

Bulgaria



I. Economic overview

On 25 April 2005 Bulgaria signed an Accession Treaty with the European Union and is expected to become an EU member in January 2007.

1.1. General economic indicators

Indicators	2000	2001	2002	2003	2004
1. GDP, EUR mln, current prices	13,679	15,190	16,533	17,663	19,433
2. GDP per capita, EUR	1,674	1,919	2,101	2,249	2,504
3. Real GDP growth rate, %	5.4	4.1	4.9	4.5	5.6
4. Industrial production growth rate, %	4.6	2.2	4.6	15.0	18.1
5. Annual average inflation rate, %	10.3	7.4	5.8	2.3	6.1
6. Annual unemployment rate, %	16.9	19.8	17.8	13.7	12.0
7. Current account balance, EUR mln	-761.4	-1,101.6	-925.5	-1,630.2	-1,447.1
8. Average monthly gross salary, EUR	115	123	132	140	154
9. Gross external debt stock, EUR bln	11.9	11.9	10.8	10.6	12.2
10. Foreign exchange reserves, EUR bln	3.7	4.1	4.6	5.3	6.8

Source: National Statistics Institute, Bulgarian National Bank

Note: Bulgarian Lev is pegged to the Euro at a rate of EUR 1: BGN 1.95583.

For the last 5 years the Bulgarian economy has grown steadily at 5% on average. 5.3% real GDP growth rate is expected in 2005 driven mainly by exports and investments.

The industry grew by 18% in 2004 due mainly to the construction industry and the production of basic metals like steel and copper.

During the period 2000-2004 the inflation gradually slowed down reaching 2.3% in 2003 but going up again to 6.1% in 2004 influenced by the rising prices of fuels and non-processed foods. It is expected to be curbed at an average level of 3.7% in 2005.

The increased business activity of the private sector contributed to creation of new jobs in 2004, reducing the country unemployment rate by 1.7 percentage points. At the same time the average wage growth was negligent and currently Bulgaria is still leading the list of the European low labour cost locations.

1.2. Foreign trade

1.2.1. Foreign trade regime and major regulations

Bulgaria applies a liberal foreign trade regime meeting the WTO requirements. Council of Ministers' Decree no. 233/2000, last amendments in State Gazette 9/2005 regulates the foreign trade regime for 2005.

1.2.2. Customs regime, export and import quota and license system, tariffs

Subject to registration regime (automatic licensing) are several kinds of timber and firewood for export.

The permit (non-automatic licensing) regime originates from Bulgaria's compliance with the international agreements and respective domestic laws. Permits are required for transactions with several commodity groups, mainly nuclear material and radioactive substances, gunpowder and explosives, hunting and sporting arms, pharmaceuticals, military products, goods and technologies with possible dual use (civil and military), wild animals and plant species, etc.

No customs duties and taxes are charged on exported goods. Bulgaria applies export quotas only on goods that are subject to international agreements. The Customs Law is based on the EU Customs Code. The Bulgarian Customs Tariff is based on the international Harmonized Commodity Description and Coding System and on the EU Combined Nomenclature. The customs clearance of goods requires presentation of a customs declaration, which is similar to the Single Administrative Document used in the EU, accompanied by the usually required commercial documents.

Bulgaria applies the General System of Preferences, recommended by the UNCTAD, which sets lower tariffs for imports from developing countries.

1.2.3. Exports and imports

Trade volume, EUR bln	2000	2001	2002	2003	2004
Exports	5.3	5.7	6.1	6.7	8.0
Imports	7.1	8.1	8.4	9.6	11.6

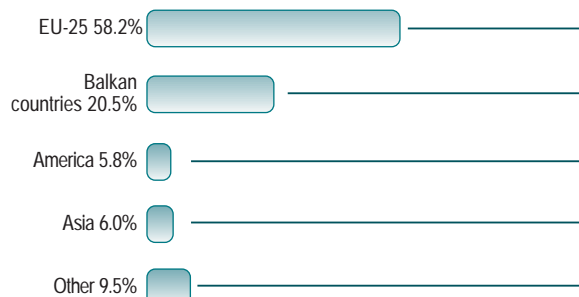
Source: Bulgarian National Bank

Bulgarian exports in Q4, 2004 marked a 19.8% growth in real terms compared to the end of 2003. Increase was supported mostly by the exports growth of basic metals (40.1%), petrol products (300% - due to hiking oil prices) and investment goods (30.7%).

1.2.4. Structure of foreign trade by regions

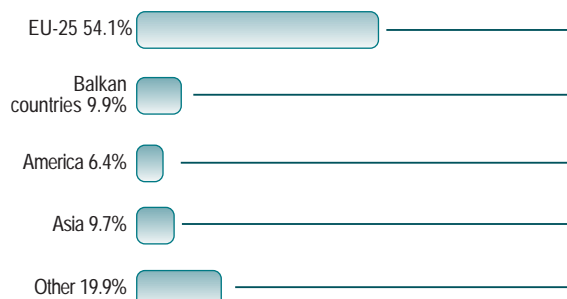
With regard to the future EU membership and the peg of the Bulgarian Lev to the Euro, the main export destinations continue to be the EU and Balkan countries, accounting for almost 80% of total exports in 2004. This trend makes Bulgaria fully dependent on the European markets.

Exports by country groups (2004)



Source: Bulgarian National Bank

Imports by country groups (2004)



Source: Bulgarian National Bank

1.2.5. Major trade partners

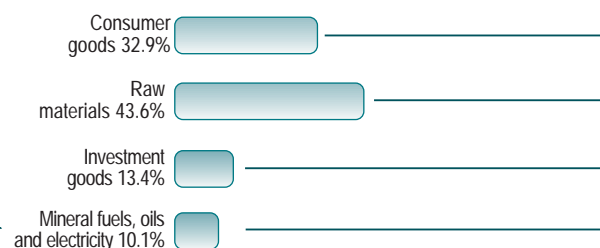
Major export partners (2004): Italy (13.1%), Germany (10.2%), Turkey (10.0%), Greece (10.0%), Belgium (6.0%), France (4.5%), USA (4.5%).

Major import partners (2004): Germany (14.6%), Russia (12.7%), Italy (9.8%), Turkey (6.0%), Greece (5.7%), France (5.3%).

Bulgarian National Bank

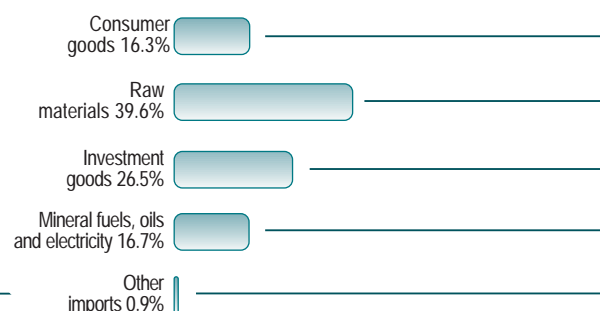
1.2.6. Structure of foreign trade by commodities

Exports by commodities (2004)



Source: Bulgarian National Bank

Imports by commodities (2004)



Source: Bulgarian National Bank

The increase of imports of investment goods in 2004 by 25% and by 31.7% in Q2 '05, compared to 2003 and Q2 '04 respectively, is a prerequisite for improving the Bulgarian manufacture competitiveness in middle term.

1.2.7. Free trade agreements

WTO: Bulgaria has been a WTO member since 1 December 1996.

European Union: European Agreement of Association, Interim Agreement on Trade and Trade Related Matters. Since 1 January 2002 trade in industrial goods between Bulgaria and the EU has been duty-free.

Other bilateral and multilateral FTA: EFTA, CEFTA, Albania, Bosnia and Herzegovina, Macedonia, Moldova, Serbia and Montenegro, Turkey, and Israel.

1.2.8. Duty-free zones

There are six duty-free zones (FZ), located on strategic transport routes leading to the main international markets: Vidin, Rousse, Dragoman, Svilengrad, Plovdiv and Bourgas. A purpose-set joint stock company or a state owned company manages each FZ. There is customs brokerage in all FZs. In general, the entry of goods into FZ is free of duty and VAT.

Free zones are favorable for general commercial activities: warehousing, packaging, labeling, distribution, re-export. Only under certain conditions the FZ are suitable for manufacturing activities, e.g. inward processing, etc.

1.3. Privatisation

The Privatisation and Post-Privatisation Control Act (PPCA) - State Gazette 28/2002, last amendments SG 39/ 2005, provides for the legal framework on privatisation process in Bulgaria. Under this Law the negotiations-with-potential-buyers method was abolished and currently the most frequently applied methods for privatisation are the publicly advertised tender and public auction.

The amendments and supplements to the secondary legislation that followed in 2003 have led to speeding up the privatisation process through broader use of the Bulgarian Stock Exchange - Sofia.

Since the enforcement of the PPCA 1,593 deals for state-owned shares have taken place at BSE-Sofia at 12 centralized public auctions and 9 unattended public ones. Shares of 69 companies were offered at the 13th centralized public auction on BSE-Sofia in September, 2005.

As of 30 September 2005, 89% of the state-owned assets, subject to privatisation (BGN 383 million), have been privatised. The financial effect of the deals concluded is USD 10.3 billion. 169 deals have been concluded with foreign investors, most important of which are:

Investor	Bulgarian company privatised
Viva Ventures Ltd., Austria	Bulgarian Telecommunication Company
E.ON Energie, Germany	EDC* Varna and EDC Gorna Oriahovitsa
EVN AG, Austria	EDC* Stara Zagora and EDC Plovdiv
CEZ, Czech Republic	EDC* Stolichno, EDC Sofia Oblast and EDC Pleven
Solvey, Belgium	Sodi, Devnia
Lukoil Petrol	Neftochim, Bourgas
Brewinvest, Greece	Zagorka, Stara Zagora
Interbrew, Belgium	Kamenitza, Plovdiv
Haidelberg Cement, Germany	Zlatna Panega and Granitoid, Batanovtzi
Knauf, Austria	Gipsfazer, Vidin
Union Miniere, Spain	MDK, Pirdop

Note: * Electricity distribution company

Forthcoming privatisation deals

Sector	Companies
Energy	<ul style="list-style-type: none"> District heating companies in Plovdiv, Shoumen, Varna, Pernik 10 Water power plants Mini Bobov Dol coal mining company
Transport	<ul style="list-style-type: none"> Bulgaria Air Bulgarian River Fleet Bulgarian Maritime Fleet
Defence	VMZ EAD, Kintex EAD, Teraton EAD

For more information, please visit www.priv.government.bg

1.4. Foreign investment

Bulgaria marked a record high FDI inflow in 2003 and 2004. The combined FDI inflow for the past two years exceeds the amount generated during the preceding 5 years of the transition period.

1.4.1. FDI by years and by type of investment, USD mln

Year	2000	2001	2002	2003	2004 ^p
Privatisation	366.0	19.2	135.6	353.5	1,189.7
Non-privatisation *	635.5	793.7	769.1	1,743.4	1,297.8
Total	1,001.5	812.9	904.7	2,096.9	2,487.5

Source: Bulgarian National Bank

Notes: ^p Preliminary data

* Non-privatisation - green-field investments, additional investments, reinvestments, credits by direct investors

During H1, 2005 Bulgaria attracted USD 929 mln FDI through new project start-ups and expansions.

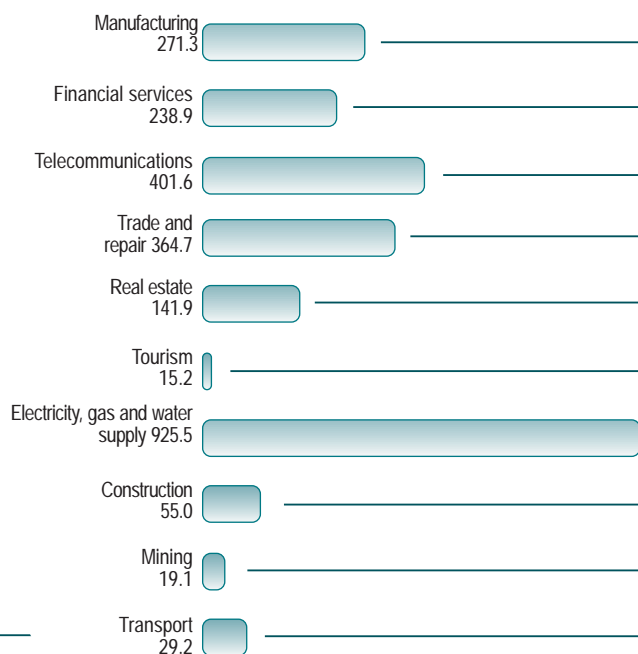
1.4.2. FDI by sectors

In 2004, the largest investment deals took place in the energy sector (privatisation of electricity distribution companies) and in the telecommunications sector (privatisation of BTC and additional investments in the 2nd GSM operator's network).

A trend towards shifting investor's interest to services sectors has been observed in the country for the past two years mainly due to the growing telecommunications and real estate markets.

Bulgaria

FDI inflow by sectors, USD mln (2004)



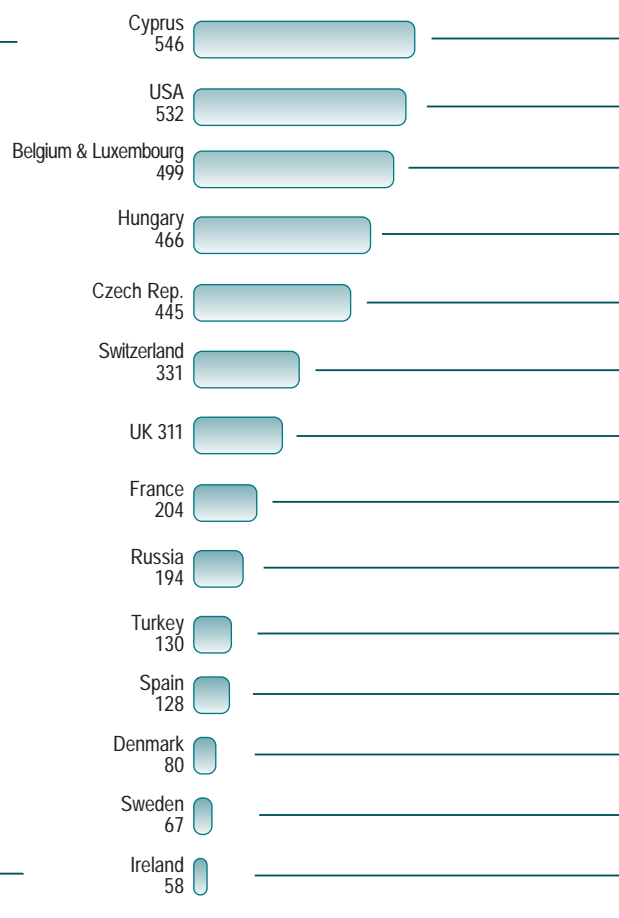
Source: Bulgarian National Bank

1.4.3. FDI by countries

The EU countries have traditionally been the largest source of FDI in Bulgaria.

During 2004 Austria was the leading investor country, followed by Czech Republic, the Netherlands, Germany, Greece and Italy. The positions of Austria, Czech Republic and Germany were mainly due to the privatisation deals of the Bulgarian electricity distribution companies, concluded with EVN, CEZ and E.ON respectively.

A significant rise in the number of FDI deals was registered in Bulgaria in 2004 - 678 new investments by foreign companies and 8,088 by foreign natural entities. As to the number of new investments by companies, Germany, Cyprus, the United States and Greece ranked first in 2004.



Source: InvestBulgaria Agency

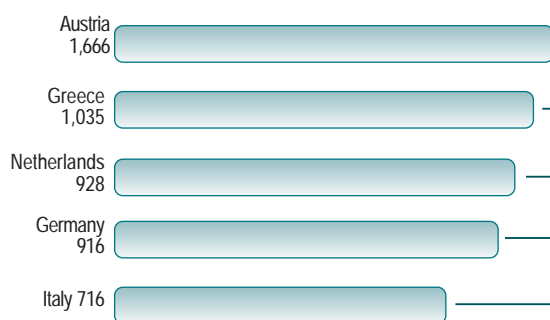
1.4.4. Top foreign investors (1992-2004)

Foreign investor, country	Sector	Type of investment*	Year
COSMOTE, Greece	communications	G+E	2001-2004
OTP, Hungary	finance	P+E	2003-2004
UNICREDITO, Italy	finance	P+E	2000-2004
CEZ, Czech Rep.	electricity distribution	P	2004
EVN, Austria	electricity distribution	P	2004
VIVA VENTURES, Austria	communication	P	2004
LUCOIL, Russia, Netherlands	petrochemical industry	P+E	1999-2004
SOLVAY, Belgium	chemical industry	P+E	1997-2004
UMICORE, Belgium, Netherlands	copper smelter	P+E	1997-2004
LITASKO, Switzerland	trade (petrol)	G	2002-2004
NATIONAL BANK OF GREECE	finance	P+E	2000-2004
AMERICAN STANDARD, USA, Netherlands	sanitary fittings and fixtures	P+E+G	1993-2004
E.ON, Germany	electricity distribution	P	2004
MIROGLIO, Italy, Germany	textile	G+E	1999-2004
BANK AUSTRIA, Austria	finance	P+E	2002-2004

Source: InvestBulgaria Agency

* P - privatisation, G - greenfield, E - expansion

FDI stock by countries, USD mln (1992-2004)



1.4.5. Government institutions in the field of foreign investment

Ministry of Economy and Energy is the government institution that sets the investment policy of Bulgaria and co-ordinates the activities of the state institutions in the field of foreign investment.

InvestBulgaria Agency (IBA) is an executive agency, working under the supervision of the Ministry of Economy and Energy in line with the 2004 Investment Encouragement Law. Since the beginning of 2005 IBA has opened foreign offices in Los Angeles, Milan, Brussels and Barcelona. The Agency is responsible for assisting both foreign and domestic investors. Its core services include: investment marketing, information and individual administrative service, qualification of investment projects for infrastructure support, identification of suitable investment sites and potential Bulgarian suppliers and partners, up-to-date information on the investment process in the country, legal advice, sector analyses, etc.

1.5. Investment opportunities by sectors

1.5.1. Information and communication technologies (ICT)

The legal environment for a liberalized and secure development of ICT in Bulgaria is well in place.

The telecom infrastructure has been rapidly developing, especially after the sale of 65% of the former state monopoly Bulgarian Telecommunications Company in 2004 to the US private equity fund Advent. The remaining 34.78% state share of BTC was sold at the Bulgarian Stock Exchange on 1 Feb '05. Beside BTC's commitment of EUR 700 mln investment in the period 2005-2010, alternative fiber optic networks have been rapidly developed by Overgas, Bulgargaz, National Electric Company and Cabletel. Fixed lines cover 85% of the households; 80% digitalization is planned by 2008.

According to EITO, Bulgarian ICT sector marked a 11.5% annual growth in 2004 generating revenues of EUR 1.7 bn.

The size of telecom equipment market in 2004 was EUR 232 million, being supported by the following major telecom infrastructure projects:

- Completion of Globul mobile telecom network
- Introduction of EDGE technology by Mobiltel
- Completion of BTC Ethernet based MAN networks in 22 cities
- Digitalization of BTC fixed line infrastructure.

In 2004, telecom service providers generated EUR 1.4 bn revenues (10.7% yoy market growth). Fixed line data transfer services grew by 28.3% compared to 2003. At the same time the prices of international phone calls through fixed lines, respectively VoIP, dropped significantly. 16 operators have

received licences for fixed line services.

Mobile phone operators received 44% of the telecom services revenues. At the end of 2004, Mobiltel held 65% of the Bulgarian GSM services market versus 35% share for Globul. Over 60% of the Bulgarians used mobile phone connection in 2004.

Internet penetration in 2004 reached 23% of the population compared to 17% a year before.

Bulgarian hardware market was estimated at EUR 172 million in 2004; over 125,000 PC systems were sold in the country, which accounted for 25.8% annual growth compared to average of 23% in CEE countries (IDC data). The lion's share of the sales (39.9%) was generated by small and medium businesses, followed by SOHO customers (36.4%). According to CBN data, there are currently around 300 PC assembling companies in Bulgaria.

Around 40% of the IT sales in 2004 were generated from exports, large contributors being the software development companies.

According to IDG there are approximately 15,000 IT specialists in the country; 1,000-1,500 IT university graduates on average enter the market each year.

The software development companies are around 500 (IDG data), the most prominent being:

- SAP - developing leading-edge J2EE Application Server technology; working on the Bulgarian market since year 2000; currently expanding their operation on a large scale;
- Tumbleweed - leading provider of enterprise solutions in the field of anti-virus, e-mail filtering and encryption; they moved a software development office from India to Bulgaria.

Most companies on the market successfully provide outsourcing services to big international players from various business areas like IBM, Siemens, Nortel, Lockheed Martin, Ford, etc. due to the availability of strong IT skills at reasonable cost; some of the largest companies being Sciart - Switzerland, Codix - France, InterConsult - Denmark and the Bulgarian Bianor.

1.5.2. Business process outsourcing

Bulgaria is in the list of the leading outsourcing destinations for technical support and shared services among countries in Eastern Europe. This is due to the large pool of qualified multilingual professionals both in IT and business services that could be attracted at competitive cost, the reliable telecom infrastructure and the availability of modern office space at reasonable rent/purchase price.

A number of business process offshored projects have successfully developed in Sofia for the past 2 years, among them:

- MoneyGram multi-lingual 24/7 service centre outsourced to BTC
- IMRO, Belgium - the first call centre and currently the

largest in Sofia, employing around 1,000 people providing marketing as well as help desk services in French, Flemish and German.

- Taxback - Irish operation in Varna; 300 FTE, 24/7 operation
- C3i - multi-lingual help desk support and workstation management service.

1.5.3. Electronic manufacturing services (EMS)

EMS industry in Bulgaria is not very large but growing at some 25-30% per annum. The major drivers behind have been the Bulgarian expertise, the competitive labour cost and the export orientation of the sector (over 75%). Under the former Council for Mutual Economic Assistance, Bulgaria was the country that specialised in electronics, being known as the Silicon Valley of Eastern Europe.

Currently the labour force in the sector is estimated at around 10,000 people. Over 2,500 students graduate each year under the university programs of electronic engineering and automation - around 60% of them from universities in Sofia. Apart from the capital, qualified labour force is also available in Plovdiv, Varna and Stara Zagora.

Most of the companies in the sector are Bulgarian, like: Datecs, HIC, Deltacom Electronics, Teletek Electronics. The Belgium EPIQ Group has established the largest operation in the country; they work mainly for the much demanding automotive market for customers like Delphi, Valeo, GM, SAAB and FIAT, but also for consumer electronics clients. 75% of EPIQ Group's R&D task force is in Bulgaria.

In mid 2004 the US AMI Semiconductor opened a design centre in Sofia to develop and support mixed-signal integrated circuits for automotive, industrial and consumer applications

1.5.4. Automotive parts industry

Bulgaria has recently become a desired destination for automotive parts manufacturers due to the reasonable operational cost and the tendency for original equipment manufacturers to move eastwards. The Bulgarian automotive parts industry is export oriented as there are no car assembly companies in the country. Major customers of the Bulgarian companies are Valeo, Delphi, Electricfil, Mannesmann, Sauer-Danfoss, Renault, Rover, Ford, Tyco Electronics, Magneti Marelli, etc.

There are over 25 automotive part companies in the country, most of them Bulgarian. Their product range covers from wire harnesses, through piston rings, Al wheel rims, plastic parts to high-end electronic sensors and modules.

In May 2005 the French company Montupet announced a EUR 41 million investment project for an automotive components plant in Rousse industrial zone (at the Danube River). The aluminium details for automotive engine and brake systems to be produced in the new factory will be exported to

OEMs and their subcontractors in Europe.

1.6. Foreign investment regime

The Law on Encouragement of Investments (State Gazette 37 of 2004, last amendments SG 40/2004) which changed the Law on Foreign Investment of 1997, together with the Rules on the Enforcement of the Law on Encouragement of Investments (State Gazette 74 of 2004, amended SG 34/2005) outline the general framework of the investment climate in Bulgaria.

1.6.1. Legal framework

Foreign persons may freely choose the form of investment to be performed in Bulgaria. Foreign investment is defined as any investment or increase of investment made by a foreign person or its branch, in shares or stakes of trade companies, right of ownership and limited ownership rights over movable and immovable property, debentures, treasury bonds and other kinds of securities, issued by the State, by the municipalities or by Bulgarian legal persons (with a remaining term until maturity not shorter than 6 months), loans and financial leasing for not less than 12-month period, right of ownership of detached parts of commercial companies with more than 50% state or municipal participation in the capital in the sense of the Law on Privatisation and Post-privatisation Control, intellectual property rights, rights stemming from concession contracts, etc. There are no limitations on the share participation of foreign persons in commercial companies. There are no minimum capital investment requirements, nor is prior permission for the investment needed.

National treatment

The Bulgarian Constitution and the Law on Encouragement of Investments stipulate that foreign investors are entitled to perform economic activity in the country under the same conditions applicable to Bulgarian investors unless provided otherwise by law. When international treaties to which Bulgaria is a party stipulate more favourable terms and conditions for foreign investment, these terms have precedence over the local rules.

1.6.2. Guarantees to foreign investors

Legal guarantees against adverse legislative changes

Foreign investment, made prior to the adoption of amendments in laws imposing statutory restrictions regarding foreign investments only, shall not be affected by these restrictions.

Protection against expropriation

Foreign investments in Bulgaria may not be expropriated except for exclusively important state needs that cannot otherwise be met, and subject to prior and adequate compensation in the form of another immovable property in the same location, or, with the foreign investor's explicit consent, in another location, or in cash if the foreign investor prefers so.

Profit and capital repatriation

Foreign investors can freely purchase foreign currency and

transfer it abroad upon presentation of receipts for paid taxes in the following instances:

- income generated through an investment
- property alienation driven indemnification proceeds, when for state needs
- liquidation quota resulting from the termination of the investment
- proceeds from the sale of investment goods
- sum received after the enforcement of a writ of execution.

1.6.3. Investment incentives

The Law on Encouragement of Investments sets forth preferential treatment measures for investments meeting the following criteria:

1. the investment to be in fixed assets with the purpose of creating new or enlarging, or modernizing existing production of goods and/or services
2. new jobs to be created
3. the investment project to be implemented within 3 years.

The incentives in the Law, however, do not apply to investment in banks, non-banking financial institutions, insurance companies, investment companies and companies with special investment purposes, managing companies, pension funds, health insurance companies, gambling companies and investments made under privatisation agreements.

Different measures apply according to the class of the investments, depending on the investment project value as follows:

- 1st class - investment over BGN 70 million
- 2nd class - investment from BGN 40 to 70 million
- 3rd class - investment from BGN 10 to 40 million

For all investment classes, central and territorial executive authorities, as well as local self-government authorities provide administrative services to investors within time limits by 1/3 shorter than those stipulated in the respective legislation.

Apart from speeded-up administrative service, 3rd-class investments receive by InvestBulgaria Agency information services as follows:

- pre-developed information materials
- information about potential partners and sites in the country
- information about all administrative procedures concerning the implementation of the investment project.

For 2nd-class investments InvestBulgaria Agency provides:

- information services and
- individual administrative services with respect to all central and regional bodies; investors have the opportunity to authorize officials of the Agency to obtain from the corresponding competent bodies on investors' behalf and for investors' account any documents necessary for implementation of the particular investment project.

For 1st-class investments, InvestBulgaria Agency assists

investors by providing:

- individual informational and administrative services
- assistance with real estate "titling" issues - on a request of the 1st-class investor the Agency may propose to the corresponding authorities to transfer ownership rights or establish limited ownership rights over real estate, necessary for the implementation of the investment project (private-state or municipal property) without a tender, free of charge or at preferential prices.
- resources for building elements of technical infrastructure to the borders of the investment project site.

1.6.4. Property rights

Presently foreign individuals and legal entities can acquire buildings, premises within a building and limited property rights (e.g., a construction right, right of use) on land in Bulgaria. Foreign entities can acquire ownership rights over land in Bulgaria through a company registered in Bulgaria that could be up to 100% foreign property.

By the Law on Amendment and Supplement of the Constitution (published, State Gazette No. 18/2005) the Bulgarian Constitution has been amended, liberalizing the regime for acquisition of land by foreigners. Foreign individuals and legal entities may acquire land under the terms and conditions arising from the accession of the Republic of Bulgaria to the European Union or by virtue of a ratified, published and effective international agreement. The specified amendments shall enter into force as of the effective date of the Agreement on Accession of the Republic of Bulgaria to the European Union and shall not apply to the current international agreements.

1.7. Industrial zones and high-technology business parks

In the past couple of years the following industrial zones have been established: Rousse Industrial Zone (64 ha with 32 ha future extension planned), Rakovski Industrial Zone (81.5 ha), Elin Pelin Industrial Zone (100 ha; 10 ha available; expansion with additional 20 ha by 2007) and Stara Zagora Industrial Zone (15 ha). A new industrial zone in Kouklen (near Plovdiv) was launched in autumn 2005.

Maritsa Industrial Zone (5 km away from Plovdiv), the first in Bulgaria, was established in 1996/1997. Presently, it accommodates several foreign investors, such as the Italian Ferrero (chocolate and confectionery producer), the German Liebherr (refrigerators) and the American Sokotab (tobacco processing) with total investment of about EUR 43 million and more than 1,600 workers in all production facilities.

Rakovski Industrial Zone (launched in 2004, 20 km away from Plovdiv) features about EUR 4 million of investment and companies, such as the UK William Hughes (springs and bent wire assemblies), Italian manufacturers of furniture and reinforced-concrete elements, commodity marketplace for agricultural products, etc.

Business Park Sofia, developed by Lindner Holding (German) is the first multifunctional high-technology business park in Bulgaria, spread on 220,000 sq. m of land, with 35 buildings, 300,000 sq. m total built-up area and over EUR 150 million of investment. The Business Park hosts 69 multinational companies, 34 large Bulgarian companies and 73 small and medium-sized businesses, and more than 5,000 employees.

There are several other projects for the establishment of high-technology business parks in Sofia, Varna, Plovdiv, Gabrovo, Veliko Tarnovo, etc., but none of them has reached a mature stage.

There is no specific legislation regulating the creation of industrial zones or high-technology parks in Bulgaria.

1.8. Logistics

In the last few years a number of companies have started construction of logistics centres in Bulgaria, such as the German Willi Betz in Sofia (started in 2004; investment of EUR 7.5 mln; 50,000 sq. m site area with 19,000 sq. m built-up area). In addition, the company plans to establish logistics centres in Varna, Bourgas, Rousse and Pazardjik.

Royal Frans Maas (Netherlands) started a logistics and cargo terminal (50,000 sq. m site area with 14,500 sq. m built-up area) in 2005 within the Sofia Airport Area. The investment of EUR 7.5 mln represents the company's biggest green-field investment in Eastern Europe. Another EUR 7.5 mln are planned for the expansion of the terminal.

In 2005, Kaufland (Germany) started construction of a central logistics centre (60,000 sq. m built-up area and 40,000 sq. m infrastructure) in Rakovski Industrial Zone.

Bulgarian Posts Company has also announced plans to establish a logistics centre near Sofia.

II. Establishing business in Bulgaria

2.1. Forms of business and corporate governance

Company regime	Legal framework: Commercial Law (published, State Gazette No. 48/1991, last amended, State Gazette No. 66/2005)
Types of companies	General partnership "Sabiratelno Druzhestvo" (SD); Limited partnership "Komanditno Druzhestvo" (KD); Limited liability company "Druzhestvo s Ogranichena Otgovornost" (OOD); Joint-stock company "Aksionerno Druzhestvo" (AD); Limited partnership by shares "Komanditno Druzhestvo s Akcii" (KDA)

Partnerships	<p>Partners: 2 or more partners - domestic or foreign legal or natural persons</p> <p>Characteristics: The general partnership is an association of two or more legal or natural persons who are personally, jointly and unlimitedly liable towards the creditors for the partnership's obligations. In a limited partnership there are one or more general partners, bearing unlimited liability, and one or more limited partners, whose liability is limited to the extent of their agreed capital contribution. A limited partnership by shares has general partners, who bear unlimited liability, and at least three limited partners, whose liability is limited to the extent of their shareholding.</p> <p>Specific features: A foreign national must be resident in Bulgaria in order to participate as a general partner in a partnership.</p>
Limited Liability Company	<p>Shareholders: 1 or more shareholders. If the whole capital belongs to a single shareholder there is a single-owned limited liability company "Ednolichno Druzhestvo s Ogranichena Otgovornost" (EOD)</p> <p>Minimum capital: BGN 5,000</p> <p>Share and contribution requirements: The minimum contribution of each shareholder shall not be less than BGN 10. Contribution to the foundation capital can be paid in cash or in kind. At registration, at least 70% of the capital must be paid in full and each of the shareholders shall have paid at least 1/3 of his share and no less than BGN 10.</p> <p>Company management: The general meeting of shareholders is the decision-making body of the company. It is summoned at least once a year. The shareholders vote proportionally to their contribution unless otherwise provided in the Agreement of Incorporation. One or more managers are appointed by the General Meeting for a period stipulated in the company's statutory documents. There are no citizenship requirements for the managers.</p> <p>Specific features: If that the company has more than 30 employees, they are represented in the general meeting with a deliberative vote.</p>
Joint-Stock Company	<p>Shareholders: 1 or more shareholders</p> <p>Minimum capital: BGN 50,000</p> <p>Share and contribution requirements: The minimum value of each share shall not be less than BGN 1. The company may issue either registered, bearer or preference shares. Shares are freely transferable. At least 25% of the capital must be paid up at the moment of registration. Contributions to the foundation capital may be paid in cash or in kind.</p> <p>Company management: The general meeting of shareholders takes decisions by a majority vote. Pursuant to the one-tier management system, the general meeting appoints the members of the board of directors with 3 to 9 members. The Articles of Association shall determine their exact number. The non-executive members should be more than the executive members. According to the two-tier management system, the general meeting appoints a supervisory board consisting of 3 to 7 members. The supervisory board nominates a management board with 3 to 9 members. Members of the executive bodies in both systems are elected for a period no longer than 5 years. The members of the first board of directors and the first supervisory board may be determined for a period of up to 3 years for the initial mandate. There are no citizenship requirements.</p> <p>Specific features: There are higher minimum capital requirements for companies acting as:</p> <ul style="list-style-type: none"> • Banks - BGN 10 mln • Investment companies - BGN 5 mln • Insurance companies for: <ul style="list-style-type: none"> - Life insurance and personal accidents - BGN 2 mln - Property - BGN 3 mln - Reinsurance - BGN 4 mln

Branches	Domestic and foreign persons may register branches at the Commercial Register of the relevant court. Branches are not separate legal entities but must keep separate accounting books.
Representative Office	Legal framework: Law on Encouragement of Investment (State Gazette 37/2004) A trade representative office is incorporated through registration into the commercial register with the Bulgarian Chamber of Commerce and Industry.
Bankruptcy	Legal framework: Part IV of the Commercial Law
Anti-Trust Rules	Legal framework: Law on Protection of Competition (published, State Gazette 52/1998, last amended State Gazette 107/2003)

2.2. Labour force and employment regulations

2.2.1. Labour availability

The population of Bulgaria at the end of 2004 amounted to 7,761,049 people. The active population was 4,782,000 or 61.6% of the total (an increase of 35,000 people in comparison to 2003).

Indicator	Q2 2004	Q2 2005
Labour force, '000	3,376.0	3,341.8
Employed, '000	2,969.8	3,008.9
Unemployed, '000	406.1	332.9
Unemployment rate, %	12.0	10.0

Source: National Statistics Institute

The labour force survey carried out in Q2, 2005 indicates that the number of employed in the private sector is 2,134,200 or 70.9% of all people employed. By economic sectors, agriculture employs 279,800 people (9.3%), industry - 1,026,900 (34.1%), and services - 1,700,800 (56.5%).

2.2.2. Salary levels

In 2005, the minimal monthly salary in Bulgaria is BGN 150 or about EUR 76, with slight increases envisaged for 2006 and 2007. The National Statistics Institute has reported that the average gross monthly salary in 2004 was EUR 154. The highest salaries were paid in the financial services sector (EUR 470), followed by mining industry, manufacture and distribution of energy, gas and water (EUR 274). The lowest salaries were paid in the sectors of agriculture and hotel and restaurant business (around EUR 134).

2.2.3. Entry and employment of foreign nationals

The basic legislation referring to entry and employment of foreigners in Bulgaria includes the following acts:

- Law on Foreigners in Bulgaria
- Law on Promotion of Employment
- Regulation on the Conditions and Procedure for Issuance,

Refusal and Depriving Work Permits of Foreigners in the Republic of Bulgaria

- Law on Encouragement of Investments
- Labour Code

A visa is required for entry in Bulgaria, except otherwise provided for by international agreements Bulgaria is a party to or by the Bulgarian regulations. In the latter case a visa is not needed, if the foreigner's stay does not exceed 90 (30 for some states) days within each period of six months. Bulgarian visas are issued by the Bulgarian diplomatic and consulate services abroad in the form of airport transfer visa, transit visa, short entry visa or long-term visa. Foreigners may remain in Bulgaria:

- For a short period of up to 90 days (single or multiple entries within 6 months), on the basis of a visa, or visa free where applicable
- For a period of up to 12 months on the basis of a long-term residence permit - for some categories of foreigners, including those that: have obtained a work permit by the Employment Agency; are members of management or supervisory bodies of Bulgarian registered companies, are trade representatives of a foreign company registered at the Bulgarian Chamber of Commerce and Industry, conduct business activity in Bulgaria that has created at least 10 jobs for Bulgarian nationals¹; conduct activities under the Law on Encouragement of Investments; are students, etc.
- For unlimited period on the basis of a permanent residence permit that can be issued to: a foreign persons who has invested in the country over USD 500,000, a foreign person who has stayed in Bulgaria for 5 years on legal grounds without interruption, etc.

Foreigners wishing to work in Bulgaria need a work permit, issued by the Employment Agency with the Ministry of Labour and Social Policy. The work permit can be issued for a period of 1 year (with two 1-year extension options). This limitation does not apply for managers of companies and branches of foreign companies established on the territory of Bulgaria and specialists of foreign companies for exercising control and receiving of contracted production.

The work permit can be issued if all the requirements are met, as follows:

- the employer has actively searched for a Bulgarian specialist to take the job, but no eligible Bulgarian nationals or foreigners with permanent residence status have been available
- the foreigner meets the eligibility requirements
- the total number of foreign employees of the local employer does not exceed 10% of the average number of all employees - Bulgarian and refugees, or individuals with humanitarian status
- the working conditions and remuneration offered to the foreigner are not less favourable than the ones offered to

¹ The requirement of at least 10 Bulgarian nationals to be employed does not apply to citizens of the EU member states as well to citizens of Iceland, Liechtenstein and Norway.

Bulgarian citizens

- the remuneration is sufficient to cover the means of support in the country, defined by the government

Work permit can be issued also to commissioned employees of a foreign company in connection with the coordination of the activity and/or the implementation of projects for improvement of the activity of a company or branch established in Bulgaria, including training of the personnel. In this case the 10:1 requirement for Bulgarian to foreign employee ratio is not taken into account for the foreign employees commissioned.

Foreign nationals, after being registered by their employer at the Employment Agency, may perform short-term assignments without a work permit under the following circumstances:

- Foreign nationals are commissioned on a business trip to Bulgaria by their foreign employer and the assignment in Bulgaria is up to 3 months within 1 year
- The assignment may include any of the following activities: installation or warranty repair of imported machinery and equipment, training in the operating of equipment or delivery of ordered equipment, training as part of an export contract for the supply of goods under a license agreement; control and coordination of the performance of a tourist services contract between a foreign tour-operator and a Bulgarian tour-operator or hotel-keeper

The following categories of foreigners do not need a work permit to work in Bulgaria:

- Managers of companies or branches of foreign companies
- Members of the Managing Board or Board of Directors of local companies, not employed on a labour contract
- Managers of representative offices of foreign companies registered in the Bulgarian Chamber of Commerce and Industry
- Foreigners with permanent residence status in Bulgaria, as well as refugees or individuals with humanitarian status
- Foreigners working under international governmental agreements, incl. diplomats; mass media correspondents, accredited to the Ministry of Foreign Affairs

Although not required, work permit could be issued (under less strict conditions) to managers, specialists and employees sent on a business trip in order to help them pass a facilitated procedure for receiving a residence permit.

2.3. Foreign exchange regulations

The foreign exchange regime is regulated by the following basic legal acts - Currency Law (State Gazette 83/1999; last amendment State Gazette 36/2004), Regulation on Export and Import of Bulgarian Levs and Foreign Currency in Cash, Precious Metals and Stones, Regulation on Trans-border Transfers and Payments, Regulation on Registration by the Bulgarian National Bank (BNB) of Transactions between residents and Non-residents and Regulation on the Requirements to the Activity of Exchange Bureaux.

Each local or foreign person may hold an unlimited number of accounts in any currency in any bank in Bulgaria.

Businesses (or self-employed) entities can effect payments abroad only through bank transfers. On transferring investment related funds a document evidencing payment of respective taxes in Bulgaria has to be presented at the bank.

Documentary evidence should be produced for transfers exceeding BGN 25,000 for current international payments (imports of goods and services, transport, interest and principal payments, insurance, training, medical treatment and other purposes defined by the Bulgarian regulations). Local and foreign individuals can import and export money under the following conditions:

- Amounts not exceeding BGN 8,000 or equivalent in foreign currency - without declaration
- Amounts over BGN 8,000 to BGN 25,000 or equivalent in foreign currency have to be declared at the customs in terms of type of currency and amount

Local and foreign individuals can export amounts over BGN 25,000 or equivalent in foreign currency after declaring to the customs authorities the origin of the money and presenting a certificate by the respective tax office for not having overdue liabilities. Foreigners have the option to declare to the customs authorities that the amount exported does not exceed the amount declared by on their last entering the country.

2.4. Legislative framework of concessions

Sites and objects which are in the exclusive property of the state or a municipality can be operated by private entities on the basis of a concession contract concluded following the conditions and procedures provided for by the Law on Concessions (for sites which are state property) or the Law on Municipal Property (for sights which are municipal property). Granting concessions on some sites is regulated by special laws - the Law on Waters (for water sites), the Law on Underground Resources (for extraction of underground resources) and the Law on Roads (for national roads). Decisions for concession granting are taken by the Council of Ministers (for state property sites) or by the Municipal Council (for municipal property sites). The concessionaire is selected through a tender or competition procedure or directly if the Law provides for that option. Concession contracts, irrespective of the property on the site, can be granted for a period of up to 35 years. This period can be extended given that the total period of concession does not exceed 50 years.

2.5. Legislative framework of public procurement

Public procurement procedures are regulated by the Law on Public Procurement (published, State Gazette No. 28/2004, last amended, State Gazette No. 34/2005 in force as of 1 June 2005). The law harmonizes Bulgarian public procurement legislation with the four major public procurement directives of the European Union. According to the Law, the Minister of Economy is respon-

sible for the state policy in the area of the public procurement. The minister is assisted by the state Public Procurement Agency, which creates and manages a public procurement register.

Public procurement procedures are opened for purchase of goods, delivery of services, construction works and competition for a project.

The parties under the new law on Public procurement are assignors, candidates and contractors:

- Assignors could be state bodies, regional authorities and municipalities, diplomatic and consular representations of the Republic of Bulgaria abroad, organizations of the public law (legal entities created for satisfaction of public interest with no commercial or industrial character), hospitals and health-care institutions, public companies and commercial companies when they perform activities such as: operation of facilities used for production, transmission or supply of water, electricity, gas, heating; exploitation of crude oil, coal extracting sites; operation of ports, airports and other transport terminals; exploitation of public service transport network with a monopolistic status, construction, maintenance and development of railway infrastructure; postal services;
- Candidates for a public procurement contract could be Bulgarian or foreign persons or alliances thereof.

Public procurement contracts are awarded following a procedure, which may take one of the following forms:

- open procedure - all interested persons can participate in the procedure
- restricted procedure - only candidates approved by the assignor could present their offers
- negotiations procedure:
 - with announcement (in the State Gazette) - the assignor conducts a preliminary selection and invites only the approved candidates for negotiations
 - without announcement - the assignor invites for negotiations a limited number of candidates.

Design competition procedure can be either open or restricted.

The Law similarly to the European legislation provides for special rules for the award of public procurement contracts by entities operating in transport and telecommunications, water and energy supply sectors.

2.6. Dispute resolution mechanisms

The national legislation in the field of arbitration consists of the Civil Procedure Code and the Law on International Commercial Arbitration, which is applicable to international commercial disputes, based on an arbitral clause, when the arbitration takes place on the territory of Bulgaria.

Bulgaria has also ratified the following international conventions in the field of arbitration:

- Enforcement of Foreign Arbitral Awards (ratified 1961)
- New York Convention on the Recognition and

- European Convention on International Commercial Arbitration (ratified 1964)
- European Convention on Mutual Assistance in Penalty and Civil Matters (ratified 1994)
- Washington Convention for Settlement of Investment Disputes
- Between States and Other States' Citizens (ratified 2000).
- 56 bilateral agreements on mutual protection and promotion of foreign investment.

The most reputable arbitration courts in Bulgaria function with the Bulgarian Chamber of Commerce and Industry and the Bulgarian Industrial Association. Under the new Law on Public Procurement a specialized Arbitration Court at the Public Procurement Agency was established (1 Oct. 2004) to deal with public procurement disputes.

2.7. Operational cost in Bulgaria, 2005

Gross monthly salary, average, June 2005, EUR	162												
Social security, unemployment and health care contributions as % of monthly salary, 2005	29.45 to 30.15% paid by the employer												
Corporate income tax, 2005, %	15												
VAT, 2005, %	20												
Prime office rent in Sofia, A class, 2005, EUR per sq m/month	14.5												
Office purchase price in the centre of Sofia, 2005, EUR per sq m	1,000 -1,300												
Price of land, average													
Agricultural land, 2004, EUR per 1,000 sq m	49-128												
Industrial land, 2005, large cities, EUR per sq m	15.65												
Costs of rough construction, 2004, EUR per sq m													
Industrial construction	250-300												
Office building construction	350-500												
Water charges for corporate clients in Sofia (potable water, sewage, water purification), 2005, including VAT, EUR per m ³	0.53-0.59												
Water charges for household use in Sofia, 2005, including VAT, EUR per m ³	0.43												
Telephone installation charge, VAT not included, 2005, EUR	Standard plan - 36; ISDN (2B+D) - 51.13												
BTC - Monthly telephone subscription fee for business users, VAT not included, 2005, EUR	Standard plan - 8.44; ISDN (2B+D) - 17.9												
Telephone transfer charge, VAT not included, 2005, EUR	private and business - 20.45												
International phone call from Bulgaria per 1 min, VAT not included, 2005, EUR	<table border="1"> <thead> <tr> <th></th> <th>to Europe</th> <th>to the USA</th> <th>through a satellite</th> </tr> </thead> <tbody> <tr> <td>Fixed lines (BTC)</td> <td>0.15</td> <td>0.18</td> <td>1.84</td> </tr> <tr> <td>VoIP (Orbitel)</td> <td>0.08</td> <td>0.08</td> <td>2.56</td> </tr> </tbody> </table>		to Europe	to the USA	through a satellite	Fixed lines (BTC)	0.15	0.18	1.84	VoIP (Orbitel)	0.08	0.08	2.56
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Fixed lines (BTC)	0.15	0.18	1.84										
VoIP (Orbitel)	0.08	0.08	2.56										

Electricity prices per kWh including VAT, as of Oct 2005, EUR	
Electricity for industrial use, medium voltage (1 kV - 60 kV)	
3 tariff-reading	
peak electricity	0.074
day electricity	0.046
night electricity	0.028
2 tariff-reading	
day electricity	0.058
night electricity	0.028
1 tariff-reading	
	0.056
Electricity for household use	
2 tariff-reading	
day electricity, over 75 kWh	0.089
night electricity	0.048
1 tariff-reading	
over 75 kWh	0.089
Motor fuel, VAT included, average as of August 2005, EUR	
95 unleaded	0.94-0.95
98 unleaded	1.03
Diesel	0.84
Natural gas for industrial users, VAT included, as of Oct 2005, EUR per 1,000 m ³ (price depends on the distribution company and the volume consumed)	152 to 274

Source: InvestBulgaria Agency

III. Taxation

The tax year in Bulgaria is the calendar year. The current Bulgarian tax system includes the following main taxes: Corporate Income Tax, Personal Income Tax, Value Added Tax, Excise and Customs Duties, local taxes and fees.

3.1. Direct taxation

3.1.1. Corporate Income Tax (CIT)

Legislative framework	Corporate Income Tax Act
Taxpayers	All companies and partnerships (including non-incorporated partnerships) ¹ , carrying out business in the country
Tax income	- worldwide income for resident taxpayers - Bulgarian-source income for non-resident taxpayers ²
Tax rate	- 15% standard rate - Specific tax regimes - 8% & 12% for companies in the gambling business
Determination of profit for tax purposes	As of 1 January 2005 all corporate taxpayers are obliged to apply International Financial Reporting Standards as a primary accounting basis

¹ Representative offices are not subject to corporate taxation, as they are not allowed to carry out business activities.

² Companies that are non-residents in Bulgaria, but operate in Bulgaria through a branch, office, agency or other form of a permanent establishment are only liable to tax on the profits generated through their Bulgarian establishment.

³ Tax is not levied on donations to some institutions explicitly listed in the Law, such as hospitals, kinder gardens, orphanages, etc.

⁴ Up to 50% applicable for new equipment that is part of initial investment

Special rules	<ul style="list-style-type: none"> - Loss carry over for 5 consecutive years; carry-forward of foreign source losses is possible solely against foreign-source income originating from the same operation. Loss carry-back is not permitted. - Thin capitalization rules - If the debt/equity ratio is higher than 2:1 at the end of the respective calendar year, the maximum tax deductible interest expenses could not exceed the sum of the interest income of the taxpayer and 75% of the EBIT; if the debt-equity ratio of the taxpayer is up to 2:1, the interest costs can be deducted for tax purposes in full. The portion that is non-deductible in the current year can be carried forward and deducted in the following 3 years - In case of loss - add the excess of interest expenses over interest income to the financial result and deduct the expenses for interests, with which the financial result is increased at its tax transformation from the taxable income during the next three tax years - Capital gains - generally included in the corporate income and taxed at the full corporate tax rate except mainly for: capital gains from shares of public companies as well as from tradable rights in shares realized on a regulated Bulgarian stock market 																					
Tax allowances	<ul style="list-style-type: none"> - Expenses for donations³, entertainment and sponsorship are subject to a 17% lump sum tax. - Contributions made by employers for voluntary pension and health insurance and voluntary unemployment insurance and/or "Life" insurance and "Life" insurance, if connected with investment fund, in favour of the employees if such contributions are up to BGN 40 per employee per month. The excess over BGN 40 is subject to 17% lump sum tax. - Car maintenance and repair expenses related to administrative and management activity are subject to a 17% lump sum tax - The remuneration as well as the social security and health care contribution to the account of the employer paid for each employee, hired under a labour contract for no less than 12 months within the same tax year and if registered as unemployed for more than 1 year, or over 50 years of age, or with reduced working ability. This tax allowance can be used for the year of hiring the unemployed person. 																					
Depreciation	<p>Straight-line depreciation method is to be applied.</p> <table border="1"> <thead> <tr> <th>Category of assets</th> <th>Asset description</th> <th>Maximum annual depreciation rate, %</th> </tr> </thead> <tbody> <tr> <td>I</td> <td>steady buildings, facilities, communication devices, electricity carriers, communication lines</td> <td>4</td> </tr> <tr> <td>II</td> <td>machinery, manufacturing equipment, apparatus</td> <td>30 (50)⁴</td> </tr> <tr> <td>III</td> <td>transportation vehicles, excluding automobiles; coverage of roads and airplane runways</td> <td>10</td> </tr> <tr> <td>IV</td> <td>computers, software and right of using software</td> <td>50</td> </tr> <tr> <td>V</td> <td>automobiles</td> <td>25</td> </tr> <tr> <td>VI</td> <td>all other depreciative assets</td> <td>15</td> </tr> </tbody> </table>	Category of assets	Asset description	Maximum annual depreciation rate, %	I	steady buildings, facilities, communication devices, electricity carriers, communication lines	4	II	machinery, manufacturing equipment, apparatus	30 (50) ⁴	III	transportation vehicles, excluding automobiles; coverage of roads and airplane runways	10	IV	computers, software and right of using software	50	V	automobiles	25	VI	all other depreciative assets	15
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IV	computers, software and right of using software	50																				
V	automobiles	25																				
VI	all other depreciative assets	15																				

Tax incentives for investments in depressed regions	Preconditions:
	<p>1. The list of depressed regions is approved by the Minister of Finance</p> <p>2. The application of the corporate tax incentives is possible only upon fulfilment of the state aids granting requirements as follows:</p> <ul style="list-style-type: none"> - If the value of the exemptions/incentives and other state aids for regional development exceeds BGN 75 million, a permission from the Commission for Protection of the Competition is required - If the amount of the state grants and subsidies (excluding the grants provided tax incentives) does not exceed BGN 200,000 in a 3-year period, the tax incentives can be used under less strict conditions. <p>Companies in liquidation and bankruptcy or in financial difficulties as well as companies engaged in the following activities: automotive assembly, shipbuilding, coal mining, steelmaking industry, manufacturing of synthetic fibers, agriculture and fish breeding - from the date of the EU accession, cannot benefit from regional incentives.</p> <p>Incentives:</p> <p>1. Companies engaged in production, including production under job processing, enjoy 100% exemption of the corporate income tax in case they meet all of the following requirements:</p> <ul style="list-style-type: none"> - All business sites and premises as well as all assets of the company (except for cash in bank accounts and shares or stakes in other companies) are entirely located within the administrative boundaries of the respective depressed region - In the calendar year of exemption the company should not have any outstanding tax or obligatory social security liabilities or any penalty interests on such liabilities. <p>Corporate income tax exemption could be enjoyed if the amount of the tax, accounted as reserves, is invested for acquiring assets necessary for the production activity within 3 years following the year of exemption. The cost of the fixed intangible assets acquired should not exceed 25% of the costs of the fixed assets. At least 25% of the asset acquisition cost has to be financed by investor's own funds, incl. bank credits. The assets acquired could not be disposed of for a period of 5 years, except for in cases of company merger or restructuring.</p> <p>The incentive is available for a period of 5 subsequent years, subject to meeting its conditions in each respective year. If as a result of decreased unemployment, the municipality is excluded from the list of depressed regions, the incentive is applied until the expiry of its term. If a company that qualifies for the exemption has started preparatory activities for investing in a depressed region, but prior to commencement of manufacturing the region is excluded from the depressed regions list, the company can benefit from the incentive for 4 years.</p> <p>2. Tax credit at 10% of the value of assets acquired as part of initial or investment for expansion of activity in a depressed region; the tax credit can be carried forward for a period of 5 years. Requirements: the acquisition cost of intangible assets should not exceed 25% of the costs of the fixed assets; the assets acquired for the purpose of the incentive-eligible investment cannot be disposed of for a period of 5 years, except in cases of company merger or restructuring.</p>

3.1.2. Personal income tax

Legislative framework	Personal Income Tax Act (PITA)
Taxpayers	- Resident ¹ and non-resident individuals and corporates explicitly enumerated in PITA
Tax income	<ul style="list-style-type: none"> • Worldwide income for resident taxpayers • Bulgarian-source income² for non-resident taxpayers
Standard tax exempt income	<ul style="list-style-type: none"> • Income derived from the sale or exchange of certain types of immovable property (flats, houses or villas) or means of transport, subject to certain conditions • Income derived from the sale or exchange of movable property except for the means of transport as per the preceding bullet irrespective of the time of acquisition • Compensations received as a result of statutory health and social security insurance • Interest on deposits in local commercial banks and branches of foreign banks, mutual benefit funds, savings and credit co-operations, the interest and expenses on court-awarded claims, the interests and discounts on state, municipal and corporate securities as well as moratoria interests on bond relations, incomes derived from investments of the insurance reserves on "Life" insurance, marriage and children's insurance and insurance "Life", if connected with an investment fund as well as incomes derived from investment of the assets of the voluntary pension funds • Indemnification and other similar payments for average and severe corporal damage, decease or professional disease; compensations on property insurance and compensations for alienation of rights and for losses up to the amount of the loss, indemnification for suffered non-proprietary damages; insurance indemnification for permanent working incapacity and the medical expenses thereof refunded by an insurer when permanent working incapacity has occurred; the sums paid by an insurer for death, the sums for marriage and child insurance when the insurance event has occurred - marriage or birth or the term of the insurance has expired • Interest on court established receivables, which are not subject to taxation and adjudicated indemnification for expenses related to court cases • Income in cash and in kind from social aid, received on the grounds of a normative act and unemployment indemnification and support • Financial aid granted by social funds and organizations • Children subsidies from the state and payments determined by court to child support • Student grants for Bulgarian resident individuals for their education in the country and abroad

¹ Resident taxpayers are persons who have their permanent domicile in Bulgaria or reside in the country more than 183 days in any 365 day period

² Including: 1. Incomes paid out by Bulgarian residents or from a permanent establishment to a non-resident on the territory of the country like dividends and distribution of profits of entities with or without legal presence, interest, royalties, rentals, payments under lease, franchising, factoring, as well as fees of freelancers, or members of a managing or controlling body of a Bulgarian corporate; branch of a foreign entity, etc. 2. Incomes derived from the use of real estate and capital gains from the sale of real estate located in the country, as well as incomes from transactions with quotas/shares in local companies and incomes from securities transactions with securities issued by the Bulgarian state and municipalities

	<ul style="list-style-type: none"> Income in cash and in kind from social aid, received on the grounds of a legislative act Prizes from the lottery and other games of fortune Salaries and remuneration for: members of the personnel of the diplomatic representations according to the Vienna convention for the diplomatic relations; the members of the consular offices according to the Vienna convention for the consular relations; employees of inter-governmental and inter-state organizations according to the international contract, concluded with the respective organization, and the members of the families of the above persons, in as much as provided in the respective international contract Company profits distributed as new quotas and shares in commercial companies, as well as the profits distributed as an increase in existing quotas and shares' par value Incomes derived from transactions with public companies' stocks and trading rights on public companies' stocks, made on the regulated Bulgarian stock market National and state prizes awarded to authors of cultural works Profits, received by natural persons and sole traders - for the unprocessed tobacco, plant and animal production, incl. apiculture, sericulture, fresh water fisheries from artificial basins and greenhouse production without the decorations Incomes derived from sale or exchange of property, obtained as inheritance, bequest, donation and restituted property, as well as the inheritance and donations Rentals from agricultural land
Tax exemption for income received under a labour contract	<p>The following incomes are nontaxable:</p> <ul style="list-style-type: none"> The value of free of charge prophylactic food-stuffs, antidotes and personal safety guards pursuant to the Labour Code and other statutory instruments The value of the special working clothes, the free of charge working or representing clothes and uniforms which are provided under the Labour Code or other acts (e.g. those provided to state servants) Certain compensations under the Labour Code (e.g. business travel compensations; reassignment compensations) The value of travel cards for traveling from place of residence to place of work provided by the employer to the employee free of charge Social expenditures incurred by the employer and taxed under the Corporate Income Tax Act (fringe benefits distributed as social expenses)
Annual taxable base	<p>The sum of all taxable incomes received during the calendar year, reduced with:</p> <ul style="list-style-type: none"> The amount of mandatory national insurance contributions made by the individual, and voluntary pension, health insurance and unemployment fund contributions not exceeding 10% of the taxable income, as well as premiums paid during the year on account of the persons under "Life" insurance contracts and "Life" insurance, if connected with an investment fund, not exceeding 10% of the taxable income Statutory deductions applicable only to non-employment contracts (e.g. 35% of the gross income for service contracts; 10% for management fees) Social expenses to the account of the employer, taxed under the Law on corporate income tax; Donations not exceeding 10% or 50% of the taxable income under some statutory conditions respectively Child allowances - BGN 360 for 1 child, BGN 780 for 2 children, BGN 1,140 for 3 or more children

Taxation of the adjusted annual income, 2005	Annual income	Tax
	up to BGN 1,560	non-taxable
from BGN 1,560 to BGN 1,800	10% on the excess over BGN 1,560	
from BGN 1,800 to BGN 3,000	BGN 24 + 20% on the excess over BGN 1,800	
from BGN 3,000 to BGN 7,200	BGN 264 + 22% on the excess over BGN 3,000	
above BGN 7,200	BGN 1,188 + 24% on the excess over BGN 7,200	

Social security system covers retirement, health and unemployment risks and obligations.

Type of insurance	Paid by		Total (%)
	Employer (%)	Employee (%)	
Health	4.2	1.8	6.00
Social:			
Pension insurance fund	20.3	8.7	29.00
Sickness insurance fund	2.1	0.9	3.00
Employment insurance fund	0.40 to 1.1	0.0	0.4 to 1.1
Unemployment fund	2.45	1.05	3.5
Total	29.45 to 30.15	12.45	41.9 to 42.6

Monthly contributions are calculated on the remuneration and other employment income of the employee for the respective month but on not more than the maximum monthly insurance base fixed annually in the Mandatory National Insurance Budget Act, which is BGN 1,300 (around EUR 665) for 2005.

3.1.3. Withholding taxes

Types of income subject to standard 15% withholding tax rate: interest, including such under finance leases, royalties, technical services remuneration, rents, payments under operating leases, franchising and factoring, capital gains from sale of immovable property, stakes in local companies, securities and financial assets, remunerations received under management contracts, remunerations for members of the board of directors or controlling bodies of Bulgarian legal entities.

The withholding tax on dividends and liquidation quotas, distributed by a Bulgarian company to resident individuals, resident non-profit entities and non-residents is 7% as of January 2005. Dividends and liquidation quotas distributed by a Bulgarian company to a tax resident in an EU member state is not be subject to Bulgarian withholding tax, under certain conditions, as follows:

- The person is considered a resident of the respective EU country for tax purposes and is not considered resident of a non-EU country by force of a double taxation agreement

- The person has held at least 20% of the shares/stocks of the local entity for at least 1 year
- The person is levied with corporate tax at the respective EU country, without having right of choice for tax exemption

The interest on bonds traded on a regulated Bulgarian or EU country stock market is exempt from Bulgarian withholding tax. The interest on loans provided by an EU tax resident to its Bulgarian parent company is not subject to Bulgarian withholding tax if the loan has been granted following a bond issue by the lender and the bonds are traded on a regulated stock market in Bulgaria or in an EU member state.

Under some double taxation treaties technical service payments fall within the definition of royalty payments and are taxed accordingly.

Double Tax Treaties of Bulgaria

Albania	Indonesia	Portugal
Armenia	Ireland	Romania
Austria	Israel	Russia
Belarus	Italy	Singapore
Belgium	Japan	Slovakia
Canada	Kazakhstan	Slovenia
China	Korea North	Spain
Croatia	Korea South	Sweden
Cyprus	Kuwait	Switzerland
CzechRepublic	Lebanon	Syria
Denmark	Luxembourg	Thailand
Egypt	Macedonia	Turkey
Finland	Malta	Ukraine
France	Moldova	United Kingdom
Georgia	Mongolia	Vietnam
Germany	Morocco	Yugoslavia
Greece	Netherlands	Zimbabwe
Hungary	Norway	
India	Poland	

3.2. Indirect taxation

3.2.1. Value added tax (VAT)

The Bulgarian VAT legislation in many aspects follows the provisions of the Sixth EU VAT Directive.

Legislative framework	Value Added Tax Act
Obligatory VAT registration	For any person (legal or physical, resident or non-resident) with a taxable turnover (excluding exports) of at least BGN 50,000 during the preceding twelve months As of 2005 non-resident foreign persons that supply certain services (e.g. consultancy, licensing and provision of data) to local VAT registered customers are not required to register for VAT in Bulgaria.

VAT account	VAT account has to be opened within 14 days from the date of registration under the law. VAT account can be used only for VAT payments. The use of VAT accounts is obligatory for payment of VAT above BGN 1,000 when the customer is VAT registered.
Payment requirements	VAT payments and refunds can only be made in BGN.
VAT credit refund	If for a given month a VAT registered person has more input VAT than output VAT, the tax authorities offset the excess against any other outstanding tax liabilities of the person. If there is any remainder, the person offsets it against the output VAT he charges during a 3-month term following the month, in which the excess of input VAT occurred. If after this term there is still any remainder, the tax authorities set it off against any other outstanding tax liabilities of the person or refund it to him within 45 days as of the submission of the VAT return for the third month. Exporters (persons with turnover from export supplies exceeding 30% of the value of their supplies in aggregate for the preceding 12 months) are entitled to a VAT credit refund within 30 days as of the date of submitting the VAT declaration for the respective month. VAT credit is also subject to recovery in case of carrying out supplies, which are exempt by virtue of international agreements, to which Bulgaria is a party. In 2005, a possibility for choosing offsetting of recoverable VAT instead of refund is introduced for a period of 1 year.
Tax base	The tax base for supplies within Bulgaria includes: <ul style="list-style-type: none"> - the price (exclusive of VAT) charged to the customer - all other taxes and fees, including excise duties, subsidies and financing relating to a transaction - any interest and penalties under a transaction - transportation, package and other expenses related to supply if these are borne by the customer The tax base for imports includes: <ul style="list-style-type: none"> - the customs value - the customs duties - excise duties (if any) on the import goods
Place of supply	Bulgaria has adopted the EU definitions of place of supply of goods and services.
VAT exempted transactions without right to deduct VAT	<ul style="list-style-type: none"> - financial services - insurance services - provision of legal advice by registered attorneys in accordance with the Attorneys Act and of services under the Notaries Act - transfer of ownership and limited property rights over land - land processing services rendered by co-operatives by means of their own equipment, provided that the land is owned by the co-operative members - lease of buildings and parts thereof, provided these are leased out for dwelling purposes - supply of grain as an in-kind rent for use of land - gambling - donations in favour of certain charity institutions No VAT is charged on transactions with a place of supply outside Bulgaria, but no VAT deduction could be claimed for such transactions.

Bulgaria

Zero % VAT	<ul style="list-style-type: none"> - for export of goods and services - for processing of imported goods that are further re-exported - for transfer of rights over software when the place of execution is out of the territory of the country and the implemented export has been paid by the customer in full amount and received in a local bank - for transfer of rights on films, when the place of delivery is outside the territory of Bulgaria - for international transportation - for public telecommunication services provided by licensed Bulgarian telecommunication operators to foreign operators - for certain services related to carrying out international hunting tourism in Bulgaria 	VAT incentives	<p>Special preferential VAT regime for imports of goods necessary for implementation of an investment project</p> <p>VAT-registered entities developing certain eligible investment projects are entitled to import goods needed for the project implementation (with the exception of excise goods) without effective payment of VAT on the imports. Moreover, such investors are entitled to refund VAT incurred on local purchases within 10 days after filing of the tax return, provided that at least 80% of the monthly VAT charges incurred on purchases are paid through a VAT account.</p> <p>In order to benefit from the special VAT regime, the investor needs to obtain a permit issued by the Minister of Finance. Approval is subject to a number of requirements, as follows:</p> <ul style="list-style-type: none"> • Investment project value - at least BGN 10 million (EUR 5 million) for a period not exceeding 2 years • Term for completion of the project - up to 2 years • The project should create at least 50 new jobs • The project should be eligible for state aid for regional development • The investor should prove an ability to finance the project • The investor should not have outstanding tax liabilities and obligatory social and health insurance liabilities
VAT rates	20% for taxable supplies, including import of goods and services		

Useful links

Council of Ministers	www.government.bg
Ministry of Foreign Affairs	www.mfa.government.bg
Ministry of Economy and Energy	www.mi.government.bg
Ministry of Finance	www.minfin.government.bg
Ministry of Regional Development and Public Works	www.mrrb.government.bg
Ministry of Transport and Communications	www.mtc.government.bg
Ministry of Labour and Social Policy	www.mlsp.government.bg
Ministry of Environment and Waters	www.moew.government.bg
InvestBulgaria Agency	http://investbg.government.bg
Privatisation Agency	www.priv.government.bg
Agency for Economic Analysis and Forecasting	www.aeaf.minfin.bg
Bulgarian National Bank	www.bnb.bg
Bulgarian Industrial Association	www.bia-bg.com
Bulgarian Chamber of Commerce and Industry	www.bcci.bg
Bulgaria Economic Forum	www.biforum.org
Bulgarian Association of Regional Development Agencies and Business Centres	www.barda.net
Bulgarian International Business Association	www.biba.bg
The Official Tourism Site for Destination Bulgaria	www.bulgariatravel.org
Bulgaria's Business Portal	www.econ.bg
Bulgaria's Statistical Portal	www.stat.bg
Bulgarian News Agency	www.bta.bg