

2002

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



2002

Business Report
Krka, d. d.,
Novo mesto

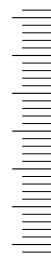


Table of

Contents



4	Mission and vision
4	Krka in a nutshell
5	An overview of achievements in 2002
7	Strategic focus
8	Statement by the President of the Management Board
10	Address by the President of the Supervisory Board
13	Business results of Krka, d. d., Novo mesto for 2002
14	A year marked by good sales
26	Adjusting the range to fit individual markets
31	Investing in the future
33	We care about the environment
34	A commitment to quality
34	Employees – a company's mirror
36	Partnership with suppliers
37	Creating new opportunities
39	Dynamic stock exchange trading
45	Krka at home and abroad
46	Management Board of the joint stock company
47	Supervisory Board of the joint stock company
48	Organizational structure of the joint stock company
49	Who's who in Krka
51	Addresses of companies abroad in which Krka, d. d., Novo mesto holds a majority of ownership shares
53	Addresses of representative offices of Krka, d. d., Novo mesto abroad

Mission and vision

Mission

- Living the healthy life.

- Our basic task is to enable people to lead a healthy, good quality life.

This we achieve through our rich range of products and services – with prescription pharmaceuticals, self-medication products, cosmetic and animal health products, our health-resort services, our investment in people and the environment, and through sponsorship and donations.

Vision

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

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

Krka in a nutshell

- Krka is today one of the leading generic pharmaceutical companies in central and eastern Europe. Our operations consist of pharmaceutical and chemical activities which, apart from the manufacture and sale of prescription pharmaceuticals and self-medication products, also include the manufacture and sale of animal health and cosmetic products. Our products are marketed in more than 70 countries worldwide, in which a bond of trust has been crafted through the decades by the quality of our products and our reliability as partners. One fifth of our production is sold in our home market, while the remainder is exported, thus ranking us among the largest Slovenian exporters. Our markets are connected by a tightly-knit marketing network, consisting of 26 representative offices and 13 companies based abroad. In 2003, representative offices will open in Tashkent (Uzbekistan) and Priština (Kosovo).

- Krka's origins reach back as far as 1954 when the Krka Pharmaceutical Laboratory was established with only nine staff members. Today Krka, its subsidiaries, and representative offices abroad, employ a combined total of 3,792 people, who help to shape the future of an increasingly internationally orientated company, with their knowledge, expertise and innovation.

- We will continue penetration of western markets and at the same time keep our advantage in our traditional markets, from Vladivostok to Dublin. In line with our strategy as an innovative producer of generic pharmaceuticals, we will develop and sell high quality, safe and effective generic products, with our own brand names, and at the same time ensure they are affordable. This encourages us in our quest to satisfy everybody – users, buyers, employees, shareholders and the whole environment.

An overview of achievements in 2002

- 10.4 billion SIT net profit, representing 15% growth.
- Sales totalling 77.7 billion SIT, representing 10% growth.
- 35% growth in Western Europe markets.
- First marketing authorisation for 14 new products, including 9 prescription pharmaceuticals.
- First marketing authorisation for Tenox® (amlodipine maleate) in Poland. Production already underway.
- Opening of the New Development Control Centre II.
- Opening of a production plant, for solid-dosage forms of pharmaceuticals – Notol – the biggest investment in Krka's history.
- Opening of a storage facility in the new production and distribution centre, in the Russian Federation.
- 11.9 billion SIT spent on domestic and foreign investments.
- The Supervisory Board re-appointed company management for the next five years, with no change in its composition.
- 950 SIT dividend per share before tax, representing a 36% growth.
- The Krka's share performance on the stock market, in terms of trading volume and share price, improved significantly. At the year end the price was 42,458 SIT per share.
- We won the award for the most energy efficient project of the year.
- According to a survey Influence of the pharmaceutical market, in the Russian Federation, Krka was placed third in the foreign producers category.
- Ukrainian physicians and pharmacists evaluated Krka as the best foreign pharmaceutical producer.
- We received two bronze medals (effie) for our communicative effectiveness with Septolete® Plus and Daleron Cold3®.
- In October, we awarded 77 Krka Prizes to young researchers. At the accompanying international symposium was the Nobel chemistry laureate, Dr. Robert Huber.

Business Highlights

	2002	2001
Net sales revenues in million SIT	77,665	70,903
EBITDA* in million SIT	21,840	17,404
– EBITDA margin in %	28.1	24.5
EBIT** in million SIT	14,479	10,297
– EBIT margin in %	18.6	14.5
Net profit in million SIT	10,413	9,081
– Net profit margin in %	13.4	12.88
R&D costs in million SIT	6,463	5,659
– % of sales	8.3	8.0
Investments in million SIT	11,887	12,998
Fixed assets in million SIT	80,707	75,494
Current assets in million SIT	45,884	44,070
Capital in million SIT	89,051	82,006
Provisions in million SIT	13,931	15,430
Long term liabilities in million SIT	3,673	4,553
Short term liabilities in million SIT	18,943	17,402
Number of employees (end of year)	3,399	3,257

Indexes

	2002	2001
Return on Sales (ROS)***	12.5%	12.1%
Return on Equity (ROE)****	12.2%	11.9%
Return on Assets (ROA)*****	8.5%	8.1%
Debt/Capital	0.266	0.261

USD and EUR Exchange rates

	2002	2001
USD (average)	SIT 240.245	SIT 242.787
USD (31 December)	SIT 221.071	SIT 250.946
EUR (average)	SIT 226.224	SIT 217.186
EUR (31 December)	SIT 230.267	SIT 221.410

Share data

	2002	2001	2000	1999
Total number of shares	3,542,612	3,542,612	3,542,612	3,542,612
Profit per share in SIT	2,939	2,563	2,008	1,272
Dividend per share in SIT	n/a	950	700	550
Price at the end of term in SIT	42,458	28,711	27,392	25,784
P/E ratio	14.4	11.2	13.6	20.3
Market capitalisation in million SIT	150,414	101,712	97,039	91,343

* EBITDA – Earnings Before Interest Tax Depreciation and Amortisation

** EBIT – Earnings Before Interest and Tax

*** ROS – Return On Sales: Net profit to revenues

**** ROE – Return On Equity: Net profit to average capital

***** ROA – Return On Assets: Net profit to average assets

Strategic focus

- We develop high-quality and value-added generic pharmaceuticals, meeting the essential generic criteria: quality, safety and efficacy. The process guarantees our products and brand recognition and gives us an advantage in an increasingly competitive generics market.
- The modern technological development of generic pharmaceuticals requires a thorough initial evaluation of the patent environment which has, in recent years, become very severe as far as formulations, processes and characterisation of active ingredients are concerned. Based on such evaluation, a new product is developed independently, using an innovative, and often patent protected, pathway.
- We are concluding a phase of intensive key investments in production and distribution facilities, both domestically and in traditional markets. At the same time, we have built a strong, widespread marketing infrastructure in these markets, enabling us to realize in coming years the full potential of the products registered in the last few years, as well as of those still in development.
- We are entering a new era; one in which we will set our direction in new markets, through takeovers and joint ventures. In the coming years of expected strong growth and world-wide consolidation of the generics industry, we aim to be an active and globally-orientated player.
- Our clear focus remains on developing generic pharmaceuticals, and we will continue to consolidate relationships with our licensing partners accordingly. In the long term, we intend to keep strong ties with those who can, and will, complete our product range with their products or technologies. At the same time we will actively network with medium to small companies throughout the world. We shall prepare joint development projects which provide synergies in technology and financing, as well as exploit different degrees of intellectual property protection. We understand that only those generic manufacturers who will be a step ahead in speed and quality of development will survive the increasing competition of the next five years. We will, therefore, intensify our peer-to-peer partnerships and hold on to the principle of high added-value for our generic products. Our approach is to bring high quality to the middle-price market.
- Our broad range of cardiovascular, digestive system and central nervous system drugs, as well as anti-infectives, will be supplemented by drugs which address specific health problems of the rapidly ageing European population. Many of these products are now in various phases of development. We are convinced – and incorporate this conviction in our strategy – that because of the ageing population and ever higher prices of new drugs, which are growing at a much quicker pace than the economies of our markets, self-medication products will play a far greater role in preventive health care.
- The ever increasing obstacles in pharmaceutical markets (intellectual property, regulatory demands) accompanied by an increasing pressure on healthcare budgets, make it more and more difficult for generic companies to launch among the first, which is a prerequisite of growth, and sustain reasonable pricing. We therefore expect a two-pronged pressure, and we will respond in environments which enable us to do so, by our own development of key drugs (vertical integration), development of improved technological forms, and increased effort in the field of intellectual property.
- For these goals, local knowledge alone will be insufficient. We are selecting among our staff abroad ambitious individuals to become a valuable part of our global project, and help expand the company as well as its reputation.

Statement by the President of the Management Board

- The year 2002 will be, at least in the economy, remembered by the turmoil in pharmacy caused by the sale of Lek to Novartis of Switzerland at the end of a wave of strategic partnerships, mergers and takeovers in the global pharmaceutical industry. Krka has decided to take a different, independent way. We therefore remain the only Slovene pharmaceutical company, an important foundation for the development of the Slovene economy. Our business results, especially the profit to be divided among our owners, leave little to want for, especially if we compare them to the results of 2001, which was exceptional for Krka in many ways.
- Even in the increasingly predatory environment of the global market, caused to no small degree by our competition, as well as the rules and regulations of individual countries, we sold 77.7 billion SIT worth of products, 10% more than in 2001. We also increased our production. However, the target we set was not quite reached due to the negative influence of the US dollar, in which nearly half our sales are realised.
- Despite all this, we produced a net profit of over 10.4 billion SIT in 2002, which is 15% more than last year and represents one of the largest net profits in Slovenia's economy. As one of the foremost Slovene exporters, we sold products totalling 62.1 billion SIT to foreign markets. The strategy of expansion in eastern markets was reinforced by the penetration of western European markets, in which sales increased by 35%. In eastern European markets, sales were increased by 14%, whereas in Slovenia, our reference market where roughly a fifth of our sales are generated, the increase was 8%.
- In the past year Slovene legislation was changed, giving the inventor of a new drug an advantage over generics manufacturers. Krka adapted quickly by changing its development plan, accelerating some projects and continuing others, according to the legislation of other markets. In 2002, we were awarded the first marketing authorisation for 14 products, including 9 prescription pharmaceuticals. One of the most important amongst these was the first marketing authorisation awarded to Krka Polska, confirming our statement that in key markets, we will produce a new generic range of products locally, on our own production lines.
- Because of the strategic decision to invest in our own production and distribution centres in key export markets, we continued with intensive investments in 2002. We invested 11.9 billion SIT this year, most going to Notol, a new factory for the production of solid drug dosage forms. Besides this investment we opened the new Development and Control Centre II in Novo mesto which, according to European legislation, enables us to introduce new technologies in development, evaluation and production of generic products. The storage part of a new production and distribution centre was opened in the vicinity of Moscow, with the start of operation for all parts planned for 2003. We are also beginning the activities for building a new chemical synthesis facility.
- We are concluding a phase of intensive key investments in production and distribution capabilities, at home and in traditional markets, and entering a new phase when the strength of the company will be increased. In addition to investments in our own capabilities, by takeovers, joint ventures and joint appearances in markets, we create a synergistic effect in research, development, production, marketing and sales of our products – of those which were registered in the last few years or are still being developed. To put it briefly, we are ready for a period of consolidation and strong growth in the global generic industry, in which we play an important part – and we will keep on doing that.
- We realise that good business results depend not only on a quality generics manufacturing programme, but also on a strong and extensive marketing network, both domestically and globally. Therefore, we strengthened our presence



in foreign markets in 2002. The total number of employees in the 39 companies and representative offices has reached over one fifth of all Krka employees. Over 36% of our employees, home and abroad, have a university degree, because only highly educated experts can be our future and our guarantee that we will be capable of taking a step forward tomorrow.

- The year 2002 was also very dynamic in the trading of our shares. The stock market was moved and characterised by activities largely connected with the takeover of Lek, by Novartis. The SBI20 index, which also includes Krka's share, achieved its highest value yet. The trading volume of Krka's share also reached its highest point at 46.7 billion SIT, an increase of 129% compared to 2001. The price of Krka's share, which was increasing gradually in the first half of the year, grew strongly after the news of the Lek takeover. At the end of the year, the average share price of the company was 42,458 SIT, 69% over book-value, which was 25,137 SIT.
- Compared to 2001, the ownership structure of Krka has changed. The number of small shareholders has increased, since they consider Krka's shares as a good investment considering the risks and long-term returns; especially because of the decreased banking interest rates. In my judgement, foreign shareholders, whose share has decreased, sold their shares mainly to cash in profits, so their proportion of shares should increase this year. Our business results, development, marketing authorisation of new products, fast growing extensive marketing network across the globe, as well as expansion of our production network, both at home and abroad, skilled employees and anticipated business in the future, are appropriate assurances for Krka's share price growth in the future.
- As an innovative generics company, we will continue penetrating western markets in the future while maintaining the advantage we have in our traditional markets. We are optimistic about the entry of Slovenia into the European Union, because we are convinced that membership brings new possibilities for further growth and co-operation in many fields. I am convinced that in these times of recession, decreasing health care budgets, and ageing populations, the real opportunity for the generics industry is yet to arrive. I believe that by producing high-quality, safe, efficient and affordable products, and with our knowledge, experience in individual markets, and adaptability, we will keep and strengthen our position amongst the leading, central European generic pharmaceutical companies. However, we will not forget the social obligations towards our fellow beings and the environment in which we work.
- I am convinced that with a clear vision and strategy for the development of our company, we will achieve results that will strengthen the confidence of our shareholders, business partners and other stakeholders, who are all parts of Krka's present, which always looks into the future. All of this looks promising. On behalf of the company I lead, I pledge to continue justifying your trust in the future.

Miloš Kovačič

President of the Management Board and Chief Executive

Address by the President of the Supervisory Board

- Conditions in the global and domestic pharmaceutical markets are changing rapidly, mainly because of ever-increasing competition, deteriorating finances of public health systems, crises in parts of the world, and the increased fluctuations of some currencies, especially the US dollar. Other circumstances that influence Krka's way of doing business, directly or indirectly, have also changed. The company has been gradually improving its business results in the last few years, and its future strategic direction is going in the right direction.
- The company's management and employees must be aware of, and adapt to, changes in the business environment. Krka's business is international; therefore, all basic efficiency indicators should be calibrated to this level. The Annual Report clearly shows that management is well aware of these circumstances. Management acts with these facts in mind, investing into know-how and development, and implementing measures to manage all kinds of risks and costs, including labour costs. This clearly shows that Krka is strategically well prepared to face new challenges, enabling it to remain one of Slovenia's most successful companies in the future.
- Due to the changes in business conditions, and in accordance with the competencies and duties of Supervisory Boards according to Corporate Law, the Supervisory Board closely monitored Krka's business results and the management effectiveness in 2002. Based on year over year quarterly business results comparisons, the Supervisory Board, during four meetings in 2002, examined the achievement of goals as set down in the 2002 business plan and the mid-term strategy for 2001-2005. The Audit Committee of the Supervisory Board also examined the Business and Annual Audit Report in detail in two additional meetings.
- In 2002 the Supervisory Board communicated several suggestions, opinions, and recommendations to the management. It also requested several additional explanations, comparisons, analyses and other material. All these requests were considered by the Management Board and the Supervisory Board was kept informed regarding all important events.
- Even though business results in 2002 did not achieve the growth indexes achieved in the past, very successful years, the Supervisory Board assessed Krka's business as successful, especially considering the above-mentioned business conditions and the request that management communicates all corporate risk-management issues to the Supervisory Board. The Supervisory Board also established that development and investment activities are proceeding well and will start showing results in the years to come. The company's main Business Indicator results were acceptably within the predicted target ranges, considering the challenging business circumstances, reflecting the increased sales and profit in 2002. Targets were achieved throughout the Group by the year end.
- Therefore, the Supervisory Board assesses the activities of the company, in 2002, as successful as the company achieved the goals set in sales, financial indicators, sales structure, product range, and achievement of investment activities at home and abroad. The company is improving its position in Central and Eastern European markets and is gaining market share with its most important products in Western European markets.
- Even though the results and direction of the business are positive the Supervisory Board would like to emphasize the need to benchmark costs and profitability of Krka with similar, competing pharmaceutical companies, and where necessary use reserves and adapt the strategy of the company, to adjust to changing circumstances.



- In 2002, the Supervisory Board re-appointed Krka's new Management Board for a period of five years (from 31 July 2002 on) due to the cessation of the mandate of the previous Board. At the same time, because of the expected, gradual change in Krka's management and leadership structure, as planned by the President of the Management Board, Miloš Kovačič, the Supervisory Board expects that changes in the very top management structure will be implemented during this mandate of the Supervisory Board. The Supervisory Board, in agreement with the President of the Management Board, designated Jože Colarič, the current Deputy President of the Management Board, as the future President of the Management Board with a mandate for the construction of a new Management Board. Such Management Board appointment policies are intended to enable the newly appointed management to continue and complete key investment and development plans started by the company and, at the same time, enable suitable and timely management continuity; as well as the replacement of the company's management by an established future President from the current management structure.

- On 24 April 2003, the Supervisory Board unanimously accepted a Report, on the results of an examination of the Annual Report for 2002, the Management Board's proposal for the appropriation of accumulated profit, the position regarding the Auditor's Report, and the method and extent of the company's management supervision during the year. This report will be communicated to the company's Annual General Meeting.

- The Supervisory Board also discussed the Auditor's Report on the audit of financial statements of the Krka joint-stock company, and the audit of the consolidated financial statements of the Krka Group for 2002. The auditor also read the Management's Report. An unqualified opinion was expressed in the Auditor's Report. The Supervisory Board had no remarks regarding the Auditor's Report and therefore issued a positive opinion.

- According to the law, management also included in the Annual Report a proposal for the appropriation of accumulated profit for 2002. The Supervisory Board examined and supported the proposal. Because the Annual General Meeting decides on the use of accumulated profit, according to proposals by the Management Board and the Supervisory Board, the Supervisory Board proposed to the Annual General Meeting that the management's proposal is adopted.

- The Management Board prepared and presented to the Supervisory Board the Annual Report for the Krka joint-stock company and consolidated Annual Report for the Krka group, in a timely matter. The Supervisory Board discussed and examined the Annual Report and concluded that it contains all contents required by the law: balance sheet, income statement, cash flow statement and statement of changes in equity, including notes, and the Management's Report on operations. The Supervisory Board had no comments on the Annual Report. It was found to be high quality, in accordance with the new provisions of the law, the new Slovene accounting standards, and enables the shareholders and public a complete overview of the operations and results of 2002, and the planned development as well as the expected business results in the following years. Therefore, the Supervisory Board unanimously confirmed the Annual Report on 24 April 2003. According to all provisions of the law, Krka's Annual Report for 2002 was accepted.

A handwritten signature in blue ink, appearing to read 'Janez Prijatelj'.

Janez Prijatelj

President of the Supervisory Board



Our vision is not just a notion, a dream, a host of expectations. We are making it happen, our way. We have become a successful, thrusting and highly innovative generic international pharmaceutical company through our own development, international connections, flexibility, and effectiveness.

Business

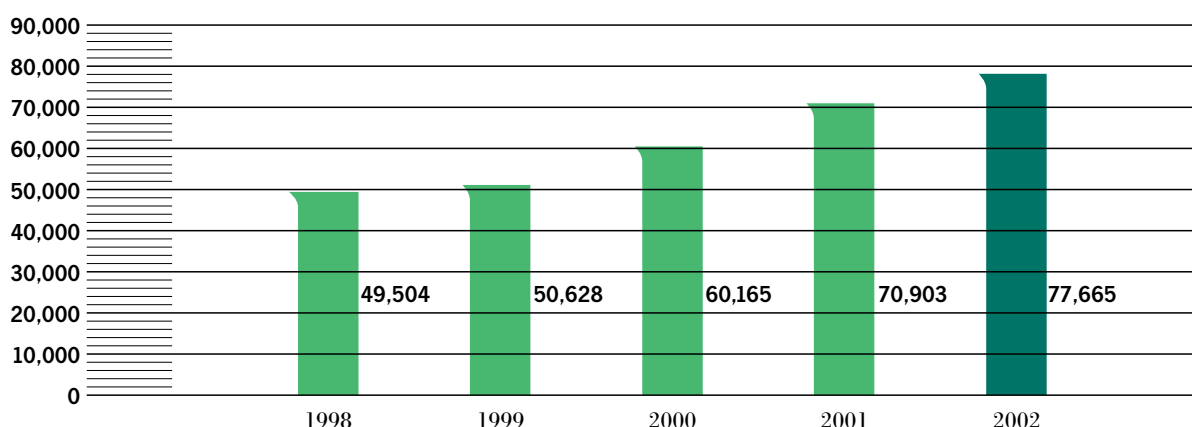


results of Krka, d. d., Novo mesto for 2002

A year marked by good sales

• In 2002, we achieved the strategic goals we set for sales. Despite harder market conditions, in domestic as well as in key export markets, and the unfavourable value of the US dollar, with which nearly half of all our sales are conducted, we sold products and services totalling 77.7 billion SIT, which represents a 10% increase compared to 2001. To make comparisons easier, the sales data shown is adapted to the new Slovene accounting standards and reduced by the amount of rebates made for early payments.

Sales in 1998-2002 (in million SIT)



A stable share of sales, domestically and in foreign markets

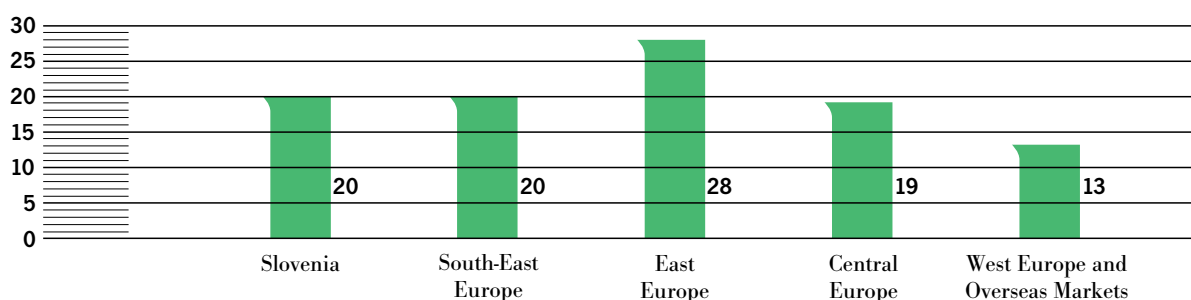
• In 2000, while defining the strategy of our operations, we set a goal of balanced sales in five different Regions: Slovenia, South-East Europe, East Europe, Central Europe and West Europe, and Overseas Markets. Our operations in 2002 were conducted in accordance with this goal, which provides us with greater stability and reliability in our operations.

• On the domestic market, we generated a fifth of our sales revenue, and the remaining 80% of our products were exported into 70 countries. Compared to 2001, we recorded growth in all regions; two regions showed a two figure growth – West Europe and Overseas Markets (17%) and East Europe (14%).

Sales by regions in 2001-2002 (in million SIT)

	2002	2001	Index
Slovenia	15,521	14,397	108
South-East Europe	15,593	14,264	109
East Europe	21,950	19,264	114
Central Europe	14,712	14,515	101
West Europe and Overseas Markets	9,889	8,463	117
Total	77,665	70,903	110

Sales structure by regions in 2002 (in %)



Slovenia

- In the domestic market we generated 15.5 billion SIT revenue from sales of products and services, representing an increase of 8% over 2001. The sales in Slovenia represent 20% of total sales. The greatest growth was achieved with our own prescription pharmaceuticals (22%) and with animal health products (12%). Slower sales of licensed products were offset by increased sales of our own pharmaceutical products.

South-East Europe

- Compared to 2001, all markets of south-eastern Europe recorded higher sales. The largest growth of a full 32% was achieved in Serbia and Montenegro, followed by 22% growth in both Romania and Albania.

We exported 15.6 billion SIT worth of goods into the countries of south-east Europe.

- With sales totalling 5.6 billion SIT, Croatia remains our most important market in this region. Self-medication products and animal health products achieved the highest growth. Among prescription medication, Vasilip®, psychopharmaceuticals, and the already well established Ultop®, are gaining ground successfully.

- Our operations in Romania were successful, and our 22% growth there was noticeably faster than the growth experienced by the Romanian pharmaceutical market. Vasilip® is quickly gaining ground as one of our foremost drugs in this area, and good results are being achieved by already established drugs, such as Enap®, Tramadol and Ciprinol®.

East Europe

- With a 28% share in Krka's total sales, the eastern European region is still the region with the best sales results. The total sales for this market in 2002 totalled 22 billion SIT, a 14% increase over the previous year. The biggest growth was recorded in Ukraine, countries of Central Asia, and Belarus. Amongst the already established products, Enap®, Macropen®, Duovit®, Pikovit® and Septolete® were the most successful; whereas amongst new drugs, Vasilip®, Diflazon®, Fromilid®, Asentra®, Coryol® and Pikovit® forte achieved the best sales results.

- The most important part of this region is undoubtedly the Russian Federation, where results were improved by 4% compared with 2001. The greatest growth was recorded in the self-medication programme. In the first half of 2002, the market stagnated, due to the introduction of value added tax, but the trends improved in the last quarter. Near the end of 2002, a new system of certification was introduced. However, we think it should not have any significant impact on the sales of our products, due to their inherent high quality.

- Exports to Ukraine totalled 46% more than the year before. This growth is much higher than the growth of the pharmaceutical market in this country. Our own prescription products were the most successful, recording a 62% growth, with self-medication products following a close second with 41% increase; whereas the animal health products recorded a 79% increase.

Central Europe

- In central European markets, sales amounted to 14.7 billion SIT, which is 1% more than in 2001. Two figure growth was achieved in the Czech Republic.
- Our biggest market is Poland, where growth was recorded for our own prescription pharmaceuticals (index 103), self-medication pharmaceuticals (index 109) and animal health products (index 111). Good results were achieved with Vasilip[®], Sulfasalazin[®], Kamiren[®], Lanzul[®] and Fromilid[®], amongst the prescription pharmaceuticals; and with Pikovit[®] and Naklofen[®] gel amongst the self-medication products. We still expect a growth in sales of recently launched products.
- The results achieved in the Czech Republic were above expectations, as sales increased by 13% compared to the year before. Sales were successful both for established drugs, such as Enap[®], as well as new drugs, such as Vasilip[®] which achieved good sales growth.

West Europe and Overseas Markets

- In the Region West Europe and Overseas Markets, we sold 9.9 billion SIT of products in 2002, and achieved the biggest sales growth of all regions. The lion's share of this is represented by western Europe sales, where 35% growth was recorded compared to 2001. The prescription drugs we sell through our partners, in practically every western European country, represent the majority of sales. Our most important products were enalapril, norfloxacin and ciprofloxacin tablets.

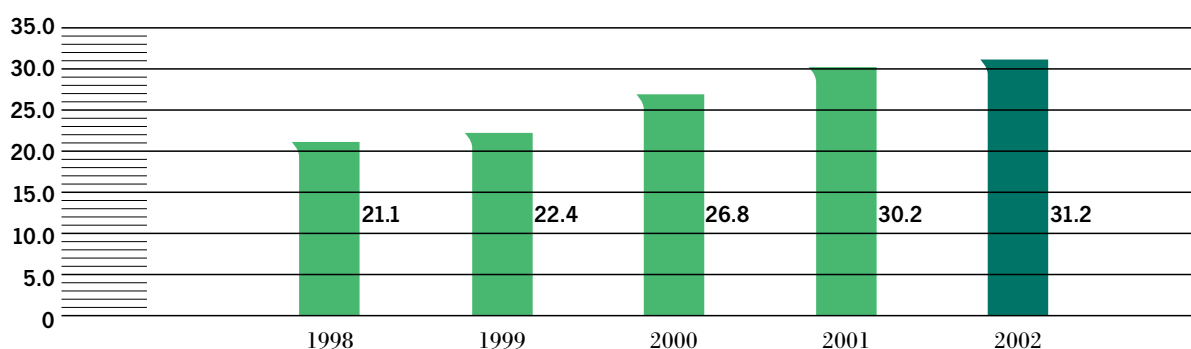
Expanding our activities in foreign markets

- These sales results were achieved by widespread marketing activities at home and in representative offices and companies abroad. We have 26 representative offices and 13 companies abroad, and we are opening new representative offices in Tashkent (Uzbekistan) and Priština (Kosovo).
- Our marketing network in Slovenia and abroad employs highly qualified and motivated people. Key products are supported by promotional activities, conducted primarily by numerous, well-trained teams of experts. We take care to continuously educate our employees in both the medical field and marketing. In past years our network in foreign markets has expanded greatly, but we see no point in stopping there.
- We wish to strengthen our role in various markets by producing drugs locally. To name a few examples: the Krka plant in Poland is already operational, work on the production and distribution centre near Zagreb (Croatia) is nearing completion; and intensive, final work is being completed on a factory near Moscow (the Russian Federation).

New products are the key to long term success

• According to our strategic orientation, the future of innovative generics manufacturer can only be assured by the constant introduction of new, modern products. Their share has been increasing consistently and represents an important part in the overall structure of sales. In 2002, Atoris® (atorvastatin) was the best sold cholesterol-lowering drug last year; Lindron® (alendronate), an important drug for treatment of osteoporosis; and Yasnal® (donepezil), a drug used for the treatment of Alzheimer's disease, were launched. We also added new pharmaceutical forms of some already established products. Among animal health products, the broad spectrum antibiotic Floron® (florfenicol) was launched.

The ratio of new products to total sales in 1998-2002 (in %)



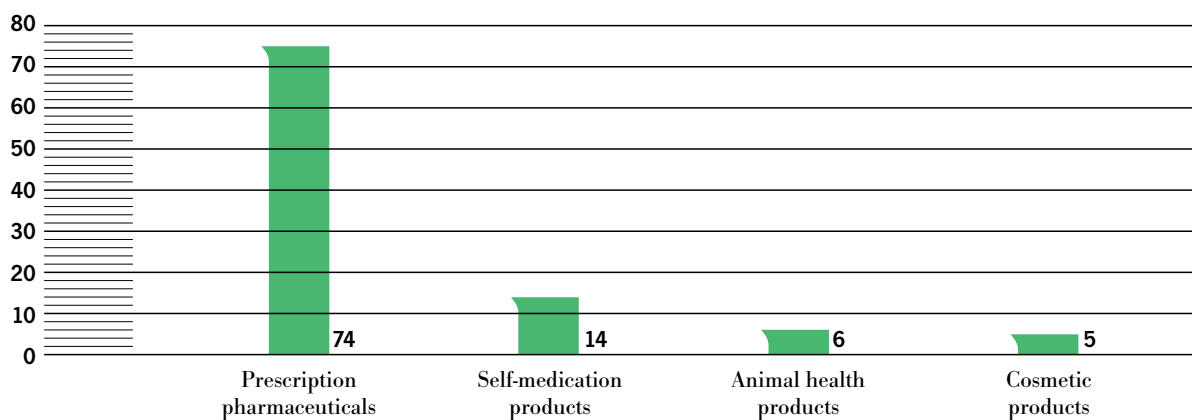
A wide assortment of products

• In total sales, 88% are represented by human health products, which include prescription pharmaceuticals and self-medication products. In 2002, we sold 57.6 billion SIT worth of prescription pharmaceuticals and 11.1 billion SIT worth of self-medication products. Animal health products of 4.8 billion SIT represent 6% of sales. 3.9 billion SIT was generated by the sales of cosmetics, representing a 5% share. Compared to 2001, we recorded the greatest growth in self-medication products (index 116) and prescription pharmaceuticals (index 111).

Sales by product groups in 2001-2002 (in million SIT)

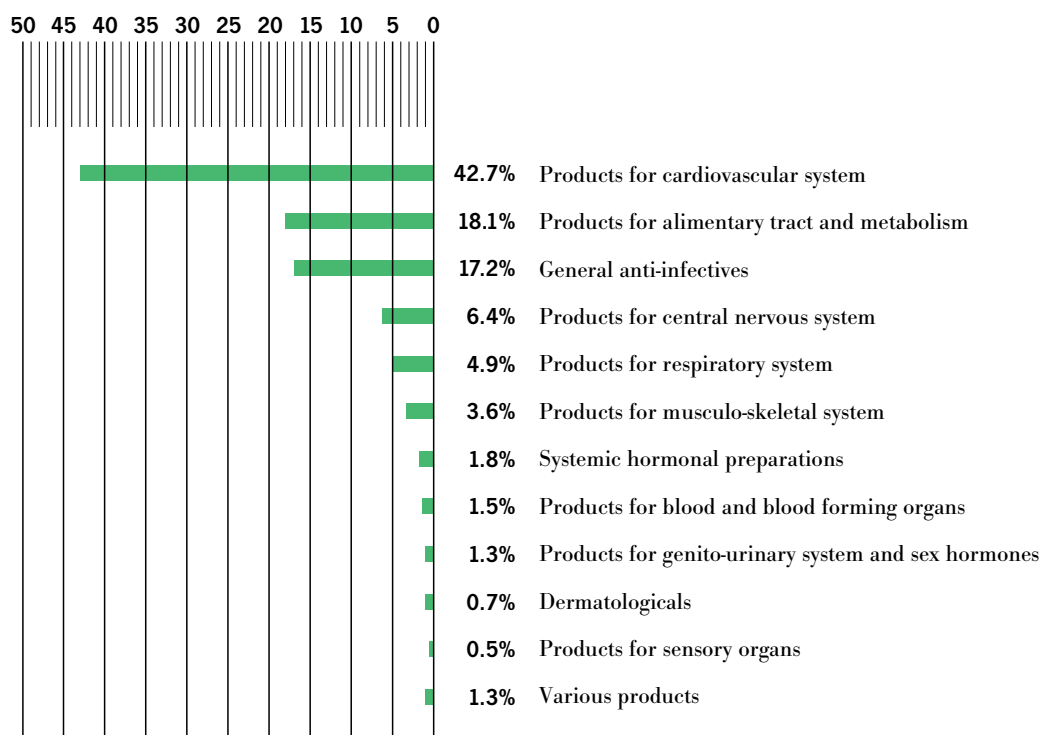
	2002	2001	Index
Human health products	68,680	61,650	111
– Prescription pharmaceuticals	57,628	52,101	111
– Self-medication products	11,052	9,549	116
Animal health products	4,759	5,179	92
Cosmetic products	3,932	3,644	108
Other	294	430	68
Total	77,665	70,903	110

Sales structure by product groups in 2002 (in %)



• Krka produces a wide range of human health products, which cover most important indication groups. As in global markets, drugs for the treatment of cardio-vascular diseases, of gastrointestinal and metabolic diseases, and for systemic treatment of infections, are the most important in our product range.

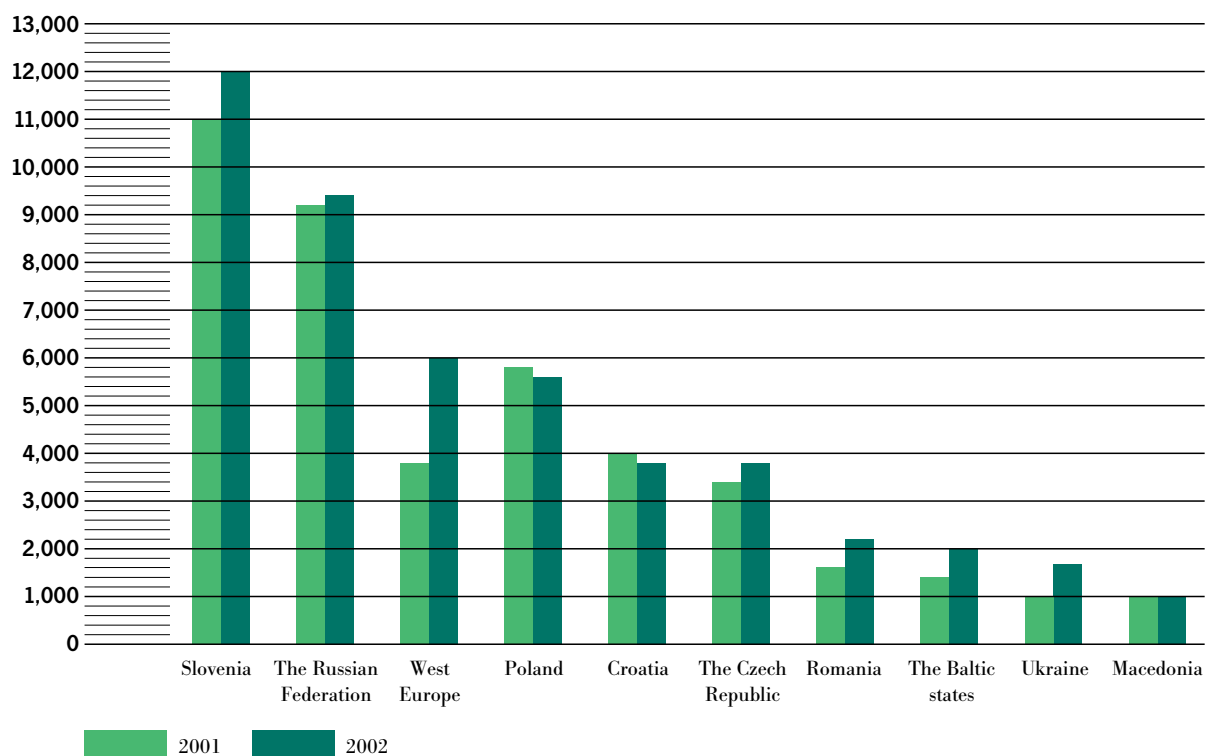
Sales of human health products by indication groups in 2002



Prescription pharmaceuticals

- In 2002 we sold over 57.6 billion SIT in prescription pharmaceuticals, an increase of 11% over the year before. In the ten biggest markets, the yearly indices for sales compared to 2001 are between 98 and 165. Increased sales were recorded in almost every large market, with the exception of Poland. The biggest growth was achieved in western Europe (index 165), Ukraine (index 143), the Baltic states (index 123) and Romania (index 120).

Sales of prescription pharmaceuticals in ten largest markets (in million SIT)



- A comparison between 2002 and 2001 clearly shows that we primarily increased the sales of our own generic drugs, with a 16% increase in sales. Their share in the whole group represents 75%; the rest is licensed drugs.

- Our range of products contains a large selection of prescription drugs. A large part of our marketing activities are focused on cardiovascular drugs, gastrointestinal drugs and drugs for the treatment of infections. At the same time, we are strengthening our position in the field of psychiatry and allergies.

Drugs for the treatment of cardiovascular diseases

- Amongst the drugs for the treatment of cardiovascular diseases, tablets of enalapril maleate are registered in 46 countries worldwide, including the European Union and USA, while the brand Enap® is one the most successful of Krka's brands. Despite the introduction of newer ACE inhibitors and increased generic competition, Enap® is retaining its high market share and is the leading enalapril in Croatia, Slovakia, the Czech Republic, the Russian Federation, Lithuania, Romania, Bosnia and Herzegovina, and Macedonia; with market shares in these countries above 40%. The high quality of the active substance is also reflected by the certificate of suitability, which was awarded by the European Directorate for the Quality of Medicines in 2002. With new pharmaceutical forms of Enap® we follow modern trends in hypertension management, which recommend the use of combined therapy. Thus, Enap®-H and Enap®-HL represent a modern and rational combination of enalapril with thiazide diuretic, which reduces stroke risk, cardiovascular events, and the total mortality of hypertensive patients.
- Angiotensin II receptor inhibitors (sartans) are drugs which are still being established as forms of anti-hypertensive therapy. Krka also produces Lorista® (losartan) for Slovenia and Poland since 2000, and in 2002 we launched it in the Czech market. It is especially recommended to patients who cannot take ACE inhibitors for any reason, and the dosage regimen is also very favourable, requiring only one dose per day.
- Coryol® (carvedilol), a beta-adrenoceptor blocker (beta-blocker) is also making progress in our markets. It is particularly suitable for treatment of patients who have other diseases besides hypertension, requiring additional protection of the heart and the vascular system. We have entered most markets as the first generic manufacturer of carvedilol, and therefore have recorded promising market shares and growth indexes.
- Kamiren® (doxazosin), an alphaadrenoceptor blocker (alpha-blocker), which is one of the most important groups of drugs to treat benign prostatic hyperplasia, has been available in Slovenia since 1999. By the end of 2002, Kamiren® was available in several countries of central and eastern Europe. Total sales of Kamiren® are growing significantly, with major success achieved in Poland.
- Statins are an important class of modern drugs for the treatment and prevention of cardiovascular diseases - they are used to treat hyperlipidemias, which represent the most effective measure taken in coronary disease patients. Large-scale clinical studies have shown that statins reduce risk of total mortality, cardiovascular mortality and morbidity; reduce the need for vascular procedures, reduce the risk of strokes in patients with any clinical form of arteriosclerosis (angina pectoris, myocardial infarction, stroke, peripheral vascular disease) as well as in primary prevention for patients with a high risk for development of cardiovascular disease.
- Vasilip® (simvastatin) which entered production in 1999, is among the leading Krka products. In the past few years, we concluded several multi-centre studies, which included almost 1000 patients, all of which confirmed its clinical efficacy and safety. The market share of our simvastatins is remarkable, as Vasilip® is the first or second in most markets, with market shares of 17% in the Russian Federation, 25% in Slovenia, 26% in Poland, 58% in Ukraine and 67% in Lithuania. Krka's simvastatin was the first generic simvastatin to be awarded a certificate of suitability by the European Directorate for the Quality of Medicines.
- In 2002, we launched Atoris® (atorvastatin) in Slovenia, which achieved a near 9% market share in six months.

Drugs for the treatment of infections

- Fromilid® (clarithromycin), a relatively recent development, is the first generic clarithromycin in eastern and central European markets. In Poland, the Czech Republic, the Russian Federation, Lithuania and Slovakia, its market share is 20 to 25%, 40% in Ukraine and more than 80% in Slovenia; and its total sales growth is over 20%.
- Two very well established drugs for treatment of infections are the classic fluoroquinolones – Nolicin® (norfloxacin) and Ciprinol® (ciprofloxacin). Norfloxacin tablets are registered in more than 30 countries worldwide. Nolicin® is the leading norfloxacin in the important markets of east, central and south Europe, with market shares above 50%. Krka's norfloxacin was the first generic norfloxacin in the European Union market and retains the status of the leading generic norfloxacin, with volume market shares of more than 60%. The European Directorate for the Quality of Medicines has awarded a certificate of suitability, due to the quality of our active substance.
- Ciprinol® (ciprofloxacin) which has been in Krka's product range for almost 15 years, is still increasing its sales. It has been approved in more than 35 countries, including most European Union countries. The range of pharmaceutical forms of Ciprinol® is being continually expanded with new forms, primarily intended for the treatment of severe infections which require large doses.
- Fluconazole is the world's leading antifungal agent. Krka started production of Diflazon® (fluconazole) in 1998. In 2002, it was launched in the Czech Republic, Romania, Kazakhstan, the Caucasian states, and Macedonia.

Drugs for the treatment of gastrointestinal and metabolic diseases

- Drugs for the treatment of gastrointestinal and metabolic diseases have always played an important role in Krka. In modern therapy, the most important are the proton pump inhibitors. The leading proton pump inhibitor in Slovenia is Ultop® (omeprazole), with an almost 70% market share. In 2002, we launched Ultop® S in Slovenia, with a halved omeprazole content, which is particularly suitable for long-term maintenance treatment of patients with gastroesophageal reflux disease. Lanzul® (lansoprazole) which, according to clinical studies, has somewhat more rapid effects, is among the leading proton pump inhibitors in Poland, Croatia and Slovakia.

Drugs for the treatment of allergies

- Krka has been manufacturing allergy treatment drug Letizen® (cetirizine) since 2000. Cetirizine is a selective, long-lasting H1 antihistamine of the second generation and is the leading allergy treatment drug in Europe. Letizen® was launched in Poland, the Czech Republic and Bosnia and Herzegovina, in 2002, and in Slovenia a new formulation was launched – an oral solution for children above the age of 2. Krka also offers Letizen® S in some markets, which is available without prescription.

Drugs for the treatment of central nervous system diseases

- In 2002, we added Asentra® (sertraline) to our established range of psychopharmaceuticals. It is a member of the group of first-choice antidepressants and is used for treatment of some anxiety disorders. By the end of 2002, in less than a year, Asentra® achieved a market share of 10% among sertraline preparations in Slovenia and Lithuania.
- At the end of 2002, we offered a modern drug for the treatment of Alzheimer's disease to Slovene physicians, Yasnal® (donepezil). Yasnal® is one of the drugs of the future, since drugs for the treatment of Alzheimer's disease are only starting to gain ground, but the incidence of such diseases is increasing with the ageing of the population.

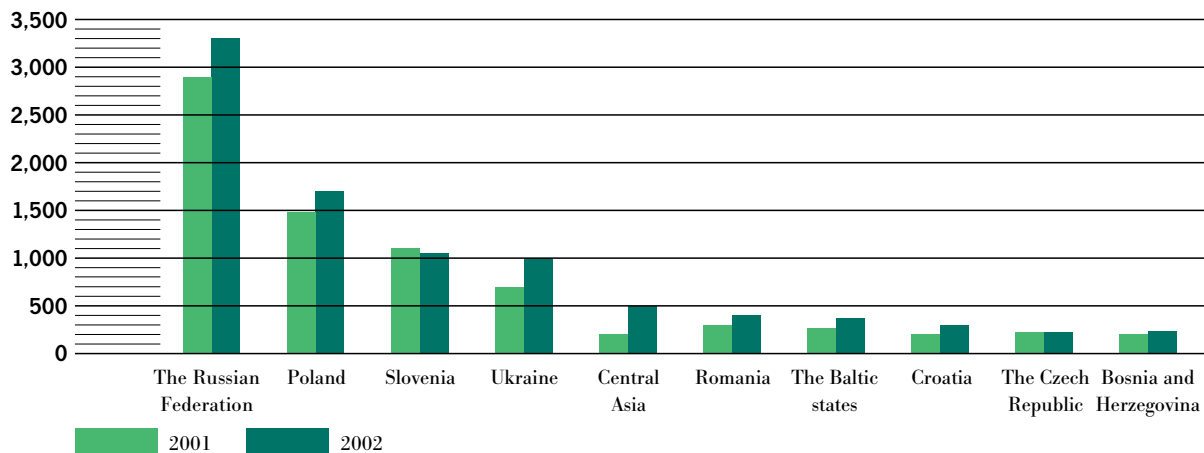


Partnership is dialogue. And dialogue is co-operation, enabling companies to progress and mature. Dialogue is a means of forging strong links with business partners, as real and mutual understanding represents business stability.

Self-medication products

- In 2002, we sold 11.1 billion SIT worth of self-medication products in east, south-east and central European markets, 16% more than in 2001. In the 10 biggest markets, the sales index, compared to 2001, was between 98 and 197. The highest sales-growth levels were achieved in Central Asia (index 198), Ukraine (index 141), Croatia (index 140) and in Romania (index 130).

Sales of self-medication products in ten largest markets (in million SIT)



- Among the most important brand names of self-medication product groups are umbrella brands Septotele® and Pikovit® and the products Duovit® and Bilobil®.

- The sales of Septotele®, an antiseptic for the mouth and throat, have increased by 23% and is among the leading mouth and throat products in several markets. It achieved a 20% market share in the Czech Republic, where it is also the leading product of this kind, and also in Slovakia, where its market share is 21%. Its market share in the Russian Federation is 5%, in Ukraine 6%, and 8% in Poland.

- The umbrella brand, Pikovit®, includes 5 vitamin and mineral products for children and is the best sold product in the Russian Federation, in its group, with a 56% market share. In Poland, its market share is 8% (it is in second place for its category, by consumption), in Slovakia, it is 6%, and in Ukraine, 5%.

- Duovit®, vitamin and mineral tablets for adults, are the leading product in their category in the Russian Federation with a 15% market share, and in Ukraine with a 21% market share.

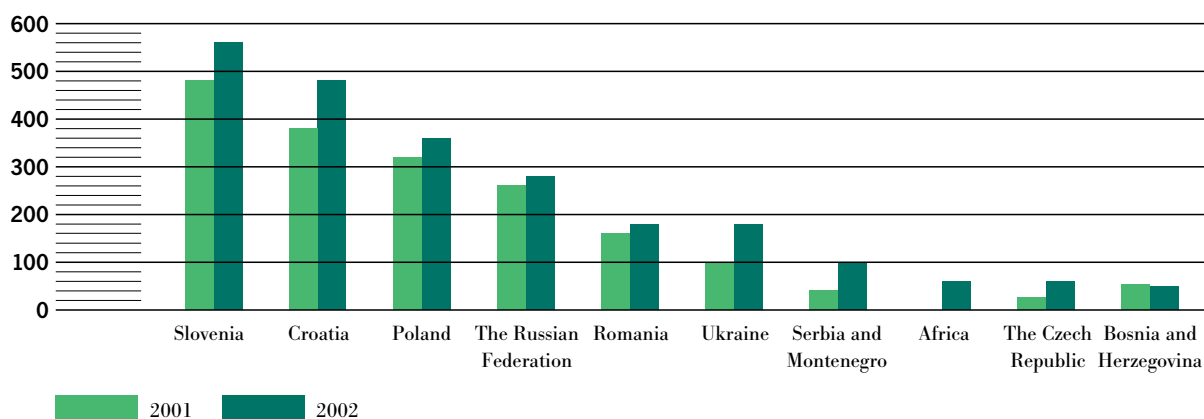
- Bilobil® is a standardised extract of ginkgo biloba, which is in second place in Poland, with a 24% market share (consumption, by volume), and in the Russian Federation, with a 17% market share (by value).

- With self-medication products, our strategy is to build umbrella brands, which is why we introduced new products under the umbrella brand names Daleron® and Vitanova®; while in 2002, we also introduced Nalgesin® S, Rutacid® and Letizen® S to foreign markets. A suitable communication policy with the target public means we also achieve a high recognition of brand names (e.g. 48% recognition of Duovit® and 39% recognition of Pikovit® in Ukraine; and 52% recognition of the Pikovit® brand name in the Russian Federation). The excellence of marketing communication was confirmed by the two bronze effies (communication efficiency awards, established by the American Marketing Association in 1968 and regularly awarded in 18 countries in Europe and the USA). These were awarded by the Slovene Advertising Chamber, for the Septotele® Plus and Daleron Cold 3® marketing campaigns.

Animal health products

- By generating 4.8 billion SIT of sales revenue, the animal health products, including raw materials, represent a 6% share in Krka's total sales. Compared to 2001, we sold 21% more finished products, bringing the sales total for this group to 2.7 billion SIT. The sales index in ten biggest markets for finished products are between 92 and 297. The biggest growth was achieved in Serbia and Montenegro (index 297), the Czech Republic (index 196), and in Ukraine (index 179).
- In 2002, we sold 2.1 billion SIT worth of raw materials (salinomycin, zinc bacitracin, monensin).

Sales of finished animal health products in ten largest markets (in million SIT)

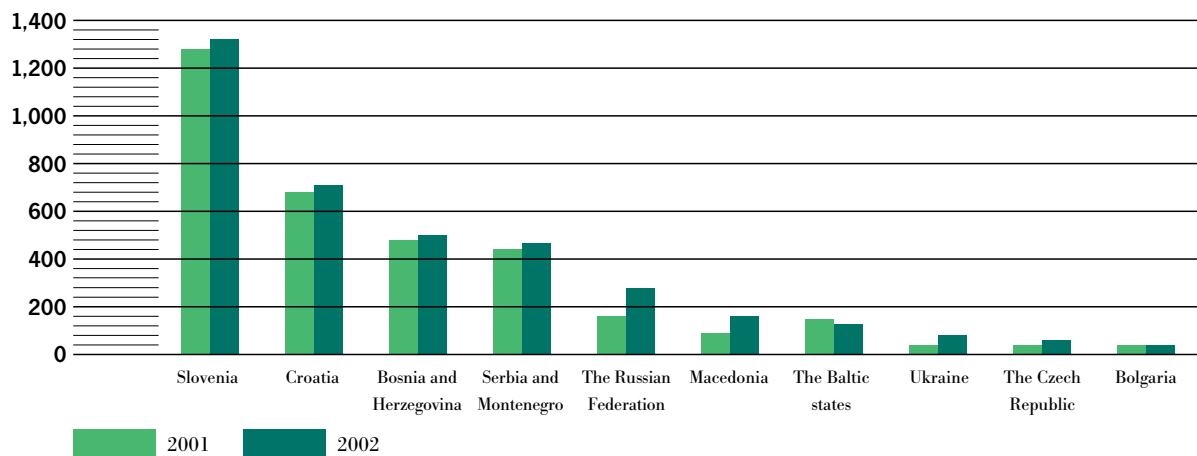


- In 2002, we launched a new product in Slovenia and Croatia – Floron® (florfenicol) – a broad spectrum antibiotic for treatment of various animal species (pigs, cattle, poultry and fish). It is available as a solution for injection, oral solution, and as a pre-mix for preparation of medicated feedstuff.

Cosmetic products

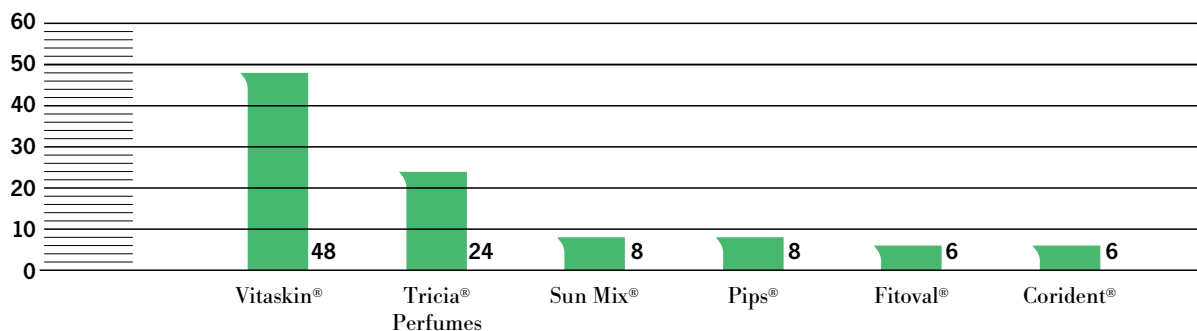
- In 2002, we sold 3.9 billion SIT worth of cosmetic products, which is 8% more than in 2001. The growth in 17 export markets was higher than in Slovenia and amounted to 10%. The export share of total sales is 65%, and the export share in our own products is 71%. Compared to the year before, the greatest increase was in sales of our own cosmetic products, which increased by 10%. Their share in total sales is 82%. Our own brand names have been actively included in international retail chains, especially in Central European markets. The presence of our products was increased in pharmacies, especially in Ukraine, the Russian Federation, and the Baltic states' markets.

Sales of cosmetic products in ten largest markets (in million SIT)



- In the last three years, intensive consolidation of brand names has been underway. The more important brand names include the cover brand names Vitaskin[®], Sun Mix[®], Corident[®], Fitoval[®], Tricia[®] and Pips[®].

Sales structure of our own brand names by regions in 2002 (in %)



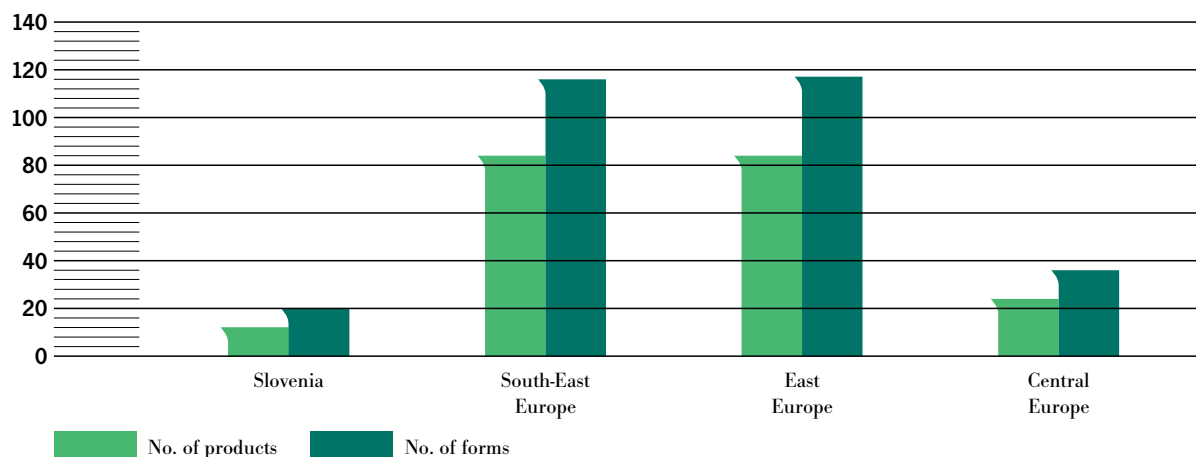
- The sales of Vitaskin[®] brand products, which includes 7 sub-groups, increased by 14% in 2002. The increase was facilitated by the Vitaskin[®] Beauty decorative cosmetic products, which were launched to all existing markets following a complete overhaul. Also new in 2002 is the skin-care line for young people, Vitaskin[®] Anti-Acne for impure skin, with seven products, which was successfully launched in seven markets. New Aqua products were added to the male cosmetic line, Vitaskin[®] Man. The Vitaskin[®] Basic line was modernised, and new products were added. For body care, we developed Vitaskin[®] Biovital Body Treatment – Cellulite Attack products, which were launched in the Slovene market in 2002, and the promotional support will be started in 2003.

- The sales of Sun Mix[®] products, including the three products added in 2002, were increased by 11%. The sales of Fitoval[®] shampoo increased by 22%. In perfume cosmetics, a new product was added under the Tricia[®] brand name, Illusion by Tricia[®]. The gift collection was also increased, as we designed 69 new gift packages, which represented 40% of total female perfume sales in 2002. The sales of insecticides and repellents Pips[®] were increased by 16%; the highest growth was recorded in Slovenia, Bosnia and Herzegovina, and the Russian Federation.

Adjusting the range to fit individual markets

- Understanding and consideration of the specifics of a pharmaceutical market of various countries, as well as a thorough knowledge of intellectual property and legislation concerned with the marketing authorisation of drugs, enables us to create a product range that is well adjusted to the particular needs of individual markets. With newly acquired marketing authorisation, we confirm our position as a generics manufacturer with a range that covers the leading therapeutic groups, and is adjusted to individual markets and their requirements.

Number of new marketing authorisations by regions for 2002



Number of new marketing authorisations by product group for 2002*

	New marketing authorisations	Forms
Prescription pharmaceuticals	100	168
Self-medication products	56	58
Animal health products	45	63
Total	201	289

* The data does not include the number of new marketing authorisations in the Region West Europe and Overseas Markets.

- The marketing authorisations acquired are confirmation of the quality of our products, the high level of marketing authorisation documentation, and the successful process of acquiring marketing authorisations by different procedures in different environments.

- Besides registering new products in traditional markets, Krka is particularly active in western Europe. Development projects we lead with other leading generic pharmaceutical companies, up to the stage of marketing authorisation, are a firm basis for business co-operation. In 2002, Krka acquired on its own behalf, and on behalf of its partners, 67 new marketing authorisations in 209 forms.

Prescription pharmaceuticals

- In 2002, we acquired the first marketing authorisation for 9 new products in 18 forms; of those, 8 were acquired in Slovenia, and one was acquired by Krka Polska. A place amongst the most important new marketing authorisations we acquired undoubtedly goes to the new drug, Lorista[®]-H (losartan and hydrochlorothiazide), which widened the range of Lorista[®] (losartan). We acquired marketing authorisations for Lorista[®] in the Czech Republic, Slovakia and Bulgaria. Lorista[®]-H is a combined drug, used to treat hypertension if monotherapy (Lorista[®]) is not efficient enough. Both products represent a breakthrough in the field of hypertension treatment and, at the same time, supplement Krka's range of drugs for the treatment of cardiovascular diseases.

- In 2002, we also acquired the first marketing authorisation for Atifan[®] (terbinafine), which will supplement our antimycotics range. Atifan[®] is an antimycotic with a broad spectrum of antifungal activity. It is used for systemic and local treatment. Mycosis is starting to present an increasing problem globally, in conjunction with new diseases such as cancer or AIDS. Atifan[®] together with Diflazon[®], which is approved in most of our markets, covers the whole spectrum of mycoses. Diflazon[®] or Atifan[®] are first-choice drugs for the most common fungal infections.

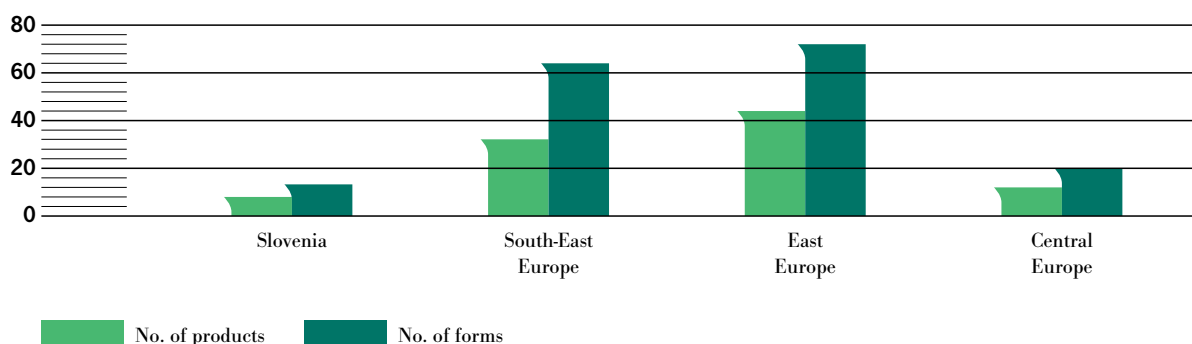
- In the field of gastroenterology, we have adapted our activities to specific markets as far as possible. Lanzul[®] (lansoprazole) is available for the treatment of ulcers and gastroesophageal reflux complaints in Poland, Croatia and Slovakia; whereas in Slovenia and several other countries, Ultop[®] (omeprazole) is available.

- The range of drugs for the treatment of gastrointestinal diseases was supplemented in 2002 with various pharmaceutical forms of Samezil[®] (mesalazine). Samezil[®] is an anti-infective drug with local action and is very important in the treatment of infectious intestinal diseases, since it has fewer side effects than other drugs.

- The obtaining of marketing authorisation for Tenox[®] tablets (amlodipine maleate) is undoubtedly one of the most important, as well as one of the most demanding, Krka's projects. Amlodipine is one of the leading drugs for the treatment of hypertension and angina pectoris. It was registered by Krka Polska, which has also started producing tablets of this drug. Because it represents a new form – a salt – the development of this drug and its marketing authorisation were supplemented by large-scale pre-clinical and clinical studies. Also registered in Poland was Lindron[®] (alendronat). It is used for treatment of osteoporosis, an increasingly common disease in post-menopausal women.

- Last year we obtained marketing authorisation, for Vasilip[®] tablets (simvastatin) in Croatia. Vasilip[®] is now registered in 23 countries and has become one of Krka's leading products.

The number of new prescription pharmaceuticals registered by regions in 2002



Self-medication products

- Our principal mission, in development of new self-medication products, remains the support for Krka's leading brand-names for separate product groups and their supplementation by new products. In 2002, we spread the marketing authorisation of Pikovit[®], Septolete[®] and Daleron[®] across individual regions. We obtained marketing authorisation for Pikovit[®] forte in Macedonia, Russia, Lithuania, Ukraine and Estonia. Pikovit[®] D was registered in the Russian Federation, Croatia and Estonia. Septolete[®] are being gradually marketed, in various markets, in their new forms, Septolete[®] D and Septolete[®] Plus.

Number of new self-medication products approved by region in 2002

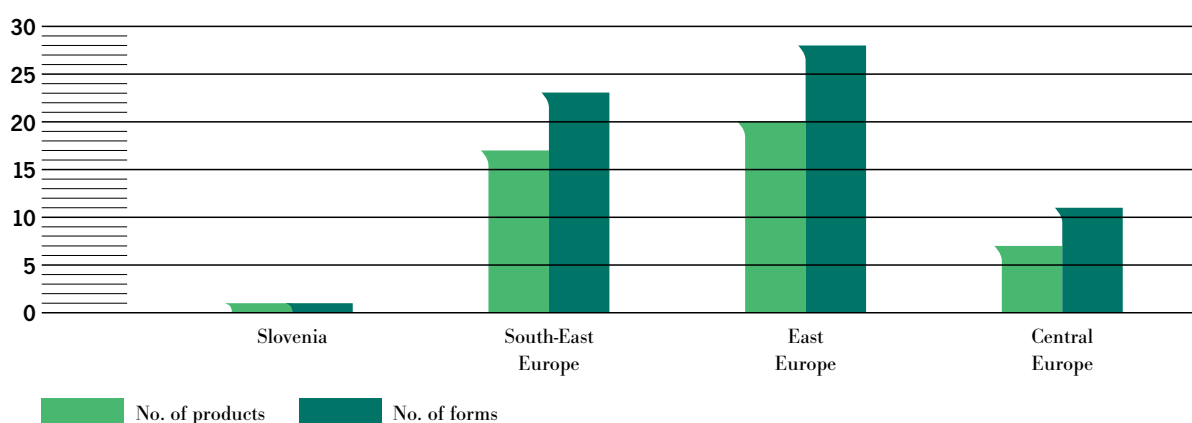


- We began establishing a new product range in 2002. Under the brand-name Herbion[®] we develop products with natural, herbal ingredients. All we add is the complete knowledge of a pharmaceutical manufacturer, so as to make all products from this range compliant with the highest standards and demands for drugs. The first approved product in this range is Herbion[®] – Echinacea, a drug which is used for increasing natural immunity of the organism. It is important in the prevention and treatment of viral infections. It was first approved in Slovenia.

Animal health products

- The year 2002 was very important for animal health products due to the expansion of Floron[®] marketing authorisations. We obtained marketing authorisation in Croatia, Romania, Lithuania, Latvia, Estonia and the Czech Republic. Nowadays, the field of animal health is becoming increasingly regulated, and the requirements are progressively stricter. Floron[®] is a broad-spectrum chemotherapeutic and, as such, represents an important addition to the treatment of animals, and subsequently also assures healthier food. Various forms (injections, powder, solution) are adapted to various animal species. In most markets, our drug was the first approved generic florfenicol.

Number of new animal health product marketing authorisations by region for 2002



New regulatory requirements for existing products

- Offering a wide range of products on numerous markets is a characteristic of Krka and, at the same time, an important advantage. We keep improving our products year by year, implementing new developments and adapting them to new requirements, especially those necessary for harmonising with European Union legislation. In 2002, we renewed marketing authorisations for 292 products in 433 forms. Of those, 199 marketing authorisations in 331 forms represent prescription pharmaceuticals; 45 marketing authorisations in 47 forms represent self-medication products; and 48 marketing authorisations in 55 forms represent animal health products. With newly acquired knowledge, we continue improving safety, efficacy and the quality of our products, even with the most recent regulatory requirements.

An increasing number of marketing authorisations in western Europe

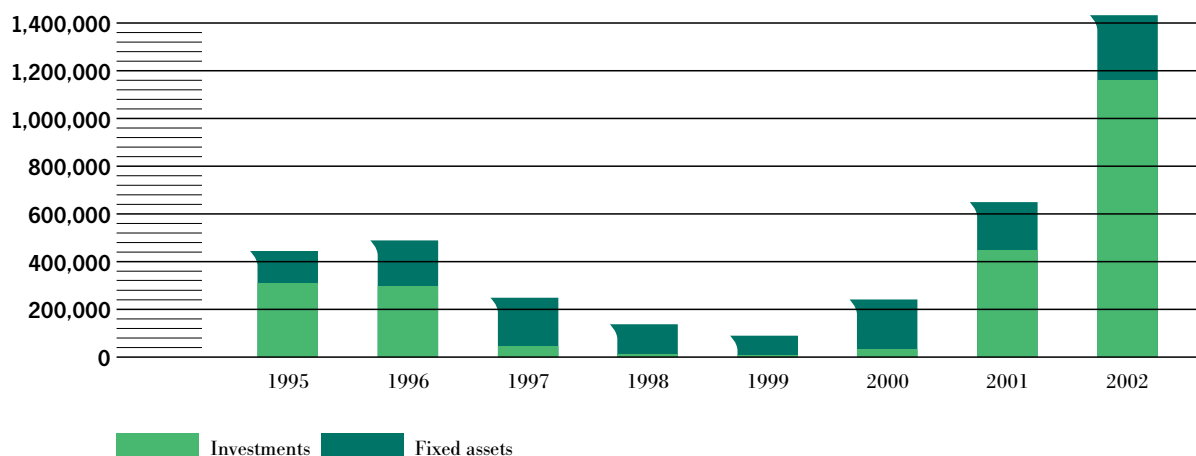
- The number of marketing authorisations for our products, acquired in western Europe, is continually increasing. Together with our partners, we acquired 38 marketing authorisations (132 forms) for simvastatin tablets, which is one of the leading products of its kind in the world. For carvedilol tablets we acquired 6 marketing authorisations (24 forms), for lovastatin tablets 8 marketing authorisations, for ciprofloxacin tablets 8 marketing authorisations (22 forms), and for combination tablets of enalapril/hydrochlorothiazide, 7 marketing authorisations (7 forms). They include Krka's first own marketing authorisations for simvastatin, ciprofloxacin and lovastatin tablets. An important role in development and regulatory projects in the EU is played by Krka Pharma Dublin, which acquired 32 marketing authorisations in 105 forms for two products: ciprofloxacin and simvastatin.

- At the same time we confirmed Krka's status as a manufacturer of active substances which are used in our finished products. We acquired a Certificate of Suitability for two ingredients, norfloxacin and simvastatin, which confirms the highest quality of our ingredients, in accordance with the European Pharmacopoeia.

Keeping up with new investments and technologies

- With continual investments into the modern development of infrastructure and equipment since the beginning of the 1990s, Krka is successfully adapting to the increasingly strict conditions in the development of new generic pharmaceuticals. We opened the new development and control centre – RKC II, which is equipped with state-of-the-art equipment and whose primary purpose is the development and analytic evaluation of new pharmaceutical forms. The centre enables us to introduce new technologies and perform development and research projects according to European standards. Only with continuous investments in all areas of development can we keep up with the latest achievements in science and every area of drug development.

Investments in R&D in 1995-2002 (in thousand SIT)

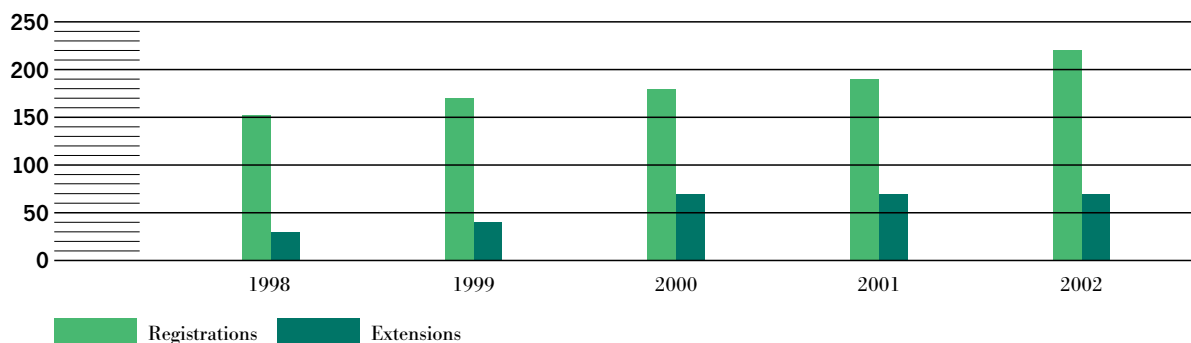


Protecting our own knowledge and the area of intellectual property

- In the generic industry, protection of own know-how is extremely important. It is this know-how that gives us the advantage in the area of morphological structures of active ingredients, technological processes and pharmaceutical forms. In 2002, we filed 6 patent claims in Slovenia that protect our know-how in key products. We also filed an international patent claim, protecting a monoclonal antibody developed by research work in Krka.

- Krka markets its products under its own brand-names. In these times of increasing competition, suitable protection of brand-names is gaining importance among generic manufacturers. In 2002, we registered 50 brand-names in Slovenia and filed claims for 24 international brand registrations.

International registrations of brand-names



Cosmetic products

- The year 2002 was very intensive for the development of new cosmetic products. We launched 66 new products, 57 of those under the Vitaskin® brand-name. The majority of activity was in the area of development of cosmeceutic products.

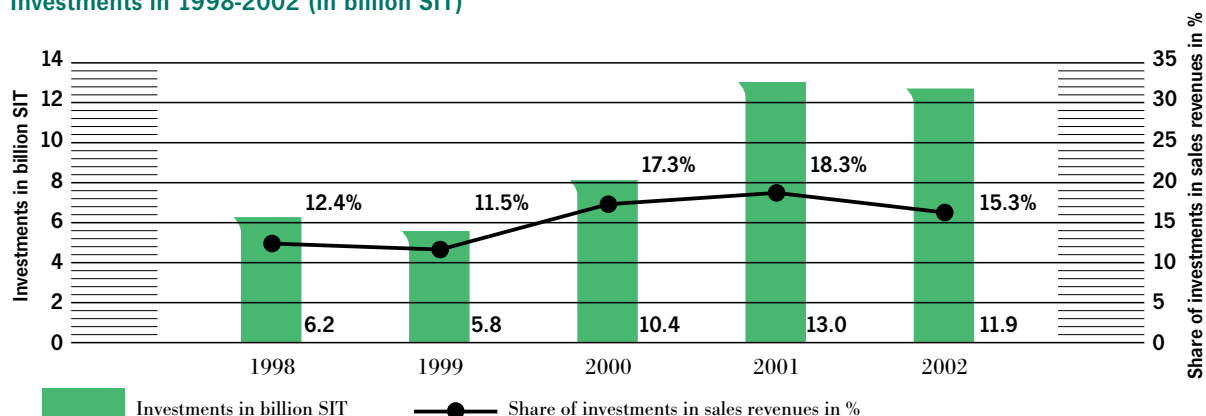
- Dermatological and efficiency tests were conducted on the majority of the new products. All marketing authorisation documentation was compiled. According to the requirements of new cosmetic product legislation in Slovenia, which closely follows European Union cosmetic guidelines, we compiled Safety Assessments for all new products and most of the existing product range.

- Several development projects in hair, decorative and care cosmetics were in their final phases and will be launched in 2003.

Investing in the future

- In accordance with our mid-term development strategy we are intensively investing. In 2002, 11.9 billion SIT was spent on domestic and foreign investments. All these investments had one point in common – they were all in accordance with Krka's strategy. The majority of capital expenditures were spent on finished product manufacture and investments in our companies abroad.
- In 2002 we completed two important investments – Notol and RKC II, which concluded an investment cycle to increase the production capabilities of Krka's central location in Novo mesto.
- In April, Notol was opened in Novo mesto, a new factory for production of pharmaceuticals in solid dosage form, Krka's largest and most important investment so far. The construction of the 23,124 m² factory began in 1998, and when fully equipped, it will be capable of producing 2.5 billion tablets, coated tablets and capsules, per year. Up to now, 16.2 billion SIT has been invested into this project.
- In the second half of the year, the Development and Control Centre II was finished, which will enable us to develop generic products and, as such, give a competitive advantage to our company. By gradually building a modern development infrastructure, we are successfully adapting to the increasingly competitive environment in the area of developing a new generic pharmaceuticals. The investment was worth 1.5 billion SIT.
- Our investment activity was also increased abroad, where we are acquiring the status of domestic manufacturer with new production and distribution centres. Our factories abroad will primarily produce a new generic range of products.
- At the end of 2001 we opened a new factory in Warsaw, Poland, which began working with full capacity in 2002. It mainly produces pharmaceuticals that cannot be produced in Slovenia, for patent reasons. In Croatia and the Russian Federation storage facilities for production and distribution centres are operating. We started utilising the storage facilities in Jastrebarsko two years ago, and on the periphery of Istra, near Moscow, we commissioned the storage facilities in mid-2002. Among our investments abroad, the most intensive activity in 2002 was on building the rest of the production and distribution centre in the Russian Federation, which is planned to open in the second half of 2003.
- In the last five years, 15.2% of sales revenue was directed into investments. With key investments in production and distribution facilities, both domestically and in our traditional markets, we are achieving the strategic goals we set. In the future, we are planning to build a new chemical synthesis plant, complete the equipment of Notol, and concurrently finish the building of a new plant for production of beta-lactame antibiotics in Šentjernej.

Investments in 1998-2002 (in billion SIT)





The natural environment is a precious treasure and future generations are entitled to it also and that is why we strive to preserve it. The preservation of a healthy living space is not just a phrase for us, nor something that could be left to coincidence — it is our responsibility.

We care about the environment

- Environmental care has always been one of our most important tasks. We are convinced that only by achieving symbiosis with nature and the people that surround us can we realise our mission and our strategic goals successfully and, what is perhaps even more important, in the long term.

- Taking care of the environment is an indispensable part of our company's development strategy, which is why we continually try to reduce our emissions to the environment. A cornerstone of our environmental commitment is undoubtedly the high ecological awareness of everyone – not just our employees, but also everyone who is involved in Krka's operations. Our environmental programmes and endeavours were communicated to the local community at a special meeting. The project of rational utilisation of water from the river and the project of completing the cleaning plant, are among the most important environmental programmes in Krka.

- We stand by our commitment to improve our care for the environment, which is also the basic principle of the ISO 14001 standard, by consistently keeping up with and adhering to, regulatory provisions and by monitoring the development of new legislation and guidelines for the pharmaceutical industry. By successfully passing both the Certification Audit, according to the ISO 14001 standard, and reviewing implementation of the EU legislation for air and waste-water quality, genetically modified organisms, and chemicals, which were conducted by the European Commission, we proved that we have established an effective, environmental-management system.

- In the area of energy supply we have, as in previous years, continued with the implementation of measures to assure efficient energy consumption. In our compressor station we saved 319,000 Sm³ by using the waste heat, and were awarded the prize for the most energy-efficient project of the year. By improving control of users and upgrading regulatory loops, we achieved a reduction in the consumption of river water of 900,000 Sm³, which represents approximately 20% of yearly consumption.

- We also acquired the necessary documentation for completing work on the existing cleaning plant at Krka's central location in Novo mesto and began the first phase of work. The technology that will enable us to efficiently remove nitrous compounds and lower organic pollutions, according to legislation, was developed in co-operation with external institutions. We also signed a Letter of Intent with the Community Council of Ljutomer, and other economic organisations in Ljutomer, regarding the construction of a common central cleaning plant in Ljutomer, where we have a plant for production of vitamin and mineral products.

- The Ministry of Environment and Energy extended our authorisation to perform control of emissions in waste-water in 2002, based on external audits and successful collaboration in inter-lab tests of waste-water analysis. The preservation of our status as a conductor of emission control is a result of our many years of experience, professional expertise and helped, in no small part, by our adherence to the requirements of the accreditation standard ISO 17025.

- By implementing a more consistent waste separation we collected and handed over to Dinos – the authorised company for waste collection and disposal – 443 tons of useful waste in 2002, 14% more than in 2001. In accordance with the goals we set, we also lowered the quantity of dangerous waste. By informing our employees about separate collecting of office paper and establishing collecting locations, we plan to increase the quantity of collected, useful-waste in the future.

- Our care for the environment is not a coincidence. In Krka, we fully realise that our activity impacts upon the environment. Therefore, our duty to protect it and keep our living space healthy is even greater.

A commitment to quality

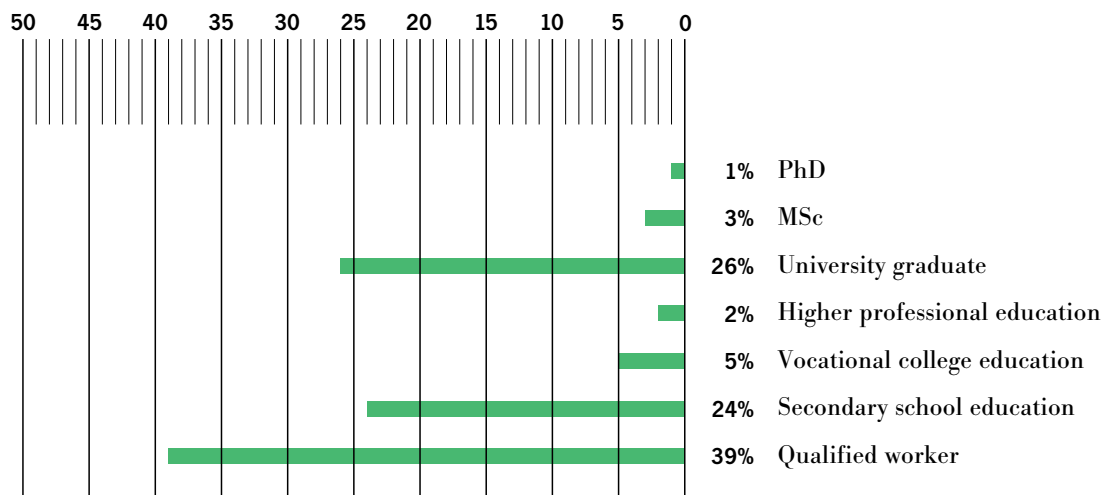
- Quality, in the broadest sense of the word, is created, maintained and the responsibility of all employees. Quality of the kind we perceive and live by transcends standards, regulations and instructions, becoming a part of our everyday task and a constant companion in our life. We successfully ensure that pharmaceutical standards are adhered to and incorporate their requirements and instructions in our products. Constant improvements, by pharmaceutical and other standards on one side, and our commitment to continuing improvement on the other, represent the moving force of progress and continuous increase of quality in all areas.
- The checking of the quality system was conducted in the past year by self-controls, with internal audits and external audits by our business partners. The suitability of the quality assurance system is also reviewed and confirmed by regular inspections from foreign, state regulatory bodies. We wish to draw attention to the successful verification of all the pharmaceutical manufacturing plants of Krka, as conducted by the inspectors of the Health Inspectorate of the Republic of Slovenia. We also passed, with no major discrepancies, the scheduled conformity audit for ISO 9001 and ISO 14001 standards, conducted by SIQ in the autumn.
- In 2002 we successfully continued upgrading and improving the existing system of quality, and expanded its introduction to our subsidiaries abroad. The gradual introduction of the new ISO 9001/2000 standard by which we will upgrade the existing quality assurance system in 2003 led to a complete overhaul of the Quality Assurance regulations which entered into force at the beginning of 2003. According to the provisions of the Health Acts concerning conformity of foodstuffs and products and compounds that come into contact with foodstuffs, the introduction of hazard analysis and critical control points into some of Krka's activities is concluded.
- We realise that advances in quality can only be achieved by understanding the processes of Total Quality Management. It was for that reason that we organised Krka's second school of quality in 2002, which was attended by quality assurance commissioners and internal auditors. The contents were primarily pharmaceutical and, besides quality, dealt with pharmaceutical regulations; enabling participants a rounded insight into the ways of assuring safety, efficacy and quality of our products.

Employees – a company's mirror

- The success of a company depends on the knowledge, creativity and responsibility of each and every employee. For decades Krka has been creating an environment that encourages professional and personal growth of our employees, reflected in our business results. A comparative survey of the working environment in Slovene companies showed Krka to be well above the average. Especially noteworthy are the high levels of being a part of an organisation, disposition towards quality, and general satisfaction of the employees.
- The joint stock company had 3,399 employees by the end of last year, 2,975 of those in Slovenia and 424 in representative offices abroad, representing 12% of all employees. The goals set for 2002 demanded increased employment in the marketing and sales sector, both in Slovenia and abroad; and in the R&D division. The number of employees increased by 142 last year, representing an increase of 4.4%. The number of employees increased by 1.7% in Slovenia and by 27.7% in the representative offices abroad. By the end of 2002, the joint stock company employed 58% women and 42% men. The average age of our employees was 40 with an average of 19 years employment, 17 of which were spent working in Krka.
- Good performance on foreign and domestic markets, new development projects, and investments in new capabilities require highly skilled team members. Therefore, including newly employed, the share of university

graduates among our employees was increased by 2.6%. By the end of 2002, 1,015 of our employees were university graduates, representing 30% of all employees. These include 35 PhDs and 101 MScs. International orientation of our company is confirmed by the fact that 39% of our employees with university degrees work in representative offices abroad.

Educational structure of employees at the end of 2002



- Fast technological and technical development and achievement of our strategic goals, requires an extensive and directed investment in the development of knowledge and skills of our employees, making Krka a learning company. According to the data of our Training centre, every employee participated an average of four times in various forms of training activities in Slovenia and abroad. This training took an average of 40 hours per employee, and an additional 20 hours were spent on work process qualifications. Over 440 million SIT was spent on training and qualifications. It is an investment that always shows returns.

- The company also supports its employees in their decision to continue their studying and so acquire new skills and knowledge which are demanded by the increasingly competitive environment. New development projects in a particular area of work and stimulative work environment also contribute to their decisions for furthering their studies, as most of their co-workers are in the process of education, one way or the other. In 2002, 349 employees were studying, 126 of those at graduate level – pursuing either a PhD or an MSc. A further 35 employees continued their education to qualify as a pharmaceutical process technician, and 32 employees participated in a new form of certificate-based process of obtaining a professional qualification. The influx of fresh knowledge is also stimulated by awarding scholarships. At the moment, 103 students are receiving our scholarships, primarily young pharmacists and chemists, representing our investment in the future.

- As a part of a project of organisational culture in 2002, we focused primarily on the area of leadership, work organisation, information and quality of interpersonal relations. We keep developing the competence profile of Krka's managers and assist their qualitative and systematic recruitment and development, in the framework of planning the development of key and perspective individuals, in management and specialisation. To encourage more open and dynamic forms of leadership, we formed an educational programme in this area, enabling personal growth and a thorough knowledge and use of new skills, in effective leadership and development of co-workers.

- Krka also prides itself on the high level of work satisfaction among its employees and a low staff-turnover, further confirmed by the fact that in 2002, 250 celebrated their work anniversaries – 10, 20, 30, 35 and 40 years of employment with the same company. Despite the fact that the average age of our employees exceeds 40 years, the level of sick leave is decreasing, reaching its lowest so far in 2002 – only 5.1%. This is also a result

of our efforts, which are directed towards solving health related and other problems of our employees and preventive care for the health of all employees. We fully recognise the importance of preventive, recreation and social programmes, which is why we offer a wide selection of sports and cultural events to our employees. Our Trim Klub Krka encourages our employees to sports activities such as swimming, badminton, skiing, tennis, fitness, aerobics and hiking. All these sport activities enjoy a high level of participation. Cultural events, under the patronage of the Krka Cultural and Arts Society, are also very popular, including gallery activities, a choir, drama club, creative workshops and organised visits to cultural events.

Partnership with suppliers

- The international environment and tough competition in the pharmaceutical market led Krka into looking for more economical supply sources of reproduction materials. For that reason, our purchase markets have been changing in the last few years. This is particularly true for active substances, as we purchase most of these directly from their manufacturers or organise production of active substances and semi-finished products in various countries around the world. The widespread network of our own companies and representative offices abroad is of great help to Krka, by exploring supply markets, seeking manufacturers, explaining Krka's needs to them, and discussing the possibilities of co-operation. The suppliers synthesise the active substances based on service-based contracts and with Krka's processes. This is a consequence of long-term strategic co-operation between Krka and its suppliers and the high level of professionalism of development and purchase specialists in the company. The constant presence of our quality assurance experts and quality assurance contracts, ensure a constant quality of supplied ingredients.
- Suppliers of primary packaging materials are mostly from Europe, whereas secondary packaging is mostly supplied by Slovene companies.
- Licensed partners are also important among the suppliers, but their share has been shrinking lately. The reasons for that lie primarily in their tendency for an immediate presence on markets and in building their own marketing network in Krka's traditional markets.
- Due to its limited manufacturing capacities, Krka also uses completion services with quality assurance contracts. The number of suppliers of reproduction materials in the last three years is relatively stable, hovering around 350.
- The total value of purchased reproduction materials, for the purposes of pharmaceutical-chemical manufacturing, as well as for the purposes of cosmetics manufacturing, is also subject to a similar finding: the yearly value of supplies in the last few years was relatively stable, exhibiting a slight growth tendency, and is above 20 billion SIT.
- At Krka, we try to have two or three suppliers for every reproduction material, enabling on one side a firmer partnership bond, and on the other side assuring security, reliability and competitiveness of the supplies. Such supply policy is primarily used for priority products, which represent and assure the bulk of Krka's turnover and income. The choosing of suppliers for strategic raw materials is performed together with experts from various fields, who choose those suppliers which suit the required standards for quality, supply times and costs. Before a final decision is made, Krka's experts perform an audit of the suppliers. Suppliers' operations, and their co-operation with Krka, is continually monitored and is also represented in the final quality score of the supplier and the eventual renewal of the contract.
- In close co-operation with the responsible persons from the development and quality assurance departments, the purchase specialists make contracts for purchase of new products or technologies.

Creating new opportunities

- The company strives to maintain and strengthen genuine bonds with the environment, including using sponsorships and donations, which open new ways of communicating with the public. Thus, we work in partnership with our employees, business partners, customers, suppliers and owners, as well as with the local community and others associated with our company. Our presence can be felt in different areas, as Krka's sponsorship and donations extend to sport, culture, education, scientific research, environmental protection, health-care, human resource development, social initiatives, and charity. Our sponsorship strategy reflects the wide range of all the company's activities and environmental interests. We pay special attention to the needs of our local environment, but at the same time we are outward looking and are also active in our key markets. This was the grounds for our New Year charity event, which reached beyond the country's borders and, instead of seasonal wishes, brought help to health-care institutions world-wide in key markets that most needed it. In Slovenia, there is practically no hospital or health centre in which Krka has not helped with the provision of medical equipment, instruments, medicines, or professional education. We helped with the difficult situation of the Ljubljana Oncology Clinic and donated the total earnings from seasonal advertising for the purchase of medicines for their patients.
- We accomplish our social responsibilities and vision through such activities. Because the company endeavours to create circumstances favourable to a healthy and good quality life, the majority of donations and sponsorships are intended for areas of health-care, charity, sports and culture.
- We are closely connected to the local community, which provide us with the majority of our employees, thus giving us a reason for attempting to provide favourable conditions for sport in the region, whether it be basketball, cycling, volleyball, karate or handball. Ever since it started, we have been supporting the activities of the Trim Klub Krka (Krka Recreation Club), which offers recreational facilities for all employees. We successfully co-operate also with the Krka Basketball Club, the Krka Cycling Club, and many other sports teams, clubs and promising individuals in the region and beyond. In 2002, we accompanied our state football team to the World Cup, supported our ski jumpers in Planica, contributed to the Chess Olympics in Bled, the European Championship in judo, and rejoiced at the success of Martin Strel, a marathon swimmer, and Katarina Venturini and Andrej Škufca, a dancing couple. Such a broad sponsorship and donation policy helps to create an efficient company image in Slovenia and in our most important foreign markets.
- Our sponsorships and donations also support many scientific and research institutions, research programmes in certain faculties and various cultural events. We pay special attention to the Krka Cultural and Arts Society (Kulturno-umetniško društvo), which has been creating and developing a cultural spirit within the company for more than three decades. We also co-operate with national cultural institutions (the Opera, Cankarjev dom, Museums, Galleries). Likewise, we support top-level cultural events such as the Brežice Festival, the Ljubljana Festival, and performances of different theatre groups and choirs. To honour our Culture-Day we gave facsimiles of the album manuscript of the St. Dizma's noble family of Ljubljana to five libraries in the Dolenjska region.
- In 2002, 0.9% of income was earmarked for supporting such activities. We are convinced that in this way we can encourage the development of the environment to which we belong and thus contribute to creating new social, as well as business, opportunities for the future.



The greatest potential of any company are the employees with their know-how, commitment, dreams, and values. We are a big organization of creative workers and we build our success on teamwork, stimulation and inspiration.

Dynamic stock exchange trading

Stock Exchange events

- The year 2002 proved to be very dynamic for stock-trading on the Ljubljana Stock Exchange. Most activity indexes on the Ljubljana Stock Exchange reached record heights this year. The SBI20 index, which also includes Krka's share-price, achieved its highest value yet; 3,548 points. The stock trading volume on the Ljubljana Stock Exchange also reached record heights, totalling 446 billion SIT, 28% more than in 2001. Krka's share also recorded the highest volume of trading in 2002. The total value of transactions, including block transactions, was 46.7 billion SIT – 129% more than in 2001.
- In the second half of 2002 the main reason for increased interest in trading on the Ljubljana Stock Exchange was the abolishment of the short-term, tolar-based, basic interest rate, financial instrument. With the transition to nominal interest rates, the return on short-term tolar bank deposits, was lowered. Therefore, the interest of corporate and individual investors for investments into securities increased.
- The events on the Stock Exchange in 2002 were very intensive, in no small part due to takeover activities, i.e. purchases of major companies which are, or were, listed on the Ljubljana Stock Exchange. One of the most well-known takeovers occurred in the Slovene pharmaceutical industry, when one of Krka's main competitors, at home and abroad, Lek, d. d., Ljubljana, became a part of the Novartis international pharmaceutical group. Following this, Krka is the sole, independent, Slovene generic pharmaceuticals manufacturer.

Krka's share on Ljubljana Stock Exchange in 2002



- Takeover related activities positively influenced the price of Krka's shares, which reached their highest value since being-listed on the Ljubljana Stock Exchange. The reason for the increase in price of most shares on the Ljubljana Stock Exchange were high expectations of the investors, who anticipated that the funds raised by selling Lek's shares would increase the demand for securities.

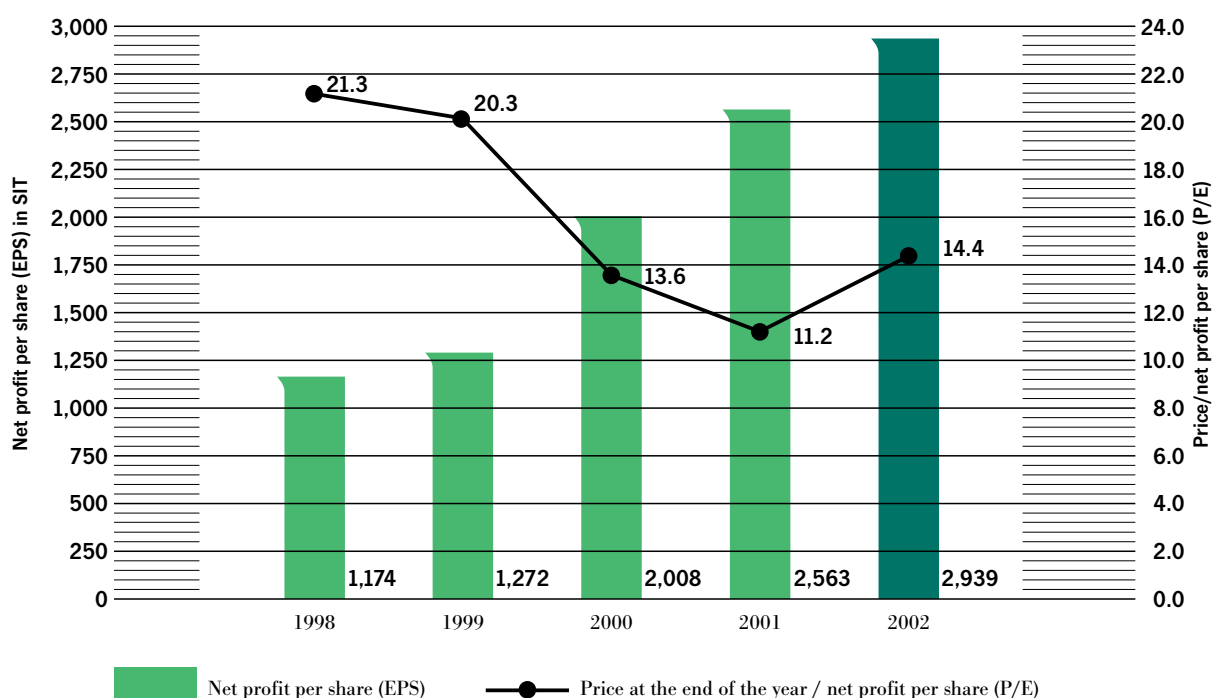
- Lek's shareholders received the funds at the beginning of December, but did not immediately invest a large part of it. Towards the end of 2002, the trading of Krka's shares grew quieter at a price around 42,000 SIT, representing a 48% increase compared to the average share price at the end of the previous year. Market capitalisation of the company at the end of 2002 amounted to 150.4 billion SIT.

Data per share (in SIT)

	1998	1999	2000	2001	2002
Average price at 31 December	25,009	25,784	27,392	28,711	42,458
Highest average price of the period	35,570	31,530	28,050	30,006	47,156
Lowest average price of the period	21,396	25,009	22,169	24,644	28,462
Book value as at 31 December	15,093	16,993	19,943	23,148	25,137
Net earnings per share (EPS)	1,174	1,272	2,008	2,563	2,939
P/E ratio					
(average price / earnings per share)	21.3	20.3	13.6	11.2	14.4
Dividend per share in SIT*	450	550	700	950	no data
Market capitalization as at 31 December					
(in billion SIT)	88,600	91,343	97,039	101,712	150,414
Number of shares	3,542,612	3,542,612	3,542,612	3,542,612	3,542,612
Number of shareholders	64,756	58,445	54,684	50,956	51,510

* Paid dividend for the year stated in the head of the column.

The movement of net profit per share and the P/E ratio for the 1998-2002 period



Ownership of the company

Krka's largest shareholders at 31 December 2002

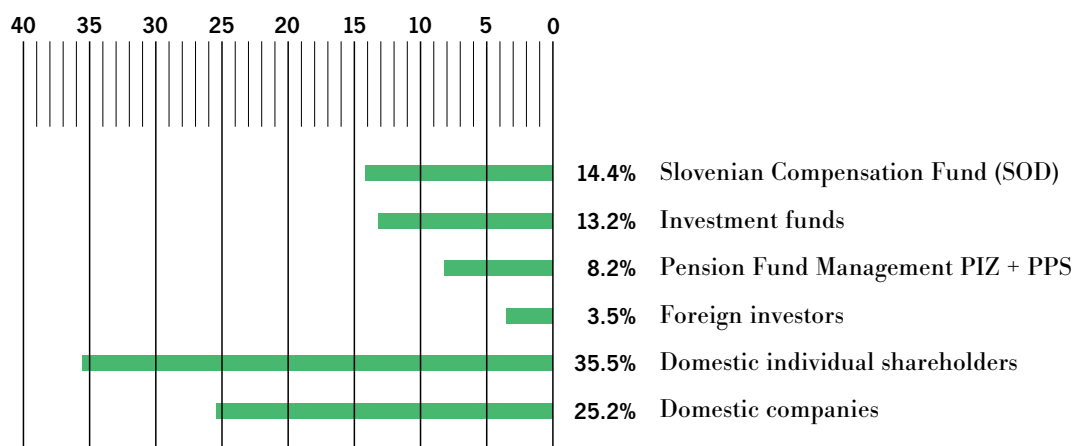
Shareholder	State	No. of shares	Share
SLOVENSKA ODŠKODNINSKA DRUŽBA, d. d.	Slovenia	510,814	14.42
KAPITALSKA DRUŽBA, d. d.	Slovenia	267,202	7.54
A BANKA, d. d.	Slovenia	118,108	3.33
NFD 1 INVESTICIJSKI SKLAD, d. d.	Slovenia	105,994	2.99
TRIGLAV STEBER I PID, d. d.	Slovenia	102,594	2.90
ZAVAROVALNICA TRIGLAV, d. d.	Slovenia	60,716	1.71
KD INVESTMENTS, d. d., VS GALILEO	Slovenia	48,269	1.36
MAKSIMA 1, d. d.	Slovenia	42,328	1.19
ID KD, d. d.	Slovenia	38,786	1.09
ZLATA MONETA I, d. d.	Slovenia	34,387	0.977
Total		1,329,198	37.52

- State investment companies remained the largest owners of the company at the end of 2002. A domestic commercial bank increased its share and climbed to third place. They are followed by domestic investment funds which were already among the biggest shareholders in 2001. The largest domestic insurance company retained its ownership share, and was again included in the first 10 shareholders.

- Foreign investors also traded very actively in Krka's share. By the mid-year, the total share of foreign investors in the ownership structure of the company reached almost 10%, partly due to increased buying by foreign investors, which followed presentations to potential investors in European financial centres in May 2002. After the intent to takeover Lek in 2002 was public, and the subsequent substantial increase in the price of shares, foreign investors intensively sold the shares and cashed in the profits. Therefore, by the end of 2002, the biggest foreign shareholder held only a 0.8% share, placing them in the fifteenth position. The number of foreign shareholders decreased from 419 at the end of 2001 to 349 at the end of 2002. The combined ownership share of foreign shareholders decreased as well, falling from 8.8% at the end of 2001, to 3.5% at the end of 2002.

- In 2002, the concentration of ownership has stopped for the first time since the company went public in 1996. The ownership of the company, in 2002, was dispersed between a large number of minority owners (Slovenian individuals and companies), whose total ownership share increased in 2002. The number of all stockholders of the company increased, due to the increase in the number of small shareholders from 50,956 at the end of 2001 to 51,510. At the end of 2002, the 100 largest shareholders held 61% of the company, 2% less than in 2001. However, ownership at the end of 2002 is considerably more concentrated than at the end of 1997, when the 100 largest shareholders held only 48% of shares.

Shareholders structure as of 31 December 2002



Listing of Krka's share in various indexes

- Krka's shares are listed in several representative indexes, which are computed on two Central European Stock Exchanges. They enable the comparison of trading Krka's shares with the movement of other indexes in the region, which should represent trends of trading in the region, or trends on a specific national market within the region.

SBI20 index on Ljubljana Stock Exchange

- The SBI20 is a weighted index which includes shares of 20 different companies, with the highest capitalisation and the highest trading volume on the Ljubljana Stock Exchange.

CESI index on Budapest Stock Exchange

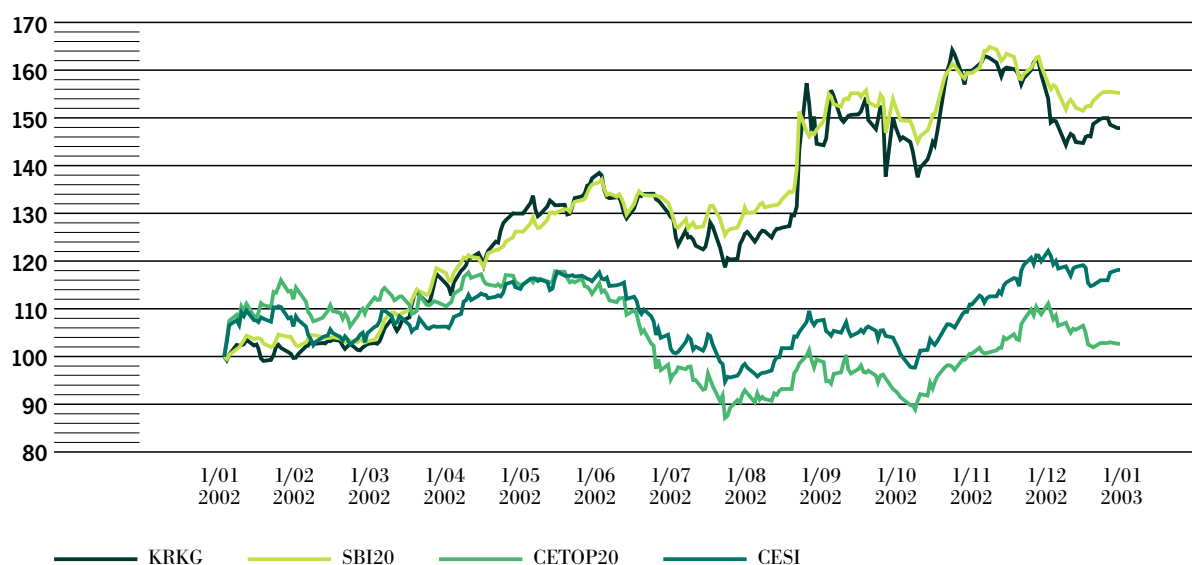
- The Central European Stock Index is calculated by the Budapest Stock Exchange, and includes the shares of major Central European companies, which are listed on various national Stock Exchanges in Central Europe. The index includes the shares of major (blue chip) companies which are listed in Ljubljana, Budapest, Prague and Bratislava Stock Exchanges.

CETOP20 index on Budapest Stock Exchange

- The Central European TOP 20 index was formed primarily because of the needs of international investors and local and international investment fund managers, for an index which would include securities of the most perspective companies of the emerging capital markets of Central Europe, i.e. capital markets of the ex-socialist block.

- Compared to CESI, CETOP20 covers more of share performance on more capital markets of Central Europe, and was designed for benchmarking individual share performance in the index with the general performance on the emerging capital markets of Central Europe, which is to be represented by the CETOP20.

KRKG share, SBI20 index, CESI index and CETOP20 index performance



Note: Index calculation of the value of Krka's share, SBI20 index, CETOP20 index and CESI index is based on the value of individual indices and Krka's share price on 1 January 2002.

Investing in Krka's shares

- Krka's shares were listed on Ljubljana Stock Exchange in 1997, with the abbreviation (ticker) KRKG, and all daily data on trading with the company's shares are available at the Ljubljana Stock Exchange. The data on trading with Krka shares is also available from major international business information providers, such as Reuters (ticker: KRKG.LJ) and Bloomberg (ticker: KRKG_SV).
- Resident investors can trade the share only through stock-broker companies and banks that fulfil the necessary legal criteria, and are members of the Ljubljana Stock Exchange.
- Non-resident investors can trade the share freely and with no limits on the Ljubljana Stock Exchange, from 1 July 2001 onward. Trading is possible through members of the Ljubljana Stock Exchange (stock-broker companies and banks). More information on individual trading services for non-resident is available from members of the Ljubljana Stock Exchange, whose contact data is on web site: <http://www.ljse.si>.

Investor relations

- Communication with the investment community is enabled through various channels. Internet users can access important business information, such as important business events and published business results, on our web site: <http://www.krka.si>.



We are aware of our social integration and responsibility. We are a company which is capable and ready, always and everywhere, to contribute to the creation of broader co-habitation in society. A genuine bond with the environment is strengthened by connections, sponsorships and donations.

Krka



at home and abroad

Management Board of the joint stock company



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

**Miloš
Kovačič**

President of the
Management Board
and Chief Executive

**Jože
Colarič**

Deputy to the
President of the
Management Board
and Chief Executive
and Director of
Marketing and Sales

**Janez
Poljanec**

Member of the
Management Board
and Director of
Product Supply

**Aleš
Rotar**

Member of the
Management Board
and Director of
Research and
Development

**Danica
Novak Malnar**

Worker Director

Supervisory Board of the joint stock company



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

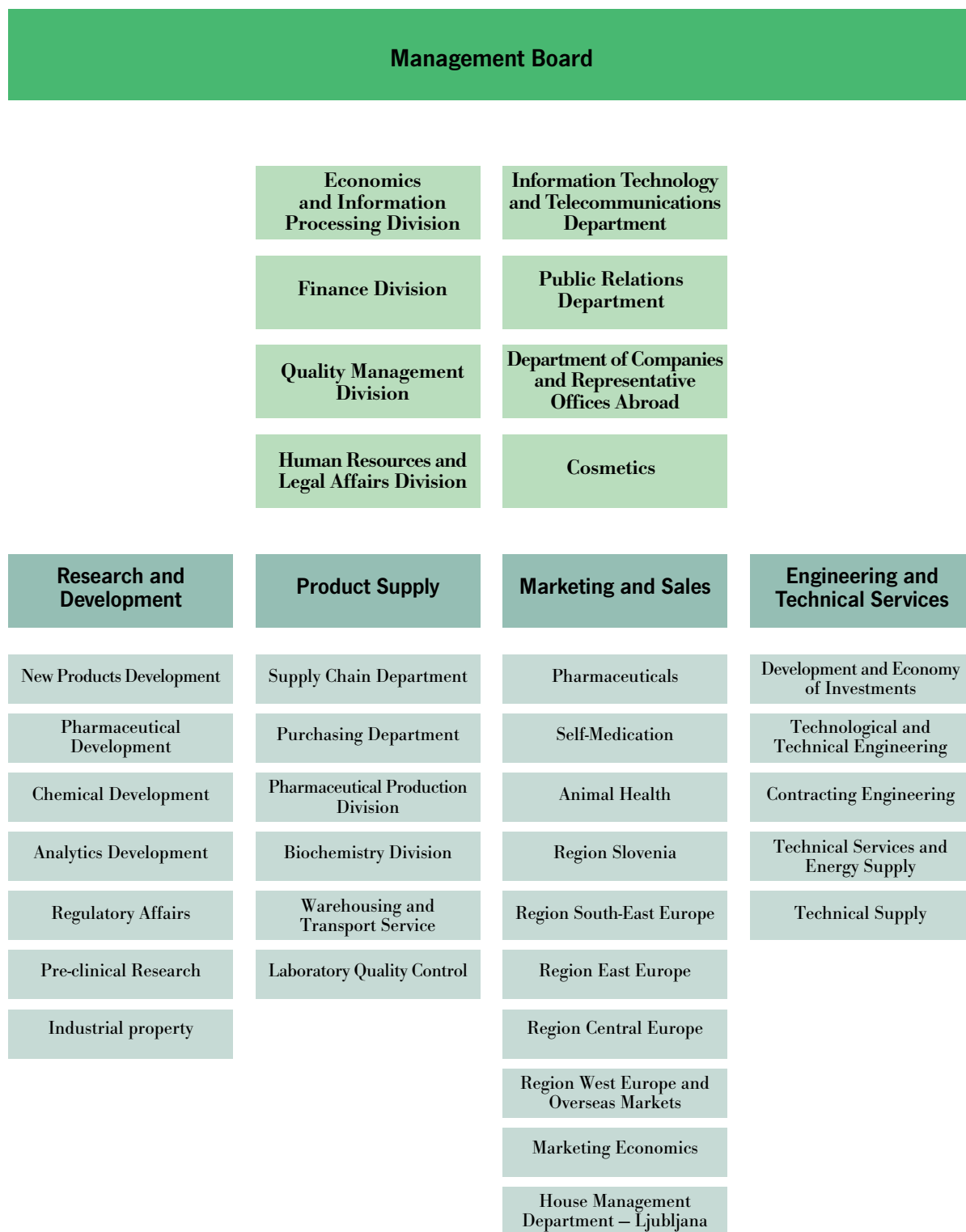
Shareholders' representatives:

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

Employees' representatives:

Sonja Kerme
 Mihaela Korent
 Miroslav Kramarič
 Darinka Kure
 Boris Petančič
 Božena Šuštar

Organizational structure of the joint stock company



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