

<u>Recommendation</u>	<u>Previous</u>	<u>From date</u>	<u>52-week target</u>
Neutral	Neutral	10 November 2011	1.33

Herti

Business Summary

Herti was founded in 1993 as a start-up company. It is producing various types of closures for bottles. The packaging products are sold to producers of alcoholic and non-alcoholic beverages but part of the closures are designed for the use by the pharmaceutical industry. The company is exporting more than 85% of its production. Main markets are the European Union and Russia. Herti's business model includes the whole process of production as well as the sell to clients. The company is making market researches in its sector to respond the necessities in different economic sectors.

The company's holding structure includes four subsidiaries:

- Tihert JSC – 100% of the capital;
- Herti UK – 100% of the capital;
- Herti France – 100% of the capital;
- Herti Group International – 49.00%.

The company also owns 5.6% stake in the first Bulgarian packaging recovery organization – the non-profit company Ecopack Bulgaria. Herti is fulfilling its obligations for separate waste collection and recovery of packaging released on the market in Bulgaria according to the current legislation.

Herti is expanding its product portfolio through research and development activities. The company is applying the requirements of the world quality standards and the principles of good corporate management. It was certified under ISO 9001:2008 in December 2009.

Current Market Activity

Herti is among the low liquid shares on the Bulgarian stock market. The initial public offering during the first quarter of 2008 faced many obstacles in terms of limited investors' demand. The ambitious plan to raise capital and to sell existing shares through the stock exchange coincided with the first major decline of international markets. Investors turned toward the low-risk shares of large and well-known companies.

The trading activity with Herti's shares decreased substantially after the end of the first quarter according to the decline of overall market activity and the lower prices of stocks. The huge price gains to BGN 2.00 of Herti's shares during the third quarter were consequence of the low liquidity. The stock fell again to the average price for 2010 but the low liquidity contributed to the absence of gains during the market increase of January and February 2011.

Valuation Ratios

Enterprise Value	24 966 000
Dividend Yield - Gross	-
Trailing P/E (ttm)	-
Forward P/E (2010)	-
PEG Ratio (1yr expected)	-
Price/Sales (ttm)	0.48
Price/Book (mrq)	1.23
Enterprise Value/Revenues (ttm)	0.82
Enterprise Value/EBITDA (ttm)	11.73

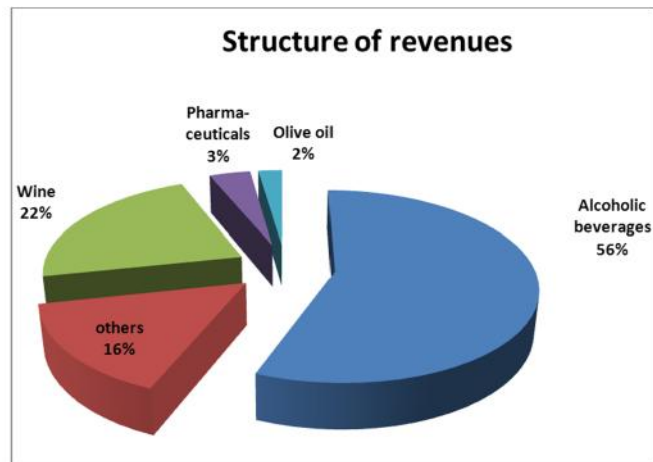
Profitability and Growth Ratios

Return on Capital	-
Return on Equity	-
Return on Assets	-
EBITDA Margin	7.0%
Net Profit Margin	-
Revenue Growth	8.98%
EPS Growth	-
Capital Growth	-1.2%
Assets Growth	-1.8%

Sales

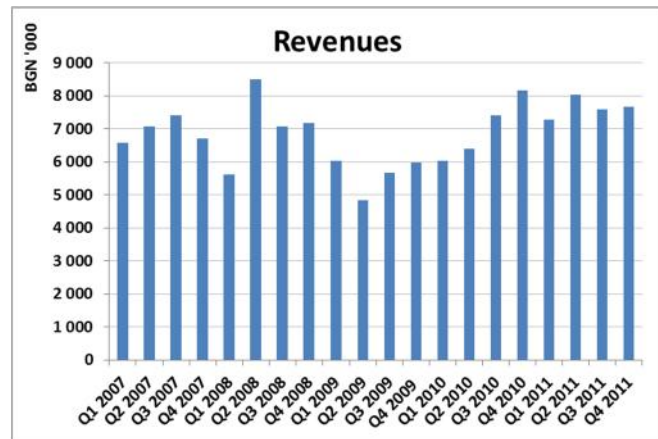
The largest part of the revenues comes from the packaging products for alcoholic beverages. The main segment that contributes to the revenues growth of Herti is aluminum closures for the wine industry. Producers of wine are switching from the more expensive cork to aluminum closures to cut costs.

There was a small change in the sales structure of Herti in 2011. We noticed an increase in the share of caps for alcoholic beverages as part of the total revenues, while the shares of other products are declining. The decrease in packaging for pharmaceutical products is due to the single export of specific packaging for the sector.



Source: Herti

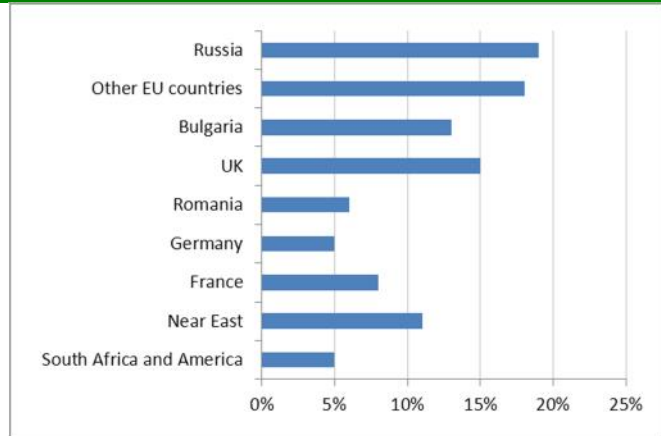
The increase in sales of Herti on annual bases stopped in the fourth quarter for first time in two years. Quarterly growth is weak, as revenues remain stable, despite the crisis in Europe and the consumption reduction. The recovery of sales is mainly due to the existent clients' demand. Currently there is no indication for decreases in market demand, but we have revised down our forecasts for growth in 2012. The positive news remains the slow impact of the European crisis on Herti's revenues.



Source: Herti

Plastics will continue to grow fastest of all materials, boosted by its versatility and price competitiveness, according to the research company Freedonia Group. The metal closures' market in Western Europe is stabilizing. In Eastern Europe the outlook for the metal closures is far brighter. Metal retains a particularly strong association with alcoholic beverages and it has even won a share of the wine closure market. The growth of caps and closures market will continue to receive support by the value-added products that increase the security of the packaging and the consumers' comfort. Beverages will maintain 65% market share in closures, with bottled water gaining the most. Untraditional segments like sport drinks and flavored milk will also gain solidly.

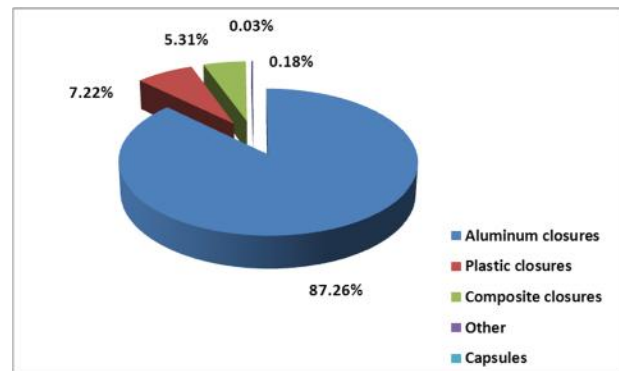
The packaging products and solutions of Herti are exported to broad range of markets. Bulgarian market represents 13% of the total sales of the company, as it remains stable in recent years. The share of export to Russia shows slight increase in 2011, as the run-down from the past year was due to the rapid growth of sales for European Union. The increase in sales in South Africa and America was due to the demand of the wine industry. Herti began the production of new composite closure for the polish market during the third quarter.



Source: Herti

Revenues from Near East increased in 2011 due to the orders from a pharmaceutical company in Iraq. The results confirmed the expectations that subsidiaries in France and United Kingdom will contribute to the expansion in the both markets. 22% of the revenues are through subsidiaries. Herti is also entering other new markets in Europe – the company is exporting aluminum closures for wine bottles to Germany and Austria. Herti is participating regularly on international exhibitions that are strengthening the market positions of the company. The company passed successfully audit from Henkel Germany and Hennessy France.

Growth rates in sales of aluminum caps fell to 5% in 2011. Nevertheless, they retain a share of 87% of total revenues. The company reported a significant increase in composite closures sales, which is due to high demand from producers of alcoholic beverages. Their stake remains small, whereas other types of closures continued to decline in absolute values.



Source: Herti

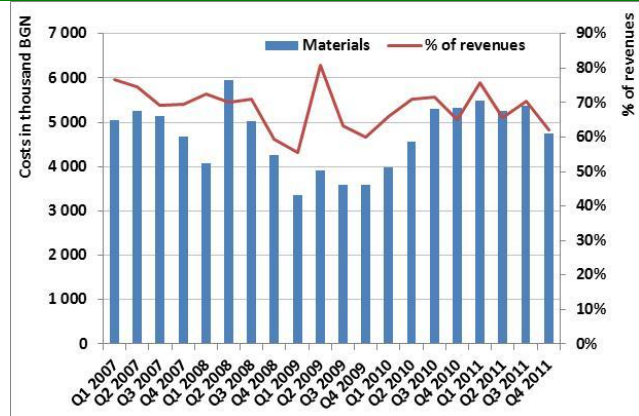
Costs

In December the price of aluminum dropped to its lowest level for the past 18 months. This led to an improvement in the ratio of Herti's cost of materials to total revenues. The decrease is due to the lowered demand of metals from China, where the economy cooled down. Nevertheless, we observed a dramatic jump in the price since the beginning of the year, as investors are more likely to invest in risky assets.

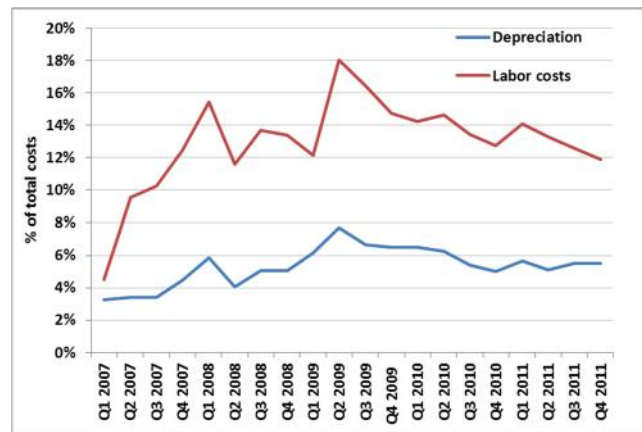


Source: Bloomberg

The decline in costs of materials was solid at the end of 2011. They represented 60% of total revenues from the stable level of 70% that was maintained during the previous 5 quarters. This is due to the decline in raw material costs. At the same time, the company marked higher level of materials as a percentage of current assets, while the share of production declined. Herti could reduce their stocks of materials over time to improve their balance sheet.



Labor costs also fell in absolute value and as a percentage of the company's total revenues. The change in the fourth quarter is part of a gradual process that occurs in the last three years. The decrease in the rate of revenues growth will eventually lead to stabilization of labor costs at the current level. We do not expect a change in depreciation expenses, which remain close to 6% of company's revenues.



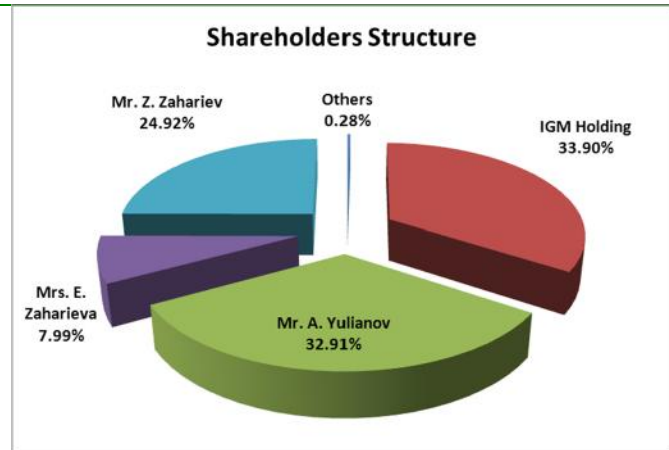
Certificates For Quality

Herti completed successfully the certification procedure under the BRC/IOP Global Standard for Packaging and Packaging Materials. This Standard is a product certification designed to protect consumers' rights and help traders to follow the requirements of the EU for good practices. The certificate provides proof of technical competence and helps producers and retailers reaching full law compliance. It is applied by suppliers in Europe, Africa, the Middle East, Asia, Australia, North and South America. Herti will have the opportunity of free trade with all the companies in the scheme - Tesco, Sainsbury, Marks&Spencer, Asda, Boots, Safeway, Co-op.

Herti become member of SEDEX – non-profit organization based in London, UK. It is a membership organization for businesses committed to continuous improvement of the ethical performance of their supply chains. SEDEX enables member companies to manage efficiently the ethical and responsible practices of their global supply chains in the field of Labour Standards, Health & Safety, Environment and Business Integrity.

Shareholders Structure

Main shareholders of Herti are physical persons. Joseph Mayer is the first long-term investor in the company and is a shareholder from 1997. His trading company IGM Holding is Austria-based. During the 2008 IPO the existing shares that were offered for sale were from the stake of IGM Holding. The large shareholders sold small amount of shares during 2010 and the free-float increased to 0.28%. This is still low to lead to liquid trading.



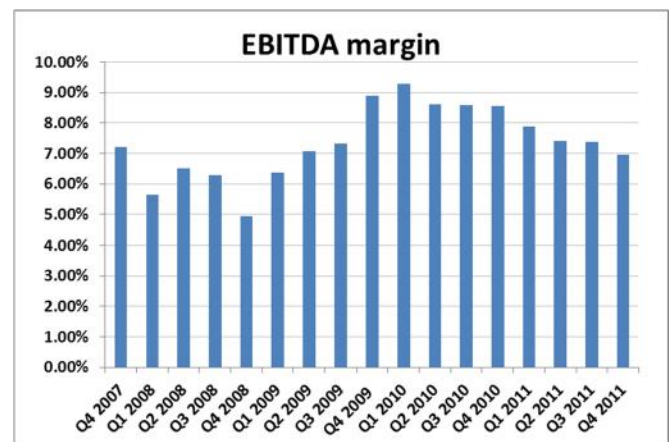
As of December 31, 2011
Source: Herti

Financial Analysis

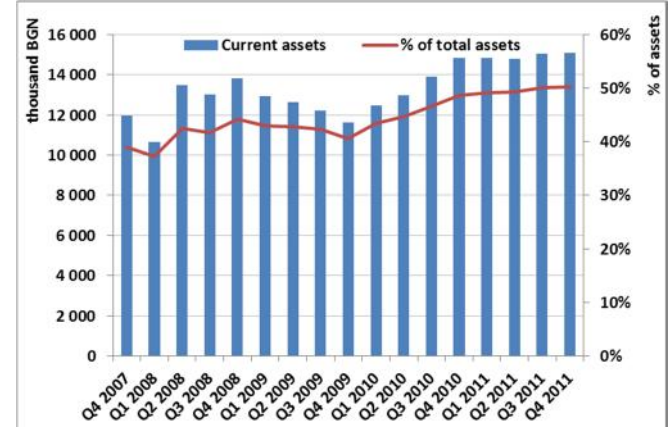
The economic slowdown was more prominent in Europe during the third quarter. The sovereign debt crisis is affecting the banking system in EU, which has negative impact on consumer demand and investments. Other major economies are also in period of slow growth but second crisis is not highly probable.

Investments in modernization and capacity increase of Herti have been financed by loans, which have its implications on the financial ratios of Herti. The initial public offering was unable to raise enough capital due to the difficult stock market conjuncture and could not improve the level of debts.

The EBITDA margin of Herti is declining over the past two years due to the rising prices of materials. The data are for trailing twelve months at the end of every quarter. The quarterly data are showing stabilization of the index at the end of the year. This could confirm, that Herti improve their financial performance as a result of increase of prices and economy of scale improvement.

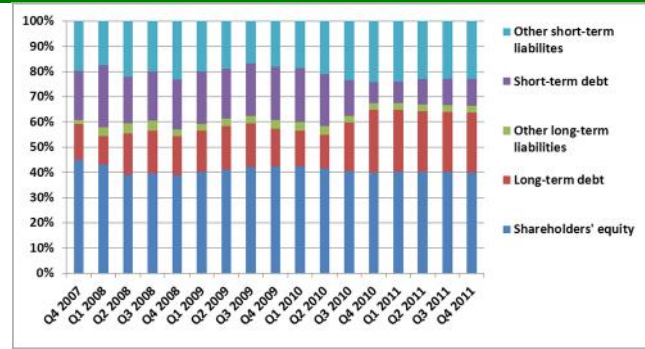


The recovery of revenues in 2010 due to the improved market conjuncture resulted to higher current assets as percentage of total. Receivables stabilized at the level of 34% of total assets and are not suggesting any forthcoming difficulties with Herti's counterparties. Inventories are also rising, thus maintain the working capital at BGN 5 million during the last year.



Long-term debt increased a year ago, at the expense of short-term loans. Since then the loan structure remains unchanged. Equity is at the stable level of 40% of total assets.

Current and quick ratios improved last year and are at 1.5.



Prognoses

The recovery of revenues in 2010 was strong and Herti almost reached the record volumes of 2008. The company performed well, although the overall growth was slightly weaker than our initial forecasts. For this year we foresee another 10% increase in revenues, since it appears that the effects crises in Europe are negligible on the packaging markets. We are also making revision to our expectations for growth of up to 13.5%, as a result of the improvement in the EU economy.

The company manages to gain new positions in the international markets, where the competition is very strong in terms of production scale and pricing advantages for individual products. On the other hand, when considering the past 12 months, the profitability of Herti is declining due to the stable increase in aluminum prices. The improvement is only during the third quarter of 2011 and it is too early to be described as stable trend for increased returns. We doubt that the net profit will be sufficient to ensure price-to-earnings ratio that is close to the average for the Bulgarian market even in 2013.

BGN '000	2006	2007	2008	2009	2010	2011	2012E	2013E
Sales	23 638	27 783	30 965	22 529	28 002	30 569	33 626	38 165
<i>Growth</i>		17.54%	11.45%	-27.24%	24.29%	9.17%	10.00%	13.50%
EBITDA	1564	1 613	2 030	2 006	2 394	2 129	2 522	2 901
<i>EBITDA margin</i>	6.62%	5.81%	6.56%	8.90%	8.55%	6.96%	7.50%	7.60%
EBIT	712	599	573	499	795	469	673	801
<i>EBIT margin</i>	3.01%	2.16%	1.85%	2.21%	2.84%	1.53%	2.00%	2.10%
Net Profit	359	-339	-651	-290	60	-281	-	-
<i>Net Profit margin</i>	1.52%	-1.22%	-2.10%	-1.29%	0.21%	-0.92%	-	-

Data for 2012 and beyond are estimations of ELANA Trading

Stock Information (BSE Ticker: HTV; Bloomberg: HTV BU)

Last Price	1.23	Market Cap	14 776 970	1Y Range	-	Average Volume	-
Beta	-	1Y Change	-	SOFIX Change	-29%	BG40 Change	-20%

Valuation

The stocks of Herti are low liquid due to the unsuccessful IPO in the beginning of 2008 when the capital has been increased by only 14 000 shares. We use for valuation purposes the comparison to companies in the global packaging industry. We are looking at the company as a potential takeover target due to its market position and the prospects for development. We use the DCF method for calculating the fair price as the company already has history and its sales showed stable growth rates.

Multiples Analysis

The negative financial result during the last 12 months pushed again the price-to-earnings below zero. It is not reliable factor for the valuation of the company, which is in growing phase and could be take-over target.

Price-to-book maintains its level since the beginning of 2011.

Price-to-sales ratio is under the positive influence of rising revenues and it is at all-time low since Herti became public company. It is the only indicator that posted improvement for the last three years. EV/EBITDA is higher than the average for the Bulgarian public companies and it is suffering from the rising material costs.

	2009	2010	2011
Last Price	1.15	1.23	1.23
Number of Shares	12 013 797	12 013 797	12 013 797
Market Capitalization	13 815 867	14 776 970	14 776 970
Net Profit	-290 000	80 000	-216 000
P/E	-47.64	184.71	-68.41
Equity	12 134 000	12 232 000	12 016 000
P/B	1.14	1.21	1.23
Sales	22 529 000	28 002 000	30 569 000
P/S	0.61	0.53	0.48
EV	23 905 867	24 851 970	24 965 970
EBITDA	2 005 000	2 394 000	2 129 000
EV/EBITDA	11.92	10.38	11.73
RoE	-2.39%	0.65%	-1.80%
RoA	-1.01%	0.26%	-0.72%

* Estimations and calculations: ELANA Trading

Sector Comparison

The production of bottles' closures is only a specialized part of the packaging industry where lots of companies are operating in Europe. Few of them are direct competitors of Herti but using the average multiples of broader number of companies gives a better valuation.

Multiples	P/E	P/B	P/S	EV/EBITDA
Average Value of Peers	12.92	1.26	1.00	8.17
Market Capitalization	-2 791 263	15 106 159	30 614 695	7 197 559
Price	-0.23	1.26	2.55	0.60
Weight	20%	20%	30%	30%
Current Price		1.23		
Fair Price		1.15		
Premium (Discount) to Current Price		-6.57%		

Source: Bloomberg

We made a significant change in the list of companies in the sector and the big difference to the previous report is the inclusion of companies outside Europe. The importance of Asia markets is key factor in the valuation as local companies are traded at lower multiples comparing to Europe and USA. The market conjuncture during the last quarter of last year and early 2012 reflected on the decrease in the average valuation multiples. This has also negative impact on the fair price of Herti. Rising loss at the end of the year also pushed down the fair price.

The average price-to-earnings ratio of the companies in our list is much higher than the average of markets in Europe, where oil and technology have large weight in stock indices. The high P/E ratio is reflecting the fact that companies in the sector of packaging are working at low profitability that the average for stock markets. We excluded some of the companies, which have unrealistically high multiples price-to-sales and price-to-book value but their number is small. The fair value of the stock is BGN 1.15 according to the comparison to peers. This is close to the last quotes of Herti. Largest contribution to the fair price came from the comparison by revenues which is compensating the negative drag from the loss.

Discounted Cash Flows

Slowing down of the pace of revenues growth this year is due to the cumulative increase in sales after the recovery in 2010. Sales growth was also influenced by the economic crisis in Europe, which affected the beverage consumption. In the third quarter we saw temporary increase in revenues, indicating that Herti is capable of gaining market share, despite the significant slowdown of the European economy. Therefore, we expect 10% growth of revenues in 2012. Subsequently, we expect growth to appreciate to 15% in 2013, as a result of the recovery of sales in Europe. However, these expectations are conservative, as the company does not report any signs of deterioration of their business at the beginning of the year.

Production costs are also rising steadily, which is preventing the possibility to improve the profitability of the company. For these reasons, we prefer to keep lower rate of EBITDA margin in our estimations and discounted cash flows. We assume that high rates of return in 2009 and 2010 will not be reached again until 2014. In this case, positive surprises are possible, only if there are increase in sales growth and low inflation pressure. The prices of resources will remain subdued, which could have positive effect on the profitability of Herti once the company manages to increase gradually the prices of its products in the next two years. This should compensate the rapid increase of prices of aluminum. Therefore, we are increasing margins gradually over time. The working capital became stable at the level of BGN 5 million. We do not expect further growth of the working capital, as it could post a decrease similar to 2007. At this point, the company does not report an increase in receivables, which indicates for good business relations with foreign customers. Growth rates for the years after 2015 are very modest. The projected long-term growth rate is 3.50% - we increased it due to the strong dependence from raw materials and the solid consumption. The WACC is 10%. We also provide sensitivity analysis to the change of the growth rate and the discounting factor. The price is between BGN 1.07 and 3.77. The new intrinsic value of Herti's share is BGN 1.72 as compared to BGN 1.96 in the previous report. The main reason for the change is the lower growth rates of revenues.

Herti											Terminal
BGN'000	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Year
EBIT	673	812	1 317	1 448	2 086	2 211	2 321	2 716	2 811	2 909	3 011
EBIT(1-T)	605	731	1 185	1 304	1 877	1 990	2 089	2 444	2 530	2 618	2 710
Add: D&A	1 849	2 127	2 195	2 414	2 086	2 211	2 321	2 112	2 186	2 263	2 342
Less: Investments	841	967	1 097	1 207	1 304	1 658	1 741	2 112	2 186	2 263	2 342
Less: Change NWC	-1 529	504	522	439	386	313	276	232	211	219	234
FCF	3 143	1 387	1 760	2 072	2 273	2 230	2 393	2 212	2 319	2 400	2 476
PV FCF	2 858	1 146	1 323	1 415	1 411	1 259	1 228	1 032	983	925	
Sum of PV FCF	13 580										
PV of Continuing Value	14 686										
Total PV Free Cash Flows	28 265										
Less: Outstanding Debt	10 256										
Plus: Financial Assets	30										
PV of Equity	18 039										
Number of Shares	12 014										
Price Per share	1.50										
				WACC							
					SA	2.0%	3.0%	3.5%	4.0%	5.0%	
					8.0%	2.02	2.31	2.50	2.75	3.48	
					9.0%	1.60	1.79	1.91	2.06	2.45	
					10.0%	1.30	1.42	1.50	1.59	1.83	
					11.0%	1.06	1.15	1.20	1.26	1.41	
					12.0%	0.87	0.93	0.97	1.01	1.11	

Calculations: ELANA Trading

Valuation

The both methods have average price per share of BGN 1.33, comparing to BGN 1.51 from our previous calculations. Both methods contribute to the lower price target. However, the change of the fair price is insignificant as compared to the current price volatility due to the low trading liquidity.

Method	Price	Weight
Peers' Comparisor	1.15	50%
DCF	1.50	50%
<i>Price (BGN)</i>		1.33

Calculations: ELANA Trading

Recommendation And Price Target

We give *Neutral* recommendation of Herti's shares due to the low liquidity and the higher risk of small-caps. Our one-year price target is based on the average of both method and is **BGN 1.33**. The change in the price target in this report is substantial. It is mainly due to the changes in global stock market conjuncture. The worsening of Herti's financials is not significant but has its implications over the valuation of the stock. Our revision of expectations for 2012 and 2013 is also important factor on the valuation as we prefer more conservative estimations. Risks in front of the European economies are substantial, although we don't expect the crisis to worsen. The price target is already reflecting the global recovery but the risk appetite of domestic investors is very low and will limit the recovery of Herti's stock during the next several quarters. The stocks' liquidity was a major factor for their performance in early 2011 and it is unlikely that investors will put money into companies with low free-float.

Financial Data (non-consolidated)

Statement of Income (in '000 BGN)	2007	2008	2009	2010	2011
Sales	27 876	28 370	22 529	28 002	30 569
Production expenses	23 473	22 759	17 051	21 689	24 405
Personnel expenses	2 519	3 779	3 419	3 832	3 955
Net income from financial activities	(201)	(429)	(53)	(87)	(80)
Other revenues and expenses	0	0	0	0	0
EBITDA	1 683	1 403	2 006	2 394	2 129
Depreciation	986	1 394	1 507	1 599	1 660
EBIT	697	9	499	795	469
Interest expense	489	830	789	735	685
Pretax income	208	(821)	(290)	60	(216)
Taxes	16	0	0	0	0
After-tax income	192	(821)	(290)	60	(216)
Minority interest	0	0	0	0	0
Net income	192	(821)	(290)	60	(216)
Earnings per share in BGN	0.02	(0.07)	(0.02)	0.00	(0.02)

Balance Sheet (in '000 BGN)	2007	2008	2009	2010	2011
Total Assets	30 266	31 223	28 621	30 531	30 103
Equity subscriptions receivable	0	0	0	0	0
Fixed assets	18 008	17 409	16 544	15 687	14 987
Tangible fixed assets	17 729	17 114	16 206	15 402	14 702
Financial investments	219	221	279	279	279
Current assets	12 258	13 814	12 077	14 844	15 116
Inventory	4 025	3 957	3 276	4 161	4 716
Receivables	7 343	9 333	8 542	10 638	10 243
Financial assets	0	0	0	0	0
Cash and cash equivalents	522	524	259	45	157
Total liabilities + equity	30 266	31 223	28 621	30 531	30 103
Equity	12 798	12 099	12 134	12 212	12 016
Registered capital	12 000	12 014	12 014	12 014	12 014
Capital funds	385	33	354	358	358
Earnings	413	52	-234	-160	-356
Liabilities	17 468	19 124	16 487	18 319	18 087
Long-term payables	1 039	819	1 038	799	826
Long-term bank loans	3 190	4 864	4 284	7 568	7 150
Short-term bank debt	7 245	6 228	6 065	2 552	3 196
Short-term payables	5 994	7 213	5 100	7 400	6 915
Other liabilities	0	0	0	0	0
Working capital	(981)	373	912	4 892	5 005

Cash Flow Statement (in '000 BGN)	2007	2008	2009	2010	2011
Net income	192	(821)	(290)	60	(216)
Depreciation	986	1 394	1 507	1 599	1 660
Changes in Working capital	(2 682)	1 354	539	3 969	44
Other operating cash flow items	947	(1 440)	(365)	(4 013)	608
Net cash from operating activities	(557)	487	1 391	1 615	2 096
Capital expenditures	(5 522)	(878)	(113)	(649)	(945)
Other investing cash flow items	(180)	0	42	0	0
Net cash from investing activities	(5 702)	(878)	(71)	(649)	(945)
Issuance/ Retirement of Stock, Net	0	43	0	0	0
Issuance/ Retirement of Debt, Net	5 990	1 493	(512)	(397)	(91)
Dividends paid	0	0	0	0	0
Other financing cash flow items	231	(1 143)	(1 073)	(783)	(948)
Net cash from financing activities	6 221	393	(1 585)	(1 180)	(1 039)
Net change in cash	(38)	2	(265)	(214)	112
Beginning-of-period cash	560	522	524	522	45
End-of-period cash	522	524	259	308	157
Cash per share	0.04	0.04	0.02	0.03	0.01

Financial and Performance Indicators	2007	2008	2009	2010	2011
Valuation Ratios					
Price/Earnings (P/E)	n/a	-37.75	-47.64	246.28	-68.41
Book Value (BV)	n/a	1.01	1.01	1.02	1.00
Price/Book (P/B)	n/a	2.56	1.14	1.21	1.23
Sales Per Share	n/a	2.36	1.88	2.33	2.54
Price/Sales (P/S)	n/a	1.09	0.61	0.53	0.48
Price/Cash per share	n/a	54.09	11.35	8.91	10.23
EV (in BGN)	n/a	41 564	23 906	24 852	24 966
EV/Sales	n/a	1.47	1.06	0.89	0.82
EV/EBITDA	n/a	29.62	11.92	10.38	11.73
EV/EBIT	n/a	4618.18	47.91	31.26	53.23
Liquidity					
Current ratio	0.93	1.03	1.08	1.49	1.50
Quick ratio	0.62	0.73	0.79	1.07	1.03
Debt Management					
Debt to total assets	0.58	0.61	0.58	0.60	0.60
Interest coverage	1.43	0.01	0.63	1.08	0.68
LT Debt/Equity	0.33	0.47	0.44	0.69	0.66
Total Debt/Equity	1.36	1.58	1.36	1.50	1.51
Asset Management					
Inventory turnover	6.93	7.17	6.88	6.73	6.48
Days sales outstanding	95	118	136	137	121
Fixed asset turnover	1.55	1.63	1.36	1.79	2.04
Total asset turnover	0.92	0.91	0.79	0.92	1.02
Profitability					
Profit margin on sales	0.7%	-2.9%	-1.3%	0.2%	-0.7%
EBITDA margin	6.0%	4.9%	8.9%	8.5%	7.0%
Basic earning power	2.3%	0.0%	1.7%	2.6%	1.6%
Return on assets	0.6%	-2.6%	-1.0%	0.2%	-0.7%
Return on equity	1.5%	-6.8%	-2.4%	0.5%	-1.8%
Return on investments	1.1%	-4.6%	-1.7%	0.3%	-1.1%
Dividend Information					
Dividend Yield	n/a	n/a	n/a	n/a	n/a
Dividend per share	n/a	n/a	n/a	n/a	n/a
Number of shares:					
	12 000 000	12 013 797	12 013 797	12 013 797	12 013 797
Price in BGN - period end:					
	n/a	2.58	1.15	1.23	1.23
Market cap in BGN - period end:					
	n/a	30 995 596	13 815 867	14 776 970	14 776 970

For more information, please contact:

Research analyst
Tsvetoslav Tsachev
Tamara Becheva

Phone:
+359 2 810 00 23
+359 2 810 00 27

E-mail:
tsachev@elana.net
becheva@elana.net

Internet:
www.elana.net
www.elana.net

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Outperform	More than 5% higher as compared to SOFIX and BG40 performance
Neutral	Market performance, +/-5% as compared to SOFIX and BG40
Underperform	More than 5% lower as compared to SOFIX and BG40 performance

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