



PRESS RELEASE

Krka Business Performance in 2018

Novo mesto, 21 March 2019 – The Management Board of Krka, d. d. held a press conference today and made public the unaudited 2018 performance results of the Krka Group and the controlling company Krka, discussed at the Krka Supervisory Board meeting yesterday. According to the President of the Management Board Jože Colarič, sales of the Krka Group advanced by 5% to €1,331.9 million. Unaudited Krka Group net profit totalled €174 million, an increase of €21.4 million or 14% compared to 2017. The recorded sales and net profit figures have been the highest since Krka was founded 65 years ago. The 2018 annual report of Krka will be released on Thursday, 18 April 2019.

Sales

In 2018, the Krka Group generated sales revenues in total of €1,331.9 million, of that €1,326.7 million in revenues from contracts with customers on sales of products and services. The rest are sales of materials and other revenues from sales. Sales were €65.5 million, or 5% higher than in 2017. The Krka Group generated 93% of total sales in markets outside Slovenia.

Krka Group Sales of Products and Services by Region

The largest sales region was Region East Europe, where sales climbed by 7% in comparison to 2017 and totalled €412.9 million, accounting for 31% of total Krka Group sales. In the Russian Federation, which remains Krka's key and largest individual market, €274.7 million product sales and 2% growth rate were recorded. Growth expressed in the Russian rouble reached 15%. In Ukraine, where sales totalled €56.2 million, a 24% rise, Krka significantly outperformed market growth and direct competitors. In Uzbekistan, product sales added up to €19 million, and 31% growth was attained. Double-digit sales growth was also reached in Mongolia (57%), Tajikistan (30%), Armenia (27%), Moldova (22%), Belarus (14%), and Azerbaijan (12%).

Region Central Europe recorded the second highest product sales of €318.3 million (24% of total Krka Group sales), a 5% increase compared to 2017. In Poland, the key and largest market in the region, product sales reached €148.8 million presenting a 3% growth. They recorded the highest growth rates of all foreign providers of generic medicines in the country taking the fourth place. In the Czech Republic, which is also one of Krka's key markets, sales increased by 7% resulting in sales total of €48.9 million. In Hungary, Krka's third largest key market in the region, a 5% sales growth in total of €47.4 million was recorded. Sales growth was attained in Estonia (11%), Slovakia (10%), and Lithuania (9%), while sales in Latvia remained at the 2017 level.

In terms of sales value, Region West Europe placed third with €287.1 million (22% of total Krka Group sales), or a 1% year-on-year rise. Germany, Spain, the Scandinavian countries, and France led in terms of sales. Sales through subsidiaries were essential for continued sales growth and accounted for more than 70% of the regional sales. In Germany, which remains the most important Western European market of Krka, product sales reached €72.6 million and recorded a 10% year-on-year slide due to diminishing tender sales of medicines. In Spain, Krka's second largest market in the region, product sales reached €40.2 million, up 13%. Double-digit market growth was recorded in Finland (54%), the Scandinavian countries (33%), Benelux (25%), Italy (22%), and Austria (22%).

Sales in Region South-East Europe amounted to €176.2 million, a 9% increase over the year before, accounting for over 13% of total Krka Group sales. In Romania, the key and largest market in the region, product sales amounted to €53.0 million, 2% below the 2017 figure. In Croatia, also a key market of Krka, product sales generated €33.4 million and recorded a 7% rise. Sales growth was recorded in all markets in the region, except in Romania and Albania.

Sales of products and services in Slovenia amounted to €88.9 million (of that €37.6 million were generated through health resort and tourist services) and accounted for close to 7% of total Krka Group sales. With respect to value,

product sales saw a 3% rise, and sales volume a 4% growth. Krka maintained the leading position among medicine providers in Slovenia holding an 8.6% market share.

Region Overseas Markets generated €43.4 million by product sales (3% of total Krka Group sales) and recorded a 12% growth. Individual markets of the Middle East, the Far East, and Africa, in particular Iran and Vietnam, contributed to total regional sales the most.

Krka Group Sales by Product and Service Group

In 2018, the Krka Group sales of prescription pharmaceuticals, the most important product group, totalled €1,102.8 million, 6% more than in 2017. Sales value exceeded one billion € for the second consecutive year. Krka's five major markets are the Russian Federation, Poland, Germany, Romania, and the Czech Republic.

As far as sales of prescription pharmaceuticals are concerned, medicines for the treatment of cardiovascular diseases remained the key therapeutic class also in 2018, and were followed by pharmaceuticals for the treatment of the central nervous system and medicines for the alimentary tract.

In 2018, sales of new products, i.e. products launched in individual markets in the past five years, accounted for 29% of the Krka Group total sales. Co-Amlessa* (perindopril/amlodipine/indapamide) was the most important new product.

The leading prescription pharmaceuticals in terms of sales in 2018 were those containing valsartan (Valsacor, Valsacombi*, Vamloset*, Co-Vamloset, and Valarox*). Year on year, sales of medicines containing valsartan almost doubled. This was the result of intensive promotion and also of favourable market conditions. They were followed by medicines containing perindopril (Prenessa*, Co-Prenessa*, Amlessa*, and Co-Amlessa*), losartan (Lorista*, Lorista H*, and Tenloris*), atorvastatin (Atoris and Atordapin*), pantoprazole (Nolpaza*), and rosuvastatin (Roswera* and Rosudapin*). In terms of sales, medicines containing esomeprazole (Emanera*), enalapril (Enap, Enap-H*, and Elernap*), clopidogrel (Zyllt*), and tramadol (Doreta* and Tadol) were also among top ten prescription pharmaceuticals. Products marketed under different brand names in individual markets are marked with an asterisk. Products may be marketed also under the Krka trademark in individual markets.

Sales of non-prescription products amounted to €123.2 million, a 4% increase compared to 2017. Septolete, Herbion*, Nalgesin*, and Bilobil* were the most important non-prescription product brand names.

Animal health product sales totalled €63.2 million and remained at the 2017 level. The milbemycin oxime/praziquantel combination (Milprazon*) was the most important animal health product in terms of sales. It was followed by products containing fipronil (Fypryst* and Fypryst* Combo), enrofloxacin (Enroxil*), and florfenicol (Floron), and pyrantel embonate/praziquantel combination products (Dehinel* and Dehinel* Plus).

Sales of health resort and tourist services increased by 5% to €37.5 million.

Operating Results

Operating profit (EBIT) of the Krka Group totalled €232.7 million, a €33.9 million or 17% increase compared to 2017. The increase resulted from relatively higher sales growth in comparison to expenses. Krka Group earnings before interest, tax, depreciation and amortisation (EBITDA) totalled €343.3 million, a climb of €36.6 million or 12%.

Profit before tax of the Krka Group grew by €26.4 million or 15% and totalled €202.6 million in 2018. The effective tax rate of the Krka Group was 14.1%.

Krka Group net profit totalled €174 million, the highest net profit since Krka was founded, and increased by €21.4 million or 14% compared to 2017.

All 2018 key performance ratios (EBIT, EBITDA, and ROS margins, ROE, and ROA) improved in comparison to 2017.

Research and Development

In 2018, the Krka Group obtained marketing authorisations for 23 new products (18 prescription pharmaceuticals, one non-prescription product, and four animal health products) in 52 dosage forms and strengths:

- Sixteen products containing new active substances: two medicines for the treatment of cardiovascular diseases Eliskardia/Sigrada/Prasilt (prasugrel) and Aperia/Enplerasa (eplerenone), three medicines for the treatment of diseases of the central nervous system Parnido (paliperidone), Lamegom/Agomaval (agomelatine), and Noctiben/Calmesan/Dornite (doxylamine), four oncology medicines pemetrexed, Gefitad (gefitinib), Everofin (everolimus), and bortezomib, antiviral entecavir, medication for the treatment of gout caused by increased levels of uric acid in the body febuxostat, non-prescription product indicated for the treatment of acute bacterial diarrhoea KontrDiar (nifuroxazide), antimicrobial used to treat bacterial infections of the respiratory tract in cattle and pigs and infectious pododermatitis (foot rot) in sheep Tuloxxin/Tulaxa (tulathromycin), solutions for injections used as supportive treatment and prevention of metabolic or reproductive disorders in cattle, horses, dogs, and cats Catobevit (butafosfan/cyanocobalamin), and medicine indicated for the treatment of mixed infestations in cats and dogs Selehold/Selames (selamectin) spot-on solution for cats and small dogs, and spot-on solution for dogs;
- Three new combination medicines indicated for the treatment of cardiovascular diseases: Roxiper/Triemma (perindopril/indapamide/rosuvastatin), Co-Vamloset (valsartan/amlodipine/hydrochlorothiazide), and Sorvitimb/Sorvasta Plus/Co-Roswera/Rosazimib (rosuvastatin/ezetimibe);
- Four new products containing already established active substances in new formulations and new strengths: medications used for relieving moderate to severe pain Awardix (tramadol) oral drops and Awardix/Olteron (tramadol) prolonged-release tablets, sedative alprazolam 2 mg tablets, and a medicine used for the initial treatment of high blood pressure Amlessini/Dalnessa/Amlessa/Tonarssa/Preamlessa (perindopril/amlodipine) 2.85 mg/2.5 mg and 5.7 mg/5 mg tablets.

Krka filed five patent applications for technological solutions developed and evaluated as inventions. Based on priority applications from 2017, four international patent applications were submitted. Eight patents in various countries were granted. More than 200 patents filed by Krka are currently in force.

Krka registered 67 trademarks in Slovenia, and submitted 34 international and nine national trademark applications. All in all, more than 1,100 trademarks in various countries have been registered.

Investments

In 2018, the Krka Group allocated €96.3 million to investments, of that €78.0 million to the controlling company. In Slovenia, Croatia, and the Russian Federation, many investments in new production equipment and modernisation of infrastructure were in progress, which additionally increased production capacities. Krka also invested in its own production and distribution centres around the world.

Key investment was the €54 million product development and quality control facility, the Development and Control Centre 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. Additional furnishing of the rooms intended for development has entered its final stage.

At the end of 2017, Krka undertook construction of 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 entire investment is estimated at €36 million.

A plant for production of solid pharmaceutical dosage forms, Notol 2, is at the same site in Ločna, and was presented with the 2018 factory-of-the-year award as the best factory plant in Slovenia. The plant opened in 2015 and is characterised by vertical integration and complete automation of all processes. In 2018, the output volume of the plant was 3 billion tablets. As the demand for new products is increasing, additional technological equipment has been acquired. In 2018, investment totalled €8.3 million. 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.

In December 2018, a high-capacity packaging line for large batch production was put in operation at the plant for production of solid dosage forms. The investment totalled €3 million.

A new laser technology, OROS, was introduced. It is used for production of tablets from which active ingredients are released by osmosis. In 2018, a tablet drilling laser was successfully installed and started up. This equipment for production of controlled-release pharmaceuticals cost €2.8 million.

At the Bršljin plant in Novo mesto, production capacities for animal health products with biocidal effect have been increased. The investment is estimated at €4.6 million. The new technological equipment was first used at the beginning of 2019.

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 requirements, Krka has upgraded the technological equipment and manufacturing procedures on many levels. Packaging lines were upgraded with additional equipment to prevent folding boxes of finished products from being tampered with. The equipment allows connection of information systems at Krka with databases of the European system for medicine verification (EMVS). Over the last three years, €20 million were allocated for the new anti-tampering technology, which also provides unique identification of folding boxes; of that €6 million was allocated in 2018. This investment also covers protective measures required by the Russian legislation, which will have to be implemented after 2020.

Construction of a new office building in Ljubljana is in progress. The 12,000-square-metre building with the underground garage will have four floors and will be connected with the existing business premises. According to the plan, it will be ready for use in mid-2019. The investment is estimated at approximately €10 million.

One of the most important investments in Krka subsidiaries is the Krka-Rus plant in the industrial zone of Istra in the north-western part of Moscow. In 2017, the second stage of technological equipment installation was finished increasing the plant capacity to 1.8 billion tablets and capsules per year. In 2018, €1.5 million was invested in purchasing laboratory equipment and increasing laboratory capacities for analytics. Construction of a wastewater treatment plant is still in progress. The investment is estimated at €2.6 million. Krka-Rus has acquired the status of a domestic producer. Two thirds of products they manufacture are sold in the Russian market.

In 2017, investment in manufacturing and laboratory capacities for solid dosage forms of oncology medicines was completed in the production-and-distribution centre of Krka in Jastrebarsko, Croatia. At present, completion works are underway in the rooms, and installation of technological equipment for manufacture of animal health products is in progress. The investment is estimated at €2 million.

Several low investments were made in 2018 in all business units of the subsidiary Terme Krka totalling slightly more than €3 million.

In 2017, a joint venture Ningbo Krka Menovo was established with a local partner Menovo in the city of Ningbo, China. In 2018, initial capital was paid up, the necessary equipment was acquired, and the EU GMP certificate for the leased production site was obtained. At the end of 2018, commercial production of the first product for markets outside China started. Also, all registration documents for marketing authorisations were submitted for product sales in China. In 2019, another five marketing authorisation applications will be filed for products intended for the Chinese market. The product range will be regularly adapted to market needs and opportunities.

Employees

At the end of 2018, the Krka Group had 11,390 employees on payroll, and 5,611 (49.3%) of them worked in Slovenia and 5,779 (50.7%) abroad. The number of staff increased by 558 employees (5%) compared to 2017.

Of all people on payroll, 54% or 6,126 employees held at least a university degree, of that 187 a doctoral degree, and 384 a master's degree or specialisation.

Investor and Share Information

On the last trading day in 2018, the Krka share price on the Ljubljana Stock Exchange totalled €57.80, a 0.5% increase over the 2017 year-end, when it amounted to €57.50. In the same period, the value of the blue-chip index of the Ljubljana Stock Exchange (SBITOP) decreased by 0.2%. At the end of last year, Krka's market capitalisation amounted to €1,895 million.

Krka shares are the most traded security on the Ljubljana Stock Exchange. In 2018, the average daily trading volume of Krka shares on the Ljubljana Stock Exchange reached €0.4 million. In 2018, the company acquired

201,730 treasury shares on the regulated market, valued at €11,488 thousand and held 893,447 treasury shares or 2.9% of all Krka shares on 31 December 2018.

Plans for 2019

According to the 2019 plans, sales of the Krka Group are projected at €1,375 million and net profit at €172 million. Nevertheless, Krka remains committed to exceeding the planned objectives. In terms of sales in the first quarter of 2019, ending the following week, the Management Board observes the last year's sales trends continue.

Krka intends to allocate more than €124 million for investment projects to increase and modernise production capacities and infrastructure. The total number of employees in Slovenia and abroad is projected to grow by 4% in 2019. This rise is primarily expected due to transfers of people employed through agencies to Krka.

Also 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 Krka Group majority holders will be allocated for dividends. However, allocation of net profit for dividends will also consider financial requirements of the Krka Group with respect to investments and takeovers.

Events after the Accounting Period

On 12 March 2019, the President of the Supervisory Board received a resignation statement sent by a member of the Supervisory Board, Hans-Helmut Fabry. Mr Fabry stated in the letter that he would resign from his Supervisory Board membership effective on 12 March 2019 and thanked the President of the Supervisory Board, Supervisory and Management Board members for constructive cooperation. Mr Fabry plans to become engaged by a direct competitor of Krka.

According to the 2014 findings of the European Commission, Krka allegedly violated Article 101 of the Treaty on the Functioning of the EU causing distortion of the competition in the perindopril market of the EU. The European Commission imposed a €10 million fine on Krka. Krka settled the fine within the time limit set by the European Commission, but decided to bring an action before the General Court against the decision of the European Commission on the grounds that there was no breach of the EU competition rules, and in December 2018, the court ruled in favour of Krka. The decision of the General Court has not yet become final, and the European Commission filed an appeal against the decision within the provided time limit, on which the Court of Justice of the EU will rule. At the beginning of 2019, the European Commission refunded Krka the €10 million fine, but in compliance with legal opinion Krka decided to post the refund under deferred revenues.

In 2019, Krka acquired 76,346 treasury shares on the regulated market. Krka now holds a total of 969,793 treasury shares or 3.0% of all Krka shares.