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## *1. Historical Overview*

The Bulgarian stock market began developing in the early 20<sup>th</sup> century. The first Stock Exchange Act was adopted in 1907 and regulated the structure and operations of the stock and commodities exchanges. In 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 21<sup>st</sup>. 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 supervisory organ - the Commission for Financial Supervision - was created.

## ***2. Principles and Mission Statement***

The Bulgarian Stock Exchange-Sofia is a joint stock company with a capital of BGL 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 operations at the Exchange are carried out by three main departments: "Trading System & Surveillance", "External Relations & Communications" and "Administration & Accounting".

The members of the Board of Directors are the following:

**Bistra ILKOVA** - Chairperson  
**Victor PAPA ZOV** - Deputy-Chairman  
**George DRAYCHEV** - CEO  
**Vladimir VLADIMIROV** - Member  
**Todor BRESHKOV** - Member  
**Philip PASHOV** - Member  
**Liudmila ELKOVA** - Member  
**Plamen GEORGIEV** - Member  
**Atanas BANGACHEV** - Member

## ***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 and to employ at least one dealer/broker.

Currently the Exchange has 91 members, while the licensed brokers number 126.

## ***5. Markets***

### **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 Bonds"*
  - *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 Equities Market
- Unofficial Bond Market
- Unofficial Market for other dematerialized securities under the Public Offering of Securities Act.

The Exchange organizes a "primary market" for IPO's and a "privatization market" for the sell-off of residual state-owned shares.

## ***6. Listing Requirements***

### **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 BGL 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 **BGL 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 BGL 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 **BGL 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 **BGL 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**.

<i>Minimum listing requirements for the Official Market</i>			
Requirements	Segment A	Segment B	Segment C
Prospectus	Yes	Yes	Yes
Years of business history	3	2	1
Market capitalization	BGL 20 000 000	BGL 10 000 000	BGL 500 000
Free-float	25%	10%	5%
Number of shareholders	400	100	100
Minimum number of shares traded per month*	1000	1000	n/a
<i>* Only in the case, when the issue has been traded on another market segment</i>			

#### **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;
- under a procedure of merger or acquisition;
- must meet the requirements of the Public Offering of Securities Act, regarding trading on the Unofficial Market.

<i>Issue registration procedures</i>	
Standard application form	Filled out by the issuer
Documents	The issuer presents all necessary documents under the Public Offering of Securities Act and the Rules&Regulations of the BSE-Sofia
Decision by the Board of Directors of the BSE-Sofia	The Board takes the decision in 30 days
Stock Exchange Code	Each registered issue has a unique BSE identification code
Official Notification	The applicant is officially notified of the decision in written form in up to 10 days
Information Dissemination	The decision of the Board is published in the official daily bulletin of the BSE
Registration Contract	It is signed in 10 days after the official notification of the Board
Admission to trading	After the contract between the BSE and the issuer has been signed and after the initial registration tax has been paid, the date of the trading start is published in the BSE bulletin
Terms for payment of registration supporting tax	It is paid annually in a 10 day period after the initial date of the signature

## ***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;
- an audited annual financial statement;
- a 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.

## ***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 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 12:00- 1:00 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:

- the buy and sell orders are entered into the trading system during the trading session;
- the orders match automatically in the system and are executed by keeping the price and time priority;
- client orders have priority over the own account;
- the minimum quotation is BGL 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 average-weighted 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 til 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. Statistics 2003*

The market performance of the Bulgarian Stock Exchange in 2003 was overall good. It was a successful year not only for the Exchange, but for the Bulgarian capital market as a whole. The trading results confirm this assumption and as can be seen in the table below compared to 2002 the volume of traded shares and the turnover more than doubled, while the number of transactions went up by 175%. The major market segments - the Official and Unofficial equity markets, with the exception of Segment "A", also registered a significant increase in all market parameters.

Market	Volume securities		Turnover(BGL)		No.deals	
	2 003	2 002	2 003	2 002	2 003	2 002
Block and other prenegotiated deals	304 953 997	114 214 952	151 169 771,18	244 703 852	307	203
Tender offer	702 595	885 971	11 248 016,86	8 897 515	17	17
Buy-back transaction	133 066	107 434	1 612 749,90	356 538	8	35
Unofficial equities market	24 394 715	15 428 564	120 022 574,07	69 547 313	22 492	9543
Unofficial market of other securit.	809 125	1 122 464	410 239,93	236 021	104	13
Unofficial bond market	14 155	8 923	25 970 050,07	17 071 829	185	164
Official equities market Segment "A"	62 733	76 416	531 523,09	897 223	237	45
Official equities market Segment "B"	5 472 260	436 948	15 526 422,59	2 124 737	3 681	701
Official equities market Segment "C"	9 446 666	4 136 555	44 825 512,25	11 424 393	14 065	5754
Official market of corporate bonds	39 066	2 610	41 534 670,21	2 452 858	263	46
Compensatory notes market	337 447 049	174 509 672	78 103 746,55	40 762 088	19 702	6235
TOTAL	688 354 930	311 799 947	793 098 888	416 389 122	63 345	22 910

As a result of the price increase of almost all of the most actively traded issues on the exchange, the capitalization doubled in comparison to 2002 and reached BGL 2,7 billion.

Market Capitalization BGL	23.12.2003	20.12.2002	Change
Official A	28 000 924	31 024 265	-10%
Official B	283 474 143	94 867 539	199%
Official C	674 509 506	126 981 433	431%
Unofficial Market	1 736 023 634	1 122 311 124	55%
TOTAL	2 722 008 207	1 375 184 361	98%

### ***10. Privatization through the Exchange***

The development of the Bulgarian capital market is closely linked to the privatization process in the country and this explains the active co-operation between the BSE and the Privatization Agency. The Exchange won reputation as an institution that executes the most transparent privatization deals through the auction method and protecting the state interest. In 2003 there were privatization deals with 43 companies. As a result the turnover on the privatization market for deals with compensatory instruments increased from BGL 309 013,15 to BGL 284 063 012,34, while the number of privatized securities went up from 42 797 to 4 380 471.

Market	Volume		Turnover BGL		No.deals	
	2 003	2 002	2 003	2 002	2 003	2 002
Privatization deals with BGL	352 712	811 922	16 490 689,79	2 886 742,28	155	61
Privatization deals with compensatory notes	4 380 471	42 797	284 063 012,34	309 013,15	2 108	33

Certain amendments to the legal framework, concerning the privatization process made it possible in 2004 to privatize through the Exchange using two new methods: remote public tender and centralized public tender. This gives the opportunity for the offering and making deals with a big number residual stakes that are still state owned.

### ***11. 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.

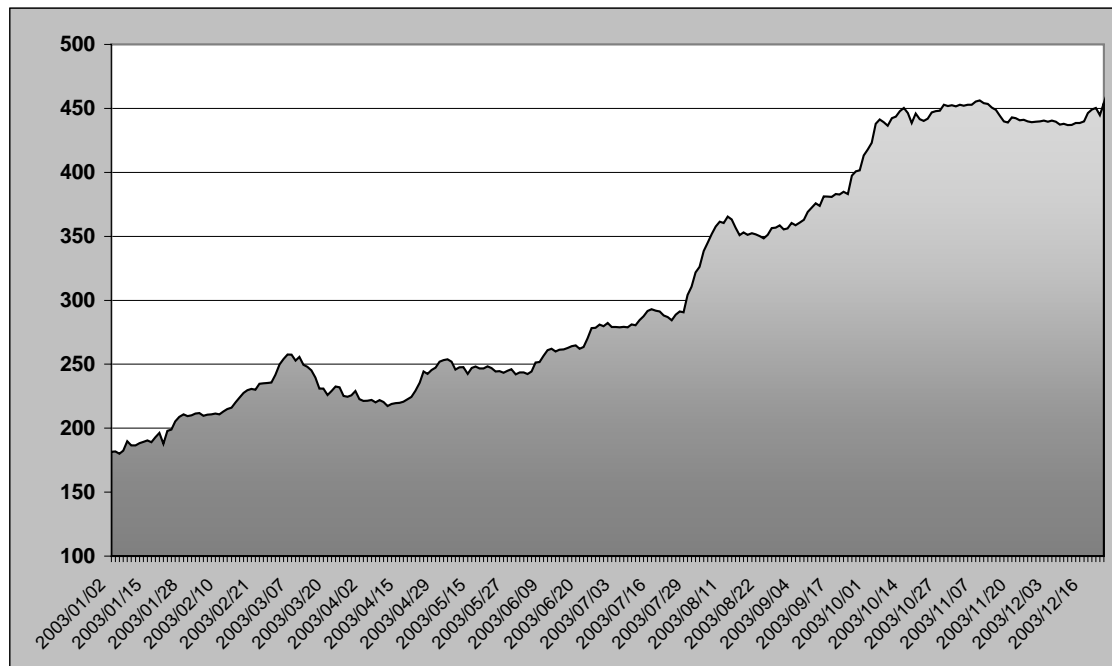
Only the most liquid companies traded on the regulated markets are included in the index portfolio. In addition the companies have to meet the following **requirements** :

- The issues have been traded on the regulated markets at least three months;
  - Market capitalization of each issue should be at least BGL 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 2003 the index SOFIX continued its upward trend from the previous year and reached record heights. At the start of 2003 the index was 181.52 points and at the last trading session on 23 December it had reached 454.34. There were certain corrections in the index portfolio - one company was removed and four were added.

**SOFIX movement for the period 01.01.2003-31.12.2003**



**Currently 12 companies are included in the index portfolio :**

- Slanchev bryag
- Albena

- Blagoevgrad BT
- Bulgartabak Holding
- Zlatni pyasatzi
- Lukoil Neftohim Burgas
- Petrol
- Sofarma
- Neohim
- Orgahim
- Biovet
- Central Cooperative Bank

***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:

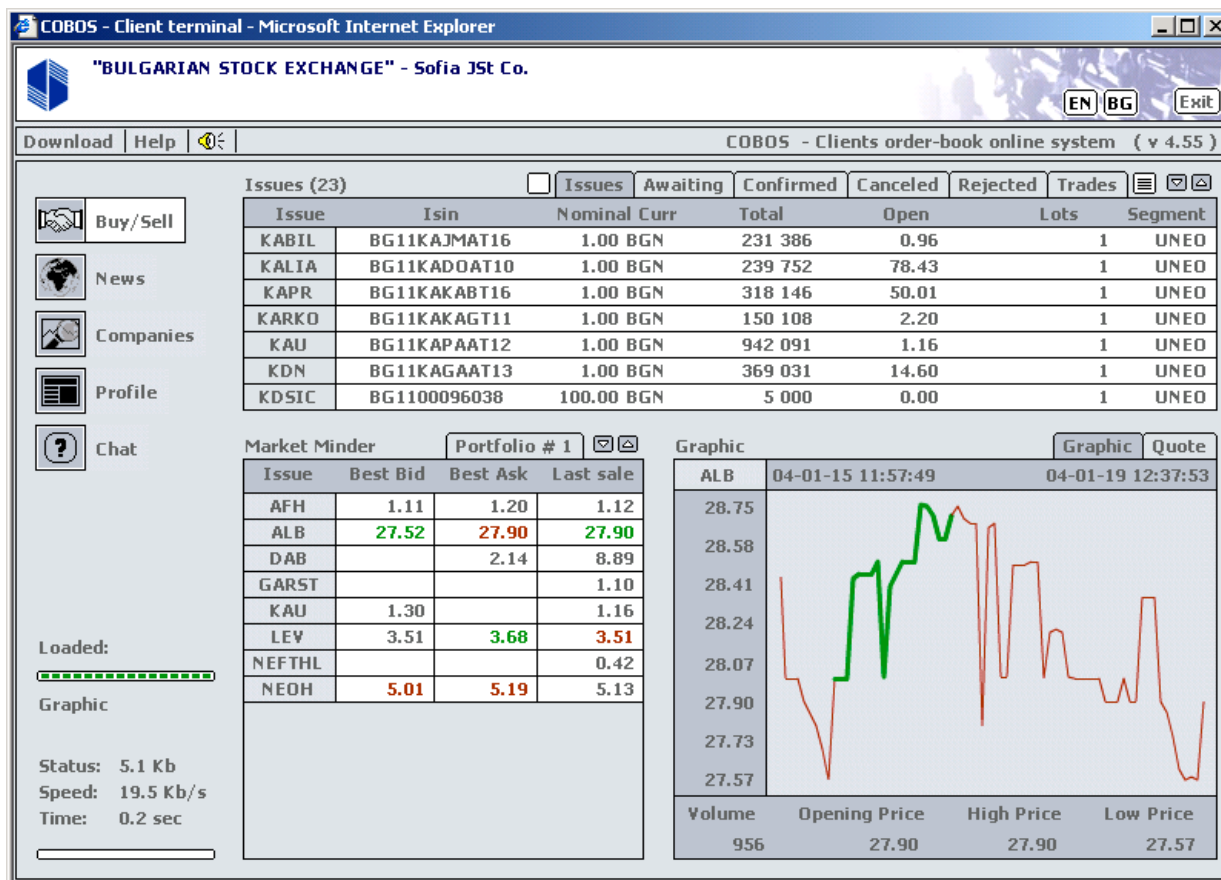
- SOFIX** - index of regulated markets of BSE-Sofia
- P** - last average weighted price per share of a given company;
- N** - number of shares in the issue
- n** - numbers of issues included in the index portfolio;
- I** - indicator for a given company /issue/
- t** - day of the calculation

## ***12. 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.

Users of COBOS can only be investment intermediaries and administrators of COBOS, as well as clients of the subscribers.



*The main screen of the clients' terminal*

### **13. 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.

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 for tax purposes or for reaching a pre-negotiated price;
- 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;
- 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.

#### ***14. 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:

- the orders that have been entered outside of the price limits;
- the execution of transactions close to or outside of the price limits;
- neglecting the clients' interests;
- transactions or orders that might 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 for tax purposes or for reaching a pre-negotiated price;
- 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;
- 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.

## ***15. 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", "Deutsche Telekom", "Internet Securities" and others.

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](http://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 will be modernized in 2004 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.

The policy of the Exchange is also to develop the ties with the specialized media. In the last years agreements were signed with the financial daily "Pari", with the "Dnevnik" newspaper and with the weeklies "Banker", "Capital" and "Cash".

## ***16. International Relations***

The BSE-Sofia has been very active in developing its international relations. As a founding member of the **Federation of Euro-Asian Exchanges (FEAS)** the Bulgarian Stock Exchange was elected for several terms in its Executive Committee and has contributed largely for the success of the organization that today has 24 members.

Over the last 6 years the Exchange has also worked closely with the **World Federation of Exchanges(WFE)**, of which it is a corresponding member. With this statute the BSE-Sofia is eligible to receive all the statistical information that the organization publishes, as well as invitations to seminars and conferences.

The Exchange was admitted also as corresponding member to the **Federation of European Stock Exchanges(FESE)** in October 2003.

The BSE-Sofia gives great importance to the development of the **regional cooperation in Southeast Europe**. The contacts to the Athens, Istanbul, Bucharest, Macedonian, Zagreb and Belgrade stock exchanges have been very active and fruitful. In the last years experts from all the exchanges have been working on a project, whose goal is to create common trading platform for "blue chip" companies.

The Exchange has hosted since 1998 annual roundtables on the development of the capital market in Bulgaria and in the region in the framework of the "Southeast Europe Economic Forum", which have so far attracted a big number of domestic and foreign investors.