

## Kreka S.A.

Reuters : KRE.AT Bloomberg : KREKA GA

Sector: Food

### Ownership Structure:

Grigorios Kioutsoukostas	19.54%
Zaharias Kioutsoukostas	20.09%
Dejan Ljamkovic	6.62%
Other Investors & Free Float	53.75%

### Stock Data

Price (17/01/2008)	€ 1.49
Shares (in million)	7.125
Mkt Cap (in million)	€ 10.617

### Stock Ratios

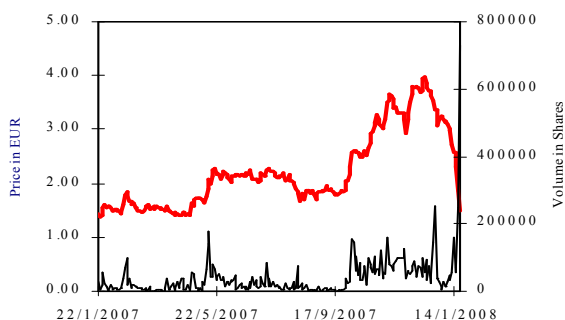
	2005	2006	2007 E	2008 F
P / E	79.42	87.76	25.50	12.80
P / BV	0.72	0.72	0.70	0.66
EV / EBITDA	20.29	16.42	11.99	9.54
Div. Yield	0.00%	0.00%	0.00%	0.00%
ROE	0.91%	0.82%	2.77%	5.30%
ROIC	0.59%	0.52%	1.54%	2.67%
Net Debt/Equity	0.53	0.58	0.91	0.95

### Summary Financials

P&L (in € mil.)	2005	2006	2007 E	2008 F
Turnover	9.9	10.1	24.9	26.4
Gross Profit	1.1	1.1	2.6	3.2
OPEX	0.5	0.5	1.6	1.7
EBITDA	0.9	1.2	2.0	2.7
Finan. Results	-0.3	-0.3	-0.5	-0.5
Depreciations	0.4	0.6	1.0	1.1
EBT	0.2	0.3	0.6	1.1
EATAM	0.1	0.1	0.4	0.8

Source: Company Data & VRS Projections

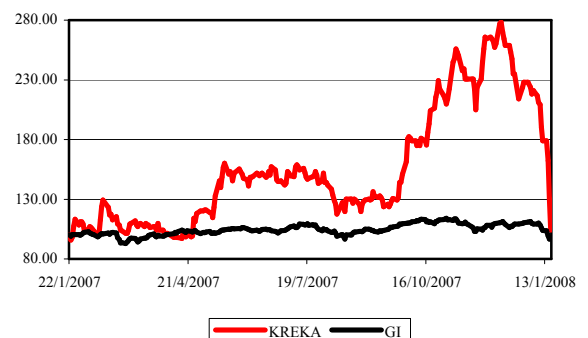
Stock Graph (52 weeks)  
Min: € 1.37, Max: € 3.98



## KEY INVESTMENT POINTS

- We have proceeded with an update of KREKA's valuation report in order to reflect the **financial benefits generated from the new bio-gas unit planned to commence operations in the first months of 2008**. We have revised KREKA's bottom line results upward for the projected period 2008-2011 due to the income and the cost savings generated by the new unit. **We have not changed our forecasts regarding the Company's meat operations** including the ones related to former subsidiary "Dellas-Tsakanikas".
- **KREKA is currently one of the leading meat producers and traders in Greece operating modern facilities**, including feeding, slaughtering and packaging units in Northeast Greece, whereas its wholesale network extends across the country. Furthermore, the recent merger with fully owned subsidiary "G. Dellas – P. Tsakanikas" (October 2007) **allows KREKA to exploit growth opportunities both as a meat producer and as a wholesale trader.**
- **The addition of the new income stream and the inclusion of cost savings to our forecasts** imply a stronger bottom-line performance for KREKA during the period 2008-2011, **leading to a higher target price of € 2.73 per share versus € 2.27 per share in our previous valuation report.**

Relative performance with G.I. (52 weeks)  
Stock Return: -16.29% - G.I. Return: -3.09%



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## FORECASTS REVISION DUE TO THE BIO-GAS UNIT

We have proceeded with an update of KREKA's valuation report in order to reflect the financial benefits generated from the new bio-gas unit planned to commence operations in the first months of 2008. We have revised KREKA's bottom line results upward for the projected period 2008-2011 due to the income and the cost savings generated by the new unit. We have not changed our forecasts regarding the Company's meat operations including the ones related to former subsidiary "Dellas-Tsakanikas".

The operation of the bio-gas unit is expected to generate a significant net income stream from the production and sale of organic fertilizer as well as savings in energy costs. The following table presents our calculations to derive the unit's annual income according to the following assumptions:

### Projected Revenues from KREKA's Bio-Gas Unit

Expired Meat Products (EMP) Collected by KREKA SA from Third Parties	
20,000 kilos per week for 48 weeks per annum	960,000.00 kilos
KREKA SA Receives EUR 0.30 per kilo	288,000.00 €
Expenses of EUR 1,000 per week	48,000.00 €
<b>Net Annual Income</b>	<b>240,000.00 €</b>

10,000 kilos Organic Fertilizer Produced from 20,000 kilos EMP per week or 480,000 kilos for 48 weeks per annum	
Each Kilo Sold for EUR 0.08	<b>38,400.00 €</b>

KREKA SA's Expired Meat Products	
50,000 kilos EMP per week produce 25,000 kilos of Organic Fertilizer. Each Kilo Sold for EUR 0.08	<b>96,000.00 €</b>

		2008	2009	2010	2011	
<b>Aggregate Annual Income</b> (After Oper. Expenses)	<b>374,400.00 €</b>	Expressed in € thous.	280.80	383.76	393.35	403.19

- 1) Assumption on Inflation Rate 2.50%
- 2) Capacity Utilized: (20,000+50,000)=70,000 kilos of meat products per week out of total installed capacity 160,000 kilos per week, implying a capacity utilization rate of 43.75%
- 3) We assume that operation of the Bio-Gas Unit commences in April 2008.

Source: Management's Guidance.

The addition of the new income stream and the inclusion of cost savings to our forecasts imply a stronger bottom-line performance for KREKA during the period 2008-2011, leading to a higher target price of € 2.73 per share versus € 2.27 per share in our previous valuation report.

The following table presents the new and old forecasts with regard to turnover and earnings after taxes:

**KREKA SA - Forecasts Revision**

<i>in € million</i>		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Turnover</b>	New	<b>24.88</b>	<b>26.44</b>	<b>28.20</b>	<b>30.29</b>	<b>32.73</b>
	Old	24.88	26.15	27.82	29.89	32.33
<b>EAT</b>	New	<b>0.42</b>	<b>0.83</b>	<b>0.99</b>	<b>1.05</b>	<b>1.10</b>
	Old	0.39	0.44	0.50	0.51	0.53

Source: Management's Guidance, VRS.

**INVESTMENT CASE & GROWTH DRIVERS**

KREKA is currently one of the leading meat producers and traders in Greece, operating modern facilities, including feeding, slaughtering and packaging units in Northeast Greece, whereas its wholesale network extends across the country.

Furthermore, the recent merger with fully owned subsidiary “G. Dellas – P. Tsakanikas” (October 2007) allows KREKA to exploit growth opportunities both as a meat producer and as a wholesale trader.

☞ **Growth Drivers of KREKA** (excluding operations of former “Dellas-Tsakanikas”)

**Calf Feeding & Production:** KREKA has vertically organized the production of standardized meat from calves. The Company purchases calves of 500-600 kilograms at a young age (12-18 months) mainly from France and from internationally recognized suppliers such as Deltagro SA, feeds them until a certain age (when they become 18-22 months and weigh 700-750 kilograms) and then produces final meat. The quality of products and the security control of procedures are certified by domestic and international institutions.

The grown animal with weight of 750 kilograms may produce meat of approximately 420 kilograms (implying a return ratio of 60%). The purchasing price of the young animals may range between € 2.5-2.7 per kilogram whereas the selling price may range between € 4.6-6.0 per kilogram depending on the final product. The Company utilizes a capacity of 1,800 calves per annum, while it operates its own production unit of animal food.

**In our model, calves are expected to represent 24.2% of total consolidated turnover at the end of our 5-year projected period, 2011, growing at a CAGR<sub>(2006-2011)</sub> of 3.7%.**

**Cows:** The Company purchases livestock from the domestic market and after the slaughtering phase it sells final meat products. **In our model, we assume revenues from cows to account for 2.8% of total consolidated turnover at the end of our 5-year projected period, 2011, growing at a CAGR <sup>(2006-2011)</sup> of 1.85%.**

**Pigs:** The Company purchases livestock, at a price range of € 1.0-1.4 per kilogram, from the domestic market and after the slaughtering phase it distributes final products at a price range of € 2.0-2.7 per kilogram. The return ratio of this process is estimated at 70%. **In our model, we assume revenues from pigs to account for only 2.3% of total consolidated turnover at the end of our 5-year projected period, 2011, growing at a CAGR <sup>(2006-2011)</sup> of 1.85%.**

**Lamb:** KREKA purchases livestock, at a price around € 5.0 per kilogram, from the domestic market and after the slaughtering phase it distributes final products at a price around € 6.0 per kilogram. The return ratio of this process is estimated at 60%. **In our model, we assume revenues from lamb to account for 5.1% of total consolidated turnover at the end of our 5-year projected period, 2011, growing at a CAGR <sup>(2006-2011)</sup> of 2.80%.**

Finally, the Company plans to co-operate with franchisees in order to establish a retail network under the name “KREOTOPIA”. Currently there are no retail shops under that name. The strategic objective of such a network would be to target the niche market of consumers interested on meat products that carry brand name and quality certificate stamp.

#### ☞ **Gradual Brand Name Recognition**

The Company places great emphasis on quality deriving from its certified production process. This strategy is steadily upgrading the brand name KREKA, with Greek consumers steadily recognizing the quality of the Company’s meat.

**☞ Customer Approach with Emphasis on Quality**

Emphasis on quality and customer services has been a major axis of the Company’s expansion in the market place. KREKA is certified by various domestic and international institutions for the production safety and the quality of final products, thus meeting even the strictest customer requirements. The Company focuses on the following missions:

- ❖ Maintenance of high quality standards based on international practices;
- ❖ Disclosure of the origins of its products (“Product with Identity”);
- ❖ Provision of specialized services to wholesale and retail customers;
- ❖ Building of an ever stronger consumer confidence.

The Major Axes of KREKA’s Strategy	
	Vertical integration of operations
	Efficient control of production process
	High quality and safety standards
	Environmental management system complied with E.U. regulations
	Cost savings following the operation of bio-gas unit

**KREKA'S MERGER WITH "G. DELLAS – P. TSAKANIKAS"**

Since 2001, KREKA SA held 41% of "G. Dellas – P. Tsakanikas SA" a meat trader that also operates a slaughtering unit in Northeast Greece. On 15 February 2007, KREKA acquired the remaining 59% stake for a total consideration € 3.5 million paid in installments until the end of 2007. The total acquisition cost for the 100% of the company amounted to € 6.3 million. The difference between the acquisition cost and the subsidiary's net worth appears in KREKA's financial statements as goodwill. On 29 May 2007, the two companies entered into a merger agreement which was completed successfully on 5 October 2007 with the new merged entity called "KREKA SA".

We view the above merger as a positive development due to the following factors:

- ❖ KREKA enters dynamically in the wholesale market of Athens, Greece's capital, by fully controlling and operating warehouse facilities and meat shop. The central meat market of Rentis is nowadays the heart of the domestic market, therefore the Company's presence would maximize revenue generation from a broader customer base;
- ❖ At the same time, through the former subsidiary's network, KREKA's meat products reach directly meat shops across Greece, such as in Ipiros, Central Greece, Peloponnesus, and Aegean islands;
- ❖ The merger is expected to generate synergies in terms of costs and at the same time to benefit the new entity, since the former subsidiary's activities are complementary to the ones of the parent company;
- ❖ The trading activities may benefit the overall financial outlook of the Company as they would improve the working capital cycle and its cash flows.

The absorbed company "G. Dellas – P. Tsakanikas SA" owns production facilities, whereas it leases facilities and meat shop in the central meat market of Rentis, Athens. The company employs 30 persons.

**G. Dellas - P. Tsakanikas**

**Historic Financial Highlights**

<b>Income Statement</b>									
<i>(in € thous.)</i>									
	<b>2002</b>	<i>Change</i>	<b>2003</b>	<i>Change</i>	<b>2004</b>	<i>Change</i>	<b>2005</b>	<i>Change</i>	<b>2006</b>
Sales	11,789.80	14.19%	13,463.26	7.28%	14,443.23	8.54%	15,676.31	8.59%	17,023.26
Gross Profit	1,113.32	19.76%	1,333.31	16.76%	1,556.83	8.56%	1,690.04	-1.80%	1,659.55
	<i>Gross Profit Margin</i>	9.44%	9.90%		10.78%		10.78%		9.75%
Profit before Taxes	563.79	24.89%	704.11	60.94%	1,133.19	-26.68%	830.82	10.29%	916.28
	<i>EBT Margin</i>	4.78%	5.23%		7.85%		5.30%		5.38%
<b>Balance Sheet</b>									
<i>(in € thous.)</i>									
	<b>2002</b>	<i>Change</i>	<b>2003</b>	<i>Change</i>	<b>2004</b>	<i>Change</i>	<b>2005</b>	<i>Change</i>	<b>2006</b>
Total Assets	5,931.95	-1.94%	5,816.98	1.56%	5,907.91	2.73%	6,069.46	6.42%	6,459.24
Shareholders' Funds	2,827.62	-3.82%	2,719.67	3.52%	2,815.35	0.72%	2,835.54	-1.00%	2,807.22
Fixed Assets	2,464.01	-9.85%	2,221.38	-10.49%	1,988.39	-19.53%	1,600.13	-24.60%	1,206.49
<b>Financial Ratios</b>									
	<b>2002</b>		<b>2003</b>		<b>2004</b>		<b>2005</b>		<b>2006</b>
Current Assets / Total Assets	0.58		0.62		0.66		0.73		0.81
Current Ratio	1.18		1.26		1.25		1.32		1.51
Debt Ratio	0.51		0.50		0.50		0.45		0.57

Source: Company accounts. Note: The company is about to merge with KREKA SA, therefore no financial statements are to be published for 2007.

## TURNOVER BREAKDOWN

<i>(in € ,000)</i>		Tons	Avg Price (€)	2006	2007	2008	2009	2010	2011
<b>Calf</b>		1,376	4.79	<b>6,596</b>	<b>6,794</b>	<b>6,998</b>	<b>7,278</b>	<b>7,569</b>	<b>7,909</b>
	y-o-y Change %				3.00%	3.00%	4.00%	4.00%	4.50%
	% of Total			65.1%	27.3%	26.5%	25.8%	25.0%	24.2%
<b>Cows</b>		249	3.41	<b>848</b>	<b>861</b>	<b>876</b>	<b>894</b>	<b>911</b>	<b>930</b>
	y-o-y Change %				1.50%	1.75%	2.00%	2.00%	2.00%
	% of Total			8.4%	3.5%	3.3%	3.2%	3.0%	2.8%
<b>Pig / Pork</b>		229	2.95	<b>676</b>	<b>686</b>	<b>698</b>	<b>712</b>	<b>726</b>	<b>741</b>
	y-o-y Change %				1.50%	1.75%	2.00%	2.00%	2.00%
	% of Total			6.7%	2.8%	2.6%	2.5%	2.4%	2.3%
<b>Lamb</b>		203	7.12	<b>1,444</b>	<b>1,473</b>	<b>1,510</b>	<b>1,555</b>	<b>1,602</b>	<b>1,658</b>
	y-o-y Change %				2.00%	2.50%	3.00%	3.00%	3.50%
	% of Total			14.3%	5.9%	5.7%	5.5%	5.3%	5.1%
<b>Other Meat</b>				<b>562</b>	<b>567</b>	<b>573</b>	<b>579</b>	<b>585</b>	<b>590</b>
	y-o-y Change %				1.00%	1.00%	1.00%	1.00%	1.00%
	% of Total			5.5%	2.3%	2.2%	2.1%	1.9%	1.8%
<b>G. Dellas - P. Tsakanikas</b>				<b>17,023</b>	<b>14,500</b>	<b>15,500</b>	<b>16,800</b>	<b>18,500</b>	<b>20,500</b>
	y-o-y Change %			8.6%	n/c	6.90%	8.39%	10.12%	10.81%
	% of Total			168.1%	58.3%	58.6%	59.6%	61.1%	62.6%
<b>Bio-Gas Unit</b>						<b>281</b>	<b>384</b>	<b>393</b>	<b>403</b>
	y-o-y Change %					36.67%	2.50%	2.50%	2.50%
	% of Total				0.0%	1.1%	1.4%	1.3%	1.2%
<b>TOTAL TURNOVER</b>				<b>10,126</b>	<b>24,881</b>	<b>26,436</b>	<b>28,201</b>	<b>30,286</b>	<b>32,731</b>
y-o-y Change %					n/c	6.25%	6.68%	7.39%	8.07%

Source: Company accounts, VRS.

Notes : Financial accounts refer to the merged company "KREKA SA" and "G. Dellas – P. Tsakanikas SA" for the period 2007 - 2011.

2006 refers only to the parent company. Sales is before intra-group transactions for 2006, and after intra-group transactions for 2007 - 2011.

**FINANCIAL ANALYSIS**

[Following the merger between the parent company “KREKA SA” and the fully owned subsidiary “G. Dellas – P. Tsakanikas SA” completed in October 2007, we perform the analysis & valuation of the new merged company “KREKA SA”.]

**☞ Profit & Loss Account**

**Turnover:** We anticipate consolidated turnover to amount to € 24.88 million in 2007 and reach € 32.73 million by the end of the projected 5-year period, implying a CAGR <sub>(2007-2011)</sub> 7.10%.

**Gross Profit Margin:** Following the Company’s vertical integration, the rising purchasing / selling power, and the net income generated from the bio-gas unit, we would anticipate KREKA to benefit from a stronger competitive advantage in the domestic market place. Therefore we would expect a gradual enhancement of gross profit margin during the period 2007-2011.

**Operating Expenses:** The Company’s operating expenses are projected to range between 6.5% - 6.7% of total consolidated turnover during the 5-year period, growing on higher average pace than turnover. We have revised upward the operating expenses following the announcement of the 9M 2007 financial results.

**Earnings before Interest, Tax and Amortization (EBITDA):** We expect an EBITDA CAGR <sub>(2007-2011)</sub> of 4.44% due to the higher operating expenses.

**Income Tax:** The nominal tax rate has dropped at 25% since 1/1/2007 from 29% previously. In our assumptions, we use the new rate as the effective tax for the period 2007-2011.

## ☞ Balance Sheet

**Biological Assets:** The Company's biological assets refer to livestock held for breeding and slaughtering. KREKA trades only raw meat and not livestock. The Company purchases livestock from third parties, mainly abroad, for breeding purposes in its own facilities. No birthing activity takes place within the Company's facilities. The breeding phase lasts several months before the slaughtering stage. In addition, there are purchases of living animals solely for slaughtering purposes (no breeding phase exists in this case).

KREKA records those assets as biological assets based on current market prices from comparable animals. The following table presents the valuation of those assets as of 30 September 2007:

<b>Biological Assets</b> <i>(in € ,000s)</i>	<b>IFRS Accounts</b> <b>30/9/2007</b>	<b>IFRS Accounts</b> <b>31/12/2006</b>
Inventory at beginning of period	2,095	1,709
Purchases for the period	2,925	5,042
Less: Sale of biological assets	-12	
Less: Inventory for production	-4,721	-5,797
Change in fair value of biological assets	890	1,142
Balance at end of period	1,178	2,095

Source: Consolidated Financial Statements under IFRS.

**Bank Debt:** Following an arrangement with the Greek State, KREKA restructured its total bank debt as of 30 June 2006, into a 10-year loan carrying an 80% guarantee granted by the Greek State. The loan's interest rate is determined by the corresponding rate of Greek treasury bills, which is then increased by 70% plus a contribution rate of 0.6%. The loan's interest rate is subsidized by 50% until 31/12/2009, whereas the repayment will be made in 6-month installments.

KREKA's assets, up to the loan's amount, have been placed as collateral in favor of the Greek State. As of 30/9/2007, total long-term debt had settled € 9.122 million. We have assumed a gradually higher financial leverage in view of the Company's need to finance its working capital cycle as well as the investment on the bio-gas unit.

☞ **Selected Financial Ratios on Consolidated Basis**

	2006	2007	2008	2009	2010	2011
<b>Stock Days</b>	115	80	70	60	50	50
<b>Debtors Days</b>	97	85	80	75	75	70
<b>Creditors Days</b>	61	55	50	50	45	45
<b>Total Liab. / Total Equity</b>	0.87	1.52	1.62	1.69	1.78	1.88
<b>Bank Loans / Total Equity</b>	0.63	0.97	1.00	1.13	1.28	1.40
<b>Net fixed Assets / Total Assets</b>	74.79%	67.26%	70.70%	73.43%	74.58%	75.09%
<b>Interest Coverage</b>	2.27	3.60	4.44	4.13	3.75	3.48

Source: Company accounts, VRS estimates.

☞ **Cash Flow Analysis**

Although the nature of business would imply an unfavorable stock turnover ratio, KREKA achieved a more efficient cash cycle of 54 days for the 9-month period 2007 versus 82 days for the 6-month period 2007. We view this development as satisfactory since it positively affected the Group's cash flows, however we don't treat it as a sustainable one. Our assumption refers to a higher cash cycle which should gradually improve in the projected 5-year period. Our assumption on the cash cycle is more favorable compared to the previous valuation update (September 2007) following the announcement of the 9M 2007 financial results.

The Group's cash cycle is largely affected by the long product cycle due to the animal feeding stage as well as by agreements made with the customer base and the suppliers in the domestic market. As we do not expect any radical change in those agreements we would assume that KREKA Group undertakes a higher financial leverage in the following years to fund its working capital (cash) cycle.

The following tables present our calculations in order to derive KREKA Group's cash cycle in the 9-month periods of 2007 and 2006.

<i>in EUR thous.</i>	30/9/2007	30/9/2006
Inventory	2,184	2,850
Customer Receivables	5,782	2,694
Cash	230	650
Creditors	3,037	1,499
Sales	16,378	7,934
Cost of Sales (*)	14,808	7,179
Stock Turnover Ratio (days)	27	72
Debtor Turnover Ratio (days)	64	62
Creditor Turnover Ratio (days)	37	38
Current Ratio	2.70	4.13
Accid Ratio	1.98	2.23

(\*) Without depreciation.

	30/9/2007	30/9/2006
Stock arrives (day)	0	0
Goods sold (day)	27	72
Creditors / Stock Paid (day)	37	38
Debtors Received (day)	91	134
<b>W. C. CYCLE</b>	<b>54</b>	<b>96</b>

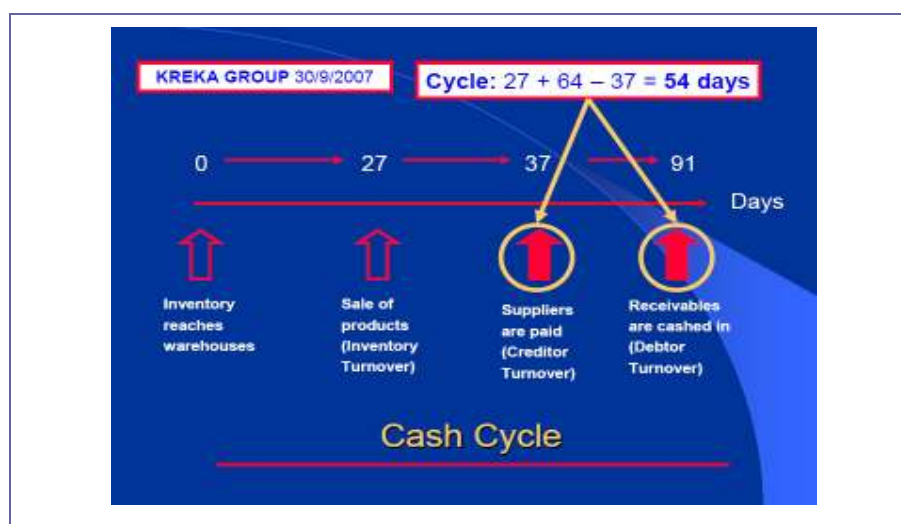
Source: Consolidated accounts & VRS calculations.

The above tables indicate that KREKA improves its cash cycle since it consolidates the trading activity of the absorbed company ("Dellas-Tsakanikas"), thus offsetting the long cash cycle accompanying the animal feeding activity.

## CHART

### KREKA Group's Working Capital Cycle in Days – 9M 2007

Source: VRS.



The following tables present our calculations in order to derive parent company's cash cycle for the years 2006 and 2005.

<i>in EUR thous.</i>	31/12/2006	31/12/2005
Inventory	2,850	2,341
Customer Receivables	2,694	3,320
Cash	650	305
Creditors	1,499	1,729
Sales	10,126	9,891
Cost of Sales (*)	9,036	8,791
Stock Turnover Ratio (days)	115	97
Debtor Turnover Ratio (days)	97	123
Creditor Turnover Ratio (days)	61	72
Current Ratio	4.13	3.45
Accid Ratio	2.23	2.10

(\*) Without depreciation.

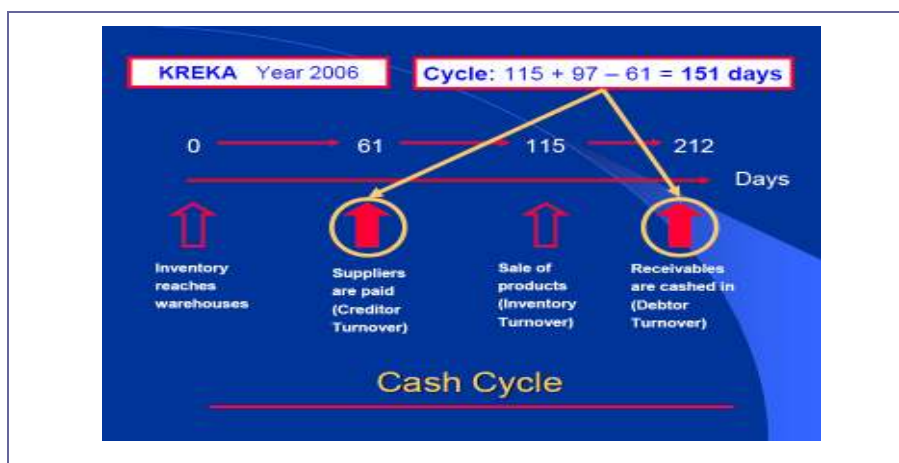
	31/12/2006	31/12/2005
Stock arrives (day)	0	0
Goods sold (day)	115	97
Creditors / Stock Paid (day)	61	72
Debtors Received (day)	212	220
<b>W. C. CYCLE</b>	<b>152</b>	<b>148</b>

Source: Parent company's accounts & VRS calculations.

## CHART

### KREKA's Working Capital Cycle in Days – Year 2006

Source: VRS.



**CAPITAL EXPENDITURES****Future Objectives**

KREKA's capital expenditure plan aims at the following directions:

- ❖ Market share expansion and vertical integration of operations, ranging from animal feeding to final meat products for the retail market;
- ❖ Constant upgrade of quality standards and expansion of product range in an effort to satisfy the constantly changing consumer needs;
- ❖ More efficient environmental management with parallel cost savings.

During 2006-2007, the Company initiated a plan to create a unit for utilization of by-products following the slaughtering phase of production. The unit will be operating as a recycling center utilizing by-products for the production of bio-gas. The latter will be used for the production of thermal and electric power, consumed in a later stage from the Company's production units.

However, the ultimate purpose of the unit will be to protect the environment by recycling meat by-products or remaining / expired meat parts not only from the Company's production process but also from third parties. KREKA is expected to comply with European Union regulations concerning environmental management and also receive an environmental management certificate according to ISO 14001:2004. Apart from generating energy, the unit (SRS-500) will be producing organic fertilizers for farmers.

The total investment is expected to reach € 2.75 million and has been subsidized under the Greek Law by approximately € 1.3 million. According to the management, the unit will commence operations in April 2008.

The Company is also planning the creation of a product standardization unit in order to distribute packaged meat to the retail market with the following characteristics:

- ❖ Longer product life under cooling conditions, up to 15 days;
- ❖ Meat products carrying a recognized brand name;
- ❖ Ability of tracing the product's origination;
- ❖ Protection and security for consumer.

As it was mentioned previously, in the beginning of 2007, KREKA SA acquired the remaining 59% stake of “G. Dellas – P. Tsakanikas SA” for a total consideration € 3.5 million paid in installments until the end of 2007. The total acquisition cost for the 100% of the company amounted to € 6.3 million. Since February 2007, KREKA consolidated its fully owned subsidiary based on the acquisition accounting (purchase) method, whereas in October 2007 the merger between the two entities completed successfully.

**In our forecasting model, we assume capital expenditures of € 0.53 million per annum for the period 2008-2011, reflecting KREKA’s efforts to modernize production facilities and strengthen the distribution network.**

#### ☞ **Historical Review of Investments Implemented**

During the period 2003 – 2006, KREKA proceeded with the following investment actions:

- ❖ Upgrade of information technology infrastructure;
- ❖ Application of barcode system during production;
- ❖ Sale of equity holdings, 25% of Deltagro (2004) and 61.66% of Tsatsoulis Bros (2005);
- ❖ Production of mince meat through animal bones;
- ❖ Renovation of stabling facilities;
- ❖ Modernization of production machinery valued at € 880,000.

## DEVELOPMENTS IN THE 9-MONTH PERIOD 2007

KREKA published 9-month consolidated financial results under IFRS on November 30th, 2007 covering the period 1 January until 30 September 2007.

The financial results are presented below:

<b>Income Statement</b> <i>(in € ,000s)</i>	<b>IFRS Accounts</b> <b>1/1-30/09/2007</b>	<i>Change (%)</i>	<b>IFRS Accounts</b> <b>1/1-30/09/2006</b>
Sales	16,378	106.42%	7,934
EBITDA	890	20.35%	739
Operating Expenses	1,181	297.49%	297
Financial Expenses	-392	16.56%	-336
EBT	124	312.05%	30
EAT	92	-589.30%	-19

<b>Balance Sheet</b> <i>(in € ,000s)</i>	<b>IFRS Accounts</b> <b>30/9/2007</b>	<i>Change (%)</i>	<b>IFRS Accounts</b> <b>31/12/2006</b>
Fixed Assets	18,127	13.72%	15,940
Inventory	1,006	33.44%	754
Customer Receivables	5,782	114.65%	2,694
Cash	230	-64.64%	650
Total Assets	34,186	25.11%	27,326
Equity	14,907	2.89%	14,488
Total Liabilities	19,279	50.18%	12,837

<b>Cash Flows</b> <i>(in € ,000s)</i>	<b>IFRS Accounts</b> <b>1/1-30/09/2007</b>	<b>IFRS Accounts</b> <b>1/1-30/09/2006</b>
Operating Cash Flows	1,584	-939
Investing Cash Flows	-3,572	-68
Financing Cash Flows	1,568	1,244
Change in Cash	-420	237
Cash Flows at Begin.	650	305
Cash Flows at End	230	541

Source: Financial Statements under IFRS.

The Financial Statements refer to the entity derived from the merger between the parent company KREKA SA and the fully owned subsidiary G. DELLAS - P. TSAKANIKAS MEAT TRADE SA.

## PROFIT & LOSS ACCOUNT

€ million		2005	2006	2007	2008	2009	2010	2011
<b>Turnover</b>		<b>9.89</b>	<b>10.13</b>	<b>24.88</b>	<b>26.44</b>	<b>28.20</b>	<b>30.29</b>	<b>32.73</b>
	y-o-y change %		2.38%	145.71%	6.25%	6.68%	7.39%	8.07%
<b>Cost of Sales</b>		<b>8.79</b>	<b>9.04</b>	<b>22.29</b>	<b>23.21</b>	<b>24.62</b>	<b>26.45</b>	<b>28.64</b>
	% of Turnover	88.88%	89.24%	89.60%	87.80%	87.30%	87.35%	87.50%
	y-o-y change %		2.79%	146.71%	4.11%	6.07%	7.46%	8.26%
<b>Other Operating Income including Biol. Assets</b>		<b>0.32</b>	<b>0.61</b>	<b>1.10</b>	<b>1.21</b>	<b>1.33</b>	<b>1.46</b>	<b>1.61</b>
<b>Operating Expenses</b>		<b>0.51</b>	<b>0.53</b>	<b>1.64</b>	<b>1.72</b>	<b>1.89</b>	<b>2.03</b>	<b>2.19</b>
	% of Turnover	5.16%	5.26%	6.60%	6.50%	6.70%	6.70%	6.70%
	y-o-y change %		4.32%	208.34%	4.64%	9.96%	7.39%	8.07%
<b>EBITDA</b>		<b>0.90</b>	<b>1.17</b>	<b>2.05</b>	<b>2.72</b>	<b>3.02</b>	<b>3.27</b>	<b>3.51</b>
<b>EBITDA Margin</b>		<b>9.15%</b>	<b>11.57%</b>	<b>8.22%</b>	<b>10.28%</b>	<b>10.72%</b>	<b>10.78%</b>	<b>10.72%</b>
	y-o-y change %		29.54%	74.56%	32.82%	11.27%	8.04%	7.43%
<b>Depreciation</b>		<b>0.39</b>	<b>0.61</b>	<b>1.02</b>	<b>1.15</b>	<b>1.17</b>	<b>1.19</b>	<b>1.21</b>
	% of Turnover	3.99%	5.99%	4.11%	4.35%	4.15%	3.93%	3.70%
<b>EBIT</b>		<b>0.51</b>	<b>0.57</b>	<b>1.02</b>	<b>1.57</b>	<b>1.85</b>	<b>2.08</b>	<b>2.30</b>
	% of Turnover	5.16%	5.58%	4.11%	5.93%	6.57%	6.85%	7.02%
	y-o-y change %		10.77%	80.96%	53.22%	18.22%	12.01%	10.70%
<b>Net Financial Results</b>		<b>-0.28</b>	<b>-0.27</b>	<b>-0.47</b>	<b>-0.46</b>	<b>-0.53</b>	<b>-0.67</b>	<b>-0.83</b>
<b>Net Results Before Taxes</b>		<b>0.23</b>	<b>0.29</b>	<b>0.56</b>	<b>1.11</b>	<b>1.32</b>	<b>1.40</b>	<b>1.46</b>
<b>EBT Margin</b>		<b>2.28%</b>	<b>2.90%</b>	<b>2.23%</b>	<b>4.18%</b>	<b>4.68%</b>	<b>4.63%</b>	<b>4.47%</b>
	y-o-y change %		30.32%	88.91%	99.18%	19.50%	6.25%	4.35%
<b>Income Tax &amp; Deferred Taxes</b>		<b>0.09</b>	<b>0.17</b>	<b>0.14</b>	<b>0.28</b>	<b>0.33</b>	<b>0.35</b>	<b>0.37</b>
	Effective Tax Rate	40.72%	58.83%	25.00%	25.00%	25.00%	25.00%	25.00%
<b>Net Results After Taxes</b>		<b>0.13</b>	<b>0.12</b>	<b>0.42</b>	<b>0.83</b>	<b>0.99</b>	<b>1.05</b>	<b>1.10</b>
<b>EAT Margin</b>		<b>1.35%</b>	<b>1.19%</b>	<b>1.67%</b>	<b>3.14%</b>	<b>3.51%</b>	<b>3.48%</b>	<b>3.36%</b>
	y-o-y change %		-9.50%	244.13%	99.18%	19.50%	6.25%	4.35%
<b>Proportion of Minority rights</b>		<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Net Results (a.t.&amp;m.i.)</b>		<b>0.13</b>	<b>0.12</b>	<b>0.42</b>	<b>0.83</b>	<b>0.99</b>	<b>1.05</b>	<b>1.10</b>
<b>Net Margin</b>		<b>1.35%</b>	<b>1.19%</b>	<b>1.67%</b>	<b>3.14%</b>	<b>3.51%</b>	<b>3.48%</b>	<b>3.36%</b>
	y-o-y change %		-9.50%	244.13%	99.18%	19.50%	6.25%	4.35%

Source: Company accounts, VRS estimates.

## BALANCE SHEET

<i>€ million</i>	2005	2006	2007	2008	2009	2010	2011
<b>Assets</b>							
Net Intangible Assets	0.00	0.02	0.02	0.03	0.04	0.04	0.05
Net Goodwill	0.00	0.00	4.63	9.26	13.88	18.51	23.14
Net Tangible Assets	15.61	15.94	19.16	18.54	17.91	17.25	16.57
Deferred Taxation	1.67	1.52	2.00	1.90	1.80	1.70	1.70
Other L-term assets	3.15	3.21	0.05	0.05	0.05	0.05	0.05
<b>Total Non-Current Assets</b>	<b>20.43</b>	<b>20.68</b>	<b>25.86</b>	<b>29.78</b>	<b>33.68</b>	<b>37.55</b>	<b>41.51</b>
% Total Assets	76.04%	74.79%	67.26%	70.70%	73.43%	74.58%	75.09%
Inventories & Biological Assets	2.34	2.85	4.89	4.45	4.05	3.62	3.92
Trade Receivables	3.32	2.69	5.79	5.79	5.79	6.22	6.28
Other Receivables	0.47	0.78	1.01	1.32	1.71	2.22	2.89
Cash in bank and at hand	0.30	0.65	0.89	0.78	0.63	0.73	0.68
<b>Total Current Assets</b>	<b>6.44</b>	<b>6.97</b>	<b>12.59</b>	<b>12.34</b>	<b>12.18</b>	<b>12.80</b>	<b>13.77</b>
% Total Assets	23.96%	25.21%	32.74%	29.30%	26.57%	25.42%	24.91%
<b>TOTAL ASSETS</b>	<b>26.86</b>	<b>27.65</b>	<b>38.45</b>	<b>42.12</b>	<b>45.86</b>	<b>50.36</b>	<b>55.28</b>
<b>Equity &amp; Liabilities</b>							
Shareholder's Equity	14.69	14.81	15.23	16.06	17.05	18.10	19.20
Minority Rights	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total Equity</b>	<b>14.69</b>	<b>14.81</b>	<b>15.23</b>	<b>16.06</b>	<b>17.05</b>	<b>18.10</b>	<b>19.20</b>
% Total Equity & Liabilities	54.69%	53.57%	39.61%	38.13%	37.18%	35.95%	34.73%
L-Term Bank Loans	1.82	9.27	11.00	12.00	13.50	15.00	16.40
Provisions for Staff Retirement	0.06	0.05	0.10	0.11	0.12	0.13	0.15
Deferred Tax Liabilities	2.03	1.84	4.75	4.99	4.80	5.04	5.29
Other long term debts	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total L-Term Liabilities</b>	<b>3,901</b>	<b>11,162</b>	<b>15,850</b>	<b>18,598</b>	<b>19,421</b>	<b>20,673</b>	<b>21,838</b>
Suppliers	1.73	1.50	3.36	3.18	3.37	3.26	3.53
Banks	5.50	0.00	3.20	3.30	4.80	6.80	8.80
Taxes-duties	0.10	0.07	0.10	0.10	0.10	0.10	0.10
Other Payables	0.21	0.11	0.11	0.11	0.10	0.10	0.10
<b>Total Current Liabilities</b>	<b>8.27</b>	<b>1.68</b>	<b>7.37</b>	<b>7.46</b>	<b>9.39</b>	<b>11.58</b>	<b>14.24</b>
<b>Total Liabilities</b>	<b>12.17</b>	<b>12.84</b>	<b>23.22</b>	<b>26.06</b>	<b>28.81</b>	<b>32.25</b>	<b>36.08</b>
% Total Equity & Liabilities	45.31%	46.43%	60.39%	61.87%	62.82%	64.05%	65.27%
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>26.86</b>	<b>27.65</b>	<b>38.45</b>	<b>42.12</b>	<b>45.86</b>	<b>50.36</b>	<b>55.28</b>

Source: Company accounts, VRS estimates.

## CASH FLOW STATEMENT

(in € ,000 )	2008	2009	2010	2011
Profit after tax	829	991	1,053	1,098
Plus: Change of Depreciation	1,149	1,170	1,190	1,211
<b>Gross Cash Flow</b>	<b>1,978</b>	<b>2,161</b>	<b>2,243</b>	<b>2,310</b>
<i>Change in:</i>				
(-) Trade Debtors	0	1	428	54
(-) Inventory	-435	-404	-423	299
(-) Other Receivables	304	395	513	667
(+) Trade Creditors	-180	193	-111	269
(+) Liabilities for taxes	0	0	0	0
(+) Other Short - term liabilities	-2	-2	-2	-2
Change in Working Capital	-50	200	-632	-753
<b>Operating Cash Flow</b>	<b>1,928</b>	<b>2,361</b>	<b>1,612</b>	<b>1,557</b>
<i>Change in:</i>				
(-) Intangible Assets	10	10	10	10
(-) Tangible Assets	5,158	5,158	5,158	5,158
(-) Other long - term receivables	-100	-100	-100	0
(+) Other Long - term liabilities	1,748	-677	-248	-235
(+) Cons. diff./ Minority Interests	0	0	0	0
<b>Cash Flow from Investment</b>	<b>-3,320</b>	<b>-5,744</b>	<b>-5,316</b>	<b>-5,403</b>
<b>Net Cash Flow Before Financing Activities</b>	<b>-1,392</b>	<b>-3,384</b>	<b>-3,704</b>	<b>-3,846</b>
Increase in Share Capital	0	0	0	0
Increase in Share Premium Account	0	0	0	0
Net Change in Reserves	0	0	0	0
Change in Long - Term Debt	1,000	1,500	1,500	1,400
Change in Short - Term Debt	280	1,734	2,304	2,395
Dividends	0	0	0	0
Minority Interests on Profit	0	0	0	0
<b>Net Cash Flow from Financing</b>	<b>1,280</b>	<b>3,234</b>	<b>3,804</b>	<b>3,795</b>
Cash at Beginning	893	781	631	731
<b>Change in Cash and Marketable Securities</b>	<b>-112</b>	<b>-150</b>	<b>100</b>	<b>-50</b>
Cash at End	781	631	731	681

Source: Company accounts, VRS estimates.

## DCF VALUATION

Incorporating our projections of the Company's bio-gas unit and taking into account the higher sustainable profit margin, the fair value for KREKA settles at € 19.45 million or € 2.73 per share, based on our DCF model. The following important assumptions have been made in the model:

- ❖ Infinity weighted average cost of capital at 6.0%,
- ❖ Infinity Sales Growth of 2.5%,
- ❖ Infinity EBIT Margin of 6.0%.

	2007	2008	2009	2010	2011	L-Term Assumptions
<b>ASSUMPTIONS</b>						
Growth Rate (Sales)	145.7%	6.2%	6.7%	7.4%	8.1%	2.5%
EBIT Margin	4.1%	5.9%	6.6%	6.9%	7.0%	6.0%
Tax Rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Working Capital (% of sales)	14.0%	0.2%	-0.7%	2.1%	2.3%	0.5%
Capex (% of sales)	2.8%	2.0%	1.9%	1.8%	1.6%	1.0%
Cost of Capital	7.5%	7.5%	7.3%	7.1%	7.0%	7.3%
Depreciation (% of sales)	-2.7%	4.1%	4.3%	4.1%	3.9%	1.0%
<b>CASH FLOW STATEMENT</b>						
<b>Turnover</b>	<b>24.9</b>	<b>26.4</b>	<b>28.2</b>	<b>30.3</b>	<b>32.7</b>	<b>33.5</b>
EBIT	1.0	1.6	1.9	2.1	2.3	2.0
Less: Adjusted Tax	0.3	0.4	0.5	0.5	0.6	0.5
<b>Adjusted Operating Profit</b>	<b>0.8</b>	<b>1.2</b>	<b>1.4</b>	<b>1.6</b>	<b>1.7</b>	<b>1.5</b>
Plus: Depreciation	1.0	1.1	1.2	1.2	1.2	0.3
<b>Operating Cash Flow</b>	<b>1.8</b>	<b>2.3</b>	<b>2.6</b>	<b>2.7</b>	<b>2.9</b>	<b>1.8</b>
Less: Change in Working Capital	0.3	0.1	-0.2	0.6	0.8	0.2
Less: Capex	0.7	0.5	0.5	0.5	0.5	0.3
<b>Cash Flow to the Firm (FCFF)</b>	<b>0.8</b>	<b>1.7</b>	<b>2.2</b>	<b>1.6</b>	<b>1.6</b>	<b>1.3</b>
Discount Factor	0.93	0.87	0.81	0.76	0.71	0.70
Present Value of Cash Flows	0.73	1.50	1.80	1.20	1.17	
Accumulated Present Value	0.73	2.24	4.03	5.23	6.40	
Residual Value						38.3
<b>Present Value of Residual Value</b>						<b>27.0</b>

### VALUATION

Enterprise Value	33.36
% Residual Value of Total	80.8%
Less: Net Debt	13.91

<b>Value of firm</b>	<b>19.45</b>
<b>Outstanding # of shares (000)</b>	<b>7,125</b>
<b>Value of share</b>	<b>2.73</b>

### WACC CALCULATION

Risk Free Rate	4.5%
Beta Factor	1.2
Market risk Premium	5.0%
<b>Cost of Equity</b>	<b>10.5%</b>
Debt / Debt + Equity	75.0%
Cost of Debt	6.0%
Tax Rate	25.0%
<b>Weighted Average Cost of Capital</b>	<b>6.0%</b>

Source: Company accounts, VRS estimates.

The model's assumptions relate to the following conditions:

- ❖ Profitability improves in the following 5 years;
- ❖ KREKA applies an efficient financial policy in terms of investments and working capital cycle.

## ☞ Sensitivity Analysis

The table below presents the sensitivity analysis on the DCF model showing the valuation of the Company based on different growth rates and different values for weighted average cost of capital (WACC).

		WACC (Implicit Period)				
		5.00%	5.50%	6.00%	7.00%	8.00%
GROWTH (Implicit Period)	1.50%	2.69	2.22	1.86	1.33	0.96
	2.00%	3.34	2.71	2.24	1.58	1.14
	2.50%	4.24	3.36	2.73	1.89	1.35
	3.00%	5.60	4.27	3.38	2.27	1.61
	3.25%	6.57	4.88	3.80	2.50	1.75

Source: Company Accounts and VRS Estimates

## VALUATION RATIOS

	2006	2007	2008	2009	2010	2011
Share Price	€ 1.49					
Shares Outstanding	7,125,216					
Market Capitalization (in € 000's)	10,617					
EPS (in €)	0.02	0.06	0.12	0.14	0.15	0.15
Book Value / Share (x)	2.1	2.1	2.3	2.4	2.5	2.7
EV (in € mn)	19	25	26	29	33	37
P/E (a.t.& m.i.)	87.76x	25.50x	12.80x	10.71x	10.08x	9.66x
P/BV	0.72x	0.70x	0.66x	0.62x	0.59x	0.55x
EV/EBITDA	16.42x	11.99x	9.54x	9.69x	10.10x	10.50x
EV/Sales	1.90x	0.99x	0.98x	1.04x	1.09x	1.13x
Dividend / Share (in €)	0.00	0.00	0.00	0.00	0.00	0.00
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: VRS Projections.

**COMPANY PROFILE**

“KREKA KIOUTSOUKOSTAS BROS S.A.” was established in 1985 with domicile in County of Kavala, Northeast Greece. The Company engages in the following activities:

- ❖ Breeding and fattening of calves;
- ❖ Slaughtering and production of raw meat;
- ❖ Wholesale trade of own produced or from third party purchased meat;
- ❖ Retail trade of meat.

**☞ The Production Process**

KREKA imports calves at an age between 12-18 months, ensuring the transport and acclimatization of animals with the minimum loss for the Company. Deltagro SA from France is a major supplier of “Charolais” and “Limousine” calves, which are considered among the best in quality in the world. The above races demonstrate strong biological characteristics, such as the capability for maximum development under the conditions of good nutrition and stabling. Prior to or during the transportation, the Company proceeds with rigorous hygienic inspections and certifies the healthy status of the calves.

**Breeding & Fattening:** As soon as the animals arrive at the KREKA’s facilities, an intensive fattening process is under-way. The nutrition of the animals is performed with green corn (processed and conserved under certain temperature and humidity, without chemical substances), straw wheat (for easier digestion) and other food elements such as barley, soya, vitamins, etc. The food utilized for animal’s fattening is locally produced under the supervision of KREKA, whereas the Company’s agronomist closely monitors the level of quality.

**Slaughtering:** The calves are slaughtered at an age of 18-22 months as soon as their weight accounts for 700-750 kilograms approximately. The maximum the quality of their nutrition, the higher the ratio “weight / age”. KREKA aims at maximizing the soft red meat produced from the fattening process by constantly providing clean, airy and sunny cages, along with the high quality food. The slaughtered animals are then placed into special refrigerators for 24 hours in the Company’s facilities, before they are distributed via refrigerator vans to all over Greece. The Company’s slaughtering phase follows the European law and is signed by the European Union with the code S37.

**Packaging Process:** The slaughtered animals remaining within the facilities are then cut into pieces, boned, sterilized and kept into vacuum packaging, which includes the following details: the animal code, the country of origin, the place of fattening and slaughtering, the packaging code, the part of the animal body, the weight, the packing and the consumption date. The European Union has certified the Company’s packaging unit, which has placed in effect all current sanitary regulations of the meat market (code A38). After packaging, KREKA’s products are delivered to a great range of selling points, such as supermarkets, retail chains, meat shops, as well as to the Company’s own retail network.

**The Critical Role of Vets:** The Company has ensured the critical role of vets is constantly performed during the breeding, fattening, slaughtering, packaging and transportation stages, whereas there are regular inspections from veterinary surgeons of the civil service. Furthermore, during transportation, all meat products carry a veterinary inspection certificate according to European regulations.

#### **The Distribution Network**

**Wholesale Trade:** The Company utilizes the largest part of own meat production as well as of meat purchased from third parties (fresh veal, pig meat, lambs and goats) for wholesale trade. KREKA owns a fleet of refrigerator vans which distributes all the above products in the central meat markets of the two largest Greek cities, Athens which is the capital, and Thessalonica.

From those two central markets, products are delivered not only to retail shops but also to great number of wholesalers in the rest of Greece (Macedonia, Thrace, Thessaly, Peloponnesus, Crete, etc.). On aggregate basis, KREKA's products reach over 200 trade destinations in the country.

**Retail Network:** The Company plans to co-operate with franchisees in order to establish a retail network under the name "KREOTOPIA". Currently there are no retail shops under that name. The strategic objective of such a network can be highlighted by the following principles:

- ❖ Creation of attractive differentiated butcher and delicatessen shops;
- ❖ Retail trade of products based on entrepreneurial skills;
- ❖ Strong customer satisfaction;
- ❖ High quality of products.

#### **☞ Quality & Security**

KREKA has complied with strict quality regulations having implemented a quality assurance system according to ISO 9001: 2000. The system covers areas such as supplying of raw materials, production, quality control, distribution, and customer service.

The Company has been also certified with system HACCP, according to which there is a documented process in the whole production, from the utilization of raw materials up to the final stages of production.

Furthermore, following a certification from Agrocert (an organization of certification and supervision of agricultural products), KREKA has been authorized from the Greek Ministry of Agriculture to use a sign with the indication "Quality Meat" on its products.

Not only has KREKA been certified by domestic and international institutions for its quality but it has also been acknowledged as a constant user of biologically extracted food for animal feeding. Greenpeace has certified that KREKA's animal feeding materials are free from genetically engineered organisms, they do not contain chemical pesticides and they are produced from animals bred without antibiotics or hormones. Thus, the Company has been classified under the "Green Category". According to the new catalogue of Greenpeace, the Company has been certified with the registration number 049060004.

Finally, TUV Hellas has certified KREKA with ELOT EN ISO 22000: 2005, which is a food safety management system covering the following areas:

- ❖ Slaughter of bovine, pigs, lambs and goats;
- ❖ Production, processing and standardization of fresh and frozen meat;
- ❖ Production of meat preparations and minced meat.

#### **Production Facilities**

4 feeding units with annual capacity of 10,000 animals

Production unit of animal food

Slaughtering unit with 3 lines with capacity  
of 15 calves, 50 pigs and 100 lambs per hour (total area of 3,500 m<sup>2</sup>)

Processing & standardization unit (15 carcasses per hour)

SRS unit (operation commenced in January 2007)

Biogas production unit (under construction)

## RISK FACTORS

	Investment Risks / Concerns	Mitigating Factors / Important Notes
1	The successful operating merger between KREKA and DELLAS-TSAKANIKAS (absorbed company) is expected to determine the new entity's outlook in the domestic meat market. Any delays on this front might significantly affect financial targets.	The merger legally and financially completed on October 5, 2007. There is no evidence of any abnormality in the operating merger process so far. Furthermore, the absorbed company was activating as KREKA's subsidiary since 2001.
2	There are periods in time when the composition of meat output is dramatically shifted towards poultry meat to the expense of pork and beef.	The current period favors consumption of all meat types with poultry meat arising as the laggard.
3	According to surveys, rapid growth of meat production implies a steep environmental price. It is estimated the environmental costs per unit of livestock production must be cut by one half by all market participants.	KREKA has proceeded with investments in recycling units in order to tackle efficiently the issue of environmental costs.
4	Consumers appear especially sensitive to the effects caused in the global food chain due to the use of biogenetics in the production of meat.	KREKA's meat product is not based on biogenetical engineering. The Company utilizes animal food which are free from genetically engineered substances and do not contain chemical pesticides, antibiotics or hormones.

Source: Company Data, VRS Research Department

## MANAGEMENT'S GUIDANCE & DYNAMIC'S VIEW

	Management's Guidance	Dynamic's View
1	<p>Following the acquisition of 100% of the subsidiary company, KREKA has given guidance (as of August 2007) of consolidated turnover reaching € 24.4 million in 2007 and 28.0 million in 2008. Furthermore, they expect earnings before taxes of € 530,000 and earnings after taxes of € 400,000 in 2007. The Management has also given us guidance about a sustainable net profit margin of 4%.</p>	<p>Although we view the Management's financial targets as feasible, we prefer to remain on the conservative side of our projections.</p>
2	<p>The completion of the Company's bio-gas unit by the first half of 2008 is expected to generate significant cost savings and an additional net income stream.</p>	<p>We have included the bio-gas unit's effect on our valuation model by assuming an improved profit margin in the following 5-year period.</p>
3	<p>According to the management, the goodwill paid for fully acquiring "G. Dellas – P. Tsakanikas" is likely to be offset by a future share capital increase of € 5-6 million.</p>	<p>We have not made any assumptions in our forecasts regarding a possible share capital increase. Also, we made an assumption that goodwill paid does not affect the cash flows generated by the Company's organic growth.</p>

Source: Valuation & Research Specialists (VRS)

**SECTOR'S OUTLOOK**

**☞ Developments of the International Meat Market**

The global livestock and meat sector is characterized by favorable prospects among the other agricultural sub-sectors. It provides products to about 1.5 – 2.0 billion people and contributes over 40% to global agricultural output. In certain developing markets, livestock are also source of renewable energy as well as source of organic fertilizer for crops.

Over the past 2 decades, the strong and stable economic growth globally has generated increased demand for meat products leading to a higher production. Meat production is increasingly concentrated in 3 major regions: the United States, the European Union and China. The latter is considered to be the largest producer worldwide.

Ultimately, world meat production is likely to be growing within a range of 4%-5% in the following years, buoyed by the rising demand in many emerging and developing economies.

**CHART**

**Meat Price Determination in the Short & Long Run**

Source: VRS.



### ☞ The Greek Meat Sector

With its favorable resource base and gradually modernized livestock and poultry factories, Greece is well situated to take advantage of the rising global demand for meat. The domestic meat sector includes various sub-sectors, each largely fragmented with few leaders and numerous smaller players. Sub-sectors include among others, the meat producers, such as KREKA, meat traders on wholesale basis, retail meat chains, and manufacturers of meat related products (sausages, ham, bacon, etc.).

The major characteristics of the Greek meat sector are presented below:

- ❖ Sector's annual turnover growth has been ranging below 5% on historical basis. It is expected to continue in the same pattern in the following years;
- ❖ The majority of companies are profit making. In particular, of 111 companies publishing financial results for 2005, 85 companies were profit making, whereas only 31 posted earnings growth on annual basis (2005/2004);
- ❖ The sector is financially leveraged with the "debt to equity ratio" ranging between 3-4 times. KREKA is well below the sector's average ratio;
- ❖ The meat producers are characterized by a long working capital cycle;
- ❖ The development law of Greece supports investments by Greek companies relating to production units and warehouse facilities;
- ❖ There is a rising trend of utilizing biologically generated raw materials in the production process;
- ❖ Over the past few years, due to low compliance with quality standards and EU regulations, there were serious instances of inappropriate meat products detrimental to the public health. Sector participants believe that mostly benefited from this threat will be meat producers, such as KREKA, certified for their quality and security compliance.

The following table presents a historical review of Greek sector's financial results (on aggregate basis) in 2005:

### The Greek Meat Sector (\*) in 2005

<b>Income Statement</b>			
<i>(Sector as Aggregate, in € million)</i>	<b>2005</b>	<i>Change</i>	<b>2004</b>
Sales	751.51	9.41%	686.89
Gross Profit	98.35	5.99%	92.79
<i>Gross Profit Margin</i>	<i>13.09%</i>		<i>13.51%</i>
Administration Expenses	24.15	5.50%	22.89
Sales & Marketing Expenses	43.16	9.49%	39.42
Other Operating Expenses	1.48	19.35%	1.24
Depreciation	6.75	-0.74%	6.80
EBITDA	36.30	0.69%	36.05
<i>EBITDA Margin</i>	<i>4.83%</i>		<i>5.25%</i>
EBIT	29.56	1.06%	29.25
<i>EBIT Margin</i>	<i>3.93%</i>		<i>4.26%</i>
Financial Results	-10.55	9.44%	-9.64
Extraordinary Items	-1.27	-71.20%	-4.41
Profit before Taxes	17.73	16.64%	15.20
<i>EBT Margin</i>	<i>2.36%</i>		<i>2.21%</i>
Income Tax	6.39	-4.63%	6.70
Profit after Taxes (EAT)	11.34	33.41%	8.50
<i>EAT Margin</i>	<i>1.51%</i>		<i>1.24%</i>
<b>Balance Sheet</b>			
<i>(Sector as Aggregate, in € million)</i>	<b>2005</b>	<i>Change</i>	<b>2004</b>
Shareholders' Funds	82.30	7.55%	76.52
Long-Term Liabilities	22.37	163.49%	8.49
Fixed Assets	76.98	15.77%	66.50
Return on Equity (EAT)	13.78%		11.11%
Receivables Turnover Ratio (days)	109.00	22.47%	89.00
Suppliers Turnover Ratio (days)	92.00	0.00%	92.00

Source: Hellastat, Member of EADP.

(\*) Includes meat producers, traders and producers of related meat products.  
The sample accounts for 111 Greek companies.

**S.W.O.T. ANALYSIS****Strengths**

- ❖ Leading meat producer in Greece;
- ❖ Vertical integration of operations; Production certified for its quality standards; Production capacity is in excess;
- ❖ Investment plan friendly to the environment;
- ❖ New bio-gas production unit generates an additional revenue stream;
- ❖ Expanding distribution network on both wholesale and retail basis;
- ❖ Greenpeace classifies KREKA under the green category.

**Weaknesses**

- ❖ Weak profit margin generation on historical basis;
- ❖ Lack of fully modernized production facilities;
- ❖ Strong competition.

**Opportunities**

- ❖ Stronger brand name recognition;
- ❖ More dynamic entrance in the wholesale and retail market in Greece in the future;
- ❖ Synergies and cost savings due to recent merger;
- ❖ Improving cash cycle due to trading activities;
- ❖ Proximity to new markets, such as Bulgaria, Romania and Serbia;
- ❖ The Company could broaden and diversify the product range.

**Threats**

- ❖ Lack of success in the completion of the operating merger;
- ❖ Consumer preferences towards various types of meat;
- ❖ Use of biogenetical engineering;
- ❖ Nutrition scandals that can affect demand.

NOTES

### Dynamic Securities Rating System

Rating	Ratings Breakdown	Definition of Rating System
<b>Outperformed</b>	76.93%	Expected to Outperform the Index by more than 10%
<b>Neutral</b>	23.07%	Expected to perform relative to the Index by +/- 5%
<b>Underperform</b>	0%	Expected to Underperform the Index by more than 10%

Notes: 1/ Ratings refer to a 12-month period.  
 2/ Benchmark Index: ASE General Index.  
 3/ Stock Universe: 40 Companies.  
 4/ Current Stocks Covered: 13 Companies.

### Ratings History

Company	Date	Rating	Target Price
OPAP	10/01/2007	Neutral	€ 29.86
F.H.L. KIRIAKIDIS	01/02/2007	Outperform	€ 2.93
KRI KRI	28/03/2007	Outperform	€ 4.47
NIREUS GROUP	18/05/2007	Outperform	€ 5.91
AGRICULTURAL SPIROU	06/06/2007	Outperform	€ 3.64
SPIDER	13/06/2007	Neutral	€ 1.44
ATTICA BANK	27/07/2007	Neutral	€ 4.80
FORTHNET	28/09/2007	Outperform	€ 14.19
PETROPOULOS	26/10/2007	Outperform	€ 8.10
KALPINIS SIMOS	03/12/2007	Outperform	€ 3.34
DROMEAS	03/12/2007	Outperform	€ 2.04
ALUMIL	17/01/2008	Outperform	€ 7.03
<b>KREKA (Valuation Update)</b>	<b>17/01/2008</b>	<b>Outperform</b>	<b>€ 2.73</b>

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All of the above denote investment ratings (not recommendations) which refer to our overall view of the company based not only on valuation but on qualitative factors as well.

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