



PRESS RELEASE

Krka presented its operating results for the period January–September 2016

Novo mesto, 17 November 2016 – In the first nine months of the year the Krka Group sales totalled €852.4 million (down 1%), resulting in €80.3 million of net profit. The Krka Company sales totalled €782.5 million, resulting in €72.4 million of net profit. The Interim Report for the Krka Group and the Krka Company for January–September 2016 was discussed by the Krka Supervisory Board at its yesterday's regular meeting.

Sales

Nine-month sales of the Krka Group totalled €852.4 million. The volume of sales increased by 11% at the level of the Krka Group, considerably exceeding the strategic goal.

The euro-denominated sales result was influenced by the distinct decrease in the prices of pharmaceuticals in most markets – caused by an administrative reduction in prices, and the competitive actions of pharmaceutical companies – and by the depreciation of certain currencies, especially in East Europe. Had the average prices of Krka's products and the exchange rates of the currencies key for Krka's operations in the past nine months remained on the same levels as in last year's comparable period, Krka Group sales would have amounted to €952.1 million, up 10.3% or €99.7 million. However, expressed in euros at current prices, Krka Group sales witnessed a 1% year-on-year decrease.

Sales in markets outside Slovenia totalled €788.5 million, which represents 93% of the Krka Group sales.

Krka Group sales by Region

The highest absolute growth, by €16.1 million, was recorded in Region South-East Europe, where sales totalled €111.5 million, which represents 13.1% of Krka Group sales. Sales increased in all markets in the Region, apart from Bosnia and Herzegovina, and Montenegro. Overall sales in the region were up 17%, of which the chief contributor in absolute terms was Romania. The sales volume has grown by 12%.

Sales in Region Central Europe represented 24.5% of Krka Group sales and amounted to €209.1 million; in terms of volume this is a 5% increase, and in terms of value a 1% year-on-year increase. Sales growth was recorded in all markets in the region, apart from Hungary and Lithuania, with the main sales growth driver in absolute terms being Poland.

Krka's largest sales region was Region East Europe, where sales totalled €230.0 million, which is 27.0% of Krka Group sales. Compared to the same period last year, sales in this region were down 5%, while the sales volume has grown by 9%. Product sales in the Russian Federation, Krka's largest individual market, totalled €154.3 million, a 9% year-on-year decrease. The sales result expressed in euros is attributable to the lower exchange rate of the local currency, with rouble-denominated sales having increased by 6%.

The second largest region in terms of sales value was Region West Europe with €211.0 million of sales and a 24.8% share of Krka Group sales. The volume of sales was up 16% year-on-year, however lower prices of pharmaceuticals drove sales value down 11%.

Sales in Slovenia totalled €63.9 million, which is 7.5% of Krka Group sales. With a 9.3% market share, Krka remains the leading pharmaceutical company in Slovenia. Sales revenues increased by 8%, of which product sales were up 6% with the volume of products sold up 9%, and the sales of health resort and tourist services increased by 9%.

Sales in Region Overseas Markets totalled €26.9 million (20% increase in terms of value and 2% increase in terms of volume), which represents 3.1% of Krka Group sales. The majority of sales came from prescription pharmaceuticals, which are sold under Krka's own brands in most markets of the region.

Krka Group sales by product and service group

The Krka Group sold €699.1 million worth of prescription pharmaceuticals in the reported period (82.0% of Krka Group sales). This is a 4% year-on-year decrease, however, the volume of sales was up 11%. Sales increased in regions South-East Europe (up 20%), Overseas Markets (up 21%) and Slovenia (up 4%). In Region Central Europe they remained on a similar level as in the same period last year, while in Region East Europe and Region West Europe they were down.

With respect to largest markets for Krka's prescription pharmaceuticals, sales increased in Poland (up 1%), but decreased in the Russian Federation, which was due to a less favourable rouble exchange rate, and in Germany, where they were driven down by major price erosions. In both markets sales declined by 8%. As to other large markets, year-on-year sales of prescription pharmaceuticals were up the most in Romania (up 50%), Ukraine (up 14%) and Slovakia (up 13%).

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

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

For non-prescription products the volume of sales increased by 3% and sales value was up 1% compared to the same period last year, to €75.5 million (8.9% of Krka Group sales). The sales of animal health products were up 29% to €50.4 million, which is 5.9% of Krka Group sales. Health resort and tourist service sales totalled €25.2 million, up 9% from the same period last year (2.9% of Krka Group sales), and other sales revenues amounted to €2.2 million (0.3% of Krka Group sales).

Operating result

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

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

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

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

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

Research and development

In the period January–September 2016 Krka obtained marketing authorisations for eight new products and acquired 291 new marketing authorisations in different markets, thus increasing sales opportunities for its products from various indication groups.

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

Applying decentralised procedures Krka obtained marketing authorisations in 11 European countries for Bixebro/Bravadin (ivabradine) film-coated tablets in the strengths of 5 mg and 7.5 mg. In patients with heart failure and angina pectoris, adding ivabradine to standard therapy will optimize treatment, reduce the need for subsequent hospitalisations and the risk of cardiovascular complications, and thus improve quality of life.

In the Russian Federation Krka was granted marketing authorisations for Lorista (losartan) 150 mg film-coated

tablets. The new strength of the medicine enables a new manner of determining dosage in the treatment of chronic heart failure. For a maximum daily dosage the patient has to take a single tablet a day, which simplifies treatment.

Marketing authorisations were obtained under the decentralised procedure in 14 European countries for the Moloxin (moxifloxacin) solution for injection (400 mg/250 ml). Moloxin is a product with wide-spectrum antimicrobial action, used to treat pneumonia, dermal infections and soft tissue infections. Together with Moloxin tablets it supplements Krka's assortment of antimicrobial pharmaceuticals.

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

A new addition in the group of non-steroidal antirheumatic and anti-inflammatory medicines is Roticox/Etoxib/Etorix/Ltorox (etoricoxib) in the form of film-coated tablets in four strengths, which Krka obtained marketing authorisations for under the European decentralised procedure. It is indicated for the treatment of symptoms of degenerative and inflammatory rheumatism, and for short-term treatment of moderate pain following dental surgery.

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

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

Investments

In the first nine months of the year the Krka Group allocated €88.5 million to investments, of which the controlling company invested €45.9 million and subsidiaries €42.6 million.

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 2017 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 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. Site preparation work for the €54 million RKC 4 had started in June 2015. The facility is now constructed with the roof and all builders' joinery fitted. The connecting building between RKC 3 and RKC 4 has also been built. The construction of the facility with the total surface area of 18,000 m² will be finished in 2017.

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

Also ongoing is the €11 million investment into increasing capacities for the coating of pellets in the solid dosage forms plant (OTO). They will be made ready for production by the end of June 2017.

A new investment into Hydrogenation 2 in Krško, Slovenia will facilitate capacities for the implementation of technologies that require hydrogenation, and will also increase Krka's independent API production capacity.

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 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 2016, 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 €34 million.

Employees

At the end of September the Krka Group had 10,886 employees, an increase by 322 or 3% compared to the beginning of the year. 55% of Krka Group employees work outside Slovenia, and more than 56% of the entire Krka team have at least a university level degree.

Share and investor information

At the end of September 2016 Krka had 56,465 shareholders, 4% fewer than at the beginning of the year. On 30 September 2016 Krka's share traded at €61.90 on the Ljubljana Stock Exchange, down 5% from the year-end of 2015 when it traded at €65.20.

In the first nine months of 2016 Krka repurchased 82,196 treasury shares, worth a total of €4,963,670. As at 30 September 2016 Krka held 408,473 treasury shares, which represents 1.246% of its share capital.

Estimated realisation of Krka Group business objectives for 2016

The projected product and service sales will match those in 2015. Critical factors influencing the projected sales result are substantial decreases in the prices of pharmaceuticals in most markets, and the depreciation of certain Eastern European currencies, especially the Russian rouble, together with the consequently lower euro-denominated sales. Krka is trying to mitigate negative influences as far as possible by increasing sales volume in all markets and by engaging in intensive marketing and sales activities. The volume of Krka Group sales will increase by 10%.

Krka's largest sales region will be East Europe, and the Russian Federation will remain the largest individual market. Sales in foreign markets are projected to account for 93% of total sales. Prescription pharmaceuticals will remain the most important product group, accounting for over 82% of total sales.

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

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

Krka Group operating plan for 2017

Krka plans for Group sales next year to total €1.220 billion and profit is expected to be somewhat higher than estimated in this year. They will further intensify product marketing in 2017, focusing additional attention on mitigating all types of costs across units in Slovenia and abroad, thus striving to maximise economy of operation and profitability.

At its yesterday's meeting the Supervisory Board voiced their expectations of improved performance ratios; they will devote special attention to monitoring the implementation of the planned business objectives.

They will earmark just over €174 million for investment projects, primarily dedicated to increasing and modernising their production capacities and infrastructure. The number of employees is planned to increase in 2017 both in Slovenia and abroad, by a total of 3%, to over 11,400.

In this context the Management Board are underlining their commitment to the strategy of increasing dividends again in 2017.

In addition to organic growth, they will intensify activities in the area of acquisitions and joint ventures in 2017.