Erste Group Analysts: CEE pharma companies, antidote to market malaise

29.10.2008

- CEE pharma markets witness catch-up effect and promise solid growth amid financial storm
- Good value at bargain prices for top CEE pharma stocks
- Krka and Richter continue to be top picks

Stock markets around the globe continued to be volatile and headed to new lows in the past weeks, reflecting the mounting crisis in the financial sector and its impact on global economic growth. The defensive nature (and still healthy prospects and sound balance sheets) of the CEE pharmaceutical sector provided only partial shelter from the storm to the CEE pharmaceutical stocks.

A brief look at the revised CEE pharma stock valuations shows that they headed south, and in most cases did not fare much better than their respective home markets. The panic run from equities led to a massive selling wave across the board and largely ignored fundamental news, including the 2Q2008 performance data. This pushed the prices of CEE pharma stock down to very appealing levels.

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Nonetheless, Erste Group analysts believe that CEE pharma companies will continue to show their resilience even in a context of worsening economic conditions. “The impact of the gloomy economic outlook on the pharmaceutical business is set to be limited, as all the major factors supporting pharma markets (in particular, the generics segment) remain in place. Furthermore, the rather minimal external indebtedness of CEE companies (and sufficient ability to finance their investment plans without tapping financial markets) means that the implications of the currently tightening availability of credit resources for their financial results are minimal” states Vladimíra Urbánková, pharma sector analyst at Erste Group.

Another significant factor to be considered is the weakening of regional currencies in CEE, which is beneficial for export-oriented CEE pharmas. This together with the downward moves of interest rates (except in Hungary) bodes well for valuations. The last (but not least) aspect to be taken into account is the impact of the economic slowdown in Western Europe (with a stagnating GDP prognosis) and tempered growth tempo in CEE markets. Erste Group analysts continue to emphasize that generics, the core business of CEE-based pharma companies, should be the least affected, as they represent an attractive alternative to more expensive original drugs for cash-strapped healthcare budgets both in CEE and Western European countries.

The CEE markets are likely to continue to witness high volatility in the upcoming reporting season and even further downward pressure on the stocks cannot be ruled out, especially should investors stay in a panicky mood, largely ignoring fundamental news. On the other hand, Urbánková points out, ”in these uncertain times, top CEE pharma companies represent a good value at bargain prices and long-term, fundamentally-oriented investors should start to realize this sooner or later. For the key CEE pharma companies (as typical generics players, appealing to ever-more cost-conscious health insurers), the business outlook is still very sound. Their balance sheets remain solid and healthy growth is anticipated both in CEE markets (including Russia/CIS) and in the West, where they can exploit patent expirations and/or efficient niche strategies.”

Solid exports to CEE markets (including Russia/CIS), further bolstered by favorable currency swings, bode well for acceleration of top line growth of Richter and Egis

Company	Currency	Current Price (LC)	Year high (LC)	Current price vs YH (%)	Target price (LC)	Upside potential (%)
Krka	EUR	65.2	129.0	-49.4%	118.5	81.6%
Richter Gedeon	HUF	27,450	41,845	-34.4%	38,770	41.2%
Egis	HUF	10,000	23,350	-57.2%	18,800	88.0%
Zentiva	CZK	1,062	1,190	-10.8%	1,150	8.3%
Bioton	PLN	0.38	1.23	-69.1%	0.41	7.9%

Based on closing prices as of October 24, 2008; Source: Erste Group Research

in the coming periods. Reflecting the increased risk aversion (with Hungary seen as a problematic hot spot), we raise our risk-free rate assumptions in the DCF models for the Hungarian pharmas. All told, while our target prices for Richter and Egis are lowered to HUF 38,770 per share and HUF 18,800 per share, respectively, a brief look at current price levels confirms our view that all risks are more than priced in and that both Hungarian pharma companies offer solid upside potential. Consequently, we reiterate our Buy recommendations for both Richter and Egis.

The takeover story provided a safe anchor to Prague-based Zentiva's share price. While the earlier takeover offers from PPF and Sanofi-Aventis (at CZK 950 and CZK 1,050 per share, respectively) were rejected by Zentiva's management, Sanofi-Aventis' raised bid at CZK 1,150 (practically corresponding to our earlier target price from July 2008 of CZK 1,155) found a more warm reception. Given the current market uncertainties, we do not anticipate that the takeover premium for Zentiva could reach highs comparable to past transactions in the sector, which took place in a more sunny market environment. Consequently, while our DCF-derived 12-month target price arrives at CZK 1,160 we opt to adjust our target price to CZK 1,150 per share (corresponding to Sanofi-Aventis bid that dictates the market ceiling at the moment) and stick to Hold. While the renewed buildup of positions by PPF Group and other financial investors might indicate some probability of upcoming pressure on Sanofi-Aventis to raise its bid, to more risk-averse investors, we suggest accepting the Sanofi-Aventis bid, which expires on November 28, 2008.

Although the 1H2008 results were excellent and delivered double-digit progress on the top and bottom lines (beating all its regional peers by a wide margin), neither this nor its low foreign share ownership prevented Krka's share price from its recent slump. We expect that Krka's 1-3Q2008 results (due on November 13) will reassure investors about the company's regional competitive edge. Our revised target price of EUR 118.5 per share points to the stock's attractive upside potential from the currently depressed levels. We confirm our Buy recommendation.

ERSTE GROUP

Erste Sector Healthcare

Antidote to market malaise

28 October2008

CEE pharma markets witnessing catch-up effect, promise solid growth amid financial storm

Richter and Egis' results should get support from positive impact of weakening forint

Krka and Richter top our Buy recommendation list

Zentiva's stock price has safe anchor in Sanofi-Aventis takeover bid

Table of contents

Executive summary

- Stock markets around the globe continued to be volatile, heading to new lows in the past weeks, reflecting the mounting crisis in the financial sector and its impact on global economic growth. The defensive nature (and still healthy prospects and sound balance sheets) of the CEE pharmaceutical sector provided only partial and imperfect shelter from the storm to the CEE pharmaceutical stocks.

- While the general economic outlook looks more gloomy than before, we believe that the impact on the pharmaceutical business is set to be limited, as all the major factors supporting pharma markets (in particular, the generics segment) remain in place. Furthermore, since our last sector report (in July 2008), regional currencies have reversed their trend and are now weakening (beneficial for export-oriented CEE pharmas) and interest rates (except in Hungary) are making downward moves (unlike in summer this year), boding well for valuations. Some models do not need a major revision (such as Krka), while some require a more thorough analysis, in order to reflect the impact of depreciating local currencies as of lately, but also the heavier burden from the currency side on the 2Q figures (namely Richter and Bioton).

- We reviewed our models and set new 12-month target prices for CEE pharma stocks. Not only are the pains associated with the unfavorable government measures in Hungary easing, but the solid exports to CEE markets (including Russia/CIS), further bolstered by favorable currency swings, bode well for acceleration of top line growth in the coming periods. Reflecting the increased risk aversion (with Hungary seen as a problematic hot spot), we raise our risk-free rate assumptions in the DCF models for the Hungarian pharmas. All told, while our target prices for Richter and Egis are lowered to HUF 38,770 per share and HUF 18,800 per share, respectively, a brief look at current price levels confirms our view that all risks are more than priced in and that both Hungarian pharma companies offer solid upside potential. Consequently, we reiterate our Buy recommendations for both Richter and Egis.

- Despite its bleak 1H2008 report, Warsaw Stock Exchange-listed Bioton's share price weathered the market turbulence relatively well. The stock was kept aloft thanks to the reversing currency fortunes, as well as investor perception that the company will benefit from a change in its strategic package owner. Adjusting our 12-month target price to incorporate the worse than anticipated 1H2008 results, but also the bolstering effect from the weakening zloty vs. US dollar for the coming period on both the top line and financial results, yields a new target price of PLN 0.41 per share (vs. the earlier PLN 0.45). All told, we leave our Hold recommendation unchanged.

- The takeover story provided a safe anchor to Prague-based Zentiva's share price. While the earlier takeover offers from PPF and Sanofi-Aventis (at CZK 950 and CZK 1,050 per share, respectively) were rejected by Zentiva's management, Sanofi-Aventis' raised bid at CZK 1,150 (practically corresponding to our earlier target price from July 2008 of CZK 1,155) found a more warm reception. Given the current market uncertainties, we do not anticipate that the takeover premium for Zentiva could reach highs comparable to past transactions in the sector, which took place in a more sunny market environment. Consequently, while our DCF-derived 12-month target price arrives at CZK 1,160 we opt to adjust our target price to CZK 1,150 per share (corresponding to Sanofi-Aventis bid that dictates the market ceiling at the moment) and stick to Hold. While the renewed buildup of positions by PPF Group and other financial investors might indicate some probability of upcoming pressure on Sanofi-Aventis to raise its bid, to more risk-averse investors, we suggest accepting the Sanofi-Aventis bid, which expires on November 28, 2008.

- Although the 1H2008 results were excellent and delivered double-digit progress on the top and bottom lines (beating all its regional peers by a wide margin), neither this nor its low foreign share ownership prevented Krka's share price from its recent slump. We expect that Krka's 1-3Q2008 results (due on November 13) will reassure investors about the company's regional competitive edge. Our revised target price of EUR 118.5 per share points to the stock's attractive upside potential from the currently depressed levels. We confirm our Buy recommendation.

- The CEE markets are likely to continue to witness high volatility in the upcoming reporting season and even further downward pressure on the stocks cannot be ruled out, especially should investors stay in a panicky mood, largely ignoring fundamental news. On the other hand, in these uncertain times, top CEE pharma companies represent a good value at bargain prices and long-term, fundamentally-oriented investors should start to realize this sooner or later. For the key CEE pharma companies (as typical generics players, appealing to ever-more cost-conscious health insurers), the business outlook is still very sound. Their balance sheets remain solid and healthy growth is anticipated both in CEE markets (including Russia/CIS) and in the West, where they can exploit patent expirations and/or efficient niche strategies.

Valuation

Krka and Richter top our buy recom-mendation list

Zentiva share price enjoys firm backup from Sanofi-Aventis bid

A brief look at the revised CEE pharma stock valuations confirms that the global sell-off wave pushed their prices down to very appealing levels. The return to a buying mood among long-term, fundamentally-oriented investors may still take some time, given the drying up of funds' liquidity. We continue to believe that Krka represents the best long-term play in the regional pharma sector. After plummeting without any important adverse changes in its business or macroeconomic conditions, Krka's upside potential should attract attention. With our newly updated target price arriving at EUR 118.5 per share, we stick to Buy. Despite the beneficial impact from the weakening forint on their earnings, both Hungarian companies, Egis and Richter, also saw their share prices plunge to new multi-year lows. Although the pricing pressures linked to the changing drug reimbursement rules in their home market persist and will partly mitigate the positives from reversing currency fortunes, our new target prices (of HUF 18,800 per share for Egis and HUF 38,770 per share for Richter) point to significant untapped potential. Furthermore, we believe that, although the R&D projects in cooperation with Forest Laboratories of the US are still in relatively early stages (should everything go according to plan, the launch of the first drug is not envisaged before 2012), they represent a wild card for the company, as they are not yet incorporated into our projections. The related positive news flow in the meantime could provide a desirable trigger for the stock. All told, we leave our recommendations unchanged - Buy for both Egis and Richter, with a stronger emphasis on the latter stock. Our new 12-month target price for Bioton is PLN 0.41 per share, only slightly changed from the earlier PLN 0.45 per share, suggesting that the current price more or less fairly balances the bleak 1H2008 results with the possibly brightening outlook, including the impact of the more favorable forex situation. As Bioton's share price held its ground relatively well in the current market turbulence, we maintain our Hold recommendation. Zentiva's share price is poised to continue neglecting business related information, with the Sanofi-Aventis takeover bid (CZK 1,150 per share), fully supported by management, representing a stable anchor for Zentiva's share price in the rough waters of the current equity markets.

CEE pharmaceuticals valuation at a glance

24/10/2008 Company	Rep. Curr.	Mcap (EURmn)	Price Current (LC)	Target	Recommendation	Performance (EUR terms) 1M	3M	6M	12M
A&D Pharma	EUR	108.3	3.3	3.2	Hold	14.0%	41.3%	-50.0%	-81.0%
Bioton	PLN	303.6	0.38	0.41	Hold	-23.2%	-25.6%	-46.2%	-68.7%
Egis	HUF	280.8	10,000.0	18,800.0	Buy	-25.2%	-42.7%	-48.0%	-60.8%
Intercell	EUR	912.3	20.0	40.5	Buy	-23.9%	-32.9%	-24.8%	-27.6%
Krka	EUR	2,311.2	65.2	118.5	Buy	-18.9%	-30.1%	-27.9%	-43.1%
Richter Gedeon	HUF	1,845.0	27,450.0	38,770.0	Buy	-20.7%	-29.4%	-24.2%	-33.8%
Sanochemia	EUR	43.7	4.3		under review	-29.4%	-32.7%	-39.4%	-52.8%
Zentiva	CZK	1,618.2	1,062.0	1,150.0	Hold	-10.1%	-5.6%	19.9%	-1.5%
Teva Pharmaceutical	ILS -	25,858	-	-	-	1.6%	8.8%	7.7%	1.6%
Mylan Inc.	USD -	1,497	-	-	-	-38.6%	-41.9%	-40.6%	-52.9%
Watson Pharmaceuticals	USD -	1,773	-	-	-	-13.9%	-10.4%	-9.9%	-18.7%
Stada Arzmeimittel AG	EUR -	1,138	-	-	-	-34.8%	-58.6%	-53.6%	-56.6%
Barr Pharmaceuticals Inc	USD -	5,082	-	-	-	2.7%	9.5%	43.5%	18.5%
Ranbaxy Laboratories	INR -	1,049	-	-	-	-30.0%	-61.4%	-63.2%	-62.6%
Recordati	EUR -	775	-	-	-	-12.2%	-19.4%	-20.9%	-45.1%
EuroStoxx Healthcare		110,541	-	-	-	-8.0%	-15.8%	-20.0%	-29.2%

CEE pharmaceuticals valuation at a glance (cont.)

	P/E				P/CE				P/BV			
	2007	**2008e**	**2009e**	**2010e**	**2007**	**2008e**	**2009e**	**2010e**	**2007**	**2008e**	**2009e**	**2010e**
A&D Pharma	n.m.	43.4	15.9	9.5	n.m.	8.9	6.3	4.8	2.1	0.4	0.4	0.4
Bioton	85.4	60.0	25.8	16.3	49.3	23.5	15.2	11.0	2.8	1.2	1.1	1.0
Egis	23.4	5.6	6.8	5.6	12.6	3.8	4.2	3.6	1.7	0.6	0.6	0.6
Intercell	218.5	117.7	42.3	21.1	162.3	90.3	37.6	19.8	4.7	3.1	2.9	2.5
Krka	33.2	14.2	11.7	9.9	20.9	10.3	8.8	7.7	6.6	2.9	2.4	2.0
Richter Gedeon	23.2	12.7	11.0	9.2	14.4	8.3	7.3	6.3	2.5	1.5	1.4	1.2
Sanochemia	n.m.	n.m.	42.0	15.1	n.m.	10.4	7.3	5.4	1.8	0.8	0.8	0.7
Zentiva	26.2	26.6	17.4	13.0	13.2	13.0	10.1	8.1	3.4	3.3	2.9	2.4
Median CEE	**25.5**	**20.3**	**16.7**	**11.5**	**14.1**	**10.4**	**8.1**	**7.0**	**2.7**	**1.4**	**1.2**	**1.1**
Teva Pharmaceutical	19.6	15.8	14.5	11.9	21.3	13.8	13.2	9.5	2.8	2.3	1.8	1.6
Mylan Inc.	5.4	12.5	6.3	4.6	5.5	2.4	3.7	2.9	0.5	0.6	0.6	0.6
Watson Pharmaceuticals	18.1	11.1	10.4	9.4	7.4	7.0	6.7	6.3	1.6	1.2	1.0	0.9
Stada Arzmeimittel AG	9.1	8.6	7.5	6.5	5.6	5.5	4.9	4.5	1.2	1.1	1.0	0.9
Barr Pharmaceuticals Inc	21.2	20.8	16.5	14.4	15.7	19.9	16.5	14.3	4.9	3.0	2.5	2.2
Ranbaxy Laboratories	8.3	13.9	9.8	7.9	6.0	9.4	6.2	8.4	2.2	1.3	1.1	1.0
Recordati	8.9	7.8	7.3	8.1	6.7	6.2	5.9	6.6	2.0	1.7	1.5	1.4
Median Peer Group	**9.1**	**12.5**	**9.8**	**8.1**	**6.7**	**7.0**	**6.2**	**6.6**	**2.0**	**1.3**	**1.1**	**1.0**
EuroStoxx Healthcare	16.9	15.4	14.4	12.2	10.5	9.4	8.5	7.2	2.3	2.0	1.8	1.6
CEE to Peer, Prem/Disc	**179%**	**62%**	**70%**	**42%**	**111%**	**49%**	**31%**	**5%**	**34%**	**9%**	**13%**	**14%**

	EV/Sales				EV/EBITDA				Dividend yield			
	2007	**2008e**	**2009e**	**2010e**	**2007**	**2008e**	**2009e**	**2010e**	**2007**	**2008e**	**2009e**	**2010e**
A&D Pharma	1.3	0.3	0.3	0.3	35.8	7.2	6.0	5.1	0.7%	0.5%	1.3%	2.1%
Bioton	10.9	4.0	4.0	3.2	23.1	16.0	13.3	10.8	0.0%	0.0%	0.0%	0.0%
Egis	1.8	0.6	0.5	0.5	11.8	4.2	3.3	2.6	0.5%	1.2%	1.2%	1.2%
Intercell	17.3	10.7	6.0	4.3	272.3	177.2	26.0	12.1	0.0%	0.0%	0.0%	0.0%
Krka	5.8	2.6	2.2	1.9	19.0	8.5	7.2	6.2	0.7%	1.8%	2.2%	2.7%
Richter Gedeon	3.2	1.7	1.6	1.3	12.9	7.4	6.1	5.0	1.1%	2.2%	2.6%	3.1%
Sanochemia	2.8	1.0	0.9	0.7	-48.5	9.7	5.8	3.8	0.0%	0.0%	0.0%	0.0%
Zentiva	3.3	2.9	2.6	2.3	14.8	12.0	9.4	7.4	0.8%	0.9%	1.1%	1.4%
Median CEE	**3.3**	**2.1**	**1.9**	**1.6**	**17.2**	**9.1**	**6.7**	**5.7**	**0.6%**	**0.7%**	**1.2%**	**1.3%**
Teva Pharmaceutical	4.2	3.2	2.7	2.2	13.6	11.4	9.5	7.2	0.8%	1.1%	1.1%	1.1%
Mylan Inc.	3.4	1.4	1.2	1.0	11.7	6.3	5.3	4.6	2.3%	0.0%	0.0%	0.0%
Watson Pharmaceuticals	1.4	1.1	0.9	0.7	6.7	4.9	4.4	3.4	0.0%	0.0%	0.0%	0.0%
Stada Arzmeimittel AG	2.2	1.2	1.1	1.0	11.3	6.6	5.9	5.4	3.7%	4.4%	5.0%	5.1%
Barr Pharmaceuticals Inc	4.8	2.8	2.5	2.2	13.7	10.8	9.5	8.6	0.0%	0.0%	0.0%	0.0%
Ranbaxy Laboratories	2.9	1.1	0.9	0.9	21.4	7.7	6.1	5.5	5.3%	4.8%	5.2%	4.9%
Recordati	2.2	1.2	1.1	1.0	8.7	4.7	4.2	4.2	5.8%	6.5%	6.9%	6.5%
Median Peer Group	**2.9**	**1.2**	**1.1**	**1.0**	**11.7**	**6.6**	**5.9**	**5.4**	**2.3%**	**1.1%**	**1.1%**	**1.1%**
EuroStoxx Healthcare	3.0	1.8	1.7	1.6	11.8	8.8	8.5	7.3	1.8%	2.1%	2.3%	2.6%
CEE to Peer, Prem/Disc	**13%**	**73%**	**66%**	**61%**	**47%**	**38%**	**12%**	**6%**	**-74%**	**-39%**	**6%**	**14%**

Source: JCF, Erste Group Research, based on closing prices as of October 24, 2008

Market overview

Financial sector crisis kicked off by US mortgage sector problems sparked global equity market sell-off wave…

…sending stock prices to multi-year lows; CEE markets were no exception

The US mortgage banks' troubles that initiated the equity markets' tumble in spring this year were just the tip of the iceberg of problems in the heart of the world financial center, the US. The sequence of unprecedented events, with the collapse of the traditional investment banking model and subsequent necessary rescue actions from the US government, spilled across the Atlantic very quickly. The coordinated interest rate cut of major world central banks and assurances by European governments aimed at protecting savings accounts and restoring the trust in the financial system have yet to show a more significant effect on stressed equity markets. There is no doubt that global economic woes are mounting and the largest world economies are heading for a period of a significant economic slowdown. While most CEE countries are in a relatively stable condition and GDP growth is still in the cards (despite the dampening effect), CEE equity markets have suffered a lot, as a result of rising risk aversion and drying up of emerging equity market funds. No wonder that CEE markets not only retreated from their year-earlier highs, but - after erasing all of the gains posted last year - they have sunk deeper and deeper into negative territory, reaching new multi-year lows. CEE pharma stocks were not spared.

CEE indices accelerated their slump vs. pharma stocks as of lately

	1 month perf (%)	3 months perf (%)	6 months perf (%)	12 months perf (%)	perf YTD
Bioton	-11.6%	-11.6%	-39.7%	-67.2%	-57.3%
Egis	-13.8%	-31.6%	-42.8%	-56.8%	-46.7%
Krka	-18.9%	-30.1%	-27.9%	-43.1%	-47.5%
Richter Gedeon	-8.6%	-15.8%	-16.7%	-27.0%	-33.9%
Zentiva	-7.6%	-0.3%	19.6%	-9.3%	9.3%
BUX	-35.9%	-44.8%	-46.9%	-56.4%	-54.6%
PX	-41.4%	-47.9%	-52.0%	-59.9%	-58.6%
SBI	-21.7%	-33.1%	-37.6%	-55.9%	-54.7%
WIG	-32.5%	-37.4%	-45.0%	-60.1%	-54.6%
WIG 20	-34.4%	-40.3%	-46.1%	-59.8%	-55.0%

Source: Erste Group Research, based on closing prices in local currency as of October 24, 2008

Takeover story kept Zentiva's share price aloft; low foreign ownership stake and superb results did not save Krka this time

Despite the defensive nature of investment in the pharma industry, CEE pharma stocks headed south, and in most cases did not fare much better than their respective home markets. The panic run from equities led to a massive selling wave across the board and largely ignored fundamental news, including the 2Q2008 performance data. Even stocks with untouched fundamentals and excellent business performance (like Krka) were weighed down by negative sentiment and plummeted to new multi-year lows. The still relatively low foreign shareholder ownership of the company (just 7.9% of the total at the end of June 2008, vs. 61.7% in the case of Richter) failed to help this time. Nevertheless, the promise of the recently weakening forint (vs. the euro as well as the US dollar) to boost upcoming periods' performance of strong, export-oriented Hungarian pharmas, helped to at least partially mitigate worries linked to the lingering impact of unfavorable home pharmaceutical market regulation. As a result, Richter in particular managed to outperform its steeply falling local stock market as of recently. The best performer in the turbulent period was Zentiva, enjoying firm support from its nascent takeover story.

CEE pharma shares offer solid upside potential

Company	Currency	Current Price (LC)	Year high (LC)	Current price vs YH (%)	Target price (LC)	Upside potential (%)
Krka	EUR	65.2	129.0	-49.4%	118.5	81.6%
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Based on closing prices as of October 24, 2008; Source: Erste Group Research

Brief look at CEE pharma universe...

...shows no reason for worries - rather the opposite, with positive impact of lower interest rates, more favorable currency situation to be incorporated into our models...

The coordinated interest rate cuts in major world economies, with the European Central Bank decreasing its interest rate to 3.75%, are expected to be followed sooner or later in some CEE countries (except Hungary), the home markets of CEE pharma companies. With respect to the rather minimal external indebtedness of CEE companies (and sufficient ability to finance their investment plans without tapping financial markets), the implications of the currently tightening availability of credit resources for their financial results are minimal. Thus, the main factors to be considered in our model are the applied risk-free rates and changing currency outlooks. We opted to keep risk free rates clean from current crisis/panic premiums and instead of current spot rates we rather employ forward looking averages, building in also expected rate cuts in the periods to come. While the situation varies from country to country, the period of the strong appreciation of CEE currencies vs. the euro is over for the time being and, while the negative currency impact of the earlier period firming was more pronounced than originally anticipated, the outlook for heavily export-geared pharmaceutical companies seems to be rosier than earlier thought. Richter and Krka are anticipated to reap more benefits from their switch to the euro as their invoicing currency in the traditionally US dollar-denominated Russian market, a move made in an attempt to minimize the negative effects associated with the US dollar weakness at the beginning of this year. Importantly, the Hungarian forint not only retreated from its highs vs. the euro (as well as vs. the recently strongly firming US dollar), but is heading in the opposite direction to new lows, prompting us to adjust our currency forecasts for 2008 for Richter and Egis. Similarly, the Polish zloty lost part of its strength, calling for adjustments to our Bioton model, and the changing Czech crown outlook forces us to make adequate changes to our Zentiva forecast assumptions.

...with impact of ongoing healthcare reform programs in Czech and Hungarian markets already factored in

The last (but not least) factor to be taken into consideration is the impact of the economic slowdown in Western Europe (with a stagnating GDP prognosis) and tempered growth tempo in CEE markets. We believe that pharmaceutical markets will show to a large extent their earlier proven resilience to these changes, although further pressure from health insurers on reimbursed drug prices can be anticipated, and worsening accessibility of loan financing might negatively impact drug wholesalers (especially) that rely on external financing for their working capital needs. Still, we continue to emphasize that generics, the core business of CEE-based pharma companies, should be the least affected, as they represent an attractive alternative to more expensive original drugs for cash-strapped healthcare budgets both in CEE and Western European countries. Although healthcare reforms, comprising also a shift of a larger proportion of the healthcare bill to patients in CEE countries, are painful and, as evidenced by the latest developments, result in an initial slowdown of market growth, in the long run, the CEE pharmaceutical markets are set to rise, narrowing the gap in health care (and drug) spending between the CEE region and the EU-15 average. Here it is worth mentioning that our earlier models already incorporated the negative impact of the healthcare reform package introduced by the Czech government from January 2008 (involving payments for doctor visits, drug prescriptions and hospital stays), as well as the lingering effect of the Hungarian reform measures, putting a lid on the reimbursed drug market segment. After publishing their 2Q2008 reports, both Richter and Egis broadly confirmed their guidance for their 2008 domestic outlook and recent data even indicates that the pricing pressures are gradually easing, allowing us to make adequate adjustments to our forecasts.

3Q2008 results preview

CEE pharma reporting schedule

Date	Company	Release / event
22.10.2008	Zentiva	1-3Q2008 sales report
beginning of November	Richter Gedeon	1-3Q2008 results
10.11.2008	Egis	2007/08 results
10.11.2008	Zentiva	1-3Q2008 results
13.11.2008	Krka	1-3Q2008 results
14.11.2008	Bioton	3Q2008 results
28.11.2008	Zentiva	Sanofi-Aventis bid (CZK 1,150 per share) expires

Source: Erste Group Research

3Q2008 results anticipated to be solid; bolstering effect of local currencies' depreciation to be combined with sound tempo in export markets

The third quarter reporting season is approaching, to be kicked off by Zentiva, which is scheduled to announce its 1-3Q2008 report on November 10 at noon, followed the same day (after the market close) by Egis. In fact, Zentiva informed investors about its 1-3Q2008 sales highlights on October 22. Zentiva's 1-3Q2008 sales report provided further evidence of the boosting effect from the integration of the Turkish business, as well as the gradually improving conditions in its earlier ailing Romanian operations. According to management estimates, Zentiva's 1-3Q2008 sales are envisaged to amount to around CZK 13bn, including some CZK 2.3bn net pharmaceutical sales from Turkey. We anticipate consolidation of the low-margin Turkish unit to be only partly offset by cost saving efforts in the area of sales and marketing expenses, putting a lid on Zentiva's profitability margins. Nevertheless, given the very low comparative base (with 3Q2007 hampered by the troubled Romanian operations as well as the initial integration period in Turkey), we forecast Zentiva's net income up 15.6% y/y to CZK 267.5mn in 3Q2008.

We expect Krka's consolidated 1-3Q2008 sales growth to reach some 20% y/y (to EUR 684.8mn), fueled by healthy performance in key export markets (sales in CEE markets up by 19% y/y, Russia/CIS by 24.7% y/y and Western markets by 44% y/y) and to provide clear evidence of the Slovene company's regional. We project Krka's net income advancing 16.0% y/y to EUR 113.1mn in the first nine months of 2008.

The weakening of the Hungarian forint towards the end of the period should support exports, helping at least partly to offset the pains from Hungarian pharma market regulatory pressures on both the top and operating lines, buoying the financial results in 3Q2008. We forecast Egis posting 81.4% y/y net profit growth (to HUF 13,903mn) in 2007/08, on sales of HUF 96,021mn (up 3.8% y/y). In the fourth quarter alone, we envisage Egis' sales rising by 5.3% y/y and - thanks to the Anpharm transaction boost to the financial result - a jump is expected on the bottom line (by 134.7% y/y to HUF 5,827mn). We project Richter posting net profit of HUF 26,540mn on sales of HUF 130,591mn (unconsolidated) in 1-3Q2008; the third quarter is envisaged to bring a solid rise on the top line (of 6.9% y/y to HUF 43,915mn) and bold y/y progress to HUF 15,391mn on the bottom line, due largely to forex gains associated with the changing currency situation at the end of the period. With sales enjoying a boost from consolidating the Romanian wholesale operations this year, as well as somewhat lesser cumulative damage from the firming forint on the consolidated financial result, we project a consolidated sales rise of 3.2% y/y (to HUF 173,118mn) and a 29.9% y/y increase (to HUF 34,550mn) on the bottom line in 1-3Q2008.

Finally, reflecting the boosting effect from the first-time consolidation of Marvel and two Italian companies, and with exports as well as the financial result further bolstered by the depreciating zloty in the latest period, Bioton is expected to see its bottom line get out of the earlier quarter's red figures, to a net profit of PLN 13.3mn in 3Q2008.

Bioton Hold

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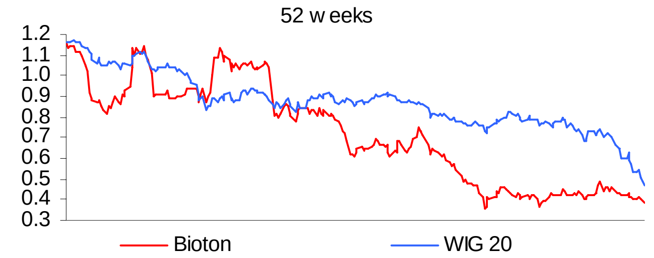
PLN mn	2007	2008e	2009e	2010e
Net sales	270.9	349.5	386.5	473.4
EBITDA	120.9	96.7	115.6	141.5
EBIT	100.2	67.3	84.2	107.7
Net result after min.	28.2	19.0	45.1	71.5
EPS (PLN)	0.01	0.01	0.01	0.02
CEPS (PLN)	0.02	0.02	0.03	0.03
BVPS (PLN)	0.32	0.31	0.34	0.37
Div./share (PLN)	0.00	0.00	0.00	0.00
EV/EBITDA (x)	23.1	16.0	13.3	10.8
P/E (x)	85.4	60.0	25.8	16.3
P/CE (x)	49.3	23.5	15.2	11.0
Dividend Yield	0.0%	0.0%	0.0%	0.0%



Performance	12M	6M	3M	1M
in PLN	-67.2%	-39.7%	-11.6%	-11.6%
in EUR	-68.7%	-46.2%	-25.6%	-23.2%

Share price (PLN)	0.38	Reuters	BOTN.WA	Free float	43.3%
Number of shares (mn)	3,059.8	Bloomberg	BIO PV	Shareholders	Prokom Investment (33.3%)
Market capitalization (PLN mn / EUR mn)	1,163 / 304	Div. Ex-date			Polaris Finance (10%)
Enterprise value (PLN mn / EUR mn)	1,546 / 404	**Target price**	**0.4**	Homepage:	www.bioton.pl

Weakening zloty promises turnaround, but original targets out of reach

- **We continue to believe that reaping full benefits from BioPartners and SciGen's strong biotech portfolio and the scaling up of capacities in the core insulin business remain the factors potentially buoying Bioton's long-term prospects. Nevertheless, the road remains bumpy and the company's 2008 interim results (with a 1H2008 loss restated from PLN 11.0mn to PLN 18.3mn just several weeks after the original announcement) clearly demonstrate this, further pointing to a relatively low predictability of earnings. Hence, we stick to the application of an additional 10% discount to our DCF-derived target price and arrive at a 12-month target price of PLN 0.41 per share (slightly down from the earlier target of PLN 0.45), suggesting that the current Bioton share price more or less adequately balances its pros and cons. Consequently, we reiterate our Hold recommendation on the stock.**

- **We incorporated into our model 1) the impact of this year's changing currency fortunes, with a bigger than anticipated hit to the 1H figures (both the top line and namely financial result), to be somewhat compensated for by the recent trend of zloty weakening; 2) the lower than envisaged profitability of the newly consolidated companies, as well as the less significant contribution from milestone payments linked to the BioPartners acquisition; 3) adjustments to our DCF model, namely slightly decreasing risk-free rate assumptions, while sticking to an additional 10% discount to the target price to reflect the increasingly risk-averse equity market environment. All of this sends our new sales target for 2008 to PLN 349.5mn and net profit forecast to just PLN 19.0mn, down 6.9% and 44.4%, respectively, compared to our previous expectations.**

- **We expect the 3Q2008 results to provide clear evidence of the positive impact from the weakening zloty in the latest period. We forecast Bioton's sales retreating by about 7.4% y/y to PLN 82.8mn in 3Q2008, as the favorable impact from the consolidation of new acquisitions will be marginalized, due to the high comparative base. The favorable forex developments bode well for lifting the 3Q financial result out of red territory. We envisage Bioton posting net profit of PLN 13.3mn in 3Q2008, although the disastrous 1H performance kept the company's 1-3Q2008 bottom line out of black territory.**

Changes in forecasts / outlook

Top line tempo less convincing than envisaged, despite recent help from zloty depreciation vs. US dollar...

…we trim our 2008 sales target to PLN 349.5mn

A brief look at the 2008 interim results confirms that the q/q performance remains very uneven (with the acquisition-associated one-off items significantly distorting the picture). Moreover, the steep appreciation of the Polish zloty and opposite trend for the US dollar in 1H2008 took a bigger than envisaged toll on Bioton's results. Although the recent trend of the zloty depreciating vs. the USD works in the company's favor, the tempo will undoubtedly be somewhat more subdued than originally thought. While the company's management did not revise its guidance, with the latest envisaging sales of around PLN 400mn for 2008 (down from the earlier targeted PLN 500mn), we believe that these targets are too ambitious. First, due to the postponements in completion of the transaction, consolidating the two Italian companies (Pharmatex Italia and Fisiopharma) started only from 2Q2008. Secondly, their contribution apparently lagged somewhat behind original expectations, as suggested by the 1H performance. While we remain optimistic and envisage that Bioton's insulin sales in Russia will represent an important and expanding part of its business (especially after the completion of its investment in a new manufacturing facility in the Orel region), incorporating the latest company guidance, we are prompted to cut our forecasts here and envisage Bioton's sales in Russia at some USD 10mn (down from the USD 20mn projected earlier) in 2008. In addition, Bioton (unlike its peers) still invoices its sales in Russia in US dollars, which makes the company's top line vulnerable to the US dollar weakening. Despite the weakening of the zloty vs. the US dollar as of lately, we fine-tune our sales forecast for Bioton's Russian insulin sales for 2008 to PLN 24.5mn, vs. the earlier estimated PLN 44mn. In total, we envisage Bioton's insulin sales to amount to PLN 135mn, out of which the domestic market is anticipated to deliver PLN 67mn. Incorporating the above-mentioned developments, we reduce our sales target from PLN 375.3mn to PLN 349.5mn for 2008, corresponding to a 29% y/y rise.

We adjust our operating cost assumptions and factor in lower contribution from one-off income, cutting our 2008 EBIT target to PLN 67.3mn

Bioton's profitability margins, stripped of the bolstering effect of irregular one-off income, are witnessing deterioration, caused by the 2Q consolidation of the newly acquired units (Marvel, two Italian companies). Moreover, as we were newly informed, the contribution from milestone payments (recorded as part of revenues) will be PLN 46mn, significantly below the originally estimated PLN 70m. Consequently, we reduce our 2008 gross margin target from 61.4% to 54.9%. Based on the 1H2008 cost structure, we raise our assumption for administrative and general costs, but lower sales and marketing expenditures (both as a percentage of actual sales). While the overall impact of these changes is rather neutral, the cut in milestone payments drags down our new 2008 operating profit margin target to 19.3% (up from the 27.7% projected earlier). Our new operating profit target arrives at PLN 67.3mn (down from the PLN 103.8mn projected earlier).

Summary of changes to 2008 and 2009 forecasts

PLN mn	2008 orig. forecast		2008 new forecast		2009 orig. forecast		2009 new forecast	
Net sales	**375.3**	**100.0%**	**349.5**	**100.0%**	**454.4**	**100.0%**	**386.5**	**100.0%**
Costs of good sold	144.9	38.6%	157.7	45.1%	182.0	40.1%	163.2	42.2%
Gross profit	**230.5**	**61.4%**	**191.8**	**54.9%**	**272.3**	**59.9%**	**223.3**	**57.8%**
Sales & marketing expenses	76.9	20.5%	56.8	16.3%	103.8	22.9%	69.6	18.0%
General & admin.expenses	58.2	15.5%	65.9	18.9%	69.3	15.3%	71.5	18.5%
Other operating income	15.0	4.0%	10.5	3.0%	15.9	3.5%	11.6	3.0%
Other operating expenses	6.6	1.8%	12.2	3.5%	9.1	2.0%	9.7	2.5%
EBIT	**103.8**	**27.7%**	**67.3**	**19.3%**	**106.0**	**23.3%**	**84.2**	**21.8%**
Financial result	-64.7	-17.2%	-47.0	-13.4%	-32.7	-7.2%	-32.1	-8.3%
Pre-tax profit	39.1	10.4%	20.4	5.8%	73.3	16.1%	52.1	13.5%
Income taxes	7.4	2.0%	3.9	1.1%	13.9	3.1%	9.9	2.6%
Minority interest	2.5	0.7%	2.5	0.7%	3.0	0.7%	3.0	0.8%
Net income after min. interest	**34.1**	**9.1%**	**19.0**	**5.4%**	**62.3**	**13.7%**	**45.1**	**11.7%**

Source: Erste Group Research

Significantly worse than expected financial result set to dampen our bottom line target to PLN 19.0mn for 2008

The company's financial result in the first half of 2008 continued to be weighed down mainly by forex losses (PLN 35mn) and the loss linked to the revaluation of its financial investment in HTL-Strefa (PLN 1.9mn), ending at a total negative balance of PLN 41.3mn. Nevertheless, it was encouraging to see that the losses in 2Q were substantially lower compared with the very disappointing 1Q figures. Although this part of the expenses remains difficult to predict (in particular, HTL Strefa revaluation related losses), the slightly better than expected 2Q performance and weakening of the Polish zloty vs. the US dollar as of lately prompt us to make a cautious adjustment to our 2008 forecast. We now envisage the financial result staying in red territory at around a PLN 47.0mn loss (vs. the earlier projected PLN 64.7mn financial loss). All told, we arrive at a net profit target of PLN 19.0mn, down from the PLN 34.1mn estimated earlier.

3Q2008 results preview

Bioton is scheduled to report its 3Q2008 results on November 14, 2008. We expect the company to post a 3Q2008 net profit of PLN 13.3mn, on sales of PLN 82.8mn (consolidated and according to IFRS standards), translating into a 1-3Q2008 net loss of PLN 5.0mn on sales of PLN 248.5mn.

3Q2008 results preview

IFRS consolidated	3Q2008	3Q 2007	*y/y*	1-3Q2008	1-3Q2007	*y/y*
Total sales (PLN 000)	82,784	89,384	*-7.4%*	248,535	202,048	*23.0%*
Operating profit (PLN 000)	10,877	21,274	*-48.9%*	34,583	108,969	*-68.3%*
Net income (PLN 000)	13,335	10,272	*29.8%*	-4,963	86,406	*-105.7%*
Operating margin	*13.1%*	*23.8%*		*13.9%*	*53.9%*	
Net margin	*16.1%*	*11.5%*		*-2.0%*	*42.8%*	

Source: Erste Group Research, Company data

We forecast Bioton’s sales retreating by about 7.4% y/y to PLN 82.8mn in 3Q2008, as the beneficial impact from the first-time consolidation of Marvel and the two Italian companies, further augmented by the positive effect of the weakening zloty vs. the US dollar on its insulin exports, will be marginalized by the year-earlier high comparative base (boosted by one-off products and services deliveries to Bioton Wostok). Furthermore, in the absence of a milestone payment boost, Bioton’s operating profitability margin is anticipated to hover around 13% in 3Q, translating into a 1-3Q2008 EBIT margin of 13.9%, well below the year-earlier 1-3Q EBIT margin of 53.9%. (Here it should be mentioned that accounting for negative goodwill linked to the BioPartners acquisition added some PLN 77.7mn to 1-3Q2007 EBIT.) Given the favorable forex developments (the depreciation of the Polish zloty vs. the US dollar), the 3Q financial result is set to jump into black territory and push up the company’s bottom line. Consequently, we forecast the company posting net profit of PLN 13.3mn in 3Q2008. Still, with respect to the disastrous 1H2008 performance, this will not be sufficient to move the 1-3Q bottom line out of the red. We estimate the 1-3Q2008 loss at PLN 5.0mn. (This compares with the company’s 1-3Q2008 net profit of PLN 86.4mn.)

Valuation Summary

12-month target price of PLN 0.41 indicates that Bioton's current price fairly balances its biotech flavor- and insulin niche-buoyed prospects with its current risks

We stick to Hold

Incorporating all of the above-mentioned adjustments into our projections and fine-tuning some other parameters of our DCF model (e.g. decreasing the risk-free rate from 6.3% to 6.0%), we arrive at a 12-month target price of PLN 0.45 per share, only marginally changed from the earlier PLN 0.5 per share. Despite the deepening global equity market woes, persistent risk aversion (particularly hitting smaller stocks with less predictable earnings developments) and negative restatement of the 2Q2008 figures, Bioton's share price held its ground. Despite witnessing increased volatility, the stock price did not experience drastic falls, enjoying solid support from the perceived benefits of the reversing currency trend, as well as changes in its shareholder structure. The main news was the change in the ownership of the 33.3% controlling stake from Mr. Krauze's Prokom Investments into the hands of Windstorm Trading and Investments, the investment vehicle controlled by Jerzy Starak (the key owner of Polish generics maker Polpharma), ready to pay PLN 450mn for the 33.3% stake in Bioton (and add some PLN 50mn should Bioton register its new interferon drug with the EMEA). While Bioton's story retains its biotech flavor and the company's positioning in the insulin product niche should propel its fortunes in the long run, the uneven performance and still somewhat opaque near-term outlook are likely to continue putting a lid on the share price. Reflecting all of the above-mentioned risks, we stick to our additional 10% discount to our fundamentally-based DCF-derived target price (introduced in our latest review in July 2008). Although there might be interesting entry levels in the meantime (given the stock's volatility), with a new 12-month target price of PLN 0.41 per share, we confirm our Hold recommendation on the company.

DCF valuation

Free cash flow forecast

PLN 000	**2009e**	**2010e**	**2011e**	**2012e**	**2013e**
EBIT	84,152	107,673	139,365	179,577	245,362
Depreciation	31,429	33,869	36,409	38,849	41,389
EBITDA	115,581	141,542	175,774	218,426	286,751
Investments	-49,027	-52,068	-52,109	-52,151	-52,194
Change in Working Capital	-30,498	-39,749	-45,468	-50,526	-58,539
Corporate income taxes	9,890	15,948	22,003	29,965	42,476
Free Cash Flow	26,166	33,778	56,193	85,783	133,542

	09-13e	**perpetuity**		
beta	0.84	1.0	PV of the FCF (PLN mn)	261.7
risk free rate (%)	6.0%	5.0%	PV of TV (PLN mn)	1,377.4
market premium (%)	5.0%	5.0%	Total value of the company (PLN mn)	1,639.0
WACC (%)	9.6%	9.6%	-net debt (PLN mn)	367.2
perpetuity cash flow growth rate (%)		3.5%	Value of the equity (PLNmn)	1,271.8
			Equity value per share (PLN) as of 31.12. 2008	0.42
			Equity value per share (PLN) as of 30.10. 2009	0.45

Equity value per share (PLN) as of 30.10. 2009 **Discount rate**

		8.50%	9.00%	9.50%	10.00%	10.50%
Perpetuity cash flow growth rate	2.5%	0.49	0.44	0.40	0.36	0.32
	3.0%	0.54	0.48	0.43	0.39	0.35
	3.5%	0.60	0.53	0.47	0.42	0.37
	4.0%	0.67	0.58	0.51	0.46	0.41
	4.5%	0.76	0.65	0.57	0.50	0.44

Source: Erste Group Research

Income Statement	2005	2006	2007	2008e	2009e	2010e
(IAS, PLN mn, 31/12)	31/12/2005	31/12/2006	31/12/2007	31/12/2008	31/12/2009	31/12/2010
Net sales	**151.59**	**215.48**	**270.94**	**349.50**	**386.45**	**473.41**
Cost of goods sold	-70.40	-81.64	-122.93	-157.73	-163.18	-195.31
Gross profit	**81.19**	**133.84**	**148.01**	**191.77**	**223.28**	**278.10**
SG&A	-54.55	-85.47	-110.20	-122.68	-141.06	-172.79
Other operating revenues	19.21	47.16	82.39	10.49	11.59	14.20
Other operating expenses	-4.13	-20.67	-19.98	-12.23	-9.66	-11.84
EBITDA	**51.00**	**88.54**	**120.95**	**96.72**	**115.58**	**141.54**
Depreciation/amortization	-9.28	-13.68	-20.72	-29.37	-31.43	-33.87
EBIT	**41.72**	**74.86**	**100.23**	**67.35**	**84.15**	**107.67**
Financial result	-1.96	32.03	-85.24	-46.99	-32.10	-23.73
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	**39.76**	**106.88**	**14.99**	**20.35**	**52.05**	**83.94**
Income taxes	-5.13	-14.19	11.59	-3.87	-9.89	-15.95
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	0.00	1.07	1.65	2.47	2.96	3.56
Net result after minorities	**34.63**	**93.77**	**28.22**	**18.96**	**45.12**	**71.55**

Balance Sheet	2005	2006	2007	2008e	2009e	2010e
(IAS, PLN mn, 31/12)						
Intangible assets	51.69	395.91	672.41	640.79	633.46	626.09
Tangible assets	96.87	169.23	268.62	329.87	357.81	386.41
Financial assets	50.39	65.01	209.65	227.16	247.48	270.41
Total fixed assets	**198.95**	**630.14**	**1,150.68**	**1,197.82**	**1,238.75**	**1,282.91**
Inventories	41.89	61.99	99.63	107.31	121.63	141.54
Receivables and other current assets	103.35	229.77	248.76	305.69	347.26	408.72
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	13.93	66.76	47.08	59.12	71.60	104.46
Total current assets	**159.17**	**358.53**	**395.48**	**472.12**	**540.48**	**654.73**
TOTAL ASSETS	**358.12**	**988.67**	**1,546.15**	**1,669.94**	**1,779.24**	**1,937.64**
Shareholders'equity	**255.42**	**787.61**	**872.36**	**956.79**	**1,035.06**	**1,128.67**
Minorities	**0.00**	**17.53**	**14.44**	**16.16**	**16.16**	**16.16**
Hybrid capital and other reserves	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Pension and other LT personnel accruals	0.00	0.00	0.00	0.00	0.00	0.00
Other LT provisions	0.00	0.00	0.00	0.00	0.00	0.00
Interest-bearing LT debts	0.04	7.62	163.87	167.96	172.16	176.47
Other LT liabilities	20.75	60.58	96.83	101.67	106.76	112.10
Total long-term liabilities	**20.79**	**68.20**	**260.70**	**269.64**	**278.92**	**288.56**
Interest-bearing ST debts	43.13	54.33	246.06	258.36	262.24	275.35
Other ST liabilities	38.79	61.00	152.60	168.99	186.86	228.90
Total short-term liabilities	**81.92**	**115.33**	**398.66**	**427.35**	**449.10**	**504.25**
TOTAL LIAB. , EQUITY	**358.12**	**988.67**	**1,546.15**	**1,669.94**	**1,779.24**	**1,937.64**

Cash Flow Statement	2005	2006	2007	2008e	2009e	2010e
(IAS,PLN mn, 31/12)						
Cash flow from operating activities	7.13	-7.92	-0.53	32.05	53.43	67.52
Cash flow from investing activities	-70.51	-392.27	-320.57	-277.35	-49.03	-52.07
Cash flow from financing activities	47.20	454.67	301.42	257.33	8.07	17.42
CHANGE IN CASH , CASH EQU.	**-16.19**	**54.48**	**-19.68**	**12.04**	**12.48**	**32.86**

Margins & Ratios	2005	2006	2007	2008e	2009e	2010e
Sales growth	nm	42.1%	25.7%	29.0%	10.6%	22.5%
EBITDA margin	33.6%	41.1%	44.6%	27.7%	29.9%	29.9%
EBIT margin	27.5%	34.7%	37.0%	19.3%	21.8%	22.7%
Net profit margin	22.8%	43.0%	9.8%	4.7%	10.9%	14.4%
ROE	27.1%	18.0%	3.4%	2.1%	4.5%	6.6%
ROCE	23.2%	15.5%	3.1%	2.1%	3.7%	5.2%
Equity ratio	71.3%	81.4%	57.4%	58.3%	59.1%	59.1%
Net debt	29.2	-4.8	362.8	367.2	362.8	347.4
Working capital	77.3	243.2	-3.2	44.8	91.4	150.5
Capital employed	305.4	860.9	1,346.5	1,441.8	1,520.8	1,604.3
Inventory turnover	3.4	1.6	1.5	1.5	1.4	1.5

Source: Company data, Erste Group estimates

Egis Buy

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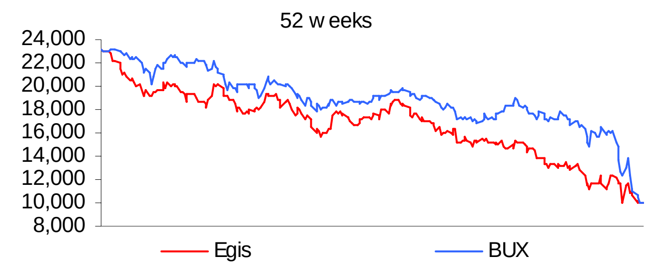
HUF mn	2007	2008e	2009e	2010e
Net sales	92,489.0	96,021.0	104,116.3	117,330.9
EBITDA	14,265.0	15,250.5	18,129.4	21,400.0
EBIT	8,063.0	8,689.6	10,961.2	13,578.6
Net result after min.	7,664.0	13,902.6	11,453.4	13,859.2
EPS (HUF)	984.37	1,785.65	1,471.08	1,780.08
CEPS (HUF)	1,830.32	2,625.08	2,388.56	2,781.51
BVPS (HUF)	13,150.84	14,816.50	16,167.58	17,827.66
Div./share (HUF)	120.00	120.00	120.00	120.00
EV/EBITDA (x)	11.8	4.2	3.3	2.6
P/E (x)	23.4	5.6	6.8	5.6
P/CE (x)	12.6	3.8	4.2	3.6
Dividend Yield	0.5%	1.2%	1.2%	1.2%



Performance	12M	6M	3M	1M
in HUF	-56.8%	-42.8%	-31.6%	-13.8%
in EUR	-60.8%	-48.0%	-42.7%	-25.2%

Share price (HUF)	10000.00	Reuters	EGIS.BU	Free float	49.1%
Number of shares (mn)	7.8	Bloomberg	EGIS HB	Shareholders	Servier (50.9%)
Market capitalization (HUF mn / EUR mn)	77,857 / 281	Div. Ex-date	29/04/08		
Enterprise value (HUF mn / EUR mn)	63,410 / 221	**Target price**	**18,800.0**	Homepage:	www.egis.hu

Valuation gap not fully justified

– **Our revised DCF-derived 12-month target arrives at HUF 18,800 per share, below our earlier target of HUF 21,000. A brief look at the currently deeply depressed price levels reassures us that the sell-off has been overdone and, although Egis' lower than average profitability calls for a certain discount to its peers, the current valuation gap is too wide, with Egis' share price failing to adequately reflect the company's improving export fortunes, as well as the ongoing management commitment to enhance profitability parameters. Buy maintained.**

– **We have incorporated into our model 1) the less detrimental impact from the slowdown of the Hungarian pharma market (per the company's guidance), but also the somewhat weaker than anticipated sales tempo in Russia; 2) the impact from the Anpharm transaction, hiking sales & marketing and R&D costs, but also bringing a substantial financial gain in 4Q; 3) the revised HUF/USD average exchange rates for 2008, with the HUF depreciating vs. the USD, positively affecting Egis' profitability in upcoming quarters; and 4) adjustments to the parameters of our DCF model, in particular raising the risk-free rate assumptions. While all of this sent our new net profit target for 2007/08 up by a hefty 32.1% compared to our previous forecast, given the high comparative base (lifted by Anpharm one-off income), a drop on the bottom line is expected (at 17.6% y/y) for the next fiscal year.**

– **Egis' 4Q2007/08 results are expected to demonstrate the easing pressures on the company's home market (sales envisaged to rise by some 2.8% q/q), accompanied by still solid exports, in particular to the CEE region (up by 54% y/y). In total, we project the company posting 4Q sales of HUF 24,288mn, up 5.3% y/y. We continue to envisage Egis' profitability to suffer from the y/y increasing share of bulk chemicals, home market price cuts and the Anpharm deal related cost hike, all of which are seen to drag the EBIT margin below the 10% mark in 4Q. Nevertheless, the one-off gain linked to the Anpharm transaction is foreseen to lift the financial result and push net profit up 134.7% y/y to HUF 5,827mn in 4Q2007/08.**

Changes in forecasts / outlook

Domestic market outlook less gloomy than thought, exports should get additional currency boost

The home market situation is slightly better than originally anticipated. In 3Q2007/08, Egis' sales decreased by 7.5% y/y, but rose by 8.2% q/q, indicating that, despite the negative impact from several rounds of price cuts, as well as the deteriorating market position of certain products, the worst seems to be over. Consequently, CFO Laszlo Marosffy has also become somewhat more optimistic regarding the 2007/08 sales, which are currently envisaged to retreat by some 8% to 9% y/y (vs. the previous guidance of a drop of 9% to 10% y/y). The market is seen to be bottoming out this year and, according to Marosffy, an optimistic scenario for 2009 would still calculate with a minor (around 3%) y/y sales growth in value terms in the domestic market. Consequently, while remaining on the conservative side, we slightly raise our 2007/08 domestic sales target to HUF 29.3bn, corresponding to a 8.2% y/y fall (up from the previous forecast of HUF 29.1bn, assuming a 9% y/y drop). We also marginally increase our 2008/09 projected sales target to HUF 30.2bn, sticking to a 3% y/y rise.

Russia/CIS: Sales within the DLO program in Russia amounted to just USD 1.0mn in 3Q2007/08, somewhat above the USD 0.6mn recorded in the previous quarter. Nevertheless, the private market remained the key factor determining Egis' sales performance in Russia. Egis' sales in Russia slipped 12.6% y/y to USD 31.3mn in 3Q2007/08, lagging somewhat behind the market and our expectations. Although the high comparative base (buoyed by pre-shipments) was the main reason for the drop, the tempo in Russia is undoubtedly less buoyant than originally anticipated. This, along with new guidance, prompts us to make a downward revision of our Russian forecasts. We decrease our target for Egis' sales tempo both in Russia alone and in Russia/CIS to around 10% y/y and 12% y/y, respectively, in 2007/08 (all in USD terms). A slight acceleration is projected for 2008/09, to a 13% y/y rise both in Russia and the Russia/CIS region as a whole (all in USD terms).

CEE markets: Reflecting the company's upwardly revised guidance and strong 3Q showing, we raise the targeted growth to 38% y/y (from the earlier 31% y/y) in USD terms in Central and Eastern European markets in 2007/08. Moreover, we envisage Egis' sales tempo staying at this relatively high (i.e. 12-15% y/y in euro terms) level in the medium term (next three years), pushing up our projections correspondingly.

Western markets: Sales of finished products are likely to exceed the original sales target and we anticipate them to show around a 15% y/y rise in USD terms in 2007/08, as growth remains sound both in Egis' traditional portfolio, as well as in contractual business. All told, our 2007/08 forecast is at USD 27mn. Also, sales of bulk chemicals (fueled by API supplies for Servier) maintained their dynamism in the course of 2008; we stick to our earlier forecast and assume 43.5% y/y growth (to around USD 75mn) in 2007/08 in this category. However, based on indicative orders from Servier for the next year, 2007/08 should represent a peak (based on stock buildup and high initial deliveries for Servier product launches), followed by an up to 30% y/y decline in 2008/09 (all in USD terms). Finally, we incorporate a newly revised currency forecast (annual average exchange rate of HUF 166.7/USD for 2008, from HUF 161.8/USD). After factoring in all of the above-mentioned changes into our sales projections, our 2007/08 sales target is broadly unchanged at around HUF 96bn. For 2008/09, our new sales target is HUF 104.1bn, vs. the previous forecast of HUF 105.35bn.

Summary of changes to 2007/08 and 2008/09 forecasts

(HUF 'mn)	07/08 orig.forecast		07/08 new forecast		08/09 orig.forecast		08/09 new forecast	
Net sales	**96,128**	**100.0%**	**96,021**	**100.0%**	**105,351**	**100.0%**	**104,116**	**100.0%**
Cost of sales	42,262	44.0%	41,731	43.5%	45,738	43.4%	44,231	42.5%
Gross profit	**53,866**	**56.0%**	**54,290**	**56.5%**	**59,613**	**56.6%**	**59,885**	**57.5%**
Marketing & distr.costs	22,243	23.1%	22,535	23.5%	24,304	23.1%	24,802	23.8%
Administration costs	10,977	11.4%	11,486	12.0%	11,850	11.2%	12,049	11.6%
R & D costs	7,715	8.0%	8,497	8.8%	8,455	8.0%	8,936	8.6%
Other operating exp.	3,901	4.1%	3,924	4.1%	3,959	3.8%	3,982	3.8%
Other oper. income	570	0.6%	841	0.9%	573	0.5%	845	0.8%
Operating profit	**9,599**	**10.0%**	**8,690**	**9.0%**	**11,617**	**11.0%**	**10,961**	**10.5%**
Financial result	1,659	1.7%	6,004	6.3%	1,290	1.2%	1,365	1.3%
Pre-tax profit	**11,258**	**11.7%**	**14,693**	**15.3%**	**12,908**	**12.3%**	**12,326**	**11.8%**
Income taxes	734	0.8%	791	0.8%	948	0.9%	872	0.8%
Net Income	**10,525**	**10.9%**	**13,903**	**14.5%**	**11,960**	**11.4%**	**11,453**	**11.0%**

Source: Erste Group Research

Improving sales mix, currency situation to lift gross margin

The improving territorial (increased share for Russia) and product sales mix partly counterbalanced the expanding share of bulk chemicals and the y/y less favorable forex situation, as well as the dampening impact of the home market price erosion. Egis' gross margin stood at 56.7% in 3Q2007/08. However, the trend is set to improve; already in 4Q2007/08, we anticipate the gross margin to be on a recovery path, bringing the gross margin for the full fiscal year to 56.5% (up from the earlier projected 56.0%). More is to come in 2008/09, with the easing pricing pressures and positive impact from the more favorable sales structure (with a sharply falling bulk chemical sales share, further bolstered by the better than anticipated currency situation). For the time being, we remain on the conservative side and opt for only a marginal upward adjustment of our projections for the gross margin for FY2008/09 to 57.5% (vs. the earlier projected 56.6%).

EBIT margin recovery to >10% mark in coming periods, to be partly compromised by increasing costs linked to Anpharm deal

The 3Q2007/08 results demonstrated clearly that the company's management remains committed to keeping operating expenses well under control. The efforts will however be partly compromised by consequences of the Anpharm transaction, starting to be more visible from 4Q2007/08. At the end of March 2008, a contract was concluded between Egis and Anpharm, according to which Anpharm acquired a 24.3% stake Egis held in its share capital. In exchange, Egis received PLN 22.5mn in cash and Anpharm also transferred trademarks, registration and manufacturing know-how for its 23 generic products to Egis. The takeover of the Anpharm portfolio started in April 2008. The Anpharm portfolio takeover resulted - apart from increasing sales in Poland - elevated operating costs (giving a lift to R&D expenses, as the value of the Anpharm portfolio will be capitalized, raising amortization charges by an estimated HUF 1bn in 2007/08; and assuming a degressive scheme, by an additional HUF 800mn in 2008/09). All told, reflecting the new guidance regarding the Anpharm deal impact, as well as the reported cost structure in the 1-3Q period, we increase our R&D cost and administrative & general cost assumptions for 2007/08. While sales and marketing expenses fell by 0.5% y/y in 1-3Q2007/08 to 22.7% of sales, for the full year 2007/08, we forecast these expenditures to exceed 23% of sales. While the decision of the Constitutional Court declared the fees for sales representatives unconstitutional, the next period will likely see a return of these fees (likely to be reintroduced from January 2009), keeping the payments to OEP (including also a 12% rebate on reimbursed drug sales) at around HUF 2bn in 2008/09. Based on the slightly less optimistic 1-3Q2007/08 data, as well as the more pronounced impact from Anpharm on the 4Q figures, we adjust our EBIT margin assumptions downwards. All things considered, we opt for a decrease of our operating margin target from 10.0% to 9.0% for 2007/08. While the recent strong firming of the US dollar and steep weakening of the forint is working undoubtedly in Egis' favor, for the time being, we remain on the conservative side and reduce our operating profitability parameter forecast for 2008/09, trimming EBIT margin to 10.5%. Finally, factoring in the positive impact from the weakening forint on the reassessment of receivables at the end of the period and the buoying effect from the financial gain linked to the Anpharm deal (of around HUF 4.5bn), we lift our full fiscal year 2007/08 financial result from around HUF 1.7bn to HUF 6.0bn. All told, our new net profit target arrives at HUF 13,903mn for 2007/08 (well above the earlier forecast of HUF 10,525mn) and HUF 11,453mn for 2008/09 (marginally down from the previous target of HUF 11,960mn).

4Q2007/08 results preview

Egis is expected to publish its 2007/08 report on November 10, 2008, after market close. We envisage net profit of HUF 13,903mn, on sales of HUF 96,021mn for October 2007-September 2008, its 2007/08 fiscal year. In 4Q2007/08 alone, we anticipate Egis' net profit at HUF 5,827mn, on sales of HUF 24,288mn.

4Q2007/08 results preview table

IFRS nonconsolidated	4Q 07/08	4Q 06/07	*y/y*	1-4Q2007/08	1-4Q2006/07	y/y
Net sales (HUF mn)	24,288	23,067	*5.3%*	96,021	92,489	*3.8%*
Operating profit (HUF mn)	1,780	1,732	*2.7%*	8,690	8,063	*7.8%*
Net income (HUF mn)	5,827	2,483	*134.7%*	13,903	7,664	*81.4%*
Operating margin	*7.3%*	*7.5%*		*9.0%*	*8.7%*	
Net margin	*24.0%*	*10.8%*		*14.5%*	*8.3%*	

Source: Erste Group Research, Company data

Reflecting the significantly lower price levels y/y (with the major price cut taking place in April 2007, followed by several rounds of quarterly price reductions), we forecast Egis' domestic sales retreating by 4.4% y/y to HUF 7.4bn in 4Q2007/08, bringing the 2007/08 total to HUF 29.3bn, down 8.2% y/y. As indicated by 2007/08 interim performance, still dynamically developing exports should at least partly compensate for the domestic market weakness. We envisage exports to Russia/CIS to continue in their revival and forecast their tempo to reach some 13% y/y to USD 43.6mn in 4Q2007/08. This translates into a sound 12.2% y/y rise for Egis' Russia/CIS sales in 2007/08. In Russia alone, we expect Egis' sales at USD 31.1mn, up 10.1% y/y in 4Q2007/08, corresponding to a 9.7% y/y rise to USD 112.9mn in 2007/08. On the other hand, Egis' Eastern European sales are envisaged not to lose steam, advancing by a robust 38.0% y/y to USD 139.5mn in 2007/08, with the fourth quarter contribution at USD 42.6mn. And finally, we expect Western markets sales to rise by 35.3% y/y to USD 102.5mn, out of which bulk chemical sales are projected to deliver USD 75.0mn in 2007/08. In summary, we forecast Egis' sales increasing by 3.8% y/y to HUF 96,021mn in 2007/08; the fourth quarter is expected to bring sales of HUF 24,288mn, up by 5.3% y/y.

Despite the weakening of the forint towards the end of the period, the average HUF/USD exchange rate points to the y/y less favorable currency situation. Along with the deteriorating sales mix (in particular, shoring up the proportion of bulk chemicals), domestic drug price erosion and the impact of the Anpharm deal, this will undoubtedly dampen Egis' operating profitability margin in 4Q2007/08. We forecast 4Q2007/08 EBIT rising by 2.7% y/y to HUF 1,780mn, translating into an EBIT margin of 7.3% (down from 7.5% in the previous year's period). This sends our 2007/08 EBIT target to HUF 8,690mn (and full-year EBIT margin assumption to 9.0%). However, the financial result provides a much more pleasing picture. Not only did the company record one–off income from the sale of the Medimpex stake in 2Q, but the fourth quarter is envisaged to witness a buoying effect from the one-off accounting gain linked to the Anpharm deal (of about HUF 4.5bn). Furthermore, the fourth quarter closing period exchange rate gives reason for more optimism too, erasing some of the earlier forex losses linked to reassessment of receivables. All told, we expect the company's financial results not only to stay in the black in 2007/08, but to post further improvement to HUF 6bn, out of which the 4Q2007/08 financial result is anticipated to contribute HUF 4.5bn. As a result, the company should be able to deliver a bold y/y move on the bottom line, with its 2007/08 net profit climbing 81.4% y/y to HUF 13,903mn, out of which the fourth quarter is expected to add HUF 5,827mn.

Valuation Summary

Hungarian bond yields on rise, forcing us to adjust parameters of our DCF model

Incorporating all changes, our new 12-month target price arrives at HUF 18,800 per share; we stick to Buy

The fears linked to the perceived impact of the global financial crisis on Hungary put further pressure on Hungarian stock valuations, lifting bond yields (and the required premiums). This prompts us to revise the parameters of our DCF model, namely the risk-free rate applied - we opt to raise it from 7.4% to 9.0% for the detailed forecast period of 2009-14. Applying the market premium for the forecast period and perpetuity of 5%, we arrive at a WACC of 13.2% for 2009-14 and 10.0% for perpetuity. After incorporating these changes into our forecasts and DCF model parameters, our DCF-derived 12-month target price amounts to HUF 18,800 per share, below our earlier target price of HUF 21,000. Although some risks remain (especially with regards to the still unclear currency developments), we believe that currency assumptions in our model are conservative and the bias is rather on the upward side, with the weaker than currently projected forint playing in the company's favor. We also want to emphasize that, like Richter, Egis has very conservative investment policies and the company has practically no external debt, financing all its investment plans from cash flow. Also, the worst is over on the domestic pharma market front. In conclusion, while we admit that the company's below-average profitability margins are still discouraging and call for a discount to its peers, the stock has dived far more deeply than its peers, magnifying the valuation gap to an unjustified extent. The company's transparency, healthy balance sheet, recently intensifying efficiency drive (to be helped by the changing sales structure and currency fortunes in upcoming periods) and traditionally solid position in CEE markets (including Russia/CIS) are not adequately priced in at the currently depressed share price levels. We confirm our Buy recommendation on Egis.

DCF valuation

Free cash flow forecasts

HUF mn	**08/09e**	**09/10e**	**10/11e**	**11/12e**	**12/13e**
EBIT	10,961	13,579	16,310	19,391	22,704
Depreciation	7,168	7,821	8,499	9,227	10,004
EBITDA	18,129	21,400	24,809	28,619	32,707
Investments	-9,962	-10,676	-11,518	-12,422	-13,391
Change in working capital	-3,257	-4,163	-5,673	-6,408	-7,394
Corporate income taxes	872	1,232	1,605	2,023	3,439
Free cash flow	4,038	5,329	6,012	7,766	8,483

	09-14e	**perpetuity**
beta	0.84	1.0
risk free rate (%)	9.0%	5.0%
market premium (%)	5.0%	5.0%
WACC (%)	13.2%	10.0%
perpetuity cash flow growth rate (%)		3.5%

PV of the FCF (HUF mn)	29,935
PV of TV (HUF mn)	83,594
Total (HUF mn)	113,529
+net cash (HUF mn)	14,447
Equity value of the company (HUF mn) as of 30.9.2008	127,976
Equity value per share (HUF) as of 30.9. 2008	16,437
Equity value per share (HUF) as of 30.10. 2009	18,800

Equity value per share (HUF) as of 30.10. 2009 — **Discount rate**

		10.0%	*10.5%*	*11.0%*	*11.5%*	*12.0%*
Perpetuity cash flow	*2.5%*	19,163	18,026	17,027	16,142	15,353
growth rate	*3.0%*	20,040	18,774	17,669	16,697	15,836
	3.5%	21,053	19,627	18,396	17,322	16,377
	4.0%	22,234	20,613	19,227	18,030	16,985
	4.5%	23,630	21,762	20,186	18,838	17,674

Source: Erste Group Research

Income Statement	**2005**	**2006**	**2007**	**2008e**	**2009e**	**2010e**
(IAS, HUF mn, 30/09)	30/09/2005	30/09/2006	30/09/2007	30/09/2008	30/09/2009	30/09/2010
Net sales	**72,621.39**	**87,361.52**	**92,489.00**	**96,020.99**	**104,116.35**	**117,330.93**
Cost of goods sold	-28,428.83	-31,497.58	-41,121.00	-41,730.78	-44,230.93	-49,097.10
Gross profit	**44,192.56**	**55,863.94**	**51,368.00**	**54,290.21**	**59,885.42**	**68,233.83**
SG&A	-26,363.70	-31,899.32	-32,919.00	-34,021.16	-36,851.19	-41,532.35
Other operating revenues	226.44	163.76	623.00	841.05	845.26	857.93
Other operating expenses	-7,745.66	-8,649.00	-11,009.00	-12,420.48	-12,918.25	-13,980.83
EBITDA	**15,061.65**	**20,944.37**	**14,265.00**	**15,250.55**	**18,129.42**	**21,400.02**
Depreciation/amortization	-4,752.00	-5,465.00	-6,202.00	-6,560.93	-7,168.17	-7,821.43
EBIT	**10,309.65**	**15,479.37**	**8,063.00**	**8,689.62**	**10,961.24**	**13,578.59**
Financial result	1,533.36	2,240.38	-155.00	6,003.74	1,364.55	1,512.45
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	**11,843.00**	**17,719.76**	**7,908.00**	**14,693.36**	**12,325.79**	**15,091.03**
Income taxes	-1,533.30	-2,194.72	-244.00	-790.76	-872.35	-1,231.83
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	0.00	0.00	0.00	0.00	0.00	0.00
Net result after minorities	**10,309.70**	**15,525.04**	**7,664.00**	**13,902.60**	**11,453.44**	**13,859.20**

Balance Sheet	**2005**	**2006**	**2007**	**2008e**	**2009e**	**2010e**
(IAS, HUF mn, 30/09)						
Intangible assets	512.36	549.03	600.00	690.00	759.00	834.90
Tangible assets	34,727.64	38,838.68	42,582.00	48,354.13	52,936.42	57,682.73
Financial assets	8,618.22	8,693.55	10,140.00	10,900.50	11,718.04	12,596.89
Total fixed assets	**43,858.21**	**48,081.26**	**53,322.00**	**59,944.63**	**65,413.46**	**71,114.52**
Inventories	25,306.48	28,373.09	28,604.00	29,696.34	31,716.98	33,955.41
Receivables and other current assets	18,703.20	20,588.25	22,443.00	23,300.06	25,138.12	28,045.40
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	6,555.11	9,606.68	10,778.00	14,447.04	17,550.94	21,945.00
Total current assets	**50,564.78**	**58,568.02**	**61,825.00**	**67,443.44**	**74,406.04**	**83,945.81**
TOTAL ASSETS	**94,423.00**	**106,649.28**	**115,147.00**	**127,388.07**	**139,819.50**	**155,060.33**
Shareholders'equity	**81,067.78**	**95,658.87**	**102,388.72**	**115,357.02**	**125,876.18**	**138,801.09**
Minorities	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Hybrid capital and other reserves	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Pension and other LT personnel accruals	0.00	0.00	0.00	0.00	0.00	0.00
Other LT provisions	1,285.26	1,307.68	1,692.00	1,666.62	1,641.62	1,617.00
Interest-bearing LT debts	0.00	0.00	0.00	0.00	0.00	0.00
Other LT liabilities	0.00	0.00	0.00	0.00	0.00	0.00
Total long-term liabilities	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Interest-bearing ST debts	1,951.06	0.00	0.00	0.00	0.00	0.00
Other ST liabilities	10,118.90	9,682.73	11,066.29	10,364.42	12,301.70	14,642.24
Total short-term liabilities	**9,655.01**	**7,309.23**	**9,226.00**	**9,535.60**	**10,185.45**	**11,216.89**
TOTAL LIAB. , EQUITY	**94,423.00**	**106,649.28**	**115,147.00**	**127,388.07**	**139,819.50**	**155,060.33**

Cash Flow Statement	**2005**	**2006**	**2007**	**2008e**	**2009e**	**2010e**
(IAS,HUF mn, 30/09)						
Cash flow from operating activities	9,922.98	12,307.77	13,694.00	12,773.01	14,000.28	16,005.04
Cash flow from investing activities	-8,209.59	-9,028.13	-10,144.00	-8,332.35	-9,961.80	-10,676.40
Cash flow from financing activities	-934.23	-2,868.89	-934.29	-771.62	-934.59	-934.59
CHANGE IN CASH , CASH EQU.	**779.16**	**410.75**	**2,615.71**	**3,669.04**	**3,103.90**	**4,394.06**

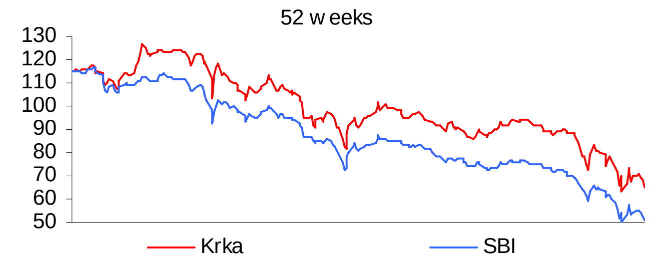
Margins & Ratios	**2005**	**2006**	**2007**	**2008e**	**2009e**	**2010e**
Sales growth	nm	20.3%	5.9%	3.8%	8.4%	12.7%
EBITDA margin	20.7%	24.0%	15.4%	15.9%	17.4%	18.2%
EBIT margin	14.2%	17.7%	8.7%	9.0%	10.5%	11.6%
Net profit margin	14.2%	17.8%	8.3%	14.5%	11.0%	11.8%
ROE	25.4%	17.6%	7.7%	12.8%	9.5%	10.5%
ROCE	25.2%	18.4%	7.9%	13.6%	10.2%	11.6%
Equity ratio	85.9%	89.7%	88.9%	90.6%	90.0%	89.5%
Net debt	-4,604.0	-9,606.7	-10,778.0	-14,447.0	-17,550.9	-21,945.0
Working capital	40,909.8	51,258.8	52,599.0	57,907.8	64,220.6	72,728.9
Capital employed	77,749.0	87,359.9	93,302.7	102,576.6	109,966.9	118,473.1
Inventory turnover	2.2	1.2	1.4	1.4	1.4	1.5

Source: Company data, Erste Group estimates

Krka Buy

Vladimira Urbankova, MBA +43 50100 17343 vladimira.urbankova@erstegroup.com

EUR mn	2007	2008e	2009e	2010e
Net sales	780.9	950.9	1,120.7	1,293.4
EBITDA	239.9	287.2	335.7	386.0
EBIT	182.9	223.2	264.3	306.5
Net result after min.	132.6	163.3	197.5	233.1
EPS (EUR)	3.74	4.61	5.57	6.58
CEPS (EUR)	5.94	6.32	7.37	8.47
BVPS (EUR)	18.94	22.75	27.41	32.79
Div./share (EUR)	0.91	1.20	1.45	1.75
EV/EBITDA (x)	19.0	8.5	7.2	6.2
P/E (x)	33.2	14.2	11.7	9.9
P/CE (x)	20.9	10.3	8.8	7.7
Dividend Yield	0.7%	1.8%	2.2%	2.7%



Performance	12M	6M	3M	1M
in EUR	-43.1%	-27.9%	-30.1%	-18.9%

Share price (EUR)	65.24	Reuters	KRKG.LJ	Free float	67.7%
Number of shares (mn)	35.4	Bloomberg	KRKG SV	Shareholders	KAD & PPS (15.0%)
Market capitalization (EUR mn)	2,311.2	Div. Ex-date	07/07/08		SOD Fund (9.5%)
Enterprise value (EUR mn)	2,437.5	**Target price**	**118.5**	Homepage:	www.krka.si

Competitive edge warrants premium

– **Our revised DCF-derived 12-month target price arrives at EUR 118.5 per share, slightly down from the earlier value of EUR 125.0 per share. As the most liquid among the Ljubljana-listed stocks, Krka suffered during the recent sell-off wave that spilled across equity markets, sending its price to new lows and largely wiping out its premium to its CEE-based rivals. We continue to believe that the company's steadily high double-digit tempo (which is not confined to the top line) and very healthy outlook, propelled by its solid regional footing and strong R&D pipeline (boding well for success in Western markets), along with above-average profitability parameters, warrant more demanding multiples than its regional peers could command. All told, we reiterate our Buy recommendation on the stock.**

– **Krka's 2008 interim results reassured investors that, in maintaining a superior growth tempo and profitability, the company is leaving its regional competitors well behind. Consequently, the changes to our model are minimal, reflecting 1) the fine-tuning of the sales structure for 2008; 2) the better than envisaged gross profitability, but also slightly weaker operating result in 2Q08; and 3) adjustments to the parameters of our DCF model - in particular, slightly decreasing the risk-free rate assumptions.**

– **The 1H2008 report confirmed that our full-year sales target for 2008 (sales of EUR 950.9mn, up 21.8% y/y) is achievable, prompting only a minor adjustment in the sales structure to reflect the faster than envisaged progress in Russia/CIS, but slightly more subdued tempo in the SEE region. We also fine-tuned our gross and operating margin assumptions (raising the gross margin forecast to 64.2% and decreasing the EBIT margin to 23.5%), sending our 2008 net profit target to EUR 163.3mn.**

– **We assume that, while witnessing a traditional seasonal 3Q sales slowdown, the company will be able to deliver a double-digit tempo on both the top and net profit lines in the first nine months of 2008. In summary, we forecast the company posting sales of EUR 684.8mn (up 20% y/y), operating profit of EUR 155.6mn (up 14.3% y/y) and net profit of EUR 113.1mn (up 16% y/y; all figures consolidated and according to IFRS).**

Changes in forecasts / outlook

Interim 2008 sales results foster optimism that superb tempo will continue

we stick to 2008 sales target

Based on its 1H2008 report, we decided on a minor adjustment to our 2008 sales forecasts by territory, incorporating the faster than anticipated tempo in Russia/CIS, but also the relatively more subdued sales in SEE countries. The better than expected results prompt us to increase our forecast for Krka's sales in Russia/CIS from EUR 221.8mn to EUR 226mn, translating into a 23.7% y/y rise in euro terms in 2008. On the other hand, we reduce our sales projections for SEE markets from EUR 147.3mn to EUR 142.0mn for 2008. All told, we leave our sales target for 2008 unchanged at EUR 950.9mn, corresponding to 21.8% y/y growth. We fine tune our sales forecast for 2009 to around EUR 1,120.7mn (up by 17.9% y/y).

Summary of changes to 2008 and 2009 forecasts

EUR mn	2008 orig. forecast		2008 new forecast		2009 orig. forecast		2009 new forecast	
Net sales	**950.9**	**100.0%**	**950.9**	**100.0%**	**1,123.5**	**100.0%**	**1,120.7**	**100.0%**
Costs of good sold	342.7	36.0%	340.1	35.8%	404.3	36.0%	400.2	35.7%
Gross profit	608.2	64.0%	610.8	64.2%	719.2	64.0%	720.5	64.3%
Sales & marketing exp.	241.2	25.4%	243.8	25.6%	284.8	25.3%	287.2	25.6%
Research & development exp.	74.2	7.8%	74.6	7.9%	88.8	7.9%	88.5	7.9%
General & administrative exp.	75.1	7.9%	75.6	8.0%	88.8	7.9%	88.5	7.9%
Other operating income	6.9	0.7%	6.4	0.7%	9.5	0.9%	8.1	0.7%
Operating profit	**224.7**	**23.6%**	**223.2**	**23.5%**	**266.5**	**23.7%**	**264.3**	**23.6%**
Financial result	-7.0	-0.7%	-7.7	-0.8%	-6.5	-0.6%	-7.2	-0.6%
Income taxes	50.1	5.3%	51.7	5.4%	57.2	5.1%	59.1	5.3%
Minorities	0.4	0.0%	0.4	0.0%	0.5	0.0%	0.5	0.0%
Net income	**167.1**	**17.6%**	**163.3**	**17.2%**	**202.3**	**18.0%**	**197.5**	**17.6%**

Source: Erste Group Research

While slightly raising gross margin assumptions going forward…

…given slightly weaker than anticipated 1H operating result, we make minor cut to our net profit target

We also cautiously revise our 2008 gross slightly upward to EUR 610.8mn, assuming more efficiencies stemming from a better sales mix, higher economies of scale and cost control. This translates into an increase in our gross margin forecast from 64.0% to 64.2%. On the other hand, the somewhat higher operating costs across the board and consequently less-pronounced progress in operating profitability than we anticipated prompt us to reduce our EBIT target from EUR 224.7mn to EUR 223.2mn, corresponding to a cut of the EBIT margin target from 23.6% to 23.5%. We increase sales and marketing cost forecasts from 25.4% to 25.6% of total 2008 sales. We also slightly raise G&A expenditures forecasts, from 7.8% to 7.9% of total 2008 sales. As before, one of the biggest question marks hangs over the level of necessary new provisioning (burdening sales and marketing costs) and the release of previous provisions (pushing up other income).Here, we opt to take a more conservative stance and, while sticking to our earlier assumptions, we forecast the level of provisioning to decrease (but not materially) in 2008, from EUR 14.1mn in 2007 to EUR 12mn. We assume a lower level of provisions release, trimming our other income forecast to EUR 6.4mn. While assuming more benefits from the switch to euro invoicing in Russia on the forex balance to come later in the course of the year, we slightly change our forecast for the financial result from EUR 7.0mn loss to a loss of EUR 7.7mn. In summary, our net profit target for 2008 arrives at EUR 163.3mn, down from the previously forecast EUR 167.1mn. For 2009, reflecting the increasingly positive earnings contribution from TAD Pharma (Krka's German acquisition), we continue to expect the company to make another bold move on the bottom line. We stick to the earlier expected tempo, which, due to the lowered comparative base year figure, translates into a minor reduction of our net profit target from EUR 202.3mn to EUR 197.5mn.

1-3Q2008 results preview

While Krka opted not to release its 1-3Q2008 sales performance highlights ahead of the full 1-3Q2008 report (due on November 13), we believe that the company will be able to demonstrate its competitive advantages and that investors should not be worried about a negative surprise in its top line figure. Although the third quarter is traditionally the weakest for Krka, we expect the nine-month sales tempo to stay safely in high double-digit terms. We forecast that Krka's consolidated sales will advance by a robust 20% y/y to EUR 684.8mn in 1-3Q2008. Exports are envisaged to remain the key engine, soaring by 22.6% y/y to EUR 607.6mn and accounting for some 88.7% of the total sales. We think that the company has all prerequisites to sustain a high tempo (19.1% y/y to EUR 178.9mn, or 26.1% of the total sales in 1-3Q2008) in Central European markets. Reflecting benefits from the TAD Pharma acquisition, the company is also poised to manage another bold move in Western Europe and overseas markets, where we forecast its sales to surge by 44.1% y/y to EUR 161.6mn, or nearly 23.6% of 1-3Q2008 total sales. The year-earlier period's low comparative base (with Russian sales plagued by the receivables collection-troubled DLO system) should continue to work in the company's favor and we project an acceleration of Krka's Russia/CIS sales tempo to 24.7% y/y (to sales of EUR 167.5mn, or 24.5% of the total) in 1-3Q2008.

1-3Q results preview

IFRS consolidated	3Q 2008	3Q 2007	*y/y*	1-3Q2008	1-3Q2007	*y/y*
Total sales (EUR 000)	215,579	178,358	*20.9%*	684,847	570,890	*20.0%*
Operating profit (EUR 000)	47,133	45,199	*4.3%*	155,611	136,124	*14.3%*
Net income (EUR 000)	34,791	29,543	*17.8%*	113,081	97,518	*16.0%*
Operating margin	*21.9%*	*25.3%*		*22.7%*	*23.8%*	
Net margin	*16.1%*	*16.6%*		*16.5%*	*17.1%*	

Source: Erste Group Research, Company data

We expect that Krka will maintain its solid profitability in the third quarter, bolstered by continuous favorable changes in the sales mix (namely an ever-expanding share of new products with higher margins) and backed up by cost containment measures and y/y lower provisioning. We forecast Krka's operating profit at EUR 155.6mn in 1-3Q2008, out of which the third quarter is expected to deliver EUR 47.1mn. Assuming further gradual q/q improvements in the financial result, we project net profit amounting to EUR 113.1mn in the first nine months of 2008 (out of which EUR 34.8mn is foreseen to be added in 3Q08).

Valuation Summary

We reduce our risk-free rate assumptions

Slovenia is the only new EU member to have adopted the euro (in January 2007). This implies a somewhat lower risk-free rate than would be applied for the home countries of its regional peers. In addition, the downward moves in the yields of government bonds in the EU prompt us to revise the risk-free rate assumptions here as well, from the earlier 4.9% to 4.4% for 2009-13. For perpetuity, we continue to apply a risk-free rate of 5%. This sends our calculated WACC to 8.5% for 2009-13 and 9.9% for perpetuity. Incorporating the changing time-frame into our model (compared to our previous report from July 2008), we arrive at a new DCF-derived 12-month target price of EUR 118.5 per share, slightly down from the earlier value of EUR 125.0 per share.

Our new target price arrives at EUR 118.5…

…confirming that equity market turmoil sent share price to very attractive levels

Unlike in the past, the Ljubljana Stock Exchange did not prove to be a safe haven from the storm on the global financial markets. As one of the most liquid stocks on its home bourse, Krka witnessed a significant slump in its share price and in this respect shared the fate of its regional peers during the weeks of equity market turmoil. While Krka's premium to the CEE sector average was partly wiped out, the stock's multiples are still among the most demanding in the regional sector universe. However, we continue to believe that this is fully justified. Krka's growth, which is not limited to the top line, is (contrary to its peers') practically uninterrupted and its dynamism is at least twice as high as that of its peers in the recent periods. In addition, the company maintains its regional competitive edge in terms of profitability parameters, owing to its ability to translate its R&D spending into a swift innovative tempo, with new product launches in key therapeutic areas (such as cardiovascular diseases) backing up its high margins. The

Consequently, we stick to Buy

traditionally strong regional position, including Russia/CIS, as well as new dynamism in Western markets (not least thanks to its R&D pipeline, which is rich in products awaiting patent expirations), further bolstered by the TAD Pharma acquisition, bode well for sustaining high growth rates going forward. The company's balance sheet is very strong and, without tapping financial markets, the company will be able to finance its strong organic growth and potentially also smaller-scale acquisitions. While deals of a larger size cannot be ruled out, the company is not taking any risks and its traditionally conservative assessment of investment opportunities speaks in favor of its low risk profile. All told, in the currently turbulent markets, Krka represents one of the safest bets in the CEE pharma sector and we reiterate our Buy recommendation on the stock.

DCF valuation

Free cash flow forecasts (EUR mn)	2009e	2010e	2011e	2012e	2013e
EBIT	264.3	306.5	350.9	399.7	449.9
Depreciation	71.4	79.5	88.4	98.4	109.4
EBITDA	335.7	386.0	439.3	498.0	559.3
Investments	-118.5	-119.9	-120.5	-121.3	-122.9
Change in working capital	-38.2	-40.6	-51.6	-56.1	-58.8
Corporate income taxes	-59.1	-65.9	-68.8	-78.7	-88.8
Free cash flow	119.9	159.5	198.4	241.9	288.8

	2009-2013	perpetuity
beta	0.84	1.00
risk free rate (%)	4.4%	5.0%
market premium (%)	5.0%	5.0%
WACC (%)	8.5%	9.9%
perpetuity cash flow growth rate (%)		4.5%

PV of the FCF (EUR mn)	832.9
PV of the TV (EUR mn)	3,194.0
Total (EUR mn)	4,027.0
- net debt (EUR mn)	-116.2
Equity value of the company (EUR mn) as of 31.12. 2008	3,910.7
Equity value per share (EUR) as of 31.12. 2008	110.4
Equity value per share (EUR) as of 30.10.2009	118.5

Equity value/share (EUR) as of 30.10.2009		discount rate				
		8.25%	8.75%	9.25%	9.75%	10.25%
perpetuity cash flow growth rate	3.5%	125.7	113.4	103.3	94.8	87.5
	4.0%	137.9	123.1	111.1	101.2	92.9
	4.5%	153.4	135.0	120.5	108.8	99.1
	5.0%	173.6	150.1	132.2	118.0	106.6
	5.5%	201.2	169.9	147.0	129.4	115.6

Source: Erste Group Research

Income Statement	2005	2006	2007	2008e	2009e	2010e
(IAS, EUR mn, 31/12)	31/12/2005	31/12/2006	31/12/2007	31/12/2008	31/12/2009	31/12/2010
Net sales	**554.14**	**667.95**	**780.92**	**950.85**	**1,120.66**	**1,293.39**
Cost of goods sold	-216.41	-248.99	-282.83	-340.07	-400.21	-460.27
Gross profit	**337.72**	**418.97**	**498.09**	**610.78**	**720.46**	**833.11**
SG&A	-229.56	-219.39	-260.30	-319.39	-375.73	-432.81
Other operating revenues	51.01	3.56	4.22	6.42	8.12	9.05
Other operating expenses	-40.12	-52.65	-59.07	-74.64	-88.53	-102.82
EBITDA	**164.85**	**198.20**	**239.88**	**287.22**	**335.75**	**386.00**
Depreciation/amortization	-45.79	-47.70	-56.94	-64.06	-71.43	-79.46
EBIT	**119.06**	**150.50**	**182.93**	**223.16**	**264.32**	**306.53**
Financial result	4.20	-1.74	-8.00	-7.69	-7.22	-6.96
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	**123.26**	**148.76**	**174.93**	**215.46**	**257.10**	**299.58**
Income taxes	-25.92	-36.67	-42.08	-51.71	-59.13	-65.91
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	-0.13	-0.41	-0.30	-0.44	-0.48	-0.53
Net result after minorities	**97.21**	**111.68**	**132.55**	**163.32**	**197.49**	**233.14**

Balance Sheet	2005	2006	2007	2008e	2009e	2010e
(IAS, EUR mn, 31/12)						
Intangible assets	21.11	23.61	129.85	129.36	127.89	126.50
Tangible assets	451.49	506.82	572.24	640.91	717.82	803.96
Financial assets	30.18	44.42	47.61	59.51	74.39	92.99
Total fixed assets	**502.78**	**574.85**	**749.71**	**829.79**	**920.11**	**1,023.45**
Inventories	120.91	115.93	171.65	196.46	223.44	251.43
Receivables and other current assets	151.93	177.96	184.28	211.39	241.04	272.78
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	12.64	10.40	15.78	21.31	29.83	43.26
Total current assets	**285.48**	**304.28**	**371.71**	**429.15**	**494.32**	**567.47**
TOTAL ASSETS	**788.26**	**879.13**	**1,121.42**	**1,258.94**	**1,414.42**	**1,590.92**
Shareholders'equity	**472.01**	**563.00**	**670.88**	**805.85**	**971.10**	**1,161.73**
Minorities	**7.57**	**7.91**	**10.04**	**10.04**	**10.04**	**10.04**
Hybrid capital and other reserves	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Pension and other LT personnel accruals	0.00	0.00	0.00	0.00	0.00	0.00
Other LT provisions	98.71	122.55	143.64	140.05	132.35	119.77
Interest-bearing LT debts	48.71	34.58	87.18	88.49	79.64	71.68
Other LT liabilities	3.05	6.80	22.95	24.39	27.60	19.48
Total long-term liabilities	**51.76**	**41.39**	**110.13**	**112.89**	**107.24**	**91.15**
Interest-bearing ST debts	65.99	55.79	66.14	49.07	55.04	58.63
Other ST liabilities	92.22	88.49	120.59	141.05	138.66	149.59
Total short-term liabilities	**158.21**	**144.28**	**186.73**	**190.12**	**193.70**	**208.22**
TOTAL LIAB. , EQUITY	**788.26**	**879.13**	**1,121.42**	**1,258.94**	**1,414.42**	**1,590.92**

Cash Flow Statement	2005	2006	2007	2008e	2009e	2010e
(IAS,EUR mn, 31/12)						
Cash flow from operating activities	109.59	140.63	175.20	178.07	180.12	201.63
Cash flow from investing activities	-89.11	-111.54	-204.95	-120.95	-118.50	-119.91
Cash flow from financing activities	-19.74	-30.97	35.36	-51.59	-53.09	-68.31
CHANGE IN CASH , CASH EQU.	**0.74**	**-1.87**	**5.61**	**5.52**	**8.52**	**13.42**

Margins & Ratios	2005	2006	2007	2008e	2009e	2010e
Sales growth	nm	20.5%	16.9%	21.8%	17.9%	15.4%
EBITDA margin	29.7%	29.7%	30.7%	30.2%	30.0%	29.8%
EBIT margin	21.5%	22.5%	23.4%	23.5%	23.6%	23.7%
Net profit margin	17.6%	16.8%	17.0%	17.2%	17.7%	18.1%
ROE	41.2%	21.6%	21.5%	22.1%	22.2%	21.9%
ROCE	29.1%	15.6%	15.4%	15.9%	17.1%	17.8%
Equity ratio	60.8%	64.9%	60.7%	64.8%	69.4%	73.7%
Net debt	102.1	80.0	137.5	116.2	104.8	87.1
Working capital	127.3	160.0	185.0	239.0	300.6	359.2
Capital employed	683.4	780.2	985.0	1,096.6	1,245.9	1,398.1
Inventory turnover	3.6	2.1	2.0	1.8	1.9	1.9

Source: Company data, Erste Group estimates

Richter Gedeon Buy

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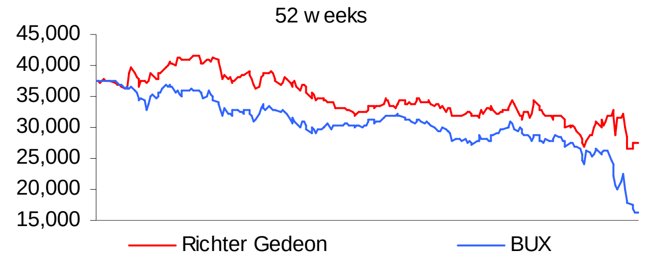
HUF mn	2007	2008e	2009e	2010e
Net sales	224,076.0	237,805.0	272,459.5	317,271.0
EBITDA	56,496.0	60,780.2	71,222.8	83,318.2
EBIT	36,283.0	39,829.8	47,848.7	57,377.4
Net result after min.	33,336.0	40,341.0	46,698.2	55,345.5
EPS (HUF)	1,788.65	2,164.51	2,505.61	2,969.58
CEPS (HUF)	2,873.19	3,288.61	3,759.75	4,361.44
BVPS (HUF)	16,428.34	18,137.79	19,943.40	22,062.97
Div./share (HUF)	450.00	600.00	700.00	850.00
EV/EBITDA (x)	12.9	7.4	6.1	5.0
P/E (x)	23.2	12.7	11.0	9.2
P/CE (x)	14.4	8.3	7.3	6.3
Dividend Yield	1.1%	2.2%	2.6%	3.1%



Performance	12M	6M	3M	1M
in HUF	-27.0%	-16.7%	-15.8%	-8.6%
in EUR	-33.8%	-24.2%	-29.4%	-20.7%

Share price (HUF)	27450.00	Reuters	GDRB.BU	Free float	74.6%
Number of shares (mn)	18.6	Bloomberg	RICHT HB	Shareholders	Hungarian State (25.1%)
Market capitalization (HUF mn / EUR mn)	511,599 / 1,845	Div. Ex-date	05/06/08		
Enterprise value (HUF mn / EUR mn)	450,967 / 1,626	**Target price**	**38,770.0**	Homepage:	www.richter.hu

Reversing currency fortunes, strong fundamentals not priced in

– **In summary, we continue to believe that the market turmoil sent Richter's stock price to very attractive levels, offering huge upside potential. Richter's superior territorial and product niche strategy (potentially to be augmented by results from the R&D cooperation on CNS drugs with Forest Laboratories), sound balance sheet (with a heavy cash pile) and experienced management team (with a solid track record of navigating the company through difficult periods) should sooner or later be reflected in improving share price performance. Furthermore, Richter represents one of the strongest currency plays in the Hungarian equity market, with its top and bottom line benefiting from forint weakening. Our DCF-derived 12-month target price (based on consolidated data) arrives at HUF 38,770 per share, (somewhat below the earlier target of HUF 41,100 per share). We stick to Buy.**

– **The most important factors newly incorporated into our model include the following: 1) the slowing tempo in Russia, to be largely compensated for by other CIS markets gathering momentum; 2) the revision of exchange rate forecasts, particularly the weaker than anticipated forint towards the end of the year, boding well for profitability margins and magnifying the benefits of the switch to euro invoicing in Russia in the coming period; 3) the heavy blow to the 2Q financial result, which will be more than counterbalanced by the recent strong reversal in the currency developments; 4) adjustments to our DCF model parameters, especially raising the risk-free rate. This sends our new consolidated net profit target for 2008 to HUF 40,341mn, on sales of HUF 237,805mn, up 5.1% and down 1.1%, respectively compared to our previous forecasts. For 2009, we project net profit of HUF 46,698mn on sales of HUF 272,460mn.**

– **Richter is expected to announce its 3Q08 results in early November (no precise date is known yet). With respect to the y/y firming of the Hungarian forint, as well as the domestic market sluggishness, we expect Richter's 1-3Qconsolidated sales to rise by 2.1% y/y to HUF 171.3bn. Reflecting the y/y (as well as q/q) dramatically improving financial result, the 3Q2008 consolidated bottom line is projected to advance by 98.5% y/y to HUF 16,007mn, sending 1-3Q2008 net profit to HUF 29,141mn (up 9.5% y/y).**

Changes in forecasts / outlook

Domestic market still cloudy, but exports brighter, thanks in part to forex developments

As with Egis, the pricing pressures related to periodic changes in reference prices continue to represent a drag on Richter's domestic sales. On a positive note, the dampening effect is getting smaller over time. Reflecting the 1H performance and revised company guidance, we opt for only a minor fine-tuning of our target and anticipate that Richter's domestic sales will fall by as much as 8% in HUF terms in 2008 (vs. the earlier estimate of a 7% y/y drop; all numbers on a comparable consolidated basis, i.e. excluding the impact of the Medimpex sale). For the outlook on the export side, we remain more optimistic, with the magnitude of the recent forint weakening greater than originally envisaged, giving an additional boost to Richter's exports in HUF terms (all export numbers below are on a consolidated basis). Despite the negative impact from the timing of shipments and currency effects, we believe that our US sales target has been too conservative and opt for an upward adjustment, from EUR 73.7mn to EUR 78.7mn for 2008. However, bolstered by the switch from the US dollar to euro invoicing, the Russian sales tempo is somewhat behind our original projections. As a result, we reduce our sales target to EUR 215mn (up by around 8.5% y/y) in 2008 (vs. the originally projected 12% y/y growth in EUR terms). Still, we expect other CIS markets to largely compensate for the Russian tempo slowdown and leave our forecasts for the Russia/CIS region broadly unchanged at around EUR 316mn (up 14% y/y) in 2008. Reflecting the boosting effect from Romanian wholesale operations consolidation, we raise our forecasts for sales to the EU and expect them advance by around 27% y/y to EUR 384mn in 2008. Finally, we incorporate the new exchange rate forecast, revising the average exchange rate from HUF 161.8/USD to HUF 166.7/USD for 2008 and from an average exchange rate of HUF 246/EUR to HUF 250.1/EUR for 2008). After incorporating all of the above-mentioned changes, our consolidated sales target for 2008 arrives at HUF 237.8bn, down from the previous forecast of HUF 240.35bn, with some HUF 38.6bn to be delivered by wholesale and retail operations and HUF 199.2bn to be contributed by the pharmaceutical business segment. For 2009, our new consolidated sales target is HUF 272.5bn (down from the earlier HUF 279.5bn), out of which HUF 230.1bn is expected to come from the pharmaceutical segment and HUF 42.4bn from the wholesale and retail arm.

Changes to 2008 and 2009 consolidated forecasts

(HUF mn)	2008 orig. forecast		2008 new forecast		2009 orig. forecast		2009 new forecast	
Sales	**240,352**	**100.0%**	**237,805**	**100.0%**	**279,466**	**100.0%**	**272,460**	**100.0%**
Cost of sales	109,889	45.7%	107,839	45.3%	124,642	44.6%	120,527	44.2%
Gross profit	**130,463**	**54.3%**	**129,966**	**54.7%**	**154,824**	**55.4%**	**151,933**	**55.8%**
Sales and marketing costs	46,869	19.5%	48,750	20.5%	54,915	19.6%	55,854	20.5%
Admin.and general costs	15,623	6.5%	15,338	6.5%	18,864	6.7%	18,391	6.8%
R&D costs	19,469	8.1%	19,262	8.1%	22,637	8.1%	22,069	8.1%
Other income/expense	-6,786	-2.8%	-6,786	-2.9%	-7,770	-2.8%	-7,770	-2.9%
Operating profit	**41,717**	**17.4%**	**39,830**	**16.7%**	**50,638**	**18.1%**	**47,849**	**17.6%**
Net financial income	-583	-0.2%	4,299	1.8%	2,043	0.7%	3,191	1.2%
Taxation	2,057	0.9%	3,089	1.3%	2,634	0.9%	3,573	1.3%
Minorities	-699	-0.3%	-699	-0.3%	-768	-0.3%	-768	-0.3%
Net profit	**38,379**	**16.0%**	**40,341**	**17.0%**	**49,279**	**17.6%**	**46,698**	**17.1%**

Source: Erste Group Research

We expect weakening forint in 2H to help Richter surpass our original gross margin target...

The 2Q2008 consolidated results lagged well behind our expectations, mainly due to the considerably higher toll from the strengthening forint on the operating level and financial result, which dragged the unconsolidated bottom line to the weakest quarterly showing in the past decade. Fortunately, since the end of the second quarter, the Hungarian currency situation has seen a significant change, with the scope of forint weakening (linked to the financial crisis turmoil) exceeding expectations. Consequently, while CEE pharma consumption dynamics (especially in the cost-efficient generics sector) will be largely unaffected, Richter - as a strong exporter - is poised to see bolstering effects from the weaker forint on its results in upcoming periods. A closer look at Richter's consolidated accounts clearly demonstrates the dilutive effect of the wholesale and retail operations, as well as the relatively high operating costs of sales and marketing-focused subsidiaries abroad. Our estimates for the gross and operating margins hence continue to look for somewhat more subdued profitability parameters than the parent company traditionally enjoys. To reflect the relatively subdued 1H performance, but weaker than earlier projected forint in 2H, we fine tune our consolidated gross margin target to 54.7%, and opt for a minor downward correction to the consolidated operating profit margin target, from 17.4% to 16.7%, for 2008. While we continue to envisage research and development costs speeding up, we stick to our estimates here and forecast them to reach around 8% of consolidated 2008 sales. In the first half of 2008, sales and marketing costs exceeded our original assumptions on the consolidated level, forcing us to make an upward revision to our 2008 targets. Consequently, we raise these costs to around 20.5% of consolidated sales for the full year 2008. Moreover, while the abolition of the sales rep fees in Hungary continues to play a supportive role for cost savings here, in 2009, the company cannot rely on this relief anymore, as the fees will most likely be back (as the Constitutional Court rejection was based on formal grounds and the regulator already said it is preparing a new Constitution-compliant version of the law). The total amount of Richter's payments to the National Healthcare Fund in 2008 is now estimated at some HUF 1.7bn, out of which HUF 1.4bn is attributable to the 12% rebate and the rest to sales reps fees. Similarly to Egis, Richter's financial result came under pressure in 2Q2008, with the financial losses (HUF 5.6bn) well above its peer's and beating all pessimistic expectations. Nevertheless, as a majority of the 2Q financial losses was driven by unrealized items and only a third of them are anticipated to turn into realized losses (given the current forex situation), the outlook is not as bleak as anticipated at the time of the 2Q results announcement. Moreover, with reversing currency fortunes pointing to both realized and unrealized gains on the reassessment of receivables / payables balance and other forex items in the upcoming periods, we opt to hike our original forecasts, from a net financial loss of HUF 0.58bn to a net financial gain of HUF 4.3bn. In summary, assuming an effective tax rate of 7% (due to the higher statutory tax rates abroad compared to Richter's near-tax haven in Hungary), our new consolidated net profit target arrives at HUF 40,341mn for 2008 and HUF 46,698mn for 2009.

...consolidated EBIT margin still witnessing pressure from Romanian wholesale foray last year

3Q2008 results preview

Richter is expected to announce its 3Q2008 results in early November 2008 (no precise date is known yet). We expect Richter to post 3Q2008 net profit of HUF 16,007mn on sales of HUF 56,466mn (consolidated and according to IFRS standards). On the unconsolidated basis, we project Richter's net profit at HUF 15,391mn on sales of HUF 43,915mn.

3Q2008 preview

IFRS non-consolidated	3Q 2008	3Q 2007	*y/y*	1-3Q2008	1-3Q2007	*y/y*
Total sales (HUF mn)	43,915	41,087	*6.9%*	130,591	128,293	*1.8%*
Operating profit (HUF mn)	8,891	8,203	*8.4%*	26,284	26,140	*0.6%*
Net income (HUF mn)	15,391	7,188	*114.1%*	26,540	25,473	*4.2%*
Operating margin	*20.2%*	*20.0%*		*20.1%*	*20.4%*	
Net margin	*35.0%*	*17.5%*		*20.3%*	*19.9%*	
IFRS consolidated	**3Q2008**	**3Q2007**	***y/y***	**1-3Q2008**	**1-3Q2007**	***y/y***
Total sales (HUF mn)	56,466	56,519	*-0.1%*	171,300	167,756	*2.1%*
Operating profit (HUF mn)	9,402	9,737	*-3.4%*	28,680	28,541	*0.5%*
Net income (HUF mn)	16,007	8,064	*98.5%*	29,141	26,605	*9.5%*
Operating margin	*16.7%*	*17.2%*		*16.7%*	*17.0%*	
Net margin	*28.3%*	*14.3%*		*17.0%*	*15.9%*	

Source: Erste Group Research, Company Data

The periodic rounds of price cuts associated with changes to reference prices continue to take their toll. Nevertheless, the pricing pressures are easing and this, along with the lower comparative base effect, makes the drop on the y/y level less dramatic over time. Consequently, we forecast that Richter's unconsolidated sales will see a 1% y/y fall to about HUF 7.02bn in 3Q2008, bringing the 1-3Q2008 total to HUF 21.35bn, down 8.9% y/y. On the consolidated level, the Medimpex sales will continue to distort the picture; while the sales difference in absolute terms compared to unconsolidated sales became minimal, with Medimpex still present in the previous-year period, the y/y fall in 3Q domestic sales is projected at around 31.2%, to HUF 7.6bn. As witnessed in the previous 2008 interim results, sales within the DLO system are anticipated to remain a non-factor. Given the high comparative base, sales in Russia are expected to retreat by 14.7% y/y in 3Q2008 in EUR terms to EUR 50.9mn. Nevertheless, fueled by steadily dynamic other CIS markets, Richter's Russia/CIS sales are anticipated to be flat y/y at EUR 76.6mn in 3Q2008, pushing up the 1-3Q2008 sales in this territory to EUR 224.8mn, up 6.2% y/y. All told, we project Richter's exports advancing by 14.4% y/y in EUR terms in 3Q2008 (translating into a 14.4 % y/y rise in 1-3Q2008). However, with respect to the y/y firming of the Hungarian forint, as well as the domestic market sluggishness, we expect Richter's consolidated sales to remain nearly flat y/y at HUF 56.5bn in 3Q2008 (and rise by 2.1% y/y to HUF 171.3bn in 1-3Q2008). We forecast unconsolidated sales growth of 1.8% y/y to HUF 130.6bn in 1-3Q2008, out of which the third quarter is projected to contribute HUF 43.9bn (up 6.9% y/y).

Richter's profitability is expected to witness persisting, albeit gradually easing, pressures from home market pricing regulations, as well as from the currency developments (although the end of the period exchange rate pointed to forint weakening, the average rate was still showing the y/y strengthening of the Hungarian forint vs. the US dollar, as well as the euro). The company's cost saving efforts, along with the expanding share of Russia/CIS sales (and the switch to euro as the invoicing currency in Russia and Kazakhstan), should nevertheless provide support to the company's profitability margins. On the consolidated level, we project operating profit reaching HUF 9,402mn (down 3.4% y/y), with the corresponding EBIT margin of 16.7% in 3Q2008 (this compares with an EBIT margin of 17.2% in 3Q2007). Reflecting the y/y (as well as q/q) dramatically improving financial result (driven in part by realized and unrealized gains stemming from reassessment of receivables), the 3Q2008 consolidated bottom line is projected to advance by 98.5% y/y to HUF 16,007mn, sending 1-3Q2008 net profit to HUF 29,141mn (up 9.5% y/y). On the unconsolidated basis, we forecast 3Q2008 EBIT of HUF 8,891mn, translating into an EBIT margin of 20.2%. Our unconsolidated 3Q2008 net profit target is HUF 15,391mn (up 114.1% y/y).

Valuation Summary

We adjust our DCF model parameters to reflect rising bond yields

Finally, we have adjusted the parameters of our DCF model. In order to reflect rising bond yields, we upped our risk-free rate assumption from 7.9% to 9.0% for the detailed forecast period of 2009-13. With the market premium at 5%, we arrived at a WACC of 13.2% for 2009-13 and 10.0% for perpetuity. All told, our DCF-derived 12-month target price (based on the consolidated model) is HUF 38,770 per share, below our earlier target of HUF 41,100 per share. As before, we want to stress that our model still does not involve any potential rewards the company may enjoy from its R&D cooperation projects with Forest Laboratories, with positive preliminary data from phase II clinical trials for RGH 188 in bipolar mania reported recently. We also have yet to assess and adequately incorporate into our model another potential boost from Richter's recent foray into the biotech field. For the time being, we opted only for a minor adjustment to our tax assumptions, stemming from new information on utilizing additional tax benefits linked to construction of its biotech plant in Debrecen (Hungary), with 50% of the investment value of around EUR 50mn to be tax deductible in 2012-13. A brief look at Richter's current share price level suggests that, while the stock shrugged off worries linked to the Polpharma deal failure and the unpleasant 2Q figures, it could not completely resist the persistent selling pressures (driven by the rising market turmoil) and uncertainties linked to the shape and prospects of the Hungarian financial market. Consequently, should the stock price capture the company's sound fundamentals and untouched export outlook (further buoyed by the recent forint weakening), the appreciation potential remains very attractive. Furthermore, should the news flow from the R&D program's progress be positive (more data is anticipated in the course of 2009), the stock will get an additional trigger. We stick to our Buy recommendation.

In summary, our new 12M target price arrives at HUF 38,770 per share; Buy maintained

DCF valuation

Free cash flow forecast

HUF mn	2009e	2010e	2011e	2012e	2013e
EBIT	47,849	57,377	66,105	75,827	87,054
Depreciation	23,374	25,941	28,541	31,541	34,641
EBITDA	71,223	83,318	94,646	107,367	121,695
Investments	-27,347	-29,603	-30,608	-32,759	-35,476
Change in Working Capital	-12,406	-17,863	-18,986	-21,619	-24,505
Corporate income taxes	3,573	4,227	4,885	5,605	14,698
Free Cash Flow	27,897	31,626	40,167	47,384	47,016

	2009-2013	perpetuity
beta	0.8	1.0
risk free rate (%)	9.0%	5.0%
market premium (%)	5.0%	5.0%
WACC (%)	13.2%	10.0%
perpetuity cash flow growth rate (%)		4.0%

PV of the FCF (HUF mn)	148,491
PV of TV (HUF mn)	434,005
Total (HUF mn)	582,496
+net cash (HUF mn)	69,117
Equity value of the company (HUF mn)	651,613
Equity value per share (HUF) as of 31.12. 2008	34,963
Equity value per share (HUF) as of 30.10. 2009	38,770

Equity value per share (HUF) as of 30.10. 2009 **Discount rate**

		10.0%	10.5%	11.0%	11.5%	12.0%
Perpetuity cash flow	3.0%	38,300	36,038	34,062	32,322	30,779
growth rate	3.5%	40,209	37,655	35,446	33,516	31,816
	4.0%	42,436	39,521	37,027	34,869	32,983
	4.5%	45,067	41,698	38,851	36,414	34,306
	5.0%	48,225	44,271	40,979	38,198	35,818

Source: Erste Group Research

Income Statement (IAS, HUF mn, 31/12)	2005 31/12/2005	2006 31/12/2006	2007 31/12/2007	2008e 31/12/2008	2009e 31/12/2009	2010e 31/12/2010
Net sales	**172,597.00**	**209,373.00**	**224,076.00**	**237,805.02**	**272,459.51**	**317,270.99**
Cost of goods sold	-75,573.00	-89,704.00	-104,379.00	-107,838.73	-120,526.62	-139,647.92
Gross profit	**97,024.00**	**119,669.00**	**119,697.00**	**129,966.29**	**151,932.89**	**177,623.07**
SG&A	-43,683.00	-53,050.00	-58,208.00	-64,088.45	-74,245.22	-86,614.98
Other operating revenues	0.00	0.00	0.00	0.00	0.00	0.00
Other operating expenses	-13,750.00	-17,092.00	-25,206.00	-26,048.06	-29,839.02	-33,630.73
EBITDA	**56,179.00**	**68,276.00**	**56,496.00**	**60,780.25**	**71,222.79**	**83,318.17**
Depreciation/amortization	-16,588.00	-18,749.00	-20,213.00	-20,950.47	-23,374.13	-25,940.80
EBIT	**39,591.00**	**49,527.00**	**36,283.00**	**39,829.78**	**47,848.65**	**57,377.37**
Financial result	6,595.00	2,586.00	-503.00	4,298.76	3,190.63	3,001.41
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	**46,186.00**	**52,113.00**	**35,780.00**	**44,128.54**	**51,039.28**	**60,378.78**
Income taxes	-543.00	-711.00	-1,809.00	-3,089.00	-3,572.75	-4,226.51
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	-330.00	-124.00	-635.00	-698.50	-768.35	-806.77
Net result after minorities	**45,313.00**	**51,278.00**	**33,336.00**	**40,341.04**	**46,698.18**	**55,345.49**

Balance Sheet (IAS, HUF mn, 31/12)	2005	2006	2007	2008e	2009e	2010e
Intangible assets	3,726.00	6,049.00	11,639.00	8,739.53	10,065.40	11,224.60
Tangible assets	122,780.00	136,049.00	144,863.00	148,707.00	152,057.00	154,957.00
Financial assets	13,611.00	18,579.00	18,985.00	19,934.25	20,930.96	22,553.11
Total fixed assets	**140,117.00**	**160,677.00**	**175,487.00**	**177,380.78**	**183,053.36**	**188,734.71**
Inventories	47,327.00	52,716.00	52,874.00	56,113.56	61,076.26	69,343.44
Receivables and other current assets	38,054.00	53,272.00	64,371.00	69,552.18	79,792.26	93,004.31
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	52,082.00	59,119.00	55,231.00	69,908.40	84,975.99	100,949.21
Total current assets	**137,463.00**	**165,107.00**	**172,476.00**	**195,574.14**	**225,844.51**	**263,296.96**
TOTAL ASSETS	**277,580.00**	**325,784.00**	**347,963.00**	**372,954.92**	**408,897.87**	**452,031.67**
Shareholders'equity	**246,540.00**	**288,115.00**	**306,183.00**	**338,042.81**	**371,694.75**	**411,198.38**
Minorities	**6,486.00**	**5,813.00**	**8,198.00**	**8,484.93**	**8,697.05**	**8,827.51**
Hybrid capital and other reserves	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Pension and other LT personnel accruals	0.00	0.00	0.00	0.00	0.00	0.00
Other LT provisions	0.00	0.00	0.00	0.00	0.00	0.00
Interest-bearing LT debts	403.00	710.00	463.00	393.55	373.87	349.57
Other LT liabilities	71.00	1,775.00	1,249.00	1,280.23	1,299.43	1,318.92
Total long-term liabilities	**474.00**	**2,485.00**	**1,712.00**	**1,673.78**	**1,673.30**	**1,668.49**
Interest-bearing ST debts	118.00	184.00	392.00	397.88	403.85	409.91
Other ST liabilities	23,962.00	29,187.00	31,478.00	24,355.53	26,428.92	29,927.38
Total short-term liabilities	**24,080.00**	**29,371.00**	**31,870.00**	**24,753.41**	**26,832.77**	**30,337.29**
TOTAL LIAB. , EQUITY	**277,580.00**	**325,784.00**	**347,963.00**	**372,954.92**	**408,897.87**	**452,031.67**

Cash Flow Statement (IAS,HUF mn, 31/12)	2005	2006	2007	2008e	2009e	2010e
Cash flow from operating activities	43,124.00	55,501.00	47,001.00	51,914.94	55,474.73	61,436.49
Cash flow from investing activities	-17,800.00	-24,150.00	-30,196.00	-26,051.08	-27,347.19	-29,603.17
Cash flow from financing activities	-11,990.00	-12,644.00	-18,137.00	-11,246.06	-13,059.95	-15,860.11
CHANGE IN CASH , CASH EQU.	**7,307.00**	**18,057.00**	**-1,377.00**	**14,677.40**	**15,067.59**	**15,973.22**

Margins & Ratios	2005	2006	2007	2008e	2009e	2010e
Sales growth	nm	21.3%	7.0%	6.1%	14.6%	16.4%
EBITDA margin	32.5%	32.6%	25.2%	25.6%	26.1%	26.3%
EBIT margin	22.9%	23.7%	16.2%	16.7%	17.6%	18.1%
Net profit margin	26.4%	24.6%	15.2%	17.3%	17.4%	17.7%
ROE	36.8%	19.2%	11.2%	12.5%	13.2%	14.1%
ROCE	42.6%	22.3%	12.6%	14.7%	15.9%	17.6%
Equity ratio	91.2%	90.2%	90.3%	92.9%	93.0%	92.9%
Net debt	-51,561.0	-58,225.0	-54,376.0	-69,117.0	-84,198.3	-100,189.7
Working capital	113,383.0	135,736.0	140,606.0	170,820.7	199,011.7	232,959.7
Capital employed	201,536.0	237,478.0	261,254.0	278,691.0	297,493.0	321,155.1
Inventory turnover	3.2	1.8	2.0	2.0	2.1	2.1

Source: Company data, Erste Group estimates

Zentiva Hold

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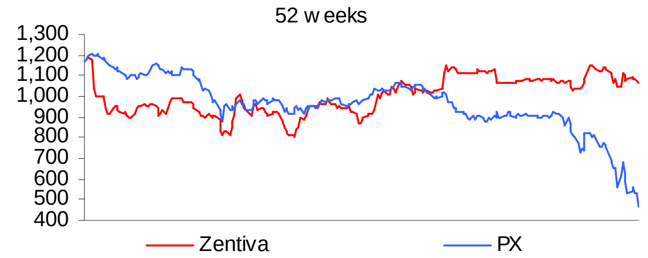
CZK mn	2007	2008e	2009e	2010e
Net sales	16,670.3	18,621.6	20,585.2	22,725.3
EBITDA	3,557.4	4,482.4	5,649.0	6,914.6
EBIT	2,169.6	2,881.8	3,948.5	5,014.0
Net result after min.	1,412.4	1,524.3	2,329.0	3,109.7
EPS (CZK)	37.04	39.97	61.07	81.54
CEPS (CZK)	73.43	81.94	105.66	131.38
BVPS (CZK)	286.39	319.11	370.68	440.22
Div./share (CZK)	8.00	9.50	12.00	15.00
EV/EBITDA (x)	14.8	12.0	9.4	7.4
P/E (x)	26.2	26.6	17.4	13.0
P/CE (x)	13.2	13.0	10.1	8.1
Dividend Yield	0.8%	0.9%	1.1%	1.4%



Performance	12M	6M	3M	1M
in CZK	-9.3%	19.6%	-0.3%	-7.6%
in EUR	-1.5%	19.9%	-5.6%	-10.1%

Share price (CZK)	1062.00	Reuters	ZNTVsp.PR	Free float	44.7%
Number of shares (mn)	38.1	Bloomberg	ZEN CP	Shareholders	Sanofi-Aventis (24.9%)
Market capitalization (CZK mn / EUR mn)	40,501 / 1,618	Div. Ex-date	07/07/08		PPF Investment Group (24.26%)
Enterprise value (CZK mn / EUR mn)	53,688 / 2,145	**Target price**	**1,150.0**	Homepage:	www.zentiva.cz

Sanofi-Aventis takeover bid provides safe anchor to stock price

– **Our new DCF-derived 12-month target price of CZK 1,160 per share is only marginally changed from our earlier target of CZK 1,155. Furthermore, while applying regional pharma M&A deal parameters points to a possibly higher takeover price of around CZK 1,300 per share, we believe that, under the current market circumstances, with equity markets shaken by the global financial crisis, the hopes that the takeover price might reach the levels achieved in the past is very distant. Although the recent buildup of positions by PPF Group and the appearance of Belviport as a new significant shareholder might indicate some moves behind the scenes, the upside potential related to this news is still very speculative. Consequently, for more risk-averse investors, acceptance of Sanofi-Aventis' bid (set to expire on November 28) remains the safest exit strategy from the stock. We stick to Hold and adjust our target price to correspond to the Sanofi-Aventis bid of CZK 1,150 per share.**

– **We incorporated into our model 1) the persistently weak domestic market sales, which, along with the negative impact from the CZK strengthening on the company's exports, sent our 2008 sales target to CZK 18.6bn (vs. the earlier forecast of CZK 19.2bn); 2) reflecting the bold cost cutting move in the area of sales and marketing costs, but also the impairment charge linked mainly to the discontinuation of certain R&D projects, we slightly lowered our EBIT target to CZK 2,882mn; 3) factoring in a higher than anticipated financial result burden, we trim our net profit target to CZK 1,524mn; 4) in line with decreasing government bond yields, we lowered (albeit cautiously) the risk-free rate used in our DCF model from 4.9% to 4.5% for the explicit forecast period 2009-13.**

– **We continue to believe that Zentiva's export-driven growth story is largely untouched and that the company's fundamentals remain very sound. We anticipate that the 3Q2008 figures will confirm that the company is coping very well with its home market challenges, including currency pressures, and that its Romanian operations are getting back on track. Zentiva's preliminary 1-3Q2008 sales highlights provided clear evidence of this, demonstrating 18% y/y sales growth to CZK 13bn, out of which CZK 2.3bn was delivered by pharmaceutical sales of its Turkish arm.**

Changes in forecasts / outlook

We project 11.7% y/y top line growth in 2008, fueled by acquisitions...

While the organic growth tempo is anticipated to be sluggish, thanks to the buoying effect of the Eczacibasi Generic Pharmaceuticals acquisition, Zentiva has all prerequisites to post a solid double-digit rise on its top line in 2008. With 1-3Q2008 sales results slightly behind our expectations, we are forced to adjust - apart from factoring in the persistently subdued domestic sales - also the negative impact from the strong CZK on the company’s exports. Based on a weaker than envisaged home market performance, we trim our sales target in the Czech market from CZK 4.25bn to CZK 4.1bn, corresponding to a 10% y/y drop (vs. the earlier projected decline of some 7% y/y). Zentiva's until now rather uninspiring sales in Poland prompt us to make another downward cut to around CZK 2.0bn, translating into a 0.2% y/y rise. Similarly to its peers, Zentiva's 2008 sales in Russia are expected to witness a strong private market-driven recovery. However, the tempo slightly lags our original expectations (in part due to CZK appreciation). Consequently, we opt for a slight reduction of our 2008 target from CZK 1.5bn to CZK 1.46bn. (Contrary to its peers Richter and Krka, Zentiva did not switch to invoicing in euro terms in Russia, deeming the local currency terms sufficiently safe protection against the US dollar weakening.) On an encouraging note, receivables collection has been constantly improving in the past quarters and we believe that our Romanian sales target of CZK 1.6bn (corresponding to a 5% y/y drop) is realistic. While the relative strength of the Turkish currency adds more vulnerability to Zentiva’s sales outlook, the shift to modern treatments in primary care bodes well for sustaining a double-digit tempo of Zentiva’s sales in Turkey in the medium term. For this year, we expect Turkish net pharmaceuticals sales contribution to Zentiva's exports at around CZK 3.4bn. In summary, our forecast for Zentiva's 2008 consolidated sales arrives at CZK 18.6bn, down from the earlier projected CZK 19.2bn. For 2009, we decrease our sales target from CZK 21.9bn to CZK 20.6bn.

...with Romanian market sales witnessing ongoing stabilization... With strong CZK biting into exports, we revise our sales target for 2008 down to CZK 18.6bn

Summary of changes to 2008 and 2009 forecasts

CZK mn	2008 orig. forecast		2008 new forecast		2009 orig. forecast		2009 new forecast	
Sales	**19,186.8**	**100.0%**	**18,621.6**	**100.0%**	**21,918.4**	**100.0%**	**20,585.2**	**100.0%**
CGS	8,053.7	42.0%	7,643.6	41.0%	8,602.3	39.2%	7,980.7	38.8%
Gross profit	**11,133.1**	**58.0%**	**10,978.0**	**59.0%**	**13,316.1**	**60.8%**	**12,604.6**	**61.2%**
Sales and marketing costs	5,046.1	26.3%	4,897.5	26.3%	5,764.5	26.3%	5,413.9	26.3%
General &admin. costs	2,129.7	11.1%	2,206.7	11.9%	2,411.0	11.0%	2,398.2	11.7%
R&D	825.0	4.3%	992.0	5.3%	920.6	4.2%	844.0	4.1%
EBIT	**3,132.2**	**16.3%**	**2,881.8**	**15.5%**	**4,220.0**	**19.3%**	**3,948.5**	**19.2%**
Fin result	-584.6	-3.0%	-652.0	-3.5%	-488.8	-2.2%	-600.9	-2.9%
Pre-tax profit	**2,547.6**	**13.3%**	**2,229.7**	**12.0%**	**3,731.2**	**17.0%**	**3,347.5**	**16.3%**
Tax	738.8	3.9%	646.6	3.5%	1,026.1	4.7%	920.6	4.5%
Minorities	-58.8	-0.3%	-58.8	-0.3%	-98.0	-0.4%	-98.0	-0.5%
Net profit after minorities	**1,750.0**	**9.1%**	**1,524.3**	**8.2%**	**2,607.1**	**11.9%**	**2,329.0**	**11.3%**

Source: Erste Bank Research
R&D costs in 2008 include CZK 191.3mn impairment charge

We raise our 2008 gross profit margin forecast to 59.0%

As gains from cost efficiency drive in sales & marketing will be partly erased by impairment charge…

The 2008 interim results have (as anticipated) shown uneven quarterly performances in the Turkish operations, as well as the dilutive impact of the Eczacibasi Generic Pharmaceuticals consolidation. With respect to the better than expected 1H08 profitability data, we opt to cautiously raise our 2008 gross margin target to 59.0% (up from the 58.0% projected earlier). On the other hand, hampered by an impairment charge linked mainly to the discontinuation of certain R&D projects, the 1H2008 operating profit was below our assumptions. Hence, although we assume the move to be beneficial and (via removing redundancies) resulting in more savings in the area of R&D expenditures in the future, we are forced to make a downward adjustment to our full-year 2008 operating profit target. Reflecting the slightly higher than anticipated administrative and general costs burden, we increase this item to CZK 2,207mn, or 11.9% of sales (up from the earlier projected 11.1% of sales) in 2008. While cost cutting in sales and marketing costs is foreseen to have an even greater bolstering effect on the company’s results in the coming periods, for the time being we feel comfortable with our current forecast, assuming the share of sales and marketing costs reaching 26.3% of total 2008 sales. All told, our new

…we lower our EBIT target to CZK 2,882mn...

...and bottom line target to CZK 1,524mn for 2008, both still suggesting solid y/y improvements

2008 operating profit target arrives at CZK 2,882mn (vs. the CZK 3,132mn projected earlier), translating into an EBIT margin of 15.5% (vs. 16.3% in our earlier projections).

While our previous forecast already incorporated the impact of the post-closing adjustment of EUR 58mn for the Turkish acquisition (lowering the company's debt, with a resulting reduction in interest expenses, but also negative forex charges, due to the appreciating CZK vs. euro), reflecting the currency developments, and despite the slightly better 1H result, we opt for a downward correction to our target for the 2008 financial result from a CZK 583mn loss to a CZK 652mn loss. All told, our 2008 net profit target arrives at CZK 1,524mn, somewhat below the earlier forecast of CZK 1,750mn.

1-3Q2008 results preview

With the buoying effect from the consolidation of Eczacibasi Generic Pharmaceuticals already present in the year-earlier comparative base and unfavorable currency developments (namely the strengthening of the CZK vs. the euro and Turkish lira) biting into export sales, it was not surprising that Zentiva's top line tempo in 3Q slowed down significantly. According to the recently published management estimates, Zentiva's consolidated sales advanced by 18% y/y to around CZK 13bn (including CZK 2.3bn net pharmaceutical sales from Turkey) in the first nine months of 2008. In the third quarter alone (according to our calculations) the company posted sales of around CZK 4.14bn. As the company already announced its 1-3Q2008 sales highlights, the full report (due on November 10, 2008) is not expected to bring any major surprises on the top line, only more details on the company's performance in its key markets. Attention will focus on the pace of the improvements in the earlier ailing Romanian operations, integration of the Turkish business, as well as how the company is coping with the still challenging conditions in its home market. While the weaker profitability parameters of Eczacibasi will undoubtedly weigh on Zentiva's operating margin in 3Q2008, progress in Turkey is in the cards and, augmented further by the company's cost containment measures (particularly in the area of sales and marketing costs), should provide for a more pleasing picture, especially taking into account the previous period's hefty allowances for doubtful debts in its Romanian business operations. While we cannot completely rule out needs for provisioning and write-offs, we believe that the previous year period's low comparative base provides running space for sound y/y growth. We expect the 3Q2008 operating profit to rise by 86.7% y/y to CZK 653.6mn, lifting 1-3Q2008 EBIT to CZK 2,017.4mn (up 38.2% y/y). Nevertheless, given the financial leverage linked to the Turkish acquisition and weaker forex result, the tempo on the bottom line is expected to be dampened to 15.6% y/y (to CZK 267.5mn) in 3Q2008. In summary, our 1-3Q2008 net profit target arrives at CZK 1,100.5mn, up 3.6% y/y.

1-3Q2008 results preview

IFRS consolidated	3Q 2008	3Q 2007	*y/y*	1-3Q2008	1-3Q2007	*y/y*
Total sales (CZK mn)	4,141.3	4,330.7	*-4.4%*	13,131.6	11,127.3	*18.0%*
Operating profit (CZK mn)	653.6	350.0	*86.7%*	2,017.4	1,460.1	*38.2%*
Net income (CZK mn)	267.5	231.5	*15.6%*	1,100.5	1,062.7	*3.6%*
Operating margin	*15.8%*	*8.1%*		*15.4%*	*13.1%*	
Net margin	*6.5%*	*5.3%*		*8.4%*	*9.6%*	

Source: Erste Group Research, Company data

Valuation Summary

CZK appreciation slowing down, bond yields decreasing…

…prompting us to adjust our DCF model parameters

With the CZK abandoning its earlier record highs vs. the euro and bond yields on the decline, we are prompted to adequately adjust the macroeconomic assumptions included in our model. The CZK movements' impact on Zentiva's profitability is to a certain extent mitigated by the company's policy of invoicing in local currencies, as well as by the natural hedge provided by its local manufacturing operations (Slovakia, Romania, Turkey). Thus, our major adjustment, apart from the shifting time-frame in our model, is a slight decrease in the risk-free rate assumptions from 4.9% to 4.5% for the explicit forecast period 2009-13. Our new DCF-derived 12-month target price arrives at CZK 1,160 per share, only marginally changed from the CZK 1,155 per share targeted earlier.

The upcoming 2008 interim reports should further ease worries about the health of Zentiva, confirming the revival of its Romanian business and demonstrating that Zentiva's integration of

Sanofi-Aventis' takeover offer provides solid backup for Zentiva share price

its Turkish arm is bringing rewards in gradually pushing up its profitability parameters back to pre-acquisition levels. However, investors are likely to neglect all of the fundamental news on Zentiva and concentrate on developments around the pending takeover of the company. On May 2, 2008, Czech investment group PPF (acting in concert with PPF Generali Holding) announced a CZK 950 per share bid for Zentiva, valuing the Czech generics manufacturer at CZK 36.2bn. The offer, made via subsidiary Anthiarose Ltd, lost its appeal as soon as Sanofi-Aventis (with a 24.9%, stake the largest single shareholder in Zentiva) said that it is ready to make a cash bid for Zentiva at CZK 1,050 per share (valuing Zentiva at around EUR 1.66bn, 10.5% above PPF's bid). Just for comparison, Sanofi-Aventis paid around EUR 45 per Zentiva share in March 2006, when it purchased its 24.9% stake in the company from Warburg Pincus and the company's management.

Selected M&A deals in the region

Company	Stake acquired (%)	Price (USD mn)	Purchaser	P/E	P/Sales
Lek	100.0%	877.8	Novartis	24.8	2.6
Polfa Poznan	80.0%	220.0	Glaxo Wellcome	17.4	2.7
Sicomed	74.9%	149.8	Zentiva	34.3	2.7
Sindan	100.0%	178.4	Actavis	n.a	2.2
Pliva*	100.0%	1,600	Actavis	19.8	1.7
Pliva**	100.0%	1,850	Actavis	22.3	1.9
Pliva***	100.0%	2,200	Barr Pharmaceuticals	25.5	2.1
Pliva****	100.0%	2,585	Barr Pharmaceuticals	29.1	2.4
Terapia	96.7%	324.0	Ranbaxy	n.a.	4.1
Eczacibasi	75.0%	594.0	Zentiva	37.4	3.1
Zentiva	24.9%	514.7	Sanofi -Aventis	22.5	3.5
Hemofarm	100.0%	619.6	Stada	18.1	2.4
Polpharma*	99.65%	1,337.0	Richter Gedeon	n.a.	3.0
Akrikhin*	80.62%	128.0	Richter Gedeon	n.a.	2.0
Zentiva*	100.0%	2,661.7	Sanofi -Aventis	26.3	2.2
Zentiva**	100.0%	2,574.5	Sanofi -Aventis	28.8	2.4

Source: Erste Group Research

Lek based on 2001 data, Terapia based on 2005 pro-forma results

Sicomed's ratios based on Sicomed's 2005 actual results

Pliva - original Actavis' bid (HRK 570 per share)*

*Pliva** - upped Actavis' bid from April 2006 (HRK 630 per share)*

*Pliva*** - Barr's bid from June 2006 (HRK 705 per share)*

*Pliva**** - Barr's public tender offer (HRK 820 per share)*

Please note that the actual acquired stake amounted to 91.75%, we leave 100% here for comparative purpose with Actavis bid

Polpharma and Akrikhin* P/sales ratios based on expected 2007 sales; due to corporate governance issues the transaction did not take place*

Zentiva - Sanofi-Aventis bid from July 2008*

*Zentiva** - Sanofi-Aventis bid from September 2008*

We adjust our target price to correspond to Sanofi-Aventis' bid of CZK 1,150 per share; while we reiterate our Hold…

After PPF announced its intention to withdraw its bid on July 22, Zentiva's share price developments became driven by the willingness of Sanofi–Aventis to raise its bid to CZK 1,155, a move announced on September 22, and subsequently (contrary to all previous attempts) also fully endorsed by Zentiva's management. In our opinion, Sanofi–Aventis' bid (valid until November 28, 2008) has a relatively high chance to succeed (it is conditional not least upon receiving more than 50% of shares in Zentiva). Although we can argue that the Sanofi–Aventis offer, while reflecting Zentiva's fundamentals, does not contain any significant premium for majority control over the company, the slump of global equity markets and the looming financial crisis suggest that there is no reason to expect a premium comparable to the past transactions to be attached to the final price tag. Briefly looking at past transactions in the region, we

…we advice more risk-averse investors to accept bid, as current market turmoil diminishes likelihood of achieving higher takeover premium

continue to believe that a price closer to CZK 1,300 per Zentiva share would be more adequate in more rosy days (translating into 2008e P/sales of 2.7 and 2008e EV/EBITDA of 13.8). (For example, Zentiva's Eczacibasi Generics Pharmaceuticals acquisition multiples stood at P/Sales of 3.1 and EV/EBITDA of 13.0; Barr Pharmaceuticals' acquisition of Pliva took place at P/Sales of 2.4, while the original offer by Activis was at P/Sales of 1.6). Our revised, fundamentally-based DCF model points to a 12-month target price of CZK 1,160 per share (vs. the earlier CZK 1,155 per share). Consequently, we stick to our Hold recommendation on the stock. While we cannot rule out that the buildup of positions by PPF Group and emerging new investor Belviport may indicate pressure to increase the current Sanofi-Aventis bid, such a move is at the moment a rather speculative idea. Hence, for more risk-averse investors, we believe that accepting the Sanofi-Aventis offer represents a sound exit from the stock and we fully recommend it.

DCF valuation

Free cash flow forecast

CZK mn	**2009e**	**2010e**	**2011e**	**2012e**	**2013e**
EBIT	3,948.5	5,014.0	5,640.4	6,286.9	6,975.4
Depreciation	1,700.6	1,900.6	2,000.6	2,100.6	2,200.6
EBITDA	5,649.0	6,914.6	7,641.0	8,387.5	9,176.0
Investments	-1,446.6	-1,676.9	-2,052.5	-2,148.2	-2,239.6
Change in working capital	-778.5	-987.1	-1,090.1	-1,226.6	-1,373.4
Corporate income taxes	920.6	1,202.6	1,385.8	1,577.6	1,883.4
Free cash flow	2,503.3	3,047.9	3,112.6	3,435.1	3,679.7

	08-12e	**perpetuity**
beta	0.84	1.0
risk free rate (%)	4.5%	5.0%
market premium (%)	5.5%	5.5%
WACC (%)	8.7%	10.1%
perpetuity cash flow growth rate (%)		4.0%

PV of the FCF (CZK mn)	13,251
PV of TV (CZK mn)	39,230
Total value of the company (CZK mn)	52,481
-net debt (CZK mn)	-12,113
Value of the equity (CZK mn)	40,368
Equity value per share (CZK) as of 31.12. 2008	1,059
Equity value per share (CZK) as of 30.10. 2009	1,160

Equity value per share (CZK) as of 30.10. 2009

		Discount rate				
		8.75%	9.25%	9.75%	10.25%	10.75%
Perpetuity cash flow growth rate	3.0%	1,241	1,116	1,009	917	837
	3.5%	1,356	1,210	1,088	984	894
	4.0%	1,496	1,323	1,180	1,060	959
	4.5%	1,668	1,459	1,290	1,151	1,034
	5.0%	1,886	1,627	1,423	1,258	1,122

Source: Erste Group Research

Income Statement	2005	2006	2007	2008e	2009e	2010e
(IAS, CZK mn, 31/12)	31/12/2005	31/12/2006	31/12/2007	31/12/2008	31/12/2009	31/12/2010
Net sales	**11,839.35**	**14,003.13**	**16,670.32**	**18,621.60**	**20,585.23**	**22,725.34**
Cost of goods sold	-4,544.00	-4,940.51	-6,877.06	-7,643.62	-7,980.68	-8,325.81
Gross profit	**7,295.36**	**9,062.62**	**9,793.26**	**10,977.98**	**12,604.55**	**14,399.53**
SG&A	-4,224.61	-5,203.52	-6,935.73	-7,104.14	-7,812.10	-8,453.83
Other operating revenues	0.00	0.00	0.00	0.00	0.00	0.00
Other operating expenses	-492.46	-556.00	-687.88	-992.04	-843.99	-931.74
EBITDA	**3,243.24**	**4,172.78**	**3,557.44**	**4,482.38**	**5,649.04**	**6,914.55**
Depreciation/amortization	-664.95	-869.68	-1,387.80	-1,600.58	-1,700.58	-1,900.58
EBIT	**2,578.29**	**3,303.10**	**2,169.64**	**2,881.80**	**3,948.46**	**5,013.97**
Financial result	91.49	-213.79	-197.94	-652.05	-600.93	-559.94
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	**2,669.77**	**3,089.31**	**1,971.70**	**2,229.75**	**3,347.54**	**4,454.03**
Income taxes	-741.16	-800.03	-515.47	-646.63	-920.57	-1,202.59
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	-51.08	-86.12	-43.80	-58.81	-97.97	-141.74
Net result after minorities	**1,877.54**	**2,203.16**	**1,412.43**	**1,524.31**	**2,328.99**	**3,109.70**

Balance Sheet	2005	2006	2007	2008e	2009e	2010e
(IAS, CZK mn, 31/12)						
Intangible assets	2,946.12	2,717.03	13,874.17	13,871.58	12,971.00	12,070.42
Tangible assets	5,578.52	5,960.07	8,643.80	8,325.81	11,975.81	13,625.81
Financial assets	178.94	269.10	279.94	356.92	455.08	580.22
Total fixed assets	**8,703.58**	**8,946.19**	**22,797.90**	**22,554.31**	**25,401.88**	**26,276.45**
Inventories	2,249.01	2,410.35	3,000.89	3,293.48	3,586.17	3,919.41
Receivables and other current assets	4,853.76	5,721.43	8,927.87	8,004.92	8,744.34	9,674.59
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	3,223.39	1,189.50	2,227.58	3,096.53	3,749.35	4,659.65
Total current assets	**10,326.15**	**9,321.28**	**14,156.34**	**14,394.93**	**16,079.85**	**18,253.65**
TOTAL ASSETS	**19,029.73**	**18,267.47**	**36,954.25**	**36,949.24**	**41,481.74**	**44,530.10**
Shareholders'equity	**9,064.09**	**11,028.55**	**10,921.80**	**12,169.56**	**14,136.26**	**16,788.32**
Minorities	**717.46**	**1,068.35**	**1,037.61**	**1,073.92**	**1,100.77**	**1,117.28**
Hybrid capital and other reserves	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Pension and other LT personnel accruals	0.00	0.00	0.00	0.00	0.00	0.00
Other LT provisions	0.00	0.00	0.00	0.00	0.00	0.00
Interest-bearing LT debts	2,072.94	0.00	13,145.07	11,501.94	11,214.39	10,653.67
Other LT liabilities	355.21	280.88	5,077.56	5,204.49	5,282.56	5,361.80
Total long-term liabilities	**2,428.15**	**280.88**	**18,222.63**	**16,706.43**	**16,496.95**	**16,015.47**
Interest-bearing ST debts	3,100.17	3,709.35	3,652.78	3,707.57	3,763.18	3,819.63
Other ST liabilities	3,719.86	2,180.34	3,119.44	3,291.76	5,984.58	6,789.40
Total short-term liabilities	**6,820.03**	**5,889.69**	**6,772.22**	**6,999.33**	**9,747.76**	**10,609.02**
TOTAL LIAB. , EQUITY	**19,029.73**	**18,267.47**	**36,954.25**	**36,949.24**	**41,481.74**	**44,530.10**

Cash Flow Statement	2005	2006	2007	2008e	2009e	2010e
(IAS,CZK mn, 31/12)						
Cash flow from operating activities	2,122.82	1,541.05	2,734.18	2,037.19	2,693.65	3,549.11
Cash flow from investing activities	-3,467.75	-1,621.94	-14,236.33	665.59	-1,446.60	-1,676.90
Cash flow from financing activities	4,241.76	-2,028.41	12,660.26	-1,893.43	-594.23	-961.91
CHANGE IN CASH , CASH EQU.	**2,753.01**	**-2,033.89**	**1,038.09**	**868.95**	**652.82**	**910.30**

Margins & Ratios	2005	2006	2007	2008e	2009e	2010e
Sales growth	nm	18.3%	19.0%	11.7%	10.5%	10.4%
EBITDA margin	27.4%	29.8%	21.3%	24.1%	27.4%	30.4%
EBIT margin	21.8%	23.6%	13.0%	15.5%	19.2%	22.1%
Net profit margin	16.3%	16.3%	8.7%	8.5%	11.8%	14.3%
ROE	41.4%	21.9%	12.9%	13.2%	17.7%	20.1%
ROCE	32.1%	17.5%	7.8%	6.9%	9.5%	11.6%
Equity ratio	51.4%	66.2%	32.4%	35.8%	36.7%	40.2%
Net debt	1,949.7	2,519.9	14,570.3	12,113.0	11,228.2	9,813.6
Working capital	3,506.1	3,431.6	7,384.1	7,395.6	6,332.1	7,644.6
Capital employed	12,086.5	14,897.6	31,607.2	30,561.0	31,747.8	33,081.0
Inventory turnover	4.0	2.1	2.5	2.4	2.3	2.2

Source: Company data, Erste Group estimates

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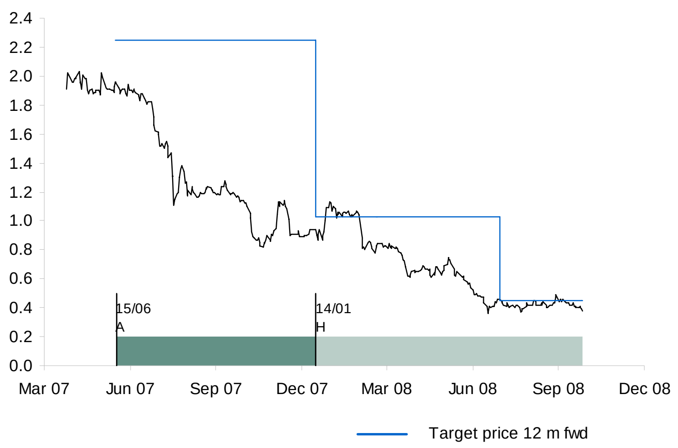
Bioton

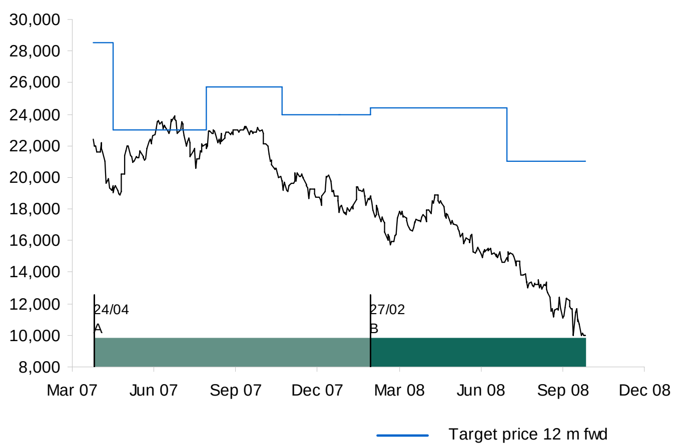


Rating history

Date	Rating	Price	Target Price
14. Jan 08	Hold	0.94	1.03
15. Jun 07	Accumulate	1.96	2.25

Company	Disclosure
Bioton	

Egis

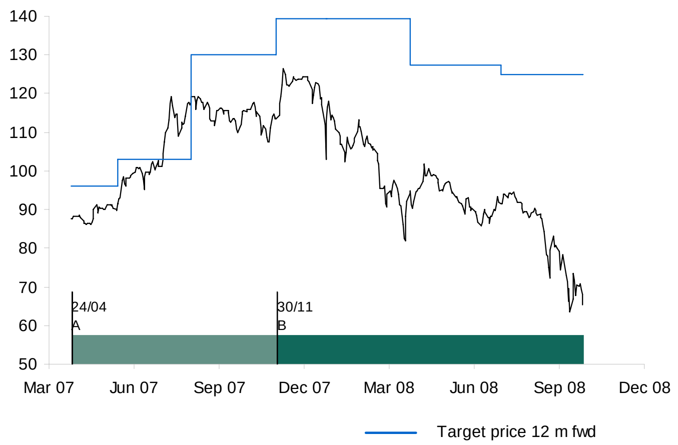


Rating history

Date	Rating	Price	Target Price
27. Feb 08	Buy	18850.00	24400.00
24. Oct 06	Accumulate	26570.00	31120.00
26. May 06	Buy	28820.00	35600.00
17. Aug 05	Accumulate	17995.00	20400.00
20. May 05	Buy	16950.00	20450.00
18. Aug 03	Accumulate	7600.00	11250.00

Company	Disclosure
Egis	

Krka

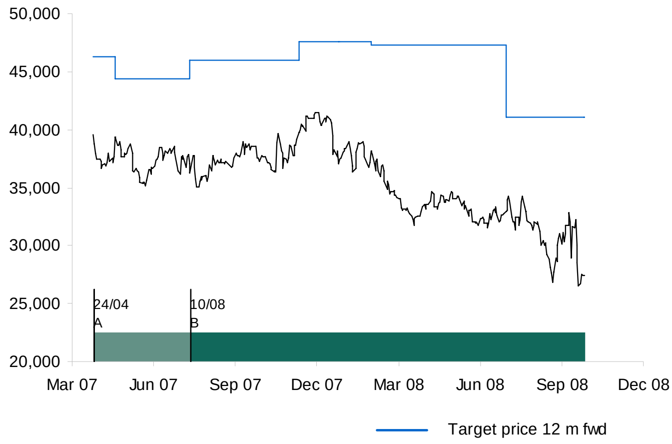


Rating history

Date	Rating	Price	Target Price
30. Nov 07	Buy	113.58	139.50
02. Apr 07	Accumulate	83.05	96.00

Company	Disclosure
Krka	

Richter Gedeon

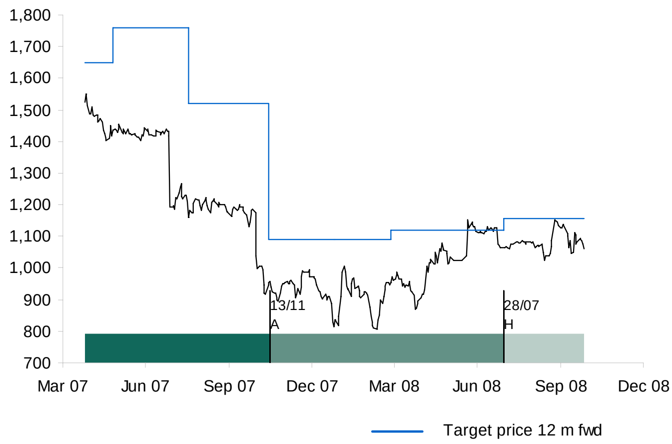


Rating history

Date	Rating	Price	Target Price
10. Aug 07	Buy	36250.00	46000.00
15. Feb 07	Accumulate	40700.00	46310.00
24. Oct 06	Hold	44000.00	45225.00
19. May 06	Accumulate	42700.00	49350.00
13. Jun 05	Hold	28920.00	29200.00
11. Nov 04	Buy	22400.00	26650.00
10. Nov 04	Accumulate	22400.00	29067.00
11. May 04	Buy	20115.00	26650.00
06. Aug 03	Accumulate	18100.00	19438.00

Company	Disclosure
Richter Gedeon	

Zentiva



Rating history

Date	Rating	Price	Target Price
28. Jul 08	Hold	1064.00	1155.00
13. Nov 07	Accumulate	955.50	1090.00
16. Mar 07	Buy	1376.00	1650.00
07. Nov 06	Accumulate	1285.00	1460.00
30. Jun 06	Buy	1068.00	1420.00
05. Oct 05	Accumulate	1146.00	1270.00
01. Sep 05	Hold	940.30	933.00
10. May 05	Accumulate	766.50	940.00
11. Mar 05	Hold	928.00	940.00
09. Nov 04	Accumulate	652.20	688.00
19. Aug 04	Buy	548.70	630.00

Company	Disclosure
Zentiva	2, 4

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Erste Group rating definitions

Buy	> +20% to target price
Accumulate	+10% < target price < +20%
Hold	0% < target price < +10%
Reduce	-10% < target price < 0%
Sell	< -10% to target price

Our target prices are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance for the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news) and refer to 12 months from now. All recommendations are to be understood relative to our current fundamental valuation of the stock. The recommendation does not indicate any relative performance of the stock vs. a regional or sector benchmark.

Distribution of ratings

	Coverage universe		**Inv. banking-relationship**	
Recommendation	**No.**	**in %**	**No.**	**in %**
Buy	37	30.8	5	33.3
Accumulate	26	21.7	3	20.0
Hold	35	29.2	4	26.7
Reduce	7	5.8	1	6.7
Sell	4	3.3	0	0.0
N.R./UND.REV./RESTR.	11	9.2	2	13.3
Total	**120**	**100.0**	**15**	**100.0**

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