



**Unaudited Interim Report  
for the Krka Group  
and the Krka Company  
for January–September 2012**

**October 2012**

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## INTRODUCTION

The condensed financial statements of the Krka Group and the condensed financial statements of Krka, d. d., Novo mesto (Krka Company) for January–September 2012 and 2011 are unaudited, while the statements for the full 2011 business year present audited figures. The company has no authorised capital and has not made a conditional share capital increase.

The company promptly announces all significant changes of the data given in its listing prospectus on the Ljubljana Stock Exchange electronic

information dissemination system SEOnet, on the Polish Financial Supervision Authority electronic information dissemination system, 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](http://www.krka.si).

The Supervisory Board discussed the January–September 2012 Report for the Krka Group and the Krka Company at its regular meeting on 14 November 2012.

## Highlights January–September 2012

- The Group sold EUR 813.9 million worth of products and services, of which the Krka Company sold EUR 752.3 million.
- Group sales were up 6% compared to the same period last year and Company sales were up 7%.
- The Group generated EUR 143.4 million of operating profit, a decrease by 15% compared to the same period last year, while the Krka Company generated EUR 122.8 million of operating profit, down 17%.
- The Group recorded EUR 111.5 million of profit for the period, a decrease by 3% compared to the same period last year, while the Krka Company generated EUR 107.6 million of profit for the period, down 1%.
- The highest absolute as well as relative sales growth (up EUR 49.5 million, or 26%) was recorded in Region East Europe, which is Krka's largest region in terms of sales value, contributing 29% to total sales.
- The Group generated 91%, and the Company 94%, of its sales revenues in markets outside Slovenia.
- As at 30 September 2012 Krka's share traded at EUR 49.80, a decrease by 6% compared to the year-end of 2011. The Company's market capitalisation was EUR 1.764 million.
- The Group spent EUR 95.2 million on investments, of which the Krka Company invested EUR 41.3 million and subsidiaries EUR 53.9 million.
- At the end of September 2012 the Krka Group had 9,267 employees, an increase by 4% compared to the beginning of the year.

## Krka Group and Krka Company financial highlights

	Krka Group		Krka Company	
EUR thousand	1-9/2012	1-9/2011	1-9/2012	1-9/2011
Revenues	813,934	768,150	752,281	705,183
EBIT	143,407	168,976	122,769	147,999
EBITDA	210,432	233,062	174,636	196,395
Profit for the period	111,496	115,423	107,643	109,238
R&D costs	72,137	66,541	70,298	62,710
Investments	95,189	76,251	41,304	57,847
	30 Sep 2012	31 Dec 2011	30 Sep 2012	31 Dec 2011
Non-current assets	889,881	859,468	828,685	809,065
Current assets	692,614	674,559	671,046	654,383
Equity	1,198,131	1,139,754	1,189,667	1,140,485
Non-current liabilities	154,828	155,092	126,938	126,830
Current liabilities	229,536	239,181	183,126	196,133
RATIOS	1-9/2012	1-9/2011	1-9/2012	1-9/2011
EBIT margin	17.6%	22.0%	16.3%	21.0%
EBITDA margin	25.9%	30.3%	23.2%	27.9%
Profit margin (ROS)	13.7%	15.0%	14.3%	15.5%
ROE <sup>1</sup>	12.7%	14.3%	12.3%	13.5%
ROA <sup>2</sup>	9.5%	10.3%	9.7%	10.1%
Liabilities/Equity	0.321	0.375	0.261	0.306
R&D costs/Revenues	8.9%	8.7%	9.3%	8.9%
NUMBER OF EMPLOYEES	30 Sep 2012	31 Dec 2011	30 Sep 2012	31 Dec 2011
As at	9,267	8,948	4,461	4,379

SHARE INFORMATION	1-9/2012	1-9/2011
Total number of shares issued	35,426,120	35,426,120
Earnings per share in EUR <sup>3</sup>	4,46	4,58
Share price at end of period in EUR	49,80	51,39
Price/Earnings ratio (P/E)	11,16	11,23
Book value in EUR <sup>4</sup>	33,82	30,95
Price/Book value (P/B)	1,47	1,66
Market capitalisation in EUR thousand (at end of period)	1,764,221	1,820,548

<sup>1</sup> Profit for the period, annualised / Average equity balance over period

<sup>2</sup> Profit for the period, annualised / Average total assets balance over period

<sup>3</sup> Profit for the period attributable to equity holders of the parent, annualised / Average number of shares issued in period, excluding treasury shares

<sup>4</sup> Book value was calculated using the total number of issued shares.

## Krka Group ID card

The controlling company 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 07 331 21 11

**Fax:** +386 07 332 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

**Tax number:** 82646716

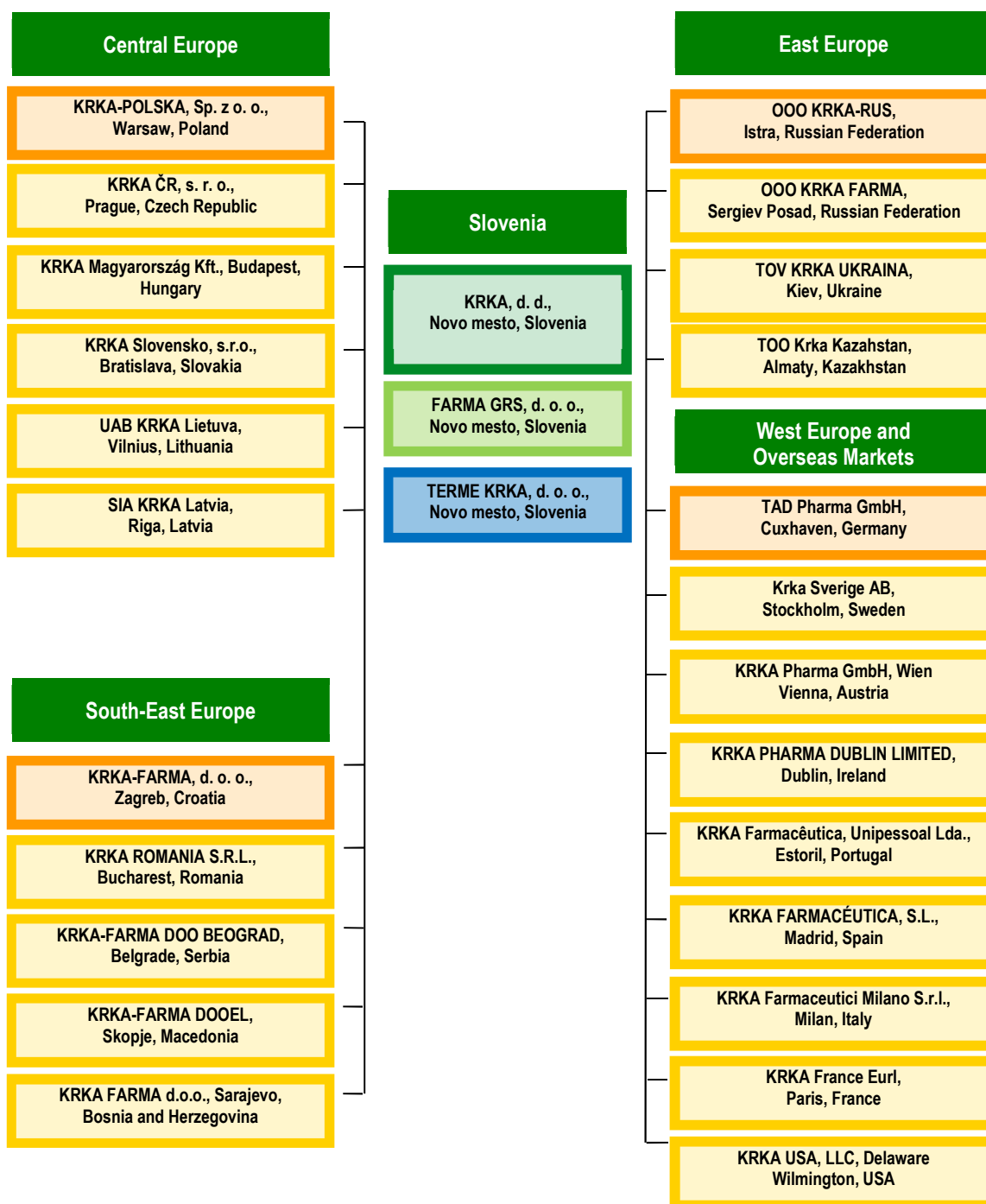
**VAT identification number:** SI82646716

**Company ID number:** 5043611

**Share capital:** EUR 59,126,194.28

**Shares:** 35,426,120 ordinary registered no-par value shares. Krka has been listed on the Ljubljana Stock Exchange under symbol KRKG since 1997 and additionally on the Warsaw Stock Exchange under symbol KRK since April 2012.

## 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, in which it

holds a 99.7% ownership share. In September 2012 a subsidiary in Kazakhstan was established.

## Krka Group business model

Krka is one of the world's leading generic pharmaceutical companies. It is headquartered in Slovenia and has 58 years of experience in the industry.

Krka is the market leader in Slovenia and has a strong market presence on generic pharmaceuticals markets in:

- South-East Europe – in Croatia and Romania,
- Central Europe – in Poland, the Czech Republic and Hungary,
- East Europe – in the Russian Federation and Ukraine.

In recent years Krka has also built up its presence in the markets of Western Europe, especially Germany, the UK, France, Italy, Portugal, the Nordic countries and the Benelux.

Krka's production and distribution capacity is located in Slovenia, the Russian Federation, Poland, Croatia and Germany.

Modern pharmaceutical production and a vertically integrated business model allow us to offer customers in over 70 countries a broad range of safe, high quality and effective prescription pharmaceuticals, non-prescription products and

animal health products. The majority of Krka products are in solid dosage pharmaceutical forms. The Company's core business is supplemented by the health-resort and tourist services of the Terme Krka Group.

We focus on generic prescription pharmaceuticals marketed under Krka's own brands. In the future we will continue to focus on marketing and developing our own marketing and sales network, both by establishing new companies and by purchasing local pharmaceutical companies in selected markets. Our objective is to strengthen the market position of the Krka Group in Europe and on the markets of Central Asia as well as to enter new high-potential markets.

In order to increase the competitive advantage of our product portfolio and maintain a high proportion of vertically integrated products, Krka has been allocating 9% of its revenues to research and development. A large proportion of our total revenues are generated from the sale of new products, i.e. the products launched on different markets over the past five years. We will continue to invest in research and development, as there are over 170 new Krka products in the pipeline.

## Krka Group development strategy

In 2011 the Management Board adopted the Krka Group development strategy for the next strategic period, from 2012 to 2016. We measure how well our strategic objectives are being realised against benchmarks, which are set at three levels: for the entire Group, for each product group and for each business function.

Performance at Group level 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 monitoring performance criteria is increasing competitiveness, both of the entire Group and of each company individually.

The key Krka Group objectives and strategies to 2016 are set out below.

## Key strategic objectives to 2016

- Report an average annual sales growth of at least 6%.
- In addition to organic growth, expand through mergers and acquisitions and long-term partnerships.
- Have new products account for at least one third of total sales.
- Strengthen the competitive advantage of the product portfolio by maintaining vertical product integration and by launching selected products as the first generic pharmaceuticals on selected key markets.
- Increase cost efficiency in products.
- Improve asset efficiency.
- Strengthen innovation across all business functions.
- Maintain independence.

## Key strategies to 2016

- Prioritise focus on European markets and the markets of Central Asia.
- Strengthen pharmaceutical and chemical activities, especially for prescription pharmaceuticals in the three key therapeutic areas (pharmaceuticals for cardiovascular diseases, pharmaceuticals to treat alimentary and metabolic diseases, and pharmaceuticals for diseases of the central nervous system) and for non-prescription products in selected therapeutic areas.
- Develop generic pharmaceuticals and prepare their marketing authorisation documentation prior to the expiry of the product patent for the original medicine.
- Strengthen competitiveness in the markets of Western Europe by establishing our own marketing companies.
- Strengthen the professional and cost synergy within the Krka Group, and maximise the competitive advantages offered by the business environments of Krka companies outside Slovenia.
- Secure a permanent supply of input materials and optimise supply to continually drive down costs.
- Strengthen the internationalisation of all business functions in the Krka Group.
- Maintain a sense of responsibility with respect to the surroundings in which we operate, in an economic and social sense as well as in relation to preserving the environment.
- Reduce the impact of financial risk and economic threats on the operations of the Krka Group.
- Pursue the policy of moderate dividend increases.
- Operate in line with the principles of business excellence and thereby strengthen the visibility and positive public profile of the Krka Group.

## Estimated realisation of business objectives for 2012

- Full-year sales of the Krka Group are expected to reach the planned EUR 1,134 million, which is up 6% compared to last year
- Sales outside Slovenia are expected to account slightly more than 91% of total sales.
- With the expected sales growth of 6% prescription pharmaceuticals will remain the most important product group, accounting for over 82% of total sales.
- Given the demanding situation in Krka's sales markets and the volatility of certain foreign currency exchange rates, we estimate that the achieved full-year profit will be slightly lower than the planned EUR 170 million.
- At the end of 2012 the Group is expected to have 9,565 employees, half of them outside Slovenia.
- Investments, planned up to EUR 200 million, will primarily be used to increase and modernize production and R&D capacity and infrastructure. As a result of good pricing conditions negotiated with equipment suppliers and contractors, actual investment spending is expected to be approximately one fifth lower.



## BUSINESS REPORT

### Financial risk

#### Foreign exchange risk

Due to our widespread international operations, the Group is exposed to foreign exchange risk relating to the Russian rouble, Romanian leu, Polish złoty, Croatian kuna, Czech koruna, Hungarian forint, Ukrainian hryvnia and the Serbian dinar.

The Group statement of financial position shows a surplus of assets over liabilities in all these currencies, which we consider a long currency position. The key categories that make up a currency position are trade receivables, trade

payables, and the parent company's receivables from and payables to its subsidiaries.

The majority of the currencies that are of key importance for Krka's operations appreciated relative to the euro in the third quarter, resulting in positive net exchange rate differences on our books.

In the third quarter our currency positions were not hedged.

#### Interest rate risk

No new non-current borrowings were raised in the three quarters of 2012. As the periodic instalments are being regularly repaid, the Group's long-term indebtedness continues to decrease and is currently

at the level where market interest rate changes no longer have a decisive impact on the Group's overall financial expense.

#### Credit risk

The credit control process involves obtaining credit ratings for customers to which the controlling company and subsidiaries make products sales worth an annual EUR 100,000 or more, and regular, dynamic monitoring of customer payment discipline. Over 420 of the Group's customers are included in the credit control system.

At the end of the third quarter, total trade receivables were down compared to the half-year. The trend for extending payment terms to customers in our key markets has ceased.

The amount of past due receivables at the end of

the third quarter was at a level that Krka considers normal and acceptable. A large part of our trade receivables have a trade credit insurance cover.

Customer payment discipline is estimated to have remained unchanged, and the quality of trade receivables in terms of maturity structure and assessed customer risk has also remained unchanged on average.

On account of our active management of receivables and past due receivables, we have not written off any major receivables in the three quarters of 2012.

#### Liquidity risk

The risks related to the Group's liquidity were managed by effective short-term cash flow planning. Short-term liquidity was ensured through continual cash flow, agreed current borrowings from banks, and the daily, rolling weekly, monthly and longer-term planning and monitoring of cash flows. In

addition, we optimised the bank balances of Krka's subsidiaries.

We consider the liquidity risk we are faced with to be low as the monthly cash inflows from operations mainly exceeded cash outflows from operations.

The amount of new current borrowings in the reported period was low, while a part of periodic cash surpluses were placed into current bank

deposits. All our liabilities were settled regularly and in the agreed time frames.

## Property, business interruption and liability insurance

Krka has analysed car insurance arrangements across the Group in the first half of the year, and found that the introduction of the deductible in casco insurance and the mandatory monitoring of competitive offers from insurance companies continue to generate positive results. The current trends towards reducing insurance premiums and lowering the number of loss events are increasing the economic utilization of assets and asset availability.

In early September Krka hosted the representatives of insurer Zavarovalnica Triglav and reinsurers

Triglav Re, Munich Re and Swiss Re, who carried out a risk assessment and inspected our industrial complex in Ločna, Slovenia. The aim of the visit was to review exposure to insured risks, define maximum potential loss, and review the implementation of the recommendations made on their last visit. The insurance and reinsurance experts found that progress had been made with respect to preventive, organisational and technical measures to reduce risk and the consequences of actual loss events. The recommendations from their previous visits had been implemented.

## Investor information

During the first nine months of 2012 Krka's stock price decreased by 6%, while the value of the Slovene blue-chip index SBI TOP at the end of the period was very close to its value at the beginning of the year. International investors increased their shareholdings the most, reaching over 18% of

Krka's shares at the end of September, which is their largest stake to date. Individual domestic investors, investment companies, funds, and other Slovenian companies, on the other hand, have decreased their holdings. At the end of September 2012, Krka had a total of 68,898 shareholders.

### Shareholder structure (%)

	30 Sep 2012	31 Dec 2011
Individual Slovenian investors	40.1	41.2
SOD fund	15.0	15.0
KAD and PPS funds	10.2	10.2
Slovenian investment companies and funds	2.9	3.8
Other Slovenian companies	7.3	8.1
International investors	18.2	16.0
Treasury shares	6.3	5.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

In the nine months to September Krka repurchased 191,414 treasury shares. On 30 September 2012 it

thus held a total of 2,215,772 treasury shares, which is 6.25% of its share capital.

## Krka's 10 largest shareholders on 30 September 2012

	Country	No. of shares	Share in equity (%)	Share of voting rights (%)
Slovenska odškodninska družba, d. d.	Slovenia	5,312,070	14.99	16.00
Kapitalska družba, d. d.	Slovenia	3,493,030	9.86	10.52
Societe Generale-Splitska banka, d. d.	Croatia	1,131,147	3.19	3.41
New World Fund, Inc	USA	755,000	2.13	2.27
Hypo Alpe-Adria-bank, d. d.	Croatia	734,159	2.07	2.21
Luka Koper, d. d.	Slovenia	433,970	1.23	1.31
Zavarovalnica Triglav, d. d.	Slovenia	388,300	1.10	1.17
Unicredit Bank Austria, AG	Austria	363,853	1.03	1.10
Unicredit Bank Hungary ZRT.	Hungary	353,719	1.00	1.07
Triglav, vzajemni skladi	Slovenia	320,443	0.90	0.96
<b>Total</b>		<b>13,285,691</b>	<b>37.50</b>	<b>40.00</b>

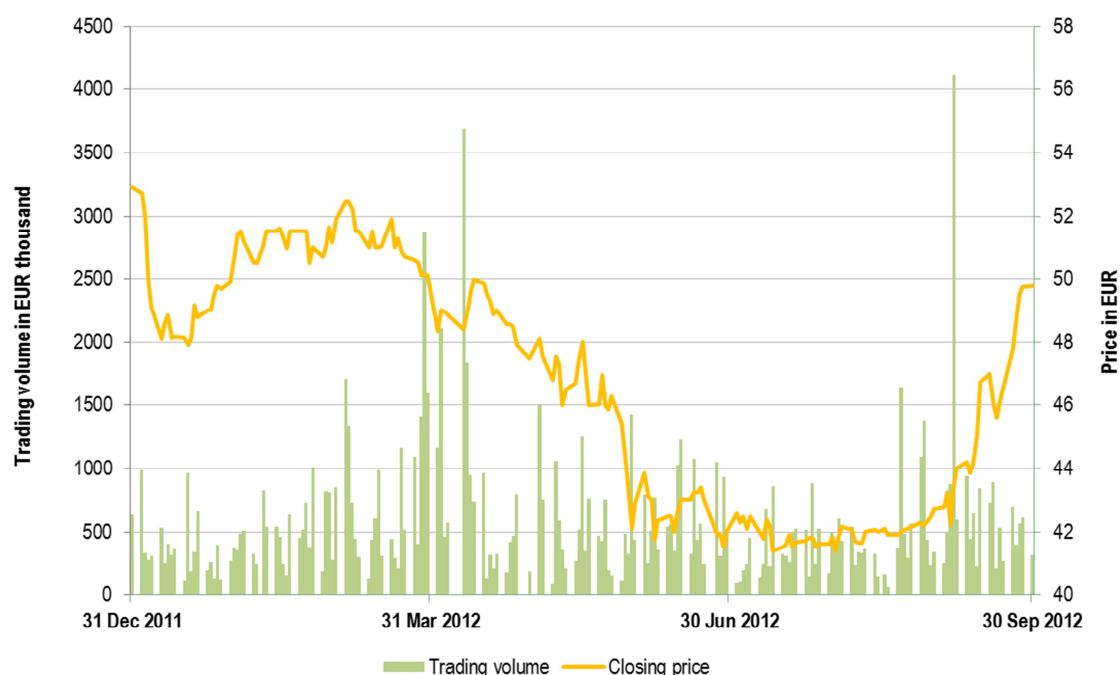
On 30 September 2012 Krka's 10 largest shareholders held a total of 13,285,691 of the Company's shares, which is 37.50% of all issued shares.

On 30 September 2012 members of the Krka Management Board and Supervisory Board held a total of 50,895 of the Company's shares, which is 0.145% of all issued shares.

## Shares in equity and shares of voting rights held by members of the Krka Management Board and Supervisory Board on 30 September 2012

	No. of shares	Share in equity (%)	Share of voting rights (%)
<b>Management Board members</b>			
Jože Colarič	22,500	0.064	0.068
Zvezdana Bajc	1,660	0.005	0.005
Aleš Rotar	12,770	0.036	0.038
Vinko Zupančič	120	0.000	0.000
Danica Novak-Malnar	0	0.000	0.000
<b>Total Management Board</b>	<b>37,050</b>	<b>0.105</b>	<b>0.111</b>
<b>Supervisory Board members</b>			
Jože Lenič	180	0.001	0.001
Matjaž Rakovec	400	0.001	0.001
Franc Šašek	540	0.002	0.002
Julijana Kristl	230	0.001	0.001
Vincenc Manček	11,543	0.033	0.035
Mojca Osolnik Videmšek	452	0.001	0.001
Tomaž Sever	500	0.001	0.002
Sergeja Slapničar	0	0.000	0.000
Mateja Vrečer	0	0.000	0.000
<b>Total Supervisory Board</b>	<b>13,845</b>	<b>0.040</b>	<b>0.043</b>

## Trading in Krka shares, January to September 2012



In the reported period Krka's share price peaked at the beginning of January, when it traded at EUR 52.70, and hit its low in July, when it stood at EUR 41.40. On 30 September 2012 Krka shares traded at EUR 49.80.

Krka's market capitalisation on 30 September 2012 amounted to EUR 1.8 billion, while deals in Krka

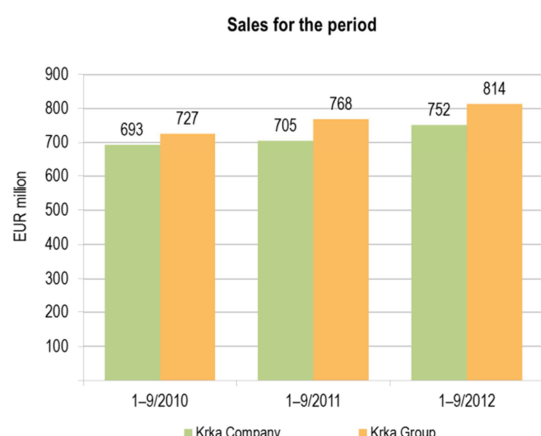
generated an average daily trading volume of EUR 0.6 million over the reported period.

Since April this year Krka has also been listed on the Warsaw Stock Exchange. During the initial months of the listing trading in Warsaw was scarce but in September it stepped up considerably.

## Business operations analysis

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

### Revenues



Group sales revenues increased by 6% compared to the same period last year, while Company sales revenues were up 7%. The Krka Company sold EUR 752.3 million worth of prescription pharmaceuticals, non-prescription products and animal health products, while the Group generated

EUR 813.9 million of sales revenues from these products plus the health-resort and tourist services.

The sale of prescription pharmaceuticals increased by 8% compared to the same period last year, representing 83% of total Group sales revenues. The Group generated 91% of its sales revenues in markets outside Slovenia.

Taking into account other operating and financial income, the Group generated a total of EUR 823.1 million of revenues, of which the Krka Company generated EUR 768.8 million.

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

### Expenses

Total Group expenses incurred during January to September 2012 amounted to EUR 686.6 million, up 9% compared to the same period last year.

The Group incurred a total of EUR 674.2 million of operating expenses, of which the cost of sales amounted to EUR 328.6 million, distribution expenses amounted to EUR 220.4 million, R&D costs amounted to EUR 72.1 million, and administrative expenses amounted to EUR 53.1 million.

The cost of sales increased by 14% compared to the same period last year, on the costs to sales ratio of 40.4%. Distribution expenses also increased by 14%, on a costs to sales ratio of 27.1%. The increase in distribution expenses is partly the result of various taxes that are being imposed on marketing authorisation holders for medicines in

certain European countries. In terms of value, the tax introduced in Romania (so-called clawback) had the largest impact. It requires that marketing authorisation holders in the Romanian market pay quarterly amounts of tax into the health insurance budget, determined on the basis of their sales. As the implementation of the respective legislation was partly unclear, distribution expenses include not only current tax clawback provisions for the first nine months of 2012 but provisions for taxes to be paid in respect of periods before 2012.

Group R&D costs increased by 8%, on the costs to sales ratio of 8.9%. The Group does not capitalise R&D costs, therefore they are recognised as expenses for the period in full. Administrative expenses decreased by 5% compared to the same period last year, on a costs to sales ratio of 6.5%.

## Operating results



The Group recorded EUR 143.4 million of operating profit, down 15% compared to the same period last year. Pre-tax profit amounted to EUR 136.5 million, down 7% compared to the same period last year.

Income tax totalled EUR 18.5 million, with the effective tax rate being 18.3%.

The Group generated EUR 111.5 million of profit in the reported period, a decrease by 3% compared to the same period last year, and the Krka Company generated EUR 107.6 million of profit for the period, down 1%.

## Assets

At the end of September 2012 Group assets amounted to EUR 1,582.5 million, an increase by 3% compared to the end of 2011.

Non-current assets represent 56.2% of total assets, up 0.2 of a percentage point since the beginning of the year. The largest item under non-current assets, which totalled EUR 889.9 million, was property, plant and equipment on EUR 735.7 million, which represented 46.5% of the Group's total assets. The value of property, plant and equipment increased by

5% from the beginning of the year. Intangible assets amounted to EUR 117.0 million.

Current assets increased by 3% to EUR 692.6 million in the nine months to September, with inventories increasing by 2% to EUR 257.6 million, and receivables at EUR 400.5 million (of which trade receivables amounted to EUR 347.8 million, down 4% compared to the beginning of the year) remaining at the level from the year-end of 2011.

## Equity and liabilities

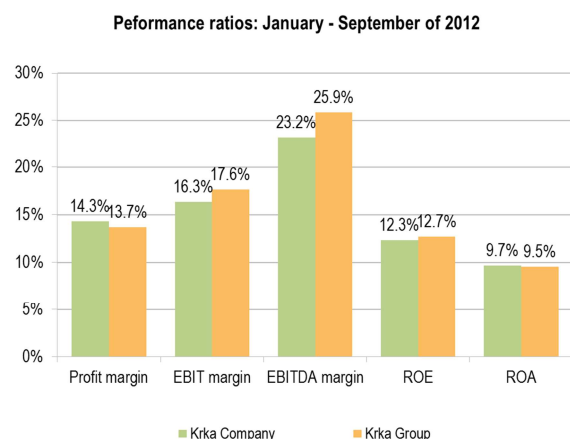
The Group's equity increased by 5% compared to the end of 2011 and now represents 75.7% of total equity and liabilities.

Amounting to EUR 154.8 million, non-current liabilities represent 9.8% of the Group's total equity and liabilities. Provisions amounted to EUR 104.7 million at the end of September and thus remained at the same level as at the year-end of 2011. The value of non-current borrowings did also not change in the reported period.

Current liabilities decreased by 4% compared to the end of 2011 and totalled EUR 229.5 million, which is 14.5% of the Group's total equity and liabilities. Among current liabilities, trade payables amounted to EUR 95.4 million, up 5% compared to the end of 2011, with current borrowings amounting to EUR 12.7 million, down 71%. The combined value of inventories and receivables decreased by 45% compared to the year-end of 2011.

Other current liabilities amounted to EUR 119.0 million, up 16% compared to the end of last year.

## Performance ratios



The Group profit margin was 13.7% (Krka Company 14.3%), the EBIT margin 17.6% (16.3%) and the EBITDA margin 25.9% (23.2%). ROE at Group level was 12.7% (Krka Company 12.3%), with ROA at 9.5% (9.7%).

## Marketing and sales

In the period January to September the sales by both, the Krka Company and the Krka Group, exceeded the sales figures recorded in the same

period last year. The Group sold EUR 813.9 million worth of products and services, up 6%, while Company sales were EUR 752.3 million, up 7%.

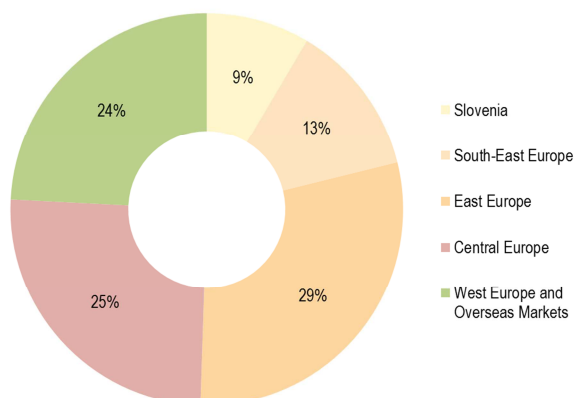
## Sales by Region

Krka's sales were the highest in Region East Europe, where they amounted to EUR 239.1 million, which is 29% of total Group sales. On EUR 205.8 million of sales, the runner-up was Region Central Europe, where Krka generated 25% of its total sales. The third largest area in terms of sales was Region West Europe and Overseas Markets, where

Krka sold EUR 196.9 million worth of products, which is 24% of total sales. An additional EUR 102.8 million, which is 13% of total Group sales, was generated in Region South-East Europe, while Slovenia, where Krka generated a total of EUR 69.3 million of sales, contributed 9% to total Krka Group sales.

EUR thousand	Krka Group			Krka Company		
	1-9/2012	1-9/2011	Index	1-9/2012	1-9/2011	Index
Slovenia	69,273	77,456	89	45,182	51,035	89
South-East Europe	102,855	107,500	96	111,355	105,374	106
East Europe	239,063	189,600	126	214,684	176,998	121
Central Europe	205,852	217,109	95	209,847	211,856	99
West Europe and Overseas Markets	196,891	176,485	112	171,213	159,920	107
<b>Total</b>	<b>813,934</b>	<b>768,150</b>	<b>106</b>	<b>752,281</b>	<b>705,183</b>	<b>107</b>

## Krka Group sales by Region, January–September 2012



### Slovenia

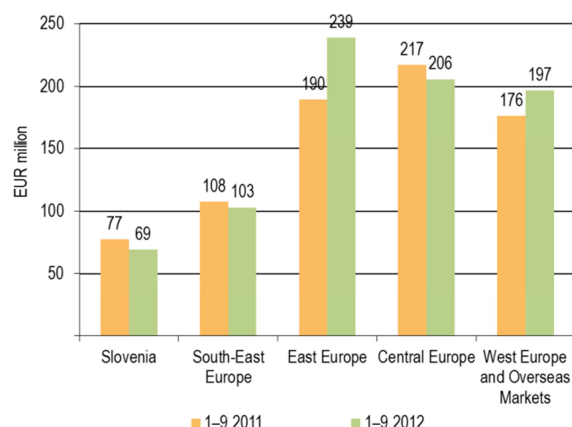
In the nine months to September Krka sold EUR 69.3 million worth of products and services in the domestic market. The highest sales value was again recorded by prescription pharmaceuticals, which contributed EUR 37.0 million. On EUR 4.8 million, the second best-selling group was non-prescription products, while the sale of animal health products contributed EUR 1.9 million.

We focused our marketing efforts on medicines for the treatment of cardiovascular diseases and have strengthened our visibility in the antihypertensives and statins market through our brands Amlessa (perindopril and amlodipine), Sorvasta 15 and 30 mg (rosuvastatin), and Atoris 30 and 60 mg (atorvastatin). With respect to anti-dementia medicines we centred on Galsya (galantamine), and as to medicines for Parkinson's disease our focus was on Rolpryna (ropinirole). In July we released to market the fixed-dose combination of tramadol and paracetamol, Doreta, in the new strength of 75 mg/650 mg, and in September we additionally expanded our range of products by releasing Vizarsin (sildenafil) in the new pharmaceutical form

### South-East Europe

Sales in the markets of South-East Europe fell behind the sales from the same period last year, having amounted to EUR 102.8 million. Sales growth, nevertheless, was recorded in the markets of Serbia, Bosnia and Herzegovina, Macedonia and Kosovo.

## Krka Group sales by Region, January–September 2011 and January–September 2012



of orodispersible tablets.

Our best-selling prescription pharmaceuticals remain Prenessa (perindopril), Atoris (atorvastatin), Ultop (omeprazole), Lorista (losartan) and Sorvasta (rosuvastatin). The leading non-prescription products in terms of sales were Nalgesin S (naproxen), Bilobil (ginkgo biloba), Septolete and B-complex, and among veterinary products the leader was Enroxil (enrofloxacin).

A new system of margins took effect in the midst of the third quarter, and with it new medicine prices compliant with the supplemented Rules on the Nomination of Prices of Medicinal Products for Human Use. This additionally drove down the prices of pharmaceuticals, however we nevertheless remained the market leader in the domestic market, achieving a market share of 11.7%.

With the sales of EUR 24.7 million, the Terme Krka Group slightly decreased their proportion in the total sales in the Region compared to the same period last year.

At the end of the third quarter **Romania** had preserved its leading position in terms of sales volume in the Region. Sales there amounted to EUR 30.0 million, a decrease compared to the same period last year, attributable mainly to restrictions in dispensing Bilobil (ginkgo biloba), which was one of our important products there even in 2011.



The largest contributors to overall sales growth were prescription pharmaceuticals, the sale of which was up 2%. The best-selling products in the terms of sales values were Prenessa (perindopril), Co-Prenessa (perindopril and indapamide), Atoris (atorvastatin), Roswera (rosuvastatin), Enap (enalapril) and Tolura (telmisartan). Sales growth was recorded mainly for the products launched on the market in the past three years. Of the top 10 leading products in terms of sales, six have been launched in the past three years, and this year they were joined by Karbis (candesartan).

With respect to non-prescription products our preparations in advance of the autumn/winter season included the presentation of two new products, Herbion Ivy and Septotele plus honey and lime. By launching new products for companion animals we are also expanding our range of veterinary products on the market.

**Croatia** is Krka's key market, the second largest in terms of sales in the Region. Nine-month sales there amounted to EUR 27.2 million, which is slightly down compared to the same period last year. Nevertheless, Krka remains the leading foreign producer of generic pharmaceuticals in the Croatian market. We have preserved the largest market shares in the statin therapeutic group and in the selected groups of antimicrobial substances (macrolides, quinolones), while also achieving important market shares and sales growth in the sartan group, proton pump inhibitor group and ACE inhibitor group.

Our best-selling prescription pharmaceuticals in the market were Atoris (atorvastatin), Zyllt (clopidogrel), Helex (alprazolam), Ampril (ramipril), Enap (enalapril), Valsacor (valsartan), Nalpaza (pantoprazole), Lanzul (lansoprazole), Emozul (esomeprazole) and Lorista (losartan). Roswera (rosuvastatin), Nalpaza (pantoprazole) and Monkasta (montelukast) were added to the reimbursement list and launched on the market in May.

Sales in **Bosnia and Herzegovina** increased by 6% to EUR 14.0 million in the nine months to September. Sales growth was mainly driven by prescription pharmaceuticals, the leaders among which were Enap (enalapril), Lorista (losartan), Zyllt (clopidogrel), Naklofen (diclofenac), Atoris (atorvastatin), Lexaurin (bromazepam) and Roswera (rosuvastatin). The latter is, together with Emanera (esomeprazole), Valsacor (valsartan) and Nalpaza

(pantoprazole), recording the highest sales growth rates among our recently launched products.

The best-selling non-prescription products were B-complex, Septotele, Bilobil (ginkgo biloba) and Fitoval. In August we introduced a new non-prescription product to the market, Herbion ivy syrup.

Krka remains the leading generic foreign producer of pharmaceuticals in **Macedonia**. Despite the decrease in reference prices at the beginning of the year, sales in the first nine months were EUR 9.6 million, up 3% compared to the same period last year. Sales growth was largely driven by prescription pharmaceuticals, mainly Enap (enalapril), Atoris (atorvastatin), Helex (alprazolam), Cordipin (nifedipine) and Lorista (losartan), while the leading non-prescription products in terms of sales were Bilobil (ginkgo biloba), B-complex, Daleron (paracetamol), Herbion and Septotele.

In **Serbia** sales amounted to EUR 8.2 million. The 16% sales growth is chiefly attributable to extensive promotion and sales activities focused on products on the reimbursement list. The main contribution to overall sales came from prescription pharmaceuticals, especially Atoris (atorvastatin), Ampril (ramipril) and Zyllt (clopidogrel). Two new prescription pharmaceuticals were launched on the market in the reported period, Emanera (esomeprazole) and Roxera (rosuvastatin).

Sales in **Bulgaria** amounted to EUR 6.9 million, a decrease compared to the same period last year. The main contributors to overall sales were the prescription pharmaceuticals Lorista (losartan), Lorista H (losartan and hydrochlorothiazide), Atoris (atorvastatin), Co-Valsacor (valsartan and hydrochlorothiazide), Flosteron (betamethasone), Rawel (indapamide), Enap H (enalapril and hydrochlorothiazide) and Roswera (rosuvastatin). The products with the highest sales growth rates were Co-Prenessa (perindopril and indapamide), Co-Valsacor (valsartan and hydrochlorothiazide) and Roswera (rosuvastatin). Among the newly launched products let us single out Tolura (telmisartan) and Nalpaza (pantoprazole).

Sales in **Kosovo** reached EUR 3.5 million in the three quarters, up 3% compared to the same period last year, preserving Krka's position as the leading provider of pharmaceuticals in the market. Prescription pharmaceuticals contributed the largest share to overall sales, especially Enap (enalapril),

Zyllt (clopidogrel) and Lorista (losartan), while Daleron (paracetamol) and Septotele recorded the best sales results among non-prescription products.

In **Albania** product sales in the nine-month period amounted to EUR 2.7 million, down compared to the same period last year. The leading products in terms of sales were Enap (enalapril), Lorista (losartan), Hiconcil (amoxicillin), Ciprinol (ciprofloxacin), Zalasta (olanzapine) and the non-prescription product Daleron (paracetamol). We

## East Europe

Product sales in Region East Europe, which comprises several Eastern European and Asian markets, amounted to EUR 239.1 million in the first nine months of 2012, up 26% compared to the same period last year. Sales growth was recorded in all markets of the Region.

**The Russian Federation** is Krka's largest individual market as well as Krka's key market. In the nine months to September we sold EUR 162.4 million worth of products there, up 27%, overtaking market growth by 5%. The dominant share of sales again came from prescription pharmaceuticals, followed by non-prescription products and animal health products.

Including more and more products launched recently, the leading products in terms of sales were Enap (enalapril), Lorista (losartan), Atoris (atorvastatin), Zyllt (clopidogrel), Orsoten (orlistat), Herbion, Perineva (perindopril), Nalgesin (naproxen), Nolpaza (pantoprazole) and Ultop (omeprazole). Krka has preserved a prominent position in the area of ACE inhibitors, statins, sartans, multivitamin products for children and cough syrups, proton pump inhibitors, and weight loss products. We devoted a lot of attention to the sale of products for the treatment of diseases of the central nervous system, strengthening our position in this therapeutic area.

The highest sales growth was recorded for Nalgesin (naproxen), Orsoten (orlistat), Perineva (perindopril), Nolpaza (pantoprazole), Zyllt (clopidogrel) and Zalasta (olanzapine), while the existing range of products was expanded with the statin Roxera (rosuvastatin) and with two products for the treatment of diseases of the central nervous

launched a new non-prescription product on the market, Nalgesin S (naproxen).

Sales in **Montenegro** were down to EUR 0.7 million. The leading medicines in terms of sales were Oспен (phenoxymethylpenicillin), Efloran (metronidazole), Lorista (losartan), Moditen (fluphenazine) and Atoris (atorvastatin), while the best-selling non-prescription products were Septotele and Fitoval. Since a significant share of sales was made via public tenders, we will continue investing efforts in this area.

system, Elicea (escitalopram) and Zylaxera (aripiprazole).

In **Ukraine** we sold EUR 38.5 million worth of products, an increase by 13%, attributable to intensified promotion activities and local market growth. The leading products in terms of sales were Enap (enalapril), Atoris (atorvastatin) and Naklofen (diclofenac), all prescription pharmaceuticals, while in the group of non-prescription products the sales leaders were the two Herbion syrups. The sale of animal health products in the reported period was up 35%.

In **Kazakhstan** the sales growth trend continues, with sales there having amounted to EUR 9.8 million in the first nine months, up 41%. The leading products in terms of sales were the prescription pharmaceuticals Enap (enalapril), Zyllt (clopidogrel), Lorista (losartan) and Atoris (atorvastatin), while the leading non-prescription products were Duovit and Herbion. In the third quarter we founded a limited liability company in Kazakhstan, 100% owned by Krka.

Sales in **Uzbekistan** also increased by 41%. The majority of the EUR 8.6 million of sales there came from prescription pharmaceuticals, especially Enap (enalapril) and Lorista (losartan). The leading non-prescription products in terms of sales were Pikovit and Septotele.

In **Belarus** sales amounted to EUR 4.5 million, an increase by one half compared to the first nine months last year, mainly driven by the 54% sales growth in prescription pharmaceuticals. The most important products were Lorista (losartan), Enap (enalapril), Fromilid (clarithromycin) and Pikovit.

Product sales in **Moldova** reached EUR 3.7 million, an increase by one tenth compared to the year before. The majority of sales came from prescription pharmaceuticals, especially Ampril (ramipril), the second best-selling medicine brand in the country, Enap (enalapril), Tenox (amlodipine), Kaptopril (captopril) and Rawel (indapamide).

The 29% sales growth in **Mongolia** was also largely driven by the sale of prescription pharmaceuticals. We launched Atoris (atorvastatin), Rawel (indapamide), Zyllit (clopidogrel) and Orsoslim on the market in the reported period. According to data on imported pharmaceuticals for the first eight months of 2012, Krka was the leading pharmaceuticals provider in the country.

Sales were up 5% in **Azerbaijan**, with the leading prescription pharmaceutical in the market remaining

## Central Europe

In Region Central Europe product sales during the nine months amounted to EUR 205.8 million, down 5% compared to the same period last year. Lower overall sales were due to decreased sales in the Region's two key markets, Poland and Hungary, while sales in the other markets were up.

**Poland** remains the largest market in the Region and one of Krka's key markets. Sales there amounted to EUR 83.0 million, a decrease by 8% compared to the same period last year, attributable to the major legislative changes introduced recently. We expect the sales trend to improve by the end of the year.

The largest contributors to overall sales were prescription pharmaceuticals, mainly Atoris (atorvastatin), Lorista (losartan), Valsacor (valsartan), Nolzpa (pantoprazole), Roswera (rosuvastatin), Sulfasalazin (sulfasalazine) and Prenessa (perindopril). Another significant contribution to sales for the period came from the pharmaceuticals introduced to the market in recent years, especially Roswera (rosuvastatin), as well as Doreta (paracetamol and tramadol), Karbis (candesartan), Emanera (esomeprazole), Elicea (escitalopram) and Nimvastid (rivastigmine). Septotele and Bilobil (ginkgo biloba) remain the leading non-prescription products in terms of sales, and Fypryst (fipronil) and Floron (florfenicol) the leading veterinary products.

Enap (enalapril). Sales in **Georgia** increased by 43% compared to the same period last year and were strongly driven by prescription pharmaceuticals. In **Kyrgyzstan**, where sales increased by more than one half in the reported period, the most important products were Pikovit and Duovit. In **Turkmenistan** sales increased by almost three quarters compared to the last year, with the leading products in terms of sales being Pikovit, Fromilid (clarithromycin), Herbion and Naklofen (diclofenac). After the stagnation witnessed last year, sales in **Armenia** were up two thirds, mainly on account of prescription pharmaceuticals, while in **Tajikistan** sales increased by 24%, mainly driven by the 36% sales growth in prescription pharmaceuticals. The range of prescription pharmaceuticals in that market was expanded in the reported period with Nolzpa (pantoprazole) and Lorista (losartan).

Sales in the key market the **Czech Republic** increased by 5% compared to the same period last year, having amounted to EUR 48.0 million. The largest contributors to overall sales were prescription pharmaceuticals, of which the leaders were Atoris (atorvastatin), Lorista (losartan), Lexaurin (bromazepam), Amprilan (ramipril), Lanzul (lansoprazole), Asentra (sertraline) and Prenessa (perindopril). The leading non-prescription product in terms of sales was Nalgesin (naproxen).

Sales in the key market **Hungary** were influenced by the reform of the country's health care system, which caused changes in the reimbursement of medicines and medicine price formation. This was the main reason for lower sales in that market, where we generated EUR 34.3 million. The leading group of products in terms of sales were prescription pharmaceuticals, among them especially Atoris (atorvastatin), Prenessa (perindopril), Nolzpa (pantoprazole), Emozul (esomeprazole) and Valsacor (valsartan).

Sales in **Slovakia** amounted to EUR 19.4 million during the first nine months of the year, up 7% compared to the same period last year. The majority of the best-selling products in the period were prescription pharmaceuticals, among them Atoris (atorvastatin), Prenessa (perindopril), Valsacor (valsartan) and Nolzpa (pantoprazole). The leading non-prescription product was Nalgesin (naproxen).

Sales growth was also recorded in all three Baltic countries, where sales were up 16% in **Estonia**,

10% in **Latvia** and 8% in **Lithuania**.

## West Europe and Overseas Markets

Product sales in Region West Europe and Overseas Markets amounted to EUR 196.9 million in the nine months, up 12% compared to the same period last year. As we witnessed increasing price reduction pressures for our established products, sales growth was mainly driven by new products launched via our own sales network and by stronger sales in new, especially overseas markets.

Prescription pharmaceuticals remain the leading group of products in terms of sales. Their sales via subsidiaries increased and were further spread out in the reported period due to being additionally taken over by the three newly founded companies in Western Europe.

The highest sales value growth as well as relative sales growth was reported by **Krka Sverige**. Sales growth there was largely driven by the sale of venlafaxine, esomeprazole, galantamine SR and sertraline, and of the newly launched candesartan. High growth rates are also being reported by **TAD Pharma in Germany**, where our leading products are pantoprazole, galantamine SR, candesartan and clopidogrel, all tablets, and esomeprazole capsules. Good sales results were recorded for memantine and quetiapine, both launched in the reported period. High sales growth in relative terms was reported by **Krka Farmacêutica in Portugal**, where we expanded the range of products on sale

and increased the market shares for the majority of our products, especially perindopril, clopidogrel and ropinirole SR. Krka's products are marketed under our own brand also via associates in Austria, Spain, Italy and France.

The most sales in the Region were generated in the markets of Western Europe, where the leader remains **Germany**, followed by the **UK**, **France**, the **Nordic countries**, the **Benelux**, **Portugal** and **Italy**. Krka remains the leading generic producer of esomeprazole, clopidogrel, galantamine SR, gliclazide SR and ropinirole SR in West Europe, and one of the leaders in producing the generic olanzapine, pantoprazole, lansoprazole, perindopril, pioglitazone and donepezil.

The main drivers of the successful sale of animal health products, which increased by 23% in the nine months, were enrofloxacin and fipronil, while also increasing is the sale of marbofloxacin, florfenicol, toltrazuril and salinomycin.

Sales in the overseas markets increased by 38% compared to the same period last year, with the best sales results reported for the **Arabian Peninsula and Iran**. Given our plans to expand the range of products on sale with new launches and our plans to enter additional markets, we expect sales growth in these markets to continue.

## Krka Group and Krka Company sales by product and service group

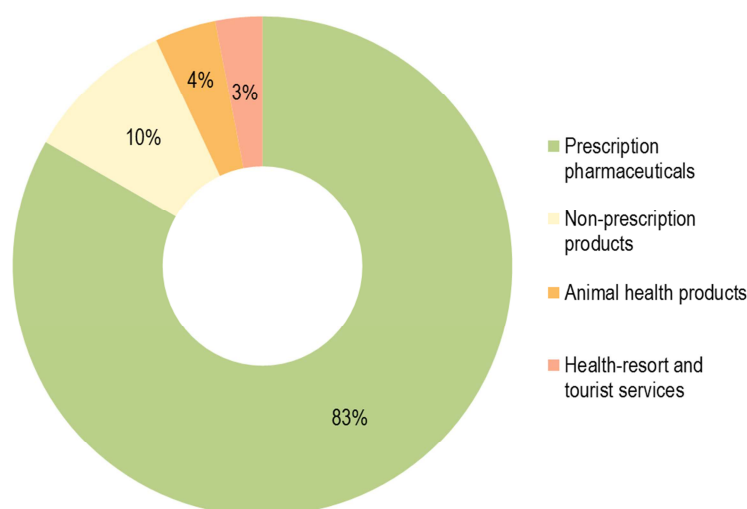
Having generated 93% of overall Group sales in human health products, this is Krka's most important product group. Prescription pharmaceuticals contributed the most, 83%, followed by non-prescription products on 10% of total Group sales, and animal health products, which represent 4%. Health-resort and tourist services contributed an additional 3% to Group

sales.

Substantial sales growth compared to the same period last year was recorded for prescription pharmaceuticals and animal health products, while the sale of non-prescription products decreased by 3% and the sale of health-resort and tourist services by 9%.

EUR thousand	Krka Group			Krka Company		
	1-9/2012	1-9/2011	Index	1-9/2012	1-9/2011	Index
Human health products	756,198	711,214	106	718,887	674,425	107
– Prescription pharmaceuticals	677,103	629,675	108	654,528	596,047	110
– Non-prescription products	79,095	81,539	97	64,359	78,378	82
Animal health products	32,167	28,437	113	31,917	28,685	111
Health-resort and tourist services	24,715	27,126	91			
Other	854	1,373	62	1,477	2,073	71
<b>Total</b>	<b>813,934</b>	<b>768,150</b>	<b>106</b>	<b>752,281</b>	<b>705,183</b>	<b>107</b>

### Sales by product and service group, January–September 2012



### Prescription pharmaceuticals

The Krka Group sold EUR 677.1 million worth of prescription pharmaceuticals in the reported period, 8% more than in the same period last year.

Sales increased the most in Region East Europe (up 32%) and Region West Europe and Overseas Markets (up 11%), while in Region South-East Europe sales remained at the same level as last year. In Regions Central Europe and Slovenia sales

were down compared to the same period last year.

With respect to larger individual markets, the highest sales growth rate for prescription pharmaceuticals was recorded by the Russian Federation (up 36%).

As to mid-size markets, high sales growth rates were reported by the UK and Ireland (up 92%), the



Nordic countries (up 48%), Ukraine (up 13%), Portugal (up 11%), and Lithuania and Slovakia (sales were up 8% in both).

Among smaller sales markets for Krka's prescription pharmaceuticals, high sales growth was recorded by Belarus (up 54%), Uzbekistan (up 49%), Kazakhstan (up 36%), Mongolia (up 29%), Moldova (up 19%) and Serbia (up 16%). Even the smallest markets, such as Armenia, Georgia, Kyrgyzstan, Tajikistan and Turkmenistan, recorded sales growth rates of several tens of per cents.

The top 10 leading prescription pharmaceuticals in terms of sales are Enap (enalapril), Atoris (atorvastatin), Lorista/Lavestra (losartan), Prenessa/Perineva (perindopril), Nolpaza (pantoprazole), Zyllt (clopidogrel), Emozul/Emanera (esomeprazole), Valsacor (valsartan), Lanzul/Lansoptol (lansoprazole) and Zalasta/Zolrix (olanzapine), of which the highest sales growths were reported for Valsacor and Emozul/Emanera. Sales growth rates higher than 10% each were also recorded for Krka's important products Prenessa/Perineva (perindopril), Ampril/Amprilan (ramipril), Yasnal (donepezil), Orsoten (orlistat) and Alventa/Olwexya (venlafaxine). Roxera/Roswera/Sorvasta (rosuvastatin), launched on the majority of markets in 2012, and Galsya SR (galantamine), recording high sales growth especially in the markets of Eastern Europe, have both already entered the leading group of products in terms of sales.

Several existing products were launched on new markets in the first nine months of 2012:

- Dasselta/Esradin/desloratadine in Slovenia, Lithuania, Latvia, Estonia, the Czech Republic, Slovakia, Hungary, Romania, Germany, Austria, Portugal, Finland and Ireland,
- Roswera/Roxera/rosuvastatin in Croatia, Serbia, Kosovo, Lithuania, the Russian Federation, Kazakhstan, Ukraine, Uzbekistan and Georgia,
- Amlessa/Dalnessa/Tonarssa/Dalneva/fixed-dose combination of perindopril and amlodipine in the Czech Republic, Slovakia, Portugal, Latvia and

Romania,

- Tolura/telmisartan in Bulgaria, the Czech Republic, Slovakia, Hungary and Finland,
- Karbis/Candecor/Canocord/candesartan in the Czech Republic, Romania, Germany and Ireland,
- Karbicombi/Candecombi/Canconmbino/fixed-dose combinations of candesartan and hydrochlorothiazide in the Czech Republic, Romania, Germany, Italy, France, Finland and Ireland,
- Emanera/Emozul/esomeprazole in Macedonia, Bosnia and Herzegovina, Finland, France, Italy and Serbia,
- Nolpaza/Appryo/pantoprazole in Spain, Italy, France, Bulgaria, Armenia and Tajikistan,
- Zalasta/olanzapine in the Czech Republic, Austria, Italy and Portugal,
- Yasnal/Yasnora/donepezil in Germany, Ireland, Austria, Italy, France and Spain,
- Galsya SR/Galnora/galantamine in Romania, Austria, Italy and Finland,
- Kventiax/Quentiax/quetiapine in Germany, Austria, Italy, Spain and Romania,
- Rolpryna SR/ropinirole in Slovenia, Austria, Italy, Spain and France,
- Monkasta/montelukast in Croatia,
- Prenessa/perindopril in Italy, Co-Prenessa/fixed-dose combination of perindopril and indapamide in Macedonia,
- Gliclada/gliclazide in Italy, pioglitazone in Portugal, Repodiab/repaglinide in Kazakhstan,
- Valsacor/valsartan in Belarus, Valsacombi/fixed-dose combination of valsartan and hydrochlorothiazide in Italy,
- Elicea/escitalopram in the Russian Federation and in Bosnia and Herzegovina,
- Doreta/fixed-dose combination of tramadol and paracetamol in Romania.

Our marketing activities have changed due to our having set up our own marketing and sales networks in Italy, Spain and France, which have already launched the first Krka brand products.

## Non-prescription products

Non-prescription product sales amounted to EUR 79.1 million, a decrease by 3% compared to the same period last year.

In Region East Europe sales were up 11%, with

sales growth recorded in several of the Region's individual markets, including Kazakhstan (up 53%), Belarus (up 34%), Mongolia and Uzbekistan (up 28% in both), and the Russian Federation and Ukraine (up 7% in both). High sales growth rates

were also recorded in smaller markets, such as Armenia, Kyrgyzstan, Tajikistan and Turkmenistan.

Sales growth was also recorded in several markets of Regions Central Europe and South-East Europe, most notably in Slovakia, Lithuania, Latvia, Serbia and Kosovo, while in Slovenia sales were down compared to the same period last year.

The leading products in terms of sales are Herbion, Septotele, Bilobil (ginkgo biloba), Nalgesin

(naproxen), Pikovit, Panzynom, Duovit and Fitoval, which are in the centre of the majority of our marketing activities.

In the first nine months of 2012 we launched the following products on several new markets: Septotele plus honey and lime and Septotele plus spray, higher strengths of Bilobil (ginkgo biloba), Nalgesin S/Nalgesin L (naproxen), and the Fitoval anti-dandruff product line.

## Animal health products

Animal health product sales reached EUR 32.2 million in the first nine months of 2012, an increase by 13% compared to the same period last year.

Sales increased the most in Region West Europe and Overseas Markets (up 23%). The Region's most important markets are the Benelux countries, where sales increased by two-and-a-half times, and France, where sales were up 9%. Sales in Region Central Europe increased by 14%, mostly driven by sales in Poland (up 25%), the Czech Republic (up by more than 100%) and Latvia (up 57%). The third region in terms of sales value is Region East Europe, where sales increased by 10% and where the highest sales growth (up 35%) was recorded in Ukraine. In Region South-East Europe sales increased by 8%, mainly driven by the 32% sales growth in Serbia, with all the other markets also

having recorded increased sales. In Slovenia the sale of animal health products decreased compared to last year.

The leading veterinary brands remain Enroxil (enrofloxacin) and Floron (florfenicol), since recently closely followed by Fypryst (fipronil), the sale of which witnessed a threefold increase compared to the same period last year.

Our marketing efforts in the reported period were devoted to the launch of Fypryst (fipronil) in Region West Europe, Marfloxin/Quiflor (marbofloxacin) in Regions Central Europe and South-East Europe, Misoixin (doxifloxacin) in the Russian Federation, and Entemulin (tiamulin) on the majority of markets in Central, Eastern and South-Eastern Europe.

## Health-resort and tourist services

In the nine months of 2012 the Terme Krka Group generated EUR 24.7 million of sales, a decrease by 9% compared to the same period in 2011.

Positive sales trends were recorded in the domestic market for the spa health care guest group, especially in the sea side resort Strunjan, while companies' preventive health care recreation and

seminars guest group witnessed negative trends, a result of austerity measures implemented in Slovenia. The crisis in Italy has caused a downward trend in the number of summertime overnight stays by Italian guests in all our business units. The number of overnight stays by Russian and Israeli guests as well as by guests from the Benelux countries, on the other hand, was on the rise.

## Research and development

In the nine months of 2012 we acquired first marketing authorisations for 11 new products in 20 dosage forms and strengths, and obtained 455 new

marketing authorisations for 97 products in different markets.

### Prescription pharmaceuticals

We obtained marketing authorisations for seven new prescription pharmaceuticals in 16 pharmaceutical forms and strengths. By acquiring marketing authorisations under EU procedures (Mutual Recognition Procedure -- MRP, Decentralised Procedure -- DCP, and Centralised Procedure -- CP) and national procedures we expanded marketing opportunities for various established products in all Regions.

Krka is one of the leading generic producers of pharmaceuticals for the treatment of cardiovascular diseases. We expanded our range of products for the treatment of high blood pressure with the new fixed-dose combination of angiotensin II antagonist **olmesartan** and diuretic **hydrochlorothiazide**. This combination supplements Krka's rich portfolio of sartans and their fixed-dose combinations, and represents an additional option in the treatment of hypertension, especially for patients not responding to the treatment with olmesartan individually. The fixed-dose combination of olmesartan and hydrochlorothiazide in film-coated tablets in four strengths was authorised in nine European countries under the DCP.

Our range of products to lower blood pressure was expanded to the new markets of Western Europe. Two DCPs were completed for **Karbis (candesartan)** tablets in four strengths, and new marketing authorisations acquired in 17 European countries. Applying the DCP we, further, acquired the marketing authorisation for valsartan film-coated tablets in four strengths.

Also under the DCP we obtained marketing authorisations in nine European countries for **Prenessa Q-Tab (perindopril)** in the new form of **orodispersible tablets** in two strengths, which are easier for patients to take.

We obtained marketing authorisations applying the CP in all the markets of West Europe for **sildenafil orodispersible tablets** in three strengths. The orodispersible tablets, which treat erectile

dysfunction, dissolve rapidly in the mouth without chewing and are therefore suitable for patients having difficulties swallowing ordinary tablets.

Krka's well established product for the treatment of cardiovascular diseases, **Atoris (atorvastatin)**, was authorised in the form of film-coated tablets in the three strengths of 10 mg, 20 mg and 40 mg in 12 European countries under the MRP.

Having obtained marketing authorisations for the new medicines **capecitabine** and **exemestane**, we entered the area of oncology medications. Capecitabine in the form of film-coated tablets in three strengths is a substance treating different kinds of cancer, including colon and stomach cancer, and breast cancer. The side effect profile of capecitabine is favourable, with hair loss and hematologic side effects being rare and manageable. It is also indicated in the treatment of older patients and those with kidney and liver disorders. **Exemestane** in the form of 25 mg film-coated tablets is used to treat early and advanced hormone-dependant breast cancer in postmenopausal women. The oral form of the two medicines is patient friendly and easy to use, allowing for home therapy.

In the area of antidiabetic medications we acquired new marketing authorisations in the countries of Western Europe for **pioglitazone**, treating type-2 diabetes. **Paglitaz (pioglitazone)** tablets in three strengths were authorised in 29 countries under the CP.

In the area of antipsychotics we obtained additional marketing authorisations in seven European countries for **ziprasidone** capsules in four strengths, and the proton pump inhibitor **pantoprazole** was authorised in the form of gastro-resistant tablets in six European countries.

In the Russian Federation we obtained new marketing authorisations for rosuvastatin and atorvastatin in three new strengths. **Atoris**



(**atorvastatin**) film-coated tablets are now available in 30 mg, 60 mg and 80 mg dosages, offering new treatment options. **Roxera (rosuvastatin)** was authorised in the form of film-coated tablets in six strengths, which enables treatment to be better adjusted to each patient and thus facilitates reaching the guideline recommendations on lipid levels. Further in the Russian Federation, we obtained new marketing authorisations for **Zonixem (lisinopril)** tablets in three strengths and for **Zonixem HL** and **Zonixem HD** (fixed-dose combinations of **lisinopril** and **hydrochlorothiazide**) in the form of tablets in three different strengths.

With respect to Krka's key therapeutic group proton pump inhibitors, marketing authorisations were acquired in the Russian Federation, Ukraine, Kazakhstan and Uzbekistan for **Zulbex (rabeprazole)** gastro-resistant tablets in two strengths. In Ukraine we also obtained new marketing authorisations for **Lorista H 100 mg/12.5 mg** (fixed-dose combination of **losartan** and **hydrochlorothiazide**) in the form of film-coated tablets, for **Zulbex (rabeprazole)** gastro-resistant tablets in two strengths, and for **Zalasta (olanzapine)** tablets and orodispersible tablets.

In the markets of South-Eastern Europe we acquired new marketing authorisations for products in our key therapeutic groups. **Atoris (atorvastatin)** was authorised in Croatia, Macedonia and Kosovo in the form of film-coated tablets in three new strengths (30 mg, 60 mg and 80 mg). In Croatia we

## Non-prescription products

In the first nine months of 2012 we acquired the marketing authorisation for our new herbal non-prescription product, **Herbion Iceland moss syrup**. The product contains the extract of the Iceland lichen and abundant water-soluble mucus which coat, protect and moisten the oral mucosa, alleviating irritation and a dry cough. It is recommended in case of a dry, ticklish cough, hoarseness and a sore throat.

In Ukraine, Kazakhstan, Macedonia, Bosnia and Herzegovina, Belarus and Moldova we acquired marketing authorisations for the **Herbion Ivy syrup**.

In the Russian Federation we obtained a new marketing authorisation for the **Palprostes** herbal

also acquired new marketing authorisations for **Valsacombi** (fixed-dose combination of **valsartan** and **hydrochlorothiazide**) in the form of film-coated tablets in two strengths, for **Lorista H 100 mg/12.5 mg** (fixed-dose combination of **losartan** and **hydrochlorothiazide**) in the form of film-coated tablets, for **Tanyz ERAS (tamsulosin)** film-coated tablets, for **Karbicombi** (fixed-dose combination of **candesartan** and **hydrochlorothiazide**) in the form of tablets in four strengths, for **Zulbex (rabeprazole)** gastro-resistant tablets in two strengths, for **Rolpryna SR (ropinirole)** prolonged-release tablets in three strengths, and for **Nimvastid (rivastigmine)** capsules and orodispersible tablets.

In Macedonia we obtained marketing authorisations for **Roswera (rosuvastatin)** film-coated tablets in two additional strengths. In Serbia we acquired marketing authorisations for **Tolura (telmisartan)** tablets in two strengths, and for **Rolpryna SR (ropinirole)** prolonged-release tablets in three strengths, while in Bosnia and Herzegovina we acquired new marketing authorisations for **Rolpryna SR (ropinirole)** prolonged-release tablets in three strengths, and for **Zulbex (rabeprazole)** gastro-resistant tablets in two strengths.

In selected overseas markets we acquired new marketing authorisations for Krka's key products **Atoris (atorvastatin)**, **Zyllt (clopidogrel)**, **Valsacor (valsartan)**, **Vizarsin (sildenafil)** and **Amlober (amlodipine besylate)** in various pharmaceutical forms and strengths.

soft gel capsules, and in Estonia an additional marketing authorisation for the **Bilobil 120 mg** capsules.

As to analgesics, marketing opportunities were expanded for the well established brand **Nalgesin (naproxen)**. Having completed the DCP for **naproxen** film-coated tablets in two strengths, they were approved in six countries of Western Europe, and we also obtained new marketing authorisations for Nalgesin in Croatia, Albania, Moldova and Serbia.

In the markets of Eastern Europe we strengthened the position of Krka's key brand **Septotele** by obtaining marketing authorisations for the **Septotele**

**plus spray** in Belarus, Serbia, Kyrgyzstan and Turkmenistan, and for the **Septotele plus honey and lime** lozenges in the Russian Federation, Ukraine, Turkmenistan, Armenia and Romania.

## Animal health products

We acquired marketing authorisations for three new veterinary products.

The **Fypriyst (fipronil)** cutaneous spray was approved under the DCP. It represents a new application form of the substance fipronil, which treats and prevents flea, tick and lice infestations in cats and dogs.

We obtained the first marketing authorisation for our new product **Misoxin (doxycycline)** in the form of oral powder. It was approved in the Russian Federation.

Marketing authorisation was granted for the new product **florfenicol minidose** for cattle, in the form of solution for injection 450 mg/1 ml, which is a new strength of the medicine. Due to the stronger solution for injection, the volume of the subcutaneous dose can be smaller, allowing for an easier administration of the medicine. The product was approved in Germany under the national procedure.

Applying the CP we obtained in 27 European countries the marketing authorisation for our probiotic product **Animavit** in the form of water soluble granules, which contains probiotics of a strain of *Bacillus subtilis*.

We also completed a DCP for the **fipronil** spot-on solution in five strengths, acquiring marketing authorisations for the product in 11 countries of

New marketing authorisations were also acquired for products of the **Duovit** and **Pikovit** brands in South Africa.

Western Europe.

**Kvestigin (amoxicillin)** in the form of oral powder, treating infections in pigs and broilers, was authorised in Slovenia.

**Giraxa (colistin)** in the form of water soluble powder for the preparation of oral solution, treating bacterial infections in farm animals, was approved in Azerbaijan.

In Croatia we obtained a new marketing authorisation for **Toltarox (toltrazuril)** in the form of oral suspension, preventing and treating coccidiosis in newborn pigs.

New marketing authorisations were secured for **Rycarfa (carprofen)** flavoured tablets in three strengths and solution for injection in Serbia, while the solution for injection was also approved in Kazakhstan. Both are used to relieve pain and in degenerative changes of the musculoskeletal system as well as after operations. In the Russian Federation we acquired the marketing authorisation for **Tiavalt (tiamulin)** water soluble granules 450 mg/g for the preparation of medicated drinking water, preventing and treating chronic respiratory disease in poultry and treating the gastrointestinal and respiratory infection complex in pigs.

In Ukraine we obtained approvals for **Dehinel plus flavour** and **Dehinel plus XL** tablets treating internal parasite infestations in dogs.

## Investments

In the first nine months this year the Krka Group allocated EUR 95.2 million to investments, of which the controlling company invested EUR 41.3 million and subsidiaries EUR 53.9 million. The majority of our investments have been allocated to increasing and modernising our production capacity and research and development capacity. Investments of the highest value are expected in the final quarter, while the actual investment spending will presumably be lower than planned, a result of good pricing conditions negotiated with suppliers and contractors.

In June work started on the largest investment in Krka's history – the new oral solid dosage form production plant called Noto 2, which is being built at Krka's central location in Ločna in Novo mesto, Slovenia. The 55,000 m<sup>2</sup> plant is worth EUR 200 million, and its target capacity is 4.5 billion finished products per year.

Also ongoing is the investment into Krka's subsidiary Farma GRS, d. o. o., which was founded together with partners in a project aimed at advancing the pharmaceutical industry. In the project worth EUR 45 million, co-funded by the European Regional Development Fund with slightly more than EUR 10 million, new research and development capacity and production capacity is being set up at Krka's location in Ločna, Slovenia. The company will set up the infrastructure for developing new products and technologies related to pharmaceutical chemistry and technology. The

Farma GRS project in fact includes two investments: constructing the Production centre for the final processing of active ingredients, where production will start by the end of the year, and the Chemicals development centre, which will start operations next year. In the same project Krka is also partly increasing the capacity of its Development and control centre RKC 3.

At Krka's location in Krško, Slovenia work started on the construction of the Sinteza 1 plant, which will increase our API and intermediates production capacity. In the investment worth just over EUR 85 million, we will construct an API production plant and the infrastructure required for production purposes. The Sinteza 1 plant will allow for production flexibility, facilitating a highly time-efficient transfer to the production of new APIs and intermediates, and will foster production in a controlled environment, consistent with the European Community Regulation on chemicals and their safe use (REACH). Production in the new plant will start at the end of 2014.

One of our most important ongoing investments is the construction of a new plant and the expansion of the logistics centre in the Russian Federation, Krka-Rus 2. The investment is worth an estimated EUR 135 million and will consolidate Krka's position as a domestic producer of pharmaceuticals in the country. The plant's target production capacity is 1.8 billion tablets and capsules per year, and it is planned to be completed at the end of 2013.

## Employees

At the end of September 2012 the Krka Group had 9,267 employees, an increase by 319, or 4%, from the beginning of the year. The number of Krka employees increased in the period by 126 in Slovenia and by 193 abroad.

Krka's subsidiaries and representative offices outside Slovenia employ 49% of the Group's team, with 51% of the Group's employees having university or higher academic degrees.

## Educational structure

	30 Sep 2012		31 Dec 2011		
	No. of employees	Share (%)	No. of employees	Share (%)	Index
Doctorate	105	1.1	95	1.1	111
Master of science	272	3.0	266	3.0	102
University education	4,368	47.1	4,230	47.3	103
Higher professional education	1,035	11.2	945	10.5	110
Vocational college education	262	2.8	257	2.9	102
Secondary school education	1,854	20.0	1,760	19.7	105
Other	1,371	14.8	1,395	15.5	98
<b>Total</b>	<b>9,267</b>	<b>100.0</b>	<b>8,948</b>	<b>100.0</b>	<b>104</b>

We have secured a continuous inflow of new talented employees by offering study grants to students. Currently there are 73 students that receive Krka study grants. They are primarily pharmacy and chemistry students, while scholarships are also granted to promising students from other fields of interest to Krka. 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. Training is adjusted to their needs, the technological process, market situation and development needs of the Group. The majority of these trainings are organised in-house, with training methods being

constantly updated and supplemented with new types of training better adjusted to the contemporary nature of work.

At the end of September, 339 employees were enrolled into part-time studies co-funded by Krka, 73 of them postgraduate students. By the end of September, 33 employees had completed their studies this year.

Krka is the only certificate-awarding body in Slovenia with the power to examine and approve candidates taking the National Vocational Qualification (NVQ) exams in the area of pharmacy. By examining and approving candidates under the NVQ system between 2002 and September 2012, we awarded 707 NVQ certificates to Krka employees and 142 to participants from other organisations in the pharmaceutical industry.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE KRKA GROUP, WITH NOTES

## Statement of consolidated financial position of the Krka Group

EUR thousand	30 Sep 2012	31 Dec 2011	Index
<b>Assets</b>			
Property, plant and equipment	735,719	703,112	105
Intangible assets	116,997	119,082	98
Deferred tax assets	25,644	27,340	94
Non-current loans	5,975	4,821	124
Non-current investments	5,340	4,944	108
Other non-current assets	206	169	122
<b>Total non-current assets</b>	<b>889,881</b>	<b>859,468</b>	<b>104</b>
Inventories	257,576	253,208	102
Trade and other receivables	400,510	399,512	100
Current loans	13,337	1,050	1,270
Current investments	664	602	110
Cash and cash equivalents	20,527	20,187	102
<b>Total current assets</b>	<b>692,614</b>	<b>674,559</b>	<b>103</b>
<b>Total assets</b>	<b>1,582,495</b>	<b>1,534,027</b>	<b>103</b>
<b>Equity</b>			
Share capital	59,126	59,126	100
Treasury shares	-51,384	-42,584	121
Reserves	188,828	174,409	108
Retained earnings	1,000,089	947,289	106
<b>Equity holders of the parent</b>	<b>1,196,659</b>	<b>1,138,240</b>	<b>105</b>
Non-controlling interest	1,472	1,514	97
<b>Total equity</b>	<b>1,198,131</b>	<b>1,139,754</b>	<b>105</b>
<b>Liabilities</b>			
Non-current borrowings	25,500	25,500	100
Provisions	104,711	104,819	100
Deferred revenue	9,158	6,670	137
Deferred tax liabilities	15,459	18,103	85
<b>Total non-current liabilities</b>	<b>154,828</b>	<b>155,092</b>	<b>100</b>
Trade payables	95,395	90,888	105
Current borrowings	12,674	44,091	29
Income tax liabilities	2,452	1,309	187
Other current liabilities	119,015	102,893	116
<b>Total current liabilities</b>	<b>229,536</b>	<b>239,181</b>	<b>96</b>
<b>Total liabilities</b>	<b>384,364</b>	<b>394,273</b>	<b>97</b>
<b>Total equity and liabilities</b>	<b>1,582,495</b>	<b>1,534,027</b>	<b>103</b>

## Consolidated income statement of the Krka Group

EUR thousand	1-9/2012	1-9/2011	Index
Revenues	813,934	768,150	106
Cost of sales	-328,581	-289,321	114
<b>Gross profit</b>	<b>485,353</b>	<b>478,829</b>	<b>101</b>
Other income	3,683	6,601	56
Distribution expenses	-220,378	-194,138	114
R&D costs	-72,137	-66,541	108
Administrative expenses	-53,114	-55,775	95
<b>Operating profit</b>	<b>143,407</b>	<b>168,976</b>	<b>85</b>
Financial income	5,509	1,536	436
Financial expenses	-12,423	-23,393	58
<b>Net financial expenses</b>	<b>-6,914</b>	<b>-21,857</b>	<b>32</b>
<b>Profit before tax</b>	<b>136,493</b>	<b>147,119</b>	<b>93</b>
Income tax expense	-24,997	-31,696	79
<b>Profit for the period</b>	<b>111,496</b>	<b>115,423</b>	<b>97</b>
<b>Attributable to:</b>			
– equity holders of the parent	111,538	115,450	97
– non-controlling interest	-42	-27	156
<b>Basic earnings per share (in EUR)*</b>	<b>3.35</b>	<b>3.43</b>	<b>97</b>
<b>Diluted earnings per share (in EUR)**</b>	<b>3.35</b>	<b>3.43</b>	<b>97</b>

\* Profit for the period / Average number of shares issued in the period, excluding treasury shares

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

## Consolidated statement of comprehensive income of the Krka Group

EUR thousand	1-9/2012	1-9/2011	Index
<b>Profit for the period</b>	<b>111,496</b>	<b>115,423</b>	<b>97</b>
<b>Other comprehensive income for the period</b>			
Change in fair value of available-for-sale financial assets	346	-179	
Deferred tax effect – change in fair value of available-for-sale financial assets	-69	36	
Translation reserve	5,342	-8,643	
<b>Total other comprehensive income for the period</b>	<b>5,619</b>	<b>-8,786</b>	
<b>Total comprehensive income for the period</b>	<b>117,115</b>	<b>106,637</b>	<b>110</b>
<b>Attributable to:</b>			
– equity holders of the parent	117,157	106,664	110
– non-controlling interest	-42	-27	156

## Consolidated statement of changes in equity of the Krka Group

EUR thousand	Reserves								Retained earnings			Total equity holders of the parent	Non-controlling interest	Total equity
	Share capital	Treasury shares	Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserves	Translation reserve	Other revenue reserves	Profit for the period	Retained earnings			
<b>Balance at 1 Jan 2012</b>	59,126	-42,584	42,584	101,503	14,990	30,000	1,542	-16,210	760,611	124,150	62,528	1,138,240	1,514	1,139,754
<b>Profit for the period</b>	0	0	0	0	0	0	0	0	0	111,538	0	111,538	-42	111,496
<b>Other comprehensive income for the period</b>														
Change in fair value of available-for-sale financial assets	0	0	0	0	0	0	346	0	0	0	0	346	0	346
Deferred tax effect – change in fair value of available-for-sale financial assets	0	0	0	0	0	0	-69	0	0	0	0	-69	0	-69
Deferred tax effect and tax effect of transition to IFRS	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Translation reserve	0	0	0	0	0	0	0	5,342	0	0	0	5,342	0	5,342
<b>Total other comprehensive income for the period</b>	0	0	0	0	0	0	277	5,342	0	0	0	5,619	0	5,619
<b>Total comprehensive income for the period</b>	0	0	0	0	0	0	277	5,342	0	111,538	0	117,157	-42	117,115
<b>Transactions with owners, recognised directly in equity</b>														
Formation of statutory reserves	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Formation of other revenue reserves under the resolution of the Management Board and Supervisory Board	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	0	-111,741	111,741	0	0	0
Transfer to other revenue reserves under the resolution of the Annual General Meeting	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Formation of reserves for treasury shares	0	0	8,800	0	0	0	0	0	0	-8,800	0	0	0	0
Repurchase of treasury shares	0	-8,800	0	0	0	0	0	0	0	0	0	-8,800	0	-8,800
Dividends paid	0	0	0	0	0	0	0	0	0	0	-49,938	-49,938	0	-49,938
Acquisition of non-controlling interests	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total transactions with owners, recognised directly in equity</b>	0	-8,800	8,800	0	0	0	0	0	0	-120,541	61,803	-58,738	0	-58,738
<b>Balance at 30 Sep 2012</b>	59,126	-51,384	51,384	101,503	14,990	30,000	1,819	-10,868	760,611	115,147	124,331	1,196,659	1,472	1,198,131

EUR thousand	Reserves								Retained earnings			Total equity holders of the parent	Non-controlling interest	Total equity
	Share capital	Treasury shares	Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserves	Translation reserve	Other revenue reserves	Profit for the period	Retained earnings			
Balance at 1 Jan 2011	59,126	-21,749	21,749	101,503	14,990	27,184	1,767	-7,960	684,639	111,765	58,736	1,051,750	1,577	1,053,327
Profit for the period	0	0	0	0	0	0	0	0	0	115,450	0	115,450	-27	115,423
Other comprehensive income for the period														
Change in fair value of available-for-sale financial assets	0	0	0	0	0	0	-179	0	0	0	0	-179	0	-179
Deferred tax effect – change in fair value of available-for-sale financial assets	0	0	0	0	0	0	36	0	0	0	0	36	0	36
Translation reserve	0	0	0	0	0	0	0	-8,643	0	0	0	-8,643	0	-8,643
Total other comprehensive income for the period	0	0	0	0	0	0	-143	-8,643	0	0	0	-8,786	0	-8,786
Total comprehensive income for the period	0	0	0	0	0	0	-143	-8,643	0	115,450	0	106,664	-27	106,637
Transactions with owners, recognised directly in equity														
Formation of statutory reserves	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Formation of other revenue reserves under the resolution of the Management Board and Supervisory Board	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	0	-111,765	111,765	0	0	0
Transfer to other revenue reserves under the resolution of the Annual General Meeting	0	0	0	0	0	0	0	0	60,972	0	-60,972	0	0	0
Formation of reserves for treasury shares	0	0	16,480	0	0	0	0	0	0	-16,480	0	0	0	0
Repurchase of treasury shares	0	-16,480	0	0	0	0	0	0	0	0	0	-16,480	0	-16,480
Dividends paid	0	0	0	0	0	0	0	0	0	0	-47,000	-47,000	0	-47,000
Acquisition of non-controlling interests	0	0	0	0	0	0	0	0	0	0	0	0	3	3
Total transactions with owners, recognised directly in equity	0	-16,480	16,480	0	0	0	0	0	60,972	-128,245	3,793	-63,480	3	-63,477
Balance at 30 Sep 2011	59,126	-38,229	38,229	101,503	14,990	27,184	1,624	-16,603	745,611	98,970	62,529	1,094,934	1,553	1,096,487



## Consolidated statement of cash flows of the Krka Group

EUR thousand	1-9/2012	1-9/2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit for the period	111,495	115,423
Adjustments for:	100,063	91,475
– amortisation/depreciation	67,024	64,086
– foreign exchange differences	2,390	-8,053
– investment income	-1,412	-564
– investment expense	5,593	1,869
– interest expense and other financial expense	1,470	2,438
– income tax	24,998	31,696
– other	0	3
<b>Operating profit before changes in net operating current assets</b>	<b>211,559</b>	<b>206,898</b>
Change in trade and other receivables	-2,158	49,753
Change in inventories	-4,368	-31,332
Change in trade payables	4,507	-15,655
Change in provisions	-108	772
Change in deferred revenue	2,488	2,983
Change in other current liabilities	15,851	23,286
Income taxes paid	-23,712	-39,255
<b>Cash generated from operations</b>	<b>204,059</b>	<b>197,450</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	794	105
Dividends received	17	15
Proceeds from sale of property, plant and equipment	733	2,499
Purchase of intangible assets	-4,449	-4,995
Purchase of property, plant and equipment	-91,013	-69,368
Non-current loans	-1,300	-1,227
Proceeds from repayment of non-current loans	731	605
Acquisition of non-current investments	-120	-41
Proceeds from sale of non-current investments	33	44
Payments/Proceeds in connection with current investments and loans	-12,810	-19,428
Payments in connection with derivative financial instruments	-4,987	-7
Proceeds in connection with derivative financial instruments	102	5
<b>Net cash used in investing activities</b>	<b>-112,269</b>	<b>-91,793</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Interest paid	-2,304	-3,201
Repayment of non-current borrowings	-30,900	-34,536
Acquisition of current borrowings	721	7,852
Dividends paid	-49,667	-46,767
Repurchase of treasury shares	-8,800	-16,480
<b>Net cash used in financing activities</b>	<b>-90,951</b>	<b>-93,132</b>
<b>Net increase in cash and cash equivalents</b>	<b>839</b>	<b>12,525</b>
Cash and cash equivalents at beginning of period	20,187	7,789
Effect of exchange rate fluctuations on cash held	-499	-557
<b>Net cash and cash equivalents at end of period</b>	<b>20,527</b>	<b>19,757</b>

## Segment reporting of the Krka Group

	European Union		South-East Europe		East Europe		Other		Total	
EUR thousand	1-9/2012	1-9/2011	1-9/2012	1-9/2011	1-9/2012	1-9/2011	1-9/2012	1-9/2011	1-9/2012	1-9/2011
<b>Revenues to non-Group companies</b>	<b>484,491</b>	<b>496,156</b>	<b>65,918</b>	<b>64,782</b>	<b>239,063</b>	<b>189,600</b>	<b>24,462</b>	<b>17,612</b>	<b>813,934</b>	<b>768,150</b>
<b>Revenues to Group companies</b>	<b>53,702</b>	<b>98,658</b>	<b>54,150</b>	<b>42,378</b>	<b>108,462</b>	<b>97,571</b>	<b>0</b>	<b>0</b>	<b>216,314</b>	<b>238,607</b>
Revenues from reversal of non-current provisions and other income	3,016	4,842	498	54	169	1,705	0	0	3,683	6,601
<b>Operating profit</b>	<b>84,133</b>	<b>132,396</b>	<b>21,650</b>	<b>21,202</b>	<b>29,396</b>	<b>12,486</b>	<b>8,228</b>	<b>2,892</b>	<b>143,407</b>	<b>168,976</b>
Interest revenue	767	256	6	6	18	8	0	0	791	270
Interest expense	-1,335	-2,292	-5	-12	7	0	0	0	-1,333	-2,304
<b>Net financial expenses</b>	<b>-3,906</b>	<b>-17,216</b>	<b>-2,293</b>	<b>-1,003</b>	<b>-333</b>	<b>-3,342</b>	<b>-382</b>	<b>-296</b>	<b>-6,914</b>	<b>-21,857</b>
Income tax expense	-13,530	-24,034	-3,722	<b>-3,785</b>	-6,851	-3,529	-894	-348	-24,997	-31,696
<b>Profit for the period</b>	<b>66,697</b>	<b>91,146</b>	<b>15,635</b>	<b>16,414</b>	<b>22,212</b>	<b>5,615</b>	<b>6,952</b>	<b>2,248</b>	<b>111,496</b>	<b>115,423</b>
Investments	59,109	61,833	2,505	1,246	33,574	13,172	0	0	95,189	76,251
Depreciation of property, plant and equipment	45,271	42,583	3,725	3,495	11,084	10,362	270	323	60,350	56,763
Amortisation of intangible assets	4,786	5,389	465	426	1,294	1,409	130	99	6,675	7,323
	<b>30 Sep 2012</b>	<b>31 Dec 2011</b>	<b>30 Sep 2012</b>	<b>31 Dec 2011</b>	<b>30 Sep 2012</b>	<b>31 Dec 2011</b>	<b>30 Sep 2012</b>	<b>31 Dec 2011</b>	<b>30 Sep 2012</b>	<b>31 Dec 2011</b>
<b>Total assets</b>	<b>1,150,674</b>	<b>1,155,647</b>	<b>101,261</b>	<b>91,825</b>	<b>321,324</b>	<b>274,283</b>	<b>9,236</b>	<b>12,272</b>	<b>1,582,495</b>	<b>1,534,027</b>
<b>Total liabilities</b>	<b>218,448</b>	<b>247,402</b>	<b>29,894</b>	<b>27,120</b>	<b>126,897</b>	<b>112,024</b>	<b>9,125</b>	<b>7,727</b>	<b>384,364</b>	<b>394,273</b>

## Notes to the consolidated financial statements of the Krka Group

### Costs by nature

EUR 674,210 thousand

EUR thousand	1-9/2012	1-9/2011	Index
Cost of goods and material	220,665	190,800	116
Cost of services	153,505	148,290	104
Employee benefits cost	215,309	199,303	108
Depreciation and amortisation expense	67,025	64,086	105
Other expenses	36,839	24,419	151
<b>Total costs</b>	<b>693,343</b>	<b>626,898</b>	<b>111</b>
Change in the value of inventories	-19,133	-21,123	91
<b>Total</b>	<b>674,210</b>	<b>605,775</b>	<b>111</b>

### Employee benefits cost

EUR 215,309 thousand

EUR thousand	1-9/2012	1-9/2011	Index
Gross wages and salaries, and continued pay	166,083	151,440	110
Social security contributions and payroll tax	36,640	34,905	105
Retirement benefits and anniversary bonuses	2,608	3,071	85
Other employee benefits cost	9,978	9,887	101
<b>Total employee benefits cost</b>	<b>215,309</b>	<b>199,303</b>	<b>108</b>

### Other expenses

EUR 36,839 thousand

EUR thousand	1-9/2012	1-9/2011	Index
Grants and assistance for humanitarian and other purposes	2,325	2,672	87
Environmental levies	1,945	1,840	106
Other taxes and levies	22,035	8,223	268
Loss on sale of property, plant and equipment and intangible assets	604	1,761	34
Write-offs and write-downs for inventories	6,282	6,698	94
Other costs	3,648	3,225	113
<b>Total other expenses</b>	<b>36,839</b>	<b>24,419</b>	<b>151</b>

Other taxes and levies include the taxes (clawback etc.) recently imposed in several markets of Krka's operations, and consist of both the current taxes

and the provisions formed for these taxes applicable to previous periods.

## Financial income and expenses

EUR thousand	1-9/2012	1-9/2011	Index
Net foreign exchange gain	3,386	0	
Interest income	791	270	293
Change in fair value of investments through profit or loss	64	0	
Income from derivative financial instruments	102	5	2,040
– inflows	102	5	2,040
Dividend income	17	104	16
Reversal of impairment	1,149	1,151	100
Other income	0	6	0
<b>Total financial income</b>	<b>5,509</b>	<b>1,536</b>	<b>359</b>
Net foreign exchange loss	0	-15,779	0
Interest expense	-1,333	-2,304	58
Change in fair value of investments through profit or loss	-2	-101	2
Expense from derivative financial instruments	-4,987	-7	71.243
– outflows	-4,987	-7	71.243
Impairment and write-off of receivables	-5,964	-5,070	118
Other expenses	-137	-132	104
<b>Total financial expenses</b>	<b>-12,423</b>	<b>-23,393</b>	<b>53</b>
<b>Net financial expenses</b>	<b>-6,914</b>	<b>-21,857</b>	<b>32</b>

## Income tax expense

EUR 24,997 thousand

Current income tax amounts to EUR 25,860 thousand, which is 18.9% of pre-tax profit. Together with the deferred tax of EUR -863 thousand, the total income tax expense in the income statement

equals EUR 24,997 thousand. The effective tax rate is 18.3%, which is 3.2 of a percentage point less than in the same period last year.

## Property, plant and equipment

EUR 735,719 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
Property	31,023	30,613	101
Plant	316,834	328,868	96
Equipment	294,383	298,971	98
Property, plant and equipment under construction	93,479	44,660	209
<b>Total property, plant and equipment</b>	<b>735,719</b>	<b>703,112</b>	<b>105</b>

The value of property, plant and equipment represents 46% of the Group's total assets. Krka's

major investments are described under Investments in the Business Report.

## Intangible assets

EUR 116,997 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
Goodwill	42,644	42,644	100
Trademark	42,403	42,403	100
Concessions, patents, licences and similar rights	31,950	34,035	94
<b>Total intangible assets</b>	<b>116,997</b>	<b>119,082</b>	<b>98</b>

## Loans

EUR 19,312 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
<b>Non-current loans</b>	<b>5,975</b>	<b>4,821</b>	<b>124</b>
– loans	5,975	4,821	124
<b>Current loans</b>	<b>13,337</b>	<b>1,050</b>	<b>1.270</b>
– current portion of loans due next year	250	883	28
– current loans to other entities	13,085	162	8.077
– current interest receivable	2	5	40
<b>Total loans</b>	<b>19,312</b>	<b>5,871</b>	<b>329</b>

Non-current loans represent 31% of total loans.

loans.

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

Current loans to other entities include EUR 13,000 thousand of bank deposits with maturities longer than 30 days.

## Investments

EUR 6,004 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
<b>Non-current investments</b>	<b>5,340</b>	<b>4,944</b>	<b>108</b>
– financial assets available for sale	5,340	4,944	108
<b>Current investments, including derivative financial instruments</b>	<b>664</b>	<b>602</b>	<b>110</b>
– instruments held for trading	83	68	122
– other current investments	581	534	109
<b>Total investments</b>	<b>6,004</b>	<b>5,546</b>	<b>108</b>

Financial assets available for sale include EUR 835 thousand of investments in shares made in Slovenia, and EUR 4,505 thousand of investments in shares made abroad.

Other current investments refer to EUR 302 thousand worth of shares in Slovenian mutual funds, and to EUR 279 thousand worth of assets under management.

## Inventories

EUR 257,576 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
Material	88,438	96,764	91
Work in progress	61,853	54,425	114
Products	101,438	95,236	107
Merchandise	5,847	6,783	86
<b>Total inventories</b>	<b>257,576</b>	<b>253,208</b>	<b>102</b>

## Trade and other receivables

EUR 400,510 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
Trade receivables	347,769	361,290	96
Other receivables	52,741	38,222	138
<b>Total receivables</b>	<b>400,510</b>	<b>399,512</b>	<b>100</b>

## Cash and cash equivalents

EUR 20,527 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
Cash in hand	62	45	138
Bank balances	20,465	20,142	102
<b>Total cash and cash equivalents</b>	<b>20,527</b>	<b>20,187</b>	<b>102</b>

## Equity

EUR 1,198,131 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
Share capital	59,126	59,126	100
Treasury shares	-51,384	-42,584	121
Reserves	188,828	174,409	108
– share premium	101,503	101,503	100
– reserves for treasury shares	51,384	42,584	121
– legal reserves	14,990	14,990	100
– statutory reserves	30,000	30,000	100
– fair value reserve	1,819	1,542	118
– translation reserves	-10,868	-16,210	67
Retained earnings	1,000,089	947,289	106
<b>Total equity holders of the parent</b>	<b>1,196,659</b>	<b>1,138,240</b>	<b>105</b>
Non-controlling interest	1,472	1,514	97
<b>Total equity</b>	<b>1,198,131</b>	<b>1,139,754</b>	<b>105</b>

## Borrowings

EUR 38,174 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
<b>Non-current borrowings</b>	<b>25,500</b>	<b>25,500</b>	<b>100</b>
– borrowings from domestic banks	25,500	25,500	100
<b>Current borrowings</b>	<b>12,674</b>	<b>44,091</b>	<b>29</b>
– portion of non-current borrowings due next year	10,400	41,726	25
– borrowings from foreign banks	1,626	978	166
– borrowings from other entities	482	386	125
– interest payable	166	1,001	17
<b>Total borrowings</b>	<b>38,174</b>	<b>69,591</b>	<b>55</b>

## Provisions

EUR 104,711 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
Provisions for retirement benefits and anniversary bonuses	50,777	50,915	100
Other provisions	53,934	53,904	100
– provisions for lawsuits	49,101	49,122	100
– other provisions	4,833	4,782	101
<b>Total provisions</b>	<b>104,711</b>	<b>104,819</b>	<b>100</b>

## Deferred revenue

EUR 9,158 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
Grants received for the Beta plant in Šentjernej	48	81	59
Grants received for the health resorts Dolenjske and Šmarješke Toplice and Golf Grad Otočec	4,747	4,970	96
Grants by the European Regional Development Fund	3,016	21	14.362
Grants by the European Fund – development of new technologies (FBD project)	755	828	91
Properties, plant and equipment received for free	569	579	98
Emission coupons	22	7	314
Other deferred revenue	1	184	1
<b>Total deferred revenue</b>	<b>9,158</b>	<b>6,670</b>	<b>137</b>

The FBD operation (project) is partly funded by the European Union (European Regional Development Fund). It is a 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

EUR 95,395 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
Payables to domestic suppliers	34,656	36,955	94
Payables to foreign suppliers	54,648	49,623	110
Payables from advances	6,091	4,310	141
<b>Total trade payables</b>	<b>95,395</b>	<b>90,888</b>	<b>105</b>

## Other current liabilities

EUR 119,015 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
Accrued contractual discounts on products sold to other customers	73,199	57,926	126
Payables to employees – gross wages, other charges	27,895	29,082	96
Other	17,921	15,885	113
<b>Total other current liabilities</b>	<b>119,015</b>	<b>102,893</b>	<b>116</b>

## Contingent liabilities

EUR 21,330 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
Guarantees issued	20,710	12,068	172
Other	620	620	100
<b>Total contingent liabilities</b>	<b>21,330</b>	<b>12,688</b>	<b>168</b>

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

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

EUR thousand	30 Sep 2012	31 Dec 2011	Index
<b>Assets</b>			
Property, plant and equipment	509,794	520,929	98
Intangible assets	29,009	29,654	98
Investments in subsidiaries	250,465	225,444	111
Deferred tax assets	18,318	18,577	99
Non-current loans	15,820	9,571	165
Non-current investments	5,132	4,735	108
Other non-current assets	147	155	95
<b>Total non-current assets</b>	<b>828,685</b>	<b>809,065</b>	<b>102</b>
Inventories	188,375	193,299	97
Trade and other receivables	408,526	399,250	102
Current loans	65,035	46,209	141
Current investments	664	602	110
Cash and cash equivalents	8,446	15,023	56
<b>Total current assets</b>	<b>671,046</b>	<b>654,383</b>	<b>103</b>
<b>Total assets</b>	<b>1,499,731</b>	<b>1,463,448</b>	<b>102</b>
<b>Equity</b>			
Share capital	59,126	59,126	100
Treasury shares	-51,384	-42,584	121
Reserves	199,696	190,619	105
Retained earnings	982,229	933,324	105
<b>Total equity</b>	<b>1,189,667</b>	<b>1,140,485</b>	<b>104</b>
<b>Liabilities</b>			
Non-current borrowings	26,050	25,500	102
Provisions	97,505	97,505	100
Deferred revenue	2,928	3,439	85
Deferred tax liabilities	455	386	118
<b>Total non-current liabilities</b>	<b>126,938</b>	<b>126,830</b>	<b>100</b>
Trade payables	96,531	95,550	101
Current borrowings	49,858	60,556	82
Other current liabilities	36,737	40,027	92
<b>Total current liabilities</b>	<b>183,126</b>	<b>196,133</b>	<b>93</b>
<b>Total liabilities</b>	<b>310,064</b>	<b>322,963</b>	<b>96</b>
<b>Total equity and liabilities</b>	<b>1,499,731</b>	<b>1,463,448</b>	<b>102</b>

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

EUR thousand	1-9/2012	1-9/2011	Index
Revenues	752,281	705,183	107
Cost of sales	-314,843	-280,056	112
<b>Gross profit</b>	<b>437,438</b>	<b>425,127</b>	<b>103</b>
Other income	1,486	3,490	43
Distribution expenses	-204,717	-177,071	116
R&D costs	-70,298	-62,710	112
Administrative expenses	-41,140	-40,837	101
<b>Operating profit</b>	<b>122,769</b>	<b>147,999</b>	<b>83</b>
Financial income	15,008	10,079	149
Financial expenses	-11,879	-23,105	51
<b>Net financial income/expenses</b>	<b>3,129</b>	<b>-13,026</b>	
<b>Profit before tax</b>	<b>125,898</b>	<b>134,973</b>	<b>93</b>
Income tax expense	-18,255	-25,735	71
<b>Profit for the period</b>	<b>107,643</b>	<b>109,238</b>	<b>99</b>
<b>Basic earnings per share (in EUR)*</b>	<b>3.23</b>	<b>3.25</b>	<b>99</b>
<b>Diluted earnings per share (in EUR)**</b>	<b>3.23</b>	<b>3.25</b>	<b>99</b>

\* Profit for the period / Average number of shares issued in the period, excluding treasury shares

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

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

EUR thousand	1-9/2012	1-9/2011	Index
<b>Profit for the period</b>	<b>107,643</b>	<b>109,238</b>	<b>99</b>
<b>Other comprehensive income for the period</b>			
Change in fair value of available-for-sale financial assets	346	-179	
Deferred tax effect – change in fair value of available-for-sale financial assets	-69	36	
<b>Total other comprehensive income for the period</b>	<b>277</b>	<b>-143</b>	
<b>Total comprehensive income for the period</b>	<b>107,920</b>	<b>109,095</b>	<b>99</b>

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

EUR thousand	Reserves							Retained earnings			Total equity
	Share capital	Treasury shares	Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserves	Other revenue reserves	Profit for the period	Retained earnings	
<b>Balance at 1 Jan 2012</b>	59,126	-42,584	42,584	101,503	14,990	30,000	1,542	760,611	111,741	60,972	1,140,485
<b>Profit for the period</b>	0	0		0	0	0	0	0	107,643	0	107,643
<b>Other comprehensive income for the period</b>											
Change in fair value of available-for-sale financial assets	0	0	0	0	0	0	346	0	0	0	346
Deferred tax effect – change in fair value of available-for-sale financial assets	0	0	0	0	0	0	-69	0	0	0	-69
<b>Total other comprehensive income for the period</b>	0	0	0	0	0	0	277	0	0	0	277
<b>Total comprehensive income for the period</b>	0	0	0	0	0	0	277	0	107,643	0	107,920
<b>Transactions with owners, recognised directly in equity</b>											0
Formation of statutory reserves	0	0	0	0	0	0	0	0	0	0	0
Formation of other revenue reserves under the resolution of the Management Board and Supervisory Board	0	0	0	0	0	0	0	0	0	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	-111,741	111,741	0
Transfer to other revenue reserves under the resolution of the Annual General Meeting	0	0	0	0	0	0	0	61,387	0	-61,387	0
Formation of reserves for treasury shares	0	0	8,800	0	0	0	0	0	-8,800	0	0
Repurchase of treasury shares	0	-8,800	0	0	0	0	0	0	0	0	-8,800
Dividends paid	0	0	0	0	0	0	0	0	0	-49,938	-49,938
<b>Total transactions with owners, recognised directly in equity</b>	0	-8,800	8,800	0	0	0	0	61,387	-120,541	416	-58,738
<b>Balance at 30 Sep 2012</b>	59,126	-51,384	51,384	101,503	14,990	30,000	1,819	821,998	98,843	61,388	1,189,667

EUR thousand	Reserves							Retained earnings			Total equity
	Share capital	Treasury shares	Reserves for treasury shares	Share premium	Legal reserves	Statutory reserves	Fair value reserves	Other revenue reserves	Profit for the period	Retained earnings	
<b>Balance at 1 Jan 2011</b>	<b>59,126</b>	<b>-21,749</b>	<b>21,749</b>	<b>101,503</b>	<b>14,990</b>	<b>27,184</b>	<b>1,767</b>	<b>684,639</b>	<b>106,660</b>	<b>62,285</b>	<b>1,058,154</b>
<b>Profit for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>109,238</b>	<b>0</b>	<b>109,238</b>
<b>Other comprehensive income for the period</b>											
Change in fair value of available-for-sale financial assets	0	0	0	0	0	0	-179	0	0	0	-179
Deferred tax effect – change in fair value of available-for-sale financial assets	0	0	0	0	0	0	36	0	0	0	36
<b>Total other comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-143</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-143</b>
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-143</b>	<b>0</b>	<b>109,238</b>	<b>0</b>	<b>109,095</b>
<b>Transactions with owners, recognised directly in equity</b>			0								
Formation of statutory reserves	0	0	0	0	0	0	0	0	0	0	0
Formation of other revenue reserves under the resolution of the Management Board and Supervisory Board	0	0	0	0	0	0	0	0	0	0	0
Transfer of previous period's profit to retained earnings	0	0	0	0	0	0	0	0	-106,660	106,660	0
Transfer to other revenue reserves under the resolution of the Annual General Meeting	0	0	0	0	0	0	0	60,972	0	-60,972	0
Formation of reserves for treasury shares	0	0	16,480		0	0	0	0	-16,480	0	0
Repurchase of treasury shares	0	-16,480	0	0	0	0	0	0	0	0	-16,480
Dividends paid	0	0	0	0	0	0	0	0	0	-47,000	-47,000
<b>Total transactions with owners, recognised directly in equity</b>	<b>0</b>	<b>-16,480</b>	<b>16,480</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>60,972</b>	<b>-123,140</b>	<b>-1,312</b>	<b>-63,480</b>
<b>Balance at 30 Sep 2011</b>	<b>59,126</b>	<b>-38,229</b>	<b>38,229</b>	<b>101,503</b>	<b>14,990</b>	<b>27,184</b>	<b>1,624</b>	<b>745,611</b>	<b>92,758</b>	<b>60,973</b>	<b>1,103,769</b>

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

EUR thousand	1-9/2012	1-9/2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit for the period	107,643	109,238
Adjustments for:	67,769	68,961
– amortisation/depreciation	51,867	48,396
– foreign exchange differences	-197	714
– investment income	-9,604	-10,025
– investment expense	5,311	1,658
– interest expense and other financial expense	2,137	2,483
– income tax	18,255	25,735
<b>Operating profit before changes in net operating current assets</b>	<b>175,412</b>	<b>178,199</b>
Change in trade receivables	-12,780	55,548
Change in inventories	4,924	-24,626
Change in trade payables	981	-23,724
Change in provisions	0	869
Change in deferred revenue	-511	1,034
Change in other current liabilities	-3,560	-6,375
Income taxes paid	-14,493	-33,767
<b>Cash generated from operations</b>	<b>149,973</b>	<b>147,158</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	1,486	1,539
Dividends received	17	14
Proportionate profit of subsidiaries	7,537	7,704
Proceeds from sale of property, plant and equipment	1,285	2,263
Purchase of intangible assets	-3,795	-3,858
Purchase of property, plant and equipment	-37,524	-54,029
Acquisition of subsidiaries and a share of minority interest	-25,205	0
Refund of subsequent payments in subsidiaries	185	1,065
Non-current loans	-6,824	-2,288
Proceeds from repayment of non-current loans	2,920	6,146
Proceeds/Payments in connection with acquisition of non-current investments	33	-41
Payments/Proceeds in connection with sale of non-current investments	-75	44
Payments in connection with current investments and loans	-21,022	-17,802
Payments in connection with derivative financial instruments	-4,987	-8
Proceeds from derivative financial instruments	102	5
<b>Net cash used in investing activities</b>	<b>-85,867</b>	<b>-59,246</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Interest paid	-2,962	-3,179
Repayment of non-current borrowings	-30,900	-34,536
Non-current borrowings	550	0
Acquisition of current borrowings	21,430	21,129
Dividends paid	-49,667	-46,767
Repurchase of treasury shares	-8,800	-16,480
<b>Net cash used in financing activities</b>	<b>-70,349</b>	<b>-79,833</b>
<b>Net decrease/increase in cash and cash equivalents</b>	<b>-6,243</b>	<b>8,079</b>
Cash and cash equivalents at beginning of period	15,023	1,547
Effect of exchange rate fluctuations on cash held	-334	-511
<b>Net cash and cash equivalents at end of period</b>	<b>8,446</b>	<b>9,115</b>

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

	European Union		South-East Europe		East Europe		Other		Total	
EUR thousand	1-9/2012	1-9/2011	1-9/2012	1-9/2011	1-9/2012	1-9/2011	1-9/2012	1-9/2011	1-9/2012	1-9/2011
<b>Revenues</b>	<b>440,929</b>	<b>449,511</b>	<b>74,418</b>	<b>62,656</b>	<b>214,685</b>	<b>176,998</b>	<b>22,249</b>	<b>16,018</b>	<b>752,281</b>	<b>705,183</b>
Revenues from reversal of non-current provisions and other income	1,191	3,490	59	0	236	0	0	0	1,486	3,490
<b>Operating profit</b>	<b>73,332</b>	<b>119,397</b>	<b>19,328</b>	<b>16,040</b>	<b>24,094</b>	<b>10,564</b>	<b>6,015</b>	<b>1,998</b>	<b>122,769</b>	<b>147,999</b>
Interest revenue	1,450	1,315	0	0	58	168	0	0	1,508	1,483
Interest expenses	-1,834	-2,427	0	0	-212	0	0	0	-2,046	-2,427
<b>Net financial income/expenses</b>	<b>4,247</b>	<b>-8,303</b>	<b>-448</b>	<b>-1,157</b>	<b>-288</b>	<b>-3,270</b>	<b>-382</b>	<b>-296</b>	<b>3,129</b>	<b>-13,026</b>
Income tax expense	-10,904	-20,761	-2,874	-2,789	-3,583	-1,837	-894	-348	-18,255	-25,735
<b>Profit for the period</b>	<b>66,675</b>	<b>90,333</b>	<b>16,006</b>	<b>12,094</b>	<b>20,223</b>	<b>5,457</b>	<b>4,739</b>	<b>1,354</b>	<b>107,643</b>	<b>109,238</b>
Investments	41,304	57,847	0	0	0	0	0	0	41,304	57,847
Depreciation of property, plant and equipment	37,409	34,771	2,181	1,849	7,598	7,088	270	323	47,458	44,031
Amortisation of intangible assets	2,585	2,782	436	388	1,258	1,096	130	99	4,409	4,365
	<b>30 Sep 2012</b>	<b>31 Dec 2011</b>	<b>30 Sep 2012</b>	<b>31 Dec 2011</b>	<b>30 Sep 2012</b>	<b>31 Dec 2011</b>	<b>30 Sep 2012</b>	<b>31 Dec 2011</b>	<b>30 Sep 2012</b>	<b>31 Dec 2011</b>
<b>Total assets</b>	<b>1,176,316</b>	<b>1,154,960</b>	<b>70,451</b>	<b>60,845</b>	<b>243,736</b>	<b>235,379</b>	<b>9,228</b>	<b>12,263</b>	<b>1,499,731</b>	<b>1,463,448</b>
<b>Total liabilities</b>	<b>181,643</b>	<b>205,393</b>	<b>30,641</b>	<b>27,684</b>	<b>88,655</b>	<b>82,160</b>	<b>9,125</b>	<b>7,727</b>	<b>310,064</b>	<b>322,963</b>



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

### Costs by nature

EUR 630,998 thousand

EUR thousand	1-9/2012	1-9/2011	Index
Cost of goods and material	216,355	206,375	105
Cost of services	209,502	191,278	110
Employee benefits cost	130,930	122,072	107
Depreciation and amortisation expense	51,867	48,396	107
Other expenses	26,053	14,395	181
<b>Total costs</b>	<b>634,707</b>	<b>582,516</b>	<b>109</b>
Change in the value of inventories	-3,709	-21,842	17
<b>Total</b>	<b>630,998</b>	<b>560,674</b>	<b>113</b>

### Employee benefits cost

EUR 130,930 thousand

EUR thousand	1-9/2012	1-9/2011	Index
Gross wages and salaries, and continued pay	100,468	92,777	108
Social security contributions and payroll tax	21,008	19,400	108
Retirement benefits and anniversary bonuses	2,587	3,075	84
Other employee benefits cost	6,867	6,820	101
<b>Total employee benefits cost</b>	<b>130,930</b>	<b>122,072</b>	<b>107</b>

### Other expenses

EUR 26,053 thousand

EUR thousand	1-9/2012	1-9/2011	Index
Grants and assistance for humanitarian and other purposes	1,080	1,196	90
Environmental levies	1,599	1,522	105
Other taxes and levies	17,541	3,936	446
Loss on the sale of property, plant and equipment and intangible assets and write-offs	322	1,550	21
Write-offs and write-downs for inventories	3,818	4,619	83
Other costs	1,693	1,572	108
<b>Total other expenses</b>	<b>26,053</b>	<b>14,395</b>	<b>181</b>

Other taxes and levies include the taxes (clawback etc.) recently imposed in several markets of Krka's operations, and consist of both the current taxes

and the provisions formed for these taxes applicable to previous periods.

## Financial income and expenses

EUR thousand	1-9/2012	1-9/2011	Index
Net foreign exchange gain	5,037	0	
Interest income	1,508	1,483	102
Change in fair value of investments through profit or loss	64	0	
Income from derivative financial instruments	102	5	2,040
– inflows	102	5	2,040
Dividend income	7,554	7,808	97
Collection of bad debts from previous periods	743	783	95
<b>Total financial income</b>	<b>15,008</b>	<b>10,079</b>	<b>149</b>
Net foreign exchange loss	0	-15,771	0
Interest expense	-2,046	-2,427	84
Change in fair value of investments through profit or loss	-2	-101	2
Expense from derivative financial instruments	-4,987	-8	62,338
– outflows	-4,987	-8	62,338
Impairment and write-off of receivables	-4,753	-4,742	100
Other expenses	-91	-56	163
<b>Total financial expenses</b>	<b>-11,879</b>	<b>-23,105</b>	<b>51</b>
<b>Net financial income</b>	<b>3,129</b>	<b>-13,026</b>	<b>-24</b>

## Income tax expense

EUR 18,255 thousand

Current income tax amounts to EUR 17,996 thousand, which is 14.3% of pre-tax profit. Together with the deferred tax of EUR 259 thousand, the total income tax expense in the income statement equals

EUR 18,255 thousand. The effective tax rate is 14.5%, which is 4.6 of a percentage point less than in the same period last year.

## Property, plant and equipment

EUR 509,794 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
Property	18,948	18,579	102
Plant	220,089	229,580	96
Equipment	240,487	252,874	95
Property, plant and equipment under construction	30,270	19,896	152
<b>Total property, plant and equipment</b>	<b>509,794</b>	<b>520,929</b>	<b>98</b>

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

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

## Intangible assets

EUR 29,009 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
Concessions, patents, licences and similar rights	29,009	29,654	98
<b>Total intangible assets</b>	<b>29,009</b>	<b>29,654</b>	<b>98</b>

Intangible assets refer to software and marketing authorisation documentation for new medicines.

## Loans

EUR 80,855 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
<b>Non-current loans</b>	<b>15,820</b>	<b>9,571</b>	<b>165</b>
– non-current loans to subsidiaries	10,150	5,064	200
– non-current loans to other entities	5,670	4,507	126
<b>Current loans</b>	<b>65,035</b>	<b>46,209</b>	<b>141</b>
– current portion of loans due next year	152	2,363	6
– current loans to subsidiaries	51,672	43,596	119
– current loans to other entities	13,025	87	14,971
– current interest receivable	186	163	114
<b>Total loans</b>	<b>80,855</b>	<b>55,780</b>	<b>145</b>

Non-current loans represent one fifth of total loans.

loans.

Non-current loans to other entities include loans that the Company extends in accordance with its internal acts to its employees and that are primarily housing

Current loans to other entities include EUR 13,000 thousand of bank deposits with maturities longer than 30 days.

## Investments

EUR 5,796 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
<b>Non-current investments</b>	<b>5,132</b>	<b>4,735</b>	<b>108</b>
– financial assets available for sale	5,132	4,735	108
<b>Current investments, including derivative financial instruments</b>	<b>664</b>	<b>602</b>	<b>110</b>
– instruments held for trading	83	68	122
– other current investments	581	534	109
<b>Total investments</b>	<b>5,796</b>	<b>5,337</b>	<b>109</b>

Financial assets available for sale include EUR 627 thousand of investments in shares made in Slovenia, and EUR 4,505 thousand of investments in shares made abroad.

Other current investments refer to EUR 302 thousand worth of shares in Slovenian mutual funds, and to EUR 279 thousand worth of assets under management.

## Inventories

EUR 188,375 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
Material	77,595	83,058	93
Work in progress	48,868	44,809	109
Products	54,161	57,770	94
Merchandise	7,751	7,662	101
<b>Total inventories</b>	<b>188,375</b>	<b>193,299</b>	<b>97</b>

## Trade and other receivables

EUR 408,526 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
Short-term receivables due from subsidiaries	219,415	205,637	107
Trade receivables due from customers other than Group companies	164,300	169,746	97
Other receivables	24,811	23,867	104
<b>Total trade receivables</b>	<b>408,526</b>	<b>399,250</b>	<b>102</b>

## Cash and cash equivalents

EUR 8,446 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
Cash in hand	11	8	138
Bank balances	8,435	15,015	56
<b>Total cash and cash equivalents</b>	<b>8,446</b>	<b>15,023</b>	<b>56</b>

## Equity

EUR 1,189,667 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
Share capital	59,126	59,126	100
Treasury shares	-51,384	-42,584	121
Reserves:	199,696	190,619	105
– share premium	101,503	101,503	100
– reserves for treasury shares	51,384	42,584	121
– legal reserves	14,990	14,990	100
– statutory reserves	30,000	30,000	100
– fair value reserve	1,819	1,542	118
Retained earnings	982,229	933,324	105
<b>Total equity</b>	<b>1,189,667</b>	<b>1,140,485</b>	<b>104</b>

## Borrowings

EUR 75,908 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
<b>Non-current borrowings</b>	<b>26,050</b>	<b>25,500</b>	<b>102</b>
– borrowings from domestic banks	25,500	25,500	100
– borrowings from Group companies	550	0	
<b>Current borrowings</b>	<b>49,858</b>	<b>60,556</b>	<b>82</b>
– portion of non-current borrowings due next year	10,400	41,300	25
– borrowings from Group companies	38,729	17,798	218
– borrowings from other entities	482	386	125
– interest payable	247	1,072	23
<b>Total borrowings</b>	<b>75,908</b>	<b>86,056</b>	<b>88</b>

## Provisions

EUR 97,505 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
Provisions for retirement benefits and anniversary bonuses	48,505	48,505	100
Provisions for lawsuits	49,000	49,000	100
<b>Total provisions</b>	<b>97,505</b>	<b>97,505</b>	<b>100</b>

## Deferred revenue

EUR 2,928 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
Grants received for the Beta plant in Šentjernej	48	81	59
Grants by the European Regional Development Fund	18	21	86
Grants by the European Fund – development of new technologies (FBD project)	755	828	91
Properties, plant and equipment received for free	569	579	98
Emission coupons	22	7	314
Other deferred revenue	1,516	1,923	79
<b>Total deferred revenue</b>	<b>2,928</b>	<b>3,439</b>	<b>85</b>

The FBD operation (project) is partly funded by the European Union (European Regional Development Fund). It is a 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

EUR 96,531 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
Payables to subsidiaries	33,503	26,973	124
Payables to domestic suppliers	30,738	32,469	95
Payables to foreign suppliers	29,672	35,355	84
Payables from advances	2,618	753	348
<b>Total trade payables</b>	<b>96,531</b>	<b>95,550</b>	<b>101</b>

## Other current liabilities

EUR 36,737 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
Accrued contractual discounts on products sold to other customers	11,543	11,543	100
Payables to employees – gross wages, other charges	21,351	23,903	89
Other	3,843	4,581	84
<b>Total other current liabilities</b>	<b>36,737</b>	<b>40,027</b>	<b>92</b>

## Contingent liabilities

EUR 24,134 thousand

EUR thousand	30 Sep 2012	31 Dec 2011	Index
Guarantees issued	23,514	14,896	158
Other	620	620	100
<b>Total contingent liabilities</b>	<b>24,134</b>	<b>15,516</b>	<b>156</b>

## 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 period ended 30 September 2012 have been drawn up so as to provide a true and fair view of the financial standing and operating results of the Krka Company and Krka Group. The condensed statements for the period January–September 2012 were drawn up using the same accounting principles as for the annual financial statements of the Krka Company and Group for 2011.

The condensed interim financial statements for the period ended 30 September 2012 were drawn up

Novo mesto, 26 October 2012

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 2011.

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

The Management Board states that all transactions between related parties within the Krka Group were executed on the basis of purchase contracts, using market prices for products and services.



Jože Colarič  
President of the Management Board and Chief Executive



Dr Aleš Rotar  
Member of the Management Board



Zvezdana Bajc  
Member of the Management Board



Dr Vinko Zupančič  
Member of the Management Board



Danica Novak Malnar  
Employee Representative – Member of the Management Board