

## INTERSOLAR Varna

The Bulgarian stock exchange admits to trading shares of Intersolar Varna, starting at June 18<sup>th</sup>. The number of shares is 26 073 000 and the indicative referent price for the listing is BGN 1.50.

Intersolar Varna is a subsidiary of Interservice Uzunovi, a holding company with activities in electronics and furniture trading and real estates. The majority owner holds 99.77% of the capital, whereas the rest are owned by the chief executive officer and majority shareholder in Interservice Uzunovi, Mr. Krasimir Uzunov.

The shareholders are planning to offer up to 75% of all stocks for sale through the stock exchange, according to the demand. Information in media suggested that buyers will be institutional investors, mainly domestic pension funds. They showed interest to the company that offers stable and low-risk return. The shareholders had negotiations with the pension funds of Doverie, Allianz and ING. One of the requests from potential investors was Interservice Uzunovi to maintain between 20 and 30% stake in the company to guarantee the good operational management of the solar park. Moreover, the external company that provides operational management is subsidiary of Interservice Uzunovi.

### Core business

Intersolar was established in January 2010 and its main asset is the photovoltaic power plant Ravna gora with installed capacity of 4.99 megawatts. The terrain is 309 daa and installations are occupying 200 daa.

The solar park has been build and put into exploitation before the new law for renewable energy, which gave the company an advantage over later projects of solar power plants. The new law decreased the fixed prices of electricity from renewable sources in Bulgaria. Intersolar has 25-year contract with E.On Bulgaria for electricity at price of BGN 699 for megawatt hour, signed at March 23, 2011. The current tariff is BGN 485 for megawatt hour and is expected to be decreased further from the beginning of July. Investors are attracted by the stable yield of the project. The changes in tariffs on the downside are limiting the new projects that will hit the market in the next twelve months.

The operational management is accomplished by long-term contract with Company for Management

Projects that includes maintenance, monitoring, security and warranty services.

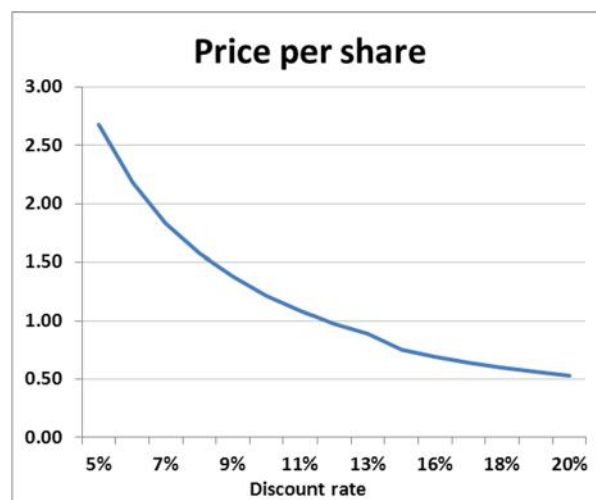
### Financial situation

The annual capacity of electricity generation is 6 479 000 kilowatt hours. Revenues are guaranteed at BGN 4 529 534 annually. Some deviation is probable due to the intensity of sun light. The annual costs of the company are BGN 300 000, from which BGN 40 000 are for materials, whereas the rests are ensuring the operational management of the solar plant. In our calculations of cash flows we assume that costs will remain unchanged, which is highly unlikely. The inflation will have negative impact on the company's net profit but in small degree. At the same time revenues will be unchanged for the period of the 25-year contract. The main risk is rising costs for external services.

Financial costs are including payments on the company's loans to banks and the majority owner. The prospect is including all payment of Intersolar by year. In the last financial report of the company at the end of October 2011 is announced BGN 9 875 000 debts, of which BGN 220 000 should have been paid last year. Intersolar Varna is expected to pay BGN 11 767 000 including interest until 2018. The company is planning to distribute profits as dividends.

### Valuation

The method for valuation is discounted free cash flows to equity.



The graph is presenting the share price according to the discount rate for the cash flow during the next ten years. The expected cash flows are shown in the table. The depreciation of machines and equipment is calculated for the whole period of 25 years. The cash flow will not be reinvested and is supposed to be distributed as dividends. We also assume that operational costs will remain unchanged. Financial costs are calculated according to the payment calendar. The discounted rate in the presented case is 8%, which results to price per share of BGN 1.57. The tax on dividends should decrease the rate of return for some investors by 5%.

Our model includes the present value of continuing value for the years after 2021. The last year's cash flows are treated as perpetual, although the project will maintain its revenues only for 25 years. Afterwards, revenues will decline substantially or assets will be liquidated. The difference in profits for 25 years and using the continued value is substantial – BGN 7 million or nearly BGN 0.30 per share. This should be compensated by the sell of land and other real estates.

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Terminal Year
<b>Revenues</b>	4 529 534	4 529 534	4 529 534	4 529 534	4 529 534	4 529 534	4 529 534	4 529 534	4 529 534	4 529 534	
<b>Operating costs</b>	300 000	300 000	300 000	300 000	300 000	300 000	300 000	300 000	300 000	300 000	
<b>Financial costs</b>	2 296 000	2 246 000	1 541 000	1 544 000	1 578 000	1 553 000	1 009 000				
<b>Depreciation</b>	1 247 200	1 247 200	1 247 200	1 247 200	1 247 200	1 247 200	1 247 200	1 247 200	1 247 200	1 247 200	
<b>Profit before tax</b>	686 334	736 334	1 441 334	1 438 334	1 404 334	1 429 334	1 973 334	2 982 334	2 982 334	2 982 334	
<b>Net profit</b>	617 700	662 700	1 297 200	1 294 500	1 263 900	1 286 400	1 776 000	2 684 100	2 684 100	2 684 100	
<b>FCFE</b>	1 864 900	1 909 900	2 544 400	2 541 700	2 511 100	2 533 600	3 023 200	3 931 300	3 931 300	3 931 300	3 931 300
<b>PV FCF</b>	1 726 760	1 637 432	2 019 827	1 868 226	1 709 013	1 596 598	1 764 008	2 123 959	1 966 629	1 820 953	
<b>Sum of PV FCF</b>	18 233 404										
<b>PV of Continuing Value</b>	22 761 909										
<b>Total PV Free Cash Flows</b>	40 995 313										
<b>Number of shares</b>	26 073 000										
<b>Discount rate</b>	8.00%										
<b>Share price</b>	1.57										

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**Regulatory Authority:** Financial Supervisory Commission, *Shar Planina* Street 33, 1303 Sofia, Bulgaria

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