PRESS RELEASE

Krka presented its operating results for the first half of 2017

Novo mesto, 27 July 2017 – The Krka Group sales in the first half of 2017 totalled €655 million, an increase by 8.5% compared to the same period last year, resulting in €91.7 million of net profit. This is a 31% year-on-year increase. The Krka Company sales amounted to €615 million, resulting in €83.6 million of net profit. The 2017 half-year report for the Krka Group and the Krka Company was discussed by the Krka Supervisory Board at its yesterday's regular meeting.

Sales

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 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 Krka Group sales. The Krka Company sales in the reported period totalled €615 million.

Krka Group sales by Region

Krka's largest sales region was Region East Europe, where sales totalled €214 million, which is 32.7% of overall sales. It was here that Krka recorded the highest sales growth compared to the same period last year, in absolute (up €38.4 million) and relative (up 22%) terms. The key factor was sales growth in the Krka largest individual market, the Russian Federation, which was followed by the majority of the Region's remaining 12 markets of Eastern Europe and Central Asia. Product sales in the Russian Federation totalled €156.4 million.

In Region Central Europe, consisting of the Visegrad countries and the Baltic countries Lithuania, Latvia and Estonia, Krka sold €154.4 million worth of products, which is 23.6% of overall Group sales, making this Krka's second largest sales region. Sales there were up 9% compared to the same period last year. The Region's leading market is Poland, where they sold €73.1 million worth of products, and sales growth was recorded in all markets of the Region, apart from Slovakia.

Region West Europe followed with €143.2 million of sales, which represents 21.9% of total sales. This is a 5% year-on-year decrease, whereby second quarter sales exceeded those of last year. The largest sales were generated in Germany (€44 million), followed by France and Spain.

Product sales in Region South-East Europe amounted to €79.8 million, up 4% compared to the same period last year and representing 12.2% of Group sales. The leading market in the Region is Krka's key market Romania with sales of €27.2 million, while the other main drivers of sales growth were Serbia, Croatia and Macedonia.

In Slovenia Krka sold €43 million worth of products, which is 6.5% of Krka Group sales. Sales revenues increased by 4%. With a 9.1% market share, Krka has remained the leading provider of pharmaceuticals in Slovenia.

Product sales in Region Overseas Markets totalled €20.7 million (12% increase), a 3.1% share of Krka Group sales. The majority came from prescription pharmaceuticals, which are sold under Krka's own brands in most of the Region's markets. The leading markets were Iran, Republic of South Africa and Vietnam.

Krka Group sales by product and service group

The Krka Group sold €548.2 million worth of prescription pharmaceuticals, up one tenth compared to the same period last year, which represents 83.7% of Krka Group sales. Sales increased in regions East Europe (by 21%), Central Europe (by 11%), South-East Europe (by 5%), Slovenia (by 2%) and Overseas Markets (by 11%), while in Region West Europe they decreased (by less than 1%).

As to the largest markets, sales increased in the Russian Federation (by 26%) and Poland (by 3%), while decreasing (by 3%) in Germany. With respect to other large markets, year-on-year sales of prescription pharmaceuticals were up the most in the Czech Republic, where they almost doubled, in France (up 20%), Ukraine (up 10%), Romania (up 5%), Hungary (up 3%) and Slovenia (up 2%).

With respect to mid-size markets, the highest sales growth rates were recorded in Serbia (up 38%), Kazakhstan (up 20%), Croatia (up 13%), Macedonia (up 10%) and Italy (up 9%). Among smaller markets for Krka's prescription pharmaceuticals in terms of sales, the highest growth rates were recorded in Tajikistan (up 46%), Armenia (up 41%), Azerbaijan (up 27%), Latvia (up 26%), Finland (up 24%) and Ireland (up 23%). Double-digit increases in sales were also recorded in Austria, Albania, Moldova, Turkmenistan and Mongolia.

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

For non-prescription products, sales value was up 8% to €54.2 million (8.3% of Krka Group sales), and animal health product sales were down 6% to €35 million, which is 5.3% of Krka Group sales. Health resort and tourist service sales totalled €16.5 million, a 7% year-on-year increase (2.5% share of Krka Group sales), and other sales revenues amounted to €1.1 million (0.2% share of Krka Group sales).

Operating result

The Krka Group recorded €124.1 million of operating profit, up 32% from the comparable period last year. Group profit before tax amounted to €110.8 million, a 37% year-on-year increase. Income tax totalled €19.1 million, and the effective tax rate was 17.3%.

The Krka Group recorded €91.7 million of net profit, an increase by 31% compared to the same period last year.

The Krka Group profit margin in the period January–June 2017 was 14.0%, its EBIT margin 18.9%, and its EBITDA margin 27.1%. Annualised ROE at the level of the Group was 12.3%, with annualised ROA at 9.5%.

Currency risk management

The rouble's value remained unstable in the first half of 2017; its euro value having appreciated by 7% over the first quarter, it dropped 11% in the second quarter. From the beginning of the year to the end of June, the rouble value in euros depreciated by 5% in total. As a result, Krka Group's exposure in the roubles resulted in foreign exchange losses in the first half of 2017.

Krka hedged a part of its exposure in roubles with forward contracts in the first half-year, resulting in €10 million of net financial income in second quarter and €3 million of net financial expenses in whole first half of 2017. The negative result from forward contracts is due to the costs of hedging, associated with the considerable difference between interest rates in the Russian Federation and the EU.

Other currency movements in the first half-year were favourable for Krka. Currency exposures in other currencies are being eliminated exclusively using natural hedges, without derivatives.

The net financial result for the Krka Group for the 2017 half-year is comparable to the net financial result recorded in last year's six months to June.

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

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

Research and development

In the six months of 2017 Krka obtained marketing authorisations for nine new products in 17 dosage forms and strengths, more than in the same period last year. In total, they acquired 272 new marketing authorisations for 75 products in different markets.

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 and Tadilecto film-coated tablets in four strengths are oral medications intended to improve the erectile function in men.

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 the combination of opioid oxycodone and naloxone, which bind to opioid receptors. The medicine relieves moderate to severe pain.

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

In Hungary Krka was granted a marketing authorisation under the national procedure for a new strength of the medicinal product Kventiax/Quentiax (quetiapine) in the form of 400 mg prolonged-release tablets. This is a wide-spectrum antipsychotic 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.

Marketing opportunities were expanded in European markets with new approvals obtained for pharmaceuticals from Krka’s key group of medicinal products treating cardiovascular diseases. Krka was granted marketing authorisations under decentralised procedures for the combination of ramipril and amlodipine in the form of hard capsules in four strengths, and for Bloxazoc (metoprolol succinate) prolonged-release tablets in four strengths. They also expanded marketing opportunities for Olimestra (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.

Applying the European centralised procedure Krka obtained approvals to market the HIV treatment combination emtricitabine and tenofovir disoproxil in the form of film-coated tablets in the strength of 200 mg/245 mg.

They obtained marketing authorisations for two new products available without prescription. Magnezij Krka 300 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 was launched as a food supplement, prepared without preservatives, artificial colours, flavours and sweeteners, in Slovenia and the markets of East Europe. Krka obtained first marketing authorisations in 12 European countries for the product Flebaven/Flebazol/Fladios (diosmin) in the form of 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.

Krka also obtained marketing authorisations for two new animal health products. In 22 European countries they obtained approvals for the product Dehinel/Anthelmin (pyrantel embonate and praziquantel) in the form of 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. By obtaining approvals to market Toltarox (toltrazuril) in the form of oral suspension in Kazakhstan, Krka has supplemented their range of products for the treatment of food-producing animals. It treats coccidia infestations in different types of poultry, and is added to drinking water.

Investments

In the first half of 2017 the Krka Group allocated €52.6 million to investments, of which the controlling company invested €44.3 million and subsidiaries €8.3 million. Krka Group investments for the full year 2017 are expected to amount to just over €120 million, which is less than planned and less than last year. The estimated amount is the result of favourable prices negotiated with contractors and equipment suppliers. This amount does not include potential takeovers.

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. Its value is estimated at €54 million. Laboratories in the facility with a surface area of 18,000 m^2 will be ready for use this autumn and pharmaceutical development rooms by middle of 2018.

At the same location, Krka is expanding its multi-purpose warehouse for finished products, raw materials and packaging, increasing capacity to more than 90,000 pallet spaces. 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; its production had been launched in 2015. More than two years later, work is running smoothly and production capacity is increasing. To satisfy increasing market demand and facilitate the production of new products, Krka has started procuring additional technological equipment in 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. Pellets are small round particles containing an active substance, used to fill capsules or pressed into tablets. Additional production capacities will be ready this autumn.

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 include 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 there.

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 launch of production and the gradual transfer of technologies to the new technological equipment are ongoing. The investment is worth €34 million.

In the Terme Krka several smaller investments are carried out in all business units. Their total value is estimated just under €3 million.

Activities related to the acquisition of a company in China have continued, as announced to shareholders at the AGM. Krka expects to close the transaction by the end of the summer.

Employees

At the end of June the Krka Group had 10,842 employees. Krka's subsidiaries and representation offices outside Slovenia employ 54% of the Krka Group employees, and 56% of the entire Krka team have at least a university level degree. There were 1,346 temporary agency workers at the end of June, 132 more than at the end of 2016.

With different activities, the Krka Group promotes initiative and innovation, cooperation and team work, loyalty and commitment in employees. For decades they have been conferring token awards on employees of all Krka companies for staying with them 10, 20, 30, 35 and 40 years. This year, 781 recognition awards were conferred to employees who helped build the foundations of the Krka Group and who symbolise loyalty to Krka.

Every year they also select the best employees and managers, strengthening loyalty in employees and boosting a positive atmosphere. At the level of organisational units, 50 best employees and 18 best managers were singled out this year, and at the level of the entire Group, 10 best employees and 5 best managers.

This year Krka again conferred awards for inventive work, as employees' proposals make a relevant contribution to improving work processes and cutting costs. In the first half of 2017, 280 proposers had put forward 336 proposals.

This year Krka also organised Krka Family Day, which was attended by more than 2,200 employees, their life partners and children.

Share and investor information

In the first half of 2017 the price of Krka's share increased by 4% and stood at €55.00 at the end of June. Krka Company's market capitalisation amounted to €1.8 billion.

International investors increased their holdings in the reported period, while Slovenian individual investors, investment companies, funds and other Slovenian companies divested. At the end of June 2017, Krka had 52,906 shareholders.

In the first half of 2017 Krka repurchased 65,966 treasury shares worth a total of €3,503,040. As at 30 June 2017 Krka held 559,096 treasury shares, which represents 1.705% of its share capital.