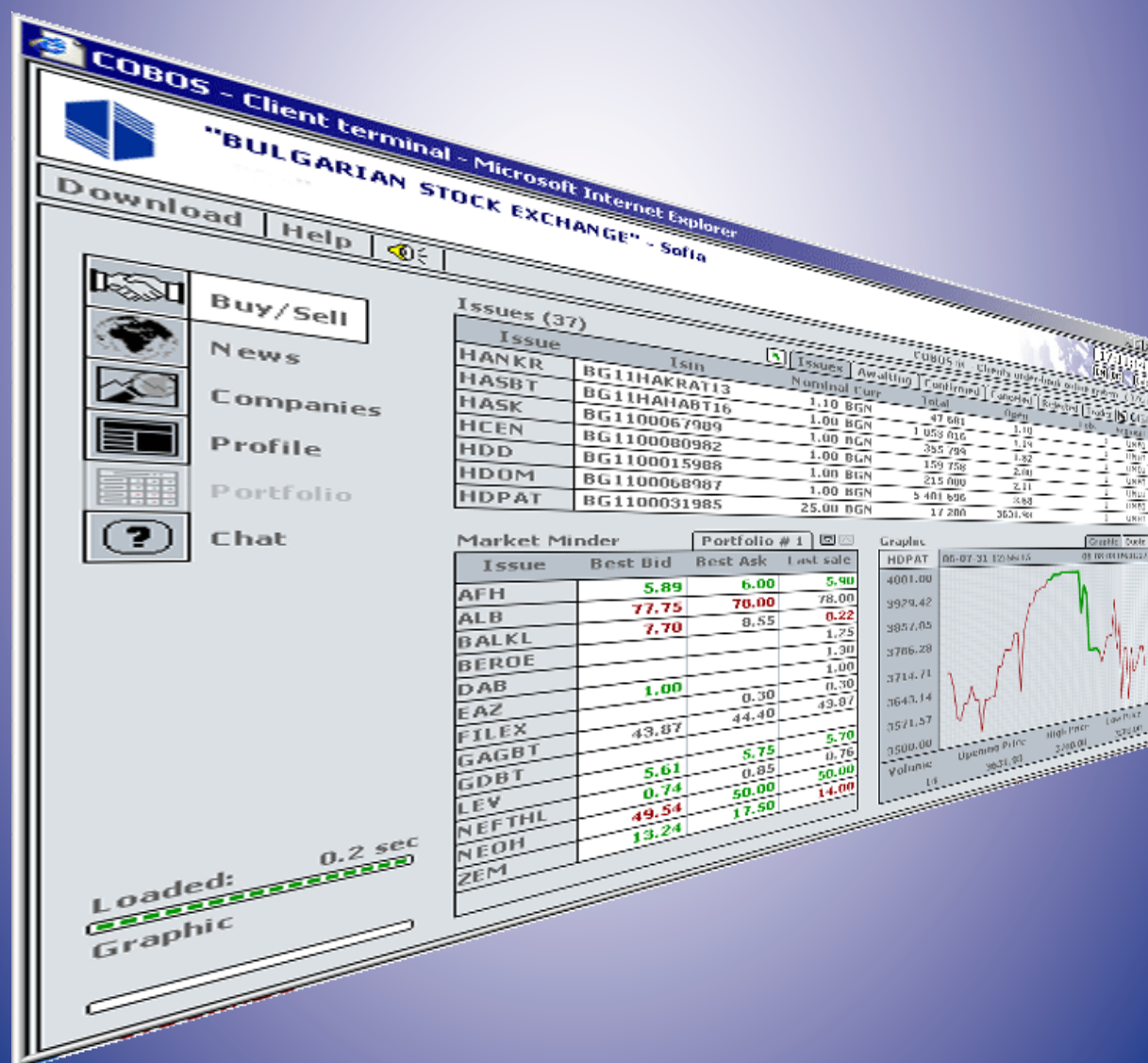


BULGARIAN STOCK EXCHANGE - SOFIA

ANNUAL REPORT OF BULGARIAN STOCK EXCHANGE - SOFIA FOR 2006



Sofia
March 2007

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BULGARIAN STOCK EXCHANGE- SOFIA

1. Introduction

This Report has been prepared in accordance with Article 34 of the Public Offering of Securities Act and Article 245 of the Commercial Code. It contains data on the activities of BSE-Sofia AD ("the Exchange"), on the composition of its shareholders and members, as well as a financial statement according to Article 26 (1) of the Accountancy Act. The Report provides information on the achievements of the Exchange in 2006, taking into account the key performance indicators, accompanied by the relevant analyses and conclusions. It outlines the major trends in the development of the capital market, as well as the implementation of the priorities set in the Strategy and Development Programme of BSE-Sofia AD. The report describes the main areas in which the Exchange will continue to pursue its activity in 2007 and, respectively, the principal factors that will impact the functioning of the company and the services it provides.

The Bulgarian capital market is compared in brief with the exchanges in Southeastern Europe, and the key aspects of the development of the Exchange are outlined separately, including the forthcoming integration processes, as well as in its international relations.

2. BSE-Sofia AD Trading Data

2.1. Volume, turnover, number of transactions

In 2006, BSE-Sofia AD logged a turnover of BGN 3.38 billion (see Table 1), with the monthly level for December setting a record of BGN 704.58 million in the history of the Exchange. Compared to 2005, the trading turnover declined by 5.51%, largely due to a one-time transaction for privatization of a 35% minority stake in the Bulgarian Telecommunication Company AD in late January 2005. If this transaction is excluded from the overall statistics, the turnover actually increased by 14.76 %.

Trading grew by a substantial 127.80% on all three segments of the Official Market of Equities, with the number of issues listed there dropping from 34 to 29 during the period under review, as a result of a restructuring of the official market segments. More active trading comes most often from Segment "B," which accounts for 79.46% of the turnover on the Official Market of Equities in 2006. On the Unofficial Market of Equities, 117.67 million market lots (see Table 2) worth a total of BGN 1.45 billion were transferred, compared to BGN 929.56 million a year earlier. The number of transactions concluded on that segment increased by just 4.11%, which means that the average value per transaction was BGN 12,918 in 2006, up from BGN 8,622 in 2005.

Turnover on the bond markets reached BGN 297.46 million last year, an increase of 18.01% from 2005. This segment accounts for 8.79% of the total turnover for 2006, compared to 7.04% reported for 2005. The number of bond issues listed grew from 53 to 73 during the period under review, thanks to a large number of new issues on the Unofficial Market of Bonds. Presumably, the bond market will continue to tend rapidly up in 2007 as well. Considering the nature of this type of instrument and investors' preferences to keep them until maturity, a substantial rise in trading activity is not expected.

Last year the IPO Market of Equities saw the conclusion of 433 transactions totalling BGN 12.30 million, compared to 233 transactions totalling 5.45 million in 2005. (See Table 3). Trading on the IPO Market of other securities showed a growth of 477.04% to BGN 10.06 million.

The average daily turnover on the Exchange in 2006 amounted to BGN 13.59 million for 249 trading sessions, compared with BGN 14.27 million for 251 sessions in 2005. The Unofficial Market of Equities had the largest weight in daily trading last year: 42.84% of the average daily trading, followed by the Official Market of Equities, Segment "B": 19.81%, as well as Block and the other pre-negotiated transactions: 16.04%.

The tables below show a substantial decrease in the transactions and turnovers from tender offers. This fact unambiguously indicates that the process of delisting of major public companies

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will increasingly decelerate on the Bulgarian capital market.

Trading Structure by Market (turnover in BGN)

(Table 1)

Market			
	2006	2005	Change
Block and other pre-negotiated transactions	542,843,783	1,011,690,358	-46.34%
Tender offer	1,172,875	87,444,199	-98.66%
Redemption	0	79,156	-100.00%
Privatization transactions paid in BGN	0	0	0.00%
Privatization transactions paid in compensation instruments	0	632,643,004	-100.00%
Official Market, Segment "A"	30,594,891	52,014,331	-41.18%
Official Market, Segment "B"	670,249,231	56,063,373	1095.52%
Official Market, Segment "C"	142,633,014	262,195,377	-45.60%
Official Market, corporate bonds	42,687,014	44,268,534	-3.57%
Official Market, municipal bonds	1,025	6,440	-84.08%
Official Market, government securities	0	0	0.00%
Unofficial Market of Equities	1,449,903,231	929,555,521	55.98%
Unofficial Market of Bonds	254,769,106	207,793,555	22.61%
Unofficial Market of compensation instruments	135,985,111	267,873,464	-49.24%
Unofficial Market of other securities	46,029,442	6,060,525	659.50%
Transactions under Article 54 (5)	0	0	0.00%
IPO Market of Equities	12,297,862	5,451,436	125.59%
IPO Market of Bonds	0	0	0.00%
IPO Market of other securities	10,060,941	1,743,538	477.04%
IPO Market of government securities	0	0	0.00%
Large volumes of shares	41,569,248	8,229,538	405.12%
Centralized public auction	2,942,785	5,418,374	-45.69%
Remote public auction	416,411	2,940,008	-85.84%
Total:	3,384,155,972	3,581,470,732	-5.51%

Trading Structure by Market (Volume)

(Table 2)

Market			
	2006	2005	Change
Block and other pre-negotiated transactions	166,778,396	364,089,497	-54.19%
Tender offer	104,509	3,249,783	-96.78%
Redemption	0	35,980	-100.00%
Privatization transactions paid in BGN	0	0	0.00%
Privatization transactions paid in compensation instruments	0	2,869,251	-100.00%
Official Market, Segment "A"	5,689,341	11,089,891	-48.70%
Official Market, Segment "B"	84,882,427	9,347,456	808.08%
Official Market, Segment "C"	13,726,401	46,494,984	-70.48%

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Official Market, corporate bonds	29,226	39,312	-25.66%
Official Market, municipal bonds	1	8	-87.50%
Official Market, government securities	0	0	0.00%
Unofficial Market of Equities	171,674,827	60,937,842	181.72%
Unofficial Market of Bonds	165,820	128,263	29.28%
Unofficial Market of compensation instruments	211,894,565	305,720,339	-30.69%
Unofficial Market of other securities	88,910,344	7,725,656	1050.85%
Transactions under Article 54 (5)	0	0	0.00%
IPO Market of Equities	10,384,284	844,204	1130.07%
IPO Market of Bonds	0	0	0.00%
IPO Market of other securities	9,752,500	4,500,000	116.72%
IPO Market of government securities	0	0	0.00%
Large volumes of shares	144,063	51,991	177.09%
Centralized public auction	241,620	1,018,438	-76.28%
Remote public auction	16	26	-38.46%
Total:	764,378,340	818,142,921	-6.57%

Trading Structure by Market (number of transactions)

(Table 3)

Market			
	2006	2005	Change
Block and other pre-negotiated transactions	386	404	-4.46%
Tender offer	9	55	-83.64%
Redemption	0	2	-100.00%
Privatization transactions paid in BGN	0	0	0.00%
Privatization transactions paid in compensation instruments	0	1,466	-100.00%
Official Market, Segment "A"	15,860	10,523	50.72%
Official Market, Segment "B"	25,558	7,252	252.43%
Official Market, Segment "C"	37,180	84,083	-55.78%
Official Market, corporate bonds	172	226	-23.89%
Official Market, municipal bonds	1	1	0.00%
Official Market, government securities	0	0	0.00%
Unofficial Market of Equities	112,236	107,803	4.11%
Unofficial Market of Bonds	1,065	729	46.09%
Unofficial Market of compensation instruments	15,615	44,179	-64.66%
Unofficial Market of other securities	4,051	1,335	203.45%
Transactions under Article 54 (5)	0	0	0.00%
IPO Market of Equities	433	233	85.84%
IPO Market of Bonds	0	0	0.00%
IPO Market of other securities	575	348	65.23%
IPO Market of government securities	0	0	0.00%
Large volumes of shares	279	55	407.27%
Centralized public auction	164	469	-65.03%
Remote public auction	16	26	-38.46%

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Total:	213,600	259,189	-17.59%
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2.2. Trading by market segment

In 2006, companies operating in financial intermediation were most actively traded on the market of equities. The principal reason for the substantial growth in this segment (+77.39 per cent compared to 2005) was the transfer of a 74.85% stake in DZI Bank for the amount of BGN 322.77 million in mid-December.

Transport and communications was the second most actively traded market segment, with a turnover exceeding BGN 740 million for the year. Trading in the shares of Bulgaria's largest public company, BTC, accounted for over 95% of the total turnover in this sector.

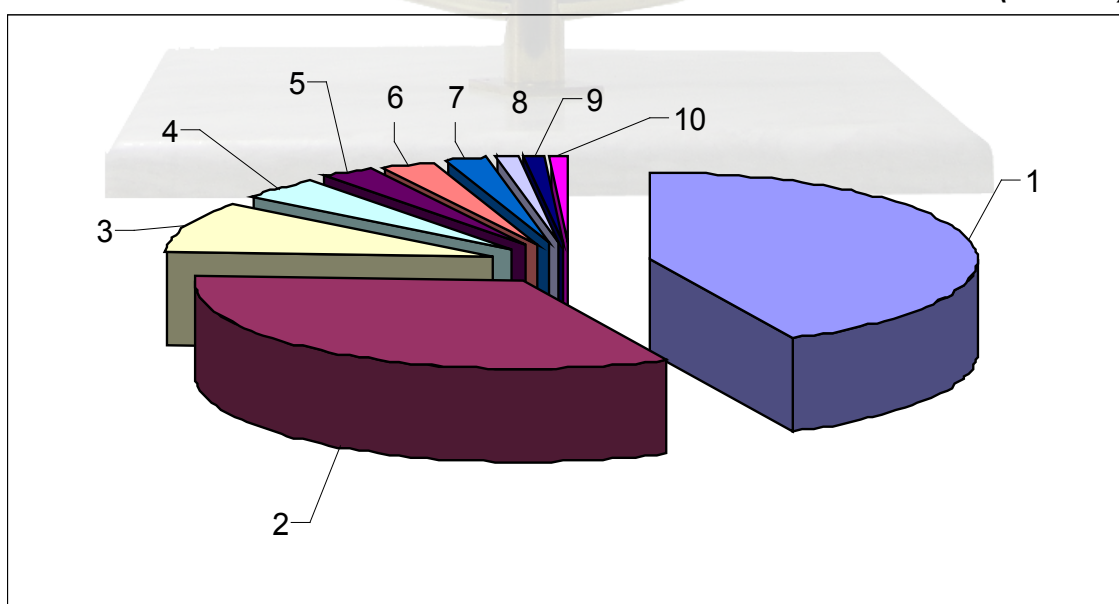
Trading Structure in the Top 10 Segments on BSE-Sofia AD

(Table 4)

	Sector	Number of transactions	Number of shares	Turnover (BGN)
1	Financial intermediation	76,622	133,915,759	941,895,697
2	Transport, storage and communications	3,942	70,244,798	740,931,631
3	Manufacture of chemicals, chemical products and man-made fibres	21,815	39,817,738	204,170,134
4	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	11,475	13,466,846	86,911,050
5	Construction	6,909	410,274	61,335,316
6	Hotels and restaurants	8,290	3,412,685	61,122,247
7	Manufacture of transport equipment	2,318	510,925	42,390,911
8	Manufacture of food products, beverages and tobacco	3,082	250,676	28,490,314
9	Real estate, renting and business activities	19,775	4,368,824	20,436,270
10	Manufacture of pulp, paper and paper products; publishing and printing	3,338	832,430	19,773,646

Trading by Segment in 2006

(Chart 1)



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2.3. Trading of Issuers by Number of Trading Sessions

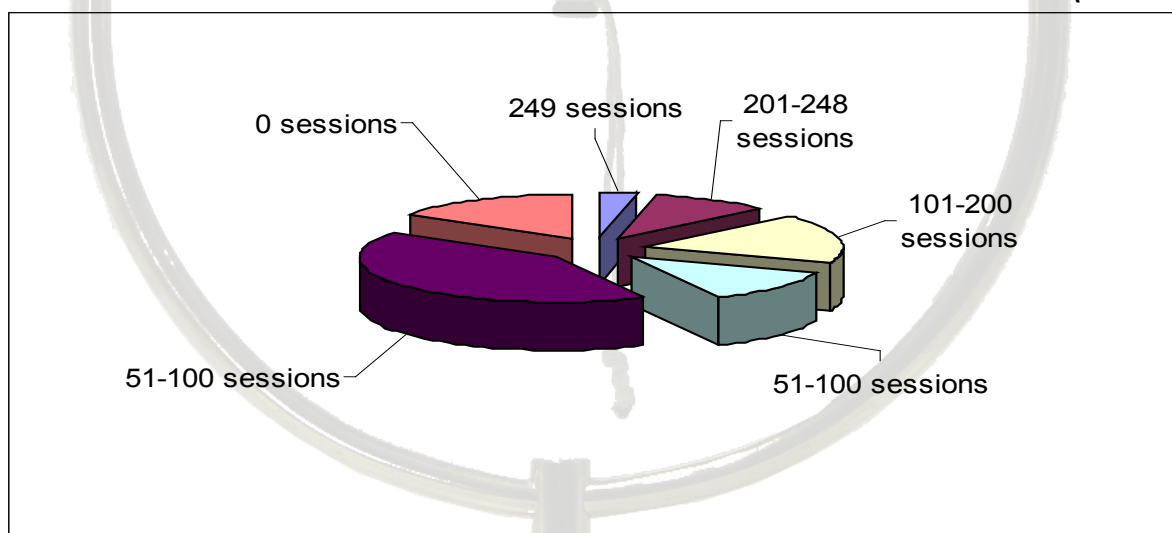
The shares of a total of 312 issuers traded in at least one trading session during 2006. The shares of 341 were listed for trading on the BSE-Sofia AD in early January 2006, 20 issuers were delisted during the year, and the shares of 29 new companies were admitted to trading. Not a single transaction was effected in the shares of 58 companies between 3 January and 22 December 2006.

The shares of eleven issuers (including eight holding companies) were transacted during all 249 trading sessions in 2006. Registered compensation vouchers were also traded on all those trading days. Thirty-six issuers figured in trading at 201 to 248 sessions, and the shares of 67 companies were traded in 101 to 200 sessions. For 44 companies, the trading sessions numbered between 51 and 100, and for 154 the number was 1 to 50 session.

The companies included in the portfolio of the broad BG40 index by 31 December 2006 were traded in an average 231 sessions (92.77% of the total). On the other hand, the companies included in the SOFIX index by the end of last year were traded in 205 sessions on the average (82.33% of the total).

Trading by Number of Sessions in 2006

(Chart 2)



3. New Issuers, Delisted Issues and Capital Increases in 2006

(Table 5)

		2006	2005
I	Number of issues listed for trading on BSE, of which:	76	51
1	Shares – REIT	18	8
2	Shares – Investment companies	1	2
3	Shares – Other public companies*	10	8
4	Initial public offering through BSE-Sofia	2	3
5	Units – Common funds	19	6
6	Bonds, of which:	28	27
6a	On Official Market	1	1

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6b	On Unofficial Market	27	26
II	Number of capital increases listed on BSE, of which:	48	16
1	REIT (including mandatory increases)	35	11
2	Other public companies	13	5
III	Number of issues suspended from trading on BSE, of which:	20	22
1	Shares – Other public companies, of which:	12	17
1a	due to deletion from register of public companies and other issuers of securities	10	17
1b	due to deletion from Commercial Register	2	0
2	Bonds, at maturity	8	4
3	Government securities	0	1

*The shares of Sofia Commerce – Pawn Brokerage AD were listed for trading on BSE-Sofia in 2007 and are not included in the statistics under Item 3.

(Table 6)

		2006	2005
I	Total nominal value (BGN) of the new issues listed for trading on BSE, of which:	587,410,147	656,910,874
1	Shares – REIT	11,300,000	7,500,000
2	Shares – Other public companies	195,265,126	303,336,670
3	Bonds	380,845,021	346,074,204
II	Total nominal value (BGN) of the capital increases listed for trading on BSE, of which:	374,030,632	95,807,552
1	REIT (incl. mandatory increases)	272,843,080	44,488,051
2	Other public companies	101,187,553	51,319,501
III	Total nominal value (BGN) of issues suspended from trading on BSE, of which:	111,760,868	58,567,310
1	Shares – Other public companies, of which:	10,551,199	18,223,755
2	Bonds, at maturity	101,209,669	40,343,555

4. Market Capitalization of the Exchange

The total market capitalization of BSE-Sofia reached BGN 15.314 billion at the end of 2006 (see Table 7), up 81.58% from the end of the previous year. The Official Market, Segment “B,” showed the largest increase (+370.49%); the number of issues traded there increased from three to twelve. The listing of the Chimimport AD shares at the end of October affected favourably the growth of capitalization on that segment, as the market capitalization of that issuer was BGN 990.6 million by 31 December 2006.

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Market Capitalization, 2001-2006 (BGN mln, end of year)

(Table 7)

	2006	2005	2004	2003	2002	2001
Official Market Segment "A"	319.26	122.10	53.42	28.00	31.02	17.65
Official Market Segment "B"	3,239.13	688.46	423.33	283.47	94.87	44.43
Official Market Segment "C"	2,084.15	1,337.70	898.12	674.51	126.98	132.90
Unofficial Market	9,671.47	6,285.70	2,658.32	1,736.02	1,122.31	908.85
Total:	15,314.01	8,433.96	4,033.19	2,722.00	1,375.18	1,103.83

Market Capitalization / Gross Domestic Product

(Table 8)

	2006*	2005	2004	2003	2002	2001
Market Capitalization/GDP	32.36%	20.11%	10.54%	7.88 %	4.25 %	3.72 %

*Capitalization: at 31 December 2006, GDP: according to BNB estimates

The ratio of market capitalization to the country's gross domestic product is particularly important in analyzing capital markets, since it makes it possible to compare directly stock exchanges of different sizes. As evident from Table 8, this indicator grew for yet another year, arguably demonstrating a sustained upward trend. If the growth rates are maintained in the next couple of years, the Exchange would draw level in this performance indicator with the leading capital markets of Europe and the world.

By 31 December 2006, the market capitalization of the top 20 public companies equalled 70.81% of the total capitalization of BSE-Sofia AD by the same date (by comparison, the proportion was 78.82% by 31 December 2005). On the other hand, the capitalization of the top 20 companies increased 63.14% against the capitalization of the market leaders at the beginning of the year, which was less than the increase in the total capitalization of the Exchange for the period under review (+81.58%).

The Bulgarian Telecommunication Company AD remains on top of the market capitalization ranking, with BGN 2.9 billion-plus at the end of last year. The weight of the largest public company as a percentage of the total exchange capitalization, however, decreased during the period under review: from 34% by 1 January to 19.08% by 31 December.

By the end of 2006, thirteen of the companies listed in the ranking were not included in BG40 (their market capitalization aggregated BGN 5.32 billion), and nine were not included in either of the two indices (their market capitalization amounted to BGN 3.61 billion). Four new companies figured in the ranking by 31 December 2006: Chimimport AD-Sofia, Bulgarian American Credit Bank-Sofia, Lead & Zinc Complex AD-Kurdzhali, Duropack-Trakia Papir AD-Pazardjik, Alcomet AD-Shoumen, Energoremont Holding AD-Sofia, and Bulgarian River Shipping AD-Rousse.

Top 20 Public Companies in Market Capitalization by 1 January 2006

(Table 9)

Code	Company	Capitalization
BTC	Bulgarian Telecommunication Company AD-Sofia	2,867,434,861.20
SFARM	Sopharma AD-Sofia	495,000,000.00
PET	Petrol AD-Sofia	412,963,533.36

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ALB	Albena AD, Albena Resort	334,201,184.46
KREM	Kremikovtzi AD-Sofia	314,613,089.55
DZI	DZI Insurance & Reinsurance AD-Sofia	283,671,400.00
BRIB	CB Economic & Investment Bank AD-Sofia	274,400,980.00
BLABT	Blagoevgrad-BT AD-Blagoevgrad	248,128,093.06
BTH	Bulgartabac Holding AD-Sofia	206,282,216.00
CCB	CB Central Cooperative Bank AD-Sofia	178,183,085.28
RXB	CB DZI Bank AD-Sofia	165,000,000.00
DRUPL	Druzhba Staklarski Zavodi AD-Sofia	140,480,802.00
SOFBT	Sofia-BT AD-Sofia	121,650,493.90
ZLP	Zlatni Piasaci AD-Varna	107,144,020.50
BIOV	Biovet AD-Peshtera	95,035,125.78
BSTR	Bulstrad Insurance & Reinsurance AD-Sofia	88,844,100.00
NEOH	Neochim AD-Dimitrovgrad	87,062,942.40
ALBHL	Albena Invest Holding AD-Albena Resort	76,395,000.00
IHLBL	Industrial Holding Bulgaria AD-Sofia	75,821,678.35
RIVR	Riviera AD-Varna	74,954,468.25
Total:		6,647,267,074.09

Top 20 Public Companies in Market Capitalization by 31 December 2006

(Table 10)

Code	Company	Capitalization
BTC	Bulgarian Telecommunication Company AD-Sofia	2,922,300,180.80
CHIM	Chimimport AD-Sofia	990,600,000.00
SFARM	Sopharma AD-Sofia	892,320,000.00
DZI	DZI Insurance & Reinsurance AD-Sofia	770,378,800.00
BRIB	CB Economic & Investment Bank AD-Sofia	767,065,601.12
BACB	CB Bulgarian American Credit Bank AD-Sofia	631,110,002.75
CCB	CB Central Cooperative Bank AD-Sofia	515,146,315.32
PET	Petrol AD-Sofia	473,050,819.96
RXB	CB DZI Bank AD-Sofia	402,500,000.00
DRUPL	Druzhba Staklarski Zavodi AD-Sofia	347,857,224.00
ALB	Albena AD-Albena Resort	330,184,446.02
KREM	Kremikovtzi AD-Sofia	267,022,998.90
BTH	Bulgartabac Holding AD-Sofia	260,136,608.82
BLABT	Blagoevgrad-BT AD-Blagoevgrad	214,372,294.32
OTZK	Lead & Zinc Complex AD-Kurdzhali	210,334,000.00
PAPIR	Duopack-Trakia Papir AD-Pazardjik	203,358,323.14
ALUM	Alcomet AD-Shoumen	191,558,072.53
ERH	Energoremont Holding AD-Sofia	169,559,155.80
BSTR	Bulstrad Insurance & Reinsurance AD-Sofia	150,024,000.00
BRP	Bulgarian River Shipping AD-Rousse	135,367,176.72
Total:		10,844,246,020.20

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5. Free Float of Share Issues Traded on BSE¹

The average free float of the share issues traded on the BSE-Sofia was 25.29% by mid-February 2007 (the analysis does not include the open-end investment companies). The companies with a free float between 10 and 20% had the largest share: 25.36%. Next came the public companies with a free float between 20 and 30% (16.24%) and those with a free float of up to 5% (15.38%).

In the case of REIT, the free float was slightly lower than the average for the Exchange and reached 23.74% by mid-February 2007. Among them, Advance Terrafund REIT-Sofia, BenchMark Fund Estates REIT-Sofia and Intercapital Property Development REIT-Sofia had the highest value of free-floating shares. In ten of these companies, the free float was 0.

The free float of the public companies in the BG40 portfolio (included by the end of last year) was higher than the average for the Exchange and reached 39.92% by mid-February 2007. The bulk of the companies included in the broad index (seven each) fall into the following categories: between 10 and 20%, and between 20 and 30%.

The free float of the SOFIX companies (included by the end of last year) averaged 17.74%. The leading companies in this respect were Orgachim AD, Albena AD, and Neochim AD.

Ownership of the bank shares traded on the Exchange is more concentrated, and the average free float is 12.77%, i.e. lower than the average for the companies. CB Central Cooperative Bank AD tops this ranking, followed by CB Bulgarian American Credit Bank AD, CB Economic & Investment Bank AD and CB DZI Bank AD.

6. Privatization through the Exchange

6.1. Centralized public auctions

In 2006 the Privatization Agency conducted a single centralized auction through the Exchange. At that auction, investors showed intense interest in the minority stakes in Toplivo AD and Pamporovo AD, which generated a turnover of BGN 1.53 million or 51.98% of the turnover for the entire centralized public auction. In percentage terms, the turnover of the centralized public auctions logged in 2006 reached 0.09% of the total turnover of the BSE-Sofia AD for that period.

(Table 11)

		2006
I	Centralized public auctions conducted	1
1	State-owned shareholding in companies offered, of which:	104
1a	paid in compensation instruments	23
1b	Paid in cash	72
1c	Combined payment	9
2	Number of transactions concluded	164
3	Total value of transactions (BGN)	2,942,785

6.2. Remote public auctions

¹ Source: Central Depository AD, mid-February 2007.

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In 2006, the Privatization Agency conducted three remote public auctions through the Exchange, with a turnover reaching BGN 416,411. The decrease from 2005 was 85.84%.

(Table 12)

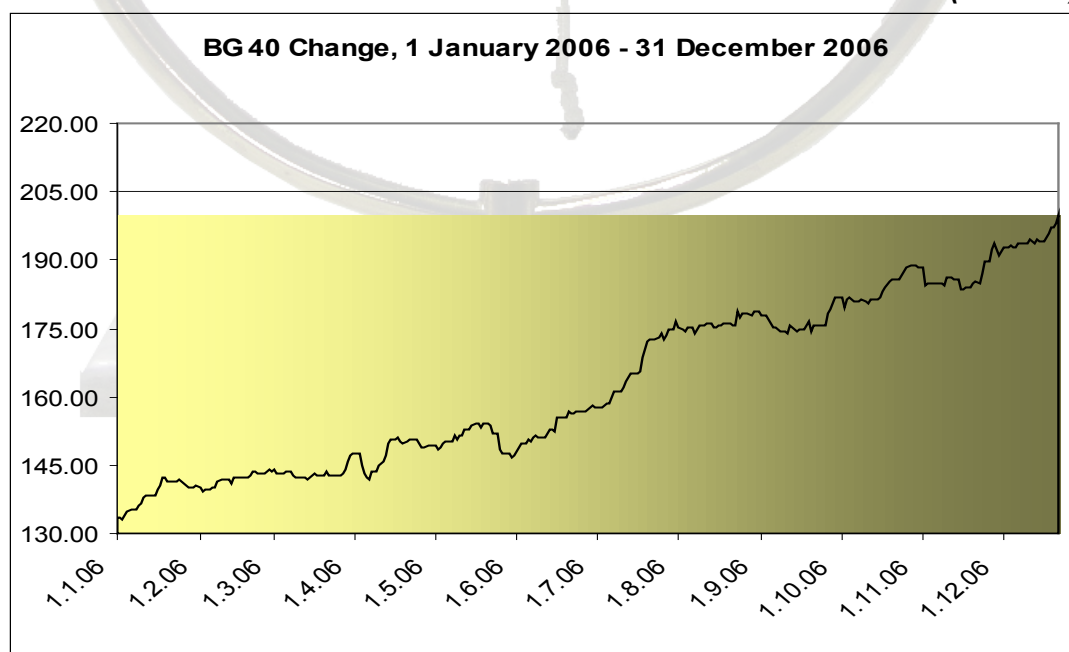
		2006
I	Remote public auctions conducted	3
1	Residual state-owned shareholdings in companies offered, of which:	20
2	Number of transactions concluded	16
3	Total value of transactions (BGN)	416,411

It should be emphasized that the activity of trading on this segment does not depend on the BSE-Sofia AD, insofar as the Exchange is just a technical organizer of the auctions while the companies are put up for privatization by the Privatization Agency.

7. BSE-Sofia Indices

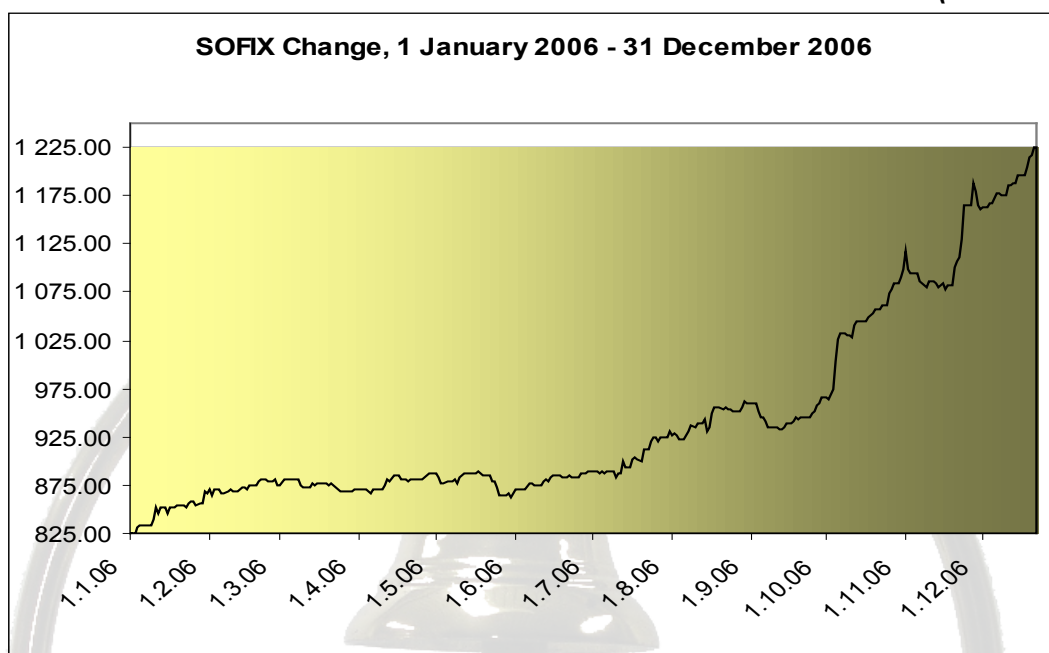
The principal Exchange indices grew substantially last year. The blue chip index, SOFIX, rose 48.28% over the year, closing at 1,224.12 points for the year's last trading session on 22 December 2006. The broad Exchange index, BG40, increased by 49.81% during the period, ending the year at the record 199.88 points.

(Chart 3)



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(Chart 4)



Two regular updatings of the broad Exchange index, BG40, were carried out in 2006.

2 August 2006

- **Excluded:**

DZI Insurance and Reinsurance AD-Sofia, Duropack-Trakia Papir AD-Pazardjik, Razvitie Industry Holding AD-Sofia, Zlatni Piasaci AD-Varna, Petrol AD-Sofia, Holding Sveta Sofia AD-Sofia, and Pamporovo AD-Smolyan.

- **Included:**

Zlaten Lev Holding AD-Sofia, M+S Hydraulic AD-Kazanlak, Euro Ins AD-Sofia, EMKA AD-Sevlievo, Konstantine and Elena Holding AD-Varna, Investor BG AD-Sofia, and Plovdiv-BT AD-Plovdiv.

2 February 2006

- **Excluded:**

M+S Hydraulic AD-Kazanlak, Chermomorski Holding AD-Bourgas, Mel Invest Holding AD-Sofia, Riviera AD-Varna, SS Konstantine And Elena Holding AD-Varna, Katex AD-Kazanlak, Sparky Eltos AD-Lovech.

- **Included:**

Pamporovo AD-Smolyan, Elana Agricultural Land Opportunity Fund REIT-Sofia, Bulgarska Roza-Sevtopolis AD-Kazanluk, Advance Terrafund REIT-Sofia, Duropack-Trakia Papir AD-Pazardjik, BenchMark Fund Estates REIT-Sofia, DZI AD-Sofia.

8. Comparative Analysis of BSE and the Exchanges of Southeastern Europe

Capital markets in Southeastern Europe have quite a few common features, above all low liquidity, a small turnover and a weaker level of development compared to the markets in Western Europe and the US. Each of these stock markets lacks sufficiently high-quality companies that form a representative sample of the respective economy. This is largely due to the fact that most

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public companies are not listed on their own initiative but as a result of a privatization of the state shareholding in them.

Considering the fact that the Balkan countries vary in the size of their economies, a comparison of their capital markets should be based on the three essential indicators characterizing each one of them: market capitalization, the ratio of market capitalization to the country's gross domestic product (GDP), and growth of indices.

Regarding the turnovers logged in 2006, BSE-Sofia AD outperforms three of the exchanges compared: Belgrade, Sarajevo and Skopje. The official index of the Bulgarian Stock Exchange, SOFIX, grew 48.28% last year, more than the respective indices in Croatia, Romania and Bosnia and Herzegovina.

(Table 13)

	Bulgarian Stock Exchange	Zagreb Stock Exchange	Bucharest Stock Exchange	Belgrade Stock Exchange	Sarajevo Stock Exchange	Macedonian Stock Exchange
Share issues traded	341	197	58	1,204	489	101
Market capitalization (EUR mln)*	7,830	22,018	21,414	8,341	5,816	1,414
Market capitalization, change from 2005	+81.58%	+101.00%	+39.86%	+82.36%	+76.28%	+71.53%
Turnover logged in 2006 (EUR mln)	1,730	6,172	2,754	1,273	333	507
Turnover, change from 2005	+14.76 % ¹	+32.99%	+29.13%	+199.53%	+17.89%	+248.89%
Official index	SOFIX	CROBEX	BET	BELEX15	BIFX	MBI-10
Official index, change in 2006	+48.28%	+27.57%	+26.77%	+58.01%	+27.42%	+61.54%
Number of members	81	42	71	75	16	17
Settlement	T+2	T+3	T+3	T+3	T+3	T+3
Number of indices	2	2	4	2	2	1
Instruments traded	Shares, corporate and municipal bonds, government securities,	Shares, bonds, short-term securities	Shares, municipal bonds, rights	Shares, government securities, corporate bonds	Shares, bonds	Shares, bonds

*By 31 December 2006

Source: Internet sites of the stock exchanges; Federation of Euro-Asian Stock Exchanges (FEAS)

9. Regulatory Framework. Rules and Regulations of BSE-Sofia AD

In 2006, BSE-Sofia AD was actively involved in the discussion of drafts revising the regulatory framework, laws, ordinances and other statutory instruments to harmonize Bulgarian legislation with the *acquis communautaire*.

Last year the Rules and Regulations of BSE-Sofia AD was amended and supplemented as follows:

9.1. The amendments of 20 February 2006, 24 March 2006 and 24 March 2006 regulated the segmentation of the markets organized by the Exchange. The criteria for registration on the Official Market were rigorized and, at the same time, new such criteria were introduced. This revision was prompted by the fact that the existing markets had not been altered since the adoption of the Rules and Regulations in 2000 despite a substantial intervening development of the trading and quality of issuers. Since it was determined that three segments for share trading on the Official Market were too many, their number was reduced to two, by eliminating Segment "C".

The amendments also introduced a requirement that the issues which do not meet the quantitative criteria but seek listing on the Official Market must commit market makers to ensure minimum liquidity, with the rules regulating the operation becoming effective in the second half of the year.

In addition, all companies which have applied for listing on the Official Market are required to adhere to the principles stipulated in a Corporate Governance Code prepared or adopted by the Exchange – a fact that is a global tendency and a requirement for each advanced securities market.

A second segment was added to the Unofficial Market of Equities (Unofficial Market of Equities, Segment "B"), for transfer of the issues of all companies showing low liquidity. This amendment was prompted by the fact that low-liquid issues are usually combined with irregular information disclosure by their issuers and, guided by this consideration, the Exchange preferred to pool all such issues in a separate segment.

The idea of these revisions was, basically, to create a new vision of the Official Market, insofar as it should provide a trading venue for the "most public" companies which meet rigorous criteria of liquidity and information disclosure. These companies are often in the focus of investors, they are the source of good practices of "publicity" and build confidence in the national capital market in general.

Effectively, the revisions entered into force on 1 December 2006, when the Unofficial Market was reorganized and divided into two segments.

9.2. On 19 May 2006, numerous provisions of the Rules and Regulations were amended so as to bring them into full conformity with the effective statutory framework as well as to remove certain inaccuracies.

9.3. On 5 June 2006, the next amendment to the Rules and Regulations was adopted in order to differentiate the sanctions imposed by BSE-Sofia AD for various violations. In this respect, the previous version of the Rules and Regulations vested the Board of Directors with full discretionary powers in the imposition of such sanctions, but in order to make the sanction compatible with the violation, different sanctions were provided for in reference to the separate provisions of the Rules and Regulations. This revision was also prompted by the need to strengthen surveillance of trading and, at the same time, has a deterrent effect on the participants in the securities market.

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9.4. On 11 August 2006, 15 September 2006 and 24 October 2006, the Rules and Regulations were amended regarding the emergence and treatment of conflicts of interest involving employees of BSE-Sofia AD and the manner of their reconciliation. In addition, the revisions of 15 September 2006 and 24 October 2006 made it possible to launch trading of bond issues at a net price and as a percentage of the nominal value, as well as to quote all securities with an allowance of three digits right to the decimal point.

9.5. Meeting on 19 October 2006, the Board adopted a single amendment to the Rules and Regulations, setting the fee for associated membership of BSE-Sofia AD at BGN 5,000.

9.6. By an amendment adopted on 15 November 2006, the entry into force of the revisions regarding trading at a net price and interest payments was postponed until 1 January 2007.

9.7. A revision of 5 December 2006 amended the provisions in respect of the persons who may represent the Exchange without being members of the Board of Directors according to Article 33 of the Public Offering of Securities Act, as well as the procedure for their authorization. By the same decision, the Board of Directors reduced the fee for conclusion of REPO transactions to 0.01% of their total value, regardless of the specific instrument traded. The last-mentioned amendment was prompted by the fact that REPO transactions are a money market instrument in their own right and, considering this, a lower transaction fee should be charged on them.

10. Development of Information Technology

In 2006, as a result of the increased trading activity on the principal market segments, the information equipment of the Exchange had to be updated. Updating was performed in two areas. On the one hand, a back-up Internet service provider was contracted to guarantee uninterrupted full traffic generated as a result of trading by participants in case of a failure of the principal ISP of the Exchange. State-of-the-art hardware was purchased and replaced the existing equipment so as to guarantee seamless operation in the long term under significant loads and with a steadily rising market liquidity and activity of the participants. The disused communication and hardware equipment will be used to build a crisis equipment in 2007, in line with world practice.

10.1. Electronic system for information disclosure by public companies and other issuers of securities (EXTRI)

In 2006, BSE-Sofia AD unveiled the electronic system for disclosure of information (EXTRI) to the investor community.

The system was developed jointly by BSE-Sofia AD, the Financial Supervision Commission and the Central Depository AD in accordance with the provisions of Article 43 of Ordinance No. 2 dated 17 September 2003 on Prospectuses for Public Offering of Securities and on Disclosure of Information by Public Companies and Other Issuers of Securities.

EXTRI is a system for electronic submission, retrieval and dissemination of the information disclosed by the public companies and the other issuers of securities.

In essence, EXTRI is an automated single-point entry information system that allows public companies and issuers of securities to fulfil their information disclosure obligations to all three institutions developing the system by means of a single-point entry of specified information into the system.

EXTRI has a web-based interface which gives users maximum simplified and convenient access to the various zones (windows) containing document forms in connection with the information disclosure requirements of the Financial Supervision Commission, BSE-Sofia AD and Central

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Depository AD according to the effective legislation.

The system also supports file transfer in a format approved by the Financial Supervision Commission, BSE-Sofia AD and Central Depository AD, signed by the user with a universal electronic signature.

The basic provisions, technical requirements and functional characteristics of the system were presented at a seminar organized by BSE-Sofia AD in November. During a test period, the starting date of which was announced at the seminar, all companies wishing to do so were able to test the system and come up with suggestions and comments.

After the completion of the test period, the system was formally launched and went into operation on 19 January 2007. Provisions were made for an adaptation period during which the persons obligated to disclose information through the system can present information both through the system and on a paper and magnetic data medium. This period covers the time from the formal launch of the system until 30 March 2007 inclusive. After the end of this period, the required information will mandatorily have to be submitted through EXTRI.

At this stage, all public companies and issuers of securities can disclose information through the system. The range of users will be extended in 2007 to all entities supervised by the Financial Supervision Commission which are obligated to disclose information according to the statutory requirements.

Benefits for EXTRI users:

- Substantial reduction of the expenses incurred by public companies and other issuers of securities in connection with information disclosure.
- Single-point entry of information: the introduction of the EXTRI system obviated the need to send separate documents to each of the three institutions (Financial Supervision Commission, BSE-Sofia AD and Central Depository AD), to which the issuer is obligated by law to disclose information. Information will be submitted on a single occasion in the form of an electronic document, and its submission will qualify the company as having fulfilled its information provision obligations to all three institutions.
- Elimination of paper documents: the introduction of the EXTRI system obviates the need to draw up and prepare documents on a paper-based data medium in connection with the company's information disclosure obligation.
- Reduction of postal and courier expenses: through the EXTRI system, public companies and other issuers of securities disclose information on the relevant circumstances by signing pre-structured electronic forms and thus incur less expenses than before, when information disclosure required the dispatch of paper documents by post or by express courier.
- Facilitating the process (procedure) of information disclosure: the introduction of standardized zones (windows) containing document forms largely automates the submission of the various types of information by public companies and other issuers of securities, differentiating this information by type of circumstance.
- Shortening the time periods for information submission and publication: the information entered through EXTRI is presumed provided to the Financial Supervision Commission, BSE-Sofia AD and Central Depository AD at the time of being signed with an electronic signature. The waiting time for publication of the relevant information by the Financial Supervision Commission and BSE-Sofia AD is thus substantially shortened as well.

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10.2. System for Electronic Order Submission through the Internet by Clients of BSE Sofia Exchange Members (COBOS)

COBOS users increased by 53.22% during the year, and the number of investors using the system reached 2,329 by 31 December 2006, compared to 1,520 by the end of 2005. The number of investment intermediaries offering the system to their clients grew from 42 to 47 during the period under review.

The orders submitted through COBOS in 2006 were by 35.93% more than the orders submitted in 2005. At the same time, the total number of orders entered last year showed a decline of 2.46%.

The 432,776 orders submitted through the COBOS system accounted for 57.19% of the total number of orders entered during the period under review, and 141,415 transactions were concluded on the basis of these orders (66.26% of the total number of transactions concluded for the period).

In 2006, 32.68% of the orders entered through COBOS led to a transaction, compared to 22.23% of the orders submitted outside the system.

The number of transactions concluded through COBOS last year increased by 15.55% from 2005, while the total number of transactions concluded declined 17.03% during the same period.

An average 567.93 transactions per trading session were concluded in 2006, up from 487.59 transactions in 2005.

The convenience that the COBOS system offers its users: to trade on the Exchange on their own from their personal computers, and thus conclude transactions faster and react more flexibly to the market behaviour, and last but not least, to reduce transaction expenses, make the system particularly attractive and increasingly preferred.

The facilitation of the investment process is moreover of key importance for attracting more investors to the market. In most cases, these are people who treasure their time and seek fast and convenient solutions. The increased number of investors has a direct bearing on an improvement of the liquidity of Bulgaria's capital market.

In this connection we should mention the steps that BSE-Sofia AD took for an improvement and innovation of the system in 2006. The improvements made were intended to enhance the operational quality of the system, and the most popular innovation was the possibility that investors monitor the brokers entering into transactions and the orders submitted, which augments the non-discrimination of the users of the system.

The operation of the application was additionally optimized in the second half of 2006, and at the same time a number of stress tests were conducted to ensure trouble-free operation under heavier loads of the system.

10.3. BSE Online

Financial firms make their own contribution to an improvement of market liquidity and competition by developing their own platforms for direct access to the trading system on the basis of the BSE Online service provided by the Exchange.

BSE Online is a supplementary module to the client terminal of the trading system, making the trading system and the information generated by it accessible through applications developed by the Exchange members. More specifically, the users of the system gain real-time access to the entire trading information, including orders entered and transactions concluded by the members, the list of registered issues of securities, as well as access to the News section of the trading system, including the value of the indices calculated by the Exchange. Besides this, the applications enable BSE Online users to enter orders on behalf of their clients after a confirmation by a stockbroker,

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which obviates some limitations of the standard exchange terminal.

The availability of alternative direct trading systems affects favourably the development of the market, in terms of increasing competition and seeking to offer better products.

10.4. System for bond trading at a “clear” price (excluding the interest accrued)

At the end of 2006, after the Rules and Regulations were accordingly amended, it became possible to trade bonds at a net price. The relevant software was developed in this connection for conversion of the “net” price at which transactions are concluded into the price inclusive of interest accrued at which the transactions are settled.

Switching to this type of quoting and trading was prompted by world practice, as well as by the very nature of bonds. At the same time, this facilitated Exchange members substantially and, at the same time, limited the risk of error, since trading is based on the yield of instruments rather than on the price.

Bond trading at a “net” price started on 1 January 2007.

11. Corporate Governance Code

In 2006 BSE-Sofia AD prepared and adopted a Corporate Governance Code of the Bulgarian Stock Exchange-Sofia AD as part of the Exchange’s strategy to enhance the confidence of national and international investors and of the general public at large in the management and supervision of public companies in Bulgaria.

The Code integrated the basic Principles of Corporate Governance of the Organisation for Economic Co-operation and Development, as well as the best practices established in international and nationally recognized good corporate governance standards, whose application would have a largely favourable impact on the business environment in Bulgaria.

The draft was coordinated with representatives of the Center for Economic Development, the Association of Bulgarian Investor Relations Directors, the Bulgarian Investor Relations Society, the Bulgarian Industrial Capital Association and active and interested public companies. After a series of meetings and discussions, the Code as adopted was revised in late December 2006 on the basis of the proposals made by the representatives of the business community, so as to align some of the provisions to the state and capabilities of the Bulgarian public companies, as well as to optimize stylistically the idiom and wording of the Code.

The adoption of a Corporate Governance Code of BSE-Sofia AD is intended to enable public companies not only to familiarize themselves with the generally accepted best practices of application of corporate governance principles but also to provide them with guidelines for integration of these principles in their own operation.

The Corporate Governance Code of BSE-Sofia AD gave business above all a benchmark to determine its state and readiness in respect of applying the basic generally accepted principles of corporate governance. Adherence to and application of these principles are among the essential criteria of evaluation in the selection of business partners on the part of foreign investors.

Considering Bulgaria’s accession to the European Union on 1 January 2007, BSE-Sofia AD provided Bulgarian companies with an instrument to improve their corporate governance practices so as to enhance their competitiveness on the European market and win the confidence of investors and creditors.

According to the Rules and Regulations of BSE-Sofia AD, conformity with and application of the basic principles set out in the Code is mandatory for companies which are traded or which apply for admission to trading on the Official Market, Market of Equities, Segments “A” and “B”.

For the companies traded on the rest of the markets and market segments of BSE-Sofia AD, the adoption and application of the Code is a matter of their own choice.

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The application of the Code presupposes the drafting or, respectively, the bringing into conformity, of a Good Corporate Governance Programme, with the basic principles set out in the Code, as well as the preparation of a **Ethical Code of Conduct of the companies' employees**.

The Code adopted by BSE-Sofia AD is to be in force until adoption of a National Code of Corporate Governance, after which companies will comply only with that National Code.

The elaboration of a National Corporate Governance Code is a project that was launched in early July 2006. The key participants in the project include the International Finance Corporation, the Organisation for Economic Co-operation and Development, the Center for Economic Development, BSE-Sofia AD, the Association of Investors, the Association of Bulgarian Investor Relations Directors, the Bulgarian Investor Relations Society, the Financial Supervision Commission, and representatives of the academic community.

As one of the active participants in the drafting of the National Code, BSE-Sofia AD seeks to apply the experience it has gained in drafting the Code it has adopted. The successful implementation of the project and the elaboration of a National Code that would successfully protect public and investors' interests through improvement of the quality of corporate governance of companies in this country figures among the top priorities of BSE-Sofia AD.

The principle of protection of shareholder rights is one of the key priorities set out in the Corporate Governance Code. The Code sets clear requirements to the management bodies of public companies in connection with the definition and popularization, among shareholders, of the basic rights that the shares they hold confer on them. An emphasis is also laid on the requirement of a steady dialogue between shareholders and management bodies, as well as on providing shareholders with full information on a regular and timely basis regarding the general meetings held by the company and their agenda.

In accordance with the internationally recognized principles of corporate governance, the Code regulates an obligation of the management bodies to facilitate shareholders' participation in the General Meetings held, *inter alia* using technical means.

The Code pays particular attention to ensuring transparency in respect of the structure, powers, remunerations and method of election of the members of the companies' management and supervisory bodies.

A number of requirements are set for the adoption of principles and rules in connection with the activity of the public companies' management and supervisory bodies, including preparation of regular analyses of the operation and prospects of the company, ensuring a formal and transparent procedure for the appointment of the members of the management and supervisory bodies of the company, exercising running supervision as to the effectiveness of the company's corporate governance regime etc.

Regarding the accounts and auditing of public companies' periodic financial statements, the Code requires that they be prepared in the English language as well. The Code also sets specific requirements regarding the procedure for selection of an independent registered auditor/audit enterprise of the company.

The Code also pays particular attention to companies' information disclosure obligation. It details the key points in respect of the contents of the Internet site of a public company, with a view to making corporate information related to the operation and the state of affairs of the public company readily and promptly accessible to shareholders and investors, so that shareholders could exercise their rights on an informed basis.

The company's Internet site should include separate sections providing information on the members of the management and supervisory bodies, analyses of the operation, a calendar of corporate events, news etc.

12. Implementation of the Development Programme of the Exchange

In 2006 BSE-Sofia AD started work on the priorities laid down in the Development Programme of the Exchange, adopted at the beginning of the year. The Programme covers the following key areas: attraction of issuers; general popularization of BSE-Sofia; improvement of corporate governance practices; new products and markets; organizational and structural development of BSE-Sofia; regional policy and privatization of BSE-Sofia; improvement of work with members: exchange of information, feedback, technology; reduction of settlement risk and improvement of techniques for finalization of transactions; tax incentives. The activity of the Exchange in implementing the various areas of the Programme is described in greater detail below.

12.1. Attraction of issuers

A special Attraction of Issuers Department was established in 2006. The principal activity of the Department consists in implementing strategies for attraction of new issuers of securities. This activity includes identifying companies appropriate for listing, organizing appointments with their management, presenting the opportunity for financing, explaining the advantages of companies going public etc. The Department is also tasked with organizing a number of events, roundtables, workshops etc., which are used as a vehicle for performance of the activities listed above and for general popularization of the stock exchange and the capital market.

The strategy included selection of over 200 companies, including the 100 largest companies in terms of asset value, as well as companies whose brands are familiar in Bulgaria. The managements of those companies were invited to meet with the BSE-Sofia management and experts. Despite the lingering prejudice against the advantages of the capital market in the managers of a large part of the non-public companies, part of the invitees responded and meetings were held with representatives of BSE-Sofia.

Regional roundtables started to be organized in the second half of the year. The first regional roundtable, entitled “Bulgarian Stock Exchange and Business: Partners in EU,” took place in Varna on 10 November 2006. It was attended by more than 90 participants, including representatives of 15 non-public companies of Northeastern Bulgaria, investment intermediaries, banks, media, and academe. Lecturers of BSE-Sofia and the Financial Supervision Commission presented the capital market and the stock exchange to those present, and representatives of public companies and municipalities familiarized them with the benefits of a company being public and of financing through the capital market.

A seminar on the subject of “Opportunities for Financing Innovation Projects through the Stock Exchange” was held at Sofia’s National Place of Culture on 7 December 2006. The participants represented small and medium-sized enterprises which had won project financing from the National Innovation Fund of the Bulgarian Small and Medium Enterprises Promotion Agency. This seminar was organized jointly with the Agency and was intended to familiarize the companies with the options for financing their operation through the capital market.

A Memorandum of Cooperation between the Bulgarian Small and Medium Enterprises Promotion Agency and the Bulgarian Stock Exchange-Sofia was drafted in December. The Memorandum, signed on 16 January 2007, provides for a strategic partnership between the two institutions, which will cooperate and work together to popularize the activities of the Exchange and the Agency in the interest of their members and clients and of small and medium-sized enterprises.

Parallel to that, arrangements for the second roundtable, to be held in Veliko Tarnovo, started to be made in the second half of November. The idea was to cover the companies of Bulgaria’s North Central Planning Region. (The roundtable itself took place on 23 February 2007, with over 80 participants).

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A number of meetings were held in 2006 with representatives of employers' and business organizations, as well as with government administration officials. The potential of the Bulgarian capital market, the opportunities for financing through it, as well as the advantages that companies obtain when they go public, were presented at those meetings.

BSE-Sofia organized the Second Roundtable on "The Future of the Financial Infrastructure of Bulgaria in view of the Country's Accession to the European Union," held in Velingrad on 27-28 January 2006 with the participation of investment intermediaries, representatives of the Financial Supervision Commission and issuers. The opportunities that the stock exchange can provide to currently non-public companies were presented at a forum on "Challenges to the Bulgarian Capital Market in the Process of Accession to the European Union," held on 4 April 2006 under the patronage of Ivailo Kalfin, Deputy Prime Minister and Minister of Foreign Affairs.

12.2. Communication Strategy of the Exchange

A Communication Strategy of BSE-Sofia was elaborated in early 2006. That Strategy is part of the work on general popularization of the stock exchange, as well as on identification of new issuers, appropriate for public offering. The purpose of the strategy is to strengthen the public understanding of the leading role of BSE-Sofia in achieving a sustainable change in public policies on the market economy in Bulgaria, as well as in the transparency and publicity of the capital market. The Strategy adopted targets the policy-making groups in the priority areas of operation of the stock exchange, the national industry leaders and the strategic foreign investors, the political parties and public institutions, as well as the general public. The Strategy examines the attitude of these target groups to the operation of BSE-Sofia at present and specifies the essential steps that have to be taken for perception of the Exchange as a leading institution in public policy making in key market areas, as well as a principal representative of industrial society in this country.

12.3. General popularization of BSE-Sofia AD

Work on the general popularization of BSE-Sofia last year included the following aspects:

- Regular participation of representatives of the stock exchange in seminars, conferences, discussion forums and roundtables on the development of the economy and the capital market;
- Periodic presentation of new issuers on the stock exchange by means of a formal opening of the trading sessions upon listing of new companies, bonds issuing, transfer of issues to a higher segment or capital increase;
- Interviews with representatives of the Exchange in the mass media;
- Provision of data on the operation of BSE-Sofia, results of trading sessions to Bulgarian and foreign media;
- A ski race for the BSE-Sofia AD Cup, the first of its kind, took place at the Borovets Resort on 25 March with the participation of 20 teams of representatives of the investor community;
- BSE-Sofia AD ensured the award for a public company with the best corporate governance, organized by the Association of Investors;

12.4. Information services

BSE-Sofia AD works for a steady improvement of the information services provide, and this is prompted by the fact that the Exchange attracts an ever growing interest from the local and foreign investor community. In this connection, additional contracts were concluded with news agencies providing information on the exchange trading. The Exchange already has analysts to pursue analytical and research activities for effective progress in this area.

In 2006, the Exchange introduced a number of additional items in the information provided

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on the Website. The innovations include:

- A Forum section was created on the Website, which facilitated communication with the Exchange;
- Charts of the two indices, SOFIX and BG40, were added on the homepage;
- The information about the issuers was completed with the market capitalization of the share issues on the Official and Unofficial Market as at the last date of trading;
- Information was added about the transactions concluded through the trading system and through COBOS at the last trading session;
- Screen crawls displaying the share prices of the companies included in SOFIX and BG40 were added on the homepage;
- A new graphic interface was developed for the existing information about issuers (including late date with right to participate in the capital increase, last date with right to dividend; adjusting factor; date of adjustment).

At the end of the year, a licensing agreement on grant of the right to use some of the trademarks owned by the Exchange was drafted on the initiative of leading international investment banks. Foreign investment banks are expected to start issuing financial instruments in the first quarter of 2007 on the basis of the agreement concluded.

13. International Activity and External Relations

The international activity of BSE-Sofia invigorated substantially in 2006. Contacts developed on a regional and pan-European basis at both bilateral and multilateral level.

On a regional basis, meetings were held with representatives of the exchanges in Macedonia and Greece. A Macedonian delegation, headed by Chief Executive Officer Ivan Shteriev, visited BSE in January 2006 and was familiarized with the procedures related to privatization of state-owned companies through the exchange. A Bulgarian delegation visited Skopje at the end of March in connection with the celebration of the 10th anniversary of the Macedonian Stock Exchange.

The Chairman of the Board of Directors of BSE-Sofia Viktor Papazov and Executive Director Bistra Ilkova visited Greece in April 2006 at the invitation of the management of the Athens Stock Exchange. The hosts expressed interest in deepening bilateral cooperation and in a possible building of a joint trading platform.

Senior executives of BSE-Sofia were included in the business delegations accompanying President Georgi Parvanov and Prime Minister Sergei Stanishev during their visits to Turkey, the Czech Republic and Denmark. This made possible a further expansion of contacts with the Istanbul, Prague and Copenhagen exchanges.

In 2006, Executive Directors Bistra Ilkova of BSE-Sofia and Stanimir Barzashki of the Bulgarian Small and Medium Enterprises Promotion Agency visited Borsa Italiana, to study the experience of Italian colleagues.

A delegation of the Association of Nordic and Baltic Exchanges (OMX), headed by its President Yukka Ruuska and Vice President Henry Berstrom, visited Sofia at the beginning of the year. The guests had meetings with the heads of all institutions related to the capital market in Bulgaria and stated the willingness of OMX to establish a stronger presence in Southeastern Europe, including through integration of BSE-Sofia into the exchange association.

A visit to Sofia in March by the Executive Director of the Vienna Stock Exchange, Michael Buhl, was of special importance for the enhancement of the international reputation of BSE-Sofia. A Memorandum of Cooperation between the two exchanges, laying down outlines for expansion of bilateral cooperation, was signed during that visit.

A delegation of BSE-Sofia took part in the regular Annual Meeting of the Federation of European Stock Exchanges, which was held in Zurich from 7 to 9 June 2006. In early 2007, the

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Exchange will be formally admitted as full member of that organization affiliating the exchanges of the Member States of the European Union. A representative of BSE-Sofia took part in a working meeting of the exchanges of Central and Eastern Europe, held in Vienna in June on the initiative of the Austrian counterparts. A second such meeting took place in November, and the compositions of thematic working groups were endorsed there.

The international contacts of the Exchange remained just as vigorous in the second half of 2006, largely due to the intensified interest of a number of foreign exchanges and exchange associations in the forthcoming privatization of the state-owned shareholding in BSE-Sofia. Senior representatives of the OMX association arrived in Sofia in November to present to the investment intermediaries who are members of the Exchange their views of a possible strategic partnership within the framework of the European Union.

In December, a delegation of the Frankfurt Stock Exchange (part of the Deutsche Börse Group) in turn arrived in Sofia to present to the members of BSE-Sofia its concept of a future integration of the Bulgarian and the German capital markets.

A delegation of BSE-Sofia, led by the Chairman of the Board of Directors, Viktor Papazov, attended the Annual General Meeting of the Federation of Euro-Asian Stock Exchanges, which took place in Egypt in November.

In November, Board of Directors Chairman Viktor Papazov and Executive Director Bistra Ilkova were special guests at the Fifth International Conference on capital markets, organized by the Belgrade Stock Exchange.

14. Composition of Shareholders of BSE-Sofia AD

As at 31 December 2006, the composition of shareholders of the Exchange was as follows:

(Table 14)

No.	Shareholder	Number of shares	%
1	Ministry of Finance	2,580,000	43.97
2	Investment intermediaries	1,982,960	33.79
3	Institutional investors	648,520	11.05
4	Natural persons	381,960	6.51
5	Other legal persons	274,420	4.68
	Total	5,867,860	100.00

By Resolution of the General Meeting of the company dated 20 June 2006, recorded by Judgment of Court No. 22 dated 5 September 2006, the capital of the Exchange was increased from BGN 293,393 to BGN 5,867,860. The increase of BGN 5,574,467 was for the account of an allocation of the Reserve Fund.

15. Members of BSE-Sofia AD

Three investment intermediaries were admitted as members of the Exchange between 1 January 2006 and 31 December 2006, and the membership of two investment intermediaries was terminated during the same period.

As at 31 December 2006, 81 licensed investment intermediaries and commercial banks were members of the Exchange:

(Table 15)

Inv. Intermediary ABV Investment EOOD	Inv. Intermediary CEE Securities AD
Inv. Intermediary Aval IN AD	Inv. Intermediary Somony 2001 OOD

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Inv. Intermediary Argo Invest AD	Inv. Intermediary Sofia International Securities EOOD
Inv. Intermediary Balkan Investment Company AD	Inv. Intermediary Standart Investment AD
Inv. Intermediary Balkan Advisory Company IP EAD	Inv. Intermediary Status Invest AD
Inv. Intermediary BBG Simex – Bulgaria OOD	Inv. Intermediary STS Finance AD
Inv. Intermediary BG Proinvest AD	Inv. Intermediary TBI Invest EAD
Inv. Intermediary BenchMark Finance AD	Inv. Intermediary Favorit AD
Inv. Intermediary Beta Corp AD	Inv. Intermediary Factory AD
Inv. Intermediary Bora Invest AD	Inv. Intermediary FBH Sofia Invest Brokerage AD
Inv. Intermediary Bul Trend Brokerage OOD	Inv. Intermediary Fico Invest OOD
Inv. Intermediary Bulbrokers AD	Inv. Intermediary FINA-S AD
Inv. Intermediary Bulex Invest AD	Inv. Intermediary Financial House Ever AD
Inv. Intermediary Bulfin Invest AD	Inv. Intermediary Frontier Finances AD
Inv. Intermediary Varchev Finance EOOD	Inv. Intermediary Ug Market AD
Inv. Intermediary VIP-7 AD	CB Allianz Bulgaria AD
Inv. Intermediary D.I.S.L. Securities AD	CB DSK Bank EAD
Inv. Intermediary Delta Stock AD	CB Piraeus Bank Bulgaria AD
Inv. Intermediary DZI Invest AD	CB Hebros Bank AD
Inv. Intermediary Dealing Financial Company AD	CB BNP - Paribas Bulgaria AD
Inv. Intermediary Euro-Finance AD	CB Bulbank AD
Inv. Intermediary Euro Garant AD	CB Bulgarian American Credit Bank AD
Inv. Intermediary Eurodealing AD	CB Bulgarian Post Bank AD
Inv. Intermediary Elana Trading AD	CB DZI Bank AD
Inv. Intermediary Zagora Finakorp AD	CB HVB Biochim AD
Inv. Intermediary Zlaten Lev Brokers OOD	CB Emporiki Bank – Bulgaria EAD
Inv. Intermediary Intercapital Markets AD	CB Investbank AD
Inv. Intermediary Capital Engineer Project AD	CB ING Bank - Sofia Branch AD
Inv. Intermediary Capital Finance OOD	CB International Asset Bank AD
Inv. Intermediary Capman AD	CB Corporate Commercial Bank AD
Inv. Intermediary Karoll AD	CB MKB Unionbank AD
Inv. Intermediary KD Securities EAD	CB United Bulgarian Bank AD
Inv. Intermediary Capital Markets AD	CB Municipal Bank AD
Inv. Intermediary McCup Brokers AD	CB First Investment Bank AD
Inv. Intermediary Makler 2002 AD	CB Raiffeisenbank - Bulgaria AD
Inv. Intermediary Metrik AD	CB Economic & Investment Bank AD
Inv. Intermediary Naba Invest A	CB Tokuda Bank AD
Inv. Intermediary Positiva AD	CB D Commerce Bank AD
Inv. Intermediary Populiarna Kasa 95 AD	CB Central Cooperative Bank AD
Inv. Intermediary First Financial Brokerage House OOD	CB Teximbank AD
Inv. Intermediary Real Finance AD	

As at 31 December 2006, 127 stockbrokers were registered at BSE-Sofia AD. Thirty-eight stockbrokers were admitted between 1 January 2006 and 31 December 2006, and the trading rights of 30 stockbrokers were terminated during the same period.

16. Financial State of BSE-Sofia AD

The financial statement of Bulgarian Stock Exchange-Sofia AD has been prepared according to the accounting policies adopted by the Exchange and provides information on the financial state of the company and the results of its activity. The principal revenue and expense items are compared briefly and their change from the previous year is analyzed below, in Tables 16 and 17.

The accounting profit for 2006 is reported at BGN 1,965,000. After deduction of the profit tax due to the amount of BGN 295,000 and deferred taxes of BGN 3,000, the net profit for the year is BGN 1,667,000.

Income from Operating Activities of the Exchange for the Period under Review*(Table 16)*

Item	2006	2005	Change
Commissions for transactions concluded on the Exchange (BGN '000)	3,994	4,747	-15.9%
Registration fees from companies whose shares are traded on the Exchange, of which: (BGN '000)	330	216	52.8%
• Official Market	178	76	134.2%
• Unofficial Market	146	130	12.3%
• Registration of companies by Privatization Agency for centralized and remote public auctions	6	10	-40.0%
Information services and Exchange membership fees, Internet trading fees, of which: (BGN '000)	367	283	29.7%
• Information services fees	143	117	22.2%
• Membership fees (face-to-face, remote trading)	45	49	-8.2%
• Internet trading fees	165	117	41.0%
• Online trading and information fees	14		
Financial sanctions on Exchange members (BGN '000)	48	33	45.5%
PROCEEDS FROM SALES (BGN '000)	4,739	5,279	-10.2%
Other operating income (rent, tenants maintenance, proceeds from seminars, examinations of brokers) (BGN '000)	100	38	163.2%
TOTAL INCOME (BGN '000)	4,839	5,317	-9.0%

In absolute terms, the amount of income achieved in 2006 was BGN 478,000 less than in 2005, representing a decrease of 9%. The income declined above all as a result of a 15.9% decrease in proceeds from commissions for transactions concluded on the Exchange, which was due basically to two factors:

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1. For 2005, the privatization transaction for a 35 per cent shareholding in the Bulgarian Telecommunications Company AD generated a commission for the Exchange to the amount of BGN 1.265 million² (excluding which the commissions for 2005 would have totalled 14.7% less than the amount of commissions for 2006).
2. The decision taken in November 2005 to reduce the trading fees charged by BSE-Sofia AD from 0.1% to 0.083% of the value of the transaction for transactions in shares.

As a result of the policy conducted by the Exchange to attract issuers and encourage investor interest in the capital market, BSE-Sofia managed to achieve increases in all other operating income items, as evident from Table 16.

Thus, the fees for registration of companies on the Official and Unofficial Market increased by 52% in 2006 compared to 2005, which represents the largest increase among the income items of BSE. This increase was due to the larger amount of income from fees from companies registered on the Official Market (134%), which achieved a 163% increase of their market capitalization in 2006.

2006 also saw a 30% increase in the income from information services and membership fees. This was due to a growth of income from Internet trading fees (41%) as a result of an over 50% rise in the number of clients of the COBOS system compared to early 2006.

Operating Expenses of the Exchange for 2006

(Table 17)

Item	2006	2005	Change
Materials and consumables	72	124	-41.9%
Hired services	436	351	24.2%
Personnel costs (salaries, Board of Directors remunerations, social and health insurance and other social security payments), of which:	2,027	1,535	32.1%
• Salaries of employees, of which:	1,214	900	34.9%
- Provisions for unused leaves	26	30	-13.3%
• Board of Directors remunerations	283	213	32.9%
• Social security payments and contributions	530	422	25.6%
Depreciation expense	270	208	29.8%
Other operating expenses	172	161	6.8%
OPERATING EXPENSES	2,977	2,379	25.1%
PROFIT FROM OPERATIONS	1,862	2,938	-36.6%
Financial income/expenses, net	103	183	-43.7%
PROFIT BEFORE TAX	1,965	3,121	-37.0%
Profit tax expense	-295	-472	-37.5 %
Deferred taxes	-3	3	
NET PROFIT FOR THE YEAR	1,667	2,652	-37.1%

² 26.65% of the total amount of income from commissions for 2005

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In 2006, operating expenses increased by 24% compared to 2005 (see Table 17). Expenses increased in the items “hired services,” “personnel costs” and “depreciation expenses.” The increased personnel costs was due to the addition of seven new employees, and the increase of expenses on remunerations of the members of the Board of Directors was due to the higher average wage for 2005, on which the monthly remuneration of the members is based. The increase of the expenses on hired services was due to the fact that the Exchange recruited an additional number of legal consultants, as well as an adviser on the marketing and communication strategy. On this item, additional expenses were incurred on contracting a back-up Internet service provider. On the whole, the share of hired services expenses in the total amount of expenses for 2006 remained at the same level as in 2005.

The increased amount of depreciation followed the increased amount of tangible fixed assets.

Expenses on materials and consumables fell by nearly 42% in 2006 from 2005, but owing to the low share of this item in total expenses, the impact of this decrease on the total was negligible.

As at 31 December 2006, the Exchange held euro-denominated mortgage bonds issued by CB First Investment Bank AD, maturing in September 2009, of a balance-sheet value of BGN 1,005,000, bearing a coupon of 7% per annum.

On the whole, the company owns a substantial portion of interest-bearing assets: investments in mortgage bonds and cash on current accounts and time deposits. Income and operating cash flows are stable and secured against fluctuations of market interest levels, insofar as the bulk of the interest-bearing assets (euro-denominated mortgage bonds) have a fixed interest rate, which remains invariable until maturity of the bonds, i.e. for three or five years.

At the same time, the short-term liabilities (up to three months) under REPO transactions concluded for current financing of operations expose the company to a minimum interest rate risk. Short-term financing is provided at variable interest, which exposes its cash flows to an interest rate risk. This risk is managed on a current basis by the Finance Department of the company, with a view to minimizing possible losses from a change of the market interest levels of the funds borrowed to finance operations and considering the interest income from financial assets, which is fixed.

	31 December 2006			31 December 2005		
	Interest		Non-interest	Interest		Non-interest
	<i>Fixed interest rate</i>	<i>Variable interest rate</i>		<i>Fixed interest rate</i>	<i>Variable interest rate</i>	
	<i>BGN '000</i>	<i>BGN '000</i>		<i>BGN '000</i>	<i>BGN '000</i>	
Financial assets	4,419	1,149	52	5,092	1,165	99
Financial liabilities	299	-	37	2,563	-	66
	4,120	1,149	15	2,529	1,165	33

In 2005, by resolution of the Shareholders' General Meeting, the Exchange and Central Depository AD incorporated a joint venture: Financial Markets Services OOD, with an authorized

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capital of BGN 80,000. The objects of the company are design, development and maintenance of information systems and products related to the market of securities and financial instruments, development of information technologies, supply, installation and assembly of information systems, hardware and software maintenance, consulting and training. The exchange holds a 50% stake in the new company or 40 units of BGN 1,000 each to a total amount of BGN 40,000. As at 31 December 2006, the participating interest in the capital of the joint venture was fully paid up. The participating interest of Central Depository AD in the joint venture is being bought out, and after completion of this procedure the Exchange will become a sole owner of Financial Markets Services OOD.

The other minority interests held by the Exchange in the capital of Central Depository AD (3%), SFB Capital Markets AD (15%) and the Bulgarian Investment Forum Association (5%) did not change in 2006.

17. Principal Areas in the Activity of the Exchange in 2007

In 2007 the management of BSE-Sofia will continue to adhere to the key priorities set out in the Capital Market Development Strategy, with paramount importance being attached to the following facts and circumstances:

- Completion of the process of technological renewal will be particularly important for the operation of the Exchange, so as to meet the ever greater requirements of the market transactors as well as to expand the market by new products and services. The introduction of a new trading platform is an important issue in this respect;
- Provision of new products and services;
- Establishment of new markets and segments;
- The work to attract new issuers of securities to the capital market remains a top priority in the activity of BSE-Sofia in 2007 as well, since this is an essential factor of improvement of liquidity;
- Integration of the Exchange with a leading European market.

Upon implementation of the above priorities, the following factors will be of prime relevance:

- The effective legal framework;

Finalization of the alignment at statutory level with the EU directives is expected in 2007, above all in respect of Directive 2004/39/EC on markets in financial instruments, along with the updating of the concomitant statutory instruments of secondary legislation.

- Corporate governance

The extent of effective application of corporate governance principles will be of special importance to an enhancement of investors' confidence and, respectively, to an activation of trading.

- Foreign members of the Exchange;

Bulgaria's accession to the European Union made it possible for foreign investment intermediaries to enter the Bulgarian stock market on the basis of the single European passport. The activity of such intermediaries on the local market will be particularly important for the operation of the Exchange in 2007, insofar it is largely indicative of the activity of foreign investors in Bulgaria.

- Market information;

The provision of reliable and timely exchange information to the participants in the market will have an ever growing importance in making their investment decisions.

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- Privatization;

Apart from the globalization of the world capital markets, a possible sale of the state-owned shareholding in the Exchange would have a direct bearing as well, since the future development of the market in this country will depend above all on the concept of the future integration partner.

18. Information on the Members of the Board of Directors of Bulgarian Stock Exchange-Sofia AD under Article 247 (2) of the Commercial Code.

<i>Total remunerations received by the Board of Directors in 2006</i>	
<i>BGN 213,200</i>	
<i>Shares acquired, held and transferred by members of the Board of Directors in 2004</i>	
1. Bistra Ilkova	None
2. Viktor Papazov	Held: 46,280 shares in the capital of the company; Acquired in 2006: 20,000 shares.
3. Andrei Pramov	None
4. Ludmila Elkova	None
5. Plamen Georgiev	None
6. Todor Breshkov	None
7. Vladimir Vladimirov	None
<i>Rights of members of the Board of Directors to acquire shares or bonds of BSE-Sofia</i>	

<i>Participation of members of the Board of Directors in commercial corporations as general partners</i>	
1. Bistra Ilkova	None
2. Viktor Papazov	None
3. Andrei Pramov	None
4. Ludmila Elkova	None
5. Plamen Georgiev	None
6. Todor Breshkov	None
7. Vladimir Vladimirov	None
<i>Holding of over 25 per cent of the capital of another corporation by the members of the Board of Directors</i>	
1. Bistra Ilkova	None
2. Viktor Papazov	CREATIVE SOLUTIONS OOD, AGRO AQUA AD
3. Andrei Pramov	Adlon Discount OOD, Three A OOD
4. Ludmila Elkova	None
5. Plamen Georgiev	UG MARKET AD, BULNAT HOLDING OOD
6. Todor Breshkov	None
7. Vladimir Vladimirov	None

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<i>Participation of members of the Board of Directors in the management of other corporations or cooperatives as managerial agents, managing directors or members of a Management Board, a Board of Directors or a Supervisory Board</i>	
<i>1. Bistra Ilkova</i>	Bulgarian Export Insurance Agency AD: Chair of Board of Directors; Aval IN AD: Executive Director and Chair of Board of Directors
<i>2. Viktor Papazov</i>	CENTRAL DEPOSITORY AD: Member of Board of Directors; AGRO AQUA AD: Member of Board of Directors Creative Solutions OOD: Managing Director
<i>3. Andrei Pramov</i>	Adlon Discount OOD: Managing Director; Three A OOD: Managing Director; Omicron AD: Member of Board of Directors
<i>4. Ludmila Elkova</i>	None
<i>5. Plamen Georgiev</i>	UG MARKET AD: Executive Director; BULNAT HOLDINGOOD: Managing Director; TELEVISION AND RADIO REPAIR SERVICES AD: Executive Director
<i>6. Todor Breshkov</i>	FIRST FINANCIAL BROKERAGE HOUSE OOD: Managing Director; PZBK AD: Member of Board of Directors; First Investment Bank AD: Member of Supervisory Board; Bulgaria Real Estate Fund REIT: Chairman of Board of Directors
<i>7. Vladimir Vladimirov</i>	Investbank AD: Executive Director
<i>Contracts concluded by members of the Board of Directors or their related parties under Article 240b of the Commercial Code</i>	
<i>1. Bistra Ilkova</i>	None
<i>2. Viktor Papazov</i>	None
<i>3. Andrei Pramov</i>	None
<i>4. Ludmila Elkova</i>	None
<i>5. Plamen Georgiev</i>	None
<i>6. Todor Breshkov</i>	None
<i>7. Vladimir Vladimirov</i>	None

16 March 2007
City of Sofia