



**Unaudited Interim Report for the
Krka Group and the Krka Company
for January–September 2016**

Novo mesto, November 2016

CONTENTS

INTRODUCTION	3
Operational highlights January–September 2016	3
Krka Group and Krka Company financial highlights	4
Krka Group ID card	5
Krka Group business model	5
Krka Group companies	6
Krka Group development strategy	7
BUSINESS REPORT	9
Financial risk	9
Investor and share information	10
Business operations analysis	12
Marketing and sales	14
Research and development	25
Investments	28
Employees	29
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE KRKA GROUP, WITH NOTES	30
Consolidated statement of financial position of the Krka Group	30
Consolidated income statement of the Krka Group	31
Consolidated statement of other comprehensive income of the Krka Group	32
Consolidated statement of changes in equity of the Krka Group	33
Consolidated statement of cash flows of the Krka Group	35
Segment reporting of the Krka Group	36
Notes to the consolidated financial statements of the Krka Group	37
CONDENSED FINANCIAL STATEMENTS OF KRKA, D. D., NOVO MESTO, WITH NOTES	44
Statement of financial position of Krka, d. d., Novo mesto	44
Income statement of Krka, d. d., Novo mesto	45
Statement of other comprehensive income of Krka, d. d., Novo mesto	45
Statement of changes in equity of Krka, d. d., Novo mesto	46
Statement of cash flows of Krka, d. d., Novo mesto	48
Segment reporting of Krka, d. d., Novo mesto	49
Notes to the financial statements of Krka, d. d., Novo mesto	50
MANAGEMENT BOARD STATEMENT OF RESPONSIBILITIES	57

INTRODUCTION

The condensed consolidated financial statements of the Krka Group and the condensed financial statements of Krka, d. d., Novo mesto (Krka Company) for January–September 2016 and for January–September 2015 are unaudited, while the statements for the full 2015 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. This interim report for the Krka Group and the Krka Company is available on the Krka website www.krka.si.

The Supervisory Board discussed the January–September 2016 Report for the Krka Group and the Krka Company at its regular meeting on 16 November 2016.

Operational highlights January–September 2016

- The Krka Group sold €852.4 million worth of products and services, and Krka Company product sales amounted to €782.5 million.
- The volume of sales increased by 11% at Group level, considerably exceeding the strategic goal »to attain at least a 5% average annual sales growth in terms of volume«. Had the average prices of Krka's products and the exchange rates of the currencies key for Krka's operations in the past nine months remained on the same levels as in last year's comparable period, Krka Group sales would have amounted to €952.1 million, up 10.3% or €99.7 million. However, euro-denominated Krka Group sales, considering current prices, were down 1% compared to the same period last year, and Krka Company sales were down 5%.
- In absolute terms sales were up the most in Region South-East Europe, where they increased by €16.1 million, while the highest relative growth was in Region Overseas Markets, up 20%.
- Contributing 27.0% of Krka Group sales, Krka's largest sales region is East Europe.
- In markets outside Slovenia the Group generated 93%, and the Company 95% of its sales revenues.
- The Krka Group generated €99.7 million of operating profit in the reported period, a year-on-year decrease by 37%. The Krka Company reported €75.3 million of operating profit, down 48% from the same period last year. The decrease is attributable to lower sales caused by continued significant price drops in individual markets and less favourable average exchange rates of certain currencies as compared to the same period last year.
- The Krka Group reported a net profit of €80.3 million, down 40% compared to the same period last year, and the Krka Company generated €72.4 million of net profit, down 46%. This was a result of lower operating profit and the net financial result.
- Consistent with its strategy regarding the dividend-increase policy, Krka paid shareholders a gross dividend of €2.65 per share out of the 2015 distributable profit, which is a 6% increase compared to last year's dividend.
- As at 30 September 2016 Krka's share traded at €61.90 on the Ljubljana Stock Exchange, down 5% from the year-end of 2015. Krka Company's market capitalisation totalled €2.0 billion.
- The Krka Group allocated €88.5 million to investments in the reported period, of which the Krka Company invested €45.9 million and subsidiaries €42.6 million.
- At the end of September 2016 the Krka Group had 10,886 employees, which is 322 or 3% more than at the beginning of the year.

Krka Group and Krka Company financial highlights

In € thousand	Krka Group		Krka Company	
	1–9/2016	1–9/2015	1–9/2016	1–9/2015
Revenues	852,385	863,302	782,538	827,008
EBIT ¹	99,674	157,775	75,307	144,045
EBITDA	178,824	237,505	136,757	205,458
Net profit	80,316	133,339	72,412	134,874
R&D expenses	85,300	84,243	89,385	87,554
Investments	88,516	69,692	45,939	54,324
	30 Sep 2016	31 Dec 2015	30 Sep 2016	31 Dec 2015
Non-current assets	1,012,257	986,598	1,018,998	999,975
Current assets	807,446	822,606	731,823	761,737
Equity	1,411,397	1,405,984	1,416,129	1,433,211
Non-current liabilities	110,041	110,982	76,462	76,753
Current liabilities	298,265	292,238	258,230	251,748
RATIOS	1–9/2016	1–9/2015	1–9/2016	1–9/2015
EBIT margin	11.7%	18.3%	9.6%	17.4%
EBITDA margin	21.0%	27.5%	17.5%	24.8%
Profit margin (ROS)	9.4%	15.4%	9.3%	16.3%
ROE ²	7.6%	12.9%	6.8%	12.8%
ROA ³	5.9%	9.9%	5.5%	10.1%
Liabilities/Equity	0.289	0.277	0.236	0.253
R&D costs/Revenues	10.0%	9.8%	11.4%	10.6%
NUMBER OF EMPLOYEES (as at)	30 Sep 2016	31 Dec 2015	30 Sep 2016	31 Dec 2015
	10,886	10,564	4,866	4,798

SHARE INFORMATION	1–9/2016	1–9/2015
Total number of shares issued	32,793,448	32,793,448
Earnings per share in € ⁴	3.30	5.46
Closing price at end of period in € ⁵	61.90	60.50
Price/Earnings ratio (P/E)	18.74	11.08
Book value in € ⁶	43.04	42.57
Price/Book ratio (P/B)	1.44	1.42
Market capitalisation in € thousand (end of period)	2,029,914	1,984,004

¹ Difference between operating income and expenses

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

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

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

⁵ Share price on the Ljubljana Stock Exchange

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

Krka Group ID card

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

Registered office Šmarješka cesta 6, 8501 Novo mesto, Slovenia

Telephone ++386 7 331 21 11

Fax ++386 7 332 15 37

E-mail info@krka.biz

Website www.krka.si

Core business Production of pharmaceutical preparations

Business clarification code 21.200

Year established 1954

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

Tax number 82646716

VAT number SI82646716

Company ID number 5043611

Share capital €54,732,264.71

Number of issued shares 32,793,448 ordinary registered no-par value shares with the symbol KRKG. Krka's 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 significant presence in the generic pharmaceutical markets of Eastern, Central and South-Eastern Europe, having been increasingly gaining visibility in Western European markets in recent years as well. We have been strengthening our presence in overseas markets, aiming to further exploit the sales potential of the Middle East, Far East, Africa, and the Americas. Our production and distribution facilities are in Slovenia, the Russian Federation, Poland, Croatia and Germany.

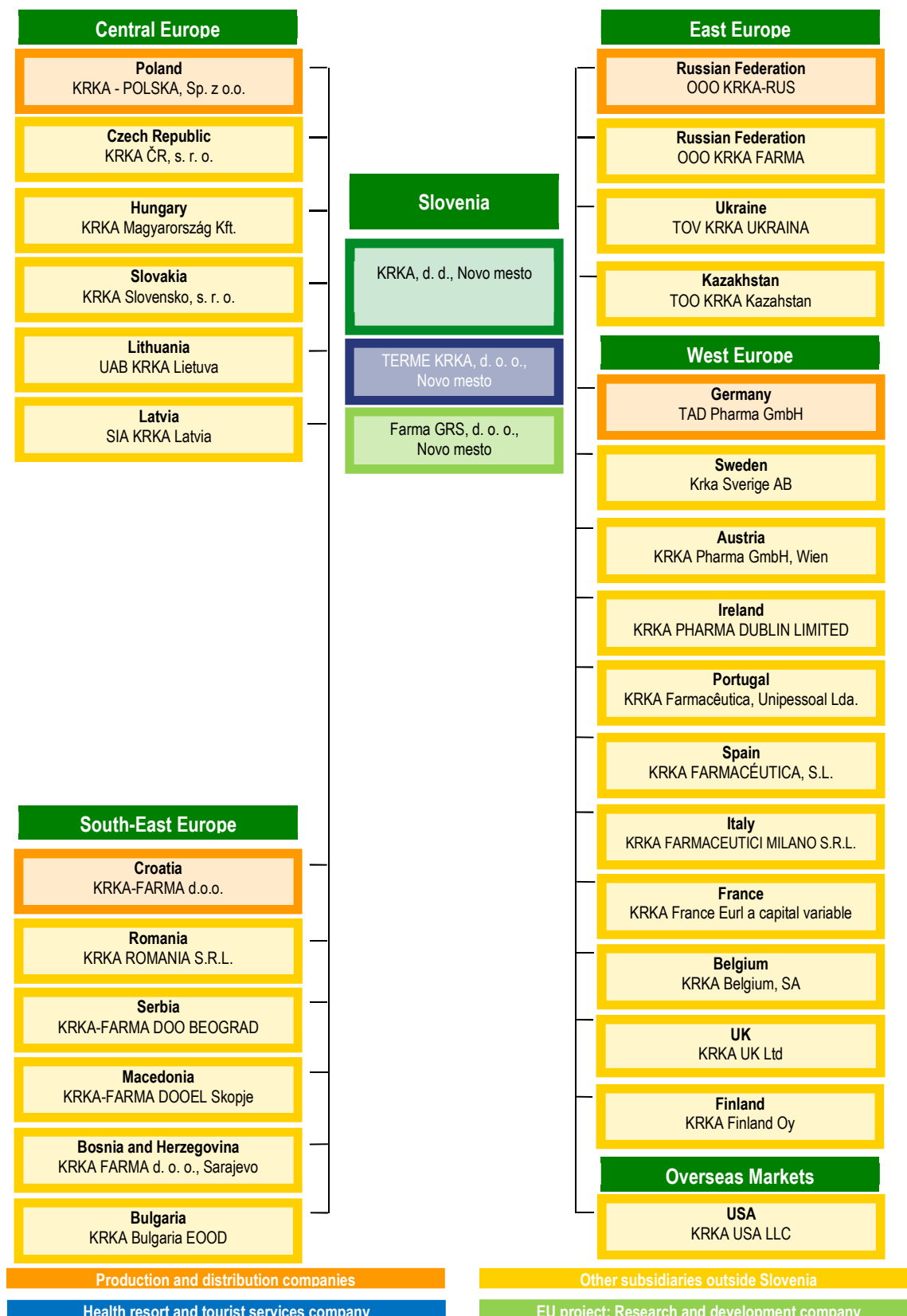
Our modern pharmaceutical production and vertically integrated business model allow us to provide patients in over 70 countries with a wide range of safe, high quality and effective prescription pharmaceuticals, non-prescription products and animal health products. Krka's product assortment primarily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

By establishing subsidiaries in selected markets we have been expanding our marketing and sales network, thereby gaining market shares. 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 our product assortment we have been allocating a substantial proportion of our sales revenues to research and development, with more than 170 new products currently in the pipeline. A substantial proportion of our revenues is generated by the sales of new products launched on different markets in the past five years.

Krka Group companies



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

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

Krka Group development strategy

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

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

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

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

Key strategic objectives to 2020

- To attain at least a 5% average annual sales growth in terms of volume.
- To ensure, in addition to organic growth, growth with acquisitions and long-term partnerships (including joint ventures).
- To allocate a few hundred million euros in the five-year strategic period for take-overs of interesting and available companies.
- To ensure that new products account for at least one third of sales.
- To launch selected products in 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 cost-effectiveness in products.
- 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, Russian Federation, Poland, Hungary, Czech Republic, Slovakia, West Europe), and 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 (medicines for the treatment of cardiovascular diseases, the alimentary tract and metabolism, and the central nervous system) while entering new therapeutic areas (oncology, anti-virus medicines) and, in addition, expanding the range of non-prescription products in selected therapeutic areas.
- 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 develop generic medicines and prepare marketing authorisation documents before the expiry of the patent on the original medicine.
- To strengthen all kinds of connections with external institutions and companies in the field of development.
- To continue increasing investments in production and development capacities and infrastructure.

- To seek possibilities of acquiring local pharmaceutical companies, plan take-overs and mergers and various kinds of long-term business arrangements (joint ventures) in selected markets with the primary objective of attaining market shares and entering new therapeutic fields.
- To reduce the impact of financial and economic risks on the Krka Group operations.
- To pursue a dividend-increase policy, whereby up to 50% of the consolidated profit of majority shareholders generated the year before is allocated to dividends if this be feasible considering the Group's financial requirements for investments and mergers each year.
- To be open to high potential new 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.

Estimated realisation of Krka Group business objectives for 2016

The projected annual product and service sales will match those in 2015. Critical factors influencing the projected sales result are substantial decreases in the prices of pharmaceuticals in most markets, and the depreciation of certain Eastern European currencies, especially the Russian rouble, together with the consequently lower euro-denominated sales. We are trying to mitigate negative influences as far as possible by increasing sales volume in all markets and by engaging in intensive marketing and sales activities. The volume of Krka Group sales will increase by one tenth.

Krka's largest sales region will be East Europe, and the Russian Federation will remain the largest

individual market. Sales in foreign markets are projected to account for 93% of Krka Group sales. Prescription pharmaceuticals remain the most important product group, accounting for over 82% of Krka Group sales.

The 2016 profit is projected to be a solid one third lower than in 2015. We are dedicating a projected €136 million for investments in research and production capacities and infrastructure, as foreseen in the 2016 plan.

At the year-end of 2016 the Krka Group will have 11,100 employees according to projections, 55% of them abroad.

BUSINESS REPORT

Financial risk

Foreign exchange risk

Due to Krka's widespread international operations, certain sales markets present exposure to foreign exchange risk for the Group, most notably to changes in the rate of the Russian rouble.

In the nine months to September our rouble exposure was occasionally hedged with forward contracts. As the rouble appreciated we generated foreign exchange gains, and we incurred expenses arising out of occasional forward contract hedges.

The rouble's value was more stable in the third quarter, a result of more stable oil prices, the Russian central bank's monetary policy and the inactivity of the US Federal Reserve Bank, which did not raise the key interest rate in that period.

Exposure to the rouble exchange rate in the nine months to September resulted in –€8.0 million of net financial expenses.

Foreign exchange risks associated with other currencies, which have resulted in €3.9 million of foreign exchange losses this year, were not hedged in the reported period.

The Group's overall net financial result, taking account of foreign exchange rate differences of all currencies and other financial income and expenses, totalled –€11.2 million.

Our policy of managing foreign exchange risk has remained unchanged. Foreign exchange risks will be hedged with derivatives only in exceptional circumstances and occasionally.

Interest rate risk

The Krka Group was not exposed to reference interest rate risk in the nine months to September

as all non-current borrowings had been paid back in previous years and no new ones were taken out.

Credit risk

The credit control process involves obtaining credit ratings for customers to whom the controlling company and subsidiaries make product sales worth an annual €100,000 or more, and regular dynamic monitoring of their payment discipline.

The policy of credit insurance did not change in the reported period. More than 400 buyers and more than 90% of the Group's trade receivables were included in the credit control process at the end of September 2016.

At the end of the third quarter, total trade receivables were down compared to the half-year. This was due to the seasonal decline in sales in the

third quarter, which is the period with the lowest sales in the year.

Approximately one half of the Group's total trade receivables have credit insurance coverage or are hedged with financial instruments.

The amount of past due and outstanding receivables at the end of the third quarter was at a level that Krka considers normal and acceptable. Customer payment discipline is estimated to have remained unchanged.

We did not write off any major trade receivables in the first three quarters of the year.

Liquidity risk

In the first three quarters of 2016 we managed risks related to the Group's liquidity with effective short-term cash flow planning. Liquidity risk is estimated as low. Short-term liquidity was ensured through a stable cash flow, pre-agreed lines of credit, and

daily, rolling weekly, monthly and longer-term planning and monitoring of cash inflows and outflows. We optimised the amounts of cash on subsidiaries' bank accounts, and regularly provided them with the required funding.

Investor and share information

In the nine months of 2016 the price of Krka's share on the Ljubljana Stock Exchange fell by 5%. The holdings of domestic legal entities and funds were slightly up in this period, by 0.2 of a percentage point. Treasury shares increased by the same.

International investors decreased their shareholdings in the reported period, and the holdings of individual investors remained unchanged. At the end of September 2016 Krka had 56,465 shareholders.

Shareholder structure (holdings in %)

	30 Sep 2016	31 Dec 2015
Individual Slovenian investors	39.8	39.8
Slovenian Sovereign Holding	16.2	16.2
KAD fund and PPS	11.0	11.0
Slovenian companies and funds	8.4	8.2
International investors	23.4	23.8
Treasury shares	1.2	1.0
Total	100.0	100.0

In the first nine months of 2016 Krka repurchased 82,196 treasury shares, worth a total of €4,963,670.

As at 30 September 2016 Krka held 408,473 treasury shares, which represents 1.246% of its share capital.

Krka's ten largest shareholders as at 30 September 2016

	Country	No. of shares	Share in equity (%)	Share of voting rights (%)
Slovenski državni holding, d. d. (Slovenian Sovereign Holding)	Slovenia	5,312,070	16.20	16.40
Kapitalska družba, d.d.	Slovenia	3,493,030	10.65	10.79
Societe Generale-Splitska banka d.d.	Croatia	2,230,172	6.80	6.89
Addiko Bank d.d.	Croatia	1,171,597	3.57	3.62
KDPW – fiduciary account	Poland	470,497	1.43	1.45
Luka Koper d.d.	Slovenia	433,970	1.32	1.34
New World Fund, Inc.	USA	400,000	1.22	1.24
Zavarovalnica Triglav, d. d.	Slovenia	388,300	1.18	1.20
The Bank of New York Mellon	USA	285,433	0.87	0.88
Clearstream Banking SA	Luxembourg	272,641	0.83	0.84
Total		14,457,710	44.09	44.64

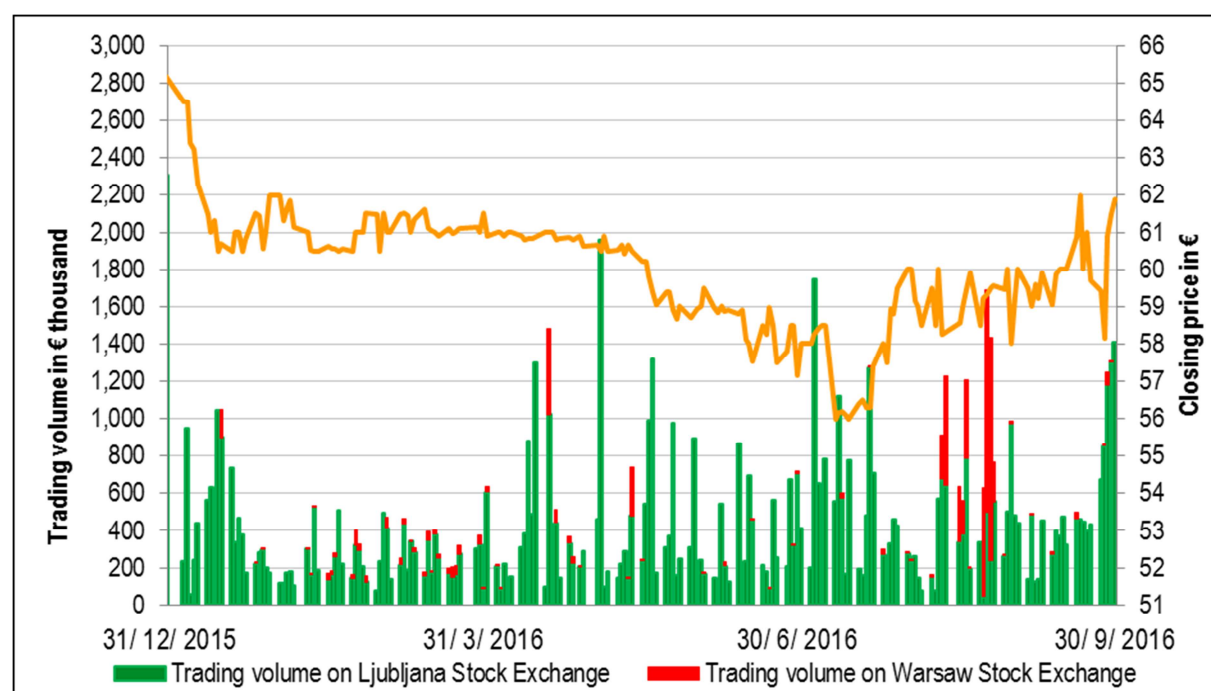
Krka's ten largest shareholders held a total of 14,457,710 shares as at 30 September 2016, which is 44.09% of all issued shares.

As at 30 September 2016, members of the Krka Management Board and Supervisory Board held a total of 39,043 Krka shares, which is 0.12% of all issued shares.

Shares in equity and shares of voting rights held by members of the Krka Management Board and Supervisory Board as at 30 September 2016

	No. of shares	Share in equity (%)	Share of voting rights (%)
Management Board members			
Jože Colarič	22,500	0.0686	0.0694
Aleš Rotar	13,788	0.0420	0.0425
Vinko Zupančič	120	0.0004	0.0004
David Bratož	0	0.0000	0.0000
Milena Kastelic	505	0.0015	0.0016
Total Management Board	36,913	0.1126	0.1138
Supervisory Board members			
Jože Mermal	0	0.0000	0.0000
Julijana Kristl	230	0.0007	0.0007
Simona Razvornik Škofič	0	0.0000	0.0000
Andrej Slapar	0	0.0000	0.0000
Anja Stojin Štampar	0	0.0000	0.0000
Tomaž Sever	500	0.0015	0.0015
Boris Žnidarič	0	0.0000	0.0000
Franc Šašek	1,400	0.0043	0.0043
Mateja Vrečer	0	0.0000	0.0000
Total Supervisory Board	2,130	0.0065	0.0065

Share trading January–September 2016



In the nine months to September Krka's share price on the Ljubljana Stock Exchange peaked at €64.50 at the beginning of the year and reached its low in mid-July, when it stood at €56.00. The closing price of Krka's share on 30 September 2016 was €61.90. Krka's market capitalisation on the Ljubljana Stock

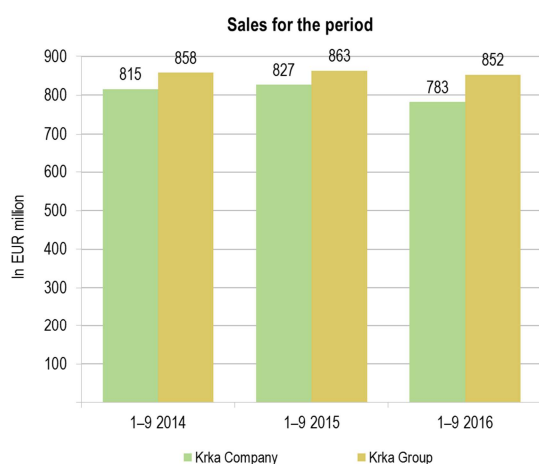
Exchange as at the same day totalled €2.0 billion. Average daily trading volume with Krka's shares in the reported period was €0.4 million.

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 decreased by 1% and by 5% at Company level. The Company sold €782.5 million worth of prescription

pharmaceuticals, non-prescription products and animal health products, while the Krka Group generated €852.4 million of sales revenues from these products plus the health resort and tourist services. The Krka Group generated 93% of sales in markets outside Slovenia.

Considering also other operating and financial income, the Krka Group generated a total of €904.1 million of revenues, of which the Krka Company generated €843.9 million.

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

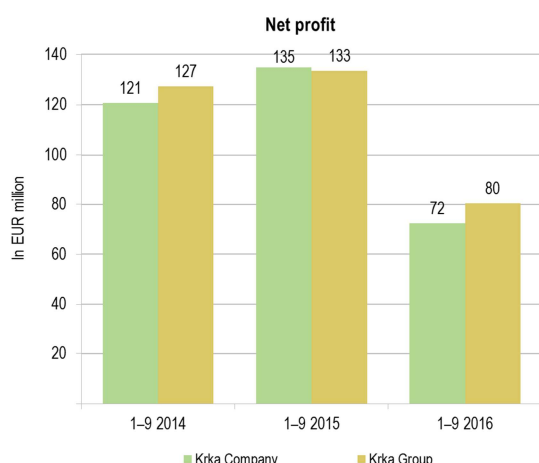
Expenses

Total Krka Group expenses amounted to €815.6 million, up 9% from the same period last year. The increase was mainly due to the significant increase in the volume of sales and the consequently higher costs of goods sold.

The Krka Group incurred €758.0 million of operating expenses, a 4% year-on-year increase, among which the costs of goods sold were €392.7 million, selling and distribution expenses €222.5 million, R&D expenses €85.3 million, and general and administrative expenses €57.5 million.

The Krka Group's costs of goods sold increased by 7% on a cost-to-sales ratio of 46.1%. Selling and distribution expenses remained on the same level year-on-year on a cost-to-sales ratio of 26.1%. R&D expenses increased by 1% on a cost-to-sales ratio of 10.0%. R&D expenses are recognised as expenses for the period in full as the Krka Group does not capitalise them. General and administrative expenses increased by 5% on a cost-to-sales ratio of 6.7%.

Operating result



The Krka Group recorded €99.7 million of operating profit, down 37% compared to the same period last year.

Profit before tax amounted to €88.5 million, a 43% year-on-year decrease. Income tax totalled €8.2 million, and the effective tax rate was 9.3%.

The Krka Group recorded €80.3 million of net profit, down 40% compared to the same period last year, with the Krka Company net profit totalling €72.4 million, down 46%.

Assets

Krka Group assets were worth €1,819.7 million at the end of September 2016, an increase by 1% compared to the end of 2015.

Non-current assets represent 55.6% of total assets, up 1.1 of a percentage point since the beginning of the year. The largest item under non-current assets, which totalled €1,012.3 million, was property, plant and equipment on €849.0 million (3% increase from the end of 2015). Property, plant and equipment

represent 46.7% of the Group's total assets. Intangible assets amounted to €113.4 million, down 3% from the end of 2015.

Current assets were down 2% in the nine months of 2016, to €807.4 million. Inventories increased by 2% to €278.8 million, and receivables also increased by 2%, to €472.0 million (of which trade receivables amounted to €441.1 million, up 2% from the beginning of the year).

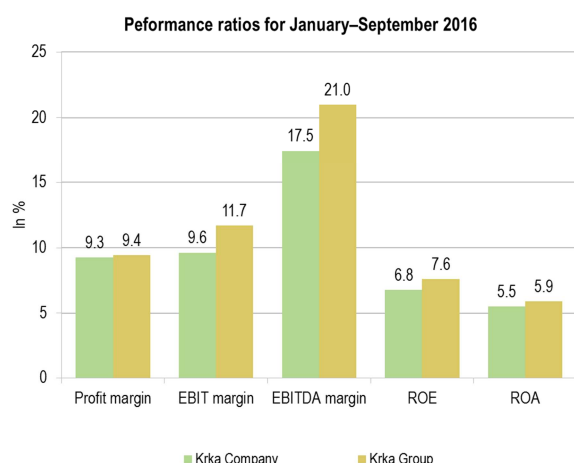
Equity and liabilities

Krka Group equity is at the year-end 2015 level; totalling €1,411.4 million it represents 77.6% of total equity and liabilities.

Amounting to €110.0 million, non-current liabilities represent 6.0% of the Group's total assets. Provisions amounted to €85.1 million at the end of the period and were thus at the same level as at the end of 2015.

Current liabilities increased by 2% from the end of 2015 and totalled €298.3 million, which is 16.4% of the Group's total assets. Among current liabilities, trade payables amounted to €113.5 million, up 9% compared to the year-end of 2015, with other current liabilities up 1% to €182.4 million.

Performance ratios



The Krka Group profit margin for the period January–September 2016 was 9.4% (Krka Company 9.3%), its EBIT margin 11.7% (Krka Company 9.6%) and its EBITDA margin 21.0% (Krka Company 17.5%).

ROE at the level of the Group was 7.6% (Krka Company 6.8%), with ROA at 5.9% (Krka Company 5.5%).

Marketing and sales

The Krka Group product and service sales in the nine months to September were €852.4 million, down 1% from the same period last year. Sales volume increased by 11% compared to last year's

nine-month period. Sales at the level of the Company in the reported period totalled €782.5 million.

Sales by Region

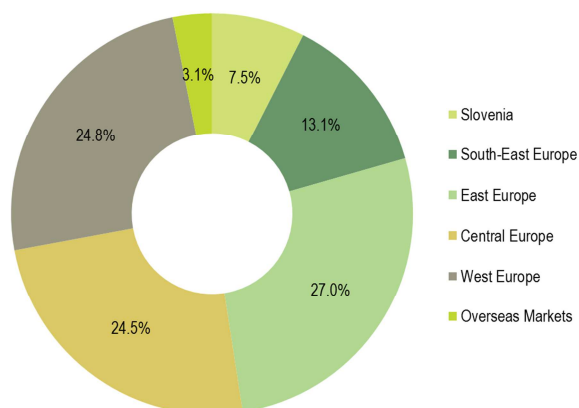
The bulk of sales value, €230.0 million, which is 27.0% of total Group sales, was generated in Region East Europe. The second best result was reported for Region West Europe, with €211.0 million of sales generated there, which represents 24.8% of total sales.

The third largest area in terms of sales was Region Central Europe, where Krka sold €209.1 million

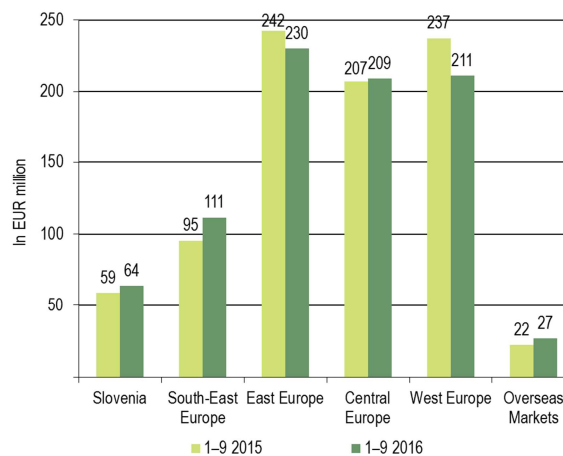
worth of products in the reported period, which is 24.5% of overall sales. In Region South-East Europe product sales amounted to €111.5 million, which represents 13.1% of Group sales. In the domestic market sales totalled €63.9 million, which is 7.5% of total sales, while in the Overseas Markets sales amounted to €26.9 million, which is 3.1% of Group sales.

In € thousand	Krka Group			Krka Company		
	1–9/2016	1–9/2015	Index	1–9/2016	1–9/2015	Index
Slovenia	63,895	58,964	108	39,814	37,309	107
South-East Europe	111,470	95,412	117	116,043	102,983	113
East Europe	229,996	242,279	95	210,094	255,069	82
Central Europe	209,074	206,998	101	211,654	209,868	101
West Europe	211,036	237,270	89	180,351	201,228	90
Overseas Markets	26,914	22,379	120	24,582	20,551	120
Total	852,385	863,302	99	782,538	827,008	95

Krka Group sales by Region, January–September 2016



Krka Group sales by Region, January–September 2015 and 2016



Slovenia

We sold €63.9 million worth of products and services in the domestic market. Overall product sales totalled €36.5 million, their value up 6%. The largest share, 79% or €28.9 million, was generated in prescription pharmaceuticals. Non-prescription product sales represented 17%, totalling €6.3 million, and animal health products contributed the remaining 4% share of overall product sales, which is €1.4 million. Krka is the leading provider of pharmaceuticals in the Slovenian market, holding a 9.3% market share. Health resort and tourist service sales in the period were €25.2 million.

Krka's leading prescription pharmaceuticals in terms of sales were Prenessa and Prenewel (perindopril and its combination with a diuretic), Nolpaza (pantoprazole), Sorvasta (rosuvastatin), Doreta (tramadol and paracetamol) and Atoris (atorvastatin). The leading non-prescription products were Nalgesin S (naproxen), product groups Daleron (paracetamol), Septolete and Septabene (benzylamine and cetylpyridinium), and B-Complex. The main sales drivers among animal health products were Fypryst (fipronil), Enroxil (enrofloxacin) and Grovit.

Marketing and sales activities focused in a major part on products treating cardiovascular diseases, the central nervous system, and the alimentary tract and metabolism. Among products controlling blood pressure, we are highlighting Prenessa (perindopril) and the fixed-dose combinations Prenewel

(perindopril in combination with a diuretic), Amlessa (perindopril and amlodipine) and Amlewel (perindopril and indapamide with a diuretic). Special attention was also devoted to Sorvasta (rosuvastatin), a treatment improving cholesterol levels, and to Rosmela (rosuvastatin and amlodipine), a fixed-dose combination controlling blood pressure and cholesterol. In the area of antidepressants our marketing focus was on the brand Dulsevia (duloxetine), and in the area of antipsychotics on Aryzalera (aripiprazole). Our assortment of analgesics was expanded with the launch of a new and innovative sustained-release pharmaceutical form – the bilayer Doreta SR (tramadol and paracetamol) tablet. As to stomach acid pharmaceuticals, most attention was devoted to Nolpaza (pantoprazole) and Emozul (esomeprazole).

Among products from other indication areas, we are highlighting the antimicrobial pharmaceuticals Moloxin (moxifloxacin) in the form of tablets and infusion, and Linezolid Krka (linezolid) in the form of tablets.

As to the remaining two product groups – non-prescription products and animal health products – our focus in the former was on accelerating sales for Nalgesin S (naproxen) and Bilobil (ginkgo biloba), and, in the latter group, on the recently launched ectoparasiticide Ataxxa (permethrin and imidacloprid).

South-East Europe

Product sales in the markets of South-Eastern Europe amounted to €111.5 million. This is an increase by 17% from the same period last year when we had witnessed major drops in the prices of pharmaceuticals in this region, mainly in its most important markets. Sales value in the nine months to September 2016 was mainly driven by the region's key markets, Romania and Croatia, as well as by Bosnia and Herzegovina, Macedonia and Serbia. Sales increased in all markets in the region, apart from Bosnia and Herzegovina, and Montenegro.

Romania remains the region's leading market, sales there totalling €39.0 million. With a 37% year-on-year sales increase it is also one of the fastest growing individual markets.

The bulk of sales came from prescription pharmaceuticals, among them Atoris (atorvastatin), Dulsevia (duloxetine), Karbis and Karbicombi (candesartan and its combination with a diuretic, Oprymeia (pramipexole), Prenessa and Co-Prenessa (perindopril and its combination with a diuretic), and Roswera (rosuvastatin). As to non-prescription products, we focused on the marketing and sales of cold and flu products, especially Septotele Omni (benzylamine and cetylpyridinium), and of analgesics. The leading animal health products in terms of sales were products for companion animals, especially those offering protection from external and internal parasites.

Product sales in **Croatia**, the second largest market in the region, totalled €20.9 million, up 9% compared to the same period last year. This has preserved our position as the fourth-ranked provider of generic pharmaceuticals in the country and the second-ranked provider of animal health products.

Prescription pharmaceuticals were the leading group of products in terms of sales, the bestsellers among them Atoris (atorvastatin), Co-Perineva (perindopril in combination with a diuretic), Dalneva (perindopril and amlodipine), Doreta (tramadol and paracetamol), Emanera (esomeprazole), Helax (alprazolam), Nolpaza (pantoprazole), Perineva (perindopril), Roswera (rosuvastatin), and Valsacor and Valsacombi (valsartan and its combination with a diuretic). Among treatments for diseases of the central nervous system we are highlighting Elicea (escitalopram) and Dulsevia (duloxetine); the former

for its high market share and the latter for its being the fastest growing product in the group.

As to non-prescription products the best-selling one was Nalgesin (naproxen), and we are also pointing out the fast growth of a new form of the oral antiseptic Septotele Duo (benzylamine and cetylpyridinium). Among veterinary products we are highlighting the bestseller, Fypryst (fipronil), and the fast growing Ataxxa (permethrin and imidacloprid), both treatments for companion animals.

In **Bosnia and Herzegovina** product sales totalled €13.1 million. The 6% year-on-year sales decrease is a result of developments associated with reimbursement lists, domestic producers having been granted privileged positions in certain cantons. Our leading group of products was prescription pharmaceuticals, among which the best-selling ones were Enap (enalapril), including the combination with a diuretic, Roswera (rosuvastatin), Naklofen (diclofenac), Lorista (losartan), including the combination with a diuretic, Lexaurin (bromazepam), Atoris (atorvastatin), and Ampril (ramipril), including the combination with a diuretic. In September we launched the sales of Furocef (cephuroxime).

Sales increased for products available without prescription, particularly Nalgesin (naproxen), B-Complex and Septotele. Animal health product sales were also up, and a new product for the treatment of companion animals was launched, Attaxa (permethrin and imidacloprid).

In **Macedonia** sales amounted to €12.3 million, up 9% year-on-year. This preserved Krka's position as the leading foreign provider of pharmaceuticals. Despite lower reference prices, the main sales drivers were prescription pharmaceuticals, especially Enap (enalapril), including the combination with a diuretic, Roswera (rosuvastatin), Tanyz (tamsulosin), Atoris (atorvastatin), and Lorista (losartan), including the combination with a diuretic. The assortment of prescription pharmaceuticals was expanded with Dulsevia (duloxetine) and Furocef (cephuroxime). Among non-prescription products the sales leaders were Bilobil (ginkgo biloba), Daleron (paracetamol), B-Complex and SeptaNazal (xylometazoline and dexpanthenol). The leading animal health products in terms of sales were Fypryst (fipronil) and Enroxil (enrofloxacin).

The 47% year-on-year sales growth in **Serbia** was the highest in the region. This was due to the substantial decline in sales we had witnessed in 2015 on account of overall price reductions in the country. The bulk of the €9.4 million of sales came from prescription pharmaceuticals, among them Nolpaza (pantoprazole), Roxera (rosuvastatin), Atoris (atorvastatin), Valsacor and Valsacombi (valsartan and its combination with a diuretic), and Ampril (ramipril), including its combination with a diuretic. The main sales drivers among non-prescription products were Bilobil (ginkgo biloba), B-Complex and Septotele, and the leading animal health products were Fypryst (fipronil) and Calfoset.

In **Bulgaria** sales amounted to €8.5 million, an increase by 4% compared to the same period last year. In the leading group of products, prescription pharmaceuticals, sales were the highest for Co-Valsacor (combination of valsartan and a diuretic), Lorista (losartan), including the combination with a diuretic, and Roswera

East Europe

In the region that comprises areas of Eastern Europe and Central Asia our sales totalled €230.0 million, a 5% year-on-year decrease, with the volume of sales up 9%.

Product sales in the **Russian Federation**, Krka's key and largest individual market, totalled €154.3 million, a 9% year-on-year decrease. The euro-denominated sales result is attributable to the lower exchange rate of the local currency, with rouble-denominated sales having increased by 6% and sales volume being up 7%.

The bulk of sales continues to be generated in human health products, among which the main sales drivers in the reported period were Lorista (losartan), including the combination with a diuretic, Atoris (atorvastatin), Enap (enalapril) and its combination with a diuretic, Perineva and Co-Perineva (perindopril and its combination with a diuretic), Nolpaza (pantoprazole), Herbion cough syrup, Zyllt (clopidogrel), Valsacor (valsartan), including the combination with a diuretic, and Roxera (rosuvastatin). Sales value growth increased the most for Lorista and Valsacor. We expect the following new products, which we have started successfully launching on the market, to become relevant sales contributors: Septotele Total (benzylamine and cetylpyridinium), Bravadin (ivabradine), Vamloset (valsartan and amlodipine),

(rosuvastatin), while the fastest sales growth was recorded for Nolpaza (pantoprazole), Emanera (esomeprazole), Doreta (tramadol and paracetamol) and Co-Amlessa (amlodipine and perindopril in combination with a diuretic). High sales growth was recorded in the animal health products section.

Nine-month sales in **Kosovo**, where Krka remains one of the leading suppliers of pharmaceuticals, totalled €4.6 million, up 8% compared to the same period last year. In **Albania** sales amounted to €3.0 million, an 5% year-on-year increase. The leading prescription pharmaceuticals in terms of sales were Atoris (atorvastatin), Enap (enalapril), including the combination with a diuretic, Lorista (losartan), including the combination with a diuretic, and Valsacor and Valsacombi (valsartan and its combination with a diuretic). New additions to our product assortment in the reported period were Helax (alprazolam), Tolura (telmisartan) and Elernap (enalapril and lercanidipine). Product sales in **Montenegro** totalled €0.7 million.

Dalneva and Co-Dalneva (perindopril and amlodipine, and their combination with a diuretic), Lortenza (valsartan and amlodipine), Vizarsin (sildenafil), Dilaxa (celecoxib) and Ulkavis (bismuth). According to the independent source IMS, Krka's sales in the Russian Federation are exceeding the average pharmaceuticals market growth, and therefore Krka's market share is increasing.

Animal health product sales in the Russian Federation totalled €9.6 million in the reported period, up 4% year-on-year. The best-selling product was Floron (florfenicol).

Local products manufactured in the Krka-Rus 2 factory are a vital contribution to the sales result, representing over a half of overall sales. This is strengthening Krka's important status of a domestic producer in the Russian Federation.

The pharmaceuticals market in **Ukraine** witnessed a 4% decline in the reported period, its restructuring to the benefit of cheaper domestic products continuing. Nevertheless, sales in this Krka key market totalled €27.4 million, up 23% compared to the same period last year. Although the sales of non-prescription products doubled, the bulk of Krka's overall sales still comes from prescription pharmaceuticals, among them Enap (enalapril), including the combination with a diuretic, Prenessa

and Co-Prenessa (perindopril in combination with a diuretic), Atoris (atorvastatin) and Dexamethason (dexamethasone). The best-selling products available without prescription were Herbion and Bilobil (ginkgo biloba). Animal health product sales increased by 16%, the leading product being Fypryst (fipronil) from the growing group of products for companion animals.

In **Uzbekistan** sales amounted to €10.8 million, a 19% year-on-year decrease. The negative overall market dynamics were chiefly driven by the depreciation of the local currency and consequently the population's lower purchasing power. Nonetheless, Krka remains the leading EU generic pharmaceutical company in this market. The best sales results were recorded for prescription pharmaceuticals such as Lorista (losartan), including the combination with a diuretic, Enap (enalapril), including the combination with a diuretic, and Amlessa and Co-Amlessa (perindopril and amlodipine, and their combination with a diuretic), and for products available without prescription, among which we are highlighting Pikovit and Duovit. Among newly introduced products in this market we are highlighting Lortenza (losartan and amlodipine) and Septolete Total (benzylamine and cetylpyridinium), and we are also planning to launch the sales of Prenessa (perindopril).

The business environment in **Kazakhstan** has remained demanding at the end of the third quarter, still struggling after last year's depreciation of the local currency by two thirds and the consequent deterioration of the population's purchasing power. The value of Krka's sales was thus down 1% to €9.9 million despite the volume of sales having increased by 22%. The best-selling prescription pharmaceuticals were Enap (enalapril), including the combination with a diuretic, Prenessa and Co-Prenessa (perindopril in combination with a diuretic) and Candecor (candesartan), and the leading non-prescription products were Herbion and Duovit. Two products received a new introduction to the market in the reported period, Pikovit Unique and Septolete Total (benzylamine and cetylpyridinium).

In **Belarus** sales were down 20% year-on-year, and totalled €6.5 million. We nevertheless remain the third-ranked foreign generic pharmaceuticals

provider in this market. The main overall sales drivers were prescription pharmaceuticals, especially Lorista (losartan), including the combination with a diuretic, Amlessa and Co-Amlessa (perindopril and amlodipine, and their combination with a diuretic) and Nolpaza (pantoprazole). The leading non-prescription products were Septolete and Pikovit. Against pressures driving down imports of pharmaceuticals we are strengthening cooperation with a domestic manufacturer of pharmaceuticals.

In **Moldova** sales totalled €4.7 million, which is up 24% in terms of volume and 1% in terms of value. Holding a 4.9% market share, we remain one of the leading providers of pharmaceuticals in this market. The best-selling products were the prescription pharmaceuticals Ampril (ramipril) and Rawel (indapamide), followed by the non-prescription products Septolete, SeptaNazal (xylometazoline and dexpanthenol) and Nalgesin (naproxen). Plans for the future relate to the newly launched products on this market, Septolete Total (benzylamine and cetylpyridinium) and Valsacor (valsartan).

Amidst deteriorated economic conditions in **Mongolia**, reflected in decreased demand for non-prescription products and increased sales of cheaper pharmaceuticals subsidised by the government, our sales totalled €4.1 million, up 17% compared to the same period last year. Krka thus remains the leading exporter of pharmaceuticals to Mongolia. The highest sales growth rate, of 19%, was recorded for prescription pharmaceuticals.

Sales in **Turkmenistan** were up 9% to €3.4 million. The leading products were Nolpaza (pantoprazole) and Herbion. After the bill regulating pharmaceuticals prices was passed in **Azerbaijan**, the pharmaceuticals market there shrank by a third. We nevertheless increased our sales by 3% to €2.6 million, and now hold a 2.5% market share. Product sales in **Georgia** totalled €2.3 million, which is similar to the result for the same period last year. Krka remains the second-ranked foreign generic pharmaceutical company in this market. Product sales in **Kyrgyzstan** increased by 45% to €2.0 million. In **Armenia** sales totalled €1.6 million, up 19%, and in **Tajikistan**, still the region's smallest market, we sold €0.5 million worth of products.

Central Europe

In the majority of Central European markets, including the largest one, Poland, our year-on-year sales increased by the end of the third quarter. Sales in the region were up 1% and amounted to €209.1 million. Sales volume increased by 5%.

Product sales in **Poland**, Krka's key market, totalled €104.9 million, up 2% compared to the same period last year. The bulk of sales was generated in prescription pharmaceuticals, the most important ones being Atoris (atorvastatin), Roswera (rosuvastatin), Valsacor and Co-Valsacor (valsartan and its combination with a diuretic), Doreta (tramadol and paracetamol), Lorista (losartan) and its combination with a diuretic, Nolpaza (pantoprazole), Tolura (telmisartan) and Karbis (candesartan), the last two both in combination with a diuretic. In the group of non-prescription products, the leaders in terms of sales were Bilobil (ginkgo biloba) and Septolete, followed by Naklofen TOP (diclofenac) and SeptaNazal (xylometazoline and dexpanthenol). The leading animal health products in terms of sales were Fypryst (fipronil) and Floron (florfenicol).

In **Hungary**, another one of Krka's key markets, our operations remain affected by changes to their healthcare system, which drove sales down 14% compared to the same period last year to €30.6 million. The most important products in terms of sales were prescription pharmaceuticals, among them the well-established Prenessa (perindopril), including in combination with a diuretic, Atoris (atorvastatin), Roxera (rosuvastatin), Dalnessa (perindopril and amlodipine), including in combination with a diuretic, Zyllt (clopidogrel) and Nolpaza (pantoprazole). The leading non-prescription and veterinary products remained Bilobil (ginkgo biloba) and Fypryst (fipronil), respectively.

Sales in **Slovakia** amounted to €25.7 million, a 13% year-on-year increase. As expected, vital sales drivers were prescription pharmaceuticals, especially Prenessa (perindopril) and Valsacor (valsartan), both also in combination with a diuretic, Atoris (atorvastatin), Nolpaza (pantoprazole) and Amlessa (perindopril and amlodipine), also in combination with a diuretic. The leading non-prescription products in terms of sales were Nalgesin (naproxen) and Septolete, and in the group of animal health products the bestsellers were Enroxil (enrofloxacin) and Fypryst (fipronil).

After operating conditions had gotten more stringent in the **Czech Republic** and changes had been introduced to the country's healthcare system, the situation in this third key market in the region settled down, so that we managed to increase product sales by 7% and thus generate €23.6 million of revenue. The central role in the key group of prescription pharmaceuticals was assumed by Lexaurin (bromazepam), followed by Tonarssa and Tonanda (perindopril and amlodipine, and their combination with a diuretic), Atoris (atorvastatin), Tanyz (tamsulosin), Prenessa and Renewel (perindopril in combination with a diuretic), Pragiola (pregabalin) and Emanera (esomeprazole). As to products available without prescription, Nalgesin (naproxen) and Septolete were the ones that contributed the most to the overall sales result. The leading animal health products in terms of sales were Fypryst (fipronil) and Dehinel (febantel).

Sales in **Lithuania** decreased by 5% compared to the same period last year, totalling €11.7 million. Krka's best-selling prescription pharmaceuticals were Valsacor and Valsacombi (valsartan), Prenessa and Renewel (perindopril), and Amlessa and Co-Amlessa (perindopril and amlodipine), all including combinations with a diuretic. Septolete and Daleron COLD3 (paracetamol, pseudoephedrine and dextromethorphan) were at the forefront in terms of sales in the group of non-prescription products. The key veterinary products remain Fypryst (fipronil) and Enroxil (enrofloxacin).

In **Latvia** sales amounted to €7.8 million, a 10% year-on-year increase. The main sales drivers were prescription pharmaceuticals, especially Prenessa (perindopril), including in combination with a diuretic, Atoris (atorvastatin), and Amlessa and Co-Amlessa (perindopril and amlodipine, and their combination with a diuretic). As to non-prescription products, the best-sellers were SeptaNazal (xylometazoline and dexpanthenol) and Daleron (paracetamol).

In **Estonia** sales totalled €4.8 million, an increase by 12%. The best-selling products in the leading group of prescription pharmaceuticals were Prenessa and Co-Prenessa (perindopril in combination with a diuretic), Roswera (rosuvastatin) and Valsacor and Valsacombi (valsartan and its combination with a diuretic). As to products available without prescription, the best sales results were recorded for

Septolete, Herbion and Nalgesin (naproxen).

West Europe

The volume of sales in Region West Europe, one of our key markets, was up 16%. However, the fall of the prices of pharmaceuticals caused the value of sales to drop 11% compared to the same period last year. Total sales amounted to €211.0 million, mainly driven by sales via subsidiaries, which currently generate 64% of overall sales in the region.

The majority of sales, i.e. 88%, came from prescription pharmaceuticals, which generated €185.0 million. The most sales value among them was generated in the generic esomeprazole, pantoprazole, duloxetine, clopidogrel and candesartan. In terms of volume, the best-selling products were those with the generic pantoprazole, esomeprazole, clopidogrel, perindopril, galantamine, ropinirole, duloxetine and aripiprazole.

For animal health products sales increased by 59% and totalled €23.0 million. Among them the sales leaders are products combining milbemycin oxime and praziquantel in the form of tablets, used to prevent and treat internal parasite infestations in companion animals; 37% of veterinary health sales is generated in these products. Sales growth was also recorded for other antihelmintics, which account for as much as 45% of product sales in this group. The region's largest individual market for animal health products remains France, while we recorded the highest sales growth rates in the Scandinavian countries, Portugal and Germany. Despite the proportion of sales via subsidiaries having climbed from 17 to 34% in comparison to the same period last year, the majority of veterinary product sales in Region West Europe is still generated via partner companies.

The sales of non-prescription products contributed just over 1% of overall sales in the region, them having increased by 4% compared to the same period last year. The chief markets for these products were Germany and Portugal.

Germany remains Krka's most important market in the region. The value of nine-month sales there totalled €67.7 million, a slight year-on-year increase, with the volume of sales up 41%. The largest proportion of sales, 85%, was generated by the subsidiary TAD Pharma. The best-selling products were Pregabador (pregabalin), Duloxalta (duloxetine), Pantoprazol TAD (pantoprazole) and

Candecor (candesartan). In addition to launching BisoDipin, a fixed-dose combination of bisoprolol and amlodipine, used to treat high blood pressure, we were the first and only company in the market in July to launch the fixed-dose combination of losartan and amlodipine with the brand name LosAmlo. More combination products will follow, stepping up Krka's sales in Germany.

Spain has ranked second in terms of sales value in the region, with €27.4 million of revenue generated there. The 16% year-on-year sales decline is attributed to the expiration of certain public tenders in Andalusia. Just over 80% of sales were generated by the subsidiary Krka Farmacéutica. The best sales results were recorded for generic products containing donepezil, bisoprolol, duloxetine and candesartan.

In **France** sales were up 5% compared to the same period last year, to €26.3 million. Sales growth was chiefly driven by the new animal health products and stepped up sales via the subsidiary Krka France, which now generates more than a quarter of Krka's sales in this market. Sales in the **Scandinavian countries** totalled €19.8 million, a year-on-year decrease by 40%. The decline in sales is the result of lower prices of products with duloxetine and aripiprazole in Sweden and Denmark; sales in Finland and Norway, on the other hand, increased by 16% and 14%, respectively. Product sales in **Italy** totalled €15.9 million, down 1% compared to the same period last year. The sales of products under Krka's own brands increased by 44% and now represents more than a half of overall sales in this market. The subsidiary Krka Farmaceutici recorded the best sales results for products with the generic pantoprazole, gliclazide, clopidogrel and lansoprazole. Sales in the **UK** totalled €15.1 million. The 35% year-on-year decline is the result of a major price erosion. In **Portugal** we sold €13.5 million worth of products, down 10% compared to the same period last year. Despite substantial price pressures and, in consequence, lower sales, Krka is increasing its market share and remains the fastest growing provider of pharmaceuticals in Portugal. Sales activities were conducted via unaffiliated companies in the **Benelux** as well. Sales there totalled €7.0 million, down 27% compared to the same period last year. The sales of Krka's products in

Ireland rose by 28% year-on-year, and amounted to €5.8 million. The subsidiary Krka Pharma Dublin generates four fifths of Krka's sales in this market and has reported an 18% growth rate relative to the same period last year. Sales value in **Austria** was up 38% to €5.2 million. The Vienna-based subsidiary Krka Pharma has successfully

Overseas Markets

With €26.9 million of sales Region Overseas Markets remains Krka's smallest yet one of the more dynamic regions. Sales there were up 20% from the same period last year. The majority of sales in all three sales offices came from prescription pharmaceuticals, which are sold under our own brands in the majority of the region's markets.

Despite the situation there, we sold €14.0 million worth of products in the area covered by the sales office **the Middle East**. This is a 43% increase compared to the same period last year. Our most important markets remain Iran, Iraq and Lebanon, and our best-selling products there are Nolpaza (pantoprazole), Asentra (sertraline), Letizen (cetirizine), Vizarsin (sildenafil), Zyllt (clopidogrel) and Valsacor (valsartan).

maintained the position of the leading provider of the generic pregabalin, duloxetine and aripiprazole in the Austrian market, having recorded a 52% year-on-year increase in sales. In the **other European countries** product sales were mainly generated via unaffiliated companies and totalled €7.4 million, up 14% compared to the same period last year.

The sales office **the Far East and Africa** recorded 1% higher sales, which totalled €12.3 million; the best results were reported for the Republic of South Africa, Vietnam, China, Ghana and Malaysia. Our best-selling products were Lanzul (lansoprazole), Enap (enalapril), including the combination with a diuretic, Sabal (Serenoa repens), Tenox (amlodipine), Kamiren (doxazosin) and Atoris (atorvastatin).

Product sales in the sales office **the Americas** totalled €0.7 million in the nine months of 2016, up 39% compared to the same period last year, the majority generated in the markets of Central America. The best-selling products were Valsacor and Valsaden (valsartan and its combination with a diuretic), Tolura and Tolucombi (telmisartan and its combination with a diuretic) and Vizarsin (sildenafil).

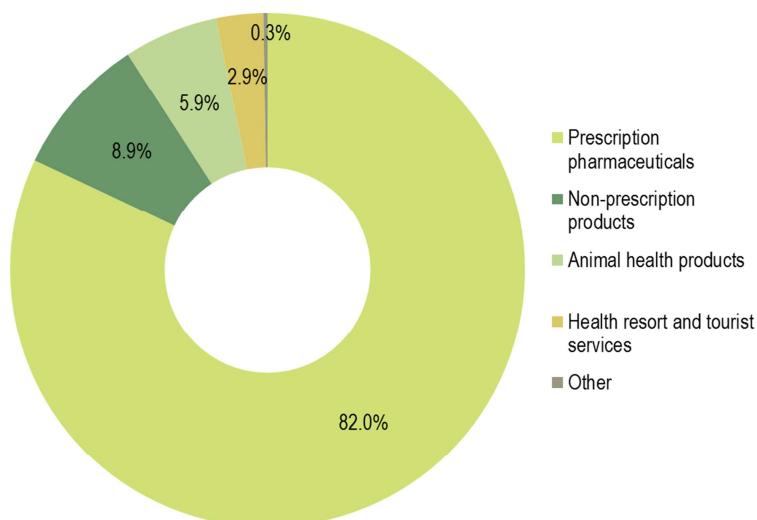
Sales by product and service groups

The Krka Group generated 90.9% of overall sales during the nine months to September 2016 in human health products, making this Krka's most important product group. Prescription pharmaceuticals accounted for the largest proportion of sales, 82.0%, followed by non-

prescription products with a 8.9% share and animal health products with a 5.9% share in Krka Group sales. Health resort and tourist services represent 2.9% of Krka Group sales, and 0.3% is other sales revenues.

In € thousand	Krka Group			Krka Company		
	1-9/2016	1-9/2015	Index	1-9/2016	1-9/2015	Index
Human health products	774,607	799,717	97	729,627	785,140	93
– Prescription pharmaceuticals	699,093	725,261	96	664,212	718,187	92
– Non-prescription products	75,514	74,456	101	65,415	66,953	98
Animal health products	50,404	39,143	129	49,642	39,081	127
Health resort and tourist services	25,177	23,083	109			
Other	2,197	1,359	162	3,269	2,787	117
Total	852,385	863,302	99	782,538	827,008	95

Krka Group sales by product and service groups, January–September 2016



Prescription pharmaceuticals

The Krka Group sold €699.1 million worth of prescription pharmaceuticals, down 4% compared to the same period last year. Sales increased in regions South-East Europe (up 20%), Overseas Markets (up 21%) and Slovenia (up 4%). In Region Central Europe sales remained on a similar level as in the same period last year, while in regions East Europe and West Europe they decreased.

With respect to large markets for Krka's prescription pharmaceuticals, sales increased in Poland (by 1%) but decreased in the Russian Federation, which was due to a less favourable rouble exchange rate, and in Germany, where they were driven down by major price erosions. In both these markets sales declined by 8%.

As to other large markets, year-on-year sales of prescription pharmaceuticals were up the most in Romania (50%), Ukraine (14%) and Slovakia (13%).

With respect to mid-size markets, the highest sales growth rates were recorded in Serbia (up 60%), Macedonia (up 11%) and Croatia (9%), and among small markets in Kyrgyzstan (up 62%), Austria (up 38%), Ireland (up 21%), Mongolia (up 19%) and Armenia (up 17%).

We have been strengthening our position in the markets of Western Europe via Krka's subsidiaries, their year-on-year sales results up considerably, the most in France (87%), Austria (52%), Italy (40%) and Finland (16%).

The ten leading prescription pharmaceuticals in terms of sales are Atoris (atorvastatin), Lorista* (losartan), Nolpaza* (pantoprazole), Prenessa* (perindopril), Valsacor (valsartan), Enap (enalapril), Emanera* (esomeprazole), Roswera* (rosuvastatin), Zyllt* (clopidogrel) and Karbis* (candesartan).

The highest year-on-year sales growth rates in absolute terms were recorded for Nolpaza* (pantoprazole), Roswera* (rosuvastatin), Doreta (tramadol and paracetamol) and Amlessa* (perindopril and amlodipine), and for Ralago* (rasagiline), this year's new launch on the majority of markets.

In 2016 we were the first provider in Europe to launch the fixed-dose combination of rosuvastatin and amlodipine, Rosudapin*, in Poland, Slovenia and Latvia. We were among the first generic providers to launch Ralago* (rasagiline), a treatment for Parkinson's disease, on several markets, including Central European markets (Hungary, Slovakia, Lithuania, Latvia and Estonia), Western European markets (Portugal, Finland, Ireland, Spain, Austria and the Benelux) and Romania. Hungary was the first EU market on which we launched Bravadin* (ivabradine).

Non-prescription products

We sold €75.5 million worth of non-prescription products, a year-on-year increase by 1%.

Sales were up in regions Slovenia (22%), Central Europe (18%) and West Europe (4%). In Region South-East Europe they remained on a similar level as in the same period last year, while in Region East Europe they were down.

We also launched numerous other products on new markets:

- candesartan and hydrochlorothiazide in Belgium;
- Bisodipin* (bisoprolol and amlodipine) and bisoprolol in Germany;
- Vamloset* (valsartan and amlodipine) in Azerbaijan, Uzbekistan and Armenia;
- Prenessa (perindopril) in Moldova;
- Co-Amlessa* (perindopril, indapamide and amlodipine) in Belarus, Azerbaijan, Ukraine and Serbia;
- carvedilol in Spain;
- Losamlo* (losartan and amlodipine) in Germany, Georgia and Uzbekistan;
- Bloxazoc* (metoprolol) in sustained-release dosage form in the Czech Republic, Poland, Finland, Spain, Lithuania, Latvia, Estonia and the Scandinavian countries;
- Doreta* (tramadol and paracetamol) in sustained-release dosage form in Poland, Slovakia, Portugal, Slovenia and Bulgaria;
- pregabalin in France;
- Dulsevia (duloxetine) in Macedonia and Georgia;
- aripiprazole in France;
- Oprymea* (pramipexole) sustained release tablets in Poland;
- Levalox* (levofloxacin) in Lithuania, Ireland, France and Austria;
- Furocef* (cephuroxime) in Lithuania, Latvia, Spain, Bosnia and Herzegovina and Macedonia;
- linezolid in Germany, Slovenia, Austria, Scandinavia, Estonia, Finland, Ireland and Slovakia;
- Dilaxa* (celecoxib) in the Russian Federation;
- Ulcavis (bismuth) in the Russian Federation;
- the oncology assortment imatinib and letrozole in Serbia, and Ecansya (capecitabine) in Latvia.

In the largest market, the Russian Federation, sales decreased, while among other large markets they increased the most in Ukraine, where they doubled, in the Czech Republic (up 68%), Hungary (up 43%), Kazakhstan (up 32%), Croatia (up 22%), Slovakia (up 18%) and Serbia (up 13%).

The successful sales of the newly launched products Septotele total/Septabene* and

Septanazal also continued, and the sales of

Nalgesin* (naproxen) were also up.

Animal health products

Animal health product sales totalled €50.4 million, up 29% from the same period last year. Sales growth was recorded in all markets apart from Slovenia, increasing the most in regions West Europe (up 59%), Central Europe (up 20%), South-East Europe (up 7%) and East Europe (up 6%).

Among the largest markets, sales increased most notably in Germany (fourfold) and the UK (twofold), but also in France (up 45%), Poland (up 13%) and the Russian Federation (up 4%). As to the other large markets, high sales growth rates were

reported in the Czech Republic (up 63%), Hungary (up 16%), Lithuania (up 20%) and Ukraine (up 16%).

The top five sales leaders are Milprazon* (milbemycin oxime and praziquantel), Fypryst* (fipronil), Floron* (florfenicol), Enroxil* (enrofloxacin) and Dehinel plus (febantel, pyrantel embonate and praziquantel). This year's new launch was Ataxxa* (imidacloprid and permethrin), a spot-on solution for dogs, which we launched on certain markets of Central and South-Eastern Europe and in Slovenia.

Health resort and tourist services

In the nine months to September 2016 the Terme Krka Group generated €25.2 million of sales, an increase by 9% compared to the same period last year.

The largest business unit in terms of sales was Talaso Strunjan, where sales were up 8%, followed by Terme Dolenjske Toplice, where sales increased by 14%, and Terme Šmarješke Toplice with a 9% growth. The Hoteli Otočec business unit reported sales similar to those of the same period last year.

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

Research and development

In the first nine months of 2016 we obtained marketing authorisations for eight new products (Ravalsyo/Valarox/Valsaros/Ravalsya, Bixebra/Bravadin, Roticox/Etoxib/Etorix/Itorox, Dexamethason Krka, Moloxin 400 mg/250 ml solution for injection, Lorista 150 mg film-coated

Prescription pharmaceuticals

We obtained marketing authorisations for six new prescription pharmaceuticals in the reported period.

There are three new additions in our key group of cardiovascular pharmaceuticals. Applying the European decentralised procedure we were the first to obtain a marketing authorisation for the new fixed-dose combination **Ravalsyo/Valarox/Valsaros/Ravalsya** (valsartan and rosuvastatin) in the form of film-coated tablets in four strengths. The medicinal product is a unique blend of two well-established active substances, the blood-pressure lowering valsartan and the cholesterol-lowering rosuvastatin. As the first ever such combination the product enables achieving optimum concentrations of both substances by patients taking fewer tablets, and thus offers efficient and integral control over cardiovascular conditions.

Applying the European decentralised procedure we were the first generic company to obtain marketing authorisations in 11 European countries for **Bixebra/Bravadin** (ivabradine) film-coated tablets in the two strengths of 5 mg and 7.5 mg. Ivabradine is a specific medication that reduces the heart rate. Its immediate and long-lasting effect on cardiac contractility results in long-term improvements of the cardiac function. In patients with heart failure and angina pectoris, adding ivabradine to standard therapy will optimize treatment, reduce subsequent hospitalisations and the risk of cardiovascular complications, and thus improve quality of life.

In the Russian Federation we were granted marketing authorisations for **Lorista** (losartan) 150 mg film-coated tablets. The new strength of the medicine enables a new manner of determining dosage in the treatment of chronic heart failure. For a maximum daily dosage the patient has to take a single tablet a day, which simplifies the use of the medicinal product.

tablets, Doxatib and Flebaven). Applying different marketing authorisation procedures in different countries we obtained 291 new approvals for prescription pharmaceuticals, non-prescription products and animal health products.

We obtained marketing authorisations for the antibiotic **Moloxin** (moxifloxacin) in the form of solution for injection in the concentration 400 mg/250 ml. It has a wide antimicrobial mode of action and is used to treat pneumonia, dermal infections and soft tissue infections. Together with Moloxin tablets it supplements Krka's assortment of antimicrobial pharmaceuticals. The product was approved for marketing in 14 European countries under the decentralised procedure.

Also under the European decentralised procedure we were the first to obtain marketing authorisations for **Dexamethason Krka** (dexamethasone) tablets in the strengths of 4 mg, 8 mg, 20 mg and 40 mg; we were the first to obtain approvals for the latter two strengths. Dexamethasone, a corticosteroid, has a wide spectrum of action. The wide range of dosage strengths facilitates a new approach to treatment, whereby optimum dosages in the treatment of different conditions are arrived at using fewer single doses. High doses are used mainly in the treatment of oncology patients, making the new product a new addition in Krka's group of oncology medications as well.

A new addition in the group of non-steroidal antirheumatic and anti-inflammatory medicines is **Roticox/Etoxib/Etorix/Itorox** (etoricoxib) in the form of film-coated tablets in four strengths, which we obtained marketing authorisations for under the European decentralised procedure. It is indicated for the treatment of symptoms of degenerative and inflammatory rheumatism and for short-term treatment of moderate pain following dental surgery. It is distinguished by few adverse effects in the upper alimentary tract. The product does not contain lactose and is therefore equally suitable for lactose intolerant patients.

We expanded marketing opportunities in European markets by obtaining marketing authorisations for Krka's key cardiovascular pharmaceuticals,

medicines treating diseases of the central nervous system and analgesics. Important are the additional approvals for the innovative cardiovascular combination **Alortya/Tenloris/LosAmlo** (losartan and amlodipine) in the form of film-coated tablets in four strengths, which we were the first to obtain marketing authorisations for under the decentralised procedure in Slovenia, Germany and the Czech Republic. The complementary action of the product's two active substances reduces the likelihood of adverse effects and improves treatment tolerability. Applying decentralised procedures we obtained approvals to market the medicinal product **Olimesta/Olmecor/Olimestra** (olmesartan) in the form of film-coated tablets in three strengths, and the fixed-dose combination **Olimesta Comp/Olimesta Combi/Olmecor HCT/Co-Olimestra** (olmesartan and hydrochlorothiazide) in the form of film-coated tablets in four strengths. As to treatments for Parkinson's disease, we obtained an additional approval under the European decentralised procedure to market **Ralago/Rasagea** (rasagiline) 1 mg tablets.

Applying the national procedure we acquired marketing authorisations in Portugal for the combination analgesic **tramadol and paracetamol Krka** in the form of 75 mg/650 mg film-coated tablets.

New marketing authorisations were obtained in different markets of Eastern Europe for Krka's key products from various indication groups. In the area of pharmaceuticals for the treatment of cardiovascular conditions we obtained additional marketing authorisations for **Roswera** (rosuvastatin), **metoprolol** in the form of sustained release tablets in four strengths, and the fixed-dose combinations **Co-Amlessa** (perindopril, amlodipine and indapamide), **Co-Prenessa** (perindopril and indapamide) and **Sobycombi/Niperten combi** (bisoprolol and amlodipine). As to sartans and their combinations, we expanded marketing opportunities for **Lortenza** (losartan and amlodipine), **Vamloset** (valsartan and amlodipine), **Telmista H** and **Telmista HD** (telmisartan and hydrochlorothiazide), **Lorista H 100** (losartan and hydrochlorothiazide),

Firmasta H 150, **Firmasta H 300** and **Firmasta HD 300** (irbesartan and hydrochlorothiazide), **Atoris** (atorvastatin) and **Valsacor** (valsartan). As to antimicrobial pharmaceuticals, we additionally obtained approvals for **Azibiot** (azithromycin) 250 mg and 500 mg tablets, **Moflaxya** (moxifloxacin) tablets, and **Levaxela/Levnibiot** (levofloxacin) film-coated tablets and solution for injection. As to cancer treatments, new marketing authorisations were obtained for **Neopax** (imatinib) and **Letrozole Krka** (letrozole). Additional marketing authorisations expanded our marketing opportunities for **Pregabia** (pregabalin), **Kventiax SR** (quetiapine) sustained release tablets, **Kventiax** (quetiapine) film-coated tablets, **Nolpaza** (pantoprazole) powder for the preparation of solution for injection, **Cezera** (levocetirizine), **Doreta** (tramadol and paracetamol), the **Naklofen** gel and injections, and **Vizarsin QTab** (sildenafil) orodispersible tablets.

In the markets of South-Eastern Europe we increased the number of marketing authorisations for the antibiotics **Azibiot** (azithromycin), **Amatib** (amoxicillin) in the form of powder for oral administration, **Furocef** (cephuroxime) in the form of film-coated tablets, and **Levalox** (levofloxacin) in the form of film-coated tablets and solution for injection. New marketing authorisations were obtained for the cardiovascular treatments **Bloxazoc** (metoprolol) and the combinations **Rosudapin** (rosuvastatin and amlodipine) and **Tenloris** (losartan and amlodipine). As to treatments for the central nervous system, we additionally obtained marketing authorisations for **Dulsevia** (duloxetine), **Pragiola** (pregabalin), **Aryzalera** (aripiprazole) and **Oprymea** (pramipexole). We expanded marketing opportunities for the **Ecansya** (capecitabine) cytostatic and the **tramadol** analgesic in the form of solution for injection.

Expanding our product assortment in overseas markets, we obtained new marketing authorisations in different countries for **Ezoleta** (ezetimibe), **Repa TAD** (repaglinide) and **Sertra TAD** (sertraline).

Non-prescription products

In the Russian Federation we obtained a first marketing authorisation for **Flebaven** film-coated tablets. They contain 500 mg of purified flavonoid fraction, which equals 450 mg of diosmin and 50 mg of flavonoids expressed as hesperidin. It is used to treat symptoms of chronic venous insufficiency, lymphedema and acute hemorrhoidal disease.

Applying the decentralised procedure we obtained additional approvals in European markets for the **Septanazal nasal spray for adults** and the **Septanazal nasal spray for children**.

In different markets we obtained additional marketing authorisations to expand markets for certain key cold and flu products. The **Septanazal nasal spray for adults** and the **Septanazal nasal spray for children** were approved in Azerbaijan

Animal health products

Marketing approval was granted for **Doxatib** (doxycycline), a new product in the form of powder for use in drinking water. Applying the European decentralised procedure we acquired marketing authorisations for it in 19 European countries. It is the first choice of medicine in the treatment of respiratory infections in pigs and chickens, and supplements the assortment of antimicrobial products for food-producing animals. It was also approved in the large 5 kg pack, suitable for use on big farms.

We increased the number of marketing authorisations and consolidated our established brands. We were the first generic company to obtain marketing authorisations in 15 European countries applying the European decentralised procedure, and in Kazakhstan under the national procedure, for **Fypryst Combo/Fyperix Combo/AmfleeCombo** (fipronil and s-methoprene) in the form of spot-on solution in five strengths, a product preventing and treating tick, flea and lice infestations in cats, dogs and skunks. The product enables a modern and wholesome treatment of external parasite infestations and acts on all life cycle stages of fleas.

As to treatments for food-producing animals, we obtained marketing authorisations under national procedures in Belgium for the **Enrox classic** (enrofloxacin) solution for injection, and in Croatia for the **Floron Minidose** (florfenicol) solution for

and Mongolia, and the **Septolete Total/Septolete Extra** spray and lozenges in Moldova, Turkmenistan, Uzbekistan, Azerbaijan, Mongolia, Georgia, Armenia and Ukraine.

In expanding markets for our products in overseas markets, we obtained marketing authorisations for **Septolete Apple**, **Septolete Cherry** and **Septolete Lemon** (cetylpyridinium chloride) in the Republic of South Africa.

As to herbal products, markets were expanded for the **Herbion ivy** syrup, for which marketing approvals were granted under the European decentralised procedure in three countries. Additionally, we obtained approvals for **Herbion Iceland moss** syrup in Mongolia and Armenia.

injection. In Serbia, Ukraine and Moldova marketing authorisations were acquired for the **Amatib** (amoxicillin) oral powder for the treatment of respiratory infections. In addition, we were granted marketing authorisations in Bosnia and Herzegovina for the **Deheman** (levamisole) oral powder for the treatment of intestinal parasites and lung worms. In the markets of Eastern Europe we also obtained marketing approvals for **Gentamicin** in the form of solution for injection, **Giraxa** (colistin) in the form of oral powder, and **Entemulin** (tiamulin) in the form of water soluble granules for use in drinking water, for treating infections.

We expanded markets for our products for companion animals. In Bosnia and Herzegovina and in Macedonia we obtained approvals to market the fixed-dose combination **Ataxxa** (imidacloprid and permethrin) in the form of spot-on solution in four strengths, for dogs. Marketing authorisations were granted in Ukraine, Kazakhstan and Macedonia for the **Marfloxin** (marbofloxacin) solution for injection treating infections in cats and dogs. In Serbia we additionally obtained marketing authorisations for the fixed-dose combination **Milprazon** (milbemycin oxime and praziquantel) in the form of film-coated tablets in two strengths, for cats. It is intended to treat and prevent infestations with intestinal worms. In Moldova we expanded marketing authorisations for **Enroxil** (enrofloxacin) flavoured tablets for the treatment of mixed infections in cats and dogs, the **Fypryst** (fipronil) spot-on spray for the elimination of

external parasites, and the **Rycarfa** (carprofen) pain

reliever in the form of flavoured tablets.

Investments

In the first nine months of the year the Krka Group allocated €88.5 million to investments, of which the controlling company invested €45.9 million and subsidiaries €42.6 million. Investments were primarily increasing and modernising our production and R&D capacities.

At Krka's main location in Ločna, Novo mesto, Slovenia we officially opened in November 2015 a plant for solid dosage pharmaceuticals, Notol 2. The €200 million investment provides new capacities for implementing the vertically integrated business model, with which we control the entire process from development to production of both raw materials and finished products. New production lines will gradually be added by the end of next year to increase the plant's production capacity to the target 4.5 billion tablets and capsules per year.

Krka's key investment to support development activities and quality assurance in the following years is the Development and Control Centre (RKC) 4, located in the group of production facilities in Novo mesto. RKC 4 will be located in the immediate vicinity of the other three Development and Control Centres, and will connect to RKC 2 and RKC 3. Site preparation work for the €54 million RKC 4 had started in June 2015. The facility is now constructed, with the roof and all builders' joinery fitted. The connecting building between RKC 3 and RKC 4 has also been constructed. It will have been completed by early 2017 to the stage at which equipment installation can begin. The construction of the new facility with the total surface area of 18,000 m² will be finished in 2017.

The €8 million investment into increasing the production of sprays in the sterile product production plant is in its final phase. Production lines will be ready for operation by the end of the year.

Also ongoing is the €11 million investment into increasing the capacity for the coating of pellets in the solid dosage forms plant (OTO). Additional

capacities will be made ready for production by the end of June 2017.

The replacement of two high bay lifts in the Notol facility has stepped up the speed and reliability of its logistics system.

A new investment in Krško, Slovenia, Hydrogenation 2, will facilitate the implementation of technologies that require hydrogenation and will increase our independent API production capacity. The project is in the design phase and we are in the process of obtaining the necessary consents in advance of a building permit.

As to Krka's subsidiaries, the most important ongoing investment is Krka-Rus 2 in Istra, the Russian Federation. The first stage of the project had included building a new plant and logistics centre, and in 2015 we started fitting additional technological and logistics equipment, which will bring the warehouse and logistics centre to full capacity. The total value of additional equipment, which will be installed by the end of the year, is €30 million.

Due to the expansion of the production programme in the Jastrebarsko distribution and production centre in Croatia, we are converting the warehousing and distribution segment of the facility to acquire new production and laboratory facilities for solid dosage pharmaceuticals. Equipment installation and assembly will be taking place through to the end of the year, and the start-up of production on the new technological equipment is planned for the first half of 2017. The investment is estimated at €34 million.

In our German subsidiary TAD Pharma we have completed a €0.6 million investment into upgrading climatic conditions in production areas and laboratories so that they now comply with the principles of Good Manufacturing Practice (GMP).

Employees

In the first nine months of 2016 the number of Krka Group employees increased by 322, or 3%. At the end of September the Krka Group had 10,886 employees.

Krka's subsidiaries and representation offices outside Slovenia employ 55% of the Group's employees, and more than 56% of the entire Krka team have at least a university level degree.

Educational structure

	30 Sep 2016		31 Dec 2015	
	No. of employees	Share (%)	No. of employees	Share (%)
PhD	168	1.5	152	1.4
MSc	385	3.5	349	3.3
University degree	5,585	51.3	5,291	50.1
Higher professional education degree	1,414	13.0	1,385	13.1
Vocational college degree	263	2.4	304	2.9
Secondary school education, level V	1,878	17.3	1,844	17.5
Other	1,193	11.0	1,239	11.7
Total Krka Group	10,886	100.0	10,564	100.0

We ensure a continuous inflow of new employees by offering study grants to students. Currently there are 46 students that receive Krka scholarships. They are primarily pharmacy and chemistry students, while Krka also awards scholarships to outstanding students from other fields that are of interest to the Company. Through a staff development system and succession planning we make sure that most of Krka's key personnel requirements – both in terms of field experts and managers – are catered for within the Group.

Krka employees undergo additional training, both in Slovenia and abroad, related to various professional areas of expertise, quality, management, personal growth, foreign languages and informatics. Trainings are adjusted to the needs of our colleagues, the technological process, market situation and development needs of the Group. The majority of these trainings are organised in-house,

and they are constantly updated and supplemented with new types better adjusted to the contemporary line of work.

There were 131 Krka employees enrolled into part-time university studies co-funded by Krka at the end of September, 32 of them postgraduate students. 27 Krka's employees have completed their studies this year.

We are the only provider in the country for six National Vocational Qualification (NVQ) programmes in the area of pharmaceutical industry. Between 2002 and September 2016 we have awarded as many as 1,381 certificates – 1,239 to Krka employees and 142 to participants from other companies and pharmacies. There are currently 78 Krka employees in the process of obtaining a NVQ certificate.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE KRKA GROUP, WITH NOTES

Consolidated statement of financial position of the Krka Group

In € thousand	30 Sep 2016	31 Dec 2015	Index
Assets			
Property, plant and equipment	849,047	826,192	103
Intangible assets	113,410	116,940	97
Loans	9,422	7,696	122
Investments	9,438	7,580	125
Deferred tax assets	30,689	27,949	110
Other non-current assets	251	241	104
Total non-current assets	1,012,257	986,598	103
Assets held for sale	45	41	110
Inventories	278,770	272,878	102
Trade receivables	441,054	433,133	102
Other receivables	30,955	31,540	98
Loans	537	37,380	1
Investments	77	11,808	1
Cash and cash equivalents	56,008	35,826	156
Total current assets	807,446	822,606	98
Total assets	1,819,703	1,809,204	101
Equity			
Share capital	54,732	54,732	100
Treasury shares	-25,043	-20,071	125
Reserves	94,891	73,387	129
Retained earnings	1,285,552	1,296,688	99
Total equity holders of the parent	1,410,132	1,404,736	100
Non-controlling interests within equity	1,265	1,248	101
Total equity	1,411,397	1,405,984	100
Liabilities			
Provisions	85,142	84,865	100
Deferred revenue	12,461	13,381	93
Deferred tax liabilities	12,438	12,736	98
Total non-current liabilities	110,041	110,982	99
Trade payables	113,483	103,871	109
Income tax payable	2,393	8,030	30
Other current liabilities	182,389	180,337	101
Total current liabilities	298,265	292,238	102
Total liabilities	408,306	403,220	101
Total equity and liabilities	1,819,703	1,809,204	101

Consolidated income statement of the Krka Group

In € thousand	1–9/2016	1–9/2015	Index
Revenues	852,385	863,302	99
Costs of goods sold	-392,686	-367,114	107
Gross profit	459,699	496,188	93
Other operating income	5,263	23,998	22
Selling and distribution expenses	-222,492	-223,233	100
R&D expenses	-85,300	-84,243	101
General and administrative expenses	-57,496	-54,935	105
Operating profit	99,674	157,775	63
Financial income	46,446	13,649	340
Financial expenses	-57,608	-16,978	339
Net financial result	-11,162	-3,329	335
Profit before tax	88,512	154,446	57
Income tax	-8,196	-21,107	39
Net profit	80,316	133,339	60
Attributable to:			
– equity holders of the parent	80,299	133,373	60
– non-controlling interest	17	-34	
Basic earnings per share* (in €)	2.48	4.09	60
Diluted earnings per share** (in €)	2.48	4.09	60

* 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	1–9/2016	1–9/2015	Index
Net profit	80,316	133,339	60
Other comprehensive income for the period			
Other comprehensive income reclassified to profit or loss in future periods			
Translation reserve	14,591	-1,252	
Change in fair value of available-for-sale financial assets	1,858	9	
Deferred tax effect	-448	-2	
Other	0	-817	
Net other comprehensive income reclassified to profit or loss in future periods	16,001	-2,062	-776
Total other comprehensive income for the period (net of tax)	16,001	-2,062	-776
Total comprehensive income for the period (net of tax)	96,317	131,277	73
Attributable to:			
– equity holders of the parent	96,300	131,311	73
– non-controlling interest	17	-34	

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 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	80,299	80,299	17	80,316
Total other comprehensive income for the period (net of tax)	0	0	0	0	0	0	1,941	14,591	0	-531	0	16,001	0	16,001
Total comprehensive income for the period (net of tax)	0	0	0	0	0	0	1,941	14,591	0	-531	80,299	96,300	17	96,317
Transactions with owners, recognised directly in equity														
Formation of other profit reserves under the resolution of the Annual Shareholders Meeting	0	0	0	0	0	0	0	0	50,488	-50,488	0	0	0	0
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	-4,972	0	0	0	0	0	0	0	0	0	-4,972	0	-4,972
Formation of reserves for treasury shares	0	0	4,972	0	0	0	0	0	0	0	-4,972	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	-85,932	0	-85,932	0	-85,932
Total transactions with owners, recognised directly in equity	0	-4,972	4,972	0	0	0	0	0	0	62,919	-153,823	-90,904	0	-90,904
Balance at 30 Sep 2016	54,732	-25,043	25,043	105,897	14,990	30,000	-10,512	-70,527	1,051,677	158,548	75,327	1,410,132	1,265	1,411,397

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 2015	54,732	-10,677	10,677	105,897	14,990	30,000	-8,981	-75,292	1,001,636	79,528	148,081	1,350,591	1,308	1,351,899
Net profit	0	0	0	0	0	0	0	0	0	0	133,373	133,373	-34	133,339
Total other comprehensive income for the period (net of tax)	0	0	0	0	0	0	7	-1,252	0	-817	0	-2,062	0	-2,062
Total comprehensive income for the period (net of tax)	0	0	0	0	0	0	7	-1,252	0	-817	133,373	131,311	-34	131,277
Transactions with owners, recognised directly in equity														
Formation of other profit reserves under the resolution of the Annual Shareholders Meeting	0	0	0	0	0	0	0	0	50,041	-50,041	0	0	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	0	148,081	-148,081	0	0	0
Repurchase of treasury shares	0	-5,877	0	0	0	0	0	0	0	0	0	-5,877	0	-5,877
Formation of reserves for treasury shares	0	0	5,877	0	0	0	0	0	0	0	-5,877	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	-81,408	0	-81,408	0	-81,408
Total transactions with owners, recognised directly in equity	0	-5,877	5,877	0	0	0	0	0	50,041	16,632	-153,958	-87,285	0	-87,285
Balance at 30 Sep 2015	54,732	-16,554	16,554	105,897	14,990	30,000	-8,974	-76,544	1,051,677	95,343	127,496	1,394,617	1,274	1,395,891

Consolidated statement of cash flows of the Krka Group

In € thousand	1–9/2016	1–9/2015
OPERATING ACTIVITIES		
Net profit	80,316	133,339
Adjustments for:	124,462	83,105
– amortisation/depreciation	79,150	79,730
– foreign exchange differences	2,536	-8,392
– investment income	-23,482	-13,977
– investment expenses	57,234	5,025
– interest expenses and other financial expenses	828	429
– income tax	8,196	21,107
– other	0	-817
Operating profit before changes in net operating current assets	204,778	216,444
Change in trade receivables	-6,431	41,268
Change in inventories	-5,892	-36,915
Change in trade payables	8,868	-5,470
Change in provisions	277	-18,420
Change in deferred revenues	-920	-1,210
Change in other current liabilities	1,885	-792
Income taxes paid	-17,984	6,002
Net cash flows from operating activities	184,581	200,907
INVESTING ACTIVITIES		
Interest received	776	697
Proceeds from sale of current investments	0	27
Dividends received	835	1,288
Proceeds from sale of property, plant and equipment	1,102	2,619
Acquisition of intangible assets	-1,877	-3,003
Purchase of property, plant and equipment	-85,419	-69,177
Non-current loans	-2,034	-1,702
Proceeds from repayment of non-current loans	1,001	802
Payments to acquire non-current investments	-60	-46
Proceeds from sale of non-current investments	50	20
Payments/Proceeds in connection with current investments and loans	36,406	-12,490
Payments in connection with derivative financial instruments	-45,041	0
Proceeds from derivative financial instruments	21,292	11,638
Net cash flows used in investing activities	-72,969	-69,327
FINANCING ACTIVITIES		
Interest paid	-829	-449
Repayment of non-current borrowings	0	-37,968
Dividends and other profit shares paid	-85,766	-80,907
Repurchase of treasury shares	-4,972	-5,877
Net cash flows used in financing activities	-91,567	-125,201
Net increase/decrease in cash and cash equivalents	20,045	6,379
Cash and cash equivalents at the beginning of the period	35,826	23,585
Effect of exchange rate fluctuations on cash held	137	-503
Net cash and cash equivalents at the end of the period	56,008	29,461

Segment reporting of the Krka Group

In € thousand	European Union		South-East Europe		East Europe		Other		Elimination		Total	
	1-9/2016	1-9/2015	1-9/2016	1-9/2015	1-9/2016	1-9/2015	1-9/2016	1-9/2015	1-9/2016	1-9/2015	1-9/2016	1-9/2015
Revenues from non-group companies	545,041	552,651	43,036	39,531	229,996	242,279	34,312	28,841	0	0	852,385	863,302
Intra-group revenues	158,862	169,020	20,271	16,292	114,784	156,910	0	0	-293,917	-342,222	0	0
Other operating income	3,024	22,581	768	42	1,471	1,375	0	0	0	0	5,263	23,998
Operating expenses	-489,445	-462,247	-34,134	-31,628	-212,825	-216,689	-21,570	-18,961	0	0	-757,974	-729,525
Intra-group operating expenses	-271,085	-299,819	-21,993	-19,824	-236,727	-259,148	-4	-7	529,809	578,798	0	0
Operating profit	58,620	112,985	9,670	7,945	18,642	26,965	12,742	9,880	0	0	99,674	157,775
Interest income	336	360	206	3	231	335	0	0	0	0	773	698
Intra-group interest income	687	826	0	0	3	0	0	0	-690	-826	0	0
Interest expenses	-634	-268	0	0	3	-6	0	0	0	0	-631	-274
Intra-group interest expenses	-222	-437	0	0	-583	-479	0	0	805	916	0	0
Net financial result	-551	1,831	-363	71	-9,158	-4,333	-1,090	-898	0	0	-11,162	-3,329
Income tax	-6,209	-14,910	-469	-987	-1,048	-4,208	-470	-1,002	0	0	-8,196	-21,107
Net profit	51,860	99,906	8,838	7,029	8,436	18,424	11,182	7,980	0	0	80,316	133,339
Investments	74,674	59,899	148	105	13,694	9,688	0	0	0	0	88,516	69,692
Depreciation	51,731	52,261	1,527	1,393	20,041	19,983	273	309	0	0	73,572	73,946
Amortisation	3,658	3,748	237	212	1,513	1,691	170	133	0	0	5,578	5,784
	30 Sep 2016	31 Dec 2015	30 Sep 2016	31 Dec 2015	30 Sep 2016	31 Dec 2015	30 Sep 2016	31 Dec 2015	30 Sep 2016	31 Dec 2015	30 Sep 2016	31 Dec 2015
Total assets	1,353,243	1,394,853	42,075	38,680	414,983	368,309	9,402	7,362	0	0	1,819,703	1,809,204
Goodwill	42,644	42,644	0	0	0	0	0	0	0	0	42,644	42,644
Trademark	39,223	39,859	0	0	0	0	0	0	0	0	39,223	39,859
Total liabilities	322,434	309,305	7,442	8,231	54,226	64,079	24,204	21,605	0	0	408,306	403,220

Notes to the consolidated financial statements of the Krka Group

Costs by nature

€757,974 thousand

In € thousand	1–9/2016	1–9/2015	Index
Costs of goods and material	253,701	258,540	98
Costs of services	164,939	155,837	106
Employee benefit costs	244,176	242,786	101
Amortisation and depreciation	79,150	79,730	99
Inventory write-offs and allowances	7,553	8,301	91
Receivables impairment and write-offs	621	4,494	14
Other operating expenses	24,919	26,897	93
Total costs	775,059	776,585	100
Change in the value of inventories of products and work in progress	-17,085	-47,060	36
Total	757,974	729,525	104

Employee benefit costs

€244,176 thousand

In € thousand	1–9/2016	1–9/2015	Index
Gross wages and salaries and continued pay	188,770	186,846	101
Social security contributions	14,804	15,107	98
Pension insurance contributions	26,466	25,253	105
Payroll tax	906	768	118
Post-employment benefits and other non-current employee benefits	344	1,808	19
Other employee benefit costs	12,886	13,004	99
Total employee benefit costs	244,176	242,786	101

Other operating expenses

€24,919 thousand

In € thousand	1–9/2016	1–9/2015	Index
Grants and assistance for humanitarian and other purposes	1,243	1,389	89
Environmental protection expenses	2,542	2,188	116
Other taxes and levies	17,031	19,439	88
Loss on sale of property, plant and equipment and intangible assets	456	1,436	32
Other expenses	3,647	2,445	149
Total other operating expenses	24,919	26,897	93

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

Financial income and expenses

In € thousand	1-9/2016	1-9/2015	Index
Net foreign exchange differences	23,539	0	
Interest income	773	698	111
Change in fair value of investments through profit or loss	7	0	
Derivatives income	21,292	11,639	183
– income	21,292	11,639	183
Income from dividends and other profit shares	835	1,288	65
Other financial income	0	24	0
Total financial income	46,446	13,649	340
Net foreign exchange differences	0	-12,959	0
Interest expenses	-631	-274	230
Change in fair value of investments through profit or loss	-8	-78	10
Derivatives expenses	-56,770	-3,512	1,616
– expenses	-45,041	0	
– change in fair value	-11,729	-3,512	334
Other financial expenses	-199	-155	128
Total financial expenses	-57,608	-16,978	339
Net financial result	-11,162	-3,329	335

Income tax

€8,196 thousand

Current income tax amounts to €11,468 thousand, which is 13.0% of pre-tax profit. Together with the deferred tax of €-3,272 thousand, the total income tax expense in the income statement is

€8,196 thousand. The effective tax rate is 9.3%, down 4.4 of a percentage point from the same period last year.

Property, plant and equipment

€849,047 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Land	36,510	35,227	104
Buildings	397,762	408,238	97
Equipment	338,333	352,005	96
Property, plant and equipment being acquired	76,442	30,722	249
Total property, plant and equipment	849,047	826,192	103

The value of property, plant and equipment represents 47% of the Group's total assets. Krka's major investments are described in the chapter Investments in the Business Report.

Intangible assets

€113,410 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Goodwill	42,644	42,644	100
Trademark	39,223	39,859	98
Concessions, patents, licences and similar rights	26,909	30,506	88
Intangible assets being acquired	4,634	3,931	118
Total intangible assets	113,410	116,940	97

Loans

€9,959 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Non-current loans	9,422	7,696	122
– loans to others	9,422	7,696	122
Current loans	537	37,380	1
– portion of non-current loans maturing next year	285	155	184
– loans to others	252	37,224	1
– current interest receivable	0	1	0
Total loans	9,959	45,076	22

Non-current loans represent 95% of total loans.

to its employees, and that are primarily housing loans.

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

Investments

€9,515 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Non-current investments	9,438	7,580	125
– available-for-sale financial assets	9,438	7,580	125
Current investments including derivatives	77	11,808	1
– shares and interests held for trading	77	79	97
– derivatives	0	11,729	0
Total investments	9,515	19,388	49

Available-for-sale financial assets include €740 thousand of investments in shares and

interests in Slovenia, and €8,698 thousand of investments in shares and interests abroad.

Inventories

€278,770 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Material	112,213	111,113	101
Work in progress	67,094	64,369	104
Products	90,714	90,395	100
Merchandise	8,136	6,287	129
Inventory advances	613	714	86
Total inventories	278,770	272,878	102

Trade and other receivables

€472,009 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Current trade receivables	441,054	433,133	102
Other current receivables	30,955	31,540	98
Total receivables	472,009	464,673	102

Cash and cash equivalents

€56,008 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Cash in hand	56	32	175
Bank balances	55,952	35,794	156
Total cash and cash equivalents	56,008	35,826	156

Equity

€1,411,397 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Share capital	54,732	54,732	100
Treasury shares	-25,043	-20,071	125
Reserves	94,891	73,387	129
– reserves for treasury shares	25,043	20,071	125
– share premium	105,897	105,897	100
– legal reserves	14,990	14,990	100
– statutory reserves	30,000	30,000	100
– fair value reserve	-10,512	-12,453	84
– translation reserve	-70,527	-85,118	83
Retained earnings	1,285,552	1,296,688	99
Total equity holders of the parent	1,410,132	1,404,736	100
Non-controlling interests within equity	1,265	1,248	101
Total equity	1,411,397	1,405,984	100

Provisions

€85,142 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Provisions for lawsuits	265	264	100
Provisions for post-employment benefits and other non-current employee benefits	84,334	84,131	100
Other provisions	543	470	116
Total provisions	85,142	84,865	100

Deferred revenues

€12,461 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Grants received from the European Fund for Regional Development and the Republic of Slovenia budget for construction of the new Notol 2 plant for production of pharmaceuticals	2,450	2,650	92
Grants received from the budget for the Dolenjske and Šmarješke Toplice health resorts and Golf Grad Otočec	3,969	4,100	97
Grants received from the European Regional Development Fund received for the Sinteza 4 project	1	4	25
Grants received from the European Regional Development Fund – development of new technologies (FBD project)	364	437	83
Grants received from the European Regional Development Fund for setting up an information and technology solutions system (GEN-I)	15	19	79
Grant for purchasing electrical vehicles	6	0	
Grants by the European Fund – Development Centres of the Slovene Economy	5,587	6,094	92
Property, plant and equipment received free of charge	53	55	96
Emission coupons	16	22	73
Total deferred revenue	12,461	13,381	93

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

€113,483 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Payables to domestic suppliers	42,720	38,298	112
Payables to foreign suppliers	68,076	61,742	110
Payables from advances	2,687	3,831	70
Total trade payables	113,483	103,871	109

Other current liabilities

€182,389 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Accrued contractual discounts on products sold	132,098	128,179	103
Payables to employees – gross wages, other receipts and charges	34,053	33,657	101
Other	16,238	18,501	88
Total other current liabilities	182,389	180,337	101

Contingent liabilities

€12,572 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Guarantees issued	11,952	19,150	62
Other	620	620	100
Total contingent liabilities	12,572	19,770	64

Fair value

In € thousand	30 Sep 2016		31 Dec 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current loans	9,422	9,422	7,696	7,696
Available-for-sale financial assets	9,438	9,438	7,580	7,580
Current loans	537	537	37,380	37,380
Current investments	77	77	11,808	11,808
– shares and interests held for trading	77	77	79	79
– derivatives	0	0	11,729	11,729
Trade receivables	441,054	441,054	433,133	433,133
Cash and cash equivalents	56,008	56,008	35,826	35,826
Trade payables and other liabilities, excluding amounts owed to the state, to employees and advances	-256,501	-256,501	-265,686	-265,686
Total	260,035	260,035	267,737	267,737

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 2016 and 2015 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 Sep 2016				31 Dec 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Available-for-sale financial assets	8,075	0	1,363	9,438	6,217	0	1,363	7,580
Shares and interests held for trading	77	0	0	77	79	0	0	79
Derivatives	0	0	0	0	0	0	11,729	11,729
Total assets at fair value	8,152	0	1,363	9,515	6,296	0	13,092	19,388
Assets for which fair value is disclosed				0				0
Non-current loans	0	0	9,422	9,422	0	0	7,696	7,696
Current loans	0	0	537	537	0	0	37,380	37,380
Trade receivables	0	0	441,054	441,054	0	0	433,133	433,133
Cash and cash equivalents	0	0	56,008	56,008	0	0	35,826	35,826
Total assets for which fair value is disclosed	0	0	507,021	507,021	0	0	514,035	514,035
Total	8,152	0	508,384	516,536	6,296	0	527,127	533,423

Liabilities at fair value

In € thousand	30 Sep 2016				31 Dec 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities at fair value								
Total liabilities at fair value	0	0	0	0	0	0	0	0
Liabilities for which fair value is disclosed								
Trade payables and other liabilities, excluding amounts owed to the state, to employees and advances	0	0	256,501	256,501	0	0	265,686	265,686
Total liabilities for which fair value is disclosed	0	0	256,501	256,501	0	0	265,686	265,686
Total	0	0	256,501	256,501	0	0	265,686	265,686

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

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

In € thousand	30 Sep 2016	31 Dec 2015	Index
Assets			
Property, plant and equipment	596,111	610,067	98
Intangible assets	29,114	31,557	92
Investments in subsidiaries	318,892	302,114	106
Non-current receivables due from subsidiaries	21,659	10,704	202
Loans	31,319	26,300	119
Investments	9,436	7,578	125
Deferred tax assets	12,380	11,567	107
Other non-current assets	87	88	99
Total non-current assets	1,018,998	999,975	102
Assets held for sale	41	41	100
Inventories	229,226	230,568	99
Trade receivables	409,829	402,189	102
Other receivables	15,231	16,602	92
Loans	34,781	75,907	46
Investments	77	11,808	1
Cash and cash equivalents	42,638	24,622	173
Total current assets	731,823	761,737	96
Total assets	1,750,821	1,761,712	99
Equity			
Share capital	54,732	54,732	100
Treasury shares	-25,043	-20,071	125
Reserves	166,878	159,965	104
Retained earnings	1,219,562	1,238,585	98
Total equity	1,416,129	1,433,211	99
Liabilities			
Provisions	73,577	73,585	100
Deferred revenue	2,885	3,168	91
Total non-current liabilities	76,462	76,753	100
Trade payables	121,661	132,065	92
Borrowings	94,914	66,244	143
Income tax payable	0	7,509	0
Other current liabilities	41,655	45,930	91
Total current liabilities	258,230	251,748	103
Total liabilities	334,692	328,501	102
Total equity and liabilities	1,750,821	1,761,712	99

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

In € thousand	1–9/2016	1–9/2015	Index
Revenues	782,538	827,008	95
Costs of goods sold	-378,647	-364,015	104
Gross profit	403,891	462,993	87
Other operating income	2,490	21,856	11
Selling and distribution expenses	-195,171	-208,310	94
R&D expenses	-89,385	-87,554	102
General and administrative expenses	-46,518	-44,940	104
Operating profit	75,307	144,045	52
Financial income	58,910	24,606	239
Financial expenses	-58,204	-14,509	401
Net financial result	706	10,097	7
Profit before tax	76,013	154,142	49
Income tax	-3,601	-19,268	19
Net profit	72,412	134,874	54
Basic earnings per share* (in €)	2.23	4.14	54
Diluted earnings per share** (in €)	2.23	4.14	54

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

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

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

In € thousand	1–9/2016	1–9/2015	Index
Net profit	72,412	134,874	54
Other comprehensive income for the period			
Other comprehensive income reclassified to profit or loss in future periods			
Change in fair value of available-for-sale financial assets	1,858	9	
Deferred tax effect	-448	-2	
Net other comprehensive income reclassified to profit or loss in future periods	1,410	7	
Total other comprehensive income for the period (net of tax)	1,410	7	
Total comprehensive income for the period (net of tax)	73,822	134,881	55

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 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	72,412	72,412
Total other comprehensive income for the period (net of tax)	0	0	0	0	0	0	1,941	0	-531	0	1,410
Total comprehensive income for the period (net of tax)	0	0	0	0	0	0	1,941	0	-531	72,412	73,822
Transactions with owners, recognised directly in equity											
Formation of other profit reserves under the resolution of the Annual Shareholders Meeting	0	0	0	0	0	0	0	50,488	-50,488	0	0
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	-4,972	0	0	0	0	0	0	0	0	-4,972
Formation of reserves for treasury shares	0	0	4,972	0	0	0	0	0	0	-4,972	0
Dividends paid	0	0	0	0	0	0	0	0	-85,932	0	-85,932
Total transactions with owners, recognised directly in equity	0	-4,972	4,972	0	0	0	0	50,488	448	-141,840	-90,904
Balance at 30 Sep 2016	54,732	-25,043	25,043	105,897	14,990	30,000	-9,052	1,102,165	49,957	67,440	1,416,129

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 2015	54,732	-10,677	10,677	105,897	14,990	30,000	-7,431	1,001,636	55,244	126,245	1,381,313
Net profit	0	0	0	0	0	0	0	0	0	134,874	134,874
Total other comprehensive income for the period (net of tax)	0	0	0	0	0	0	7	0	0	0	7
Total comprehensive income for the period (net of tax)	0	0	0	0	0	0	7	0	0	134,874	134,881
Transactions with owners, recognised directly in equity											
Formation of other profit reserves under the resolution of the Annual Shareholders Meeting	0	0	0	0	0	0	0	50,041	-50,041	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	126,245	-126,245	0
Repurchase of treasury shares	0	-5,877	0	0	0	0	0	0	0	0	-5,877
Formation of reserves for treasury shares	0	0	5,877	0	0	0	0	0	0	-5,877	0
Dividends paid	0	0	0	0	0	0	0	0	-81,408	0	-81,408
Total transactions with owners, recognised directly in equity	0	-5,877	5,877	0	0	0	0	50,041	-5,204	-132,122	-87,285
Balance at 30 Sep 2015	54,732	-16,554	16,554	105,897	14,990	30,000	-7,424	1,051,677	50,040	128,997	1,428,909

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

In € thousand	1–9/2016	1–9/2015
OPERATING ACTIVITIES		
Net profit	72,412	134,874
Adjustments for:	86,158	62,587
– amortisation/depreciation	61,450	61,413
– foreign exchange differences	-2,827	830
– investment income	-34,466	-24,698
– investment expenses	56,975	4,585
– interest expenses and other financial expenses	1,425	1,189
– income tax	3,601	19,268
Operating profit before changes in net operating current assets	158,570	197,461
Change in trade receivables	-13,933	-2,110
Change in inventories	1,342	-29,977
Change in trade payables	-13,094	-1,801
Change in provisions	-8	-18,383
Change in deferred revenues	-283	-570
Change in other current liabilities	-4,441	-2,982
Income taxes paid	-13,583	12,651
Net cash flows from operating activities	114,570	154,289
INVESTING ACTIVITIES		
Interest received	1,067	1,342
Proceeds from sale of current investments	0	24
Dividends received	835	1,288
Proportionate profit of subsidiaries	8,969	10,399
Proceeds from sale of property, plant and equipment	942	1,470
Acquisition of intangible assets	-1,795	-2,690
Purchase of property, plant and equipment	-41,516	-61,386
Acquisition of subsidiaries and a share of minority interest without obtained assets	-16,958	-2,447
Refund of subsequent payments in subsidiaries	79	285
Non-current loans	-2,898	-6,417
Proceeds from repayment of non-current loans	1,352	8,163
Payments to acquire non-current investments	-47	-20
Proceeds from sale of non-current investments	50	22
Proceeds/Payments in connection with current investments and loans	40,276	-8,388
Payments in connection with derivative financial instruments	-45,041	0
Proceeds from derivative financial instruments	21,292	11,639
Net cash flows used in investing activities	-33,393	-46,716
FINANCING ACTIVITIES		
Interest paid	-1,211	-1,202
Repayment of non-current borrowings	-500	-1,500
Proceeds/Payments in connection with current borrowings	28,956	-8,751
Dividends and other profit shares paid	-85,767	-80,907
Repurchase of treasury shares	-4,972	-5,877
Net cash flows used in financing activities	-63,494	-98,237
Net increase/decrease in cash and cash equivalents	17,683	9,336
Cash and cash equivalents at the beginning of the period	24,622	8,203
Effect of exchange rate fluctuations on cash held	333	-328
Net cash and cash equivalents at the end of the period	42,638	17,211

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

In € thousand	European Union		South-East Europe		East Europe		Other		Total	
	1–9/2016	1–9/2015	1–9/2016	1–9/2015	1–9/2016	1–9/2015	1–9/2016	1–9/2015	1–9/2016	1–9/2015
Revenues	499,362	507,272	41,676	38,214	210,094	255,069	31,406	26,453	782,538	827,008
Other operating income	2,149	21,468	12	12	329	376	0	0	2,490	21,856
Operating expenses	-457,253	-440,693	-32,976	-30,746	-197,922	-214,419	-21,570	-18,961	-709,721	-704,819
Operating profit	44,258	88,047	8,712	7,480	12,501	41,026	9,836	7,492	75,307	144,045
Interest income	516	776	0	0	581	480	0	0	1,097	1,256
Interest expenses	-1,313	-1,061	0	0	0	0	0	0	-1,313	-1,061
Net financial result	10,832	11,790	-24	359	-9,012	-1,154	-1,090	-898	706	10,097
Income tax	-2,117	-11,777	-416	-1,001	-598	-5,488	-470	-1,002	-3,601	-19,268
Net profit	52,973	88,060	8,272	6,838	2,891	34,384	8,276	5,592	72,412	134,874
Investments	45,939	54,324	0	0	0	0	0	0	45,939	54,324
Depreciation	41,265	41,292	1,342	1,219	14,332	14,430	273	309	57,212	57,250
Amortisation	2,704	2,554	226	192	1,138	1,284	170	133	4,238	4,163
	30 Sep 2016	31 Dec 2015	30 Sep 2016	31 Dec 2015	30 Sep 2016	31 Dec 2015	30 Sep 2016	31 Dec 2015	30 Sep 2016	31 Dec 2015
Total assets	1,260,386	1,294,913	41,928	39,325	439,111	420,117	9,396	7,357	1,750,821	1,761,712
Total liabilities	256,176	242,426	6,801	7,457	47,513	57,013	24,202	21,605	334,692	328,501

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

Costs by nature

€709,721 thousand

In € thousand	1-9/2016	1-9/2015	Index
Costs of goods and material	253,216	261,186	97
Costs of services	228,858	230,564	99
Employee benefit costs	148,306	150,409	99
Amortisation and depreciation	61,450	61,413	100
Inventory write-offs and allowances	6,560	4,605	142
Receivables impairment and write-offs	58	3,530	2
Other operating expenses	16,649	18,757	89
Total costs	715,097	730,464	98
Change in the value of inventories of products and work in progress	-5,376	-25,645	21
Total	709,721	704,819	101

Employee benefit costs

€148,306 thousand

In € thousand	1-9/2016	1-9/2015	Index
Gross wages and salaries and continued pay	115,207	116,090	99
Social security contributions	8,431	8,346	101
Pension insurance contributions	15,094	14,586	103
Post-employment benefits and other non-current employee benefits	0	1,617	0
Other employee benefit costs	9,574	9,770	98
Total employee benefit costs	148,306	150,409	99

Other operating expenses

€16,649 thousand

In € thousand	1-9/2016	1-9/2015	Index
Grants and assistance for humanitarian and other purposes	944	1,013	93
Environmental protection expenses	1,525	1,567	97
Other taxes and levies	11,028	13,610	81
Loss on sale of property, plant and equipment and intangible assets	196	996	20
Other expenses	2,956	1,571	188
Total other operating expenses	16,649	18,757	89

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

Financial income and expenses

In € thousand	1–9/2016	1–9/2015	Index
Net foreign exchange differences	24,628	0	
Interest income	1,097	1,256	87
Change in fair value of investments through profit or loss	7	0	
Derivatives income	21,292	11,639	183
– income	21,292	11,639	183
Income from dividends and other profit shares	11,886	11,687	102
– dividends	835	1,288	65
– proportionate profit of Group companies	11,051	10,399	106
Other financial income	0	24	0
Total financial income	58,910	24,606	239
Net foreign exchange differences	0	-9,731	
Interest expenses	-1,313	-1,061	124
Change in fair value of investments through profit or loss	-8	-78	10
Derivatives expenses	-56,770	-3,512	1616
– expenses	-45,041	0	
– change in fair value	-11,729	-3,512	334
Other financial expenses	-113	-127	89
Total financial expenses	-58,204	-14,509	401
Net financial result	706	10,097	7

Income tax

€3,601 thousand

Current income tax amounts to €4,862 thousand, which is 6.4% of pre-tax profit. Together with the deferred tax of €-1,261 thousand, the total income tax expense in the income statement is

€3,601 thousand. The effective tax rate is 4.7%, down 7.8 of a percentage point from the same period last year.

Property, plant and equipment

€596,111 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Land	24,005	22,826	105
Buildings	262,358	275,657	95
Equipment	275,156	295,893	93
Property, plant and equipment being acquired	34,592	15,691	220
Total property, plant and equipment	596,111	610,067	98

The value of property, plant and equipment represents just over 34% of the Company's total

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

Intangible assets

€29,114 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Concessions, patents, licences and similar rights	24,480	27,642	89
Intangible assets being acquired	4,634	3,915	118
Total intangible assets	29,114	31,557	92

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

Loans

€66,100 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Non-current loans	31,319	26,300	119
– loans to subsidiaries	22,185	18,908	117
– loans to others	9,134	7,392	124
Current loans	34,781	75,907	46
– portion of non-current loans maturing next year	1,333	2,459	54
– loans to subsidiaries	33,052	37,040	89
– loans to others	188	36,230	1
– current interest receivable	208	178	117
Total loans	66,100	102,207	65

Non-current loans represent 48% 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

Investments

€9,513 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Non-current investments	9,436	7,578	125
– available-for-sale financial assets	9,436	7,578	125
Current investments	77	11,808	1
– shares and interests held for trading	77	79	97
– derivatives	0	11,729	0
Total investments	9,513	19,386	49

Available-for-sale financial assets include €739 thousand of investments in shares and interests in

Slovenia, and €8,697 thousand of investments in shares and interests abroad.

Inventories

€229,226 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Material	103,025	103,895	99
Work in progress	64,542	61,941	104
Products	52,191	54,934	95
Merchandise	8,884	9,172	97
Inventory advances	584	626	93
Total inventories	229,226	230,568	99

Trade and other receivables

€425,060 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Current trade receivables	409,829	402,189	102
– current trade receivables due from subsidiaries	228,679	217,352	105
– current trade receivables due from customers other than Group companies	181,150	184,837	98
Current receivables relating to dividends of subsidiaries	2,082	0	
Other current receivables	13,149	16,602	79
Total receivables	425,060	418,791	101

Cash and cash equivalents

€42,638 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Cash in hand	7	1	700
Bank balances	42,631	24,621	173
Total cash and cash equivalents	42,638	24,622	173

Equity

€1,416,129 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Share capital	54,732	54,732	100
Treasury shares	-25,043	-20,071	125
Reserves:	166,878	159,965	104
– reserves for treasury shares	25,043	20,071	125
– share premium	105,897	105,897	100
– legal reserves	14,990	14,990	100
– statutory reserves	30,000	30,000	100
– fair value reserve	-9,052	-10,993	82
Retained earnings	1,219,562	1,238,585	98
Total equity	1,416,129	1,433,211	99

Borrowings

€94,914 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Current borrowings	94,914	66,244	143
– portion of non-current borrowing maturing next year	0	500	0
– borrowings from subsidiaries	94,399	65,443	144
– current interest payable	515	301	171
Total borrowings	94,914	66,244	143

Provisions

€73,577 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Provisions for post-employment benefits and other non-current employee benefits	73,577	73,585	100
Total provisions	73,577	73,585	100

Deferred revenues

€2,885 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Grants received from the European Regional Development Fund and Republic of Slovenia budget for the project Pharmaceuticals Production in the new Notol 2 Plant	2,450	2,650	92
Grants received from the European Regional Development Fund received for the Sinteza 4 project	1	4	25
Grants received from the European Regional Development Fund – development of new technologies (FBD project)	364	437	83
Grants received from the European Regional Development Fund for setting up an information and technology solutions system (GEN-I)	15	19	79
Grant for purchasing electrical vehicles	6	0	
Property, plant and equipment received free of charge	33	36	92
Emission coupons	16	22	73
Total deferred revenue	2,885	3,168	91

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

€121,661 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Payables to subsidiaries	46,515	58,766	79
Payables to domestic suppliers	36,751	34,124	108
Payables to foreign suppliers	36,293	35,733	102
Payables from advances	2,102	3,442	61
Total trade payables	121,661	132,065	92

Other current liabilities

€41,655 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Accrued contractual discounts on products sold	12,985	12,985	100
Payables to employees – gross wages, other receipts and charges	22,611	26,185	86
Other	6,059	6,760	90
Total other current liabilities	41,655	45,930	91

Contingent liabilities

€14,719 thousand

In € thousand	30 Sep 2016	31 Dec 2015	Index
Guarantees issued	14,099	21,306	66
Other	620	620	100
Total contingent liabilities	14,719	21,926	67

Fair value

In € thousand	30 Sep 2016		31 Dec 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current receivables due from subsidiaries	21,659	21,659	10,704	10,704
Non-current loans	31,319	31,700	26,300	26,977
Available-for-sale financial assets	9,436	9,436	7,578	7,578
Current loans	34,781	34,781	75,907	75,907
Current investments	77	77	11,808	11,808
– shares and interests held for trading	77	77	79	79
– derivatives	0	0	11,729	11,729
Trade receivables	409,829	409,829	402,189	402,189
Cash and cash equivalents	42,638	42,638	24,622	24,622
Current borrowings	-94,914	-94,914	-66,244	-66,244
Trade payables and other liabilities, excluding amounts owed to the state, to employees and advances	-134,172	-134,172	-143,360	-143,360
Total	320,653	321,034	349,504	350,181

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 2016 and 2015 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 Sep 2016				31 Dec 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value								
Available-for-sale financial assets	8,075	0	1,361	9,436	6,217	0	1,361	7,578
Shares and interests held for trading	77	0	0	77	79	0	0	79
Derivatives	0	0	0	0	0	0	11,729	11,729
Total assets at fair value	8,152	0	1,361	9,513	6,296	0	13,090	19,386
Assets for which fair value is disclosed								
Non-current receivables due from subsidiaries	0	0	21,659	21,659	0	0	10,704	10,704
Non-current loans	0	0	31,700	31,700	0	0	26,977	26,977
Current loans	0	0	34,781	34,781	0	0	75,907	75,907
Trade receivables	0	0	409,829	409,829	0	0	402,189	402,189
Cash and cash equivalents	0	0	42,638	42,638	0	0	24,622	24,622
Total assets for which fair value is disclosed	0	0	540,607	540,607	0	0	540,399	540,399
Total	8,152	0	541,968	550,120	6,296	0	553,489	559,785

Liabilities at fair value

In € thousand	30 Sep 2016				31 Dec 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities at fair value								
Total liabilities at fair value	0	0	0	0	0	0	0	0
Liabilities for which fair value is disclosed								
Current borrowings	0	0	94,914	94,914	0	0	66,244	66,244
Trade payables and other liabilities, excluding amounts owed to the state, to employees and advances	0	0	134,172	134,172	0	0	143,360	143,360
Total liabilities for which fair value is disclosed	0	0	229,086	229,086	0	0	209,604	209,604
Total	0	0	229,086	229,086	0	0	209,604	209,604

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 nine months ended 30 September 2016 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–September 2016 were drawn up using the same accounting principles as for the annual financial statements of the Krka Company and Group for 2015.

The condensed interim financial statements for the nine months ended 30 September 2016 were drawn

Novo mesto, 7 November 2016

up pursuant to IAS 34 – Interim Financial Reporting, and must be read in conjunction with the annual financial statements drawn up for the business year ended 31 December 2015.

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

The Management Board states that 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