



**Unaudited Interim Report for the Krka
Group and the Krka Company
for the First Half of 2017**

Novo mesto, July 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 the first half of 2017 and 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 Supervisory Board discussed the unaudited 2017 half-year report for the Krka Group and the Krka Company at its regular meeting on 26 July 2017.

Operational highlights January–June 2017

- The Krka Group sold €655.0 million worth of products and services, and the Krka Company €615.0 million worth.
- Krka Group sales in the first half-year exceeded last year's sales in the same period by €51 million or 8.5%. This is Krka's best half-year sales result to date.
- The Krka Group generated 93%, and the Krka Company 96% of its sales revenues in markets outside Slovenia.
- The highest absolute (up €38.4 million) as well as relative (up 22%) sales growth was recorded in Region East Europe. With 32.7% of total sales generated there, Region East Europe was also Krka's largest sales region.
- The Krka Group sales increased in all its sales regions apart from Region West Europe, where sales were down 5% compared to the same period last year.
- The Krka Group generated €124.1 million of operating profit, an increase by 32% compared to the same period last year, and the Krka Company €112.8 million, a 50% year-on-year increase.
- The Krka Group reported a net profit of €91.7 million, up 31% compared to the same period last year, while the Krka Company generated €83.6 million of net profit, up 49%.
- Consistent with the Krka strategy regarding its dividend-increase policy, the Supervisory Board and Management Board had designed a proposal, which was adopted by the General Meeting as at 6 July 2017, to pay shareholders a gross dividend of €2.75 per share, which is a 4% increase compared to last year's dividend.
- As at 30 June 2017 Krka's share traded at €55.00 on the Ljubljana Stock Exchange, up 4% compared to the year-end of 2016. Krka Company's market capitalisation amounted to €1.8 billion.
- The Krka Group spent €52.6 million on investments, of which the controlling company invested €44.3 million and subsidiaries €8.3 million. This is 15% less than in the first six months last year.
- At the end of June, the Krka Group had 10,842 permanent employees. Together with agency workers, the Krka Group had 12,188 employees.

Krka Group and Krka Company financial highlights

In € thousand	Krka Group			Krka Company		
	1-6/2017	1-6/2016	2016	1-6/2017	1-6/2016	2016
Revenues	655,046	603,803	1,174,424	615,010	539,658	1,071,709
EBIT ¹	124,078	94,300	122,435	112,833	75,135	98,920
EBITDA	177,279	147,098	228,238	152,999	116,380	180,685
Net profit	91,663	70,116	108,456	83,573	56,226	102,872
R&D expenses	62,219	58,735	117,994	64,438	61,533	122,874
Investments	52,568	61,755	131,817	44,289	30,022	80,663

	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016
Non-current assets	1,037,013	1,038,067	1,036,362	1,024,176
Current assets	927,912	873,451	856,201	813,527
Equity	1,525,513	1,444,444	1,518,524	1,440,448
Non-current liabilities	115,782	115,313	82,250	81,691
Current liabilities	323,630	351,761	291,789	315,564

RATIOS	1-6/2017	1-6/2016	2016	1-6/2017	1-6/2016	2016
EBIT margin	18.9%	15.6%	10.4%	18.3%	13.9%	9.2%
EBITDA margin	27.1%	24.4%	19.4%	24.9%	21.6%	16.9%
Profit margin (ROS)	14.0%	11.6%	9.2%	13.6%	10.4%	9.6%
ROE ²	12.3%	9.7%	7.6%	11.3%	7.7%	7.2%
ROA ³	9.5%	7.5%	5.8%	9.0%	6.2%	5.7%
Liabilities/Equity	0.288	0.298	0.323	0.246	0.251	0.276
R&D expenses/Revenues	9.5%	9.7%	10.0%	10.5%	11.4%	11.5%

NUMBER OF EMPLOYEES (as at)	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016
	10,842	10,889	4,889	4,889

SHARE INFORMATION	1-6/2017	1-6/2016
Total number of shares issued	32,793,448	32,793,448
Earnings per share in € ⁴	5.68	4.32
Closing price at end of period in EUR ⁵	55.00	57.15
Price/Earnings ratio (P/E)	9.68	13.24
Book value in € ⁶	46.52	45.31
Price/Book ratio (P/B)	1.18	1.26
Market capitalisation in € thousand (end of period)	1,803,640	1,874,146

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

Events after the reporting period

On 6 July 2017 Krka, d. d., Novo mesto held its 23rd Annual General Meeting at Šport Hotel in Otočec, Slovenia. Shareholders were acquainted with the Management Board's 2016 annual report, remuneration of the Management and Supervisory Boards, the auditor's report, and the report of the Supervisory Board on its verification and approval of the 2016 annual report. Among other business shareholders discussed the appropriation of accumulated profit for 2016, declaring a gross dividend of €2.75 per share, which is an increase by 4% from last year.

Shareholders further approved and gave their consent to the work of the Management Board and Supervisory Board for the 2016 financial year, and discharged both from liability for the performance of their duties.

The AGM authorised the Management Board to repurchase and dispose of treasury shares during a period of 36 months.

The auditor that shareholders appointed for the 2017 financial year is ERNST & YOUNG Revizija, poslovno svetovanje, d. o. o., Dunajska cesta 111, 1000 Ljubljana.

The AGM recalled Anja Stojin Štampar, MSc as member of the Supervisory Board as of 6 July 2017, and appointed Hans-Helmut Fabry a new member of the Supervisory Board for a five-year term starting 7 July 2017. Shareholders were acquainted with the resignation of Simona Razvornik Škofič and the consequent termination of her term-in-office as member of the Supervisory Board as of the day of the AGM. Based on an additional proposal put up for a vote, Borut Jamnik was additionally elected member of the Supervisory Board for a five-year period starting 7 July 2017.

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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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 facilities are in Slovenia, the Russian Federation, Poland, Croatia and Germany.

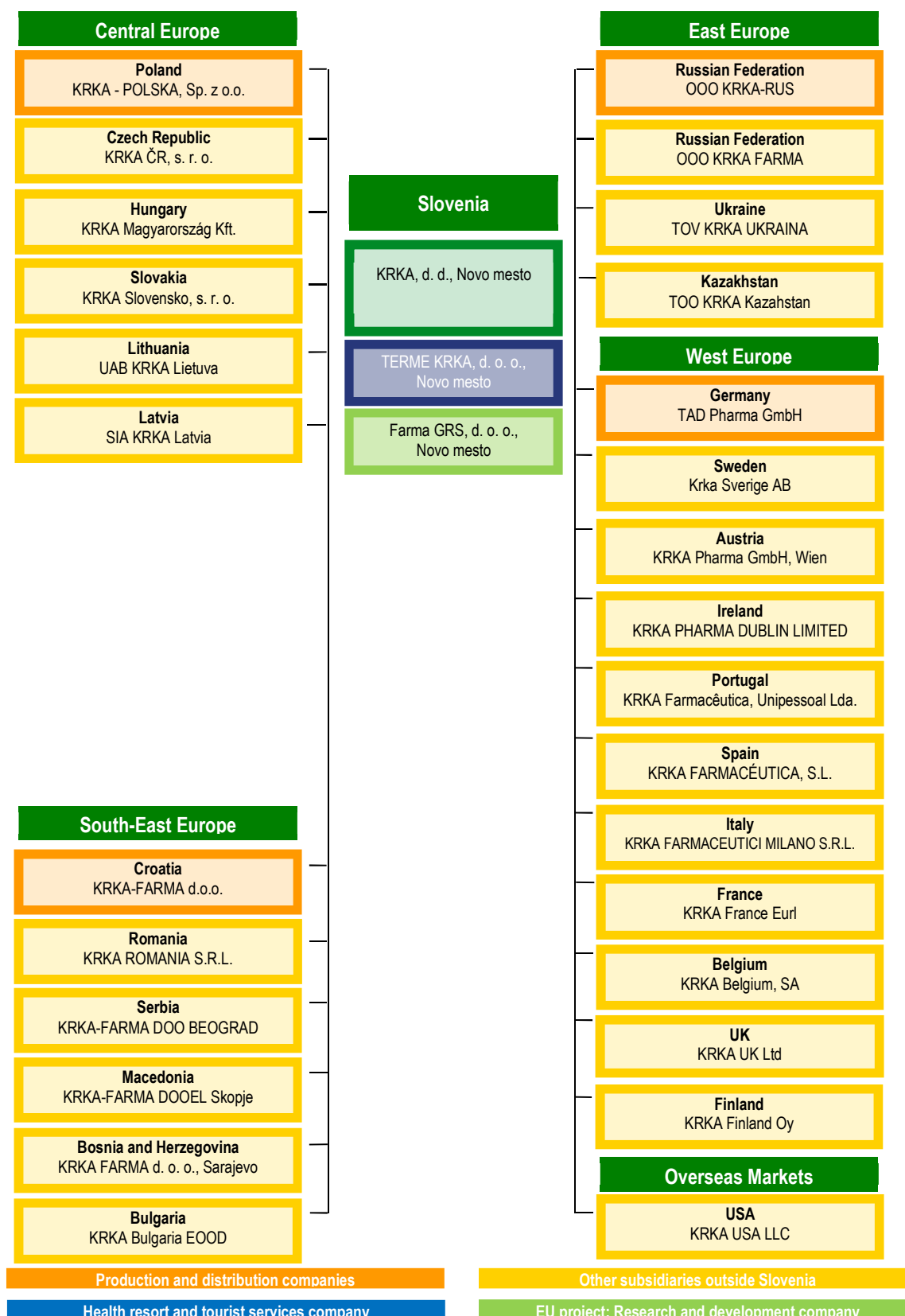
Our modern pharmaceutical production and vertically integrated business model allow us to provide patients in over 70 countries with a wide range of safe, high quality and effective prescription pharmaceuticals, non-prescription products and animal health products. Krka's product assortment primarily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

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 through 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 (medicinal products for the treatment of cardiovascular diseases, for the alimentary tract and metabolism, and for the central nervous system) while entering new therapeutic areas (oncology, antiviral medicines) and expanding the range of non-prescription products in the 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 through 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 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 acquisitions each year, and dividend growth.
- To be open to new high potential business connections (networking) on relevant projects.
- To strengthen the professional and cost synergy 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.

Foreign exchange risk is actively managed primarily using natural hedges, while derivatives are used to secure our exposure in the Russian roubles.

The rouble's value remained unstable in the first half of 2017; its euro value having appreciated by 7% over the first quarter, it dropped 11% in the second quarter. From the beginning of the year to the end of June, the rouble value in euros depreciated by 5% in total. As a result, the Krka Group's exposure in the roubles resulted in foreign exchange losses in the first half of 2017.

The rouble's volatility as expressed in euros has derived from oil price trends, the EUR/USD exchange rate, and the monetary policies of the FED and the European and Russian central bank. We monitored the changing conditions in all these

areas during the six months to June.

Krka hedged a part of its exposure in roubles with forward contracts in the first half-year, resulting in €10 million of net financial income in second quarter and €3 million of net financial expenses in whole first half of 2017. The negative result from forwards is due to the costs of hedging, associated with the considerable difference between interest rates in the Russian Federation and the EU.

Other currency movements in the first half-year were favourable for Krka. Predominantly due to the appreciation of the Polish zloty, we witnessed positive net exchange rate differences in other currencies.

The overall net financial result for the half-year – factoring in net foreign exchange losses, derivatives income and expenses, interest income and expenses, and other financial income and expenses – totalled €–13.3 million, which is comparable to the net financial result recorded in last year's six months to June.

Interest rate risk

The Krka Group had no long-term borrowings in the first half 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. The centralised credit control process at Group level includes all customers to whom Krka sells more than €100,000 worth of products and services per year. There were more than 400 such customers at the end of June 2017, representing more than 95% of the Group's trade receivables.

Receivables are dispersed among a large number of customers and sales markets, the majority owed by customers with whom Krka has had a long-standing business relationship.

Our credit risk management policy remained unchanged in the six months to June – 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 increased risks associated with the distribution of medicines.

Over a half of the Group's total trade receivables have credit insurance coverage, while only a minor segment were secured for payment using banking instruments.

Liquidity risk

Risks related to the Krka Group's liquidity in the six months to June were managed by effective short-term cash flow planning. Liquidity was ensured through continual cash flows, pre-agreed current borrowings from banks, and the daily, rolling weekly, monthly and longer-term planning and monitoring of cash inflows and outflows. By introducing cash pooling in certain subsidiaries, we have already

Our portfolio of trade receivables witnessed no negative trends in the first half of the year. The only exception are individual customers whose payment of obligations is running late; since these trade receivables are hedged and the relevant adjustments had been made for them in previous periods, we are not expecting negative effects on the Group's financial result in this respect.

decreased the amounts of cash in their bank accounts.

Liquidity risk is estimated to be low. The volume of current borrowings in the reported period was low. In the second quarter, some surplus cash was placed into short-term bank deposits. All our liabilities in the reported period were settled regularly and in the agreed time frames.

Property, liability and business interruption insurance

Striving to optimise insurance deals and after assessing tenders, Krka has entered into new insurance arrangements. Even with the value of insured assets increasing, the total insurance premium has decreased. All Group companies have insurance policies at the local level, which provides them with optimum property protection and protects them from claims for damages.

The controlling company took out liability insurance for the management staff again, and provided insurance coverage for investment projects. After having analysed car insurance in the Group, we terminated comprehensive insurance in selected countries.

Investor and share information

In the first half of 2017 the price of Krka's share increased by 4%. International investors increased their holdings, while Slovenian individual investors,

investment companies, funds and other Slovenian companies divested. At the end of June 2017, Krka had 52,906 shareholders.

Shareholder structure (holdings in %)

	30 Jun 2017	31 Dec 2016
Individual Slovenian investors	39.4	39.7
Slovenian Sovereign Holding	16.2	16.2
KAD fund and PPS	11.0	11.0
Slovenian companies and funds	7.8	8.1
International investors	23.9	23.5
Treasury shares	1.7	1.5
Total	100.0	100.0

In the first half of 2017 Krka repurchased 65,966 treasury shares worth a total of €3,503,040 (paid fees included). As at 30 June 2017 Krka held

559,096 treasury shares, which represents 1.705% of its share capital.

Krka's ten largest shareholders as at 30 June 2017

	Country	No. of shares	Share in equity (%)	Share of voting rights (%)
SLOVENSKI DRŽAVNI HOLDING, D. D.	Slovenia	5,312,070	16.20	16.48
KAPITALSKA DRUŽBA, D. D.	Slovenia	3,493,030	10.65	10.84
SPLITSKA BANKA D. D.	Croatia	2,320,476	7.08	7.20
ADDIKO BANK D. D.	Croatia	1,221,983	3.73	3.79
KDPW	Poland	466,456	1.42	1.45
LUKA KOPER, D. D.	Slovenia	433,970	1.32	1.35
CLEARSTREAM BANKING SA	Luxembourg	393,641	1.20	1.22
ZAVAROVALNICA TRIGLAV, D. D.	Slovenia	388,300	1.18	1.20
SMALLCAP WORLD FUND INC.	USA	335,262	1.02	1.04
THE BANK OF NEW YORK MELLON	USA	234,362	0.71	0.73
Total		14,599,550	44.52	45.29

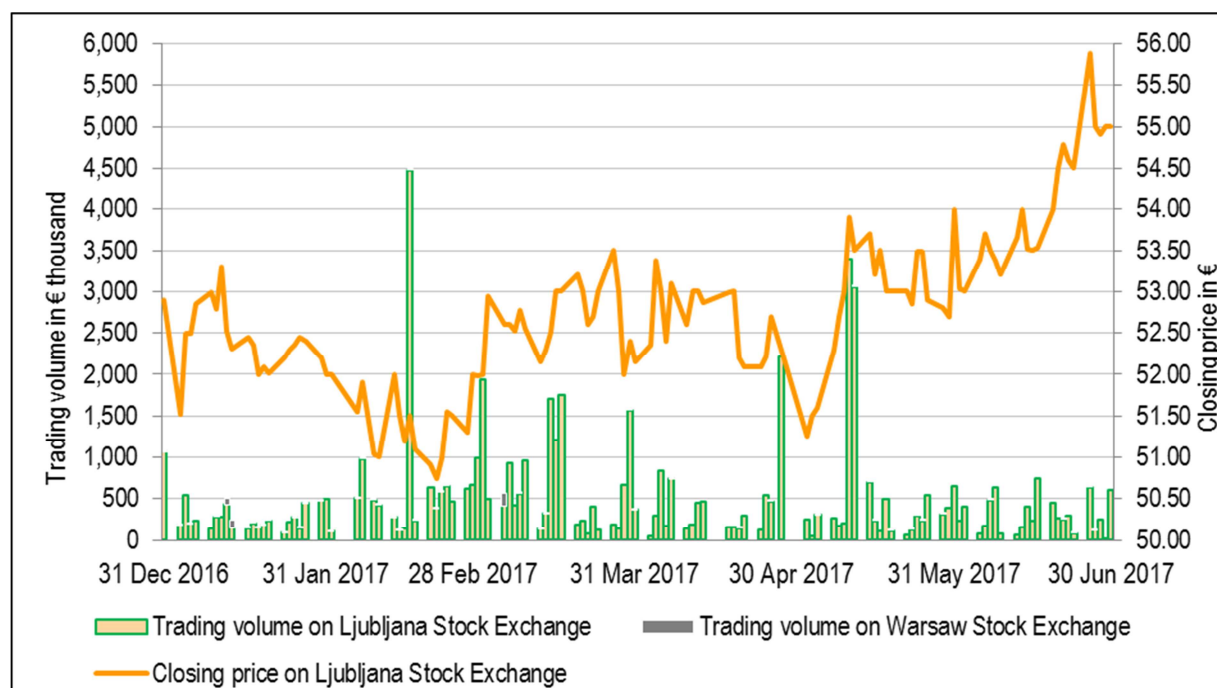
Krka's ten largest shareholders held 14,599,550 shares as at 30 June 2017, which is 44.52% of all issued shares.

As at the same day, members of the Krka Management Board and Supervisory Board held 39,170 Krka shares, which is the same as at the year-end of 2016.

Shares in equity and shares of voting rights held by members of the Krka Management Board and Supervisory Board as at 30 June 2017

	No. of shares	Share in equity (%)	Share of voting rights (%)
Management Board members			
Jože Colarič	22,500	0.0686	0.0698
David Bratož	0	0.0000	0.0000
Aleš Rotar	13,915	0.0424	0.0432
Vinko Zupančič	120	0.0004	0.0004
Milena Kastelic	505	0.0015	0.0016
Total Management Board	37,040	0.1129	0.1150
Supervisory Board members			
Julijana Kristl	230	0.0007	0.0007
Jože Mermal	0	0.0000	0.0000
Boris Žnidarič	0	0.0000	0.0000
Andrej Slapar	0	0.0000	0.0000
Simona Razvornik Škofič	0	0.0000	0.0000
Anja Strojín Štampar	0	0.0000	0.0000
Franc Šašek	1,400	0.0043	0.0043
Tomaž Sever	500	0.0015	0.0016
Mateja Vrečer	0	0.0000	0.0000
Total Supervisory Board	2,130	0.0065	0.0066

Share trading in the first half of 2017



In the first six months of 2017 Krka's share price on the Ljubljana Stock Exchange peaked at the end of June, when it stood at €55.88, and reached its low in February, when it traded at €50.75.

Krka's market capitalisation as at 30 June 2017 totalled €1.8 billion. Deals in Krka's share on the

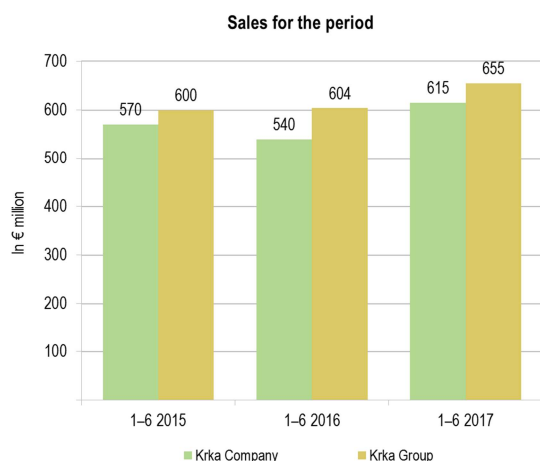
LJSE generated an average daily trading volume of €0.5 million in the first half of 2017. Krka was the most traded security on the Ljubljana Stock Exchange in the reported period.

Since April 2012 Krka's shares have also been listed on the Warsaw Stock Exchange.

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 8.5%. The Company sold €615.0 million worth of prescription pharmaceuticals, non-prescription

Expenses

Total Krka Group expenses amounted to €559.8 million, down 2% from the same period last year.

The Group incurred €536.1 million of operating expenses, a 4% year-on-year increase, among which the costs of goods sold were €269.4 million, selling and distribution expenses €164.4 million, R&D expenses €62.2 million, and general and administrative expenses €40.1 million.

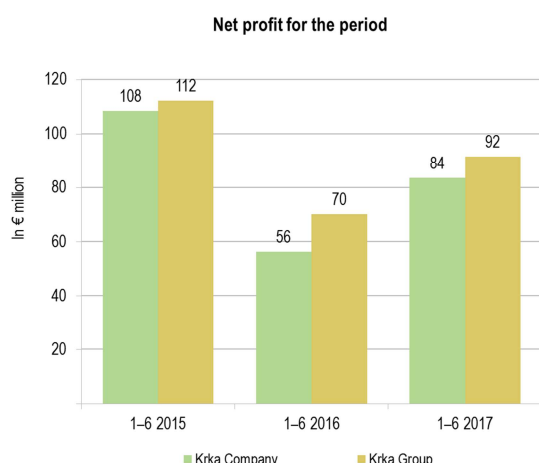
products and animal health products, while the Group generated €655.0 million of sales revenues from these products plus the health resort and tourist services. The Group generated 93% of its sales in markets outside Slovenia.

Taking into account other operating and financial income, the Group generated a total of €670.6 million of revenues, of which the Company generated €628.8 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.

The Group's costs of goods sold increased by 3% on a cost-to-sales ratio of 41.1%. Selling and distribution expenses increased by 6% on a cost-to-sales ratio of 25.1%. R&D expenses increased by 6% on a cost-to-sales ratio of 9.5%. 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 3% on a cost-to-sales ratio of 6.1%.

Operating result



The Krka Group recorded €124.1 million of operating profit, up 32% from the comparable period last year.

Group profit before tax amounted to €110.8 million, a 37% year-on-year increase. Income tax totalled €19.1 million, and the effective tax rate was 17.3%.

The Group recorded €91.7 million of net profit, an increase by 31% compared to the same period last year.

Assets

At the end of June 2017 Krka Group assets totalled €1,964.9 million, an increase by 3% compared to the year-end of 2016.

Non-current assets represent 52.8% of total assets, their proportion down 1.5 of a percentage point from the beginning of the year. The largest item under non-current assets, which together amounted to €1,037.0 million, was property, plant and equipment on €871.9 million, which is on the same level as at the end of 2016, and which represented 44.4% of

the Group's total assets. Intangible assets amounted to €111.9 million, down 1% from the end of 2016.

Current assets increased by 6% in the first half of 2017, to €927.9 million. In the same period inventories were up 7% to €300.8 million, and receivables decreased by 3% to €529.6 million (of which trade receivables amounted to €503.7 million, down 1% from the beginning of the year).

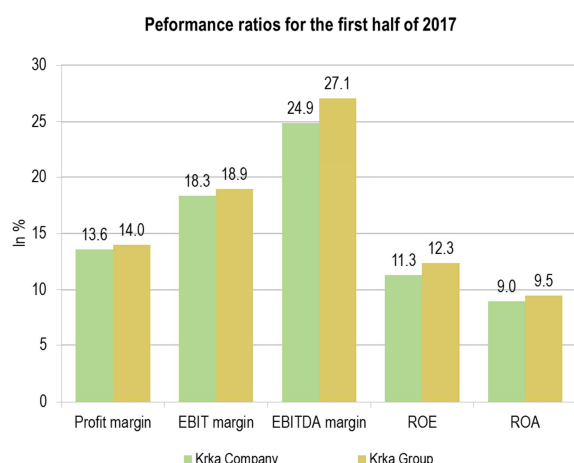
Equity and liabilities

Totalling €1,525.5 million, Krka Group equity increased by 6% compared to the end of 2016 and represents 77.6% of total equity and liabilities.

Amounting to €115.8 million, non-current liabilities represent 5.9% of the Group's total assets. Provisions, which amounted to €92.0 million at the end of the period, are up 1% from the year-end of 2016.

Current liabilities were down 8% from the end of 2016 and totalled €323.6 million, which is 16.5% of total assets. Among current liabilities, trade payables amounted to €128.4 million, which is comparable to the year-end of 2016, with other current liabilities down 19% to €180.5 million.

Performance ratios



All performance ratios for the first half of 2017 have improved compared to those for the same period in 2016.

The Krka Group profit margin for the six months to June 2017 was 14.0% (Krka Company 13.6%), its EBIT margin 18.9% (Krka Company 18.3%) and its EBITDA margin 27.1% (Krka Company 24.9%).

Annualised ROE at the level of the Group was 12.3% (Krka Company 11.3%), with annualised ROA at 9.5% (Krka Company 9.0%).

Marketing and sales

The Krka Group sold €655.0 million worth of products and services in the first half of 2017, up €51.2 million or 8.5% compared to the first half last year. Sales in markets outside Slovenia totalled

€612.1 million, which represents a solid 93% of the Group's total sales. Krka Company sales in the reported period totalled €615.0 million.

Sales by Region

The most sales, €214.0 million, which is 32.7% of total Group sales, were recorded in Region East Europe. Region Central Europe reported the second best result, sales there amounting to €154.4 million and representing 23.6% of total sales.

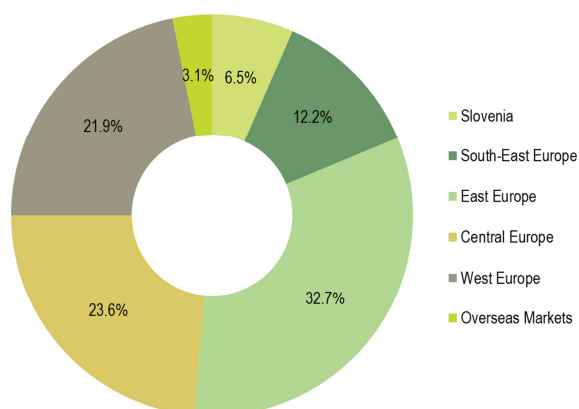
Europe product sales amounted to €79.8 million, which represents 12.2% of Krka Group sales. Sales in the domestic market totalled €43.0 million, which is 6.5% of Group sales, while in the Overseas Markets they amounted to €20.7 million, which is 3.1% of Group sales.

The third largest area in terms of sales was Region West Europe, where Krka sold €143.2 million worth of products in the reported period, which is 21.9% of overall Krka Group sales. In Region South-East

Sales increased in all sales regions apart from West Europe.

In € thousand	Krka Group			Krka Company		
	1-6/2017	1-6/2016	Index	1-6/2017	1-6/2016	Index
Slovenia	42,978	41,161	104	27,234	26,471	103
South-East Europe	79,797	76,799	104	79,093	78,890	100
East Europe	213,984	175,542	122	205,862	151,215	136
Central Europe	154,399	141,428	109	155,961	143,764	108
West Europe	143,233	150,412	95	128,445	122,679	105
Overseas Markets	20,655	18,461	112	18,415	16,639	111
Total	655,046	603,803	108	615,010	539,658	114

Krka Group sales by Region, January–June 2017



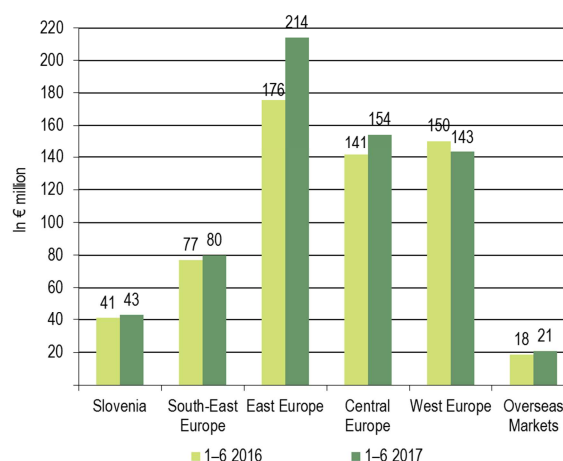
Slovenia

In the domestic and one of Krka's key markets, we sold €43.0 million worth of products and services. Product sales were up 4% compared the same period last year and totalled €25.3 million. With a 9.1% market share, Krka is the number one pharmaceuticals provider in the Slovene market. The bulk – €19.6 million – came from prescription pharmaceuticals, which witnessed a 2% year-on-year increase in sales. The second group was non-prescription products, the sales of which were up 7% and totalled €4.5 million. Animal health product sales totalled €1.2 million, an 18% year-on-year increase. Health resort and tourist service sales in the period were €16.5 million, up 7%.

The majority of Krka's best-selling products are prescription pharmaceuticals. Among them we are highlighting Prenessa (perindopril) and its combination with a diuretic Prenewel, Sorvasta (rosuvastatin), Doreta (tramadol and paracetamol), Nolpaza (pantoprazole), and Amlessa (perindopril and amlodipine) together with its combination with a diuretic Amlewel. The leading non-prescription products were Nalgesin S (naproxen), Daleron (paracetamol), Septolete and Septabene (benzylamine and cetylpyridinium). The best sales results in the group of veterinary products were recorded for Fypryst (fipronil), Grovit and Amatib (amoxicillin).

Marketing activities focused on products from Krka's leading therapeutic groups. As to pharmaceuticals treating cardiovascular diseases we are highlighting the blood-pressure control medications Prenessa

Krka Group sales by Region, January–June 2016 and 2017



(perindopril) and Amlessa (perindopril and amlodipine) together with their fixed-dose combinations with a diuretic Prenewel and Amlewel, and the cholesterol lowering medication Sorvasta (rosuvastatin) and its combination with amlodipine Rosmela. As to the group of pharmaceuticals for the central nervous system, focus was placed on the antidepressant Dulsevia (duloxetine), antipsychotic Aryzalera (aripiprazole) and analgesic Doreta (tramadol and paracetamol), particularly its prolonged-release form Doreta SR. As to medicinal products treating diseases of the alimentary tract and metabolism, we are highlighting the stomach acid control products Nolpaza (pantoprazole) and Emozul (esomeprazole), and the antidiabetic Glikladla (gliclazide), which was supplemented with tablets of a new strength. Our range of prescription pharmaceuticals was additionally supplemented with Linezolid Krka (linezolid) in the parenteral dosage form, and with the antiretroviral medicinal product Emtricitabine/Tenofovir disoproxil Krka (emtricitabine and tenofovir disoproxil). Marketing and sales of non-prescription products focused on the Nalgesin S brand (naproxen) and the new product **Magnezij Krka 300**, and as to animal health products on the products Ataxxa (permethrin and imidacloprid), Fypryst combo (fipronil and S-methoprene), Milprazon (milbemycin and praziquantel) and Dehinel (febantel, pyrantel embonate and praziquantel), including the new Dehinel tablets for cats (pyrantel embonate and praziquantel), marketed under the umbrella brand *From ears to tail (Od uhlja do repa)*.

South-East Europe

Sales in Region South-East Europe were €79.8 million, a 4% year-on-year increase. The bulk of sales value, i.e. 86%, came from prescription pharmaceuticals. The leading market in the Region is the key market Romania, while the main drivers of sales growth were Serbia, Croatia, Romania and Macedonia. The only market where sales were down was Bosnia and Herzegovina.

In **Romania** we sold €27.2 million worth of products, up 3%, ranking Krka the number two among a competition of predominantly foreign providers of generic pharmaceuticals in that market. The majority of sales came from prescription pharmaceuticals. Sales leader Atoris (atorvastatin) was followed by Prenessa (perindopril) and its combination with a diuretic Co-Prenessa, Roswera (rosuvastatin), Karbis (candesartan), Amlessa (perindopril and amlodipine) and its combination with a diuretic Co-Amlessa, and Enap (enalapril), including its combination with a diuretic. As to products available without prescription the best-seller was Bilobil (ginkgo), and special attention was devoted to marketing cold and flu products, especially Septotele omni (benzylamine and cetylpyridinium), Herbion and analgesics. In the group of animal health products, the sales leaders were products for the protection of companion animals from parasites, with Enroxil (enrofloxacin) and Floron (florfenicol) nevertheless preserving their considerable contributions.

In **Croatia**, Krka's second key market in the Region, we have preserved our position as the fourth-ranked provider of generic pharmaceuticals and the second-ranked animal health products provider. Sales totalled €15.7 million, up 13% compared to the same period last year. Sales growth was driven by all product groups but particularly prescription pharmaceuticals, among which we are highlighting the sales leaders Perineva (perindopril), its combinations Co-Perineva (perindopril and indapamide) and Dalneva (perindopril and amlodipine), Helax (alprazolam), Atoris (atorvastatin), Valsacor (valsartan) and its combination with a diuretic Valsacombi, and Roswera (rosuvastatin). 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 Fypryst (fipronil) and Enroxil (enrofloxacin).

Krka is the leading foreign supplier of medicines in the **Macedonian** market. Sales there totalled €9.3 million, up 9%, mainly driven by prescription pharmaceuticals, particularly Enap (enalapril) and its combination with a diuretic, Roswera (rosuvastatin), Lorista (losartan) and its combination with a diuretic, Tanyz (tamsulosin) and Atoris (atorvastatin). A treatment for dementia, Memando (memantine), was added to our product range in May. As to non-prescription products, the most sales were generated in Daleron (paracetamol), Bilobil (ginkgo) and B-Complex, and as for veterinary products, the sales leaders were Fypryst (fipronil) and Enroxil (enrofloxacin).

The value of sales in **Serbia** reached €8.0 million, up 31% compared to the same period last year. The sales drivers were prescription pharmaceuticals, particularly Nolpaza (pantoprazole), Roxera (rosuvastatin), Valsacor (valsartan) and its combination with a diuretic Valsacombi, Atoris (atorvastatin), and Ampril (ramipril), including its combination with a diuretic. The best-selling products available without prescription were Bilobil (ginkgo) and Nalgesin (naproxen). The best sales results in the group of veterinary products were recorded for Fypryst (fipronil) and Enroxil (enrofloxacin).

Sales in **Bosnia and Herzegovina** totalled €6.8 million, down 31% compared to the same period last year. Krka's most important prescription pharmaceuticals were Enap (enalapril) and its combination with a diuretic, Roswera (rosuvastatin), and Lorista (losartan), including its combination with a diuretic. The leading non-prescription products were B-Complex and Septotele.

Sales in **Bulgaria** increased by 7% to €6.7 million. A major share of sales were generated in prescription pharmaceuticals, among them Valsacor (valsartan) and its combination with a diuretic Co-Valsacor (valsartan and hydrochlorothiazide), Lorista (losartan), including the combination with a diuretic, and Roswera (rosuvastatin). Products that witnessed the fastest sales growth were Amlessa (perindopril and amlodipine), including its combination with a diuretic, Nolpaza (pantoprazole), and Tolura (telmisartan) together with its combination with a diuretic Tolucombi. Sales were also successful for non-prescription products.

Six-month sales in **Kosovo**, where Krka has remained one of the leading suppliers of pharmaceuticals, totalled €3.3 million, up 2% compared to the same period last year. The majority came from prescription pharmaceuticals, especially Lorista (losartan) and Enap (enalapril), both also in combination with a diuretic. The best-selling products available without prescription were Daleron (paracetamol) and Septolete. Sales in **Albania** totalled €2.1 million, a 13% year-on-year increase;

East Europe

In Region East Europe we maintained the growth dynamics from the first quarter so that sales to June totalled €214.0 million, a 22% year-on-year increase. The key factor driving the overall sales result was sales growth in the Region's largest individual market, the Russian Federation, followed by the majority of the Region's remaining 12 markets of Eastern Europe and Central Asia.

Sales in the key market the **Russian Federation** totalled €156.4 million, up 27% year-on-year. According to the independent source QuintilesIMS, Krka has been maintaining its above average sales dynamics and strengthening its market share.

The majority of sales came from prescription pharmaceuticals, which is also the group with the most best-selling products. The sales leader Lorista (losartan) and its combination with a diuretic are followed by Enap (enalapril) and Perineva (perindopril), both also in combination with a diuretic, Atoris (atorvastatin), Nolpaza (pantoprazole), Orsoten (orlistat), Valsacor (valsartan), including its combination with a diuretic, Zyllt (clopidogrel), Herbion and Roxera (rosuvastatin). Among these, the highest sales growth rates were recorded for Lorista, Orsoten, Perineva and Herbion. Newer products are becoming increasingly important, among them Vamloset (valsartan and amlodipine), Dalneva (perindopril and amlodipine), Lortenza (losartan and amlodipine), Dilaxa (celecoxib), Bravadin (ivabradine), Vizarsin (sildenafil), Ulcavis (bismuth subcitrate), Septolete total (benzylamine and cetylpyridinium), Septanazol (xylometazoline and dexpanthenol), as well as the recently launched prescription pharmaceutical Telmista (telmisartan) and the non-prescription product Flebaven (diosmin and hisperidin). Animal health product sales also increased, the best-selling item being Enroxil (enrofloxacin).

the key sales drivers were prescription pharmaceuticals the sales of which were up 18%; the sales leaders were Lorista (losartan) and Enap (enalapril), both also in combination with a diuretic. The best sales results among non-prescription products were recorded for Daleron (paracetamol) and B-Complex. Sales the Region's smallest market, **Montenegro**, totalled €0.6 million, up 11%. The bulk came from prescription pharmaceuticals.

A key advantage for our operations in the Russian Federation is the status of a domestic producer. The proportion of products manufactured locally in the Krka Rus plant exceeded 60% in the first half of the year.

Market stabilisation and growth had a favourable effect on our operations in **Ukraine**. We sold €19.5 million worth of products there, up 6%, which is more than the average growth of pharmaceutical sales in that market. Krka – the second-ranked foreign provider of generic pharmaceuticals in Ukraine – thus further strengthened its market share. The key contribution came from prescription pharmaceuticals, particularly Enap (enalapril), Prenessa (perindopril), both also in combination with a diuretic, and Dexamethason (dexamethasone). The leading non-prescription products were Herbion and Panzynom.

After the business environment in **Kazakhstan** had settled down, Krka sold €8.7 million worth of products there in the six months to June, up 28%. The most important group of products was prescription pharmaceuticals, among which the sales leaders were Enap (enalapril) and its combination with a diuretic, Zyllt (clopidogrel) and Valodip (valsartan and amlodipine). The best-selling non-prescription products were Herbion and Duovit. Our product range was supplemented with a medicinal product stabilising blood pressure, Tenlisa (lisinopril and amlodipine), and a pharmaceutical lowering stomach acid levels, Zulfex (rabeprazole).

In **Uzbekistan** – where we faced the population's decreasing purchasing power, the government supporting local pharmaceutical companies, and pressures to reduce prices – the key challenge has remained the customers' access to convertible currencies. Sales totalled €7.2 million, down 6% compared to the first half of last year. The majority came from prescription pharmaceuticals, especially

Lorista (losartan), Amlessa (perindopril and amlodipine) and Enap (enalapril), all also in combination with a diuretic. The sales of non-prescription products, the leaders among which were Pikovit and Septotele, were down.

Krka remains the second-ranked foreign generic pharmaceutical company in **Belarus**. In the six months to June, sales there were down 2% compared to the same period last year. Sales in the total amount of €5.1 million were mainly driven by prescription pharmaceuticals, particularly Lorista (losartan) and Amlessa (perindopril and amlodipine), both together with the combination with a diuretic, and Nolpaza (pantoprazole). The leading non-prescription products were Septotele and Herbion. We are highlighting the successful sales of the newly launched products Alventa (venlafaxine) and Asentra (sertraline), and of Septotele Total (benzylamine and cetylpyridinium) and Nalgesin (naproxen).

In **Moldova** sales were up 22% to €3.7 million. The bulk came from prescription pharmaceuticals, among which the sales leaders were Ampril (ramipril) and Rawel (indapamide), and the best-selling non-prescription products were Herbion and Nalgesin (naproxen).

With sales value in **Mongolia** reaching €3.1 million, up 21%, Krka remains the leading foreign producer of pharmaceuticals there. The highest sales growth, 44%, was recorded for products available without prescription, particularly Duovit.

Central Europe

In the markets of Region Central Europe, consisting of the Visegrad countries and the Baltic countries Lithuania, Latvia and Estonia, we sold €154.4 million worth of products, up 9% compared to the same period last year. The majority, 90% of sales came from prescription pharmaceuticals. Sales growth was recorded in all markets of the Region, apart from Slovakia.

Sales in **Poland**, Krka's key and largest market in the Region, were up 1% to €73.1 million. As planned, the bulk of sales were generated in prescription pharmaceuticals; the sales leaders were Atoris (atorvastatin), Roswera (rosuvastatin), Valsacor (valsartan), including in combination with a diuretic, and Doreta (tramadol and paracetamol), followed by Tolura (telmisartan) and Lorista (losartan), both also in combination with a diuretic,

Despite our customers having difficulty accessing convertible currencies in **Turkmenistan**, product sales there totalled €2.5 million, up 4% compared to the same period last year. The product group witnessing the fastest growth was prescription pharmaceuticals, among which the sales leaders were Naklofen (diclofenac), Efloran (metronidazole) and Nolpaza (pantoprazole). After the implementation of the price regulation act last year, the situation in **Azerbaijan** has settled down; Krka is a leading provider of pharmaceuticals there, having generated €2.3 million of sales in the six months. The overall 26% sales growth was mainly driven by prescription pharmaceuticals (27% growth), followed by non-prescription products (13% growth). Sales in **Kyrgyzstan** totalled €1.8 million, up 5% year-on-year, chiefly driven by the 32% sales growth for non-prescription products, among which the sales leaders were Herbion, Pikovit and Septotele. In **Georgia**, where we are the second-ranked foreign provider of generic pharmaceuticals, product sales totalled €1.7 million, a 14% year-on-year increase. The leading group of products in terms of sales was prescription pharmaceuticals, the main sales drivers among which were Enap (enalapril), including the combination with diuretic, Lorista (losartan), including the combination with a diuretic, and Nolpaza (pantoprazole). In **Armenia** sales amounted to €1.5 million, up 44% compared to the same period last year. Sales also increased in **Tajikistan**, the smallest market in the Region, where we sold €0.6 million worth of medicinal products.

Nolpaza (pantoprazole), and Karbis (candesartan) together with its combination with a diuretic. Amid stringent trading conditions, non-prescription product sales were down 36% compared to last year's six months to June. The leading non-prescription products in terms of sales were Septotele and Bilobil (ginkgo), while in the group of animal health products the best-sellers were Fypryst (fipronil) and Floron (florfenicol).

In **Hungary**, the second largest market in the Region and another key market, sales were up 3% to €23.0 million. As to prescription pharmaceuticals, which are the leading product group in terms of sales, the leader Prenessa (perindopril) and its combination with a diuretic were followed by Atoris (atorvastatin), Roxera (rosuvastatin), Dalnessa (perindopril and amlodipine) and its combination

with a diuretic Co-Dalnessa, Zyllt (clopidogrel), Lavestra (losartan) and its combination with a diuretic, and Emozul (esomeprazole). As to products available without prescription, the best sales results were recorded for Septotele, and as to veterinary products, for Fypryst (fipronil) and Enroxilom (enrofloxacin).

In the **Czech Republic**, Krka's third key market in the Region, product sales totalled €22.0 million, sales growth there being the highest in the Region (77%). Krka has thus remained one of the leading providers of generic pharmaceuticals in the market. The bulk of sales were generated in prescription pharmaceuticals, particularly Lexaurin (bromazepam), Atoris (atorvastatin), and Tonarssa (perindopril and amlodipine) together with its combination with a diuretic Tonanda. Good results were also recorded for Prenessa (perindopril), Tolura (telmisartan) and Valsacor (valsartan), all also in combination with a diuretic, and Nolpaza (pantoprazole). The leading non-prescription products in terms of sales were Nalgesin (naproxen), Bisacodyl-K (bisacodyl) and Septotele, while in the group of animal health products the best-sellers were Fypryst (fipronil) and Dehinel (febantel, pyrantel embonate and praziquantel).

Six-month sales in **Slovakia** decreased by 3% compared to the same period last year, amounting to €17.5 million. The main sales drivers were prescription pharmaceuticals, particularly Prenessa (perindopril), Amlessa (perindopril and amlodipine) and Valsacor (valsartan), all also in combination with a diuretic, followed by Atoris (atorvastatin), Nolpaza (pantoprazole) and Lexaurin (bromazepam). The best-selling non-prescription product was Nalgesin (naproxen). As to veterinary

West Europe

Six-month sales in the markets of Region West Europe, all of them considered Krka's key markets, totalled €143.2 million, down 5% year-on-year, whereby second quarter sales exceeded those of last year. The leading market in terms of sales has remained Germany, followed by France and Spain. Sales via unaffiliated companies decreased by 7% compared to the same period last year and represent a little over one third of total sales in the Region. A slight decrease was also reported in terms of the sales of products under our own brands via Krka subsidiaries, which nevertheless generated the majority of our sales in West Europe.

products, the sales results were the best for Enroxil (enrofloxacin) and Fypryst (fipronil).

In **Lithuania** product sales were €8.7 million, up 8%. The main sales drivers were prescription pharmaceuticals, particularly Valsacor (valsartan) and its combination with a diuretic, Atoris (atorvastatin), and Prenessa (perindopril) and Amlessa (perindopril and amlodipine), both also in combination with a diuretic. The leading non-prescription products in terms of sales were Septotele and Nalgesin (naproxen), and in the group of animal health products, Fypryst (fipronil) and Enroxil (enrofloxacin).

Sales in **Latvia** were up 25% to €6.6 million. The leading products in the best-selling group, prescription pharmaceuticals, were Amlessa (perindopril and amlodipine) and its combination with a diuretic, Atoris (atorvastatin), Prenessa (perindopril) and its combination with a diuretic, and the newly launched medicinal product for the treatment of HIV infections Emtricitabine/Tenofovir disoproxil Krka (emtricitabine and tenofovir disoproxil). The leading non-prescription products in terms of sales were Septotele and Septanazal (xylometazoline and dexpanthenol), and in the group of animal health products, Fypryst (fipronil) and Enroxil (enrofloxacin).

Sales in **Estonia** increased by 8% to €3.5 million, the leading group being prescription pharmaceuticals and among them the best-sellers Prenessa (perindopril) and Dalnessa (perindopril and amlodipine), both also in combination with a diuretic. The best-selling non-prescription product has remained Septotele, and in the group of animal health products the best seller was Fypryst (fipronil).

The bulk of sales in the Region, 90%, came from prescription pharmaceuticals, among them products with esomeprazole, pregabalin and pantoprazole. Lower animal health product sales were chiefly due to the decrease in sales by unaffiliated companies.

Sales in **Germany**, the Region's most important market, were €44.0 million, down 12% year-on-year. More than 90% of sales in this market were generated by the subsidiary TAD Pharma, which recorded a 3% decrease in sales. The leading product group were prescription pharmaceuticals, among which the bulk of sales came from pharmaceuticals treating cardiovascular diseases,

the alimentary tract and metabolism, and the central nervous system. The most sales were generated in medications containing pantoprazole, pregabalin and valsartan. Important sales contributions were also made by medications containing fixed-dose combinations of losartan, bisoprolol and ramipril with amlodipine, and lercanidipine with enalapril, which have ranked us among the leading providers of fixed-dose combinations for the treatment of cardiovascular diseases in Germany.

Product sales in **France** totalled €20.3 million, up 11% compared to the same period last year. The increase was chiefly driven by pharmaceuticals with esomeprazole. Increased sales of prescription pharmaceuticals successfully offset the lower sales of animal health products.

Sales in **Spain** amounted to €16.1 million, down 19% year-on-year, attributable to the expiry of certain public tenders in Andalusia. We have continued accelerating sales of products under our own brands, their share now representing 87% of sales.

Six-month sales in the **Scandinavian countries** exceeded last year's in the same period by 1%, totalling €13.6 million. The leading market, Sweden, is followed by Norway and Denmark. The highest growth, of 33%, was recorded in Norway, where Krka is the leading provider of medicinal products with esomeprazole, candesartan, venlafaxine and enalapril. Sales in Finland increased by 31%. The subsidiary Krka Finland generated 71% of sales in this market, its best-selling product being

Overseas Markets

Six-month sales in the Overseas Markets totalled €20.7 million, up 12% compared to the same period last year. Sales growth was driven by all three sales offices in the Region. The majority came from prescription pharmaceuticals, which are sold under our own brands in most of the Region's markets.

Due to extreme circumstances in the **Middle East**, trading in this area has remained difficult. Nevertheless, our sales there were up 16% to €10.7 million. The most important markets remain Iran, Iraq and Lebanon, and the best-selling products Asentra (sertraline), Nolpaza (pantoprazole), Letizen (cetirizine), Vizarsin (sildenafil) and Emanera (esomeprazole).

Septabene (benzylamine and cetylpyridinium), a product available without prescription.

Sales in **Italy** amounted to €12.4 million, up 11% compared to the same period last year. Sales via the subsidiary Krka Farmaceutici increased by 25% and represented 60% of Krka's sales in that market. The best sales results were reported for medicinal products with esomeprazole, pantoprazole and clopidogrel.

Sales in **Portugal** amounted to €10.8 million, up 11%, chiefly driven by medications containing perindopril and esomeprazole. After the major price pressures we were facing in the **UK** in the past had settled down, sales there totalled €9.1 million for the period, a 15% year-on-year decrease. One of the highest growth rates in the Region was recorded in **Ireland**, where we sold €4.7 million worth of products, a 21% year-on-year increase. The subsidiary Krka Pharma Dublin increased sales by 29%.

In the **Benelux** countries sales totalled €4.0 million, down 22%, with sales via the subsidiary Krka Belgium having increased by almost a third. The 16% sales increase in **Austria** was chiefly driven by sales via the Vienna-based subsidiary Krka Pharma, which were up by a quarter; sales totalled €3.7 million in the reported period. In **other European countries**, where our products are primarily sold via unaffiliated companies, sales for the period totalled €4.7 million, down 11% compared the same period last year.

In the markets of the **Far East and Africa** sales amounted to €9.5 million, up 8% compared to the same period last year. The most sales were generated in the Republic of South Africa, Vietnam, Malaysia, China, Singapore and Ghana. Our most important products were Lanzul (lansoprazole), Palprostes (*Serenoa repens*), Enap (enalapril) and its combination with a diuretic, Tenox (amlodipine) and Atoris (atorvastatin).

The sales office the **Americas** is the smallest in the Region. Sales amounted to €0.5 million, up 6%, mainly generated in the markets of Central America. The sales leaders were prescription pharmaceuticals, particularly Valsacor (valsartan) and its combination with a diuretic, Atoris (atorvastatin) and Nolpaza (pantoprazole).

Sales by product and service groups

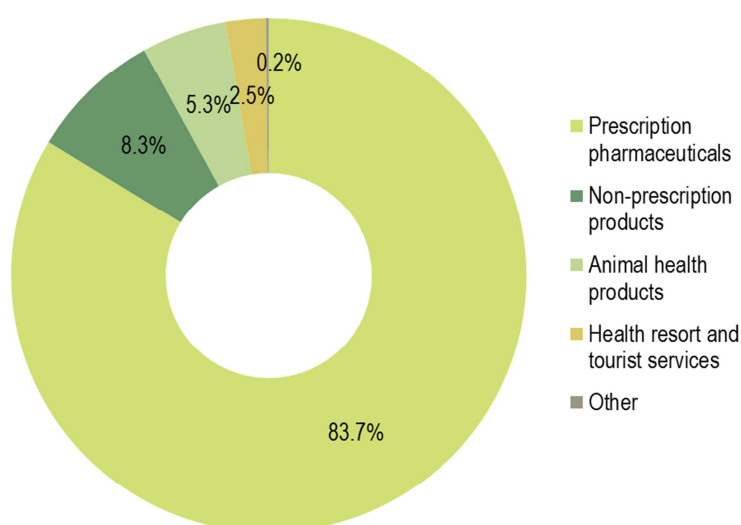
The Krka Group generated 92.0% of overall sales during the six months to June 2017 in human health products, making this Krka's most important product group. The most sales, i.e. 83.7%, were generated in prescription pharmaceuticals, followed by non-prescription products and animal health products.

Health resort and tourist service sales increased by 7% compared to the same period last year, and represented 2.5% of overall Krka Group sales.

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

In € thousand	Krka Group			Krka Company		
	1-6/2017	1-6/2016	Index	1-6/2017	1-6/2016	Index
Human health products	602,411	549,708	110	578,453	500,915	115
– Prescription pharmaceuticals	548,184	499,400	110	526,562	457,609	115
– Non-prescription products	54,227	50,308	108	51,891	43,306	120
Animal health products	34,987	37,335	94	34,654	36,690	94
Health resort and tourist services	16,536	15,425	107			
Other	1,112	1,335	83	1,903	2,053	93
Total	655,046	603,803	108	615,010	539,658	114

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



Prescription pharmaceuticals

The Krka Group sold €548.2 million worth of prescription pharmaceuticals in the reported period, 10% more than in the same period last year. Sales increased in regions East Europe (by 21%), Central Europe (by 11%), South-East Europe (by 5%), Slovenia (by 2%) and Overseas Markets (by 11%),

while in Region West Europe they decreased (by less than 1%).

As to the largest markets, sales increased in the Russian Federation (by 26%) and Poland (by 3%), while decreasing (by 3%) in Germany. With respect to other large markets, year-on-year sales of

prescription pharmaceuticals were up the most in the Czech Republic, where they almost doubled, in France (up 20%), Ukraine (up 10%), Romania (up 5%), Hungary (up 3%) and Slovenia (up 2%).

With respect to mid-size markets, the highest sales growth rates were recorded in Serbia (up 38%), Kazakhstan (up 20%), Croatia (up 13%), Macedonia (up 10%) and Italy (up 9%).

Among smaller markets for Krka's prescription pharmaceuticals in terms of sales, the highest growth rates were recorded in Tajikistan (up 46%), Armenia (up 41%), Azerbaijan (up 27%), Latvia (up 26%), Finland (up 24%) and Ireland (up 23%). Double-digit increases in sales were also recorded in Austria, Albania, Moldova, Turkmenistan and Mongolia.

We have been strengthening our position in the markets of Western Europe via Krka's subsidiaries, their sales results increasing, the most in Ireland (by 31%), Finland (by 27%), Italy (by 26%), Austria (by 26%) and Portugal (by 7%).

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

In the first half-year of 2017 we entered a new therapeutic area, the treatment of HIV infections, with the combination Emtricitabine/Tenofovir disoproxil Krka (emtricitabine and tenofovir disoproxil). It was launched in Slovenia and Latvia. There were other brand new products that we launched in the reported period:

- the combination Ramidipin* (ramipril and amlodipine) for the treatment of high blood pressure, in Germany;
- Abrea* (acetylsalicylic acid) for the prevention of cardiovascular complications, in Romania, Poland, Hungary, Portugal, Estonia, Bulgaria and Ireland;
- the antidiabetic Gliclada* (gliclazide) in the new dosage of 90 mg, in Slovenia, Poland, Slovakia, Croatia, Lithuania and Latvia.

We also launched several existing products on new markets:

- Prenessa* (perindopril) in Uzbekistan;
- Co-Amlessa* (perindopril, amlodipine and indapamide) in Macedonia, Bosnia and Herzegovina, Armenia and Turkmenistan;
- Enacandin* (enalapril and lercanidipine) in Germany and Norway;
- 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;
- Bixebro (ivabradine) in Slovenia, Romania, Latvia, Estonia, the Czech Republic and Slovakia;
- Sobyacor (bisoprolol) in Lithuania;
- Ulcamed (bismuth) in Poland, Romania and Croatia;
- Emanera* (esomeprazole) in Turkmenistan and Montenegro;
- Zulfex (rabeprazole) in Kazakhstan;
- Pragiola* (pregabalin) in Serbia, Macedonia and Kosovo;
- Memando* (memantine) in Macedonia and Azerbaijan;
- linezolid in Bulgaria, the Czech Republic and Italy;
- dexamethasone in the form of tablets in two strengths (4 Mg and 20 mg) in Croatia, Poland, the Czech Republic, Portugal, Slovakia, Spain and Bulgaria;
- capecitabine and letrozole in Azerbaijan;
- imatinib in Ireland, Sweden, Portugal, Ukraine and Austria.

Non-prescription products

We sold €54.2 million worth of non-prescription products in the six months to June, an increase by 8% compared to the same period last year.

Sales increased in regions East Europe (by 24%) and Slovenia (by 7%) while decreasing in regions Central Europe, South-East Europe and West Europe. 55% of Krka's non-prescription product sales are generated in East Europe, where the largest market is the Russian Federation, sales there up 32%. Sales also increased in the other markets of Region East Europe, if we only highlight Kazakhstan (by 66%) and Ukraine (by 10%) among the large ones.

Animal health products

Six-month sales of veterinary products totalled €35.0 million, a 6% year-on-year decrease.

Sales increased in regions East Europe (by 26%), Slovenia (by 18%) and Central Europe (by 15%). Due to restructuring product sales in Region West Europe sales there fell behind last year's for the same period by a little over 30%.

As to individual markets, the highest sales growth was reported in the Russian Federation (39%), the Czech Republic (35%), Hungary (24%) and Poland (9%).

Health resort and tourist services

In the first half of 2017 the Terme Krka Group generated €16.5 million of sales, up 7% compared to the same period last year. They recorded 6% more bed nights, with bed nights by foreign guests up 16%.

Sales growth was recorded in the major markets of other regions as well, including Croatia (23%), Serbia (15%), Macedonia (up 2%), Lithuania (14%) and Latvia (16%).

The sales of leading products were up, particularly of Herbion*, Septotele* and Nalgesin*. The sales of the Septotele brand have been increasing primarily due to the continued successful sales of the recently launched contemporary product Septotele total*.

The top five sales leaders among products are Fypryst* (fipronil), Milprazon* (milbemycin oxime and praziquantel), Floron* (florfenicol), Enroxil* (enrofloxacin) and Ecocid S (biocide – disinfectant).

Two new products were launched this year: Otoxolan* ear drops for dogs (marbofloxacin, clotrimazole and dexamethasone acetate) and Dehinel tablets for cats (pyrantel embonate and praziquantel).

As to business units, the most sales were generated by Talaso Strunjan, where sales were up 5%, followed by the Dolenjske Toplice resort, where sales increased by 8%, and the Šmarješke Toplice resort with a 10% increase in sales; Otočec Hotels reported the same sales growth rate.

* Products marked with the asterisk are marketed under different brand names in individual markets.

Research and development

In the six months of 2017 we obtained marketing authorisations for nine new products in 17 dosage forms and strengths, and acquired 272 new

Prescription pharmaceuticals

We obtained marketing authorisations for five new prescription pharmaceuticals in 12 pharmaceutical dosage forms and strengths.

Marketing authorisations were acquired under decentralised procedures for two new medicinal 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 the erectile function in men. Both active substances are selective phosphodiesterase type 5 (PDE5) inhibitors with a fast mechanism of action. Both are highly effective as soon as after the first dosage, they extend the duration of the erection and are reliable, their efficacy preserved 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. Except in diabetics and patients with cardiovascular diseases, tadalafil in smaller doses may also be used to treat benign prostatic hyperplasia. Both medicinal products are vertically integrated, meaning that we control the processes of preparation and evaluation of incoming materials and the finished product. Vardenafil, tadalafil and sildenafil in different pharmaceutical forms and strengths constitute Krka's range of medications for the treatment of erectile dysfunction.

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 when opioid therapy is required.

Applying the decentralised procedure we obtained a marketing authorisation for **Dulsevia/Duloxalta** (duloxetine) gastro-resistant capsules in the new

marketing approvals for 75 products in different markets.

strength of 90 mg. It is an antidepressant from the group of combined serotonin and noradrenaline reuptake inhibitors, used to treat depression, generalised anxiety disorder and neuropathic pain in diabetes. A new strength was added to the existing ones (30 mg and 60 mg), facilitating a one-tablet-a-day dosing even in cases when higher dosages are needed. This has made treatment easier for patients.

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. This is a wide-spectrum antipsychotic used to treat different psychiatric disorders (schizophrenia, bipolar disorder and major depression). Prolonged-release tablets, now available in four strengths, are taken as a single daily dose, thus simplifying treatment.

Marketing opportunities were expanded in European markets with new approvals obtained for pharmaceuticals from Krka's key group of medicinal products treating cardiovascular diseases. Under the decentralised procedure we obtained marketing authorisations for the fixed-dose combination **Teldipin/Telassmo** (telmisartan and amlodipine) in the form of tablets in four strengths (40 mg/5 mg, 40 mg/10 mg, 80 mg/5 mg and 80 mg/10 mg) and Krka was the first, in addition to the originator, to have entered the Polish market with it. We were granted marketing authorisations under decentralised procedures for the combination of **ramipril and amlodipine** in the form of hard capsules in four strengths, and for **Bloxazoc** (metoprolol succinate) prolonged-release tablets in four strengths. We expanded marketing opportunities for **Olimestra** (olmesartan) film-coated tablets in three strengths, and for the fixed-dose combination **Co-Olimestra** (olmesartan and hydrochlorothiazide) in the form of film-coated tablets in four strengths.

Applying the European centralised procedure we obtained approvals to market the HIV treatment combination Emtricitabine/Tenofovir disoproxil Krka (emtricitabine and tenofovir disoproxil) in the form of film-coated tablets in the strength of 200 mg/245 mg.

New marketing authorisations were obtained in different Eastern European countries for pharmaceuticals treating cardiovascular diseases – the fixed-dose combinations **Telmista H40**, **Telmista H80**, **Telmista HD80** (telmisartan and hydrochlorothiazide) and **Roxera** (rosuvastatin and amlodipine) –, for pharmaceuticals treating the central nervous system – **Pregabio** (pregabalin), **Maruxa** (memantine), **Duloxenta** (duloxetine) and **Opryme SR** (pramipexole) –, for antibiotics – **Moflaxa** (moxifloxacin) tablets and solution for injection, **Betaklav** (amoxicillin and clavulanic acid), **Levaxelo** (levofloxacin) and **Furocef** (cephuroxime) –, for the HIV treatment Emtricitabine/Tenofovir disoproxil Krka (emtricitabine and tenofovir disoproxil), and for oncology medicinal products **Ecansia** (capecitabine) and **Docetaxel Krka**.

Non-prescription products

We launched two new non-prescription products in three pharmaceutical dosage forms and strengths.

Magnezij Krka 300 granulate for the preparation of a beverage contains magnesium in the form of citrate, and vitamin B2. Both ingredients contribute to decreasing fatigue and exhaustion and support a normal functioning of the nervous system, with magnesium in the form of magnesium citrate also contributing to muscle action. The product is a food supplement, prepared without preservatives, artificial colours, flavours and sweeteners. It was launched as a food supplement in Slovenia and the markets of East Europe.

Under the European decentralised procedure we obtained first marketing authorisations in 12 European countries for the new product **Flebaven/Flebazol/Fladios** (diosmin) in the form of 500 mg film-coated tablets and 100 mg tablets. Both forms contain micronized diosmin of pharmacopoeia quality and are intended for the treatment of symptoms of chronic venous insufficiency in adults – showing as the feeling of heavy legs, leg pain and night leg cramps – and for the symptomatic

We obtained additional marketing authorisations in the markets of South-Eastern Europe for products from our key therapeutic groups. New marketing authorisations were obtained for the cardiovascular product **Co-Amlessa** (perindopril, amlodipine and indapamide) in the form of tablets, for two medications for diseases of the central nervous system – **Kventiax SR** (quetiapine) prolonged-release tablets in four strengths and **Pragiola** (pregabalin) hard capsules – and for a medication decreasing high blood sugar levels, **Gliclada SR** (gliclazide) in the form of prolonged-release tablets in the strength of 90 mg.

In the overseas markets we expanded marketing authorisations in different countries for a variety of products containing the well-established active substances solifenacin, desloratadine, aripiprazole, ezetimibe, linezolid, gliclazide, esomeprazole, memantine, pregabalin and rabeprazole. The most products received marketing approvals in Hong Kong and Lebanon.

treatment of deteriorated haemorrhoid-related problems in adults.

New marketing approvals have expanded marketing opportunities for **Septolete total/Septabene** lozenges (benzylamine hydrochloride and cetylpyridinium chloride). 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 marketing authorisations for it in the Czech Republic, Ireland and Germany. We acquired new marketing approvals for **Septolete total** lozenges in Montenegro and for the spray in Montenegro and Azerbaijan.

Additional marketing authorisations were obtained for **Ulcavis** (bismuth) 120 mg film-coated tablets in Ukraine, Armenia, Uzbekistan and Kazakhstan, and for **Flebaven** 450 mg/50 mg film-coated tablets (diosmin and flavonoids expressed as hesperidin) in Kazakhstan.

In the overseas markets marketing opportunities were expanded for products of the Septolete and Pikovit brands.

Animal health products

In the first half of 2017 we obtained approvals to market two new veterinary products.

Applying the European decentralised procedure, Krka obtained marketing authorisations in 22 European countries for the new 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.

Our range of products for the treatment of food-producing animals was supplemented with the approval for marketing granted for the new product **Toltarox** (toltrazuril) in the form of oral suspension in Kazakhstan. It treats coccidia infestations in different types of poultry, and is added to drinking water.

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 a marketing approval for the **Floron** (florfenicol) solution for injection, used to treat respiratory infections in pigs and cattle. In Moldova and Ukraine we obtained marketing authorisations for the **Doxatib** (doxycycline) powder

Investments

In the first half of 2017 the Krka Group allocated €52.6 million to investments, of which the controlling company invested €44.3 million and subsidiaries €8.3 million. Investments have primarily increased and modernised our production and R&D capacities.

Krka Group investments for the full year 2017 are expected to amount to just over €120 million, which is less than planned and less than last year. The estimated amount to actually be spent is lower than originally planned due to the good prices negotiated with contractors and equipment suppliers. This amount does not include potential takeovers.

Krka's key investment to support development activities and quality assurance in the following

to be administered in drinking water, a first-choice medicinal product for the treatment of respiratory tract infections in pigs and chickens.

We also entered new markets with products for companion animals. Under the European decentralised procedure we extended marketing authorisations for **Milprazon/Milquantel** (milbemycin oxime and praziquantel) flavoured tablets for dogs and film-coated flavoured tablets for cats to six European countries. The product prevents heartworms, and prevents and treats gastrointestinal parasites in cats and dogs.

In Kazakhstan and Macedonia we obtained approvals to market **Otoxolan** ear drops for dogs (marbofloxacin, clotrimazole and dexamethasone acetate) in the form of suspension. The new fixed-dose combination is used to treat outer ear bacterial and yeast infections 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. In the overseas markets we expanded the marketing authorisation for the fixed-dose combination **Dehinel Plus Flavour** (praziquantel, pyrantel embonate and febantel) in the form of flavoured tablets, intended for the treatment and prevention of gastrointestinal infections in dogs.

years is the Development and Control Centre (RKC) 4, located in the group of production facilities at Ločna in Novo mesto, Slovenia. The investment is estimated at €54 million. In the facility with a surface area of 18,000 m², we have started installing laboratory and other technological equipment. Laboratories will be ready for use this autumn and pharmaceutical development rooms by June 2018.

At the Ločna location we are building a multi-purpose warehouse for the storage of finished products, raw materials and packaging with 25,000 new pallet spaces, thus increasing the total capacity to over 90,000 pallet spaces. The preparation of project documentation for obtaining a building permit is ongoing. The investment is estimated at €30 million.

At the same location we operate a state-of-the-art solid dosage forms production plant Notol 2. Production had been launched in January 2015 and it was officially opened in November that year. More than two years later, work is running smoothly with production capacity increasing. Approximately two thirds of the entire technological equipment has been fitted so far. To satisfy increasing market demand and facilitate the production of new products, we have started procuring additional technological equipment to ensure the plant is fully equipped and can reach the target production volume of 4.5 billion tablets, film-coated tablets and capsules per year. The estimated value of the additional equipment for 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 are small round particles containing an active substance, used to fill capsules or pressed into tablets. Additional production capacities will be ready this autumn.

Hydrogenation 2 is a new facility being built in Krško, Slovenia which will facilitate hydrogenation capacities and increase Krka's independent API production capacity. The building permit has been obtained and the main technological equipment procured. The construction of the €4.5 million facility began this June.

In the Bršljin plant in Novo mesto, Slovenia we are expanding the facility for the production of 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, a peak consumption of close to 20 MW is expected. Electricity supply will be secured via 20 kV lines from the 110/20 kV Ločna substation for a permanent combined consumption of approximately 25 MW. Systems are expected to connect to the new substation this October. The investment into increasing and modernising energy-generating infrastructure is worth over €3 million.

One of the more important investments in Krka's subsidiaries has been Krka-Rus 2 in Istra, the Russian Federation. The first stage had included building a new plant and logistics centre, which

were fitted in 2015 and 2016 with additional technical and logistics equipment worth just over €20 million. 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.

Warehouse and logistics systems have reached full capacity after the installation of the remaining logistics equipment. The second phase of the investment, estimated at €30 million, will include bringing the plant to its target production capacity and building a proprietary wastewater treatment plant to ensure in the long term that the purity of wastewater released from the Krka-Rus factory corresponds to statutory requirements. More than 60% of all products intended for the Russian market are manufactured in Krka-Rus, which gives Krka the status of a domestic producer in that market.

Due to the expansion of Krka's production programme in Jastrebarsko, Croatia, the production and distribution centre there is being rearranged to acquire new production and laboratory capacities for solid dosage oncology pharmaceuticals. Equipment installation and assembly had been completed by end of 2016, and the launch of production and the gradual transfer of technologies to the new technological equipment are currently ongoing. The investment is worth €34 million.

In the Terme Krka health resort in Strunjan, Slovenia we are replacing the heating system. 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. In the Dolenjske Toplice health resort we are renovating the interior of the medical rehabilitation centre, and in Šport Hotel in Otočec we are renovating rooms. The total estimated value of investments in the Terme Krka Group to be completed this year is almost €3 million.

Activities related to the acquisition of a company in China have continued, as announced to shareholders at the AGM. Krka expects to close the transaction by the end of the summer.

Employees

At the end of June the Krka Group had 10,842 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 1,346 temporary agency workers at the end of June, 132 more than at the end of 2016.

Educational structure

	30 Jun 2017		31 Dec 2016	
	No. of employees	Share (in %)	No. of employees	Share (in %)
PhD	174	1.6	169	1.5
MSc	372	3.4	396	3.6
University degree	5,522	51.0	5,594	51.4
Higher professional education degree	1,476	13.6	1,422	13.1
Vocational college degree	263	2.4	265	2.4
Secondary school education, level V	1,876	17.3	1,868	17.2
Other	1,159	10.7	1,175	10.8
Krka Group	10,842	100.0	10,889	100.0

We have been ensuring a continuous inflow of new employees by offering study grants to students. There are currently 48 students receiving Krka study grants. They are primarily pharmacy and chemistry students, while we also award grants to outstanding students from other fields of interest to Krka. In the first half of 2017, Krka awarded 13 new scholarships.

We have always invested in knowledge and employee development. Our employees strive for new knowledge and to be promoted after obtaining higher academic degrees.

Currently there are 44 employees enrolled into postgraduate studies towards obtaining a specialisation, master's degree or doctoral degree with Krka's support, with a total of 118 Krka employees enrolled into part time studies.

Krka is the only certificate-awarding body in Slovenia with the power to examine and approve candidates taking the National Vocational Qualification (NVQ) exams in the area of pharmacy. By examining and approving candidates under the NVQ system between 2002 and June 2017, we have awarded 1,262 NVQ certificates to Krka employees and 142 to participants from other organisations in the pharmaceutical industry, a total of 1,404 certificates for four vocational

qualifications. There are currently 101 Krka employees in the process of obtaining an NVQ certificate.

With Krka's mission of *Living a healthy life* we encourage our employees to pursue a healthy lifestyle. In collaboration with the Development and Education Centre Novo mesto we have launched a special 50-hour educational programme "Living healthy and being active", which received funding from the European Social Fund and the Slovene Ministry of Education, Science and Sport. 48 employees had completed the programme by July and rated it as excellent. Additional groups of employees are planned to take part in it later this year.

Krka again received the recognition award for being the most reputable employer in 2016 from the job portal Mojedelo.com; the all-Slovenian research conducted for the sixth consecutive year witnessed Krka ranked the number one employer by job seekers five times, testifying to the fact that we are a highly reputable company in the Slovene job market. Additionally, Krka was declared the winner of the 2016 Zlata nit (Golden Thread) employer-of-the-year campaign in the category of large companies.

With different activities, the Krka Group promotes initiative and innovation, cooperation and team work, loyalty and commitment in employees. For decades we have been conferring recognition awards on employees of all Krka companies for staying with us 10, 20, 30, 35 and 40 years. This year we conferred 781 recognition awards to employees who helped build the foundations of the Krka Group and who symbolise loyalty to Krka.

Every year we also select the best employees and managers, strengthening loyalty in employees and boosting a positive workplace atmosphere. At the level of organisational units, 50 best employees and 18 best managers were singled out this year, and at the level of the entire Group, 10 best employees and 5 best managers.

This year we again conferred awards for inventive work, as employees' proposals make a relevant contribution to improving work processes and

cutting costs. The following special awards were conferred: award for the best useful proposal, award to the proposer of the best improvement, award to the best proposer, and award to the unit that had made the most proposals and improvements per capita. In the first half of 2017, 280 proposers put forward 336 proposals.

At the 2017 innovations award ceremony of the Chamber of Commerce of Dolenjska and Bela krajina, Krka's innovators received two gold and four silver awards for best innovations.

Every year we organise a Krka Day of Sports, where the best athletes and organisational units receive awards for achieving the best results and competing in large numbers. This year we also organised the first ever Krka Family Day, which was attended by more than 2,200 employees, their life partners and children.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE KRKA GROUP, WITH NOTES

Consolidated statement of financial position of the Krka Group

In € thousand	30 Jun 2017	31 Dec 2016	Index
Assets			
Property, plant and equipment	871,891	874,100	100
Intangible assets	111,922	113,511	99
Loans	9,889	8,801	112
Investments	7,676	10,138	76
Deferred tax assets	35,356	31,260	113
Other non-current assets	279	257	109
Total non-current assets	1,037,013	1,038,067	100
Assets held for sale	467	467	100
Inventories	300,787	280,653	107
Trade receivables	503,694	510,406	99
Other receivables	25,923	33,777	77
Loans	33,869	9,441	359
Investments	10,144	77	13,174
Cash and cash equivalents	53,028	38,630	137
Total current assets	927,912	873,451	106
Total assets	1,964,925	1,911,518	103
Equity			
Share capital	54,732	54,732	100
Treasury shares	-33,193	-29,690	112
Reserves	106,090	109,678	97
Retained earnings	1,396,827	1,308,668	107
Total equity holders of the parent	1,524,456	1,443,388	106
Non-controlling interests within equity	1,057	1,056	100
Total equity	1,525,513	1,444,444	106
Liabilities			
Provisions	92,013	90,807	101
Deferred revenue	11,551	12,158	95
Deferred tax liabilities	12,218	12,348	99
Total non-current liabilities	115,782	115,313	100
Trade payables	128,406	128,437	100
Income tax payable	14,764	1,666	886
Other current liabilities	180,460	221,658	81
Total current liabilities	323,630	351,761	92
Total liabilities	439,412	467,074	94
Total equity and liabilities	1,964,925	1,911,518	103

Consolidated income statement of the Krka Group

In € thousand	1–6/2017	1–6/2016	Index
Revenues	655,046	603,803	108
Costs of goods sold	-269,353	-261,053	103
Gross profit	385,693	342,750	113
Other operating income	5,126	3,919	131
Selling and distribution expenses	-164,434	-154,766	106
R&D expenses	-62,219	-58,735	106
General and administrative expenses	-40,088	-38,868	103
Operating profit	124,078	94,300	132
Financial income	10,415	42,618	24
Financial expenses	-23,715	-55,893	42
Net financial result	-13,300	-13,275	100
Profit before tax	110,778	81,025	137
Income tax	-19,115	-10,909	175
Net profit	91,663	70,116	131
Attributable to:			
– equity holders of the parent	91,662	70,024	131
– non-controlling interest	1	92	1
Basic earnings per share (in €)	2.84	2.16	132
Diluted earnings per share (in €)	2.84	2.16	132

* 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	1-6/2017	1-6/2016	Index
Net profit	91,663	70,116	131
Other comprehensive income for the period			
<i>Other comprehensive income for the period reclassified to profit or loss in future periods</i>			
Translation reserve	-5,097	11,910	
Change in fair value of available-for-sale financial assets	-2,462	319	
Deferred tax effect	468	-55	
Net other comprehensive income for the year reclassified to profit or loss in future periods	-7,091	12,174	
Total other comprehensive income for the period (net of tax)	-7,091	12,174	
Total comprehensive income for the period (net of tax)	84,572	82,290	103
Attributable to:			
– equity holders of the parent	84,571	82,198	103
– non-controlling interest	1	92	1

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	91,662	91,662	1	91,663
Total other comprehensive income for the period (net of tax)	0	0	0	0	0	0	-1,994	-5,097	0	0	0	-7,091	0	-7,091
Total comprehensive income for the period (net of tax)	0	0	0	0	0	0	-1,994	-5,097	0	0	91,662	84,571	1	84,572
Transactions with owners, recognised 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	-3,503	0	0	0	0	0	0	0	0	0	-3,503	0	-3,503
Formation of reserves for treasury shares	0	0	3,503	0	0	0	0	0	0	0	-3,503	0	0	0
Total transactions with owners, recognised in equity	0	-3,503	3,503	0	0	0	0	0	0	98,833	-102,336	-3,503	0	-3,503
Balance at 30 Jun 2017	54,732	-33,193	33,193	105,897	14,990	30,000	-13,796	-64,194	1,102,165	206,503	88,159	1,524,456	1,057	1,525,513

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	70,024	70,024	92	70,116
Total other comprehensive income for the period (net of tax)	0	0	0	0	0	0	795	11,910	0	-531	0	12,174	0	12,174
Total comprehensive income for the period (net of tax)	0	0	0	0	0	0	795	11,910	0	-531	70,024	82,198	92	82,290
Transactions with owners, recognised 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	-2,445	0	0	0	0	0	0	0	0	0	-2,445	0	-2,445
Formation of reserves for treasury shares	0	0	2,445	0	0	0	0	0	0	0	-2,445	0	0	0
Total transactions with owners, recognised in equity	0	-2,445	2,445	0	0	0	0	0	0	148,851	-151,296	-2,445	0	-2,445
Balance at 30 Jun 2016	54,732	-22,516	22,516	105,897	14,990	30,000	-11,658	-73,208	1,051,677	244,480	67,579	1,484,489	1,340	1,485,829

Consolidated statement of cash flows of the Krka Group

In € thousand	1–6/2017	1–6/2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit	91,663	70,116
Adjustments for:	74,000	97,783
– amortisation/depreciation	53,201	52,798
– foreign exchange differences	-1,548	1,057
– investment income	-10,985	-23,149
– investment expenses	13,336	55,443
– interest expenses and other financial expenses	881	725
– income tax	19,115	10,909
Operating profit before changes in net operating current assets	165,663	167,899
Change in trade receivables	8,878	-59,367
Change in inventories	-20,134	1,518
Change in trade payables	-3,965	3,329
Change in provisions	491	-206
Change in deferred revenues	-607	-631
Change in other current liabilities	-28,437	14,833
Income tax paid	-4,075	-14,968
Net cash from operating activities	117,814	112,407
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	268	628
Proceeds from sale of current investments and repayment of current loans	2	0
Dividends received	1	817
Proceeds from sale of property, plant and equipment	749	761
Purchase of intangible assets	-2,292	-1,365
Purchase of property, plant and equipment	-47,161	-58,435
Non-current loans	-1,266	-1,490
Proceeds from repayment of non-current loans	724	687
Payments to acquire non-current investments	-33	-46
Proceeds from sale of non-current investments	8	33
Payments in connection with current investments and loans	-24,835	-34,707
Payments in connection with derivative financial instruments	-25,820	-19,252
Proceeds from derivative financial instruments	0	21,292
Net cash flows used in investing activities	-99,655	-91,077
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	-167	-725
Dividends and other profit shares paid	-91	-101
Repurchase of treasury shares	-3,503	-2,445
Net cash used in financing activities	-3,761	-3,271
Net increase in cash and cash equivalents	14,398	18,059
Cash and cash equivalents at beginning of the period	38,630	35,826
Effect of exchange rate fluctuations on cash held	0	269
Net cash and cash equivalents at end of the period	53,028	54,154

Segment reporting of the Krka Group

In € thousand	European Union		South-East Europe		East Europe		Other		Elimination		Total	
	1-6/2017	1-6/2016	1-6/2017	1-6/2016	1-6/2017	1-6/2016	1-6/2017	1-6/2016	1-6/2017	1-6/2016	1-6/2017	1-6/2016
Revenues from external customers	385,607	374,431	30,123	30,099	213,984	175,542	25,332	23,731	0	0	655,046	603,803
Sales between group companies	115,747	105,478	14,174	13,560	127,940	82,605	0	0	-257,861	-201,643	0	0
Other operating income	2,694	1,955	101	759	2,331	1,205	0	0	0	0	5,126	3,919
Operating expenses	-328,924	-324,090	-21,988	-22,766	-171,061	-152,585	-14,121	-13,981	0	0	-536,094	-513,422
Operating expenses to Group companies	-183,467	-181,676	-16,851	-14,920	-249,225	-172,531	-5	-4	449,548	369,131	0	0
Operating profit	59,377	52,296	8,236	8,092	45,254	24,162	11,211	9,750	0	0	124,078	94,300
Interest income	100	267	0	204	168	158	0	0	0	0	268	629
Interest income from Group companies	405	446	0	0	1	0	0	0	-406	-446	0	0
Interest expenses	-157	-608	0	0	2	0	0	0	0	0	-155	-608
Interest expenses to Group companies	-126	-157	0	0	-214	-380	0	0	340	537	0	0
Net financial result	1,567	-1,966	313	-421	-15,125	-9,874	-55	-1,014	0	0	-13,300	-13,275
Income tax	-9,061	-6,845	-1,155	-642	-7,647	-2,794	-1,252	-628	0	0	-19,115	-10,909
Net profit	51,883	43,485	7,394	7,029	22,482	11,494	9,904	8,108	0	0	91,663	70,116
Investments	50,812	49,350	126	99	1,630	12,306	0	0	0	0	52,568	61,755
Depreciation	33,126	34,914	915	997	15,157	12,972	174	191	0	0	49,372	49,074
Amortisation	2,294	2,413	127	158	1,303	1,040	105	113	0	0	3,829	3,724
	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016
Total assets	1,430,672	1,394,236	40,995	40,107	483,457	467,293	9,801	9,882	0	0	1,964,925	1,911,518
Goodwill	42,644	42,644	0	0	0	0	0	0	0	0	42,644	42,644
Trademark	38,587	39,011	0	0	0	0	0	0	0	0	38,587	39,011
Total liabilities	329,215	364,038	7,999	9,251	76,812	67,764	25,386	26,021	0	0	439,412	467,074

Notes to the consolidated financial statements of the Krka Group

Costs by nature

€536,094 thousand

In € thousand	1-6/2017	1-6/2016	Index
Costs of goods and material	192,231	162,437	118
Costs of services	120,540	113,242	106
Employee benefit costs	173,986	162,506	107
Amortisation and depreciation	53,201	52,798	101
Inventory write-offs and allowances	7,730	4,004	193
Receivable impairment and write-offs	1,209	4,880	25
Other operating expenses	17,463	16,928	103
Total costs	566,360	516,795	110
Change in the value of inventories of products and work in progress	-30,266	-3,373	897
Total	536,094	513,422	104

Employee benefit costs

€173,986 thousand

In € thousand	1-6/2017	1-6/2016	Index
Gross wages and salaries and continued pay	135,064	124,747	108
Social security contributions	10,083	9,710	104
Pension insurance contributions	18,907	16,916	112
Payroll tax	546	614	89
Post-employment benefits and other non-current employee benefits	2,388	227	1052
Other employee benefit costs	6,998	10,292	68
Total employee benefit costs	173,986	162,506	107

Other operating expenses

€17,463 thousand

In € thousand	1-6/2017	1-6/2016	Index
Grants and assistance for humanitarian and other purposes	814	868	94
Environmental protection expenses	2,000	1,634	122
Other taxes and levies	12,279	11,089	111
Loss on sale of property, plant and equipment and intangible assets	185	275	67
Other expenses	2,185	3,062	71
Total other operating expenses	17,463	16,928	103

Other 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	1-6/2017	1-6/2016	Index
Net foreign exchange differences	0	19,874	0
Interest income	268	629	43
Change in fair value of investments through profit or loss	0	6	0
Proceeds from sale of investments	2	0	
Derivative financial instruments income	10,144	21,292	48
– income	0	21,292	0
– change in fair value	10,144	0	
Income from dividends and other shares of the profit	1	817	0
Total financial income	10,415	42,618	24
Net foreign exchange differences	-9,587	0	
Interest expenses	-155	-608	25
Change in fair value of investments through profit or loss	0	-11	0
Derivative financial instruments expenses	-13,150	-55,157	24
– expenses	-25,820	-19,251	134
– change in fair value	12,670	-35,906	-35
Other financial expenses	-823	-117	703
Total financial expenses	-23,715	-55,893	42
Net financial result	-13,300	-13,275	100

Income tax

€19,115 thousand

Current income tax amounts to €22,887 thousand, which is 20.7% of pre-tax profit. Together with the deferred tax of €-3,772 thousand, the total income

tax payable in the income statement equals €19,115 thousand. The effective tax rate is 17.3%, up 3.8 of a percentage point from the same period last year.

Property, plant and equipment

€871,891 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Land	37,097	36,575	101
Buildings	387,629	403,257	96
Equipment	329,994	343,390	96
Property, plant and equipment being acquired	110,452	84,635	131
Advances for property, plant and equipment	6,719	6,243	108
Total property, plant and equipment	871,891	874,100	100

The value of property, plant and equipment represents just over 44% of the Group's total assets. Krka's major investments are described in the chapter Investments in the Business Report.

Intangible assets

€111,922 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Goodwill	42,644	42,644	100
Trademark	38,587	39,011	99
Concessions, patents, licences and similar rights	26,240	28,184	93
Intangible assets being acquired	4,451	3,672	121
Total intangible assets	111,922	113,511	99

Loans

€43,758 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Non-current loans	9,889	8,801	112
– loans to others	9,889	8,801	112
Current loans	33,869	9,441	359
– portion of non-current loans maturing next year	584	1,201	49
– loans to others	33,284	8,240	404
– current interest receivable	1	0	
Total loans	43,758	18,242	240

Non-current loans represent 23% 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 €33,000 of bank deposits placed by the controlling company, with maturities longer than 90 days.

Investments

€17,820 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Non-current investments	7,676	10,138	76
– available-for-sale financial assets	7,676	10,138	76
Current investments including derivative financial instruments	10,144	77	13,174
– shares and interests held for trading	0	77	0
– derivative financial instruments	10,144	0	
Total investments	17,820	10,215	174

Available-for-sale financial assets include €813 thousand worth of shares and interests in

Slovenia, and €6,863 thousand worth of shares and interests abroad.

Inventories

€300,787 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Material	119,322	122,515	97
Work in progress	74,430	63,212	118
Products	95,522	86,369	111
Merchandise	9,459	7,783	122
Inventory advances	2,054	774	265
Total inventories	300,787	280,653	107

Trade and other receivables

€529,617 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Current trade receivables	503,694	510,406	99
Other current receivables	25,923	33,777	77
Total receivables	529,617	544,183	97

Cash and cash equivalents

€53,028 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Cash in hand	59	78	76
Bank balances	52,969	38,552	137
Total cash and cash equivalents	53,028	38,630	137

Equity

€1,525,513 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Share capital	54,732	54,732	100
Treasury shares	-33,193	-29,690	112
Reserves	106,090	109,678	97
– reserves for treasury shares	33,193	29,690	112
– share premium	105,897	105,897	100
– legal reserves	14,990	14,990	100
– statutory reserves	30,000	30,000	100
– fair value reserve	-13,796	-11,802	117
– translation reserve	-64,194	-59,097	109
Retained earnings	1,396,827	1,308,668	107
Total equity holders of the parent	1,524,456	1,443,388	106
Non-controlling interests within equity	1,057	1,056	100
Total equity	1,525,513	1,444,444	106

Provisions

€92,013 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Provisions for lawsuits	163	166	98
Provisions for post-employment benefits and other non-current employee benefits	90,910	89,970	101
Other provisions	940	671	140
Total provisions	92,013	90,807	101

Deferred revenues

€11,551 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Grants received from the European Fund for Regional Development and Republic of Slovenia budget for the production of pharmaceuticals in the new Notol 2 plant	2,251	2,384	94
Grants received from the budget for the Dolenjske and Šmarješke Toplice health resorts and Golf Grad Otočec	3,856	3,927	98
Grants received from the European Regional Development Fund for the development of new technologies (FBD project)	291	340	86
Grants received from the European Regional Development Fund for setting up an information and technology solutions system (GEN-I)	12	14	86
Grants received from the European Regional Development Fund for development centres of the Slovene economy	5,085	5,419	94
Subsidy for acquisition of electric vehicles	5	5	100
Property, plant and equipment received free of charge	42	53	79
Emission coupons	9	16	56
Total deferred revenue	11,551	12,158	95

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

€128,406 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Payables to domestic suppliers	52,086	45,748	114
Payables to foreign suppliers	73,353	78,696	93
Payables from advances	2,967	3,993	74
Total trade payables	128,406	128,437	100

Other current liabilities

€180,460 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Accrued contractual discounts on products sold	120,736	150,080	80
Payables to employees – gross wages, other receipts and charges	41,891	38,112	110
Derivative financial instruments	0	12,670	0
Other	17,833	20,796	86
Total other current liabilities	180,460	221,658	81

Contingent liabilities

€17,045 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Guarantees issued	16,425	12,846	128
Other	620	620	100
Total contingent liabilities	17,045	13,466	127

Fair value

In € thousand	30 Jun 2017		31 Dec 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current loans	9,889	9,889	8,801	8,801
Available-for-sale financial assets	7,676	7,676	10,138	10,138
Current loans	33,869	33,869	9,441	9,441
Short-term financial investments	10,144	10,144	77	77
– shares and interests held for trading	0	0	77	77
– derivative financial instruments	10,144	10,144	0	0
Trade receivables	503,694	503,694	510,406	510,406
Cash and cash equivalents	53,028	53,028	38,630	38,630
Trade payables and other liabilities, excluding amounts owed to the state, to employees and advances	-255,819	-255,819	-282,784	-282,784
Other current liabilities	0	0	-12,670	-12,670
– derivative financial instruments	0	0	-12,670	-12,670
Total	362,481	362,481	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	30 Jun 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	6,313	0	1,363	7,676	8,775	0	1,363	10,138
Shares and interests held for trading	0	0	0	0	77	0	0	77
Derivative financial instruments	0	0	10,144	10,144	0	0	0	0
Total assets at fair value	6,313	0	11,507	17,820	8,852	0	1,363	10,215
Assets for which fair value is disclosed								
Non-current loans	0	0	9,889	9,889	0	0	8,801	8,801
Current loans	0	0	33,869	33,869	0	0	9,441	9,441
Trade receivables	0	0	503,694	503,694	0	0	510,406	510,406
Cash and cash equivalents	0	0	53,028	53,028	0	0	38,630	38,630
Total assets for which fair value is disclosed	0	0	600,480	600,480	0	0	567,278	567,278
Total	6,313	0	611,987	618,300	8,852	0	568,641	577,493

Liabilities at fair value

In € thousand	30 Jun 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	0	0	0	0	12,670	12,670
Total liabilities at fair value	0	0	0	0	0	0	12,670	12,670
Liabilities for which fair value is disclosed								
Trade payables and other liabilities, excluding amounts owed to the state, to employees and advances	0	0	255,819	255,819	0	0	282,784	282,784
Total liabilities for which fair value is disclosed	0	0	255,819	255,819	0	0	282,784	282,784
Total	0	0	255,819	255,819	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	30 Jun 2017	31 Dec 2016	Index
Assets			
Property, plant and equipment	614,328	609,543	101
Intangible assets	28,641	29,302	98
Investments in subsidiaries	321,898	321,185	100
Trade receivables due from subsidiaries	31,884	23,515	136
Loans	19,393	18,302	106
Investments	7,674	10,136	76
Deferred tax assets	12,442	12,101	103
Other non-current assets	102	92	111
Total non-current assets	1,036,362	1,024,176	101
Assets held for sale	41	41	100
Inventories	254,375	236,214	108
Trade receivables	479,577	479,234	100
Other receivables	14,656	21,408	68
Loans	66,048	52,504	126
Investments	10,144	77	13,174
Cash and cash equivalents	31,360	24,049	130
Total current assets	856,201	813,527	105
Total assets	1,892,563	1,837,703	103
Equity			
Share capital	54,732	54,732	100
Treasury shares	-33,193	-29,690	112
Reserves	172,092	170,583	101
Retained earnings	1,324,893	1,244,823	106
Total equity	1,518,524	1,440,448	105
Liabilities			
Provisions	79,657	78,903	101
Deferred revenue	2,593	2,788	93
Total non-current liabilities	82,250	81,691	101
Trade payables	159,781	148,562	108
Borrowings	69,584	105,269	66
Income tax payable	11,854	0	
Other current liabilities	50,570	61,733	82
Total current liabilities	291,789	315,564	92
Total liabilities	374,039	397,255	94
Total equity and liabilities	1,892,563	1,837,703	103

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

In € thousand	1-6/2017	1-6/2016	Index
Revenues	615,010	539,658	114
Costs of goods sold	-260,069	-238,789	109
Gross profit	354,941	300,869	118
Other operating income	2,183	1,246	175
Selling and distribution expenses	-147,247	-133,351	110
R&D expenses	-64,438	-61,533	105
General and administrative expenses	-32,606	-32,096	102
Operating profit	112,833	75,135	150
Financial income	11,586	43,621	27
Financial expenses	-24,482	-56,283	43
Net financial result	-12,896	-12,662	102
Profit before tax	99,937	62,473	160
Income tax payable	-16,364	-6,247	262
Net profit	83,573	56,226	149
Basic earnings per share* (in €)	2.59	1.73	149
Diluted earnings per share** (in €)	2.59	1.73	149

* 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 comprehensive income of Krka, d. d., Novo mesto

In € thousand	1-6/2017	1-6/2016	Index
Net profit	83,573	56,226	149
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	-2,462	319	-772
Deferred tax effect	468	-55	-851
Net other comprehensive income for the year reclassified to profit or loss in future periods	-1,994	264	-755
Total other comprehensive income for the period (net of tax)	-1,994	264	-755
Total comprehensive income for the period (net of tax)	81,579	56,490	144

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	83,573	83,573
Total other comprehensive income for the period (net of tax)	0	0	0	0	0	0	-1,994	0	0	0	-1,994
Total comprehensive income for the period (net of tax)	0	0	0	0	0	0	-1,994	0	0	83,573	81,579
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	-3,503	0	0	0	0	0	0	0	0	-3,503
Formation of reserves for treasury shares	0	0	3,503	0	0	0	0	0	0	-3,503	0
Total transactions with owners, recognised directly in equity	0	-3,503	3,503	0	0	0	0	0	93,253	-96,756	-3,503
Balance at 30 Jun 2017	54,732	-33,193	33,193	105,897	14,990	30,000	-11,988	1,102,165	142,658	80,070	1,518,524

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	56,226	56,226
Total other comprehensive income for the period (net of tax)	0	0	0	0	0	0	795	0	-531	0	264
Total comprehensive income for the period (net of tax)	0	0	0	0	0	0	795	0	-531	56,226	56,490
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	-2,445	0	0	0	0	0	0	0	0	-2,445
Formation of reserves for treasury shares	0	0	2,445	0	0	0	0	0	0	-2,445	0
Total transactions with owners, recognised directly in equity	0	-2,445	2,445	0	0	0	0	0	136,868	-139,313	-2,445
Balance at 30 Jun 2016	54,732	-22,516	22,516	105,897	14,990	30,000	-10,198	1,051,677	186,377	53,781	1,487,256

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

In € thousand	1-6/2017	1-6/2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit	83,573	56,226
Adjustments for:	59,128	78,208
– amortisation/depreciation	40,166	41,245
– foreign exchange differences	-171	-2,662
– investment income	-11,728	-23,016
– investment expenses	13,267	55,279
– interest expenses and other financial expenses	1,230	1,115
– income tax	16,364	6,247
Operating profit before changes in net operating current assets	142,701	134,434
Change in trade receivables	-8,595	-56,481
Change in inventories	-18,161	753
Change in trade payables	7,074	914
Change in provisions	40	-407
Change in deferred revenues	-195	-199
Change in other current liabilities	1,599	-1,318
Income tax paid	2,278	-10,892
Net cash from operating activities	126,741	66,804
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	566	739
Proceeds from sale of current investments	2	0
Dividends received	1	817
Proportionate profit of subsidiaries	1,028	0
Proceeds from sale of property, plant and equipment	170	817
Purchase of intangible assets	-2,182	-1,310
Purchase of property, plant and equipment	-38,134	-28,747
Acquisition of subsidiaries and a share of minority interest without obtained assets	-951	-12,381
Refund of subsequent payments in subsidiaries	237	79
Non-current loans	-1,212	-2,377
Proceeds from repayment of non-current loans	10,358	1,035
Payments to acquire non-current investments	-20	-34
Proceeds from sale of non-current investments	8	33
Payments in connection with current investments and loans	-23,780	-33,045
Payments in connection with derivative financial instruments	-25,820	-19,252
Proceeds from derivative financial instruments	0	21,292
Net cash flows used in investing activities	-79,729	-72,334
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	-587	-1,094
Repayment of non-current borrowings	0	-500
Acquisition/Repayment of current borrowings	-35,615	26,997
Dividends and other profit shares paid	-91	-101
Repurchase of treasury shares	-3,503	-2,445
Net cash used in financing activities	-39,796	22,857
Net decrease/increase in cash and cash equivalents	7,216	17,327
Cash and cash equivalents at beginning of the period	24,049	24,622
Effect of exchange rate fluctuations on cash held	95	431
Net cash and cash equivalents at end of the period	31,360	42,380

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

In € thousand	European Union		South-East Europe		East Europe		Other		Total	
	1-6/2017	1-6/2016	1-6/2017	1-6/2016	1-6/2017	1-6/2016	1-6/2017	1-6/2016	1-6/2017	1-6/2016
Revenues	359,329	337,851	27,065	29,067	205,862	151,215	22,754	21,525	615,010	539,658
Other operating income	1,932	1,017	21	9	230	220	0	0	2,183	1,246
Operating expenses	-305,508	-298,717	-20,756	-21,824	-163,975	-131,247	-14,121	-13,981	-504,360	-465,769
Operating profit	55,753	40,151	6,330	7,252	42,117	20,188	8,633	7,544	112,833	75,135
Interest income	214	387	0	0	213	380		0	427	767
Interest expenses	-560	-1,054	0	0	0	0		0	-560	-1,054
Net financial result	2,127	-1,724	-37	-24	-14,932	-9,901	-54	-1,013	-12,896	-12,662
Income tax	-8,086	-3,339	-918	-603	-6,108	-1,678	-1,252	-627	-16,364	-6,247
Net profit	49,794	35,088	5,375	6,625	21,077	8,609	7,327	5,904	83,573	56,226
Investments	44,289	30,022	0	0	0	0	0	0	44,289	30,022
Depreciation	26,511	27,900	796	875	9,842	9,442	175	191	37,324	38,408
Amortisation	1,661	1,776	125	153	951	795	105	113	2,842	2,837
	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016
Total assets	1,340,661	1,300,003	40,996	41,895	501,112	485,928	9,794	9,877	1,892,563	1,837,703
Total liabilities	263,673	296,209	7,917	9,103	77,065	65,922	25,384	26,021	374,039	397,255

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

Costs by nature

€504,360 thousand

In € thousand	1-6/2017	1-6/2016	Index
Cost of goods and material	196,897	161,581	122
Costs of services	172,272	155,316	111
Employee benefit costs	103,337	99,976	103
Amortisation and depreciation	40,166	41,245	97
Inventory write-offs and allowances	3,596	3,321	108
Receivable impairment and write-offs	-44	1,367	-3
Other operating expenses	11,375	11,725	97
Total costs	527,599	474,531	111
Change in the value of inventories of products and work in progress	-23,239	-8,762	265
Total	504,360	465,769	108

Employee benefit costs

€103,337 thousand

In € thousand	1-6/2017	1-6/2016	Index
Gross wages and salaries and continued pay	81,202	76,858	106
Social security contributions	5,195	5,370	97
Pension insurance contributions	10,314	9,742	106
Post-employment benefits and other non-current employee benefits	2,129	0	
Other employee benefit costs	4,497	8,006	56
Total employee benefit costs	103,337	99,976	103

Other expenses

€11,375 thousand

In € thousand	1-6/2017	1-6/2016	Index
Grants and assistance for humanitarian and other purposes	575	653	88
Environmental protection expenses	1,284	1,032	124
Other taxes and levies	7,871	7,331	107
Loss on sale of property, plant and equipment and intangible assets	116	110	105
Other expenses	1,529	2,599	59
Total other operating expenses	11,375	11,725	97

Other 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	1-6/2017	1-6/2016	Index
Net foreign exchange differences	0	20,739	0
Interest income	427	767	56
Change in fair value of investments through profit or loss	0	6	0
Proceeds from sale of investments	2	0	
Derivative financial instruments income	10,144	21,292	48
– income	0	21,292	0
– change in fair value	10,144	0	
Income from dividends and other shares of the profit	1,013	817	124
– dividends	1	817	0
– profits of subsidiaries	1,012	0	
Total financial income	11,586	43,621	27
Net foreign exchange differences	-10,004	0	
Interest expenses	-560	-1,054	53
Change in fair value of investments through profit or loss	0	-11	0
Derivative financial instruments expenses	-13,150	-55,157	24
– expenses	-25,820	-19,251	134
– change in fair value	12,670	-35,906	
Other financial expenses	-768	-61	1,259
Total financial expenses	-24,482	-56,283	43
Net financial result	-12,896	-12,662	102

Income tax

€16,364 thousand

Current income tax amounts to €16,237 thousand, which is 16.2% of pre-tax profit. Together with the deferred tax of €127 thousand, the total income tax expense in the income statement amounts to

€16,364 thousand. The effective tax rate is 16.4%, up 6.4 of a percentage point from the same period last year.

Property, plant and equipment

€614,328 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Land	23,984	24,005	100
Buildings	249,221	258,880	96
Equipment	268,129	278,847	96
Property, plant and equipment being acquired	67,181	42,049	160
Advances for property, plant and equipment	5,813	5,762	101
Total property, plant and equipment	614,328	609,543	101

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

€28,641 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Concessions, patents, licences and similar rights	24,190	25,635	94
Intangible assets being acquired	4,451	3,667	121
Total intangible assets	28,641	29,302	98

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

Loans

€85,441 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Non-current loans	19,393	18,302	106
– loans to subsidiaries	9,787	9,830	100
– loans to others	9,606	8,472	113
Current loans	66,048	52,504	126
– portion of non-current loans maturing next year	1,537	11,708	13
– loans to subsidiaries	31,255	32,397	96
– loans to others	33,200	8,203	405
– current interest receivable	56	196	29
Total loans	85,441	70,806	121

Non-current loans represent 23% of total loans.

acts to its employees and that are primarily housing loans.

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

Current loans to others include €33,000 of bank deposits with maturities longer than 90 days.

Investments

€17,818 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Non-current investments	7,674	10,136	76
– available-for-sale financial assets	7,674	10,136	76
Current investments including derivative financial instruments	10,144	77	13,174
– shares and interests held for trading	0	77	0
– derivative financial instruments	10,144	0	
Total investments	17,818	10,213	174

Available-for-sale financial assets include €812 thousand worth of shares and interests in Slovenia,

and €6,862 thousand worth of shares and interests abroad.

Inventories

€254,375 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Material	107,387	112,208	96
Work in progress	72,987	61,978	118
Products	61,838	52,478	118
Merchandise	10,159	8,816	115
Inventory advances	2,004	734	273
Total inventories	254,375	236,214	108

Trade and other receivables

€494,233 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Current trade receivables	479,577	479,234	100
– current trade receivables due from subsidiaries	274,137	273,876	100
– current trade receivables due from customers other than subsidiaries	205,440	205,358	100
Other current receivables	14,656	21,408	68
Total receivables	494,233	500,642	99

Cash and cash equivalents

€31,360 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Cash in hand	2	2	100
Bank balances	31,358	24,047	130
Total cash and cash equivalents	31,360	24,049	130

Equity

€1,518,524 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Share capital	54,732	54,732	100
Treasury shares	-33,193	-29,690	112
Reserves:	172,092	170,583	101
– reserves for treasury shares	33,193	29,690	112
– share premium	105,897	105,897	100
– legal reserves	14,990	14,990	100
– statutory reserves	30,000	30,000	100
– fair value reserve	-11,988	-9,994	120
Retained earnings	1,324,893	1,244,823	106
Total equity	1,518,524	1,440,448	105

Borrowings

€69,584 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Current borrowings	69,584	105,269	66
– borrowings from subsidiaries	69,495	105,110	66
– current interest payable	89	159	56
Total borrowings	69,584	105,269	66

Provisions

€79,657 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Provisions for post-employment benefits and other non-current employee benefits	79,657	78,903	101
Total provisions	79,657	78,903	101

Deferred revenues

€2,593 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Grants received from the European Fund for Regional Development and Republic of Slovenia budget for the production of pharmaceuticals in the new Notol 2 plant	2,251	2,384	94
Grants received from the European Regional Development Fund for the development of new technologies (FBD project)	291	340	86
Grants received from the European Regional Development Fund for setting up an information and technology solutions system (GEN-I)	12	14	86
Subsidy for acquisition of electric vehicles	5	5	100
Property, plant and equipment received free of charge	25	29	86
Emission coupons	9	16	56
Total deferred revenue	2,593	2,788	93

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

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

Trade payables

€159,781 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Payables to subsidiaries	60,099	56,943	106
Payables to domestic suppliers	47,569	41,387	115
Payables to foreign suppliers	49,829	46,799	106
Payables from advances	2,284	3,433	67
Total trade payables	159,781	148,562	108

Other current liabilities

€50,570 thousand

In € thousand	30 Jun 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	30,237	27,726	109
Derivative financial instruments	0	12,670	0
Other	6,192	7,196	86
Total other current liabilities	50,570	61,733	82

Contingent liabilities

€17,559 thousand

In € thousand	30 Jun 2017	31 Dec 2016	Index
Guarantees issued	16,939	13,598	125
Other	620	620	100
Total contingent liabilities	17,559	14,218	123

Fair value

In € thousand	30 Jun 2017		31 Dec 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade receivables due from subsidiaries	31,884	31,884	23,515	23,515
Non-current loans	19,393	19,393	18,302	18,302
Available-for-sale financial assets	7,674	7,674	10,136	10,136
Current loans	66,048	66,048	52,504	52,504
Short-term financial investments	10,144	10,144	77	77
– shares and interests held for trading	0	0	77	77
– derivative financial instruments	10,144	10,144	0	0
Trade receivables	479,577	479,577	479,234	479,234
Cash and cash equivalents	31,360	31,360	24,049	24,049
Current borrowings	-69,584	-69,584	-105,269	-105,269
Trade payables and other liabilities, excluding amounts owed to the state, to employees and advances	-172,933	-172,933	-160,861	-160,861
Other current liabilities	0	0	-12,670	-12,670
– derivative financial instruments	0	0	-12,670	-12,670
Total	403,563	403,563	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	30 Jun 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	6,313	0	1,361	7,674	8,775	0	1,361	10,136
Shares and interests held for trading	0	0	0	0	77	0	0	77
Derivative financial instruments	10,144	0		10,144	0	0	0	0
Total assets at fair value	16,457	0	1,361	17,818	8,852	0	1,361	10,213
Assets for which fair value is disclosed								
Trade receivables due from subsidiaries	0	0	31,884	31,884	0	0	23,515	23,515
Non-current loans	0	0	19,393	19,393	0	0	18,302	18,302
Current loans	0	0	66,048	66,048	0	0	52,504	52,504
Trade receivables	0	0	479,577	479,577	0	0	479,234	479,234
Cash and cash equivalents	0	0	31,360	31,360	0	0	24,049	24,049
Total assets for which fair value is disclosed	0	0	628,262	628,262	0	0	597,604	597,604
Total	16,457	0	629,623	646,080	8,852	0	598,965	607,817

Liabilities at fair value

In € thousand	30 Jun 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	0	0	0	0	12,670	12,670
Total liabilities at fair value	0	0	0	0	0	0	12,670	12,670
Liabilities for which fair value is disclosed								
Current borrowings	0	0	69,584	69,584	0	0	105,269	105,269
Trade payables and other liabilities, excluding amounts owed to the state, to employees and advances	0	0	172,933	172,933	0	0	160,861	160,861
Total liabilities for which fair value is disclosed	0	0	242,517	242,517	0	0	266,130	266,130
Total	0	0	242,517	242,517	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 six months ended 30 June 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–June 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 six months ended 30 June 2017 were drawn up pursuant to IAS 34 – Interim Financial Reporting,

Novo mesto, 17 July 2017

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 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 relevant transactions with any other related parties.



Jože Colarič,
President of the Management Board and Chief Executive



Dr Aleš Rotar,
Member of the Management Board



Dr Vinko Zupančič,
Member of the Management Board



David Bratož,
Member of the Management Board



Milena Kastelic,
Member of the Management Board – Worker Director