



PRESS RELEASE

Otočec, 6 July 2017 – The Krka Company Supervisory Board was convened today and briefed by the Management Board on preliminary operations results for the first half of 2017 and on the acquisition project in China. The Supervisory Board will review the final results for the first half of 2017 at its meeting on 26 July 2017, and Krka's performance results will be published on the subsequent day.

The 23rd Annual General Meeting of the Krka Company was also held today, starting at 1 p. m. at the Šport Hotel in Otočec, Slovenia. Krka's President of the Management Board presented to the shareholders all the information previously disclosed to the members of the Supervisory Board.

Krka Group operations in the first half of 2017

Krka Group sales by Region

The Krka Group sold €655 million worth of products and services in the first half of 2017, up €51.2 million or 8.5% compared to the first half of last year. This is Krka's best half-year sales result to date. Sales in markets outside Slovenia totalled €612.1 million, which represents a solid 93% of the Group's total sales.

The largest sales region was Region East Europe, where Krka generated €214 million, which represents 32.7% of overall sales. Year-on-year sales there increased by €38.4 million or 22%, which is the highest absolute and relative sales growth among all Krka sales regions. The second largest region in terms of sales was Region Central Europe, where Krka generated €154.4 million (up 9%), which is 23.6% of total Group sales. Product sales in Region West Europe amounted to €143.2 million in the six months of 2017, which represents a 21.9% share in Krka Group sales and is a decrease by 5% compared to the same period last year. In Region South-East Europe sales amounted to €79.8 million, a 4% year-on-year increase; this represents 12.2% of Group sales. Sales in the domestic market were up 4% to €43 million, which represents 6.5% of total sales. Product sales in Region Overseas Markets totalled €20.7 million (12% increase), which represents 3.1% of overall Group sales.

Krka Group sales by product and service group

The Krka Group sold €548.2 million worth of prescription pharmaceuticals, an increase by 10% or €48.8 million compared to the same period last year. Prescription pharmaceuticals represent 83.7% of Krka Group sales. Non-prescription product sales were up 8% compared to the same period last year, to €54.2 million (8.3% of total Group sales), and animal health product sales were down 6% to €35 million, which is 5.3% of overall sales. Health resort and tourist services totalled €16.5 million in revenues, up 7% from the same period last year (2.5% of total sales), other sales revenues totalling €1.1 million.

Preliminary operating results

The Group's estimated operating profit (EBIT) in the amount of €122.4 million is up 30% compared to the same period last year, with the estimated operating profit before depreciation and amortisation (EBITDA) totalling €176.9 million, up 20%.

The Group's estimated profit before tax amounts to €109.2 million, a 35% year-on-year increase. The Group recorded €91.7 million of net profit, an increase by 31% compared to the same period last year.

The Krka Group net profit margin in the period January–June 2017 was 14.0%, its EBIT margin 18.7%, and its EBITDA margin 27.0%.

New products and technologies

Krka has been developing, obtaining marketing authorisations for, and launching several new products on different markets. There are more than 170 new products in various stages of development, all of them being designed by looking into the distant future. More than 30 projects are currently in the pipeline, to be launched after 2025 and 2030.

Krka is supplementing its range of diabetes and oncology medicinal products. Working on new products, they will also be implementing new advanced technologies and delivery systems.

Dual or triple fixed-dose combinations of active ingredients, multi-layer tablets, pellets and orodispersible tablets will continue to respond to the needs of patients with cardiovascular conditions, with diseases of the alimentary tract and metabolism, and with diseases of the central nervous system.

As to biosimilars, Krka is focusing on products for autoimmune diseases and diabetes. They are collaborating with external partners in development, in providing clinical evidence of efficacy, in obtaining marketing authorisations, in production and in marketing. Krka's competitive advantage is the know-how related to performing clinical studies, which offers the upper hand in obtaining marketing authorisations for products. During the past year they have put together a group of experts in biotechnology, chemistry, pharmacy and other areas, setting up a special Biotechnology Department.

They are scrutinising two new therapeutic groups for potential market entry, hormones and asthma medications.

Non-prescription products remain important ancillary human health products. The new technology for producing lozenges (Septotele total) has enabled Krka to develop products with pharmaceutical and chemical as well as herbal ingredients.

As to animal health products, those for companion animals are increasing in number as their sales are also increasing.

Investments

For this year's investments, Krka estimates to allocate just over €120 million, which is lower than the 2017 budget and lower compared to the last year. The estimated investment amount is lower than originally planned due to the lower prices negotiated with contractors and equipment suppliers. In terms of implementation, projects are being carried out according to plans.

At Krka's central location in Ločna, Novo mesto, Slovenia, the investment into the Development and Control Center 4 (RKC 4) is ongoing, one of the key investments to facilitate development and quality assurance in the following years. Its value is estimated at €54 million. The facility has a surface area of 18,000 m²; installations of laboratory and technological equipment have started.

At the same location, Krka is expanding its multi-purpose warehouse for finished products, raw materials and packaging, increasing its capacity to more than 90,000 pallet spaces. The investment is estimated at €30 million.

The largest investment in Krka's history is Notol 2, a modern plant for the production of solid forms of pharmaceuticals; its production had been launched in 2015. To satisfy increasing market demand and facilitate the production of new products, Krka has been procuring additional technological equipment to ensure the plant is fully equipped and can reach the target production volume of 4.5 billion tablets, film-coated tablets and capsules per year. The estimated value of the additional equipment for Notol 2 is €23 million.

One of the most important investments in Krka subsidiaries outside Slovenia has been Krka-Rus 2 in Istra, the Russian Federation. The second stage of the investment, worth an estimated €30 million, will bring the plant to its target production capacity of 2.5 billion tablets and capsules per year and include building a waste water treatment plant. Two thirds of products intended for the Russian market are produced by Krka-Rus, giving Krka

the status of a domestic producer there, which is particularly important for the participation in public tenders in this country.

Due to the expansion of Krka's production programme in Jastrebarsko, Croatia, the production and distribution centre there is being rearranged to acquire new production and laboratory capacities for solid dosage oncology pharmaceuticals. The plant already produces a validation series of products. The investment is estimated at €34 million.

By investing in contemporary development and production infrastructure, Krka is increasing the number of products it manufactures every year. It will continue to strive for production volumes in its existing facilities to increase, thus achieving steady profitability growth. Collaboration with contracting partners in this area will also be stepped up.

Employees

At the end of June, the Krka Group had 10,842 employees; 54% of them work in subsidiaries and representative offices outside Slovenia, and 56% of the entire Krka team have at least a university level degree. Together with agency workers, Krka had a total of 12,188 employees, up 1% from the beginning of the year.

Investor and share information

At the end of June 2017, Krka had 52,906 shareholders, which is 2.5% fewer than at the beginning of the year. On 30 June 2017, Krka's share traded at €55.00 on the Ljubljana Stock Exchange, up 4% from the year-end of 2016 when it traded at €52.90.

In the first half of 2017, Krka had repurchased a total of 65,966 treasury shares. At the end of June 2017 it thus held 559,096 treasury shares, which represents 1.705% of the share capital.

Acquisition in China

In China, significant changes have taken place over the past two years in terms of tightening regulation of the pharmaceutical industry, while production and sale of medicines were incentivized simultaneously. These changes resulted in an opportunity for Krka and its wide portfolio of products.

In line with Krka's current strategy, they have studied several takeover opportunities, in the past. At the end of last year, they identified a target in which Krka could acquire at least 51% ownership share.

The Target is a smaller company that is engaged in pharmaceutical development, possesses significant know-how in the regulatory field and has smaller production capacities for tablets, suspensions and injections. The Target's annual sales are less than €10 million. However, what matters most is the fact that the Target will serve Krka as a development base and as an entry point on a Chinese market, which can result in many opportunities for Krka in the next few years.

This acquisition will grant Krka registration, subsequent production and sales of Krka's products on the Chinese market that has high sales potential from 2020 onwards. The Target will serve as a base for Krka's future activities on this large market. Namely, they will develop additional production and sales capacities through contractual and capital links around the Target.

After they signed the Letter of Intent, they carried out the technological due diligence in May. In June, they hired consultants to carry out financial, tax, HR and legal due diligence which is in the final stages.

In July, the final negotiations will follow. Subject to successful negotiations, the transaction will be closed by the end of summer. If, for any reason, the negotiations will not be successful and the agreement will not be reached, Krka will focus its activities on other targets.