



## **PRESS RELEASE**

### **Krka presented its operating results for the first quarter of 2017**

**Novo mesto, 11 May 2017 – The Krka Group sales in the first quarter of 2017 totalled €321 million, an increase by 7% compared to the same period last year, resulting in €42.7 million of net profit, a 6% year-on-year increase. The Krka Company sold €312.2 million worth of products and services and generated €45.3 million of net profit. The Interim Report for the Krka Group and the Krka Company for January–March 2017 was discussed by the Krka Supervisory Board at its yesterday's regular meeting.**

#### **Sales**

Krka Group product and service sales in the three months to March were €321 million, up 7% from the same period last year. Sales volume was up 2%. The Krka Company sales were €312.2. Sales in markets outside Slovenia represented 93% of total Group sales (96% of total Company sales).

#### **Krka Group sales by Region**

Krka's largest sales region was Region East Europe with €101.8 million of sales, which is 31.7% of total sales. It was in this Region that Krka recorded the highest sales growth compared to the same period last year, in absolute (up €21.7 million) and relative (up 27%) terms. The result was chiefly driven by growth in Krka's largest individual and one of its key markets, the Russian Federation. Positive sales dynamics were also witnessed in the majority of the other 12 markets in the Region, including the Region's second key market, Ukraine. Sales in the Russian Federation totalled €73.8 million, up 31% compared to the same period last year.

The second largest region in terms of sales value was Region Central Europe with €76.9 million of sales and a 24% share in total Group sales. Sales there were up 5% compared to the same period last year. Poland is the leading market in the Region, with sales growth recorded in the Czech Republic and all three Baltic markets: Lithuania, Latvia and Estonia.

Region West Europe was next with €71.7 million of sales, which represents 22.3% of total sales. Sales volume was up 2%, with the value of sales down one tenth from the same period last year. The most sales were generated in Germany, France and Spain. The sales of pharmaceuticals via unaffiliated companies decreased compared to the same period last year and have come to represent a good third of total sales in the Region. The remaining two-thirds of sales were generated under Krka's own brands in Krka subsidiaries.

Product sales in the markets of South-East Europe amounted to €38.7 million, up 2% compared to the same period last year and representing 12% of total Group sales. Sales value was mainly driven by the markets of Serbia, Croatia, Macedonia and Bulgaria. In Romania, sales decreased due to price changes announced in March and the resulting cautious purchasing approaches of the distributors.

In the domestic market Krka sold €21.1 million worth of products and services, which is 6.6% of total Group sales. Sales revenues increased by 5%. With a 9.2% market share, Krka has remained the leading provider of pharmaceuticals in Slovenia.

Product sales in Region Overseas Markets totalled €10.9 million (10% increase), which represents 3.4% of total 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 €264.4 million worth of prescription pharmaceuticals in the first quarter, which is 8% more than in the same period last year and represents 82.3% of total Group sales. Sales increased in regions East Europe (up 26%), Central Europe (up 6%), South-East Europe (up 2%), Slovenia (up 2%) and Overseas Markets (up 7%), while in Region West Europe they decreased by 2%.

As to the largest markets, sales increased in the Russian Federation by 30% and in Germany by 1% while remaining on the level recorded in the same period last year in Poland. With respect to other large markets, year-on-year sales of prescription pharmaceuticals were up in the Czech Republic, where they more than doubled, in France (up 25%), Ukraine (up 20%), Italy (up 4%) and Slovenia (up 2%).

With respect to mid-size markets, the highest sales growth rates were recorded in Serbia (up 62%), Bulgaria (up 16%), Macedonia (up 15%), Uzbekistan (up 14%) and Croatia (up 12%). Among smaller markets for Krka's prescription pharmaceuticals, the highest sales growth rates were recorded in Mongolia (up 66%), Moldova (up 63%), Azerbaijan (up 44%), Armenia (up 39%) and Ireland (up 27%), and double-digit increases in sales were also recorded in Albania, Austria, Latvia and Georgia.

The leading ten prescription pharmaceuticals in terms of sales have included Lorista (losartan) and its combination with a diuretic, Atoris (atorvastatin), Prenessa (perindopril) and its combination with a diuretic, Nolpaza (pantoprazole), Emanera (esomeprazole), Valsacor (valsartan) and its combination with a diuretic, Roswera (rosuvastatin), Enap (enalapril) and its combination with a diuretic, Zyllt (clopidogrel), and Amlessa (perindopril and amlodipine) together with its combination with a diuretic. Products can have different brand names in individual markets.

For non-prescription products, sales value was up 13% to €30.9 million (9.6% of total Group sales). The sales of animal health products were down 19% to €17.6 million, which is 5.5% of total Group sales. Health resort and tourist service sales totalled €7.6 million, a 6% year-on-year increase (2.4% share of total Group sales), and other sales revenues amounted to €0.6 million (0.2% share of total Group sales).

## Operating result

The Krka Group recorded €41.0 million of operating profit, down 19% compared to the same period last year. The Krka Group profit before tax amounted to €46.2 million, and was slightly down compared to the same period last year. Income tax totalled €3.5 million, and the effective tax rate was 7.6%.

The Krka Group recorded €42.7 million of net profit, an increase by 6% compared to the same period last year.

The Krka Group profit margin in the period January–March 2017 was 13.3%, its EBIT margin 12.8%, and its EBITDA margin 21.7%. Annualised ROE at the level of the Group was 11.6%, with annualised ROA at 8.9%.

## Management of foreign exchange risk

Currency movements in the first quarter were favourable for Krka, its currency exposures having resulted in foreign exchange gains.

Exposure in Russian roubles is by far the highest currency exposure of the Krka Group. The policy of partially hedging rouble exposure was maintained in the first quarter of 2017, thus reducing the volatility of the Group's net financial result in the event of the rouble value changing.

As the rouble appreciated Krka generated foreign exchange gains and incurred financial expenses from forward contracts; factoring in both these effects, the result of exposure to the rouble in the first quarter was positive.

Foreign exchange risk associated with other currencies was not hedged with derivative financial instruments in the first quarter.

## Research and development

In the first quarter of 2017 Krka obtained marketing authorisations for five new products in 12 pharmaceutical dosage forms and strengths, which is more than in the same period last year. They acquired 157 new marketing authorisations for 46 products in different markets in this period.

Krka was granted marketing approvals under European decentralised procedures for the new analgesic Oxycodon/Naloxon Krka (oxycodone and naloxone) in the form of prolonged-release tablets in three strengths. It contains a combination of two substances, opioid oxycodone and naloxone, which bind to opioid receptors. The medicine relieves moderate to severe pain.

Marketing opportunities were expanded in European markets with new approvals obtained for pharmaceuticals from Krka's key group of medicinal products treating cardiovascular diseases. Applying decentralised procedures approvals were obtained to market the fixed-dose combination of ramipril and amlodipine in the form of hard capsules in four strengths, and Bloxazoc (metoprolol succinate) prolonged-release tablets in four strengths.

Marketing authorisations were acquired under decentralised procedures for two new products treating erectile dysfunction, Viavardis (vardenafil) and Tadilecto (tadalafil). Viavardis film-coated tablets in three strengths (5 mg, 10 mg and 20 mg) and Tadilecto film-coated tablets in four strengths (2.5 mg, 5 mg, 10 mg and 20 mg) are oral medications intended to improve erectile function in men with erection problems. Vardenafil is an effective and safe medicine for patients designated as demanding in terms of treatment, e.g. diabetics, patients with cardiovascular diseases, and radical prostatectomy patients. Apart from being indicated in diabetics and patients with cardiovascular diseases, tadalafil in smaller doses may also be used to treat benign prostatic hyperplasia. Both products are vertically integrated, meaning that Krka controls the processes of preparation and evaluation of incoming materials and the finished product. In addition to sildenafil, vardenafil and tadalafil in different pharmaceutical forms and strengths have completed Krka's wide range of products for the treatment of erectile dysfunction.

Applying the European decentralised procedure, Krka obtained marketing authorisations in 22 European countries for the new veterinary product Dehinel/Anthelmin (pyrantel embonate and praziquantel) in the form of film-coated tablets. It contains a fixed-dose combination of substances treating mixed gastrointestinal parasite infestations in cats, and has completed Krka's range of state-of-the-art products for the elimination of parasites in companion animals.

## Investments

In the three months to March 2017 the Krka Group allocated €21.4 million to investments, of which the controlling company invested €18 million and subsidiaries €3.4 million.

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. The investment is worth an estimated €54 million. We have started installing laboratory and technological equipment. The facility with the total surface area of 18,000 m<sup>2</sup> will be ready for use by the end of 2017.

At its Ločna location in Novo mesto Krka is building a multi-purpose warehouse for the storage of finished products, raw materials and packaging. The investment will increase their storage capacity to over 90 thousand pallet spaces. The investment is estimated at €30 million.

At its principal location, at Ločna in Novo mesto, Krka operates a state-of-the-art solid dosage forms production plant Notol 2, in which production had been launched in January 2015. More than two years later, work has been running smoothly with production capacity increasing. By the end of March 2017, Notol 2 was fitted with approximately two thirds of its designated technological equipment. To satisfy increasing market demand and set up the production of new products, they have started procuring technological equipment to complete the facility's furnishings and meet the target production volume of 4.5 billion tablets, film-coated tablets and capsules per year. The estimated value of additional equipment to be installed in Notol 2 is €23 million.

Also ongoing is the €11 million investment into increasing capacities for the coating of pellets in the Solid Dosage Forms Plant. Pellets have the structure of small round particles, they contain an active substance. They are used to fill capsules or are pressed into tablets. Production capacities will be ready by mid-2017.

In its plant at Bršljin in Novo mesto, Krka is increasing production capacity for animal health products with a biocidal effect. New equipment will be installed on the newly built second floor of the building for the production of powders and liquids. The estimated value of the investment is €4.6 million.

One of the most important investments in Krka subsidiaries has been Krka-Rus 2 in Istra, the Russian Federation. The first stage of the project had included building a new plant and logistics centre, and additional technological and logistics equipment was installed during 2015 and 2016. This has increased the plant's production capacity to

two thirds of its planned target capacity. In addition to bringing the factory to full production capacity, the second phase of the investment with estimated value of €30 million will also include building a wastewater treatment plant. Two thirds of all products sold in the Russian market are manufactured in Krka-Rus, which gives Krka the status of a domestic producer in that market.

Due to the expansion of its 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 capacities for solid dosage oncology pharmaceuticals. The start of production and the gradual transfer of technologies to the new technological equipment are planned for mid-2017. The investment is estimated at €34 million.

In the Terme Krka health resort in Strunjan Krka is replacing the system of heating. The investment is intended to reduce negative impacts on the environment in compliance with the legislation and the objectives of the Strunjan Landscape Park, and drive down the cost of heat energy. Preparations are ongoing for the renovation of the Laguna hotel in Strunjan. In the Šmarješke Toplice health resort they are upgrading the wastewater system and preparing projects for the renovation of the energy system. They have also started renovating the interior of the medical rehabilitation centre in the Dolenjske Toplice health resort, and hotel rooms in Hotel Šport in Otočec. The total estimated value of investments in the Terme Krka Group is almost €3 million.

## Employees

At the end of March 2017 the Krka Group had 10,821 employees. Krka's subsidiaries and representation offices outside Slovenia employ 54% of the Group's employees, and 56% of the entire Krka team have at least a university level degree. There were also 1,277 agency workers at the end of March.

Krka employees also display social responsibility and responsibility toward the environment. This April they again organised Krka's week of charity and volunteering. 1,200 employees took part, 100 of them for the first time. They collected 3.6 tonnes of clothes, books, toys, food and other consumables. 275 Krka employees donated 123 litres of blood, 45 of them for the first time. They visited the elderly at 35 retirement homes and the tenants of eight occupational activity centres and special schools, organising various workshops, games and presentations for them. They prepared 910 food packages at the Caritas and Red Cross charities, and helped sort clothes and clean homes. They also collected 500 kg of pet food, helped at animal shelters and at the Ljubljana Zoo. Krka hosted 2,300 guests at their open door.

## Share and investor information

At the end of March 2017 Krka had 53,371 shareholders, 1.6% fewer than at the end of 2016. The decline is mainly due to fewer individual Slovenian investors, whose share in the ownership structure of Krka decreased accordingly. The proportion of international investors was slightly up in the first quarter of 2017.

On 31 March 2017 Krka's share traded at €52.15 on the Ljubljana Stock Exchange, down 1.4% from the year-end of 2016 when it traded at €52.90.

In the first quarter of 2017 Krka repurchased 37,744 treasury shares worth a total of €1,986,571. As at 31 March 2017 Krka held 530,874 treasury shares, which represents 1.619% of the Krka share capital.