



BULGARIAN CAPITAL MARKET PERSPECTIVE

2011 Bulgarian Investment Opportunities Forum - Vienna, Zurich, London, Frankfurt



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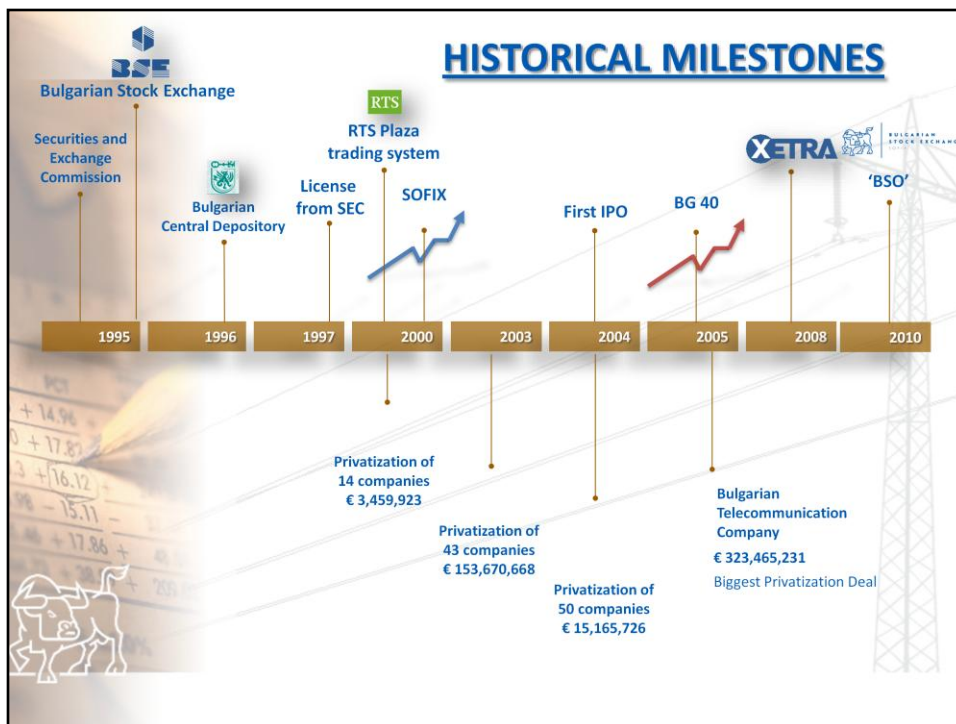
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BUSINESS FRAMEWORK

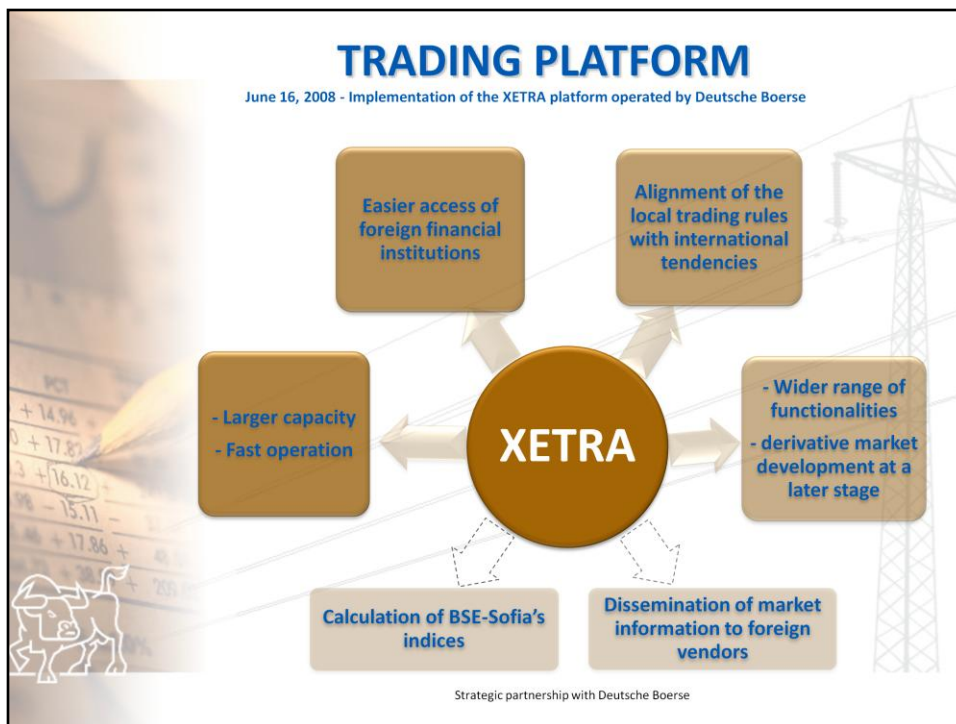




Bulgarian capital market history dates back to the beginning of the 20th century. The first provisional Stock Exchange Act in Bulgaria was adopted in 1907 and regulated the structure and functions of both the stock and commodity exchanges in the country. On April 15th 1914, under the King's Decree №7 the first stock exchange, named Sofia Stock Exchange, was established in Bulgaria.

The recent history of the Bulgarian capital market began with the introduction of the Commerce Act in July 1991. Until 1994 some 20 regional stock exchanges were established in Bulgaria and all of them functioned in an unregulated environment.

- In July 1995 the Securities, Stock Exchanges and Investment Companies Act was adopted. The same year the first legislative act dedicated to the capital market was institutionalized by the establishment of the Securities and Stock Exchanges Commission (currently – Financial Supervision Commission).
- In December 1995, with the merger of five regional exchanges the Bulgarian Stock Exchange was created. Later the exchange became the only licensed stock exchange in the country.
- In August, 1996 the Central Depository AD (CDAD) was established as the only institution in Bulgaria providing settlement of corporate securities in book-entry form.
- In October, 1997 BSE AD was officially licensed as a Stock Exchange by the Bulgarian Securities and Stock Exchanges Commission. The first trading session on the regulated market took place on October 21, 1997 and was officially opened by the Bulgarian Prime Minister. More than 1,000 companies were listed on the Free (OTC) Market as a result of the Mass Privatization Program.
- In October, 2000 BSE launched a new trading platform (RTS Plaza), which was fully automated and its first version was based on a NASDAQ quotation core.
- On October 20, 2000 the Exchange started calculating the SOFIX index – the most widely recognized stock market index.
- In July, 2004 the first initial public offering on the Bulgarian Stock Exchange was carried out by an Internet company called Investor.bg AD.
- In February, 2005 BSE started calculating the BG40 index, which includes shares of the Top 40 most liquid companies.
- On June 16, 2008 BSE successfully launched the Deutsche Boerse electronic trading platform Xetra®.
- In December 2010 BSE became a public company and on the 6th of January 2011 its shares started trading on the regulated market. The stock ticker is "BSO".



On 16 June 2008 BSE successfully launched the Deutsche Boerse electronic trading platform Xetra®. The Bulgarian Stock Exchange's decision to implement Xetra® was based primarily on its desire to become more open to foreign investors from leading capital markets. On one hand, the main technical requirements are in place so that the Xetra® trading participants who are already connected can directly access the Bulgarian market. On the other hand, the Bulgarian participants have the opportunity to trade in more than 17,000 financial instruments listed on Xetra®, according to the principle of common entry point after meeting the membership requirements of the respective exchange.

The basic advantages that were introduced by the platform can be summarized as:

- high technological level of the platform, proven by its efficient functioning in the stock exchanges in Vienna, Dublin and Shanghai, as well as in the European Energy Exchange in Leipzig and Deutsche Börse;
- increased visibility of the Bulgarian market to foreign investors already trading through XETRA;
- simplified access for foreign investment intermediaries to the Bulgarian market.
- On 28th November, 2011 BSE successfully upgraded the Xetra Release 12.0



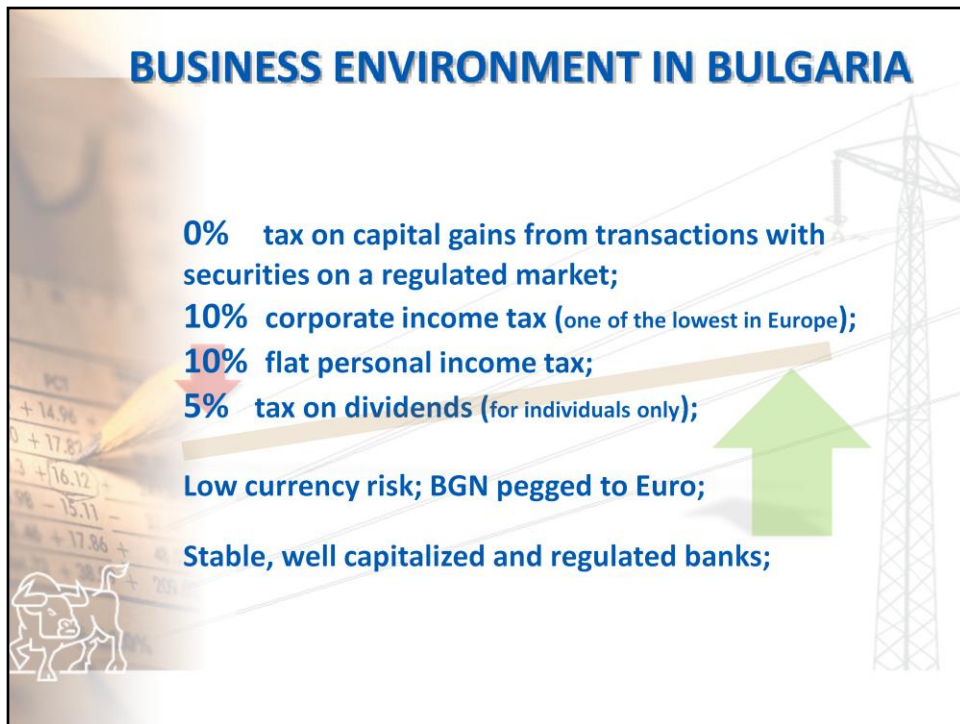
The legislative framework regulating the capital market activities in Bulgaria is fully harmonized with the corresponding EU Directives.

MiFID was transposed in the local legislation in the end of 2007 and introduced numerous changes and new principles such as the “single passport” principle to the local market making it more open and accessible for foreign investors.

Bulgarian capital market has a modern and efficient infrastructure. All traded financial instruments are dematerialized and registered at the Central depository. The trade on the regulated market is fully electronic. In addition, BSE is working with the XETRA Trading Platform which is one of the most powerful trading platforms for cash market securities and is a synonym for high performance and internationalization of securities trading.

The main institution that is responsible for the enforcement of the local legal framework and ensures protection of the consumers of financial services and instruments is the Financial Supervision Commission (the Commission / FSC). FSC was established on March 1st, 2003 under the Financial Supervision Commission Act. The Commission is a specialized government body for regulation and control over different segments of the financial system – capital market, insurance market, health insurance market and pension insurance market. The Commission ensures the maintenance of stability and transparency on the non-banking financial sector.

The detailed legislations regulating the information disclosure and dissemination by the public companies and the National Corporate Governance Code, introduced in 2007 are among the main prerequisites for the establishment of international practices on the Bulgarian capital market.



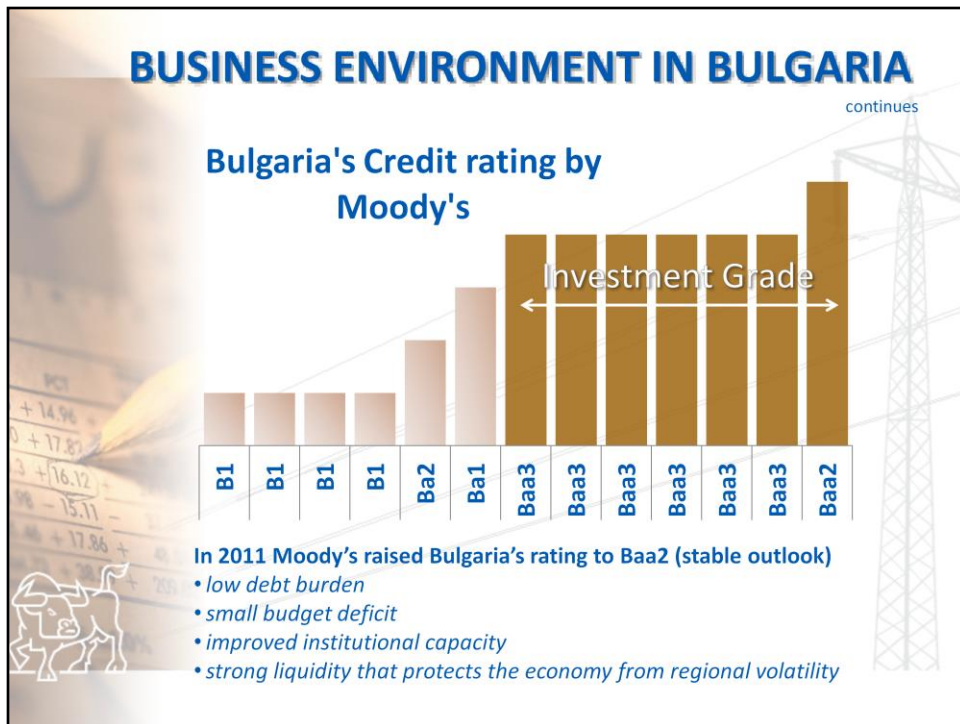
Tax incentives are among the most important tools used by the Bulgarian government in order to stimulate the development of the local capital market. The reduction of the corporate tax to 10% from the beginning of 2007 made the business environment in Bulgaria more attractive both to foreign and local investors. That reduction indirectly had a positive effect on the decision of some local companies to become public in 2007 and 2008. Currently the corporate tax in the country is among the lowest in the European Union. Moreover, effective since January 1, 2008, a 10% flat tax on personal income has been introduced which increased the disposable income of the individuals.

In addition capital gains from transactions at the regulated market are tax exempt and the tax on dividends for individuals is 5% (decreased from 7% in 2008). All of the above had a very positive and beneficial effect towards the attraction of investors, both local and foreign.

The currency board mechanism was introduced in Bulgaria in 1999 and as a result of it the local currency was pegged to the euro so the currency risk in the country decreased substantially.

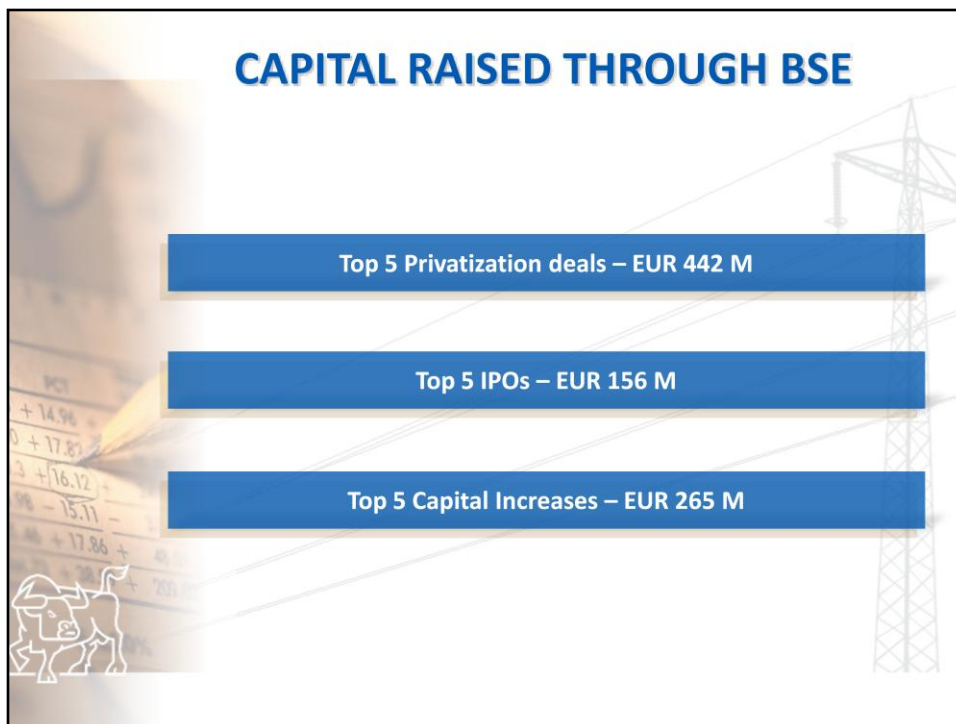
Bulgarian banking system stayed stable, highly capitalized and liquid despite the global financial and economic problems in the recent years due to the conservative policy of the Bulgarian National Bank. None of the banks that operate in Bulgaria needed any state help since the beginning of the crisis.

Bulgaria was expected to join the Eurozone in 2013 but after the rise of some instability in the zone the country is withholding its positions towards the Euro, combining together positive and realistic attitudes. Since Bulgarian currency is anyway bounded to Euro Bulgaria is looking for more positive outcomes of the becoming a member of the Eurozone rather than risks.



As a proof of the stable financial system in Bulgaria Moody's raised Bulgaria's rating to Baa2 (with a stable outlook) in 2011, justifying it with the:

- low debt burden;
- small budget deficit;
- improved institutional capacity;
- better liquidity that protects the economy from regional volatility.



In general, the Privatization process through the stock exchange is one of the most effective tools for selling state properties. It is beneficial for the Government because it provides a fair pricing mechanism and is essential to the further development of the capital market.

In Bulgaria the privatization through public offering of shares started in January 1998 with the sale of 60% in the capital of the local cable producer Elkabel AD on the stock exchange. In the same month Elkabel became the first listed company on the highest segment of the exchange, the Official market.

The privatization process through the capital market was very active during the period 1998–2005 when the government sold stakes in more than 120 companies. The biggest privatization deals were as follows:

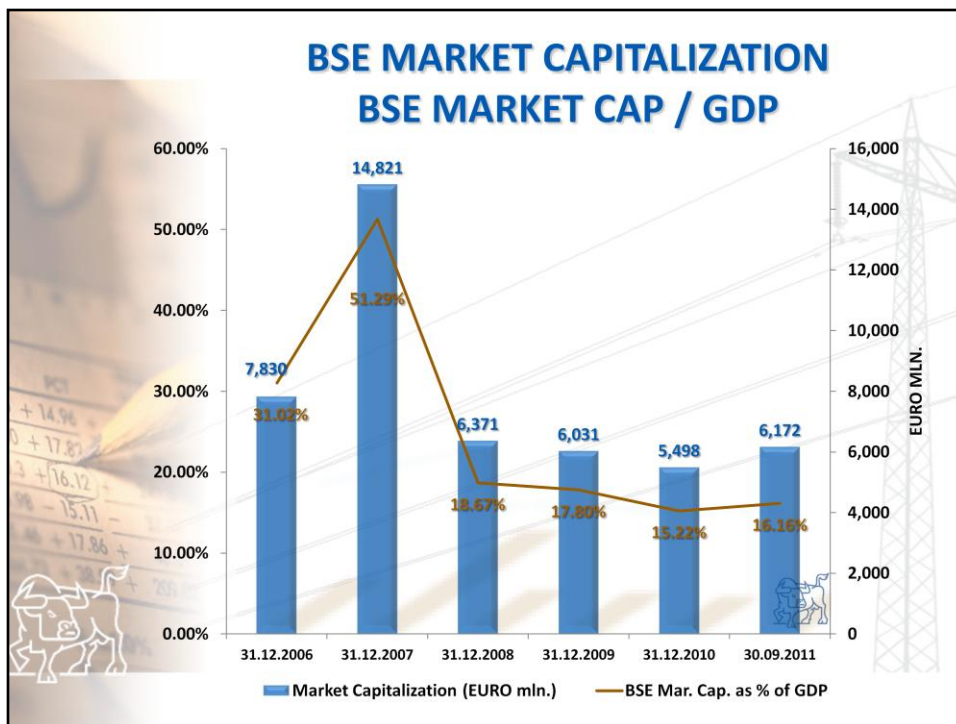
- Bulgarian Telecommunication Company (BTC) € 323,5 mln
- Bulgartabac Holding -€ 40,5 mln
- St. St. Constantine and Helena Holding -€ 34,2 mln
- DZI Insurance PLC -€ 23, 6 mln
- Oil And Gas Exploration And Production -€ 21 mln.

The privatization deals above were among the important factors that contributed to the increased attractiveness of BSE over the time. In 2005 the Government sold 34.78% in the local telecommunication company BTC through the stock exchange which accumulated a strong interest by new local and foreign investors. Based on its market value BTC became the largest Bulgarian public company after its listing.

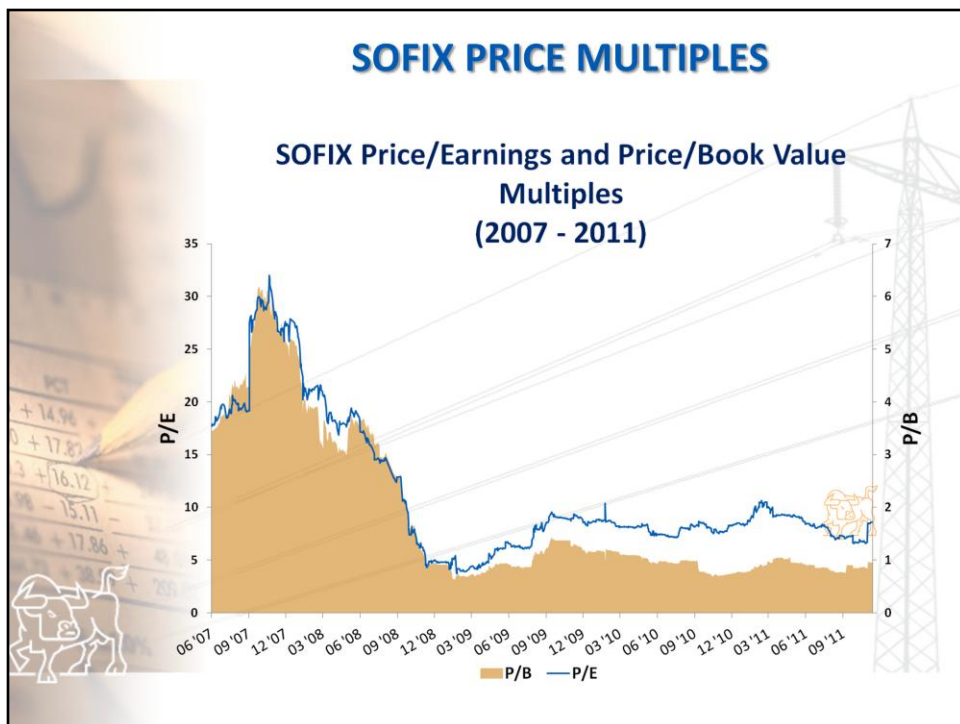
During the period 2006-2009 BSE became a competitive alternative to the bank financing and more than 20 companies debuted on the Exchange by IPOs. These companies raised more than € 327 mln from capital market investors. The biggest IPO on the Bulgarian market during that period was the listing of the commercial bank First Investment Bank (€ 54.7 mln).

INVESTMENT HIGHLIGHTS

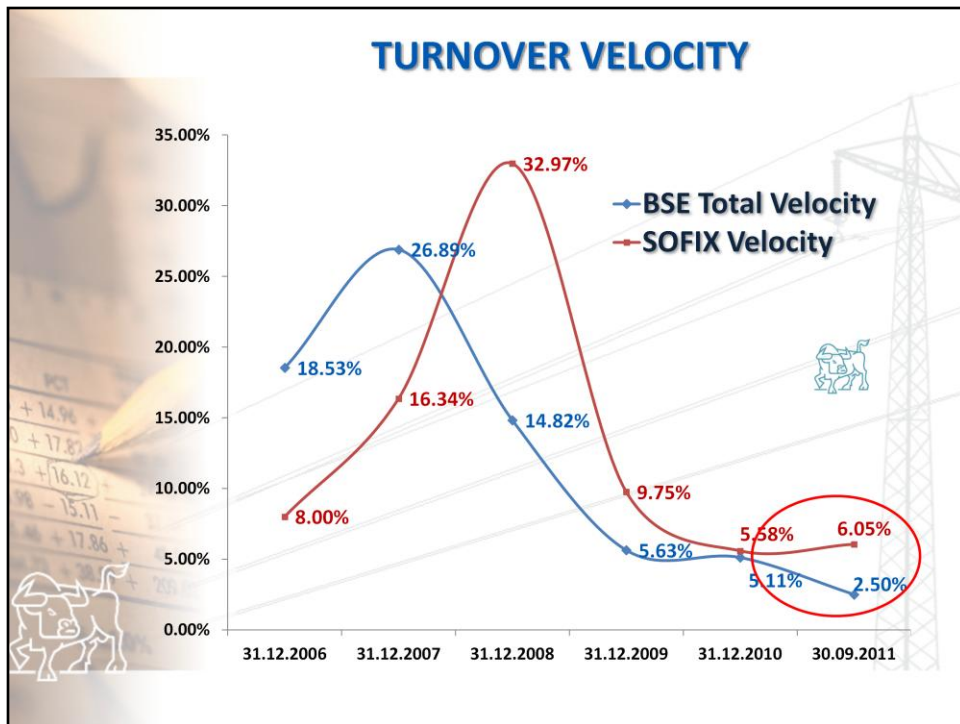




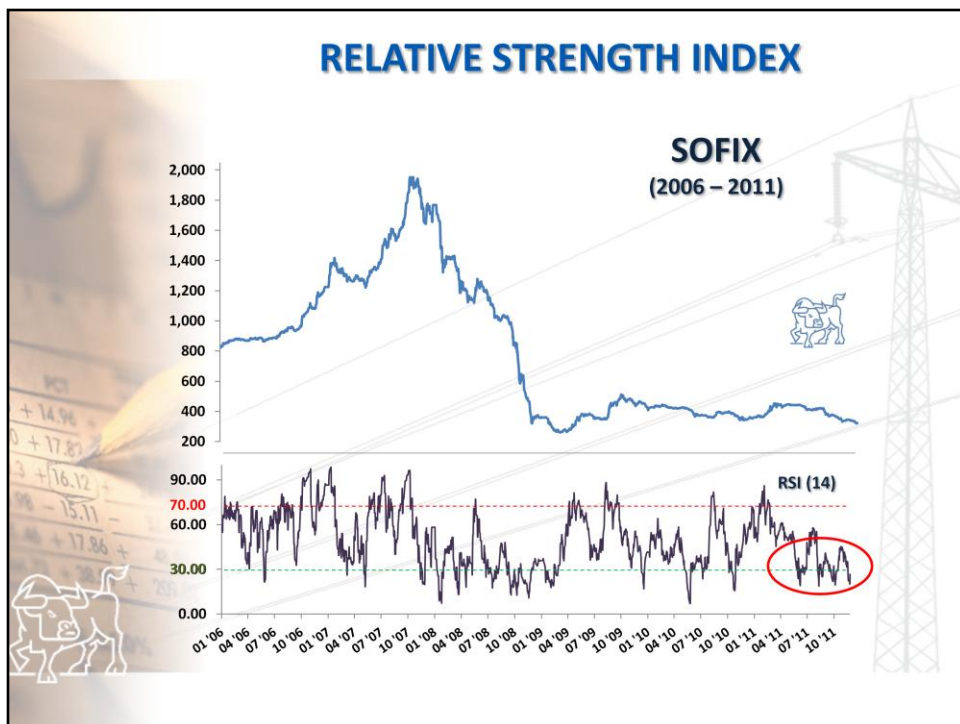
BSE market capitalization and market cap/GDP ratio reached their peaks in 2007 as a result of the increased number of local and foreign investors, higher market prices of the Bulgarian public companies and improving business environment in the country. However, the world financial and economic crisis led to a sharp decrease in the indicators of the stock exchanges all over the world, incl. Bulgaria. Market capitalization and market cap/GDP ratio decreased by nearly 60% between 2007 and 2011.



Currently, Bulgarian blue chip price multiples are attractive with SOFIX P/E values at nearly 8 and SOFIX P/B values below 1. In comparison, the values in the end of 2007 were as follows: P/E = 32 and P/B = 6.5.



Turnover has also reached its peak in 2007-2008 period. The turnover velocity of the leading index SOFIX has retained momentum till the late 2008, reaching 32.97% while the total market velocity has started to decline post 2007. SOFIX and BSE total velocities sunk to 5.58% and 5.11% respectively in 2010. As of 2011 we have observed strong divergence between the trends of BSE and SOFIX velocities, with the SOFIX one gaining momentum during the year and the BSE one losing further grounds, hinting at investors' preference in the blue-chips.



At the end of Sept 2011 SOFIX was some 81% lower than its peak levels in the end of 2007. Bulgarian market as a whole lagged behind the pace of recovery of the remaining markets in Central and Southeastern Europe in 2009 and 2010. That was also among the reasons for the relatively small decrease of SOFIX in 2011 in comparison with other regional markets. As it can be assumed from the RSI trend since the beginning of 2011 the market has gained stronger resistance levels, however, the RSI retained neutral and oversold territory. From quantitative / technical point of view the market exhibits continuous attractiveness with current levels of the RSI below 30.

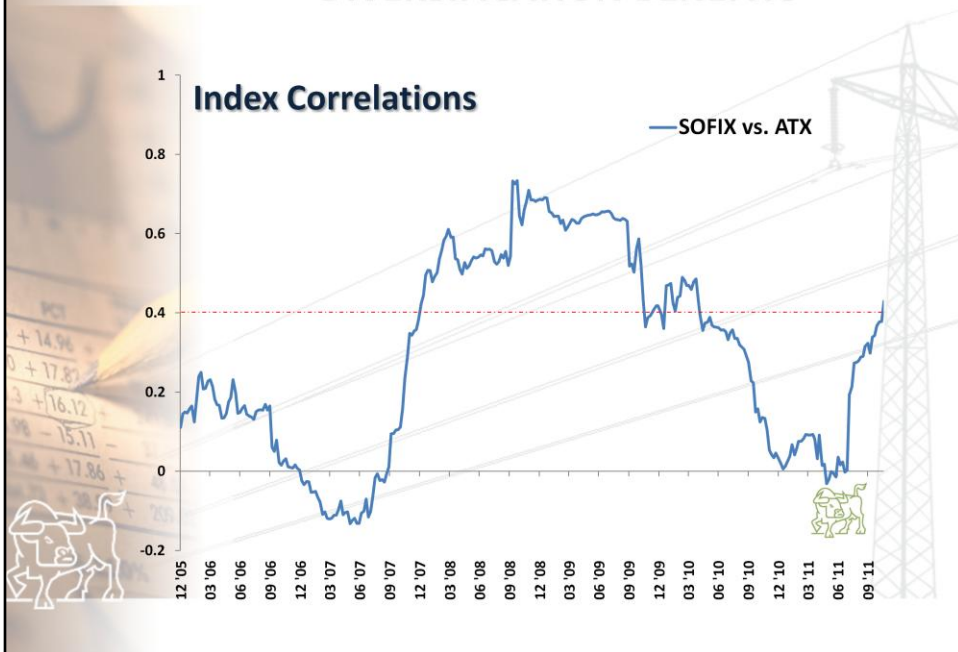
DIVERSIFICATION BENEFITS



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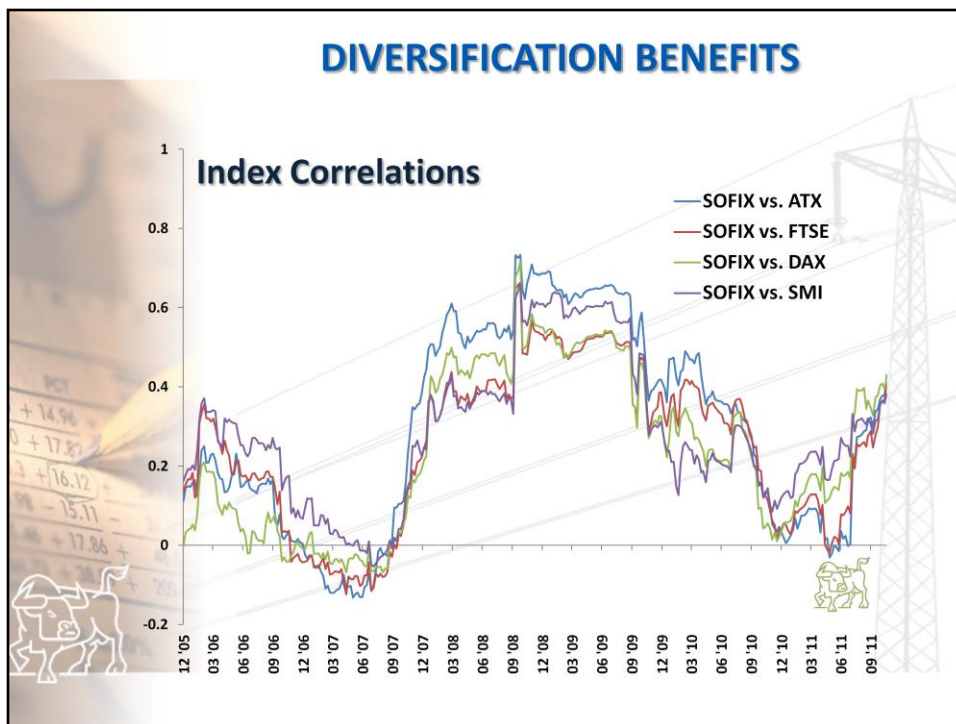


DIVERSIFICATION BENEFITS



DIVERSIFICATION BENEFITS





The Bulgarian capital market allows for excellent diversification benefits. The decoupling of SOFIX from ATX, DAX, FTSE and SMI that has started at the second half of 2009 has offered attractive diversification benefits 2010 and 2011. With current correlation in the 0.4 range the Bulgarian capital market continues to offer excellent equity diversification benefits. With the continuing critically high intermarkets' correlation in Europe, the Bulgarian's blue chip index SOFIX retained diversification attractiveness during the years.



As a part of its mid-term strategy, BSE has set a few strategic priorities which primary purpose it improved liquidity. Not all of them depend entirely on the regulated market and some of them need effort from more than one institution, but all of them were marked as highly important by the market participants themselves.

In terms of market infrastructure, a few strategic initiatives should be outlined:

- Separation of the clearing system from the central securities registry; this process is currently ongoing at the central depository in Bulgaria and upon completion will provide a relative independence of both systems and will open space for additional infrastructure enhancements as improved securities lending, remote membership facilitation etc.

- As a secondary result from the improvements on the clearing side, margin trades and short sales will be much easier to settle and the cost associated to them are expected to decrease as long as less account transfers will be involved. Combined with appropriate legislative improvements, short sales are expected to become an essential part in the product portfolio diversification.

- Along with all national level clearing enhancements, Bulgaria is becoming more and more internationally oriented in terms of cross border securities trading and settlement. Better utilization of the existing depository links is expected in the next couple of years which can diversify the traded products as long as instruments domiciled outside Bulgaria can be traded on BSE.

- As a second step after the separation of the clearing part comes settlement guarantee thus effectively turning the clearing institution into a viable CCP and opening space for a much broader product portfolio.

- As a first step, BSE has already approved the introduction as of 1st of January 2012 of extended trading hours in order to make the market easily accessible from countries in different time zones as well as to be able to offer cross-trading in instruments specifically developed for several markets.

- BSE is ready to offer full trading functionality to many new products like structured products and ETFs.

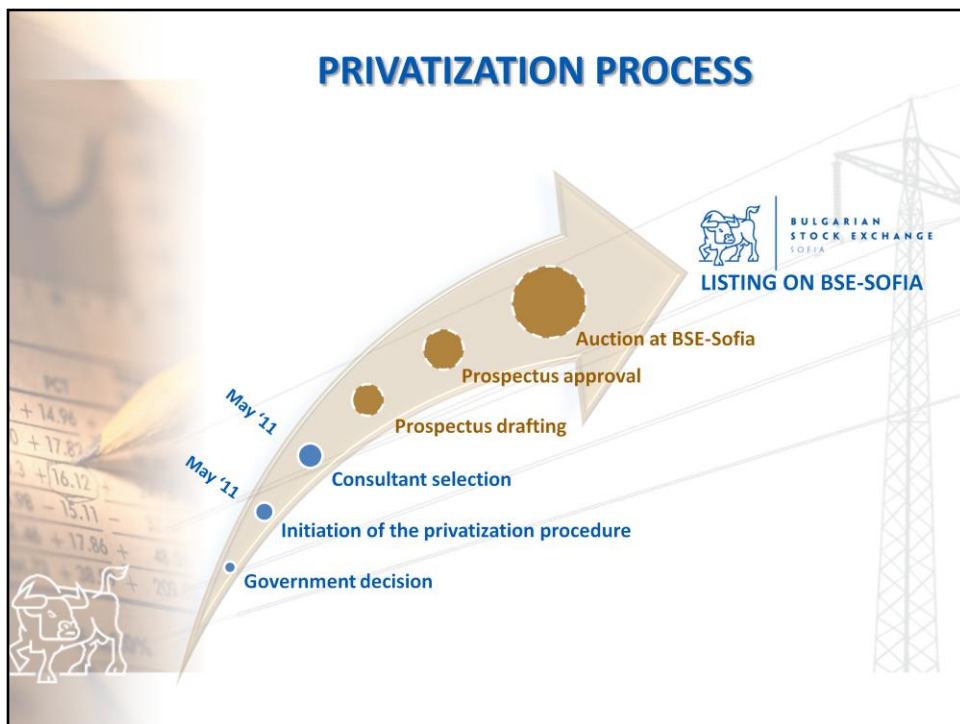
- The operation of a state-of-the-art trading platform which is constantly being improved by its service provider ensures full compatibility with all new trends in securities industry.

- The efforts of BSE in the corporate governance area ensure long-term vitality of the market as well as constantly improving investment environment. The upcoming review of the National corporate governance code is intended towards better implementation of the underlying principles and better understanding of their importance on the company level.

- And last but not least, over the last few years BSE has put serious efforts towards attracting new issuers as well as increased investor awareness. The stock exchange, together with other stock market institutions organized a series of roundtables and workshops dedicated to the popularization of the opportunities the capital markets provides. As long as BSE believes that such process must be systematic and continuous even through turbulent times, it will continue with its efforts to bring a wider range of investors and listed businesses to the market.



The forthcoming privatization of the Government's share in the Bulgarian electricity distribution companies is expected to be one of the most significant events in the Bulgarian economy for 2011. It is expected to have a strong positive impact on the development of the local capital market, and is likely to attract substantial local and foreign investment interest.



The privatization process started with the Government's decision to sell its minority stakes in the following electricity distribution companies:

- CEZ Electro Bulgaria (33%) and CEZ Electricity Distribution Bulgaria (33%);
- EVN Bulgaria Distribution (33%) and EVN Bulgaria Electricity Supply (33%);
- E.ON Bulgaria Sales AD (33%) and E.ON Bulgaria Grid AD (33%).

The execution of the formal privatisation procedure was assigned to the Bulgarian Privatization and Post-privatization Control Agency. The Agency initiated the process in May 2011 when the requirements for selection of privatization consultants were presented. Contacts with the selected consultants were signed and the shares of the electricity distribution companies were registered at the Bulgarian Central Depository. At this stage, the prospectuses are submitted for regulatory approval by the Financial Supervision Commission. After the approval the minority stakes will be offered for sale through an auction organized by the Bulgarian Stock Exchange. After the auction the shares of the companies mentioned above will be listed for trading on the Exchange.

WHY, WHY, WHY...

Financial & Macro stability (Baa2 - stable)

Favorable Tax Regime

Attractive valuations





Thank you

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