

PRESS RELEASE

Krka Reports Business Results for the First Nine Months Ended 30 September 2020

In the first three quarters of 2020, the Krka Group generated sales of €1,160.2 million, a 6% increase compared to the first three quarters last year, yielding €210.1 million of net profit, up 22% year on year. At its regular meeting yesterday, the Supervisory Board of Krka discussed the Krka Group and Krka interim reports for the first nine months ended 30 September 2020.

The President of the Management Board and Chief Executive Jože Colarič explained: *'In the period from January to September 2020, the Krka Group performed successfully and achieved record business results, on the back of a good product mix composed of high-quality medicines, especially established prescription pharmaceuticals for chronic therapies, which we uninterruptedly supplied to many markets despite challenges related to the coronavirus pandemic. We adjusted certain business processes and moved to greater use of e-communication tools. The coronavirus impact could be summed up as follows: a sharp increase in the demand and therefore soaring sales in the first quarter were followed by a drop in the demand in the second quarter of the year. In the third quarter, the impact of the pandemic on sales decreased and sales returned to planned levels. Business results in the third quarter were affected by fluctuations of individual currencies, in particular the Russian rouble. Sound financial condition, a wide portfolio of high-quality pharmaceutical products, uninterrupted production and supply, and innovative approaches in all areas of work have helped us attain our strategic goals. According to our estimates, we will end the year 2020 successfully, generating €1.52 billion in sales and approximately €260 million in profit. We plan sales at €1.535 billion and profit at approximately €265 million in 2021.'*

Financial Highlights

€ thousand	Krka Group			Company		
	Jan–Sept 2020	Jan–Sept 2019	Change	Jan–Sept 2020	Jan–Sept 2019	Change
Revenue	1,160,179	1,090,721	+6%	1,112,896	1,005,081	+11%
– Of that revenue from contracts with customers on products and services	1,156,565	1,087,570	+6%	933,725	862,897	+8%
Gross profit	701,558	616,163	+14%	638,107	571,401	+12%
EBITDA	384,555	274,233	+40%	343,873	247,380	+39%
Operating profit (EBIT)	300,755	191,580	+57%	281,201	186,363	+51%
Net profit	210,145	171,930	+22%	197,268	174,830	+13%
R&D expenses	112,067	110,839	+1%	110,986	113,850	-3%
Investments	53,831	81,143	-34%	39,895	66,338	-40%
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Gross profit margin	60.5%	56.5%		57.3%	56.9%	
EBITDA margin	33.1%	25.1%		30.9%	24.6%	
EBIT margin	25.9%	17.6%		25.3%	18.5%	
Return on sales (ROS)	18.1%	15.8%		17.7%	17.4%	
Return on equity (ROE)	16.7%	14.5%		15.6%	14.7%	
Return on assets (ROA)	12.9%	11.1%		12.3%	11.8%	
Liabilities/Equity	0.289	0.319		0.255	0.269	
R&D expenses/Revenue	9.7%	10.2%		10.0%	11.3%	

We generated 94% of total Krka Group sales in markets outside Slovenia. Our largest individual market was the Russian Federation, where sales reached €240.3 million and 10% growth. Next two largest markets were Poland with sales total of €123.9 million and 4% growth, and Germany with sales total of €73.1 million and 32% growth. Prescription pharmaceuticals represented the most important part of Krka Group sales, with cardiovascular medicines accounting for the largest share. From January to September 2020, we were granted marketing authorisations for eight new finished products in 21 pharmaceutical forms and strengths. We obtained new marketing authorisations for Krka products in more than 60 countries from all our regions.

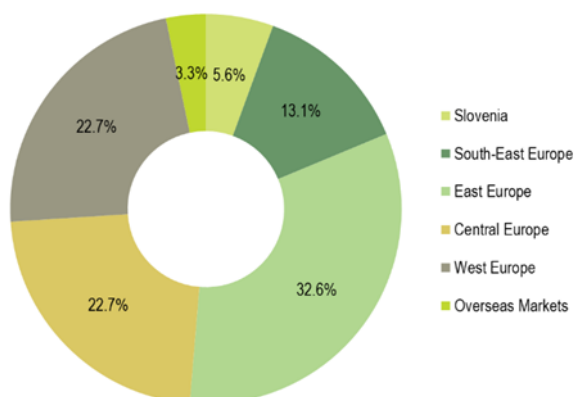
The Krka Group increased revenue by 6% and improved profitability in the period from January to September 2020 as well. Gross profit achieved a good 60% of revenue. EBITDA increased by 40% compared to the first three quarters of 2019, while EBITDA margin reached 33%. There was no major negative impact on operations and financial result, except for the depreciation of foreign currencies. We allocated just shy of 10% of revenue to research and development. The coronavirus pandemic affected our investments, which were below the plan and amounted to €53.8 million. In the first three quarters of 2020, the company allocated a good €20 million to treasury share purchasing and €133 million for dividends.

Sales

From January to September 2020, the Krka Group generated €1,160.2 million revenue, of which revenue from contracts with customers on sales of products and services amounted to €1,156.6 million. Revenue from contracts with customers on sales of materials and other sales revenue constituted the difference. Revenue increased by €69.5 million or 6% on the comparable period last year.

Sales by Regions

€ thousand	Krka Group		
	Jan–Sept 2020	Jan–Sept 2019	Index
Slovenia	64,554	69,914	92
South-East Europe	151,813	145,558	104
East Europe	377,183	339,676	111
Central Europe	262,003	251,988	104
West Europe	263,030	243,091	108
Overseas Markets	37,982	37,343	102
Total	1,156,565	1,087,570	106



Region East Europe generated €377.2 million or 32.6% of total sales and was the best-performing region of the Krka Group in terms of sales. Year on year, sales grew by 11%. Product sales in the Russian Federation totalled €240.3 million, a 10% year-on-year increase. In Ukraine, product sales added up to €59.7 million, likewise a 10% rise. In relative terms, growth was most substantial in Georgia, Tajikistan, Kyrgyzstan, and Belarus.

Region West Europe followed, generating sales in total of €263 million or 22.7% of total Krka Group sales. Year on year, growth was 8%. Sales were the strongest in Germany, the Scandinavian countries, and Spain. We recorded the highest absolute sales growth in Germany and relative in the Benelux countries.

Region Central Europe, composed of the Visegrad group and the Baltic States, was the third largest region, adding €262 million or 22.7% to total Krka Group sales. Year on year, growth was 4%. Poland, the leading

market, generated €123.9 million in product sales and recorded 4% growth. We increased sales also in other regional markets, except in Hungary and Slovakia, where sales presented a slight drop.

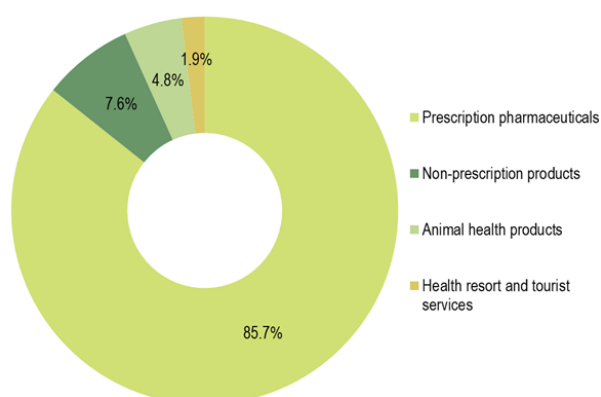
Product sales in Region South-East Europe amounted to €151.8 million, 4% more than in the same period last year, accounting for 13.1% of total Krka Group sales. We recorded growth in all regional markets except in Croatia, where sales levelled off at the last year's figure. Romania and Croatia added to sales total the most.

In Slovenia, sales reached €64.6 million, accounting for 5.6% of total Krka Group sales. Product sales of €42.2 million accounted for the major share of sales total and presented a 6% year-on-year increase, while sales of tourist and health resort services yielded €22.3 million.

Region Overseas Markets generated product sales of €38.0 million (up 2%), constituting a 3.3% share of total Krka Group sales.

Sales by Product and Service Groups

€ thousand	Krka Group		
	Jan–Sept 2020	Jan–Sept 2019	Index
Human health medicines	1,078,414	1,006,584	107
– Prescription pharmaceuticals	990,864	914,865	108
– Non-prescription products	87,550	91,719	95
Animal Health Products	55,819	51,056	109
Health Resorts and Tourist Services	22,332	29,930	75
Total	1,156,565	1,087,570	106



The Krka Group sales of prescription pharmaceuticals totalled €990.9 million, 8% more than in the same period last year, accounting for 85.7% of total Krka Group sales. Sales increased as follows:

- Region East Europe by 14%;
- Region West Europe by 9%; and
- Region Central Europe, Region South-East Europe; and Region Slovenia by 4% each.

Sales growth was recorded on our three largest markets: Germany 34%, the Russian Federation 14%, and Poland 4%. Year on year, other major markets recorded sales growth in prescription

pharmaceuticals as follows: Ukraine 12%; Italy 10%; Slovenia 4%; the Czech Republic and Romania 3% each.

Medium-sized markets recorded sales growth in prescription pharmaceuticals as follows: Benelux 41%; France 28%; Austria 23%; Belarus 21%; Latvia 20%; Uzbekistan 15%; and Lithuania 11%.

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, Roxiper, Roxampex);
- losartan (Lorista, Lorista H, Lorista HD, Tenloris);
- atorvastatin (Atoris);
- pantoprazole (Nolpaza);
- rosuvastatin (Roswera, Co-Roswera);
- esomeprazole (Emanera);
- enalapril (Enap, Enap H, Enap HL, Elernap);
- candesartan (Karbisi, Karbicombi, Kandoset); and
- tramadol (Doreta, Tadol).

Products are marketed under different brand names in individual markets.

Year-on-year sales of non-prescription products declined by 5% and generated €87.5 million (7.6% of total sales). Sales of animal health products grew by 9% and totalled €55.8 million (4.8% of total sales). Health resorts and tourist services yielded €22.3 million, a 25% year-on-year decrease (1.9% of total sales). Restrictions imposed due to the coronavirus pandemic affected sales.

Research and Development

From January to September 2020, we were granted marketing authorisations for eight new products in 21 pharmaceutical forms and strengths.

The following prescription pharmaceuticals were authorised:

- Xerdoxo or Rivarolto (rivaroxaban);
- A single-pill combination Olsitri (olmesartan/amlodipine/hydrochlorothiazide);
- Erlotinib Krka (erlotinib);
- Lacosabil or Lydraso (lacosamide);
- Dekenor or Dexfenia (dexketoprofen); and
- the newly formulated Zulbex (rabeprazole).

We added a new medicine Tuloxin or Tulaxa (tulathromycin) 25 mg/ml solution for injection to our animal health product range and a new formulation of B-Complex to our non-prescription range. **We obtained new marketing authorisations for our products in more than 60 countries in all our regions.**

We were granted marketing authorisations for Xerdoxo or Rivarolto (rivaroxaban) film-coated tablets in four strengths. They are used concomitantly with other medicines for prevention of atherothrombotic events in adults with cardiovascular diseases. We obtained marketing authorisations for the product in the European Union on time, serving as the base for product launches on selected European markets. We also authorised it in Serbia. Medicines of that product group are to become an important part of our range of new medicines.

The range of our cardiovascular medicines was extended by a new single-pill combination Olsitri (olmesartan/amlodipine/hydrochlorothiazide) film-coated tablets available in five strengths. We concluded the registration procedure and obtained all marketing authorisations for entering the markets as the first generic pharmaceutical company after the patent expires. The medicine is indicated for lowering high blood pressure in patients with resistant hypertension.

We also obtained marketing authorisations for our new oncology pharmaceutical, Erlotinib Krka (erlotinib) film-coated tablets in three strengths. The medicine is indicated for the treatment of patients with metastatic non-small cell lung cancer and in combination with another medication also for the treatment of pancreatic cancer. This medicine is the result of our own research and development, and we launched it on selected markets immediately after originator's patent expired. We manufacture it at our own state-of-the-art production plant in Jastrebarsko, Croatia dedicated to highly active ingredients.

We added a new medicine for the treatment of epilepsy to our central nervous system range, Lacosabil or Lydraso (lacosamide) film-coated tablets in four strengths. The medicine has a more convenient safety profile with fewer adverse events and lower risk of interactions than other antiepileptic agents. It can be combined with other antiepileptic agents. It is the result of our own development, integration of development and production stages, and is supplied by our own production facilities.

In addition to the established dexketoprofen solution for injection, we were also granted marketing authorisations for Dekenor or Dexfenia (dexketoprofen) film-coated tablets for the symptomatic treatment of mild to moderate pain. The medicine was authorised in various countries as a prescription pharmaceutical or non-prescription product. Well-designed packaging ensures child-resistant but senior-friendly handling.

We received CEP to the monograph of the European Pharmacopoeia for Krka's rabeprazole integrated in our finished product Zulbex (rabeprazole) gastroresistant tablets in two strengths. The finished product with the new CEP was newly authorised in 25 countries. Zulbex is Krka's established medicine for the treatment of stomach problems. It now incorporates our own certified active ingredient.

We developed a new formulation for our B-Complex (thiamine/riboflavin/pyridoxine/cyanocobalamin/calcium pantothenate/nicotinamide) film-coated tablets and filed the renewed dossier to obtain marketing authorisations in Slovenia, Bosnia and Herzegovina, Kosovo, and North Macedonia. In Slovenia, it was authorised as a medicinal product. It is the only approved product with this combination of group B vitamins indicated for

prevention and treatment of hypovitaminosis B, avitaminosis B, increased body demand, malabsorption, and various other severe forms of vitamin B deficiency.

We added to our farm animal range a new product Tuloxin or Tulaxa (tulathromycin) 25 mg/ml solution for injection in three different bottle sizes. This is an advanced antimicrobial used to treat bacterial infections of the respiratory tract in pigs.

Investments

From January to September 2020, the Krka Group allocated €53.8 million to investments, of that €39.9 million to the controlling company. We primarily invested in development capacities, manufacturing upgrades, quality assurance, and our own production-and-distribution centres across the world. The value of our investments in the first three quarters of 2020 lagged behind the plan due to the coronavirus pandemic impact on construction industry.

We built a multipurpose warehouse at our central site in Ločna, Novo mesto, Slovenia, to provide for extra storage room for incoming materials and finished products. This improved production flexibility, product availability, and market supply. At the beginning of 2020, JAZMP (Agency for Medicinal Products and Medical Devices of the Republic of Slovenia) granted us an operating permit, so all requirements for the facility start-up were met. The investment was worth slightly more than €34 million.

Notol 2, the state-of-the-art facility for manufacturing solid dosage forms, is also in Ločna, Novo mesto, Slovenia. The increasing demand for additional production capacities has incited us to acquire extra technological equipment. We started equipping a new packaging facility in 2019, and this year we continue setting it up. The investment was estimated at €41 million. When the Notol 2 plant is technologically equipped, we will be able to manufacture 5 billion and package 8 billion tablets per year.

The high-capacity packaging line purchased for the Ljutomer plant in Slovenia will allow for increased packaging output of lozenges and tablets. The investment was estimated at €4.4 million.

In Krško, Slovenia, we constructed a new warehouse to ensure sufficient warehousing capacities for raw materials used in chemical and pharmaceutical production. In July, we obtained an operating permit, and in September also JAZMP's operating permit for the plant. The investment was estimated at €8.2 million. We plan to build new capacities for development and production of active ingredients at the same site.

The controlling company has been making low investments into refurbishment of the Notol plant, the OTO solid dosage form production plant, and the Beta Department. The investments were estimated to total €5.5 million.

The Krka-Rus plant in the industrial zone of Istra in the north-western part of Moscow is one of the key investments in Krka subsidiaries abroad. We produce 81% of all products intended for the Russian market at the Krka-Rus plant. In the next few years, we plan to increase production and laboratory capacities. The investment is estimated at €33 million.

At the end of 2017, we established a joint venture Ningbo Krka Menovo with a local partner Menovo in the city of Ningbo, China. In 2019, we started manufacturing several products for markets outside China in facilities taken on long-term lease that we additionally equipped with production and control equipment. The procurement of equipment continues in 2020. The ultimate goal is to manufacture products for the Chinese market.

Employees

At the end of September 2020, the Krka Group employed 11,503 people of whom 5,422 worked abroad, constituting a good 47% of the total Krka Group headcount. Of all employees, 52% have at least university-level qualifications and 204 hold doctoral degrees. Together with agency workers, the Krka Group employed 12,629 people.

We grant scholarships to ensure continuous recruitment of new talented employees. At the end of September, we listed 108 scholarship holders, primarily pharmacy and chemistry students. We also award grants to students from other fields of interest to Krka. This year, 25 new scholarships were granted. At the end of September, 175 employees were enrolled in part-time graduate studies co-funded by Krka, 50 of them in postgraduate studies.



Share and Investor Information

As at 30 September 2020, the Krka share traded at €82.00 on the Ljubljana Stock Exchange, up 12% on year-end 2019. Market capitalisation of Krka amounted to €2.7 billion.

At the end of September 2020, Krka had a total of 47,614 shareholders. In the first nine months of 2020, holdings of treasury shares increased, while holdings of Slovenian retail investors, legal entities and institutional investors, and foreign investors diminished.

From January to September 2020, Krka acquired 246,530 treasury shares. As at 30 September 2020, Krka owned 1,480,782 treasury shares accounting for 4.515% of share capital.

2020 Krka Group Performance Estimate

Annual sales of products and services will meet the plan and are estimated at €1,520 million.

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 our second largest individual market Poland, Region West Europe with our third largest individual market Germany, Region South-East Europe, Region Slovenia, and Region Overseas Markets are projected to follow in this order.

Prescription pharmaceuticals are expected to remain the most important product group with a 85% share of total sales.

According to our estimates, **profit will be higher than planned**, especially on the back of growth in sales value and volume, and **will reach approximately €260 million**.

We plan to allocate a solid €78 million to investments in our own development, production, and infrastructure facilities. The figure is below the initial plan due to restrictions imposed by the state to curb the coronavirus pandemic. All our investments included in our business plan are currently in progress.

At the end of 2020, the Krka Group is expected to have almost 12,000 regular employees on payroll, of that a good 47% abroad.

We used currently available data for drawing up this performance estimate. Actual operating results may deviate from the estimates in case any further restrictions in connection with the coronavirus pandemic are instigated or unfavourable foreign exchange fluctuations should prevail.

2021 Krka Group Plans

According to the 2021 plan, the Krka Group sales are projected at €1.535 billion and profit at approximately €265 million. We intend to allocate €114 million for investment projects to increase and upgrade production capacities and the infrastructure. We plan to increase the number of employees in Slovenia and abroad by altogether a good one per cent. The total number of regular employees is projected to exceed 12,140 at the end of 2021.

The 2021 business plan derives from the 2020–2024 Krka Group development strategy, and is based on estimates, assessments, projections, and other available data at disposal to the Management Board at this present day. The Management Board believe the projections are reasonable. The 2021 business results will also depend on spreading of the coronavirus pandemic, the related restrictions imposed by individual states, and global recovery after the pandemic. These events and processes are highly unpredictable and can result in lower regional or global economic growth than planned, increased unemployment rates, further depreciation of certain currencies, and a decrease in demand for pharmaceutical products. These processes, however, can also be in a positive direction.