

**Krka Reports First Quarter 2020 Business Results**

**In the first quarter of 2020, the Krka Group generated sales of €462.9 million, a 22% increase compared to the first quarter last year, yielding €85.2 million of net profit, up 21% year-on-year. The Supervisory Board of Krka discussed the Q1 2020 Business Report of the Krka Group and Krka, d. d. at its regular meeting yesterday.**

Upward trends in sales of our wide range of quality products in the past quarters continued also in the first quarter of 2020, enhanced by the one-time increase in sales due to the coronavirus pandemic outbreak. By the end of the quarter, the increased demand had diminished, and we expect sales figures to return to their planned ranges by the end of the year. We experienced no significant negative impacts of the coronavirus pandemic outbreak on our business operations. The uncertainty in the global financial markets and in particular the crude oil price crash had a negative impact on the value of the Russian rouble and certain other currencies, reflected in the negative financial result.

Trade receivables went up because of high sales growth. No particularities were noticed upon their collection. We recorded no major interruptions in supply of raw and other materials. Social distancing measures introduced by most countries greatly affected marketing activities though. Visits of healthcare professionals were replaced by various forms of e-communication. We did not change our strategy for allocating capital and continued to repurchase treasury shares in the first quarter. The Supervisory and the Management Boards followed the long-term dividend policy and suggested shareholders be paid record dividends for 2019 totalling €4.25 per share, up 33% on the previous year. On 22 May 2020, the company is scheduled to release the notice for the 26th AGM.

The President of the Management Board and Chief Executive Jože Colarič commented on the occasion: *‘After the pandemic was declared, we at the Krka Group introduced all necessary measures to contain the spread of the infection, protect the health of our employees, and ensure business continuity. In this way, we prevented any interruptions of the supply chain and lack of our medicines on global markets, which is an important mission for us. We would like to express great thanks to our employees, whose dedicated work made it possible for the company to continue business operations uninterruptedly and achieve the set goals. Krka’s vertically integrated business model once again proved effective in business process management.’*

**Financial Highlights**

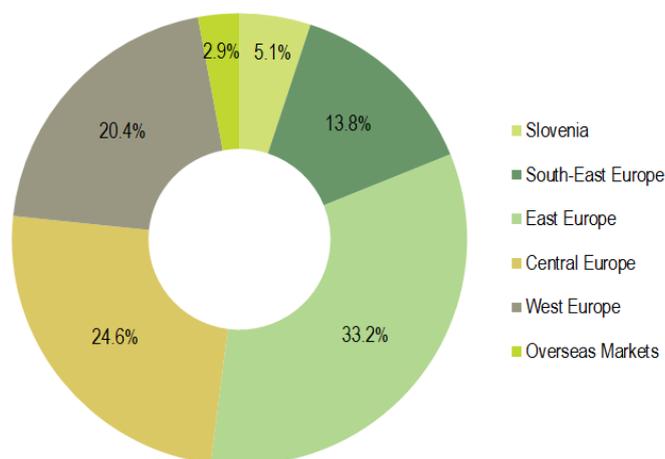
	Krka Group			Krka		
	Jan–Mar 2020	Jan–Mar 2019	Growth	Jan–Mar 2020	Jan–Mar 2019	Growth
Values in € thousand						
Revenue	462,852	378,473	22%	434,883	327,072	33%
– of that revenue from contracts with customers on sales of products and services	461,729	377,288	22%	371,258	288,485	29%
Gross profit	275,543	215,526	28%	253,040	190,432	33%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	162,039	99,913	62%	147,014	84,274	74%
Operating profit (EBIT)	133,926	72,232	85%	126,154	63,775	98%
Net profit	85,182	70,282	21%	83,375	65,326	28%
R&D expenses	37,618	36,493	3%	38,052	37,714	1%
<b>Ratios</b>						
Gross profit margin	59.5%	56.9%		58.2%	58.2%	
EBITDA margin	35.0%	26.4%		33.8%	25.8%	
EBIT margin	28.9%	19.1%		29.0%	19.5%	
Net profit margin (ROS)	18.4%	18.6%		19.2%	20.0%	
Return on equity (ROE)	20.2%	17.8%		19.6%	16.5%	
Return on assets (ROA)	15.3%	13.7%		15.4%	13.3%	
Liabilities/Equity	0.324	0.312		0.257	0.257	
R&D expenses/Revenue	8.1%	9.6%		8.7%	11.5%	

## Sales

In the first quarter, the Krka Group product sales generated €462.9 million, of which revenue from contracts with customers on sales of products and services amounted to €461.7 million. Revenue from contracts with customers on sales of materials and other sales revenue constituted the difference. **Sales revenue increased by €84.4 million and were 22% higher than in the same period last year.** Sales increased in all sales regions and most individual markets. Sales of all product groups advanced as well.

### Product and Service Sales by Region

€ thousand	Jan–Mar 2020	Jan–Mar 2019	Index
Region Slovenia	23,325	22,006	106
Region South-East Europe	63,794	50,409	127
Region East Europe	153,082	122,091	125
Region Central Europe	113,706	85,862	132
Region West Europe	94,312	84,285	112
Region Overseas Markets	13,510	12,635	107
<b>Total</b>	<b>461,729</b>	<b>377,288</b>	<b>122</b>



**Generating €153.1 million or 33.2% of total sales, the largest region of the Krka Group in terms of sales was Region East Europe. Year-on-year, sales grew by 25%.** Product sales in the Russian Federation totalled €96.6 million, a 25% year-on-year increase. In Ukraine, product sales amounted to €25.1 million, up 33%. In relative terms, growth was most substantial in Tajikistan, Kyrgyzstan, and Georgia, and two-digit growth was recorded in most other regional markets as well.

**Region Central Europe**, comprising the Visegrad Group and the Baltic states, **followed with €113.7 million or 24.6% of total Krka Group sales. Year-on-year, growth was 32%.** Poland, the leading market, generated product

sales of €52.4 million and recorded 32% growth. Sales went up also on all other regional markets.

**Region West Europe made €94.3 million and was with a 20.4% share the third largest Krka Group region in terms of sales value. Year-on-year, growth was 12%.** Sales were the strongest in Germany, the Scandinavian countries, and Spain. We recorded the highest growth in absolute terms in Germany, and the highest growth in relative terms in Benelux. Sales of our own product brands through subsidiaries increased by 18% and accounted for 76% of total regional sales.

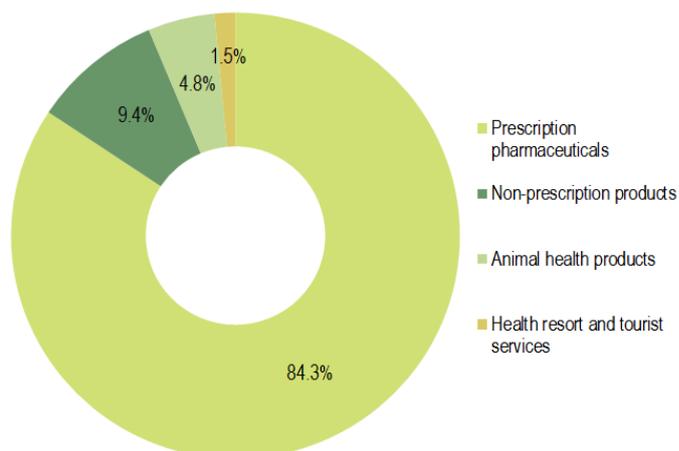
**Product sales in Region South-East Europe amounted to €63.8 million, up 27% compared to the same period last year, and accounted for 13.8% of total Krka Group sales.** Romania, where we recorded the highest sales in absolute and relative terms, and Croatia were our two key markets in the region. We recorded sales growth in almost all regional markets.

**In Slovenia, sales added up to €23.3 million, accounting for 5.1% of total Krka Group sales. The growth rate was 6%.** Product sales of €16.4 million accounted for the major share of sales total and represented a 22% year-on-year increase, whereas sales of tourist and health resort services yielded €6.9 million.

**Region Overseas Markets made €13.5 million in product sales, achieving 7% growth and a 2.9% share in total Krka Group sales.**

## Product and Service Sales by Category

€ thousand	Jan–Mar 2020	Jan–Mar 2019	Index
Human health medicines	432,600	351,142	123
– Prescription pharmaceuticals	389,389	314,367	124
– Non-prescription products	43,211	36,775	118
Animal health products	22,221	17,646	126
Health resort and tourist services	6,908	8,500	81
<b>Total</b>	<b>461,729</b>	<b>377,288</b>	<b>122</b>



The Krka Group sales of prescription pharmaceuticals totalled €389.4 million, 24% more than in the same period last year, accounting for 84.3% of total Krka Group sales. All regions saw sales growth: Region Central Europe 33%, Region East Europe and Region South-East Europe 26%, Region West Europe 13%, and Region Slovenia and Region Overseas Markets 12%.

Of our major markets, sales growth was most notable in Germany 38%, Poland 32%, and the Russian Federation 26%. Year-on-year, other major markets recorded sales growth in prescription pharmaceuticals as follows: the Czech Republic 42%, Romania

39%, Croatia 36%, Ukraine 34%, the Scandinavian countries 31%, Hungary 22%, Slovakia 13%, and Slovenia 12%.

Medium-sized markets recorded sales growth as follows: Benelux 90%, Lithuania 64%, Bosnia and Herzegovina 43%, Austria 43%, Latvia 31%, Portugal 24%, Belarus and Uzbekistan 21%, Bulgaria 19%, Kazakhstan 14%, France 13%, and the Republic of North Macedonia 11%.

Of small markets, Krka prescription pharmaceuticals presented the steepest sales growth in: Estonia 140%, Tajikistan 119%, Georgia 61%, Kyrgyzstan 60%, and Moldova 36%.

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

- valsartan (Valsacor, Valsacombi\*, Vamloset\*, Co-Vamloset\*, Valarox\*);
- perindopril (Prelessa\*, Co-Prelessa\*, Amlessa\*, Co-Amlessa\*, Roxiper\*);
- losartan (Lorista\*, Lorista H\*, Lorista HD\*, Tenloris\*);
- atorvastatin (Atoris);
- pantoprazole (Nolpaza\*);
- rosuvastatin (Roswera\*, Co-Roswera\*);
- esomeprazole (Emanera\*);
- enalapril (Enap, Enap H, Enap HL, Elernap\*);
- tramadol (Doreta\*, Tadol\*); and
- sertraline (Asentra).

All pharmaceuticals listed above are marketed under different brand names in individual countries.

Year-on-year sales of non-prescription products advanced by 18%, generating €43.2 million (9.4% of total Group sales). Sales of animal health products grew by 26% and totalled €22.2 million (4.8% of total Group sales). Health resort and tourist services yielded €6.9 million, a 19% year-on-year decrease (1.5% of total Group sales).

## Research and Development

**In the first quarter of 2020, we obtained marketing authorisations for three new products in eight dosage forms and strengths.** We were granted marketing authorisations for two prescription medicines, Xerdoxo (rivaroxaban) and Erlotinib Krka (erlotinib), and a new non-prescription formulation of B-complex. We expanded marketing opportunities for many Krka products in all regions.

We were granted marketing authorisations under the decentralised procedure for Xerdoxo (rivaroxaban) film-coated tablets in four strengths. It is used concomitantly with other medicines for prevention of atherothrombotic events in adults with cardiovascular diseases.

We also obtained marketing authorisations for our oncology pharmaceutical Erlotinib Krka (erlotinib) film-coated tablets in three strengths. It is indicated for the treatment of patients with metastatic non-small cell lung cancer and in combination with another medication for the treatment of pancreatic cancer.

In European markets, we were granted marketing authorisations for our established medicines. We were obtained a marketing authorisation for our cardiovascular product Kandoset (candesartan/amlodipine) tablets. Marketing authorisations for Doxazosin Krka (doxazosin) prolonged-release tablets indicated for the treatment of benign prostatic hyperplasia and an analgesic Daleron/Paracetamol Krka tablets in two strengths were also granted.

In the markets of Region East Europe, we obtained marketing authorisations for established medicinal products from various therapeutic classes. In the Russian Federation, we received marketing authorisations for our single-pill combination Valrakset (valsartan/rosuvastatin) film-coated tablets indicated for the treatment of cardiovascular diseases and Tenofovir + Emtricitabin – KRKA (emtricitabine/tenofovir) film-coated tablets indicated for the treatment of HIV infection. In Ukraine, we were granted marketing authorisations for our cardiovascular product KO-Valodip (amlodipine/valsartan/hydrochlorothiazide) film-coated tablets.

In Region South-East Europe, we closed regulatory procedures for our products from various therapeutic classes. In Serbia, our cardiovascular product Valtricom (amlodipine/valsartan/hydrochlorothiazide) film-coated tablets and an antidiabetic Glypvilo (vildagliptin) tablets were granted marketing authorisations. In the Republic of North Macedonia, another strength of Helex (alprazolam) tablets, our product for the treatment of the central nervous system, was authorised for marketing.

In the overseas markets, we obtained marketing authorisations for many established Krka products. Etoxiб (etoricoxib) film-coated tablets, Aclexa (celecoxib) hard capsules, paliperidone prolonged-release tablets, montelukast film-coated tablets, and Yasnal (donepezil) orodispersible tablets were among them.

We extended our range of non-prescription products with a marketing authorisation for our new formulation of B-complex (thiamine/riboflavin/pyridoxine/cyanocobalamin/calcium pantothenate/nicotinamide) film-coated tablets. The product is indicated for prevention and treatment of hypovitaminosis B, avitaminosis B, increased body demand, malabsorption, and various other severe forms of vitamin B deficiency. We expanded our market opportunities by obtaining marketing authorisations for Pikovit film-coated tablets in Region Overseas Markets.

We expanded marketing opportunities for our key animal health product brands in the first quarter of 2020. In the Russian Federation, we obtained marketing authorisations for Doxatib (doxycycline) 500 mg/g oral powder for the treatment of infections of the respiratory tract in pigs and chicken. In Bosnia and Herzegovina, we were granted marketing authorisations for Tuloxxin (tulathromycin) 100 mg/ml solution for injection indicated for bacterial infections of the respiratory tract in cattle and pigs and infectious pododermatitis (foot rot) in sheep. In Kazakhstan, Bosnia and Herzegovina, and the Republic of North Macedonia, Catobevit (butafosfan/cyanocobalamin) solution for injection was authorised for marketing. It is indicated as supportive therapy for various metabolic or reproductive disorders in cattle, horses, dogs, and cats.

## Investments

**In the first quarter of 2020, the Krka Group allocated €14.9 million to investments, of that €9.8 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.

Our investments in the first quarter of 2020 lagged behind the plan due to the coronavirus pandemic impact on construction industry. We will nevertheless endeavour to meet the investment plan to the largest possible extent by the end of the year.

The increasing demand for additional production capacities has incited us to acquire extra technological equipment in Noto 2, our state-of-the-art facility for manufacturing solid dosage forms in Novo mesto. In 2019, we started equipping a new packaging facility. The investment was estimated at €41 million. When the plant is fully technologically equipped, it will be able to operate at its total production capacity of 5 billion tablets per year and its packaging capacity of 8 billion tablets per year.

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

In Krško, construction of a new warehouse for raw materials started in June 2019. The investment will ensure sufficient warehousing capacities for raw materials used in chemical and pharmaceutical production. Completion of the €8.2 million building is planned for 2020.

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. The plant produces 81% of all products intended for the Russian market. We plan to increase manufacturing and laboratory capacities of the existing and partly refurbished premises of Krka-Rus 1 and Krka-Rus 2 in the coming years. 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 leased facilities where we additionally installed production and quality assurance equipment. The procurement of equipment will continue in 2020.

## Employees

At the end of March, the Krka Group had 11,622 employees, of that 5,680 abroad, which accounts for a good 49% of the total Krka Group headcount. The proportion of the Krka Group employees with at least university-level qualifications was 52%, and 202 employees hold doctoral degrees. Together with agency workers, the Krka Group had 12,791 persons on payroll, 21 more than at the end of 2019.

We provide continuous recruitment of talented employees by awarding scholarships. At the end of March, we listed 110 scholarship holders, primarily pharmacy and chemistry students. We also grant scholarships to exceptional students from other fields of interest to Krka, and this year 18 such scholarships were granted. At the end of March, 150 employees were enrolled in part-time graduate studies co-funded by Krka, 46 of them in postgraduate studies.

## Share and Investor Information

As at 31 March 2020, the Krka share traded at €64.80 on the Ljubljana Stock Exchange, posting an 11% drop on the 2019 year-end. Market capitalisation of Krka amounted to €2.1 billion.

At the end of March 2020, Krka had 48,293 shareholders. In the first quarter of 2020, holdings of domestic retail investors and treasury shares increased. Holdings of legal entities and institutional investors remained unchanged, while the stake of foreign investors slightly diminished.

In the first quarter of 2020, Krka acquired 64,220 treasury shares. On 31 March 2020, Krka held 1,298,472 treasury shares accounting for 3.96% of the share capital.

## Impact of the Coronavirus Pandemic Outbreak on the Krka Group Business Operations

After the coronavirus pandemic had been declared, we at the Krka Group introduced all necessary measures to contain the spread of the infection, protect the health of our employees, and ensure uninterrupted business operations. In this way, we prevented any interruptions of the supply chain and lack of medicines on global markets.

We immediately took action to reduce sanitary and health risks by considering the experiences and measures adopted by our Chinese partners and Italian companies. We adjusted our processes to guarantee social distancing and provided personal protective equipment for our work. Our relevant departments issued a series of instructions and recommendations for performing work processes and responsible behaviour at work and home.

In order to further reduce risk of infection, we ordered approximately 50% of our employees in Slovenia to be on standby at home in the period from 16 March to 14 April, including parents of children up to ten years of age, pregnant women, and employees with chronic diseases vulnerable to coronavirus. During that time, only Krka employees directly involved in pharmaceutical manufacturing and supply processes came to work to Krka's premises to cater vital support. We granted access to IT systems and services to our homebound employees. In this way, they were available at all times and worked uninterruptedly from home. Work at Krka's production and distribution facilities abroad went on without interruptions. Marketing and sales processes were carried out in different ways, primarily by using e-tools, and in line with government measures undertaken by individual countries. Since the beginning of May, most employees in Slovenia have returned to their regular work posts. Strict safety measures are applied at all times to prevent and reduce the impact of the new virus.

There was no major impact on average daily production volume of finished products at the Krka Group. During the pandemic, raw and production material purchasing continued with minimal disruption. Quality assurance and quality management were uninterrupted. Due to social distancing, we had to change our product promotion approach and our departments adjusted their workflow to the current situation by using e-technologies to a greater extent.

No insurmountable problems arose with logistics, but land transport shipping times have increased, containers have been in short supply for maritime transport, while air transport has been limited.

Our business model of vertical integration comprises development, quality control, a well-organised supply chain, the many production sites that we own, marketing-and-sales activities, and support services. It covers a wide array of processes and activities on the global level. Because of this, the supply chain was not affected.

The course of events related to spreading of infection, its aftermaths, and measures adopted by governments cannot be foreseen, so the Management Board of Krka closely follows the situation in the countries where we operate.

**In the first quarter of 2020, the demand for Krka products increased due to the coronavirus pandemic causing an upturn in sales. The demand relented by the end of the period, and is currently at the planned and anticipated level. For 2020 the Krka Group sales are planned at €1.520 million and net profit at just over €210 million.**