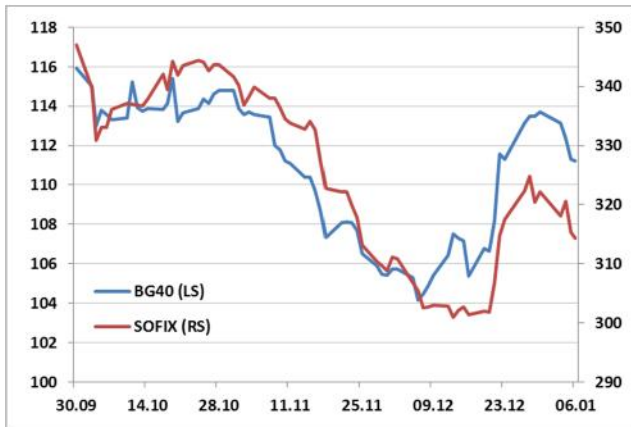


The reverse point

Bulgarian stock market hovered the biggest part of December at the two-year bottom. The sudden reverse at the end of the year erased some of the recent losses but failed to improve the market bias. The main reason for the lack of optimism among local investors was purely related to demand, which remained very stagnant. For example, the turnover with the most liquid positions like Chimimport and Central Cooperative Bank remained near the median of previous sessions. However, even the low volumes were enough to provide good gains due to the extremely low supply.



The combination of low turnover and rising prices is not sign of sustainable improvement of the stock market in near-term perspective. We emphasize on the very low supply of shares at the moment. Usually the end of the year is associated with the supply from individual investors, which are planning their expenditures. The pressure on prices was enough to provide stable contraction in November as it gave a boost to stocks in late-December.

Liquidity remains top problem

The start of the year came with large number of Bulgarian companies traded at attractive prices and with good prospects for their business in 2012. Most of them are export-oriented and banks have good market positions. Their market capitalization is small due to the sharp decline of prices. As a consequence the free-float of Bulgarian blue chips

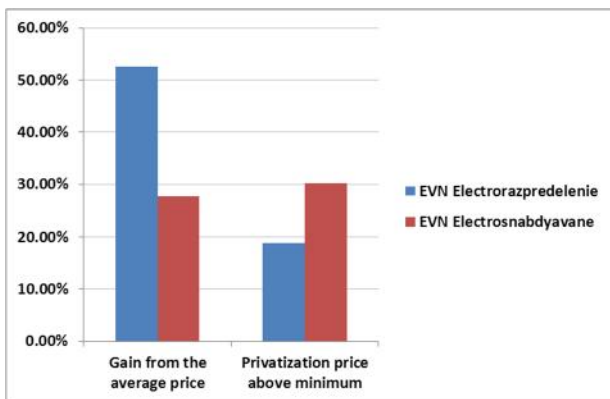
fell substantially, thus pushing down further the liquidity. Moreover, speculative money are already aside of the Bulgarian market and we cannot see capitals with one-to-several weeks horizon. Most investors are long-term oriented and there aren't new capitals that could elevate prices and thus improve the supply of shares.

The liquidity is the main problem for the market. Its improvement should be top priority in all measure for the development of BSE. The foreign investors are aside of the market. Listing new issues is not a factor for improvement of the market environment.

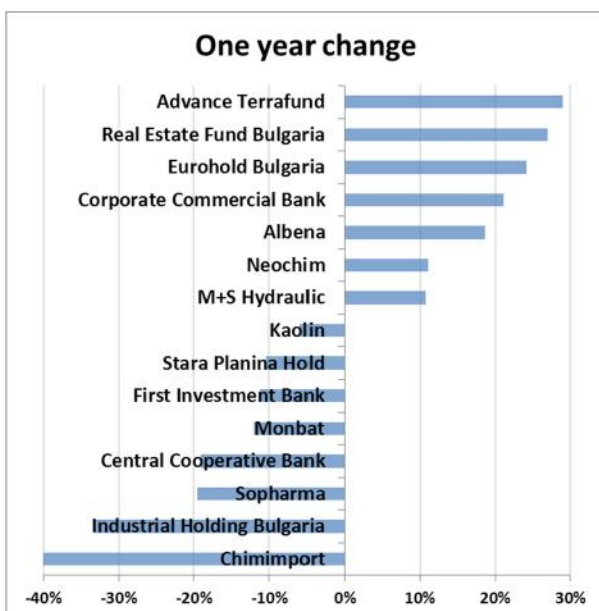
Privatization

The first privatization deal with the minority stakes of electricity distribution companies took place at the end of the year. The buyer was the majority owner of the companies. As we expected, institutional investors were mainly observers of the process. The number of participants in the privatization of EVN Electrozpredelenie and EVN Electrosnabdyavane was limited to the majority owner and one Bulgarian pension fund. The other blocks were very small and were suitable for individual investors. The privatization deal was a success in terms of the realization of offered shares. However, the goals of supporting the recovery of stock trading in Bulgaria was hardly achieved. The big problem with low liquidity failed to be addressed. The stock prices of both companies appreciated significantly on the secondary market. One of the reasons for the price jump is the low liquidity but the market is expecting mostly a tender offer from the majority owner. Delisting of the two companies is the most probable scenario, which should happen at higher prices as compared to the privatization. This jump of stock quotes is the only factor for the development of the market following the deal. Gains from the privatization will be the biggest advertising for the next deals and the market as whole. They will attract capitals from abroad and will facilitate the next round of privatization deals.

Profit from Bulgarian stocks



Shares of EVN made significant run as compared to the average privatization price on the auction. However, as seen on the graph the average privatization price exceeded between 30 and 40% the minimum price at the auction. We have to emphasize also that minimum prices were very low in term of sector comparison. It is not a surprise that prices jumped on the secondary market. What happened with the other stocks?



Sopharma and Chimimport had largest contribution for the decline of SOFIX in 2011. They have large weight, whereas the late inclusion of Corporate Commercial Bank in the index did not support it through the course of the year. Another interesting fact is the divergence between prices of Stara Planina Hold and its main subsidiary M+S Hy-

draulic. This was due to the lag behind of holding's shares during the positive first half of 2011, which resulted to decline when the market moved on the downside afterwards. Shares of M+S Hydraulic were among the few that appreciated during the first half of the year.

Eurohold Bulgaria also deserves special attention as the company successfully increased its capital. Usually this kind of news has negative impact on the market price as investors are worried about the dilution. The stock price of Eurohold Bulgaria was also hurt by the capital raise but received substantial support from large buyer and managed to recover some of its losses. Other Bulgaria companies that increased their capital lost substantial part of their market capitalization.

Shares of Industrial Holding Bulgaria were on the opposite pole – the capital increase in the beginning of the year limited their gains during the positive period for the stock exchange. The negative bias to capital raises will persist among investors, especially when companies do not provide information about their business plans and shareholders expect lower return-on-equity. Good corporate governance is the only way to diminish this effect.

What to expect on 2012?

The year is starting with huge dose of pessimism on the market. It is not provoked by the worsening data of Bulgarian companies but rather of not working capital market. Its biggest minus is lack of liquidity and could easily turn into factor for price appreciation as seen in the beginning of 2011. We cannot exclude periods of brief gains but we expect that the market will start to move higher in much stable and gradual uptrend. It should be supported by fundamental support for the market and the capital inflows from savers. Although speculative money will be primary reason for the market dynamics, their importance is low at the moment.

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BUY	More than 5% higher as compared to SOFIX and BG40 performance
HOLD	Market performance, +/-5% as compared to SOFIX and BG40
SELL	More than 5% lower as compared to SOFIX and BG40 performance

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