



PRESS RELEASE

Krka Operating Results for the First Quarter of 2019

Novo mesto, 23 May 2019

In the first quarter of 2019, the Krka Group sales totalled €378.5 million, an increase of 12% compared to the first quarter last year, resulting in €70.3 million of net profit, or a 42% year-on-year rise. Yesterday at their regular meeting, the Supervisory Board of Krka discussed the Krka Group and Krka, d. d., business reports for the first quarter of 2019.

Sales

In the first quarter of 2019, the Krka Group generated €378.5 million by product sales, of that revenue from contracts with customers on sales of products and services amounted to €377.3 million. Revenue from contracts with customers on sales of materials and other sales revenue constituted the difference. Sales increased by €40.5 million and were 12% higher than in the same period last year.

Sales of Products and Services by Region

Krka largest region was East Europe, which generated €122.1 million or 32.4% of the Krka Group total sales. Year-on-year, sales grew by 15%. Sales in the Russian Federation totalled €77.5 million, a 4% year-on-year increase. Sales in roubles grew by 13%. In Ukraine, product sales added up to €18.9 million, an upsurge of 76%. We recorded two-figure sales growth also in most other regional markets.

Region Central Europe, which includes the Visegrad Group and the Baltic states, was the second largest region in terms of sales, its share accounting for €85.9 million or 22.8% of total Krka Group sales. Year-on-year, sales grew by 6%. In Poland, the leading regional market, sales totalled €39.8 million and presented a 9% rise. Sales also went up in Hungary, Slovakia and Lithuania.

Region West Europe, the third largest region, generated €84.3 million or 22.3% of total Krka Group sales. Compared to the same period last year, sales grew by 14%. Germany, Spain, and the Scandinavian countries generated the strongest sales. Sales of products under our own brand name through subsidiaries increased by 23% accounting for 72% of total regional sales. Sales growth was most substantial in the Scandinavian countries, Spain, the United Kingdom, and Italy.

Product sales in Region South-East Europe amounted to €50.4 million, 14% more than in the same period last year, and accounted for 13.4% of total Krka Group sales. Leading markets were Romania and Croatia, while growth rates were the highest in Bulgaria and Serbia.

In Slovenia, sales amounted to €22 million or 5.8% of total sales. The growth rate was 3%. Product sales accounted for the major part of sales total, i.e. €13.5 million. Health resorts and tourist services generated €8.5 million.

Region Overseas Markets generated product sales of €12.6 million, 16% more than in the first quarter last year, and accounted for 3.3% of total Group sales.

Sales of Products and Services by Groups

The Krka Group recorded 13% growth in sales of prescription pharmaceuticals and generated a total of €314.4 million, or 83.3% of total sales. All regions saw an increase in sales, but the increment was most notable in East Europe (18%), West Europe (15%), and South-East Europe (14%).

Sales went up in both Krka largest markets, in Poland (11%) and the Russian Federation (8%). Compared to the first quarter of 2018, sales of prescription pharmaceuticals in other major markets increased most notably in: Ukraine (77%); the Scandinavian countries (59%), Spain (48%), Italy (26%), Hungary (22%), and Romania (11%).

Medium-sized markets recorded sales increases as follows: Bulgaria (75%), Serbia (32%), the United Kingdom (23%), Kazakhstan (21%), Portugal (16%), Lithuania (14%), Ireland (13%), Austria (12%), and Uzbekistan (10%). In small markets, our prescription pharmaceuticals presented the highest growth rates in: Belarus (66%), Georgia (28%), Kyrgyzstan (25%), Azerbaijan (22%), Moldova (22%), Benelux (20%), Turkmenistan (19%), Tajikistan (15%), and Kosovo (12%).

Ten leading prescription pharmaceuticals in terms of sales were pharmaceuticals 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); esomeprazole (Emanera); rosuvastatin (Roswera); enalapril (Enap, Enap H, Enap HL, Elernap); clopidogrel (Zyllt); and candesartan (Karbis and Karbicombi). They are marketed under different brand names in individual markets.

Sales of non-prescription products totalled €36.8 million, 8% more than in the same period last year (9.7% of total sales). Sales of animal health products amounted to €17.6 million, a 7% rise over the same period last year, and accounted for 4.7% of total Group sales. Health resorts and tourist services generated €8.5 million, a 6% year-on-year increase (2.3% of total Group sales).

Operating Results

The Krka Group recorded €72.2 million of operating profit, a 17% year-on-year increase. Profit before tax amounted to €81.5 million, up 43% compared to the same period last year. Income tax totalled €11.2 million, and the effective tax rate was 13.8%. The Krka Group recorded net profit of €70.3 million, a 42% year-on-year increase.

The Krka Group net profit margin for the first quarter of 2019 was 18.6%, EBIT margin 19.1%, and EBITDA margin 26.4%.

At the level of the Krka Group, annualised ROE was 17.8%, and annualised ROA 13.7%.

Research and Development

In the first quarter of 2019, Krka received marketing authorisations for two new medicines, a prescription medicine Atazanavir Krka (atazanavir) hard capsules and an animal health product Awazom (amoxicillin) powder. We expanded marketing opportunities for Krka products in all regions.

We extended the range of prescription pharmaceuticals by our new antiviral Atazanavir Krka (atazanavir) hard capsules in three strengths. The medicine is used for the treatment of human immunodeficiency virus (HIV) infection, as it reduces the viral burden in a body and chances for development of the disease. It is used in combination with other antiretroviral agents for the treatment of infected adults and paediatric patients older than 6 years, and is taken once daily. Marketing authorisations for the medicine were obtained under the centralised procedure in several European countries.

In the European markets, we also obtained marketing authorisations for our established medicines. We completed the decentralised procedures for two of our cardiovascular medicines, Amlodipine/Valsartan Krka (amlodipine/valsartan) film-coated tablets and Valtricom (amlodipine/valsartan/hydrochlorothiazide) film-coated tablets. Additionally, we obtained marketing authorisations for our two antipsychotic agents, Paliperidone Krka (paliperidone) prolonged-release tablets and Kventiax/Quetiapin Krka (quetiapine) film-coated tablets and prolonged-release tablets. We introduced a non-prescription product Rabeprazole Krka (rabeprazole) gastroresistant tablets for the treatment of certain stomach problems. Febuxostat Krka (febuxostat) film-coated tablets indicated for the treatment of gout received a marketing authorisation under the centralised procedure.

We introduced our established medicines from various therapeutic classes in certain new Eastern European markets. We expanded marketing opportunities for medicines for the treatment of cardiovascular diseases. We introduced fixed-dose combinations Niperten Combi (amlodipine/bisoprolol) tablets in Kazakhstan, and Valodip (valsartan/amlodipine) film-coated tablets in Kyrgyzstan.

We also obtained marketing authorisations for antibiotics: Azibiot (azithromycin) powder for oral suspension in Armenia, Hiconcil Combi (amoxicillin/clavulanic acid) powder for oral solution in Armenia and Kazakhstan and film-coated tablets in Armenia, Kazakhstan, Kyrgyzstan, and Azerbaijan.

Krka also expanded marketing opportunities for medicines for the treatment of HIV infection. In Ukraine, we introduced a fixed-dose combination Efavirenz/Emtricitabine/Tenofovir disoproxil Krka (efavirenz/emtricitabine/tenofovir disoproxil) film-coated tablets and Darunavir Krka (darunavir) film-coated tablets.

Additionally, we obtained marketing authorisations for our analgesic Dekenor (dexketoprofen) solution for injection in Ukraine, and a non-steroidal anti-inflammatory drug (NSAID) Etoriax (etoricoxib) film-coated tablets in Azerbaijan. We obtained marketing authorisations for medicines for the treatment of the alimentary tract, Emanera (esomeprazole) gastroresistant capsules in Azerbaijan and Ulcavis (bismuth subcitrate) film-coated tablets in Belarus.

In the markets of South-Eastern Europe, we extended marketing opportunities for our key products from various therapeutic classes. We received marketing authorisations for pharmaceuticals from the central nervous system range: Helex (alprazolam) tablets in Montenegro, Helex SR (alprazolam) prolonged-release tablets in Albania, and Zalastan (olanzapine) tablets in Bosnia and Herzegovina. In Kosovo and Montenegro, we also introduced Deksametazon Krka (dexamethasone) corticosteroid tablets of various strengths. We obtained marketing authorisations for our analgesic Dekenor (dexketoprofen) solution for injection in Kosovo, and a non-steroidal anti-inflammatory drug (NSAID) Etoxib (etoricoxib) film-coated tablets in Serbia.

We expanded marketing opportunities for our key non-prescription product brands. We obtained marketing authorisations for cold and flu products Septolete Total (benzylamine chloride/cetylpyridinium chloride) honey-and-lemon flavour lozenges in Uzbekistan and the Republic of North Macedonia and for elder-and-lemon flavour lozenges in Kyrgyzstan and Uzbekistan.

In Albania, we received the marketing authorisation for Flebaven (diosmin) 500 mg film-coated tablets used for the treatment of chronic venous insufficiency.

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

We increased marketing opportunities for our animal health product Fleaway Combo (fipronil/S-methoprene) spot-on solution. The product is used for protection against and treatment of external parasite infections in dogs, cats, and ferrets. We obtained a marketing authorisation for the product in the United Kingdom.

In Kazakhstan, we expanded our product portfolio for farm animals by gaining the approval for a combination of vitamins and minerals (selenium) Solvimin Selen oral powder indicated for the treatment of hypovitaminosis or as a supportive therapy for infections caused by stress in all farm animal species. In Serbia, we obtained marketing authorisations for Floron (florfenicol) premix for medicated feed indicated for the treatment of infections of the respiratory tract in pigs and Santiola (closantel) solution for injection indicated for the treatment of parasitic gastrointestinal infestations in cattle and sheep.

Investments

In the first quarter of 2019, the Krka Group allocated €23.7 million to investments, of that €19.6 million to the controlling company. We invested primarily in the increase of production and development, and in quality assurance. Investments were made in our own production and distribution centres around the world.

Key investment for the purposes of development and quality assurance in the following years is the €54-million product development and quality control facility, Razvojno-kontrolni center 4 (Slovene abbreviation: RKC 4), at the production site in Novo mesto. Construction of the 18,000-square-metre building was completed at the end of

2016. Setting-up of the laboratory rooms was finished in 2017, while additional furnishing of the rooms intended for development is in its final phase. Equipment installation will continue in 2019.

At the end of 2017, Krka started building a multipurpose warehouse at the same site to provide for 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 start-up of the transport system and warehouse is planned for January 2020. The entire investment is estimated at €36 million.

Notol 2, the state-of-the-art facility for manufacturing solid dosage forms and Slovenian 2018-Factory-of-the-Year winner, is also located in Ločna, Novo mesto. In order to meet the increasing demand and manufacture new products, Krka purchases additional technological equipment. We have allocated €16 million for it this year. When the plant is fully equipped, it will be able to operate at its planned volume, i.e. 5 billion tablets per year.

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

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

In Krško, preparations for construction of a new warehouse for hazardous materials have started. We will invest in capacities for storing raw materials for chemical and pharmaceutical production. Storage will be arranged in compliance with the guidelines of the *Technical Rules for Hazardous Substances* (TRGS). Thanks to the building design, technological operations will be carried out in accordance with the *Rules on Technical and Organizational Measures for the Storage of Hazardous Chemicals*, regulations on working in explosive environments and on environmental protection. The construction of the €8.2 million building will be finished in July 2020.

In February 2019, the European Union introduced new rules for protection of public health by preventing the entry of falsified medicinal products into the pharmaceutical supply chain. The Directive introduces obligatory safety features on the outer packaging of medicines, which prevent falsified medicines from reaching patients. In accordance with these requirements, Krka has upgraded the technological equipment and manufacturing procedures on many levels. Over the last three years, we allocated approximately €20 million for the new equipment and technology. Safety measures required by the Russian legislation from 2020 onwards are also a part of this investment.

Construction of a new office building in Ljubljana is in progress. The four-storey building will be connected to the current business premises and will be ready for use in mid-2019. The investment is estimated at more than €10 million.

The Krka-Rus plant, located in the industrial area of the town of Istra, north-west of Moscow, is one of the key investments in Krka subsidiaries. In 2017, the second stage of technological equipment installation was finished, increasing the capacity of the plant to 1.8 billion tablets and capsules a year. Another project for new manufacturing and laboratory capacities is already underway and will mark the upcoming five-year investment period in the Russian Federation. The investment is estimated at €32 million and will increase manufacturing capacities of the Krka-Rus plant to 3 billion tablets per year. The Krka-Rus plant manufactures 70% of products intended for the Russian market giving Krka the status of a domestic producer in the Russian Federation.

The €1.7 million investment 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 plan to allocate €0.5 million for the optimisation of production equipment in TAD Pharma, Germany, and €0.4 million for Krka Polska.

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

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 2018, we paid in the initial capital and provided the necessary equipment. We obtained a GMP certificate for leased production facilities. At the end of 2018, we started to commercially manufacture the first product for the markets outside China and submitted all registration documents required to obtain a marketing authorisation for the Chinese market. In 2019, additional five marketing authorisation applications for products for the Chinese market will be filed. Our product portfolio will be adapted according to market needs and opportunities.

Employees

At the end of March 2019, the Krka Group had 11,370 employees, of that 5,765 abroad accounting for just under 51% of the total Krka Group headcount. The proportion of Krka Group employees with at least university-level qualifications amounted to 54%, of whom 190 held a doctoral degree. Together with agency workers, the Krka Group had 12,509 persons on payroll, or 27 more than at the end of 2018.

Krka awards scholarships and in this way guarantees continuous recruitment. At the end of March, Krka had 63 students on grants, primarily pharmacy and chemistry students. Krka also awards grants to exceptional students from other fields. A total of 147 Krka employees were also part-time students, of whom 52 were involved in specialisation or postgraduate studies. Krka supports them by partly funding fees and granting them study leave.

Since its foundation, Krka has supported volunteering, which has now become an integral part of our organisational culture. Since 2012, we have held a socially responsible campaign Krka Week of Charity and Volunteering. In April, 1,250 Krka volunteers, approximately 20% of all Krka employees in Slovenia, participated in various activities. More than 100 of participants who joined the campaign were first-time volunteers. Our colleagues from subsidiaries and representatives offices in the Russian Federation, Poland, the Czech Republic, Ukraine, Hungary, Germany, Serbia, Turkmenistan, Spain, North Macedonia, Kazakhstan, Azerbaijan, Kyrgyzstan, Latvia, Slovakia, Belarus, Bosnia and Herzegovina, Mongolia, Croatia, the Republic of Kosovo, Armenia, Bulgaria, UK, and India also joined in.

In one week, volunteers donated 131 litres of blood and collected almost four tonnes of clothing, toys, footwear, books, food and other necessities for adults and children, as well as 400 kg of pet food. The volunteers kept company to the elderly at 28 retirement homes, and to the wards and pupils at 12 occupational activity centres, and other institutions across Slovenia. Krka rounded off the Week of Charity and Volunteering with an open-door day. We hosted 2,040 University of the Third Age participants, Krka employees and their family members. They were taken on a tour of our state-of-the-art solid dosage form production plant Notol 2 and had the opportunity to listen to informative lectures on healthy living.

Over the past eight years, Krka volunteers have participated in more than 8,300 acts of charity. More than 930 litres of blood, 27 tonnes of various necessity items and 3.5 tonnes of pet food were collected.

Investor and Share Information

In the first quarter of 2019, the price of Krka share on the Ljubljana Stock Exchange rose by 0.3%, standing at €58.00 at the end of March. Company's market capitalisation amounted to €1.9 billion.

At the end of March 2019, Krka had a total of 49,971 shareholders. The shareholding structure, where individual Slovenian investors (natural persons) represent 39.1% and international investors 23%, is stable and without any major changes.

In the first quarter of 2019, Krka acquired 76,346 treasury shares. At the end of March 2019, Krka held 969,793 treasury shares, accounting for 2.957% of share capital.