



ANNUAL REPORT
of the
BULGARIAN STOCK EXCHANGE
-2002-

AMENDMENTS TO THE RULES AND REGULATIONS. LEGAL FRAMEWORK

1. AMENDMENTS TO THE RULES AND REGULATIONS

In 2002 the Rules & Regulations of the Bulgarian Stock Exchange were amended five times as follows:

- The amendments approved in January and February'2002 regarding the transaction fees on the Official and Unofficial Markets;
- The amendments as of June 2002 regarding the introduction of new Rules for Listing of Issues, Execution and Settlement of Transactions on the Privatization Market - Annex 2 to the BSE Rules, according to which a closed auction was launched in the process of privatization of the state stakes through the Exchange, as well as the addition of a totally new Annex 6 – Rules for Compensation Instruments Trading, which regulate the trading of the compensation instruments;
- Amendment as of August 2002 – A new Annex 7, which regulates the procedures for registration and trading of rights issues as a result of capital increase proceedings by public companies under Art. 112-112d of the Public Offering of Securities Act;
- Amendment as of December 12, 2002 – Three new paragraphs were added to Art. 94 concerning the price fluctuation limits on the Equities Market:
 - 1) After calculation of the opening price for the following trading session the brokers are obliged to cancel immediately their orders of the type “valid until cancelled”, which are set outside of the price limitations;
 - 2) The brokers cannot enter orders “valid until cancelled” with prices set outside of the allowed limitations;
 - 3) The BSE has the right to cancel all orders with prices set outside of the allowed limitations after the calculation of the opening price for the following trading session.

The Board of Directors of the Exchange and the Trading & Surveillance Department approved a series of obligatory instructions and procedures such as:

- Instructions on Determining the Minimal Trading Lot, Quotation and Trading of Bond Issues on the BSE-Sofia;
- Instructions regarding the redemption of securities listed or traded on the BSE-Sofia;
- Procedures concerning the implementation of the Compensation Instruments Act;

- Rules for equal treatment of the participants and secure execution of privatisation transactions through the Exchange;

2. LEGAL FRAMEWORK

The Compensation Instruments Act voted in May 2002 regulates the procedures for the issuance, execution and settlement of transactions with compensation instruments. This Act aims the fairest restitution to the owners of nationalised property, agricultural land, forests.

The benefits of introducing the new investment instruments on the Exchange – the compensation notes and vouchers - could be characterised as follows:

- Concentration of supply and demand;
- Transparency of the transactions;
- Formation of a fair market price;
- Equal treatment and access for all participants in the trading process;
- Full electronic execution of the orders;
- Guaranteed settlement of the transactions on T+2;
- Single book-entry registry, allowing quick access to the data on compensatory instruments.

In June 2002 new amendments and supplements were voted by Parliament with regard to the Public Offering of Securities Act (POSA). The most important amendments concerned the capital increase procedures of public companies and more specifically the protection of the rights and interests of the minority shareholders. Public companies will be allowed to increase their capital only after issuing dematerialized and freely transferable rights before starting the subscription of shares.

The passage of the Amendment and Supplement Act on the Public Offering of Securities Act (POSA) in June 2002 has great effect on the practice as a lot of pending cases have been settled in accordance with the world tendencies.

The new § 1a of the POSA is of great importance to the stock market. In compliance with it Chapters III, V and IX of the POSA shall be applied to the compensation instruments pursuant to the Compensation Instruments Act. In accordance with these amendments:

- The compensation instruments shall be traded on the Exchange in compliance with the principles applicable to the dematerialized securities and with the BSE Rules and Regulations;
- Trading with compensation instruments can be done only by licensed investment intermediaries and by adhering to the provisions of the POSA on their activity;
- The compensation instruments shall be registered in accounts with the Central Depository and transactions with them shall be settled in compliance with the Central Depository's Rules and under the procedures applied to the other dematerialized securities.

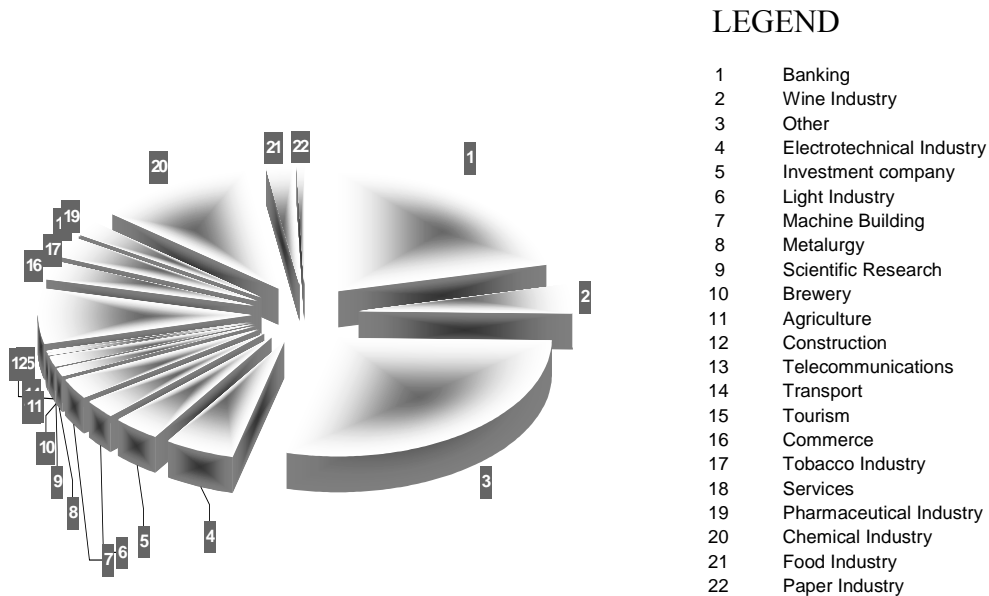
MARKET PERFORMANCE

In 2002 there were 42 issues (including the Government Securities) listed on the Official Market and 326 issues admitted for trading on the Unofficial Market. Nine new issues were registered and 58 issues were “delisted” in that year.

The transformation of the compensation instruments into dematerialized securities and their registration on the BSE turned out to be one of the most significant events on the Bulgarian regulated capital market in 2002. In a period of several months (as they were admitted for trading in September), the compensation notes and vouchers became the most liquid instruments on the Exchange. 40% of the total turnover on the Exchange in the last 3-4 months of 2002 was the result of transactions with compensation instruments.

A great part of the compensation instruments were envisaged to be used as payment means for buying shares of the companies privatized through the Exchange in 2002. But due to the delay in the privatization process, the investors’ expectations were concentrated more on the year 2003. The price of the compensation instruments is mainly influenced by the shares proposed for privatization by the State. In this sense the State plays an important role in supplying the stock market with attractive shares of “blue chip” companies.

In 2002 the total number of transactions executed on all markets was 22 910. The securities trading volume reached 311,799,947 with 50-60 companies (of all the 400) being actively traded on a regular basis.



Banks’ shares were the most liquid securities on the Exchange in 2002. The shares of the companies from the wine industry sector ranked second, followed by the holding companies.

In December 2001 the State Securities Commission granted a license to the BSE-Sofia to organize an Unofficial Market, which was officially launched in the beginning of the year 2002.

Market	Volume			Turnover (BGN)			Transactions		
	Year	2002	2001	Change	2002	2001	Change	2002	2001
Unofficial Market of Equities	15,428,564	8,408,258	83%	69,547,312.67	37,609,662.35	85%	9,543	7,458	28%
Unofficial Market of Other Instruments	1,122,464	0	n.a.	236,021.15	0	n.a.	13	0	n.a.
Unofficial Market of Bonds	8,923	141	6228%	17,071,828.65	275,933.43	6087%	164	5	3180%
Official Market of Equities, A segment	76,416	7,103	976%	897,222.65	64,048.65	1301%	45	22	105%
Official Market of Equities, B segment	436,948	1,614,232	-73%	2,124,737.48	1,263,410.97	68%	701	336	109%
Official Market of Equities, C segment	4,136,555	1,306,779	217%	11,424,393.15	1,431,570.33	698%	5,754	4,055	42%
Official Market of Corporate Bonds	2,610	5,974	-56%	2,452,857.66	816,901.82	200%	46	33	39%
Official Market of Government Securities	0	395	n.a.	0	778,224.58	n.a.	0	5	n.a.
Compensation Instruments Market	174,509,672	0	n.a.	40,762,088.40	0	n.a.	6,235	0	n.a.
IPO Bonds	14,719	0	n.a.	14,719,000.00	0	n.a.	60	0	n.a.
Block Transactions	114,214,952	56,032,944	104%	244,703,852.48	114,485,125.99	114%	203	361	-44%
Tender Offers	885,971	183,399	383%	8,897,515.27	461,614.54	1827%	17	14	21%
Redemption of Securities	107,434	0	n.a.	356,537.50	0	n.a.	35	0	n.a.
Privatization in Cash	811,922	3,367,220	-76%	2,886,742.28	3,871,967.01	-25%	61	19	221%
Privatization in Compensation Instruments	42,797	0	n.a.	309,013.15	0	n.a.	33	0	n.a.
TOTAL	311,799,947	70,926,445	340%	416,389,122	161,058,460	159%	22,910	12,308	86%

Table 1

According to the figures in Table 1, the number of securities traded in 2002 increased by 340% compared to 2001. For only a few months of trading, the volume of the compensation instruments exceeded even the annual volume generated through block transactions that traditionally used to be the biggest one. The highest turnover, of course, was reached through block transactions totaling BGN 245 million, followed by the compensation instruments with a turnover of BGN 40 million in a three-month trading period. The total turnover in 2002 registered a significant increase of 159% in comparison with 2001, which is a proof for greater trading activity even without taking into consideration the compensation instruments. These instruments hold the first place in terms of transactions executed in 2002, followed by the traditional Unofficial Equities Market and the “C” segment of the Official Equities Market.

Average Daily Statistics for 2002			
Market	Securities	Turnover (BGN)	Transactions
Block Transactions	456 859.81	978 815.41	0.81
Tender Offers	3 543.88	35 590.06	0.07
Redemption of Securities	429.74	1 426.15	0.14
Privatization in Cash	3 247.69	11 546.97	0.24
Privatization in Compensatory Instruments	171.19	1 236.05	0.13
Unofficial Market of Equities	61 714.26	278 189.25	38.17
Unofficial Market of Other Instruments	4 489.86	944.08	0.05
Unofficial Market of Bonds	35.69	68 287.31	0.66
Official Market of Equities, A segment	305.66	3 588.89	0.18
Official Market of Equities, B segment	1 747.79	8 498.95	2.80
Official Market of Equities, C segment	16 546.22	45 697.57	23.02
Official Market of Corporate Bonds	10.44	9 811.43	0.18
Compensatory Instruments Market	698 038.69	163 048.35	24.94
IPO Bonds	58.88	58 876.00	0.24
TOTAL	1 247 195.79	1 665 553.17	91.64

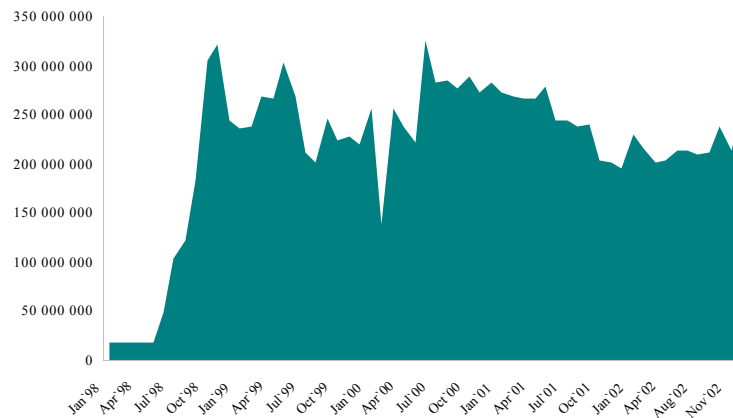
Table 2

Market Capitalization as of 31.12.2002	
Market	Capitalization (BGN)
Official Market of Equities, A segment	31,024,265
Official Market of Equities, B segment	94,867,539
Official Market of Equities, C segment	126,981,433
Unofficial Market of Equities	1,122,311,124
TOTAL	1,375,184,361

Table 3

In Table 3 the overall market capitalization on the BSE-Sofia as of the end of 2002 is presented. The figures could be much better, but it should be pointed out that the capitalization values do not substantially differ from the values as of the end of 2001, although a great number of issues were delisted during 2002. It is mainly due to the rise in prices of the companies traded as is evident from the SOFIX graphics.

Market Capitalization of the Official Market of Equities (1998-2002)



TECHNOLOGICAL INNOVATION

The launching of a closed auction system on the Privatization Market led to the necessity of acquiring an IPO server and an additional module to the brokers' terminals so that brokers can enter bid orders on that market. In accordance with Annex 2 to the BSE Rules that module was operational on 26.11.2002.

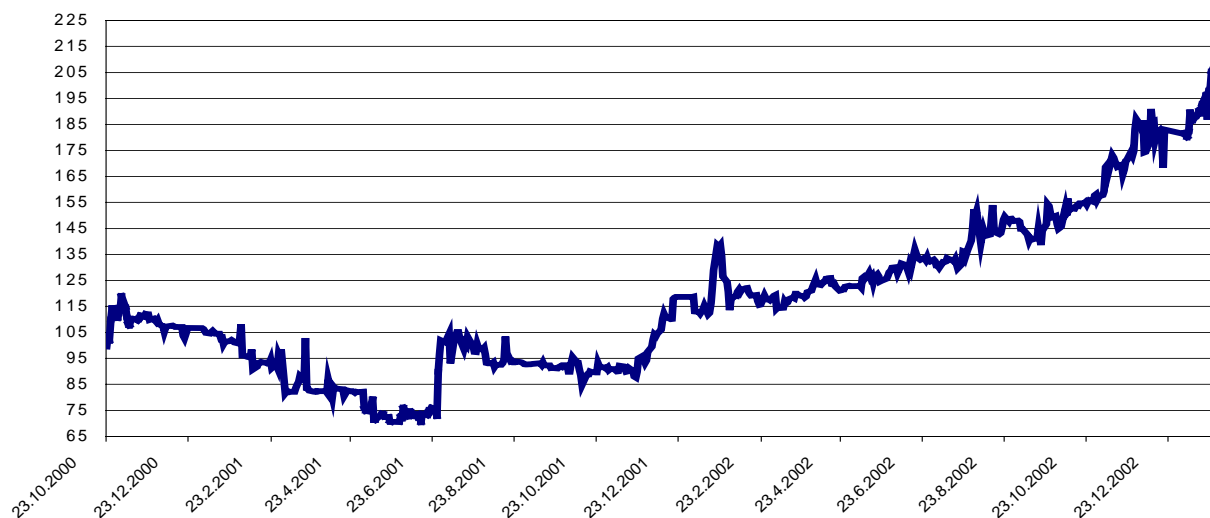
In the first half of the year the BSE-Sofia introduced a second 30-channel ISDN, which gives the possibility to all the members of the Exchange to trade on a remote basis.

The newest service provided by the BSE-Sofia – the Client Order-Book Online System (COBOS) - started in March, 2003. COBOS is an internet-based application for an authorized and secure access to the BSE Trading System in real time allowing BSE-members' clients and participants on the Unofficial market to enter orders and to transact after receiving a confirmation by the broker. The new service enables clients to manage their portfolios themselves giving them the sense of direct trading through the system, without the intermediacy of a broker. The client terminal provides enough information in real time for clients to take a good investment decision.

THE SOFIX

On 22.02.2002 the Committee on the Indices with the BSE-Sofia decided to include in SOFIX the company Slantchev briag AD-Slanchev bryag in the place of Balkanpharma-Dupnitca AD as the latter had been written off from the State Securities Commission's Registry of Public Companies. In 2002 the number of companies included in SOFIX remained 9 /nine/. During the year the Index registered a significant increase starting at 118.63 on 02.01.2002 and reaching the value of 183.08 on the last trading day, which is an increase of 54.33%.

SOFIX



INFORMATION SERVICES

Information services innovation and diversification is still a priority in the activity of the BSE-Sofia. In 2002 the efforts were mainly directed towards the improvement of the quality of the data provided via Internet. The web-site www.bse-sofia.bg provides large variety of statistical and corporate information and has become an effective instrument useful to both the small investors and the capital market specialists. Meanwhile, responding to the accrued demand, the BSE-Sofia increased the volume of the provided statistics on the companies traded, the price quotations and the SOFIX trend.

The agreements between the Exchange and the biggest data vendors such as Thompson Financial, Reuters, Bloomberg and Internet Securities, were prolonged in 2002. The intensified activity on the Bulgarian capital market in 2002 led to a greater interest on behalf of the information leaders to obtain the trading results in real time.

INTERNATIONAL ACTIVITY

In 2002 the BSE-Sofia continued expanding its international relations both in a regional and global aspect. In May 2002 a BSE delegation led by the Executive Director George Draychev visited the Moscow Inter-bank Currency Exchange (MICEX) which controls 85% of the stock market in Russia. A Memorandum of Understanding was signed, which provides for different forms of co-operation in the interest of both Exchanges.

In October 2002 the BSE-Sofia hosted a Roundtable on “Privatization through the Stock Exchange. The Experience in Southeast Europe”. It was organized in the framework of the traditional annual Economic Forum for Southeast Europe. Senior officers from the Exchanges in Athens, Istanbul, Bucharest, Skopje and Sofia took part in the Forum.

As a member of the Federation of the Euro-Asian Exchanges (FEAS) the BSE-Sofia participated in different international forums. Its representatives took part in different roundtable discussions and seminars on the global stock market development.

INVESTMENT INTERMEDIARIES – MEMBERS OF THE BSE-SOFIA

Exchange Members

As of 31.12.2002, 87 licensed investment intermediaries were registered as members of the BSE-Sofia. During the year 2002, 11 new members were admitted and the membership of 2 investment intermediaries was terminated.

Brokers

As of 31.12.2002 there were 117 brokers registered on the BSE-Sofia. In 2002, 37 new brokers were admitted to trading and the access to the trading system of 27 brokers was terminated.

SHAREHOLDERS’ STRUCTURE

As of 31.12.2002 the structure of the BSE shareholders is as follows:

Type of Shareholder	Number of Shares Held	Percentage Held (%)
Physical persons	9,779	3.34
Legal entities	25,750	8.81
Ministry of Finances	129,000	44.12
Institutional Investors	6,135	2.10
Financial Institutions	0	0
Investment Intermediaries	122,729	41.97

N.B. The BSE-Sofia does not have information on the persons pursuant to art. 22 (2) of the POSA and in particular which of the “Legal entities” shareholders are compliant to the definition “Institutional Investor” in accordance with the Transitional and Conclusive Provisions of the POSA.