



PRESS RELEASE

Krka presented its operating results for the first half of 2016

Novo mesto, 28 July 2016 – The Krka Group sales totalled €603.8 million in the first half of the year (up 1%), resulting in €70.1 million of net profit. Krka Company sales revenues amounted to €539.7 million, resulting in €56.2 million of net profit. The 2016 half-year report for the Krka Group and the Krka Company was discussed by the Krka Supervisory Board at its yesterday's regular meeting.

Sales

The Krka Group product and service sales amounted to €603.8 million in the six months to June 2016, up €4 million or 1% compared to the same period last year. Six-month production and sales volume increased by 12% compared the same period last year.

Sales in markets outside Slovenia totalled €562.6 million, which represents over 93% of the Krka Group's total sales.

Krka Group sales by Region

Sales in Krka's domestic market were up 6% to €41.2 million, which is 6.8% of Group sales. Holding a 9.3% market share, Krka remains the leading pharmaceutical company in Slovenia.

The highest relative as well as absolute sales growth, of 27%, or €16.3 million, was recorded in Region South-East Europe, where sales totalled €76.8 million, which represents 12.7% of Group sales. Sales growth was recorded in all markets in the Region, apart from Montenegro, with the largest market contributor in absolute terms being Romania.

Krka's largest sales region was Region East Europe, where sales totalled €175.5 million, which is 29.1% of Group sales. Sales in this Region were down 6% compared to the same period last year. Product sales in the Russian Federation, Krka's largest individual market, totalled €123.1 million, an 8% year-on-year decrease in euros. Lower euro-denominated sales value was the result of the local currency's less favourable average exchange rate as compared to the same period last year. Rouble-denominated sales increased by 11%, and sales volume was up 4%.

The second largest region in terms of sales was West Europe, where Krka generated €150.4 million of sales (down 8%), which represents 24.9% of Group sales. Despite sales volume up 14%, decreasing prices caused the value of sales to drop.

Product sales in Region Central Europe represented 23.4% of Group sales. The volume of sales was up 6% and the value of sales up 3% to €141.4 million. Sales value growth was recorded in all markets in the Region, apart from Lithuania.

Six-month product sales in Region Overseas Markets totalled €18.5 million (25% increase), which represents 3.1% of Group sales. The majority of sales, 88%, came from prescription pharmaceuticals, which are sold under Krka's own brands in most of the Region's markets.

Krka Group sales by product and service group

The Krka Group sold €499.4 million worth of prescription pharmaceuticals, down 2% compared to the same period last year. The volume of sold prescription pharmaceuticals increased by 12%, and the value of sales was also up in regions South-East Europe (up 29%), Overseas Markets (up 23%), Central Europe (up 1%) and Slovenia (up 1%). Prescription pharmaceuticals represent 82.7% of Krka Group sales.

With respect to the largest markets for Krka's prescription pharmaceuticals, sales value increased in Poland (by 3%), but decreased in the Russian Federation (down 5%) and Germany (down 8%). As to other large markets, year-on-year sales of prescription pharmaceuticals were up the most in Romania (up 81%) and Ukraine (37%).

With respect to mid-size markets, the highest sales growth rates were recorded in Serbia (up 99%), Italy (up 17%), Macedonia (up 12%) and Croatia (up 9%). Among the markets considered small for Krka's prescription pharmaceuticals, sales increased the most in Kyrgyzstan (up 85%), Austria (up 31%), the Benelux (up 30%), Kosovo (up 15%), Ireland (up 14%) and Latvia (up 13%).

The ten leading prescription pharmaceuticals in terms of sales are Atoris (atorvastatin), Lorista (losartan), Nolpaza (pantoprazole), Prenessa (perindopril), Enap (enalapril), Valsacor (valsartan), Emanera (esomeprazole), Roswera (rosuvastatin), Zyllt (clopidogrel) and Dulsevia (duloxetine). These products may appear under different brand names in individual markets.

For non-prescription products, sales value was down 1% compared to the same period last year, to €50.3 million (8.3% of Group sales), however sales volume was up 4%. The sales of animal health products were up 44% to €37.3 million, which is 6.2% of Group sales. Health resort and tourist services totalled €15.4 million in sales revenues, up one tenth from the same period last year (2.6% of Group sales), and other sales revenues amounted to €1.3 million (0.2% of Group sales).

Operating result

The Krka Group recorded €94.3 million of operating profit, down 10% compared to the same period last year. Profit before tax amounted to €81 million, a 37% year-on-year decrease.

The Krka Group recorded €70.1 million of net profit, a 38% year-on-year decrease, with the Krka Company net profit totalling €56.2 million, down 48%.

The decrease was the result of further reductions in the prices of pharmaceuticals in individual markets and the depreciation of certain currencies. For the most part of the first half-year, we hedged the rouble to account for the high volatility of its rate, and thus incurred additional costs. The result was also affected by the depreciation of other currencies, especially the Polish zloty, the Ukrainian hryvnia and the British pound, and the appreciation of the U.S. dollar.

The Krka Group profit margin for the six months to June 2016 was 11.6% (Krka Company 10.4%), its EBIT margin 15.6% (Krka Company 13.9%) and its EBITDA margin 24.4% (Krka Company 21.6%).

ROE at the level of the Krka Group was 9.7% (Krka Company 7.7%), with ROA at 7.5% (Krka Company 6.2%).

Research and development

In the first half of 2016 Krka was granted marketing authorisations for three new products and it obtained 170 new marketing authorisations in different markets, with which they expanded marketing opportunities for products from different indication groups.

Applying decentralised procedures they obtained marketing authorisations in 11 European countries for Bixebro/Bravadin (ivabradine) film-coated tablets in the strengths of 5 mg and 7.5 mg. The product is a medicine for cardiovascular system used to treat patients with angina pectoris.

A marketing authorisation was obtained under the decentralised procedure in 14 European countries for the Moloxin (moxifloxacin) 400 mg/250 ml solution for infusion. Having a wide-spectrum antimicrobial action, Moloxin is used to treat pneumonia, dermal infections and soft tissue infections. Together with Moloxin tablets, it supplements Krka's portfolio of antimicrobial pharmaceuticals.

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

Investments

In the first half of 2016 the Krka Group allocated €61.8 million to investments, of which the controlling company invested €30 million and subsidiaries €31.8 million.

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

Krka's key investment to support development activities and quality assurance in the following years is the Development and Control Centre (RKC) 4, located in the group of production facilities in Novo mesto. Preparation works started in June 2015. The construction of the €54 million facility with the total surface area of 18,000 m² will be finished in 2017.

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

Due to the expansion of the production programme in the Jastrebarsko distribution and production centre in Croatia, Krka is converting the warehousing and distribution segment of the facility to acquire new production and laboratory facilities for solid dosage pharmaceuticals. The start-up of production on the new technological equipment is planned for the first quarter of 2017. The investment is estimated at €33 million.

Employees

At the end of June the Krka Group had 10,821 employees, which is 257 or 2.4% more than at the beginning of the year. 54% of Krka Group employees work outside Slovenia, and 56% of the entire Krka team have at least a university-level qualifications.

Share and investor information

At the end of June 2016 Krka had 57,420 shareholders, 2.3% fewer than at the beginning of the year. On 30 June 2016 Krka's share traded at €57.15 on the Ljubljana Stock Exchange, down 12% from the year-end of 2015 when it stood at €65.20.

In the first half of 2016 Krka repurchased 39,803 treasury shares, so that it held 366,080 treasury shares at the end of June, which represents 1.116% of the value of its share capital.

Annual General Meeting

On 7 July Krka, tovarna zdravil, d. d., Novo mesto, held its 22nd Annual General Meeting (AGM) in Hotel Šport in Otočec, Slovenia. At the AGM, shareholders passed the resolution proposed by the Management Board and Supervisory Board to allocate €186,908,421.49 of the 2015 accumulated profit as follows:

- €85,932,525,20 for dividends (€2.65 gross per share),
- €50,487,948.14 for other revenue reserves, and
- €50,487,948.15 for retained earnings.

Dividend pay-outs will commence within 30 days of the AGM, to shareholders recorded in the share register of the Central Securities Clearing Corporation (KDD – Centralna klirinško depotna družba, d. d., Ljubljana) as at 12 July 2016.

Shareholders approved and gave their consent to the work of the Management Board and Supervisory Board for the financial year 2015, and discharged them from liability for the performance of their duties.

The AGM took note of the termination of Matej Pirc's status of member and President of the Supervisory Board of Krka, d. d., Novo mesto, effective as at the day of the AGM, due to his resignation. Shareholders elected Dr Boris Žnidarič the new member of the Supervisory Board and shareholder representative, his term-in-office effective from the day of election until 19 August 2020 inclusive.

Shareholders also confirmed the proposed amendments of the Articles of Association.

The auditor that shareholders appointed for the financial year 2016 is Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana.