



Unaudited Interim Report for the Krka Group and the Krka Company for January–March 2017

Novo mesto, May 2017

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INTRODUCTION

The condensed financial statements of the Krka Group and the condensed financial statements of Krka, d. d., Novo mesto (Krka Company) for January–March 2017 and for January–March 2016 are unaudited, while the statements for the full 2016 business year present audited figures. The Krka Company has no authorised capital and has not made a conditional share capital increase.

The Krka Company promptly announces all significant changes of the data in its listing prospectus in the Ljubljana Stock Exchange

electronic information dissemination system SEOnet, in the Polish Financial Supervision Authority electronic information dissemination system (ESPI), and/or in the Delo daily newspaper. Interim reports for the Krka Group and the Krka Company are available on the Krka website www.krka.si.

The Krka Company Supervisory Board discussed the January–March 2017 unaudited report for the Krka Group and the Krka Company at its regular meeting on 10 May 2017.

Highlights January–March 2017

- The Krka Group sold €321.0 million worth of products and services, and Krka Company sales amounted to €312.2 million.
- The Krka Group sales increased by 7% compared to the same period last year.
- The highest absolute (up €21.7 million) as well as relative (up 27%) sales growth was recorded in Region East Europe.
- With 31.7% of total sales generated there, Region East Europe was also Krka's largest sales region.
- The Krka Group generated 93%, and the Krka Company 96% of its sales revenues in markets outside Slovenia.
- The Krka Group generated €41.0 million of operating profit, a decrease by 19% compared to the same period last year. The Krka Company reported €45.7 million of operating profit, up 16% from last year's operating profit.
- The Krka Group reported a net profit of €42.7 million, up 6% compared to the same period last year, while the Krka Company generated €45.3 million of net profit, up 38%.
- Consistent with the Krka strategy regarding its dividend-increase policy, the Supervisory Board and Management Board have designed a proposal for the General Meeting, which will be held on 6 July 2017, to pay shareholders a gross dividend of €2.75 per share, which is a 3.8% increase compared to last year's dividend.
- As at 31 March 2017 Krka's share traded at €52.15 on the Ljubljana Stock Exchange, a decrease by 1.4% compared to the year-end of 2016. Krka Company's market capitalisation amounted to €1.7 billion.
- The Krka Group allocated €21.4 million to investments in the reported period, of which the Krka Company invested €18.0 million and subsidiaries, €3.4 million.
- At the end of March the Krka Group had 10,821 employees.

Krka Group and Krka Company financial highlights

In € thousand	Krka Group			Krka Company		
	1–3/2017	1–3/2016	2016	1–3/2017	1–3/2016	2016
Revenues	321,048	300,892	1,174,424	312,151	263,371	1,071,709
EBIT ¹	40,967	50,438	122,435	45,726	39,366	98,920
EBITDA	69,524	76,839	228,238	67,800	60,124	180,685
Net profit	42,694	40,196	108,456	45,276	32,785	102,872
R&D expenses	31,551	29,697	117,994	32,956	31,154	122,874
Investments	21,406	26,179	131,817	18,047	18,497	80,663

	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016
Non-current assets	1,047,699	1,038,067	1,042,436	1,024,176
Current assets	899,342	873,451	843,239	813,527
Equity	1,496,432	1,444,444	1,483,852	1,440,448
Non-current liabilities	116,196	115,313	82,622	81,691
Current liabilities	334,413	351,761	319,201	315,564

RATIOS	1–3/2017	1–3/2016	2016	1–3/2017	1–3/2016	2016
EBIT margin	12.8%	16.8%	10.4%	14.6%	14.9%	9.2%
EBITDA margin	21.7%	25.5%	19.4%	21.7%	22.8%	16.9%
Profit margin (ROS)	13.3%	13.4%	9.2%	14.5%	12.4%	9.6%
ROE ²	11.6%	11.3%	7.6%	12.4%	9.1%	7.2%
ROA ³	8.9%	8.7%	5.8%	9.7%	7.3%	5.7%
Liabilities/Equity	0.301	0.289	0.323	0.271	0.242	0.276
R&D expenses/Revenues	9.8%	9.9%	10.0%	10.6%	11.8%	11.5%

NUMBER OF EMPLOYEES	31. 3. 2017	31. 12. 2016	31. 3. 2017	31. 12. 2016
	10,821	10,889	4,861	4,889

SHARE INFORMATION	1–3/2017	1–3/2016
Total number of shares issued	32,793,448	32,793,448
Earnings per share in € ⁴	5.29	4.95
Closing price at end of period in € ⁵	52.15	61.50
Price/Earnings ratio (P/E)	9.86	12.43
Book value in € ⁶	45.63	44.25
Price/Book ratio (P/B)	1.14	1.39
Market capitalisation in € thousand (end of period)	1,710,178	2,016,797

¹ Difference between operating income and expenses

² Net profit, annualised/Average shareholders' equity in the period

³ Net profit, annualised/Average total assets in the period

⁴ Net profit attributable to equity holders of the Group, annualised/Average number of shares issued in the period exclusive of treasury shares

⁵ Share price on the Ljubljana Stock Exchange

⁶ Equity at the end of the period/Total shares issued

Krka Group ID card

The controlling company in the Krka Group is Krka, tovarna zdravil, d. d., Novo mesto (Krka d. d. or the Krka Company).

Registered office Šmarješka cesta 6, 8501 Novo mesto, Slovenia

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Fax ++386 7 332 15 37

E-mail info@krka.biz

Website www.krka.si

Core business Production of pharmaceutical preparations

Business clarification code 21.200

Year established 1954

Registration entry 1/00097/00, District Court of Novo mesto, Slovenia

Tax number 82646716

VAT number SI82646716

Company ID number 5043611

Share capital €54,732,264.71

Number of issued shares 32,793,448 ordinary registered no-par value shares with the symbol KRKG. Shares have been listed on the Ljubljana Stock Exchange under symbol KRKG since 1997, and since April 2012 additionally on the Warsaw Stock Exchange under symbol KRK.

Krka Group business model

Krka is one of the world's leading generic pharmaceutical companies. Its registered office is in Slovenia and it has over 60 years of experience in the industry.

Krka is the leader in the Slovenian market, and it has a strong presence in the generic pharmaceutical markets of Eastern, Central and South-Eastern Europe, having had strong visibility in Western European markets for several years as well. We have been strengthening our presence in overseas markets, aiming to further exploit the sales potential of the Middle East, Far East, Africa, and the Americas. Our production and distribution facilities are in Slovenia, the Russian Federation, Poland, Croatia and Germany.

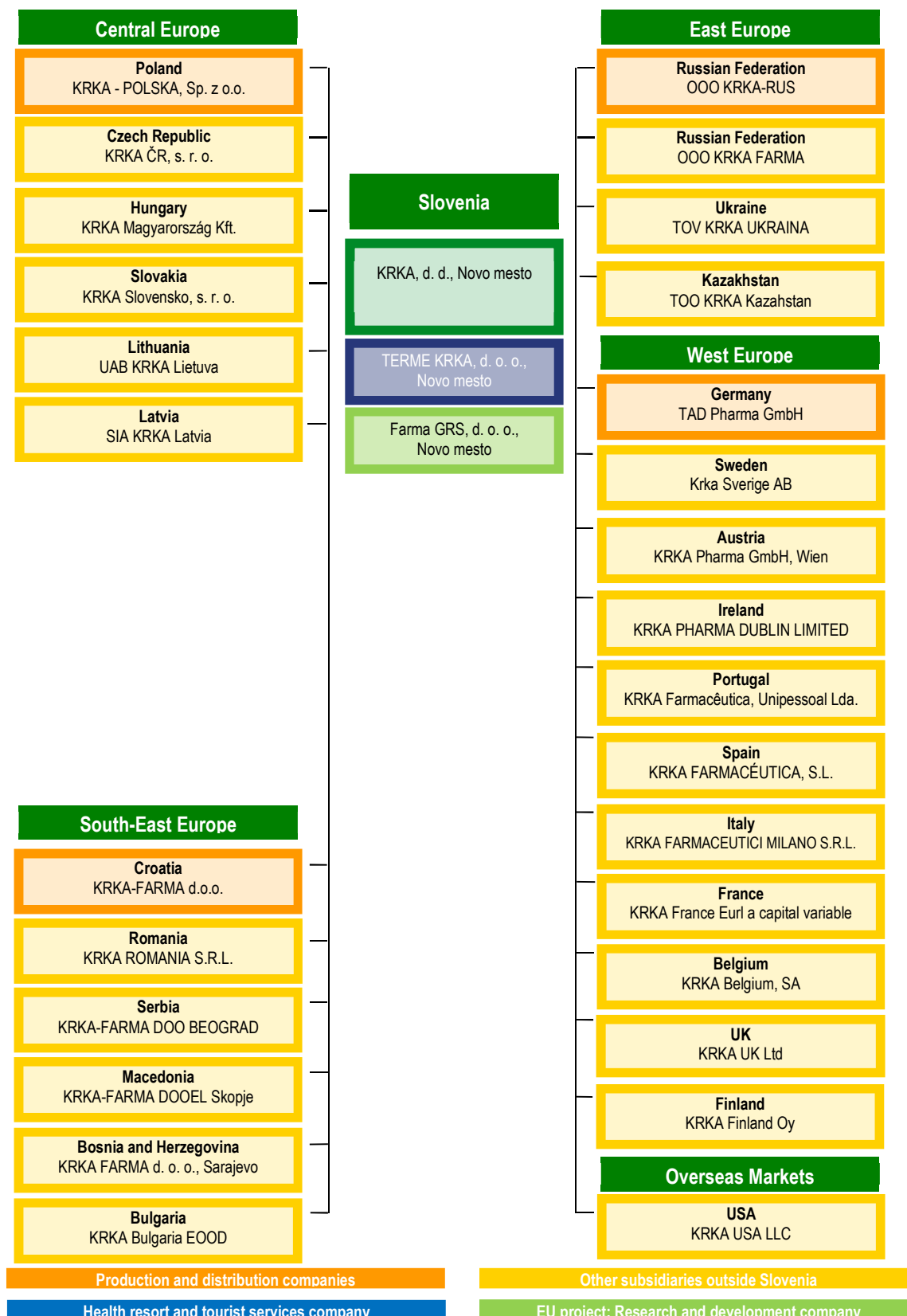
Our modern pharmaceutical production and vertically integrated business model allow us to provide patients in over 70 countries with a wide range of safe, high quality and effective prescription pharmaceuticals, non-prescription products and animal health products. Krka's product range primarily consists of solid dosage pharmaceutical forms. The product range is supplemented by the health resort and tourist services of Terme Krka.

We focus on generic prescription pharmaceuticals marketed under Krka's own brands. We offer numerous medicinal products for the treatment of conditions from key therapeutic areas, including pharmaceuticals for cardiovascular diseases, for alimentary and metabolic diseases, and for diseases of the central nervous system. We have also been entering new therapeutic areas (oncology and antiviral medicines), selected areas also with non-prescription products.

We have been expanding our marketing and sales network and thereby gaining market shares by establishing our own companies and acquiring other companies in selected markets. Our objective is to strengthen the Krka Group's market position in European and Central Asian markets, and to enter new high-potential markets.

Wishing to increase the competitive advantage of Krka's product range, we have been allocating a large proportion of revenues to research and development. Krka currently has more than 170 new products in the pipeline. A large proportion of our revenues are generated by the sales of new products launched on different markets in the past five years.

Krka Group companies



The controlling company, Krka, d. d., Novo mesto, holds 100% ownership stakes in all of the above subsidiaries apart from Farma GRS (99.7%) and

Krka Belgium (95%); the remaining 5% in the latter is held by the subsidiary Krka France Eurl a capital variable.

Krka Group development strategy

The Krka Group updates its development strategy on a bi-annual basis. In November 2015 the Krka Company Management Board adopted the Group's Development Strategy for the period 2016–2020, and presented it to the Supervisory Board.

The success of implementing strategic objectives is measured against performance criteria set at the level of the Group, at the level of product groups and at the level of business functions. Performance

at the level of the Group is monitored by the Management Board, while performance at the level of product and service groups as well as business functions is monitored by the relevant committees. The key principle in managing performance criteria is increasing competitiveness of the entire Group and of each company individually.

The key Krka Group objectives and strategies to 2020 are set out below.

Key strategic objectives to 2020

- To attain at least a 5% average annual sales growth in terms of volume.
- To ensure, in addition to organic growth, growth with acquisitions and long-term partnerships (including joint ventures). To allocate a few hundred million euros for take-overs of interesting and available companies in the five-year strategic period.
- To ensure that new products account for at least one third of total sales.
- To launch the selected product portfolio in our target markets as the first generic pharmaceutical company.
- To strengthen the competitive advantage of our product portfolio.
- To maintain the largest possible share of vertically integrated products.
- To improve the cost-effective use of all assets.
- To increase product cost-effectiveness.
- To improve all business functions in innovative ways.
- To maintain independence.

Key strategies to 2020

- To focus primarily on European and Central Asian markets.
- To maximise the sales potential in all sales regions (Slovenia, South-East Europe, East Europe, Central Europe, West Europe, Overseas Markets).
- To strengthen our presence in key markets (Slovenia, Croatia, Romania, Ukraine, the Russian Federation, Poland, Hungary, the Czech Republic, Slovakia and West Europe), and to focus on key customers and key products.
- To establish and strengthen our presence in Western European markets by operating via our own marketing and sales companies and with products of our own brands.
- To strengthen the pharmaceutical and chemical industries and increase the range of prescription products in three key therapeutic areas (treatment of cardiovascular diseases, the alimentary tract and metabolism, and the central nervous system) while also entering new therapeutic areas (oncology, antiviral medicines) and expanding the range of non-prescription products in selected therapeutic areas.
- To enter the area of products with complex active substances, including biosimilars, and to intensely evaluate partnership options and individual projects according to their market potential.
- To enhance vertical integration from development to product manufacture.
- To ensure a permanent supply of incoming materials, and optimise purchasing by continually reducing purchase prices.
- To expand the outsourcing of production and development.

- To develop generic medicines and prepare marketing authorisation documents prior to the expiry of the patent on the original medicine.
- To strengthen all kinds of connections with external institutions and companies in the field of development.
- To continue increasing investments in production and development capacities and infrastructure.
- To seek possibilities of acquiring local pharmaceutical companies, plan take-overs and mergers and various kinds of long-term business arrangements (joint ventures) in selected markets with the primary objective of attaining market shares and entering new therapeutic fields.
- To reduce the impact of financial and economic risks on the Krka Group operations.
- To pursue a dividend-increase policy whereby up to 50% of the consolidated profit of major shareholders generated the year before is allocated to dividends if this be feasible considering the Group's financial requirements for investments and mergers each year.
- To be open to new high potential business connections (networking) on relevant projects.
- To strengthen the professional and cost synergies of the Krka Group, and maximise the utilisation of competitive advantages in the business environments in which Krka companies operate abroad.
- To enhance the internationalisation of all business functions by maintaining English and Russian as the key languages of communication throughout the Group.
- To engage enterprise- and goal-oriented internal human resources.
- To meet our economic, social and environmental responsibilities to the environments in which we operate.
- To operate in accordance with the principles of business excellence and thereby strengthen the identity and positive public image of the Krka Group.

Krka Group business objectives for 2017

- Product and service sales are projected to amount to €1,220 million.
- Sales in markets outside Slovenia are expected to account for 93% of total sales.
- Prescription pharmaceuticals will remain the most important product group, accounting for 82% of total sales.
- Profit is planned to exceed that from 2016.
- The number of employees is planned to increase both in Slovenia and abroad, by a total of 4%.
- The €174 million of planned investments will primarily expand and modernise production and R&D capacities, and infrastructure.

BUSINESS REPORT

Financial risk

Foreign exchange risk

Due to Krka's widespread international operations, the Group is exposed to foreign exchange risk in certain sales markets. Exposure to foreign exchange risk derives from the excess of assets over liabilities for an individual currency in the Group statement of financial position.

Currency movements in the first quarter were favourable for Krka, its currency exposures having resulted in foreign exchange gains.

We maintained an unchanged foreign exchange risk management policy throughout the first quarter of 2017. Eliminating currency risk with natural hedges has remained Krka's key method of managing foreign exchange risk; derivatives are also used, albeit to a limited extent.

In the first quarter of 2017, our rouble exposure was partially hedged with forward contracts. As the rouble appreciated we generated foreign exchange gains and incurred net financial expenses from forward contracts. Taking into account foreign exchange gains and net expenses from forward contracts, the result of exposure to the rouble in the first quarter of 2017 was positive.

As in previous periods, foreign exchange risk associated with other currencies was not hedged in the reported period.

The total net financial result for the first quarter – factoring in net foreign exchange differences, derivatives income and expenses, interest income and expenses, and other financial income and expenses – was €5.2 million.

Interest rate risk

The Krka Group had no long-term borrowings in the first quarter of 2017 and was therefore not exposed to the risk of changes in reference interest rates.

Credit risk

Key credit risk of the Krka Group is associated with trade receivables. This is the risk of buyers not settling their liabilities upon maturity. The centralised credit control process at Group level includes all customers to whom Krka sells €100,000 or more worth of products and services per year. There were more than 400 such buyers at the end of the first quarter of 2017, and they represent more than 95% of the Group's trade receivables.

The low value of write-offs and impairments of receivables is also the result of receivables being dispersed among a large number of buyers and sales markets, and of the fact that the majority of outstanding receivables are from customers with which Krka has long-standing business relationships.

Our credit risk management policy has not changed in the first quarter of 2017 – we have continued with the close monitoring and insuring of trade receivables associated with buyers from markets with a poor macroeconomic environment and from markets in which we are detecting increasing risks associated with the distribution of medicines.

Over a half of the Group's total trade receivables had credit insurance coverage at the end of the first quarter, while only a minor segment were secured with bank trade instruments.

The total euro value of trade receivables at the end of the first quarter was up from the beginning of the year, the result of sales growth in the reported period.

The maturity structure of receivables has remained stable. The proportion of past due receivables in

total trade receivables remained at a negligible level at the end of the first quarter.

Liquidity risk

Risks related to the liquidity of the Krka Group were managed by effective short-term cash flow planning in the first quarter this year. Short-term liquidity was ensured with a continual cash flow, pre-agreed short-term revolving and fixed borrowings from banks, and the daily, rolling weekly, monthly and longer-term planning and monitoring of cash inflows

and outflows. We also optimised the amounts of cash on the bank accounts of subsidiaries; this was done using cash pooling, which had partially already been implemented.

Liquidity risk is estimated to be low. All our liabilities were settled regularly and on time.

Property, liability and business interruption insurance

Krka entered into insurance contracts for underwriting year 2017 in the reported period. Despite the value of insured assets increasing, the

total insurance premium has decreased. In addition to successful negotiations, lower premiums are due to optimised insurance covers.

Investor and share information

At the end of March 2017 Krka had 53,371 shareholders, 1.6% fewer than at the end of 2016. The overall decline is mainly due to fewer individual Slovenian investors, whose share in the ownership

structure of Krka declined accordingly. The proportion of international investors was slightly up in the first quarter of 2017.

Shareholder structure (holdings in %)

	31 Mar 2017	31 Dec 2016
Individual Slovenian investors	39.5	39.7
Slovenian Sovereign Holding	16.2	16.2
KAD fund and PPS	11.0	11.0
Slovenian companies and funds	8.0	8.1
International investors	23.7	23.5
Treasury shares	1.6	1.5
Total	100.0	100.0

In the first quarter of 2017 Krka repurchased 37,744 treasury shares worth a total of €1,986,571.

As at 31 March 2017 Krka held 530,874 treasury shares, which represents 1.619% of the Company's share capital.

Krka's 10 largest shareholders as at 31 March 2017

	Country	No. of shares	Share in equity (%)	Share of voting rights (%)
Slovenski državni holding, d. d. (Slovenian Sovereign Holding)	Slovenia	5,312,070	16.20	16.47
Kapitalska družba, d. d.	Slovenia	3,493,030	10.65	10.83
Societe Generale- Splitska banka, d. d.	Croatia	2,312,476	7.05	7.17
Addiko Bank, d. d.	Croatia	1,218,233	3.71	3.78
KDPW – fiduciary account	Poland	466,370	1.42	1.45
Luka Koper, d. d.	Slovenia	433,970	1.32	1.35
Zavarovalnica Triglav, d.d.	Slovenia	388,300	1.18	1.20
Clearstream Banking SA	Luxembourg	357,841	1.09	1.11
The Bank of New York Mellon	USA	237,563	0.72	0.74
Smallcap World Fund Inc.	USA	231,262	0.71	0.72
Total		14,451,115	44.07	44.79

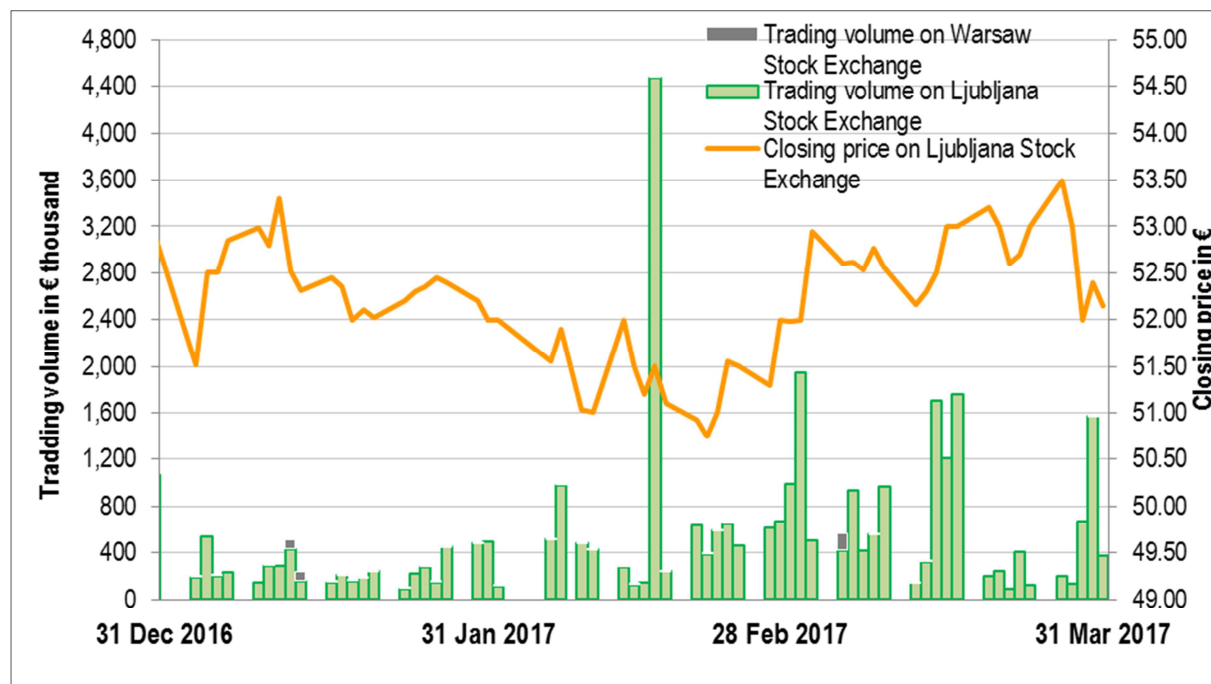
Krka's ten largest shareholders held a total of 14,451,115 shares at the end of March 2017, which is 44% of all issued shares.

As at 31 March 2017 members of the Krka Management Board and Supervisory Board held a total of 39,170 of the Company's shares, which is 0.119% of all issued shares.

Shares in equity and shares of voting rights held by members of the Krka Management Board and Supervisory Board as at 31 March 2017

	No. of shares	Share in equity (%)	Share of voting rights (%)
Management Board members			
Jože Colarič	22,500	0.0686	0.0697
Aleš Rotar	13,915	0.0424	0.0431
Vinko Zupančič	120	0.0004	0.0004
David Bratož	0	0.0000	0.0000
Milena Kastelic	505	0.0015	0.0016
Total Management Board	37,040	0.1129	0.1148
Supervisory Board members			
Jože Mermal	0	0.0000	0.0000
Julijana Kristl	230	0.0007	0.0007
Simona Razvornik Škofič	0	0.0000	0.0000
Andrej Slapar	0	0.0000	0.0000
Anja Stojin Štampar	0	0.0000	0.0000
Tomaž Sever	500	0.0015	0.0015
Boris Žnidarič	0	0.0000	0.0000
Franc Šašek	1,400	0.0043	0.0043
Mateja Vrečer	0	0.0000	0.0000
Total Supervisory Board	2,130	0.0065	0.0066

Share trading January–March 2017



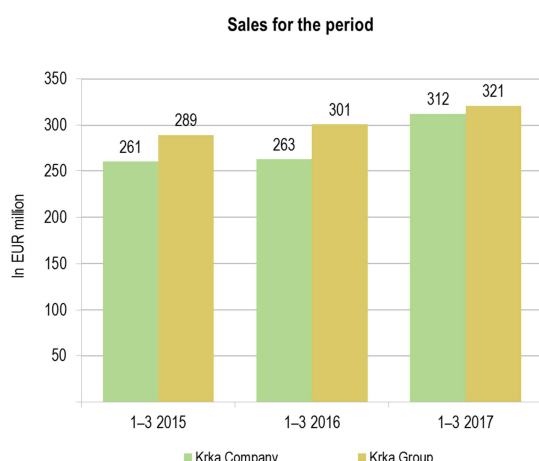
In the first quarter of 2017 Krka's share price on the Ljubljana Stock Exchange decreased by 1.4% and stood at €52.15 at the end of March. In the same period, the Slovenian blue-chip index SBI TOP was up 8%. Krka's market capitalisation as at 31 March 2017 totalled €1.7 billion.

With an average daily trading volume of €0.54 million, Krka was the most traded share on the Ljubljana Stock Exchange in the first quarter of 2017.

Business operations analysis

The business operations analysis includes data for the Krka Group and the Krka Company, whereas the comments relate primarily to the Group.

Revenues



Compared to the same period last year, Krka's sales revenues at Group level increased by 7%.

The Krka Company sold €312.2 million worth of prescription pharmaceuticals, non-prescription products and animal health products, while the Krka Group generated €321.0 million of sales revenues from these products plus the health resort and tourist services. The Group generated 93% of its sales in markets outside Slovenia.

Together with other operating and financial income, the Krka Group generated a total of €342.2 million of revenues, while the Krka Company generated €330.3 million.

A more detailed analysis of sales results by individual markets, and groups of products and services is given in the chapter Marketing and Sales below.

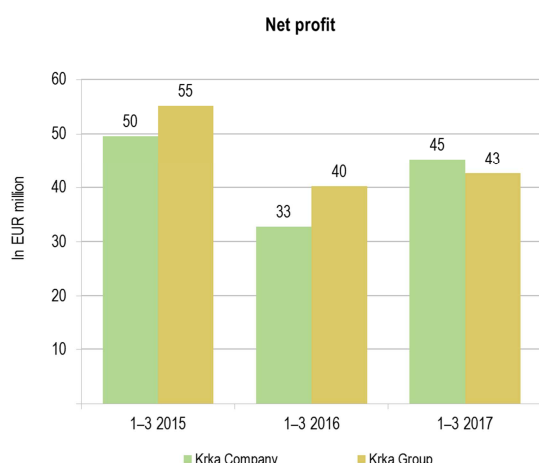
Expenses

Total Krka Group expenses amounted to €296.0 million, up 3% from the same period last year.

The Group incurred €282.4 million of operating expenses, a 12% year-on-year increase, among which the costs of goods sold were €145.0 million, selling and distribution expenses €84.5 million, R&D expenses €31.6 million, and general and administrative expenses €21.3 million.

The Group's costs of goods sold increased by 11% on a cost-to-sales ratio of 45.2%. Selling and distribution expenses increased by 19% on a cost-to-sales ratio of 26.3%. R&D expenses increased by 6% on a cost-to-sales ratio of 9.8%. R&D expenses are recognised as expenses for the period in full as the Group does not capitalise them. General and administrative expenses increased by 4% on a cost-to-sales ratio of 6.6%.

Operating result



The Krka Group recorded €41.0 million of operating profit, down 19% compared to the same period last year.

Profit before tax amounted to €46.2 million, a 1% year-on-year decrease. Income tax totalled €3.5 million, and the effective tax rate was 7.6%.

The Krka Group recorded €42.7 million of net profit, up 6% compared to the same period last year.

Assets

Krka Group assets were worth €1,947.0 million at the end of March 2017, 2% more than at the end of 2016.

Non-current assets represent 53.8% of total assets, their proportion down 0.5 of a percentage point from the beginning of the year. The largest item under non-current assets, which together amounted to €1,047.7 million, was property, plant and equipment on €878.0 million; this is on the same level as at the

end of 2016 and represented 45.1% of the Group's total assets. Intangible assets amounted to €112.5 million, down 1% from the end of 2016.

Current assets increased by 3% in the first quarter of 2017, to €899.3 million. In the same period inventories were up 1% to €284.3 million, and receivables increased by 3% to €558.9 million (of which trade receivables amounted to €527.9 million, also a 3% increase from the beginning of the year).

Equity and liabilities

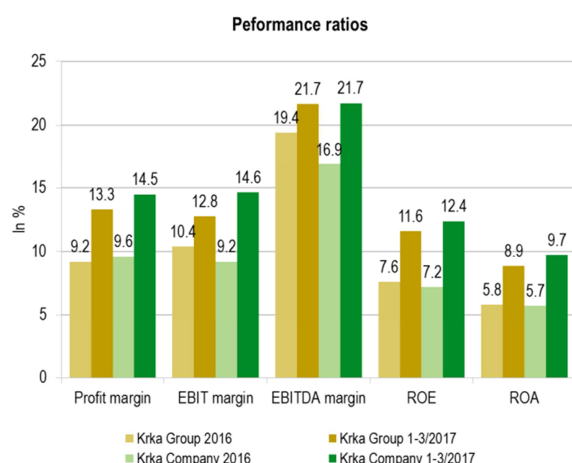
Totalling €1,496.4 million, Krka Group equity has increased by 4% compared to the end of 2016 and represents 76.9% of total equity and liabilities.

Amounting to €116.2 million, non-current liabilities represent 6.0% of the Group's total assets. Provisions, which amounted to €92.1 million at the end of the period, were up 1% from the year-end of

2016.

Current liabilities were down 5% from the end of 2016 and totalled €334.4 million, which is 17.2% of total assets. Among current liabilities, trade payables amounted to €116.8 million, down 9% compared to the year-end of 2016, with other current liabilities down 13% to €192.2 million.

Performance ratios



All performance ratios for the first quarter of 2017 have improved compared to those for 2016.

The Krka Group profit margin for the period January–March 2017 was 13.3% (Krka Company 14.5%), its EBIT margin 12.8% (Krka Company 14.6%) and its EBITDA margin 21.7% (Krka Company 21.7%).

Annualised ROE at the level of the Group was 11.6% (Krka Company 12.4%), with annualised ROA at 8.9% (Krka Company 9.7%).

Marketing and sales

The Krka Group product and service sales in the three months to March were €321.0 million, up 7% from the same period last year. Sales at the level of

the Krka Company totalled €312.2 million in the reported period.

Sales by Region

The bulk of sales value, €101.8 million, which is 31.7% of total Group sales, was generated in Region East Europe. The second best result was reported for Region Central Europe, with €76.9 million and 24.0% of total sales generated there.

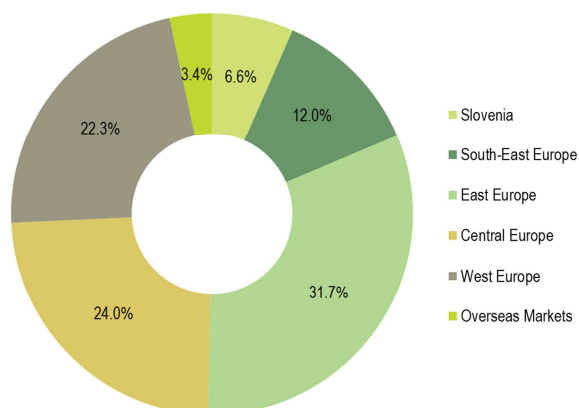
The third largest area in terms of sales was Region West Europe, where Krka sold €71.7 million worth of products in the reported period, which is 22.3% of

total sales. In Region South-East Europe product sales amounted to €38.7 million, which represents 12.0% of Krka Group sales. Sales in the domestic market totalled €21.1 million, which is 6.6% of total sales, while in the Overseas Markets they amounted to €10.9 million, which is 3.4% of Group sales.

Sales increased in all sales regions apart from West Europe.

In € thousand	Krka Group			Krka Company		
	1–3/2017	1–3/2016	Index	1–3/2017	1–3/2016	Index
Slovenia	21,090	20,151	105	13,888	13,381	104
South-East Europe	38,674	37,744	102	38,682	38,975	99
East Europe	101,795	80,117	127	111,262	67,523	165
Central Europe	76,919	72,984	105	76,644	74,670	103
West Europe	71,668	80,002	90	61,833	60,402	102
Overseas Markets	10,902	9,894	110	9,842	8,420	117
Total	321,048	300,892	107	312,151	263,371	119

Krka Group sales by Region, January–March 2017

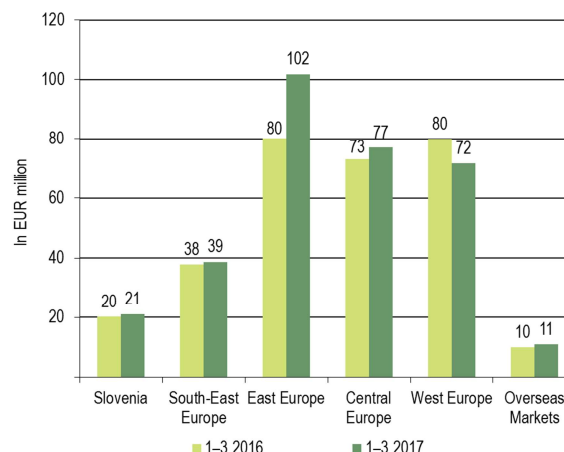


Slovenia

Product and service sales in the domestic market totalled €21.1 million in the reported period. The bulk – €12.9 million – came from product sales, which exceeded last year's result for the same period by 5%. Representing a 75% share in overall sales and contributing €9.6 million of revenues, prescription pharmaceuticals were at the forefront. They were followed by non-prescription products on 20% of total sales and the sales value of €2.6 million. Animal health product sales amounted to €0.7 million, representing a 5% share in total sales. As the leading pharmaceutical company in the Slovene market Krka holds a 9.2% market share. Almost one in four dispensed pharmaceuticals in Slovenia is made by Krka. The sales of health resort and tourist services totalled €7.6 million.

As to prescription pharmaceuticals, the best sales results were recorded for Prenessa (perindopril) and its combination with a diuretic Prenewel, Sorvasta (rosuvastatin), Doreta (tramadol and paracetamol) and Nalpaza (pantoprazole). The best-selling products available without prescription were Daleron (paracetamol), Septolete, Septabene (benzylamine and cetylpyridinium) and Nalgessin S (naproxen), and the leading animal health products in terms of

Krka Group sales by Region, January–March 2017



sales were Fypryst (fipronil), Grovit and Enroxil (enrofloxacin).

Marketing and sales focused on medicinal products treating cardiovascular diseases, the central nervous system, and the alimentary tract and metabolism. We are highlighting high blood pressure medications Prenessa (perindopril) and its fixed-dose combination with a diuretic Prenewel; Amlessa (perindopril and amlodipine) and its combination with a diuretic Amlewell; the cholesterol lowering medication Sorvasta (rosuvastatin) and its combination Rosmela (rosuvastatin and amlodipine); a pharmaceutical for the treatment of chronic stable angina pectoris, Bixebra (ivabradine); the antidepressant Dulsevia (duloxetine); the antipsychotic Aryzalera (aripiprazole); and the medication treating the excessive production of stomach acid, Nalpaza (pantoprazole). Our range of prescription pharmaceuticals was supplemented with the new strengths of Dexamethason Krka (dexamethasone) tablets. Marketing and sales activities related to non-prescription products mainly focused on the Septabene brand (benzylamine and cetylpyridinium), and our range of animal health products was supplemented with Otoxolan (marbofloxacin, clotrimazole and dexamethasone).

South-East Europe

Product sales in the markets of South-East Europe amounted to €38.7 million, up 2% compared to the first quarter last year. The main drivers of sales value were the markets of Serbia, Croatia, Macedonia and Bulgaria. In Romania, sales decreased due to price changes announced in March and the resulting cautious purchasing approaches of the distributors.

Krka's key market, **Romania**, where sales totalled €11.9 million, has remained the leading market in the Region. With an approximately 2.5% market share, Krka is second-ranked in terms of sales among a competition of mainly foreign providers of generic pharmaceuticals there. The 12% year-on-year decrease in sales is the result of expected price drops following the release of new rules on the formation of retail prices for pharmaceuticals.

The bulk of sales came from prescription pharmaceuticals, particularly Atoris (atorvastatin), Prenessa (perindopril) and its combination with a diuretic Co-Prenessa, Roswera (rosuvastatin), Enap (enalapril) and its combination with a diuretic, Tramadol (tramadol), and Amlessa (perindopril and amlodipine) together with its combination with a diuretic Co-Amlessa. As to non-prescription products, we focused on the marketing and sales of cold and flu products, particularly Septotele omni (benzylamine and cetylpyridinium) and Herbion, and of analgesics. The leading animal health products in terms of sales were products for companion animals, especially those offering protection from external parasites, while valuable sales contributions also came from Enroxil (enrofloxacin) and Floron (florfenicol).

Sales in another one of Krka's key markets, **Croatia**, amounted to €7.9 million. The 12% year-on-year increase is attributable to sales growth across all product groups. This has preserved our position as the fourth-ranked provider of generic pharmaceuticals in the country and the second-ranked provider of animal health pharmaceuticals.

Our leading prescription pharmaceuticals were Perineva (perindopril) and its combination with a diuretic Co-Perineva, Meaxin (imatinib), Dalneva (perindopril and amlodipine), Helex (alprazolam), Atoris (atorvastatin), Valsacor (valsartan) and its combination with a diuretic Valsacombi, Panatus (butamirate), Roswera (rosuvastatin), Emanera

(esomeprazole) and Dexamethason Krka (dexamethasone).

As to non-prescription products, the main sales drivers were Nalgesin (naproxen) and the oral antiseptic Septotele duo (benzylamine and cetylpyridinium), and the best-selling animal health products were Enroxil (enrofloxacin), Fypryst (fipronil) and Doxatib (doxycycline).

In **Macedonia** reference prices of pharmaceuticals continued to decline in the three months to March. Nonetheless, the bulk of our total sales, worth €4.8 million, which represents a 13% increase, came from prescription pharmaceuticals, particularly Enap (enalapril) and its combination with a diuretic, Roswera (rosuvastatin), Atoris (atorvastatin), Lorista (losartan) and its combination with a diuretic, and Tanyz (tamsulosin). New additions to our product range in that country have been Co-Amlessa (perindopril, amlodipine and indapamide) and Pragiola (pregabalin). The main sales drivers among non-prescription products and animal health products were Daleron (paracetamol) and Herbion, and Enroxil (enrofloxacin) and Egocin (oxitetracycline), respectively.

Product sales in **Serbia** totalled €4.1 million, up by half compared to the same period last year. The most important prescription pharmaceuticals were Nalpaza (pantoprazole), Roxera (rosuvastatin), Atoris (atorvastatin), and Ampril (ramipril), including the combination with a diuretic. Sales also increased for products available without prescription, the best sellers being Nalgesin (naproxen) and Herbion. The most important animal health products in terms of sales were Enroxil (enrofloxacin) and Fypryst (fipronil).

The value of sales in **Bosnia and Herzegovina** totalled €4.0 million, 17% year-on-year decrease. Our most important prescription pharmaceuticals were Enap (enalapril), including the combination with a diuretic, Roswera (rosuvastatin), Lorista (losartan), including the combination with a diuretic, Naklofen (diclofenac), and Ampril (ramipril), including the combination with a diuretic. In March our range of pharmaceuticals for cardiovascular diseases was supplemented with Amlewell (perindopril, amlodipine and indapamide). As to products available without prescription, we sold the most of Septotele and Panatus (butamirate).

Product sales in **Bulgaria** totalled €3.0 million, up 19% compared to the same period last year. The most important group of products were prescription pharmaceuticals, among which the best sales results were recorded for Lorista (losartan), including its combination with a diuretic, Co-Valsacor (valsartan and hydrochlorothiazide), and Roswera (rosuvastatin). The share in total sales increased the most for Nolpaza (pantoprazole), Tolura (telmisartan) and its combination with a diuretic Tolucombi, and Amlessa (perindopril and amlodipine), including the combination with a diuretic. Sales were also successful for non-prescription products.

In **Kosovo** we sold €1.7 million worth of products, up 2%, Krka thus remaining one of the leading providers of pharmaceuticals in that market. The largest share of sales came from prescription pharmaceuticals, among them Enap (enalapril) and Lorista (losartan), both in combination with a diuretic, Atoris (atorvastatin), and Valsacor

(valsartan), including the combination with a diuretic. For non-prescription products, the best results were recorded for Daleron (paracetamol) and Septotele.

In **Albania** product sales were up 11% to €1.0 million. Prescription pharmaceuticals made a key contribution, particularly Hiconcil (amoxicillin), as well as Enap (enalapril) and Lorista (losartan), both also in combination with a diuretic. Our product range has been expanded with two products used to treat infections: Fromilid Uno (clarithromycin) and Azibiot 250 mg (azithromycin). As to products available without prescription, the best sales results were recorded for Daleron (paracetamol) and Nalgesin (naproxen).

Despite the segment of sales via government tenders having decreased, the volume of total sales in **Montenegro** was up in the reported period; however, the value of sales was lower than in the same period last year.

East Europe

Region East Europe is Krka's leading sales region, sales there totalling €101.8 million in the reported period, which is a 27% year-on-year increase. It was high sales growth in Krka's largest individual and one of its key markets, the Russian Federation, that had a decisive impact on this result. Positive sales dynamics were also witnessed in the majority of the other 12 markets of the Region, including the Region's second key market, Ukraine.

Product sales in the **Russian Federation** totalled €73.8 million, up 31% compared to the same period last year. According to the independent source IMS, Krka's sales in that market have continued to exceed the average growth of the pharmaceuticals market, and therefore Krka's market share has been increasing. The good sales result in euros was also due to the appreciation of the rate of the rouble.

The majority of the best-selling products were prescription pharmaceuticals. Sales leaders were Lorista (losartan) and its combination with a diuretic, followed by Perineva (perindopril) and Enap (enalapril), both in combination with a diuretic, Atoris (atorvastatin), Herbion, Orsoten (orlistat), Nolpaza (pantoprazole), Valsacor (valsartan), including its combination with a diuretic, Zyllt (clopidogrel) and Roxera (rosuvastatin). Among them, sales increased the most for Perineva, Herbion, Orsoten and Valsacor. Newly launched products have also

been gaining importance in terms of sales, among them Dilaxa (celecoxib), Bravadin (ivabradine), Vamloset (valsartan and amlodipine), Dalneva (perindopril and amlodipine), Lortenza (losartan and amlodipine), Vizarsin (sildenafil), Ulcavis (bismuth subcitrate), Septotele total (benzylamine and cetylpyridinium), and Septanazal (xylometazoline and dexpantenol). In addition to these, we launched the prescription pharmaceutical Telmista (telmisartan) in the reported period, becoming thus the first provider of generic telmisartan in the market, and the non-prescription product Flebaven (diosmin and hesperidin) was also launched.

Animal health product sales also increased, the best-selling item being Enroxil (enrofloxacin), followed by the more recently launched Misoxin (doxycycline).

By locally producing pharmaceuticals in the Russian Federation we have strengthened our status of a domestic producer, which is of key importance for our operations there. Two thirds of sales in the Russian Federation were generated in products manufactured in the Krka-Rus 2 factory, which is a substantial increase from the same period last year. Conditions in the pharmaceuticals market in **Ukraine** have stabilised, which had a favourable impact on our operations there. The value of sales totalled €8.8 million, up 11% compared to the same

period last year. Sales growth was the highest, of 20%, for the leading product group in terms of sales, prescription pharmaceuticals, the most important ones among which were Dexamethason (dexamethasone), as well as Prenessa (perindopril) and Enap (enalapril), both also in combination with a diuretic. We took part for the first time in government tenders for the purchase of oncology medications, and recorded our first successes. The best-selling non-prescription products were Septotele, Panzynom and Herbion. Animal health product sales were down compared to the same period last year.

In the more stable business environment in **Kazakhstan**, incentivised by the appreciation of the local currency, our sales increased by 19% to €4.3 million. Key sales drivers were prescription pharmaceuticals, particularly Zyllt (clopidogrel), Valodip (valsartan and amlodipine), and Enap (enalapril), including the combination with a diuretic. We expanded our product range with the new products Tenlisa (lisinopril and amlodipine) and Zulbex (rabeprazole), both successful new launches on the market. The best-selling products available without prescription were Herbion and Duovit.

Despite pressures to reduce the prices of pharmaceuticals in pharmacies, Krka's product sales in **Uzbekistan** amounted to €3.9 million, up 17% compared to last year's first quarter. The leading product group was prescription pharmaceuticals, among which we are highlighting Lorista (losartan), Enap (enalapril) and Amlessa (perindopril and amlodipine), all including their combinations with a diuretic. The leading non-prescription products in terms of sales were Pikovit and Herbion. Access to convertible currencies remained difficult in Uzbekistan, and hence our key challenge for the future has remained balancing sales growth with timely payments from buyers.

In **Belarus**, operations were influenced by the driving down the prices of pharmaceuticals. This is the reason for the 17% decrease in sales compared to the first quarter last year, sales totalling €2.6 million. Krka has remained the third-ranked foreign generic pharmaceutical company in Belarus. As expected, the bulk of sales were generated in prescription pharmaceuticals, particularly Lorista (losartan) and its combination with a diuretic, Nolpaza (pantoprazole), and Amlessa (perindopril and amlodipine) together with its combination with a diuretic. The leading non-prescription products were

Septotele and Herbion, with new additions in this product group as of the reported period being Septotele total (benzylamine and cetylpyridinium) and Nalgesin (naproxen).

Sales in **Moldova** totalled €2.0 million. The sales growth was fuelled by all product groups. However, prescription pharmaceuticals have remained the most important; among them, we sold the most of Ampril (ramipril) and Rawel (indapamide). As to non-prescription products, the most sales were generated in Herbion and Daleron (paracetamol), and a new addition in this group has been Daleron COLD3 (paracetamol, pseudoephedrine and dextromethorphan).

Sales in **Mongolia** totalled €1.8 million and achieved growth. The largest increase was recorded in the segment of products available without prescription, particularly due to the successful launch of Septotele total (benzylamine and cetylpyridinium). Important contribution also came from the sales of Nalgesin (naproxen), Herbion and Bilobil (ginkgo biloba). Krka has remained the leading foreign provider of pharmaceuticals in the Mongolian market.

Krka is among the leading providers of pharmaceuticals in **Azerbaijan**. Trading conditions have improved as the local currency's volatility stabilised in relation to the euro and US dollar. We sold €1.3 million worth of products, recording a growth in relative terms. Product sales in **Turkmenistan** totalled €0.9 million, down 9% compared to the same period last year. The best-selling products were Naklofen (diclofenac) and Pikovit. Krka is the second-ranked foreign generic pharmaceuticals company in **Georgia**. Sales value there totalled €0.8 million in the reported period, a 19% year-on-year increase. Our most important products were Lorista (losartan) and its combination with a diuretic, Nolpaza (pantoprazole), and Prenessa (perindopril) together with its combination with a diuretic. Sales in **Kyrgyzstan** totalled €0.8 million, a 12% year-on-year increase. The total sales result was chiefly driven by growth in the segment of non-prescription products, the sales of which increased by more than half, while the sales of prescription pharmaceuticals were slightly down. In **Armenia**, sales increased to €0.6 million, and Krka's market share has also increased. **Tajikistan** has remained the smallest market in the Region. Sales there totalled €0.2 million, more than doubling last year's result for the same period.

Central Europe

Product sales in the markets of Region Central Europe amounted to €76.9 million in the first quarter, up 5% compared to the same period last year. The bulk of sales value, i.e. 89%, came from prescription pharmaceuticals. Poland is the leading market in this region, and sales growth was recorded in the Czech Republic and all three Baltic markets: Lithuania, Latvia and Estonia.

In **Poland**, Krka's key market, sales value totalled €35.4 million, which is a slight decrease from the same period last year and represents 46% of Krka's sales in the Region. The leading product group was prescription pharmaceuticals, among which the sales leaders were Atoris (atorvastatin), Roswera (rosuvastatin), Valsacor (valsartan) and its combination with a diuretic Co-Valsacor, and Doreta (tramadol and paracetamol), followed by Tolura (telmisartan) and Lorista (losartan), both also in combination with a diuretic, Sulfasalazin Krka (sulfasalazine), Karbis (candesartan) and its combination with a diuretic, and Nolpaza (pantoprazole). We are also highlighting the continued sales growth of the new medicine Bixebra (ivabradine) and its 50% molecule market share. Amid stringent trading conditions, non-prescription product sales were down one third compared to last year's first quarter. The most important products were Septotele and Bilobil (ginkgo biloba). As to animal health products, the most sales were generated in Fypryst (fipronil) and Floron (florfenicol).

Product sales in **Hungary**, the second largest market in the Region and another one of Krka's key markets, totalled €12.0 million, down 12% compared to the same period last year. Sales were influenced by different legislative changes that resulted in the tightening of competitive trading conditions. The bulk of sales were generated in prescription pharmaceuticals, among them Prenessa (perindopril) and its combination with a diuretic, Roxera (rosuvastatin), Atoris (atorvastatin), Dalnessa (perindopril and amlodipine) and its combination with a diuretic Co-Dalnessa, Fromilid (clarithromycin), and Lavestra (losartan) together with its combination with a diuretic. As to products available without prescription and animal health products, the best sellers were Bilobil (ginkgo biloba) and Septanazal (xylometazoline and dexpanthenol), and Enroxil (enrofloxacin) and Floron (florfenicol), respectively.

After the business environment had settled down in the **Czech Republic** following changes to the country's health care system, sales in that market – which has remained one of Krka's key markets – more than doubled compared to the same period last year. The sales value of €10.7 million was chiefly driven by prescription pharmaceuticals, particularly Lexaurin (bromazepam), Atoris (atorvastatin), Tonarssa (perindopril and amlodipine) and its combination with a diuretic Tonanda, Prenessa (perindopril) and its combination with a diuretic Tanyz (tamsulosin), Tolura (telmisartan) and its combination with a diuretic, and Fromilid (clarithromycin). The leading non-prescription products have remained Septotele and Nalgesin (naproxen). Sales growth was the fastest for animal health products, among which the leaders were Fypryst (fipronil) and Dehinel (febantel).

Sales in **Slovakia** decreased by 9% from the same period last year, to €9.4 million. The bulk came from prescription pharmaceuticals, among which we are highlighting Prenessa (perindopril) and its combination with a diuretic, Amlessa (perindopril and amlodipine) and Valsacor (valsartan), both also in combination with a diuretic, Atoris (atorvastatin), Nolpaza (pantoprazole) and Lexaurin (bromazepam). The leading non-prescription products in terms of sales were Septotele and Nalgesin (naproxen), and in the group of animal health products Floron (florfenicol) and Enroxil (enrofloxacin).

In **Lithuania** product sales were up 5% to €4.4 million. Among prescription pharmaceuticals, which contributed the bulk of sales value, the best results were recorded for Valsacor (valsartan) and its combination with a diuretic, Prenessa (perindopril) and its combination with a diuretic, and Amlessa (perindopril and amlodipine) and its combination with a diuretic Co-Amlessa. The leading non-prescription products in terms of sales were Septotele and Herbion, and in the group of animal health products Fypryst (fipronil) and Enroxil (enrofloxacin).

With a 17% increase in sales there, **Latvia** has joined the group of the fastest growing markets in the Region. The bulk of the €3.2 million worth of sales were generated in prescription

pharmaceuticals, among them Amlessa (perindopril and amlodipine) and Prenessa (perindopril), both also in combination with a diuretic, Atoris (atorvastatin) and Sorvasta (rosuvastatin). As the first generic provider we have launched a medicine to treat HIV infections, containing emtricitabine and tenofovir. In the group of products available without prescription, Daleron COLD3 (paracetamol, pseudoephedrine and dextromethorphan) has taken the lead, followed by Septotele. The best-selling animal health products were Milprazon (milbemycin oxime and praziquantel) and Enroxil (enrofloxacin).

West Europe

The entire Region West Europe is considered Krka's key market. Sales volume there increased by 2%, while sales value was pushed down one tenth compared to the first quarter last year by the decreasing prices of pharmaceuticals. Sales totalled €71.7 million. The most sales were generated in Germany, France and Spain.

The sales of pharmaceuticals via unaffiliated companies decreased compared to the same period last year and have come to represent a good third of total sales in the Region. The sales of products sold under Krka's own brands by our subsidiaries were also slightly down.

Prescription pharmaceutical sales witnessed a 2% year-on-year decrease and represented 90% of total sales in the Region. Sales leaders were medicinal products with esomeprazole, pregabalin and pantoprazole. Animal health product sales were chiefly influenced by the substantial decrease in the sales generated by unaffiliated companies. Non-prescription products accounted for 1% of total sales.

In **Germany**, our most important Western European market, sales totalled €23.4 million, a decrease by 15% compared to the first quarter last year. More than 90% of Krka sales in this market were generated by the subsidiary TAD Pharma, which reported a 4% increase in sales. The leading product group were prescription pharmaceuticals, among which the bulk of sales were contributed by pharmaceuticals treating cardiovascular diseases, the alimentary tract and metabolism, and the central nervous system. Leaders in terms of sales were medicinal products with pantoprazole and esomeprazole, and we are also highlighting the newly launched pharmaceuticals with olmesartan and its combination with a diuretic, and the fixed-

In **Estonia** sales increased by 7% and totalled €1.8 million. Sales leaders in the key product group, prescription pharmaceuticals, were Prenessa (perindopril) and its combination with a diuretic, Roswera (rosuvastatin), and Dalnessa (perindopril and amlodipine) together with its combination with a diuretic Co-Dalnessa. The best-selling non-prescription product has remained Septotele, and in the group of animal health products the best seller was Fypryst (fipronil).

dose combinations of cardiovascular medications – losartan and bisoprolol with amlodipine, ramipril with amlodipine, and lercanidipine with enalapril – with which we have become one of the leading providers of fixed-dose combinations of cardiovascular medicinal products in Germany.

Sales in **France** were €10.6 million, down 1% compared to the same period last year. The sales of prescription pharmaceuticals increased by 25%, the main contributors being medications with esomeprazole, gliclazide and clopidogrel. Increased sales of prescription pharmaceuticals successfully offset the lower sales of animal health products.

Product sales in **Spain** totalled €8.4 million, down 12% compared to the same period last year. The share of products sold under our own brands was up and has come to represent 86% of total sales in that market. The sales result was influenced by the expiration of certain public tenders in Andalusia.

In the **Nordic countries**, where sales volume increased by 13%, the value of sales totalled €6.1 million, down 9% compared to the same period last year. Lower sales value is attributable to decreasing prices, which could not be fully offset by the significant increase in the volume of sales. The best sales result was recorded in Sweden, followed by Norway and Denmark. In Finland, sales were up 5% in terms of value and 4% in terms of volume.

In **Italy** sales amounted to €5.8 million, up 5% compared to the first quarter last year. We are highlighting the 33% increase in sales via the subsidiary Krka Farmaceutici, which generated 60% of Krka's total sales in that market. The leading products in terms of sales were pharmaceuticals with pantoprazole, lansoprazole, clopidogrel and esomeprazole.

Sales in **Portugal** were €5.0 million, up 2% compared to the same period last year, chiefly driven by generic pharmaceuticals with perindopril, esomeprazole, memantine and olanzapine.

Product sales in the **UK**, where we have continued facing major price pressures, amounted to €3.3 million, which is less than in last year's first quarter. In the **Benelux** sales were up 5% to €2.4 million, sales via the subsidiary Krka Belgium

having increased by 39%. One of the highest growth rates in the Region was recorded in **Ireland**, where we sold €2.4 million worth of products, a 27% year-on-year increase. In **Austria** sales amounted to €2.0 million, up 18% compared to the same period last year. The increase was chiefly driven by the Vienna-based subsidiary Krka Pharma, which reported sales one third higher than in the first quarter last year. Sales in the **other European countries** totalled €2.3 million, which is on a similar level as in the same period last year.

Overseas Markets

First quarter sales value in Region Overseas Markets totalled €10.9 million, up one tenth compared to the same period last year. Sales increased in all three sales offices, the most in the markets of the Middle East. 85% of sales came from prescription pharmaceuticals, which are sold under our own brands in most of the Region's markets.

Several markets covered by the **Middle East** sales office have been facing emergency circumstances, hampering our operations. Nonetheless, our sales were up 15% to €5.7 million, mainly generated in Iran, Iraq and Lebanon. The best-selling products were Asentra (sertraline), Letizen (cetirizine), Vizarsin (sildenafil), Nolpaza (pantoprazole) and Emanera (esomeprazole).

The **Far East and Africa** sales office reported €4.9 million of product sales, up 5% year-on-year. The most important markets were the Republic of South Africa, Vietnam, Malaysia, China and Singapore. The majority of sales were driven by prescription pharmaceuticals, particularly Lanzul (lansoprazole), Tenox (amlodipine), Kamiren (doxazosin), Atoris (atorvastatin) and Enap (enalapril), including the combination with a diuretic.

The sales office the **Americas** reported €0.3 million of sales, a 9% year-on-year increase. Our sales were the highest in the markets of Central America, and the best-selling products were Atoris (atorvastatin), Valsacor (valsartan) and its combination with a diuretic, and Tolura (telmisartan).

Sales by product and service groups

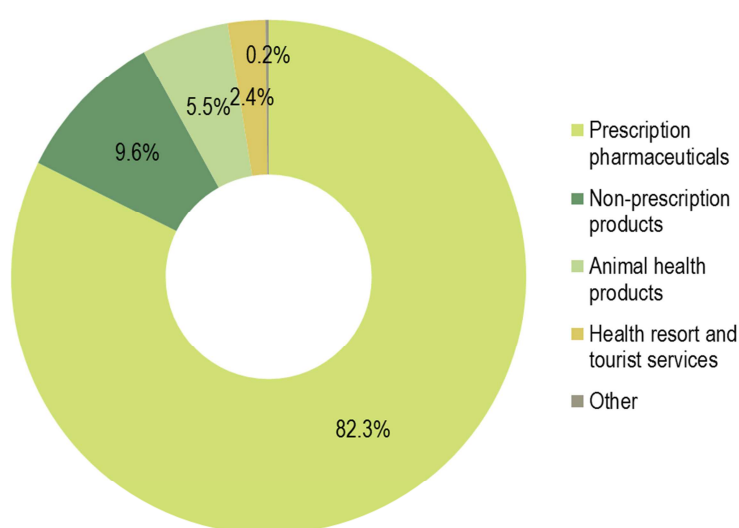
The Krka Group generated 91.9% of total sales during the period January–March 2017 in human health products, making this Krka's most important product group. The most sales, i.e. 82.3%, were generated in prescription pharmaceuticals, followed by non-prescription products and animal health products.

Health resort and tourist service sales increased by 6% compared to the same period last year, and represented 2.4% of total Krka Group sales.

Sales increased for all groups of products and services, apart from animal health products.

In € thousand	Krka Group			Krka Company		
	1–3/2017	1–3/2016	Index	1–3/2017	1–3/2016	Index
Human health products	295,210	271,204	109	292,978	240,911	122
– Prescription pharmaceuticals	264,356	243,853	108	263,048	216,641	121
– Non-prescription products	30,854	27,351	113	29,930	24,270	123
Animal health products	17,624	21,765	81	18,161	21,317	85
Health resort and tourist services	7,588	7,154	106			
Other	626	769	81	1,012	1,143	89
Total	321,048	300,892	107	312,151	263,371	119

Krka Group sales by product and service groups, January–March 2017



Prescription pharmaceuticals

The Krka Group sold €264.4 million worth of prescription pharmaceuticals in the reported period, 8% more than in the first quarter last year. Sales increased in regions East Europe (up 26%), Central Europe (up 6%), South-East Europe (up 2%), Slovenia (up 2%) and Overseas Markets (up 7%), while they decreased in Region West Europe

(up 2%).

As to the largest markets, sales increased in the Russian Federation by 30% and in Germany by 1% while remaining on the level recorded in the same period last year in Poland.

With respect to other large markets, year-on-year sales of prescription pharmaceuticals were up in the Czech Republic, where they more than doubled, in France (up 25%), Ukraine (up 20%), Italy (up 4%) and Slovenia (up 2%).

With respect to mid-size markets, the highest sales growth rates were recorded in Serbia (up 62%), Bulgaria (up 16%), Macedonia (up 15%), Uzbekistan (up 14%) and Croatia (up 12%).

Among smaller markets for Krka's prescription pharmaceuticals, the highest sales growth rates were recorded in Mongolia (up 66%), Moldova (up 63%), Azerbaijan (up 44%), Armenia (up 39%) and Ireland (up 27%). Double-digit increases in sales were also recorded in Albania, Austria, Latvia and Georgia.

We have been strengthening our position in the markets of Western Europe via Krka's subsidiaries, their sales results up considerably, the most in Italy (up 34%), Austria (up 33%), Ireland (up 30%) and Portugal (up 6%).

The leading ten prescription pharmaceuticals in terms of sales have included Lorista* (losartan) and its combination with a diuretic, Atoris (atorvastatin), Prenessa* (perindopril) and its combination with a diuretic, Nolpaza* (pantoprazole), Emanera* (esomeprazole), Valsacor (valsartan) and its combination with a diuretic, Roswera* (rosuvastatin), Enap (enalapril) and its combination with a diuretic, Zyllt* (clopidogrel), and Amlessa* (perindopril and amlodipine) together with its combination with a diuretic.

Non-prescription products

We sold €30.9 million worth of non-prescription products, a year-on-year increase by 13%.

Sales increased in regions Slovenia (up 12%), East Europe (up 35%) and South-East Europe (up 1%), while they were down in regions Central Europe and West Europe.

More than a half of total non-prescription product sales were generated in Region East Europe, which is where Krka's largest market, the Russian Federation, is; sales there increased by 39%. Sales were also up in other major markets in the Region – Kazakhstan (up 77%) and Uzbekistan (up 27%) – and growth rates between 50 and 100% were also

The highest absolute year-on-year sales growth was recorded by Amlessa* (perindopril and amlodipine) and its combination with a diuretic, Lorista* (losartan) and its combination with a diuretic, Prenessa* (perindopril) and its combination with a diuretic, Valodip* (valsartan and amlodipine), and Orsoten* (orlistat).

In the first quarter of 2017 we launched a new product, Ramidipin* (ramipril and amlodipine), in Germany, and we also launched several other products on new markets:

- Prenessa* (perindopril) in Uzbekistan,
- Co-Amlessa* (perindopril, amlodipine and indapamide) in Armenia,
- Enacarin* (enalapril and lercanidipine) in Germany,
- olmesartan, and olmesartan with hydrochlorothiazide in Germany, Italy, Belgium, Spain, Portugal, Ireland, Denmark and Finland,
- Telmista* (telmisartan) in the Russian Federation,
- Lortenza* (losartan and amlodipine) in Turkmenistan and Armenia,
- Wamlox* (valsartan and amlodipine) in Croatia, Bulgaria, Lithuania and Latvia,
- Bixebra (ivabradine) in Slovenia, Romania, Latvia, Estonia, the Czech Republic and Slovakia,
- Sobykor (bisoprolol) in Lithuania,
- Ulcamed (bismuth) in Romania,
- Zulfex (rabeprazole) in Kazakhstan,
- linezolid in Bulgaria and Portugal,
- dexamethasone in the form of tablets of higher strengths in Croatia, Poland and Bulgaria,
- capecitabine and letrozole in Azerbaijan,
- Imatinib in Ireland and Sweden.

recorded in smaller markets, such as Mongolia, Kyrgyzstan and Moldova.

Sales also increased in the major markets of other regions, including Croatia (up 22%), Serbia (up 17%), Kosovo (up 17%), Macedonia (up 2%), the Czech Republic (up 25%), Lithuania (up 3%) and Latvia (up 6%).

The sales of the recently launched Septotele total* (benzylamine and cetylpyridinium) and Septanazol (xylometazoline and dexpanthenol) products have been going well. The highest absolute sales growth among brands was recorded for Herbion.

Animal health products

Animal health product sales totalled €17.6 million. This is a 19% decrease from the same period last year. Sales increased in regions Central Europe (up 33%), Slovenia (up 32%) and East Europe (up 26%), while they were down in Region West Europe. Among the largest markets, sales growth was most substantial in the Russian Federation (up 36%) and Poland (up 18%), and as to the other large markets in the Czech Republic (up 72%), Lithuania (up 54%), Hungary (up 38%) and

Slovenia (up 32%).

The top five sales leaders have been Floron* (florfenicol), Fypryst* (fipronil), Enroxil* (enrofloxacin), Milprazon* (milbemycin oxime and praziquantel) and Dehinol plus (febantel, pyrantel embonate and praziquantel). We have launched a new product for dogs this year – Otoxolan* (marbofloxacin, clotrimazole and dexamethasone) in the form of ear drops.

Health resort and tourist services

In the nine months to March 2017 the Terme Krka Group generated €7.6 million of sales, an increase by 6% compared to the same period last year. There were 6% more bed nights, with those by foreign guests up 5%.

More than a third of bed nights by foreign guests were by Italian guests. Russian guests have also started coming back, their numbers almost doubling

on a year-to-year basis and representing one tenth of bed nights by foreign guests in Terme Krka.

As to business units, the most sales were generated by the Terme Dolenjske Toplice resort, where they were up 7%. Talaso Strunjan reported a 6% increase in sales, while the highest sales growth rate, of 10%, was generated by Terme Šmarješke Toplice. Sales in Hoteli Otočec were up 2%.

** Products marked with an asterisk have different brand names in individual markets.*

Research and development

In the first quarter of 2017 we obtained marketing authorisations for five new products in 12 pharmaceutical dosage forms and strengths, which is more than in the same period last year.

Prescription pharmaceuticals

We obtained marketing authorisation for four new prescription pharmaceuticals in 11 pharmaceutical dosage forms and strengths.

We were granted marketing approvals under European decentralised procedures for the new analgesic **Oxycodon/Naloxon Krka** (oxycodone and naloxone) in the form of prolonged-release tablets in three strengths. It contains a combination of two substances, opioid oxycodone and naloxone, which bind to opioid receptors. The medicine relieves moderate to severe pain and is used in the treatment of pain that requires opioid therapy.

Marketing opportunities were expanded in European markets with new approvals obtained for pharmaceuticals from Krka's key group of medicinal products treating cardiovascular diseases. Applying decentralised procedures we obtained approvals to market the fixed-dose combination of **ramipril** and **amlodipine** in the form of hard capsules in four strengths, and **Bloxazoc** (metoprolol succinate) prolonged-release tablets in four strengths.

Marketing authorisations were acquired under decentralised procedures for two new products treating erectile dysfunction, **Viavardis** (vardenafil) and **Tadilecto** (tadalafil). Viavardis film-coated tablets in three strengths (5 mg, 10 mg and 20 mg) and Tadilecto film-coated tablets in four strengths (2.5 mg, 5 mg, 10 mg and 20 mg) are oral medications intended to improve erectile function in men with erection problems. Both substances are phosphodiesterase type 5 (PDE5) inhibitors with a fast mechanism of action. Both extend the duration of the erection, both are highly effective as soon as after the first dosage, and the efficacy of both is reliable even after long-term use. Vardenafil is an effective and safe medicine for patients designated as demanding in terms of treatment, e.g. diabetics, patients with cardiovascular diseases, and radical prostatectomy patients. Apart from being indicated in diabetics and patients with cardiovascular diseases, tadalafil in smaller doses may also be used to treat benign prostatic hyperplasia. Both

We acquired 157 new approvals for 46 products in different markets.

products are vertically integrated, meaning that we control the processes of preparation and evaluation of incoming materials and the finished product. In addition to sildenafil, vardenafil and tadalafil in different pharmaceutical forms and strengths has completed Krka's wide range of products for the treatment of erectile dysfunction.

In Hungary we were granted a marketing authorisation under the national procedure for a new strength of the medicinal product **Kventiax/Quentiax** (quetiapine) in the form of 400 mg prolonged-release tablets, thus supplementing our range of quetiapine pharmaceuticals. These wide-spectrum antipsychotics are used to treat different psychiatric diseases, schizophrenia, bipolar disorder, and major depression. Prolonged-release tablets in four strengths have improved ease of administration as the medicine, in the right dosage, may now be taken as a single daily dose.

New marketing authorisations were obtained in different markets of Eastern Europe for pharmaceuticals treating cardiovascular diseases – the fixed-dose combinations **Telmista H40**, **Telmista H80** and **Telmista HD80** (telmisartan and hydrochlorothiazide); for pharmaceuticals treating the central nervous system – **Pregabio** (pregabalin), **Maruxa** (memantine), **Duloxenta** (duloxetine) and **Opryme SR** (pramipexole); for antibiotics **Moflaxa** (moxifloxacin) tablets, **Betaklav** (amoxicillin and clavulanic acid), **Levaxelo** (levofloxacin) and **Furocef** (cephuroxime); and for oncology medicinal products **Capecitabine Krka** and **Docetaxel Krka**.

We obtained additional marketing authorisations in the markets of South-Eastern Europe for products from our key therapeutic groups. New approvals were obtained for the medicinal product for the treatment of cardiovascular diseases **Co-Amlessa** (perindopril, amlodipine and indapamide) in the form of tablets, and for the medicinal product for the

treatment of the central nervous system **Pragiola**

(pregabalin) in the form of hard capsules.

Non-prescription products

In the first quarter of 2017 we expanded marketing opportunities for **Septotele total/Septabene** (benzylamine hydrochloride and cetylpyridinium chloride) by obtaining new marketing authorisations for the lozenges of both brands. The product has anti-inflammatory properties, it is an analgesic and antiseptic, and it is used to treat mouth and throat pain and sores. Applying decentralised procedures

we obtained additional marketing authorisations for it in the Czech Republic, Ireland and Germany.

We have consolidated the position of the Septotele brand by obtaining new marketing approvals for **Septotele total** lozenges in Montenegro and for the **Septotele total** spray in Montenegro and Azerbaijan.

Animal health products

Applying the European decentralised procedure, we obtained marketing authorisations in 22 European countries for the new veterinary product **Dehinel/Anthelmin** (pyrantel embonate and praziquantel) in the form of film-coated tablets. It contains a fixed-dose combination of substances treating mixed gastrointestinal parasite infestations in cats, and has completed Krka's range of state-of-the-art products for the elimination of parasites in companion animals.

infections in pigs and cattle, and for **Doxatib** (doxycycline) in the form of powder to be administered in drinking water. The product is a medicine of choice in the treatment of respiratory tract infections in pigs and chickens.

We increased the number of marketing authorisations and consolidated our well-established brands of pharmaceuticals for food-producing animals. Under the national procedure in Moldova, we obtained marketing authorisations for **Floron** (florfenicol) in the form of solution for injection, for the treatment of respiratory tract

We expanded markets for our products for companion animals. In Kazakhstan we obtained approvals for the fixed-dose combination **Otoxolan** (marbofloxacin, clotrimazole and dexamethasone acetate); ear drops in the form of suspension are intended for the treatment of bacteria and yeast infections of the outer ear in dogs. In Serbia we obtained approvals for the fixed-dose combination **Ataxxa** (imidacloprid and permethrin) in the form of spot on drops for the treatment and prevention of external skin and hair parasite infections in dogs.

Investments

In the three months to March the Krka Group allocated €21.4 million to investments, of which the controlling company invested €18.0 million and subsidiaries €3.4 million. Investments have primarily increased and modernised our production and R&D capacities.

facility with the total surface area of 18,000 m² will be furnished and ready for use by the end of 2017.

Krka's key investment to support development activities and quality assurance in the following years is the Development and Control Centre 4 (RKC 4), located in the group of production facilities in Novo mesto. The investment is worth an estimated €54 million. The facility has been constructed and we have started installing laboratory and technological equipment. The assembly and start-ups of pharmaceutical equipment will continue throughout the year. The

At the Ločna location in Novo mesto we are building a multi-purpose warehouse for the storage of finished products, raw materials and packaging. The new investment will increase the capacity to over 90,000 pallet spaces. The preparation of project documentation for obtaining a building permit is ongoing. The estimated value of the investment is €30 million.

At the principal Krka location at Ločna in Novo mesto we operate a state-of-the-art solid dosage forms production plant Notol 2, in which production had been launched in January 2015 and which was officially opened in November that year. More than

two years later, work is running smoothly with production capacity increasing.

By the end of March 2017, Notol 2 was fitted with approximately two thirds of its designated technological equipment. To satisfy increasing market demand and set up the production of new products, we have started procuring technological equipment to complete the facility's furnishings and meet the target production volume of 4.5 billion tablets, film-coated tablets and capsules per year. The estimated value of additional equipment to be installed in Notol 2 is €23 million.

Also ongoing is the €11 million investment into increasing capacities for the coating of pellets in the Solid Dosage Forms Plant. Pellets have the structure of small round particles, they contain an active substance and have a coating. They are used to fill capsules or are pressed into tablets. Production capacities will be ready by mid-2017.

The new investment in Krško, the Hydrogenation 2 plant, will facilitate capacities for the implementation of technologies that require hydrogenation, thus increasing Krka's independent API production capacity. The main technological equipment has been procured and the building permit obtained. The construction of the €4.5 million facility is planned to commence this summer.

In the Bršljín plant we are increasing production capacity for animal health products with a biocidal effect. New equipment will be installed on the newly built second floor of the building for the production of powders and liquids. The estimated value of the investment is €4.6 million.

New production capacities built in Novo mesto have increased our electricity needs. After all systems in Notol 2 start operating and the RKC 4 is complete, we expect a peak consumption of close to 20 MW. The project will secure electricity supply via 20 kV lines from substation Ločna for a permanent combined consumption of approximately 25 MW. The investment into increasing and modernising energy-generating infrastructure at the Novo mesto production location is worth over €3 million.

One of the most important investments in Krka subsidiaries has been Krka-Rus 2 in Istra, the

Russian Federation. The first stage of the project had included building a new plant and logistics centre, and during 2015–2016 we installed additional technological and logistics equipment. This has increased the plant's production capacity to two thirds of its planned target capacity, i.e. 2.5 billion tablets and capsules per year. The warehouse and logistics system have reached full capacity after the installation of the remaining logistics equipment. Two thirds of all products sold in the Russian market are manufactured in Krka-Rus, which gives Krka the status of a domestic producer in that market. We are currently constructing a wastewater treatment plant to ensure the long term treatment of wastewater from the Krka-Rus factory so that it is released back into the environment at a level of purity compliant with statutory requirements. The estimated value of the second phase of the investment is €30 million.

Due to the expansion of our production programme in the Jastrebarsko distribution and production centre in Croatia, Krka is converting the warehousing and distribution segment of the facility to acquire new production and laboratory capacities for solid dosage oncology pharmaceuticals. Equipment installation and assembly were completed at the end of 2016. The launch of production and the gradual transfer of technologies to the new technological equipment have been planned for the second quarter of 2017. The estimated value of the investment is €34 million.

In the Terme Krka health resort in Strunjan we are replacing the system of heating. The investment is intended to reduce negative impacts on the environment in compliance with the legislation and the objectives of the Strunjan Landscape Park, and drive down the cost of heat energy. Preparations are also ongoing for the renovation of the Laguna hotel in Strunjan; a small pool will be built next to it and a children's playground set up, diversifying our range of services. In the Šmarješke Toplice health resort we are upgrading the wastewater system and preparing projects for the renovation of the energy system. We have also started renovating the interior of the medical rehabilitation centre in the Dolenjske Toplice health resort, and hotel rooms in Hotel Šport in Otočec. The total estimated value of investments in the Terme Krka Group is almost €3 million.

Employees

At the end of March the Krka Group had 10,821 employees. Krka's subsidiaries and representation offices outside Slovenia employ 54% of the Group's employees, and 56% of the entire Krka team have at least a university level degree.

There were also 1,277 agency workers at the end of March, 63 more than at the end of 2016.

Educational structure

	31 Mar 2017		31 Dec 2016	
	No. of employees	Share (in %)	No. of employees	Share (in %)
PhD	171	1.6	169	1.5
MSc	379	3.5	396	3.6
University degree	5,511	50.9	5,594	51.4
Higher professional education degree	1,473	13.6	1,422	13.1
Vocational college degree	265	2.5	265	2.4
Secondary school education, level V	1,862	17.2	1,868	17.2
Other	1,160	10.7	1,175	10.8
Krka Group	10,821	100.0	10,889	100.0

We have been ensuring a continuous inflow of new employees by offering study grants to students. Krka awarded 13 new scholarships at the end of March and currently therefore supports a total of 46 scholarship holders.

Krka employees undergo regular and additional training both in Slovenia and abroad, related to various professional areas of expertise, quality, leadership, personal growth, foreign languages and informatics. There are over 85 Krka coaches in the marketing and sales network facilitating the training of employees and their leaders, and ensuring the successful implementation of Krka's strategy. Coaches teach and train employees at seminars and trainings as well as by providing on-site one-on-one support.

We have an onboarding system in place for new employees at all posts. In 2016 every Krka Group employee spent an average of 43 hours refining their know-how.

Employees learn about the most demanding topics and most recent discoveries at faculties, institutes and other educational establishments in Slovenia and abroad. At the end of March 2017, 224 employees were enrolled into part-time studies, 49 of them postgraduate students on their way to obtaining a specialisation, master's degree or PhD. Krka supports them by partially funding their tuitions and granting study time leaves.

Krka is the only certificate-awarding body with the power to examine and approve six national vocational qualification programmes (NVQ) in the area of the pharmaceutical industry. By examining and approving candidates under the NVQ system between 2002 and the end of 2016, we awarded a total of 1,404 NVQ certificates – 1,262 to Krka employees and 142 to the employees of other companies and pharmacies. There are currently 106 Krka employees in the process of obtaining a national vocational qualification.

In 2017 our employees can again enjoy a wide range of activities with which we are providing for a wholesome quality of their work and life and helping them personally implement Krka's mission of Living a Healthy Life. We have launched a special educational programme in collaboration with the Development and Education Centre Novo mesto in 2017, Living Healthy and Being Active, aimed particularly at employees aged over 45.

Krka employees also display social corporate responsibility and responsibility toward our environment. This April we again organised Krka's week of charity and volunteering. 1,200 employees took part, 100 of them for the first time. We collected 3.6 tonnes of clothes, books, toys, food and other consumables. 275 Krka employees donated 123 litres of blood, 45 of them for the first time. We visited the elderly at 35 retirement homes

and the tenants of eight occupational activity centres and special schools, organising various workshops, games and presentations for them. We prepared 910 food packages at the Caritas and Red Cross charities, and helped sort clothes and clean homes. We also collected 500 kg of pet food, helped at animal shelters and at the Ljubljana Zoo. We hosted 2,300 guests at the Krka open door day – students of the University of the Third Age and Krka employees with families and friends.

At the beginning of 2017 Krka received the recognition award for being the most reputable employer in 2016 from the job portal Mojedelo.com.

In the all-Slovenian research conducted for the sixth consecutive year, Krka has been ranked a top employer by job seekers five times.

Additionally, the Zlata nit (Golden Thread) employer-of-the-year campaign, organised by the daily Dnevnik and awarding best practices in the employer-employee relationship in Slovenia, ranked Krka employer of the year for 2016 in the category of large companies.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE KRKA GROUP, WITH NOTES

Consolidated statement of financial position of the Krka Group

In € thousand	31 Mar 2017	31 Dec 2016	Index
Assets			
Property, plant and equipment	877,954	874,100	100
Intangible assets	112,460	113,511	99
Loans	9,234	8,801	105
Investments	10,279	10,138	101
Deferred tax assets	37,492	31,260	120
Other non-current assets	280	257	109
Total non-current assets	1,047,699	1,038,067	101
Assets held for sale	468	467	100
Inventories	284,313	280,653	101
Trade receivables	527,908	510,406	103
Other receivables	30,986	33,777	92
Loans	16,192	9,441	172
Investments	0	77	0
Cash and cash equivalents	39,475	38,630	102
Total current assets	899,342	873,451	103
Total assets	1,947,041	1,911,518	102
Equity			
Share capital	54,732	54,732	100
Treasury shares	-31,677	-29,690	107
Reserves	122,946	109,678	112
Retained earnings	1,349,362	1,308,668	103
Total equity holders of the parent	1,495,363	1,443,388	104
Non-controlling interests within equity	1,069	1,056	101
Total equity	1,496,432	1,444,444	104
Liabilities			
Provisions	92,090	90,807	101
Deferred revenue	11,860	12,158	98
Deferred tax liabilities	12,246	12,348	99
Total non-current liabilities	116,196	115,313	101
Trade payables	116,831	128,437	91
Borrowings	20,000	0	
Income tax payable	5,424	1,666	326
Other current liabilities	192,158	221,658	87
Total current liabilities	334,413	351,761	95
Total liabilities	450,609	467,074	96
Total equity and liabilities	1,947,041	1,911,518	102

Consolidated income statement of the Krka Group

In € thousand	1–3/2017	1–3/2016	Index
Revenues	321,048	300,892	107
Costs of goods sold	-145,005	-130,728	111
Gross profit	176,043	170,164	103
Other operating income	2,339	1,764	133
Selling and distribution expenses	-84,518	-71,176	119
R&D expenses	-31,551	-29,697	106
General and administrative expenses	-21,346	-20,617	104
Operating profit	40,967	50,438	81
Financial income	18,767	31,956	59
Financial expenses	-13,533	-35,760	38
Net financial result	5,234	-3,804	
Profit before tax	46,201	46,634	99
Income tax	-3,507	-6,438	54
Net profit	42,694	40,196	106
Attributable to:			
– equity holders of the parent	42,681	40,130	106
– non-controlling interest	13	66	20
Basic earnings per share (in €)	1.32	1.24	107
Diluted earnings per share (in €)	1.32	1.24	107

* Net profit/Average number of shares issued in the period, exclusive of treasury shares

** All shares issued by the controlling company are ordinary registered shares, therefore the diluted EPS equals the basic EPS.

Consolidated statement of other comprehensive income of the Krka Group

In € thousand	1–3/2017	1–3/2016	Index
Net profit	42,694	40,196	106
Other comprehensive income for the period			
<i>Other comprehensive income for the period reclassified to profit or loss in future periods</i>			
Translation reserve	11,166	6,419	174
Change in fair value of available-for-sale financial assets	142	386	37
Deferred tax effect	-27	-66	41
Net other comprehensive income for the period reclassified to profit or loss in future periods	11,281	6,739	167
Total other comprehensive income for the period (net of tax)	11,281	6,739	167
Total comprehensive income for the period (net of tax)	53,975	46,935	115
Attributable to:			
– equity holders of the parent	53,962	46,869	115
– non-controlling interest	13	66	20

Consolidated statement of changes in equity of the Krka Group

In € thousand	Share capital	Treasury shares	Reserves						Retained earnings			Total equity holders of the parent	Non-controlling interests within equity	Total equity
			Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserve	Translation reserve	Other profit reserves	Retained earnings	Profit for the period			
Balance at 1 Jan 2017	54,732	-29,690	29,690	105,897	14,990	30,000	-11,802	-59,097	1,102,165	107,670	98,833	1,443,388	1,056	1,444,444
Net profit	0	0	0	0	0	0	0	0	0	0	42,681	42,681	13	42,694
Total other comprehensive income for the period (net of tax)	0	0	0	0	0	0	115	11,166	0	0	0	11,281	0	11,281
Total comprehensive income for the period (net of tax)	0	0	0	0	0	0	115	11,166	0	0	42,681	53,962	13	53,975
Transactions with owners, recognised directly in equity														
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	0	98,833	-98,833	0	0	0
Repurchase of treasury shares	0	-1,987	0	0	0	0	0	0	0	0	0	-1,987	0	-1,987
Formation of reserves for treasury shares	0	0	1,987	0	0	0	0	0	0	0	-1,987	0	0	0
Total transactions with owners, recognised directly in equity	0	-1,987	1,987	0	0	0	0	0	0	98,833	-100,820	-1,987	0	-1,987
Balance at 31 Mar 2017	54,732	-31,677	31,677	105,897	14,990	30,000	-11,687	-47,931	1,102,165	206,503	40,694	1,495,363	1,069	1,496,432

In € thousand	Share capital	Treasury shares	Reserves						Retained earnings			Total equity holders of the parent	Non-controlling interests within equity	Total equity
			Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserve	Translation reserve	Other profit reserves	Retained earnings	Profit for the period			
Balance at 1 Jan 2016	54,732	-20,071	20,071	105,897	14,990	30,000	-12,453	-85,118	1,051,677	96,160	148,851	1,404,736	1,248	1,405,984
Net profit	0	0	0	0	0	0	0	0	0	0	40,130	40,130	66	40,196
Total other comprehensive income for the period (net of tax)	0	0	0	0	0	0	851	6,419	0	-531	0	6,739	0	6,739
Total comprehensive income for the period (net of tax)	0	0	0	0	0	0	851	6,419	0	-531	40,130	46,869	66	46,935
Transactions with owners, recognised directly in equity														
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	0	148,851	-148,851	0	0	0
Repurchase of treasury shares	0	-1,841	0	0	0	0	0	0	0	0	0	-1,841	0	-1,841
Formation of reserves for treasury shares	0	0	1,841	0	0	0	0	0	0	0	-1,841	0	0	0
Total transactions with owners, recognised directly in equity	0	-1,841	1,841	0	0	0	0	0	0	148,851	-150,692	-1,841	0	-1,841
Balance at 31 Mar 2016	54,732	-21,912	21,912	105,897	14,990	30,000	-11,602	-78,699	1,051,677	244,480	38,289	1,449,764	1,314	1,451,078

Consolidated statement of cash flows of the Krka Group

In € thousand	1–3/2017	1–3/2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit	42,694	40,196
Adjustments for:	48,115	48,210
– amortisation/depreciation	28,557	26,401
– foreign exchange differences	2,857	1,260
– investment income	-414	-21,813
– investment expenses	13,147	35,861
– interest expenses and other financial expenses	461	63
– income tax	3,507	6,438
Operating profit before changes in net operating current assets	90,809	88,406
Change in trade receivables	-15,901	-22,341
Change in inventories	-3,660	7,826
Change in trade payables	-10,445	-9,100
Change in provisions	926	355
Change in deferred revenues	-298	-312
Change in other current liabilities	-24,687	-6,019
Income tax paid	-4,759	-3,080
Net cash flows from operating activities	31,985	55,735
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	136	227
Proceeds from sale of current investments	2	0
Proceeds from sale of property, plant and equipment	376	1,195
Acquisition of intangible assets	-710	-441
Purchase of property, plant and equipment	-24,133	-24,027
Non-current loans	-482	-481
Proceeds from repayment of non-current loans	289	308
Payments to acquire non-current investments	-22	-22
Proceeds from sale of non-current investments	0	16
Payments in connection with current investments and loans	-6,912	-9,782
Payments in connection with derivative financial instruments	-17,836	0
Proceeds from derivative financial instruments	0	21,292
Net cash flows used in investing activities	-49,292	-11,715
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	-103	-63
Proceeds in connection with current borrowings	20,000	0
Dividends and other profit shares paid	-48	-78
Repurchase of treasury shares	-1,987	-1,841
Net cash flows used in financing activities	17,862	-1,982
Net increase in cash and cash equivalents	555	42,038
Cash and cash equivalents at the beginning of the period	38,630	35,826
Effect of exchange rate fluctuations on cash held	290	238
Net cash and cash equivalents at the end of the period	39,475	78,102

Segment reporting of the Krka Group

In € thousand	European Union		South-East Europe		East Europe		Other		Elimination		Total	
	1-3/2017	1-3/2016	1-3/2017	1-3/2016	1-3/2017	1-3/2016	1-3/2017	1-3/2016	1-3/2017	1-3/2016	1-3/2017	1-3/2016
Revenues from external customers	190,207	193,904	15,826	14,627	101,795	80,117	13,220	12,244	0	0	321,048	300,892
Sales between Group companies	55,678	48,890	6,985	6,143	73,249	36,768	0	0	-135,912	-91,801	0	0
Other operating income	562	1,089	2	193	1,775	482	0	0	0	0	2,339	1,764
Operating expenses	-167,670	-162,759	-11,247	-10,614	-95,380	-72,348	-8,123	-6,497	0	0	-282,420	-252,218
Operating expenses to Group companies	-88,236	-86,625	-8,317	-6,674	-118,996	-79,541	-3	-2	215,552	172,842	0	0
Operating profit	23,099	32,234	4,581	4,206	8,190	8,251	5,097	5,747	0	0	40,967	50,438
Interest income	49	141	0	0	87	83	0	0	0	0	136	224
Interest income from Group companies	216	229	0	0	1	0	0	0	-217	-229	0	0
Interest expenses	-49	-1	0	0	1	-1	0	0	0	0	-48	-2
Interest expenses to Group companies	-61	-84	0	0	-139	-189	0	0	200	273	0	0
Net financial result	2,032	-62	213	-625	3,052	-3,062	-63	-55	0	0	5,234	-3,804
Income tax	-3,701	-4,467	-481	-328	1,078	-1,267	-403	-376	0	0	-3,507	-6,438
Net profit	21,430	27,705	4,313	3,253	12,320	3,922	4,631	5,316	0	0	42,694	40,196
Investments	20,364	21,569	65	23	977	4,587	0	0	0	0	21,406	26,179
Depreciation	17,609	17,760	494	494	8,466	6,213	104	93	0	0	26,673	24,560
Amortisation	1,109	1,233	64	76	656	476	55	56	0	0	1,884	1,841
	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016
Total assets	1,371,079	1,394,236	39,872	40,107	525,589	467,293	10,501	9,882	0	0	1,947,041	1,911,518
Goodwill	42,644	42,644	0	0	0	0	0	0	0	0	42,644	42,644
Trademark	38,799	39,011	0	0	0	0	0	0	0	0	38,799	39,011
Total liabilities	329,652	364,038	8,664	9,251	83,839	67,764	28,454	26,021	0	0	450,609	467,074

Notes to the consolidated financial statements of the Krka Group

Costs by nature

€282,420 thousand

In € thousand	1–3/2017	1–3/2016	Index
Costs of goods and material	104,477	80,354	130
Costs of services	58,476	53,878	109
Employee benefit costs	88,347	79,414	111
Amortisation and depreciation	28,557	26,401	108
Inventory write-offs and allowances	2,191	2,031	108
Receivables impairment and write-offs	2,426	829	293
Other operating expenses	10,641	7,267	146
Total costs	295,115	250,174	118
Change in the value of inventories of products and work in progress	-12,695	2,044	
Total	282,420	252,218	112

Employee benefit costs

€88,347 thousand

In € thousand	1–3/2017	1–3/2016	Index
Gross wages and salaries and continued pay	68,830	63,134	109
Social security contributions	5,028	4,792	105
Pension insurance contributions	9,444	8,334	113
Payroll tax	244	292	84
Post-employment benefits and other non-current employee benefits	1,207	455	265
Other employee benefit costs	3,594	2,407	149
Total employee benefit costs	88,347	79,414	111

Other operating expenses

€10,641 thousand

In € thousand	1–3/2017	1–3/2016	Index
Grants and assistance for humanitarian and other purposes	337	338	100
Environmental protection expenses	911	791	115
Other taxes and levies	8,193	4,968	165
Loss on sale of property, plant and equipment and intangible assets	74	164	45
Other expenses	1,126	1,006	112
Total other operating expenses	10,641	7,267	146

Other taxes and levies include taxes (claw-back and similar) that have been imposed in certain markets of Krka Group operations in recent periods.

Financial income and expenses

In € thousand	1–3/2017	1–3/2016	Index
Net foreign exchange differences	18,629	10,434	179
Interest income	136	224	61
Change in fair value of investments through profit or loss	0	6	0
Proceeds from sale of investments	2	0	
Derivative financial instruments income	0	21,292	0
– income	0	21,292	0
Total financial income	18,767	31,956	59
Interest expenses	-48	-2	2,400
Derivative financial instruments iexpenses	-13,072	-35,697	37
– expenses	-17,836	0	
– change in fair value	4,764	-35,697	
Other financial expenses	-413	-61	677
Total financial expenses	-13,533	-35,760	38
Net financial result	5,234	-3,804	

Income tax

€3,507 thousand

Current income tax amounts to €9,712 thousand, which is 21.0% of pre-tax profit. Together with the deferred tax of €–6,205 thousand, the total income tax payable in the income

statement equals €3,507 thousand. The effective tax rate is 7.6%, down 6.2 of a percentage point from the same period last year.

Property, plant and equipment

€877,954 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Land	36,652	36,575	100
Buildings	401,107	403,257	99
Equipment	340,205	343,390	99
Property, plant and equipment being acquired	93,349	84,635	110
Paid advances for property, plant and equipment	6,641	6,243	106
Total property, plant and equipment	877,954	874,100	100

The value of property, plant and equipment represents just over 45% of the Group's total assets. Krka's major investments are described in the chapter Investments in the Business Report.

Intangible assets

€112,460 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Goodwill	42,644	42,644	100
Trademark	38,799	39,011	99
Concessions, patents, licences and similar rights	26,908	28,184	95
Intangible assets being acquired	4,109	3,672	112
Total intangible assets	112,460	113,511	99

Loans

€25,426 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Non-current loans	9,234	8,801	105
– loans to others	9,234	8,801	105
Current loans	16,192	9,441	172
– portion of non-current loans maturing next year	828	1,201	69
– loans to others	15,363	8,240	186
– current interest receivable	1	0	
Total loans	25,426	18,242	139

Non-current loans represent 36% of total loans.

Non-current loans to others include loans that the Group extends in accordance with its internal acts to its employees, and that are primarily housing loans.

Current loans to others include €15,000 of bank deposits placed by the controlling company, with maturities longer than 90 days.

Investments

€10,279 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Non-current investments	10,279	10,138	101
– available-for-sale financial assets	10,279	10,138	101
Current investments including derivatives	0	77	0
– shares and interests held for trading	0	77	0
Total investments	10,279	10,215	101

Available-for-sale financial assets include €775 thousand of investments in shares and interests in

Slovenia, and €9,504 thousand of investments in shares and interests abroad.

Inventories

€284,313 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Material	118,622	122,515	97
Work in progress	71,895	63,212	114
Products	85,144	86,369	99
Merchandise	7,254	7,783	93
Inventory advances	1,398	774	181
Total inventories	284,313	280,653	101

Trade and other receivables

€558,894 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Current trade receivables	527,908	510,406	103
Other current receivables	30,986	33,777	92
Total receivables	558,894	544,183	103

Cash and cash equivalents

€39,475 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Cash in hand	38	78	49
Bank balances	39,437	38,552	102
Total cash and cash equivalents	39,475	38,630	102

Equity

€1,496,432 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Share capital	54,732	54,732	100
Treasury shares	-31,677	-29,690	107
Reserves	122,946	109,678	112
– reserves for treasury shares	31,677	29,690	107
– share premium	105,897	105,897	100
– legal reserves	14,990	14,990	100
– statutory reserves	30,000	30,000	100
– fair value reserve	-11,687	-11,802	99
– translation reserve	-47,931	-59,097	81
Retained earnings	1,349,362	1,308,668	103
Total equity holders of the parent	1,495,363	1,443,388	104
Non-controlling interests within equity	1,069	1,056	101
Total equity	1,496,432	1,444,444	104

Borrowings

€20,000 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Current borrowings	20,000	0	
– borrowings from domestic banks	20,000	0	
Total borrowings	20,000	0	

Provisions

€92,090 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Provisions for lawsuits	163	166	98
Provisions for post-employment benefits and other non-current employee benefits	91,130	89,970	101
Other provisions	797	671	119
Total provisions	92,090	90,807	101

Deferred revenues

€11,860 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Grants received from the European Regional Development Fund and the Republic of Slovenia budget for the production of pharmaceuticals in the new Notol 2 plant	2,384	2,384	100
Grants received from the budget for the Dolenjske and Šmarješke Toplice health resorts and Golf Grad Otočec	3,927	3,927	100
Grants received from the European Regional Development Fund for the development of new technologies (FBD project)	340	340	100
Grants received from the European Regional Development Fund for setting up an information and technology solutions system (GEN-I)	14	14	100
Grants received from the European Regional Development Fund for Development Centres of the Slovene Economy	5,121	5,419	95
Grant for purchasing electrical vehicles	5	5	100
Property, plant and equipment received free of charge	53	53	100
Emission coupons	16	16	100
Total deferred revenues	11,860	12,158	98

Development Centres of the Slovene Economy and the FBD project are partly funded by the European Union via the European Regional Development Fund. The project is implemented as part of the Operational Programme 2007–2013, Strengthening

Regional Development Potentials; 1. Priority axis: Competitiveness and Research Excellence; 1.1. Priority objective: Improving Competitiveness and Research Excellence.

Trade payables

€116,831 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Payables to domestic suppliers	44,810	45,748	98
Payables to foreign suppliers	69,511	78,696	88
Payables from advances	2,510	3,993	63
Total trade payables	116,831	128,437	91

Other current liabilities

€192,158 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Accrued contractual discounts on products sold	121,762	150,080	81
Payables to employees – gross wages, other receipts and charges	42,761	38,112	112
Derivatives	7,906	12,670	62
Other	19,729	20,796	95
Total other current liabilities	192,158	221,658	87

Contingent liabilities

€16,773 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Guarantees issued	16,153	12,846	126
Other	620	620	100
Total contingent liabilities	16,773	13,466	125

Fair value

In € thousand	31 Mar 2017		31 Dec 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current loans	9,234	9,234	8,801	8,801
Available-for-sale financial assets	10,279	10,279	10,138	10,138
Current loans	16,192	16,192	9,441	9,441
Current financial investments	0	0	77	77
– shares and interests held for trading	0	0	77	77
Trade receivables	527,908	527,908	510,406	510,406
Cash and cash equivalents	39,475	39,475	38,630	38,630
Current borrowings	-20,000	-20,000	0	0
Trade payables and other liabilities, excluding amounts owed to the state, to employees and advances	-247,904	-247,904	-282,784	-282,784
Other current liabilities	-7,906	-7,906	-12,670	-12,670
– derivative financial instruments	-7,906	-7,906	-12,670	-12,670
Total	327,278	327,278	282,039	282,039

In terms of fair value, investments are classified into three levels:

- level 1 – assets at market price;
- level 2 – assets not classified within level 1 and the value of which is determined directly or indirectly based on observable

- market data;
- level 3 – assets whose value cannot be determined by using observable market data.

The fair value of non-current loans and borrowings is calculated by applying the discounted cash flow of the principal and interest. The discount interest rate for 2017 and 2016 was computed based on the

2 per cent annual interest rate.

The fair value of securities held for trading is computed on the basis of the stock exchange quotation of the respective securities as at the reporting date, and it is not reduced by any costs that may arise upon the sale or purchase of securities.

Assets at fair value

In € thousand	31 Mar 2017				31 Dec 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Available-for-sale financial assets	8,917	0	1,362	10,279	8,775	0	1,363	10,138
Shares and interests held for trading	0	0	0	0	77	0	0	77
Total assets at fair value	8,917	0	1,362	10,279	8,852	0	1,363	10,215
Assets for which fair value is disclosed								
Non-current loans	0	0	9,234	9,234	0	0	8,801	8,801
Current loans	0	0	16,192	16,192	0	0	9,441	9,441
Trade receivables	0	0	527,908	527,908	0	0	510,406	510,406
Cash and cash equivalents	0	0	39,475	39,475	0	0	38,630	38,630
Total assets for which fair value is disclosed	0	0	592,809	592,809	0	0	567,278	567,278
Total	8,917	0	594,171	603,088	8,852	0	568,641	577,493

Liabilities at fair value

In € thousand	31 Mar 2017				31 Dec 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities at fair value								
Derivative financial instruments	0	0	7,906	7,906	0	0	12,670	12,670
Total liabilities at fair value	0	0	7,906	7,906	0	0	12,670	12,670
Liabilities for which fair value is disclosed								
Current borrowings	0	0	20,000	20,000	0	0	0	0
Trade payables and other liabilities, excluding amounts owed to the state, to employees and advances	0	0	247,904	247,904	0	0	282,784	282,784
Total liabilities for which fair value is disclosed	0	0	267,904	267,904	0	0	282,784	282,784
Total	0	0	275,810	275,810	0	0	295,454	295,454

CONDENSED FINANCIAL STATEMENTS OF KRKA, D. D., NOVO MESTO, WITH NOTES

Statement of financial position of Krka, d. d., Novo mesto

In € thousand	31 Mar 2017	31 Dec 2016	Index
Assets			
Property, plant and equipment	608,170	609,543	100
Intangible assets	28,550	29,302	97
Investments in subsidiaries	321,004	321,185	100
Non-current receivables due from subsidiaries	42,526	23,515	181
Loans	19,675	18,302	108
Investments	10,278	10,136	101
Deferred tax assets	12,133	12,101	100
Other non-current assets	100	92	109
Total non-current assets	1,042,436	1,024,176	102
Assets held for sale	41	41	100
Inventories	231,956	236,214	98
Trade receivables	518,084	479,234	108
Other receivables	17,141	21,408	80
Loans	51,988	52,504	99
Investments	0	77	0
Cash and cash equivalents	24,029	24,049	100
Total current assets	843,239	813,527	104
Total assets	1,885,675	1,837,703	103
Equity			
Share capital	54,732	54,732	100
Treasury shares	-31,677	-29,690	107
Reserves	172,685	170,583	101
Retained earnings	1,288,112	1,244,823	103
Total equity	1,483,852	1,440,448	103
Liabilities			
Provisions	79,927	78,903	101
Deferred revenue	2,695	2,788	97
Total non-current liabilities	82,622	81,691	101
Trade payables	152,363	148,562	103
Borrowings	105,778	105,269	100
Other current liabilities	61,060	61,733	99
Total current liabilities	319,201	315,564	101
Total liabilities	401,823	397,255	101
Total equity and liabilities	1,885,675	1,837,703	103

Income statement of Krka, d. d., Novo mesto

In € thousand	1–3/2017	1–3/2016	Index
Revenues	312,151	263,371	119
Costs of goods sold	-141,289	-114,256	124
Gross profit	170,862	149,115	115
Other operating income	251	718	35
Selling and distribution expenses	-75,016	-62,083	121
R&D expenses	-32,956	-31,154	106
General and administrative expenses	-17,415	-17,230	101
Operating profit	45,726	39,366	116
Financial income	17,917	33,022	54
Financial expenses	-13,721	-35,960	38
Net financial result	4,196	-2,938	
Profit before tax	49,922	36,428	137
Income tax	-4,646	-3,643	128
Net profit	45,276	32,785	138
Basic earnings per share* (in €)	1.40	1.01	139
Diluted earnings per share** (in €)	1.40	1.01	139

* Net profit/Average number of shares issued in the period, exclusive of treasury shares

** All issued shares are ordinary registered shares, therefore the diluted EPS equals the basic EPS.

Statement of other comprehensive income of Krka, d. d., Novo mesto

In € thousand	1–3/2017	1–3/2016	Index
Net profit	45,276	32,785	138
Other comprehensive income for the period			
<i>Other comprehensive income for the period reclassified to profit or loss in future periods</i>			
Change in fair value of available-for-sale financial assets	142	386	37
Deferred tax effect	-27	-66	41
Net other comprehensive income for the period reclassified to profit or loss in future periods	115	320	36
Total other comprehensive income for the period (net of tax)	115	320	36
Total comprehensive income for the period (net of tax)	45,391	33,105	137

Statement of changes in equity of Krka, d. d., Novo mesto

	Share capital	Treasury shares	Reserves					Retained earnings			Total equity
			Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserve	Other profit reserves	Retained earnings	Profit for the period	
In € thousand											
Balance at 1 Jan 2017	54,732	-29,690	29,690	105,897	14,990	30,000	-9,994	1,102,165	49,405	93,253	1,440,448
Net profit	0	0	0	0	0	0	0	0	0	45,276	45,276
Total other comprehensive income for the period (net of tax)	0	0	0	0	0	0	115	0	0	0	115
Total comprehensive income for the period (net of tax)	0	0	0	0	0	0	115	0	0	45,276	45,391
Transactions with owners, recognised directly in equity											
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	93,253	-93,253	0
Repurchase of treasury shares	0	-1,987	0	0	0	0	0	0	0	0	-1,987
Formation of reserves for treasury shares	0	0	1,987	0	0	0	0	0	0	-1,987	0
Total transactions with owners, recognised directly in equity	0	-1,987	1,987	0	0	0	0	0	93,253	-95,240	-1,987
Balance at 31 Mar 2017	54,732	-31,677	31,677	105,897	14,990	30,000	-9,879	1,102,165	142,658	43,289	1,483,852

In € thousand	Share capital	Treasury shares	Reserves					Retained earnings			Total equity
			Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserve	Other profit reserves	Retained earnings	Profit for the period	
Balance at 1 Jan 2016	54,732	-20,071	20,071	105,897	14,990	30,000	-10,993	1,051,677	50,040	136,868	1,433,211
Net profit	0	0	0	0	0	0	0	0	0	32,785	32,785
Total other comprehensive income for the period (net of tax)	0	0	0	0	0	0	320	0	0	0	320
Total comprehensive income for the period (net of tax)	0	0	0	0	0	0	320	0	0	32,785	33,105
Transactions with owners, recognised directly in equity											
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	136,868	-136,868	0
Repurchase of treasury shares	0	-1,841	0	0	0	0	0	0	0	0	-1,841
Formation of reserves for treasury shares	0	0	1,841	0	0	0	0	0	0	-1,841	0
Total transactions with owners, recognised directly in equity	0	-1,841	1,841	0	0	0	0	0	136,868	-138,709	-1,841
Balance at 31 Mar 2016	54,732	-21,912	21,912	105,897	14,990	30,000	-10,673	1,051,677	186,908	30,944	1,464,475

Statement of cash flows of Krka, d. d., Novo mesto

In € thousand	1–3/2017	1–3/2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit	45,276	32,785
Adjustments for:	39,087	37,134
– amortisation/depreciation	22,074	20,758
– foreign exchange differences	-1,122	-1,494
– investment income	-261	-21,823
– investment expenses	13,101	35,786
– interest expenses and other financial expenses	649	264
– income tax	4,646	3,643
Operating profit before changes in net operating current assets	84,363	69,919
Change in trade receivables	-55,619	-24,107
Change in inventories	4,259	6,898
Change in trade payables	4,271	-9,798
Change in provisions	667	342
Change in deferred revenues	-93	-97
Change in other current liabilities	4,140	245
Income tax paid	-2,681	-1,198
Net cash flows from operating activities	39,307	42,204
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	294	401
Proceeds from sale of current investments	2	0
Proceeds from sale of property, plant and equipment	17	61
Acquisition of intangible assets	-662	-424
Purchase of property, plant and equipment	-19,787	-13,779
Acquisition of subsidiaries and a share of minority interest without obtained assets	-57	-8,038
Refund of subsequent payments in subsidiaries	237	0
Non-current loans	-482	-1,405
Proceeds from repayment of non-current loans	6,675	666
Payments to acquire non-current investments	-6	-20
Proceeds from sale of non-current investments	0	17
Payments in connection with current investments and loans	-6,242	-8,980
Payments in connection with derivative financial instruments	-17,836	0
Proceeds from derivative financial instruments	0	21,292
Net cash flows used in investing activities	-37,847	-10,209
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	-362	-450
Proceeds in connection with current borrowings	578	4,993
Dividends and other profit shares paid	-48	-78
Repurchase of treasury shares	-1,987	-1,841
Net cash flows used in financing activities	-1,819	2,624
Net decrease/increase in cash and cash equivalents	-359	34,619
Cash and cash equivalents at the beginning of the year	24,049	24,622
Effect of exchange rate fluctuations on cash held	339	309
Net cash and cash equivalents at the end of the period	24,029	59,550

Segment reporting of Krka, d. d., Novo mesto

In € thousand	European Union		South-East Europe		East Europe		Other		Total	
	1-3/2017	1-3/2016	1-3/2017	1-3/2016	1-3/2017	1-3/2016	1-3/2017	1-3/2016	1-3/2017	1-3/2016
Revenues	174,879	171,501	13,921	13,789	111,262	67,523	12,089	10,558	312,151	263,371
Other operating income	126	605	8	4	117	109	0	0	251	718
Operating expenses	-158,012	-145,141	-10,600	-9,954	-89,941	-63,131	-8,123	-6,497	-266,676	-224,723
Operating profit	16,993	26,965	3,329	3,839	21,438	4,501	3,966	4,061	45,726	39,366
Interest income	105	220	0	0	138	189	0	0	243	409
Interest expenses	-263	-230	0	0	0	0	0	0	-263	-230
Net financial result	1,547	131	-17	6	2,729	-3,020	-63	-55	4,196	-2,938
Income tax	-1,727	-2,495	-338	-355	-2,178	-417	-403	-376	-4,646	-3,643
Net profit	16,813	24,601	2,974	3,490	21,989	1,064	3,500	3,630	45,276	32,785
Investments	18,047	18,497	0	0	0	0	0	0	18,047	18,497
Depreciation	14,289	14,244	434	434	5,833	4,584	104	93	20,660	19,355
Amortisation	792	914	63	73	504	360	55	56	1,414	1,403
	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016
Total assets	1,300,378	1,300,003	40,273	41,895	534,528	485,928	10,496	9,877	1,885,675	1,837,703
Total liabilities	278,513	296,209	8,320	9,103	86,536	65,922	28,454	26,021	401,823	397,255

Notes to the financial statements of Krka, d. d., Novo mesto

Costs by nature

€266,676 thousand

In € thousand	1–3/2017	1–3/2016	Index
Costs of goods and material	101,048	77,771	130
Costs of services	84,565	74,378	114
Employee benefit costs	53,324	49,768	107
Amortisation and depreciation	22,074	20,758	106
Inventory write-offs and allowances	1,665	1,515	110
Receivables impairment and write-offs	13	45	29
Other operating expenses	7,477	4,662	160
Total costs	270,166	228,897	118
Change in the value of inventories of products and work in progress	-3,490	-4,174	84
Total	266,676	224,723	119

Employee benefit costs

€53,324 thousand

In € thousand	1–3/2017	1–3/2016	Index
Gross wages and salaries and continued pay	42,166	40,535	104
Social security contributions	2,567	2,665	96
Pension insurance contributions	5,124	4,835	106
Post-employment benefits and other non-current employee benefits	1,064	341	312
Other employee benefit costs	2,403	1,392	173
Total employee benefit costs	53,324	49,768	107

Other operating expenses

€7,477 thousand

In € thousand	1–3/2017	1–3/2016	Index
Grants and assistance for humanitarian and other purposes	219	200	110
Environmental protection expenses	574	525	109
Other taxes and levies	5,933	3,105	191
Loss on sale of property, plant and equipment and intangible assets	29	89	33
Other expenses	722	743	97
Total other operating expenses	7,477	4,662	160

Other taxes and levies include taxes (claw-back and similar) that have been imposed in several markets of Krka Group operations in recent periods.

Financial income and expenses

In € thousand	1–3/2017	1–3/2016	Index
Net foreign exchange differences	17,672	11,315	156
Interest income	243	409	59
Change in fair value of investments through profit or loss	0	6	0
Proceeds from sale of investments	2	0	
Derivative financial instruments income	0	21,292	0
– income	0	21,292	0
Total financial income	17,917	33,022	54
Interest expenses	-263	-230	114
Derivative financial instruments expenses	-13,072	-35,697	37
– expenses	-17,836	0	
– change in fair value	4,764	-35,697	-13
Other financial expenses	-386	-33	1170
Total financial expenses	-13,721	-35,960	38
Net financial result	4,196	-2,938	

Income tax

€4,646 thousand

Current income tax amounts to €4,706 thousand, which is 9.4% of pre-tax profit. Together with the deferred tax of €-60 thousand, the total income tax payable in the income statement equals

€4,646 thousand. The effective tax rate is 9.3%, down 0.7 of a percentage point from the same period last year.

Property, plant and equipment

€608,170 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Land	24,005	24,005	100
Buildings	254,101	258,880	98
Equipment	272,370	278,847	98
Property, plant and equipment being acquired	51,673	42,049	123
Paid advances for property, plant and equipment	6,021	5,762	104
Total property, plant and equipment	608,170	609,543	100

The value of property, plant and equipment represents just over 32% of the Company's total

assets. Krka's major investments are described in the chapter Investments in the Business Report.

Intangible assets

€28,550 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Concessions, patents, licences and similar rights	24,441	25,635	95
Intangible assets being acquired	4,109	3,667	112
Total intangible assets	28,550	29,302	97

Intangible assets include marketing authorisation documentation for new medicines, and software.

Loans

€71,663 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Non-current loans	19,675	18,302	108
– loans to subsidiaries	10,703	9,830	109
– loans to others	8,972	8,472	106
Current loans	51,988	52,504	99
– portion of non-current loans maturing next year	4,924	11,708	42
– loans to subsidiaries	31,682	32,397	98
– loans to others	15,237	8,203	186
– current interest receivable	145	196	74
Total loans	71,663	70,806	101

Non-current loans represent 27 % of total loans.

Non-current loans to others include loans that the Company extends in accordance with its internal

acts to its employees and that are primarily housing loans.

Current loans to others include €15,000 of bank deposits with maturities longer than 90 days.

Investments

€10,278 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Non-current investments	10,278	10,136	101
– available-for-sale financial assets	10,278	10,136	101
Current investments including derivative financial instruments	0	77	0
– shares and interests held for trading	0	77	0
Total investments	10,278	10,213	101

Available-for-sale financial assets include €775 thousand of investments in shares and interests in

Slovenia, and €9,503 thousand of investments in shares and interests abroad.

Inventories

€231,956 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Material	105,914	112,208	94
Work in progress	69,726	61,978	113
Products	46,827	52,478	89
Merchandise	8,438	8,816	96
Inventory advances	1,051	734	143
Total inventories	231,956	236,214	98

Trade and other receivables

€535,225 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Current trade receivables	518,084	479,234	108
– current trade receivables due from subsidiaries	302,147	273,876	110
– current trade receivables due from customers other than subsidiaries	215,937	205,358	105
Other current receivables	17,141	21,408	80
Total receivables	535,225	500,642	107

Cash and cash equivalents

€24,029 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Cash in hand	3	2	150
Bank balances	24,026	24,047	100
Total cash and cash equivalents	24,029	24,049	100

Equity

€1,483,852 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Share capital	54,732	54,732	100
Treasury shares	-31,677	-29,690	107
Reserves:	172,685	170,583	101
– reserves for treasury shares	31,677	29,690	107
– share premium	105,897	105,897	100
– legal reserves	14,990	14,990	100
– statutory reserves	30,000	30,000	100
– fair value reserve	-9,879	-9,994	99
Retained earnings	1,288,112	1,244,823	103
Total equity	1,483,852	1,440,448	103

Borrowings

€105,778 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Current borrowings	105,778	105,269	100
– borrowings from subsidiaries	85,688	105,110	82
– borrowings from domestic banks	20,000	0	
– current interest payable	90	159	57
Total borrowings	105,778	105,269	100

Provisions

€79,927 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Provisions for post-employment benefits and other non-current employee benefits	79,927	78,903	101
Total provisions	79,927	78,903	101

Deferred revenues

€2,695 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Grants received from the European Regional Development Fund and the Republic of Slovenia budget for the production of pharmaceuticals in the new Notol 2 plant	2,317	2,384	97
Grants received from the European Regional Development Fund for the development of new technologies (FBD project)	315	340	93
Grants received from the European Regional Development Fund for setting up an information and technology solutions system (GEN-I)	13	14	93
Grant for purchasing electrical vehicles	5	5	100
Property, plant and equipment received free of charge	29	29	100
Emission coupons	16	16	100
Total deferred revenues	2,695	2,788	97

The FBD project is partly funded by the European Union via the European Regional Development Fund. The project is implemented as part of the Operational Programme 2007–2013, Strengthening

Regional Development Potentials; 1. Priority axis: Competitiveness and Research Excellence; 1.1. Priority objective: Improving Competitiveness and Research Excellence.

Trade payables

€152,363 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Payables to subsidiaries	61,267	56,943	108
Payables to domestic suppliers	41,176	41,387	99
Payables to foreign suppliers	47,965	46,799	102
Payables from advances	1,955	3,433	57
Total trade payables	152,363	148,562	103

Other current liabilities

€61,060 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Accrued contractual discounts on products sold	14,141	14,141	100
Payables to employees – gross wages, other receipts and charges	30,434	27,726	110
Derivative financial instruments	7,906	12,670	62
Other	8,579	7,196	119
Total other current liabilities	61,060	61,733	99

Contingent liabilities

€17,469 thousand

In € thousand	31 Mar 2017	31 Dec 2016	Index
Guarantees issued	16,849	13,598	124
Other	620	620	100
Total contingent liabilities	17,469	14,218	123

Fair value

In € thousand	31 Mar 2017		31 Dec 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current receivables due from subsidiaries	42,526	42,526	23,515	23,515
Non-current loans	19,675	19,675	18,302	18,302
Available-for-sale financial assets	10,278	10,278	10,136	10,136
Current loans	51,988	51,988	52,504	52,504
Current financial investments	0	0	77	77
– shares and interests held for trading	0	0	77	77
Trade receivables	518,084	518,084	479,234	479,234
Cash and cash equivalents	24,029	24,029	24,049	24,049
Current borrowings	-105,778	-105,778	-105,269	-105,269
Trade payables and other liabilities, excluding amounts owed to the state, to employees and advances	-163,903	-163,903	-160,861	-160,861
Other current liabilities	-7,906	-7,906	-12,670	-12,670
– derivative financial instruments	-7,906	-7,906	-12,670	-12,670
Total	388,993	388,993	329,017	329,017

In terms of fair value, investments are classified into three levels:

- level 1 – assets at market price;
- level 2 – assets not classified within level 1 and the value of which is determined directly or indirectly based on observable market data;
- level 3 – assets whose value cannot be determined by using observable market data.

The fair value of non-current loans and borrowings is calculated by applying the discounted cash flow of the principal and interest. The discount interest rate for 2017 and 2016 was computed based on the 2 per cent annual interest rate.

The fair value of securities held for trading is computed on the basis of the stock exchange quotation of the respective securities as at the reporting date, and it is not reduced by any costs that may arise upon the sale or purchase of securities.

Assets at fair value

In € thousand	31 Mar 2017				31 Dec 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Available-for-sale financial assets	8,917	0	1,361	10,278	8,775	0	1,361	10,136
Shares and interests held for trading	0	0	0	0	77	0	0	77
Total assets at fair value	8,917	0	1,361	10,278	8,852	0	1,361	10,213
Assets for which fair value is disclosed								
Non-current receivables due from subsidiaries	0	0	42,526	42,526	0	0	23,515	23,515
Non-current loans	0	0	19,675	19,675	0	0	18,302	18,302
Current loans	0	0	51,988	51,988	0	0	52,504	52,504
Trade receivables	0	0	518,084	518,084	0	0	479,234	479,234
Cash and cash equivalents	0	0	24,029	24,029	0	0	24,049	24,049
Total assets for which fair value is disclosed	0	0	656,302	656,302	0	0	597,604	597,604
Total	8,917	0	657,663	666,580	8,852	0	598,965	607,817

Liabilities at fair value

In € thousand	31 Mar 2017				31 Dec 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities at fair value								
Derivative financial instruments	0	0	7,906	7,906	0	0	12,670	12,670
Total liabilities at fair value	0	0	7,906	7,906	0	0	12,670	12,670
Liabilities for which fair value is disclosed								
Current borrowings	0	0	105,778	105,778	0	0	105,269	105,269
Trade payables and other liabilities, excluding amounts owed to the state, to employees and advances	0	0	163,903	163,903	0	0	160,861	160,861
Total liabilities for which fair value is disclosed	0	0	269,681	269,681	0	0	266,130	266,130
Total	0	0	277,587	277,587	0	0	278,800	278,800

MANAGEMENT BOARD STATEMENT OF RESPONSIBILITIES

The Management Board of Krka, d. d., Novo mesto hereby states that the condensed financial statements of the Krka Company and the condensed consolidated financial statements of the Krka Group for the three months ended 31 March 2017 were drawn up so as to provide a true and fair view of the financial standing and operating results of the Krka Company and the Krka Group. The condensed statements for the period January–March 2017 were drawn up using the same accounting principles as for the annual financial statements of the Krka Company and Group for 2016.

The condensed interim financial statements for the three months ended 31 March 2017 were drawn up

Novo mesto, 25 April 2017

pursuant to *IAS 34 – Interim Financial Reporting*, and must be read in conjunction with the annual financial statements drawn up for the business year ended 31 December 2016.

The Management Board is responsible for implementing measures to maintain the value of the Krka Company and Krka Group assets, and to prevent and detect frauds or other forms of misconduct.

The Management Board states that all transactions between Krka Group companies were executed on the basis of purchase contracts, using market prices for products and services. There were no significant transactions with any other related parties.



Jože Colarič,
President and CEO



Dr Aleš Rotar,
Member



Dr Vinko Zupančič,
Member



David Bratož,
Member



Milena Kastelic,
Member – worker's elected director