303,538**	**2,567,367**

3.2.3. Cost of goods, materials and services 42,203,707 thousand SIT

in thousand SIT

	2003	2002
Cost of raw materials and consumables	28,046,251	24,499,723
Cost of services	14,157,456	12,137,160
Total	**42,203,707**	**36,636,883**

Cost of goods, materials and services increased by 15 percent in comparison with the previous year. The total of costs in the financial year 2003 is also influenced by the increased value of inventories of finished products, and work-in-progress. Therefore, a part of these costs is included in inventories.

• Cost of raw materials and consumables

in thousand SIT

	2003	2002
Cost of basic materials and goods sold	24,589,177	21,363,255
Cost of energy used	1,595,515	1,468,118
Other material costs	1,861,559	1,668,350
Total	**28,046,251**	**24,499,723**

Other material costs comprise cost of spare parts, maintenance materials, office supplies, expert literature, write-off of low value items and other material cost.

• Cost of services

in thousand SIT

	2003	2002
Cost of trade fairs, advertising and promotion	5,688,111	4,786,937
Cost of intellectual and personal services	2,597,730	2,019,902
Cost of services related to asset maintenance	1,151,516	1,122,626
Transportation costs	1,157,347	1,042,448
Repayments of labour related costs to employees	811,437	744,243
Cost of services by individuals not performing business activities, together with associated costs	683,500	519,951
Cost of other services	2,067,815	1,901,053
Skupaj	**14,157,456**	**12,137,160**

Cost of other services includes the costs of fund transfer services, banking services, insurance premiums, rents, dealers' commissions, and other services.

3.2.4. Labour costs 22,902,209 thousand SIT

in thousand SIT

	2003	2002
Cost of salaries and continued pay	17,005,353	16,174,898
Cost of social security contributions and of tax on salaries and wages	4,319,381	4,081,350
Other labour costs	1,577,475	1,200,355
Total	**22,902,209**	**21,456,603**

Other labour costs in 2003 include vacation bonus, travel allowances, termination pay, tenure awards, and some other repayments to employees.

The contribution for regular pension and disability insurance in 2003 amounted to 4,205,909 thousand SIT (both, employer's and employee's contributions are included), and 638,976 thousand SIT for additional pension insurance.

3.2.5. Depreciation and amortisation expenses 8,688,127 thousand SIT

Depreciation and amortisation expenses include 7,821,743 thousand SIT of depreciation and revaluatory operating expenses associated with tangible fixed assets and 866,384 thousand SIT of revaluatory operating expenses associated with operating current assets.

• Amortisation, depreciation and revaluatory operating expenses

in thousand SIT

	2003	2002
Amortisation of intangible fixed assets	334,504	187,360
Depreciation of tangible fixed assets	7,432,747	7,134,622
Revaluatory operating expenses associated with tangible fixed assets	54,492	38,957
Total	**7,821,743**	**7,360,939**

• Revaluatory operating expenses associated with operating current assets

Allowances for inventories of materials, goods, products and work-in-progress are formed for the inventories ranked as - questionable items, inactive, expired, sell-by date or perishable goods. Revaluatory operating expenses include allowances for inventories in the amount of 713,353 thousand SIT and allowances for receivables in the amount of 43,030 thousand SIT and accrued expenses from guarantee agreement in favour of the associated company SRC Rog Črmošnjice in the amount of 110,000 thousand SIT.

3.2.6. Other operating expenses 1,303,182 thousand SIT

in thousand SIT

	2003	2002
Disbursements for environmental protection	307,185	267,144
Donations, aids, co-financing	444,427	401,179
Scholarships and rewards to pupils and students	33,000	35,943
Taxes independent of labour costs or other cost types	316,140	204,053
Other costs	202,430	212,273
Total	**1,303,182**	**1,120,592**

3.2.7. Financial revenue — 3,870,133 thousand SIT

in thousand SIT

	2003	2002
Financial revenue from equity interests	**616,050**	**809,401**
- in subsidiaries	573,395	757,592
- financial revenue from other equity interests	42,655	51,809
Financial revenue from long-term receivables	**1,952,736**	**620,649**
- from subsidiaries (interests from long-term loans)	104,394	91,891
- financial revenue from other long-term receivables	1,848,342	528,758
Financial revenue from short-term receivables	**1,301,347**	**1,750,056**
- from subsidiaries	587,391	0
- financial revenue from other short-term receivables	713,955	1,750,056
Total	**3,870,133**	**3,180,106**

'Other financial revenue from long-term receivables' in 2003 includes foreign currency gains associated with payments, revaluation of long-term loans - granted and raised in the amount of 1,111,117 thousand SIT, impairment of long-term provisions for foreign currency translation differences in the amount of 627,295 thousand SIT, and other revenue in the amount of 109,930 thousand SIT (interest, sale of equity share).

'Financial revenue from short-term receivables from subsidiaries' includes foreign currency gains associated with payments of 587,212 thousand SIT.

Other more important items within 'Financial revenue from other short-term receivables' include foreign currency gains in the amount of 485,466 thousand SIT and revenue from the sale of equity interests in the amount of 111,295 thousand SIT.

3.2.8. Financial expenses — 6,045,533 thousand SIT

in thousand SIT

	2003	2002
Financial expenses for long-term and short-term investment write-offs:	**1,896,149**	**1,506,648**
- revaluatory financial expenses from investments in subsidiaries	1,696,123	1,444,490
- revaluatory financial expenses from investments in associates	0	42,896
- other revaluatory financial expenses	200,026	19,262
Interest expenses and financial expenses for other liabilities	**4,149,384**	**3,851,754**
- to subsidiaries	1,228,830	61,648
- other interest expenses and financial expenses associated with other liabilities	2,920,554	3,790,106
Total	**6,045,533**	**5,358,402**

'Revaluatory financial expenses from financial investments in subsidiaries' include: losses of these subsidiaries in the amount of 118,552 thousand SIT, covering the loss of OOO KRKA-RUS, Istra, Russian federation, from previous years in the amount of 452,358 thousand SIT and KRKA-FARMA DOOEL, Skopje, Macedonia in the amount of 125,488 thousand SIT; exchange losses arising from revaluation of foreign currency denominated investments due to exchange rate changes in the amount of 999,725 thousand SIT.

The most significant item within 'Interest expenses and financial expenses for other liabilities to subsidiaries' are foreign currency losses in the amount of 1,207,280 thousand SIT, arising from export payments and revaluation of export receivables due from subsidiaries.

'Other interest expenses and financial expenses associated with other liabilities' comprise: foreign currency losses in the amount of 1,967,547 thousand SIT, which arose in connection with receivables and liabilities, both with payments and revaluation on the balance sheet date, mainly related to the depreciation of dollar exchange-rate, and to interest payable from short-term and long-term loans in the amount of 908,753 thousand SIT. The rest relates mainly to brokerage commissions.

3.2.9. Income tax

1,828,952 thousand SIT

The income tax is determined at the 25% tax rate, taking into consideration tax additions and tax allowances to decrease the tax base. The calculated tax results in the effective tax of 14.2% (16.3% in 2002). A rather low effective tax-rate is influenced by the allowance for amounts invested in tangible fixed assets and intangible fixed assets.

3.2.10. Net profit (or loss) for the period

11,022,412 thousand SIT

in thousand SIT

	2003	2002
Profit (or loss) from ordinary activities	12,753,044	12,300,294
Profit (or loss) from extraordinary activities	98,320	145,237
Net profit (or loss) for the period	**11,022,412**	**10,413,254**

In 2003 the company earned an operating profit of 14,928,444 thousand SIT, representing an increase of 3% in comparison with the previous year.

However, financial expenses exceeded financial revenue by 2,175,400 thousand SIT, mainly due to foreign currency losses from payments and revaluation of receivables and long-term financial investments. This influenced the value of net profit, which amounted to 11,022,412 thousand SIT in 2003, which represents a 6% increase compared to 2002.

The equity revaluation, based on appreciation of the euro/tolar exchange rate (2.789%), would result in a net profit decrease of SIT 2,438,337 thousand SIT and equity revaluation based on consumer price index growth (4.6%), would result in a net profit decrease of SIT 4,055,164 thousand SIT.

4. General information and other disclosures

Company profile

Krka, d. d., Novo mesto
Šmarješka cesta 6
8501 Novo mesto
Slovenia

Nature of business and principal business activities

Business operation of the company are mainly centred upon pharmaceutical and chemical activities, which include, besides manufacture and marketing of prescription pharmaceuticals and self-medication products, also the manufacture and marketing of cosmetic products and animal health products.

Data on the controlling company

Krka, pharmaceutical factory, d. d., Novo mesto, Šmarješka cesta 6, 8501 Novo mesto, Slovenia, is the controlling company within the Krka Group. The 2003 Annual Report for Krka, d. d., Novo mesto and consolidated Annual Report for the Krka Group are available at the controlling company's headquarters and on the web site: www.krka.si.

Information about employees

The number of employees at the end of 2003 was 3,528, hereof 2,973 employed in Slovenia and 555 employed in representative offices abroad.

The average number and breakdown of employees by education level

Level of education	Krka, d. d., Novo mesto			
	2003		2002	
	Headcount	Structure %	Headcount	Structure %
PhD	38	1.1	33	1.0
MSc	106	3.1	94	2.8
University education	948	27.4	820	24.6
Higher professional education	88	2.5	67	2.0
Vocational college education	157	4.5	164	4.9
Secondary school education	818	23.6	810	24.3
Qualified workers	1,086	31.4	1,107	33.3
Unqualified workers	222	6.4	232	7.0
Total (average for the period)	**3,463**	**100.0**	**3,327**	**100.0**

Total amount of all receipts that groups of people received in the financial year for performing their functions or duties in conformity with Article 253 of the Companies Act

in thousand SIT

	Total receipts	Hereof net profit participation according to the annual meeting resolution
Groups of people as per the Companies Act		
- members of the Management Board	348,617	122,656
- members of the Supervisory Board:	130,915	39,327
- shareholders representatives	21,718	18,247
- workers representatives	109,197	21,080
- employees with contracts of employment for which the tariff part of the collective agreement is not applicable	2,912,842	0
Total	**3,392,374**	**161,983**

All amounts appear in gross values which do not include employer's contributions. Participation in the profit in accordance with the resolution of the annual meeting is presented in the same way. Together with employer's contributions it amounts to 185,125 thousand SIT.

The receipts of the Management Board and of the members of the Supervisory Board who are representatives of employees comprise of: salaries, fringe benefits, holiday allowance, other potential receipts and profit participation according to the annual meeting resolution, and expense repayments. Receipts of employees employed by contracts for which the tariff part of collective agreement is not applicable, comprise of: salaries, fringe benefits, holiday allowance, other potential receipts (tenure awards). The receipts of members of the Supervisory Board who are representatives of the capital are comprised of: meeting attendance fees, travel costs and profit participation according to the annual meeting resolution.

Data on loans that the company granted to groups of people in conformity with Article 253 of the Companies Act

in thousand SIT

	Loans on 31. 12. 2003	Repayments in 2003
Groups of people as per the Companies Act		
- members of the Management Board	3,579	749
- members of the Supervisory Board of the controlling company and Supervisory Boards of subsidiaries	2,956	324
- employees with contracts of employment for which the tariff part of the collective agreement is not applicable	108,599	17,797
Total	**115,134**	**18,870**

5. Appendix

5.1. Balance sheet - the expanded form based on SAS

in thousand SIT

	31. 12. 2003	31. 12. 2002
ASSETS	**144,307,300**	**126,636,445**
A. Fixed assets	**91,977,531**	**80,706,680**
I. Intangible fixed assets	2,198,129	962,379
1. Deferred operating exspenses	600,150	298,920
3. Concessions, patents, licences, trademarks, brand names and other rights	1,597,979	663,459
II. Tangible fixed assets (property, plant and equipment)	59,322,654	52,199,794
1. Land and buildings	36,522,486	33,288,388
a) Land	2,745,570	2,756,954
b) Buildings	33,776,916	30,531,434
2. Manufacturing plant and equipment	15,384,441	11,403,743
3. Other plant and equipment	365,107	353,575
4. Fixed assets being acquired	7,050,620	7,154,088
a) Advances for acquisition of tangible fixed assets	371,967	1,308,722
b) Tangible fixed assets in the course of construction or manufacturing	6,678,653	5,845,366
III. Long-term financial investments	30,456,748	27,544,507
1. Equity interests in the group	23,435,550	20,169,524
2. Long-term receivables associated with investments in the Group companies, excluding associates	742,942	1,228,580
3. Equity interests in associates	120,256	120,924
5 Other long-term investment participations	628,271	470,538
6. Other long-term receivables associated with loans and advances	859,449	862,583
7. Own shares	4,670,280	4,692,359
B. Current assets	**52,270,570**	**45,884,334**
I. Inventories	21,038,789	16,544,703
1. Materials	6,191,291	5,562,777
2. Work-in-progress	4,214,701	3,318,338
3. Products and merchandise	10,632,737	7,663,107
4. Advances for inventories	60	481
II. Operating receivables	28,931,309	27,397,555
a) Long-term operating receivables	6,012	5,849
2. Long-term operating receivables due by subsidiaries	6,012	5,849
b) Short-term operating receivables	28,925,297	27,391,706
1. Short-term accounts receivables	12,338,162	11,522,807
2. Short-term operating receivables due by subsidiaries	14,929,068	14,638,164
4. Short-term operating receivables due by others	1,658,067	1,230,735
III. Short-term financial investments	1,472,022	826,494
1. Short-term equity interests in the group, excluding associates	540,664	175,734
4. Short-term financial investments in others	931,358	650,760
IV. Bank balance, cheques and cash on hand	828,450	1,115,582
C. Deferred costs (expenses) and accrued revenues	**59,199**	**45,431**
OFF-BALANCE SHEET ASSETS	17,864,111	6,762,023

in thousand SIT

	31. 12. 2003	31. 12. 2002
LIABILITIES	**144,307,300**	**126,636,445**
A. Equity	**96,504,036**	**89,051,282**
I. Called capital	14,170,448	14,170,448
1. Share capital	14,170,448	14,170,448
II. Capital reserves	2,598,736	2,566,886
III. Revenue reserves	47,820,807	36,817,324
1. Legal reserves	3,592,196	3,592,196
2. Reserves for own shares	4,670,279	4,692,359
3. Statutory reserves	1,000,000	0
4. Other revenue reserves	38,558,332	28,532,769
IV. Net profit (or loss) from previous periods	5,014,357	8,555,352
V. Net profit (or loss) for the period	5,011,206	5,206,627
VI. Equity revaluation adjustments	21,888,482	21,734,645
1. General equity revaluation adjustment	21,724,113	21,724,113
2. Specific equity revaluation adjustment	164,369	10,532
B. Provisions	**13,344,329**	**13,930,646**
3. Other provisions	13,344,329	13,930,646
C. Financial and operating liabilities	**33,052,605**	**22,615,910**
a) Long-term financial and operating liabilities	4,509,154	3,673,241
2. Long-term financial liabilities to banks	4,387,118	3,538,434
8. Long-term financial and operating liabilities to others	122,036	134,807
b) Short-term financial and operating liabilities	28,543,451	18,942,669
2. Short-term financial liabilities to banks	12,570,386	5,155,343
3. Short-term operating liabilities from advances	217,647	89,781
4. Short-term accounts payable	5,676,635	4,294,210
6. Short-term financial and operating liabilities (including bills of exchange) to subsidiaries, excluding associates	3,930,618	3,809,729
8. Short-term financial and operating liabilities to others	6,148,165	5,593,606
D. Accrued costs (expenses) and deferred revenues	**1,406,330**	**1,038,607**
OFF-BALANCE SHEET LIABILITIES	17,864,111	6,762,023

5.2. Income statement - the expanded form based on SAS

in thousand SIT

	2003	2002
1. Net sales	85,387,877	77,664,814
a) on domestic market	17,829,803	15,521,057
b) on foreign market	67,558,074	62,143,756
2. Changes in inventories of finished goods and work-in-progress	4,330,415	1,726,264
3. Capitalized own products and services	3,839	19,827
4. Other operating revenue	303,538	2,567,367
5. Cost of goods, materials and services	42,203,707	36,636,883
a) Costs of goods and materials sold and costs of materials used	28,046,251	24,499,723
b) Cost of services	14,157,456	12,137,160
6. Labour costs	22,902,209	21,456,603
a) Cost of wages and salaries	17,005,353	16,174,898
b) Social insurances costs	4,319,381	4,081,350
c) Other labour costs	1,577,475	1,200,355
7. Depreciation and amortisation expenses	8,688,127	8,285,604
a) Depreciation and revaluatory operating expenses associated with intangible fixed assets and tangible fixed assets	7,821,743	7,360,939
b) Revaluatory operating expenses associated with operating current assets	866,384	924,665
8. Other operating expenses	1,303,182	1,120,592
9. Financial revenue from equity interests	616,050	809,401
a) Financial revenue from equity interests in the group, excluding associates	573,395	757,592
c) Financial revenue from other equity interests	42,655	51,809
10. Financial revenue from long-term receivables	1,952,736	620,649
a) Financial revenue from long-term receivables from subsidiaries, excluding associates	104,394	91,891
c) Financial revenue from other long-term receivables	1,848,342	528,757
11. Financial revenue from short-term receivables	1,301,347	1,750,056
c) Other financial revenue from interests and short-term receivables	1,301,347	1,750,056
12. Financial expenses for long-term and short-term investment write-offs	1,896,149	1,506,647
a) Revaluatory financial expenses for investments in subsidiaries, excluding associates	1,696,123	1,444,490
b) Revaluatory financial expenses for investments in associates	0	42,896
c) Other revaluatory financial expenses	200,026	19,262
13. Interest expenses and financial expenses for other liabilities	4,149,384	3,851,754
a) Interest expenses and financial expenses for other liabilities subsidiaries, excluding associates	1,228,830	61,648
c) Other interest expenses and financial expenses associated with other liabilities	2,920,554	3,790,106
15. Net profit (or loss) from ordinary activities	12,753,044	12,300,294
16. Extraordinary revenue	112,715	151,183
17. Extraordinary expenses	14,395	5,947
a) Extraordinary expenses less equity revaluation adjustment	14,395	5,947
18. Profit (or loss) from extraordinary activities	98,320	145,237
19. Net profit (or loss) before tax	12,851,364	12,445,530
20. Income tax	1,828,952	2,032,276
21. Net profit (or loss) for the period	11,022,412	10,413,254

5.3. Ratios

	2003	2002
1. Participation rate of equity: equity / liabilities (in broader sense)	0.669	0.703
2. Participation rate of long-term financing: total equity + provisions + long-term liabilities / liabilities (in broader sense)	0.792	0.842
3. Operating fixed assets rate: fixed operating assets (at net book value) / assets	0.411	0.412
4. Long-term investment rate fixed assets (net book value) + long-term financial investments + long-term operating receivables / assets	0.622	0.630
5. Equity to fixed operating assets ratio: equity / fixed operating assets (at carrying amount)	1.627	1.706
6. Acid test ratio: liquid assets / short-term liabilities	0.081	0.103
7. Quick ratio: total liquid assets + short-term trade receivables / short-term liabilities	1.094	1.549
8. Current ratio: short-term assets / short-term liabilities	1.831	2.422
9. Operating efficiency ratio: operating revenues / operating expenses	1.211	1.220
10. Net return on equity ratio: net profit for financial year / average equity (less net operating result for the year)	0.126	0.130
11. Dividends to share capital ratio: total dividends paid in the financial year / average share capital	0.250	0.226

6. Financial statements of the Krka Group

6.1. Group profile

The Krka Group consists of the parent company Krka, d. d., Novo mesto (hereinafter called "Krka"), thirteen subsidiaries in Slovenia and abroad and three associated companies, of which one is situated abroad.

In 2003 the Group achieved 96,748,740 thousand SIT revenues from sales, of which 24% were in the domestic market and 76% abroad. The majority of Group companies abroad represent a part of the distribution network, through which Krka sells its products. The sales of Krka's products valued at 91,432,154 thousand SIT represent goods 94.5%, while the sales of health resort and tourist services of Krka Zdravilišča (together with Krka - Strunjan company) represent 5,316,586 thousand SIT or 5.5% of sales revenues of the Krka Group.

	in thousand SIT	Growth 2003/2002
Revenues from sales	96,748,740	10%
Net profit	10,562,846	-5%
Asset value	146,349,740	15%
Number of employees	4,522	4%

Krka is the controlling company of the Krka Group, which is comprised of the following subsidiaries and associated companies:

	Ownership share	Share capital	Currency in 000
Subsidiaries in Slovenia:			
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%	17,490,000	PLZ
KRKA Aussenhandels GmbH, Munich, Germany	100%	255,646	EUR
OOO KRKA-RUS, Istra, Russian Federation	100%	1,082,505,665	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 Magyarorsz·g, Kft, Budapest, Hungary	99%	12,600,000	HUF
HELVETIUS S. R. L., Trieste, Italy	80%	51,600	EUR
KRKA-FARMA, d.o.o., Novi Sad, Serbia and Montenegro	60%	111,080	CSD

	Own share
Associated companies in Slovenia:	
Golf Grad Otočec, d. o. o.	25.00%
SRC Rog Črmošnjice, d. o. o.	45.33%
Associated companies abroad:	
Dawa, Nairobi, Kenya	34.78%

The consolidated annual report for the business year that ended on December 31, 2003 is available at the registered office of the controlling company and on the Krka web site www.krka.si.

6.1.1. Organisational bodies of Group companies

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 Videmšek and Stanislav Valant, and of employees' representatives: Sonja Kermc, Mihaela Korent, Miroslav Kramarič, Darinka Kure, Boris Petančič and Božena Šuštar.

In the financial year 2003 subsidiaries were run by the following directors:

Subsidiaries	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	Boris Veselič
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	Katalin Hubay
HELVETIUS S. R. L., Trieste, Italy	Tanja Šega
KRKA-FARMA, d. o. o., Novi Sad, Serbia and Montenegro	Adam Frenc

6.1.2. Number of employees in subsidiaries

Number of employees as at December 31, 2003:

Subsidiaries	2003	2002
KRKA, d. d., Novo mesto	3,528	3,399
KRKA Zdravilišča, d. o. o., Novo mesto*	552	540
KRKA FARMA, d. o. o., Zagreb, Croatia	86	75
KRKA-FARMA DOOEL, Skopje, Macedonia	23	20
KRKA KOZMETIKA DOOEL, Skopje, Macedonia	2	3
KRKA Polska, Sp. z o. o., Warsaw, Poland	263	248
KRKA Aussenhandels GmbH, Munich, Germany	2	2
OOO KRKA-RUS, Istra, Russian Federation	38	22
OOO KRKA FARMA, Sergiev posad, Russian Federation	13	10
KRKA ČR, s. r. o., Prague, Czech Republic	0	0
KRKA Pharma Dublin Limited, Dublin, Ireland	4	3
KRKA Magyarország, Kft, Budapest, Hungary	0	0
HELVETIUS S. R. L., Trieste, Italy	5	6
KRKA-FARMA, d. o. o., Novi Sad, Serbia and Montenegro	6	4
Total	**4,522**	**4,332**

* Including the number of employees of health resort Strunjan (number of employees as at December 31, 2002 = 125, and as at December 31, 2003 = 140)

Average number of employees per level of education in 2003:

Level of education	Total	Structure in %
PhD	43	1.0
MSc	124	2.8
University education	1,314	29.7
Higher professional education	113	2.5
Vocational college education	216	4,9
Secondary school education	1,044	23.6
Qualified workers	1,270	28.7
Unqualified workers	300	6.8
Total	**4,424**	**100**

6.2. Basis for the preparation of consolidated financial statements

Consolidated financial statements for 2003 are prepared in accordance with the fundamental accounting principles and the Slovenian Accounting Standards, except for valuing the valuation of those items, where standards permit a company to choose from different valuation methods.

The basis for the preparation of the financial statements of the Group, including the fundamental accounting principles, foreign exchange rate and the method of translation into the local currency, and reporting by sections, is defined in the chapter Summary of relevant accounting policies for Krka, d. d., Novo mesto.

Accounting policies for the Krka Group

As regards the valuation of items in the financial statements uniform policies are applied for all Group companies, which are stated in the accounting policies of Krka, d. d., Novo mesto. An exception is the statement of accounts for depreciation in the Krka Zdravilišča company, where the specific nature of business activity dictates the use of different depreciation rates, mostly lower than in the rest of the Group companies. Similarly, different criteria for the formation of allowances for receivables are used in Krka Polska company than in the parent company. The difference results from the actual assessment of the Polish market risk-level and individual clients from this market.

Translation of financial statements of group companies

Balance sheets of subsidiaries are translated into SIT at the effective middle exchange rate of the Bank of Slovenia on December 31, 2003, and income statements according to the average exchange rate in 2003.

Foreign currency gains or losses deriving from the translation of the financial statements according to different exchange rates are stated in the consolidated capital adjustment.

Principles applied to consolidation and eliminations

Equity consolidation

Investments of the parent company Krka into subsidiaries are valued according to the equity method and accounted with the proportionate capital of these companies, which belongs to the Krka Group. The investment of Helvetius into Krka Novi Sad and KRKA Magyarország, Kft, Budapest companies is valued according to the investment method and accounted with the proportionate capital of this company, while the difference between the investment and the equity is accounted within equity items.

Minority owners' shares in the capital of subsidiaries are separately stated within capital items. In the same way, minority owners' share in the profit from of the financial year is stated separately.

Elimination of receivables and liabilities

During the consolidation procedures all intra-group receivables and liabilities relating to the companies in the Krka Group, which should be reciprocally brought into line, are eliminated. The main source of differences between receivables and liabilities are exchange rate differences between the local and the transaction currency.

The variance resulting from the difference between the consolidation of receivables and liabilities at the beginning and end of a year is accounted through the consolidated profit and loss account. The negative impact amounts to 34,242 thousand SIT.

Elimination of intermediate profits

Intermediate profit generated from intra-group sales of those products that had not been sold to third parties as at December 31, 2003, is eliminated from the consolidated financial statements.

- **Inventories**

Profit generated from intra-group sales of those materials and products that had been sold within the Krka Group and that are still in stock in individual companies at year-end, is eliminated from the consolidated financial statements. The variance resulting from intermediate profits in inventories at the beginning and end of year is accounted through the consolidated income statement.

After the elimination of intermediate profits, the part of the merchandise that is provided to the foreign commercial companies by the parent company, is allocated to the balance sheet item of finished products. The item of merchandise therefore states only the inventories purchased from the companies outside the Krka Group.

The state of accounts for profits in inventories was 1,892,033 thousand SIT at the beginning of the year, and 2,079,407 thousand SIT at the end of the year.

The consolidated income statement for 2003 is influenced merely by the variance between the intermediate profit in inventories at the beginning and end of the year and amounts to 187,374 thousand SIT.

Since the value of profits in inventories at the end of a year is higher than at the beginning of a year, the variance represents a negative impact on the income statement.

- **Fixed assets**

Profit generated from intra-group sales of tangible fixed assets is eliminated from the consolidated financial statements. The total profit generated from intra-group sales of tangible fixed assets is eliminated in the year of sale, whereas in the following years the depreciation cost that is accounted for with the customer from the higher value, is adjusted. One of the reasons for unrealised profits as regards fixed assets lies also in the capitalisation of interest on buildings in the subsidiary Krka RUS. The total impact related to fixed assets was negative for the net profit and amounted to 18,995 thousand SIT.

Other impacts on the profit

Due to adjustments of original financial statements of subsidiaries, which were prepared in conformity with the regional legislation, to uniform accounting policies of the Krka Group, the year 2003 witnesses a negative impact on the Group's result amounting to 259,418 thousand SIT. The negative impact derives from the adjustments of depreciation of fixed assets and from allowances for trade receivables.

Elimination of revenues and expenses

Revenues and expenses resulting from transactions within the Krka Group are eliminated from the consolidated income statement as stated by individual companies. The consolidated financial statements have been prepared in compliance with the fundamental accounting policies and Slovenian Accounting Standards.

Corporate risk management

Apart from the ways of managing corporate risk applied by the controlling company, and which are described in the chapter on financial statements of the controlling company, the Group or Group companies do not use additional methods of hedging against risks.

6.3. Audited consolidated financial statements for 2003

Financial statements for 2003 have been audited except for the two companies in Hungary and Czech Republic, which are inactive. The majority of Group companies were audited by local subsidiaries of the Auditors, KPMG, Pricewaterhouse Coopers Sp. z o. o. Auditors audited the financial statements of KRKA Polska, Sp. z o. o. company, auditor W. Jürgen von Freyburg Munich audited the financial statements of KRKA Aussenhandels GmbH, Munich, Germany, and Doggett & Co. audited the financial statements of KRKA Pharma Dublin Limited, Dublin, Ireland.

6.3.1. Auditor's report

Auditor's Report

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 2003, 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 2003, 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

KPMG Slovenija, d.o.o.

Ljubljana, 19 March 2004

The Auditor's Report has been issued on the Financial Statements and the notes thereto in Slovene.

6.3.2. Consolidated balance sheet

in thousand SIT

	Notes	31. 12. 2003	31. 12. 2002
ASSETS		**146,349,740**	**127,749,801**
FIXED ASSETS		**94,216,549**	**81,000,088**
Intangible fixed assets	7.1.1.	2,575,488	1,335,635
Tangible fixed assets (property, plant and equipment)	7.1.2.	85,268,878	73,314,362
Long-term financial investments	7.1.3.	6,372,183	6,350,091
CURRENT ASSETS		**51,938,164**	**46,582,015**
Inventories	7.1.4.	22,938,944	18,518,571
Operating receivables	7.1.5.	25,973,585	24,155,082
Short-term financial investments	7.1.6.	1,070,295	947,897
Bank balance, cheques and cash on hand	7.1.7.	1,955,340	2,960,465
DEFERRED COSTS (EXPENSES) AND ACCRUED REVENUES		**195,027**	**167,698**
OFF-BALANCE SHEET ASSETS		18,453,499	7,207,302
LIABILITIES		**146,349,740**	**127,749,801**
EQUITY	**7.1.8.**	**95,622,288**	**88,606,306**
Called capital		14,170,448	14,170,448
Capital reserves		2,598,736	2,566,886
Revenue reserves		47,820,808	36,817,324
Net profit (or loss) from previous periods		2,615,050	5,530,894
Net profit (or loss) for the period		4,511,179	5,831,778
Equity revaluation adjustments		21,925,927	21,734,645
Minority owners' equity		1,980,140	1,954,331
PROVISIONS	**7.1.9.**	**13,512,859**	**14,076,712**
FINANCIAL AND OPERATING LIABILITIES		**36,157,158**	**24,558,050**
Long-term financial and operating liabilities	7.1.10.	5,821,295	4,909,864
Short-term financial and operating liabilities	7.1.11.	30,335,863	19,648,186
ACCRUED COSTS (EXPENSES) AND DEFERRED REVENUES	**7.1.12.**	**1,057,435**	**508,733**
OFF-BALANCE SHEET LIABILITIES	7.1.13.	18,453,499	7,207,302

For the expanded form of the balance sheet, refer to appendix 9.1.

6.3.3. Consolidated income statement

in thousand SIT

	Notes	2003	2002
Net sales	7.2.1.	96,748,740	88,338,464
- on domestic market		23,172,705	20,454,016
- on foreign market		73,576,035	67,884,448
Change in inventories of finished goods and work-in-progress		4,739,305	1,813,417
Capitalized own products		4,656	19,827
Other operating revenues	7.2.2.	708,678	2,987,664
Costs of goods, materials and services	7.2.3.	-48,132,544	-40,805,994
Labour costs	7.2.4.	-27,330,594	-25,301,260
Depreciation and amortisation expenses	7.2.5.	-10,664,822	-10,641,630
- Depreciation and revaluatory operating expenses associated with intangible fixed assets and tangible fixed assets		-9,578,332	-9,169,568
- Revaluatory operating expenses associated with operating current assets		-1,086,490	-1,472,062
Other operating expenses	7.2.6.	-1,633,510	-1,393,461
Financial revenue from equity interests	7.2.7.	57,204	51,809
Financial revenue from long-term receivables	7.2.7.	1,905,103	528,758
Financial revenue from short-term receivables	7.2.7.	1,293,948	2,469,750
Financial expenses for long-term and short-term financial investment write-offs	7.2.8.	-188,376	-62,158
Interest expenses and financial expenses for other liabilities	7.2.8.	-5,199,051	-4,939,125
PROFIT (OR LOSS) FROM ORDINARY ACTIVITIES		**12,308,737**	**13,066,061**
Extraordinary revenues		135,627	188,702
Extraordinary expenses		-45,055	-26,218
PROFIT (OR LOSS) FROM EXTRAORDINARY ACTIVITIES		**90,572**	**162,484**
PROFIT (OR LOSS) BEFORE TAX		**12,399,309**	**13,228,545**
Income tax	7.2.9.	-1,836,463	-2,148,337
NET PROFIT (OR LOSS) FOR THE PERIOD	**7.2.10.**	**10,562,846**	**11,080,208**
Minority owners' share		40,461	41,803
MAJORITY OWNERS' NET PROFIT		**10,522,385**	**11,038,405**

For the expanded form of the income statement, refer to appendix 9.2.

6.3.4. Consolidated cash flow statement

in thousand SIT

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows from operating activities	**95,226,316**	**87,518,229**
Operating revenues	98,020,860	90,285,059
Extraordinary revenues associated with operations	135,627	188,702
Operating receivables at beginning of period less operating receivables at end of period	-2,902,842	-2,902,023
Deferred costs, deferred expenses and accrued revenues at beginning of period less deferred costs, deferred expenses and accrued revenues at end of period	-27,329	-53,509
Outflows from operating activities	**79,930,196**	**71,162,841**
Operating expenses, excluding depreciation (amortisation) and long-term provisions	76,093,226	68,930,377
Extraordinary expenses associated with operations	45,055	26,218
Income tax and other taxes not included in operating expenses	1,836,463	2,148,337
Beginning inventories of period less ending inventories	5,175,716	2,718,325
Operating liabilities (debts) at beginning of period less operating liabilities (debts) at end of period	-2,671,562	-2,610,434
Accrued costs, accrued expenses and deferred revenues at beginning of period less accrued costs, accrued expenses and deferred revenues at end of period	-548,702	-49,982
Net cash inflows from operating activities	**15,296,120**	**16,355,388**
FLOWS FROM INVESTING ACTIVITIES		
Inflows from investing activity	**1,080,334**	**2,853,951**
Financial revenues associated with investment activities (excluding revaluation)	502,067	755,570
Offset decrease in short-term financial investments (excluding revaluation)	578,267	2,098,381
Outflows from investing activity	20,342,437	12,739,137
Offset increase in intangible fixed assets (excluding revaluation adjustment)	1,611,768	539,070
Offset increase in tangible fixed assets (excluding revaluation adjustment and increases of non-cash equity)*	18,695,734	12,049,769
Offset increase in long-term financial investment (excluding revaluation adjustment)	34,935	150,298
Net outflows from investing activity	**-19,262,103**	**-9,885,186**
FLOWS FROM FINANCING ACTIVITIES		
Inflows from financing activities	**8,760,759**	**344,102**
Financial revenues associated with financing activities (excluding revaluation)	204,679	96,841
Increase in equity (excluding of net profit)		7,585
Offset increase in long-term provisions (excluding revaluation adjustment)	176,517	
Offset increase in long-term financial liabilities (excluding revaluation adjustment)	1,877,361	239,676
Offset increase in short-term financial liabilities (excluding revaluation adjustment)	6,502,202	
Outflows from financing activities	**5,186,656**	**5,859,919**
Financial expenses associated with financing activities (excluding revaluation)	1,449,434	997,966
Offset decrease in long-term provisions (excluding revaluation adjustment)		23,485
Offset decrease in long-term financial liabilities (excluding revaluation adjustment)		1,432,914
Decrease in liabilities to owners associated with profit sharing (payments of dividends and other profit participations)	3,737,222	3,405,554
Net inflows (outflows) from financing activity	**3,574,103**	**-5,515,817**
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS**	**2,656,005**	**2,960,465**
Net flow for the financial year	-391,880	954,385
Effect of exchange rate fluctuations on cash and cash equivalents	87,420	-93,651
Opening balance of cash and cash equivalents	2,960,465	2,099,731

* Offset increase in fixed assets in 2003 is reduced by the increase in liabilities for fixed assets of 1,622,172 thousand SIT.
** The balance for 2003 also includes cash equivalents in the form of securities and options of 700,665 thousand SIT. The balance at the end of 2002 only includes cash and cash equivalents. At the end of 2002 cash equivalents amounted to 371,637 thousand SIT.

6.3.5. Consolidated statement of changes in equity for 2003

in thousand SIT

	Called capital	Capital reserves	Legal reserves	Reserves for own shares	Statutory reserves	Revenue reserves	Retained net profit or loss	Net profit or loss for the period	General equity revaluation adjustment	Specific equity revaluation adjustment	Consolidated equity adjustment	Minority interests	Total equity
Balance at 31. 12. 2002	**14,170,448**	**2,566,886**	**3,592,196**	**4,692,359**	**0**	**28,532,769**	**5,530,894**	**5,831,778**	**21,724,113**	**10,532**	**0**	**1,954,331**	**88,606,306**
Equity inflows	**0**	**9,771**	**0**	**0**	**0**	**0**	**0**	**10,522,385**	**0**	**163,170**	**37,446**	**40,461**	**10,773,233**
Entry of the net profit or loss for the period	0	0	0	0	0	0	0	10,522,385	0	0	0	40,461	10,562,846
Entry of the amount of specific equity revaluation adjustments	0	0	0	0	0	0	0	0	0	163,170	0	0	163,170
Other increases in equity components	0	9,771	0	0	0	0	0	0	0	0	37,446	0	47,217
Changes in equity	**0**	**22,079**	**0**	**-22,079**	**1,000,000**	**10,025,563**	**817,421**	**-11,842,984**	**0**	**0**	**0**	**0**	**0**
Distribution of net profit as a equity component based on the decision of the Management and the Supervisory Boards	0	0	0	0	1,000,000	5,011,206	-6,011,206	0	0	0	0	0	0
Distribution of net profit to additional reserves based on a resolution of the annual meeting	0	0	0	0	0	5,014,357	-4,389,206	-625,151	0	0	0	0	0
Other reclassification of equity components	0	22,079	0	-22,079	0	0	5,206,627	-5,206,627	0	0	0	0	0
Equity outflows	**0**	**0**	**0**	**0**	**0**	**0**	**3,733,265**	**0**	**0**	**9,334**	**0**	**14,652**	**3,757,251**
Payments of dividends	0	0	0	0	0	0	3,548,140	0	0	0	0	17,641	3,565,781
Decrease of currency variances for translation	0	0	0	0	0	0	0	0	0	0	0	-2,989	-2,989
Other decrease in equity	0	0	0	0	0	0	185,125	0	0	9,334	0	0	194,459
Closing balance for the period	**14,170,448**	**2,598,736**	**3,592,196**	**4,670,280**	**1,000,000**	**38,558,332**	**2,615,050**	**4,511,179**	**21,724,113**	**164,368**	**37,446**	**1,980,140**	**95,622,288**

6.3.6. Consolidated statement of changes in equity for 2002

in thousand SIT

	Called capital	Capital reserves	Legal reserves	Reserves for own shares	Rrevenue reserves	Retained net profit or loss	Net profit or loss for the period	General equity revaluation adjustment	Specific equity revaluation adjustment	Minority interests	Total equity
Balance at 1.1.2002	**14,170,448**	**2,536,533**	**3,592,196**	**4,715,127**	**17,770,790**	**10,465,852**	**3,979,262**	**21,751,127**	**0**	**1,932,201**	**80,913,536**
Equity inflows	**0**	**7,585**	**0**	**0**	**0**	**0**	**11,038,405**	**0**	**10,532**	**41,803**	**11,098,325**
Entry of the net profit or loss for the period	0	0	0	0	0	0	11,038,405	0	0	41,803	11,080,208
Entry of the amount of specific equity revaluation adjustments	0	0	0	0	0	0	0	0	10,532	0	10,532
Other increases in equity components	0	7,585	0	0	0	0	0	0	0	0	7,585
Changes in equity	**0**	**22,768**	**0**	**-22,768**	**13,761,980**	**-4,549,077**	**-9,185,889**	**-27,014**	**0**	**0**	**0**
Distribution of net profit as an equity component based on the decision of the Management and the Supervisory Boards	0	0	0	0	0	3,979,262	-3,979,262	0	0	0	0
Distribution of net profit to additional reserves based on a resolution of the annual meeting	0	0	0	0	5,206,627	0	-5,206,627	0	0	0	0
Other reclassifications of equity components	0	22,768	0	-22,768	8,555,353	-8,528,339	0	-27,014	0	0	0
Equity outflows	**0**	**0**	**0**	**0**	**3,000,000**	**385,881**	**0**	**0**	**0**	**19,673**	**3,405,554**
Payments of dividends	0	0	0	0	3,000,000	209,468	0	0	0	17,833	3,227,301
Decrease of currency variances for translation	0	0	0	0	0	0	0	0	0	1,840	1,840
Other decrease in equity	0	0	0	0	0	176,413	0	0	0	0	176,413
Closing balance for the period	**14,170,448**	**2,566,886**	**3,592,196**	**4,692,359**	**28,532,770**	**5,530,894**	**5,831,778**	**21,724,113**	**10,532**	**1,954,331**	**88,606,306**

6.3.7. Accumulated profit

Accumulated profit is not identified at the level of the Krka Group, which is why only the distributable net profit of the controlling company is stated hereafter, which is allocated by the annual meeting of the controlling company.

in thousand SIT

	2003	2002
Obligatory use of distributable net profit		
Net profit or loss for the period	**11,022,412**	**10,413,254**
- to cover the loss from previous periods	0	0
- into legal reserves	0	0
- into reserves for own shares	0	0
- into statutory reserves	1,000,000	0
Net profit after obligatory use	**10,022,412**	**10,413,254**
- into other revenue reserves - resolution of the Management Board and the Supervisory Board	5,011,206	5,206,627
Surplus of net profit	**5,011,206**	**5,206,627**
Identification of accumulated profit		
Surplus of net profit	5,011,206	5,206,627
+ retained net profit from previous years	5,014,357	8,555,352
+ decrease in revenue reserves	4,000,000	0
Accumulated profit	**14,025,563**	**13,761,979**

Appropriation of accumulated profit		
- for dividends		3,548,140
- for other reserves		5,014,357
- to carry forward to the following year		5,014,357
- for other purposes (profit sharing of the Management Board and the Supervisory Board)		185,125

7. Breakdowns and notes to consolidated financial statements

7.1. Balance sheet

7.1.1. Intangible fixed assets — 2,575,488 thousand SIT

in thousand SIT

	31. 12. 2003	31. 12. 2002
Deferred operating expenses	861,337	637,782
Concessions, patents, licences, trademarks, brand names and other rights	1,714,151	697,853
Total	**2,575,488**	**1,335,635**

Among the intangible fixed assets of the Krka Group, 85% of the intangible fixed assets belongs to Krka, the majority of which is represented by long-term property rights. Among intangible assets acquired in 2003, the greatest part is represented by the investment of the parent company into a new information technology system of 675,656 thousand SIT.

Movement of intangible fixed assets

in thousand SIT

	Deferred operating expenses	Concessions, patents, licences, trademarks, brand names and other rights			Intangible fixed assets being acquired	Total
		Licences	Long-term operating leases	Investments in foreign fixed assets		
Cost:						
Balance at 31. 12. 2002	**949,368**	**870,194**	**99,004**	**303,415**	**0**	**2,221,981**
- Purchases, capitalisations	391,851	497,175	0	29,010	736,044	1,654,079
- Write-offs	-86,180	-55,317	0	-7,539	0	-149,036
- Revaluation	0	0	0	0	0	0
Balance at 31. 12. 2003	**1,255,038**	**1,312,052**	**99,004**	**324,886**	**736,044**	**3,727,024**
Accumulated amortisation:						
Balance at 31. 12. 2002	**351,033**	**321,820**	**46,537**	**166,955**	**0**	**886,345**
- Amortisation	140,586	183,134	5,940	45,839	0	375,498
- Write-offs	-97,918	6,735	0	-19,126	0	-110,309
Balance at 31. 12. 2003	**393,701**	**511,689**	**52,477**	**193,668**	**0**	**1,151,535**
Carrying amount as of 31. 12. 2002	**598,335**	**548,374**	**52,467**	**136,460**	**0**	**1,335,635**
Carrying amount as of 31. 12. 2003	**861,337**	**800,363**	**46,527**	**131,218**	**736,044**	**2,575,488**

7.1.2. Tangible fixed assets (property, plant and equipment) 85,268,878 thousand SIT

in thousand SIT

	31. 12. 2003	31. 12. 2002
Land	4,820,029	4,502,733
Buildings	52,598,257	45,229,088
Equipment:	20,494,789	15,869,832
- manufacturing plant and equipment	17,582,408	13,893,885
- other plant and equipment	2,912,381	1,975,947
Fixed assets being acquired	7,355,803	7,712,709
- advances for acquisitions of tangible fixed assets	226,870	487,252
Total	**85,268,878**	**73,314,362**

In 2003 the value of investments in tangible fixed assets in the Group amounted to 21,639,126 thousand SIT, of which 15,554,890 thousand SIT was in the controlling company, 6,079,236 thousand SIT in subsidiaries in Slovenia and abroad. The largest investments refer to: the manufacturing and distribution centre in the Russian Federation (3,182,544 thousand SIT), Notol, the plant for solid pharmaceutical dosage forms (3,803,589 thousand SIT), completion of the manufacturing plant in Šentjernej (2,806,637 thousand SIT), investments in health resort capacities (mostly in Dolenjske Toplice) of 2,650,149 thousand SIT, reconstruction of the sterile solution plant (2,302,634 thousand SIT), and modernisation of the fermentation plant (754,775 thousand SIT). As for the activated fixed assets, one third is represented by buildings and two thirds by equipment.

Movement of tangible fixed assets

in thousand SIT

	Land	Buildings	Equipment and low-value assets	Fixed assets being acquired	Advances	Total
Cost:						
Balance at 31. 12. 2002	**4,502,733**	**73,553,693**	**62,941,503**	**7,225,457**	**487,252**	**148,710,638**
- Purchases, capitalisations	352,674	9,693,411	10,611,492	-96,524	-260,382	20,300,671
- Write-offs	-35,378	-154,797	-2,243,082	0	0	-2,433,257
- Transfers	0	0	-18,933	0	0	-18,933
Balance at 31. 12. 2003	**4,820,029**	**83,092,306**	**71,290,920**	**7,128,933**	**226,870**	**166,559,059**
Accumulated depreciation:						
Balance at 31. 12. 2002	**0**	**28,324,605**	**47,071,671**	**0**	**0**	**75,396,277**
- Purchases	0	-951,503	-25,046	0	0	-976,549
- Depreciation	0	3,181,145	5,939,311	0	0	9,120,455
- Write-offs	0	-60,196	-2,189,805	0	0	-2,250,001
Balance at 31. 12. 2003	**0**	**30,494,049**	**50,796,131**	**0**	**0**	**81,290,181**
Carrying amount as of 31. 12. 2002	**4,502,733**	**45,229,088**	**15,869,832**	**7,225,457**	**487,252**	**73,314,362**
Carrying amount as of 31. 12. 2003	**4,820,029**	**52,598,257**	**20,494,789**	**7,128,933**	**226,870**	**85,268,878**

7.1.3. Long-term financial investments 6,372,183 thousand SIT

in thousand SIT

	31. 12. 2003	31. 12. 2002
Equity interests in the Group	321	0
Equity interests in the subsidiaries	120,256	134,312
Other long-term investment participations	684,831	526,857
Other long-term receivables associated with loans and advances	896,495	996,563
Own shares	4,670,280	4,692,359
Total	**6,372,183**	**6,350,091**

• Movement of long-term financial investments

in thousand SIT

	Equity interests in associates	Other long-term investment participations	Other long-term receivables associated with loans and advances	Own shares	Total
GROSS VALUE					
Balance at 31. 12. 2002	**134,312**	**533,358**	**1,004,932**	**4,692,359**	**6,364,961**
Increase	45,262	151,468	228,173	0	424,903
Decrease	64,805	11,120	359,454	22,079	457,458
Revaluation	5,487	18,463	28,741	0	52,691
Balance at 31. 12. 2003	**120,256**	**692,169**	**902,392**	**4,670,280**	**6,385,097**
ALLOWANCE:					
Balance at 31. 12. 2002	**0**	**6,501**	**8,369**	**0**	**14,870**
Increase	0	837	0	0	837
Decrease	0	0	2,793	0	2,793
Balance at 31. 12. 2003	**0**	**7,338**	**5,576**	**0**	**12,914**
Net value 31. 12. 2002	**134,312**	**526,857**	**996,563**	**4,692,359**	**6,350,091**
Net value 31. 12. 2003	**120,256**	**684,831**	**896,816**	**4,670,280**	**6,372,183**

- Shares in associated companies — 120,256 thousand SIT

in thousand SIT

	Proportion in %	Balance at 31. 12. 2003
Associated companies in Slovenia		
Golf Grad Otočec, d. o. o.	25.00	120,256
SRC Rog Črmošnjice, d. o. o.	45.33	0
Associated companies abroad		
Dawa, Nairobi, Kenya	34.78	0
Total		**120,256**

For the investments in SRC Rog Črmošnjice, d. o. o. and Dawa, Nairobi, Kenya an allowance for the entire investment was formed in the previous years.

- Other long-term receivables associated with loans and advances — 896,495 thousand SIT

The main part of other long-term receivables associated with loans and advances is represented by housing loans that Krka d.d. grants to its employees. The loans are granted in euros and bear the interest rate of 3% p.a.

- Own shares — 4,670,280 thousand SIT

Own shares on December 31, 2003, include 162,662 own shares of Krka, d. d., Novo mesto in the total amount of 4,670,280 thousand SIT. Other notes related to own shares are included in the chapter on capital - reserves for own shares.

7.1.4. Inventories — 22,938,944 thousand SIT

in thousand SIT

	31. 12. 2003	31. 12. 2002
Materials	6,338,292	5,694,822
Work-in-progress	4,256,370	3,318,338
Products and merchandise	12,344,222	9,504,930
Advances for inventories	60	481
Total	**22,938,944**	**18,518,571**

In 2003 the value of inventories increased by 24%, mainly on the grounds of an inventory increase in Krka, d. d., Novo mesto, which represents 92% of inventories of the Group. The increase mainly resulted from the preparations for an extended production and sales volume in 2004. In the structure of inventories the biggest part of almost 54% is represented by products and merchandise.

7.1.5. Operating receivables 25,973,585 thousand SIT

in thousand SIT

	31. 12. 2003	31. 12. 2002
Long-term operating receivables due by others	324,287	0
Short-term operating receivables	25,649,298	24,155,082
- due by customers (trade receivables)	22,663,121	20,932,659
- due by associated companies	30,625	0
- due by others	2,948,545	3,222,423
- short-term called capital - unpaid	7,007	0
Total	**25,973,585**	**24,155,082**

- **Short-term trade receivables**

in thousand SIT

	Gross value	Allowance	Net value 31. 12. 2003	Net value 31. 12. 2002
Short-term trade receivables				
- in Slovenia	1,927,153	-80,217	1,846,936	1,801,496
- abroad	22,550,790	-1,734,605	20,816,185	19,131,163
Total	**24,477,943**	**-1,814,822**	**22,663,121**	**20,932,659**

The controlling company forms an allowance for receivables in conformity with the criteria indicated in the chapter about accounting policies and defined, according to the risk of individual markets and customers, as well as the actual re-payability of receivables in the past. In comparison with 2002, the criteria remained unchanged. In 2003, the Group partially eliminated the allowance for receivables, which is recorded as revaluatory operating revenue in the amount of 323,642 thousand SIT, while the additional formation of allowance for receivables in the amount of 212,077 thousand SIT is recorded among revaluatory operating expenses associated with operating current assets.

Short-term trade receivables are unsecured. Their maturity structure, considering the date of invoicing, was at the end of 2003 as follows: 89% not older than six months, 4% between six months and one year, while 7% was older than a year.

- **Short-term operating receivables due by others**

The greater part (86%) of short-term operating receivables due by others is represented by receivables from the state, of which 1,578,006 thousand SIT correspond to receivables from the controlling company and 947,245 thousand SIT to receivables from subsidiaries.

7.1.6. Short-term financial investments 1,070,295 thousand SIT

Short-term financial investments include:

in thousand SIT

	Net value 31. 12. 2003	Net value 31. 12. 2002
Other shares, available-for-sale	273,878	313,731
Loans made for a short term	322,279	533,161
Other securities available-for-sale	471,331	75,521
Interests from short-term loans	2,807	25,484
Total	**1,070,295**	**947,897**

The value of short-term financial investments comprises 931,358 thousand SIT of investments of the controlling company and 138,937 thousand SIT of investments made by subsidiaries (mostly short-term loans given).

With short-term securities, where we registered a lower market value than purchase value at the end of the account period, the controlling company performed an impairment of investments by 4,199 thousand SIT. The company did not perform an increase in value in the amount of 15,289 thousand SIT in order to reach the fair market value.

For loans given to companies with a slight likelihood of re-payability (eg loan-contractors in bankruptcy, forced agreement procedure, lawsuit), the controlling company formed an allowance of 48,114 thousand SIT.

Item ‘Other securities available-for-sale’ includes the fair market value of currency options in the amount of 385,959 thousand SIT; the aforesaid refers to controlling company for cash flow hedging in the amount of 30 million dollars.

7.1.7. Bank balance, cheques and cash on hand 1,955,340 thousand SIT

in thousand SIT

	31. 12. 2003	31. 12. 2002
Cash on hand and received cheques	15,213	17,610
Bank balances	1,940,127	2,942,855
Total	**1,955,340**	**2,960,465**

7.1.8. Equity 95,622,288 thousand SIT

in thousand SIT

	31. 12. 2003	31. 12. 2002
I. Called capital	14,170,448	14,170,448
1. Share capital	14,170,448	14,170,448
II. Capital reserves	2,598,736	2,566,886
III. Revenue reserves	47,820,808	36,817,324
1. Legal reserves	3,592,196	3,592,196
2. Reserves for own shares	4,670,280	4,692,359
3. Statutory reserves	1,000,000	0
4. Other reserves	38,558,332	28,532,769
IV. Net profit (or loss) from previous periods	2,615,050	5,530,894
V. Net profit (or loss) for the period	4,511,179	5,831,778
VI. Equity revaluation adjustments	21,925,927	21,734,645
1. General equity revaluation adjustment	21,724,113	21,724,113
2. Specific equity revaluation adjustment	164,368	10,532
3. Consolidated equity adjustment	37,446	0
VII. Minority owners' equity	1,980,140	1,954,331
Total	**95,622,288**	**88,606,306**

In 2003, the value of equity increased by the net profit, belonging to the majority owner, of 10,522,385 thousand SIT; by the difference between the book value and the actual value of disposed own shares of 9,771 thousand SIT; by the net profit of minority owners of 40,461 thousand SIT; by the amount of the specific equity revaluation adjustment of 163,170 thousand SIT; and by the consolidated equity adjustment of 37,446 thousand SIT.

Internal equity movements result from the allocation of retained net profit, and the net profit for the period to other reserves and statutory reserves. On disposal of own shares, reserves for the repurchase of own shares were proportionately re-allocated to capital reserves.

Movements from equity result from dividend repayment of 3,548,140 thousand SIT, and from the participation of the Management Board and the Supervisory Board in profit distribution, following the annual meeting's resolution, of 185,125 thousand SIT, of which the participation of non-owners represents 22,326 thousand SIT, specific equity revaluation adjustment represents 9,334 thousand SIT, participation repayment of minority owners represents 17,641 thousand SIT, and currency variances for translation represent 2,989 thousand SIT.

Within short-term financial liabilities related to profit distribution, the value of 97,672 thousand SIT is stated as non-repaid dividends after previous annual meetings of Krka.

• Share capital

Share capital comprises 3,542,612 Krka's common nominal 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.

Net profit per share amounts to 2,970.23 SIT. The calculation takes into consideration the total number of the controlling company's issued shares.

• Capital reserves

In the process of ownership restructuring, Krka created reserves in conformity with the then valid regulations. Their revaluation, as of December 31, 2002, amounted to 2,926,164 thousand SIT. A part of these reserves, created from profit, of 396,632 thousand SIT, is stated in the balance sheet within '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 within 'capital reserves'. In 2002 the latter increased by 7,585 thousand SIT and in 2003 by 9,771 thousand SIT, which is the difference between the book-value of own shares and their value on disposal. In 2002 capital reserves further increased, by the value of disposed own shares, of 22,768 thousand SIT, and in 2003 by 22,079 thousand SIT.

• Revenue reserves

Legal reserves

Legal reserves in the amount of 10% of the company's share capital represent in their entirety the legal reserves of the parent company. With the revaluation impact the value of reserves amounted to 3,592,196 thousand SIT at the end of the year.

Reserves for own shares

As of December 31, 2003 the controlling company recorded 162,662 of own shares. In 2003 the number of own shares decreased by 769, which were, in conformity with the general annual meeting's resolution of July 4, 2003, paid to the Management Board as a participation in profit. The face value of the company's own shares, as of December 31, 2003, is 650,648 thousand SIT, which represents 4.6% of share capital. The face value of the disposed shares was 3,076 thousand SIT, while the value at disposal (on September 2, 2003) was 34,503 thousand SIT.

(Re)valuation of own shares on December 31, 2003, was made using the market value of December 29, 2001, which was 28,711.56 SIT. On December 30, 2003, the last trading day, the quotation per share was 52,187.85 SIT, which was higher than the book-value of purchased shares by 91.6%. Thus the fair value of own shares amounted to 8,488,980 thousand SIT.

Other revenue reserves

In conformity with the resolution of the annual meeting on July 4, 2003, a part of the disposable profit from 2002, of 5,014,357 thousand SIT, was allocated to other revenue reserves.

• Net profit (or loss) from previous periods

Net profit (or loss) from previous periods of 2,615,050 thousand SIT comprises net profits and losses of all Group companies.

- **Net profit (or loss) for the period**

In 2003, the Krka Group earned a net profit of 10,522,385 thousand SIT, of which 5,011,206 thousand SIT was allocated to other revenue reserves, 1,000,000 thousand SIT to statutory reserves, while 4,511,179 thousand SIT was included in the item 'Net profit for the period'.

- **Equity revaluation adjustments**

General equity revaluation adjustment derives from previous years (former revaluation adjustment of the share capital).

The specific equity revaluation adjustment, which amounted to 164,368 thousand SIT on December 31, 2003, includes a net profit of 157,684 thousand SIT, which is defined as successful foreign exchange risks hedging with currency options. The remaining 6,685 thousand SIT represents the profit of the associated company Golf Grad Otočec, d. o. o..

- **Minority owners' equity**

The greater part (1,964,820 thousand SIT) is represented by the equity of the minority owners of KRKA - Zdravilišče Strunjan, d. o. o. in which the Group company Krka Zdravilišča, d. o. o., Novo mesto has a 51% ownership.

7.1.9. Provisions 13,512,859 thousand SIT

in thousand SIT

	Balance at 31. 12. 2002	Formation	Utilisation and reversal	Balance at 31. 12. 2003
Other provisions				
- for lawsuits	13,669,186	4,497	643,899	13,029,784
- for ecological improvement	261,460	0	59,348	202,112
- from received donations	0	259,713	24,057	235,656
- others	146,066	10,993	111,752	45,307
Total	**14,076,712**	**275,203**	**839,056**	**13,512,859**

The majority of provisions belong to the parent company, mainly for lawsuits. These are 13,028,837 thousand SIT for lawsuits from alleged patent infringements connected with drugs for cardiovascular diseases. In 2003 the controlling company impaired provisions for foreign currency translation gains or losses related to claims in foreign currencies, and utilised some of the provisions for lawyer's services.

In 2003 the Group additionally created 259,713 thousand SIT of long-term provisions from donations received for the investments in the Šentjernej plant, the distribution centre in Russian Federation, and the construction of the wellness centre in Dolenjske Toplice. Provisions for ecological improvement and from received donations are already utilised but the accounts decrease by the depreciation of fixed assets, for which provisions were created. The depreciation value is stated under the item of utilisation.

7.1.10. Long-term financial and operating liabilities 5,821,295 thousand SIT

in thousand SIT

	31. 12. 2003	31. 12. 2002
Long-term financial liabilities to banks	5,699,259	4,775,057
- long-term loans from Slovenian banks	2,733,114	1,153,408
- long-term loans from foreign banks	2,966,145	3,621,649
Long-term financial and operating liabilities to others	122,036	134,807
Total	**5,821,295**	**4,909,864**

• Long-term financial liabilities to banks

Long-term loans have been provided by two domestic and three foreign banks, mostly in dollars and euros, and for a period of up to seven years for financing capital expenditures and operating current assets. Long-term loans provided by banks are not secured with mortgages nor bank guarantees. The company issued bills of exchange for some loans, registered in the off-balance sheet records. All loans fall due in less than five years. Repayment of principal and interest is generally semi-annually.

In 2003 the company raised two long-term loans, both in dollars, one with a domestic bank and the other with a foreign bank. The purpose of the raised loans is to improve the structure of loan duration and foreign liability payment.

7.1.11. Short-term financial and operating liabilities 30,335,863 thousand SIT

in thousand SIT

	31. 12. 2003	31. 12. 2002
Short-term financial liabilities to banks	13,433,026	5,809,585
Short-term operating liabilities for advances	243,439	122,199
Short-term operating liabilities to suppliers	9,872,493	7,455,782
Short-term financial and operating liabilities to other entities	6,786,905	6,260,620
Total	**30,335,863**	**19,648,186**

Short-term loans obtained from banks are not secured with a mortgage or a bank guarantee. The parent company issued bills of exchange for the raised loans, registered in the off-balance sheet records.

The loans raised are for 1-6 months, an indefinite period, or as money at call.

Among ‘short-term financial and operating liabilities to other entities’, 90% is represented by liabilities of the controlling company, of which short-term loans obtained from companies in Slovenia represent 3,988,021 thousand SIT, liabilities to employees represent 1,587,565 thousand SIT, and liabilities to the state represent 407,618 thousand SIT.

7.1.12. Accrued costs (expenses) and deferred revenues — 1,057,435 thousand SIT

in thousand SIT

	Balance at 31. 12. 2003	Balance at 31. 12. 2002
Short-term deferred revenues - others	501.745	310.201
Short-term accrued expenses - others	555.690	198.532
Total	**1.057.435**	**508.733**

7.1.13. Off-balance sheet assets / liabilities — 18,453,499 thousand SIT

in thousand SIT

	31. 12. 2003	31. 12. 2002
Bills of exchange issued as collateral for loans raised by the parent company	13,121,478	3,445,507
Guarantees of the parent company given to Group subsidiaries for raised loans	3,422,001	2,530,942
Other guarantees given	464,312	343,927
Other	1,445,708	886,926
Total	**18,453,499**	**7,207,302**

Comment: The data for 2002 was subject to a correction; namely, a transfer of 201,579 thousand SIT from the item 'Others' to the item 'Bills of exchange issued as collateral for loans raised by the parent company' was made.

7.2. Consolidated income statement

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

Cost by functional groups — 83,022,166 thousand SIT

in thousand SIT

	2003	2002
Cost of goods sold	44,005,862	40,999,460
Development costs	7,327,919	6,775,783
Selling costs	22,071,244	20,210,428
General & administrative costs	9,617,140	8,343,257
Total	**83,022,166**	**76,328,928**

7.2.1. Net sales 96,748,740 thousand SIT

According to the structure, revenues from sales on the domestic market represent 24%, and revenues from sales on the foreign markets represent 76%.

• Net sales revenues by business segments

in thousand SIT

	2003	2002
Human health products	82,397,323	74,144,632
- prescription pharmaceuticals	71,529,741	62,351,699
- self-medication products	10,867,582	11,792,933
Animal health products	4,081,782	4,850,790
Cosmetic products	4,111,348	4,069,752
Health resorts	5,316,586	4,932,959
Others	841,701	340,322
Total	**96,748,740**	**88,338,464**

• Net sales revenues by geographical segments

in thousand SIT

	2003	2002
Slovenia	23,172,705	20,454,016
South-East Europe	18,859,152	17,404,852
East Europe	22,290,838	22,041,828
Central Europe	18,312,230	18,479,172
West Europe and Overseas Markets	14,113,815	9,958,597
Total	**96,748,740**	**88,338,464**

7.2.2. Other operating revenues 708,678 thousand SIT

in thousand SIT

	2003	2002
Utilisation and elimination of provisions (Note 7.1.9.)	113,075	1,516,641
Other income related revenues	151,636	122,024
Revaluatory operating revenues (Note 7.1.5.)	443,966	1,348,998
Total	**708,678**	**2,987,664**

7.2.3. Cost of goods, materials and services 48,132,544 thousand SIT

in thousand SIT

	2003	2002
Cost of raw materials and consumables	30,195,748	25,265,363
Cost of services	17,936,796	15,540,631
Total	**48,132,544**	**40,805,994**

Cost of goods, materials and services increased by 18% in comparison with the previous year. The total of costs in the financial year 2003 is also influenced by the increase in the value of inventories of finished products and work-in-progress. Therefore, a part of these costs is included in inventories.

• Cost of raw materials and consumables

in thousand SIT

	2003	2002
Cost of basic materials and goods sold	25,891,275	21,738,450
Cost of energy used	1,993,924	1,795,093
Other material costs	2,310,548	1,731,820
Total	**30,195,748**	**25,265,363**

Other material costs comprise costs of spare parts and maintenance materials of 677,331 thousand SIT, office supplies and expert literature of 460,626 thousand SIT, and other material costs (analysis materials, advertising materials, etc.) of 1,172,591 thousand SIT.

• Cost of services

in thousand SIT

	2003	2002
Cost of trade fairs, advertising and promotion	6,844,490	5,677,113
Cost of intellectual and personal services	3,240,308	2,192,756
Cost of services related to asset maintenance	1,629,603	1,601,011
Delivery costs	1,249,098	1,115,978
Repayments of labour related costs to employees	990,147	894,577
Cost of services by individuals not performing business activities, together with associated costs	1,075,719	838,311
Cost of other services	2,907,432	3,220,886
Total	**17,936,796**	**15,540,631**

7.2.4. Labour costs — 27,330,594 thousand SIT

in thousand SIT

	2003	2002
Cost of salaries and continued pay	20,368,703	18,865,164
Cost of social security contributions and of tax on salaries and wages	5,117,426	4,767,410
Other labour costs	1,844,465	1,668,686
Total	**27,330,594**	**25,301,260**

In the labour costs, 22,902,209 thousand SIT, or 84%, are the costs of the controlling company, and 4,428,385 thousand SIT, or 16%, are the cost of subsidiaries.

Other labour costs include holiday allowances, transport allowances, commissions, tenure awards and other repayments to employees.

7.2.5. Depreciation and amortisation expenses — 10,664,822 thousand SIT

• Depreciation

in thousand SIT

	2003	2002
Amortisation of intangible fixed assets	375,498	318,947
Depreciation of tangible fixed assets	9,120,457	8,799,285
Revaluatory operating expenses associated with tangible fixed assets	82,377	51,336
Total	**9,578,332**	**9,169,568**

Depreciation rates were partly modified in the year 2003, especially for the production equipment. The effect of the changed rates is a lower depreciation cost of the Group by 471,412 thousand SIT.

• Revaluatory operating expenses associated with operating current assets

in thousand SIT

	2003	2002
Allowances for inventories	744,874	939,634
Allowances for receivables	231,616	532,428
Others	110,000	0
Total	**1,086,490**	**1,472,062**

Allowances for inventories of materials, goods, products and work-in-progress are formed for the inventories ranked as questionable items, inactive, expired sell-by date, or perishable goods. The item ‘Others’ represents accrued expenses from guarantee agreement in favour of the associated company SRC Rog Črmošnjice.

7.2.6. Other operating expenses 1,633,510 thousand SIT

in thousand SIT

	2003	2002
Disbursements for environmental protection	314,228	267,144
Donations, aids, co-financing	472,475	436,762
Scholarships and rewards to pupils and students	35,284	35,943
Taxes independent of labour costs or other cost types	477,919	341,317
Other costs	333,604	312,295
Total	**1,633,510**	**1,393,461**

7.2.7. Financial revenue 3,256,255 thousand SIT

in thousand SIT

	2003	2002
Financial revenue from equity interests	57,204	51,809
Financial revenue from long-term receivables	1,905,103	528,758
Financial revenue from short-term receivables	1,293,948	2,469,750
Total	**3,256,255**	**3,050,317**

Financial revenues of the Group from long-term receivables in 2003 cover mainly the revenues of the controlling company, including foreign currency gains with payments and revaluation of long-term loans given and raised to the value of 1,111,117 thousand SIT, and impairment of long-term provisions due to occurred foreign currency gains to the value of 627,295 thousand SIT.

Financial revenues of the Krka Group from short-term receivables, which contain mainly foreign currency gains, have decreased by almost a half compared with 2002. The fall resulted from the unfavourable fluctuation of the dollar.

7.2.8. Financial expenses 5,387,427 thousand SIT

in thousand SIT

	2003	2002
Revaluatory financial expenses for long-term and short-term financial investments write-offs, hereof:	**188,376**	**62,158**
- revaluatory financial expenses from financial investments in associated companies	13,388	42,896
- other revaluatory financial expenses	174,988	19,262
Interest expenses and financial expenses for other liabilities	**5,199,051**	**4,939,126**
Total	**5,387,427**	**5,001,283**

Financial expenses for interest and other liabilities contain 4,351,135 thousand SIT of foreign currency losses, which were incurred during payments and revaluation of receivables and liabilities in Group companies. The rest refers mostly to interest of the controlling company for short-term and long-term loans raised.

7.2.9. Income tax 1,863,463 thousand SIT

Besides the paid and accounted tax following the legislation of countries, in which the Group companies appear, the tax on profit of the Krka Group comprises also of the impact of deferred taxes for the adjustment of financial statements of Group companies following the local legislation and accounting policies of the Group.

7.2.10. Net profit (or loss) for the period 10,562,846 thousand SIT

in thousand SIT

	2003	2002
Profit (or loss) from ordinary activities	12,308,737	15,017,027
Profit (or loss) from extraordinary activities	90,572	162,484
Net profit (or loss) for the period	10,562,846	11,080,208

Financial expenses exceeded financial revenues by 2,131,172 thousand SIT mainly due to foreign currency losses arising from payments, revaluation of receivables and long-term financial investments, which influenced the value of net profit earned, which amounted to 10,562,846 thousand SIT in 2003. The calculation of the capital in accordance with the growth of euro (2.789%) means 2,425,770 thousand SIT of negative impact on the net profit of the Group, while the calculation with the consumer price index (4.6%) means an impact of 4,034,512 thousand SIT.

8. General information and other disclosures

Data on the controlling company

Krka, pharmaceutical company, d. d., Novo mesto, Šmarješka cesta 6, 8501 Novo mesto, Slovenia, is the controlling company in the Krka Group. The annual report of Krka, d. d., Novo mesto and the consolidated report of the Krka Group are available at the company's headquarters and on the web site: www.krka.si.

Nature of business and principal business activities

Business operations of the Krka Group are mainly centred upon pharmaceutical and chemical activities which, in addition to the production and sale of prescription pharmaceuticals and self-medication products, also include the production and sale of animal health products, cosmetic products, health-resort services and hotel trade.

Information about employees

The number of employees in the Krka Group at the end of business year 2003 was 4,522; 3,525 of those in Slovenia and 997 in companies and representative offices abroad.

The average number and breakdown of Krka Group employees by education level

Level of education	Krka Group 2003 Headcount	Krka Group 2003 Structure %	Krka Group 2002 Headcount	Krka Group 2002 Structure %
PhD	43	1.0	37	0.9
MSc	124	2.8	109	2.6
University education	1,314	29.7	1,113	26.6
Higher professional education	113	2.6	84	2.0
Vocational college education	216	4.9	223	5.3
Secondary school education	1,044	23.6	1,028	24.5
Qualified workers	1,270	28.7	1,287	30.7
Unqualified workers	300	6.8	309	7.4
Total (average for the period)	**4,424**	**100.0**	**4,190**	**100.0**

Total amount of all receipts that groups of people received in the financial year for performing their functions or duties in conformity with Article 253 of the Companies Act and disclosure of receipts and net profit participation of the Management Board and other bodies, respectively

in thousand SIT

Groups of people as per the Companies Act	Total receipts	Hereof net profit participation according to the resolution of the annual meeting
- members of the Management Board	526,028	122,656
- members of the Supervisory Board of the parent company and Supervisory Boards of subsidiaries	186,813	39,327
- employees with contracts of employment for which the tariff part of the collective agreement is not applicable	3,295,646	
Skupaj	**4,008,487**	**161,983**

All amounts appear in gross values.

The receipts of the Management Board and of members of the Supervisory Board who are representatives of employees comprise: salaries, fringe benefits, holiday allowance, other potential receipts and profit participation according to the resolution of the annual meeting, and refund of expenses. Receipts of employees employed by contracts for which the tariff part of collective agreement is not applicable, comprise: salaries, fringe benefits, holiday allowance, other potential receipts (tenure awards etc.). The receipts of members of the Supervisory Board, who are representatives of the capital is comprised of: meeting attendance fees, travel costs and profit participation according to the resolution of the annual meeting resolution.

The receipts of the members of Supervisory Boards of subsidiaries, who are simultaneously members of the Management Board of the parent company or are employed with contracts for which the tariff part of the collective agreement does not apply, only include receipts associated with performing their function within Supervisory Boards.

Data on loans that the company granted to groups of people in conformity with Article 253 of the Companies Act

in thousand SIT

Groups of people according to the Companies Act	Down payments and loans on 31. 12. 2003	Repayments in 2003
- members of the Management Board	6,806	1,141
- members of the Supervisory Board of the parent company and Supervisory Boards of subsidiaries	2,956	324
- employees with contracts of employment for which the tariff part of the collective agreement is not applicable	122,666	19,420
Total	**132,428**	**20,885**

The loans given to the above groups are mainly for housing purposes, nominated in euro and bearing interest of 3% p.a.

9. Appendix

9.1. Consolidated balance sheet - the expanded form based on SAS

in thousand SIT

	31. 12. 2003	31. 12. 2002
ASSETS	**146,349,740**	**127,749,801**
A. Fixed assets	**94,216,549**	**81,000,088**
I. Intangible fixed assets	2,575,488	1,335,635
1. Deferred operating expenses	861,337	637,782
3. Concessions, patents, licences, trademarks, brand names and other rights	1,714,151	697,853
II. Tangible fixed assets (property, plant and equipment)	85,268,878	73,314,362
1. Lands and buildings	57,418,286	49,731,821
a) Lands	4,820,029	4,502,733
b) Buildings	52,598,257	45,229,088
2. Manufacturing plant and equipment	17,582,408	13,893,885
3. Other plant and equipment	2,912,381	1,975,947
4. Fixed assets being acquired	7,355,803	7,712,709
a) Advances for acquisition of tangible fixed assets	226,870	487,252
b) Tangible fixed assets in the course of construction or manufacturing	7,128,933	7,225,457
III. Long-term financial investments	6,372,183	6,350,091
1. Equity interests in the group	321	0
3. Equity interests in associates	120,256	134,312
5. Other long-term investment participations	684,831	526,857
6. Other long-term receivables associated with loans and advances	896,495	996,563
7. Own shares	4,670,280	4,692,359
B. Current assets	**51,938,164**	**46,582,015**
I. Inventories	22,938,944	18,518,571
1. Materials	6,338,292	5,694,822
2. Work-in-progress	4,256,370	3,318,338
3. Products and merchandise	12,344,222	9,504,930
4. Advances for inventories	60	481
II. Operating receivables	25,973,585	24,155,082
a) Long-term operating receivables	324,287	0
4. Long-term operating receivables due by others	324,287	0
b) Short-term operating receivables	25,649,298	24,155,082
1. Short-term trade receivables	22,663,121	20,932,659
3. Short-term operating receivables due by associates	30,625	0
4. Short-term operating receivables due by others	2,948,545	3,222,423
5. Short-term non-paid-in called capital	7,007	0
III. Short-term financial investments	1,070,295	947,897
4. Short-term financial investments in others	1,070,295	947,897
IV. Bank balance, cheques and cash on hand	1,955,340	2,960,465
C. Deferred costs (expenses) and accrued revenues	**195,027**	**167,698**
OFF-BALANCE SHEET ASSETS	18,453,499	7,207,302

in thousand SIT

	31. 12. 2003	31. 12. 2002
LIABILITIES	**146,349,740**	**127,749,801**
A. Equity	**95,622,288**	**88,606,306**
I. Called capital	14,170,448	14,170.448
1. Share capital	14,170,448	14,170,448
II. Capital reserves	2,598,736	2,566,886
III. Revenue reserves	47,820,808	36,817,324
1. Legal reserves	3,592,196	3,592,196
2. Reserves for own shares	4,670,280	4,692,359
3. Statutory reserves	1,000,000	0
4. Other reserves	38,558,332	28,532,770
IV. Net profit (or loss) from previous periods	2,615,050	5,530,894
V. Net profit (or loss) for the period	4,511,179	5,831,778
VI. Equity revaluation adjustments	21,925,927	21,734,645
1. Equity revaluation adjustment	21,724,113	21,724,113
2. Specific equity revaluation adjustment	164,368	10,532
3. Consolidated equity revaluation adjustment	37,446	0
VII. Minority owners' equity	1,980,140	1,954.331
B. Provisions	**13,512,859**	**14,076,712**
1. Provisions for pensions and similar liabilities	37,178	0
2. Provisions for tax liabilities	3,277	0
3. Other provisions	13,472,404	14,076,712
C. Financial and operating liabilities	**36,157,158**	**24,558,050**
a) Long-term financial and operating liabilities	5,821,295	4,909,864
2. Long-term financial liabilities to banks	5,699,259	4,775,057
8. Long-term financial and operating liabilities to others	122,036	134,807
b) Short-term financial and operating liabilities	30,335,863	19,648,186
2. Short-term financial liabilities to banks	13,433,026	5,809,585
3. Short-term operating liabilities from advances	243,439	122,199
4. Short-term accounts payable	9,872,493	7,455,782
8. Short-term financial and operating liabilities to others	6,786,905	6,260,620
D. Accrued costs (expenses) and deferred revenues	**1,057,435**	**508,733**
OFF-BALANCE SHEET LIABILITIES	18,453,499	7,207,302

9.2. Consolidated income statement - the expanded form based on SAS

in thousand SIT

	2003	2002
1. Net sales	96,748,740	88,338,464
b) on domestic market	23,172,705	20,454,016
b) on foreign market	73,576,035	67,884,448
2. Changes in inventories of finished goods and work-in-progress	4,739,305	1,813,417
3. Capitalized own products and services	4,656	19,827
4. Other operating revenue	708,678	2,987,664
5. Costs of goods, materials and services	-48,132,544	-40,805,994
a) Cost of goods and materials sold and cost of materials used	-30,195,748	-25,265,363
b) Cost of services	-17,936,796	-15,540,631
6. Labour costs	-27,330,594	-25,301,260
a) Cost of wages and salaries	-20,368,703	-18,865,164
b) Social insurances costs	-5,117,426	-4,767,410
c) Other labour costs	-1,844,465	-1,668,686
7. Depreciation and amortisation expenses	-10,664,822	-10,641,630
a) Depreciation and revaluatory operating expenses associated with intangible fixed assets and tangible fixed assets	-9,578,332	-9,169,568
b) Revaluatory operating expenses associated with operating current assets	-1,086,490	-1,472,062
8. Other operating expenses	-1,633,510	-1,393,461
9. Financial revenue from equity interests	57,204	51,809
c) Financial revenue from other equity interests	57,204	51,809
10. Financial revenue from long-term receivables	1,905,103	528,758
c) Financial revenue from other long-term receivables	1,905,103	528,758
11. Financial revenue from short-term receivables	1,293,948	2,469,750
c) Other financial revenue from interests and short-term receivables	1,293,948	2,469,750
12. Financial expenses for long-term and short-term investment write-offs	-188,376	-62,158
b) Revaluatory financial expenses for investments in associates	-13,388	-42,896
c) Others revaluatory financial expenses	-174,988	-19,262
13. Interest expenses and financial expenses for other liabilities	-5,199,051	-4,939,125
c) Other interest expenses and financial expenses associated with other liabilities	-5,199,051	-4,939,125
15. Net profit (or loss) from ordinary activities	**12,308,737**	**13,066,061**
16. Extraordinary revenue	135,627	188,702
17. Extraordinary expenses	-45,055	-26,218
18. Profit (or loss) from extraordinary activities	90,572	162,484
Net profit (or loss) before tax	**12,399,309**	**13,228,545**
20. Income Tax	-1,836,463	-2,148,337
21. Net profit (or loss) for the period	**10,562,846**	**11,080,208**
Minority owners' share	40,461	41,803
Net profit of majority owners	**10,522,385**	**11,038,405**

9.3. Ratios

		2003	2002
1.	Participation rate of equity: equity / liabilities (in broader sense)	0.653	0.694
2.	Participation rate of long-term financing: total equity + provisions + long-term liabilities / liabilities (in broader sense)	0.785	0.842
3.	Operating fixed assets rate: fixed assets (at net book value) / assets	0.583	0.574
4.	Long-term investment rate: fixed assets (net book value) + long-term investments + long-term operating receivables / assets	0.628	0.624
5.	Equity to fixed operating assets ratio: equity / fixed operating assets (at carrying amount)	1.121	1.209
6.	Acid test ratio: liquid assets / short-term liabilities	0.100	0.199
7.	Quick ratio: total liquid assets + short-term trade receivables / short-term liabilities	0.945	1.428
8.	Current ratio: short-term assets / short-term liabilities	1.701	2.371
9.	Operating efficiency ratio: operating revenues / operating expenses	1.174	1.197
10.	Net return on equity ratio: net profit for financial year / average equity (less net operating result for the year)	0.121	0.140
11.	Dividends to share capital ratio: total dividends paid in the financial year / average share capital	0.250	0.226

* The ratio relates to the data of the controlling company.

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