

# Report on the Activity of the Bulgarian Stock Exchange – Sofia AD for 2008

April 2009



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## 1. Introduction

This Report has been prepared in accordance with Article 85 (6) of the Markets in Financial Instruments Act. It contains data on the activities of BSE-Sofia AD (“the Exchange”), on the composition of its shareholders and members, as well as financial statement according to Article 26 (1) of the Accountancy Act. The Report provides information on the achievements of the Exchange in 2008, taking into account the key performance indicators, accompanied by relevant analyses and conclusions. It outlines the major trends in the development of the capital market in the conditions of the ongoing global financial and economic crisis, as well the implementation of the priorities set in the Overall Strategy for Development of BSE-Sofia AD for the 2008-2010 period.

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.

## 2. BSE-Sofia Trading Data

### 2.1. Volume, turnover, number of transactions

Throughout 2008, trading on the Exchange was adversely affected by the ongoing global financial crisis, which confronted capital markets worldwide with challenges of unsuspected scale and magnitude. The crisis demonstrated indisputably that the globalization processes in the financial sector have advanced dramatically and exert tangible influence on the state and development of the national economies. While several years ago there were markets and economies that were relatively closed and independent on global processes, the present situation clearly showed that we are on the threshold of a new stage of economic development, in which the free movement of capital and services presupposes the lack of national borders and requires the establishment and adherence to new rules and behaviour by all market participants.

As an emerging financial market, Bulgaria was affected to a far greater extent than the developed exchanges in the US and Western Europe. The crisis on a global scale had a negative impact on all participants on the Bulgarian capital market, and in the last quarter of 2009 started to affect seriously the real sector of the Bulgarian economy as well.

All this led to a decline of the turnover, generated on the Exchange in 2008, to BGN 2.90 billion (see Table 2), nearly 70% less than in 2007. The contraction of liquidity came as a result of a withdrawal of foreign investors from the Bulgarian capital market, a slackening of the activity of institutional investors and investment intermediaries, postponement of part of the planned initial public offerings, as well as panic among small investors.

The average monthly turnover in 2008 amounted to BGN 242 million, with the monthly turnover peaking at BGN 425 million in January. The first month of the year also witnessed the withdrawal of major investors from the Bulgarian exchange, as well as a substantial decrease in the net assets of the collective investment schemes in the country – a tendency that persisted throughout 2008. According to figures of the Bulgarian National Bank, the assets managed by local investment funds amounted to BGN 286 million by 31 December 2008, compared to BGN 898 a year earlier.

The average daily turnover on the Exchange in 2008 amounted to BGN 11.62 million for 250 trading sessions, compared to BGN 38.56 million for the same number of sessions in 2007. The Unofficial Market of Equities dominated daily trading in 2008, with 30.37% of the average daily turnover, followed by the Official Market of Equities with 30.12%, and transactions concluded outside the regulated market with 26.68%. On the positive side, the weight of the Official Market increased from 13.28% to 30.12% during the period, one reason for this being the fact that the number of issues admitted to trading on it increased from 19 to 22.

Notably, despite the steep decline of turnover in 2008, the drop in the number of transactions concluded was far smaller (less than 18%), with an average daily of 1,603 transactions, compared to 1,954 for 2007. The transactions concluded on the Unofficial Market decreased by 23.35% from 2007, those on the Official Market by 9.92%, and those on the Market of Bonds even showed a growth of some 20%.

Turnover on the bond markets reached BGN 248 million in 2008, a decrease of 33.85%, which was far less than the overall decline of turnover on the Exchange. The share of this segment in the total turnover advanced to 8.53% during the year from 3.88% reported in 2007.

The trading structure in Tables 1 to 3 below is presented on the basis of volume (lots), turnover and number of transactions. In connection with the implementation of the new trading system Xetra and the adoption of the new Rules and Regulations of BSE-Sofia AD, the Exchange altered some of the market segments in mid-June 2008.

## Trading Structure by Market (volume)

(Table 1)

Market	Volume (lots)		
	2008	2007	Change (%)
Unofficial Market of Equities, Segment A	121,168,630	530,336,471	-77.15%
Unofficial Market of Equities, Segment B	3,981,467	6,469,978	-38.46%
Unofficial Market of Other Securities <sup>1</sup>	20,492,440	52,921,006	-61.28%
Unofficial Market of Bonds	135,674	237,723	-42.93%
Official Market of Equities, Segment A	15,707,167	12,973,250	21.07%
Official Market of Equities, Segment B	99,645,691	100,313,547	-0.67%
Official Market of Equities, Segment C <sup>2</sup>	-	248,977	-
Official Market of Corporate Bonds <sup>3</sup>	3,207	11,315	-71.66%
Official Market of Bonds	9,429	-	-
Market of Real Estate Investment Trusts	54,271,563	-	-
Market of Collective Investment Schemes	361,950	-	-
Market of Compensation Instruments	71,150,881	83,413,113	-14.70%
Market of Rights	102,410,836	-	-
IPO Market of Other Securities <sup>4</sup>	1,050,000	12,285,000	-91.45%
<b>Total trading on a regulated market</b>	<b>490,388,935</b>	<b>799,210,380</b>	<b>-38.64%</b>
Trading outside a regulated market <sup>5</sup>	247,407,234	287,200,436	-13.86%
<b>Total trading</b>	<b>737,796,169</b>	<b>1,086,410,816</b>	<b>-32.09%</b>

<sup>1</sup> Unofficial Market of Other Securities was discontinued, effective 16 June 2008

<sup>2</sup> Official Market, Segment C was discontinued, effective 15 January 2007

<sup>3</sup> Official Market of Corporate Bonds was discontinued, effective 16 June 2008

<sup>4</sup> IPO Market of Other Securities was discontinued, effective 16 June 2008

<sup>5</sup> Includes Block and other pre-negotiated transactions for the period before 16 June 2008

## Trading Structure by Market (turnover in BGN)

(Table 2)

Market	Turnover (BGN)		
	2008	2007	Change (%)
Unofficial Market of Equities, Segment A	844,128,793	6,434,588,193	-86.88%
Unofficial Market of Equities, Segment B	37,736,001	81,219,077	-53.54%
Unofficial Market of Other Securities <sup>6</sup>	2,236,837	73,877,888	-96.97%
Unofficial Market of Bonds	234,928,214	362,250,546	-35.15%
Official Market of Equities, Segment A	105,153,900	150,145,023	-29.97%
Official Market of Equities, Segment B	769,540,259	1,123,565,752	-31.51%
Official Market of Equities, Segment C <sup>7</sup>	-	6,113,551	-
Official Market of Corporate Bonds <sup>8</sup>	2,952,634	12,109,190	-75.62%
Official Market of Bonds	9,746,600	-	-
Market of Real Estate Investment Trusts	90,012,208	-	-
Market of Collective Investment Schemes	392,525	-	-
Market of Compensation Instruments	26,564,227	41,724,441	-36.33%
Market of Rights	4,119,871	-	-
IPO Market of Other Securities <sup>9</sup>	1,614,813	25,206,883	-93.59%
<b>Total trading on a regulated market</b>	<b>2,129,126,882</b>	<b>8,310,800,544</b>	<b>-74.38%</b>
Trading outside a regulated market <sup>10</sup>	774,804,872	1,329,772,258	-41.73%
<b>Total trading</b>	<b>2,903,931,755</b>	<b>9,640,572,802</b>	<b>-69.88%</b>

<sup>6</sup> Unofficial Market of Other Securities was discontinued, effective 16 June 2008

<sup>7</sup> Official Market, Segment C was discontinued, effective 15 January 2007

<sup>8</sup> Official Market of Corporate Bonds was discontinued, effective 16 June 2008

<sup>9</sup> IPO Market of Other Securities was discontinued, effective 16 June 2008

<sup>10</sup> Includes Block and other pre-negotiated transactions for the period before 16 June 2008

### Trading Structure by Market (number of transactions)

(Table 3)

Market	Transactions		
	2008	2007	Change (%)
Unofficial Market of Equities, Segment A	215,232	268,679	-19.89%
Unofficial Market of Equities, Segment B	10,094	25,293	-60.09%
Unofficial Market of Other Securities <sup>11</sup>	565	6,489	-91.29%
Unofficial Market of Bonds	1,414	995	42.11%
Official Market of Equities, Segment A	24,133	38,813	-37.82%
Official Market of Equities, Segment B	125,215	126,180	-0.76%
Official Market of Equities, Segment C <sup>12</sup>	-	800	-
Official Market of Corporate Bonds <sup>13</sup>	26	225	-88.44%
Official Market of Bonds	28	-	-
Market of Real Estate Investment Trusts	5,559	-	-
Market of Collective Investment Schemes	38	-	-
Market of Compensation Instruments	6,670	7,609	-12.34%
Market of Rights	583	-	-
IPO Market of Other Securities <sup>14</sup>	32	384	-91.67%
<b>Total trading on a regulated market</b>	<b>389,589</b>	<b>475,467</b>	<b>-18.06%</b>
Trading outside a regulated market <sup>15</sup>	11 129	13 047	-14.70%
<b>Total trading</b>	<b>400,718</b>	<b>488,514</b>	<b>-17.97%</b>

<sup>11</sup> Unofficial Market of Other Securities was discontinued, effective 16 June 2008

<sup>12</sup> Official Market, Segment C was discontinued, effective 15 January 2007

<sup>13</sup> Official Market of Corporate Bonds was discontinued, effective 16 June 2008

<sup>14</sup> IPO Market of Other Securities was discontinued, effective 16 June 2008

<sup>15</sup> Includes Block and other pre-negotiated transactions for the period before 16 June 2008



## 2.2. Branch structure of trading

In 2008 the companies in the sphere of *financial intermediation* were most actively traded on the market of equities with a turnover exceeding BGN 600 million (see Table 4). This sector includes the bank institutions, the insurance companies, the real estate investment trusts and most of the holding companies. The increased influence of *financial intermediation* came as a result of the two initial public offerings of companies from this sector in 2007: First Investment Bank AD and Corporate Commercial Bank AD, which enhanced the representativity of the banking sector on the Exchange.

*Wholesale and retail trade; repair of motor vehicles and motorcycles, of personal and household goods* was the second most actively traded market segment, with a turnover of BGN 539 million. Trading in the shares of Chimimport AD and Petrol AD, which were also the issues with the largest trading turnover on a regulated market for the year, accounted for over 90% of the turnover in this sector.

*Transport, storage and communication*, which used to be a leading sector in terms of turnover during the last couple of years, did not figure among the top ten sectors in 2008 in terms of activity, as a result of the substantial decline in the trading in shares of the Bulgarian Telecommunication Company AD after a tender offer to the minority shareholders in the company at the end of 2007.

### Trading Structure in the Top 10 Sectors on BSE-Sofia AD

(Table 4)

Sector	Number of transactions	Volume (lots)	Turnover (BGN)
1 Financial intermediation	94 267	148,647,522	604,607,480
2 Wholesale and retail trade; repair of motor vehicles and motorcycles, of personal and household goods	42,963	69,259,020	539,661,088
3 Construction	49,830	3,063,597	119,453,998
4 Manufacture of food products, beverages and tobacco	6,074	5,227,385	95,310,023
5 Manufacture of chemicals, chemical products and man-made fibres	33,201	14,756,224	92,764,741
6 Manufacture of electrical and optical equipment	27,121	6,321,694	75,153,668
7 Real estate, renting and business activities	37,138	13,903,211	67,157,379
8 Products of agriculture, hunting and forestry	17,634	17,128,872	37,074,868
9 Manufacture of basic metals and fabricated metal products, except machinery and equipment	20,531	2,851,174	36,036,394
10 Hotels and restaurants	4,888	858,069	28,750,882

### 3. Issues of Securities Listed for Trading on the Markets

The number of securities listed for trading reached 557 by 31 December 2008 (See Table 5), 48 issues more than at the end of December 2007. The increase was substantial and demonstrated activity on the part of issuers, especially considering the grave situation on the capital markets worldwide as a result of the global financial and economic crisis.

The increase in the number of listed issues was largely due to the numerous companies which debuted on the Exchange after initial and secondary public offerings, as well as to the newly listed units of mutual funds during the period. The number of companies on the Official Market of Equities also increased in 2008, from 19 to 22, with the share issues of Corporate Commercial Bank AD, First Investment Bank AD and Holding Roads AD were moved to this higher exchange segment.

The number of bond issues admitted to trading reached 89 by the end of the year, compared to 87 by the end of December 2007.

In connection with the implementation of the new trading system Xetra and the adoption of the new Rules and Regulations of BSE-Sofia, the Exchange altered part of the market segments in mid-June 2008. A Market of Real Estate Investment Trusts, a Market of Collective Investment Schemes, a Market of Rights and an Official Market of Bonds were introduced as separate new markets. At the same time, the Unofficial Market of Other Securities; the Official Market of Bonds, government securities segment; and the Official Market of Corporate Bonds were discontinued.

#### Issues of Securities Listed for Trading as of 31 December 2008

(Table 5)

Market	31 December 2008
Unofficial Market of Equities, Segment A	148
Unofficial Market of Equities, Segment B	167
<b>Unofficial Market of Equities, total</b>	<b>315</b>
Market of Real Estate Investment Trusts	67
Market of Collective Investment Schemes	60
Market of Rights	1
Unofficial Market of Bonds	87
Official Market of Equities, Segment A	4
Official Market of Equities, Segment B	18
<b>Official Market of Equities, total</b>	<b>22</b>
Official Market of Bonds	2
Market of Compensation Instruments	3
<b>Total</b>	<b>557</b>

#### 4. New Issuers, Delisted Issues and Capital Increases

Despite the unfavourable situation at the international markets and its impact on the local market, 78 new issues of financial instruments were listed for trading (see Table 6), compared to 81 new issues for 2007, which was a record year for the Exchange. The crisis limited the opportunities for raising capital through an initial public offering, which is why part of the issuers preferred to debut on the Exchange through a secondary public offering. As a result of this, the new “share issues of other public companies” (excluding REITs and investment companies) were nearly double the number in 2007.

The number of real estate investment trusts and mutual funds listed for trading continued to increase during the year at a nearly unchanged pace compared to 2007. Part of the existing management companies diversified the funds they offer and, at the same time, funds of newly registered management companies were also admitted to trading.

The number of capital increases with rights issues remained relatively steady during the two periods under review, despite the adverse market conditions since the beginning of 2008.

Twenty-three bond issues were listed during the year, some 23% down from 2007.

Approximately the same number of issues was delisted in 2008 and in 2007, but there was a certain shift in the composition of these issues: the bond issues suspended from trading at maturity increased at the expense of fewer delisted share issues. All share issues deleted from the register of public companies were of issuers traded on the Unofficial Market of Equities, Segment B, and were therefore non-determining for the turnover and liquidity of the Exchange.

(Table 6)

	2008	2007
I Number of issues listed for trading on BSE, of which:	<b>78</b>	<b>81</b>
1 Shares – Real estate investment trusts (REIT)	17	20
2 Shares – Investment companies	-	-
3 Shares – Other public companies	17	9
4 Initial public offering, of which:	7	9
4a Initial public offering through BSE-Sofia	-	1
4b Initial public offering outside BSE-Sofia	7	8
5 Units – Mutual funds	14	13
6 Bonds, of which:	23	30
6a on Official Market	-	-
6b on Unofficial Market	23	30

II	Number of capital increases with rights, admitted to trading on BSE-Sofia, of which:	<b>22</b>	<b>21</b>
1	REITs (including mandatory increases)	11	8
2	Investment companies	-	1
3	Other public companies	11	12
III	Number of issues suspended from trading on BSE-Sofia, of which:	<b>31</b>	<b>32</b>
1	Shares – Other public companies	10	16
2	Bonds, at maturity	20	15
3	Government securities	1	1

In 2008 the total nominal value of the new issue listed for trading amounted to BGN 698 million (see Table 7), compared to BGN 970 million in 2007. The decrease was due above all to the smaller total amount of share issues compared to 2007, when companies with large authorized capital, such as Zarneni Hrani Bulgaria AD, First Investment Bank AD and Corporate Commercial Bank were listed.

Concerning the issues suspended from trading, the nominal value (in BGN terms) increased from BGN 193 million to BGN 445, as a result of the larger number of matured bond issues.

(Table 7)

	2008 (in BGN)	2007 (in BGN)	
I	Total nominal value (BGN) of the new issues listed for trading on BSE, of which:	<b>698,345,824</b>	<b>970,076,302</b>
1	Shares – Real estate investment trusts (REIT)	35,457,170	41,088,144
3	Shares – Other public companies	234,362,894	480,738,232
4	Bonds	428,525,760	448,249,926
II	Total nominal value (BGN) of capital increases with rights, listed for trading on BSE, of which:	<b>186,631,505</b>	<b>170,121,894</b>
1	REITs (including mandatory increases)	113,125,377	73,785,948
2	Investment companies	-	624,103
3	Other public companies	73,506,128	95,711,843
III	Total nominal value (BGN) of the issues suspended from trading on BSE, of which:	<b>445,230,140</b>	<b>192,546,431</b>
1	Shares – Other public companies	114,776,279	80,276,909
2	Bonds, at maturity	330,453,861	112,269,522

## 5. Market Capitalization

The dive of all key indicators of BSE-Sofia did not spare market capitalization, which fell to BGN 12.46 billion at the end of December 2008, down 57.01% from the end of 2007 (see Table 8). The slump affected all markets of equities, with the capitalization of the companies on Official Market A contracting by nearly 80%, and that of the issuers on Official Market B by 57%. The capitalization on the Unofficial Market of Equities shrank 64%, but this was partly due to the smaller number of listed issues as a result of the establishment in June of two new separate segments, the Market of Real Estate Investment Trusts and the Market of Collective Investment Schemes.

It should be noted that the percentage decrease of capitalization on the Exchange was far less than the decline of the principal indices, the main reasons including the substantial number of new share issuers after secondary and primary public offerings, as well as the registered capital increases through the Exchange. In addition, market capitalization covers all public companies, including the illiquid share issues which, for lack of transactions, did not register such steep declines during the period (see Table 10).

As a result of the substantial contraction of the capitalization on the Exchange, the principal ratio, Market Capitalization / Gross Domestic Product, declined to 18.73% at the end of December 2008, compared to 51.29% a year earlier (see Table 9).

### Market Capitalization (BGN mln)

(Table 8)

	31 Dec.2008	31 Dec.2007	31 Dec.2006	31 Dec.2005	31 Dec.2004
Official Market, Segment A	168.13	837.28	319.26	122.1	53.42
Official Market, Segment B	3,291.13	7,700.30	3,239.13	688.46	423.33
Official Market, Segment C*	-	-	2,084.15	1,337.70	898.12
Unofficial Market	7,402.59	20,449.27	9,671.47	6,285.70	2,658.32
Market of REITs**	1,598.82	-	-	-	-
<b>Total:</b>	<b>12,460.66</b>	<b>28,986.85</b>	<b>15,314.01</b>	<b>8,433.96</b>	<b>4,033.19</b>

\*Official Market, Segment C was discontinued in January 2007

\*\*Market of REITs was started in mid-June 2008

**Market Capitalization / Gross Domestic Product***(Table 9)*

	31 Dec. 2008	31 Dec. 2007	31 Dec. 2006	31 Dec. 2005	31 Dec. 2004
Market capitalization/ GDP	18.73%*	51.29%	29.30%	20.11%	10.54%

\*Capitalization at 31 December 2008, GFP: according to Bulgarian National Bank estimates for 2008

By 31 December 2008, the market capitalization of the top 20 public companies according to this indicator equaled 62.73% of the total capitalization of the Exchange, compared to 64.84% for 2007. During the year, the capitalization of the top 20 companies decreased by 58.41%, which is comparable to the decline of the total capitalization of the Exchange for the same period (-57.01%).

The Bulgarian Telecommunication Company remained on top of the market capitalization ranking, with BGN 1.4 billion at the end of December 2008. The weight of the largest public company as a percentage of the total exchange capitalization was almost unchanged during the period under review: from 10.91% by 31 December 2007 to 11.59% by 31 December 2008.

During the year, the number of companies with market capitalization exceeding BGN 1 billion decreased from five by 31 December 2007 to two by 31 December 2008.

**Ton 20 Public Companies in Market Capitalization  
by 31 December 2008***(Table 10)*

Code	Company	Capitalization (BGN)
5BT	Bulgarian Telecommunication Company AD-Sofia	1,444,112,965
5PET	Petrol AD-Sofia	1,201,636,482
5EC	CB Economic & Investment Bank AD-Sofia	769,296,659
6D5	DZI Insurance & Reinsurance Plc.-Sofia	725,680,000
5SV	Arco Towers REIT PLC-Sofia	650,000,650
6C9	CB Corporate Commercial Bank AD-Sofia	390,000,000
6C4	Chimimport AD-Sofia	311,999,967
3JR	Sopharma AD-Sofia	295,020,000
5F4	CB First Investment Bank AD- Sofia	275,440,000
RA8	Railway Infrastructure-Holding Company Plc.-Sofia	236,370,000
4DR	Druzhiba Staklarski Zavodi AD-Sofia	235,472,582
5MB	Monbat AD-Sofia	185,250,000
CL8	Investment Properties (In-Properties) REIT	168,315,000
4EJ	Euroterra Bulgaria AD-Sofia	163,800,000
4DF	Dominant Finance Inc.-Sofia	151,800,000
5BN	CB Bulgarian American Credit Bank AD-Sofia	151,496,700
T43	Zarneni Hrani Bulgaria AD-Sofia	119,549,920
6AB	Albena AD-Albena	118,792,903
MKX	Mekom AD-Sofia	111,951,952

4EH	Eurohold Bulgaria AD-Sofia	110,558,318
<b>Total</b>		<b>7,816,544,098</b>

### Top 20 Public Companies in Market Capitalization by 31 December 2007

(Table 11)

Code	Company	Capitalization (BGN)
BTC	Bulgarian Telecommunication Company AD	3,161,974,998
CHIM	Chimimport AD	2,326,499,752
FIB	CB First Investment Bank AD	1,266,100,000
SFARM	Sopharma AD-Sofia	1,184,040,000
BACB	CB Bulgarian American Credit Bank AD	1,005,685,594
DRUPL	Druzhiba Staklarski Zavodi AD-Sofia	936,204,202
BRIB	CB Economic & Investment Bank AD	780,870,272
CCB	CB Central Cooperative Bank AD	772,719,473
ZHBG	Zarneni Hrani Bulgaria AD-Sofia	770,243,056
OTZK	Lead & Zinc Complex PLC-Kardzhali	767,130,165
DZI	DZI Insurance & Reinsurance Plc.-Sofia	694,800,000
SING	Singular REIT-Sofia	650,000,000
HDPAT	Holding Roads AD-Sofia	624,277,152
TRACE	Trace Group Hold AD-Stara Zagora	616,990,000
MONBAT	Monbat AD-Sofia	595,920,000
PET	Petrol AD-Sofia	576,837,951
CORP	CB Corporate Commercial Bank AD	576,180,000
BSTR	Bulstrad Insurance & Reinsurance Plc.-Sofia	544,981,920
ALB	Albena AD-Albena	507,561,906
KAO	Kaolin AD-Senovov	434,750,000
<b>Total</b>		<b>18,793,766,441</b>

## 6. Free Float of Share Issues Traded on BSE-Sofia

The average free float of the share issues traded on BSE-Sofia AD (excluding investment companies) was 22.08% by the end of December 2008 according to data of the Central Depository, compared to 24.73% by the end of the previous year. A comparison with the data for 2007 shows an increase in the number of public companies with a free float under 5%, which rank first with a share of 23.19%. One reason for this is that part of the newly listed issues after secondary public offerings in 2008 have not yet yielded a free float on the positions. Next come the public companies with a free float between 10 and 20% (22.94% of the total), followed by those with a free float between 20% and 30% (15.21%) and those with a free float between 5% and 10% (12.97%).

The free float of real estate investment trusts is lower than the average for the Exchange and reached 14.34% by 31 December 2008, down from 21.30% a year earlier. In addition, half of the REITs listed for trading on the exchange (34 out of 67 such companies) have a zero free float.

The free float of the SOFIX companies (included by the end of December 2008) averaged 24.64%, against 27.72% at the end of 2007. The leading companies in this respect were Industrial Holding Bulgaria PLC, Elana Agricultural Land Opportunity Fund REIT and Holding Roads AD-Sofia.

The free float of the public companies in the BG40 portfolio (included in the index by the end of December 2008) was, as usual, above the average for the Exchange and reached 32.89%. The ranking here was topped by Favorit Hold AD-Sofia, Doverie United Holding PLC-Sofia, and Stara Planina Hold AD-Sofia.

In the case of the BGTR30 companies (included by the end of December 2008), the average free float was almost equal to that of the BG40 companies: 32.34%. The top three in this group were Doverie United Holding PLC-Sofia, Stara Planina Hold AD, and Advance Terrafund REIT-Sofia.

By the end of December 2008, the companies of BGREIT had an average free float of 46.12%, way above the average levels for the Exchange as a whole. The leading companies in this respect were BenchMark Fund Estates REIT-Sofia, Aktiv Properties REIT-Plovdiv, and Advance Terrafund REIT-Sofia.

Ownership of the bank shares traded on the Exchange remains more concentrated, and the average free float is 16.17%. CB Central Cooperative Bank AD-Sofia tops this ranking, followed by CB Bulgarian American Credit Bank AD and CB Corporate Commercial Bank AD-Sofia.



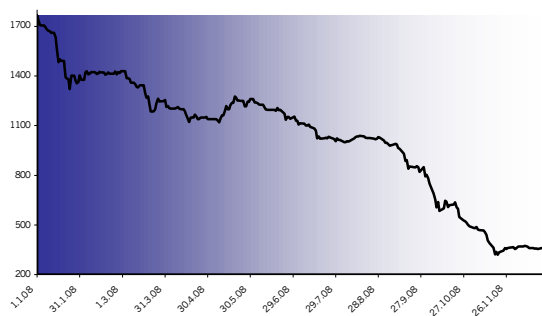
## 7. BSE-Sofia Indices

In 2008 the blue chip index, SOFIX, slumped 79.71%, year on year. The downward trend persisted throughout the whole year, and in the fourth quarter the index registered its deepest dive for the period of its existing (-54.74%), reverting to its levels for 2003.

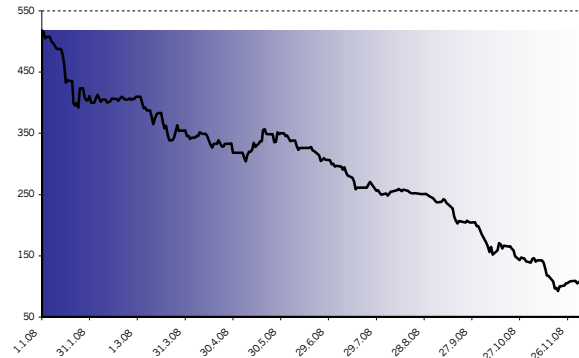
The broad Exchange index, BG40, showed a decline of 79.19% over the period, and in November fell to levels below its 100-point base of February 2005.

The BGTR30 index went down 75.14% in 2008, and BGREIT, which shows the fluctuations in the prices of companies investing in immovable property, declined by 52.99%.

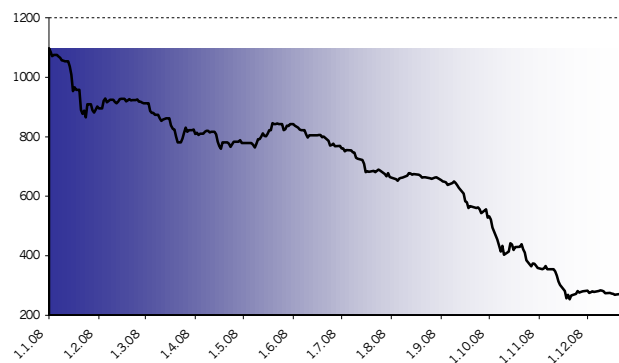
**SOFIX Change, 1 January 2008 - 31 December 2008**



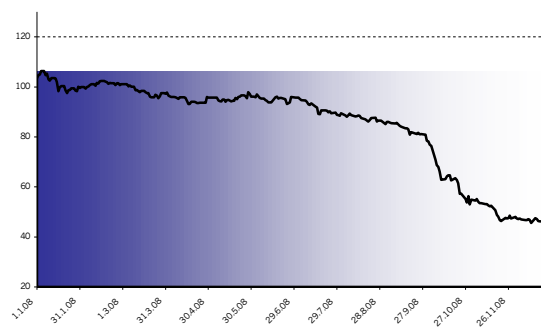
**BG40 Change, 1 January 2008 - 31 December 2008**



**BGTR30 Change, 1 January 2008 - 31 December 2008**



**BGREIT Change, 1 January 2008 - 31 December 2008**



## 8. Surveillance

In 2008 BSE-Sofia AD performed its surveillance functions in implementation of its Rules and Regulations and legislation, conducting regular (scheduled) and unscheduled examinations of its members in connection with the trading implemented through its trading system. The examinations are related to the members' investment intermediation activities: accepting client orders, concluding and settling transactions, ensuring timely settlements, acting in the best interests of the clients, avoiding conflict of interest with clients, ensuring best conditions for execution of client orders, complying with the requirements of the Rules and Regulations of the Exchange, the Market in Financial Instruments Act, the Measures Against Market Abuse of Financial Instruments Act, Ordinance No. 38 on the Requirements for the Business of Investment Intermediaries and other statutory instruments concerning the capital market, as well as examinations in connection with acts and behaviour which can qualify as manipulation of the market in financial instruments.

Surveillance is based on the risk assessment principles, with scheduled examinations being implemented depending on the possible influence and, respectively, the risk to which the member concerned exposes the market. Priority is assigned to examining members with the largest turnover generated, with the highest number of transactions concluded and with the largest clientele, because their activity affects the largest number of investors and can be presumed as representative of most intermediaries on the market.

Ten scheduled examinations and a number of examinations of documents, based on the current daily supervision through the Xetra Observer special application software, were conducted in 2008. This software allows surveillance of exchange trading in real time and retrieval of historic data for analysis and, respectively, verification. Twenty-five examinations on documents based on trading surveillance were implemented in 2008.

Meetings were held with representatives of the members examined, recommendations were made, and follow-up surveillance was exercised over the implementation of the recommendations. Upon detection of violations of the Rules and Regulations of the Exchange, proceedings for the imposition of sanctions were instituted.

During the year, the Financial Supervision Commission was promptly notified of material violations of the procedure or behaviour established by the Trading Rules of BSE-Sofia AD which may constitute market abuse. The Exchange fully cooperates with the Financial Supervision Commission and with the Deputy Chairperson in charge of the Investment Activity Supervision Department in the exercise of their control functions in connection with market abuses of financial instruments.

## 9. Privatization through the Exchange

### 9.1. Centralized public auctions

In 2008 the Privatization Agency conducted three centralized public auctions through the Exchange, which generated a turnover of BGN 5.15 mln. Compared to 2007, the turnover decreased by some 55%. (See Table 12)

(Table 12)

	2008	2007
1 Centralized public auctions conducted	3	2
1 State-owned shareholdings in companies offered, of which:	297	215
1a paid in compensation instruments	94	22
1b paid in cash	180	178
1c combined payment	23	15
2. Number of transactions concluded	67	72
<b>3 Total value of transactions (BGN)</b>	<b>5,150,649</b>	<b>11,494,049</b>

### 9.2. Remote public auctions

In 2008, the Privatization Agency conducted one remote public auction through the Exchange, with a turnover of BGN 728,054. By comparison, two remote public auctions were organized in 2007, generating a turnover of BGN 35,922 (see Table 13).

(Table 13)

	2008	2007
1 Remote public auctions conducted	1	2
1 Residual state-owned shareholdings in companies offered	4	6
2 Number of transactions concluded	3	4
<b>3 Total value of transactions (BGN)</b>	<b>728,054</b>	<b>35,922</b>

It should be emphasized that the activity of trading on this segment does not

depend on BSE-Sofia AD, insofar as the Exchange is just a technical organizer of the auctions after the companies are put up for privatization by the Privatization Agency.

Centralized public auctions and remote public auctions are conducted by means of the old trading platform of the Exchange: the RTS system.

## 10. Comparative Analysis of BSE-Sofia and the Exchanges of Southeastern Europe

Capital markets in Southeastern Europe have quite a few common features, above all low liquidity, a small turnover generated 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 public companies are not listed on their own initiative but as a result of a privatization of the state-owned 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 the change in their official indices.

The grave situation on the global financial market, which started in the US, spread unmitigated to the emerging markets in 2008, and the losses there exceeded substantially the losses sustained on the developed markets. Against the background of the ongoing global financial crisis, the stock exchanges in Southeastern Europe registered dramatic drops in all key parameters of their activity. The Bulgarian exchange index SOFIX experienced the steepest decline in the region, 79.71% (see Table 14), followed by Serbia's Belex15 and Macedonia's MBI-10.

Each of the exchanges in Southeastern Europe reported reductions in their market capitalization during the year, ranging from 45 to 70%. In terms of market capitalization, the Macedonian Stock Exchange reported the largest fall, -67.79%, followed by the Zagreb and Bulgarian Stock Exchanges.

By 31 December 2008, the Bulgarian exchange ranked third among the exchanges in the region in the Market Capitalization/GDP ratio, after the Zagreb and the Sarajevo Stock Exchanges.

With a share trading turnover of EUR 1,321 million logged in 2008, BSE-Sofia ranks third on this indicator, after the Zagreb and Bucharest Stock Exchanges.

(Table 14)

Indicator	Bulgarian Stock Exchange	Zagreb Stock Exchange	Bucharest Stock Exchange	Belgrade Stock Exchange	Sarajevo Stock Exchange	Macedonia n Stock Exchange
Listed share issues	399	356	170	1,848	524	92
Market capitalization by 31 December 2008 (EUR mln)	6,371	19,800	11,693	8,741	4,055	592
Market capitalization, change from beginning of 2008	-57.01%	-58.75%	-51.27%	-46.51%	-48.93%	-67.79%
Market capitalization/Gross domestic product*	18.73%	43.58%	8.23%	16.55%	38.20%	9.67%
Share trading turnover in 2008 (EUR mln)	1,321	2,470	1,864	830	194	110
Official index	SOFIX	CROBEX	BET	BELEX15	BIFX	MBI-10
Official index, change in 2008	-79.71%	-67.13%	-70.47%	-75.62%	-67.34%	-72.92%

\* Capitalization data: by 31 December 2008, GDP: Bulgarian National Bank estimates for 2008  
Source: Federation of Euro-Asian Stock Exchanges (FEAS); Internet sites of the stock exchanges;  
UNSTAT, Eurostat

## 11. Regulatory Framework

By decision of the Board of Directors of the Exchange dated 8 May 2008, new Rules and Regulations of the Exchange were adopted, superseding, as from the initial date of operation of Xetra, the theretofore effective Rules and Regulations, which were adopted in 2000 and were amended repeatedly thereafter.

The new Rules and Regulations consist of eight parts, governing the principal aspects of the operation of the Exchange, as follows:

- ✓ Part I – General Rules
- ✓ Part II – Membership Rules
- ✓ Part III – Listing Rules
- ✓ Part IV – Trading Rules
- ✓ Part V – Surveillance Rules
- ✓ Part VI – Risk Management Rules
- ✓ Part VII – Rules and Regulations of the Arbitration Court with the Exchange
- ✓ Part VIII – Conflict of Interest Rules

By decision of the Deputy Chairperson of the FSC in charge of the Investment Activity Supervision Department, partial approval of the Rules and Regulations as adopted by the Board has been granted, and the procedure in respect of Part V and Part VI was in progress by 31 December 2008. By decision of the Deputy Chairperson of the FSC, those two parts were conclusively approved on 24 February 2009.

The more substantial modifications compared to the Rules and Regulations, which were in effect until 16 June 2008, are presented below:

- ✓ Regarding Part I – General Rules

The general principles of operation of the Exchange have been updated in accordance with the provisions of the MFIA, viz.:

Ensuring equal terms for access to and participation in the trading in financial instruments to all Exchange members and to their clients;

Ensuring equal access to the market information to all Exchange members and to their clients;

Applying unified rules to exchange trading, conclusion and execution of transactions in financial instruments;

Applying objective standards, honest and impartial treatment of the various Exchange members and their clients in respect of the trading implemented on the markets organized by the Exchange;

Ensuring complete transparency regarding the pricing of the financial instruments listed on the Exchange.

The term “market operator” is defined as a legal person exercising the rights and obligations related to the regulated market according to the provisions of the MFIA.

- ✓ Regarding Part II – Membership Rules

An express procedure is defined regarding the admission of members established in a Member State or a third country.

The term “depository institution” is defined as the Central Depository or another depository of financial instruments, designated by the Board and approved by the Deputy Chairperson of the FSC according to the procedure established by Articles 100 and 101 of the MFIA. In this connection, an Exchange member may, in principle, settle its transactions in another depository institution, if the relevant technical capability for this is available and in conformity with the provisions of Articles 100 and 101 of the MFIA.

The register of data maintained on the Exchange members and on the brokers has been expanded.

✓ Regarding Part III – Listing Rules

The market segments have been modified, so that instruments of the same type are traded on each segment.

The change is necessitated by Xetra. The proposed changes differentiate between official and unofficial market solely in respect of the share and bond issues, because quantitative and qualitative criteria for admission, as defined under FSC Ordinance No. 40, apply only to them. The rest of the types of instruments are assigned to separate markets which, however, are not qualified as “official” or “unofficial”. The segmentation under the old and under the new Rules and Regulations are presented below:

Old Rules and Regulations	New Rules and Regulations
Official Market of Equities, Segment A;	Official Market of Equities, Segment A;
Official Market of Equities, Segment B;	Official Market of Equities, Segment B;
Official Market of Corporate Bonds;	Official Market of Bonds;
Official Market of Municipal Bonds;	Unofficial Market of Equities, Segment A;
Official Market of Government Securities;	Unofficial Market of Equities, Segment B;
Unofficial Market of Equities, Segment A;	Unofficial Market of Bonds;
Unofficial Market of Equities, Segment B;	Market of Real Estate Investment Trusts;
Unofficial Market of Bonds;	Market of Compensation Instruments;
Unofficial Market of Other Dematerialized Financial Instruments within the meaning of the POSA;	Market of Collective Investment Schemes;
Unofficial Market of Compensation Instruments	Market of Rights;
Privatization Market, Privatization Segment for Payment in Cash;	IPO Market
Privatization Market, Privatization Segment for Payment in Compensation Instruments;	
IPO Market	

By decision of the Board of Directors of 15 December 2008, the segmentation of the exchange markets was modified yet again, merging the two segments of the Unofficial Market of Equities, effective 1 July 2009 and, at the same time, introducing minimum criteria for maintenance of the listing. This move implemented the intentions declared by the Exchange to reorganize the markets



in respect of the low-liquidity companies, including a delisting and “purging” from companies which are public only *de jure*. The change was approved by the Deputy Chairperson of the FSC in charge of the Investment Activity Supervision Department by decision of 14 January 2009.

In another change of the market segments, the two segments (Official Market of Municipal Bonds and Market of Government Securities), on which no securities have been listed and no trading has been registered, have been discontinued.

The requirements for admission of shares to trading on the official market of equities have been modified as a consequence to the adoption of FSC Ordinance No. 40.

The requirements for a number of transactions and for average monthly turnover generated have been rigorized because so far they were geared to trading in 2005, which was far below the present levels.

Real estate investment trusts and collective investment schemes have been assigned to separate segments.

To expedite the procedure and to comply with the shortened time limits, provisions have been made for rights issues to be admitted to trading by the Director of Trading rather than by the Board.

The range of information maintained by the Exchange in the register of issuers has been modified in line with the issuers' obligations. Thus, issuers are no longer obligated to notify the Exchange of a transfer of a participating interest and, in this connection, the relevant information has been dropped from the register.

The obligation of issuers to disclose information to the Exchange has been modified. Under the old Rules and Regulations, this was only possible through the EXTRI (X3) System, whereas the new Rules and Regulations tolerate any official channel. This had to be done lest the Exchange be accused of imposing EXTRI as a mandatory system.

A possibility is provided for trading on the Exchange of securities whose original depository is not the Central Depository, again subject to the condition that the settlement scheme has been approved by the Board according to the procedure established by Articles 100 and 101 of the MFIA. This implements the negotiations under way on dual listings on BSE-Sofia.

#### ✓ Regarding Part IV – Trading Rules

The method of trading has been revised radically to accommodate Xetra. The various types of orders permissible by the system have been introduced: market orders, limit orders, market-to-limit orders, iceberg orders.

Trading on the Exchange is anonymized, i.e. Exchange members do not have information on the originator of a quote before they conclude a transaction.

The requirements to market makers have been revised. Under the new provisions, they are obligated to maintain quotes of a minimum value of BGN 2,500, to update such quotes after their depletion, to place quotes at auctions and during volatility interruptions from the beginning of the opening auction until the end of the intraday auction.

The manner of calculation of the maximum bid/ask spread of a market maker's

quotes has been revised. In Xetra, this spread is calculated according to the following formula:

$$\text{Spread} = \left(\frac{A}{B} - 1\right) * 100 (\%),$$

where “A” is the sell order price, and “B” is the buy order price.

By analogy with the method adopted by Deutsche Boerse, market makers are to be refunded the fee for trading paid for each month during which they have fulfilled their obligations to quote according to the Rules and Regulations.

Apart from the continuous trading which is maintained at present and in which all orders are immediately checked for execution against orders on the other side of the order book, provisions are also made for the so-called auctions, which are essentially a pre-defined interval of time during which all orders are collected in the system without being immediately executed. After the end of this interval and provided the orders meet orders on the other side of the order book, one or several transactions are concluded at a uniform price so as to maximize the volume of orders executed. Each session begins and ends with such auctions, called “opening” and “closing” auction, and another auction is scheduled between them, determining an intermediate reference price. The price achieved at the closing auction serves as a closing price, and if no such price has been achieved, the closing price for the relevant session of the particular financial instrument equals the reference price.

The rules for conclusion of transactions during continuous trading and in auctions are described in detail, depending on the type of orders executable against one another.

Liquid instruments are traded continuously in combination with auctions, and trading in illiquid instruments, such as the equities of the Unofficial Market, Segment B, and mutual funds, is limited to scheduled auctions.

The existing price limits beyond which the RTS does not admit the entry of orders have been eliminated. They have been replaced by a pre-defined static and dynamic price range, and if the potential price of a transaction lies outside some of these ranges, a volatility interruption is initiated. Essentially, a volatility interruption triggers a change of the trading form from continuous trading to an action, and if initiated during an auction, it triggers an extension of the call phase by 2 minutes. Volatility interruptions are intended to ensure price continuity and comparability, as well as to safeguard brokers against errors.

If orders are not executed at the end of the call phase, an interruption for the execution of these orders is initiated in the form of an extension of the call phase by 2 minutes.

Information on transactions in financial instruments admitted to trading, which are concluded outside a regulated market, may be reported according to the procedure provided for in Article 38 (5) of the MFIA.

Auctions for initial public offering and for sale of the unexercised rights of the increase of capital of public companies are now organized in a way similar to the rest of the auctions supported by Xetra, i.e. at a uniform price, rather than through a Mixed Closed Auction. It is no longer possible, either, to organize a Mixed Closed Auction for the sale of large volumes of shares according to the

procedure established by Annex 11 to the superseded Rules and Regulations. Rights are to be traded continuously within the time limit for trading of rights, and the form of trading changes to an auction on the date of conduct of the auction referred to in Article 112b (7) of the POSA. The responsibility for the conduct of this auction and for the public offering of the unexercised rights, however, will be of the investment intermediary handling the capital increase. So far the auction was organized by the Exchange, and rights were offered *ex officio*. Provisions are made for a procedure for correction of parameters of transactions concluded on the Exchange without the intervention of the Exchange itself. After the end of the day on which the error was made, a correction of a parameter, say, the party for the account of which the transaction has been concluded, may be made only by the Exchange.

There are no changes in the procedure for cancellation of transactions concluded on the Exchange, and the procedure is expedited to meet the required for greater efficiency. The only exception is the possibility for over-the-counter transactions to be cancelled directly by the parties without intervention from the Exchange, moreover solely before the end of the current day.

A distinction is drawn depending on which the exchange transaction is to be settled in the Central Depository or by another depository institution approved by the Board according to the procedure established by the law, with the Rules and Regulations making a cross reference to the relevant rules of the depository institution.

A procedure is established for treatment of all corporate events directly affecting the closing price of the instrument concerned, such as dividend payments, increase of capital etc. A procedure is expressly provided for, according to which any rights and income misacquired as a result of a delay in the settlement of exchange transactions and if such corporate events occur must be restituted to the party who is entitled to receive them, provided that this party is the non-defaulting party to the transaction concerned.

After the adoption of the new Rules and Regulations, amendments to the existing rules were adopted at meetings of the Board of Directors held on 30 June, 28 August and 11 December 2008. The amendments were intended mostly to correct technical errors in the existing texts, and on the last of the aforementioned date, the Board adopted Part VIII of the Rules and Regulations, which regulates measures and procedures for the avoidance of adverse effects of conflicts of interest that may arise under Item 1 of Article 86 (1) of the MFIA.

✓ Regarding Part V – Surveillance Rules

The new part governing the surveillance exercised by the Exchange did not introduce new points in this type of activity but logically assigned these functions to a separate document.

✓ Regarding Part VI – Risk Management Rules

This part governs the various risks relating to the activities of the Exchange, the related risk management procedures and measures for the purpose of ensuring uninterrupted business processes. The same part also describes the procedures

in respect of the Guarantee Fund with the Exchange, and its rules are laid out in considerably greater detail than the rules which were in effect until 16 June 2008, while the various hypotheticals related to the use of the Fund are described comprehensively. Provisions are made for a body responsible for the management of the Fund (a Management Committee), and the functions and duties of the Chief Secretary, responsible for the day-to-day management of the Fund, are expressly listed as well.

At the very beginning of 2009, the Board adopted amendments to Parts V and VI of the Rules and Regulations, whose approval procedure was in progress, concerning the surveillance exercised by the Exchange and risk management. In respect of the surveillance, the basis within the scope of the control functions performed by the Exchange in respect of its members was expanded, and in respect of risk management, minor non-conformities, noted by the FSC, were eliminated.

## 12. Implementation of the Development Programme of the Exchange

The active commitment and concern of the management of BSE-Sofia AD regarding the medium-term prospects of the capital market in Bulgaria precondition its policy and conduct in search of effective solutions to key issues related to the development of that market. To this end, a working group of Exchange experts was formed at the beginning of 2008 and prepared an Analysis of Bulgaria's Capital Market and Strategy of BSE for its Development by 2010.

The resulting document identified improvement of liquidity of the capital market as a foremost priority in the development of the Exchange. In this connection, the key areas of work of the Exchange for attainment of this key strategic goal involve seeking ways to increase the number, volume and diversity of the instruments traded and to attract more investors, both from Bulgaria and from abroad.

A programme for implementation of the Strategy as adopted was elaborated, and it was updated considering the ongoing global financial crisis which further limited the liquidity of the Exchange and affected adversely all participants in the Bulgarian capital market. The programme includes detailed proposals on each of the key strategic goals defined.

### 12.1. Anti-crisis Measures

#### *Active support for publicly traded companies on the part of the Exchange*

The current global financial crisis has had a substantial impact on all participants on the Bulgarian capital market. In this respect, one of the foremost priorities of BSE-Sofia is restoration of investors' confidence in the Bulgarian business represented on the Exchange. The Exchange will spare no effort to increase the popularity of the transparent and well-managed public companies, by showing, both at home and abroad, their sound foundations, as well as by encouraging their efforts to cope with the effects of the crisis. A first step in this direction was the Day of Bulgaria panel organized at the German Equity Forum, the largest annual forum of capital markets in Frankfurt, in November 2008, at which the Exchange headed a delegation of 15 leading Bulgarian public companies.

#### *Implementing a flexible policy in respect of fees and commissions*

In connection with the aggravated situation on the Bulgarian capital market, BSE-Sofia took action for the implementation of a flexible policy in respect of the fees and commissions charged from investment intermediaries so as to stimulate trading. Temporary rebates of the fees for conclusion of transactions for purchase and sale of shares were introduced, valid for the period from 1

January to 31 March 2009. In addition, the investment intermediaries, whose fees to BSE-Sofia AD for transactions concluded in 2009 exceed BGN 150,000 before VAT on an annual basis, will be refunded 5% of the amounts paid. BSE-Sofia is planning additional measures to stimulate trading depending on the development of the market situation in the first months of 2009.

### *Seeking support from the State for the non-bank financial sector*

At a time of an ongoing global financial and economic crisis, the State has an exceedingly important role. So far, the Government's anti-crisis programme was primarily focused on the banking sector, as the most neuralgic locus of the bulk of financial intermediation flows in Bulgaria. The non-bank financial sector also needs development of anti-crisis measures because it accumulates enormous cash flows and its destabilization should by no means be allowed.

As a measure to counter and mitigate the effect of the global financial and economic crisis in this country, BSE-Sofia, jointly with the branch organizations and the various participants in the capital market, is planning to lobby actively for amendments to the State Fund Guaranteeing Stability to the State Pension System Act that would make it possible to invest part of the assets of the so-called Silver Fund in shares of public companies traded on the Bulgarian capital market.

In addition, the implementation of major infrastructure projects could be done through the stock exchange by public raising of capital, which would effectively stimulate business with the participation of the State and would demonstrate to both Bulgarian and foreign investors that the State trusts and supports the Bulgarian capital market and stimulates its development.

## **12.2. Implementation of a new trading platform: XETRA®**

BSE-Sofia successfully started the new trading system, Xetra, on 16 June 2008. It replaced the RTS system, which had been in operation for nearly eight years. The project for implementation of the new system was launched in early December 2007 and followed a detailed plan and went through several successive stages, including a test period, which began in early April.

The old system had to be replaced above all because it was largely obsolete. Judging by practice, the useful life of a system is about seven years. On the other hand, the liquidity of the Exchange then was considerably lower. Therefore, apart from being based on an outdated technology, in a sense it holds back the development of the market insofar as it does not reflect the current trends of the modern capital markets.

The XETRA trading system is operated by Deutsche Boerse and is one of the most up-to-date trading systems, being also among the fastest ones. The lag and the reaction time are minimized, and the conclusion of transactions is expedited to such an extent that it meets the requirements of even the largest institutional investors. Moreover, Xetra is used not only in Germany but on other

exchanges and markets as well: Vienna, Dublin, Leipzig, Eurex Bonds etc., i.e. it has established itself on a wide international scale.

In the next place, Xetra connects over 600 market participants and more than 5,000 brokers. This inevitably has a particularly favourable impact on the local capital market because it eases considerably the access of foreign participants and makes BSE-Sofia far better visible internationally.

These international participants' rigorous requirements in respect of the capabilities of the system guarantee the provision of far more varied functions. Thus, Xetra supports far more numerous types of orders, which allow the implementation of a much wider variety of strategies which, in turn, would be welcome to investors.

In most general terms, this platform brings the following advantages to the Bulgarian market: (1) larger capacity and fast operation (even though the previous system could perform better in this respect, too); (2) readier accessibility of foreign financial institutions to the Bulgarian market; (3) standardization with the trading rules that have taken hold on one of the largest exchanges on a global scale and, last but not least, (4) more varied trading opportunities, including to organize a derivatives market at a later stage.

The implementation of the trading system led to side sub-projects directly related to the principal one. Thus, BSE-Sofia AD reached an agreement on cooperation in another aspect as well: on dissemination of market information. As from the starting date of operation of the system, Deutsche Boerse also took over the functions of marketing, sale and distribution of market information to the various foreign vendors. The Exchange retained its communication with the existing local information suppliers. Secondly, an agreement was also reached in respect of the calculation of the BSE-Sofia AD indices, which, too, was taken over by Deutsche Boerse as from the initial date of operation of Xetra. The agreement further covers some neighbouring activities such as the licensing of products based on some of the BSE-Sofia AD indices. Notably, these two sub-projects also play a particularly important role in respect of the internationalization of the Exchange and the improvement of its international visibility, insofar as by launching them BSE-Sofia AD gains access to the broad base of vendors of information of Deutsche Boerse itself.

During the period of implementation, a number of training sessions and explanations of the Xetra functionality were delivered, including:

- ✓ A course for IT experts in connection with Xetra's programming interface, VALUES API (Virtual Access Link Using Exchange Services Application Programming Interface), held in February.
- ✓ A course for the Exchange members with the participation of a lecturer from Deutsche Boerse, held in early April.
- ✓ Training for all interested persons, organized by BSE-Sofia AD in April.
- ✓ Training for the members of the Association of Banks in Bulgaria and the Bulgarian Association of Licensed Investment Intermediaries, held during five days in May and June.
- ✓ A two-day course for all interested persons, conducted by BSE-Sofia AD after

the launch of Xetra in July.

✓ Training of representatives of the Financial Supervision Commission, organized in May.

✓ A course for journalists in July.

Parallel to that, a number of training materials were prepared and published, calling users' attention to highlights of trading through Xetra, including the differences from the old trading system, and these materials included a translation into Bulgarian of the official Xetra documentation.

### 12.3. Optimization of the COBOS system

COBOS (Client Order-Book Online System) is a unique own product of BSE-Sofia, developed by experts of the Exchange and intended to allow investors to submit orders to investment intermediaries electronically.

The facilitation of the investment process, which COBOS ensures, is moreover of key importance for attracting more investors to the market. In most cases these are people who prize their time and want fast and user-friendly solution. The increased number of investors also has a direct bearing on an improvement of the liquidity of Bulgaria's capital market.

The number of COBOS users reached 5,001 by 31 December 2008, down 2.74% from the end of 2007. In the second half of 2008, the number of active certificates steadily decreased, this being characteristic of each month from July to December.

The orders submitted through COBOS in 2008 were by 17.97% more than the orders submitted in 2007. At the same time, the total number of orders entered in 2008 increased by 7.90%.

In 2008, the principal functional modifications in COBOS were related to its integration for operation into the new trading system Xetra. COBOS users can enter all types of orders that Xetra supports, as well as all additional parameters of the orders, such as setting a specific phase of the trading session during the order would be active etc.

The COBOS Market Minder was modified so as to provide information on the trading phase, indicative auction price, as well as indicative volume and surplus regarding the relevant financial instruments. For the convenience of users, a mouse drag on the new codes of the issues of financial instruments visualizes the name of the issue in English.

The whole available information on COBOS, entry to the system, as well as the updated COBOS Client Manual, were moved to a new separate Internet site, <http://cobos.info>, which was designed in conformity with the new corporate identity of the Exchange. A test version of the system, functioning according to the Xetra simulation calendar, is also accessible from the same Internet address.



#### **12.4. Attraction of issuers**

Attraction of local and foreign issuers remained a key priority in the operation of BSE-Sofia in 2008. Regardless of the complicated situation on capital markets worldwide and in Bulgaria, work with the companies that have shown interest in going public continued throughout the year. The effort in 2008 naturally followed up on the successful work with non-public companies in the 2006-2007 period, when four roundtables were organized in various parts of the country and a number of individual meetings with representatives of Bulgarian companies were held.

As a result of the financial crisis, which hit the capital market worst, some of the companies delayed their plans to go public, with seven companies with a prospectus approved by the FSC not launching a public offering by 31 December.

Under a Memorandum of Cooperation between BSE-Sofia and the Bulgarian Small and Medium Enterprises Promotion Agency, signed in 2007, the Exchange took part in two seminars at which the advantages of the public-company status were presented to Bulgarian small and medium-sized enterprises during the year. Further individual meetings were held with representatives of companies wishing to get familiar with the opportunities for going public and raising capital through the stock exchange. At these meetings, the company managers were familiarized with the advantages of going public, the specific requirements for public companies, and the schemes and means required for acquiring public-company status.

#### **12.5. Attraction of foreign issuers for dual listing on the Exchange**

During the year, the Exchange continued its dialogue with representatives of consulting firms and foreign companies interested in listing issues of securities for trading on BSE-Sofia. The meetings and talks held on the matter demonstrated an intensification of interest in dual listings of foreign companies on BSE-Sofia. In this connection, the difficulties at this point are related to the effects of the global financial crisis as well as to the lack of an infrastructure solution for a link between the local and the foreign depository institutions for settlement of the transactions.

The active participation of the Exchange in the working group drafting the Clearing and Settlement Bill, among other things, will also be a prerequisite for the attainment of the goals set.

#### **12.6. Introduction of new financial instruments**

Another priority, set in the capital market development strategy, is the introduction of new financial instruments for trading on the Exchange. In this respect, a number of meetings with interested parties were organized to discuss the possibilities for listing structured products on BSE-Sofia. The variety of such

instruments, which could be traded on the local market, would offer professional and non-professional investors an opportunity to apply various risk management strategies.

Representatives of foreign companies also showed interest in the possibility to list depositary receipts on the shares of companies traded on foreign markets. These intentions were not implemented on account of the global financial crisis, but work for this will continue.

### **12.7. Attraction of more foreign investors and members**

Attraction of foreign investors and members remains a key area in the future strategic development of BSE-Sofia. In this connection, BSE-Sofia participated in the annual German Equity Forum in Frankfurt in November, which was organized jointly by Deutsche Börse und Kreditanstalt für Wiederaufbau (KfW). Fifteen leading Bulgarian public companies were presented to foreign investors, bankers and analysts at a special Day of Bulgaria panel within the forum. This was the first “road show” of its kind of Bulgarian public companies abroad, and the event evoked enormous interest among Germany’s financial elite.

In 2008, the focus was also on the approximately 450 foreign investment intermediaries which have successfully passed through the notification process at the FSC. A thoroughgoing analysis was made of the types of services and activities notified by the foreign investment intermediaries, and presentation materials were prepared explaining the possibilities for membership of BSE-Sofia. These efforts of the Exchange in respect of targeting foreign investment intermediaries are expected to produce results in future, when the effects of the financial crisis are overcome.

### **12.8. Guarantee Fund**

The restructuring of the Guarantee Fund was another priority in the activity of BSE-Sofia during the year. To this end, active cooperation was pursued between the Exchange, its members, as well as the organizations related to the capital market: the Bulgarian Association of Licensed Investment Intermediaries, the Association of Banks in Bulgaria, the Bulgarian Industrial Capital Association etc., as well as the supervisory authority, FSC, and Central Depository AD.

Addressing the matter of the Guarantee Fund on a priority basis by means of regulations is particularly important because at this point there is no effective mechanism to guarantee the settlement of transactions, which places the Exchange at a disadvantage in respect of the other capital markets.

To this end, in 2008 BSE-Sofia developed and proposed a mechanism for the establishment of a Guarantee Fund, which was included in Part VI of the Rules and Regulations of the Exchange. A procedure for granting approval of that part of the Rules and Regulations by the Deputy Chairperson of the FSC in charge of the Investment Activity Supervision Department was in progress by 31

December 2008.

### **12.9. Development of the information services of the Exchange**

Despite the state of the capital markets, investors and issuers steadily require ever better quality information on trading and on Bulgarian public companies. To live up to their expectations, BSE-Sofia completely redesigned its Internet site.

Two new sections were launched in November 2008: Press Center and Publications. The purpose of the new sections is to improve the availability of information on the BSE-Sofia Internet site, as well as the effectiveness of the communication of the Exchange with the general public.

The Press Center Section contains all press releases of the Exchange, announcements of forthcoming events, as well as interviews given by senior executives of the Exchange in connection with the Bulgarian capital market etc.

The Publications Section contains presentations made by Exchange representatives at forums, conferences and events in Bulgaria and abroad, as well as analyses related to the Bulgarian capital market.

The development of the subsidiary company Financial Markets Service EOOD (FMS), through which the Exchange provides the X3News and X3Analyses services, is also strategically important for the Exchange. Through the specialized media X3News, public companies and other issuers of securities can fulfil their legal obligations to disclose regulated information to the public. The media has been in active operation since 18 January 2008, and by the end of December was used for information disclosure by over 271 companies.

X3Analyses is a financial analysis application developed with the help of QlikView, a tool for analysis of multidimensional data. X3Analyses provides highly reliable financial analyses and analytical instruments for accurate and truthful evaluations of the securities traded on BSE, and it is basically intended to help investors, turning financial analysis into a fast and easy task.

### **12.10. Popularization of BSE-Sofia**

In 2008 the Exchange optimized its Communication Strategy seeking to consolidate public perception of the Exchange as a leading institution in achieving an irreversible shift in public policies on the market economy in Bulgaria, as well as to foster transparency and public openness of the capital market. To this end, the Exchange continues to aspire to be more open to the media, to ensure a regular media coverage, including in the general interest media, a publicity of its operation, the advantages and prospects of the market.

The tradition of official presentation of new companies on the Exchange was kept in 2008, with 16 formal openings of trading sessions being organized during that period, at which a total of 32 share- and bond-issuing companies were presented.

The new corporate identity of BSE-Sofia was also designed and presented

during the year. The new logo of the Exchange is a bull, which replaced the old logo, shaped as a hexagon (the traditional shape of trading floors). The new corporate identity included a renovated Internet site, which was presented simultaneously with the launch of the new trading platform.

The regular participation of lecturers from the stock exchange in seminars, conferences, discussion forums and roundtables also contributed to the popularization of the Exchange as an institution, and of the capital market as well.

An annual ski and snowboard competition takes places under the auspices of the Exchange, and its 2008 edition attracted keen interest from the investor community.

### 13. International Activities and External Relations

BSE-Sofia continued its vigorous international activity in 2008. In implementation of the adopted strategy of the Exchange, the efforts focused on implementing the new trading system XETRA, popularizing the Bulgarian capital market, and attracting investors and foreign issuers for dual listing.

The information exchange intensified between BSE-Sofia and the Federation of European Stock Exchanges (FESE), which the Exchange joined in June 2007. A major effort in connection with the implementation of the Market in Financial Instruments Directive (MiFID) was launched within the framework of FESE, which brings together the exchanges of the Member States of the European Union. In this connection, a representative of the Exchange attended a FESE meeting in Brussels in March, devoted to the new methods of preparing exchange statistics. BSE-Sofia was represented at the FESE Annual Conference, which took place in Stockholm in June and outlined the key tendencies in the development of the stock market in Europe and the world. During the year, BSE-Sofia was actively involved in the key events related to the capital markets, organized by the World Federation of Exchanges (WFE). The Exchange was expressly invited to send a lecturer to the traditional World Exchange Congress, which was held in London in April.

Throughout the year, the Exchange maintained an active dialogue with its partners of Southeastern Europe. BSE-Sofia took part in the annual financial conference, organized by the Macedonian Stock Exchange in April, as well as in the Southeast European Financial Forum, 5<sup>th</sup> Edition, held in Bucharest in June. In early September, BSE-Sofia participated in the 5<sup>th</sup> International Capital Markets Conference, held at the Porto Carras resort, Greece. At sports competitions among the European exchanges, organized there during the Conference, the BSE-Sofia football team ranked among the best. The Exchange was also represented at an International Financial Conference, organized in Athens in September by the *Financial Times* and the Athens Stock Exchange.

The Exchange hosted an international conference entitled "The Prospects for Capital Markets in Southeast Europe" on 16 September 2008. Taking part were representatives of all exchanges in the region, as well as more than 100 bankers, investment intermediaries and financial experts from all over Europe.

The participation of BSE-Sofia in the German Equity Forum and particularly in the Day of Bulgaria panel, held on 10 November, was among the most significant international events in 2008. The 15 leading Bulgarian public companies were presented for the first time to foreign investors, bankers and analysts. This was the first "road show" of its kind, which evoked enormous interest among Germany's financial elite.

#### 14. Shareholders structure of BSE-Sofia AD

As of 31 December 2008, the composition of shareholders of the Exchange consisted of five principal types of entities, as follows:

(Table 15)

No.	Type	Number of shares	%
1	Ministry of Finance	2,580,000	43.97
2	Legal persons	570,450	9.72
3	Natural persons	265,190	4.52
4	Institutional investors	381,800	6.51
5	Investment intermediaries and commercial banks	2,070,420	35.28
	<b>Total</b>	<b>5,867,860</b>	<b>100.00</b>

## 15. Members of BSE-Sofia AD

As of 31 December 2008, 84 licensed investment intermediaries and commercial banks were members of the Exchange:

(Table 16)

Investment Intermediaries	
United Bulgarian Bank AD	Eurodealing AD
First Investment Bank AD	Zlaten Lev Brokers OOD
CB Investbank AD	Bora Invest AD
ING Bank – Sofia Branch AD	Argo Invest AD
First Financial Brokerage House OOD	Bulex Invest AD
Elana Trading AD	ABV Investment EOOD
Euro-Finance AD	DZI Invest AD
Financial House Ever AD	Makler 2002 AD
FBH Sofia Invest Brokerage AD	Emporiki Bank – Bulgaria EAD
Economic & Investment Bank AD	Populiarna Kasa 95 AD
Central Cooperative Bank AD	DSK Bank EAD
Bulbrokers EAD	D Commerce Bank AD
CB MKB Unionbank AD	Corporate Commercial Bank AD
Dealing Financial Company AD	Bulfin Invest AD
Piraeus Bank Bulgaria AD	Capital Engineer Project AD
Aval IN AD	Real Finance AD
International Asset Bank AD	Somony Financial Brokerage OOD
Allianz Bank Bulgaria AD	VIP-7 AD
Eurobank EFG Bulgaria AD	Teximbank AD
UniCredit Bulbank AD	Metrik AD
Capman AD	Naba Invest AD
FINA – S AD	TBI Invest EAD
Beta Corp AD	Inv. Intermediary Intercapital Markets AD
Raiffeisenbank (Bulgaria) EAD	Varchev Finance EOOD
BBG Simex – Bulgaria OOD	Bulgarian American Credit Bank AD
Karoll AD	Balkan Advisory Company IP EAD
Delta Stock AD	Balkan Investment Company AD
Investment Intermediary McCup AD	Inv. Intermediary Capital Finance OOD
Factory AD	BenchMark Finance AD
Focal Point Investments AD	Positiva AD
Tokuda Bank AD	CEE Securities AD
BG Proinvest AD	KD Securities EAD
Capital Markets AD	D.I.S.L. Securities AD
Status Invest AD	KM Invest EAD
Zagora Finakorp AD	WOOD & Company Financial Services, a.s.
Standart Investment AD	EFG Securities Bulgaria EAD
Ug Market AD	Astra Investment AD
Sofia International Securities AD	Inv. Intermediary Rock Ridge Investment EAD
	Inv. Intermediary KBC Securities N.V. – Bulgaria Branch
Favorit AD	Inv. Intermediary Adamant Capital Partners AD
BNP – Paribas Bulgaria AD	Bulgarian Development Bank
Fico Invest OOD	Bul Trend Brokerage OOD
Municipal Bank AD	

Between 1 January 2008 and 31 December 2008, six investment intermediaries were admitted as new members of the Exchange, and the membership of one was terminated by reason of its merger with another intermediary.

As of 31 December 2008, 160 brokers were registered at BSE-Sofia AD. Fifty-two brokers were admitted between 1 January 2008 and 31 December 2008, while the trading rights of 34 brokers were terminated.



## 16. Financial Standing 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 company's financial standing and performance. The main income and expense items are compared briefly and their change from the previous year is analyzed below, in Tables 17 and 18.

The accounting profit for 2008 is reported at BGN 607,000. After deduction of the profit tax due to the amount of BGN 62,000, the net profit for the year is BGN 545,000.

### 16.1. Income from Operating Activities of the Exchange for 2008

(Table 17)

Item	2008	2007	Change
Commissions for transactions concluded on the Exchange (BGN '000)	3,271	8,189	-60.06%
Fees for registration of companies (on Official and Unofficial Market) (BGN '000)	435	387	12.40%
Internet trading fees and online trading fees (BGN '000)	323	362	-10.77%
Information service fees (BGN '000)	371	251	47.81%
Financial sanctions on Exchange members (BGN '000)	37	194	-80.93%
Membership fees (present and remote trading) (BGN '000)	51	42	21.43%
<b>PROCEEDS FROM SALES (BGN '000)</b>	<b>4,488</b>	<b>9,425</b>	<b>-52.38%</b>
Financial income (BGN '000)	434	305	42.30%
Other operating income (BGN '000)	126	131	-3.82%
<b>TOTAL INCOME (BGN '000)</b>	<b>5,048</b>	<b>9,861</b>	<b>-48.81%</b>

The global financial and economic crisis that began at the end of 2007, continued throughout 2008 and is still in progress, affected adversely the activity of the Exchange and, respectively, the income from operating activities, which fell nearly 49%, year on year, reaching BGN 5,048,000 (see Table 17). The reported decrease was due above all to a 60% decline in income from commissions for transactions concluded on the Exchange, which is the principal source of income, accounting for 71% of the total income.

Income from information service fees rose 48%, reaching BGN 371,000 at the end of 2008. This growth can be attributed to the adjustment of part of the prices of the information packages on the Exchange as from the beginning of 2008, the launch of new information packages, as well as to the contracts concluded with new clients during the year.

Income from fees for registration of companies on Official and Unofficial Market increased by 12.40% in 2008 compared to 2007. This growth was due to the issuers' heightened interest in the Official Market of the Exchange, as well as to the substantial number of new issues listed after secondary and initial public offerings on the Unofficial Market.

Income from Internet trading fees and online trading fees contracted by 10.77% owing to the smaller number of COBOS system users in 2008 compared to 2007.

The 81% decrease of income from financial sanctions was largely due to the fact that as from June 2008 the Exchange has practically not imposed sanctions on its members for late settlement of transactions. With the introduction of the new trading system, the Surveillance Part had to be amended, and part of these amendments were not approved by the FSC according to the relevant procedure until the end of 2008 and, accordingly, did not enter into force. For the same reason, contributions were not made to the Guarantee Fund, because the amendments concerning the Fund were approved by the Deputy Chairperson of the FSC in charge of the Investment Activity Supervision Department on 24 February 2009. Part V "Surveillance Rules" of the Rules and Regulations of the Exchange also received approval from the FSC on the same date.

Income from membership fees showed a growth of 21%, year on year, as a result of the increased number of remote-trading workstations of Exchange members during the year.

Financial income rose 42.30% as a result of an effective management of the idle liquid funds in the form of deposits, bonds, income from repo transactions etc.

By resolution of the Shareholders' General Meeting, the Exchange distributes dividend for a second year running, with the dividend for 2007 amounting to BGN 2,363,000.

## 16.2. Operating Expenses of the Exchange for 2008

(Table 18)

Item	2008	2007	Change
Materials and consumables (BGN '000)	64	103	-37.86%
Hired services (BGN '000)	1,229	537	128.86%
Personnel costs (salaries, Board of Directors remunerations, social and health insurance and other social security payments) (BGN '000)	2,467	2,698	-8.56%
Depreciation expense (BGN '000)	415	322	28.88%
<b>OPERATING EXPENSES (BGN '000)</b>	<b>4,175</b>	<b>3,660</b>	<b>14.07%</b>
Financial expenses (BGN '000)	-	-	-
Other expenses (BGN '000)	266	364	-26.92%
<b>TOTAL EXPENSES (BGN '000)</b>	<b>4,441</b>	<b>4,024</b>	<b>10.36%</b>
<b>PROFIT BEFORE TAX (BGN '000)</b>	<b>607</b>	<b>5,837</b>	<b>-89.60%</b>
Profit tax expense (BGN '000)	62	586	-89.42%
<b>NET PROFIT FOR THE YEAR (BGN '000)</b>	<b>545</b>	<b>5,251</b>	<b>-89.62%</b>

In 2008 total operating expenses increased by 10% compared to 2007 (see Table 18), largely due to the larger costs of hired services, a substantial part of which was related to the implementation and maintenance of the trading system of the Exchange. The costs of materials and consumables, as well as the "Other expenses" item, contracted substantially. The personnel costs decreased by 8.56%.

The 29% rise of depreciation expenses was due to the increased amount of intangible fixed assets in connection with the commissioning of the new trading system.

## 16.3. Assets as of 31 December 2008

At 31 December 2008, the assets of BSE-Sofia AD were structured as follows (BGN '000):

(Table 19)

	At 31 Dec. 2008	At 31 Dec. 2007
Non-current assets	4,400	4,138
Current assets	6,771	9,050
<b>Total assets</b>	<b>11,171</b>	<b>13,188</b>
Non-current liabilities	35	42
Current liabilities	1,349	1,445
<b>Total liabilities</b>	<b>1,384</b>	<b>1,487</b>
<b>Equity</b>	<b>9,787</b>	<b>11,701</b>

By managing the capital, the company seeks to create and maintain possibilities to continue as a going concern and to ensure the proper return on shareholders' investments and economic benefits to other parties interested and involved in its business, as well as to maintain an optimum capital structure so as to reduce capital costs.

In 2008 the company management's strategy was to use only self-financing, through funds generated by the company's own economic activity, without resorting to debt financing, and this strategy remained unchanged compared to 2007.

In the course of its ordinary activities, the company may be exposed to various financial risks, the most important of which are: market risk (including currency risk, risk of a change in the fair value and price risk), credit risk, liquidity risk, and interest-bearing cash flow risk. General risk management is focused on forecasting the results of particular areas of the financial markets so as to minimize potential adverse effects that might affect the financial performance and position of the company. On a current basis, financial risks are identified, measured and monitored through various control mechanisms introduced to establish adequate prices for the services and cost of debt capital, as well as to assess adequately the market circumstances of the investments made by the company and the form of holding the idle liquid funds while avoiding undue concentration of any particular risk exposure.

Risk management at the company is carried out on a current basis by the executive management of the company according to a policy adopted by the Board of Directors. The Board of Directors has approved principles of general financial risk management, on the basis of which particular procedures have been developed for management of the separate specific types of risk, such as currency risk, price risk, credit risk and liquidity risk, and risk associated with the use of non-derivative instruments.

## 16.4. Market risk

### 16.4.1. Currency risk

The company is not exposed to a currency risk because almost all of its operations and transactions are denominated in Bulgarian leva and/or euro, and the euro-lev exchange rate is fixed by law.

### 16.4.2. Price risk

The company is not exposed to a price risk in the sense of a risk of adverse changes in the prices of the services subject to its operations because these prices are specific to a particular range of clients and there are established procedures for periodic adjustment to market changes.

The company is exposed to a price risk in respect of the shares/securities held thereby and classified as "investments available for sale" – mortgage bonds.

The analysis of the company's sensitivity to the prices of mortgage bonds held

thereby is based on the state and structure of investments as at 31 December. If these prices had increased/decreased by 5%, the impact on equity would have been as follows:

- upon 5% increase in market prices – an increase in the revaluation reserve – FA by BGN 47,000;
- upon 5% decrease in market prices – a decrease in the revaluation reserve – FA by BGN 47,000.

At the same time, the practice of the company regarding similar instruments shows that, since bonds are commonly not traded after their initial acquisition and are held by the company until maturity, the impact of market price shifts is insignificant and currently does not affect the company's financial performance because this impact is stated as a separate equity item as unrealized profit/loss from revaluation, net of deferred taxes. Since bonds bear fixed interest and entitle holders to coupon payments once every six months, their yield is set in advance at the date of purchase of each issue and the investment is recouped at maturity at the par value of the bonds, while the impact of possible market price fluctuations is reduced to a minimum.

In respect of the government securities classified as investments and held until maturity, the company is not exposed to a price risk, in so far as these securities bear fixed interest and the yield is set in advance and guaranteed by the State. These government securities have matured before the date of approval of the issuing of the present report.

The analysis of the company's sensitivity to the prices of shares and participating interests held in other undertakings cannot be measured, since it is impossible to determine their reasonable prices or fair value. The policy on their evaluation is disclosed in Note 2.20.1 to the company's Annual Financial Statement. Investments were reviewed as at 31 December 2008, and no indications of impairment were found.

The judgment of the management is that the Exchange is generally not exposed to a significant price risk, since the impact and dependence on available-for-sale investments is insignificant for the company.

### **16.5. Credit risk**

The company's financial assets are concentrated in the following groups: cash (current accounts and time deposits), investments in mortgage bonds, investments held until maturity, minority interest in other undertakings, trade and other short-term receivables.

Credit risk is associated with the risk that any of the company's counterparties will not be in a position to discharge its obligations to the company to the full amount and at the due date. Trade receivables are shown on the Balance Sheet at net amount, less allowances provided for doubtful receivables. Such allowances are made wherever and whenever events giving rise to losses from bad debts according to past experience are identified.

The company is not exposed to a significant concentration of credit risk because the Exchange provides services of a specialized type to its clients, which are mostly investment intermediaries and banks in Bulgaria. These clients have a

good financial standing, a long history and business cooperation with the Exchange, and do not commit breaches in the compliance with the credit terms according to the Rules and Regulations of BSE-Sofia regarding the payment of the fees due for services provided by the Exchange.

The company policy is to perform its sales under prompt cash payment terms – this applies mostly to exchange trading fees, which are payable within two days at the settlement of the transaction. Collection of receivables is controlled strictly on a current basis by the Registrations Department, the Sales Department and the Financial and Accounting Directorate, according to the company's established policy. To this end, clients' outstanding payments, as well as the payments received, are examined on a daily basis, and reconciliation and analysis are performed. The fees for clients' initial registration and registration maintenance are paid before clients are admitted to active trading.

To contain the risk associated with cash and placed deposits, the company's policy is to distribute them to current and deposit accounts of different maturities with different, highly reputable and reliable financial institutions in Bulgaria.

As to the mortgage bond portfolio and the investments in government securities, they are tradable on the domestic financial market, have a relatively high yield, and are a financial instrument of a comparatively minimum credit risk and are preferred by investors as an instrument for investment of idle cash funds.

### **16.6. Liquidity risk**

Liquidity risk consists in an adverse situation in which the company encounters difficulties in meeting unconditionally all its obligations when due. The company conducts a conservative policy of liquidity management, through which it steadily maintains an optimum liquid reserve of cash and an adequate ability to finance its economic activity, it monitors constantly its actual and estimated cash flows by forward periods and maintains equilibrium between the maturity limits of the company's assets and liabilities. The company generates and has at its disposal sufficient working capital and does not need to borrow for the conduct of its day-to-day operations. The Financial and Accounting Directorate monitors the maturity on a current basis and makes sure that payments are effected promptly, with up-to-date information on the cash in hand and the forthcoming payments being maintained daily. Idle funds are invested in mortgage bonds and in time deposits with banks, normally maturing within one to six months, which are regarded as relatively low-risk investment, and generate a relatively high yield.

### **16.7. Interest-bearing cash flow risk**

On the whole, the company owns a substantial portion of interest-bearing assets. Income and operating cash flows are stable, predictable and more or less secured against fluctuations of market interest levels, insofar as the bulk of the

interest-bearing assets (euro-denominated mortgage bonds and cash in leva and euro on time deposits placed with banks) bear a fixed interest rate.

(Table 20)

	31 December 2008			31 December 2007		
	Interest		Non-interest	Interest		Non-interest
	Fixed interest rate	Variable interest rate		Fixed interest rate	Variable interest rate	
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
<b>Financial assets</b>	7,127	179	67	8,665	1,178	106
<b>Financial Liabilities</b>	-	-	1,120	-	-	779

**17. Information on the Members of the Board of Directors of BSE-Sofia AD under Article 247 (2) of the Commercial Code**

(Table 21)

<b>Total remunerations received by the Board of Directors in 2008: BGN 495,000</b>	
<b>Tantiemes paid to the members of the Board of Directors in 2008: BGN 78,000 (31 December 2007: none)</b>	
<b>Shares acquired, held and transferred by members of the Board of Directors in 2008:</b>	
<b>Bistra Ilkova</b>	None
<b>Viktor Papazov</b>	Acquired: none; Held: 3,980 shares; Transferred: 65,000 shares
<b>Andrei Pramov</b>	None
<b>Liudmila Elkova</b>	None
<b>Todor Breshkov</b>	None
<b>Vladimir Vladimirov</b>	None
<b>Ivan Takev</b>	None
<b>Rights of members of the Board of Directors to acquire shares or bonds of BSE-Sofia</b>	
<b>Bistra Ilkova</b>	None
<b>Viktor Papazov</b>	None
<b>Andrei Pramov</b>	None
<b>Liudmila Elkova</b>	None
<b>Todor Breshkov</b>	None
<b>Vladimir Vladimirov</b>	None
<b>Ivan Takev</b>	None
<b>Participation of members of the Board of Directors in commercial corporations as general partners</b>	
<b>Bistra Ilkova</b>	None
<b>Viktor Papazov</b>	None
<b>Andrei Pramov</b>	None
<b>Liudmila Elkova</b>	None
<b>Todor Breshkov</b>	None
<b>Vladimir Vladimirov</b>	None
<b>Ivan Takev</b>	None
<b>Holding of over 25 per cent of the capital of another corporation by the members of the Board of Directors</b>	
<b>Bistra Ilkova</b>	None
<b>Viktor Papazov</b>	Agro Aqua AD



<b>Andrei Pramov</b>	Adlon Discount OOD, Three A OOD
<b>Liudmila Elkova</b>	None
<b>Todor Breshkov</b>	Breshkov & Sons OOD, City of Plovdiv
<b>Vladimir Vladimirov</b>	None
<b>Ivan Takev</b>	None
<b>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</b>	
<b>Bistra Ilkova</b>	Bulgarian Export Insurance Agency AD: Chair of Board of Directors; Aval IN AD: Chair of Board of Directors; Synergon Asset Management AD: member of Board of Directors.
<b>Viktor Papazov</b>	Agro Aqua AD: Chairman of Board of Directors; Creative Solutions OOD: Managing Director (until 20 October 2008); Wine Partners OOD: Managing Director.
<b>Andrei Pramov</b>	Adlon Discount OOD: Managing Director; Three A OOD: Managing Director.
<b>Liudmila Elkova</b>	None
<b>Todor Breshkov</b>	First Financial Brokerage House OOD: Managing Director; First Insurance Brokerage House AD: Member of Board of Directors; First Investment Bank AD: Member of Supervisory Board; Bulgaria Real Estate Fund REIT: member of Board of Directors.
<b>Vladimir Vladimirov</b>	Investbank AD: Executive Director and Chairman of Management Board; Bulgaria – Zdrave Voluntary Health Insurance Fund AD: Chairman of Supervisory Board; Invest Fund Management AD: Chairman of Supervisory Board.
<b>Ivan Takev</b>	None
<b>Contracts concluded by members of the Board of Directors or by parties related to them under Article 240b of the Commercial Code</b>	
<b>Bistra Ilkova</b>	None
<b>Viktor Papazov</b>	None
<b>Andrei Pramov</b>	None
<b>Liudmila Elkova</b>	None
<b>Todor Breshkov</b>	None
<b>Vladimir Vladimirov</b>	None
<b>Ivan Takev</b>	None

## 18. Transactions of Material Importance for the Activity of the Company, Expected Investments and Personnel Development

A major transaction of material importance for the activity of the Exchange is the implementation of the Xetra trading systems. Investments have been made in this connection which, in most general terms, can be reported as:

- New communications;
- Technical equipment;
- Personnel training;
- Training members and stockbrokers to handle the new system;
- Expenses on adapting the COBOS system for work with Xetra®;
- Expenses on current maintenance.

No other transactions of material importance for the activity of the Exchange have been concluded and, respectively no other investments and personnel development are expected.

## 19. Key Areas in the Activities of the Exchange in 2009

In 2009 the management of BSE-Sofia will continue to pursue the key priorities set in the Strategy for Development of the Capital Market in the 2008-2010 Period in the following key areas:

- ✓ Boosting confidence in the well working business represented on the Exchange in conditions of a global economic and financial crisis;
- ✓ Applying extra measures to support the members of the Exchange during the crisis and to stimulate exchange trading depending on the development of the market situation;
- ✓ Work on attracting new issuers of securities to the capital market, insofar as this is an important factor of improving liquidity. The emphasis will shift to the preparation of regular analyses of the promising economic sectors (the potential issuers in those sectors), as well as to an increase of the sectoral representativity of the companies on the Exchange;
- ✓ Optimizing the market segments with a view to enhancing the attractiveness of the Bulgarian capital market;
- ✓ Carrying on the drive to attract foreign members of the Exchange;
- ✓ Updating the communication strategy of the Exchange considering the ongoing global financial crisis, so as to improve communication with members, issuers of financial instruments and the public. There are plans for particular events, jointly with the associations of the infrastructure of the Bulgarian capital market, as well as an improvement of the functionality and content of the Internet site of the Exchange as a source of information;
- ✓ Improving the information services offered, among other things through diversification of the services provided by the subsidiary company of the Exchange, Financial Markets Service EOOD;
- ✓ Expanding contacts and joint initiatives with the InvestBulgaria Agency, with which BSE-Sofia signed an agreement on cooperation in 2008, for the purpose of popularizing the Bulgarian capital market and attracting more local and foreign investors. The specific implementation of part of the projects depends on the development of the global financial and economic crisis;
- ✓ Maintaining contacts with foreign clearing institutions in search for partners and/or solutions to organizing clearing and settlement processes that would make it possible to trade in derivatives.