



PRESS RELEASE

Krka presented its operating results for the first quarter of 2018

Novo mesto, 23 May 2018 – In the first quarter of 2018, the Krka Group sales totalled €338.3 million, an increase by 5% compared to the same period last year, resulting in €49.4 million of net profit, a 16% year-on-year increase. The Interim Report for the Krka Group and the Krka Company for the first quarter of 2018 was discussed by the Krka Supervisory Board at its yesterday's regular meeting.

Sales

In the first quarter of 2018, the Krka Group product and service sales amounted to €338.3 million, up €17.2 million or 5% more than in the same period last year. This has been Krka's highest sales figure for the first quarter of a year since the company was founded. Sales volume of the Krka Group was up 10%. Sales in markets outside Slovenia reached €316.5 million and accounted for 94% of Krka Group total sales. The Krka Company sold €329.3 million worth of products in the reported period or 5% more than in the same period last year.

Krka Group sales by Region

Region East Europe reached the highest sales figure in the Krka Group, i.e. €106.2 million or 31.4% of total Group sales. Compared to the same period last year, Krka's sales revenues went up by 4%. Sales in the Russian Federation totalled €74.5 million, up 1% compared to the same period last year. Sales also increased in most other markets in Eastern Europe and Central Asia.

Region Central Europe, which includes the Visegrad Group countries and the Baltic states (Lithuania, Latvia and Estonia), was the second largest region in terms of sales, its share accounting for €81.2 million or 24% of total Krka Group sales. Krka attained a 6% sales growth in the Region compared to the same period last year. In Poland, Krka's leading regional market, sales totalled €36.5 million, a 3% rise over the same period in 2017. Sales increased in all markets of the Region, except in Hungary, where slightly lower sales were recorded compared to the same period last year.

The third largest area in terms of sales was Region West Europe, generating sales in total of €74 million or 21.9% of total Krka Group sales. Compared to the same period last year, it grew by 3%. Sales were the strongest in Germany, France and Spain. Sales through Krka's subsidiaries went up by 5% compared to the same period last year and accounted for two thirds of Krka's total sales in the Region. Sales through unrelated parties were comparable to the figure from the first quarter last year.

Product sales in Region South-East Europe amounted to €44.2 million, up 14% compared to the same period last year, and accounted for 13.1% of total Krka Group sales. The Region's leading and key markets were Romania and Croatia, whereas the highest absolute sales growth figures were recorded in Croatia, Serbia and Bosnia and Herzegovina. Only Albania recorded lower sales than in the same period last year.

In Slovenia, Krka recorded €21.7 million or 6.4% of total Krka Group sales. Sales revenues increased by 3%. With a 9.1% market share, Krka has remained the leading provider of pharmaceuticals in Slovenia.

Product sales in Region Overseas Markets totalled €11million (1% increase), which represents a 3.2% of total Krka Group sales. Prescription pharmaceuticals, which are sold under own brand names in most markets in the Region, accounted for the major part of the sales total.

Krka Group sales by product and service group

Sales of Krka's prescription pharmaceuticals reached €279 million, up 6% compared to the same period last year, and accounted for 82.5% of total Krka Group sales. All regions saw an increase in sales, but the increment was

most significant in the following regions: South-East Europe (15%), Overseas Markets (11%), Central Europe (5%), and East Europe (5%).

Among the largest Krka's markets, sales went up the most in Poland (4%) and in the Russian Federation (1%). Compared to the same period last year, the sales in other major markets went up by: 37% in the Scandinavian countries, 25% in the Czech Republic, 17% in Croatia, 16% in Ukraine, 14% in Italy, 6% in Spain, and 3% in Romania.

The medium-sized markets recorded sales increases as follows: 85% UK, 34% Serbia, 30% Bosnia and Herzegovina, 26% Uzbekistan, 22% Bulgaria, 11% Lithuania, 10% Latvia, and 8% Macedonia. Among the small markets, sales of prescription pharmaceuticals recorded the steepest (i.e. more than double) growth in Montenegro and Finland. Growth rates were as follows in: Tajikistan (85%), Armenia (74%), Kyrgyzstan (62%), Mongolia (43%), Georgia (28%), and Belarus (22%). Also Azerbaijan and Kosovo recorded double-digit growth.

The ten leading prescription pharmaceuticals in terms of sales included medicines containing perindopril (Prenessa, Co-Prenessa, Amlessa, Co-Amlessa), valsartan (Valsacor, Valsacombi, Vamloset, Valarox), losartan (Lorista, Lorista H, Tenloris), atorvastatin (Atoris, Atordapin), pantoprazole (Nolpaza), rosuvastatin (Roswera, Rosudapin), enalapril (Enap, Enap H, Elernap), esomeprazole (Emanera), clopidogrel (Zyllt), and tramadol (Doreta, Tadol). These products may have different brand names in individual markets.

Compared to the same period last year, non-prescription product sales were up 11% to €34.2 million (10.1% of total Krka Group sales). The sales of animal health products were down 7% to €16.4 million, which is a 4.8% of total Krka Group sales. Health resort and tourist service sales totalled €8.0 million, a 6% year-on-year increase (2.4% share of total Krka Group sales).

Operating result

All performance results in the first quarter of 2018 improved over the same period last year. The Krka Group recorded €61.9 million of operating profit, a 51% rise compared to the same period last year. The Krka Group profit before tax amounted to €57.1 million, a 24% increase compared to the same period last year. Income tax totalled €7.7 million, and the effective tax rate was 13.5%. The Krka Group recorded net profit in total of €49.4 million, a 16% increase compared to the same period of 2017.

The Krka Group net profit margin for the first quarter of 2018 was 14.6% (the Company 15.8%), its EBIT margin 18.3% (the Company 19.2%), and its EBITDA margin 26.7% (the Company 25.7%).

ROE at the level of the Krka Group was 13.1% (the Company 13.7%), with ROA at 10.2% (the Company 11.2%).

Financial risk management

The Krka Group operates in diverse international markets and is exposed to foreign exchange risks in certain markets. Currency exposure arises from a surplus of assets over liabilities in a particular currency in the financial position statement of the Group.

Krka's key policy remains the aim to mitigate foreign currency risk exposure primarily by natural hedging. It also uses derivative financial instruments; however, only to a limited extent. Krka intends to continue its policy of partial hedging against the rouble-related risk in 2018. In the first quarter of 2018, no particularities were recorded in the currency exposure of the Krka Group to other currencies.

The value of the rouble expressed in euros dropped by 2.1% in the first quarter of 2018, but increased when expressed in the US dollars. A decrease in the value of the rouble expressed in euros was primarily caused by strengthening of the euro against the US dollar.

In consideration of net foreign exchange gains or losses, net proceeds or expenses relating to derivative financial instruments, interest rate gains or losses and other financial revenues and expenses, net financial result totalled €-4.8 million in the first quarter of 2018.

Research and development

In the first quarter of 2018, Krka obtained marketing authorisations for three new products in eight dosage forms and strengths. In the same period, 184 new marketing authorisations were obtained for 50 products in various markets.

Krka was granted marketing authorisations under the European decentralised procedures for Parnido (paliperidone) prolonged release tablets in three strengths. This medicine is an atypical antipsychotic and is taken only once daily. With this product, new technology, OROS, was introduced to Krka, which is based on release of an active ingredient from a tablet, produced with the help of a laser technology, by osmosis.

EMA gave a positive opinion for Pemetrexed Krka (pemetrexed) 100 mg and 500 mg powder for solution for infusion, so they continued to expand the range of Krka's medicines for the treatment of cancer. It is the medicine of choice for the treatment of patients with locally advanced or metastatic non-small cell lung cancer.

In the Russian Federation, Krka obtained the first marketing authorisation for a fixed-dose combination, Co-Vamloset (valsartan/amlodipine/hydrochlorothiazide) film coated tablets. The fixed-dose combination is used for managing blood pressure in patients with moderate to severe hypertension.

In Germany, Krka completed the decentralised procedure for Aripipan (aripiprazole) 20 mg tablets, used for treating diseases of the central nervous system. The broad range of strengths allows for tailoring the treatment to the needs of individual patients affected by complex diseases, for example schizophrenia.

Krka expanded marketing opportunities in the European markets with new marketing authorisations for its medicines. In Denmark, Sweden and Finland, marketing authorisations were obtained for an anti-infective for systemic use, Moxifloxacin Krka (moxifloxacin) solution for infusion, and in Iceland for Quetiapin Krka (quetiapine) prolonged release tablets, a medicine used for the treatment of diseases of the central nervous system.

Krka also obtained new marketing authorisations for a medicine for the treatment of the central nervous system, Zylaxera (aripiprazole) tablets, in Ukraine; and for antibiotics as follows: Azibiot (azithromycin) powder for oral suspension in Ukraine; Betaklav (amoxicillin/clavulanic acid) tablets and powder for oral suspension in Turkmenistan; Levaxela (levofloxacin) solution for infusion in Azerbaijan and Mongolia (in Mongolia also available as film-coated tablets); Moflaxa (moxifloxacin) solution for infusion in Azerbaijan; and Cefamezin (cefazolin) powder for solution for injection in Mongolia. A medicine for the treatment of HIV infections Emtricitabin/Tenofovir Krka (emtricitabine/tenofovir) film-coated tablets obtained new marketing authorisations in Kazakhstan.

In the markets of South-Eastern Europe, Krka increased the number of marketing authorisations for medicines from key therapeutic groups. Krka obtained new marketing authorisations for medicine used for the treatment of cardiovascular diseases, Rameam (ramipril/amlodipine) capsules in Serbia; a medicine used for treating erectile dysfunction, Tadorsyo (tadalafil) film-coated tablets in three strengths, in Serbia; and a nonsteroidal anti-inflammatory drug (NSAID) Etoxib (etoricoxib) in Bosnia and Herzegovina.

Krka obtained marketing authorisations for a non-prescription product Flebaven (diosmin/hesperidin) 500 mg tablets and 1,000 mg film-coated tablets in Bosnia and Herzegovina and Macedonia, and additionally extended marketing opportunities for Flebaven 450 mg/50 mg (diosmin/hesperidin) in Azerbaijan and Uzbekistan. In Macedonia and Hungary, Krka received a notification for Magnezij Krka 300/Magnezij B₂ Krka 300 (magnesium citrate). In Serbia, it obtained new marketing authorisations for Septotele Total lozenges (benzylamine chloride/cetylpyridinium chloride) with elder and lemon, and honey and lemon flavours.

Within the animal health product group, in the first quarter of 2018, Krka extended marketing opportunities for fixed-dose combination of fipronil and S-methoprene spot-on solution, which protects dogs, cats and ferrets from parasitic skin infections and infestations. Krka obtained marketing authorisations for the product under the decentralised procedure in the UK, Italy, Finland, Ireland, Portugal and Cyprus. In most countries, Krka obtained authorisations for marketing it as a non-prescription animal health product. Also in Serbia, it extended marketing authorisations for Dehinel (praziquantel/pyrantel embonate) film-coated tablets for cats. The fixed-dose combination is used for the treatment of gastrointestinal infestations in cats.

Krka increased the number of marketing authorisations among the medicines for the treatment of farm animals and strengthened the existing brands. In Moldova, it obtained a marketing authorisation under the national procedure for Toltarox (toltrazuril) oral solution, which is used to treat *Coccidia* spp. infestations in different types of poultry. In Azerbaijan, Krka obtained marketing authorisations for Amatib (amoxicillin) oral powder for treating

infections in pigs and poultry and Doxatib (doxycycline) powder for use in drinking water. It is the medicine of choice for the treatment of respiratory tract infections in pigs and chickens.

Investments

In the first quarter of 2018, the Krka Group allocated €19.3 million to investments, of that €16.3 million to the controlling company and €3.0 million to the subsidiaries. Investments were made primarily in increasing and updating the production, development and research capacities.

Krka's key investment is a product development and quality control facility, the Development and Control Centre 4 (RKC 4), at the production site in Novo mesto. The building has been placed in the vicinity of the other three similar laboratories for product development and control. Preparation works for the €54 million building started at the end of June 2015, and in the autumn 2016 the building was completed and glazed. Setting up of the laboratory rooms was finished in the summer 2017 and the facilities were handed over to the users. Additional furnishing of the rooms intended for development is in its final stage. In October 2017, Krka started building a multipurpose warehouse on the same site to ensure additional storage rooms 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, qualifications, equipment and system start-ups will take two years. The investment is estimated at €36 million.

Notol 2, the advanced facility for manufacturing solid dosage forms, which started running in 2015, is located in Ločna, Novo mesto. Krka has been acquiring additional technological equipment in order to meet the increasing market demand and manufacture new products. It plans to allocate €10 million for it this year. When the plant is fully equipped, it will be able to operate at its planned volume, i.e. 4.5 billion tablets, film-coated tablets and capsules per year. So far, Krka has invested €201.5 million in it.

The new investment in Krško provided capacities for technologies that require treatment with hydrogen and further increased capacities for the independent production of pharmaceutical ingredients. Construction of a €4.5 million hydrogenation plant, Hidrogeniranje 2, started in June 2017, and trial production at the beginning of 2018.

Krka is increasing production capacities for animal health products with biocidal effect in the Bršljin plant in Novo mesto. The investment is estimated at €4.6 million, and according to the plan the production on the new equipment is due at the end of 2018.

Krka-Rus 2 plant in Istra in the Russian Federation is among the most important investments in Krka's subsidiaries. The second stage of equipping the plant has been completed, which has cost Krka €22 million. All technological and production equipment has been installed and operates. Production capacity has been increased to two thirds of the planned final capacity, a total of 2.5 billion tablets and capsules a year. Krka expects to obtain all the required documents by the autumn 2018 to start constructing a water treatment plant. The investment is estimated at €2.6 million. In 2018, Krka plans to invest €1.8 million in increasing laboratory capacities. 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.

A €5.5 million investment in Krka's subsidiary, Farma GRS, is completed. Additional capacities were arranged for research and development at the Chemical development centre, and capacities increased for the small-scale production of pharmaceutical ingredients in line with the good manufacturing practice. The production started this February.

Several small investments are in progress in all business units of the subsidiary Terme Krka. In 2018, the subsidiary Terme Krka plans to allocate approximately €3 million to investments.

Krka established a joint venture Ningbo Krka Menovo with its long-term Chinese partner Menovo in the city of Ningbo. The initial share capital totalling €30 million has been allocated to finance development activities, land purchases and building production capacities. The newly established company engages in development, production and marketing of finished products. Its first job is to obtain as many marketing authorisations in China for products from Krka's portfolio as possible in two to three years, and then to manufacture them there. First sales results in China are expected in three years.

Employees

At the end of March 2018, the Krka Group employed 10,963 persons. Subsidiaries and representative offices abroad employed 52% of total Krka Group headcount. Of all Group employees, 55% hold at least a university level degree.

Krka offers scholarships and in this way guarantees a continuous influx of new employees. At the end of March 2018, there were 60 scholarship holders, primarily pharmacy and chemistry students. Scholarships are also granted to exceptional students from other fields of interest to Krka. A total of 137 Krka employees were also part-time students, of whom 43 were involved in specialisation or postgraduate studies. Krka supports them by partly funding the fees and granting them study leave.

Since its foundation, Krka has been supporting volunteers, who have now become an integral part of our organisational culture. Krka has been organising a charity campaign *Krka's Week of Charity and Volunteering* since 2012. Over the past seven years, more than 7,000 Krka volunteers have participated in the campaign. The employees share positive feelings and experience on the slogan *Charity is also a part of us*. This April, 1,100 Krka employees in Slovenia participated in various activities or 20% of all Krka and Terme Krka employees. In 2018, 10% of those who joined the campaign were first-time volunteers. For a day, colleagues from Krka's subsidiaries and representative offices in the Russian Federation, Poland, the Czech Republic, Hungary, Ukraine, Germany, Serbia, Turkmenistan, Spain, Romania, Macedonia, Kazakhstan, Azerbaijan, Belarus, Bosnia and Herzegovina, Mongolia and Croatia joined the campaign. Colleagues from Kosovo and Finland participated in the event for the first time. So far, Krka has extended its humanitarian campaign to 20 countries already.

In one week, 120 litres of blood were donated and almost 4 tonnes of clothing, toys, footwear, books, food and other necessities for adults and children collected, as well as 350 kg of pet food. The volunteers kept company to the elderly at 31 retirement homes, and to the wards and pupils at 10 occupational activity centres, schools with special curriculum, and other institutes and institutions across Slovenia. At the Ljubljana Zoo, they engaged in landscaping tasks. Krka rounded off the campaign by opening its doors to the visitors from the Slovenian Third Age University and employees of various humanitarian organisations and retirement homes, who Krka collaborates with during its campaign. Krka's central production site in Ločna, Novo mesto was visited by 2,000 people.

During the seven campaigns, more than 800 litres of blood, 23 tonnes of various necessity items and 3 tonnes of pet food were collected.

Investor and Share Information

In the first three months of 2018, the price of Krka's share declined by 0.9%, standing at €57.00 at the end of March. The Company's market capitalisation amounted to €1.869 billion.

At the end of March 2018, Krka had a total of 51,324 shareholders. The shareholding structure, where individual Slovene investors (natural persons) represent over 39% and international investors slightly less than 24%, is stable and without any major changes.

In the first quarter of 2018, Krka acquired 67,017 treasury shares totalling €3,871,222. On 31 March 2018, Krka held 758,734 treasury shares or 2.314% of the share capital.