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# Simpo a.d. Vranje

## Descriptive Teaser

### Investment Opportunity

Investors are being presented with an opportunity to acquire capital of Simpo a.d. Vranje ("Simpo" or the "Company"), the leading furniture producer on the Serbian market, including all its subsidiary companies, through a public tender process.

The capital offered for sale (52.42%) is owned by:

- Share fund of the Republic of Serbia (28.73%)
- Pension and disability fund – PIO fund (9.39%)
- Socially-owned capital\* (8.26%)
- Republic of Serbia (4.99%)
- Serbian Development Fund (1.05%)

The majority of production capacities are located in southern Serbia in the vicinity of the city of Vranje.

Simpo has vertically integrated the furniture manufacturing process through deployment of several wood and textiles processing plants, in order to ensure stable supply of all inputs. Apart from furniture production, the Company has also positioned itself in other industry segments such as:

- Agricultural and food production
- Retail
- Chemicals production.

Simpo has established strong presence on both domestic and international level with over 80 furniture retail outlets and over 170 retail outlets on prime locations in Serbia and the region.

The Company was ranked among:

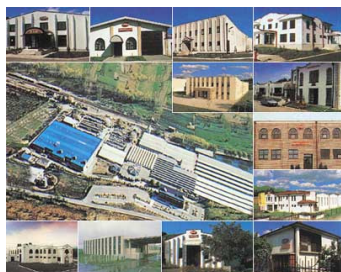
- Serbia's top 60 companies in terms of operating revenues in 2005 and
- 25 largest exporters in 2006 with EUR 18.3 million in exported goods.

Detailed information on Simpo's operations and the privatization process will be available to prospective investors following the public invitation, signing the confidentiality agreement and purchasing of the tender documentation.



\* Socially-owned capital is in the process of registration with the competent business registry.

## Investment Highlights



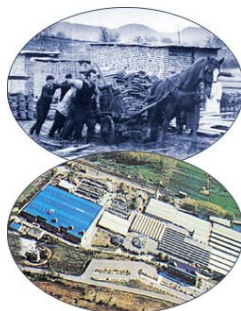
Today, Simpo is the largest furniture producer and among the largest companies in terms of turnover in Serbia.

- **Market position.** Simpo is positioned as number one domestic furniture producer with a strong and recognizable brand name and a long tradition in the industry.
- **Distribution network.** The company has a distribution network developed throughout Serbia and abroad (Russia, Germany, Bosnia and Herzegovina and Macedonia). Numerous high street outlets located in all major cities in Serbia give Simpo the unparalleled competitive reach.
- **Developing economy.** The growing purchasing power of the population together with increasingly competitive credit terms offered by commercial banks is increasing the demand for durable goods such as furniture.

Apart from its core activity, Simpo is engaged in a number of other businesses through its subsidiaries:

- SI-market, retail trade of food and beverages
- Kondiva, confectionary production company
- Simpo tepisi, production of carpets and floor coverings
- Simpo-commerce, wholesale of wood products and construction materials
- Simpo Line, engineering and interior furnishing
- Simpo Dekor, production of cotton materials
- Simtak, upholstery production
- Veso Po, production of non-alcoholic beverages.

## Brief History



Simpo was founded in 1963 in the city of Vranje, in southern Serbia, with furniture production and wood processing as its core activities.

In 1980s the management decided to diversify the product portfolio and fully integrate the manufacturing process by in-house production of intermediary goods. A number of new lines were introduced including:

- Textiles production
- Fine wood processing
- Chemicals production

Vertical integration yielded substantial results and the Company managed to significantly increase its size and turnover by the beginning of 1990s. Before the dissolution of former Yugoslavia, Simpo was the largest furniture manufacturer in a 20 million people market.

Due to a time gap between furniture manufacture and sale the management was forced to enter a range of activities which involved fast turnover goods production in early 1990s. Thus the diversification strategy was also pursued in the last 15 year period when the Company entered a range of agricultural and food production activities and introduced several new wood processing facilities.

**Ownership  
Structure**

Simpo is registered as a joint stock company. At present it has around 8,100 shareholders, majority of whom are current and former employees, as well as retired workers.

Ownership structure as of 28<sup>th</sup> of January 2008 is presented in the table below:

**Table 1: Ownership structure**

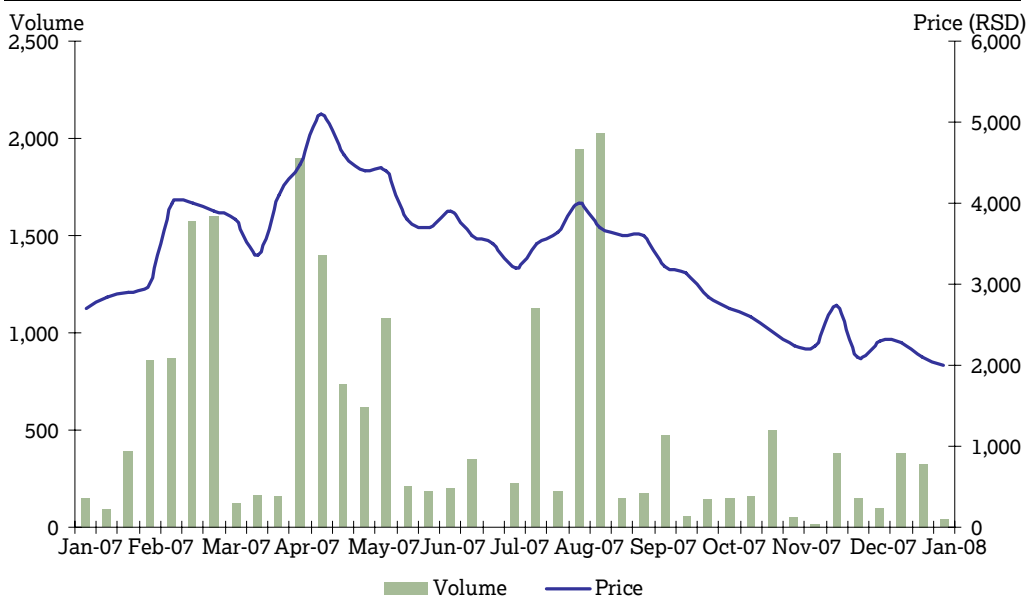
Shareholder	Number of shares	Ownership stake
Share Fund	304,408	28.73%
PIO Fund	99,563	9.39%
Socially owned capital	95,415	8.26%
Republic of Serbia	52,910	4.99%
Serbian Development Fund	11,157	1.05%
Other Shareholders	591,662	47.58%
<b>Total</b>	<b>1,155,115</b>	<b>100.00%</b>

Source: Central Registrar of Securities Depository and Clearing House

Total share capital of the Company comprises of 1,059,700 ordinary shares (nominal value EUR 70.88 per share) and 95,415 un-nominated shares (socially owned capital). Total book value of equity in 2006 amounted to approximately EUR 83 million (RSD 6.6 billion).

The Company's shares have been actively traded on Belgrade Stock Exchange since 21<sup>st</sup> November 2005.

**Exhibit 1: Price and Volume Trend in January 2007-2008 Period**



Source: Belgrade Stock Exchange

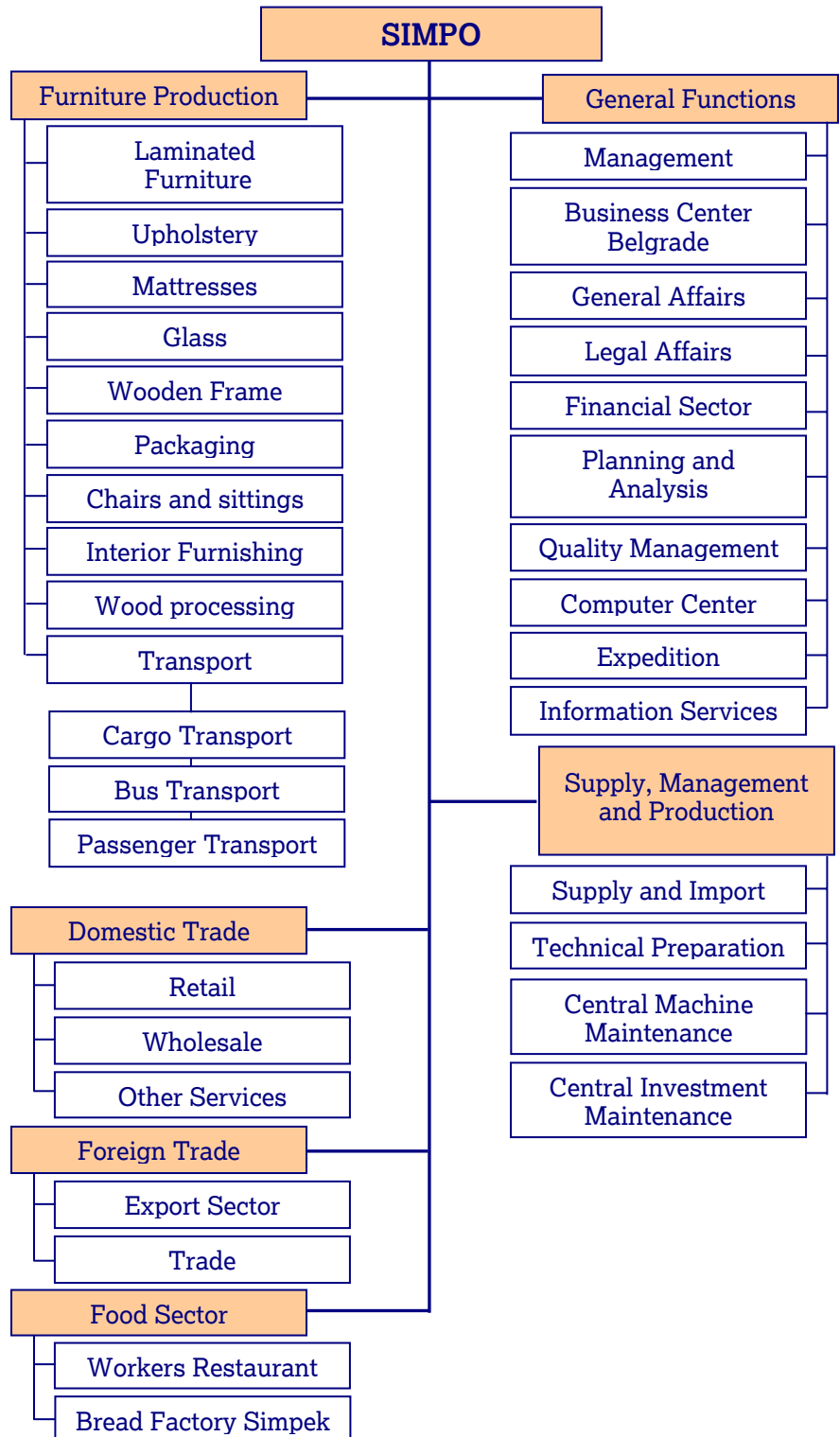
On 28<sup>th</sup> of January 2008 the Company's market capitalization was EUR 26.1 million with selected financial indices as follows:

- EPS: EUR 0.22
- PE: 111.27
- PBV: 0.35x
- ROE: 0.29%
- ROA: 0.11%

**Organizational Structure**

Simpo has a complex organizational structure as a result of the diversification of its business operations.

**Exhibit 2: Organizational Structure Chart**



Source: The Company

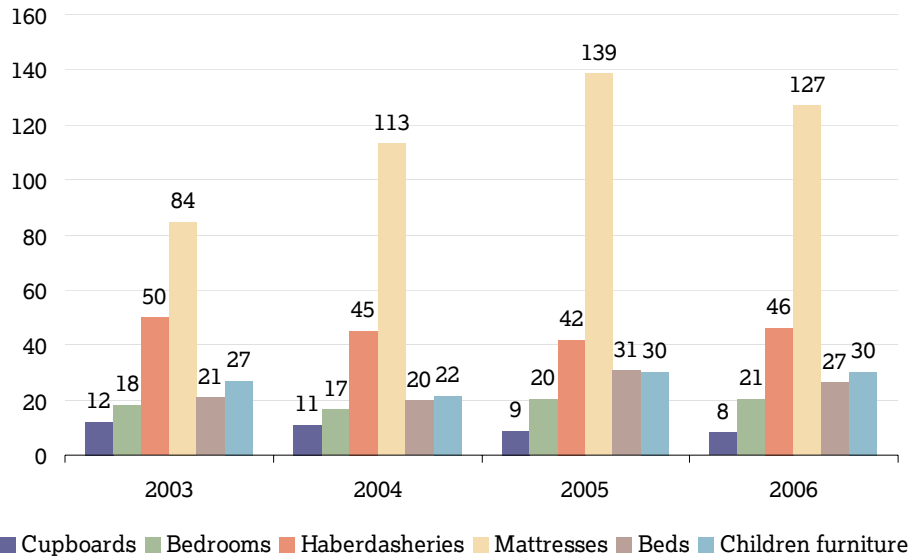
**Core Activity**



Simpo’s core business activity is classified as furniture production. With its long tradition in wood processing industry, the Company is involved in almost every segment of wood processing, producing both intermediary and final products.

With the introduction of Laminated Furniture Factory, Interior Furniture Design Factory, Upholstery Factory and Mattresses Factory the Company has successfully integrated the furniture manufacturing process through in-house production of all the required elements.

**Exhibit 3: Furniture Sales (in 000 of finished units)**



Source: The Company

In terms of ready made goods Simpo has increased the mattresses production by more than 30% and overall production by almost 20%, in the period between 2002 and 2006. This trend is likely to be continued due to increasing demand on both domestic and international markets.

**Furniture Production Facilities Overview**

Furniture production process in Simpo is conducted in the following facilities:

- Sawmills
- Furniture Factory
- Interior Furniture Design Factory
- Decorative Upholstery Factory
- Mattresses Factory
- Tapestry Factory

**Sawmills**

Furniture production process starts with sawmill wood processing. Currently, there are four sawmills operating within the Company.

### Furniture Factory

Furniture factory specializes in production of household furniture i.e. bedroom and kitchen elements. Existing capacities allow processing of 80m<sup>3</sup> of woodchips per day (equivalent of 150 bedrooms). Annual production is estimated at 58,000 units. Capacity utilization levels are currently around 80%.

EUR 000	2004	2005	2006
Sales	12,006	11,692	11,671



### Interior Furniture Design Factory

Interior Furniture Design Factory is operating within the Furniture factory. It is active in manufacture of elements for high quality household and business space furnishing. Approximately 80% of production is sold in foreign markets.

EUR 000	2004	2005	2006
Sales	1,071	1,078	1,174

### Decorative Upholstery Factory

Decorative Upholstery Factory specializes in textiles manufacturing. Installed capacities allow production between 200,000 and 300,000 m<sup>2</sup> of ready made goods every month. Over 30% of output is purchased by related parties.

EUR 000	2004	2005	2006
Sales	8,321	8,132	7,835

### Other Furniture Production Facilities

Mattresses factory produced more than 450,000 mattresses in the period since 2003. Around 40% of output has been sold on foreign markets. At the same time the Tapestry factory managed to produce over 180,000 haberdasheries for the domestic and EU markets.

Child beds production and sales have also been followed a positive trend, which further contributed to the positive result of the Company. Over 100,000 units were manufactured and sold in the 4 year period between 2002 and 2006.

### Selected Non Core Activities

#### Si Market

Si Market was incorporated through a merger with several small and medium sized retail chains. It is currently operating over 170 shops in Belgrade, Pancevo and Vranje. Total shop floor area is estimated at 14,000 m<sup>2</sup>.

#### Kondiva

Kondiva is Simpo's confectionary production entity. Existing capacities allow production of over 2,000 tons of wafers, chocolate and candies per annum. Strong sales in the domestic market are followed by expansion to regional markets. Kondiva is currently employing around 180 people.

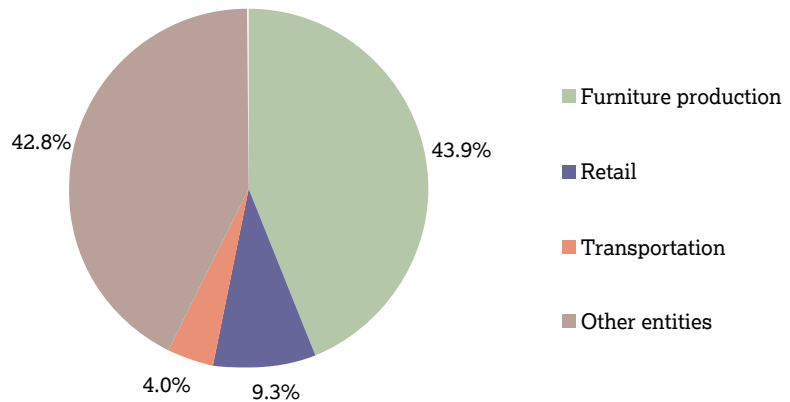
**Employees Structure**

**Simhem**

Simhem is a household chemistry joint venture between Simpo a.d. Vranje (49%) and the Italian Galea Group (51%). Simhem specializes in phosphates free detergents production. At present 40 workers are employed on a full time base.

Simpo had 4,592 employees in March 2007. Almost 75% of staff was employed by the parent company. The largest proportion of employees is in the 41 – 50 age group (37%), but significant efforts have been made towards increasing the number of employees in the younger age structures. Workers in the category of over 50 years of age represent just over 5% of total workforce.

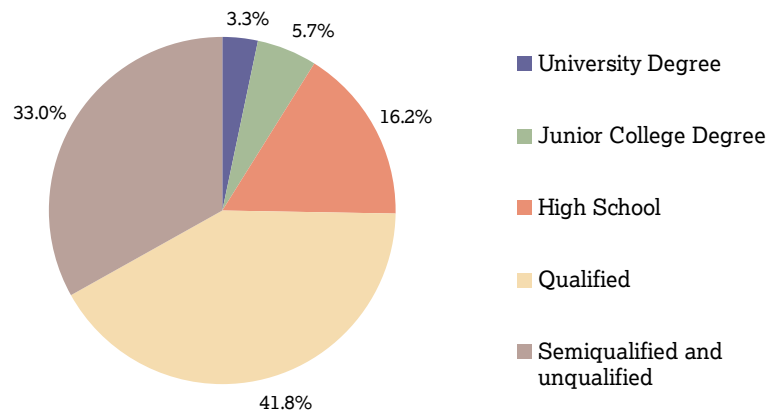
**Exhibit 4: Workforce Structure by Sector (2006)**



Source: The Company

Due to the nature of the core activity of the Company, majority of workers are in the qualified category, which is common for the industry. Employees with university degree and higher education qualifications are mostly on managerial positions. Their share in total workforce is just above 3%.

**Exhibit 5: Qualification Structure of Employees (2006)**



Source: The Company

**Financial  
Overview**
**Table 2: Balance Sheet of Simpo a.d.**

In EUR 000	2006	2005	2004
<b>Non-current assets</b>	<b>110,650</b>	<b>97,377</b>	<b>81,317</b>
Long term financial placements	52,930	43,136	50,649
Property, plant and equipment	56,833	53,462	29,835
Intangible assets	887	779	833
<b>Current assets</b>	<b>92,418</b>	<b>70,108</b>	<b>49,271</b>
Cash and cash equivalents	3,488	5,059	1,914
Short-term financial placements	6,510	5,546	7,020
Trade receivables	30,092	31,797	18,184
Inventories	23,951	26,452	19,434
Assets held for sale	143	132	-
Other assets	28,234	1,122	2,719
<b>Total Assets</b>	<b>203,068</b>	<b>167,484</b>	<b>130,587</b>
<b>Total equity</b>	<b>83,554</b>	<b>76,240</b>	<b>54,417</b>
Equity	83,017	75,966	39,780
Reserves			14,215
Retained profit/loss	537	274	422
<b>Long-term liabilities</b>	<b>74,832</b>	<b>32,782</b>	<b>25,219</b>
<b>Short-term liabilities</b>	<b>44,682</b>	<b>58,462</b>	<b>50,952</b>
Short term financial liabilities	6,083	12,627	19,605
Trade payables	26,524	33,330	16,912
Taxes	12,026	8,424	6,223
Other liabilities	48	4,082	8,211
<b>Total Equity and Liabilities</b>	<b>203,068</b>	<b>167,484</b>	<b>130,587</b>

Source: The Company

**Balance Sheet Overview**

Both current and non-current assets experienced significant growth in 2004-2006 period. Non-current assets are still dominating the assets structure, even though their share was reduced from 62.3% in 2004 to 54.5% in 2006.

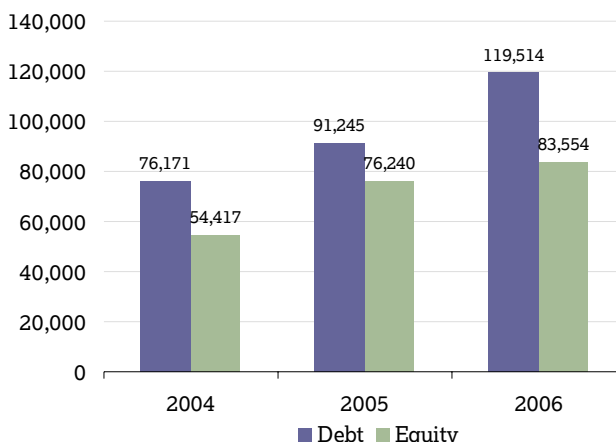
A significant increase was recorded in other assets in 2006. This was the result of high accruals levels in the mentioned period.

The apparent increase in equity is a result of fluctuations in exchange rates between the periods in question. Real growth in 2006 was approximately 1% (EUR 800,000), due to share issues.

Significant growth of total liabilities was also recorded. Total long-term liabilities in 2006 were more than doubled, due to growth of other long-term liabilities (liabilities which can be converted to equity) from EUR 9.1 million in 2005 to EUR 59 million in 2006. Commercial long-term loans declined in 2006 by almost 70% y-o-y to EUR 15.8 million.

Trade receivables are relatively high, which is common for this particular industry, due to products being sold mainly on long-term credit basis.

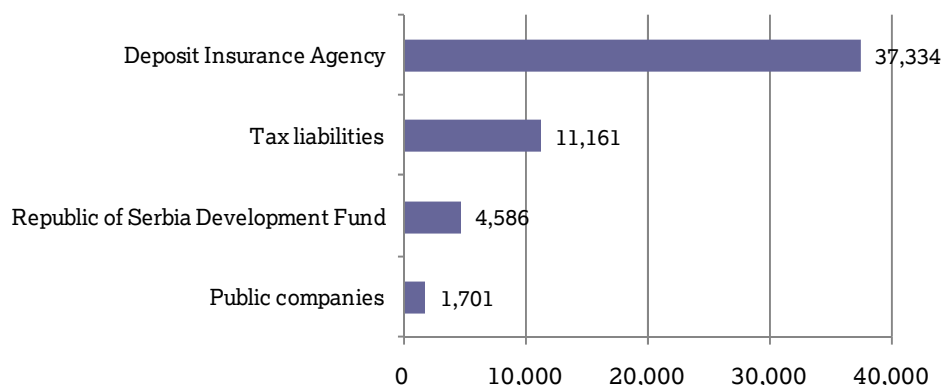
**Exhibit 6: Sources of Financing Structure (in 000 EUR)**



Source: The Company

Following the privatization significant amounts of debt are expected to be written off, in accordance with the Article 20 of the Law on privatization, by which state creditors are obliged to write off all of their claims (as of December 31. 2004), while the commercial creditors are to do so at their own discretion. Liabilities towards state owned creditors, as of December 31. 2004 amounted to EUR 54.7 million, and their structure is presented in the following exhibit:

**Exhibit 7: Debt structure (in EUR 000)**



Source: The Company

**Table 3: Income Statement of Simpo a.d.**

In EUR 000	2006	2005	2004
<b>Sales revenue</b>	<b>59,922</b>	<b>56,710</b>	<b>58,929</b>
Sales	58,768	52,457	55,725
Increase in inventory value	729	2,911	205
Other revenue	424	1,342	2,999
<b>Operating expenses</b>	<b>(65,189)</b>	<b>(65,226)</b>	<b>(62,539)</b>
Cost of goods sold	(4,787)	(5,896)	(6,572)
Costs of material	(33,924)	(35,900)	(32,245)
Costs of salaries	(18,969)	(16,483)	(15,515)
Depreciation and amortization	(2,038)	(2,143)	(2,562)
Other operating expenses	(5,417)	(5,803)	(5,646)
<b>Operating profit (loss)</b>	<b>(5,267)</b>	<b>(8,516)</b>	<b>(3,611)</b>
Financial income	4,116	2,599	4,363
Financial expenses	(4,151)	(8,928)	(4,630)
Other income	6,900	18,236	5,949
Other expenses	(1,366)	(3,198)	(1,004)
<b>Net profit (loss)</b>	<b>232</b>	<b>194</b>	<b>68</b>

Source: The Company

### Income Statement Overview

The Company's turnover has steadily grown in the observed period. The net result also followed a positive trend and increased almost four times higher than in 2004.

Costs of salaries were increased by almost EUR 2 million in 2006, due to increase of gross salaries.

Financial result was significantly changed in the observed period, mainly due to foreign exchange movements (gains and losses). Other income originates from adjustments on long-term financial placements.

In terms of profitability, ROA and ROE indicators have been following a positive trend throughout the 2004-2006 period, which indicates that the Company is performing with more efficiency, having better business results with less investments.

**Table 4: Balance Sheet of Simpo Holding (consolidated)**

<b>In EUR 000</b>	<b>2006</b>
<b>Current assets</b>	<b>107,314</b>
Cash and cash equivalents	5,104
Short-term financial placements	3,694
Trade receivables	33,930
Inventories	35,588
Assets held for sale	143
Receivables for taxes	6
Other assets	28,849
<b>Non-current assets</b>	<b>105,991</b>
Long term financial placements	15,220
Property, plant and equipment	89,580
Intangible assets	1,191
<b>Subscribed capital (unpaid)</b>	<b>4</b>
<b>Total assets</b>	<b>213,309</b>
<b>Short-term liabilities</b>	<b>63,183</b>
Short term financial liabilities	7,028
Trade payables	39,012
Taxes	565
Liabilities for taxes	24
Other liabilities	16,554
<b>Long-term liabilities</b>	<b>77,212</b>
<b>Total equity</b>	<b>72,913</b>
Equity	84,460
Reserves	38
Subscribed capital (unpaid)	2
Revalorization reserves	972
Loss	14,115
Retained profit/loss	1,556
<b>Total liabilities and Equity</b>	<b>213,309</b>

Source: The Company

**Table 5: Income Statement of Simpo Holding (consolidated)**

In EUR 000	2006
<b>Sales revenue</b>	<b>104,373</b>
Sales	101,403
Increase in inventory value	1,834
Other revenue	1,136
<b>Operating expenses</b>	<b>(112,524)</b>
Cost of goods sold	(25,684)
Costs of material	(46,136)
Costs of salaries	(27,489)
Depreciation and amortization	(3,961)
Other operating expenses	(9,254)
<b>Operating profit (loss)</b>	<b>(8,151)</b>
Financial income	4,054
Financial expenses	(4,472)
Other income	7,928
Other expenses	(2,946)
Current tax and other tax expenses	(14)
<b>Net profit (loss)</b>	<b>(3,604)</b>

Source: The Company



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