

BULGARIAN STOCK EXCHANGE FACT BOOK 2005/06
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1. Historical Overview

The Bulgarian stock market began developing in the early 20th century. The first Stock Exchange Act was adopted in 1907 and regulated the structure and operations of the stock and commodities exchanges. In 1914 under the King's Decree No.7 from 15th April the first real stock exchange in Bulgaria was established. Until the 1930's the stock market was at its heights. The trading volume on the stock exchange was relatively high and the number of listed companies rose to 30. After WWII the stock exchange was closed. The Bulgarian capital market was revived in 1991 with the adoption of the new Commercial Code. At the end of the same year "The First Bulgarian Stock Exchange JStCo." was officially registered. The start of stock trading in Bulgaria coincided with the deep structural, economic and social changes that took place after 1989. In the period 1992-94 around 20 stock exchanges sprang up in the country. But the market remained unregulated and without any strict rules until the Securities, Stock Exchanges and Investment Intermediaries Act was voted in July 1995. In accordance with the requirements of the new law a Securities & Stock Exchange Commission was set up. By the end of 1995 most of the regional exchanges were united under the name of "Bulgarian Stock Exchange". In 1996 another major institution of the capital market – the Central Securities Depository – was created.

This was the year when the Commission introduced the requirement for all listed companies to work out a Prospectus, which was to be approved by the regulatory organ. Due to the fact that no company traded on the Exchange fulfilled this requirement, trading operations were stopped for a year.

The operations were resumed in October 1997 after the BSE-Sofia was officially licensed by the Commission. The first trading session took place on October 21st. At that time trading was concentrated on the Free Market, where all the companies from the Mass Privatization Program were administratively placed. In January 1998 the cable producing company "Elkabel" was listed on the Official Market. By 1999 the number of listed companies on the Official Market reached 32. In the meantime, it became obvious that the dynamic development of the capital market in the period 1996-1999 necessitated new legislation in this field. By end-1999 Parliament voted the new Public Offering of Securities Act. This act guaranteed in a much more effective way the protection of the investors, the integrity of the market, the principles of equal access, transparency and irrevocability of the transactions.

The Securities & Stock Exchange Commission was renamed to National Securities Commission, but stopped existing in March 2003, when a new regulatory organ – the Commission for Financial Supervision – was created.

The BSE achieved very good results in the period 2001-2005, the contacts between all capital markets institutions became more efficient and the international relations of the Exchange developed dynamically.

2. Principles and Mission Statement

The Bulgarian Stock Exchange-Sofia is a joint stock company with a capital of BGN 293 393.* The Bulgarian state controls through a non-cash contribution (building) 44% of the capital. The rest of the shareholders are local or foreign legal and natural persons. Two-thirds of them are by law financial institutions – banks, brokerage firms, insurance companies. One thousand shares give the right to membership, if their owner is a licensed investment intermediary.

The Exchange sees as its main mission to guarantee its members and their clients equal conditions for the participation in the trading process; equal access to market information; unified rules and regulations for stock trading and execution of transactions with securities; irrevocability of the deals; full transparency regarding the price formation and immediate disclosure and dissemination of the trading results.

3. Management

The highest decision making authority at the BSE-Sofia is the General shareholders' meeting. The operational management is in the hands of the Board of Directors, which is elected by the General shareholders' meeting, and the Chief Executive Officer.

The members of the Board of Directors are the following:

Victor PAPA ZOV – Chairman
Lyudmila ELKOVA – Deputy-Chair
Bistra ILKOVA – CEO
Vladimir VLADIMIROV – Member
Todor BRESHKOV – Member
Andrey PRAMOV – Member
Plamen GEORGIEV – Member

The operations at the Exchange are carried out by six departments:

“Trading & Surveillance & Market Data” – Director Ivan TAKEV
“International Affairs, Communications & Marketing” – Director Panteley
KARASSIMEONOV
“Membership & Issuers” – Director Radoslav ZHELIAZOV
“Information Technologies” – Director Vassil GOLEMANSKI
“Administration” – Director Rossen POPOV
“Finance & Accounting” – Director Violeta KRUMOVA

* At the Annual General Assembly Meeting, held on June 20th 2006, the shareholders of the BSE voted to increase the capital of the Exchange to BGN 5 867 860 through the issuance of 5 574 467 new shares with a nominal value of BGN 1,00. The new shares will be distributed among all BSE shareholders, proportionally to their participation in the capital as of June 20th.

4. Membership

Members of the Bulgarian Stock Exchange-Sofia can be foreign or domestic legal persons – banks and investment intermediaries, licensed by the Commission for Financial Supervision to trade with securities. They are obliged to be members of the Central Depository or to have a contract with a Depository member. Members must own at least 1000 BSE shares (**as of June 20th, 2006, after the capital increase of the BSE was approved by the GA, the number of shares giving the right to membership was amended to 20 000**) and to employ at least one dealer/broker. Currently the Exchange has 83 members, while the number of brokers licensed by the Financial Supervision Commission reached 134.

5. Markets

The market structure of the BSE until the amendments to the Rules & Regulations, which came in force on 05.06.2006, was as follows:

Official Market

- Equities Market, which according to the qualitative and quantitative requirements of the Rules & Regulations of the BSE-Sofia is divided into:
 - *Segment “A”*
 - *Segment “B”*
 - *Segment “C”*
- Bond Market:
 - *Segment “Government Securities”*
 - *Segment “Municipal Bonds”*
 - *Segment “Corporate Bonds”*

Unofficial Market

The Unofficial Market is divided into the following market tiers in accordance with the type of securities traded:

- Unofficial Equity Market
- Unofficial Bond Market
- Unofficial Market of other dematerialized securities under the Public Offering of Securities Act.

The new market structure that is valid as of 05.05.2006 is as follows:

Official Market

- Equity Market, which according to the qualitative and quantitative requirements of the Rules & Regulations of the BSE-Sofia is divided into:

- *Segment "A"*
- *Segment "B"*

- Bond Market:
 - *Segment "Government Securities"*
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- Unofficial Equity Market
 - *Segment "A"*
 - *Segment "B"*
- Unofficial Bond Market
- Unofficial Market of other dematerialized securities under the Public Offering of Securities Act.

The BSE operates also an "IPO Market" for initial public offerings of securities, as well as a "Privatization Market" for public offerings of securities, owned by the State and by the municipalities.

6. Listing Requirements

The following listing requirements were valid until 05.05.2006, when the amendments to the BSE Rules & Regulations were approved by the Financial Supervision Commission:

Listing requirements for the Official Market

Segment "A"

Equity issues can apply for listing on this segment, if they have been traded at least 6 months on Segment "B" or at least one year on Segment "C" or on the Unofficial Market, or if the net value of the issue is minimum BGN 20 million, and which fulfill the following additional requirements:

- The issuer must have at least 3 years of business history;
- At least 400 shareholders owning shares from this issue;
- At least 25 % free-float;
- Market capitalization of the issue must not be less than BGN 20 million (this requirement is applied only in the case when the issue has already been traded on of the markets or on the Unofficial Market in accordance with the above mentioned criteria, immediately before the registration);

- The average monthly volume resulting from trades with this issue must be at least 1,000 shares (this requirement is applied only in the case when the issue has already been traded on of the markets or on the Unofficial Market in accordance with the above mentioned criteria, immediately before the registration).

Segment “B”

Equity issues can apply for listing on this segment, if they have been traded at least 1 year on “Segment “C” or on the Unofficial Market, or if the net value of the issue is minimum BGN 10 million, and which fulfill the following additional requirements:

- The issuer must have at least 2 years of business history;
- At least 100 shareholders owning shares from this issue;
- At least 10 % free-float;
- Market capitalization of the issue must not be less than BGN 10 million (this requirement is applied only in the case when the issue has already been traded on of the markets or on the Unofficial Market in accordance with the above mentioned criteria, immediately before the registration);
- The average monthly volume resulting from trades with this issue must be at least 1,000 shares (this requirement is applied only in the case when the issue has already been traded on of the markets or on the Unofficial Market in accordance with the above mentioned criteria, immediately before the registration).

Segment “C”

The following requirements must be met:

- The issuer must have at least 1 year of business history;
- The net value of the issue must not be less than BGN 500 000;
- The size of the issue must be not less than 50 000 shares;
- At least 100 shareholders must own shares from this issue;
- At least 5% free-float.

Listing requirements for the Unofficial Market

Issues that shall be admitted for trading on the Unofficial Market must meet the following requirements:

- They must be in a dematerialized form and registered at the Central depository;
- Freely transferable;
- Not be blocked at the Central Depository;
- The issuer must not be under a procedure of bankruptcy or liquidation;
- or under a procedure of merger or acquisition;
- Must meet the requirements of the Public Offering of Securities Act, regarding trading on the Unofficial Market.

As of 05.05.2006, after having being approved by the Financial Supervision Commission, the listing requirements for the different segments have been amended as follows:

New Listing Requirements for the Official Market

Segment “A”

To be registered on this segment the issue of shares must have been traded at least 1 (one) year on Segment “B” or 2 (two) years on the Unofficial Market and must fulfill the following additional requirements:

- The issuer company must have at least 5(five) years business history;
- At least 1 000 shareholders own shares of this issue;
- At least 25 % of the issue must be in the hands of minority shareholders ;
- The market capitalization of the issue must be at least BGN 40 million or higher;
- the average monthly turnover of the issued shares in the last six months on the BSE must not be less than BGN 200 000;
- The average monthly traded volume of the issue in the last six months must not be less than 20 000 shares;
- The average monthly number of transactions in the last six months must not be less than 200;
- The issuer company must have made profit during at least three years of the last 5 financial years;
- The issuer is obliged to carry out operations by observing the Code of corporate governance, published or approved by the BSE.

Segment “B”

To be registered on this segment the issue of shares must have been traded at least 1 (one) year on the Unofficial Market, Segment “A” or “B”, and must fulfill the following additional requirements:

- The issuer company must have at least 5(five) years business history;
- At least 500 shareholders own shares of this issue;
- At least 10 % of the issue must be in the hands of minority shareholders;
- The market capitalization of the issue must be at least BGN 20 million or higher;
- The average monthly turnover of the issued shares in the last six months on the BSE must not be less than BGN100 000;
- The average monthly traded volume of the issue in the last six months must not be less than 10 000 shares;
- The average monthly number of transactions in the last six months must not be less than 100;
- The issuer company must have made profit during at least two years of the last 5 financial years;
- The issuer is obliged to carry out operations by observing the Code of corporate governance, published or approved by the BSE.

New Listing Requirements for the Unofficial Market

Issues can be admitted for trading on the Unofficial Market, if they fulfill the following requirements:

- They must be in a dematerialized form;
- They must be registered at the Central Depository or any other depository institution operating in accordance with Bulgarian laws;
- They must be freely transferable without any restrictions or conditions;
- The issuer must not be under a procedure of transformation;
- The issue must fulfill the requirements of the Law on Public Offering of Securities.

Segment “A”

The quantitative criteria for admitting securities for trading on this segment of the Unofficial Market are the following:

- The average monthly turnover of the issue, without counting the block and REPO transactions, in the last six months must not be less than BGN 4 000;
- Less than five transactions have been executed monthly in the last six months.

These requirements do not apply to the collective investment schemes.

Segment “B”

The issues that are admitted for trading on Segment “B” of the Unofficial Market are those that have not fulfilled in the last six months the quantitative criteria for trading on Segment “A” of the Unofficial Market. By a decision of the Board of Directors of the BSE, the particular issue is transferred to Segment “B” of the Unofficial Market. After a period of six months has elapsed since the transfer, the issue may be moved to another segment, if it fulfills the necessary requirements.

7. Information Disclosure

The public companies in Bulgaria are obliged to disclose information through:

- Press publications;
- Notification of the Commission for Financial Supervision;
- Notification of the BSE-Sofia;
- Notification of the Central Depository.

Accordingly, the Commission, the BSE-Sofia and the Central Depository publish the information (which is public) in their official bulletins, Internet sites and provide it to third parties, as well as data vendors.

The advantage of this type of information disclosure is the simultaneous notification of different independent institutions and the press, which presupposes that the information will reach a very wide public and a big number of investors.

Information that the issuer is obliged to disclose continuously:

The issuer is under the obligation to present the following documents or notify the Commission for Financial Supervision and the Stock Exchange on a continuous basis about the following corporate information and events:

- The annual report not later than 90 days after the fiscal year has ended, as well as quarterly reports not later than 30 days after the end of every quarter;
- Audited annual financial statement;
- Program for the implementation of the internationally recognized corporate governance standards;
- Biographical facts about the members of the boards of directors and controlling organs of the issuer;
- Information about the persons that own over 10% of the shareholders' votes in the issuing company;
- Changes in the articles of incorporation;
- Changes in the management structure;
- Bankruptcy procedures;
- Decision about forthcoming mergers or acquisitions;
- All changes in the trading activity that might influence directly or indirectly the price of the issued shares;
- Other important corporate news.

In addition the issuer company is obliged to inform the public through at least one national daily newspaper that its annual report has been presented and is available for all interested investors.

Over 7 250 publications were published in the BSE official daily bulletin in 2005. For 2006 a 30% increase of the disseminated information flow is expected.

8. Trading

The Bulgarian Stock Exchange-Sofia guarantees its members and their clients equal access to the trading system. Trading can be carried out either on the BSE Floor or on a remote basis.

The trading system is electronic and order driven. A modified version of the RTS System (NASDAQ based) was implemented in 2000. It offers to all participants full transparency regarding the price formation, promotes liquidity and guarantees fail-free execution of orders.

Trading hours:

- Monday through Friday from 9:30AM - 1:00PM for normal trades on the Official and Unofficial Markets. From 1:00 PM - 2:00 PM - block and other pre-negotiated trades.

The investment intermediaries and their brokers can put in their buy and sell orders Monday through Friday from 9:00 AM to 4:00 PM.

Trading method

The trading method consists in the following:

- Buy and sell orders are entered into the trading system during the trading session;
- Orders match automatically in the system and are executed by keeping the price and time priority;
- Client's orders have priority over the own account;
- Minimum quotation is BGN 0.01.

For the purpose of stimulating the trading operations the Rules & Regulations of the BSE-Sofia provide the possibility for orders to be entered, which are outside of the price limitations, but this requires a special procedure. This type of orders can be valid only for the day.

The closing price of a security represents the average-weighted price formed as a result of the trades executed with this security throughout the trading session.

<i>Price limits by markets</i>	
Opening price	The closing price of a security represents the weighted-average price formed as a result of the trades executed with this security throughout the trading session.
Official Market	+/-15% is the range permitted in relation to the opening price at the trading session
Unofficial Market	+/-30% is the range permitted in relation to the opening price at the trading session

Types of orders

- **Market order** – buy and sell orders for a certain amount of securities at the best current available price; these orders do not contain a price;
- **Limit order** – an order placed to buy or sell a predetermined amount of shares at a specified price. They are subdivided into:
 - Good till cancelled
 - Single execution
 - Immediate

Priorities

Trading on the BSE-Sofia is carried out by adhering to the “price and time” priority. The market orders are executed before the limit orders, because once they are entered into trading system they are matched to the best available price and thus the “price priority” rule is applied.

9. Types of auctions

The **continuous order driven auction** is the standard method for execution of trades on the BSE floor. It is a type of auction that meets orders, which are sorted out and executed according to the following priorities: first, according to the price and second, according to the time of entering the order. This is the main method of trading on the BSE and is usually called “normal trading.”

Along with the main auction system orders can be also executed as “registered trades.” These are directly registered in the system by one of the sides in the transaction. The other side only confirms the deal. The possibilities to execute such type of trades is strictly defined in the Rules & Regulations of the BSE.

Another type of auction is the **open auction with a delay in the execution of the trades**. It is used for IPO’s and all kinds of initial public offerings, tender offers, auctions with rights, etc.

The main principle for the execution of transactions through this auction is the same as in the continuous order driven auction with only one difference – the auction is not continuous. This type of auction permits the putting in of orders only for a limited period of time, which are then sorted out according to the price and time priorities, but the trades are not executed. After this period has expired it is forbidden to enter or cancel orders. Then begins the execution of orders, starting with those that have highest priority.

The BSE operates also **three types of closed auctions – Mixed auction, European auction and American auction.**

All three auctions function on the basis of limit buy orders (limited price and quantity) and market buy orders (with a fixed value for buying at the market price), which compete for the execution of trades with a given quantity of orders at the minimum price. All three

auctions are closed, i.e. every participant can see only his own orders and the parameters of the offering, but cannot see the orders of the other participants.

The BSE operates the Mixed auction to facilitate the sale of residual state-owned stakes in public companies. The privatization of shares is to a great extent similar to the initial public offering, because in both cases a given quantity of shares is offered for the time to the investors.

The difference among the three types of the closed auction is in the price formation after the trading procedure. The European auction gives the possibility for all limit orders to be executed at their price, while the market orders are executed at the lowest price of a limit order (that is at the price of the last limit order that can be executed). The American auction is known also as “single price auction”. It permits all deals to be executed at the average-weighted price of the limit orders that can be finalized. The Mixed auction is a hybrid between the other two. It permits the execution of limit orders at their price and the execution of market orders at the average-weighted price of limit orders that can be finalized.

10. Statistics 2005

As of 31.12.2005 the number of companies traded on the BSE was 389, of which 43 are listed on the Official Market and the rest on the Unofficial Market.

In the first half of 2005 the most liquid instruments traded on the Exchange were the Compensatory notes, which was mainly due to the privatization deals executed through the BSE. Especially in the case of the sale of 35% of the Bulgarian Telecom, Compensatory notes with a total value of over half a billion Leva (BGN) were used as means of payment.

In the second half of 2005 the interest in this type of instrument diminished, because there were no new major privatization deals proposed by the Government. That is why the price of the Compensatory notes fell throughout the following months.

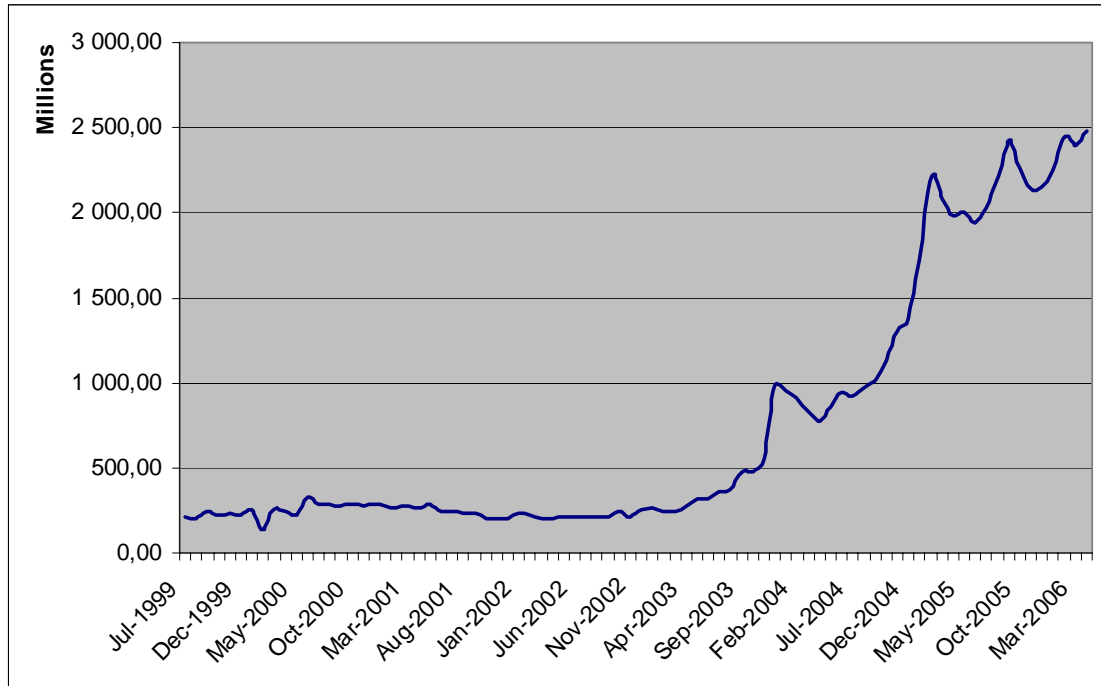
On the equity markets there was a significant increase in the trading turnover and in the number of transactions in 2005. Although the turnover on the Official Market went down, this was compensated by the 5-times increase of the turnover on the Unofficial Market. A 150% increase was also observed on the Bonds Unofficial Market, but this was not so much due to the trading activity as to the number of new bond issues – 53 in one year.

In 2005 the companies from the transportation and communications sector were the best performing ones in terms of turnover, followed by the holding companies and the ones from manufacturing and trading sector.

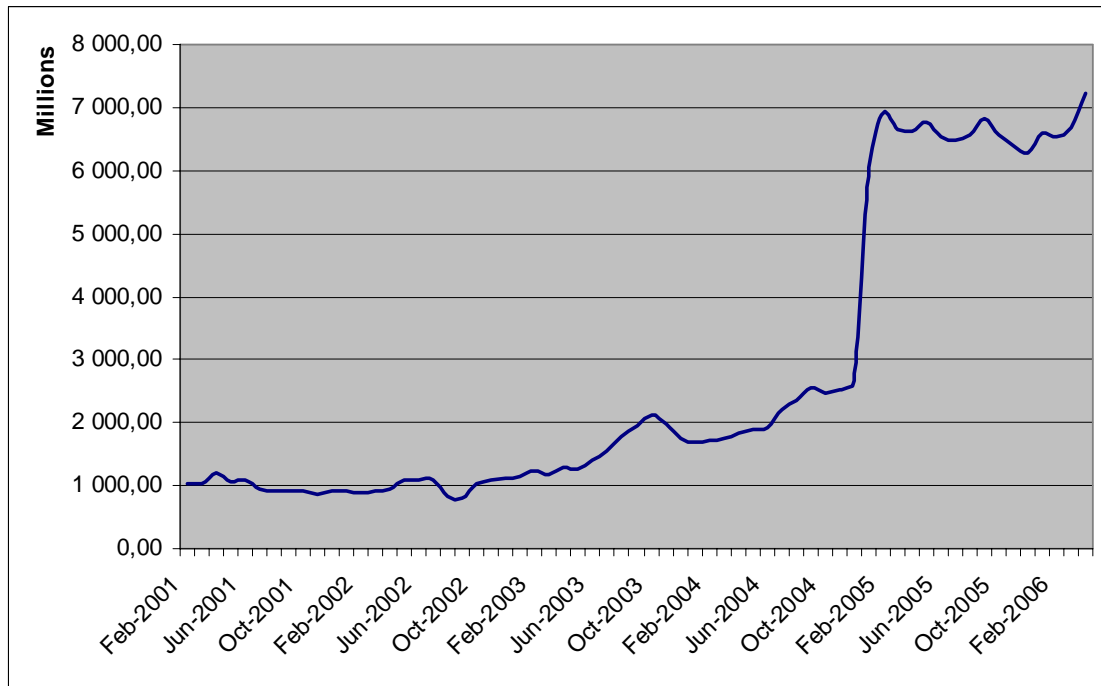
Market performance by segments – comparative statistics 2004-2005

Market	Volume (Lots)			Value (BGN)			Trades		
	2004	2005	Change	2004	2005	Change	2004	2005	Change
Block and other negotiated trades	558 368 705	351 134 887	-37%	435 421 351	613 179 433	41%	273	158	-42%
Tender offer for redemption of securities	1 046 150	3 249 783	211%	4 187 706	87 444 199	1988%	17	55	224%
Redemption of securities	17 990	35 980	100%	74 659	79 156	6%	1	2	100%
Official Market of Equities, A Segment	920 515	11 089 891	1105%	6 550 438	52 014 331	694%	52	10 523	20137%
Official Market of Equities, B Segment	12 714 043	9 347 456	-26%	40 808 478	56 063 373	37%	3 811	7 252	90%
Official Market of Equities, C Segment	133 096 484	46 494 984	-65%	428 572 249	262 195 377	-39%	32 028	84 083	163%
Official Market of Corporate Bonds	39 160	39 312	0%	42 329 495	44 268 534	5%	355	226	-36%
Official Market of Municipal Bonds	78	8	-90%	77 942	6 440	-92%	3	1	-67%
Official Market of Government Securities	0	0	n.a.	0	0	n.a.	0	0	n.a.
Unofficial Market of Equities	29 725 989	60 937 842	105%	184 815 870	929 555 521	403%	32 862	107 803	228%
Unofficial Market of Bonds	46 173	128 263	178%	83 320 756	207 793 555	149%	365	729	100%
Unofficial Market of Compensation Instruments	637 834 428	305 720 339	-52%	233 221 148	267 873 464	15%	49 862	44 179	-11%
Unofficial Market of Other Securities	19 658 946	7 725 656	-61%	2 584 352	6 060 525	135%	197	1 335	578%
Trades as of Art. 54 (5)	0	0	n.a.	0	0	n.a.	0	0	n.a.
IPO Equities Market	339 539	844 204	149%	1 861 077	5 451 436	193%	221	233	5%
IPO Bonds Market	0	0	0%	0	0	0%	0	0	0%
IPO Other Securities	300 150	4 500 000	1399%	98 563	1 743 538	1669%	66	348	427%
IPO Government Securities	0	0	n.a.	0	0	n.a.	0	0	n.a.
Large volumes of shares	2	51 991	2599450%	314 690	8 229 538	2515%	2	55	2650%
TOTAL:	1 408 891 327	801 300 596	-43%	1 596 257 221	2 541 958 420	59%	124 805	256 982	106%

Market Capitalization of the Official Market(1999-2006)



Market Capitalization of the Unofficial Market(2001-2006)



As a result of the increase in the price of the most traded companies and due to the listing of by far the largest public company – the Bulgarian telecom – the market capitalization of the BSE doubled and by end-2005 had reached BGN 8.43 billion. This upward trend continued in 2006 and led to an increase in the market capitalization of the Exchange to over BGN 10 billion.

Market capitalization of the BSE by segments - comparison 2004-2005

<i>Market Capitalization(BGN)</i>	<i>31.12.2005</i>	<i>31.12.2004</i>	<i>Change</i>
<i>Official Market Segment "A" Equities</i>	122 095 158	53 424 836	129%
<i>Official Market Segment "B" Equities</i>	688 455 829	423 328 539	63%
<i>Official Market Segment "C" Equities</i>	1 337 700 686	898 123 568	49%
<i>Unofficial Market-Equities</i>	6 285 701 658	2 658 327 856	136%
<i>Total:</i>	8 433 953 332	4 033 204 800	109%

Trading activity on the BSE by sectors

NACE	Activity	Trades	Volume (Lots)	Value (BGN)
A	Products of agriculture, hunting and forestry	115	264 092	815 828.67
CA	Mining and quarrying of energy producing materials	1 061	315 777	13 633 804.34
CB	Mining and quarrying, except of energy producing materials	30	3 062	3 325 663.89
DA	Manufacture of food products, beverages and tobacco	2 526	816 386	17 926 580.00
DB	Manufacture of textiles and textile products	3 195	724 714	16 357 421.76
DC	Manufacture of leather and leather products	23	19 716	354 111.63
DD	Manufacture of wood and wood products	885	99 825	1 946 230.02
DE	Manufacture of pulp, paper and paper products; publishing and printing	1 769	3 731 932	87 620 441.67
DF	Manufacture of coke, refined petroleum products and nuclear fuel	765	605 005	16 828 088.59
DG	Manufacture of chemicals, chemical products and man-made fibres	20 737	12 778 941	73 164 500.54
DH	Manufacture of rubber and plastic products	1 680	189 484	3 065 527.19
DI	Manufacture of other non-metallic mineral products	474	317 836	576 713.34
DJ	Manufacture of basic metals and fabricated metal products	12 535	7 916 101	55 257 473.51
DK	Manufacture of machinery and equipment n.e.c.	6 990	1 376 290	12 697 657.03
DL	Manufacture of electrical and optical equipment	1 766	357 782	3 096 439.01
DM	Manufacture of transport equipment	2 856	582 395	28 517 407.24
DN	Manufacturing n.e.c.	101	138 926	539 866.79
F	Construction	2 989	214 571	85 940 006.52

G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	5 231	30 746 935	175 394 844.88
H	Hotels and restaurants	10 412	2 030 447	42 692 735.67
I	Transport, storage and communication	7 097	20 602 023	530 963 883.64
J	Financial intermediation	97 635	36 623 368	327 180 961.38
K	Real estate, renting and business activities	29 728	7 214 989	53 778 844.19
O	Other community, social and personal service activities	16	367 151	215 660.16

11. Privatization through the Exchange

As a result of the amendments in the legal framework, in 2004 it became possible to organize and carry out centralized public auctions and remote public auctions. These auctions are similar to the ones used on the privatization market for public offering of securities owned by the state, i.e. through the mixed closed auction. The main difference between both types of auctions is that during the remote public auction the state sells stakes of limited liability companies and not shares, as is the case during the centralized public auction.

In 2005/06 the BSE organized 3 centralized and 4 remote public auctions. Through the centralized auction 1,018,438 State-owned shares were sold at a total value of BGN 5,418,374. Through the remote auctions were privatized residual State-owned stakes of 26 companies for a total value of BGN 2,940,008.

A significant turnover was registered in 2005 on the Privatization Market for Payments in Compensatory Notes, due to the sale of 35% of the Bulgarian Telecom, for which investors paid BGN 632 million worth of Compensatory notes.

Privatization through the BSE - Comparison 2004-2005

Market	Volume (lots)			Turnover (BGN)			Trades		
	2005	2004	Change (%)	2005	2004	Change (%)	2005	2004	Change (%)
Privatization deals in BGN		2 355 613	-100.00		14 682 784	-100.00	0	676	-100.00
Privatization deals in Comp.Instr.	2 869 251	980 869	192.52	632 643 004	14 978 798	4123.59	1 466	371	295.15
Centralized public auction	1 018 438	11 446 246	-91.10	5 418 374	58 717 997	-90.77	469	3 396	-86.19
Remote public auctions	26	247	-89.47	2 940 008	43 638 867	-93.26	26	247	-89.47
Total:	3 887 715	14 782 975	-73.70	641 001 386	132 018 446	385.54	1 961	4 690	-58.19

12. Index SOFIX

The official BSE index SOFIX was started on 20 October 2000 at 100 basis points. It is calculated as a correlation of the sum of the market capitalization of the companies within the index portfolio on the current day, and the sum of the market capitalization of the companies within the index portfolio on the previous day.

Market capitalization is defined as a product of the number of shares in issue and the average weighted price per share at the end of the trading session.

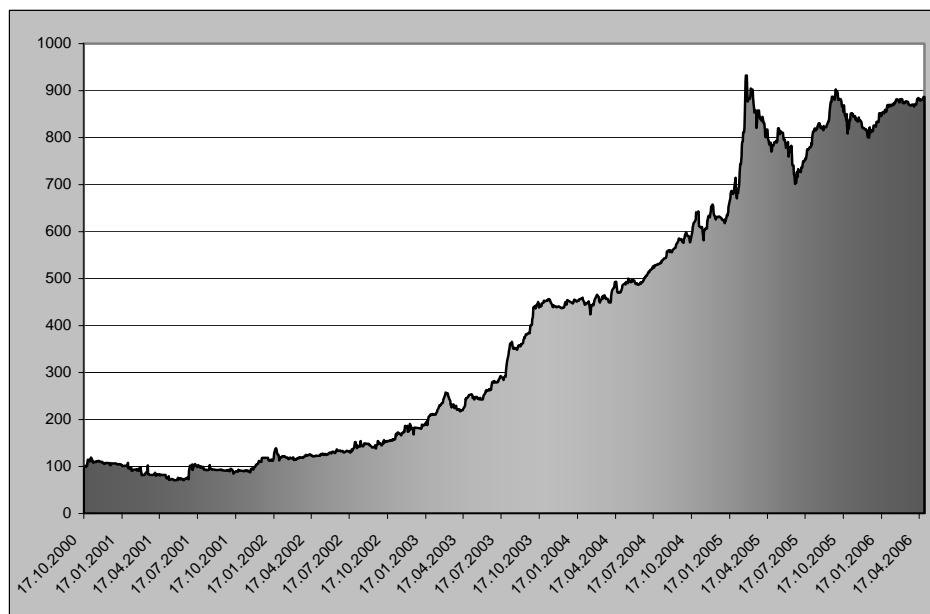
Only the most liquid companies traded on the regulated markets are included in the index portfolio. In addition the companies have to meet the following **requirements**:

- ✓ The issues have been traded on the regulated markets at least three months;
- ✓ Market capitalization of each issue should be at least BGN 2 mln.;
- ✓ The number of shareholders of each company included in the index portfolio has to be at least 500;
- ✓ The shares of the issue must have been traded at least at 20% of all trading sessions during the last 3 months.

The number of the companies within the index portfolio could vary from 5 to 50.

In 2005 the index SOFIX continued its upward trend from the previous year and reached record heights. At the start of 2005 the index was 623.59 points and at the last trading session on 28 December it had reached 825.53. Throughout the year 2005 one company was removed out of the index portfolio.

SOFIX movement for the period 17.10.2000-17.04.2006



Currently 12 companies are included in the index portfolio:

- Slanchev bryag
- Albena
- Blagoevgrad BT
- Bulgartabak Holding
- Zlatni pyasatzi
- Petrol
- Sofarma
- Neohim
- Orgahim
- Biovet
- Central Cooperative Bank
- DZI

Index Formula:

$$SOFIX_t = SOFIX_{t-1} \times \left[\frac{\sum_{i=1}^n N_{i,t} \times P_{i,t}}{\sum_{i=1}^n N_{i,t-1} \times P_{i,t-1}} \right]$$

where:

- SOFIX** - index of regulated markets of BSE-Sofia
- P** - last average weighted price per share of a given company;
- N** - number of shares in the issue
- n** - numbers of issues included in the index portfolio;
- I** - indicator for a given company /issue/
- t** - day of the calculation

13. Index BG40

BG40 is based on the issues of shares of the Top 40 companies graded by the number of transactions executed in the last six months.

The issues included in the calculation of the index should meet the following criteria:

- To be fully subscribed to and secondary tradable; and
- To have been registered for trading on the Official or Unofficial Market for at least 3 months before included in the index. In case of transferring of an issue for trading from Unofficial to Official Market, then the date of registration of the issue for trading on the Unofficial Market will be considered as the initial date.

There are 40 companies included in the calculation of the index.

Current list of companies included in BG40 (as of 1 June 2006):

- Industrial Holding Bulgaria PLC
- Doverie Obedinen Holding AD-Sofia
- Sinergon Holding AD-Sofia
- Albena Invest Holding AD-Albena
- Bulgarian Holding Company AD-Sofia
- Petrol AD-Sofia
- Kremikovtzi AD-Sofia
- Sopharma AD-Sofia
- Biovet AD-Peshtera
- Severcoop Gumza Holding AD-Sofia
- Stara palnina hold AD-Sofia
- Himko AD-Vratza
- Zlatni piasaci AD-Varna
- Zlaten lev AD-Sofia
- Neochim AD-Dimitrovgrad
- CB Central Cooperative Bank AD-Sofia
- Albena AD-Albena
- TK - Hold AD-Sofia
- Holding Sveta Sofia-Sofia
- Slantchev briag AD-Slanchev bryag
- Favorit Hold AD -Sofia
- Balkanturist AD -Sofia
- Orgahim AD - Russe
- DZI Bank AD – Sofia
- Alkomet AD – Shumen
- Holding Varna-A AD – Varna
- Bulgarian Telecommunications Company AD - Sofia
- Shiprepair Factory Odessos AD - Varna
- Industrial Capital Holding AD - Sofia
- Holding Koop AAD- Sofia
- Polimeri AD - Devnia
- Razvitie Industry Holding AD - Sofia
- Hydraulic Elements& Systems AD - Yambol
- Pamporovo AD - Smolian
- Elana Fund for Agricultural Land ADSIC-Sofia
- Bulgarian Rose-Sevtopolis AD - Kazanlak
- Advans Ttrafond ADSIC - Sofia
- Duropak-Trakia Papir Ad - Pazardjik
- Benchmark Real Estate Fund ADSIC - Sofia
- DZI AD-Sofia

Calculation Methodology of BG40

BG40 is computed as the base value is multiplied by the ratio between the sum of the corrected by the divisor for each company weighted-average price of the shares, included in the Index at the current moment, and the sum of the weighted-average price of the shares of the companies as of the base moment, and then multiplied by the adjusting coefficient on the Index base.

The weighted-average price is determined after each transaction during the trading session as a ratio between the traded value and the traded volume of each issue of the companies included in the BG40. If there is no transaction in shares of a certain company during a trading session, the last weighted-average will be considered when calculating the index. Block trades and transactions on the Privatization market are not considered when forming the weighted-average price.

Formula for calculation of BG40

$$BG\ 40_t = BG\ 40_{t-1} \times \left[\frac{\sum_{i=1}^{40} P_{i,t} \times D_{i,t}}{\sum_{i=1}^{40} P_{i,t-1}} \right] \times K$$

Where:

BG40 is an index on the regulated markets of BSE-Sofia;

$P_{i,t}$ is the weighted average price of the I-th issue on the T day;

$P_{i,t-1}$ is the weighted average price of the I-th issue on the T-1 day;

D_i is the divisor of the I-th issue for the current trading session;

i is the index for each specific issue;

t is the date, for which the index is calculated;

K is the adjusting coefficient ($K=1$, unless the index base has been changed).

If a corporate event requires a change in the divisor, the value of the divisor for the next trading session should be calculated in the following way:

$$D_{i,t+1} = \frac{P_{i,t}}{P_{i,t}^a}$$

Where:

$D_{i,t+1}$ is the divisor of the I-th issue for the next trading session;

$P_{i,t}^a$ is the adjusted weighted-average price for the I-th issue after the end of the session on the T day due to the corporate event on the T+1 day;

$P_{i,t}$ is the weighted-average price of the I-th issue on the T day.

A change in the base of BG40 (the issues included in its calculation) could be made on the grounds of a decision of the Board of Directors of the BSE-Sofia and should be announced in the Official Bulletin of the BSE-Sofia at least two weeks before enforcement. In this case, the adjusting coefficient for the next day (the T+1 day) will be calculated in the following way:

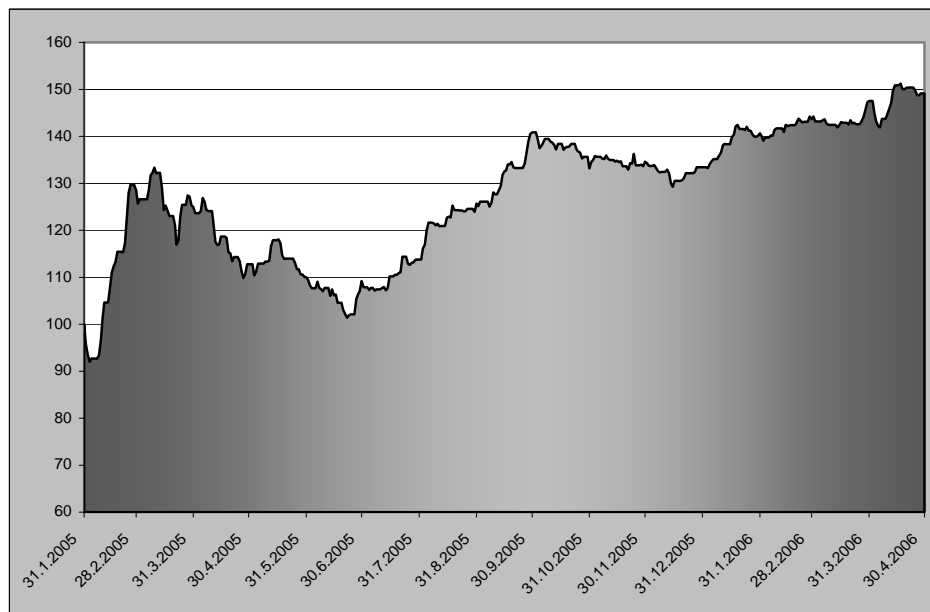
$$K_{t+1} = \frac{BG\ 40_{oldbase}}{BG\ 40_{newbase}}$$

Where:

BG40 old base is the value of the index after the end of the session;

BG40 new base is the value of the index after the end of the session, but calculated using the new base.

BG40 movement for the period 31.01.2005-30.04.2006



14. COBOS

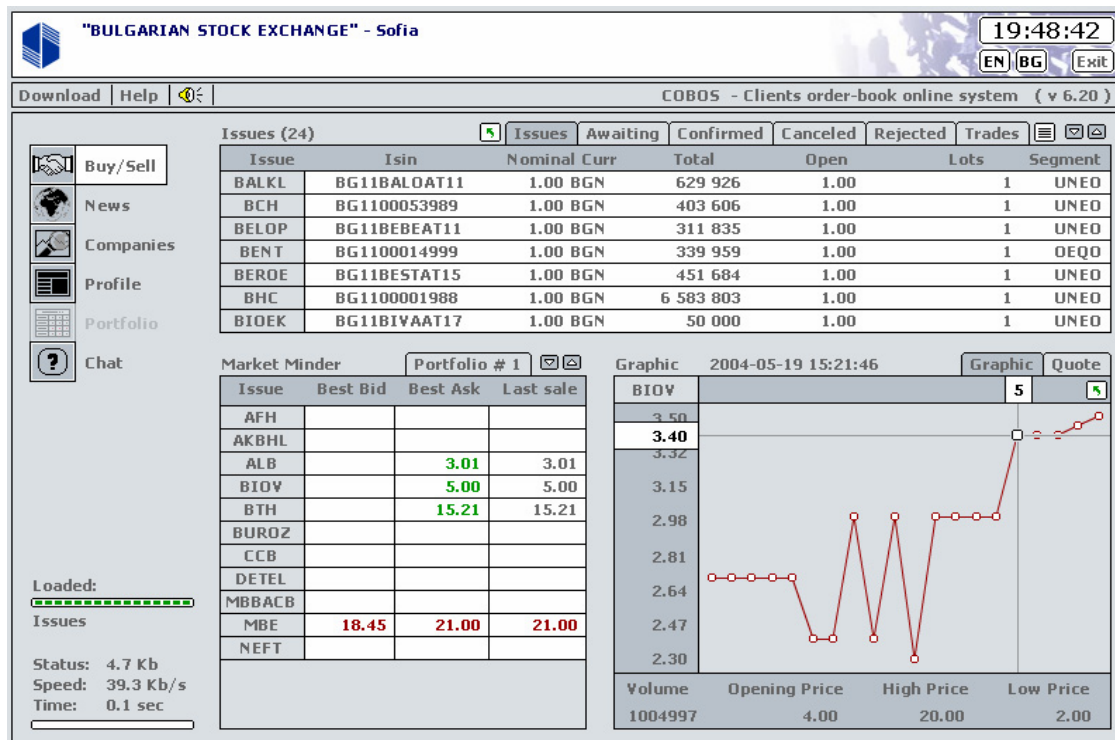
COBOS (Client Online Book Order System) was launched in March 2003 and represents an Internet-based application for secured and authorised real-time access to the trading system of the BSE.

The general purpose of COBOS is order transmission and execution of trades on behalf of the exchange members' clients. Orders submitted to the trading system through COBOS are identical to all other orders and carry the same rights and obligations. The new service is a home-made product and is an intellectual property of the BSE.

Subscribers of COBOS can only be investment intermediaries-members of the BSE and participants on the Unofficial Market, who execute deals through the trading system on a remote basis.

Each client receives an electronic clients' certificate giving him the right to use COBOS. He also signs an agreement with an Exchange member for executing trades. The broker receives an electronic brokers' certificate, through which he is identified by the BSE trading system and allows him to "route" the client's buy and sell orders. The Systems Administrator is the person, who gives the clients and the brokers the right to access the trading system.

The screen of the COBOS clients' terminal



An additional module was linked to COBOS called Client Portfolio, which allows the clients to follow their cash and securities positions, while also taking account of the transactions in the process of settlement in the Central Depository.

In 2005 over 50% of the orders submitted to the trading system of the BSE were executed through the COBOS system. The number of the end-clients that transmitted their orders through COBOS reached 1 700. They are clients of 44 members/subscribers.

15. Clearing and Settlement

Each transaction executed on the Exchange is considered finalized after the securities have been transferred and the payment for them has been carried out. These operations are certified by a registration document, issued by the Central Depository.

The settlement cycle was reduced to T+2 after the Real-time Interbank Gross Settlement System (RINGS) was put in place in June 2003. The settlement method is called “delivery versus payment”, which means that the transfer of securities and the payment for them are done simultaneously. All payments are carried out electronically. The transfer of securities and the payments in relation to the settlement are done by the Central Depository.

16. Market Surveillance

A special unit at the BSE-Sofia is responsible for investigating and preventing abusive, manipulative, or illegal trading practices. It conducts continuous real-time computer surveillance to detect any fraudulent activity in a stocks price. More specifically the responsibility of the surveillance staff is to check if:

- Orders were entered outside of the price limits;
- Execution of transactions is near or outside of the price limits;
- In case the client’s interest is neglected;
- Transactions or orders seem suspicious and resulting from insider trading.

Measures against market manipulation

The participants in the trading operations **do not have the right** to:

- Put in orders with the aim of creating the wrong impression that certain securities are traded more actively and the demand is higher or;
- Such that increase or decrease the share price in order to reach a pre-negotiated price;
- Execute alone or with other persons buy and sell transactions of stocks with the aim of stabilizing or fixing an upper or lower price limit for this stock
- execute such transactions on the BSE-Sofia that do not lead to a change of ownership; or such that cause increase or decrease of the share price with the aim of “motivating” other persons to buy or sell the same shares;

- Execute alone or with other persons transactions, through which a profit can be realized from a previous short sale or margin sale of the same securities;
- Acquire or transfer securities, for which they have inside information;
- Give to other persons inside information.

The participants **may not** enter orders on the Exchange in the case that:

- They have information, which is not public, about a forthcoming packet transaction with these securities;
- They want to execute trades with options on certain securities and they have information, which is not public, about a forthcoming packet transaction with these securities.

17. BSE Development Strategy

Although the Bulgarian Stock Exchange, as well as the whole capital market, have performed very well in the last 5 years, there are still many problems that have to be solved. In order to preserve the achievements and the upward trend, new issuers must be attracted to the stock market. The privatization process, thanks to which a significant number of formerly state-owned companies were listed on the Exchange, is almost over. Trading with Compensatory notes – the most liquid instrument in the last years – will cease as of 2007.

In order to get a clearer picture of how the different participants and potential new ones view the Bulgarian stock market, the BSE asked the Centre for Economic Development to make an elaborate overall analysis. Taking into consideration this analysis the Board of Directors of the BSE approved a Strategy and Action Plan for 2006-2007. In these documents are included all the steps that have to be taken by the Exchange in order to popularize the capital market, to attract new listings and improve the regulatory framework. Road-shows, Meetings with business associations, with managers of big private companies, seminars and conferences are envisaged in the Action Plan.

Another important topic is the role of the BSE in regional and pan-European integration of stock exchanges. This has been discussed on many occasions and roundtables have been organized with the participation of all stock market institutions. All the different models of stock market consolidation have been analyzed. The prevailing opinions resulting from these discussions can be summarized as follows:

1. The BSE has to become part of a stock exchange alliance;
2. The best model for the BSE would be the one that guarantees a relative autonomy and the national identity;
3. Local regulation should remain in force;
4. A common trading platform should be used;
5. Cross-membership, single point of liquidity and direct access to foreign markets should be considered.

18. Information Services

The Bulgarian Stock Exchange-Sofia offers a large variety of information services that include trading statistics, bulletins, specific stock prices, index movement, etc. Some of the information is provided on a real-time basis, some of it is “end-of-the-day” and another part is offered on a weekly or monthly basis.

The Exchange has signed agreements with the major global data vendors like “Thomson Financial”, “Reuters”, “Bloomberg”, “Interactive Data Corporation”, “Deutsche Telekom”, “Internet Securities” and others.

The rising interest in the stock market sector among analysts and investors made it necessary to launch new information services, which gave a better picture of the economic landscape in Bulgaria on the one hand and reflected the global standards in this field on the other.

In addition to the fruitful co-operation with the specialized financial newspapers (“Capital”, “Dnevnik”, “Pari”, “Banker” and “Cash”), which publish on a daily and weekly basis stock market information, the Board of Directors of BSE adopted standardized information packages that are offered to investors using the great variety of Internet tools.

Keeping in pace with the current trends in the information field and in order to reach a very wide audience, the BSE-Sofia developed its web-site and gives free access to most of the statistical data. Interested persons can follow the trading session results with a 15-minute delay on www.bse-sofia.bg, as well as historical data about all the traded securities. There is also a continuous corporate news service that can be seen on the screen.

The official BSE web-site continued to be modernized in 2005 and the goal will be to assure easy access to a larger amount of stock market information. In the coming months the individual investors will be able to discover financial data and full information on the issuer companies.

19. International Relations

In 2005 the BSE continued to develop the co-operation with regional and European exchanges. As a result of the dynamic developments on the Bulgarian stock market the interest of foreign investors in regard to the BSE increased significantly. The Exchange continued to develop its international relations as well as on a bilateral level, as on a multilateral level. With the forthcoming EU accession of Bulgaria the financial and other support for the capital market by different European institutions is becoming more active.

The BSE keeps close ties to the Federation of Euro-Asian Stock Exchanges (FEAS), as well as to the Federation of European Securities Exchanges (FESE). The Exchange will become a full member of this organization as soon as Bulgaria enters the EU.

Among the important events, organized jointly by the BSE in 2005 was the Conference on “Securities Markets: Technological Solutions and Infrastructure Development in the Context of Multilateral Co-operation”, held in February in Sofia. Representatives of 15 stock exchanges from Europe and Asia were present at the event. Leading experts from the IT sector made presentations.

In accordance with our program for international co-operation a BSE delegation visited in March 2005 the EURONEXT Lisbon Exchange. The hosts informed the Bulgarian guests what effect the merger into the EURONEXT Group had on the local stock market and the brokers’ business.

The BSE continued in 2005 developing its ties to the regional exchanges. Members of the management visited the Macedonian Stock Exchange in June and the Bucharest Stock Exchange in December on the occasion of its 10th Anniversary.

Financial assistance was accorded to the BSE by the Dutch Ministry of Foreign Affairs for the realization of a project in the marketing field. Mr. Ruurd Vedam, a financial expert, helped the BSE work out a marketing strategy for attracting issuers and investors.

In the first months of 2006 BSE representatives visited the Prague, Milan, Copenhagen and Warsaw Stock Exchanges.

On March 23, 2006 a Memorandum of Understanding was signed in Sofia between the BSE and the Vienna Stock Exchange, which will contribute for a more intensive exchange of information and assistance.