



## **PRESS RELEASE**

### **Krka presented its operating results for the first two quarters of 2019**

**Novo mesto, 1 August 2019**

**The Krka Group sales in the first two quarters of 2019 totalled €761.3 million, a 12% increase over the same period last year, yielding net profit of €139.9 million, up 38%. The Supervisory Board of Krka discussed the 2019 January–June Business Reports for the Krka Group and Krka at its regular meeting yesterday.**

#### **Sales**

In the first two quarters of 2019, the Krka Group product sales generated €761.3 million, of which revenue from contracts with customers on sales of products and services amounted to €759.3 million. Revenue from contracts with customers on sales of materials and other sales revenue constituted the difference. Sales increased by €81.8 million and were 12% stronger than in the same period last year.

#### **Product and Service Sales by Region**

The largest sales region of the Krka Group was Region East Europe, which generated €251.5 million or 33.1% of total Krka Group sales. Year-on-year, sales grew by 15%. Product sales in the Russian Federation totalled €166.8 million, up 9% year-on-year corresponding to a 12% sales increase expressed in the Russian rouble. In Ukraine, product sales added up to €35.9 million, an upsurge of 51%. We recorded double-digit growth rates in most regional markets.

Region West Europe followed with €170.4 million or 22.5% of total Krka Group sales. Year-on-year, sales grew by 17%. Sales were the strongest in Germany, the Scandinavian countries, and Spain. Sales of our own product brands through subsidiaries increased by 26%, and accounted for 75% of total regional sales. The Scandinavian countries, Spain, Portugal and the United Kingdom recorded highest sales increases.

Region Central Europe that comprises the Visegrad Group and the Baltic states, was the third largest region in terms of sales value accounting for €169.1 million or 22.3% of total Krka Group sales. Year on year, the growth was 5%. Poland, the leading market, generated sales total of €79.5 million, and recorded 6% growth. Sales also went up in Hungary, Slovakia, Lithuania, and Estonia.

Product sales in Region South-East Europe amounted to €98.7 million, 12% more than in the same period last year, accounting for 13% of total Krka Group sales. Romania and Croatia were our two key markets in the region. However, we recorded the highest growth rates in Bulgaria and Serbia.

In Slovenia, sales made €45 million accounting for 5.9% of total Krka Group sales. The growth rate was 4%. Product sales generated €26.6 million, the largest portion of total sales. Health resorts and tourist services yielded €18.4 million.

Product sales by Region Overseas Markets totalled €24.6 million achieving 13% growth and 3.2% share of total Krka Group sales.

#### **Sales by Product and Service Group**

The Krka Group sales of prescription pharmaceuticals totalled €642.6 million, 13% more than in the same period last year, accounting for 84.6% of total Krka Group sales. Regions that increased sales were West Europe (20%), East Europe (17%), South-East Europe (13%), Overseas Markets (11%), and Central Europe (5%). Year on year, sales generated by Region Slovenia remained at the same level.

Sales went up on our three largest markets: the Russian Federation (11%), Poland (8%), and Germany (5%). Year-on-year, prescription pharmaceutical sales increased on other major markets as follows: the Scandinavian countries (70%), Ukraine (56%), Spain (34%), Romania (17%), Hungary (15%), Italy (12%), and Slovakia (10%).

Medium-sized markets increased sales as follows: Bulgaria (50%), Portugal (29%), the United Kingdom (26%), Serbia (20%), Uzbekistan (17%), Austria (13%), and Lithuania (12%). In smaller markets, our prescription pharmaceuticals presented the highest sales growth rates in Belarus (55%), Armenia (45%), Kyrgyzstan (34%), Tajikistan (27%), Azerbaijan (22%), Benelux (18%), Moldova (18%), Turkmenistan (13%), and Kosovo (11%).

Ten leading prescription pharmaceuticals in terms of sales were product groups 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), rosuvastatin (Roswera, Co-Roswera), esomeprazole (Emanera), enalapril (Enap, Enap H, Enap HL, Elernap), clopidogrel (Zyllt), and tramadol (Doreta, Tadol). All pharmaceuticals mentioned above are marketed under different brand names in individual markets.

Year-on-year sales of non-prescription products advanced by 7% generating €62.5 million (8.3% of total Group sales). Sales of animal health products grew by 2% and totalled €35.8 million (4.7% of total Group sales). Health resorts and tourist services yielded €18.4 million, a 6% year-on-year increase (2.4% of total Group sales).

## Operating Results

The Krka Group recorded €154.5 million of operating profit, a 14% year-on-year increase. Profit before tax amounted to €163.9 million, up 36% compared to the same period last year. Income tax totalled €24.0 million, and the effective tax rate was 14.6%. The Krka Group recorded net profit of €139.9 million, a 38% year-on-year increase.

The Krka Group net profit margin for the first two quarters of 2019 was 18.4%, EBIT margin 20.3%, and EBITDA margin 27.5%.

At the Group level, annualised ROE was 17.3% and annualised ROA 13.4%.

## Research and Development

In the first two quarters of 2019, we obtained marketing authorisations for six new products in 12 dosage forms and strengths: i) three prescription pharmaceuticals – Atazanavir Krka (atazanavir), Sidarso/Silbesan (silodosin), and cinacalcet; ii) two non-prescription products – Vitamin D3 Krka (cholecalciferol), and Herbion Ivy (ivy leaf dry extract) lozenges; and iii) one animal health product – Awazom (amoxicillin). We expanded our products to new markets in all our regions.

Our new antiviral prescription pharmaceutical Atazanavir Krka (atazanavir) hard capsules available in three strengths is indicated for the treatment of human immunodeficiency virus (HIV) infection, as it reduces the viral load in a body and chances for development of the disease. It is taken once a day. Adults and paediatric patients 6 years of age and older used it in combination with other pharmaceuticals. We obtained marketing authorisations under the centralised procedure in the European countries.

We introduced our new pharmaceutical Sidarso/Silbesan (silodosin) hard capsules in two strengths indicated for symptomatic treatment of benign prostatic hyperplasia. It is taken once a day, does not cause cardiovascular adverse reactions, and can therefore be used also in the elderly and patients with cardiovascular diseases.

We obtained marketing authorisations under the European decentralised procedure for medicine, cinacalcet film-coated tablets in three strengths. The medicine regulates levels of parathyroid hormone, calcium, and phosphorus in the body. It is used for the treatment of secondary hyperparathyroidism in patients with kidney disease on dialysis therapy and for reducing high blood calcium levels in patients with cancer of the parathyroid glands or with primary hyperparathyroidism.

In the European countries, we obtained marketing authorisations for non-prescription product Vitamin D3 Krka (cholecalciferol) tablets in two strengths. The product contains bioactive form of vitamin D and is indicated for prevention of vitamin D deficiency in adults, adolescents and children aged 6 or more, for the treatment of

vitamin D deficiency in adults and adolescents, and as adjunctive therapy in specific treatment of osteoporosis in adults. It does not contain gluten, gelatine, sweeteners or sugar and can be taken by people with diabetes.

We obtained marketing authorisation for Herbion Ivy (ivy leaf dry extract) lozenges, our new product indicated for thinning the mucus in the respiratory tract and facilitating expectoration in wet cough. This herbal medicinal product can be used in adults and children aged 6 or more.

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.

## Investments

In the first two quarters of 2019, the Krka Group allocated €52.6 million to investments, of that €42 million to the controlling company. Our investments were aimed to increase and technologically upgrade production and development, and provide for quality assurance. We also invested in our own production and distribution centres around the world.

The key investment of Krka in development and quality assurance in the upcoming 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. At the end of 2016, the building with the total surface area of 18,000 m<sup>2</sup> was completed. Setting-up of the laboratory rooms was finished in 2017. Additional furnishing of the rooms intended for development is in its final stage.

At the end of 2017, Krka started building a multipurpose warehouse at the same site to ensure additional storage room for incoming materials and finished products. This will increase the speed and flexibility of production, improve product availability and market supply. The transport system and warehouse are planned to become operational in January 2020. The entire investment is estimated at €36 million.

Notol 2, a state-of-the-art production plant for solid pharmaceutical dosage forms is also in Ločna near Novo mesto. The demand for additional production capacities has been increasing and incited us to acquire extra technological equipment. This year we plan our investment at €16 million. 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 production of animal health products with biocidal effect at our Bršljin plant in Novo mesto. This investment totalled €4.2 million.

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

In Krško, preparations for construction of a new warehouse for hazardous materials have started. The facility will afford warehousing of raw materials for chemical and pharmaceutical production in compliance with the guidelines of the *Technical Rules for Hazardous Substances* (TRGS). Completion of the €8.2 million building is planned for 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. In compliance with the Directive, we introduced obligatory safety features on the outer packaging of medicines, which prevent falsified medicines from reaching patients, and upgraded the technological equipment and production processes. Over the past 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 included in this investment.

We have constructed a new four-storey office building in Ljubljana. The building is connected with the existing business premises and has already been put to use. The investment amounted to €12 million.

One of the most important investments in Krka subsidiaries abroad is investment in the Krka-Rus plant in the industrial zone of Istra in the north-western part of Moscow. Another project design for new manufacturing and laboratory capacities is already in the phase of preparation and will mark the upcoming five-year investment period in the Russian Federation. The investment estimated at €33 million will increase manufacturing capacities of the Krka-Rus plant to 3 billion tablets per year. Krka has the status of a domestic producer in the Russian Federation. The Krka-Rus plant manufactures 70% of products intended for the Russian market.

The €1.7 million investment project 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 optimisation of the production equipment in TAD Pharma, Germany, and €0.6 million in Krka-Polska, Poland.

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

At the end of 2017, we established a joint venture Ningbo Krka Menovo with a local partner Menovo in the city of Ningbo, China. We obtained an EU GMP certificate for the leased production facilities. Commercial manufacture of the first product intended for markets outside China started at the end of 2018, when we also filed all marketing authorisation documents required for its sales in China. In 2019, we have started filing additional five marketing authorisation applications for products in China.

## Employees

The Krka Group employed 11,523 persons at the end of June 2019, of that one half (5,744 persons) outside Slovenia. The proportion of Krka Group employees with at least university-level qualifications was 53%. This percentage includes 189 employees with a doctoral degree. Together with agency workers, the Krka Group had a total of 12,590 persons on payroll or 108 more than at the end of 2018.

Krka awards scholarships, which guarantees continuous recruitment. At the end of June, Krka had 88 students on grants, primarily pharmacy and chemistry students. Krka also awards grants to students of other disciplines. A total of 134 Krka employees were also part-time students, of whom 52 were involved in specialisation or postgraduate studies. We support them by partly funding fees and granting them study leave.

Krka is also included in the national vocational qualification (NVQ) system. Since 2002, we awarded 1,353 NVQ certificates to Krka employees and 142 to participants from other organisations in the pharmaceutical industry, a total of 1,495 certificates for four vocational qualifications. At the end of June, 128 Krka employees were included in the process of obtaining NVQ.

## Investor and Share Information

In the first two quarters of 2019, the price of Krka share on the Ljubljana Stock Exchange rose by 8.7%, standing at €62.80 at the end of June. Company's market capitalisation amounted to €2.1 billion.

At the end of June 2019, Krka had a total of 49,562 shareholders. The shareholding structure with 38.9% of individual Slovenian investors (natural persons) and 23.1% of international investors is stable and without any major changes.

In the first two quarters of 2019, Krka acquired 131,620 treasury shares. As at 30 June 2019, Krka held 1,025,067 treasury shares, accounting for 3.126% of share capital.

## 2019 business plan

The 2019 plan projects sales at €1.375 billion and net profit at €172 million. We intend to allocate over €124 million to investment projects, primarily to increase and upgrade production facilities and the infrastructure, and 10% of our revenue to research and development.

The Management Board remains committed to pursuing the strategy of a stable dividend policy and intends to allocate at least 50% of net profit of the Krka Group majority holders to dividend payout with due consideration given to financial needs of the Krka Group related to investments and acquisitions.

The Management Board is optimistic about the 2019 business year. If the conditions in our main markets remain roughly the same until the end of the year, we estimate that sales and especially profit will exceed our plans approved on 21 November 2018.