



PRESS RELEASE

Krka Presents January–September 2019 Operating Results

Novo mesto, 21 November 2019 – In the first nine months of 2019, the Krka Group sales totalled €1,090.7 million, a 12% increase over the same period last year, yielding net profit of €171.9 million, up 42% from same period last year. The Supervisory Board of Krka discussed the January–September 2019 interim report for the Krka Group and Krka at its regular meeting yesterday.

Sales

In the period January–September 2019, the Krka Group product sales generated €1,090.7 million, of which revenue from contracts with customers on sales of products and services amounted to € 1,087.6 million. Revenue from contracts with customers on sales of materials and other sales revenue constituted the difference. Sales increased by €119.2 million and were 12% higher than in the same period last year. Sales growth was recorded in all sales regions and most individual markets. Sales also increased in all product and service groups.

Product and Service Sales by Region

The most successful sales region of the Krka Group was Region East Europe, which generated €339.7 million or 31.2% of total Krka Group sales. Year-on-year, sales grew by 18%. Product sales in the Russian Federation totalled €218.2 million, a 15% increase compared to the same period last year. In Ukraine, product sales added up to €54.5 million, an upsurge of 43%. We recorded double-digit growth rates in most markets of the region.

Region Central Europe, comprising the Visegrad Group and the Baltic states, followed with €252 million or 23.2% of total Krka Group sales. Year-on-year, sales grew by 5%. Poland, the leading market, generated sales total of €119.2 million and recorded 6% growth. Sales also went up in Hungary, Slovakia, Lithuania, Latvia, and Estonia.

Region West Europe was the third largest region in terms of sales, accounting for €243.1 million or 22.4% of total Krka Group sales. Year-on-year, the growth was 16%. Sales were the strongest in Germany, the Scandinavian countries, and Spain. Sales of our own product brands through subsidiaries increased by 23% and accounted for 75% of total sales of the region. The Scandinavian countries, Spain, the United Kingdom, and Benelux recorded highest sales increases.

Product sales in Region South-East Europe amounted to €145.6 million, 10% more than in the same period last year, accounting for 13.4% of total Krka Group sales. Romania and Croatia were our two leading markets. The highest growth rates were recorded in Bulgaria and Serbia.

In Slovenia, sales made €69.9 million, accounting for 6.4% of total Krka Group sales. The growth rate was 5%. The largest portion of total sales was generated by product sales with €40 million. Health resorts and tourist services yielded €29.9 million.

Product sales in Region Overseas Markets totalled €37.3 million, achieving 14% growth and 3.4% share of total Krka Group sales.

Sales by Product and Services Group

The Krka Group sales of prescription pharmaceuticals totalled €914.9 million, 14% more than in the same period last year, accounting for 84.1% of total Krka Group sales. All regions saw higher sales: Region East Europe 22%, Region West Europe 18%, Region Overseas Markets 15%, Region South-East Europe 11%, Region Central Europe 5%, and Region Slovenia 2%.

Sales went up in our three largest markets: the Russian Federation (19%), Germany (8%), and Poland (6%). Compared to the same period last year, other major markets presented stronger sales as follows: the Scandinavian countries 66%, Ukraine 51%, Spain 20%, Hungary 14%, Italy 12%, and Romania 11%.

Medium-sized markets recorded sales growth as follows: Lithuania 33%, Bulgaria 26%, Serbia 19%, Bosnia and Herzegovina 15%, Uzbekistan 14%, the United Kingdom 13%, and Portugal 13%. Of small markets, Krka prescription pharmaceuticals presented the steepest growth in: Benelux 57%, Belarus 37%, Kyrgyzstan 33%, Turkmenistan 33%, Moldova 21%, Tajikistan 21%, and Armenia 17%.

Ten leading prescription pharmaceuticals in terms of sales were product groups containing:

- valsartan (Valsacor, Valsacombi, Vamloset, Co-Vamloset, Valarox);
- perindopril (Prenessa, Co-Prenessa, Amlessa, Co-Amlessa);
- losartan (Lorista, Lorista H, Lorista HD, Tenloris);
- atorvastatin (Atoris);
- pantoprazole (Nolpaza);
- rosuvastatin (Roswera, Co-Roswera);
- esomeprazole (Emanera);
- enalapril (Enap, Enap H, Enap HL, Elernap);
- clopidogrel (Zyllt); and
- tramadol (Doreta, Tadol).

All pharmaceuticals mentioned above are marketed under different brand names in individual markets.

Year-on-year sales of non-prescription products advanced by 5%, generating €91.7 million (8.4% of total Group sales). Sales of animal health products grew by 1% and totalled €51.1 million (4.7% of total Group sales). Health resorts and tourist services yielded €29.9 million, a 6% year-on-year increase (2.8% of total Group sales).

Operating Results

The Krka Group recorded €191.6 million of operating profit, a 17% year-on-year increase. Profit before tax amounted to €201.5 million, up 41% compared to the same period last year. Income tax totalled €29.6 million, and the effective tax rate was 14.7%. The Krka Group recorded net profit of €171.9 million, a 42% year-on-year increase.

Net profit margin of the Group was 15.8%, its EBIT margin 17.6%, and EBITDA margin 25.1%.

At the Group level, annualised ROE was 14.5% and annualised ROA 11.1%.

Research and Development

In the first nine months of 2019, we received marketing authorisations for 13 new products in 30 dosage forms and strengths. These included:

- i) prescription pharmaceuticals – a triple combination perindopril/amlodipine/rosuvastatin, nebivolol, Dasatinib Krka (dasatinib), Atazanavir Krka (atazanavir), Tadusta (dutasteride/tamsulosin), Sidarsa/Silbesan (silodosin), cinacalcet, and Paracetamol Krka 1000;
- ii) non-prescription products – Vitamin D3 Krka (cholecalciferol), Herbion Ivy (ivy leaf dry extract), and KontrDiar (nifuroxazide); and
- iii) animal health products Awazom (amoxicillin) and Milprazon Chewable/Milpragold/Aderexa/Amcofen Sabor/Milprazon Plus/Mektix/Milgusto Chewable (milbemycin oxime/praziquantel).

The range of cardiovascular medicines was extended by two new pharmaceuticals. We obtained marketing authorisations under the European decentralised procedure for our new combination, perindopril/amlodipine/rosuvastatin film-coated tablets in six strengths for lowering increased blood pressure and cholesterol levels. It is indicated as substitution therapy for the treatment of adult patients already controlled with rosuvastatin and perindopril/amlodipine, given concurrently at the same dose level as in the combination.

We also introduced our new pharmaceutical, nebivolol tablets, for the treatment of hypertension in adults. The medicine can also be used for the treatment of a stable mild and moderate chronic heart failure in addition to standard therapies in elderly patients 70 years of age and older.

We also obtained marketing authorisations for our new oncology pharmaceutical, Dasatinib Krka (dasatinib) film-coated tablets in six strengths. Dasatinib is used to treat Philadelphia chromosome-positive acute lymphoblastic leukemia (Ph+ ALL) in adults, adolescents, and children aged one year and older.

Our new antiviral prescription pharmaceutical Atazanavir Krka (atazanavir) hard capsules available in three strengths is indicated for the treatment of human immunodeficiency virus (HIV) infection, as it reduces the viral load in a body and the chances of developing the disease. It is taken once daily. Adults and children above 6 years of age use it concomitantly with other medicines. We obtained marketing authorisations under the centralised procedure in the European countries.

We introduced two new pharmaceuticals used for treating the symptoms of an enlarged prostate. A fixed-dose combination Tadusta (dutasteride/tamsulosin) in hard capsules is used to treat moderate to severe symptoms of benign prostatic hyperplasia. It reduces the chance of developing acute urinary retention and the chance that prostate surgery will be needed.

Sidarso/Silbesan (silodosin) hard capsules in two strengths are indicated to treat symptoms of benign prostatic hyperplasia. The medicine is taken once daily and does not cause adverse cardiovascular reactions, so it can also be used in the elderly and in patients with cardiovascular diseases.

We obtained marketing authorisations under the European decentralised procedure for cinacalcet film-coated tablets in three strengths. The medicine regulates levels of parathyroid hormone, calcium, and phosphorus in the body. It is used for the treatment of secondary hyperparathyroidism in patients with kidney disease on dialysis therapy and for reducing high blood calcium levels in patients with cancer of the parathyroid glands or with primary hyperparathyroidism.

We extended our range of medicines for pain relief by a new strength of the established medicine, Paracetamol Krka 1000 (paracetamol) 1 000 mg tablets. It is indicated for the symptomatic treatment of mild to moderate pain and fever in adults and children weighing more than 50 kg.

In the European countries, we obtained marketing authorisations for our new non-prescription product Vitamin D3 Krka (cholecalciferol) tablets in two strengths. It contains bioactive form of vitamin D and is indicated for the prevention of vitamin D deficiency in adults, adolescents and children aged 6 years or more, for the treatment of vitamin D deficiency in adults and adolescents, and as adjunctive therapy in specific treatment of osteoporosis in adults. It does not contain gluten, gelatine, sweeteners or sugar, and can be taken by patients with diabetes.

We obtained marketing authorisation under the European decentralised procedure for Herbion Ivy (ivy leaf dry extract) lozenges. The product thins the mucus in the respiratory tract and facilitates expectoration in wet cough. It is intended for adults and children aged 6 years and older.

In the Russian Federation, we initiated our new medicine, KontrDiar (nifuroxazide) oral suspension. It is used for treating acute diarrhoea of bacterial origin without complications. An oral syringe is supplied with the medicine for precise measuring of doses, also for children one month of age and older.

We expanded our portfolio of animal health products for farm animals. We obtained marketing authorisations under the European decentralised procedure for our new product Awazom (amoxicillin) powder for use in drinking water. The medicine is indicated for the treatment of bacterial infections in poultry, ducks, and turkeys.

In the EU countries, we completed the registration procedure for our new broad-spectrum wormer, Milprazon Chewable/Milpragold/Aderexa/Amcofen Sabor/Milprazon Plus/Mektix/Milgusto Chewable (milbemycin oxime/praziquantel) film-coated tablets for the treatment of mixed infections in cats. Naturally flavoured tablets are palatable and therefore easy to apply.

Investments

From January to September 2019, the Krka Group allocated €81.1 million to investments, of that €66.3 million to the controlling company. Our investments were aimed at increasing and technologically upgrading production and development, and providing quality assurance. We also invested in our own production and distribution centres around the world.

At the beginning of October 2019, an opening ceremony was held for the product development and quality control facility, Razvojno-kontrolni center 4. The €55.6 million investment allowed us to almost double our R&D and

analytical capacities for quality assurance. Another important phase in the technological development of Krka was completed, providing for coordinated operations of research-and-development and production-and-control, essential advantages of our vertically integrated business model.

At the end of 2017, Krka started building a multipurpose warehouse at the same site to ensure additional storage room for incoming materials and finished products. This will increase the speed and flexibility of production and improve product availability and market supply. The transport system and warehouse will become operational in January 2020. The entire investment is estimated at €36 million.

Notol 2, the state-of-the-art facility for manufacturing solid dosage forms, is also in Ločna, Novo mesto. The increasing demand for additional production capacities has incited us to acquire extra technological equipment. This year, we started equipping the new packaging facility, where we intend to install seven highly automated and robotised packaging lines. In the coming two years, we plan to purchase and start up another seven lines. The investment is estimated at €41 million. We plan to move in the small-scale equipment and install the large-scale production equipment by 2021, when the plant will be able to work at its projected manufacturing capacity of 5 billion tablets per year.

We increased manufacturing capacities for animal health products with biocidal effect in our Bršljin plant in Novo mesto. The investment totalled €4.2 million.

By purchasing an inspection machine, we increased the capacities for production of lozenges in the Ljutomer plant. We are also upgrading systems and machines in one part of the production plant. The investments are estimated at €2 million.

In Krško, construction of a new warehouse started in June. The facility will provide warehousing of raw materials for chemical and pharmaceutical production in compliance with the guidelines of the *Technical Rules for Hazardous Substances* (TRGS). Completion of the €8.2 million building is planned for July 2020.

In February 2019, the European Union introduced new rules regarding the protection of public health by preventing the entry of falsified medicinal products into the pharmaceutical supply chain. In compliance with the Directive, we introduced obligatory safety features on the outer packaging of medicines, which prevent falsified medicines from reaching patients; we also performed numerous upgrades of technological equipment and production procedures. Over the past three years, we allocated approximately €20 million for the new equipment and technology. Safety measures required by Russian legislation as of 2020 are also part of this investment.

We constructed a new office building in Ljubljana, which was officially opened in mid-September. Our investment amounted to €12 million.

One of the most important investments in Krka subsidiaries abroad is investment in the Krka-Rus plant in the industrial zone of the town of Istra, north-west of Moscow, where we manufacture just over 2 billion tablets or 72% of products that Krka currently sells in the Russian Federation. With investments in the next three years, we will increase the plant capacities to its maximum, i.e. 3.5 billion tablets annually. We have the status of a domestic producer in the Russian Federation.

The €1.7 million investment project in production of solid forms of animal health products at the production-and-distribution centre of Krka in Jastrebarsko, Croatia, has entered its final stage. We invested a total of €0.5 million in optimisation of production equipment in our subsidiary TAD Pharma, Germany, and €0.6 million in Krka - Polska, Poland.

Several small investments are in progress in business units of the subsidiary Terme Krka.

At the end of 2017, we established a joint venture Ningbo Krka Menovo with a local partner Menovo in the city of Ningbo, China. We obtained an EU GMP certificate for the leased production facilities. Commercial manufacture of the first product intended for markets outside China started at the end of 2018, when we also filed all marketing authorisation documents required for its sales on the Chinese market. In 2019, we have started filing registration documents for another five marketing authorisations for our products in China.

Employees

At the end of September 2019, the Krka Group had 11,481 employees, of that 5,683 abroad, which accounts for just over 49% of the total Krka Group headcount. The proportion of Krka Group employees with at least

university-level qualifications was 53%. This includes 195 employees with a doctoral degree. Together with agency workers, the Krka Group had 12,625 persons on payroll or 143 more than at the end of 2018.

We ensure recruitment of new employees by awarding scholarships. At the end of September, there were 88 Krka scholarship holders, primarily pharmacy and chemistry students. We also grant scholarships to exceptional students from other fields of interest for Krka. We awarded 48 new scholarships this year. A total of 169 employees were enrolled in part-time study programmes co-funded by Krka, 56 were postgraduate students. We support them by partly funding fees and granting them study leave.

Krka is also included in the national vocational qualification (NVQ) system. Since 2002, we have awarded 1,353 NVQ certificates to Krka employees and 142 to participants from other organisations in the pharmaceutical industry, i.e. a total of 1,495 certificates for four vocational qualifications. At the end of September, 139 Krka employees were included in the process of obtaining NVQ.

Shares and Investors

In the first nine months of 2019, the price of Krka share on the Ljubljana Stock Exchange rose by 8%, standing at €62.40 at the end of September. Market capitalisation of the Company amounted to €2.0 billion.

At the end of September 2019, Krka had a total of 49,136 shareholders. The shareholding structure with 38.8% of individual Slovenian investors (natural persons) and 22.9% of international investors is stable and without any major changes.

In the first three quarters of 2019, Krka acquired 209,991 treasury shares. As at 30 September 2019, Krka held 1,103,438 treasury shares, accounting for 3.365% of share capital.

2019 Krka Group Performance Estimate

Annual sales of products and services are projected to exceed the plans and are estimated at €1,430 million. The projected 2019 sales growth estimate is more than 7%.

Sales outside Slovenia are expected to account for 94% of total sales.

Region East Europe is expected to be the largest sales region. The Russian Federation is expected to remain the largest individual market. Region Central Europe with Poland as the second largest individual market of the Krka Group is expected to record second strongest sales. The third largest region in terms of sales is expected to be Region West Europe with the third largest individual market – Germany. Regions South-East Europe, Slovenia, and Overseas Markets are expected to follow.

Prescription pharmaceuticals are expected to remain the most important product group, comprising 83% of total sales.

Net profit will be above the plans and is estimated at just over €200 million.

We plan to allocate €114 million to investments in our own development, production, and infrastructure facilities. The figure is below the initial plan due to technical and commercial optimisation. All planned investments will be completed.

At the end of 2019, the Krka Group is expected to have more than 12,000 regular employees in total, half of them abroad.

2020 Krka Group Plans

According to the 2020 plan, the Krka Group sales are projected at €1.520 billion and profit at just over €210 million. Krka intends to allocate €134 million for investment projects to increase and modernise production capacities and infrastructure. We plan to increase the number of employees in Slovenia and abroad by 3%. At the end of 2020, the total number of regular employees is projected to exceed 12,300.

The 2020 operations plan derives from the Krka Group development strategy 2020–2024. It is based on estimates, assessments, projections, and other available data at disposal to the Management Board. The Management Board believe the projections are reasonable. Should the business conditions in 2020 differ significantly from the projections, operating results may also be different from the plan.

Krka Group Development Strategy 2020–2024

The Supervisory Board approved the Krka Group development strategy for the 2020–2024 period. In the upcoming five-year strategic period, the average annual sales growth in terms of volume/value is projected at 5% at minimum.

The strategy keeps all the key elements, objectives, and guidelines from the strategy revised two years ago for the 2018–2022 period. Even more emphasis is put on the care for the quality of products and all business processes, supply, further digitalisation and automation of all business processes, and investments in China.

In the coming years, we intend to continue making wise investments in our own development, production, and infrastructure facilities, and allocate to that an average of almost €136 million annually. Three quarters of investments will be allocated for capacities for the production of active ingredients and finished products. In addition to organic growth, we also wish to ensure growth through long-term business partnerships (including joint ventures) and acquisitions, when interesting target companies become available. The primary goals are to secure new products and/or markets.

In addition to the existing range of products, also referred to as ‘the golden standard’, we plan to maintain the largest possible proportion of new products and vertically integrated products in total sales. We intend to continue to launch products on selected markets as one of the first generic pharmaceutical companies. We aim to strengthen the pharmaceutical and chemical sector and increase the range of medicines in the key therapeutic classes of prescription pharmaceuticals (medicines for the treatment of cardiovascular diseases, the alimentary tract, the central nervous system, and pain relief) as well as in other therapeutic areas (medicines for the treatment of diabetes, medicines for antiaggregant therapy, oncology medicines, and medicines for the treatment of diseases of the urinary tract) while entering new therapeutic areas. We intend to introduce innovative products in key therapeutic areas (innovative combinations of two or three active ingredients, new strengths and pharmaceutical forms, and delivery systems). We aim to strengthen the range of non-prescription products and animal health products, primarily products for companion animals, in selected therapeutic areas.

We intend to enter the area of similar biological medicines and complex peptides, primarily in the field of medicines for the treatment of diabetes and autoimmune disorders. We will increase outsourcing of production and development of certain active ingredients and finished products to our partners and strengthen all types of connections with external institutions and companies in the field of development and other fields. The proportion of expenditure for research and development is planned at up to 10% of sales revenue.

Through an efficient and optimised development-and-production chain, we plan to provide for sufficient quantities of manufactured products in accordance with the required quality, safety, and efficiency standards in a timely manner in line with target sales growth and market needs. We will keep the focus on maximising the long-term profitability of the products sold from development and production to the sales of finished products, including all other functions within the Krka Group. Projected EBITDA margin averages between 21% and 25% and the projected ROE between 9% and 12%.

We will focus primarily on European markets, central Asian markets and Chinese market, striving to maximise the sales potential of all sales regions. We intend to strengthen professional and cost synergies within the Krka Group and maximise the utilisation of competitive advantages in the business environments of Krka’s subsidiaries abroad.

We will pursue a stable dividend policy and also consider the Group’s financial requirements for investments and acquisitions when determining the dividend payout each year, and we will allocate at least 50% of net profit of major shareholders for dividends.