



PRESS RELEASE

Krka's business performance in 2017

Novo mesto, 22 March 2018 – The Management Board of Krka, d. d. held a press conference today presenting to the public the unaudited financial statements of the Krka Group and the Krka Company for 2017, which the Krka Supervisory Board had discussed at its yesterday's meeting. President of the Management Board Jože Colarič told the press the Group had sold €1,266.4 million worth of products and services in the reported period, and increased sales by 8% from 2016. Unaudited Group net profit totalled €152.6 million, an increase of €44.1 million or 41% compared to 2016. Krka Company sales amounted to €1,197.8 million, generating an unaudited net profit of €153.7 million. Krka's 2017 annual report will be released on Thursday, 19 April 2018.

Sales

The Krka Group sold €1,266.4 million worth of products and services in 2017, up 8% from 2016. Sales in markets outside Slovenia represented €1,178.4 million, accounting for 93% of total sales.

Krka Group sales by Region

The largest sales region was East Europe, where sales totalled €388.2 million, which is 30.7% of overall sales and represents a year-on-year increase by 17%. This was the highest growth recorded among all Krka's sales regions. The Russian Federation remains Krka's key and largest individual market; sales value there amounted to €270.9 million, up 20%. Prescription pharmaceuticals recorded a 21% increase and contributed the most to increasing Krka's market share. Double-digit sales growth was also reached in Tajikistan (30%), Armenia (27%), Kazakhstan (22%), Azerbaijan (22%), Ukraine (14%), Belarus (13%), and Georgia (12%).

The second largest region was Central Europe, where sales value totalled €303.6 million, up 6% compared to 2016, representing a 24% of overall Group sales. In Poland, the Regions' key and largest market, product sales were €145.0 million, up 3%. Sales growth was also recorded in the Czech Republic (21%), Latvia (16%), Estonia (9%), Slovakia (5%), and Hungary (3%).

The third region in terms of sales value was West Europe, where Krka Group generated 22.6% of overall sales. Sales revenues there totalled €286.1 million, up 1% compared to 2016. The highest sales were recorded in the markets of Germany, France, and Spain. Sales through subsidiaries remained at the 2016 level and accounted for approximately two thirds of overall sales in the Region. In Germany, Krka's most important Western European market, product sales totalled €80.8 million, a year-on-year decrease by 13% due to lower sales of products through public tenders. Double-digit market growth was recorded in the United Kingdom (36%), Portugal (19%), Ireland (18%), Italy (16%), Scandinavian countries (13%), and France (11%).

In the markets of Region South-East Europe, product sales amounted to €160.9 million, an increase by 6% compared to the same period last year, representing 12.7% of overall Krka Group sales. In Romania, the largest market in the Region and Krka's key market, product sales were €54.2 million, which is at the 2016 level. Sales increased in all markets of the Region, apart from Romania and Bosnia and Herzegovina.

In Slovenia Krka sold €88.0 million worth of products and services (of which €35.7 million were health resort and tourist services with 6% sales growth), representing 6.9% of overall Group sales. The value of product sales was up 3%. With a 9% market share, Krka preserved the leading position among all pharmaceutical companies in Slovenia.

In Region Overseas Markets, Krka sold €39.5 million worth of products in 2017 (3.1% of Group sales) and recorded an 11% increase. The biggest contribution was made by individual markets of the Middle East, the Far East, and Africa, especially Iran and the Republic of South Africa.

Krka Group sales by product and service group

The most important group of products in terms of sales value remains prescription pharmaceuticals, which contributed €1,046.1 million or 82.6% of the Krka Group sales in the reported period, up 9% from the previous year. Sales of prescription pharmaceuticals exceeded €1 billion for the first time in Krka's history.

As far as sales of prescription pharmaceuticals are concerned, medicines for the treatment of cardiovascular diseases remained the key therapeutic group in 2017, followed by pharmaceuticals for diseases of the central nervous system, and medicines for alimentary and metabolic diseases.

In 2017, sales of new products, i.e. products launched in individual markets in the past five years, accounted for 33% of the Krka Group overall sales. The most important new products were Pragiola* (pregabalin), launched at the end of 2014, and Dulsevia* (duloxetine), launched in 2015. They ranked among the 20 leading Krka's products in terms of sales.

Medicines containing perindopril (Prenessa*, Co-Prenessa*, Amlessa*, Co-Amlessa*) remained the leading group in terms of sales in 2017. They were followed by medicines containing losartan (Lorista*, Lorista H*, Tenloris*), atorvastatin (Atoris, Atordapin*), pantoprazole (Nolpaza*), and valsartan (Valsacor, Valsacombi*, Vamloset*). Among the ten leading Krka's prescription pharmaceuticals in terms of sales were medicines containing esomeprazole (Emanera*), rosuvastatin (Roswera*, Rosudapin*), enalapril (Enap, Enap-H*, Elnap*), tramadol (Doreta*, Tadol), and clopidogrel (Zyllt*).

Non-prescription product sales amounted to €119.2 million (9.4% share in overall Krka Group sales), a year-on-year increase by 7%. Sales of animal health product totalled €63.2 million (5% share in overall Krka Group sales), up 1% from 2016.

Sales of health resort and tourist services increased by 6% to €35.7 million and accounts for 2.8% of overall Krka Group sales. Other sales revenues amounted to €2.2 million.

Operating result

The Krka Group recorded €198.7 million of operating profit (EBIT), up €76.3 million or 62% from the previous year. The reason is relatively higher sales growth against the operating expenses, and product mix. Group EBITDA totalled €306.6 million, up by €78.4 million or 34%.

Profit before tax increased by €59.9 million or 51% compared to the previous year, amounting to €176.2 million. The Krka Group effective tax rate was 13.4%.

The Krka Group recorded €152.6 million of net profit, an increase of € 44.1 million or 41% compared to 2016.

All performance ratios (EBIT margin, EBITDA margin, net profit margin, ROE, ROA) for 2017 were better than in 2016.

Research and Development

In 2017, the Krka Group acquired marketing authorisations for 23 new products (17 prescription pharmaceuticals, three non-prescription products, and three animal health product) in 46 pharmaceutical forms and strengths. In the same period, a total of 555 new marketing authorisations were obtained for 119 products in various markets.

Krka submitted patent applications for four inventions and three international patent applications on the basis of prioritised applications from 2016. They registered 57 trademarks in Slovenia, and submitted 73 international and 32 national trademark applications.

The following new prescription pharmaceuticals were introduced:

- medicines containing new active ingredients - medicines for the treatment of erectile dysfunction Tadilecto/Tadagis (tadalafil), Viavardis/Vardegin (vardenafil), analgesics Dekenor/Dexfenia (dexketoprofen), medicine for the treatment of diabetes Glypvilo (vildagliptin), and medicine used for the treatment of HIV infection Darunavir;

* Products marketed under different brand names in individual markets are marked with an asterisk. Products may be marketed also under the Krka trademark in individual markets.

- medicines containing new combinations of active ingredients and of new therapeutic profiles - analgesics Adolax/Oxynador/Nolxado/Dolnada (oxycodone/naloxone), medicines for the treatment of cardiovascular diseases Olmita/Olmira and OlmeAmlo (olmesartan/amlodipine), and Camlocor/Kandosett/Camdero (candesartan/amlodipine), and medicines for the treatment of patients with HIV infection Efavirenz/Emtricitabine/Tenofovir disoproxil Krka;
- a medicine in a new pharmaceutical form: oncology medicine Meaxin/Imanivec (imatinib) dispersible tablets;
- two products in new strengths: medicines for the treatment of the central nervous system Kventiax SR (quetiapine) 400 mg prolonged-release tablets, and Dulsevia/Duloxalta (duloxetine) 90 mg gastro-resistant capsules;
- medicines with new formulations and additional development: corticosteroid dexamethasone 0.5 mg tablets, medicines for the treatment of cardiovascular diseases perindopril/amlodipine, and analgesic tramadol solution for injection and capsules.

As to non-prescription products, Krka launched a product for the treatment of symptoms of chronic venous insufficiency in adults and for the symptomatic treatment of deteriorated haemorrhoid-related problems in adults Flebaven/Flebazol/Fladios (diosmin), Magnezij Krka 300 (magnesium citrate/vitamin B2), and product used to treat infections and pain in the mouth and throat Septabene (benzylamine chloride/cetylpyridinium chloride) lozenges with two flavours.

In the field of animal health products, marketing authorisation was obtained for a product indicated for the treatment of parasites in cats Dehinel/Anthelmin (pyrantel embonate/praziquantel), product indicated for the treatment of parasites in farm animals Santiola (clozantel) solution for injection, and product used to treat *Coccidia* spp. infestations in different types of poultry Toltarox (toltrazuril) oral solution.

Investments

In 2017, the Krka Group allocated €105.1 million to investments, of which the controlling company invested €85.3 million and subsidiaries €19.8 million. Investments have primarily increased and modernised their production capacities, and research and development capacities. In Slovenia, Croatia, and the Russian Federation, approximately thirty investment projects, which will increase the production capacities, are in progress.

The key investment supporting Krka's development activities and quality assurance in the following years has been the Development and Control Centre 4 (RKC 4), located in the group of production facilities in Novo mesto. The investment was estimated at €54 million. The construction of the building with the total surface area of 18,000 m² and external works are in the final stages.

On the same location, Krka is building a multipurpose warehouse, which will ensure additional warehousing capacity for incoming materials and finished products. This will increase the speed and flexibility of production, and improve the availability of products and market supply. The construction of the building, installation of logistic and other equipment, qualification, and equipment and system start-ups will last two years. The investment is estimated at €31.5 million.

Notol 2, a state-of-the-art production plant for solid pharmaceutical dosage forms is located in the same area. Production there was launched in January 2015, and the facility officially opened in November of the same year. The plant has been designed to allow a gradually increase in capacities. To satisfy increasing market demand and set up the production of new products, Krka purchased and installed additional technological equipment totalling €23 million in 2017.

Also ongoing is the €11 million investment to increase pellet-coating capacities in the Solid Dosage Forms Plant OTO, which will be completed in 2018.

The new investment in Krško provided capacities for technologies that require treatment with hydrogen and thus further increased Krka's independent API production capacities. The construction of the €4.5 million Hydrogenation Plant 2 started in June 2017. By the end of the year, system and equipment qualifications and start-ups were performed. The test production was launched at the beginning of 2018.

Krka is also expanding the production plant for animal health products with biocidal effect in Bršljin, Novo mesto. The value of the investment is estimated at €4.6 million and the production with the new equipment will start at the end of 2018.

One of the most important investments in Krka subsidiaries has been Krka-Rus 2 in Istra, Russian Federation. The second stage of equipment installation in the new plant is finished. All technical production equipment has been fitted and is in use. This has increased the plant's production capacity to two thirds of its planned target capacity, which is 2.5 billion tablets and capsules per year. In 2018, a wastewater treatment plant will also be built. Over 60% of products intended for the Russian market are manufactured in Krka-Rus, giving Krka the status of a domestic producer in the Russian Federation.

Krka completed conversion of the production and distribution centre in Jastrebarsko, Croatia and acquired new production and laboratory capacities for solid dosage oncology medicines.

Completed is the €5.5 million investment in Krka's subsidiary Farma GRS. Krka provided additional capacities for research and development in the Chemical development centre, as well as increased capacities for the small-scale production of pharmaceutical ingredients in line with the good manufacturing practice.

Several smaller investments are in progress in all business units of subsidiary Terme Krka. In 2017, investments in Terme Krka totalled €3 million.

Krka established a joint venture with Chinese partner Ningbo Menovo Pharmaceutical, in which Krka holds a 60% share and the partner a 40% share. The company will initially focus on registering Krka's products in China, as obtaining marketing permits is a prerequisite for selling products at that market. The first major sales results are expected in two to three years.

Employees

At the end of 2017, the Krka Group had 10,832 employees, of which 5134 (47.4%) worked in Slovenia and 5698 (52.6%) abroad.

The share of employees with at least university-level qualifications is 55%, or 6,011 employees. They include 175 employees with a doctoral degree and 364 employees with a master's degree or specialisation.

Investor and Share Information

On the last trading date in 2017, the Krka share price on the Ljubljana Stock Exchange totalled €57.50, a 9% increase over the 2016 year-end, when it amounted to €52.90. In the same period, the value of the blue-chip index of the Ljubljana Stock Exchange (SBITOP) rose by 12%. At the end of last year, Krka's market capitalisation amounted to €1,886 million.

Krka shares are the most traded security on the Ljubljana Stock Exchange. In 2017, the average daily trading volume of Krka shares on the Ljubljana Stock Exchange reached €0.6 million. In 2017, the company acquired 201,116 treasury shares on the regulated market and held 691,717 treasury shares on 31 December 2017.

Krka Group development strategy 2018–2022

The Supervisory Board approved the Krka Group development strategy for 2018–2022. In the new five-year strategic period, sales are projected to grow by at least 5% per annum on average in terms of volume/value.

Carefully thought-out investments and an increased scope of contract manufacturing will drive down the value of the Group's investments, which will amount to an average of €136 million per year in the coming five-year period. In addition to organic growth, Krka intends to expand by means of acquisitions and long-term business combinations, including joint ventures in case of commercially appealing and available acquisition targets. The primary objectives are to acquire new products and enter to new markets.

In addition to the existing product range, which represents the so-called gold standard, Krka will maintain the largest possible share of new products in overall sales and of vertically integrated products. It will continue launching products on selected markets as one of the first generic pharmaceutical companies. It will strengthen the pharmaceutical and chemical industry and in this respect expand its range of prescription pharmaceuticals for key therapeutic areas – particularly medicines for cardiovascular diseases, medicines for diseases of the central nervous system, and medicines for diseases of the alimentary tract and metabolism – as well as those for high-potential areas – such as analgesics and oncology medications, antidiabetics, anti-virus medicines and antibiotics – while also entering new areas. Innovative generic products will be introduced in key therapeutic areas, such as

fixed-dose combinations of two or three substances, new strengths, pharmaceutical forms, and new delivery systems.

Krka will also embark on the area of similar biological medicines, placing priority focus on treatments for autoimmune diseases and diabetes. Due to the scale and complexity of content in this field, the Management Board has already set up an independent organisational unit to run it.

Krka will also strengthen selected therapeutic areas of non-prescription products and animal health products, particularly products for companion animals. R&D expenditure will account for up to 10% of sales in the strategic period.

With an effective and optimised development and production chain, Krka will provide – in a timely manner and in compliance with the required quality standards – products corresponding to sales market demand in sufficient quantities to push targeted sales growth. Maximum long-term profitability of products sold will be pursued, from development and production to the sales of finished products, including all other functions in the Krka Group. The projected EBITDA margin in the five-year strategic period will range between 21% and 25%, and the projected ROE between 9% and 12%.

Krka will focus on European markets, the Chinese market and the markets of Central Asia, striving to better utilise the sales potential of all sales regions. It will strengthen the professional and cost synergies within the Krka Group, maximising the utilisation of competitive advantages of the business environments of Krka companies abroad. Particular focus will be placed on the Chinese market in the coming five-year period, where major opportunities are arising in view of the increasing use of modern generic medicines and changes in the regulatory environment.

A stable dividend policy will be pursued. In determining the share of net profit to be paid out as dividends each year, the Krka Group's financial needs for investments and acquisitions will be taken into account, with at least 50% of the net profit of the majority owners being allocated to dividend payments.

Plans for 2018

Krka Group sales are planned to total €1.3 billion in 2018 with profit of €153 million. The Management Board will strive to exceed Krka's planned goals in case of favourable business conditions. Krka intends to allocate €135 million for investment projects to increase and upgrade production capacities and the infrastructure. In 2018, Krka plans to increase the number of employees in Slovenia and abroad by 2%; the total number of regular employees is projected to exceed 11,200.