

SOPHARMA TRADING

INDUSTRY: PHARMACEUTICAL WHOLESALE

THOSE PROFITS KEEP COMING

LEADING BULGARIAN PHARMACEUTICAL WHOLESALER, SOPHARMA TRADING, DELIVERED EXCELLENT 9M 2015 RESULTS DESPITE CHALLENGING ENVIRONMENT AND SET THE ROOTS FOR FURTHER PORTFOLIO DIVERSIFICATION AND NEW POCKETS OF LONG TERM GROWTH.

SUSTAINS TOP LINE GROWTH AND STEPS UP PROFITABILITY

In a market where every basis point is important the leading pharmaceutical wholesaler in Bulgaria, Sopharma Trading, delivered excellent bottom line results for the 9M 2015 and steady top line expansion. Sales were up 5% y/y to BGN 449.3 m, below expectations, but in more cautious market as pharmacy and hospital segment growth decelerated. The bottom line, however, considerably outperformed as high margin medical equipment and consumable sales rose 86% y/y to BGN 16.6m thanks to exclusive company portfolio. EBT increased 18.6% y/y to BGN 11.8m translating into 2.35% EBT margin.

DIVIDENDS KEEP COMING AND RISING

With a steady top line growth and improving bottom line, Sopharma Trading's dividend payments look on the rise. The company distributed 83.5% of 2014 net profit (BGN 0.27 DPS and 5% DY), above our estimates, and management seems firm at keeping those dividends coming. Accordingly, we revise upwards our 2015 DPS from BGN 0.30 to BGN 0.34 per share which yields a 6.45% return on current quotes. The latter seems sustainable as higher leverage is coupled with adequate debt/receivables management.

DIVERSIFYING TO ADD NEW POCKETS OF GROWTH AND PROFITS

With Bulgarian pharmaceutical market highly competitive and satiated, in 2015 Sopharma Trading made firm steps towards expanding into new horizons to further diversify and add new pockets of growth. It started developing its own SOPharmacy retail chain, registered a subsidiary in Serbia to explore the wholesale and retail sector there and acquired an online pharma store to tap on booming e-commerce. Investments in the latter amount to BGN 1m and are yet to affect the company's results. In addition, the Company leverages its hospital segment expertise with its OMNIS project offering full "A to Z" hospital investment consulting services to investors in the sector.

HEALTHCARE REFORM IN BULGARIA POSES UNCERTAINTY

The new horizons move is also a way for Sopharma Trading to hedge any unfavorable healthcare system reshuffle in Bulgaria. Intense discussions on the latter are underway for months with the government proposing questionable reforms both in the underfunded healthcare system and in the competitive pharmacy market. The latter has affected investment activity in the sector, but Sopharma Trading delivered steady top line growth as continue EU funds in Bulgaria sustain growth in this sector as well.

VALUATION: Based on 9M 2015 results we revise downward our top line expectations but increase our bottom line estimates. These leads to a lower target price of BGN 6.12 per share vs. previous estimate of BGN 6.47 per share. Thus, we keep our BUY recommendation but lower our target price.

RESULTS ANALYSIS

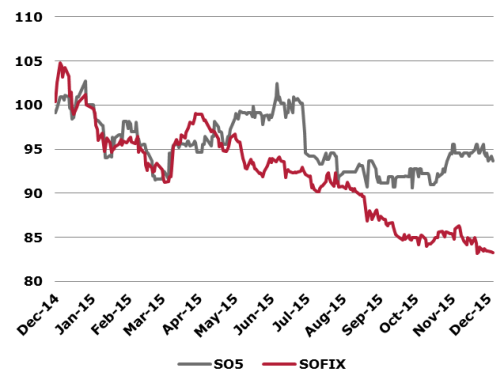
RECOMMENDATION: BUY
ONE YEAR PRICE TARGET: BGN 6.12
CURRENT PRICE: BGN 5.20

EXCHANGE RATES
EUR/BGN (FIXED): 1.95583
USD/BGN: 1.80995

MARKET DATA

Shares Outstanding:	32.9 m
Share Capital:	32.9 m
Free-float:	28%
Treasury Shares	0%
Market Cap.:	BGN 276 m
52 Weeks Range:	BGN 4.83 – 5.42
Ave. Daily Turnover	BGN 36, 000
BSE Ticker	S05
Bloomberg Ticker	S05 BU

PRICE PERFORMANCE



Source: Bloomberg

in kBGN, excl. ratios	Q1 2014	Q2 2013	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015
REVENUES	143 998	141 903	141 771	148 428	153 079	143 523	152 646
GROWTH Y/Y	17.71%	17.60%	12.42%	7.62%	6.31%	1.14%	7.67%
EBITDA	4 408	4 609	3 911	2 911	4 613	3 650	5 914
EBIT	3 735	3 884	3 145	2 121	3 723	2 754	5 076
NET PROFIT	3 393	3 656	2 911	679	3 587	3 333	4 894
EQUITY	62 762	58 850	61 761	62 605	66 193	60 795	65 532
ROE (TTM)	17.38%	19.38%	18.62%	17.42%	17.35%	16.94%	19.71%
ROA (TTM)	4.49%	4.85%	4.61%	4.28%	4.27%	4.05%	4.76%
EBITDA MARGIN	3.06%	3.25%	2.76%	1.96%	3.01%	2.54%	3.87%
NET PROFIT MARGIN	2.36%	2.58%	2.05%	0.46%	2.34%	2.32%	3.21%
EPS	0.10	0.11	0.09	0.02	0.11	0.10	0.15
DEBT/EQUITY	1.60	1.66	1.69	1.77	1.70	1.87	1.71
P/E	14.31	14.27	16.06	16.32	15.31	16.55	13.56
P/B	2.37	2.80	2.93	2.77	2.51	2.86	2.59

ANALYST'S COMMENTS

Sopharma Trading confirmed the perception of delivering steady results yet again with its performance for the 9M of 2015.

Top line dissection: The Company managed to deliver comfortable top line growth and a surge in the bottom line due to high margin medical equipment and consumables sales. Overall revenues grew by 5% y/y to BGN 449.3m with equipment and consumables sales alone up 86% y/y to BGN 16.6m. The Company is a market leader both in the pharmacy and hospitals segments in Bulgaria with a 17% and 41% market share, respectively. Overall market share stood at 21.67% as of Sept. 2015 with three major competitors on the pharmacy market.

The latter surge in equipment sales was due to a major project for the Sofia Hospital St. Ivan Rilski to which the Company delivered a high-tech linear accelerator and radiosurgery treatment system. The Company is also a supplier to the new hospital in Panyurishte, Central Bulgaria, an investment project estimated at BGN 55m that shall be operational by the end of 2015.

Nevertheless, overall top line grew below expectations as the market was more cautious and investment activity generally subdued due to the ongoing healthcare system reshuffle in Bulgaria. At this stage, discussions are still underway and no firm decisions have been taken but in general the government is proposing questionable reforms both in the underfunded and ineffective system and in the competitive pharmacy market. The former signals pro state-owned hospital changes while the latter aims at state involvement in the competitive pharmacy market.

Accordingly, Sopharma Trading was more cautious on the hospital segment of the market where it controls basically half of all medical deliveries. Hospital medicine segment sales grew slightly lower than a year earlier at 10.13% y/y with Sopharma Trading being cautious on new deliveries to municipal hospitals, especially outside the capital of Sofia. This coupled with price competition on the pharmacy market from a leading competitor, the Phoenix Pharma, led to a 1.89% y/y decrease in Sopharma Trading pharmacy segment sales for the 9M 2015.

Bottom line break down: Still, the top line performance translated into improved profitability both due to the better high margins sales and higher interest income on delayed receivables. Gross profit margin on equipment sales amounted to 30% for the 9M 2015 to BGN 4m, up 10pp from 2014A gross profit margin.

EBITDA is up 9.66% y/y to BGN 14.2 m despite an 8.87% y/y rise in labor costs due to 7% increase the number of employees transferred from the OTC product marketing team in Sopharma at the beginning of 2015. Also, overall top line growth was more than enough to offset the corresponding COGS rise as well as additional external services costs.

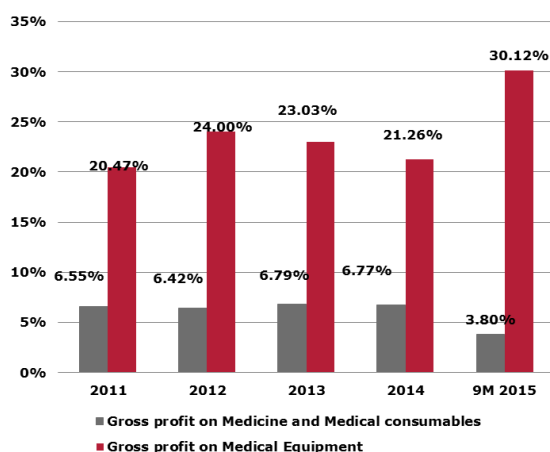
Half of its trade receivables are overdue, amounting to BGN 87.5m and coming from local state and municipal hospitals that have a long term history on delaying payments to suppliers. The Company charges interest and takes hospitals to court to collect receivables which it operationally funds with cheap bank financing. In 2015, the company made a profit from the respective interest income on those receivables, thus adding to the bottom line. Accordingly, earnings before profits is up 18.6% y/y to 11.8m which considerably outperforms our estimates and makes us comfortable to raise our 2015 profit forecasts.

Longer receivables collection due to hospital delays is the main reason for the higher leverage that the Company has taken on to fund operations and keep top line growth. For the 9M of 2015, the Company slightly decreased D/E from 177% in Dec. 2014 to 171% in Sept. 2015. Thus, we are more optimistic on the dividend payments in 2016 and raise our forecast from BGN 0.30 to BGN 0.34 dividend per share, yielding 6.45% as of current quotes. Supportive for our upward dividend revision is also the higher than expected dividend payout in 2015 a.k.a. 83.5% of 2014 profits or BGN 0.27 DPS, yielding 5% as of ex-dividend date quotes.

Portfolio diversification Another optimistic signal for us is Sopharma Trading's efforts to further diversify its portfolio. Its OMNIS project offering full "A to Z" hospital investment consulting services already bears fruits as the company has been a preferred partner for hospital investment and modernization, especially with its exclusive partnerships with GE, Abbot, Carl Zeiss, etc. The company is also exclusive distributor of a number of vitamins and other OTC products and plans to further tap on those by expanding to Serbia. Sopharma Trading established a marketing subsidiary in neighboring country and is currently exploring ways to tap on the less developed but bigger market. Also, the company started developing its own retail pharmacy chain, SOpharmacy, in Bulgaria with 4 pharmacies up and running and 8 more to come shortly. Lastly, in October the Company acquired an online pharmacy store, www.farma.bg, to tap on the booming e-commerce and high demand for vitamins and food-additive products.

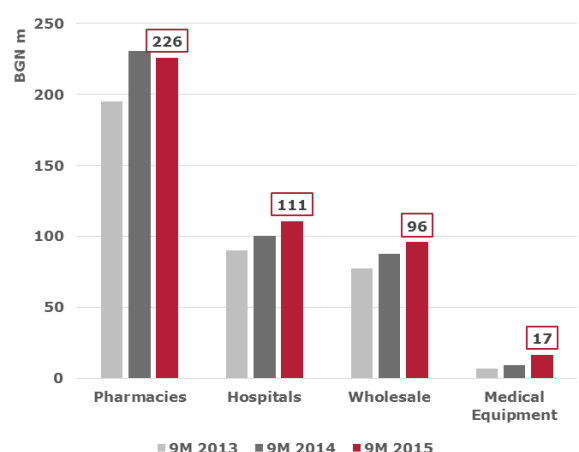
Valuation revision: Accordingly, we revise downward our bottom line estimates for 2015 and upward our 2015 profit estimate which lowers our one year target price from BGN 6.47 to BGN 6.12 per share. We still do not incorporate the Company's investments in portfolio diversification as they are yet to bear fruits. Nevertheless, we remain comfortable with our initial BUY recommendation and thus leave it unchanged.

PORTFOLIO DIVERSIFICATION SUPPORTS PROFITABILITY



Source: Company data, Elana Trading estimates

HOSPITALS GREW THE MOST IN 2015 DESPITE DIFFICULT ENVIRONMENT



Source: Company data

ANNUAL FINANCIAL DATA (AUDITED)

INCOME STATEMENT ('000 BGN)	2012	2013	2014	Q3 2014	Q3 2015	TTM	2015F	2016F
Sales	462 529	507 027	576 100	427 672	449 248	528 603	602 025	650 186
Other operating income	4 106	3 315	4 794	3 464	3 959	3 810	4 696	5 071
Change in Inventories	0	0	0	0	0	0	0	0
Cost of Materials	3 127	2 973	3 364	2 522	2 240	2 691	3 311	3 901
Cost of External Services	5 790	5 962	7 918	5 632	7 354	7 684	8 127	8 452
Cost of Labor	12 715	13 685	15 578	11 560	12 858	14 983	16 255	17 685
Other operating expenses	4 131	6 030	2 570	1 193	1 723	6 560	4 515	4 876
COGS	430 800	470 987	535 625	397 301	414 855	488 541	556 271	598 172
Total Operating Expenses	457 983	499 794	568 009	420 372	441 654	521 076	591 489	636 663
EBITDA	11 052	12 770	15 839	12 928	14 177	14 019	18 241	22 171
Depreciation and Amortization	2 400	2 222	2 954	2 164	2 624	2 682	3 010	3 576
EBIT	8 652	10 548	12 885	10 764	11 553	11 337	15 231	18 595
Financial revenue	1 317	2 987	2 522	1 700	3 020	4 307	2 996	2 796
Financial expense	1 788	2 955	3 546	2 504	2 759	3 210	3 612	3 901
Interest Expense	1 479	1 861	2 998	2 182	2 311	1 990	2 769	2 926
EBT	8 181	10 580	11 861	9 960	11 814	12 434	14 615	17 490
Income Taxes	832	1 090	1 222	0	0	1 090	1 324	1 756
Minority Interest	0	0	0	0	0	0	0	0
Net Income	7 349	9 490	10 639	9 960	11 814	11 344	13 290	15 735
EARNINGS PER SHARE IN BGN	0.22	0.29	0.32	0.30	0.36	0.34	0.40	0.48
BALANCE SHEET ('000 BGN)	2012	2013	2014	Q3 2014	Q3 2015	TTM	2015F	2016F
Inventories	55 458	55 039	62 877	52 056	50 028	50 028	66 223	71 521
Receivables from related parties	838	2 620	2 232	2 237	2 215	2 215	1 806	1 951
Trade Receivables	131 515	141 889	151 058	170 232	176 062	176 062	162 547	169 048
Other receivables and prepaid expenses	556	2 816	866	3 041	1 879	1 879	3 010	3 251
Cash & Cash Equivalents	3 507	3 395	3 948	5 008	7 678	7 678	14 063	8 679
TOTAL CURRENT ASSETS	191 874	205 759	220 981	232 574	237 862	237 862	247 649	254 449
Property, Plant & Equipment	20 744	25 322	21 825	24 786	20 453	20 453	21 071	22 757
Intangibles	773	920	3 312	2 471	5 696	5 696	4 816	5 201
Investment property	0	0	0	0	0	0	0	0
Investments in subsidiaries	0	0	0	0	834	834	0	0
Investments available for sale	3 102	2 256	2 412	2 256	2 384	2 384	2 408	2 601
Receivables from related parties	0	0	0	0	800	800	0	0
Other receivables	0	306	258	205	295	295	361	390
TOTAL LONG-TERM ASSETS	24 619	28 804	27 807	29 718	30 462	30 462	28 656	30 949
TOTAL ASSETS	216 493	234 563	249 014	262 557	268 657	268 657	276 305	285 398
Short-term Bank Loans	47 066	89 573	105 218	98 138	107 464	107 464	107 160	104 030
Current Portion of Long Term Bank Loans	1 194	1 390	1 788	1 780	1 726	1 726	2 408	2 601
Liabilities to Related Parties	67 710	31 895	28 097	46 602	34 508	34 508	45 754	49 414
Account Payables	34 000	40 618	38 872	41 287	48 922	48 922	44 550	48 114
Tax Liabilities	1 154	1 559	3 241	3 652	3 571	3 571	1 806	1 951
Liabilities to Employees & Social Security	1 011	1 169	1 356	1 258	1 488	1 488	1 806	1 951
Other Current Liabilities	1 144	1 684	1 798	1 758	1 092	1 092	2 649	2 861
TOTAL CURRENT LIABILITIES	153 279	167 888	180 370	194 475	198 771	198 771	206 133	210 920
Long Term Bank Loans	3 008	5 539	3 837	4 279	2 547	2 547	2 408	2 601
Deferred Taxes	320	0	0	0	0	0	271	325
Liabilities to Employees on Retirement	189	251	316	251	332	332	241	260
Financial Leases	968	1 498	1 651	1 515	1 140	1 140	1 264	1 365
Other Long Term Liabilities	27	18	9	11	2	2	60	65
TOTAL LONG-TERM LIABILITIES	4 512	7 306	5 813	6 056	4 021	4 021	4 244	4 616
TOTAL LIABILITIES	157 791	175 194	186 183	200 531	202 792	202 792	210 377	215 537
Share Capital	32 905	32 905	32 905	32 905	32 905	32 905	32 905	32 905
Reserves	18 244	16 691	17 111	18 526	18 836	18 836	18 440	20 013
Retained Earnings	7 553	9 773	12 589	10 330	13 791	13 791	14 583	16 943
TOTAL EQUITY	58 702	59 369	62 605	61 761	65 532	65 532	65 928	69 861
TOTAL LIABILITIES & EQUITY	216 493	234 563	248 788	262 292	268 324	268 324	276 305	285 398
	2012	2013	2014	Q3 2014	Q3 2015	TTM	2015F	2016F
NUMBER OF SHARES:	32 905 009	32 905 009	32 905 009	32 905 009	32 905 009	32 905 009	32 905 009	32 905 009
PRICE IN BGN - PERIOD END:	1.78	3.20	5.50	2.83	5.20	5.20	5.20	5.20
MARKET CAP IN BGN - PERIOD END:	58 570 916	105 296 029	180 977 550	93 121 175	171 106 047	171 106 047	171 106 047	171 106 047

Source: Company financial statements, ELANA Trading forecasts

QUARTERLY FINANCIAL DATA (UNAUDITED)

INCOME STATEMENT ('000 BGN)	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015
Sales	126 106	137 921	143 998	141 903	141 771	148 428	153 079	143 523	152 646
Other operating income	-409	863	1 254	1 053	1 157	1 330	1 053	1 946	960
Change in Inventories	0	0	0	0	0	0	0	0	0
Cost of Materials	718	779	818	879	825	842	678	917	645
Cost of External Services	1 456	1 505	2 075	1 442	2 115	2 286	2 113	2 277	2 964
Cost of Labor	3 339	3 482	3 525	4 226	3 809	4 018	4 054	4 632	4 172
Other operating expenses	1 466	2 899	317	632	244	1 377	344	519	860
COGS	115 578	128 430	141 517	131 168	132 024	138 324	142 330	133 474	139 051
EBITDA	3 675	2 848	4 408	4 609	3 911	2 911	4 613	3 650	5 914
Depreciation and Amortization	354	517	673	725	766	790	890	896	838
EBIT	3 321	2 331	3 735	3 884	3 145	2 121	3 723	2 754	5 076
Financial revenue	393	829	510	619	571	822	800	1 483	737
Financial expense	541	763	852	847	805	1 042	936	904	919
EBT	3 173	2 397	3 393	3 656	2 911	1 901	3 587	3 333	4 894
Income Taxes	0	1 090	0	0	0	1 222	0	0	0
Net Income	3 173	1 307	3 393	3 656	2 911	679	3 587	3 333	4 894

BALANCE SHEET ('000 BGN)	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015
CASH & NEAR CASH ITEMS	3 507	5 253	9 085	6 894	3 395	6 824	4 344	5 008	3 948
ACCOUNTS & NOTES RECEIVABLE	131 515	140 375	140 784	137 846	141 889	153 413	163 305	170 232	151 058
INVENTORIES	55 458	44 896	45 820	41 583	55 039	51 931	53 596	52 056	62 877
OTHER CURRENT ASSETS	1 394	11 822	10 794	15 391	5 436	3 474	4 178	5 278	3 098
TOTAL CURRENT ASSETS	191 874	202 346	206 483	201 714	205 759	215 642	225 423	232 574	220 981
NET FIXED ASSETS	21 517	23 129	22 919	22 247	26 242	25 774	26 315	27 257	25 137
OTHER LONG-TERM ASSETS	3 102	0	0	0	2 256	2 256	2 256	2 256	2 412
TOTAL LONG-TERM ASSETS	24 619	23 129	22 919	22 247	28 804	28 301	28 819	29 718	27 807
TOTAL ASSETS	216 493	225 475	229 402	223 961	234 563	243 943	254 242	262 292	248 788
ACCOUNTS PAYABLE	34 000	31 691	35 485	35 249	40 618	39 661	37 122	41 287	38 872
SHORT-TERM BORROWINGS	48 260	51 314	50 141	90 900	90 963	95 061	93 191	99 918	107 006
OTHER SHORT-TERM LIABILITIES	71 019	75 557	80 860	34 015	36 307	39 479	58 838	53 270	34 492
TOTAL CURRENT LIABILITIES	153 279	158 562	166 486	160 164	167 888	174 201	189 151	194 475	180 370
LONG-TERM BORROWINGS	3 976	5 274	5 731	5 545	7 037	6 713	5 977	5 794	5 488
OTHER LONG TERM BORROWINGS	536	534	531	529	269	267	264	262	325
TOTAL LONG-TERM LIABILITIES	4 512	5 808	6 262	6 074	7 306	6 980	6 241	6 056	5 813
TOTAL LIABILITIES	157 791	164 370	172 748	166 238	175 194	181 181	195 392	200 531	186 183
TOTAL EQUITY	58 702	61 105	56 654	59 818	59 369	62 762	58 850	61 761	62 605
TOTAL LIABILITIES & EQUITY	216 493	225 475	229 402	226 056	234 563	243 943	254 242	262 292	248 788

FINANCIAL AND PERFORMANCE INDICATORS	2012	2013	2014	TTM	2015F	2016F
Valuation						
Price/Earnings (P/E)	7.97	11.10	17.01	15.08	12.87	10.87
Price/Book (P/B)	1.00	1.77	2.89	2.61	2.60	2.45
EV (in '000 BGN)	107 300	199 901	289 524	276 305	270 284	273 024
EV/EBITDA	9.71	15.65	18.28	19.71	14.82	12.31
Profitability						
ROE	12.52%	15.98%	16.99%	17.31%	20.16%	22.52%
ROA	3.39%	4.05%	4.28%	4.23%	4.81%	5.51%
EBITDA margin	2.39%	2.52%	2.75%	2.65%	3.03%	3.41%
EBIT margin	1.87%	2.08%	2.24%	2.14%	2.53%	2.86%
Net income margin	1.59%	1.87%	1.85%	2.15%	2.21%	2.42%
Dividend						
Dividend yield	7.69%	4.51%	5.09%	4.42%	6.45%	7.63%
Dividend per share (BGN)	0.20	0.23	0.27	n/a	0.34	0.40
Liquidity						
Current ratio	1.25	1.23	1.23	1.20	1.20	1.21
Quick ratio	0.89	0.90	0.88	0.94	0.88	0.87
Credit						
LT debt/equity	0.05	0.09	0.06	0.04	0.04	0.04
Total debt/equity	0.87	1.63	1.77	1.71	1.70	1.56
Total debt/total assets	0.73	0.75	0.75	0.76	0.76	0.76

COMPANY OVERVIEW

SOPHARMA TRADING Overview

Ticker	S05	Recommendation	BUY	Outstanding Shares	32.9 m
Bloomberg ticker	S05 BU	Last review	10 December 2015	Free Float	28%
Current Price	BGN 5.20	1Y Target Price	6.12	Ave. Daily Turnover	BGN 36,000

COMPANY PROFILE

Sopharma Trading is the leading Bulgarian pharmaceutical distributor with a 22% market share. The company is part of the Sopharma group that integrates one of the leading generic and organic pharmaceutical producer in the country – Sopharma (3JR BU), together with other supporting operations.

Sopharma Trading is a full-value healthcare solutions provider with 3000+ customers, 10,000+ diversified product portfolio and 400 local and international partners, including with exclusive contracts with GE Healthcare, Abbott, Carl Zeiss, Aboca, etc.

It holds 17% of the local pharmacy market and 41% of the local hospitals' market. The former, however, still contributes the most to the company's top line, while the latter and the medical equipment sales add to its bottom line.

The company manages modern logistics system with four regional distribution centers, 17 500 sq. m., in four of the biggest cities in Bulgaria. Its pharmaceutical logistics terminal in Sofia, the biggest of the four, operates with a state of the art KNAPP warehouse management system. The Company is Good Distribution Practice certified.

FUNDAMENTAL STORY

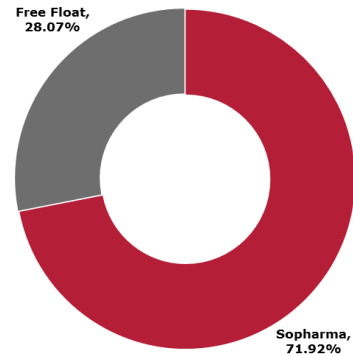
Sopharma Trading's leading position on the local pharmaceutical distribution market provides grounds for high long term sustainable growth as the local market is growing at 5%+ y/y and the local healthcare system is well underdeveloped as compared to EU average.

Bulgarian hospitals are in dire need of modernization both as facilities and equipment and use EU funds to accomplish it. Additionally, government healthcare spending is 80% below EU average thus offering considerable potential for growth from which Sopharma Trading will be able to benefit to the most as it holds 41% of the local hospital market. Also, it is one of the few exclusive medical equipment distributors.

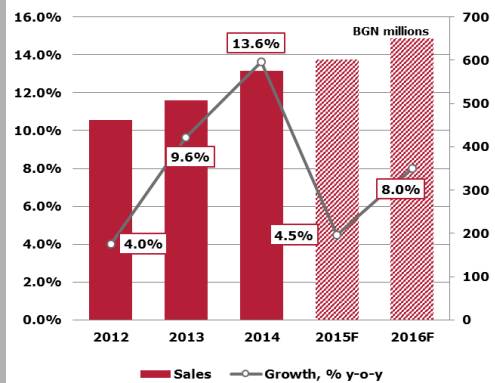
STRENGTHS & OPPORTUNITIES

- Excellent corporate governance
- Strong market positions despite heavy competition
- Stable dividend policy

SHAREHOLDERS' STRUCTURE



SALES GROWTH



SOURCE: COMPANY DATA, ELANA TRADING ESTIMATES

WEAKNESSES & THREATS

- Heavy exposure to state-owned hospitals which are characterized with huge delays in payments
- High Debt/Equity as the company acts as a creditor to Bulgarian hospitals

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Regulatory Authority: Financial Supervisory Commission, *Budapest Street 16, 1000 Sofia, Bulgaria*

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For more information, please contact:

Research analyst	Phone:	E-mail:	Internet:
Tatyana Vasileva	+359 2 810 00 24	vasileva@elana.net	www.elana.net
Georgi Penchev	+359 2 810 00 27	penchev@elana.net	www.elana.net