

PRESS RELEASE

Krka Reports on 2020 Semi-annual Business Results

Novo mesto, 30 July 2020

In the first half of 2020, the Krka Group product sales generated sales of €803.8 million, a 6% increase compared to the same period last year, yielding €160.3 million of net profit, up 15% year on year. The Supervisory Board of Krka discussed the 2020 Semi-annual Business Report for the Krka Group and Krka at its regular meeting yesterday.

The President of the Management Board and Chief Executive Jože Colarič declared:

“The Krka Group performed well in the first half of the business year, reached record results, and despite the coronavirus pandemic outbreak accomplished the Group’s mission by uninterruptedly supplying medicinal products to markets across the world. Sound financial condition of the Group, its vertically integrated business model, and positive global demand for pharmaceutical products are to be credited that the extraordinary situation ended well for us. We at Krka actively deal with impacts and changes caused in our business environment by the pandemic outbreak. We have been adjusting certain business processes and started using more e-communication tools not only for marketing, but in other areas as well. Long-term consequences of the coronavirus pandemic could affect the national healthcare budgets. Krka enters the second half of the year in a sound financial condition, with a wide portfolio of high-quality pharmaceutical products, and applying innovative approaches to all fields of work, which will help us attain this year’s plans and long-term strategic goals. According to our 2020 plan, operating income should reach €1.52 billion, and profit should climb to a good €210 million. Development of the coronavirus situation, spreading of the disease, its aftermaths, and the related measures of the affected nations are highly uncertain. We are therefore closely monitoring the situation and adapting accordingly in countries where we operate.”

Financial Highlights

| € thousand | Krka Group | | | Krka | | |
|--|---------------|---------------|--------|---------------|---------------|--------|
| | Jan–June 2020 | Jan–June 2019 | Change | Jan–June 2020 | Jan–June 2019 | Change |
| Revenue | 803,753 | 761,331 | +6% | 783,100 | 673,022 | +16% |
| – Of that revenue from contracts with customers on products and services | 801,847 | 759,336 | +6% | 651,451 | 587,746 | +11% |
| Gross profit | 482,929 | 433,765 | +11% | 448,276 | 383,374 | +17% |
| EBITDA | 272,925 | 209,688 | +30% | 250,376 | 166,151 | +51% |
| EBIT | 216,688 | 154,537 | +40% | 208,563 | 125,363 | +66% |
| Net profit | 160,260 | 139,909 | +15% | 155,512 | 120,286 | +29% |
| R&D expenses | 73,846 | 74,515 | -1% | 74,260 | 77,131 | -4% |
| Investments | 31,270 | 52,592 | -41% | 20,733 | 41,954 | -51% |
| RATIOS | | | | | | |
| Gross profit margin | 60.1% | 57.0% | | 57.2% | 57.0% | |
| EBITDA margin | 34.0% | 27.5% | | 32.0% | 24.7% | |
| EBIT margin | 27.0% | 20.3% | | 26.6% | 18.6% | |
| Net profit margin (ROS) | 19.9% | 18.4% | | 19.9% | 17.9% | |
| Return on equity (ROE) | 18.5% | 17.3% | | 17.9% | 15.0% | |
| Return on assets (ROA) | 14.3% | 13.4% | | 14.1% | 12.0% | |
| Liabilities/Equity | 0.293 | 0.298 | | 0.263 | 0.255 | |
| R&D expenses/Revenue | 9.2% | 9.8% | | 9.5% | 11.5% | |

Business operations of the Krka Group in the first half of 2020 were marked by the coronavirus pandemic. After above average growth of revenue in the first quarter of the year, the growth slowed down in line with forecasts and returned to the planned figures in the second quarter. We generated 95% of total Krka Group sales in markets outside Slovenia. Our largest individual market was the Russian Federation, where sales reached €180 million, up 8%. Next two largest markets were Poland with sales total of €86 million and 8% growth, and Germany with sales total of €48 million and 18% growth. Prescription pharmaceuticals remained our most important group of products, of which cardiovascular medications accounted for the largest share. The coronavirus pandemic affected health resort and tourist service sales. In the first half of 2020, we obtained marketing authorisations for 4 new products in 13 dosage forms and strengths. We obtained additional marketing authorisations for Krka products in many markets in all regions.

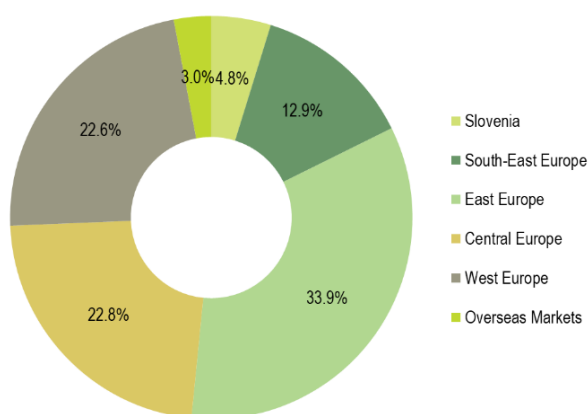
The Krka Group increased revenue by 6% and profitability improved in the first half of the year as well. Gross profit climbed to 60% of revenue. EBITDA increased by 30% on first half of 2019. EBITDA margin amounted to 34%. We detected no major negative impact on operations. We, however, recorded a drop in foreign currencies, most notably the Russian rouble, which impacted the financial result. We allocated a good 9% of sales revenue to research and development. Investments in the amount of €31.3 million ranged below the plan due to the coronavirus pandemic impact. In the first half of 2020, we apportioned €16 million to treasury share repurchasing. The Annual General Meeting approved the new three-year treasury share repurchasing programme.

Sales

In the first half of the year, the Krka Group product sales generated €803.8 million, of which revenue from contracts with customers on sales of products and services amounted to €801.8 million. Revenue from contracts with customers on sales of materials and other sales revenue constituted the difference. Sales revenue increased by €42.5 million, up 6% on the comparable period last year.

Product and Service Sales by Region

| € thousand | Krka Group | | |
|-------------------|----------------|----------------|------------|
| | Jan–June 2020 | Jan–June 2019 | Index |
| Slovenia | 38,347 | 45,000 | 85 |
| South-East Europe | 103,534 | 98,709 | 105 |
| East Europe | 271,688 | 251,525 | 108 |
| Central Europe | 182,675 | 169,108 | 108 |
| West Europe | 181,572 | 170,443 | 107 |
| Overseas Markets | 24,031 | 24,551 | 98 |
| Total | 801,847 | 759,336 | 106 |



Generating €271.7 million or 33.9% of total sales, the most successful region of the Krka Group in terms of sales was Region East Europe. Year on year, sales grew by 8%. Product sales in the Russian Federation totalled €180.2 million, an 8% year-on-year increase. In Ukraine, product sales added up to €37.1 million, a 3% rise. In relative terms, growth was most substantial in Georgia, Tajikistan, and Kyrgyzstan.

Region Central Europe, comprising the Visegrad Group and the Baltic states, followed with €182.7 million or 22.8% of total Krka Group sales. Year on year, growth was 8%. Poland, the leading

market, generated product sales of €85.9 million and recorded 8% growth. Except for Hungary and Slovakia, we increased sales also in other regional markets.

Region West Europe made €181.6 million, a 22.6% share, and was the third largest Krka Group region in terms of sales volume. Year on year, growth was 7%. Sales were 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 the Benelux countries. Sales of our own product brands through subsidiaries increased by 5%, and accounted for 74% of total regional sales.

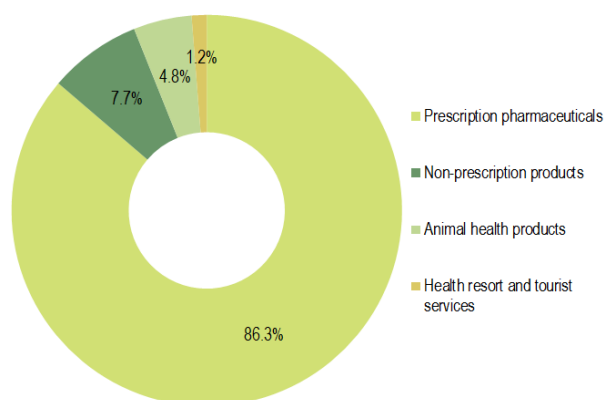
Product sales in Region South-East Europe amounted to €103.5 million, 5% more than in the same period last year, accounting for 12.9% of total Krka Group sales. We recorded growth in all regional markets, but figures generated in Romania and Croatia added most to total sales.

In Slovenia, sales added up to €38.3 million, accounting for 4.8% of total Krka Group sales. Product sales of €28.4 million accounted for the major share of sales total and presented a 7% year-on-year increase, while sales of tourist and health resort services yielded €10 million.

Region Overseas Markets generated product sales of €24 million, constituting a 3.0% share of total Group sales.

Product and Service Sales by Category

| € thousand | Krka Group | | |
|-------------------------------------|----------------|----------------|------------|
| | Jan–June 2020 | Jan–June 2019 | Index |
| Human health medicines | 753,174 | 705,099 | 107 |
| – Prescription pharmaceuticals | 691,680 | 642,562 | 108 |
| – Non-prescription products | 61,494 | 62,537 | 98 |
| Animal health products | 38,680 | 35,822 | 108 |
| Health resorts and tourist services | 9,993 | 18,415 | 54 |
| Total | 801,847 | 759,336 | 106 |



The Krka Group sales of prescription pharmaceuticals totalled €691.7 million, 8% more than in the same period last year, accounting for 86.3% of total Krka Group sales. Increases by sales regions were as follows: East Europe 10%, Central Europe 9%, West Europe 7%, South-East Europe 5%, and Region Slovenia 2%.

Sales growth was recorded in three largest markets: Germany 17%, The Russian Federation 11%, and Poland 8%.

Year on year, other major markets recorded sales growth in prescription pharmaceuticals as follows: The Czech Republic 10%, Italy 9%, The Scandinavian countries 5%, Romania 4%, Ukraine 2%, Slovenia 2%, and Croatia 1%.

Medium-sized markets recorded the highest sales growth rates as follows: The Benelux countries 72%, Lithuania 41%, France 37%, Belarus 29%, Latvia 19%, Bosnia and Herzegovina 13%, Portugal 12%, and Ireland 11%.

Of small markets, Krka prescription pharmaceuticals presented the steepest sales growth in Estonia 74%, Georgia 61%, Tajikistan 38%, Montenegro 27%, Kyrgyzstan 26%, and Albania 21%.

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, Elnap),

candesartan (Karbis, 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 2%, generating €61.5 million (7.7% of total sales). Sales of animal health products grew by 8% and totalled €38.7 million (4.8% of total sales). Health resorts and tourist services yielded €10 million, a 46% year-on-year decrease (1.2% of total sales).

Research and Development

In the first half of 2020, we obtained marketing authorisations for 4 new products in 13 dosage forms and strengths. Among prescription pharmaceuticals we were granted marketing authorisations for Xerdoxo/Rivarolto (rivaroxaban), a single-pill combination Olsitri (olmesartan/amlodipine/hydrochlorothiazide), and Erlotinib Krka (erlotinib), and a new non-prescription formulation of B-complex. **We obtained additional marketing authorisations for Krka products in markets in all regions.**

We were granted marketing authorisations under the decentralised procedure for Xerdoxo/Rivarolto (rivaroxaban) film-coated tablets in four strengths. The agent is used concomitantly with other medicines for prevention of atherothrombotic events in adults with cardiovascular diseases. We have obtained marketing authorisations in order to launch the medicine on selected markets at the end of 2020. Most advanced anticoagulants provide effective and safe therapy for cardiovascular patients and importantly improve the quality of their lives.

The range of Krka cardiovascular medicines was extended by a new single-pill combination Olsitri (olmesartan/amlodipine/hydrochlorothiazide). Film-coated tablets are 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. It is indicated for the treatment of patients with metastatic non-small cell lung cancer and also in combination with another medication for the treatment of pancreatic cancer. We launched this medicine, which is the result of our own research and development, on selected markets immediately after the originator's patent expired. We produce this medicine at the Jastrebarsko plant in Croatia in the state-of-the-art department for manufacture of products containing highly potent APIs.

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, and renewed the already established formula. In Slovenia, it was authorised as a medicinal product and is the only approved product with this combination of group B vitamins. It is indicated for prevention and treatment of hypovitaminosis B, avitaminosis B, increased body demand, malabsorption, and various other severe forms of vitamin B deficiency. It is given to patients suffering from neuralgia and is indicated as support therapy for cancer patients.

Investments

In the first half of 2020, the Krka Group allocated €31.3 million to investments, of that €20.7 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 coronavirus pandemic impacted construction industry, so our investments in the first half of 2020 lagged behind the plan. **We attempt to fulfil the investment plan to the greatest extent possible by the end of the year.**

We built a multipurpose warehouse at our central site in Ločna, Novo mesto, 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. 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 Notol 2 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 will allow for increased packaging output of lozenges and tablets. The investment was estimated at €4.4 million.

In Krško, we constructed a new warehouse to ensure sufficient warehousing capacities for raw materials used in chemical and pharmaceutical production. In June, we examined the building, and the procurement of the equipment is already in progress. The investment was estimated at €8.2 million.

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 at €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. We produce 80% of all products intended for the Russian market at Krka-Rus. In the next few years, we will 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 quality assurance equipment. The procurement of equipment continues in 2020.

Employees

At the end of the first half of 2020, the Krka Group had 11,658 employees on payroll, of that 5,579 abroad accounting for just short of 48% of the total Krka Group headcount. The Krka Group employees with at least university-level qualifications constituted 52% of the personnel, of that 203 held doctoral degrees. Together with the agency workers, the Krka Group employed 12,751 people.

We provide continuous recruitment of talented employees by awarding scholarships. At the end of June, we listed 111 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 June, 146 employees were enrolled in part-time graduate studies co-funded by Krka, 46 of them in postgraduate studies.

Share and Investor Information

As at 30 June 2020, the Krka share traded at €82.80 on the Ljubljana Stock Exchange, up 13.1% on year-end 2019. Market capitalisation of Krka amounted to €2.7 billion.

At the end of June 2020, Krka had a total of 48,015 shareholders. Over the same period, holdings of treasury shares increased, while holdings of legal entities and institutional investors as well as foreign investors diminished. The stake of Slovenian retail investors remained unchanged.

In the first half of 2020, Krka acquired 200,720 treasury shares. As at 30 June 2020, Krka owned 1,434,972 treasury shares accounting for 4.376% of share capital.