PRESS RELEASE

Krka Publishes January to September 2018 Operating Results

In the first nine months of 2018, the Krka Group generated sales in total of €971.9 million, a 5% year-on-year increase, and net profit in the amount of €120.8 million, or 10% more than in the same period last year. At its regular meeting yesterday, the Krka Supervisory Board discussed the interim report on the Group and Company performance in the period from January to September 2018.

Sales

In the first nine months of 2018, the Krka Group generated the strongest sales in a nine-month period since Krka was founded, i.e. a total of €971.9 million, or €43.7 million (5%) more year on year. Sales in markets outside Slovenia totalled €903.4 million and constituted 93% of Krka Group total sales. Sales growth was achieved in all product and service groups and in most markets. In the same period, the Company generated €916 million from product sales.

Krka Group Sales by Region

The leading sales region of the Krka Group was Region East Europe that generated €287.6 million revenues, or 29.6% of total sales. In comparison to the same period in 2017, this region recorded the highest absolute sales growth of €16.2 million. Sales in the Russian Federation, Krka's largest individual market, totalled €189.3 million, a 2% year-on-year gain. Sales expressed in the Russian rouble accounted for a 16% rise, and sales volume for 18%. With the increased sales compared to the same period last year, the Russian Federation was followed by most other Eastern European and Central Asian markets.

Region Central Europe, which includes the Visegrad Group countries and the Baltic states, was the second largest region in terms of sales, its share accounting for €239.6 million or 24.6% of total Krka Group sales. A 6% year-on-year sales growth was recorded. Poland was leading market in the region, but also all other regional markets, except Latvia, recorded sales growth.

The next largest region in terms of sales was Region West Europe, generating €211 million or 21.7% of total Krka Group sales. Year-on-year sales decreased by 3%. Germany generated the strongest sales, and was followed by markets of Scandinavia, Spain, France, and Italy. Products sold under their own brand names through Krka's subsidiaries accounted for 70% of total regional sales, a 6% increase.

Product sales in Region South-East Europe amounted to €132.3 million, up 14% compared to the same period last year, and accounted for 13.6% of total Krka Group sales. Romania and Croatia, their two key markets, were leading markets of the region, whereas growth rates were the highest in Serbia and Bulgaria.

In Slovenia, Krka recorded €68.6 million or 7.1% of total Krka Group sales. Sales revenues increased by 3%. Krka held an 8.7% market share and remained the leading provider of pharmaceuticals in Slovenia.

Product sales in Region Overseas Markets totalled €32.8 million, a growth rate of 9%, and accounted for 3.4% of total Krka Group sales. Sales of prescription pharmaceuticals, sold under their own brand names on most regional markets, contributed to sales total the most.

Krka Group Sales by Product and Service Group

Krka Group sales of prescription pharmaceuticals reached €804.3 million, up 5% compared to the same period last year, and accounted for 82.8% of total Krka Group sales. The following regions saw an increase in sales: South-East Europe (15%), Overseas Markets (12%), East Europe (7%), and Central Europe (6%).

Among the largest Krka's markets, sales went up the most in Poland (by 6%) and in the Russian Federation (by 3%). Compared to the same period in 2017, the sales of prescription pharmaceuticals in other major markets increased by: 33% in the Scandinavian countries, 21% in Ukraine, 20% in Italy, 14% in the Czech Republic, 9% in Croatia, 8% in Spain, 7% in Slovakia, and 6% in Romania.

The medium-sized markets recorded sales increases as follows: 42% in Bulgaria, 38% in Serbia, 31% in Uzbekistan; 22% in Bosnia and Herzegovina, and 10% in Macedonia. In small markets, Krka prescription pharmaceuticals presented the following growth rates: the steepest 75% in Finland, 38% in Mongolia, 33% in Tajikistan, 28% in Belarus, 24% in Kyrgyzstan, 23% in Georgia, 23% in Armenia, 22% in Austria, and 22% in Montenegro.

In the markets of Western Europe, Krka has been strengthening its position through subsidiaries. They have recorded significant growth rates, the highest in Finland and Belgium, where sales more than doubled. Elsewhere, growth rates were as follows: 34% in Italy, 30% in Sweden, 23% in Austria, and 10% in Portugal.

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

Compared to the same period last year, non-prescription product sales were up 5%, and totalled €87.4 million (9% of total Krka Group sales). The sales of animal health products were up 4% reaching €50.4 million, and accounted for 5.2% of total Krka Group sales. Health resort and tourist service sales amounted to €28.3 million, a 4% year-on-year increase (2.9% share of total Krka Group sales). Other sales totalled €1.5 million (0.1% of total Krka Group sales).

Operating Results

All performance indicators of the Krka Group and the Company improved in the first nine months of this year compared to the same period last year.

The Krka Group recorded €163.8 million operating profit, a 10% year-on-year increase. Profit before tax amounted to €143.0 million, or 11% more compared to the same period last year. Income tax totalled €22.2 million, and the effective tax rate was 15.5%. The Krka Group recorded net profit in total of €120.8 million, a 10% increase compared to the same period in 2017.

The Krka Group net profit margin in the first nine months of 2018 was 12.4% (the Company 13.1%), its EBIT margin 16.9% (the Company 16.8%), and its EBITDA margin 25.4% (the Company 23.6%). EBITDA increased by €17.5 million compared to the same period last year.

Annualised ROE at the level of the Krka Group was 10.8% (the Company 10.6%), and annualised ROA at 8.4% (the Company 8.7%).

Research and Development

In the period from January to September 2018, Krka obtained marketing authorisations for sixteen (16) new products in 36 dosage forms and strengths. In the same period, Krka obtained 606 new marketing authorisations in various markets for 103 products.

Krka's key therapeutic area of medicines for the treatment of cardiovascular diseases was supplemented with new products. They obtained approvals under the European decentralised procedure in EU countries for Eliskardia (prasugrel) film-coated tablets in two strengths. Prasugrel inhibits platelet aggregation and formation of blood clots. Administered once daily, it is used in combination with acetylsalicylic acid for prevention of atherothrombotic events.

The registration procedure for Apleria/Enplerasa (eplerenone) film-coated tablets in two strengths has been completed. The medicine is used in combination with other medicines for the treatment of heart failure. The active ingredient is one of the new aldosterone receptor antagonists. The risk of adverse reactions is lower than with the older active ingredient, spironolactone.

Krka obtained marketing authorisations under the European decentralised procedure for Roxiper/Triemma (perindopril/indapamide/rosuvastatin) film-coated tablets in four strengths. Perindopril, an angiotensin converting enzyme (ACE) inhibitor, and indapamide, a diuretic, control increased blood pressure, whereas rosuvastatin, a statin, lowers elevated cholesterol level. A new single-pill combination is intended for concomitant treatment of both indications. It provides an effective and safe treatment with three active substances combined in a single tablet.

Dalnessa/Amlessa/Tonarssa/Amlessini (perindopril/amlodipine) tablets were supplemented with two new strengths, indicated for the initial treatment of hypertension. In Western European countries, Krka obtained marketing authorisations for these medicines under the decentralised procedure.

In the Russian Federation, Krka obtained first marketing authorisation for Co-Vamloset (valsartan/amlodipine/hydrochlorothiazide) film-coated tablets in three strengths. The single-pill combination controls blood pressure in patients with severe hypertension.

Krka extended their range of medicines for the treatment of diseases of the central nervous system and obtained marketing authorisations under the European decentralised procedures for Parnido (paliperidone) prolonged release tablets in three strengths. The medicine is an atypical antipsychotic and is taken only once daily. Krka has introduced OROS, a new laser technology for the production of tablets from which active ingredients are released by osmosis.

They obtained marketing authorisations under the European decentralised procedure for antidepressant Lamegom/Agomaval (agomelatine) film-coated tablets in one strength, 25 mg, and is administered once daily. It has a unique mechanism of action and is an additional option when other antidepressants are not effective. Owing to its soporific effect, it is a medicine of choice when depression is accompanied by insomnia.

Under the European decentralised procedure, relevant marketing authorisations for an antihistamine doxylamine (doxylamine succinate) film-coated tablets were obtained in three European countries. It is used as a short-term treatment for occasional sleep problems in adults. It helps shorten the time to fall asleep and improves the quality of sleep.

Krka obtained marketing authorisations under the European decentralised procedure for a new strength of the well-established medicine alprazolam 2 mg tablets and introduced the medicine in its lower strengths in certain other markets. The medicine is used for the treatment of anxiety and depression.

They extended their portfolio of oncology medicines. Under the centralised procedure, they obtained marketing authorisations for Pemetrexed Krka (pemetrexed) powder for solution for infusion in two strengths. This medicine of choice is used for the treatment of patients with locally advanced or metastatic non-small cell lung cancer.

Krka obtained marketing authorisation for gefitinib film-coated tablets. This medicine is indicated for the treatment of locally advanced or metastatic lung carcinoma. By inhibiting growth and metastasis of cancer cells, it reduces the symptoms of lung cancer, improves the quality of life, and prolongs the survival time.

Their range of oncology medicines was extended with Everofin (everolimus) tablets in three strengths. The medicine decreases blood supply to a tumour and inhibits cancer cell growth and metastasis. It is indicated for the treatment of breast cancer and renal cancer. This is a medicine of choice for the treatment of certain types of neuroendocrine tumours.

They also obtained marketing authorisations for an antiviral medicine entecavir film-coated tablets in two strengths. It is used to treat chronic hepatitis B virus infection. According to the guidelines, it is one of the medicines of choice for the treatment of this disease.

They obtained a marketing authorisation under the decentralised procedure for a new formulation of the well-established medicine tramadol oral drops. Tramadol is an opioid medicine used for relieving moderate to severe pain. Oral drops are a patient-friendly pharmaceutical dosage form also suitable for relieving pain in children.

They expanded portfolio of animal health products and were the first generic company to obtain marketing authorisation for selamectin 60 mg/ml spot-on solution for cats and small dogs in three different volumes and 120 mg/ml spot-on solution for dogs in five different volumes.

Investments

In the first nine months of the year, the Krka Group allocated €66 million to investments, of that €52 million to the controlling company. Investments primarily aimed to increase and modernise production and research and development capacities.

Krka's key investment is a €54 million product development and quality control facility, the Development and Control Centre 4 (Slovene abbreviation: RKC 4), at the production site in Novo mesto, built in the vicinity of the other three similar laboratories for product development and control. Setting up of the laboratory rooms was finished in the summer of 2017. Additional furnishing of the rooms intended for development is in the final stage. The supply and setting up of the pharmaceutical equipment are in progress, while the installation and start up are due by the end of 2018. Completion of facilities for Analytics Development is due by the end of 2018, and the installation of the equipment is planned for the first half of 2019.

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 product availability and market supply. By the end of March 2019, the building should be roofed and shelving racks constructed. According to the plan, the connection between the Raw Materials Warehouse and weighing rooms should be completed by the end of 2019. The investment is estimated at €36 million.

Notol 2, the advanced facility for solid dosage form manufacturing, which started running in 2015, is also on this site. They have been acquiring additional technological equipment in order to meet the increasing market demand and manufacture new products. They allocated €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.

Investing in the new plant in Krško has provided facilities for hydrogenation 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.

In Bršljin, Novo mesto, the capacity for production of animal health products with biocidal effect is being increased. The investment is estimated at €4.6 million. The new equipment at the production site is due to be put to use at the end of 2018 or at the beginning of 2019.

In Ljubljana, the construction of a new office building that will be connected to the existing one has started. The building is expected to be ready for use in mid-2019.

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 in total of €22 million has been completed. All technological and production equipment has been installed and put to use. Production capacity has been increased to two thirds of the planned final capacity, i.e a total of 2.5 billion tablets and capsules per year. In September, construction of the waste water treatment plant started. The investment is estimated at €2.6 million. Currently a €1.8 million investment in increasing laboratory capacities is in progress. Krka-Rus produces two-thirds of Krka's products for the Russian market and, therefore, have a domestic producer status in the Russian Federation.

Investing in solid dosage oncology medicine production and laboratory facilities of the production-and-distribution centre in Jastrebarsko, Croatia, was completed last year. Currently, refurbishment of the rooms and installation of the technological equipment for animal health product manufacture are under way. The investment is estimated at €2 million.

Krka has completed a €5.5-million investment in its subsidiary, Farma GRS. Additional capacities were arranged for research and development at the Chemical development centre, and capacities were increased for the small-scale production of pharmaceutical ingredients in line with the good manufacturing practice. Production started in February.

Several low-value investments are in progress in all business units of the subsidiary Terme Krka, for which more than €3 million will be allocated in 2018.

Krka has established a joint venture, Ningbo Krka Menovo, with its long-term Chinese partner Menovo in the city of Ningbo. The initial share capital in total of €30 million has been allocated to development and construction of production facilities. The new company engages in development, production and marketing of finished products. Its priority for the upcoming two or three years is to obtain as many marketing authorisations in China for products from Krka's portfolio as possible and manufacture them there. First notable sales results in China are expected in three years.

Employees

At the end of September, the Krka Group had 11,226 persons on payroll, or 394 (4%) more than at the end of 2017. Subsidiaries and representative offices abroad employed over 51% of total Krka Group headcount. More than 54% of employees hold at least a university degree. Together with persons employed through agencies, the Krka Group had 12,414 persons on payroll, or 2% more than at the end of 2017.

Krka offers scholarships and in this way guarantees a continuous influx of new employees. Currently, there are 50 Krka scholarship holders, primarily pharmacy and chemistry students. Scholarships are also granted to exceptional students from other areas of interest to Krka. This year, 18 new scholarships were granted. A total of 156 Krka employees were also part-time students, of whom 67 were enrolled in specialisation or postgraduate studies. By the end of September, 17 Krka employees completed their studies.

By awarding Krka Prizes, Krka has been promoting creativeness and research work among young people for 48 years. So far 2,751 young researchers have received a Krka Prize. This year, five Krka Grand Prizes were presented for research papers, 25 Krka Prizes were awarded to 30 graduate and postgraduate students, and 66 secondary school students received Krka Prizes for 37 research papers at the ceremony in September.

Investor and Share Information

In the first nine months of 2018, the price of Krka share declined by 4% to €55.00 at the end of September. The Company's market capitalisation amounted to €1.8 billion.

During this period, the share of treasury shares and the share of legal entities and funds slightly increased. The proportion of holdings by Slovenian natural persons remained unchanged, while the stake of international investors slightly dropped.

In the first nine months of 2018, Krka acquired 127,757 treasury shares in total of €7,375,281. As at 30 September 2018, Krka held 819,474 treasury shares accounting for 2.499% of share capital.

2018 Krka Group Performance Estimate

Annual sales of products and services are estimated at just over €1.3 billion, which is somewhat above the plan.

Sales outside Slovenia are projected to account for 93%. They expect East Europe to be the largest sales region and the Russian Federation to remain the largest individual market. Region Central Europe with Poland as Krka's second largest individual market is expected to record second highest sales. Region West Europe is planneed to be the third largest region in terms of sales, and Germany Krka's third largest individual market. Regions South-East Europe, Slovenia, and Overseas Markets are expected to follow.

Prescription pharmaceuticals are expected to remain the most important product group, comprising 82% of overall sales.

Net profit for 2018 is expected to somewhat exceed the net profit plan of €153 million.

Investments in Krka's own development, manufacturing and infrastructural facilities are expected to total €97 million. This is less than planned due to technical and commercial optimisation, but even so all planned investments will be fully realised.

At the end of 2018, the Krka Group will employ more than 11,600 regular employees, of that 51% abroad.

In 2018, all performance indicators are projected to exceed those achieved in 2017.

2019 Krka Group Plans

According to the 2019 plan, the Krka Group sales are projected at €1.375 million and net profit at €172 million. Investments in increasing and upgrading production capacities and infrastructure are planned at just over €124 million. In 2019, Krka plans to increase the number of employees in Slovenia and abroad by 4%; the total number of regular employees is projected to exceed 12,100. This rise will also be partly due to transfers of people employed from agencies to Krka.

In 2019, the Management Board intends to remain committed to the strategy of a stable dividend policy, according to which at least 50% of net profit of the Krka Group majority holders is allocated to the dividend payout. However, the allocation of net profit to the dividend payout also considers financial requirements of the Krka Group related to investments and takeovers.

The 2019 business plan is based on the Krka Group development strategy for the period from 2018 to 2022. It is based on expectations, assessments, projections and other available data at disposal to the Management Board. The Management Board believes that the expectations are reasonable. Should the business conditions in 2019 differ significantly from the projections, operating results may also differ from the plan.