

Caola Zrt.

March 2025

Dr. Radostina Stamenova, Lead Financial Analyst
stamenova@bcra.eu

Kalina Dimitrova, Economic Analyst
k.dimitrova@bcra.eu

CREDIT RATING		Initial	Monitoring	Review	Review	Review
Date of Rating Committee:		11.02.2022	17.02.2023	15.03.2023	15.03.2024	17.03.2025
Date of Publication:		14.02.2022	17.02.2023	17.03.2023	18.03.2024	18.03.2025
Issuer Rating	Long-term rating:	BB-	BB- under review	BB-	BB-	BB-
	Outlook:	Stable	-	Stable	Stable	Stable
Bond Rating HU0000361431	Long-term rating:	BB	BB under review	BB	BB	BB
	Outlook:	Stable	-	Stable	Stable	Stable

- 1) The credit rating and the rating outlook were disclosed to the rated entity or related third party. Following that disclosure amendments in the credit rating and rating outlook have not been executed;
2) During the last 2 years, BCRA Credit Rating Agency AD has not provided ancillary services to the rated entity or a related third party.

BCRA – CREDIT RATING AGENCY AD (BCRA) is the third fully recognized rating agency in the EU, registered pursuant to Regulation No. 1060/2009 of the European Parliament and of the Council. The credit ratings, assigned by the BCRA are valid throughout the EU and are fully equal to those, of the other agencies, recognized by the European Securities and Markets Authority, without any territorial or other limitations.

On March 17, 2025, the **Rating Committee** of BCRA had a session, in which the Report on the annual credit rating review of Caola Zrt. was discussed. The session was headed by Dr. Kiril Grigorov - chairman of the Rating Committee. The members of the Rating Committee reviewed the company's operations, market positioning and financial performance while assessing the key rating factors. Accordingly, the Rating Committee took the following decision:

BCRA affirms both the **BB- Long-term Issuer Rating and the **BB** Bond Rating of Caola Zrt. and maintains the **Stable Outlook** related to them.**

The official Methodology for assigning a corporate credit rating of BCRA (effective as of February 2023) has been applied:
https://bcra.eu/files/corporate_methodology_2023_en.pdf

The users of the rating can find information on the meaning of each rating category, including the definition of default in the published Global rating scale on the BCRA's website:
https://bcra.eu/files/global_scale_en.pdf

Information from the rated entity, the BCRA database and other sources of public information have been used in the rating review process.

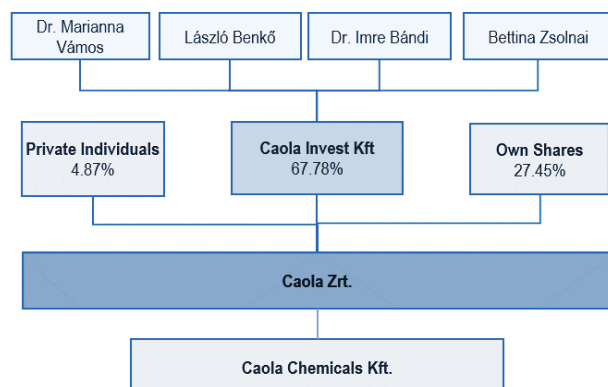
Table 1: General information about the rated entity

Issuer:	Caola Zrt.
Address:	Homokbanya ut 77, Diosd, Pest, Hungary
Registration number:	13-10-041783
Main business activity:	2042. Manufacture of perfumes and toilet preparations
Subscribed capital:	HUF 621 000 000
Bond ISIN:	HU0000361431

Company Overview

Caola Zrt. is one of Hungary's oldest and most esteemed brands, tracing its origins back to 1831. Specializing in the production and distribution of disinfectants, cleaning agents, beauty, and personal care products, the rated company has played a pivotal role in shaping the commercial and scientific landscape of the industry in Hungary for nearly two centuries.

Figure 1: Ownership structure of Caola Zrt. as of March 2024



Still owned by Hungarian individuals, the ownership of Caola group has changed throughout the years. In April 2020, Caola Invest Kft. acquired a majority stake in Caola Zrt. intending to bring the brand back among the market leaders.

The main activity of Caola Invest Kft. is leasing the real estate in Diósd to Caola Zrt. In addition, Caola Invest Kft. owns the Caola brand name for the use of which Caola Zrt. pays a royalty fee.

Caola Chemicals Kft. was registered in 2022 and is fully owned by Caola Zrt. Currently, the company does not perform distributor tasks (non-active entity).

The management team is well qualified with adequate education profiles, long experience, and a wide range of expertise. In August 2024, the previous three-member management team of Caola was restructured to two members. Key leadership roles continue to be held by Dr. Imre Bándi, Owner & CEO, and Dr. Anikó Száraz, Deputy CEO,

Upon acquiring Caola Zrt., the current leadership inherited a company facing financial challenges. However, through a strategic shift in production, they successfully revitalized the business by capitalizing on the heightened demand for disinfectants during the COVID-19 pandemic. This timely pivot not only stabilized the company's financial position but also repositioned Caola as a key player in the hygiene sector.

Driven by a vision to restore the brand's historical prestige, the management team is actively modernizing Caola's product portfolio, strengthening its presence across personal care, cleaning, and disinfection segments.

Market Positioning

The Caola brand is a highly respected Hungarian name, synonymous with quality, stability, and tradition. Caola Zrt. upholds this legacy through a strong and well-diversified product portfolio, catering to various market segments. The company also benefits from longstanding, committed partnerships with both distributors and customers, reinforcing its market presence and ensuring stable business growth.

A snapshot of the company's flagship product lines is presented in the following figure.

Figure 2: Caola's flagship product lines

Professional disinfectants	Retail product portfolio	Professional cleaning products	Disinfectants for livestock farming
<ul style="list-style-type: none"> Disinfectants developed and produced for medical and government institutions 	<ul style="list-style-type: none"> Beauty & Personal Care Products Home and Laundry Products 	<ul style="list-style-type: none"> New products, mainly used during commuting/travelling 	<ul style="list-style-type: none"> Products that are specialized for fertilization of pig, cow and chicken farm

Caola has solidified its market position by focusing on heritage-driven brand development, product innovation, and strategic expansion into industrial and institutional hygiene solutions.

While shaving products and talcum powders remain its core revenue drivers in the retail segment, the company has successfully modernized its flagship Barbon Classic line and introduced Barbon Sport, targeting a younger consumer base with a contemporary, vibrant aesthetic.

Recognizing shifting industry dynamics, Caola Zrt. has diversified its portfolio, moving beyond traditional cosmetics into professional hygiene and disinfection solutions. This transformation, initiated in 2021, has significantly expanded the Caosept product line, which now includes surgical hand disinfectants, hospital-integrated hygiene solutions, alcohol-free sanitizers, and highly efficient surface disinfectants. These additions have strengthened Caola's footprint in the medical, industrial, and institutional sectors, securing integration into centralized hospital procurement systems and reinforcing compliance with national safety standards.

A key driver of this expansion has been Caola's commitment to R&D and regulatory alignment. The

company has revised safety data sheets, pursued new biocidal registrations (PT4, PT2), and developed agricultural disinfectants, opening new industrial market opportunities. Sustainability and ESG principles have been embedded into its operations, with a focus on domestic production, eco-conscious packaging, and the "Domestic Product" certification to reinforce consumer trust.

Strategic partnerships have further accelerated innovation, most notably the collaboration with István Széchenyi University, aimed at developing next-generation disinfection technologies and industrial sanitation machinery.

The successful completion of the large-scale factory development in Martonvásár, financed through bond proceeds, marks a milestone in the company's industrial growth. The new manufacturing, warehouse, and logistics center, fully commissioned and operational since 2024, significantly enhances production capacity and supply chain efficiency. With a 2,937 sqm production hall, additional office spaces, and optimized logistics operations, the facility ensures seamless integration of manufacturing, storage, and administrative functions.

Built in accordance with Industry 4.0 principles, the facility integrates advanced automation, precision-driven recipe tracking, and fully software-controlled packaging systems. The entire digitized production ecosystem is remotely accessible, enabling real-time monitoring, waste minimization, and optimal resource utilization.

Aligned with its long-term sustainability commitment, Caola is set to enhance the Martonvásár facility's capabilities through renewable energy and cutting-edge technology investments. The installation of a solar power plant, backed by a EUR 2 million grant (45% state funding support) and scheduled for mid-2025 completion, will enable the company to fully source its energy needs from renewable resources. This transition will position Caola among Hungary's few chemical manufacturers operating on a 100% green energy platform, reinforcing its ESG commitments and sustainable manufacturing leadership.

Caola maintains a diverse and resilient supplier network, ensuring operational stability and flexibility in contract manufacturing, raw materials, and packaging supplies. The company has reduced supply chain risks by avoiding dependency on a single key supplier. Supplier concentration has declined significantly, with the Top 10 suppliers now

accounting for 40.6% of total operational supplies, down from 68.7% in 2023. This reflects a more balanced distribution, as prior costs were largely associated with the construction of the new production facility.

Figure 3: Top 10 Suppliers

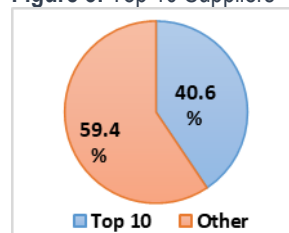
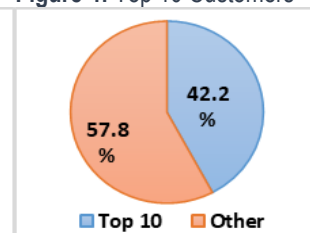


Figure 4: Top 10 Customers



Caola has established long-standing, trusted relationships with its customers, ensuring a diversified and resilient revenue base. While a new key client has emerged, the overall customer concentration has declined, with the Top 10 customers' share of total sales dropping from 69.3% in 2023 to 42.2% in 2024. This shift reflects a more balanced distribution of clientele while maintaining strategic partnerships with major retailers and institutional buyers.

The company's retail strategy is designed to appeal to multiple generations, supported by product innovation, rebranding, and portfolio expansion. The management is intensifying B2C marketing efforts, leveraging digital channels, promotional campaigns, and strategic collaborations to enhance consumer engagement and drive sales growth. Its client portfolio includes Hungary's leading retail chains, such as DM, Rossmann, Tesco, and Auchan.

Concurrently, Caola is a regular supplier to state hospitals, securing contracts through successful public procurement tenders. However, liquidity risks in the public sector necessitate strategic restructuring and business model adjustments to mitigate potential market volatility.

To strengthen its presence in state procurement, Caola partnered with the National Penitentiary Command (BVOP), supporting Hungary's inmate employment program while providing a competitive alternative to imported hygiene products. Through this initiative, Caola manufactures and supplies VIVACLEAN-branded hygiene products, employing 35 to 40 full-time staff and 15 to 20 incarcerated individuals, ensuring a stable supply chain for key sectors such as healthcare, transportation, and education.

Sales to public institutions are facilitated through Annamajori Kft., a fully state-owned entity, securing Caola's position in Hungary's state hygiene market. By government mandate, the company provides hygiene and disinfectant products to public schools, hospitals, social institutions, transportation, tourism, and state-owned agricultural enterprises, ensuring stable demand and reinforcing long-term financial sustainability.

The Hungarian retail market for beauty, personal care, and household products is traditionally dominated by multinational corporations such as Unilever, Procter & Gamble, Henkel, Avon, and Johnson & Johnson, leaving Caola with a modest market share of approximately 1%. Despite this, the company holds distinct competitive advantages, including a strong national brand reputation, deep-rooted consumer trust, and the agility to swiftly adapt to local market trends—a flexibility that larger multinational corporations often lack.

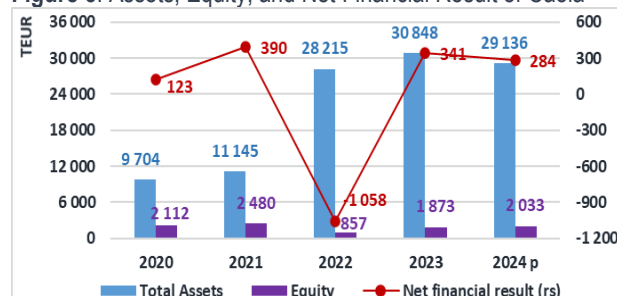
In the professional disinfectants segment, Caola has successfully secured a position among Hungary's top five market players, reflecting its growing industry presence and ability to compete in a highly regulated market.

While Caola remains an emerging player in the livestock farming disinfectants market, the company has demonstrated a strong track record of innovation, particularly in the development of bio-cosmetics and eco-friendly disinfectants. Its ability to create specialized, high-quality solutions tailored to evolving industry demands presents significant growth potential. Additionally, Caola's flexible and responsive manufacturing processes allow it to rapidly adjust to shifting consumer preferences and regulatory requirements, ensuring the quick introduction of innovative and tailored products.

Although multinational competitors continue to dominate the broader market, Caola's brand legacy, agility, and commitment to product innovation serve as key differentiators that position the company for sustainable market expansion. By leveraging its localized expertise, regulatory adaptability, and innovation-driven strategy, the rated company is well-positioned to strengthen its market presence and drive long-term growth across multiple industry segments.

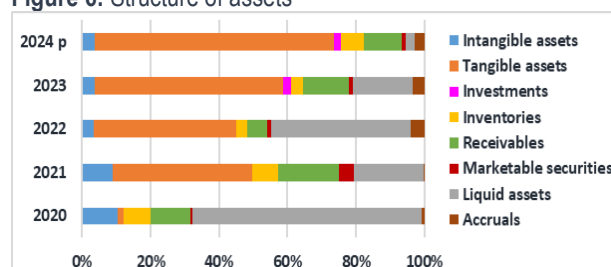
Financial Analysis

Figure 5: Assets, Equity, and Net Financial Result of Caola



Following the significant expansion in 2022 (+174.6%), the growth of total assets at Caola has moderated, yet maintaining a positive trajectory. According to the preliminary financial statements for 2024, total assets reached TEUR 29 136, posting a modest annual increase of 1.2%. Simultaneously, the accumulation of retained earnings has continued to strengthen equity, which expanded to TEUR 2 033, up from TEUR 1 873 at the end of 2023, underscoring the company's capital reinforcement.

Figure 6: Structure of assets



Tangible assets have further solidified their dominant position within the asset structure. Driven by the substantial capital investment associated with the Martonvásár factory development, the value of tangible assets surged to TEUR 20 383 by the end of 2024 (+28.2% YoY), comprising 70% of total assets, a notable share increase from 55.2% in the previous year.

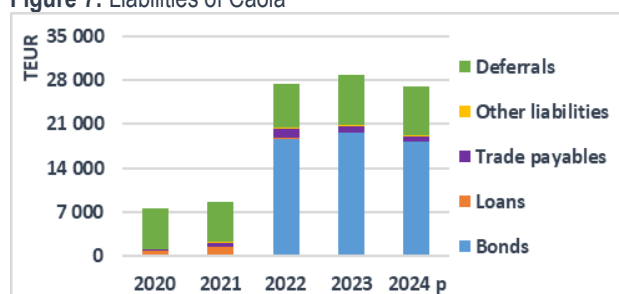
The shift in asset composition reflected also the reduction in liquid assets, which declined from TEUR 5 438 to TEUR 742, with their relative share contracting from 17.6% to 2.5%. The high bank balance in 2023 was primarily attributable to grant funding, which was strategically allocated throughout the following year to support investment projects and operational enhancements.

As of the end of 2024, receivables ranked third within the company's asset structure, with their relative share declining by 2.3 percentage points YoY, settling at 10.9%. This moderation reflects a

decrease in absolute value, with total receivables contracting from TEUR 4 095 to TEUR 3 188, of which TEUR 543 was attributed to related-party transactions. Despite ongoing efforts to optimize working capital management, the Trade Receivables Collection Period remained elevated, further deteriorating to 223 days in 2024, highlighting persistent challenges in collection efficiency.

In parallel, inventories surged significantly, registering an 87.7% YoY increase to TEUR 1 932 or 6.6% of total assets. This sharp expansion primarily reflected the accumulation of unsold finished goods, stemming from a decline in sales performance. Consequently, the inventory turnover ratio deteriorated, dropping from 3.9 to 1.8, indicating a slower conversion of inventory into sales and highlighting heightened stockholding costs and potential liquidity constraints.

Figure 7: Liabilities of Caola



Following the substantial expansion in 2022, that resulted from the bond issuance, Caola's total liabilities have largely stabilized, with their overall structure remaining broadly unchanged. As of the end of 2024, total liabilities stood at TEUR 28 590, marking a marginal decline from TEUR 28 975 in 2023. This reduction was primarily attributed to lower deferrals and trade payables.

Bond liabilities have represented the dominant component of the company's liabilities, accounting for more than two-thirds of the total over the past three years. Deferred income, primarily derived from grant funding, constituted 29% of total liabilities, underscoring the company's continued access to various funding programs. In this regard, leases and loans accounted for a relative share below 1%. This well-structured liability composition reflects Caola's strategic use of external financing to drive growth and operational efficiency.

Trade payables and advance payments continued their downward trajectory, declining to TEUR 774, representing 2.9% of total liabilities at the end of 2024. As a result, the Trade Account Payment

Period further improved, decreasing to 83 days, a notable enhancement from 184 days in 2022.

Until 2022, Caola's liabilities were primarily short-term, dominated by passive accruals and current obligations. However, with the accumulation of bond liabilities, the company's debt structure underwent a significant transformation, shifting toward long-term financing, which now accounts for 67% of total liabilities.

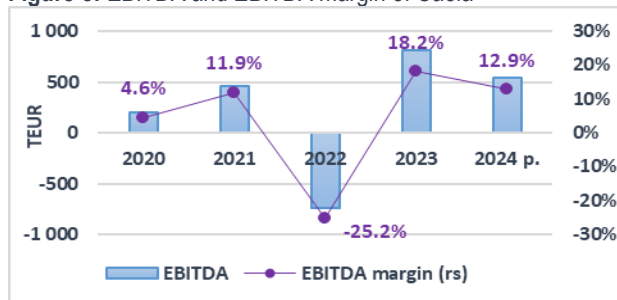
The influx of unspent bond proceeds and grant funding temporarily inflated cash reserves, leading to a spike in the current liquidity ratio before it adjusted to 80% by the end of 2024. However, to mitigate the effects of the high inflationary environment, Caola strategically invested its excess liquidity in investment certificates preserving asset value. These investments are booked as fixed final assets (TEUR 610 as of end-2024), but can be readily converted into cash, ensuring that the company can swiftly respond to any liquidity needs that may arise.

According to the preliminary financial statements for 2024, Caola maintained profitability, recording a net financial result of TEUR 284. While this represents a decline from TEUR 341 in the previous year, the company's ability to remain in positive financial territory underscores its adaptability in a challenging market environment, characterised by lower sales volumes and a temporary rise in operating expenditures.

Following an exceptional annual growth of 45.6% in 2023, net sales experienced a 14.6% decline in 2024, primarily driven by a contraction in domestic sales. In contrast, export sales surged at TEUR 1 037 and accounted for 30% of total sales revenue, marking a significant step towards diversifying the market exposure. While the downturn in domestic sales represents a temporary setback, it aligns with broader economic trends affecting sector's demand in Hungary during 2024.

In parallel to the drop in sales, OPEX increased by 7.9% YoY in 2024, primarily driven by a temporary surge in material costs and higher personnel expenses. Material expenditures rose by 39.1%, reflecting one-time cost spikes associated with the finalization of the new factory development and the installation of the solar power plant. Concurrently, personnel costs increased by 30.4%, due to inflation-driven wage adjustments and the expansion of the workforce, including a higher number of employed prisoners.

Figure 8: EBITDA and EBITDA margin of Caola



As a result, the EBITDA narrowed from TEUR 809 in 2023 to TEUR 543 in 2024 and its margin moderated from 18.2% to 12.9%, however, remaining at a good level for the sector.

Despite macroeconomic challenges and operational adjustments in 2024, the rated company demonstrated resilience, effectively managing cost pressures while maintaining operational profitability. The company's strategic long-term investments in production capacity expansion and renewable energy projects are expected to enhance cost efficiency and drive future revenue growth, reinforcing its competitive positioning in key markets.

Total leverage (TL/TA) remained at a stable, albeit still elevated level of 0.93, but with risk balancing maturity profile of debt. Moreover, EBITDA interest coverage remained solid at 5x, ensuring strong debt servicing capacity and financial flexibility.

Financial Forecast

A financial forecast for the period 2025 – 2027 has been prepared, based on preliminary results and a business plan provided by Caola's management, which is considered relevant and broadly achievable given the company's track records.

If sales targets are successfully met, Caola Zrt. is poised for sustained EBITDA growth, increasing from TEUR 556 in 2023 to TEUR 5 282 by 2027. This expansion will be fueled by penetration into new customer segments, increased state institutional sales, and enhanced operational efficiency. Notably, improvements in the turnover-to-material expenses ratio will drive profitability, reinforcing the company's competitive position. The EBITDA margin is projected to stabilize at approximately 35%, ensuring a solid financial foundation to facilitate the timely repayment of bond obligations.

From 2025 onwards, no additional sizeable CAPEX investments are planned, allowing the company to focus on organic growth and debt reduction. Consequently, the Net Debt-to-EBITDA ratio is set to

decrease sharply, falling from 32.4 in 2024 to just 2.6 by the end of the forecast horizon, significantly strengthening the company's financial position and credit profile.

In conclusion, Caola Zrt. is expected to generate sufficient cash flow to sustain its operations and fulfill its financial commitments without difficulty. This is further substantiated by the EBITDA interest coverage ratio, which is projected to remain above 3x throughout the forecast period, reflecting the company's strong debt servicing capacity.

Bond Rating

Table 2: Main bond parameters

Issuer	Caola Zrt.
Date of issue	04.04.2022
ISIN	HU0000361431
Face value	HUF 7.5 bln
Discounted value	HUF 7.06 bln
Currency	Forint (HUF)
Tenor	10 years (04.04.2032)
Coupon	fixed, 5.8% p.a.
Amortization	10% p.a. from the fifth year
Ballon	50% on maturity
Guarantor	Target company (yet not acquired)

In April 2022, Caola Zrt. issued a 10-year bond with a face value of HUF 7.5 billion (with a HUF 0.4 billion discount) through an auction under the Bond Funding for Growth program initiated by the National Bank of Hungary. The bond features a fixed annual coupon rate of 5.8%, with a principal repayment schedule that includes 10% annual amortization starting in the fifth year after issuance and a 50% balloon payment at final maturity.

By the end of 2024, HUF 6.3 billion of the issued bond proceeds had been allocated to the development of the Martonvásár production facility. The remaining funds are designated to indirectly finance the acquisition by Caola Invest Kft., the company's parent entity.

In accordance with the bond prospectus, the acquired company is expected to be formally established as a guarantor of the bond, further reinforcing the financial structure and risk mitigation framework associated with the transaction.

Over the past three years, Caola Invest Kft. has actively pursued an acquisition-driven growth strategy, exploring opportunities that align with its long-term vision of market expansion and service portfolio enhancement. While several potential targets have been identified, **no transactions have been finalized to date.**

Currently, Caola Invest Kft. is in advanced negotiations with a leading Hungarian manufacturer of professional cleaning, hygiene, and disinfection products, which has been serving the market for over two decades. With an extensive product portfolio exceeding 200 types of disinfectants and cleaning solutions and an annual production volume of approximately 5,400 tonnes, the target company maintains a strong presence across healthcare, food processing, hospitality, and industrial sectors.

The proposed acquisition structure involves Caola Invest Kft. acquiring 100% of the target company's shares for HUF 2.36 billion, payable in two instalments. The first 50% will be settled at closing in 2025, while the remaining 50% is contingent on achieving predefined performance milestones in 2026. According to Caola's management, negotiations have reached an advanced stage, with both parties demonstrating a strong commitment to finalizing an agreement under mutually beneficial terms. If successfully negotiated, the transaction is expected to close in the first half of 2025.

BCRA has conducted a comprehensive evaluation of the potential guarantor's financial strength, confirming consistent asset and equity growth from 2019 to 2023. The company has maintained positive operating results, with net financial performance supporting asset expansion while keeping leverage at a moderate level, decreasing to 60% by end-2023.

Financial performance peaked in 2023, with record sales, EBITDA, and net financial results, and projections indicate continued acceleration in the medium term. It is concluded that this company is well-positioned to manage additional financial commitments, ensuring its ability to meet obligations should the guarantee on Caola Zrt.'s bond issue be activated.

Table 3: Forecasted aggregated metrics of Caola + Potential guarantor of the bond.

TEUR	2024*	2025	2026	2027
Assets	29 871	35 914	38 655	39 736
Equity	2 084	5 786	8 555	12 108
Gross Financial Debt	18 758	19 718	20 021	18 091
Net Financial Debt	18 024	17 547	16 350	13 189
EBITDA	556	4 212	5 372	6 234
ratios				
Net Debt-to-Equity	8.64	3.03	1.91	1.09
EBITDA Margin	0.16	0.29	0.32	0.34
EBITDA interest cover	0.50	4.00	5.10	6.80
Net Debt-to-EBITDA	32.30	4.20	3.00	2.10

* Standalone Caola Zrt., before the acquisition

The combined financial metrics of Caola Zrt. and the Potential Guarantor indicate an improved debt service capacity, ensuring strong support for bond repayment obligations. The EBITDA interest coverage ratio is projected to exceed 4x from 2025 onward, reaching 6.8x by 2027, reflecting a significant enhancement in earnings relative to interest expenses. Additionally, the Net Debt-to-EBITDA ratio is expected to decline sharply to just 2.1x in 2027, demonstrating a marked improvement in leverage and financial stability. The forecasted aggregated metrics outperform the standalone financial position of Caola Zrt., reinforcing a stronger financial foundation for servicing bond obligations.

The long-term credit rating of the guaranteed bond issue is based on the rating assigned to the issuer, adjusted with BCRA's assessment for the capacity of the guarantor to back the timely servicing of the bond obligations. Accordingly, BCRA has applied a one-notch upgrade on the long-term issuer rating "BB-" of Caola Zrt., affirming the "BB" long-term rating of the guaranteed bond issue.

General Conclusions:

The **outlook** is **stable**, indicating that risks are broadly balanced. The **issuer credit rating** of Caola Zrt. is supported by its longstanding track record of business development and sound credit metrics. However, constraints on the rating include a historical trend of moderate profitability and relatively elevated leverage profile.

A **positive outlook revision or rating upgrade** may be considered if:

- 1) The company strengthens its market position through continued business expansion and diversification.
- 2) Profitability improves, driven by higher operational efficiency and margin expansion.
- 3) Leverage decreases.

Conversely, a **negative outlook revision or rating downgrade** may occur in the event of:

- 1) Underperformance in revenue generation, particularly if new product lines fail to achieve expected growth or adverse market conditions negatively impact financial results.
- 2) A deterioration in the leverage profile.

The long-term credit rating of the **guaranteed bond** is anchored in the **particular acquisition plan and the financial strength of the potential bond guarantor**, as currently outlined by Caola's management.

APPENDIX

Table 4: Key financial indicators of Caola: 2020 – 2024 P.

TEUR	2024 p.	2023	2022	2021	2020
Total assets	29 136	30 848	28 215	11 145	9 704
Fixed assets	22 046	18 792	12 662	5 539	1 171
Current assets	6 222	11 022	14 455	5 590	8 445
Equity	2 033	1 873	857	2 480	2 112
Net sales revenues	3 390	4 251	2 792	3 409	3 038
Gross financial debt	18 293	19 655	18 938	1 521	767
Net financial debt	17 551	14 217	7 418	-775	-5 728
EBITDA	543	809	-740	458	202
ratios					
ROE	0.14	0.18	-1.24	0.16	0.06
EBITDA Margin	0.13	0.18	-0.25	0.12	0.05
Total Leverage (TL /TA)	0.93	0.94	0.97	0.78	0.78
Net Debt-to-Equity	8.63	7.59	8.66	Net Cash	Net Cash
Net Debt-to-EBITDA	32.34	17.58	-10.02	Net Cash	Net Cash
EBITDA interest coverage	5.04	6.85	-5.99	13.65	35.61
Current Liquidity	0.80	1.29	1.85	0.69	1.18
Cash Liquidity	0.08	0.58	1.37	0.28	0.90

**Data for 2024 is based on preliminary financial statements.*