



PRESS RELEASE

Krka's business performance in 2016

Novo mesto, 2 March 2017 – The Management Board of Krka, d. d., held a press conference today presenting to the public the unaudited performance results of the Krka Group and the Krka Company for 2016, 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 €1,174.4 million worth of products and services in the reported period. The volume of sales increased by 11%, and the value of sales by 1%. Unaudited Group net profit totalled €108.5 million. Krka Company sales amounted to €1,071.7 million, unaudited net profit totalling €102.9 million. Operating results agree with the forecast published by the Management Board in November 2016. Krka's 2016 annual report will be released on Thursday, 6 April 2017.

Sales

The Krka Group sold €1,174.4 million worth of products and services in 2016, up 1% from 2015, with sales volume having increased by 11%. Sales in markets outside Slovenia represented €1,089.3 million, which is 93% of total sales.

The Krka Company sales amounted to €1,071.7 million, down 1% compared to 2015.

Krka Group sales by Region

The largest sales region was East Europe, where sales totalled €332.3 million, which is 28.3% of overall sales and represents a year-on-year increase by 1%. Sales volume in this region was up 12%. The Russian Federation remains Krka's key and largest individual market; sales value there amounted to €225.9 million, up 1%. Sales were substantially influenced by the unfavourable exchange rate of the rouble because in 2016 rouble averaged more than 8% lower than in 2015. Sales value in roubles was up 13%, and the volume of sales increased by 11%.

The second largest region was Central Europe, where Krka generated 24.4% of overall sales. The volume of sales increased by 6% and sales value totalled €286.7 million, up 2% compared to 2015. Sales growth was recorded in all markets of the region, apart from Lithuania and Hungary. In Poland, the Region's key and largest market, product sales were €140.6 million, up 3%. Sales value denominated in the zloty and sales volume both increased by more than 7%.

The third region in terms of sales value was West Europe, where Krka generated 24.1% of overall sales. Sales revenues there totalled €282.4 million. The volume of sales was up almost one fifth compared to 2015; however, due to price cuts, sales value decreased by 8%. The highest sales were recorded in the markets of Germany, Spain and France. In Germany, Krka's most important Western European market, product sales totalled €92.6 million, a year-on-year increase by 8%; the volume of sales was up 42%.

In the markets of Region South-East Europe product sales in 2016 amounted to €152.4 million (13% of overall Krka Group sales), an increase by 9%, or €12.8 million, compared to 2015. This is the highest absolute sales growth rate among all Krka sales regions. Sales increased in all markets of the Region, apart from Bosnia and Herzegovina, and Montenegro. In Romania, the largest market in the Region and one of Krka key markets, product sales were €54.4 million, up 17% from 2015.

In Slovenia Krka sold €85.1 million worth of products and services (of which €33.7 million were health resort and tourist services), representing 7.2% of overall Group sales. The value of product sales was up 4%. With a 9.2% market share, Krka preserved the leading position among all pharmaceutical companies in Slovenia.

In Region Overseas Markets Krka sold €35.5 million of products in 2016 (3% of Group sales). Sales in this Region increased by 12% in relative terms, the most among all Krka sales regions.

Krka Group sales by product and service group

The most important group of products in terms of sales value remains prescription pharmaceuticals, which contributed €963.7 million or 82.1% of revenues in the reported period, down 1% from the previous year. The decrease was a result of lower sales due to major drops in the prices of pharmaceuticals in individual markets, and due to unfavourable exchange rates of certain currencies in Eastern and Central European markets. In terms of volume, sales increased by 11% from 2015.

Atoris (atorvastatin) remained the leading prescription pharmaceutical in terms of sales value in 2016. Also in the group of the leading ten prescription pharmaceuticals were Lorista (losartan), including in combination with a diuretic; Nolpaza (pantoprazole); Prenessa (perindopril), including in combination with a diuretic; Valsacor (valsartan), including in combination with a diuretic; Enap (enalapril), including in combination with a diuretic; Emanera (esomeprazole); Roswera (rosuvastatin); Zyllt (clopidogrel) and Karbis (candesartan), including in combination with a diuretic. Certain pharmaceuticals are marketed under different brand names in individual markets.

Non-prescription product sales amounted to €111.2 million (9.5% share in overall Krka Group sales), a year-on-year increase by 3% in terms of value, and the volume of sales was also up 3%. The sales of animal health products amounted to €62.8 million (5.3% share in overall Krka Group sales), up 20% from 2015. Sales volume increased by 24%.

The sales of health resort and tourist services were up 9% to €33.7 million, which is 2.9% of Krka Group sales. Other sales revenues amounted to €3.0 million (0.2% of Krka Group sales).

Operating result

The Krka Group recorded €122.4 million of operating profit in 2016. EBITDA was €228.2 million, down 26% from the previous year.

Profit before tax decreased by 36% compared to the previous year, to €116.3 million. The Krka Group effective tax rate was 6.7%.

The Krka Group recorded €108.5 million of net profit, down 31% compared to the previous year. The decrease was result of higher costs due to the more significant increase in production, major price erosions in most markets and the depreciation of certain Eastern and Central European currencies.

Research and development

In 2016 the Krka Group obtained marketing authorisations for 19 new products (16 prescription pharmaceuticals, one non-prescription product and two animal health products) in 41 pharmaceutical dosage forms and strengths. Applying different marketing authorisation procedures in different countries Krka obtained 546 new approvals for prescription pharmaceuticals, non-prescription products and animal health products.

Krka submitted patent applications for three inventions and two international patent applications on the basis of prioritised applications from 2015. They registered 84 trademarks in Slovenia, and submitted 38 international and 61 national trademark applications.

Krka has capabilities for product and technology development in traditional pharmaceutical manufacturing as well as in new technologies, in particular in the area of similar biological medicinal products. They have formed a group of experts in recombinant DNA technologies and products. The group co-creates the technology and product pipeline and carries out careful evaluations of more than ten products in various development phases at potential partners. In these evaluations, they give priority to the following therapeutic areas: diabetes, autoimmune disorders and oncology. Biotherapeutic products derived from recombinant DNA technology are closely scrutinised for risks associated with implementation of regulatory changes and market placement of products. This approach is relied on in making rational project investment decisions.

New prescription pharmaceuticals

- Ravalsyo/Valarox/Ravalsya (valsartan and rosuvastatin), a fixed-dose combination in the form of film-coated tablets in four strengths, containing the blood-pressure lowering valsartan and the cholesterol-lowering rosuvastatin;
- Teldipin/Telassmo (telmisartan and amlodipine), a fixed-dose combination in the form of tablets in four strengths, containing telmisartan, an angiotensin II antagonist, and amlodipine, a calcium-channel blocker, which lowers high blood pressure via two different mechanisms of action;
- Bixebra/Bravadin (ivabradine) in the form of film-coated tablets in two strengths is a product reducing the heart rate, its immediate and long-lasting effects on cardiac contractility resulting in long-term improvements of the cardiac function;
- a fixed-dose combination of ramipril and amlodipine in the form of hard capsules in four strengths, which is used to treat high blood pressure via the different mechanisms of action of its two substances;
- Atoris Kombi (atorvastatin and amlodipine), a fixed-dose combination in the form of film-coated tablets in two strengths, which contains two well-established active substances used to balance high blood pressure and cholesterol levels;
- Ramipril/Hidroklorotiazid Krka (ramipril and hydrochlorothiazide), a fixed-dose combination in the form of tablets in two strengths, which contains the ACE inhibitor ramipril and the diuretic hydrochlorothiazide;
- Bartal/Abrea (acetylsalicylic acid) gastro-resistant tablets in three strengths, used to reduce cardiovascular repeat events in patients with coronary artery disease;
- Lorista (losartan) film-coated tablets in a new strength, which makes the treatment of chronic heart failure easier for patients, as the maximum daily dosage can be reached with a single tablet;
- Emtricitabin/Dizoproksiltenofovirat Krka (emtricitabine and tenofovir disoproxil), a fixed-dose combination of two new substances from the group of nucleoside reverse transcriptase inhibitors, with which Krka has entered the new therapeutic area of treatments for HIV-infected patients;
- corticosteroid Dexamethason Krka (dexamethasone) in the form of tablets in four strengths, which has enabled a new approach to treating particularly oncology patients, as in certain conditions fewer dosages result in the optimum overall dosage of the medicine;
- antibiotic Moloxin/Moflaxa/Moxibiot (moxifloxacin) in the form of solution, which has a wide-spectrum antimicrobial mechanism of action and is used to treat pneumonia, dermal infections and soft tissue infections;
- oxazolidinone antibiotic Linezolid Krka (linezolid) in the form of solution for injection, which is used to treat severe pneumonia and severe infections of the skin and subcutaneous tissue;
- macrolide antibiotic Azibiot (azithromycin) in the form of powder for the preparation of oral suspension in two concentrations, intended for paediatric and geriatric use, namely for the treatment of infections of the upper and lower respiratory tract, infections of the skin and soft tissue, and certain genital infections;
- macrolide antibiotic Klaritromicin Krka (clarithromycin) in the form of film-coated tablets in two strengths, intended for the treatment of respiratory and dermal infections and infections of subcutaneous tissue, and for the elimination of the *Helicobacter pylori* bacterium;
- Roticox/Etoxib/Etorix/Itorox/Bericox (etoricoxib) in the form of film-coated tablets in four strengths, used to treat symptoms of degenerative and inflammatory rheumatism and for short-term treatment of moderate pain following dental surgery;
- Dutrys (dutasteride) soft capsules, a new addition in the range of Krka urology products, which is used independently and/or in combination with alpha-blockers to treat moderate to severe symptoms of benign prostatic hyperplasia (BHP), and to reduce the risk of a sudden blockage of urine and the need for surgical treatment in such patients.

As to products available without prescription, Krka obtained in Russia and Moldova a marketing authorisation for Flebaven film-coated tablets. This new product contains 500 mg of the purified flavonoid fraction, which equals 450 mg of diosmin and 50mg of flavonoids expressed as hesperidin. It is used to treat symptoms of chronic venous insufficiency, lymphedema and acute hemorrhoidal disease.

Krka also obtained marketing authorisations for two new animal health products. Under the European decentralised procedure marketing authorisations were granted in 19 European countries for Doxatib (doxycycline) in the form of powder for use in drinking water. It supplements the range of antimicrobial products for food-producing animals, and is the medicine of choice in the treatment of respiratory infections in pigs and chickens.

Under the decentralised procedure Krka obtained approvals for marketing in 22 countries for ear drops Otoxolan (marbofloxacin, clotrimazole and dexamethasone acetate) in the form of suspension, for dogs. Available in containers with droppers, the new fixed-dose combination of antimicrobial substances with a corticosteroid is used to treat outer ear bacterial and yeast infections in dogs.

Investments

In 2016 the Krka Group allocated €131.8 million to investments, of which the controlling company invested €80.7 million and subsidiaries, €51.1 million. Investments have primarily increased and modernised their production capacities, and research and development capacities.

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. It is being built in the immediate vicinity of the other three Development and Control Centres, and will connect to RKC 2 and RKC 3. Site preparation work for the €54 million RKC 4 had started in June 2015. Construction was completed, with the roof and all builders' joinery fitted, in the autumn of 2016. The connecting building between RKC 3 and RKC 4 has also been built. By spring 2017, installations in the building with the total surface area of 18,000 m² will be fitted to a level enabling the beginning of laboratory and technology equipment furnishings. The facility will be fully equipped and ready for use in the second half of 2017.

At the Krka central location in Ločna, Novo mesto, Slovenia, they have constructed a production plant for solid dosage pharmaceuticals, Notol 2. The €210 million investment has provided Krka with new capacities for implementing the vertically integrated business model. Its advantage is the high level of automation and computer support, especially the computer-controlled production and automated computer-controlled system of material flow.

Production had been launched in January 2015 and the facility officially opened in November 2015. More than two years in, work runs smoothly with production capacity continually increasing.

A little over 2 billion finished products were manufactured in Notol 2 by the end of 2016. To satisfy increasing market demand and set up the production of new products, Krka has started procuring technological equipment to complete the facility's furnishings and meet the target production volume of 4.5 billion tablets, film-coated tablets and capsules per year. All transfers of products to regular production have been quick and implemented with new technological equipment that had been qualified and verified in advance.

In 2016 Krka completed the €8 million investment into increasing the production of sprays in the Sterile Product Production Plant. Regular production on the new lines was launched in the autumn of 2016.

Also ongoing is the €11 million investment into increasing capacities for the coating of pellets in the Solid Dosage Forms Plant OTO. It will be completed by the end of June 2017.

The replacement of two high bay lifts in the Notol facility has stepped up the speed and reliability of its logistics system.

The new Hydrogenation Plant 2 in Krško, Slovenia, will facilitate the implementation of technologies that require hydrogenation, and will increase Krka's independent API production capacity.

One of the most important investments in Krka subsidiaries has been Krka-Rus 2 in Istra, the Russian Federation. The first phase had included building a new plant and logistics centre, while in 2015 they started fitting additional technical and logistics equipment. 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. Warehouse and logistics systems have reached full capacity after the remaining logistics equipment had been installed. The equipment additionally fitted by the end

of 2016 is worth just over €20 million. Approximately one half of all products intended for the Russian market is manufactured in Krka-Rus, which gives Krka the status of a domestic producer in that country.

Due to the expansion of our production programme in the Jastrebarsko distribution and production centre in Croatia, Krka is converting the warehousing and distribution segment of the facility to acquire new production and laboratory capacities for solid dosage oncological pharmaceuticals. Equipment installation and assembly had been ongoing through to the end of 2016. The launch of production and the gradual transfer of technologies to the new technological equipment are planned for the second quarter of 2017. The investment is estimated at €34 million.

In the German subsidiary TAD Pharma, they completed refurbishment of air-conditioning systems in production rooms and laboratories.

Employees

At the end of 2016 the Krka Group had 10,889 employees, of which 4,955 (45.5%) worked in Slovenia and 5,934 (54.5%) abroad. From 2015, the number of employees increased by 325 (3%), with 277 hired abroad and 48 in Slovenia.

Krka Group staff with a university level education or higher represent 57% of the entire team, which is 6,159 employees; 169 of them have a doctoral degree and 396 have master's degrees or have completed postgraduate specialisations.

Share and investor information

On the final trading day in 2016 the Krka share traded at €52.90 on the Ljubljana Stock Exchange. This is a decline by 19% from the year-end of 2015 when it traded at €65.20. In the same period the Slovene blue-chip index SBI TOP increased by 3%. Krka Company market capitalisation totalled €1.73 billion at the end of last year.

The Krka share is the most traded security on the Ljubljana Stock Exchange. The average daily trading volume in the Krka share on the Ljubljana Stock Exchange in 2016 was €0.4 million. In 2016 the Krka Company repurchased 166,853 treasury shares on the regulated market, worth a total of €9,618,914, and thus held 493,130 treasury shares as at 31 December 2016.

Plans for 2017

Krka Group sales are planned to total €1.220 billion in 2017, with profit expected to exceed the profit reported for 2016.

They maintained main business guidelines, such as vertical integration, predominant organic growth, maintaining high share of sales from new products and volume sales increase. They will strive to complete their product offerings in their key therapeutic groups such as medicines for the cardiovascular system, alimentary tract & metabolism and central nervous system. The competitive advantage of the product portfolio, especially for medicines for cardiovascular system and analgesics, will be strengthened with fixed dose combinations that represent an attractive market niche. They will continue to supplement their product portfolio with oncology medicines that will be supported by new production capacities in Croatia.

Improvement of profitability will be achieved with further sales growth, improved product mix and costs reduction. They should achieve growth with both existing and newly-launched products. Special cost savings team is preparing innovative cost reduction initiatives. Compared to traditional cost reducing measures they have been implementing for years, these new approaches are affecting certain corporate standards in R&D, manufacturing and IT as well as cooperation with suppliers of goods and services.

They have earmarked approximately €174 million for investment projects, primarily aimed at increasing and modernising production capacities and development infrastructure. In addition to organic growth, they will intensify activities in the area of acquisitions and joint ventures in 2017.

They will increase the number of employees both in Slovenia and abroad, together by 4%, with the total number of employees planned to exceed 11,400.

The Management Board will remain committed to their strategic orientation of increasing dividend payments in 2017.