



KRKA, D.D.

www.krka.si

Sector:
Pharmaceuticals

Ticker:
KRKG SV

PRICE (15.09.2006)	EUR 694.94
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KRKG	
NO OF SHARES	3,542,612
MIN (52 WEEK)	EUR 344.86
MAX (52 WEEK)	EUR 694.94
MARKET CAP.	EUR 2,461.91 MN

BV (31.12.2005)	EUR 148.61
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RATIOS*	
P/E	22.74
P/B	4.20
EV/EBITDA	15.16
EPS	EUR 27.43

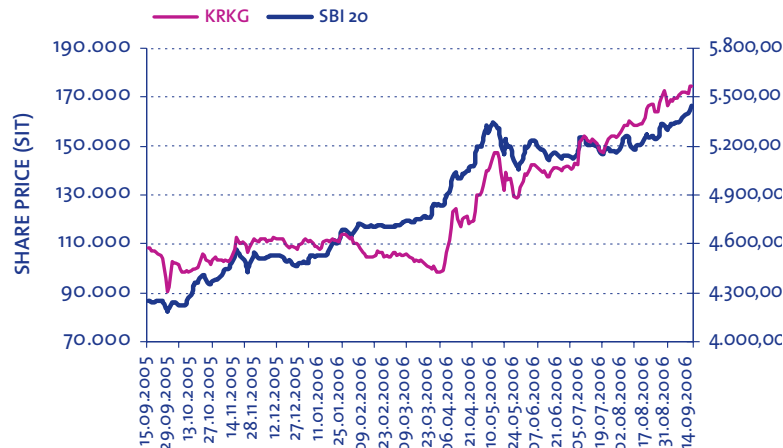
* values based on H1 2006 annualized results and current price

Krka is one of the leading generic pharmaceutical companies which operates in Slovenia, Central and Eastern Europe. It is also expanding its positions to Western markets. Besides prescribed medicines and self-treatment medicine, the company also produces veterinary and cosmetic products and implements health and tourist service via its affiliate company Krka Zdravilišča (Krka Health Resorts).

Around 29% of its products are sold in the area of Eastern Europe, 25% in Central Europe, 16% in the area of South Eastern Europe and 15% in the area of Western Europe and overseas. Approximately 15% of its products are sold on Slovenian market. Krka has subsidiaries in the European region: Italy, Czech Republic, Croatia, Hungary, Ireland, Sweden, Germany, Serbia, Macedonia and Russia.

In the first six months of this year, the Krka Company generated an operating profit of EUR 75.4 mn, which is 26% higher than in the first half of 2005, while the Krka Group generated EUR 79.2 mn (45% growth). The net profit was EUR 52.9 mn (26% growth) for the Krka Company and EUR 51.6 mn (23% growth) for the Krka Group. The Krka Company recorded sales of products and services worth EUR 302.9 mn, while the Krka Group sold products and services worth EUR 342.9 mn. The Krka Company recorded 23% growth in sales and the Krka Group 25%. The data shows that Krka has repositioned its market strategy after the change in the management board early last year. Better results were evident already at the end of 2005, however the majority of improved performance is probably to show its effect and will be noticed in 2006 and 2007.

Krka is planning to maintain its market share and one of its most important aim is to expand to European and central Asian markets. Besides producing generic drugs, the company develops its own products and will in the future consolidate relations with its licence partners.



COMPANY PROFILE:

Krka was established in 1954 as a small pharmaceutical laboratory. It has risen to an international company with modern factories and research laboratories. Today, Krka operates on more than 70 foreign markets and produces in its own factories in Slovenia, Poland, Rus-



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sia and Croatia. In 2005 the group allocated EUR 89.5 mn for investments. The most important project was the construction of the new chemical synthesis plant Sinteza 4.

The Krka group includes several companies that are spread all over the European region:

	AFFILIATE COMPANY	OWNERSHIP STAKE
Slovenia	Krka Zdravilišča, Novo mesto	100%
Europe	Krka-Farma d.o.o., Croatia	100%
	Krka-Farma Dooel, Skopje, Macedonia	100%
	Krka-Polska sp.z.o.o., Warsaw, Poland	100%
	Krka Assenhandels GmbH, Munich, Germany	100%
	Krka-Rus, Istra, Russia	100%
	Krka Farma, Sergijev Posad, Russia	100%
	Krka ČR s.r.o., Prague, Czech Republic	100%
	Krka Pharma Dublin Limited, Dublin, Ireland	100%
	Krka Sverige AB, Stockholm, Sweden	100%
	Krka Magyarorszag Kft, Budapest, Hungary	100%
	Helvetius s.r.l., Trieste, Italy	100%
	Krka-Farma d.o.o., Nov Sad, Serbia	100%

At the end of 2005, there were 5,224 employees in the Krka group, 3,580 of them worked in Slovenia and 31% outside Slovenia. Consid-

ering the balance at the end of 2004, the number of employees has increased by 8.4%. Until the end of the first quarter of 2006, there were 5,410 employees. The number of employees has increased by 8.4% as compared to the first quarter of 2005.

The production aims at producing products for self-treatment by emphasizing specific needs of a rapidly aging population. The offer is expanded in the fields of modern diseases: cardiovascular system, infections, digestion and nervous system.

PERFORMANCE:

The net sales revenues of the Krka group amounted to EUR 553.98 mn in 2005, which was 17.2% higher than in the previous year. The company created EUR 486.4 mn net sales revenue, that is 19% more than in 2004. The sales of the Krka group were realized on the following markets: 18% in Slovenia, 17% in South-Eastern Europe, 25% in Eastern Europe, 25% in Central Europe and 15% on West-European and overseas markets. The increase in sales was the highest in East European (48%) and Central Europe region (34%).

The Krka's sales in Slovenia amounted to EUR 90.97 mn in 2005, which presented a decrease by 1%. The largest stake in sales fell to prescribed drugs (93%). The Krka group in Slovenia created EUR 100.7 mn sales, which was 1% down in comparison with the previous year. There were several new drugs introduced on the markets. The stake of new drugs has been increasing from year to year and achieved 46.3% stake in 2005.



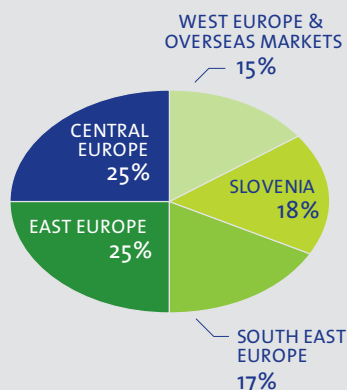
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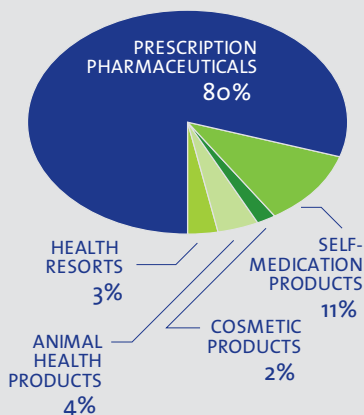
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GROUP SALES BY REGION, 2005



GROUP SALES BY PRODUCT GROUP, 2005



Prescription drugs presented EUR 440.6 mn or 80% in sales revenue, self-treatment drugs presented EUR 58.8 mn (11%) and veterinary products presented EUR 19.9 mn (4%). The sales of prescription drugs in 2005 achieved an increase of 21%, self-treatment drugs presented an increase of 13%, the sales of veterinary products increased by 16%. The range of cosmetic products substantially decreased but the cosmetic operations were reorganised.

In total sales, prescription drugs had the largest stake (82%), self-treatment products hold 10%, veterinary products and the revenues from health resorts and cosmetic products presented 4%. Compared to the first quarter of the previous year, prescription pharmaceuticals achieved 38% increase. The increase in sales of self-treatment products amounted to 7% and the sales of veterinary products amounted to 18% increase. The sales of cosmetic products rose by 28% and the revenues of health and tourist services by 8%.

In 2005 the Krka group created EUR 97.3 mn net profit, which presented 48.9% increase in comparison with 2004. In 2005 the Krka company had EUR 93.7 mn profit and in comparison with the previous year it increased its profit by 46.7%. The net profit of majority owners amounted to EUR 97.2 mn, the profit of minority owners amounted to EUR 127 thousand. The net profit from fiscal period in the first three months of 2006 amounted to EUR 29.2 mn (group) and EUR 29.5 mn (company).

In the second quarter the Krka Company generated an operating profit of EUR 75.4 mn, which is 26% higher than in the first half of 2005, while the Krka Group generated EUR 79.2 mn (45% growth). The net profit reached EUR 52.9 mn (26% growth) for the Krka Company, and EUR 51.7 mn (23% growth) for the Krka Group. The net profit would increase more than 51% if the company did not form extra EUR 16.6 mn provisions.

The Krka Company recorded the sales of products and services worth EUR 302.9 mn, while the Krka Group sold products and services worth EUR 342.9 mn in the first half of 2006. The Krka Company recorded 23% growth in sales and the Krka Group 25% as compared to the same period of 2005.

The highest growth in sales and the highest proportion of overall sales for both the Krka Company and the Krka Group has been recorded in the Region East Europe. The proportion of sales on foreign markets has increased: it is 85% for the Krka Group and 87% for the Krka Company.

SHAREHOLDERS:

On 15th September 2006, ten largest shareholders owned 39.37% stake of the company:

SHAREHOLDER	NO OF SHARES	% STAKE	CUMULATIVE % STAKE
SLOVENSKA ODŠKODNINSKA DRUŽBA, D.D.	531,207	14.99	14.99
KAPITALSKA DRUŽBA, D.D.	349,303	9.86	24.85
KRKA, D.D., NOVO MESTO	162,662	4.59	29.45
NFD 1 DELNIŠKI INVESTICIJSKI SKLAD D.D.	98,075	2.77	32.21
NEW WORLD FUND INC	55,047	1.55	33.77
DELNIŠKI VZAJEMNI SKLAD TRIGLAV STEBER I	47,255	1.33	35.10
BANK AUSTRIA CREDITANSTALT AG	43,463	1.23	36.33
ZAVAROVALNICA TRIGLAV, D.D.	38,830	1.10	37.43
LUKA KOPER, D.D.	38,717	1.09	38.52
MARIBORSKE LEKARNE MARIBOR	30,000	0.85	39.37

BALANCE SHEET

ooo EUR	GROUP				COMPANY			
	31.12.2005	31.12.2004	30.06.2006	05 / 04	31.12.2005	31.12.2004	30.06.2006	05 / 04
ASSETS								
Property, plant and equipment	451,366	411,2	469,171	9.8%	325,922	298,48	344,673	9.2%
Intangible assets	21,109	17,325	20,991	21.8%	20,438	16,473	19,767	24.1%
Investments in associates	1,13	503	1,424	124.4%	115,827	105,607	121,774	9.7%
Deferred tax assets	19,94	7,985	22,061	149.7%	15,577	4,605	18,020	238.3%
Other non-current assets	9,107	9,21	10,796	-1.1%	8,754	8,85	10,373	-1.1%
NON-CURRENT ASSETS	502,65	446,223	524,442	12.6%	486,517	434,014	514,607	12.1%
Inventories	120,876	83,605	120,547	44.6%	112,182	77,129	105,993	45.4%
Trade and other receivables	137,743	99,778	145,860	38.0%	140,941	107,433	147,279	31.2%
Investments	14,15	7,827	23,950	80.8%	16,415	8,269	31,046	98.5%
Cash and cash equivalents	12,635	11,856	14,889	6.6%	3,166	4,594	8,184	-31.1%
CURRENT ASSETS	285,403	203,066	305,246	40.5%	272,703	197,426	292,502	38.1%
TOTAL ASSETS	788,054	649,288	829,689	21.4%	759,22	6312h,44	807,109	20.2%
Off- balance sheet assets	84,301	77,354	77,810	9.0%	80,757	77,613	74,251	4.1%
EQUITY								
Issued capital	59,132	59,132	59,132	0.0%	59,132	59,132	59,132	0.0%
Own shares	-19,489	-19,489	-19,489	0.0%	-19,489	-19,489	-19,489	0.0%
Reserves	145,574	142,236	145,574	2.3%	126,085	122,747	145,574	2.7%
Retained earnings	284,308	213,406	333,902	33.2%	308,228	240,787	340,807	28.0%
Fair value reserve	2,344	2,17	3,221	8.0%	2,344	2,17	3,221	8.0%
Consolidated equity adjustment	19	250	-195	-92.2%				
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	471,889	397,706	522,146	18.7%				
Minority interest	7,568	7,593	7,618	-0.3%				
TOTAL EQUITY	479,456	405,298	529,764	18.3%	476,3	405,347	529,245	17.5%

ooo EUR	GROUP				COMPANY			
	31.12.2005	31.12.2004	30.06.2006	05 / 04	31.12.2005	31.12.2004	30.06.2006	05 / 04
LIABILITIES								
Interest-bearing loans and borrowings	48,696	60,909	46,918	-20.1%	41,777	57,53	39,983	-27.4%
Provisions	99,665	93,491	117,328	6.6%	94,696	89,669	113,357	5.6%
Received grants	876	930	2,756	-5.8%	366	419	339	-12.8%
Deferred tax liabilities	1,19	1,039	3,327	14.6%	1,109	1,039	3,321	6.8%
TOTAL NON-CURRENT LIABILITIES	150,426	156,368	170,328	-3.8%	137,948	148,658	157,000	-7.2%
Trade and other payables	59,102	37,863	49,525	56.1%	53,054	34,688	47,378	52.9%
Interest-bearing loans and borrowings	38,06	22,045	34,577	72.6%	35,449	19,316	33,774	83.5%
Income tax liabilities	27,915	6,222	9,154	348.7%	27,537	5,622	8,931	389.8%
Provisions and other liabilities	33,094	21,493	36,340	54.0%	28,932	17,808	30,781	62.5%
TOTAL CURRENT LIABILITIES	158,171	87,623	129,597	80.5%	144,972	77,434	120,863	87.2%
TOTAL LIABILITIES	308,597	243,99	299,925	26.5%	282,92	226,092	277,864	25.1%
TOTAL EQUITY AND LIABILITIES	788,054	649,288	829,689	21.4%	759,22	631,44	807,109	20.2%
Off- balance sheet liabilities	84,301	77,354	77,810	9.0%	80,757	77,613	74,251	4.1%

INCOME
STATEMENT:

ooo EUR	GROUP			COMPANY		
	2005	2004	05 / 04	2005	2004	05 / 04
Net sales	553,988	472,864	17.2%	486,438	408,852	19.0%
Cost of sales	216,357	215,642	0.3%	188,011	183,269	2.6%
GROSS PROFIT	337,631	257,222	31.3%	298,426	225,582	32.3%
Marketing & sales expenses	173,634	112,124	54.9%	146,286	91,896	59.2%
Research & development expenses	40,110	34,692	15.6%	39,590	34,691	14.1%
General & administration expenses	55,861	54,381	2.7%	41,940	41,568	0.9%
Other operating income	50,998	18,880	170.1%	49,574	17,756	179.2%
OPERATING PROFIT	119,025	74,904	58.9%	120,183	75,181	59.9%
Financial income	16,647	14,795	12.5%	13,699	12,701	7.9%
Financial expenses	12,446	13,335	-6.7%	15,583	12,793	21.8%
Net financing costs	4,201	1,461	187.6%	-1,885	-93	1,921.5%
PROFIT BEFORE TAX	123,226	76,365	61.4%	118,299	75,089	57.5%
Income tax expense	25,917	11,013	135.3%	24,579	11,203	119.4%
PROFIT FOR THE PERIOD	97,309	65,352	48.9%	93,720	63,885	46.7%
Attributable to holders of the parent	97,182	65,255	48.9%			
Attributable to minority interest	127	97	31.7%			
Earnings per share (EUR)	29	19	48.9%	27	18	49.3%

ooo EUR	GROUP			COMPANY		
	H1 2006	H1 2005	06 / 05	H1 2006	H1 2005	06 / 05
Net sales	343,397	274,079	25.3%	303,513	247,039	22.9%
Cost of sales	124,882	119,142	4.8%	111,238	103,730	7.2%
GROSS PROFIT	218,515	154,937	41.0%	192,274	143,309	34.2%
Marketing & sales expenses	87,226	53,016	64.5%	71,297	41,216	73.0%
Research & development expenses	25,609	19,708	29.9%	25,265	19,524	29.4%
General & administration expenses	28,267	29,427	-3.9%	21,348	22,996	-7.2%
Other operating income	1,757	1,807	-2.7%	1,163	545	113.3%
OPERATING PROFIT	79,170	54,593	45.0%	75,527	60,118	25.6%
Financial income	8,774	8,731	0.5%	9,888	6,564	50.6%
Financial expenses	11,703	7,645	53.1%	10,041	11,813	-15.0%
Net financing costs	-2,929	1,086	-369.7%	-153	-5,249	-97.1%
PROFIT BEFORE TAX	76,241	55,679	36.9%	75,374	54,869	37.4%
Income tax expense	24,326	13,455	80.8%	22,399	12,721	76.1%
PROFIT FOR THE PERIOD	51,915	42,224	23.0%	52,975	42,148	25.7%
Attributable to holders of the parent	51,799	42,195	22.8%			
Attributable to minority interest	116	28	308.4%			
Earnings per share (EUR)	15	12	23.0%	16	12	25.7%

DCF
ANALYSIS

	2006E	2007E	2008E	2009E	2010E	2011E	2012E
Sales	670,325	784,280	894,080	992,429	1,091,671	1,189,922	1,285,116
Sales growth	21.0%	17.0%	14.0%	11.0%	10.0%	9.0%	8.0%
EBIT	150,823	172,542	192,227	208,410	229,251	249,884	269,874
EBIT margin	22.5%	22.0%	21.5%	21.0%	21.0%	21.0%	21.0%
Effective tax rate	25.0%	24.0%	23.5%	23.5%	23.5%	23.5%	23.5%
NOPAT	113,117	131,132	147,054	159,434	175,377	191,161	206,454
Depreciation and amortization	60,286	64,661	68,199	71,979	75,884	79,786	83,552
Operating cash flow	173,403	195,793	215,252	231,413	251,261	270,947	290,006
Change in net working capital	30,294	26,779	25,803	23,112	23,322	23,089	22,371
Investments in fixed assets	100,549	101,956	98,349	104,205	109,167	113,043	115,660
Free cash flow	42,561	67,057	91,101	104,096	118,772	134,815	151,975
WACC	9.2%	9.2%	9.1%	9.0%	8.9%	8.9%	8.9%
Discount factor	0.956	0.876	0.804	0.739	0.681	0.625	0.574
Present value of free cash flow	40,704	58,729	73,232	76,946	80,879	84,301	87,265

Terminal value assumptions	
WACC	8.9%
Growth rate of FCF	4.0%

Total present value of free cash flows	502,055
Present value of terminal value	1,852,148
Value of operations	2,354,202

Excess short-term investments	38,840
Long-term investments	0
Other non-operating assets	0
EV	2,393,042

Short-term financial liabilities	34,577
Long-term financial liabilities	46,918
Other funding sources	0
Common equity value	2,311,546

Number of shares outstanding	3,379,950
Common share value (EUR)	683.90



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