



Annual Report  
Second Part  
Krka, d. d.,  
Novo mesto

2002

# 2002

Financial  
Statements with  
notes, Krka, d. d.,  
Novo mesto

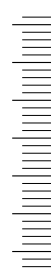




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# 1. Auditor's Report



## 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 2002, 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 2002, the results of its operations, its cash flows and the changes in equity for the year then ended in conformity with Slovenian Accounting Standards issued by Slovenian Institute of Auditors.
- The management's report on operations is in conformity with the audited financial statements.

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

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

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

Ljubljana, 31 March 2003

**KPMG Slovenija, d.o.o.**

## 2. Financial Statements

### 2.1. Balance Sheet

(in thousand SIT)

	Notes	31 Dec 2002	31 Dec 2001
<b>Assets</b>		<b>126,636,445</b>	<b>119,613,508</b>
<b>Fixed assets</b>		<b>80,706,680</b>	<b>75,494,042</b>
Intangible fixed assets	4.1.1.	962,379	692,383
Tangible fixed assets	4.1.2.	52,199,794	49,813,054
Long-term investments	4.1.3.	27,544,507	24,988,605
<b>Current Assets</b>		<b>45,884,334</b>	<b>44,069,775</b>
Inventories	4.1.4.	16,544,703	14,992,633
Operating receivables	4.1.5.	27,397,555	25,182,898
Short-term investments	4.1.6.	826,494	2,595,390
Cash and cash equivalents	4.1.7.	1,115,582	1,298,853
<b>Deferred costs (expenses) and accrued revenues</b>		<b>45,431</b>	<b>49,691</b>
<b>Off-balance sheet assets</b>	<b>4.1.13.</b>	<b>6,762,023</b>	<b>5,905,559</b>
<b>Liabilities and capital</b>		<b>126,636,445</b>	<b>119,613,508</b>
<b>Capital</b>	<b>4.1.8.</b>	<b>89,051,282</b>	<b>82,005,792</b>
Called-up capital		14,170,448	14,170,448
Capital reserves		2,566,886	2,536,533
Revenue reserves		36,817,324	26,078,113
Retained net profit (or loss) from previous years		8,555,352	12,955,943
Net profit (or loss) for the financial year		5,206,627	4,540,642
Equity revaluation adjustments		21,734,645	21,724,113
<b>Provisions</b>	<b>4.1.9.</b>	<b>13,930,646</b>	<b>15,430,068</b>
<b>Financial and operating liabilities</b>		<b>22,615,910</b>	<b>21,955,532</b>
Long-term liabilities	4.1.10.	3,673,241	4,553,135
Short-term liabilities	4.1.11.	18,942,669	17,402,397
<b>Accrued costs (expenses) and deferred revenues</b>	<b>4.1.12.</b>	<b>1,038,607</b>	<b>222,116</b>
<b>Off-balance sheet liabilities</b>	<b>4.1.13.</b>	<b>6,762,023</b>	<b>5,905,559</b>

- For the expanded version of the Balance Sheet, refer to Appendix 6.1.

## 2.2. Income Statement

(in thousand SIT)

	Notes	2002	2001
Net sales revenues	4.2.1.	77,664,814	70,903,238
– domestic market		15,521,057	14,396,561
– foreign market		62,143,756	56,506,677
Change in value of inventory of products and work-in-process		1,726,264	-387,638
Capitalised own products and services		19,827	628,634
Other operating revenues	4.2.2.	2,567,367	466,634
Cost of goods, materials and services	4.2.3.	-36,636,883	-31,829,667
Labour cost	4.2.4.	-21,456,603	-20,233,585
Amortisation/depreciation, write-off	4.2.5.	-8,285,604	-7,106,706
– Amortisation of intangible fixed assets, depreciation of tangible fixed assets, operating expenses from revaluation of tangible and intangible fixed assets		-7,360,939	-6,128,204
– Operating expenses from revaluation of operating current assets		-924,665	-978,502
Other operating expenses	4.2.6.	-1,120,592	-2,143,546
Financial revenues from shares	4.2.7.	809,401	416,297
Financial revenues from long-term receivables	4.2.7.	620,649	151,665
Financial revenues from short-term receivables	4.2.7.	1,750,056	2,294,524
Financial expenses from long-term and short-term investment write-off	4.2.8.	-1,506,648	-123,087
Interest expenses and expenses from other liabilities	4.2.8.	-3,851,754	-2,547,641
<b>Profit (or loss) from ordinary activities</b>		<b>12,300,294</b>	<b>10,489,122</b>
Extraordinary revenues		151,183	120,190
Extraordinary expenses		-5,947	-5,604
<b>Extraordinary profit (or loss)</b>		<b>145,236</b>	<b>114,586</b>
<b>Profit (or loss) before tax</b>		<b>12,445,530</b>	<b>10,603,708</b>
Income tax	4.2.9.	-2,032,276	-1,522,424
<b>Net profit (or loss) for the financial year</b>	<b>4.2.10.</b>	<b>10,413,254</b>	<b>9,081,284</b>

- For the expanded version of the Income Statement, refer to Appendix 6.2.

## 2.3. Cash Flow Statement

(in thousand SIT)

	2002	2001
<b>A. Cash flows from operating activities</b>		
<b>a) Inflows</b>	<b>77,033,513</b>	<b>68,965,820</b>
Operating revenues	78,737,791	73,205,245
Extraordinary revenues arising from operating activities	151,183	120,190
Change in operating receivables	-1,859,721	-4,373,444
Change in deferred costs, deferred expenses and accrued revenues	4,260	13,829
<b>b) Outflows</b>	<b>63,425,987</b>	<b>54,839,746</b>
Operating expenses, excl. of depreciation and long-term provisions	59,373,287	53,574,397
Extraordinary expenses arising from operating activities	5,947	5,604
Income tax and other taxes not shown under operating expenses	2,032,276	1,522,424
Change in inventories	2,483,068	-658,480
Change in operating liabilities	347,901	344,634
Change in accrued costs, accrued expenses and deferred revenues	-816,491	51,167
<b>c) Net cash from operating activities</b>	<b>13,607,527</b>	<b>14,126,074</b>
<b>B. Cash flows from investing activities</b>		
<b>a) Inflows</b>	<b>2,532,050</b>	<b>1,630,799</b>
Financial revenues arising from investment activities	755,570	289,246
Decrease in short-term investments	1,776,480	1,341,553
<b>b) Outflows</b>	<b>13,213,672</b>	<b>13,600,268</b>
Increase in intangible fixed assets	463,296	433,466
Increase in tangible fixed assets	9,540,491	10,250,816
Increase in long-term investments	3,209,885	2,915,986
<b>c) Net cash used in investing activities</b>	<b>-10,681,622</b>	<b>-11,969,469</b>
<b>C. Cash flows from financing activities</b>		
<b>a) Inflows</b>	<b>1,982,402</b>	<b>1,470,356</b>
Financial revenues arising from financing activities	96,841	75,447
Increase in capital (excl. of net profit)	7,585	0
Increase in short-term financial liabilities	0	581,279
Increase in long-term financial liabilities	1,877,976	813,630
<b>b) Outflows</b>	<b>4,997,927</b>	<b>3,400,588</b>
Financial expenses arising from financing activities	997,966	900,842
Decrease in long-term provisions	5,281	4,060
Decrease in long-term financial liabilities	618,995	
Decrease in dividends payable	3,375,685	2,495,686
<b>c) Net cash used in financing activities</b>	<b>-3,015,525</b>	<b>-1,930,232</b>
<b>D. Cash and cash equivalents at end of period</b>	<b>1,115,582</b>	<b>1,298,853</b>
<b>x) Net increase / decrease in cash and cash equivalents</b>	<b>-89,620</b>	<b>226,373</b>
Effect of change in exchange rate on cash and cash equivalents	-93,651	141,978
<b>y) Cash and cash equivalents at beginning of period</b>	<b>1,298,853</b>	<b>930,502</b>

## 2.4. Statement of Changes in Equity

(in thousand SIT)

	Called-up capital	Capital reserves	Legal reserves
Balance at 31 December 2001	14,170,448	7,001	3,592,196
Adjustments in accordance with SAS		2,529,532	
<b>Balance at 1 January 2002</b>	<b>14,170,448</b>	<b>2,536,533</b>	<b>3,592,196</b>
<b>Transfer to equity</b>	<b>0</b>	<b>7,585</b>	<b>0</b>
Net profit for the financial year	0	0	0
Special equity revaluation adjustments	0	0	0
Other increase in equity	0	7,585	0
<b>Transfer within equity</b>	<b>0</b>	<b>22,768</b>	<b>0</b>
Appropriation of net profit for the financial year in compliance with the resolutions adopted by the Management Board and the Supervisory Board	0	0	0
Appropriation of net profit for the financial year to additional reserves in accordance with the resolution adopted by the shareholders' meeting	0	0	0
Other transfers within equity	0	22,768	0
<b>Transfer from equity</b>	<b>0</b>	<b>0</b>	<b>0</b>
Dividends paid	0	0	0
Other decrease in equity	0	0	0
<b>Balance at 31 December 2002</b>	<b>14,170,448</b>	<b>2,566,886</b>	<b>3,592,196</b>

Reserves for own shares	Revenue reserves	Retained net profit from previous periods	Net profit for the financial year	General equity revaluation adjustment	Special equity revaluation adjustments	Total capital
4,715,127	15,759,680	12,955,943	9,081,284	21,724,113	0	82,005,792
	2,011,110		-4,540,642			0
<b>4,715,127</b>	<b>17,770,790</b>	<b>12,955,943</b>	<b>4,540,642</b>	<b>21,724,113</b>	<b>0</b>	<b>82,005,792</b>
<b>0</b>	<b>0</b>	<b>0</b>	<b>10,413,254</b>	<b>0</b>	<b>10,532</b>	<b>10,431,371</b>
0	0	0	10,413,254	0	0	10,413,254
0	0	0	0	0	10,532	10,532
0	0	0	0	0	0	7,585
<b>-22,768</b>	<b>13,761,979</b>	<b>-4,014,710</b>	<b>-9,747,269</b>	<b>0</b>	<b>0</b>	<b>0</b>
0	0	4,540,642	-4,540,642	0	0	0
0	5,206,627	0	-5,206,627	0	0	0
-22,768	8,555,352	-8,555,352	0	0	0	0
<b>0</b>	<b>3,000,000</b>	<b>385,881</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,385,881</b>
0	3,000,000	209,468	0	0	0	3,209,468
0	0	176,413	0	0	0	176,413
<b>4,692,359</b>	<b>28,532,769</b>	<b>8,555,352</b>	<b>5,206,627</b>	<b>21,724,113</b>	<b>10,532</b>	<b>89,051,282</b>

## 2.5. Accumulated Profit

(in thousand SIT)

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

## 3. Summary of significant accounting policies

### Basis of preparation of financial statements

- The financial statements and the notes to financial statements have been prepared in accordance with Slovenian Accounting Standards issued in 2001 by Slovenian Institute of Auditors, the Companies Act, and the Note No. 1 to SAS 24, 25 and 26, issued by Slovenian Institute of Auditors, on presentation of accounting data for 2001. In accordance with SAS, the following fundamental accounting assumptions are taken into consideration: accrual basis of accounting, going concern, and true and fair presentation in circumstances of changes in the parity of Euro and the individual prices.
- Because the financial statements for the year ended 31 December 2002 have been prepared in compliance with the revised SAS, they are not comparable with the financial statements for the year 31 December 2001. When preparing the financial statements for the year ended 31 December 2002, the information for the previous period was not restated in compliance with the revised SAS. Instead, information was presented on a reasonable basis under the respective item of the financial statements, taking into consideration the rule of materiality of information. The profit or loss for the previous period has not been changed (refer to Note No. 1 to SAS 24, SAS 25, and SAS 26 issued by the Steering Committee of Slovenian Institute of Auditors).
- The financial statements are presented in Slovenian tolar, rounded to the nearest thousand.

### Exchange rate and translation to local currency

- Transactions in foreign currency are translated to tolar at the middle exchange rate of Banka Slovenije. Foreign exchange gains or losses arising on translation are recognised in the income statement.

### Reporting by business segment and geographical segment

- Products groups are prescription pharmaceuticals, self-medication products, animal health products and others. The criteria for forming product groups are therapeutic characteristics of a product, way of marketing and advertising, and risk level.
- The regions are Slovenia, Central Europe, South-East Europe, East Europe, and West Europe and Overseas Markets. Countries within a region share a similar level of economic development, purchasing power, similar economic and political features and geographic connection.
- At the product group/region level, the company reports net sales revenues, which can be attributed directly to the product group/region.

## Accounting policies

- 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 accounting policies applied by the Company are described below.

### Intangible fixed assets

- Intangible fixed assets include long-term industrial property rights, long-term deferred operating costs, and other intangible fixed assets.
- Intangible fixed assets are initially recognised at cost. The cost also includes import duties and non-refundable purchase taxes.
- Intangible fixed assets are not revalued due to impairment.

### Tangible fixed assets

- Tangible fixed assets are valued at their purchase value less accumulated depreciation, computed on a straight-line basis.
- The purchase value of a tangible fixed asset comprises its purchase price and all the costs related to preparing the asset for its intended use.
- A tangible fixed asset is eliminated from the financial statements on disposal or retirement when no further benefit is expected from its use and disposal. Gains on asset disposal are credited to operating revenues from revaluation and the present value of assets to operating expenses from revaluation.
- Subsequent expenditures related to a tangible fixed assets represent improvements that are to be added to its cost of purchase, provided they increase the future benefits from the existing assets beyond their previously assessed standard of performance; in this context the expenditures related to an extension of the assets' estimated useful life represent a reduction of the previous accumulated depreciation made to the value of the assets.
- Costs of repair and maintenance of tangible fixed assets are intended for the renewal and maintenance of future benefits which are expected on the basis of the previously assessed standard of performance. They are recognised as expense as incurred.
- In 2002, a preliminary assessment of the fair value of land, buildings, and principal groups of production equipment was carried out. The impairment of assets was not required.

### Amortisation/depreciation

- The carrying amount of an item of tangible fixed assets and intangible fixed assets 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 service for which it was intended.
- An intangible fixed asset is subject to amortisation when it is available for use.
- The single-asset amortisation and/or depreciation is applied. The straight-line method of amortisation and/or depreciation is used.
- Land is not subject to depreciation.

The amortisation and/or depreciation rates are as follows:

(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

## Financial investments

- All types of financial investments are initially stated at the purchase value. Long-term and short-term financial investments are separately stated.
- Long-term financial investments into the equity of group enterprises and associates, which are contained in group financial statements, are valued following the equity method. The value of investments in group enterprises increases by the net profit allocated to the managing company. Simultaneously, the net income increases the revenues from financing of the managing company. In associates, the value of the investment increases by the value of the net profit forming a special revalued equity adjustment.
- Long-term financial investments, in the form of long-term loans, increase by related interest and decrease by encashed amounts and by amounts which are ascribed to short-term financial investments, that fall due in a year, or sooner.
- Short-term financial investments into ownership securities of other companies, and debtor securities of companies, or the state, are valued at the purchase value at the initial assessment.
- The company assessed the fair market value only for the investments into shares of quoted companies. The company did not opt for possible revaluation.

## Receivables

- Receivable of all categories are initially recognised at amounts recorded in the relevant accounting documents under the assumption that the amounts owed will also be collected. Receivables denominated in foreign currency are translated into local currency at the middle exchange rate of Banka Slovenije effective at the balance sheet date. Exchange gains or losses are recorded under financial revenues and/or financial expenses.
- Subsequent increases or decreases of receivables add to operating or financial revenues or expenses. All increases or decreases have to be justified through a corresponding document.
- The value adjustment of receivables includes the value adjustment of dubious and litigious receivables, from local and foreign customers, and additional value adjustment of receivables from local and foreign customers, formed according to the maturity structure of receivables.

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

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

- A 70% adjustment of receivables from local customers, and a 90% adjustment of receivables from foreign customers, are formed in case of litigious receivables or receivables under legal claim.
- When the write-off of a receivable is justified by a corresponding document, it is accounted to the debit of the arising value adjustment of receivables.
- Value adjustment of receivables excludes receivables from group enterprises.

## Inventories

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

## Cash

- Cash comprises cash in hand, cash in banks (deposit money), and cash in transit. Cash in hand includes banknotes, coins, cheques received, and securities with immediate liquidity. Deposit money comprises cash in banks and other financial institutions, which may be used for payment. It includes demand deposits and time deposits at call. Cash in transit denotes cash transferred from the cash box to the account with a bank or other financial institution and not recorded as cash in bank on the same day.
- Cash denominated in foreign currency is translated into local currency at the middle exchange rate of Banka Slovenije on the date of receipt thereof. Exchange gains or losses are recorded under financial revenues or expenses.

## Capital

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

## Long-term provisions

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

## Liabilities

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

## Deferred costs, expenses and accrued revenues/accrued costs, expenses and deferred revenues

- Deferred costs (expenses) and accrued revenues comprise deferred costs and non-invoiced revenues. Deferred costs comprise amounts, which at the time of accrual, are not yet stated as the expense of the company's activity. Non-invoiced revenues are those that are justifiably taken into account 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 costs settled in advance and postponed revenues. Accrued expenses comprise expected expenses, related to the account period, which have not yet appeared. Deferred revenues arise when the payments for the company's services are already settled, but the company has not yet performed them. Revenues can be deferred also in the case of dubious justification for the revenue acknowledgement at the moment of sale.

## Recognition of revenues

- Revenues are recognised when the inflow of economic benefits during the accounting period is related to increase in assets or decrease in liabilities, and when the amount of revenue can be measured reliably.
- Revenues are recognised when no significant uncertainty as to their amount or collectability exists.

### Operating revenues:

- Revenues from the sales of products, resale goods 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 performed services resulting in financial revenues, are measured on the basis of the selling prices of finished services, or on the basis of the selling prices of unfinished services, depending on the level of completion.
- Revaluation of operating revenues arise at sale of tangible fixed assets and intangible fixed assets, with prior equity revaluation adjustment taken into account.

### Financial revenues:

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

### Extraordinary revenues:

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

## Recognition of expenses

- Expenses are recognised when the outflow of economic benefits in the accounting period is related to decrease in assets or increase in liabilities, and when the amount of expenses can be measured reliably.

### Operating expenses:

- Operating expenses are recognised when expenses are no longer comprised in the value of inventories of products and work-in-process, and/or when merchandise is sold.
- Operating expenses are in principle equal to costs accrued in the accounting period, increased by costs held in the opening balance of inventories of products and work-in-process and decreased by costs held in the closing balance of inventories of products and work-in-process. Operating expenses also include cost of merchandise and materials sold.
- Operating expenses from revaluation are recognised when the revaluation is performed, irrespective of their effect on profit or loss.
- Revaluation of cost of depreciation, materials, services and labour costs is recorded as an item of increase in operating expenses from revaluation.
- Operating expenses from revaluation are incurred in connection with the impairment of tangible fixed assets, intangible fixed assets, and operating current assets.

### Financial expenses:

- Financial expenses include expenses incurred in connection with financing and investing.
- Financial expenses are recognised when accrued, irrespective of related payments.
- Financial expenses from revaluation are incurred in connection with the impairment of long-term and short-term investments, and the increase in value of long-term and short-term liabilities.

### Extraordinary expenses:

- Extraordinary expenses include extraordinary items, which are recorded at nominal amount.
- Extraordinary expenses also include profit and loss revaluation adjustment, which is formed to maintain the purchasing power of capital measured in euros, in compliance with the financial concept of capital.

## Cash Flow Statement

- The cash flow statement has been prepared using the indirect method on the basis of the items in the balance sheet as of 31 December 2002, the balance sheet as of 31 December 2001, the income statement for the year ended 31 December 2002, and the additional data required for the adjustment of inflows and outflows and for the itemisation of significant items.
- The product group revaluation adjustment is not stated in the cash flow statement for 2002, since it is not related to receipts and disbursements.

## Corporate risk management

### Foreign exchange risk

- The course of events in the world and the recession in some developed economies, in 2002, provoked substantial currency movements in the international money market. The majority of foreign currency inflows and outflows is distributed between the American Dollar and the Euro. In conformity with the policy of modest Euro appreciation against the Tolar of the Bank of Slovenia, in 2002 the EUR/SIT exchange-rate steadily rose and achieved a 4.0% annual growth. The USD/SIT fluctuation in 2002 was negative, with the greatest exchange-rate drop registered in the second half of the year. Thus, in 2002 the drop in the USD/SIT exchange-rate on an annual basis amounted to 10.6%, which is the exact opposite of the situation in 2001, when the exchange-rate achieved a 10.4% annual growth.

- The company's foreign operations are mostly related to the Euro and the American Dollar. The company is not exposed to a great extent to Euro exchange risk, mainly because of the equilibrium between Euro inflows and outflows. And at the same time the EUR/SIT exchange-rate grows steadily and almost linearly, following the targets of the exchange-rate policy of the Central Bank of Slovenia, which accounts for negligible Euro foreign exchange risk.

- The drop in the USD/SIT exchange-rate substantially influenced the company's operating results, both sales in local currency and the company's operating result through foreign exchange currency losses. The influence of the drop in the USD/SIT exchange-rate on the company's operating results derives from the fact that the company performs more inflows than outflows in USD. The imbalance between inflows and outflows, expressed in USD, shows the company's exposure to the USD related foreign exchange risk.

- The company partially hedges itself against the foreign exchange risk exposure at balance level through raising long-term loans in American Dollars, which results in future financial liabilities and consequently in outflows in this currency. Thanks to operating plans in West Europe and a gradual movement from invoicing in Dollars to invoicing in Euros in some Central European countries, the company will achieve a greater balance between inflows and outflows in Dollars and simultaneously maintained optimum equilibrium with Euros. The company hedges the foreign exchange risk exposure through internal methods, but does not use external methods (executed financial instruments, such as futures contracts).

### Interest risk

- Interest risk is the risk of financial instrument value fluctuations due to a change in market interest-rates.

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

### Credit risk

- The company manages the credit risk by considering the risk of both the individual client and the market where the client operates, when forming annual sale-payment terms. To hedge itself against risk, the company uses, to a minor extent, payment instruments, such as guarantees, letters of credit, etc. The remaining credit risk is managed through establishing value adjustments for receivables, which is described under Accounting policies.

## Property and liability insurance

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

## 4. Notes to Financial Statements

### 4.1. Balance Sheet

#### 4.1.1. Intangible fixed assets

962,379 thousand SIT

(in thousand SIT)

	31 Dec 2002	31 Dec 2001
Long-term deferred operating costs	298,920	241,372
Long-term industrial property rights	663,459	451,011
<b>Total</b>	<b>962,379</b>	<b>692,383</b>

• In 2002, the company newly acquired intangible fixed assets of 463,335 thousand SIT, the majority representing long-term industrial property rights (licence for computer programmes) of 254,090 thousand SIT and long-term deferred operating costs of 119,040 thousand SIT. Among other long-term industrial property rights registered, beside licences for computer programmes, are long-term operating leases of 52,467 thousand SIT and investments in foreign assets of 133,551 thousand SIT.

#### Movement of intangible fixed assets

(in thousand SIT)

	Long-term deferred operating costs	Long-term industrial property rights	Investments		Total
			Long-term operating	in foreign fixed assets	
		Licences	lease		
<b>Purchase value:</b>					
Balance at 31 Dec 2001	476,595	451,967	99,004	198,020	1,225,586
– Additions, capitalization	119,041	254,090		90,205	463,336
– Write-offs				558	558
– Revaluation					0
Balance at 31 Dec 2002	595,636	706,057	99,004	287,667	1,688,364
<b>Accumulated amortisation:</b>					
Balance at 31 Dec 2001	235,223	141,709	40,597	115,674	533,203
– Additions					
– Write-offs				517	517
– Amortisation	61,493	86,908	5,940	38,958	193,299
Balance at 31 Dec 2002	296,716	228,617	46,537	154,115	725,985
<b>Carrying amount as of 31 Dec 2001</b>	<b>241,372</b>	<b>310,258</b>	<b>58,407</b>	<b>82,346</b>	<b>692,383</b>
<b>Carrying amount as of 31 Dec 2002</b>	<b>298,920</b>	<b>477,440</b>	<b>52,467</b>	<b>133,552</b>	<b>962,379</b>

## 4.1.2. Tangible fixed assets

52,199,794 thousand SIT

(in thousand SIT)

	31 Dec 2002	31 Dec 2001
Land	2,756,954	2,455,133
Buildings	30,531,434	28,156,054
Equipment:	11,757,318	11,680,935
– plant and machinery	11,403,743	11,378,538
– other equipment	353,575	302,398
Tangible fixed assets under construction and manufacture	7,154,088	7,520,931
– advances for fixed assets	1,308,722	535,880
<b>Total</b>	<b>52,199,794</b>	<b>49,813,054</b>

**Fixed assets in the process of being acquired**

- The largest, and almost finished investments in 2002, are the Notol, in which 1,555,949 thousand SIT was invested in 2002 and project RKC II – solid dosage-form pharmaceutical pilots, of 1,099,990 thousand SIT. Among other bigger unfinished investment projects are also a plant for beta-lactam production in Šentjernej, renovation of warehouses for finished products, reconstruction of premises of the ointment plant, and reconstruction of lozenges production plant in Ljutomer.
- The advances made for fixed assets include mostly the advances made to group enterprises, through which Krka purchases fixed assets.

### Movement of tangible fixed assets

(in thousand SIT)

	Land	Buildings	Equipment	Fixed assets under construction	Advances	Total
<b>Purchase value:</b>						
Balance at 31 Dec 2001	2,455,133	46,224,484	52,074,432	6,985,051	535,880	108,274,980
– Additions Purchase				9,216,284	772,842	9,989,126
<b>– Capitalisation</b>						
Activation	311,594	4,464,652	4,854,130	-10,177,625		-547,249
– Inventory surplus			55,965			55,965
– Write-offs	-22,743	-66,923	-1,753,645			-1,843,311
– Transfer	12,970	-12,970		-178,343		-178,343
– Revaluing						0
Balance at						
31 Dec 2002	2,756,954	50,609,243	55,230,882	5,845,366	1,308,722	115,751,167
<b>Accumulated depreciation :</b>						
Balance at 31 Dec 2001	0	18,068,430	40,393,496	0	0	58,461,926
– Additions		-226,128	-40,745			-266,873
– Write-offs		-61,160	-1,743,381			-1,804,541
– Depreciation		2,296,667	4,837,953			7,134,620
– Inventory surplus			55,965			55,965
– Transfer			-29,724			-29,724
Balance at 31 Dec 2002	0	20,077,809	43,473,564	0	0	63,551,373
<b>Carrying amount as</b>						
of 31 Dec 2001	2,455,133	28,156,054	11,680,936	6,985,051	535,880	49,813,054
<b>Carrying amount as</b>						
of 31 Dec 2002	2,756,954	30,531,434	11,757,318	5,845,366	1,308,722	52,199,794

## 4.1.3. Long-term investments

27,544,507 thousand SIT

(in thousand SIT)

	31 Dec 2002	31 Dec 2001
Shares in group enterprises	20,169,524	17,869,040
Long-term financial receivables from group enterprises, except from associates	1,228,580	981,817
Shares in associates	120,924	84,978
Other long-term shares	470,537	509,690
Other long-term financial receivables	862,583	827,953
Own shares	4,692,359	4,715,127
<b>Total</b>	<b>27,544,507</b>	<b>24,988,605</b>

## Movement of long-term investments

(in thousand SIT)

	Shares in group enterprises	Long-term financial receivables from group enterprises	Shares in associates	Other long-term shares	Other long-term financial receivables	Own shares	Total
<b>Gross value</b>							
Balance at							
1 Jan 2002	17,869,040	981,817	84,978	509,690	839,593	4,715,127	25,000,245
Increase	3,383,613	666,254	78,840	193	212,622	0	4,341,522
Decrease	348,750	118,580	39,681	43,284	219,003	22,768	792,066
Revaluings	-734,379	-50,360	-3,213	10,439	37,740	0	-739,773
Balance at							
31 Dec 2002	20,169,524	1,479,131	120,924	477,038	870,952	4,692,359	27,809,928
<b>Value adjustment</b>							
Balance at							
1 Jan 2002	0	0	0	0	11,640	0	11,640
Increase	0	250,551	0	6,501	0	0	257,052
Decrease	0	0	0	0	3,271	0	3,271
Balance at							
31 Dec 2002	0	250,551	0	6,501	8,369	0	265,421
<b>Net value</b>							
1 Jan 2002	17,869,040	981,817	84,978	509,690	827,953	4,715,127	24,988,605
31 Dec 2002	20,169,524	1,228,580	120,924	470,537	862,583	4,692,359	27,544,507

## Shares in group enterprises

(in thousand SIT)

	Ownership share	Share capital	Shares in group enterprises	
			31 Dec 2002	31 Dec 2001
			Value	Value
			31 Dec 2002	31 Dec 2001
KRKA Zdravilišča, d. o. o., Novo mesto	100%	2,657,097	10,605,214	10,241,766
KRKA FARMA, d. o. o., Zagreb, Croatia	100%	1,519,166	1,582,338	1,546,184
KRKA-FARMA DOOEL, Skopje, Macedonia	100%	184,659	67,196	103,807
KRKA KOZMETIKA DOOEL, Skopje, Macedonia	100%	30,947	43,070	44,189
KRKA Polska, Sp. z o. o., Warsaw, Poland	100%	4,044,334	4,097,635	3,538,158
KRKA Aussenhandels GmbH, Munich, Germany	100%	58,867	83,033	72,523
OOO KRKA-RUS, Istra, Russian Federation	100%	3,924,180	3,596,740	2,253,574
OOO KRKA FARMA, Sergiev posad, Russian Federation	100%	944	28,970	13,052
KRKA ČR, s. r. o., Prague, Czech Republic	100%	732	732	692
KRKA Pharma Dublin Limited, Dublin, Ireland	100%	230	0	359
KRKA Magyarország, Kft, Budapest, Hungary	99%	12,308	10,882	10,324
HELVETIUS S. R. L., Trieste, Italy	80%	11,882	53,714	44,412
KRKA-FARMA, d.o.o., Novi Sad, Serbia and Montenegro	60%	421	0	0
<b>Total</b>			<b>20,169,524</b>	<b>17,869,040</b>

- In 2002 the company made a capital increase in the companies KRKA Polska Sp. z o.o., Warsaw, Poland of 616,122 thousand SIT and OOO KRKA-RUS, Istra, Russian Federation, of 2,055,083 thousand SIT. The total capital increase amounted to 2,671,205 thousand SIT.
- Investments in group enterprises were further increased by ascribed profits of group enterprises of 712,408 thousand SIT. They were decreased by ascribed losses of group enterprises of 590,248 thousand SIT and for paid-off dividends of 9,052 thousand SIT. Ascribed losses in group enterprises include also the short-term loan made to the company Krka Pharma Dublin, of 250,551 thousand SIT.
- Long-term financial investments in group enterprises were, as stated in balance at 31 Dec 2002, revalued according to the Bank of Slovenia's middle exchange-rate, which established financial expenses of 779,442 thousand SIT (OOO KRKA-RUS, Istra, Russian Federation and KRKA Polska Sp. z o. o., Warsaw, Poland) and financial revenues of 45,062 thousand SIT.

## Long-term financial receivables from group enterprises

(in thousand SIT)

	31 Dec 2002	31 Dec 2001
OOO KRKA-RUS, Istra, Russian Federation	552,677	627,364
KRKA Farma d.o.o., Zagreb, Croatia	253,581	354,453
KRKA Pharma Dublin Limited, Dublin, Ireland	422,322	0
<b>Total</b>	<b>1,228,580</b>	<b>981,817</b>

- The company granted loans to group enterprises for the continuation of investment projects and for financing current operations. Loans are expressed in EUR and are granted for a period up to five years. Repayments of interests and principal are due in three or six months. They have fixed interest-rates. Last instalment due in 2004 or in 2006.
- A part of loans, to the total value of 144,903 thousand SIT, which falls due in 2003, is stated within short-term financial investments.

#### Shares in associates

(in thousand SIT)

	Capital share	31 Dec 2002	31 Dec 2001
Dawa, Nairobi, Kenya	34.78%	0	42,896
Finsvet d.o.o., Novo mesto	24.35%	51,417	42,083
Golf Grad Otočec d.o.o.	25.00%	69,507	0
<b>Total</b>		<b>120,924</b>	<b>84,979</b>

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

#### Other long-term financial receivables

(in thousand SIT)

	31 Dec 2002	31 Dec 2001
Long-term loans made to employees	862,583	827,953
<b>Total</b>	<b>862,583</b>	<b>827,953</b>

- In conformity with internal acts Krka makes long-term loans to its employees. The awarded loans mainly refer to housing, scholarship payoff and insurance period repayment. The loans are awarded in Euros with 3% annual interest-rate.

#### Own shares

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

## 4.1.4. Inventories

16,544,703 thousand SIT

(in thousand SIT)

	31 Dec 2002	31 Dec 2001
Materials	5,562,777	4,869,203
Work-in-process	3,318,338	2,030,530
Products	6,573,699	6,595,563
Merchandise	1,089,408	1,497,337
Advances for inventories	481	
<b>Total</b>	<b>16,544,703</b>	<b>14,992,633</b>

• In 2002 the value of inventories increased by 10%, mainly on the grounds of inventory increase of work-in-process and raw materials, and materials for bigger production volumes in 2003. The biggest part of the inventory is represented by 40% products. For reasons of flexibility and reliability in delivery the company has defined 'safety stock' for its core products.

## 4.1.5. Operating receivables

27,397,555 thousand SIT

(in thousand SIT)

	31 Dec 2002	31 Dec 2001
Long-term operating receivables from group enterprises, except from associates	5,849	5,623
Short-term operating receivables	27,391,706	25,177,275
– short-term operating receivables from group enterprises, except from associates	14,638,164	12,474,470
– short-term trade receivables	11,522,807	11,522,314
– short-term operating receivables from other entities	1,230,735	1,180,491
<b>Total</b>	<b>27,397,555</b>	<b>25,182,898</b>

## Short-term operating receivables from group enterprises

(in thousand SIT)

	31 Dec 2002	31 Dec 2001
KRKA Polska Sp. z o. o., Warsaw, Poland	5,368,921	5,338,459
KRKA FARMA d.o.o., Zagreb, Croatia	6,418,448	5,235,959
KRKA FARMA DOOEL, Skopje, Macedonia	1,758,706	1,122,730
OOO KRKA FARMA, Sergiev Posad, Russian Federation	529,691	407,190
Receivables from other group enterprises	562,398	370,132
<b>Total</b>	<b>14,638,164</b>	<b>12,474,470</b>

**Short-term trade receivables**

(in thousand SIT)

	Gross value	Value adjustment	Net value 31 Dec 2002	Net value 31 Dec 2001
Short-term operating receivables				
from local customers	1,533,982	-21,107	1,512,875	1,836,801
Short-term operating receivables				
from foreign customers	11,469,656	-1,459,724	10,009,932	9,685,513
<b>Total</b>	<b>13,003,638</b>	<b>-1,480,831</b>	<b>11,522,807</b>	<b>11,522,314</b>

- The company forms a value adjustment for receivables in conformity with the criteria indicated in the chapter about accounting policies. In 2002 the company re-assessed the risk of individual markets and individual customers, as well as actual re-payability of receivables in the past. Based on the assessment findings, the company defined new measures for the formation of adjustment, and partially eliminated it. The elimination of the adjustment is included in other operating revenues as revalued operating revenue of 988,179 thousand SIT. In this amount the value, due to modified measures for the formation of adjustment, represents 763,101 thousand SIT.

- Short-term trade receivables are mainly non-secured. Their maturity structure, considering the date of invoicing, was at the end of 2002 as follows: 82% not older than six months, 16% between six months and one year, while 2% was older than a year.

**Short-term operating receivables from other entities**

- Nearly all short-term operating receivables from other entities to the value of 1,230,735 thousand SIT refer to receivables from the state mainly for the return of value added tax.

**4.1.6. Short-term investments****826,494 thousand SIT**

- Short-term investments of 826,494 thousand SIT include 175,734 thousand SIT of loans to group enterprises (as part of long-term loans, which fall due in the current year) and 650,760 thousand SIT of short-term loans made to other entities.

**Short-term shares in group enterprises**

- Short-term shares in group enterprises include 144,903 thousand SIT of a long-term loan to the Croatian company, which falls due in 2003 and 30,831 thousand SIT of interests from long-term loans made to group enterprises.

**Short-term investments in other entities**

(in thousand SIT)

	Gross value	Value adjustment	Net value 31 Dec 2002	Net value 31 Dec 2001
Other shares, purchased for sale	319,892	-6,161	313,731	463,214
Loans made for a short term	353,176	-70,573	282,603	1,784,395
Other securities, purchased for sale	51,745	0	51,745	4,505
Other short-term financial investments	0	0	0	225,140
Interests from short-term loans	2,681	0	2,681	11,844
<b>Total</b>	<b>727,494</b>	<b>-76,734</b>	<b>650,760</b>	<b>2,489,098</b>

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

#### 4.1.7. Cash and cash equivalents

**1,115,582 thousand SIT**

(in thousand SIT)

	31 Dec 2002	31 Dec 2001
Cash on hand and received cheques	10,400	9,547
Cash on bank accounts	1,105,182	1,289,306
<b>Total</b>	<b><u>1,115,582</u></b>	<b>1,298,853</b>

#### 4.1.8. Capital

**89,051,282 thousand SIT**

(in thousand SIT)

	31 Dec 2002	1 Jan 2002
I. Called-up capital	14,170,448	14,170,448
1. Share capital	14,170,448	14,170,448
II. Capital reserves	2,566,886	2,536,533
III. Revenue reserves	36,817,324	26,078,113
1. Legal reserves	3,592,196	3,592,196
2. Reserves for own shares	4,692,359	4,715,127
4. Other revenue reserves	28,532,769	17,770,790
IV. Retained net profit (or loss) from previous years	8,555,352	12,955,943
V. Net profit (or loss) for the financial year	5,206,627	4,540,642
VI. Equity revaluation adjustments	21,734,645	21,724,113
1. General equity revaluation adjustment	21,724,113	21,724,113
2. Special equity revaluation adjustments	10,532	0
<b>Total</b>	<b><u>89,051,282</u></b>	<b>82,005,792</b>

- In 2002 the value of capital increased by the net profit from the financial year, by 10,413,254 thousand SIT, by special equity revaluation adjustment of 10,532 thousand SIT, and by the difference between book and actual values of disposed own shares of 7,585 thousand SIT.

- Internal capital movements result from the allocation of net profit brought forward, and the net profit from the financial year to other revenue reserves. On disposal of own shares, a part of reserves for own shares was re-allocated to capital reserves.
- Outwards capital movements result from dividend repayment of 3,209,468 thousand SIT and from the participation of the Management and Supervisory Boards in profit distribution, following the annual general meeting's decision, of 176,413 thousand SIT, of which the participation of non-owners represents 17,383 thousand SIT.
- Within short-term liabilities related to profit distribution, the value of 83,989 thousand SIT is stated as non-repaid dividends after previous annual general meetings.

### 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 2,939.43 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. The revaluation of capital reserves, as of December 31, 2001, amounted to 2,926,164 thousand SIT. A part of these reserves, which were created from profit, of 396,632 thousand SIT, is stated in the balance sheet among other revenue reserves. The remaining part of reserves, which were created on the basis of a special regulation and not from profit, of 2,529,532 thousand SIT, is stated in the balance sheet among capital reserves. In 2001 the latter increased by 7,585 thousand SIT, which is the difference between the book-value of own shares and the value on disposal. In 2002 capital reserves further increased by the value of disposed own shares by the amount of 22,768 thousand SIT.

### Revenue reserves

#### Legal reserves:

- The company has created legal reserves 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:

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

#### Other revenue reserves:

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

**Retained net profit (or loss) from previous years**

- Net profit brought forward of 8,555,352 thousand SIT represents a part of the accumulated profit according to the decision of annual general meeting in 2001.

**Net profit (or loss) for financial year**

- In 2002 the company earned net profit of 10,413,254 thousand SIT. According to the decision of the Management and Supervisory Boards one half of the net profit was allocated to other revenue reserves and the other half was included under the item of net profit for financial year.

**Equity revaluation adjustments**

- General equity revaluation adjustment derives from previous years (former equity revaluation adjustment).

**4.1.9. Provisions****13,930,646 thousand SIT****(in thousand SIT)**

	<b>Balance at 1 Jan 2002</b>	<b>Depletion and release</b>	<b>Creation</b>	<b>Balance at 31 Dec 2002</b>
Other provisions				
– for lawsuits	14,991,177	1,321,991		13,669,186
– for ecological improvement	438,891	177,431		261,460
<b>Total</b>	<b>15,430,068</b>	<b>1,499,422</b>		<b>13,930,646</b>

- Provisions for ecological improvement are almost completely depleted, and the bookkeeping decreases by the depreciation of fixed assets for ecological improvements, for which the provisions were created. The depreciation value is stated under the depletion item.
- In 2002 other provisions decreased by 1,321,991 thousand SIT, of which 1,316,710 thousand SIT represents the elimination of a provision, which was created in 1999 for commercial risks at the moment of entering the American market, because in 2002 the company got out of it. The remaining part of the provisions of 13,669,186 thousand SIT relates to lawsuits due to alleged patent infringements related to drugs for cardiovascular diseases.

## 4.1.10. Long-term liabilities

3,673,241 thousand SIT

(in thousand SIT)

	31 Dec 2002	31 Dec 2001
Long-term financial liabilities to banks	3,538,434	4,464,457
Long-term financial and operating liabilities to other entities	134,807	88,678
<b>Total</b>	<b>3,673,241</b>	<b>4,553,135</b>

- A part of long-term loans which are due in the next financial year, is stated among short-term liabilities of 1,570,763 thousand SIT.

## Long-term financial liabilities to banks

(in thousand SIT)

	31 Dec 2002	31 Dec 2001
Long-term loans obtained from local banks	1,153,408	1,827,229
Long-term loans obtained from foreign banks	2,385,026	2,637,228
<b>Total</b>	<b>3,538,434</b>	<b>4,464,457</b>

- In 2002 the company did not raise new long-term loans. Long-term loans have been raised with one local and three foreign banks, mostly in USD and EUR, and for a period of up to seven years for the purpose of financing investments and circulating capital. Long-term loans obtained from banks are not secured with mortgages nor with 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. Repayment of principal and interests is generally half-yearly.

## 4.1.11. Short-term liabilities

18,942,669 thousand SIT

(in thousand SIT)

	31 Dec 2002	31 Dec 2001
Short-term liabilities to banks	5,155,343	4,545,582
Short-term liabilities for advances	89,781	159,246
Short-term liabilities to suppliers	4,294,210	4,988,512
Short-term financial and operating liabilities (incl. of bonds) to group enterprises, except to associates	3,809,729	3,135,251
Short-term financial and operating liabilities to other entities	5,593,606	4,573,806
<b>Total</b>	<b>18,942,669</b>	<b>17,402,397</b>

**Short-term liabilities to banks****(in thousand SIT)**

	<b>31 Dec 2002</b>	<b>31 Dec 2001</b>
Short-term loans obtained from local banks	3,996,167	2,518,794
Short-term loans obtained from foreign banks	1,104,596	2,026,788
Short-term liabilities at interest	54,580	0
<b>Total</b>	<b><u>5,155,343</u></b>	<b>4,545,582</b>

• 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 liabilities to suppliers****(in thousand SIT)**

	<b>31 Dec 2002</b>	<b>31 Dec 2001</b>
Short-term liabilities to local suppliers	2,728,523	3,109,061
Short-term liabilities to foreign suppliers	1,565,687	1,879,451
<b>Total</b>	<b><u>4,294,210</u></b>	<b>4,988,512</b>

**Short-term financial and operating liabilities (incl. of bonds) to group enterprises, except to associates****(in thousand SIT)**

	<b>31 Dec 2002</b>	<b>31 Dec 2001</b>
HELVETIUS S.R.L., Triest, Italy	1,369,032	1,630,919
KRKA Aussenhandels GmbH, Munich, Germany	881,127	1,020,502
KRKA FARMA d.o.o., Zagreb, Croatia	303,233	180,305
KRKA Zdravilišča d.o.o., Novo mesto	1,256,337	303,525
<b>Total</b>	<b><u>3,809,729</u></b>	<b>3,135,251</b>

• At the end of the year Krka had 2,572,363 thousand SIT short-term operating liabilities and 1,237,366 thousand SIT financial liabilities to group enterprises. They were in forms of short-term loan, not longer than a year, with a call option.

**Short-term financial and operating liabilities to other entities****(in thousand SIT)**

	<b>31 Dec 2002</b>	<b>31 Dec 2001</b>
Short-term financial liabilities to others	3,229,548	2,417,308
Short-term operating liabilities:	2,364,058	2,156,498
– short-term operating liabilities to the state	990,711	363,193
– short-term operating liabilities to employees	1,280,604	1,611,584
– short-term operating liabilities related to profit allocation	83,989	73,789
– other short-term liabilities	8,754	107,932
<b>Total</b>	<b><u>5,593,606</u></b>	<b>4,573,806</b>

- Short-term financial liabilities to others comprise short-term loans obtained from companies in Slovenia of 3,178,044 thousand SIT and their interest of 51,505 thousand SIT.
- Loans are raised in Tolars for a period of one to six months, and some also for an indefinite period, or 'at call'. Loans are not specially secured.

#### 4.1.12. Accrued costs (expenses) / deferred revenues **1,038,607 thousand SIT**

(in thousand SIT)

	Balance at 1 Jan 2002	Depletion	Creation	Balance at 31 Dec 2002
Short-term deferred				
revenues – group enterprises	55,851	62,421	639,838	633,268
Short-term deferred revenues – others			229,362	229,362
Short-term accrued expenses				
of investment maintenance	46,668	46,668		
Short-term accrued expenses – others	119,597	117,852	174,232	175,977
<b>Total</b>	<b>222,116</b>	<b>226,941</b>	<b>1,043,432</b>	<b>1,038,607</b>

- The item of short-term deferred revenues from group enterprises includes interests from long-term loans paid in advance of 10,659 thousand SIT and calculated, contractually based discounts, granted on products sold to group enterprises, in 2002, to the amount of 622,609 thousand SIT.
- Short-term deferred revenues from others include calculated contractually based discounts granted on products sold to other customers, in 2002, to the amount of 229,362 thousand SIT.

#### 4.1.13. Off-balance sheet assets/liabilities **6,762,023 thousand SIT**

(in thousand SIT)

	31 Dec 2002	31 Dec 2001
Bills of exchange for insuring Krka's loans	3,243,928	0
Guarantees of the parent company given to group enterprises for raised loans	2,430,845	2,327,057
Other guarantees given	343,927	142,120
Others	743,323	3,436,382
<b>Total</b>	<b>6,762,023</b>	<b>5,905,559</b>

## 4.2. Income Statement

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

### Expenses by functional groups

65,773,418 thousand SIT

(in thousand SIT)

	2002	2001
Manufacturing costs of products sold	37,317,396	35,192,691
Development costs	6,463,229	5,658,673
Selling costs	14,322,518	13,339,880
General and administrative costs	7,670,275	7,000,140
<b>Total</b>	<b>65,773,418</b>	<b>61,191,384</b>

- The presentation of revenues and expenses by types:

### 4.2.1. Net sales revenues

77,664,814 thousand SIT

(in thousand SIT)

	2002	2001
<b>Revenues from sales of products and services in Slovenia</b>	<b>15,499,135</b>	<b>14,329,754</b>
– to group enterprises	1,084	932
– to others	15,498,051	14,328,822
<b>Revenues from sales of products and services abroad</b>	<b>61,100,774</b>	<b>55,408,501</b>
– to group enterprises	16,899,163	16,543,512
– to others	44,201,611	38,864,989
<b>Revenues from sales of goods and materials in Slovenia to others</b>	<b>21,922</b>	<b>66,807</b>
<b>Revenues from sales of goods and materials abroad</b>	<b>1,042,982</b>	<b>1,098,176</b>
– to group enterprises	73,377	74,464
– to others	969,605	1,023,712
<b>Total</b>	<b>77,664,814</b>	<b>70,903,238</b>

### Net sales revenues classified by product groups

(in thousand SIT)

	2002	2001	Index
Drugs for human use	68,680,186	61,659,859	111
– prescription pharmaceuticals	57,627,640	52,101,363	111
– self-medication drugs	11,052,546	9,548,496	116
Animal health products	4,758,513	5,179,405	92
Cosmetics	3,931,903	3,643,889	108
Other	294,312	430,085	68
<b>Total</b>	<b>77,664,813</b>	<b>70,903,238</b>	<b>110</b>

**Net sales revenues classified by regions****(in thousand SIT)**

	2002	2001	Index
Slovenia	15,521,057	14,396,561	108
South-East Europe	15,592,683	14,264,343	109
East Europe	21,950,241	19,264,249	114
Central Europe	14,711,884	14,514,724	101
West Europe and Overseas Markets	9,888,949	8,463,361	117
<b>Total</b>	<b>77,664,813</b>	<b>70,903,238</b>	<b>110</b>

**4.2.2. Other operating revenues****2,567,367 thousand SIT****(in thousand SIT)**

	2002	2001
Depletion and elimination of provisions (note No. 4.1.9.)	1,494,141	0
Other income related revenues	21,118	466,634
Revalued operating revenues (note No. 4.1.5.)	1,052,108	0
<b>Total</b>	<b>2,567,367</b>	<b>466,634</b>

**4.2.3. Cost of goods, materials and services****36,636,883 thousand SIT****(in thousand SIT)**

	2002	2001
Cost of raw materials and consumables	24,499,723	21,569,502
Cost of services	12,137,160	10,260,165
<b>Total</b>	<b>36,636,883</b>	<b>31,829,667</b>

- Cost of goods, materials and services increased by 15% in comparison with the previous year. The total of costs in the financial year 2002 is also influenced by the increase in the value of inventories of finished products and work-in-process, the reason for a part of the costs being contained in inventories.

**Cost of raw materials and consumables****(in thousand SIT)**

	2002	2001
Cost of basic materials and goods sold	21,363,255	18,665,436
Cost of energy used	1,468,118	1,541,412
Other material cost	1,668,350	1,362,654
<b>Total</b>	<b>24,499,723</b>	<b>21,569,502</b>

- Other material cost comprises cost of spare parts, maintenance materials, office supplies, expert literature, write-off of minor items and other material cost.

**Cost of services****(in thousand SIT)**

	<b>2002</b>	<b>2001</b>
Cost of trade fairs, advertising and entertainment	4,786,937	4,185,105
Cost of intellectual and personal services	2,019,902	1,898,938
Cost of services related to asset maintenance	1,122,626	1,038,229
Delivery cost	1,042,448	884,969
Repayments of labour related cost to employees	744,243	654,156
Cost of services by individuals not performing activities, together with corresponding expenses	519,951	0
Cost of other services	1,901,053	1,598,768
<b>Total</b>	<b>12,137,160</b>	<b>10,260,165</b>

- Cost of other services include the cost of payment operations, banking services, insurance premiums, rents, dealers' commissions, and other services.

**4.2.4. Labour cost****21,456,603 thousand SIT****(in thousand SIT)**

	<b>2002</b>	<b>2001</b>
Cost of salaries and compensations	16,174,898	14,716,914
Cost of contributions for social insurance and of salary tax	4,081,350	3,443,776
Other labour cost	1,200,355	2,072,895
<b>Total</b>	<b>21,456,603</b>	<b>20,233,585</b>

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

**4.2.5. Amortisation / depreciation, write-off****8,285,604 thousand SIT****Depreciation / amortisation****(in thousand SIT)**

	<b>2002</b>	<b>2001</b>
Amortisation of intangible fixed assets	187,360	134,684
Depreciation of tangible fixed assets	7,134,622	5,737,671
Operating expenses from revaluation of tangible and intangible fixed assets	38,957	255,849
<b>Total</b>	<b>7,360,939</b>	<b>6,128,204</b>

**Operating expenses from revaluation of operating current assets**

- The value adjustment of inventories of materials, goods, products and work-in-process is created for the inventories ranked as questionable items, inactive, expired sell-by date or perishable goods. The majority of revalued operating expenses refers to the inventory value adjustment (916,271 thousand SIT), and the rest to the value adjustment of receivables.

**4.2.6. Other operating expenses****1,120,592 thousand SIT****(in thousand SIT)**

	<b>2002</b>	<b>2001</b>
Disbursements for environment protection	267,144	219,502
Donations, aids, co-financing	401,179	377,253
Scholarships and rewards for pupils and students	35,943	22,946
Taxes independent of labour costs or other cost types	204,053	173,000
Other costs	212,273	1,350,844
<b>Total</b>	<b><u>1,120,592</u></b>	<b><u>2,143,546</u></b>

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

**4.2.7. Financial revenues****3,180,106 thousand SIT**

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

**(in thousand SIT)**

	<b>2002</b>	<b>2001</b>
Financial revenues from shares	809,401	416,297
– in group enterprises	757,592	389,148
– other financial revenues from shares	51,809	27,149
Financial revenues from long-term receivables	620,649	151,665
– to group enterprises (interests from long-term loans)	91,891	92,560
– other financial revenues from long-term receivables	528,758	59,105
Financial revenues from short-term receivables	1,750,056	2,294,524
– other financial revenues from short-term receivables	1,750,056	2,294,524
<b>Total</b>	<b><u>3,180,106</u></b>	<b><u>2,862,486</u></b>

- Other financial revenues from long-term receivables in 2002 include positive exchange-rate variances with payments, revaluation of long-term loans, granted and raised, of 494,484 thousand SIT, and from interests from long-term loans to the amount of 34,274 thousand SIT.
- A more important item in other financial revenues from short-term receivables is positive exchange-rate variances of 1,163,556 thousand SIT, financial revenues of 474,240 thousand SIT from the sale of short-term financial investments in securities, and interests from loans granted of 111,514 thousand SIT.

## 4.2.8. Financial expenses

5,358,402 thousand SIT

(in thousand SIT)

	2002	2001
Financial expenses from long-term and short-term investment write-off	1,506,648	123,087
– financial expenses revaluation of investments in group enterprises, except in associates	1,444,490	69,569
– financial expenses from revaluation of investments in associates	42,896	0
– other financial expenses from revaluation	19,262	53,518
Interest expenses and expenses from other liabilities	3,851,754	2,547,641
– to group enterprises, except to associates	61,648	81,207
– other interest expenses and expenses from other liabilities	3,790,106	2,466,434
<b>Total</b>	<b>5,358,402</b>	<b>2,670,728</b>

- Financial expenses in 2001 decreased by the amount of discounts for advanced payments by 615,135 thousand SIT and according to the new standards, they decrease revenues from total sales. Financial expenses for interests and from other liabilities in 2001 include also the deficit revaluation of 1,511,447 thousand SIT.
- Revaluation expenses of financial investments in group enterprises include: losses of these companies of 590,248 thousand SIT, negative exchange-rate variances of 779,442 thousand SIT, the revaluation of investments in conformity with the fluctuation of the exchange-rate in which the investments are nominated, and 74,800 thousand SIT of negative exchange-rate differences with long-term loans granted to group enterprises.
- The greatest item in other financial expenses for interests and from other liabilities is represented by negative exchange-rate variances of 2,947,833 thousand SIT, which arose in relation to receivables and liabilities, both with payments and revaluation on balance day, mainly connected with the USD exchange-rate. Interest from raised short-term loans amounts to 556,578 thousand SIT, and those from long-term loans, to 259,832 thousand SIT.

## 4.2.9. Income tax

2,032,276 thousand SIT

- The income tax is assessed in the Statement of Accounts at the 25% tax rate and taking into consideration taxes, and tax allowances to decrease the tax base. The calculated tax reduces the profit by 16.3% (14.4% in 2001). The greatest tax allowance 40% is represented by the amount invested in tangible fixed assets and intangible fixed assets.

#### 4.2.10. Net profit (or loss) for the financial year **10,413,254 thousand SIT**

(in thousand SIT)

	2002	2001
Profit (or loss) from ordinary activities	12,300,294	10,489,122
Extraordinary profit (or loss)	145,236	114,586
<b>Net profit (or loss) for the financial year</b>	<b>10,413,254</b>	<b>9,081,284</b>

• In 2002 the company earned an operating profit of 14,478,589 thousand SIT, which is a 41% improvement in comparison with the previous year. But financial expenses exceeded financial revenues by 2,178,295 thousand SIT, mainly due to negative exchange-rate variances arising from payments, revaluation of receivables and long-term financial investments. This influenced the value of net profit earned, which amounted to 10,413,254 thousand SIT in 2002 and that was a 15% increase compared with 2001.

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

(in thousand SIT)

	Amount of capital*	% growth	Calculated effect	Decreased profit – net income
Capital adjustment – Euro rate growth	78,638,027	4.0006	3,145,993	7,267,262
Capital adjustment – basic necessity price growth	78,638,027	7.2	5,661,938	4,751,317

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

## 5. General information and other disclosures

### Company presentation

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

#### Nature of business and principal business activities

- Our business operations are centred upon pharmaceutical-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 and cosmetics. The company's activities are defined in the Statute of the company.

#### Parent company information

- Krka, tovarna zdravil, d.d., Novo mesto, Šmarješka 6, 8501 Novo mesto is the parent company of the Krka group. The Annual Report of Krka, d. d., Novo mesto and The Consolidated Annual Report of the Krka group are available from the company Head Office and on [www.krka.si](http://www.krka.si).

#### Information about employees

- The number of employees at the end of business year 2002 is 3,399; 2,975 of those in Slovenia and 424 in representative offices abroad.

The average number and breakdown of employees, based on education level in 2002, is as follows:

Level of education	Representative		Total	Breakdown in %
	Slovenia	offices abroad		
PhD	31	2	33	1.0
MSc	91	3	94	2.8
University education	480	340	820	24.6
Higher professional education	67	0	67	2.0
Vocational college education	159	5	164	4.9
Secondary school education	791	19	810	24.3
Qualified workers	1,103	4	1,107	33.3
Unqualified workers	232	0	232	7.0
<b>Total</b>	<b>2,954</b>	<b>373</b>	<b>3,327</b>	<b>100.0</b>

Total amount of all receipts, that employee groups received for performing their functions or assignments in the financial year, in conformity with act 253 of ZGD, Corporate Law:

(in thousand SIT)

Employee groups according to the Corporate Law	Total receipts	Participation in the profit as per assembly's decision
– members of the Management Board	342,240	116,896
– members of the Supervisory Board:	120,469	34,117
external – shareholders' representatives	20,273	17,383
internal – employees' representatives	100,196	16,734
– employees employed on the basis of an agreement, for which the tariff part of the collective agreement does not apply	2,894,450	0
<b>Total</b>	<b>3,357,159</b>	<b>151,013</b>

- All amounts are stated at gross value, excluding employer's contributions.
- Receipts of the Management Board members and those Supervisory Board members, who are representatives of employees, consist of: salary, benefits, allowance for annual leave, potential other receipts, profit participation based on the assembly's decision, and repayment of expenses. Receipts of employees employed on the basis of an agreement, for which the tariff part of the collective agreement does not apply, consist of: salary, benefits, allowance for annual leave, and potential other receipts (tenure awards, ...). Receipts of the Supervisory Board members, who are representatives of shareholders, consist of: session fees, travel allowances and profit participation based on the annual general meeting's decision.

Data on loans that the company granted to employee groups, in conformity with act 253 of ZGD, Corporate Law:

(in thousand SIT)

Employee groups according to Corporate Law	Loans as at 31 Dec 2002	Repayments in 2002
– members of the Management Board	4,110	727
– members of the Supervisory Board	2,924	321
– employees employed on the basis of an agreement, for which the tariff part of the collective agreement does not apply	118,274	5,080
<b>Total</b>	<b>125,308</b>	<b>6,128</b>

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



## 6. Appendix

6.1. Balance Sheet – the expanded version under SAS

6.2. Income Statement – the expanded version under SAS

6.3. Ratios

## 6.1. Balance Sheet – the expanded version under SAS

(in thousand SIT)

	31 Dec 2002	31 Dec 2001
<b>Assets</b>	<b>126,636,445</b>	<b>119,613,508</b>
<b>A. Fixed assets</b>	<b>80,706,680</b>	<b>75,494,042</b>
I. Intangible fixed assets	962,379	692,383
1. Long-term deferred operating costs	298,920	241,372
3. Long-term industrial property rights	663,459	451,011
II. Tangible fixed assets	52,199,794	49,813,054
1. Land and buildings	33,288,388	30,611,187
a) Land	2,756,954	2,455,133
b) Buildings	30,531,434	28,156,054
2. Plant and machinery	11,403,743	11,378,538
3. Other equipment	353,575	302,398
4. Tangible fixed assets under construction	7,154,088	7,520,931
a) Advances for tangible fixed assets	1,308,722	535,880
b) Tangible fixed assets under construction and manufacture	5,845,366	6,985,051
III. Long-term investments	27,544,507	24,988,605
1. Shares in group enterprises	20,169,524	17,869,040
2. Long-term financial receivables from group enterprises, except from associates	1,228,580	981,817
3. Shares in associates	120,924	84,978
5. Other long-term shares	470,538	509,690
6. Other long-term financial receivables	862,583	827,953
7. Own shares	4,692,359	4,715,127
<b>B. Current Assets</b>	<b>45,884,334</b>	<b>44,069,775</b>
I. Inventories	16,544,703	14,992,633
1. Materials	5,562,777	4,869,203
2. Work-in-process	3,318,338	2,030,530
3. Products and merchandise	7,663,107	8,092,900
4. Advances for inventories	481	0
II. Operating receivables	27,397,555	25,182,898
a) Long-term operating receivables	5,849	5,623
2. Long-term operating receivables from group enterprises, except from associates	5,849	5,623
b) Short-term operating receivables	27,391,706	25,177,275
1. Short-term trade receivables	11,522,807	11,522,314
2. Short-term operating receivables from group enterprises, except from associates	14,638,164	12,474,470
4. Short-term operating receivables from other entities	1,230,735	1,180,491
III. Short-term investments	826,494	2,595,390
1. Short-term shares in group enterprises, except in associates	175,734	106,292
4. Short-term investments in other entities	650,760	2,489,098
IV. Cash and cash equivalents	1,115,582	1,298,853

	31 Dec 2002	31 Dec 2001
<b>C. Deferred costs (expenses) and accrued revenues</b>	<b>45,431</b>	<b>49,691</b>
<b>Off-balance sheet assets</b>	<b>6,762,023</b>	<b>5,905,559</b>
<b>Liabilities and capital</b>	<b>126,636,445</b>	<b>119,613,508</b>
<b>A. Capital</b>	<b>89,051,282</b>	<b>82,005,792</b>
I. Called-up capital	14,170,448	14,170,448
1. Share capital	14,170,448	14,170,448
II. Capital reserves	2,566,886	2,536,533
III. Revenue reserves	36,817,324	26,078,113
1. Legal reserves	3,592,196	3,592,196
2. Reserves for own shares	4,692,359	4,715,127
4. Other revenue reserves	28,532,769	17,770,790
IV. Retained net profit (or loss) from previous years	8,555,352	12,955,943
V. Net profit (or loss) for the financial year	5,206,627	4,540,642
VI. Equity revaluation adjustments	21,734,645	21,724,113
1. General equity revaluation adjustment	21,724,113	21,724,113
2. Special equity revaluation adjustments	10,532	0
<b>B. Provisions</b>	<b>13,930,646</b>	<b>15,430,068</b>
3. Other provisions	13,930,646	15,430,068
<b>C. Financial and operating liabilities</b>	<b>22,615,910</b>	<b>21,955,532</b>
a) Long-term liabilities	3,673,241	4,553,135
2. Long-term financial liabilities to banks	3,538,434	4,464,457
8. Long-term financial and operating liabilities to other entities	134,807	88,678
b) Short-term liabilities	18,942,669	17,402,397
2. Short-term liabilities to banks	5,155,343	4,545,582
3. Short-term liabilities for advances	89,781	159,246
4. Short-term liabilities to suppliers	4,294,210	4,988,512
6. Short-term financial and operating liabilities (incl. of bonds) to group enterprises, except to associates	3,809,729	3,135,251
8. Short-term financial and operating liabilities to other entities	5,593,606	4,573,806
<b>D. Accrued costs (expenses) and deferred revenues</b>	<b>1,038,607</b>	<b>222,116</b>
<b>Off-balance sheet liabilities</b>	<b>6,762,023</b>	<b>5,905,559</b>

## 6.2. Income Statement – the expanded version under SAS

(in thousand SIT)

	2002	2001
1. Net sales revenues	77,664,814	70,903,238
a) domestic market	15,521,057	14,396,561
b) foreign market	62,143,756	56,506,677
2. Change in value of inventory of products and work-in-process	1,726,264	-387,638
3. Capitalised own products and services	19,827	628,634
4. Other operating revenues	2,567,367	466,634
5. Cost of goods, materials and services	-36,636,883	-31,829,667
a) Cost of raw materials and consumables	-24,499,723	-21,569,502
b) Cost of services	-12,137,160	-10,260,165
6. Labour cost	-21,456,603	-20,233,585
a) wages and salaries	-16,174,898	-14,716,914
b) social security contributions	-4,081,350	-3,443,776
c) other labour cost	-1,200,355	-2,072,895
7. Amortization / depreciation, write-off	-8,285,604	-7,106,706
a) Amortisation of intangible fixed assets, depreciation of tangible fixed assets, operating expenses from revaluation of tangible and intangible fixed assets	-7,360,939	-6,128,204
b) Operating expenses from revaluation of operating current assets	-924,665	-978,502
8. Other operating expenses	-1,120,592	-2,143,546
9. Financial revenues from shares	809,401	416,297
a) Financial revenues from shares in in the group enterprises, except in associates	757,592	389,148
c) Other financial revenues from shares	51,809	27,149
10. Financial revenues from long-term receivables	620,649	151,665
a) Financial revenues from long-term receivables due from group enterprises, except from associates	91,891	92,560
c) Other financial revenues from long-term receivables	528,758	59,105
11. Financial revenues from short-term receivables	1,750,056	2,294,524
c) Other financial revenues from interests and short-term receivables	1,750,056	2,294,524
12. Financial expenses from long-term and short-term investment write-off	-1,506,648	-123,087
a) Financial expenses from revaluation of investments in group enterprises, except in associates	-1,444,490	-69,569
b) Financial expenses from revaluation of investments in associates	42,896	0
c) Other financial expenses from revaluation	-19,262	-53,518
13. Interest expenses and expenses from other liabilities	-3,851,754	-2,547,641
a) Interest expenses and expenses from other liabilities to group enterprises, except to associates	-61,648	-81,207
c) Other interest expenses and expenses from other liabilities	-3,790,106	-2,466,434
<b>15. Profit (or loss) from ordinary activities</b>	<b>12,300,294</b>	<b>10,489,122</b>
16. Extraordinary revenues	151,183	120,190
17. Extraordinary expenses	-5,947	-5,604
a) Extraordinary expenses excl. of equity revaluation adjustments	-5,947	-5,604
<b>18. Extraordinary profit (or loss)</b>	<b>145,236</b>	<b>114,586</b>
<b>19. Profit (or loss) before tax</b>	<b>12,445,530</b>	<b>10,603,708</b>
20. Income tax	-2,032,276	-1,522,424
<b>21. Net profit (or loss) for the financial year</b>	<b>10,413,254</b>	<b>9,081,284</b>

### 6.3. Ratios

	2002	2001
<b>1. Capital to liabilities:</b>		
capital / liabilities	0.703	0.686
<b>2. Long-term financing ratio:</b>		
capital		
+ provisions		
+ long-term liabilities / total capital & liabilities	0.842	0.853
<b>3. Fixed operating assets to total assets:</b>		
fixed assets (at net book value) / assets	0.412	0.416
<b>4. Long-term assets to total assets:</b>		
fixed assets (at net book value)		
+ long-term investments		
+ long-term operating receivables / assets	0.630	0.625
<b>5. Capital to fixed operating assets:</b>		
capital / fixed assets (at net book value)	1.706	1.646
<b>6. Immediate ratio:</b>		
short-term financial investments		
+ cash and cash equivalents / short-term liabilities	0.103	0.224
<b>7. Quick ratio:</b>		
short-term financial investments		
+ cash and cash equivalents		
+ short-term receivables / short-term liabilities	1.549	1.671
<b>8. Current ratio:</b>		
inventories		
+ short-term financial investments		
+ cash and cash equivalents		
+ short-term receivables / short-term liabilities	2.422	2.532
<b>9. Operating effectiveness ratio:</b>		
operating revenues / operating expenses	1.220	1.167
<b>10. Net return on capital:</b>		
net profit for the financial year / average capital (less net profit for the account period)	0.130	0.127
<b>11. Ordinary share dividends to share capital:</b>		
sum of dividends for the financial year / average share capital	0.226	0.167



**Krka, d. d., Novo mesto**

Šmarješka cesta 6  
8501 Novo mesto  
Slovenia

Telephone + 386 7 331 21 11

Telefax + 386 7 332 15 37

E-mail [info@krka.biz](mailto:info@krka.biz)

[www.krka.si](http://www.krka.si)

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