



## **2002 SEMI-ANNUAL BUSINESS REPORT**

## Business results review of Krka, d. d., Novo mesto and Krka Group in the first half of 2002

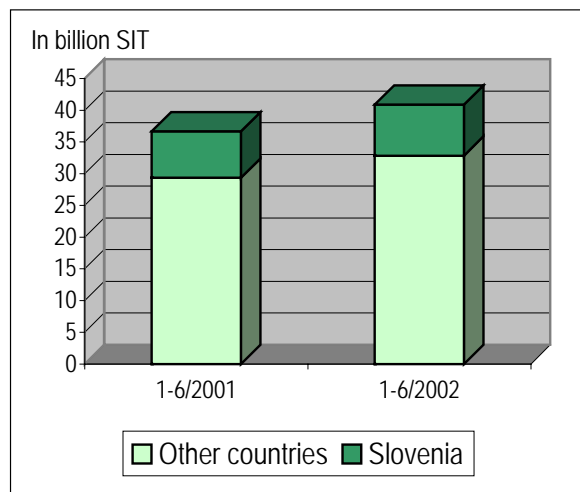
Targets for first half of 2002 achieved:

- Sales up by 11 percent, compared to the first half of 2001, and amounted to SIT 41 billion
- Export amounted to SIT 33 billion
- Pharmaceuticals' most significant sales growth in Ukraine and Western Europe
- Krka's largest and most important investment up to date: Notol- the plant for the production of drugs in solid dosage form in Novo mesto, officially opened in April 2002
- Launching of a number of new products
- Investment expenditure in Slovenia and abroad amounted to SIT 7.2 billion
- Net income in the first half of 2002 amounted to SIT 4.7 billion

### Sales results

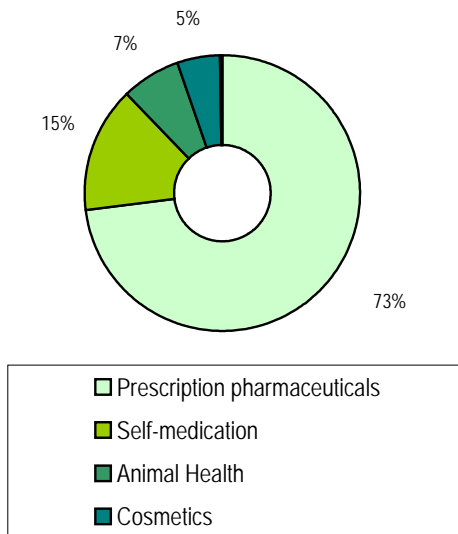
In the first half of 2002, our sales amounted to SIT 41 billion, which is by 11 percent more than in the first half of 2001. Most of the sales (80 percent) were achieved on foreign markets and the rest (20 percent) in Slovenia.

#### Krka's sales in the first half of 2001 and 2002

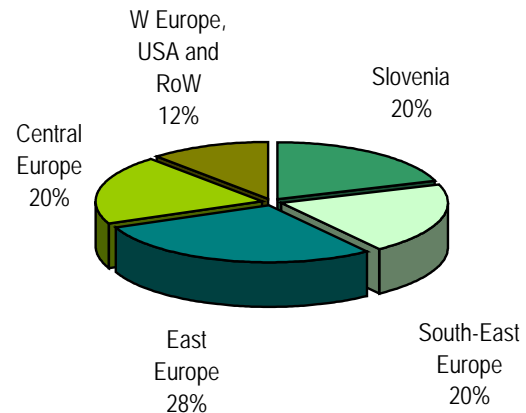


Prescription pharmaceuticals for human use generated by far the largest part of the revenues (73 percent) mainly due to drugs for cardiovascular, gastrointestinal and infectious diseases. Self-medication products represented a 15-percent share of total sales, while the other revenues were achieved by sale of animal health and cosmetic products. In comparison to the first half of 2001, the most significant sales increase was recorded in self-medication products (31 percent) and prescription pharmaceuticals (10 percent).

**Sales by branch of activity in the first half of 2002**

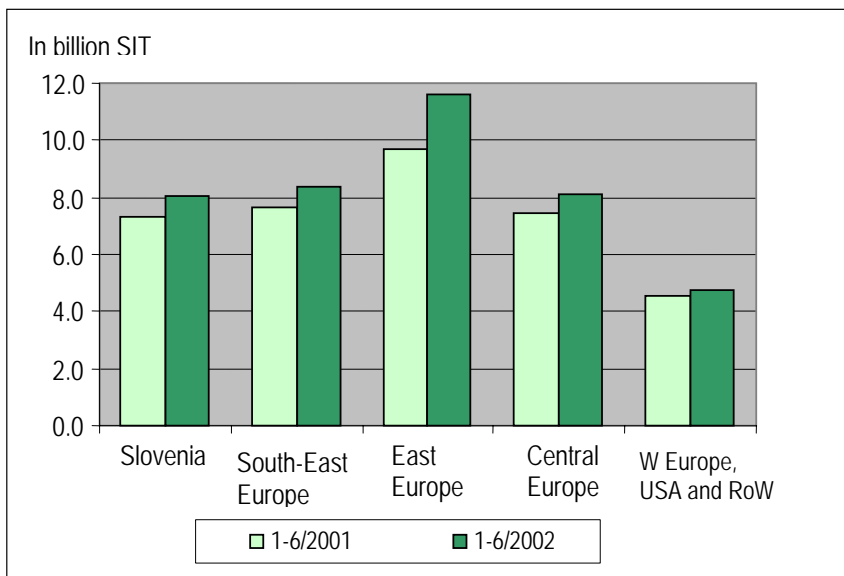


**Sales structure by regions in the first half of 2002**



On Krka's largest individual market, Slovenia, the sales reached one fifth of total sales. The most significant sales growth of 20 percent was recorded in the East European region. The good results are related to the favourable situation on the markets of the former Soviet Union. The most noticeable sales growth in this region was achieved in Ukraine, where the sales increased by 69 percent in comparison to the same period last year. In South-East and Central European region sales grew by 9 percent in comparison to the first half of 2001. Each of these two regions represents one fifth of Krka's total sales. In the West European, USA and RoW region that represents Krka's fifth region, the sales increased by 5 percent. On the western European markets the prescription pharmaceuticals' sales increased by 30 percent. It is these markets that according to our strategy will play the key role in further sales growth.

**Sales by regions in the first half of 2001 and 2002**



Krka, a manufacturer of mainly generic pharmaceutical products with registered brand-names, is present in more than 70 countries world-wide. Krka's sales network comprises 13 companies in which Krka holds majority ownership, as well as 25 representative offices in Poland, the Russian Federation, Macedonia, Croatia, Ukraine, Italy, the Czech Republic, Germany, Albania, Byelorussia, Bulgaria, Bosnia and Herzegovina, Federal Yugoslavia, Estonia, Kazakhstan, Latvia, Lithuania, Hungary, Moldavia, Romania, USA, Ireland, India and Azerbaijan.

## Results

In the first half of 2002, Krka generated sales revenues of SIT 42.6 billion, which represents 10 percent increase compared to the same period last year. Net profit amounts to SIT 4.7 billion and decreased in comparison to the first half of 2001. The net profit margin amounts to 10.9 percent. The profit decreased mainly due to the unfavourable fluctuation of the US dollar exchange rate and invoicing of approximately half of Krka's sales in US dollar.

### Performance indicators

	1-6/2002	1-6/2001
Net profit/ revenues	10.9%	13.1%
ROE	11.0%	13.8%
ROA	7.6%	9.1%

By the end of June 2002, the value of Krka's total assets amounted to SIT 125.4 billion and has increased in by 4.8 percent compared to value at the end of 2001. The fixed assets represented 63 percent and current assets 37 percent within the asset structure. Share capital and reservations represented 83 percent, while short-term and long-term liabilities represent 17 percent within capital & liabilities structure.

## Investments

In the first half of 2002, the capital expenditures in Slovenia and abroad amounted to SIT 7.2 billion. In April, Krka officially opened the plant for the production of pharmaceuticals in solid dosage form – Notol, which is the largest investment in the company's history. Presumably in autumn 2002, the construction of the new development-control centre II, intended for the development of new pharmaceutical technologies will be completed. About twenty kilometres from Novo mesto, in Sentjerne, the construction of the plant for production of beta-lactam antibiotics is currently ongoing, while the warehouse and the surrounding facilities are already completed. Completion of the production part and start of production are planned for 2003.

Krka's larger investments abroad are also developing according to plans. Krka's largest project abroad – the construction of the production and distribution centre in the outskirts of Moscow – is proceeding according to the plan and is expected to be completed in 2003, thus giving Krka the status of the domestic manufacturer on the Russian Federation market.

## Research and development

In the first half of 2002, our research and development activities in various programmes were carried out according to our strategic goals. First we continued with the development of the planned projects, while we also worked on internationalization of our new products that have already marketing authorizations in Slovenia. We successfully prepared the launch of a few key products that we have successfully developed during the previous years, e.g. atorvastatin.

As one of the leading generic manufacturers in Europe, Krka succeeded, among the first in obtaining marketing authorizations in a number of our important traditional markets for a drug from the group of sartans – the drugs which will soon hold an important position in the contemporary therapy of high blood pressure.

At the same time, we gained some authorizations in the European Union for different drugs from the group of statins – cholesterol-lowering agents.

Among self-medication products we obtained first authorization on Krka's traditional markets for the anti-allergic drug Letizen<sup>®</sup> S. Furthermore, we registered our paracetamol products under the registered brand name Daleron<sup>®</sup>,

including the key product Daleron Cold 3<sup>®</sup>, for treatment of cold related symptoms, thus launching these products in all east European markets.

The Cosmetics Programme added new products to the SUN MIX<sup>®</sup> product range, while they also presented new make-up products. In addition to these projects, intensive development activities on other projects were carried out and will result in a richer product range in the second half of 2002.

## Human Resources

In order to realize such a dynamic sales growth in the first half of 2002, Krka had to recruit additional workforce, particularly in the field of marketing and sales, and research and development in Slovenia and abroad. Consequently, in Slovenia, we additionally employed 70 people, and 94 people in companies and representative offices abroad. The majority of new employees have university level education.

At the end of June 2002, Krka employed 3,648 employees, of whom 2,982 (82 percent ) were employed in Slovenia and 666 (18 percent) in companies and representative offices abroad. The educational structure in Krka is showing tendency to a higher educational level, as 35% of employees have university or high professional education.

## Shares and shareholders

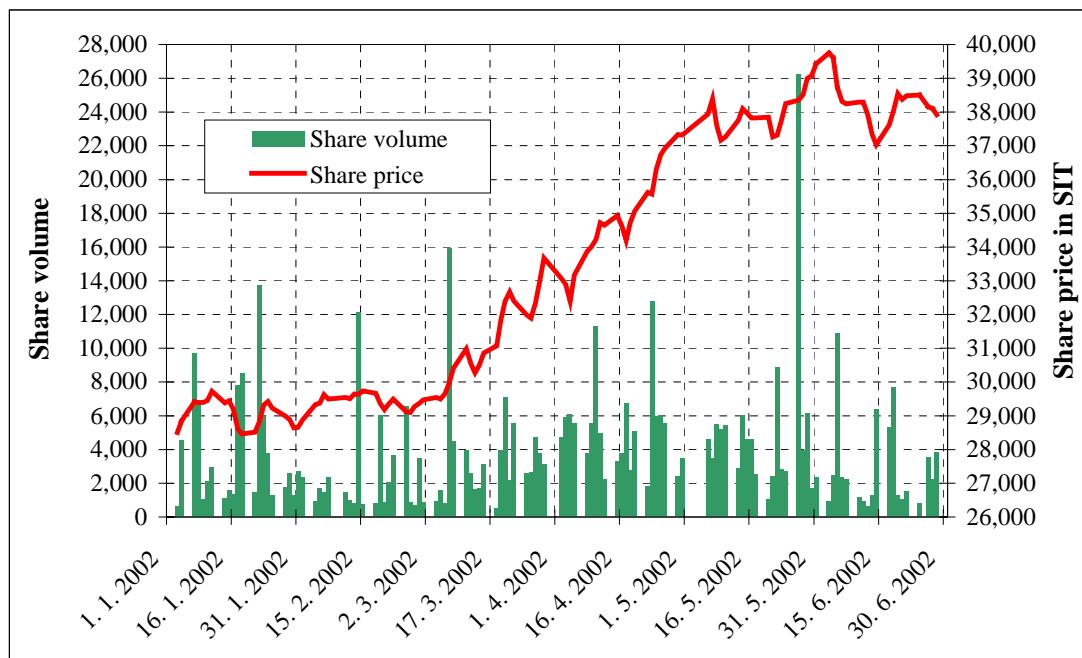
In the first half of 2002, the number of Krka's shareholders decreased by 2.6 percent in comparison to the end of 2001, to 49,641 shareholders. Their number primarily decreased due to the reduced ownership share (32.6 percent) of domestic individual shareholders, as well as due to the decreased number of domestic individual shareholders, while the share of authorised investment companies decreased to 14.2 percent. By the end of the first half of 2002, the share of foreign investors amounted to almost 10 percent of all Krka's shares.

### Krka's Shareholders' structure

	30. 06. 2002	31. 12. 2001
Domestic individual shareholders	32.6%	33.3%
Domestic companies	19.5%	18.1%
Authorised investment companies	14.2%	15.6%
Slovenian Compensation Fund	13.3%	13.7%
Pension Fund Management + PPS	10.5%	10.5%
Foreign investors	9.9%	8.8%
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>

From the beginning of 2002 until end of June, the share price rose by 32 percent to reach its highest price since Krka's share have been on the stock exchange, on 3 June 2002, amounting to SIT 39,752. The highest share price was therefore 12 percent higher than the former highest share price of SIT 35,570 that was achieved on 11 August 1998.

### Krka's share performance on the Ljubljana Stock Exchange in the first half of 2002



### Some share indicators

	1-6/2002	2001	2000
Nominal share price in SIT (end of period)	4,000	4,000	4,000
Book share value in SIT (end of period)	24,889	23,148	19,943
Share price in SIT (end of period)	37,920	28,711	27,392
Share price / book share value (end of period)	1.52	1.64	1.37
Earnings per share in SIT	2,629*	2,563	2,008
P/E (share price / earnings per share)	14.4	11.2	13.6

\* annualized

## Un-audited consolidated financial statements of Krka, d. d., Novo mesto and the Krka Group for the first half of 2002

### Introductory notes

Krka, d. d., Novo mesto is the parent company of the Krka Group. As at 30 June 2002, the following affiliated companies were included in the Krka Group:

	Percentage of share capital
Company operating in Slovenia:	
• KRKA Zdravilišča, d. o. o., Novo mesto	100%
Companies operating abroad:	
• KRKA FARMA, d. o. o., Zagreb, Croatia	100%
• KRKA-FARMA DOOEL, Skopje, Macedonia	100%
• KRKA KOZMETIKA DOOEL, Skopje, Macedonia	100%
• KRKA Polska, Sp. z o. o., Warsaw, Poland	100%
• KRKA Aussenhandels GmbH, Munich, Germany	100%
• OOO KRKA-RUS, Istra, Russian Federation	100%
• OOO KRKA FARMA, Sergiev posad, Russian Federation	100%
• KRKA ČR, s. r. o., Prague, Czech Republic	100%
• KRKA Pharma Dublin Limited, Dublin, Ireland	100%
• KRKA Magyarország, Kft, Budapest, Hungary	99%
• HELVETIUS S. R. L., Trieste, Italy	80%
• KRKA-FARMA d. o. o. Novi Sad, FR Yugoslavia	60%

The company Krka Zdravilišča, d. o. o., Novo mesto holds a 51 percent ownership share in the company Krka - Zdravilišče Strunjan, d. o. o. The financial statements of the above-named company have been included in the consolidated financial statements of the company Krka Zdravilišča, d. o. o., Novo mesto, and hence, indirectly, in the consolidated financial statements of the Krka Group.

Krka sells its products through its affiliated companies in Poland, Croatia, Macedonia, Russia (OOO KRKA FARMA) and FRY, while the companies in Italy and Germany are mainly used as intermediaries for its imports of equipment and raw materials and semi-manufactures, and less as sales agents for its products. We now carry out procedures for the marketing authorization of industrial generic preparations through our company in Ireland, while the companies in the Czech Republic and Hungary remain dormant.

All companies in the group have been established or co-established by the parent company and, consequently, the acquisition method of accounting was adopted for consolidation of capital. Investments in companies of the Krka Group by the parent company were valued by equity method and charged against the proportionate interest of these companies in the capital of the Group.

Intra-group receivables and liabilities were excluded from the consolidated balance sheet.

Intra-group revenues and expenses were excluded from the consolidated profit and loss statement.

The profit resulting from the intra-group sales of products and materials that had not been sold outside the Krka Group by 30 June 2002, were excluded from the consolidated financial statements.

## BALANCE SHEET

in mio SIT

	Krka, d. d., Novo mesto		Krka Group	
	30.06.2002	30.06.2001	30.06.2002	30.06.2001
<b>ASSETS</b>	<b>125,409</b>	<b>117,525</b>	<b>125,940</b>	<b>119,158</b>
<b>Fixed assets</b>	<b>79,116</b>	<b>70,788</b>	<b>81,050</b>	<b>73,875</b>
Intangible fixed assets	652	442	931	656
Tangible fixed assets	51,119	47,359	72,283	67,102
Long-term investments	27,344	22,987	7,836	6,116
<b>Current assets</b>	<b>46,220</b>	<b>46,655</b>	<b>44,613</b>	<b>44,981</b>
Inventories	15,310	15,379	17,497	17,149
Operating receivables	26,865	23,883	21,713	18,929
Short-term investments	2,347	6,395	2,766	6,993
Balances on bank accounts, cheques and cash	1,698	998	2,637	1,911
<b>Deferred costs and accrued revenues</b>	<b>73</b>	<b>82</b>	<b>277</b>	<b>302</b>
<b>LIABILITIES AND CAPITAL</b>	<b>125,409</b>	<b>117,525</b>	<b>125,940</b>	<b>119,158</b>
<b>Capital</b>	<b>88,175</b>	<b>76,471</b>	<b>86,424</b>	<b>75,450</b>
Share capital	14,170	14,170	14,170	14,170
Capital reserves	7	7	7	7
Reserves from net profit	28,608	23,496	28,608	23,496
Retained net profit	17,497	12,702	14,445	10,193
Net profit for the accounting period	4,657	5,076	4,012	4,622
Capital revaluation adjustments	23,236	21,020	23,263	21,072
Minority owners' capital	0	0	1,918	1,889
<b>Provisions</b>	<b>15,336</b>	<b>14,640</b>	<b>15,566</b>	<b>14,850</b>
<b>Financial and operating liabilities</b>	<b>21,811</b>	<b>26,031</b>	<b>23,695</b>	<b>28,230</b>
Long-term financial liabilities	4,307	7,914	6,029	8,410
Short-term financial liabilities	7,081	6,063	6,126	6,752
Short-term operating liabilities	10,424	12,054	11,540	13,067
<b>Accrued costs and deferred revenues</b>	<b>87</b>	<b>383</b>	<b>255</b>	<b>628</b>

*Note:*

*- the items in Balance Sheet for 2001 are appropriately re-stated according to the new Slovenian Accounting Standards to achieve comparability with 2002*



## PROFIT AND LOSS STATEMENT

in mio SIT

	Krka, d. d., Novo mesto		Krka Group	
	01-06/2002	01-06/2001	01-06/2002	01-06/2001
Net sales revenues	40,878	36,666	43,836	39,959
- domestic sales	8,018	7,295	10,496	9,439
- foreign sales	32,861	29,371	33,340	30,519
Changes in value of inventories	(175)	69	207	250
Capitalized own products and services	11	6	11	6
Other operating revenues	144	266	223	483
<b>Total</b>	<b>40,858</b>	<b>37,007</b>	<b>44,278</b>	<b>40,697</b>
Costs of goods, materials and services	(17,772)	(16,326)	(19,288)	(18,572)
Labour costs	(10,645)	(9,126)	(12,562)	(10,718)
Value write-offs	(4,001)	(3,580)	(4,632)	(4,123)
- depreciation	(3,528)	(2,903)	(4,121)	(3,306)
- operating expenses from current assets revaluation	(473)	(677)	(511)	(817)
Other operating expenses	(613)	(903)	(782)	(1,004)
<b>Operating expenses</b>	<b>(33,030)</b>	<b>(29,934)</b>	<b>(37,263)</b>	<b>(34,418)</b>
<b>Operating profit</b>	<b>7,828</b>	<b>7,073</b>	<b>7,015</b>	<b>6,279</b>
Financial revenues from investments	489	1,148	489	1,148
Financial revenues from long-term receivables	453	227	453	227
Financial revenues from short-term receivables	532	1,460	620	2,400
<b>Financial revenues</b>	<b>1,474</b>	<b>2,836</b>	<b>1,563</b>	<b>3,775</b>
Fin. exp. from long-term and short-term investments write-offs	(1,396)	(795)	(1,396)	(795)
Interest and other financial expenses from liabilities	(2,496)	(3,097)	(2,349)	(3,509)
<b>Financial expenses</b>	<b>(3,893)</b>	<b>(3,893)</b>	<b>(3,745)</b>	<b>(4,304)</b>
<b>Profit from ordinary activities</b>	<b>5,409</b>	<b>6,016</b>	<b>4,832</b>	<b>5,750</b>
Extraordinary revenues	92	50	102	86
Extraordinary expenses	(5)	(3)	(9)	(99)
<b>Extraordinary result</b>	<b>88</b>	<b>48</b>	<b>93</b>	<b>(13)</b>
<b>Total profit</b>	<b>5,497</b>	<b>6,064</b>	<b>4,925</b>	<b>5,737</b>
Tax on profit	(840)	(988)	(911)	(1,103)
<b>Net profit for the accounting period</b>	<b>4,657</b>	<b>5,076</b>	<b>4,013</b>	<b>4,634</b>
Majority owner's net profit			4,012	4,622
Minority owners' net profit			1	13

*Note:*

- the items in Profit and Loss Statement for 2001 are appropriately re-stated according to the new Slovenian Accounting Standards to achieve comparability with 2002 results

## CASH FLOW STATEMENT

in mio SIT

	Krka, d. d., Novo mesto		Krka Group	
	01-06/2002	01-06/2001	01-06/2002	01-06/2001
<b>Cash Flow from operating activity</b>				
Operating inflows	37,556	33,720	41,807	38,972
Operating outflows	29,378	24,934	32,883	28,737
Total cash flow from operating activity	8,178	8,786	8,924	10,235
<b>Cash Flow from investment activity</b>				
Investment inflows	429	235	461	581
Investment outflows	6,445	8,946	6,974	10,881
Total cash flow from investment activity	(6,016)	(8,711)	(6,513)	(10,300)
<b>Cash Flow from financing activity</b>				
Financing inflows	275	4,609	1,770	5,736
Financing outflows	1,984	4,300	3,338	5,133
Total cash flow from financing activity	(1,709)	309	(1,568)	603
<b>Closing balance of cash and cash equivalents</b>	<b>1,698</b>	<b>998</b>	<b>2,637</b>	<b>1,911</b>
Total Cash Flow for the accounting period	453	384	843	538
Exchange rate fluctuations effect on cash funds	54	(63)	54	(63)
Opening balance of cash and cash equivalents	1,299	550	1,849	1,309

*Notes:*

*- the items in Cash Flow Statement for 2001 are appropriately re-stated according to the new Slovenian Accounting Standards to achieve comparability with 2002*

## CAPITAL DEVELOPMENT STATEMENTS

Krka, d. d., Novo mesto

in mio SIT

	Share capital	Capital reserves	Legal reserves	Reserves for treasury shares	Statutory reserves	Other reserves from net profit	Net profit carried forward	Net profit for financial year	General capital revaluation adjustment	Extraord. capital revaluation adjustment	Total capital
<b>Balance at 31.12.2001</b>	14,170	7	3,592	4,715	0	15,760	12,956	9,081	21,725	0	82,006
<b>Capital Increase</b>											
Entry of net profit for financial year								4,657			4,657
Other capital increases										1,512	1,512
<b>Changes within capital structure</b>											
Distribution of net profit for financial year						4,541	4,541	(9,081)			0
<b>Capital decrease</b>											
<b>Balance at 30.06.2002</b>	14,170	7	3,592	4,715	0	20,300	17,497	4,657	21,725	1,512	88,175

Krka Group

in mio SIT

	Share capital	Capital reserves	Legal reserves	Reserves for treasury shares	Statutory reserves	Other reserves from net profit	Net profit carried forward	Net profit for financial year	General capital revaluation adjustment	Extraord. capital revaluation adjustment	Total capital
<b>Balance at 31.12.2001</b>	14,170	7	3,592	4,715	0	15,760	10,466	8,520	21,751	0	78,981
<b>Capital Increase</b>											
Entry of net profit for financial year								4,012			4,012
Other capital increases										1,512	1,512
<b>Changes within capital structure</b>											
Distribution of net profit for financial year						4,541	3,979	(8,520)			0
<b>Capital decrease</b>											
<b>Balance of majority owners' capital at 30.06.2002</b>	14,170	7	3,592	4,715	0	20,300	14,445	4,012	21,751	1,512	84,506