



## **COMPANY PROFILE**

The Investment Intermediary Capital Markets PLC offers its clients a wide range of financial investments products and services in accordance with the requirements of individual, corporate and institutional clients and investors.

The high qualified team of Capital Markets PLC works on establishing and developing of the long term collaboration with the clients choosing the most appropriate strategy for every their financial activity.

We are constantly analyzing the investors' interests and their requirements in order to match perfectly their expectations with the services they are offered.

We dedicate a significant portion of our efforts to the creation and the introduction of new financial products and services that should contribute to the further development of our clients.

Investment Intermediary Capital Markets PLC is licensed with Decision N 63 – IP /03.07.1998 issued by the Commission of Securities and Stock Exchanges.

The company is a member and a shareholder of the Bulgarian Stock Exchange – Sofia pursuant to Decision of the Board of Directors of the Bulgarian Stock Exchange – Sofia.

The company is a member of the Central Depository PLC.

Capital Markets PLC is a member of Bulgarian association of the Licensed investment intermediaries (BALII) according to the resolution dated October 5<sup>th</sup> 2006 of Board of Directors of BALII.

### **CAPITAL MARKET**

The company offers services related to the capital and financial markets.

#### **Equity Trading**

Capital Markets PLC gives its clients the opportunity to trade shares of public companies on the Bulgarian Stock Exchange - Sofia (BSE-Sofia), to purchase equity stakes in privatized companies, and to participate in public offerings of securities. Capital Markets PLC' team offers structuring and implementation of complete strategies on the acquisition of minority and majority stakes in companies indicated by the client. The services include:

- Intermediation in trading shares for the account of the client
- Management of individual portfolios of shares and/or money
- Custodian services - holding clients' shares and money in a depository institution
- Investment consulting
- Economic and legal due diligence of public companies
- Representation of holder's shares before the shares' issuer at general assemblies of shareholders
- Preparation of explanation for determining the fair market value of the shares
- Structuring and implementation of share buyout strategies
- Intermediation in privatization deals on the BSE-Sofia
- Trade with compensatory instruments and investment vouchers

### COBOS®

Capital Markets PLC offers its clients direct access to trading on the BSE-Sofia by filing orders through the electronic system COBOS®.

The COBOS® platform is an Internet based application that enables its users to fill in real time orders for purchase and sale of securities on the floor of BSE-Sofia. Its major target is to facilitate the access of end users and investors to the stock exchange trade. The orders are filled through the clients' terminal that the clients receive upon entering an agreement with Capital Markets PLC. Thus, the users will be able to fill in their orders and to receive stock quotes in real time.

The clients of the system are controlled by Capital Markets PLC who - in its capacity of an investment intermediary - confirms the orders online. To use the information system, the clients enter an agreement under which they receive an online access certificate with unique identification code.

### Bond Trading

The investor in bonds is also a creditor to the company that has issued them. At present, Capital Markets PLC offers its clients to invest in different types of bonds:

- Corporate bonds issued by leading Bulgarian companies
- Mortgage bonds issued by banks and secured with receivables on mortgage loans
- Municipal bonds

Capital Markets PLC provides an intermediation and subscription for the account of its clients in the events of initial public offering of securities. Our team provides:

- Purchase and sale of bonds that are listed on the BSE-Sofia
- Subscription of bonds from public and private issues
- Investment consulting
- Analyses upon the investors' interest with respect to certain issues

- Economic and legal due diligence of the company whose shares are of interest to the client
- Preparation of justification for the determination of the fair market price of the bonds

### Asset Management

The asset management includes management of individual portfolios of shares, other securities, and/or money. The Public Offering of Securities Act requires the funds accepted for asset management to be kept in a separate bank account. Thus the clients' assets are always available in the form of cash and/or financial instruments.

In the asset management all the terms at investing are negotiated according to the requirements of the client, the expected income, his/her attitude to risk, the personal preferences of the client, and other parameters. Thus the three main strategies for asset management offered Capital Markets PLC by are formed:

- Low-risk investment portfolio - it includes investment of the funds in low-risk assets such as treasuries, ZUNK bonds, some corporate and mortgage bonds. The target is to preserve to the highest degree the safety of the invested funds and to achieve a return, which is higher than the one offered on deposits;
- Balanced portfolio - it is characterized by the diversification of the portfolio into two major groups of assets: low-risk and high yield. The group of the high yield assets comprises of shares of Bulgarian corporations included in the SOFIX index;
- High yield portfolio - the strong connection between the size of the expected profit and the common risk fully applies to this type of investments: the profits, as well as the losses, could be substantial.

### INVESTMENT BANKING

During the past years the capital market has become an alternative source for raising fresh funds for the further development of the large Bulgarian companies. Often, this form of financing is preferred because it enables contacts with a wider range of investors.

Capital Markets PLC offers investment consulting, overall organization, and implementation of the following capital markets related projects:

#### Listing of Public Companies

The companies that wish their shares or bonds to be listed for primary or secondary trading on the BSE-Sofia, should be publicly registered and meet the regulations set forth in the Public Offering of Securities Act.

Capital Markets PLC undertakes all the procedures relevant to listing of public companies, including:

- Registration of the issue in the Bulgarian Stock Exchange - Sofia (obtaining an International Securities Identification Number)

- Registration of the shares in the Central Depository
- Entering the company in the Public Companies Register with the Financial Supervision Commission (FSC)
- Preparation of a prospectus for a primary or secondary public offering
- Listing of the issue on the BSE-Sofia

### Structuring of Equity and Bond Issues

The structuring and listing of securities issues involve thorough analysis of the financial and market activity of the company and the investors' interest.

The main actions with respect to structuring securities issues that Capital Markets PLC undertakes are:

- Consulting in setting the general parameters of the issue
- Assessing the investors' interest in the issue
- Making detailed cash flows for the project
- Preparing a prospectus for the public offering of securities and its attachments (incl. in the events of a capital increase)
- Drafting all the documents required with respect to the listing of the issue on the BSE-Sofia

### Public Offering of Securities

Capital Markets PLC offers the following principal services relevant to the public offering of securities:

- All of the already listed stages in connection with the structuring of an issue
- Nominating the investment intermediary to subscribe the issue;
- Registration of the issue in the Central Depository
- Listing of the issue for secondary trading on the BSE-Sofia

### Private Offering of Securities

Capital Markets PLC offers private offering of securities with respect to common or preference shares, corporate, mortgage and other bonds. The securities are offered to a limited number of individual and institutional investors such as insurance companies, banks, pension funds, and investment funds.

### Tender Offer

When the shareholder of a company intends or is obliged by the Public Offering of Securities Act, to offer for redemption the shares of the rest of the shareholders in the same company, Capital Markets PLC offers to prepare a tender offer, and undertakes the following activities:

- Publishing the tender offer in national newspapers
- Publishing the results of the tender offer and registration of the deals on the BSE-Sofia

### Analysis and Research

Capital Markets PLC offers to its clients also:

- Corporate analyses on leading companies, the shares of which are traded on the BSE-Sofia, as well as of companies that are to be privatized or sold by means of a public offering of securities
- Preparation of info sheets for trading in shares, compensatory instruments, fixed-income instruments, and FX
- Preparing the text of the tender offer and the justification of the offered price per share
- Submitting the tender offer to the Financial Supervision Commission and notifying the BSE-Sofia and the company that is the subject the tender offer.

### Corporate finance

#### Financial and investment consulting

All trade companies use the money as a resource, for which they have to pay. Their management should ensure that those payments are met. Trade companies that constantly make enough profit to pay the market price of their capital usually prosper. The trade companies that are unable in a considerable time period to respond to the active market prices of capital usually do not survive or at least restructure and change their owner.

The correlations in corporate finance are starting point for trade companies management. The Key Management Coefficients illustrate their aims and standards, and direct their managers toward the most productive long-term strategies and most effective short-term decisions. CAPITAL MARKETS PLC defines and optimizes the Key Management Coefficients for any type of trade company or business project by developing Analyses, Evaluations, Grounds and Business Plans. On the basis of that CAPITAL MARKETS PLC also performs efficient Investors Control.

#### Analyses

Financial analyses of the functioning of trade companies and structures on different levels include preparation and making of full financial statements and pro-form accounts in "Financial Accounting" and "Management Accounting" formats for different purposes, evaluation of the results of any economic activity and financial control.

#### Evaluations

Evaluations of the shares of the capital of trade companies, of differentiated parts of companies and others are based and made in accordance with the Evaluators Association requirements for

unified standards for professional business evaluation and the standards and methods for business evaluation according to the Bulgarian legal system

### Grounds

Financial grounds serve for acquiring Share Capital, declaration of Bond Loans, Investment or Working Capital Credit demands or restructuring and others. They are based on and made in accordance with the standards of the common world practice and meet all kinds of specific requirements of Bulgarian and foreign banks and non-bank institutions regarding the properties, contents and presentation form.

### Business Plans

Business Plans are comprehensive Feasibility Studies of the realization of investment and other business projects and Programs for development of trade companies with defining the business tasks laid before their management.

The Studies satisfy the highest standards of the world practice in the area of Feasibility Study regarding financial prognosis, modelling, analyzing and evaluating when:

- Establishment of new and restructuring of active trade companies
- Increase of share capital and preparation for issuing of securities plan
- Formation of joint ventures
- Mergers and Acquisitions
- Increasing of credit lines
- Capital budgeting
- Product planning
- Introducing new activities, projects and market strategies
- Establishment of financial demands for future growth
- Projecting the increase in the investments profits and market share
- Tax optimization
- Defining the finance politics regarding the management and personnel of the trade companies
- Fulfilment of consequent investors control etc.

A comprehensive multivariate projection, analysis, evaluation, management and optimization of cash flows, critical business ratios, key management coefficients, corporate value and financial risk is made. The net present value and the internal rate of return of the investments are determined.

The studies generalize the incoming operative information and the great number of finance accounts and pro-form accounts into one current to the day of the study financial model.

The pro-form financial accounts composed for the purpose of the analyses and evaluations

correspond to the Bulgarian and International Accounting Standards.

The systematized financial information regarding the history of business and business plan is defined parallel in formats “Bulgarian Finance Accounting” and “USA Management Accounting”

The project in 'Bulgarian Finance Accounting' format gives an opportunity for achieving 100% efficiency in Investors control due to the full comparability of the finance pro-form and the factual accounts.

The projecting in 'USA Management accounting' format of the following issues makes possible the implementation, in accordance with the requirements of the world standards:

- analysis and evaluation of the changes in the financial condition and the Cash Flow formation and movement;
- financial analysis for evaluation of the key management coefficients;
- analysis for multivariate business evaluation;

The conversion of the systematized financial information regarding to the history of business and business projection from “Bulgarian Finance Accounting” format into “USA Management accounting” format does not concern in essence the contents of the documents.

### Prospectuses for issuing of securities

The produced prospectuses for issuing of securities reflect the results of the Feasibility Studies from the realization of the business projects and trade companies development projects. The presented primary information and the analyses and evaluations clearly define the emitent’s economic and financial condition and the security rights.

### Investors Control

Investors Control is carried out on the basis of Feasibility Studies from the realization of the business projects and trade companies’ development programs as a standard for analysis and evaluation of the received current results.

All kinds of general and specific demands defined as a task from the assigners will be satisfied.

Investors control determines, analyzes and evaluates:

- Monthly:  
Operative result and business potential of the trade company for generating a Cash Flow that covers debt payments.
- Quarterly:  
The level of finance efficiency from applying the development programs by the use of a system of indicators for financial analysis in accordance with the world standards.
- Quarterly:  
The movement of the market capitalization of the trade company shares by applying a

system for multivariate stationary and current business evaluation in accordance with the world standards.

### Frame contents of the studies in the field of corporate finance

#### Main objectives

##### First

To determine, analyze and evaluate at the time of the study the current financial condition of the trade company and to project its Business Potential for generating a cash flow and the possibilities to cover debt payments in dynamics.

##### Second

To determine, analyze and evaluate in dynamics the level of finance efficiency and corporate value from the application of the Program for Development of the trade company through the use of a system of indicators for finance analysis and multivariate business evaluation.

#### Structure

##### MODULE 1:

###### Summarized final results and drawing conclusions from the study.

Table 1.1.: Summarized definition of the Incoming and Outgoing cash flows movement.

Table 1.2.: Summarized definition of the Balance sheet requisites movement.

Table 1.3.: Drawing conclusions about the constant Evaluation of the Market Value of Shares.

Table 1.4.: Drawing conclusions about the current Evaluation of the Market Value of the Shares.

Graphs: From 1.1 to 1.2 illustrating the accents of the financial efficiency and the undertaken financial risk in dynamics.

##### MODULE 2:

###### Incoming accounting and projected operative information about the trade company (Business project)

Table 2.1.: Sales Income with defining of target markets, nomenclature, and quantity of the products (services), price strategy and market share.

Table 2.2.: Activity Operating Expenses

Table 2.3.: Investment Plan with defined linear time schedule.

Table 2.4.: Written off Long term Assets intended for sale or with expired amortization period.

Table 2.5.: Finance Operations

Table 2.6. Capital Structure Model according to Sources of Financing with detail sinking plans for the used Debt Capital under any form.:

##### MODULE 3:

### Financial history and finance business plan (Projection of the business potential) in the Bulgarian Finance-accounting standard

- Profit and Loss Account
- Balance Sheet
- Tax Calculations
- Amortization Plan

#### **MODULE 4:**

### Financial history and finance business plan (Projection of the business potential) converted into Management-accounting standard

- Profit and Loss Account
- Balance Sheet
- Statements of changes in financial position
- Cash flow statement
- Tax calculations

#### **MODULE 5:**

### Financial analysis for Evaluation of the key management coefficients

- Standard Analysis of the financial coefficients.
- Operative efficiency test, Profitability test, Investments efficiency test, Financial condition test, Financial leverage test, Sustainable growth rate test.
- Corporate Finance Analysis.
- Corporate Evaluation test – General status according to the exchange Capitalization rate.
- Test of the rate of the financial risk - Altman's Z-Factor analysis.
- Robert Mourice's financial analysis.

#### **MODULE 6:**

### Business evaluation analysis

- Analysis of current business evaluation of the activity value
- Evaluation methods:
  - Accumulation of Net Earnings (losses), Accumulation of Sales Income, Capitalization of Net Earnings (losses), Dividend Payment Capacity, Additional Income, Discounting of future Earnings (losses).
- Internal Rate of Return of the Equity Capital.
- Global Basis Evaluation (Discounted Future Cash Flows) of the shares

- Global Minimum Evaluation (Discounted Future Cash Flows) of the shares
- Global Maximum Evaluation (Discounted Future Cash Flows) of the shares
- Details of the Global Evaluation of the shares\stocks

### Methodology

#### First

#### **Making of a financial-economic profile of the activity** (Modules 2,3 and 4):

- A Historical Financial-Economic Profile of the Activity for a period, including the needed number of past financial years and the last quarter of the current fiscal year. The purpose is to make financial-economic analysis, to show the tendencies in the development and evaluation of the business according to the financial data reports at the end of the corresponding periods of time.

The “FINANCE HISTORY” section diagnoses the conditions, defines the problems and ensures a basis for comparison and verification of the defined prognosis for the level of operational activity in relative aspect.

- A Prognosis Financial-Economic Profile of the Activity for a period including the needed number of projected years in cross section by months, quarters or years depending on the specific demands. The purpose is the Business potential and Business evaluation of the activity to be projected in the planned time horizon.

The “BUSINESS PROJECT” section reflects the established, analyzed and evaluated tendencies in the historical development and is based on the potential for optimizing the quantity and movement of the incoming and outgoing cash flows.

The “Financial History” and “Business Project” sections are defined in the Bulgarian standard of finance-accounting (Module 3) and are converted into the management-accounting standard (Module 4)

The conversion is made for the purpose of making possible the implementation of the following issues in accordance with the demands of the world standards:

- Analysis and evaluation of the changes in financial condition and the formation and movement of cash flows
- Finance analysis for evaluation of the key management coefficients
- Multivariate business evaluation analysis

The conversion of the finance accounts and pro-form accounts data from the Bulgarian standard of finance-accounting into the management accounting standard does not affect in essence the contents of the documents.

#### Second

#### **Performing a finance analysis for evaluation of the Key Management Coefficients regarding the Sections “Financial History” and “Business Project”** (Module 5):

- Operative efficiency test regarding the return of Equity, the return of Total Assets and the Operative return of Total Assets
- Profitability test regarding the Sales Gross Profit, the Profit after Sales Tax, the Operating Profit per share and the Net Earnings per share.
- Investment efficiency test regarding the Asset turnover, the Equity turnover, the Fixed asset turnover, the Average collection period, the Days inventory, the Inventory turnover and the Working capital turns.
- Financial condition test regarding the Current ratio, the Quick ratio, and the Working capital ratio.
- Financial leverage test regarding the Total assets to equity, the Debt to equity, and the Debt to total assets.
- Sustainability growth test regarding the Total sales growth, the Operating expense growth, the Operating profit growth, the Net profit (AIT) growth and the retained earning growth.
- Corporate evaluation test regarding the Current Market Capitalization and the Current Net book value per share of the capital stock.
- General corporate status test regarding the required (stock exchange) value.
- Test of the size of the financial risk using Altman's Z-Factor analysis
- Robert Mourice's financial analysis of:
- Structure and Dynamics analysis and evaluation of the financial accounts corresponding properties regarding to Assets, Liabilities and Sales Income.  
Analysis and evaluation of efficiency determinants.

### Third

#### **Performing Analysis for multivariate Business Evaluation (Module 6) with the purpose of formulating a Standpoint for evaluation of the Fair Market Price of the trade company shares.**

The evaluation of the Market Price of the Shares is defined as "Fair Market Value" in three variants: basis, minimum and maximum.

The study for determining the Fair Market Value of the trade company Shares is based on the following evaluation procedures:

- Analysis for evaluation by the Net Book Value of the Assets in combination with the determination of the Internal Rate of Return of Equity

Deducting the short and long-term balance sheet liabilities and all investors legal receivables that have priorities over the regular shareholders from the Total Assets value forms the evaluation of the Net Book Value of the Assets.

- Analysis for evaluation through the use of Market Multipliers

The evaluation is made using two variants with the “Net profit Accumulation” and “Sales Income Accumulation” techniques.

The “Net Profit accumulation” technique is based on the correlation “price/profit” of the analogue trade companies and it consists of calculating the value of the shares of the evaluated company by multiplying its profit with the acquired market multiplier.

- The “Sales Income accumulation” technique is based on the correlation “price/sales income” of the analogue trade companies and it consists of calculating the value of the shares of the evaluated company by multiplying its sales income with the acquired market multiplier.

The comparative analysis of the results obtained when applying both techniques defines the operative efficiency of the activity of the evaluated trade company.

Analysis for evaluation through the use of the approach for defining the Capitalization value of the shares.

The evaluation is made with the use of the following methods:

**First Method.** Net Profit Capitalization

The evaluation using this method is in direct functional dependence on the quantity of the established Net Profit and the demanded Capitalization Rate of the evaluated trade company.

**Second Method.** Dividends payment capability

The evaluation using this method is in direct functional dependence on the quantity of the Average public sector Dividends Income and the Regulated Dividends payment capacity of the evaluated trade company.

**Third Method.** Additional Income

The evaluation according to this method results in direct functional dependence from the quantity of the Net Long-term Tangible Assets, fixed Net Profit, Additional Income, required Capitalization Rate of the Net Long-term Tangible Assets and the Additional Income, and the defined Value of the Intangible Assets of the evaluated trade company.

**Fourth method.** Discounting future profits

The evaluation using this method is in direct functional dependence on the quantity of the established Net Profit including the terminal value of the activity at multivariate level of the Demanded (stock-exchange) Rate of Return.

**Fifth method.** Discounting Net Cash Flows

This method is used for analysis of the Global Evaluation of the potential Market Price of invested Equity capital.

The evaluation includes stationary defining by a specific date of the Capital Net Present Value of ordinary shareholders after defining the future Net Cash Flows at a given level of the required Rate of Return and respectively an Indicative Term for investments repayment.

The Future Net Cash Flows are determined on the basis of well-grounded yearly prognosis income and expense prognosis.

The prognosis yearly income and expense are defined in the developed Projection of the trade company Business Potential.

The Net Cash Flows are defined by increasing the prognosis Net Profit after interest and tax with the prognosis Amortization expenses and the prognosis decrease of the Net Working Capital and by decreasing the prognosis increase of the Net Working Capital with the prognosis Long-term Assets Investments and with the prognosis Debt Principal repayment in accordance with the credit clauses.

The prognosis Net Cash Flows are defined by years, distinguishing two periods – prognosis period and after-prognosis period.

The prognosis period comprises a planned horizon of five years, during which the expected operative income and expenses, investments and credits could be defined with a high level of reliability.

The post-prognosis period is defined by the assumption that there will be no major changes in the scale and profitability of the business activity and the Net Cash Flows will stay constant.

It is assumed that the year Net Cash Flows during the post-prognosis period will be equal to the Net Cash Flow of the first year of the post-prognosis period.

The values of the Net Cash Flows during the post-prognosis period expressed by the end of the prognosis period are a Residual value. The Residual value is calculated by capitalization of the Net Cash Flows for the post-prognosis period.

The discounting of the Net Cash Flows is made by the use of Discounting Rate, which is used for calculating their Present Values.

The Discounting Rate applied is equal to the average assessed Price of Capital of the trade company.

The average assessed Price of Capital of the trade company is the price of financing with all used sources of financing, assessed with their relative shares of the total invested capital of the company.

The price of financing with Debt Capital accounts for the Tax Effect of the tax acknowledgement of the finance expenses for interests.

The POSITION for Evaluation of the Market Price of the Shares is formed as an average assessed quantity of the evaluations by the applied evaluation methods.

The assessment is realized by multiplying the evaluations by their relative weights.

The apprehended relative weights reflect standard values, widely used in the world practice when evaluating shares.

## BOARD OF DIRECTORS

Tatiana Georgieva – Chairman of the Board of Directors and Executive Director  
Master of International Management, King's College, London  
Bachelor's degree in Business Management, "King's College London", Great Britain,  
She is a licensed stock broker from the Financial Supervision Commission  
She is a licensed financial advisor from the Financial Supervision Commission.  
She has experience in the financial field and the bank system.  
Languages: English, German and Russian.

Mariana Milanova - Executive Director  
Master of Finance, University of National and World Economy, Sofia  
She is a licensed stock broker from the Financial Supervision Commission  
She has experience in the financial field and the bank system.  
Languages: English

Kiro Kirov – Member of the Board of Directors  
Master in Laws  
Member of Sofia Bar Association  
Member of the International Bar Association, London  
He holds Certificate for Real estate appraiser, licensed by the Bulgarian Privatization Agency  
Languages: English and Russian

"Gramex" Pls. - Member of the Board of the Directors

1000 Sofia

8, "Hristo Belchev" Str. 2<sup>nd</sup> fl.

Phones: (+359 2) 933 00 30; (+359 2) 933 00 50

Fax: (+359 2) 933 00 34

E-mail: [capital\\_markets@netissat.bg](mailto:capital_markets@netissat.bg)

Web-site: [www.cm-bg.com](http://www.cm-bg.com)