

# The rating report

(version for publication)  
(on basis of the Agreement no. 63/RA of May 20, 2011)



Issuer's bonds credit rating according to the Ukrainian national scale:

**uaA-**

Rating interpretation:

A borrower or a debt instrument with the rating **uaA-** has high credit status compared with other Ukrainian borrowers or debt instruments. Credit status level depends upon influence of adverse commercial, financial and economic factors

(The rating has been assigned according to the scale approved by the Resolution of the Cabinet of Ukraine no. 665 of April, 26, 2007)

Rating date:

**June 29<sup>th</sup> 2011**



## THE ISSUER: Public Joint Stock Company 'STOMA'

(full name of the issuer)

Ukraine, 61105, Kharkov, Newton avenue, 3  
(legal address of the issuer)

Ukraine, 61105, Kharkov, Newton avenue, 3  
(de facto address of the issuer)

Company ownership type:	Public joint-stock company
USREOU code:	00481318
Manager name and title:	Chernyaev Svyatoslav, Chairman of Board
Company reregistration date:	December, 29 <sup>th</sup> , 1993
Date of start of operation:	November, 14 <sup>th</sup> , 1929
Auditing company servicing during the last year:	IE Petrovich Valentina Viktorovna
Key account bank:	JSC 'BANK GOLDEN GATE' city of Kharkov
Phone:	+38 057-766-28-24
Fax:	+38 057-766-28-99
Full name and title of the person in charge of Investor Relations:	But Oksana Vladimirovna, Chief Accountant, 057-766-28-85
E-mail address:	<a href="mailto:lawyers@stoma.kharkov.ua">lawyers@stoma.kharkov.ua</a>
Company WEB site address:	<a href="http://www.stoma.kharkov.ua">www.stoma.kharkov.ua</a>

The guarantor of bonds issue: N/a

**Licenses:** License for production of drugs (in form of aerosols, sprays, pills), license for wholesale trade in drugs, license for purchase, storage, transportation of precursors (schedule 2 of Table IY), license for provision of services on transportation of passengers and cargoes by vehicles of public service (except for services on transportation of passengers and cargoes with taxi)

*The present report is a rating research to be understood exclusively as an opinion of Expert Rating RA analysts.  
The rating report is a research substantiating the rating assigned, which also is an opinion of Expert Rating RA analysts.  
See the last page of the report for use limitations  
The Issuer has taken notice of the report and agrees that the information herein contained is true and complete*

## Additional information for investors

### 1. General information on bonds issue

no	Parameters	Explication
1	Guarantor (name, USREOU code, location)	Not available
2	Face-value	UAH 1,000.00.
3	Issue amount, UAH	UAH 50,000,000.00
4	Number of bonds in the issue	50,000 pcs.
5	Underwriter (name, USREOU code)	Millenium Capital Ltd
6	Placement period	29.08.11 - 28.08.12
7	Maturity date	23 of August, 2016
8	Coupon period	91 days
9	Number of coupon periods	20
10	International ID	-
11	Interest rate	18%
12	Dates of preterm buyout of obligations by the issuer	29.08.2012, 28.08.2013, 27.08.2014, 26.08.2015
13	Type of underwriting	Open
14	Issue type	Undocumented
15	Depository	PJSC 'Ukrainian Depository of Securities'

### 2. General information on the guarantor

The issue does not presume availability of the guarantor

No	Parameters	Explication
1	Full name of Guarantor in Russian	-
2	Ownership legal type	-
3	Manager name and title	-
4	Incorporation date	-
5	Date of start of works	-
6	Key account bank name	-
7	Auditing company servicing during three last years	-
8	Legal address	-
9	Mailing address	-
10	Phone	-
11	Fax	-
12	E-mail address	-
13	WEB address	-
14	WEB-site for Investor Relations	-
15	Title of the person who completed the questionnaire	-
16	Name of phone contact of the person who completed the questionnaire	-
17	Licenses and permits of the guarantor	-
18	USREOU code	-

## Section 1. Overview of the Company

The Joint Stock Company 'Stoma' has been incorporated in 1993 based on Kharkov plant of medical plastics and stomatological dental materials which began to work in 1929. The state stomatological polyclinics and the private clinics have been the first clients of Stoma company.

- 1994 – launch of medical aerosols production.
- 1998 - Stoma becomes the largest in Ukraine manufacturer of high-quality and efficient medical aerosols.
- 2006 - Quality systems taking into account the international standards DSTU ISO-9001-2001 (ISO 9001:2000) have been implemented.
- 2008 - three new items of products launched.

In Ukraine the most significant clients of the company are ME Lugansk oblast 'Pharmacy', JV 'Optima – Farm', JSC 'Alba Ukraine', BADM Ltd, PTIME 'Edelweiss', FRA-M Ltd, Megsifarm Ltd. Also Stoma co-operates actively with the companies from near abroad countries: UPTCF Titan (Belarus) and FP 'Farmina' (Moldova).

In the pharmaceutical market the production of JSC Stoma is presented by 20 items, 3 of which have been launched in 2008. The experts highly appreciate the efficient medical aerosols. Stomatological products use of trouble-free demand throughout the entire history of the factory, and today the factory produces 44 types of dental materials. Factory products are exported to the countries of CIS, Baltics, near and far abroad.

The total area of industrial premises makes 25 thousands sq. m. The production is released in three shops:

- Shop no. 1: production of acrylic plastics, medical drugs and dental materials;
- Shop no. 2: hot-molded production of plastic products;
- Shop no. 3: manufacture of finished dosage forms in aerosols and tablets.

3 laboratories work in the company: Chemical and analytical, Microbiological and Testing laboratory for dental materials and products of JSC 'Stoma'.

During the last years the Company showed good rates of business growth. So, the earnings in Q1 2011 has grown on 10,96 % compared to the same period of 2010. Following the results of 2010 the earnings grew on 42,37 %, and for the last five years - in 2,83 times. Over the last 5 years and in Q1 2011 the activity of the Company remained profitable (*table 1*).

Table 1

key performance indicators of PJSC Stoma, (UAH m., %)

Indicators	01.04.2011	01.04.2010	Growth rate	2010	2009	2008	2007	2006	Growth rate 2009-2010	Growth rate 2006-2010
<b>Balance sheet figures:</b>										
Assets	187,391	145,499	28,79%	180,655	141,141	112,517	82,142	74,844	28,00%	141,38%
Fixed assets residual value	28,906	25,209	14,67%	30,109	23,812	24,576	25,919	26,618	26,44%	13,12%
Fixed assets initial value	65,715	57,349	14,59%	65,926	55,078	52,265	50,394	46,994	19,70%	40,29%
Receivables	48,902	28,736	70,18%	47,287	27,234	19,217	14,549	15,835	73,63%	198,62%
Liabilities	44,962	27,364	64,31%	44,017	25,956	9,262	2,301	1,521	69,58%	2793,95%
Short term and long term bank loans	0	0	-	0	0	0	0	0	-	-
Total current liabilities (short term bank loans excluded)	24,307	5,832	316,79%	23,362	4,424	4,030	1,386	569	428,07%	-95,89%
Shareholder equity	142,429	117,923	20,78%	136,638	115,069	103,214	79,734	72,948	18,74%	87,31%
Authorized capital	3,500	3,500	0,00%	3,500	3,500	3,500	3,500	3,500	0,00%	0,00%
<b>Financial results:</b>										
Sales income	37,551	33,842	10,96%	162,282	113,985	92,367	70,570	57,312	42,37%	183,16%
Net income	28,205	21,270	32,60%	114,863	88,912	83,873	62,975	57,040	29,19%	101,37%
Gross revenue	15,236	11,100	37,26%	61,116	49,231	43,332	24,563	23,380	24,14%	161,40%
Financial results of operations	9,969	5,103	95,36%	34,008	29,026	25,496	10,214	15,040	17,16%	126,12%
Net profit	5,791	2,868	101,92%	21,569	11,847	16,406	6,805	11,336	82,06%	90,27%
<b>Estimated indicators and ratios:</b>										
EBIT	9,969	5,103	95,36%	34,272	16,811	25,326	9,321	14,534	103,87%	135,81%
EBITDA	11,066	6,091	81,68%	39,325	33,266	29,572	14,473	17,482	18,21%	124,95%
ROS	20,5%	13,5%	-	18,8%	13,3%	19,6%	10,8%	19,9%	-	-
ROA	3,1%	2,0%	-	11,9%	8,4%	14,6%	8,3%	15,1%	-	-
ROE	4,1%	2,4%	-	15,8%	10,3%	15,9%	8,5%	15,5%	-	-

Source: Company data, RA Expert Rating calculations

Throughout the entire analyzed period PJSC 'Stoma' adhered to conservative financial policy, Company liabilities have been completely covered by shareholder capital with a large redundancy. Following the results of 2010 the Company generated EBITDA in the amount comparable to the volume of liabilities. PJSC 'Stoma' did not use bank credits for financing circulating assets.

For today PJSC 'Stoma' is one of leaders of the branch, the Company is well capitalized, not burdened by bank credits. Over the last 5 years the Company time and again proved in practice that it is able to generate cash flow for servicing the debts.

## Section 2. Company position in the market. Market share and competitors

PJSC 'Stoma' is known Ukrainian manufacturer of pharmaceutical industry which specializes on production of stomatological materials and medical products. The market of stomatological materials in Ukraine has been growing dynamically at the average on 15-20 % per annum throughout last five years. It is difficult to estimate market volume due to considerable volumes of 'grey import' which size, according to the experts, makes about 35 % of consumed materials. The domestic production covers 16% of the market of stomatological equipment, tools and materials, the other part is occupied by imported products. Thus, in money terms the total amount of import in the market in 2010 made more than Euro 60 m. Import of stomatological materials has made Euro 36 m. (60 %), and the import of equipment and instruments – Euro 24 m (40 %).

According to the data of the Association of Stomatologists of Ukraine about 19 thousand stomatologists of different specialization and also about 4600 state and 5000 private stomatological clinics and offices do work in the country. According to the assessment of MOH of Ukraine the potential dimension of Ukrainian dental services market makes Euro 200-300 m and when achieving European indicators it can reach Euro 500 m. This statistics indicates on essential level of competition between stomatological clinics. Use of high quality medical drugs both imported and produced domestically is a competitive advantage for them. Intensive development of the private segment in dental service substantially influences growth of demand for equipment, tools and consumables, that leads to the growth of market volumes.

More than 150 representations of foreign companies, mainly European, are registered in Ukraine, specialized in production and distribution of dental equipment and materials. American and European producers are present also in the high and medium price range. The most famous producers are Vivadent/Ivoclar, Bisco, Kerr, Heraeus and Dentsply. There are about 20 domestic producers. Some of them also specialize in distribution of their own products and imported products. Geographically stomatological production centers are focused in Kharkov (the company 'Stoma', plant of X-ray equipment 'Quantum'), Kiev ('Oksamat-AN', 'Cromlight'; 'Esta', 'Delta') and also partially in Odessa and Lvov. In spite of that major part of market is controlled by importers, Ukraine develops own products that are widely-known both in domestic market and abroad. During the last 10 years the part of the Ukrainian products in the market increased from 5 to 10%.

Estimating the market position it should be taken into account that PJSC 'Stoma' is the only in Ukraine and the largest in CIS producer of broad range of dental products, medical drugs and products from technical plastics. Historically the company is the leader in the segment of dental products. An essential presence of the company in the segment is explained by that about 80% of domestic production of dental products corresponds to PJSC 'Stoma'. Those are such dental products as false plastic teeth, plastics for prosthetic dentistry, impression materials, filling materials, dental wax, auxiliary and preventive materials. Besides, dental products of the company are widely-known on the market of CIS and in the East European countries, being highly competitive to the local, mainly Russian producers.

PJSC 'Stoma' also has strong position in the segment of medical and preventive drugs, producing aerosols, sprays and pills.

At restoration of the economy of Ukraine in 2011-2012 growth of well-being of the population is expected that will be positively reflected in the demand for dental services. It, in turn, will increase the need for dental products, in particular, the products of the Issuer. Together with the partners the Company actively develops and implements new forms of distribution of the products in the market. PJSC 'Stoma' also actively develops the strategy of strengthening its positions in the regions of Ukraine. It is known that in large cities (Kiev, Kharkov, Odessa, Lvov) for each 10 thousand of population 80-100 stomatologists are needed, that is twice the average index across Ukraine. The experts also observe the tendency of increased 'dental tourism' when patients from Europe come to Ukraine with the purpose of dental treatment owing to an essential difference in the price of services. Obviously, the given tendency will increase along with improvement of the quality of dental services in Ukraine. Therefore general increase of the market of dental services at the expense of these factors will promote growth of sales of Company dental products. Besides that, PJSC 'Stoma' looks at the possibilities of strengthening its positions in the foreign markets in the medium term prospective.

According to Agency, the share of PJSC 'Stoma' in the Ukrainian market per separate items of dental products fluctuates from 35 to 80%. Only the import makes serious competition for the products of PJSC 'Stoma', which share gradually decreases, but still remains essential. Along with the growth of quality of PJSC 'Stoma' products in comparison with imported analogues the share of the Company in the Ukrainian market will grow. Increased quality of PJSC 'Stoma' products should be promoted by additional investments the Company plans to attract, including at the expense of bonds issue.

## Section 3. Analysis of Issuer's performance indicators

### 3.1. Financial strength analysis

As of 01.04.2011, the shareholder equity of PJSC 'Stoma' covered Company liabilities more than in three times. In 2010 EBITDA covered 89,34% of Company liabilities (*table 2*).

Table 2

Analysis of financial strength indicators of PJSC 'Stoma' (UAH m, %)

Indicators	01.04.2011	01.04.2010	Growth rate	2010	2009	2008	2007	2006	Growth rate 2009-2010	Growth rate 2006-2010
Liabilities	44,962	27,364	64,31%	44,017	25,956	9,262	2,301	1,521	69,58%	2793,95%
Equity	142,429	117,923	20,78%	136,638	115,069	103,214	79,734	72,948	18,74%	87,31%
EBITDA	11,066	6,091	81,68%	39,325	33,266	29,572	14,473	17,482	18,21%	124,95%
Borrowings	40,000	20,000	-	20,000	20,000	0	0	0	0	-
Share of borrowings in the liabilities	88,96%	73,09%	-	45,44%	77,05%	0,00%	0,00%	0,00%	-	-
Interests and commission fees to creditors or underwriters for the organization of the loans	2,110	0	-	4,575	1,247	0	0	0	266,88%	-
Equity/Liabilities	316,78%	430,94%	-	310,42%	443,32%	1113,91%	3465,19%	4796,06%	-	-
EBITDA/Liabilities	24,61%*	22,26%*	-	89,34%	128,16%	319,28%	628,99%	1149,38%	-	-

Source: Company data, RA Expert Rating calculations

Note: \* - when perceiving the data of this table, it should be considered that at ratio calculation quarter amount of EBITDA has been used.

Even for its specific industry the Company was overcapitalized. However when estimating such level of overcapitalization, investors should pay attention to that in the assets of balance as of 01.04.2011 the item 'other financial investments' occupied about UAH 62 m or one third of total balance. PJSC 'Stoma' possesses approximately 25% of shares of the domestic company 'JSC Kharkov instrument making plant System'. The Agency believes that non-core investments are accounted on the balance of PJSC 'Stoma', which partially support the structure of informal financial and industrial group formed by the shareholders of PJSC 'Stoma'.

Potentially filling of balance by financial investments does not bear in itself a threat to solvency as the Company in practice from year to year showed the possibilities on generating revenue and EBITDA.

At the same time, in prospectus draft, submitted to Agency, it is mentioned that right after completion of placement the Company plans to invest UAH 20 m in the organization of new medical drugs production, and UAH 30 m will be invested in the public and corporate securities and will be stepwise used for investment needs of PJSC 'Stoma'. The Agency refers to as negative fact the absence of Company detailed investment plans in the prospectus draft and in the information submitted to the Agency. On the other hand, in the prospectus project it goes on the organization of new medical drugs production, and the premature publication of such information may negatively affect competitive positions of PJSC 'Stoma'.

### 3.2. The analysis of business activity and efficiency of the Issuer

Throughout the period of analysis PJSC 'Stoma' showed high level of profitability, that is proved by the ROE, ROS and ROA indicators (see table 3).

Table 3

Analysis of performance and business activity indicators of PJSC 'Stoma' (UAH m, %)

Indicators	01.04.2011	01.04.2010	Growth rate	2010	2009	2008	2007	2006	Growth rate 2009-2010	Growth rate 2006-2010
Sales income	37,551	33,842	10,96%	162,282	113,985	92,367	70,570	57,312	42,37%	183,16%
Net income	28,205	21,270	32,60%	114,863	88,912	83,873	62,975	57,040	29,19%	101,37%
Net profit	5,791	2,868	101,92%	21,569	11,847	16,406	6,805	11,336	82,06%	90,27%
EBIT	9,969	5,103	95,36%	34,272	16,811	25,326	9,321	14,534	103,87%	135,81%
EBITDA	11,066	6,091	81,68%	39,325	33,266	29,572	14,473	17,482	18,21%	124,95%
ROS	20,5%	13,5%	-	18,8%	13,3%	19,6%	10,8%	19,9%	-	-
ROA	3,1%	2,0%	-	11,9%	8,4%	14,6%	8,3%	15,1%	-	-
ROE	4,1%*	2,4%*	-	15,8%	10,3%	15,9%	8,5%	15,5%	-	-

Source: Company data, RA Expert Rating calculations

Note: \* - perceiving the data of this table, it should be considered that at ratio calculation quarter amount of net profit has been used.

ROE has been steadily growing over the 5 last years. Its annual level reached 15 % that is a little above average index in the pharmaceutical industry. Certain progress of expected incomes is indicated by 20% growth of ROS level in Q1 2011 which is kind of a historical record of the Company since 2007.

11% earning growth in Q1 2011 and 2010 earning growth on 42,37% also create positive moods. The Agency states the fact of sales revival in PJSC 'Stoma' that will inevitably be reflected in 2011 EBITDA size.

### 3.3. Analysis of liquidity and liquid assets sources

As Agency analysis shows, the level of PJSC 'Stoma' liquidity remains redundant, even despite continuous decrease throughout recent years. The company also identified as 'liquid assets' the means in the balance item 'current financial investments', having stated essential amounts. However the Agency did not consider this balance item during calculation of liquidity indicators, and did not assess the portfolio of 'current financial investments' (see table 4).

Table 4

Analysis of liquidity of PJSC 'Stoma' (UAH m, %)

Indicators	01.04.2011	01.04.2010	Growth rate	2010	2009	2008	2007	2006	Growth rate 2009-2010	Growth rate 2006-2010
Cash and cash equivalents	14,399	22,171	-35,05%	11,248	20,087	6,817	0,577	15,044	-44,00%	-25,23%
Liquid assets in the section 'Current financial investment'	22,299	24,757	-9,93%	17,528	23,478	6,817	0,577	15,044	-25,34%	16,51%
Current liabilities	24,307	5,832	316,79%	23,362	4,424	4,030	1,386	569	428,07%	-95,89%
Total liabilities	44,962	27,364	64,31%	44,017	25,956	9,262	2,301	1,521	69,58%	2793,95%
Cash and cash equivalents/ Current liabilities	59,24%	380,16%	-	48,15%	454,05%	169,16%	43,76%	2,64%	-	-
Cash and cash equivalents/ Total liabilities	32,02%	81,02%	-	25,55%	77,39%	73,60%	25,08%	989,09%	-	-

Source: Company data, RA Expert Rating calculations

As of 01.04.2011, there were UAH 14,399 m on the accounts of the Company and in form of liquid assets on the balance. It is a considerable volume of resources which should be redundantly sufficient to serve the production processes of PJSC 'Stoma'. Considering Company plans on placing UAH 30 m (attracted by placement of bonds issue) into liquid assets, the level of PJSC 'Stoma' liquidity after placement of bonds should increase, that will be an additional tool for increasing guarantees of timely service of Issuer obligations.

### 3.4. The analysis of activity diversification

At present the segment of dental equipment, tools and materials has high degree of integration and is balanced enough. Change of segment structure is a challenge as very often the habit of dentists to work with certain tools and materials is a determinative factor. Also certain role is played by established traditions of stomatological schools. Therefore the Company does not consider strengthening of business diversification in the dental segment at the given stage. In the segment of medical drugs and pills production the Company develops plans on release of new or already known medicines with diversification per target groups of patients (age, sex etc.). Also there are developments for launching to the market of known medicines with more effective action, for example, encapsulated pills.

As Agency analysis showed, PJSC 'Stoma' remains diversified enough per actual sizes of volumes of products released without strongly pronounced dependence on any single segment. At the same time the Agency observes decrease in actual sizes of production in 2010 compared to 2006 and growth of production volumes practically on all positions in 2010 compared with main base of 2009 (see table 5).

Table 5

Analysis of PJSC 'Stoma' activity diversification (in actual sizes)

Indicators	2010	2009	2008	2007	2006	Growth rate 2006-2010	Growth rate 2009-2010
<b>Dental materials</b>							
Plastic teeth, dentures	2,262,140	1,685,940	3,408,120	3,126,800	3,381,960	-33,11%	34,18%
Filling materials, standard packs	37,460	37,480	76,000	93,478	95,797	-96,09%	-0,05%
Impression materials, standard packs	2,195	1,528	4,923	3,882	5,006	-56,15%	43,65%
Dental wax, standard packs/kg	167,758 / 95,745	142,928 / 72,080	278,000 / 140,000	253,000 / 126,000	255,000 / 116,600	-34,21%	17,37%
Prosthetic plastics, standard packs	544,325	352,154	598,434	524,440	536,500	1,46%	54,57%
Auxiliary materials, standard packs	139,045	122,573	230,202	256,000	274,000	-49,25%	13,44%
<b>Pharmaceuticals</b>							
Aerosols, standard packs	3,195,482	2,375,346	2,521,153	2,665,919	3,780,425	-15,47%	34,53%
Sprays, standard packs	318,261	292,494	155,045	147,721	77,906	308,52%	8,81%
Pills, standard packs	16,545,573	12,563,712	13,613,952	14,750,126	17,950,345	-7,83%	31,69%
<b>Other</b>							
Technical plastics, standard packs / kg	1,287 / 252	283 / 3,138	2,250 / 1,540	2,064 / 12,220	1,564 / 5,090	-17,71%	-99,55%

Source: Company data, RA Expert Rating calculations

Good indicators of financial solvency and liquidity inspire confidence in Company business volumes growth, and business performance indicators indicate the possibility of assignment of high rating of investment grade.

## Section 4. Credit history of the Company

In the draft prospectus submitted to RA Expert Rating it is specified that the Company did not actually had a public credit history. At the same time the analytical service of RA 'Expert-rating' draws attention to that as of 01.04.2011 the item of balance 'Other long-term liabilities' contained Company liabilities on UAH 20 m, and also balance item 'Current debts under long-term liabilities' made up UAH 20 m. PJSC 'Stoma' entered Q2 2011 with a total amount of borrowings equal to UAH 40 m. Long-term and current liabilities in the balance equal to UAH 40 m are compensated by the item 45 of balance assets ('Other financial investments').

Throughout the analyzed period PJSC 'Stoma' did not use neither short-term, nor long-term credits of banks nor issued bonds. The current borrowing of the Company can be considered as a debut one, with which the public credit history of the Company will start.

## Section 5. The analysis of probable external support by shareholders

As indicated in draft prospectus of PJSC 'Stoma' submitted to Agency:

- 85,77 % of PJSC 'Stoma' shares belong to the Chairman of Supervisory Board of the Company **Kuznetsov Yakov Mikhaylovich**;

- 4 % of PJSC 'Stoma' shares belong to the Chairman of Board **Chernyaev Vyacheslav Vladimirovich**;

- 2 % of shares belong to the Deputy Chairman of Supervisory Board **Kirichenko Andrey Vitalyevich**;

- 2 % of shares belong to the member of Supervisory Board **Dreval Irina Viktorovna**.

Other shareholders of the Company have packages of less than 1% of votes.

According to the Agency, PJSC 'Stoma' is under complete control of Kuznetsov Yakov Mikhaylovich. Study of business activity of key shareholder of PJSC 'Stoma' has shown that Kuznetsov Yakov Mikhaylovich is also the key shareholder in the following Companies:

1. PJSC 'BANK Golden Gate' (USREOU Code 20015529). Kuznetsov Yakov Mikhaylovich controls 25,0335% of shares.

2. PJSC 'Monfarm' - 51 % of shares. Monfarm is the largest manufacturer of suppositories in Ukraine.

3. OJSC 'Kharkovkholodmash' - 67,92 % of shares. The company specializes on manufacture of refrigerating units, medium- and low temperature boxes and chambers, refrigerating show-windows of various standard sizes, and thermal equipment.

4. And in a number of other companies with non-joint-stock ownership type.

The Agency concludes upon the performed analysis that an informal financial and industrial group with strongly pronounced interests in the production of medicines, stomatological products and auxiliary medical equipment has been formed around PJSC 'Stoma'. PJSC 'Stoma' has no credit relations with the bank 'Golden Gate'.

In NBU ranking on net wealth the PJSC Bank Golden Gate was on 89<sup>th</sup> position. According to NBU data, bank assets made UAH 1,1 b, the paid-in authorized capital – UAH 129 m, shareholder equity – in the order of UAH 100,853 m. The credit portfolio of bank on the beginning of Q2 2011 made UAH 986,102 m. The Bank finished Q1 2011 with UAH 272 thousands of net profit. According to the Agency, PJSC 'BANK Golden Gate' has a limited level of capitalization.

On one hand, presence around PJSC 'Stoma' of a group of companies with a common shareholder provides potential possibility of access of the Issuer to the markets of capitals, and also increases the possibility of external support by shareholders. On the other hand, the supervising shareholder is motivated to use PJSC 'Stoma' financial potential for settlement of financial issues in other companies of group and as the group has informal character and has no consolidated accounting, the revealing of such motivation by means of traditional methods of analysis and information collection is considerably complicated. Therefore at the current stage of development RA Expert Rating identifies the external support of PJSC Stoma shareholders as poorly predictable.

## Section 6. Summary of company activity risks and other factors, taken into account at rating

*Risks of the Issuer.* At the given stage the Ukrainian market of stomatological products is stable enough. Due to its peculiarities, the market rather easily overcomes economic recessions. PJSC 'Stoma' occupies steady position and is a competitive manufacturer with wide client base and growing demand for Company products. The risks of the Company are mainly connected with possible realisation of aggressive development strategy by foreign companies, and as consequence, with increase of their share in the Ukrainian market.

*Credit risks.* In 2010 all conditions on credit obligations and documentary operations by the Company have been observed in due time and in full. For the Company credit risks are minimized by the stability of cashflows and the quality of management. The management carries out flexible credit policy with the lowest credit risks for the enterprise.

*Currency risks.* Fluctuations of exchange rates lead to unstable position of Hryvna in the market that increases currency risk. The foreign trade activity of the Company is subject to such risks as PJSC 'Stoma' is actively engaged in purchase of new imported raw materials and equipment.

*Risks of liquidity.* The company minimizes risks of liquidity by forecasting flow of funds, planning in detail the financial and industrial activity and drawing the budget, that allows to reveal in time lack of liquidity and to attract the required funds in due time .

*Operational risks.* The Company has minimal operational risks that is explained by more than twenty years' history of successful presence in the pharmaceutical market. The management of the Company is made by highly professional experts most of whom have worked at the enterprise for already more than 10 years.

*Other factors.* In the courts of Ukraine two types of claims are considered:

1. Disputes with custom authorities on determination of custom value of the goods imported by the Company to the territory of Ukraine .

2. Disputes with tax authorities on results of inspections verifying tax laws observance.

The Company participates in all the proceedings as the Claimant.

The Company does not conduct any judicial lawsuits abroad.

The last tax audit took place from December, 2010 till January, 2011. Main results:

- the profit tax on relations with counterparts was additionally charged in the amount of UAH 587 135 and the penalty – UAH 146 784, in total – UAH 733 919 ;
- the profit tax on nonpayment of dividends by results of 2009 was additionally charged in the amount of UAH 891 450, and the penalty – UAH 222 863, in total - UAH 1 114 313.
- the VAT in the amount of UAH 138 666 was additionally charged , the penalty UAH 24 667, in total – UAH 173 333
- VAT subject to budgetary compensation has been reduced on UAH 319 767, the penalty – UAH 79 941, in total – UAH 399 709.

The results of the performed audit have not been approved due to the procedure of judicial appeal in course. However tax audit has inflicted a total loss of UAH 2,4 m. to the Company. Considering that the volume of net profit of the Issuer in 2010 has made more than UAH 21 m, even if the Company will not succeed in judicially contesting the decisions of tax authorities, the results of disputes with tax authorities do not entail essential threat to solvency.

In September 2007 the SCSSM imposed a fine of UAH 1000 for untimely submission of notice on change of the registrar of proprietors of securities. The fine was paid in due time. There are no data on claims from other regulators and law enforcement structures. The Company participates in all the proceedings as Claimant.



## 7. Conclusions

During the period from June, 10 till June, 29th, 2011 the Analytical Service of RA 'Expert Rating performed rating research on Public Joint Stock Company 'Stoma' (USREOU code 00481318). On June, 29th, 2011 the Rating Committee of RA 'Expert Rating' has made decision on assignment to planned issues of PJSC 'Stoma' bonds for the total amount of US\$ 50 m of the credit rating at the level **uaA-** according to the national scale .

When taking the decision on assignment of credit rating of investment grade, RA 'Expert Rating was guided by the following conclusions:

1. The Issuer is the largest producer of medical drugs and a range of means used by dentists in Ukraine, which history originates since 1929. By Agency estimates, from 35 to 80 % of the products of Ukrainian production consumed in Ukraine in market segment where PJSC 'Stoma' works, per different groups of assortment correspond namely to the products of the Issuer. The effect of the significant share of the market in Ukraine is increased by presence of export deliveries to the countries of near and far abroad.

2. As of 01.04.2011 the shareholder equity of PJSC 'Stoma' in more than three times covered the liabilities of the Company. In 2010 the EBITDA covered 89,34 % of liabilities of the Issuer. Thus the size of EBITDA in Q1 2011 has grown on 82% compared with the same period of 2010. The entire analyzed period from 2006 to 2010 was profitable for PJSC 'Stoma'. The ROE fluctuated near 15%, and in the Q1 2011 the ROS exceeded 20% that is a historical record for the Company since 2007.

3. On the beginning of Q2 2011, cash and cash equivalents on the accounts of the Company made UAH 14,4 m. Such residual funds provided considerable level of PJSC 'Stoma' liquidity. Also the particularity of Issue consisting in planned one-step expenses in the amount of UAH 20 m from the attracted UAH 50 m for the launch of new medical drug production should positively influence the liquidity. The plan is to invest the remaining UAH 30 m in the public and corporate securities and to spend them stepwise.

4. The Agency observes restoration of business activities in the segment wherein PJSC 'Stoma' works. The earning of the Company has grown on 42% in 2010, and for the Q1 2011 in comparison with the similar period of last year - on 11 %. Company EBIT for 2010 has grown on 82 %, and for the Q1 2011 in comparison with the similar period of 2010 - on 95,4 %. The analysis of production dynamics in actual amounts has shown that in 2010 the growth of production was observed practically on all commodity positions of PJSC 'Stoma'.

5. The group of companies with common shareholder has strongly pronounced interests in the manufacture of medical drugs, dental products and auxiliary medical equipment. RA Expert Rating estimates probability of external support by shareholders as poorly predictable.

*The credit rating assigned to planned issues of PJSC 'Stoma' bonds can be reviewed towards increase after completion of placement and an analysis by the Agency of the investment program of the Issuer.*

See full substantiation of rating in the rating report of the Issuer.

## Appendix A

### Use limitations of the rating report

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Taking into consideration the results of company or security credit rating estimation, it should be understood that:

1. At rating estimation factors are considered which can positively or negatively affect company stability. Therefore, Expert Rating RA Ltd evaluates level of resistibility of the company to adverse influence factors. For the companies the estimation is conducted according to the national scale in compliance with the scale approved by the Resolution of the Cabinet of Ukraine no 665 of April, 26th in 2007. The Agency independently determines the correspondence between international and national scales, a rating on the international scale of agency is assigned solely on demand of the client.

2. The information provided in the rating report which source is the client or the regulator, can slightly differ from the public information available in other sources through differences in system of accounting or methodology of indicators calculation.

3. The information provided in this report on foreign shareholders of the company is given in the currency used in the official annual report of the shareholder company. When comparing such financial information with the data of the company or of similar foreign companies the difference in systems of accounting and accounting policy should be always considered.

Table A

**National rating scale. Long-term credit ratings (more than one year)\***

Rating	Rating interpretation
uaAAA	The borrower or a debt instrument with uaAAA rating is characterized by highest credit status compared to other Ukrainian borrowers or debt instruments
uaAA	The borrower or a debt instrument with uaAA rating is characterized by very high credit status compared to other Ukrainian borrowers or debt instruments
uaA	The borrower or a debt instrument with uaA rating is characterized by high credit status compared to other Ukrainian borrowers or debt instruments Credit status level is sensitive to influence of adverse commercial, financial and economic factors
uaBBB	The borrower or a debt instrument with uaBBB rating is characterized by sufficient credit status compared to other Ukrainian borrowers or debt instruments. Credit status level depends upon influence of adverse commercial, financial and economic factors
uaBB	The borrower or a debt instrument with uaBB rating is characterized by credit status lower than sufficient one compared to other Ukrainian borrowers or debt instruments. There is high dependence of status level upon influence of adverse commercial, financial and economic factors.
uaB	The borrower or a debt instrument with uaB rating is characterized by low credit status compared to other Ukrainian borrowers or debt instruments. There is very high dependence of credit status level upon influence of adverse commercial, financial and economic factors.
uaCCC	The borrower or a debt instrument with uaCCC rating is characterized by very low credit status compared to other Ukrainian borrowers or debt instruments. Potential default is probable.
uaCC	The borrower or a debt instrument with uaCC rating is characterized by high default probability
uaC	The borrower is approaching default
uaD	Default status. Payment of interest and of principal amount under borrower's liabilities has been suspended without reaching agreement with creditors concerning debt re-structuring before maturity date.

"—" or "+" are intermediate categories of rating related to main categories.

\* — according to the scale approved by the Resolution of the Cabinet no 665 of April 26, 2007

The present appendix is an integral part of the rating report