**PRESS RELEASE**

## Krka presented its operating results for the period January–September 2017

**Novo mesto, 16 November 2017 – The Krka Group sales in the first nine months of 2017 totalled €928.3 million, an increase by 9% compared to the same period last year, resulting in €110.1 million of net profit, a 37% year-on-year increase. The Krka Company revenues amounted to €887.4 million, resulting in €106.3 million of net profit. The Interim Report for the Krka Group and the Krka Company for January–September 2017 was discussed by the Krka Supervisory Board at its yesterday's regular meeting.**

### Sales

The Krka Group sold €928.3 million worth of products and services in the period January–September 2017, up €75.9 million, or 9%, compared to the same period last year. This is Krka's highest nine-month sales result to date. In markets outside Slovenia sales totalled €861.6 million, which is 93% of total Krka Group sales. The Krka Company sold €887.4 million worth of products in the reported period.

#### Krka Group sales by Region

Krka's largest sales region was Region East Europe, where sales totalled €271.4 million, which is 29.2% of overall sales. It was in this Region that Krka recorded the highest sales growth compared to the same period last year, both in absolute (up €41.4 million) and relative (up 18%) terms. The key factor was successful operations in the most important market, the Russian Federation, with good results reported by the majority of the Region's remaining markets of Eastern Europe and Central Asia. Product sales in the Russian Federation totalled €186.1 million, up 21% compared to the same period last year.

In Region Central Europe, consisting of the Visegrad countries and the Baltic countries Lithuania, Latvia and Estonia, Krka sold €226 million worth of products, which is 24.4% of overall Krka Group sales, making this Krka's second largest sales region. Sales there were up 8% compared to the same period last year. The Region's leading market was Poland, and sales growth was recorded in all markets in the Region, apart from Slovakia, where it remained at the level of the same period last year.

Region West Europe followed with €217.7 million of sales, which represents 23.5% of total sales. Compared to the same period last year, sales were up 3%. The most sales were generated in Germany, France and Spain. The sales of Krka brand products via subsidiaries, which represent almost two thirds of sales in Region West Europe, were up 3%. Sales via unaffiliated companies also increased by 3%.

Product sales in Region South-East Europe amounted to €116.3 million, up 4% compared to the same period last year and representing 12.5% of overall Krka Group sales. The leading market in the Region is Romania, a key market, while the other principal drivers of sales growth among markets were Croatia, Serbia, Macedonia and Bulgaria.

In Slovenia Krka sold €66.7 million worth of products, which is 7.2% of total Group sales. Sales revenues increased by 4%. With a 9% market share, Krka has remained the leading pharmaceutical company in Slovenia.

Product sales in Region Overseas Markets totalled €30.1 million (12% increase), a 3.2% share of overall Krka Group sales. The majority came from prescription pharmaceuticals, which are sold as Krka brand products in most of the Region's markets.

### Krka Group sales by product and service group

The Krka Group sold €768.2 million worth of prescription pharmaceuticals, up one tenth compared to the same period last year, which represents 82.8% of overall Group sales. Sales increased in all regions, the most in East Europe (by 18%), Overseas Markets (by 10%), Central Europe (by 9%) and West Europe (by 6%).

As to the largest markets, sales increased by 20% in the Russian Federation, by 5% in Poland, and by 1% in Germany. With respect to other large markets, year-on-year sales of prescription pharmaceuticals were up in the Czech Republic (43%), Ukraine (17%), France (17%), Hungary (8%) and Slovenia (2%).

As to mid-size markets, the highest sales growth rates were recorded in the United Kingdom (56%), Serbia (37%), Kazakhstan (14%), Italy (12%), Bulgaria (12%), Croatia (11%), Macedonia (9%) and Portugal (7%). In smaller markets for Krka's prescription pharmaceuticals in terms of sales, the highest sales growth rates were recorded in Tajikistan (57%), Montenegro (53%), Finland (39%), Azerbaijan (36%), Armenia (31%), Latvia (22%) and Ireland (22%). Two-digit sales growth was also recorded in Albania and Georgia.

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

For non-prescription products, sales were up one tenth to €82.9 million (8.9% of overall sales). The sales of animal health products were down 4% to €48.4 million, which is 5.2% of overall Krka Group sales. Health resort and tourist service sales totalled €27.2 million, up 8% from the same period last year (2.9% of overall sales), and other sales revenues amounted to €1.7 million (0.2% share of overall sales).

## Operating result

The Krka Group recorded €149.2 million of operating profit, up by half compared to the same period last year. Group profit before tax amounted to €129.2 million, a 46% year-on-year increase. Income tax totalled €19.2 million, and the effective tax rate was 14.9%. The Group recorded €110.1 million of net profit, an increase by 37% compared to the same period last year.

The Krka Group profit margin for the period January–September 2017 was 11.9% (Krka Company 12%), its EBIT margin 16.1% (Krka Company 16.2%) and its EBITDA margin 24.7% (Krka Company 23%).

Annualised ROE at the level of the Group was 10.1% (Krka Company 9.8%), with annualised ROA at 7.7% (Krka Company 7.8%).

## Management of financial risks

The Russian rouble, which represents Krka's key exposure in terms of currency risk, was volatile during the first nine months of 2017. Three factors were crucial: the movement of the EUR/USD exchange rate, oil price movements, and macroeconomic conditions in the Russian Federation.

Krka hedged part of its exposure in roubles with forward contracts in the nine months. Currency exposures in other currencies are being eliminated exclusively using natural hedges, without derivative financial instruments.

The overall net financial result – taking into account net foreign exchange differences for all currencies, which amounted to €–14.3 million, derivatives income and expenses, which amounted to €–4.6 million, interest income and expenses and other financial income and expenses, which amounted to €–1 million – totalled €–19.9 million for the nine months to September.

The key credit risk of the Krka Group is associated with trade receivables. Krka runs a centralised credit control process at Group level, which includes all customers to which Krka sells more than €100,000 worth of products and services per year. There were more than 400 such customers at the end of the third quarter of 2017, representing more than 95% of the Group's trade receivables.

The portfolio of trade receivables witnessed no negative trends in the reported period. Receivables are dispersed among a large number of customers and sales markets, the majority owed by customers with which Krka has had a long-standing business relationship. Over a half of the Group's total trade receivables have insurance coverage, and a minor segment is secured for payment using banking instruments.

## Research and development

In the first nine months of 2017 Krka obtained marketing authorisations for 14 new products in 25 dosage forms and strengths, and acquired 385 new marketing authorisations for 99 products in different markets in this period.

Marketing authorisations were acquired in Krka's key therapeutic area of medicinal products for the treatment of cardiovascular diseases, for the new fixed-dose combination Olmita (olmesartan and amlodipine) in the form of film-coated tablets in three strengths. The fixed-dose combination lowers high blood pressure via two different mechanisms of action, therefore it can be expected to have a greater impact than monotherapy with each of the substances. The complementary action of the product's two active substances may reduce the likelihood of certain adverse effects and thus improve treatment tolerability.

Marketing authorisations were obtained under decentralised procedures for two new oral medications treating erectile dysfunction, Viavardis (vardenafil) film-coated tablets in three strengths and Tadilecto (tadalafil) film-coated tablets in four strengths.

Marketing approvals were granted 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 the combination of the opioid oxycodone and naloxone, which binds to opioid receptors. The medicine relieves moderate to severe pain and is used when safe opioid therapy is required.

Applying the decentralised procedure, Krka obtained the marketing authorisation for Dulsevia/Duloxalta (duloxetine) gastro-resistant capsules in the new strength of 90 mg. The medicine from the group of combined serotonin and noradrenaline reuptake inhibitors is used to treat depression, generalised anxiety disorder and neuropathic pain in diabetes. The new strength facilitates a one-capsule-a-day dosing even in cases when higher dosages are needed. This makes treatment easier for patients.

Under the decentralised European procedure Krka obtained marketing authorisations for the cancer treatment Meaxin (imatinib), in the new pharmaceutical form of dispersible tablets in two strengths. It is used to treat chronic myeloid leukaemia, acute lymphoblastic leukaemia, myelodysplastic–myeloproliferative diseases, hypereosinophilic syndrome, chronic eosinophilic leukaemia, and protuberant dermatofibrosarcoma. Dispersible tablets dissolve in a small amount of water or apple juice, which makes the medicine easy to take.

Under the decentralised authorisation procedure, Krka launched on European markets a new formulation of Dexamethasone Krka in the form of 0.5 mg tablets. The medicine is a corticosteroid with anti-inflammatory, analgesic and anti-allergic properties, and it affects the functioning of the immune system. It is used for the symptomatic treatment of rheumatic, systemic connective tissue, allergic and skin diseases, diseases of the eyes, alimentary tract, respiratory tract, blood and kidneys, certain forms of cancer, and transplant rejection after organ transplant.

In Hungary Krka was granted a marketing authorisation under the national procedure for the medicine Kventiax/Quentiax (quetiapine) in new strength of 400 mg. This wide-spectrum antipsychotic is used to treat different psychiatric disorders (schizophrenia, bipolar disorder and major depression). Prolonged-release tablets, now available in four strengths, are taken as a single daily dose, thus simplifying treatment.

Krka's product range in European markets was expanded by means of new marketing authorisations issued for pharmaceuticals from Krka's key group of medicinal products treating cardiovascular diseases. Authorisations were obtained under decentralised procedures for three fixed-dose combinations – Teldipin/Telassmo (telmisartan and amlodipine) tablets in four strengths, which Krka was the first to launch on the Polish market in addition to the originator; Rameam (ramipril and amlodipine) hard capsules in four strengths; and Vasitimb (ezetimibe and simvastatin) tablets in three strengths – and for two mono-component products, Bixebra (ivabradine) film-coated tablets in two strengths, and Bloxazoc (metoprolol succinate) prolonged-release tablets in four strengths. Marketing opportunities were expanded for Olimesta (olmesartan) film-coated tablets in three strengths, and for the fixed-dose combination Co-Olimestra (olmesartan and hydrochlorothiazide) in the form of film-coated tablets in four strengths.

Under the European decentralised procedure, markets were expanded for the antibiotic Klaritromicin Krka (clarithromycin) in the form of film-coated tablets in two strengths. Applying the European centralised procedure, Krka obtained approvals to market the combination of emtricitabine and tenofovir disoproxil in the form of 200 mg/245 mg film-coated tablets, an HIV treatment.

Four new non-prescription products were authorised for marketing. Magnezij Krka 300/Magnesol B2 granulate for the preparation of a beverage contains magnesium in the form of citrate, and vitamin B2. Both ingredients contribute to decreasing fatigue and exhaustion and support a normal functioning of the nervous system, with magnesium in the form of magnesium citrate also contributing to muscle action. The product does not contain preservatives, artificial colours, flavours or sweeteners. It was authorised for marketing as a food supplement in Slovenia and the markets of East Europe. In 12 European countries Krka obtained first marketing authorisations for the Flebaven/Flebazol/Fladios (diosmin) 500 mg film-coated tablets and 100 mg tablets. It is intended for the treatment of symptoms of chronic venous insufficiency in adults and for the symptomatic treatment of deteriorated haemorrhoid-related problems in adults. New authorisations have expanded marketing opportunities for Septolete total/Septabene lozenges (benzydamine hydrochloride and cetylpyridinium chloride). The product has anti-inflammatory properties, it is an analgesic and antiseptic, and it is used to treat mouth and throat pain and sores. Applying decentralised procedures Krka obtained marketing authorisations for it in the Czech Republic, Ireland and Germany, where it was granted the status of a product available without prescription. Under the European decentralised procedure, first marketing authorisations were also granted in 15 countries for two new Septabene products, lemon/honey and lemon/elder lozenges. Both complement Krka's broad range of cold and flu products.

Marketing authorisations were also obtained for two new animal health products. In 22 European countries authorisations for marketing were issued for Dehinel/Anthelmin (pyrantel embonate and praziquantel) film-coated tablets, treating mixed gastrointestinal parasite infestations in cats. The product has completed Krka's range of state-of-the-art products for the elimination of parasites in companion animals. Krka's range of products for the treatment of farm animals was supplemented with the approval for marketing granted in Kazakhstan for Toltarox (toltrazuril) in the form of oral suspension. It treats coccidia infestations in different types of poultry, and is added to drinking water.

## Investments

In the first nine months of 2017 the Krka Group allocated €75.2 million to investments, of which the controlling company invested €62 million and subsidiaries €13.2 million. Krka Group investments for the full year 2017 have been planned to amount to just over €120 million, which is less than planned and less than last year. The estimated amount is the result of the good prices negotiated with contractors and equipment suppliers.

At Krka's central location in Ločna, Novo mesto, Slovenia, an investment into the Development and Control Centre 4 (RKC 4) is ongoing, one of the key investments to facilitate development and quality assurance in the following years. The investment is estimated at €54 million. In the facility with a surface area of 18,000 $m^2$, the installing of laboratory and other technological equipment has already started.

At the same location, Krka is also building a multipurpose warehouse for the storage of finished products, raw materials and packaging. It will have 25,000 new pallet spaces and thus bring new 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 investment is estimated at €30 million.

The largest investment in Krka's history, worth over €200 million, is Notol 2, a modern plant for the production of solid forms of pharmaceuticals. Production had been launched in 2015, and more than two years later work is running smoothly with production capacity increasing. To satisfy increasing market demand and facilitate the production of new products, Krka has started procuring additional technological equipment in the value of €23 million.

Also ongoing is the €11 million investment into increasing capacities for the coating of pellets in the Solid Dosage Forms Plant.

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 and includes building a waste water treatment plant. Over 60% of products intended for the Russian market are produced by Krka-Rus, giving Krka the status of a domestic producer in the Russian Federation.

Due to the expansion of Krka's production programme in Jastrebarsko, Croatia, the production and distribution centre there has been rearranged to acquire new production and laboratory capacities for solid dosage oncology pharmaceuticals. The launch of production and the gradual transfer of technologies to the new technological equipment are ongoing. They have obtained the GMP (good manufacturing practice) certificate and manufacturing authorisation and have thus met the conditions for starting the production of oncology medications to be sold in demanding global markets. The investment is worth €34 million.

In Terme Krka, several smaller investments are ongoing in all business units. Their total value is estimated at almost €3 million.

## Employees

At the end of September the Krka Group had 10,733 employees. Krka's subsidiaries and representation offices outside Slovenia employed 53% of the Group's employees, and 56% of the entire Krka team had at least a university level degree.

A continuous inflow of new employees has been ensured by offering study grants to students. Currently there are 41 students receiving Krka study grants. They are primarily pharmacy and chemistry students, and scholarships are also granted to promising students from other fields of interest to Krka. 16 new scholarships have been awarded. With Krka's support, 143 employees are currently enrolled into part-time university studies, 48 of them postgraduate students on their way to obtaining a specialisation, master's degree or doctoral degree. By the end of September, 19 employees had completed their studies.

Krka has been steering the young towards creativity in research work for 47 years with Krka awards, 2,691 young researchers having received them to date. This year, 32 Krka awards were bestowed for graduate and postgraduate research work, 15 to doctors of science and 28 to upper secondary school students.

## Share and investor information

The price of Krka's share increased by 4% in the nine-month period, standing at €55.20 at the end of September. Krka Company's market capitalisation amounted to €1.8 billion.

There were no major changes in the shares held by each shareholder group. At the end of September 2017 Krka had a total of 52,456 shareholders.

In the first nine months of 2017 Krka repurchased 143,431 treasury shares worth a total of €7,890,688. As at 30 September 2017 Krka held 636,471 treasury shares, which represents 1.941% of its share capital.

## Estimated realisation of Krka Group business objectives for 2017

Annual product and service sales are projected to amount to €1.240 billion, thus exceeding the annual plan of €1.220 billion. The projected sales growth in 2017 will exceed that of 2016 by around 6%.

Sales in markets outside Slovenia are expected to account for 93% of total sales. The largest sales region will be East Europe, with the Russian Federation remaining the largest individual market. Region Central Europe with Poland, Krka's second largest individual market, will be next in terms of sales. The third largest region according to sales will be West Europe with the third largest individual market, Germany. Regions South-East Europe, Slovenia and Overseas Markets will follow.

Full-year profit for 2017 is projected to total approximately €140 million and will exceed that of 2016 in the amount of €108.5 million.

Just over €120 million will be invested in Krka's proprietary development, production and infrastructure capacities in 2017, which is less than the year before, when it was €132 million

According to projections, the Krka Group will have 11,000 employees at the year-end of 2017, 53% of them abroad.

## Krka Group plans for 2018

Krka plans for Group sales next year to total €1.3 billion and profit to amount to €153 million. €135 million will be earmarked for investments, primarily increasing and modernising their production capacities and infrastructure. The number of employees is planned to increase in 2018 both in Slovenia and abroad, by a total of 2%, with the total number of full time employees in the Krka Group exceeding 11,200.

The 2018 operations plan derives from the Krka Group development strategy for the period 2018–2020. It is based on expectations, estimates and forecasts as well as other available data at the Management Board's disposal. The Management Board considers the expectations to be appropriate. If operating conditions in 2018 are very different from expectations, operations results may differ from plans.

## Establishment of a joint venture in China

In recent years China has witnessed significant changes in terms of promoting the use of modern pharmaceutical products and, at the same time, tightening legislation regulating the pharmaceutical market as standards from the EU and US legislations are being introduced. This means that only products meeting the highest standards of efficacy, safety and quality are allowed on the market. This is an opportunity for Krka to enter this large market with its products, which meet the highest standards.

For some time now, Krka has been searching for business partners and acquisition targets in China for launching Krka products on the Chinese market.

Several alternative projects have been ongoing with this objective. In the summer months, everything was made ready to acquire a small pharmaceutical company, predominantly engaged in development; however in the end Krka decided not to go through with the acquisition.

Instead, it established a joint venture company together with the Chinese partner Ningbo Menovo Pharmaceutical. Krka holds a 60% share and the partner a 40% share in the joint venture. The agreement establishing Ningbo Krka Menovo Pharmaceutical and its articles of association were signed by the partners yesterday, on 15 November 2017. The joint venture will be headed by a three-member board of directors, in which Krka will have two representatives, one being the chairman. Immediately after the signing of the agreement, activities were initiated for the joint venture's approval by the Chinese authorities and its registration. The payment of the first tranche of subscribed capital is planned for January 2018.

The joint venture will initially focus on obtaining marketing authorisations for Krka products in China. The Chinese partner has some capacities and human resources in this area, which will be engaged in the new company. Obtaining authorisations to market products is a prerequisite for selling products in the Chinese market.

The €30 million of equity will be dedicated to financing development activities, buying land and constructing production facilities for sterile pharmaceutical dosage forms. The production of finished products in solid forms, i.e. tablets and capsules, will be provided through long-term contractual cooperation with a partner who already has relevant facilities. As already communicated to the public, Krka expects the first notable sales of its products in China within about three years. The joint venture will also produce certain products for Europe and other Krka markets.

Ningbo Menovo Pharmaceutical has been Krka's long-term partner in the production of pharmaceutical ingredients. In two of its companies producing pharmaceutical ingredients Krka has had equity shares since 2008, having bought minority shares. The two companies are Anhui Menovo Pharmaceutical and Zhejiang Menovo Pharmaceutical. The set-up joint venture, which will develop, produce and market finished products, is therefore an upgrade of the successful long-term cooperation with Krka's supply partner.

## Krka Group development strategy 2018–2016

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. In the beginning of 2018, a joint venture majority-owned by Krka will start operations in China, initially obtaining marketing authorisations for Krka products in the Chinese market and later manufacturing and selling products. Products will partly be produced in the facilities of the Chinese joint venture and partly by contractual partners.

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.