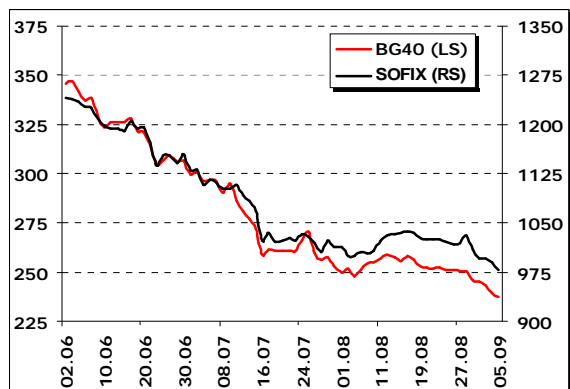


August didn't bring anything good...

The month of holidays didn't bring significant gains for the stock market despite the low liquidity that is usually a supportive seasonal factor. August began with some indications of market rebound as several blue chips posted visible gains. The market remained cautious but some relief had been felt that corporate profits weren't as bad as feared. However, investors didn't perform large changes in the structure of their portfolios at the back of the new information from corporate reports. This could be explained by absence of huge surprises in the financial statements.



The index SOFIX gained 4% during the first half of August. The end-month buying activities that support the portfolio performance also helped the prices of large companies during the last week of the month.

...But it didn't bring anything bad either

The month didn't bring substantial gains or losses of international markets, although the volatility persisted. US markets gained during the first half of August. The correlation between Bulgarian and international bourses is stronger during market turmoil and panic. This time the positive bias could have been one of the factors behind the market rebound.

The falling prices of commodities were aside of the market attention during the last several months. The number of companies in the mining sector is very limited and the market perception proved to be right in the

case of Lead and Zink Complex as its financial statement confirmed the worries that pushed down the price per share this year. Lower fuel prices didn't have implications to shares. One of the reasons for that was the moderate down trend of fuels. It is more important for the market that the price of natural gas will continue to rise for the domestic users.

The Political Risk

This is a factor that the market is usually putting aside of its attention. Shares of infrastructure companies are performing far better than the worst scenario. At the same time the stock exchange is ignoring the possibility of ahead of the schedule elections for parliament. Investors have enough economical and financial risks to price in.

Foreign investors are regarding Bulgaria and the other CEE countries as very dependant to the economical state of Western Europe. The Bulgarian stock market is more dynamical than the developed markets in Europe. The economic weakness in Europe has negative impact on Eastern markets, including Bulgarian, despite the relative stability of US stocks. Investors are anticipating deterioration of the real growth in Bulgaria at the way it already happened in Eastern Europe. The region experienced serious deterioration of the economic growth and is building huge external imbalances. Large foreign investors are expecting that the slowdown in Eastern Europe will soon affect the Bulgarian economy. It is not realistic to anticipate that the credit crunch and the problems in Western Europe will not get to the Balkans.

Economical Uncertainties

Economical risks are more significant than the political ones. The current account deficit and the high inflation are the most recognized problems in every research for Bulgaria. The next stage of development according to the foreign analysts is the path of Baltic States, when similar problems resulted to hard landing and even contraction. We don't share the most pessimistic views but there are enough risks that will contribute to a slowdown early next year.

Corporate Earnings

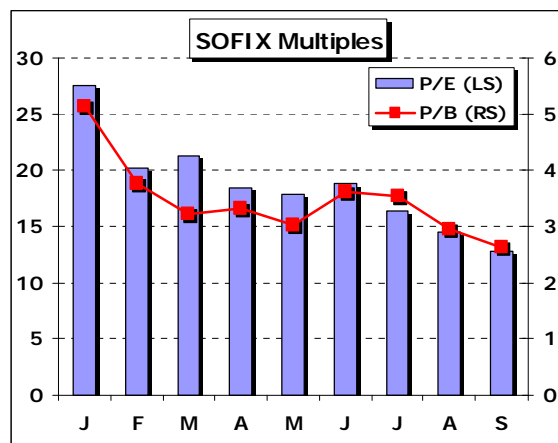
The consolidated financial statements didn't influence the market in late August. The number of surprises was low as investors had good idea for profits of holdings from the already announced results of their subsidiaries. The second quarter was far better than the first one. The companies blamed the seasonal factors during the harsh winter for their meager 1Q performance and it was obvious that sales and profitability ratios will improve. However, the inflation remained serious threat for the margins during both quarters and it is likely to persist until the year end. We expect that the cost pressure will moderate during the second half of 2008. The growth of labor compensations will slow down and some positive effects from the commodity correction will take place.

The strong forth quarter of 2007 was a result of the performance seeking from corporations. The lower corporate tax also contributed to the exceptional net profit growth but we see higher capacity utilization in most industries which also supported the improvement of margins. We expect this trend to continue this year despite the obvious challenges before companies that operate in foreign markets.

The third quarter reports will be influenced by the optimization of costs where available and the possibility to transfer the inflation pressure to end-user prices. Investors are watching carefully for sings of lower export revenues on domestic market or from exports. It is early to experience the full effect from the economic slowdown but orders in machine building, chemistry and sectors related to residential construction will start to weaken.

Stock Valuation

Bulgarian stocks weren't at such attractive valuations from several years. Balance sheets improved substantially. The most attractive companies are investing in new equipment, whereas their profits are rising and debts have been decreased.



*Source: Bulgarian Stock Exchange

The improvement of multiples is due to the correction of stock prices this year as some deterioration of profits was witnessed this year. A positive sign is that corporate profits have the potential for rise during the second half of the year. Their weakness in the first half of 2008 was mainly due to the seasonal factors and the global inflation pressure.

Short-term Prospects

The attractive prices and valuation ratios are not an indication of imminent rise of stocks in short term. On the contrary, the possibility of oversold conditions to remain next one or two quarters is prevailing. Those conditions will stay on the market as long as corporate profits post strong improvement, which is probable in the forth quarter. Any signs that the economical slowdown in Europe is over will also improve the investors' bias toward Bulgarian stocks but we don't expect this to be an issue for 2008.

The shot term perspectives for index SOFIX are for range-bound trading around the level of 1000 points. We don't expect the selling pressure to intensify below the levels of 900-920 points. The trading with newly registered shares form the capital increase of Holding Roads could increase the pressure on SOFIX but we don't expect to shift to the broad market. There isn't fundamental or market reason for new stage of serious decline but the easiest way is on the downside. The upward potential also looks limited to 5-10% during September.

Stocks on Focus:

Orgachim (5ORG) was one of the disappointments during the first quarter. The market reaction is a proof that the negative assessment won't be changed soon. The performance of Orgachim was undermined by the severe winter this year. However, the second quarter showed improvement and the sales growth returned to the trend of 20% on yearly basis, whereas the profit for the period reached BGN 3.2 million. We expect that this profitability will be sustained during the third quarter and to remain between BGN 2 million and BGN 3 million during the fourth quarter. Thus, the P/E ratio should fall close to 10 calculated by the expected financial result for 2008. We don't expect that the market confidence will be able to return with the same degree. Strong rebound of Orgachim would be a surprise despite the significant correction so far this year.



The main concern of the market is the future split of the company to two separated entities. The shares of Orgachim are regarded as attractive at the current price levels given the huge correction and the good fundamentals. However, the catalyst for gains to levels of BGN 250-300 cannot be found neither in the P/E multiple or the market bias.

Kaolin (6K1) also posted lower profit for the first quarter, which was partially compensated in the following period. The seasonal effect was amplified by the inflation pressure from higher fuels and rising labor costs.



Shares of Kaolin also moved in one direction this year. The correction was briefly interrupted by small contratrend movements. Kaolin's statement weren't supported this year by one-time items or financial revenues. The current P/E ratio is 15, which is a bit higher than the average for SOFIX and isn't making the share more attractive than the other blue chips. The ratio increased after the announcement of the consolidated report for the second quarter due to the huge profit for the same period of 2007. The renewed selling pressure on Kaolin's shares looks reasonable, although the company's profit was made only by its core operations and despite the fact that the profit margin is likely to remain at the value of the second quarter. The perspectives for regional expansion and the falling prices of fuels are good points for long-term investment in Kaolin. The risks are on the downside as long as the current P/E ratio is above the average for the market.

Enemona (E4A) is a public listed company for less than a year and shares managed to remain above the IPO price, which took place in November. The official beginning of the construction of second nuclear power plant didn't influence the trading with Enemona's stocks. The company is one of the contractors in the process of destruction of old buildings and in the construction of new ones. The aggressive investment program of Enemona will continue to support the growth rates of sales and profits. Some positive market reaction is possible after the announcement of specific news for the construction of NPP Belene or any other projects. Shares are trading at the current prices in moderate selling pressure.

Synergon Holding (6S7) also surprised the market with low consolidated profit for the first half of the year despite the double increase of Toplivo's financial result.



The P/B ratio of Synergon is among the lowest on the market. The price per share is three times lower than the book value and the holding has diversified portfolio in retail, production and hotels. The market is pricing in the bad news of low profitability. Investors didn't take in with enthusiasm the investments in real estates as they prefer to see investments in the core business of Synergon's subsidiaries. The stock's slide could be over when the market finds the balance between the low P/B ratio and the mounting risks of low profitability that could extend during the second half of the year. Its main subsidiary **Toplivo (3TV)** is also at low P/B ratio. The third quarter is seasonally stronger due to the higher sales of construction and heating materials. The company is seeing serious challenges, mainly in the operations of small warehouses. Both shares would continue to trade at low P/B in short term. The improvement of profitability ratios and an ambitious investment program in the modernization of Toplivo's gas stations and the restructuring of the warehouses could become catalysts for gains.

Fazerles (4F6) is trading at low multiples due to the price correction and the steady growth rates. The company's management announced very conservative prognosis for the year, which didn't proved correct so far this year. However, some cooling down of the demand of wooden materials is probable in long term but the regional real growth is still strong. The company posted 15% profit

growth, whereas the sales fell 3% in full capacity utilization. Fazerles has one of the most attractive P/E on the stock exchange but this didn't provide much support during the last month. The P/E ratio could continue to fall because the liquidity and the size of the company are determining the valuation. The stock has good perspective in rising market as it could outperform easily the indices. It is still trading at more attractive valuation and is one of favorite stock of speculators. We expect that Fazerles will remain the confirmation of the rule that a small cap is trading at discount to the blue chips.

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| | |
|-----------------------|---|
| Outperform | More than 5% higher as compared to SOFIX and BG40 performance |
| Market Perform | Market performance, +/-5% as compared to SOFIX and BG40 |
| Underperform | More than 5% lower as compared to SOFIX and BG40 performance |

Frequency of Recommendations: No schedule of recommendations is available. The frequency of recommendations depends on specific factors to individual companies and the opinion of the analyst(s) for the necessity of minor or major changes.

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