

Doing business in Bulgaria

2010



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General overview





Geography

Bulgaria lies in the Southeastern part of the Balkan Peninsula, covering an area of 110,993 square km (approximately 42,855 square miles). Bulgaria has a strategic geographical location in the Balkan region with a long border to the north along the Danube river with Romania. Bulgaria has borders to the south with Greece and Turkey and to the west with Serbia and the Former Yugoslav Republic of Macedonia. The Black Sea forms a natural border to the East. The capital city of Bulgaria is Sofia and other major cities include Plovdiv, Varna, Bourgas and Rousse. The landscape of the country is predominantly mountainous, although arable land accounts for approximately 41% of the territory. All land routes from Europe to South Asia pass through the territory of Bulgaria.

Bulgaria has a moderate continental climate. The coldest month is January when average temperatures are -2°C (28.4°F) and the warmest month is July with average temperatures of around 25°C (77°F). The annual average temperature is 12°C (53.6°F) and the average annual rainfall is 700 mm.

Population and language

According to the latest official data as of 2008 year-end, Bulgaria's population is 7,606.6 thousand people with an

average density of approximately 69 people per square km. Urban population constitutes about 71%.

The official language of the country is Bulgarian.

Public holidays

The following table lists public holidays, as provided by the Bulgarian government in 2010:

Holiday	Date
New Year	January 1
Day of Liberation from the Ottoman Rule	March 3
Easter	April 2 - 5
Labour Day	May 1
St. George's Day/ Day of the Bulgarian Army	May 6 - 7
Day of Bulgarian Enlightenment, Culture and of Slavonic Alphabet	May 24
Bulgaria's Unification Day	September 6
Bulgaria's Independence Day	September 22
Enlightenment Leaders Day (a day-off for educational establishments)	November 1
Christmas Eve	December 24
Christmas Day	December 25
Second day of Christmas	December 26

Government structure

Bulgaria is a parliamentary republic headed by a President. The legal system of the Republic of Bulgaria is structured under the supremacy of the Constitution, adopted in July 1991.

The President is directly elected for a term of five years and can head the Republic for a maximum of two terms. The President emanates the unity of the nation and represents the Republic of Bulgaria in its international relations. Among his powers are ratification of certain diplomatic and military agreements and promulgation of laws, command of the armed forces, etc. The current President Georgi Parvanov, who was elected in November 2001 and then re-elected in November 2006, became the first re-elected president in the newest Bulgarian history.

Supreme legislative power rests with the unicameral 240-seat National Assembly, which is directly elected for four years on the basis of proportional representation. The last parliamentary elections were held on 5 July 2009. Twenty parties and coalitions took part in the elections. Six political forces passed the 4% barrier:

- ▶ “Citizens for European Development of Bulgaria” coalition won 39.72% of the votes.

- ▶ “Coalition for Bulgaria” won 17.70% of the votes.
- ▶ “Movement for Rights and Freedom” coalition won 14.45% of the votes.
- ▶ “Attack” coalition won 9.36% of the votes.
- ▶ “Blue Coalition” won 6.76% of the votes.
- ▶ “Order, Lawfulness, Justice” coalition won 4.13% of the votes.

The new centre-right government invited several established Bulgarian professionals from abroad to take on leading roles in the government, which was warmly greeted by the EU as a step towards higher political confidence and transparency.

On the international scene, Bulgaria also had a huge achievement in the election of Irina Bokova as Director-General of UNESCO. That achievement was followed by the successful nomination of Kristalina Georgieva, a former Vice President and Corporate Secretary in the World Bank, for European commissioner of Bulgaria.

The Council of Ministers is the executive state body, which directs both Bulgarian domestic and international policy in Bulgaria. The government manages the implementation of the state budget, organises the management of state property and approves certain types of international treaties mentioned in the Constitution.



Bulgaria is represented by 17 members in the European Parliament, which were elected in June 2009. “Citizens for European Development” of Bulgaria won five seats, “Coalition for Bulgaria” won four seats, “Movement for Rights and Freedom” won three seats, “Attack” and “National Movement for Stability and Progress” both won two seats and “Blue Coalition” won one seat.

Economy

Over the last ten years, Bulgaria has enjoyed a period of sustained economic growth and political stability. As a result, the country joined NATO in April 2004 and EU in January 2007.

Infrastructure

Bulgaria is located at the heart of the Southeastern European market which comprises approximately 56 million people. The country’s strategic geographical location is further enhanced by the number of international rail and motorways crossing the country and the commercial ports on the Black Sea and the Danube River.

The Pan-European Transport Corridors crossing Bulgaria are: IV, VII, VIII, IX and X. A network of eight motorways (E79, E83, E871, E772, E70, E773, E87, and E85) crosses the country, making connection to Western Europe, Russia, Minor Asia and the Black Sea.



The infrastructure of the country needs considerable investments in new construction and modernization. For this reason, in 2006 the Ministry of Transport adopted an ambitious Strategy for the Development of the Transport Infrastructure of Bulgaria by 2015. It includes a detailed investment plan for the railway infrastructure, the road network, the ports and the airports of Bulgaria. The development of the national transport infrastructure as an integral part of the Pan-European Transport Network is the core of the Government's investment policy.

Currently, some of the priority investment projects of the Bulgarian Government, as outlined in the strategy, include:

- ▶ **Trans-European transport corridor IV:** Construction of second combined (railway and road) bridge over the Danube River in the section Vidin - Kalafat; electrification and upgrading of the railway line Plovdiv - Svilengrad; construction of Maritza motorway; construction of Lyulin motorway; constructing the intermodal terminal Sofia (corridors - IV, VIII and X); modernization of the railway line Blagoevgrad - Kulata; electrification and reconstruction of the railway line Svilengrad - the Turkish border; modernization of the railway lines Sofia - Pernik - Radomir; Sofia - Plovdiv; Vidin - Sofia; Radomir - Blagoevgrad

- ▶ **Trans-European transport corridor VIII:** Completion of the construction of Trakia motorway; doubling and electrification of the railway line Karnobat - Sindel; reconstruction of the railway line Plovdiv - Zimnitsa; replacement of rail sections along the railway line Plovdiv - Bourgas
- ▶ **Trans-European transport corridor IX:** Reconstruction of the railway line Ruse - Gorna Oryahovitsa; Construction of Hemus motorway
- ▶ **Trans-European transport corridor X:** Modernization of the railway line Sofia - Dragoman

Bulgarian railroad network was developed around 50 years ago. The total railway line length is 4,760 km, of which 66% are electrified. There are six railway routes, eight terminals and one railway-ferry station (Vidin) that are included in the European Agreement on Important Transport Lines. Bulgaria is in the initial stages of upgrading the railroad network with high speed extensions. The first section allowing higher speed trains connects Plovdiv and Kapitan Andreevo (border with Turkey) is 150 km and should be finished in June 2011.

Bulgaria has five main ports. The largest are Varna and Bourgas, both located on the Black Sea. Rousse, Lom, and Vidin are significant commercial ports on the Danube. Bulgaria has three major airports, situated in the cities of Sofia,

Varna and Bourgas. Sofia airport is the country's leading international airport, which handled more than 3.1 million passengers in 2009. Fraport operates the airports of Varna and Bourgas under a 35-year concession. In 2009, Varna Airport handled more than 1.2 million passengers, while the Bourgas airport handled more than 1.7 million. In July 2009, the fourth biggest airport in Bulgaria, Plovdiv Airport, was expanded with a new terminal, which allows it to handle more than 500,000 passengers per year.

Skilled work force availability

According to NSI data from the end of 2008, Bulgaria's workforce consists of 3.56 million highly-educated and skilled men (53%) and women (47%). The adult literacy rate in Bulgaria is 98%. A high percentage of the workforce has completed some form of secondary, technical, or vocational education.

Many Bulgarians have strong backgrounds in engineering, medicine, economics, and the sciences, but there is still a relative shortage of professionals with strong management skills. The skilled workforce and the relatively low cost of labour (according to NSI, the average monthly salary as of December 2009 was EUR302) are considerable incentives for foreign companies, especially those that are labour intensive, to invest in Bulgaria.

General economic trends

The overall effect of the global financial turmoil on Bulgaria is not as severe as in other countries. The local banking system is under strict supervision by the central bank, investment banking is not a common practice, whereas local commercial banks are not directly exposed to "toxic" assets like their Western counterparts. Despite the expansion of retail banking in the recent years, Bulgarians have a traditionally smaller debt burden than people in Western Europe and the US and consumer spending is thus not as gravely affected. In addition, the country avoids some of the currency risks that its neighbours are currently facing, since the Bulgarian Lev is fixed to the Euro.

The main reflection of the global economic downfall is a significant decrease in FDI inflows - the core engine of the country's economic boom during the past several years. The construction and real estate sectors suffered the most from the tightening budgets of foreign investors. Industries, such as tourism and transportation, also faced decreased turnovers. Similar to most countries, the credit environment is worsening and banks are increasingly wary of providing loans to businesses and individuals. Bulgaria's main macroeconomic pressure arose from the widening trade balance deficit - approximately 25% of GDP in 2008. Nevertheless, due to the financial

crisis, the trade balance deficit decreased to 12% in 2009. Bulgaria is among the few Eastern European countries that boasted a healthy real GDP growth at above 6% p.a. (6.2% in 2007 and about 6.0% in 2008). In 2009, GDP decreased by 5.1% but the forecasts for 2010 predict a slight growth of about 0.4%.

The consumer price inflation in 2003 - 2006 was in the region of 4 - 6.5% p.a. Inflation was higher in 2007, when the global rise of food and oil prices resulted in a 8.4% year-end inflation. In 2008, inflation increased further to 12.3% but in 2009 fell to 2.8%. Inflation for 2010 is expected to be about 1.7%.

At the end of 2008, the reported unemployment rate was 6.3% (as compared to 6.9% in 2007, 9.1% in 2006, 10.7% in 2005, 12.2% in 2004 and 13.7% in 2003) as a result of the government's significant construction activities and structural reforms.

However, in 2009 the unemployment rate increased due to the deepening crisis in the economy and reached 9.1%. Unemployment is forecasted by BMI at 8.6% for 2010.

EU Accession

On 1 January 2007 Bulgaria became a member of the European Union. The process of harmonization of Bulgarian legislation with EU legislation started several years ago and is still continuing.

Transitional periods have been agreed for the adoption and implementation of some EU legislative acts.

2008 was marked by scandals involving corruption regarding the EU funds, which resulted in freezing some of the financing from the PHARE, SAPARD and ISPA funds (about EUR300 million).

The beginning of 2010 brought more positive news, as all seven operational programs, blocked in 2009, were released. Bulgaria expects to utilize about EUR700 million in 2010.

NATO

In 2002 Bulgaria was invited to become a member of NATO. The country joined the alliance in 2004.

Foreign Direct Investment (FDI)

Bulgaria has adopted a liberal investment regime and attracting foreign investments is one of the government's top priorities. Between 1996 and December 2005, total cumulative foreign direct investment (FDI) into Bulgaria amounted to approximately EUR12.9 billion. The 2006 FDI inflows attracted in Bulgaria registered an unprecedented growth, reaching EUR6.2 billion, representing 90.5% increase from 2005. The annual flow of foreign investment for 2007 was EUR8.6 billion, a growth of 38.7% from the previous year.



However, during 2008, due to the financial crisis, a slowdown in FDI inflows to EUR6.5 billion was observed. In 2009, the FDI decreased drastically to EUR2.8 billion.

Economic development and strong market potential are among the decisive forces that enhance Bulgaria's ability to attract respected international investors. Over the last years, the international credit rating agencies have improved the credit rating of the country many times reaching an investment grade.

Since 2006, Bulgaria has been enjoying an investment grade credit rating. After the expansion of the global financial crisis, in October 2008, Standard & Poor's downgraded Bulgaria's sovereign rating from "BBB+" to "BBB". In April 2009, Fitch Ratings also downgraded the sovereign credit ratings of Bulgaria because of increasing risks of recession and possible ebb of foreign investments. Bulgaria's sovereign ratings were downgraded by the agency to Long-term foreign Issuer Default (IDR) 'BBB-' from 'BBB' and Long-term local currency IDR 'BBB' from 'BBB+'.

Nevertheless, in December 2009, Standard & Poor's upgraded Bulgaria from negative to stable, due to government's record on fiscal policy.

The graph on page 10 shows the structure of FDI in Bulgaria by origin in 2009.

Based on information provided by the Bulgarian National Bank for 2009, financial services ranked first in attracting FDI (22%) real estate, renting and business activities ranked second (17%), followed by wholesale and resale trade, repair of vehicles and personal and household goods (14%), manufacturing (14%), transport, storage and communication (13%), construction (7%), electricity, gas and water supply (6%), and other sectors (8%).

For the period from 1998 to 2008, FDI through green-field, joint ventures, reinvestments and additional investments in already acquired enterprises exceed the FDI generated from privatization, which has been the main source in the preceding period.

Some of the largest recent foreign acquisitions are presented below:

- ▶ In February 2010, Central European Media Enterprises acquired the business of the leading Bulgarian TV BTV for a consideration of USD400 million.
- ▶ In October 2009, EQT V, an UK-based fund acquired the Bulgarian cable TV operators Cabeltel and Eurocom for an enterprise value of EUR200 million.
- ▶ In October 2008, Modern Times Group MTG AB, Sweden-based broadcasting group acquired Nova Television Bulgaria, the Bulgaria-based

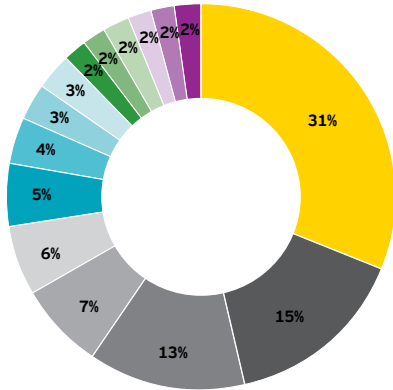
broadcaster, for a cash consideration of EUR620 million.

- ▶ In August 2008, Allied Irish Banks plc, Ireland-based supplier of banking and financial services, acquired a 49.99% stake in Bulgarian American Credit Bank for a consideration of EUR216 million.
- ▶ In August 2008, Central European Media Enterprises Ltd, acquired an 80% stake in TV2 and Ring TV, the Bulgaria-based television channels, for a cash consideration of USD172 million.
- ▶ In August 2008, the sale of a 70% equity stake in Navigation Maritime Bulgare EAD was completed. The stake was acquired by KG Maritime Shipping AD for a consideration of EUR225 million.
- ▶ In September 2007, KBC Group NV, Belgium-based financial services company, acquired a 75% stake in Economic and Investment Bank for a consideration of EUR295 million.
- ▶ In August 2007, KBC Group NV acquired a 70% stake in DZI Insurance & Reinsurance AD for a total price consideration of EUR185 million. As part of the transaction, KBC also acquired DZI Invest, the Bulgarian securities broker.



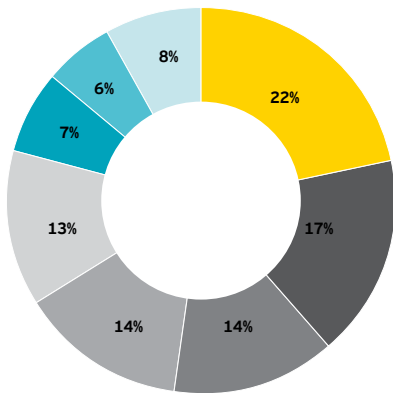
General overview

The graph below shows the structure of FDI in Bulgaria by origin in 2009.



■ Netherlands	878.6	31%
■ Germany	431.1	15%
■ Others	379.1	13%
■ Austria	202.9	7%
■ France	182.2	6%
■ Cyprus	133.2	5%
■ Russia	119.2	4%
■ Hungary	90.2	3%
■ Ireland	86.2	3%
■ Luxemburg	68.8	2%
■ Switzerland	66.3	2%
■ UK	59.6	2%
■ Spain	55.4	2%
■ Greece	48.5	2%
■ USA	43.5	2%

Source: BNB



■ Financial services	622.6	22%
■ Real estate, renting and business activities	470.0	17%
■ Wholesale and resale trade, repair of vehicles and personal and household goods	393.8	14%
■ Manufacturing	388.1	14%
■ Transport, storage and communication	374.8	13%
■ Construction	200.7	7%
■ Electricity, gas and water supply	178.3	6%
■ Others	216.5	8%

Source: BNB



- ▶ In April 2007, AIG Capital Partners, a subsidiary of AIG Global Investment Group, acquired a 65% stake in incumbent telecommunications operator BTC for a consideration of EUR1,080 million.

Leading industries

From 1993 through 2009, the structure of the economy has changed towards a decrease in the share of agriculture as a proportion of total value added to the benefit of services and industry. In 1999, services accounted for 54.8% of total value added, in 2007 - 61.5% and in 2008 - 62.2%. The strong service sector growth was driven by above-average increases in trade, communications, financial services and distribution.

Industry share in total value added increased from 28.9% in 1999 to 32.3% in 2007, 30.5% in 2008 and 22.6% for the first three quarters of 2009. The share of agriculture decreased significantly from 16.3% in 1999 to 6.2% in 2007, 7.3% in 2008 and 6.9% for the first three quarters of 2009.

In the last few years, the government undertook measures for the restructuring of the energy sector aimed at: creation of conditions for liberalization and competition that will give consumers the freedom of choice and access; fast-track and transparent privatization of assets in the sector while the government remains

the owner of the electricity transmission and of the National Dispatching Centre; implementation of regional investment projects to make maximum use of Bulgaria's unique geo-strategic location.

Since 2002, as a part of the energy sector, liberalization, eligible consumers with annual consumption of more than 100 GWh (provided they have no overdue obligations to the transmission, distribution and supply companies) were granted free access to the electricity network and ability to freely negotiate with power generation companies. As of mid-2004, the scope of eligible consumers was widened to include consumers with annual consumption of more than 40 GWh. The threshold has been reduced to 20 GWh in mid-2005 and 9 GWh in mid-2006. From 1 January 2007 eligible consumers include all non-household consumers.

In 2002 the Bulgarian Parliament approved the Energy Strategy of the Republic of Bulgaria (the 2002 Strategy), replacing the 1999 Strategy, declaring as its priority the development of a competitive energy market. Among other things, the 2002 Strategy envisioned the privatization of the distribution and supply companies and then, at a later stage, the privatization of the power producers with intermediate load capacities - TPP Bobov Dol, TPP Varna and DHC Rousse.

The privatization of the distribution and supply companies was completed in 2004 and that of the power producers with intermediate load capacities commenced in 2005. The acquisitions of TPP Varna and DHC Rousse were completed in 2006 and 2007 and of TPP Bobov Dol in 2008. There was an evident energy export slowdown and decline in the energy production volumes observed in 2007, due to the decommissioning of units III and IV in NPP Kozloduy on 1 January 2007. Historically a net exporter of energy, Bulgaria decreased and may be forced to cease power exports in peak consumption periods and restore only a small part of the past export volumes in warmer months. To restore its former regional advantage, the Government has initiated a project for construction of a new Nuclear Power Plant near the town of Belene. The feasibility of this project is currently being re-considered.

In the beginning of 2008, the Government of Bulgaria and representatives of the Government of Russia signed a general framework agreement in support of the South Stream project for transit of natural gas from Russia to Southeast Europe and Italy. Another natural gas transit project - Nabucco, is planned to pass through the territory of Bulgaria.



General overview

The Nabucco project envisages transit of natural gas from the Caspian Sea and the Middle East to Central and Western Europe.

Priorities of the Government's policy in transportation include: active investment strategy for developing of a modern infrastructure through financing from the government sector, EU funds, and other funding sources; privatization of large transportation companies and granting concessions for airports (after the successful completion of the Varna and Bourgas concession granting, currently, a procedure for the Rousse airport is ongoing) and ports at the Danube River and the Black Sea; financial stabilization and modernization of the state-owned railway transportation and railway infrastructure companies. Liberalization and modernization measures were undertaken for the communications and high technologies sector.

Following the abolishment of the monopoly of the Bulgarian Telecommunications Company (BTC) over fixed-line services as of January 2005, when alternative operators were given access to its network, growth in the telecommunications sector is expected to pick up in the coming years with pace spurred up by the entry of new market competitors. Eighteen alternative operators were licensed by December 2007 (compared to seven by late 2005), though their market share has been small

so far. Mobile penetration in the country rose rapidly in the last few years and was estimated at 139% as of March 2009, which is higher than the EU average penetration rate of 120%.

The internet penetration rate reached 51% in 2009. The expansion and improvement of the telecom infrastructure in the coming years and the increased competition are likely to result in a rapid growth in the number of end-users.

There's a shift from dial-up connection (which accounted for two thirds of connections in mid-2004) to high-speed local area networks (LANs), cable networks and asymmetric digital subscriber line (ADSL).

According to BMI, the Bulgarian IT market is valued at USD1 billion and is expected to grow at 9% by 2014.

The Bulgarian tourism presents significant development opportunities: a growing package holiday market from Western Europe, potential for new summer and winter resort development and theme park-associated resorts. Among the issues impeding the development of the tourist sector are the underdeveloped infrastructure, the quality of services offered, the overconstruction in major Black Sea and mountain resorts and the lack of consistent and well-targeted advertising efforts.

Agriculture is dominated by the private sector, which includes a large number of co-operatives. The sector's share for the first three quarters in 2009 GDP is 6.9%. The strategy for the sustainable development of the sector envisages attracting solid investment and know-how, offering incentives to investors in greenhouses and vineyards, orchards and groves, and providing incentives to export-oriented crop-growers, etc. Post-accession EU funds are expected to be the major drive for the revitalization and development of the agricultural sector. Despite mismanagement issues in 2008, which resulted in temporary freezing of EU funds, the SAPARD funds were extended to December 2009, thus giving more time to be utilized.

Financial system

Central Bank and commercial banking sector

The Bulgarian National Bank (BNB), established in 1879, operates as the Central Bank of Bulgaria. Its main objective is to maintain the stability of the national currency through the implementation of adequate policies and efficient payment system. BNB regulates and supervises the banking sector, grants banking licenses, controls commercial banks' trade and settlement of government securities, and has the



exclusive right to issue banknotes and coins in the country.

Amendments to the BNB law, effective as of January 2005, warrant a complete institutional, financial and functional independence of the BNB. These amendments also enhance the ban on the Central bank's funding of public institutions and empower it to fight currency counterfeiting. The Law on Fund Transfers, Electronic Payment Instruments and Payment Systems, which came into effect in October 2005, laid the grounds for Bulgaria's financial integration into the euro area in the field of payments by enabling BNB to fully harmonize the country's payments framework with European Union legislation. Bulgaria's banking sector has passed through a testing journey to reach the high levels of growth, expansion and confidence evident today. Bank supervision was lax during the early 1990s; state-owned banks systematically granted large loans to loss-making state industries, leading to pronounced deterioration of their asset quality. In the private sector, collusive relations between banks and entrepreneurs resulted in the granting of large loans with little or no collateral and only faint prospects of repayment. In 1996, a plummeting lev, soaring interest rates and BNB restrictions on liquidity led to a severe banking crisis. Net losses to the economy were estimated at USD1.5 billion.

After the introduction of a Currency Board in 1997, the number of monetary policy instruments at the disposal of BNB was significantly reduced. Bad loans to enterprises were converted by law into state bonds with low interest rates for the first six years. The tightening of regulatory controls and the positive effects brought about by the introduction of the currency board have helped the sector to gradually regain confidence.

The banking system now is stable and maturing. There are 30 commercial banks (including six branches of foreign banks), with total assets of BGN0.87 (EUR36.2) billion as of December 2009, compared to BGN69.6 (EUR35.6) billion in December 2008 and EUR30.2 billion in December 2007. In December 2008, the banking system reported profit of BGN1,387 (EUR709) million, an increase of 21.2% compared to the previous year and the highest profit for the decade. In December 2009, the banking system reported a nearly 50% lower profit of BGN780 (EUR399) million. The market is dominated by five large banks, which control about 58% of the system's total assets. Bulgarian banks enjoy robust profitability levels, underscored by sustained and healthy interest margins and strong volume growth.

Capital-adequacy ratios stood at 14.86% at the end of December 2008 and at 17.04% at the end of 2009, both of which are in excess to the legal requirement of 12%. Since 1 January 2007, BNB introduced the Basel II Capital Accord requirements. High corporate liquidity, coupled with attractive terms and rates on deposits, have contributed to a high level of deposit concentration.

In 2008, the individual and household deposits marked an increase of 16.8% and in 2009 a further 10.8% increase. Due to the ongoing financial crisis, consumer loans have expanded quickly in recent years but slowed down significantly in 2008.

As of December 2009, the percentage of loans distributed to the corporate sector is 54.7% of the bank system's credit portfolio. Bulgaria has almost completed the privatization of its state-owned banks, with an exception of Municipal Bank (pending privatization) and Bulgarian Development Bank, attracting some strong foreign banks as strategic investors. The high level of foreign investment in the Bulgarian banking system supports the banks' development and strengthens the sector in terms of enhanced corporate governance practices and transparency.



General overview

About 90% of Bulgarian bank assets are owned by large foreign banks, already well established in Central and Eastern Europe or by banks that are committed to achieving bigger market shares in the region. Some of the major shortfalls of the bank sector include sluggish corporate loan granting process and underdeveloped e-banking.

Stock Exchange and securities regulating authority

Since 1997, the Bulgarian Stock Exchange (BSE) has operated under a license from the Financial Supervision Commission (formerly known as Securities and Stock Exchange Commission). The 1999 Public Offering of Securities Act (POSA) regulates issuance of securities, transactions, stock exchanges, and investment intermediaries. Comprehensive adjustments to POSA, which were promulgated in June 2002, established rights for minority shareholders and created an important foundation for the adoption of international corporate governance principles in public companies.

The Bulgarian Stock Exchange guarantees its members and their clients equal access to the trading system. Trading can be carried out either on the BSE floor or on a remote basis. The trading system is electronic and order-driven.

A modified version of the RTS system (NASDAQ-based) was implemented in 2000. It offers all participants full transparency regarding price information and guarantees fail-free execution of orders.

In March 2003, Client Order-Book Online System (COBOS) was introduced to allow clients and stock exchange members to place security trading orders over the Internet in real-time. In June 2008, BSE launched the Deutsche Boerse electronic trading system Xetra and successfully integrated COBOS.

The infrastructure of the stock exchange has been substantially improved. Numerous trading instruments (government bonds, corporate bonds, Bulgarian Depositary Receipts, privatization through the stock exchange, and municipal and mortgage-backed bonds) have been introduced. A new set of rules was adopted in 2006 which provides a new subdivision of the already existing official and unofficial markets. The current three A, B, and C segments of the official market were reduced to two (segments A and B). A newly proposed registration market is in the works and it will be designed to accommodate the needs of companies, which do not meet the minimum capital and liquidity requirements to be listed on the official or unofficial markets.

Although the market remains relatively small and illiquid, there has been significant expansion in the few years before the crisis: stakes in a large number of companies were disposed of in a series of centralized auctions in the period 2004-2008; an offer for 33% of the shares of BTC in 2005 raised BGN630 (EUR322) million. However, by the end of 2008 after huge wave of sell-offs, the market capitalization fell to BGN12.43 (EUR6.36) billion. In 2009 the market capitalization fell with further 5% to BGN11.80 (EUR6.03) billion.

The annual trading turnover on the BSE was BGN992 (EUR507) million in 2004, BGN2,257 million in 2005, BGN3,377 million in 2006. In 2007, the trading turnover amounted to BGN9,950 (EUR5,080) million, but dropped to BGN2,129 (EUR1,089) million in 2008 year-end. In 2009, the trading turnover fell 59% y-o-y to BGN868 (EUR444). SOFIX, the market capitalization-weighted price index consisting of the top domestic stocks, stood at 625.31 points in 2004 year-end, 825.53 points in 2005 year-end, 1224.12 in 2006 year-end and 1767.88 in 2007 year-end. In 2008 SOFIX lost nearly 80% of its value and stood at 358.66 at the end of 2008, while in 2009 year-end the index increased with 19% to 427.27. In February 2005, BSE introduced BG40 (non-weighted price index), which comprises of 40 companies with the



largest volume of deals for the last six months. BG40 stood up at 100.00 points on 1 February 2005, 133.26 in 2005 year-end, 200.20 points in 2006 year-end and 519.06 points in 2007 year-end and just like SOFIX dropped more than 77% in 2008 to 107.81 points in 2008 year-end and increased with 8% to 117.16 points in 2009 year-end.

In 2007, eleven companies had IPOs on the Bulgarian Stock Exchange, including two banks (First Investment Bank, with BGN176 (EUR90) million raised; and Corporate Commercial Bank, with BGN58.5 (EUR30) million raised). Two new indexes have been introduced in 2007 - the non-weighted price index BG TR 30 and the free-float adjusted market capitalization index BG REIT. In 2008, due to the crisis situation, only three companies had IPOs, while in 2009 only one company had an IPO.

As presented above, the market gained momentum in 2007, both trading volumes and liquidity increased considerably. However, during 2008 and 2009 the Bulgarian Stock Exchange performance was influenced by the global financial turmoil that was stirred by the US subprime mortgage crisis. Despite the recent negative developments, it is expected that the importance of the Bulgarian Stock Exchange in raising new corporate finance will increase in the future.

Insurance and insurance supervision system

The period 1998-2000 was formative for the present market conditions and trends in the insurance sector. The insurance industry in Bulgaria is currently regulated by a single regulatory body - the Financial Supervision Commission (specifically, by its Insurance Supervision Sub-Division), which was established in March 2003 and replaced the former Insurance Supervision Agency. The Insurance Act from 1997 was amended several times up to 2005, when it was replaced by the Insurance Code, effective 1 January 2006.

The Insurance Code introduced stricter and detailed requirements with respect to the minimum capital of insurers, which are summarily described below. The equity of insurers, decreased by the intangible assets should be always higher or equal to the solvency threshold (calculation of which is defined in a special Regulation) or to the minimum amount of guarantee capital, if the latter is higher than the insolvency threshold.

The minimum limits of the guarantee capital are set to:

- ▶ BGN4.4 million for non-life insurers, not offering the following type of insurance products: third-party liability, credit insurance and guarantee insurance
- ▶ BGN6.4 million for life insurers, as well as for non-life insurers offering the above mentioned exemptions along with the other insurance products
- ▶ For insurers, licensed for captive reinsurance, the minimum guarantee capital is BGN2 million
- ▶ For branches of foreign insurers: at least one third of the solvency ratio but not less than half of the minimum guarantee capital required for the respective type of insurance license
- ▶ For insurance co-operatives: the minimum guarantee capital varies from BGN100 thousand to BGN400 thousand, depending on the level of annual premium income.

The Insurance Code introduced significant regulatory changes, aiming at harmonization of the Bulgarian legislative framework with that of the EU, especially in the area of obligatory insurance. The general direction of legislative changes, effective from 2006, is towards liberalization, deregulation in the area of premium setting and imposition of stricter requirements.



General overview

After the privatization of the largest Bulgarian insurance company – DZI, which took place in 2002, the insurance sector is now almost entirely private-owned (with an exception of the Bulgarian Export Insurance Agency) with 37 insurers – 20 on the general insurance market and 17 on the life insurance market. The general insurance market grew rapidly in the last few years: in 2005 general insurers realized gross premium income of EUR470 million, a 26% year-on-year growth and in 2006 – EUR542 million, a 15% year-on-year growth and in 2007 – EUR584 million, a 7.7% year-on-year growth. In 2008 gross premium income of general insurers was EUR784 million (34% year-on-year growth), but dropped to EUR657 million as of November 2009. In 2007, 2008 and in the first 11 months of 2009 the market share of the three largest general insurers (DZI, Bulstrad and Allianz) was 40.5%, 38.44% and 39.7% respectively. The gross premium of life insurers up to November 2009 marked an annual decrease of 18.2% and reached EUR100.6 million. Among the foreign investors, which have insurance subsidiaries in Bulgaria, are Allianz, AIG Inc., Wiener Stadtische, Uniqa, Grawe, Munich Re, and Generali. Despite the positive changes, the trend of lagging behind the EU countries in terms of insurance penetration still persists. The insurance penetration ratio for Bulgaria

was 2.54% in 2006, 2.7% for 2007, 2.6% for 2008, which is below the average ratios in Eastern Europe and far below the average for the EU zone.

According to recent market analyses, the insurance sector in Bulgaria has ample opportunities for further growth. The health insurance market in Bulgaria is in its early stages of development. The gross premium income for 2006 was EUR11.6 million (27% year-on-year growth); EUR12.9 million for 2007 (11% year-on-year growth), EUR15.5 million for 2008 (20% year-on-year growth) and up to November 2009, it amounted to EUR18 million (16% year-on-year growth). The five largest players, which contributed 60.5% of total gross premium income for the eleven months of 2009, were as follows: Generali Zakrila – EUR2.95 million, Medico-21 – EUR2.42 million, Bulgaria Zdrave – EUR2.26 million, Obshtinska Zdravnoosiguritelna Kasa – EUR1.70 million and Doverie – EUR1.61 million.

Currency

The currency unit in Bulgaria is the Bulgarian Lev. At present, the BGN is fixed to the EUR at the rate of BGN1.95583 per EUR1. The policy of both the BNB and the government is that the currency board will remain in place until Bulgaria joins the European

Economic and Monetary Union (EMU) which is expected to take place no earlier than 2013.

The introduction of the Currency Board in the country in July 1997 led to improved confidence in the local currency, exchange rate predictability and lower inflation. After the introduction of the currency board, all constraints on trading with foreign currency within the country were removed. Local banks can sell hard currency to physical and legal entities without any limitations. Since 5 July 1999, in order to facilitate payments, accounting and exchange operations the Bulgarian Lev has been denominated in a ratio BGN1,000 to BGN1. The Bulgarian National Bank announces reference rates of the Lev to the other major foreign currencies on the basis of their international market rates. The BGN denominations are as follows:

- ▶ Notes: BGN2, BGN5, BGN10, BGN20, BGN50 and BGN100
- ▶ Coins: BGN0.01, BGN0.02, BGN0.05, BGN0.1, BGN0.2, BGN0.5, BGN1

Special investment considerations

As of 2009 year-end, the remaining assets that are expected to undergo privatization include 29 majority stakes in companies mainly from the industry



and trade sectors, as well as 122 minority stakes.

According to data of the Privatization Agency, during the period 1993 - November 2009, more than 99% of all state enterprise assets subject to privatization were transferred to private hands. In 2008, forty-seven new privatization deals were concluded, five of which were for majority stakes, whereas in 2009 only one majority and 43 minority stake deals were concluded. The overall financial effect of the deals, signed by 31 December 2009, amounts to EUR18,483 million, including EUR9,630 million in payments agreed on deals, EUR1,505 million in liabilities and commitments assumed or paid by the buyers, EUR7,348 million in investment commitments. Privatization in the main industries (chemical, metallurgy, mechanical engineering, defence, electrical engineering and electronics, food and light industry), as well as in agriculture, construction and service branches is almost completed.

The largest privatization deal still to come is the sale of the tobacco processor Bulgartabac. In February 2010, the Privatization Agency appointed Citigroup as an advisor for the sale.

As per the Law on Privatization and Post-privatization Control (LPPPC), the list of enterprises with more than 50% state ownership, which are not subject to

privatization, include some large entities, such as the National Electric Company (NEC, excluding small hydroelectric power stations and thermal power station Maritsa Iztok 3), Bulgarian State Railroads (BDZ), the gas monopoly Bulgargaz, Bulgarian Posts; other infrastructure companies in the energy, transport, water supply and sewage sectors, such as NPP Kozloduy, sea and river ports, airports, water supply and sewerage companies; state-owned companies in healthcare, education and financial services and duty free zones. The LPPPC stipulates that a special privatization and restructuring strategy will be developed for the privatization of monopolies, companies of dominant position in the sphere of public services, as well as companies connected with national infrastructure networks, and they will be offered for privatization upon approval by the Council of Ministers.

The privatization strategy in the energy sector envisages fast track and transparent privatization of assets in the sector while the Government remains the owner of the electricity transmission and of the National Dispatching Centre. The monopoly of NEC was eliminated in 2001 by separating power generation, electricity transmission and distribution capacities. During 2004, the PA announced tenders for the privatization of the seven electricity distribution and supply companies through sale of 67% of

their share capital. The seven companies were separated into three pools - a Western Pool, a North-Eastern Pool and a South-Western Pool with roughly equal coverage of the territory of Bulgaria. The winners of the privatization tender for each of the pool were the following:

- ▶ 67% of Western Pool - CEZ a.s. (Czech Republic) for EUR281.5 million
- ▶ 67% of North-Eastern Pool - E.ON Energie AG (Germany) for EUR140.7 million
- ▶ 67% of South-Eastern Pool - EVN AG (Austria) for EUR271 million

The privatization of TPP Bobov Dol, TPP Varna and DHC Rousse, which started in September 2004, was the next step in the power sector privatization.

In 2006 CEZ a.s. (Czech Republic) acquired TPP Varna for a consideration of EUR206 million, and in August 2007 Holding Slovenske Elektrarne acquired DHC Rousse for a consideration of EUR85 million. The privatization of TPP Bobov Dol, which has been postponed several times, was completed in 2008 when 100% of the plant was sold to Energia MK for a consideration of EUR51 million.

In January 2002, the Law on Railroad Transportation, which aims at liberalizing the railway transportation sector, came into effect.

General overview

In compliance with the provisions of that law, the state monopoly in railway transportation NK BDZ was split into two separate legal entities - National Company Railroad Infrastructure (infrastructure maintaining company) and BDZ EAD (carrier). The aim of the split was to identify activities requiring subsidies and to ensure transparency in subsidies disbursement, as well as to organise the rest of the activities in commercial enterprises.

In 2004, the privatization of a majority stake (65%) in the state telecom monopoly BTC was finalized. The selected buyer, Viva Ventures - a subsidiary of the American investment fund Advent, paid EUR230 million, plus EUR50 million capital increase and commitment to invest about EUR400 million in the next five years. In April 2007, the 65% stake was acquired by AIG Capital Partners. The transaction consideration was EUR1,080 million. By the end of the year, AIG Capital Partners increased its ownership stake to 90%.

Foreign exchange control

According to the currency board arrangements, the national currency is internally convertible. The Bulgarian National Bank (BNB) is obliged to buy and sell Euros in the territory of the country without limitations at spot rates deviating not more than +/-0.5% from the fixed rate.

Under current exchange control regulations, banks can sell without limits to foreign investors in Bulgaria hard currency for repatriation of profits. These include dividends, interest, royalties, fees and liquidation proceeds. The present Bulgarian foreign exchange legislation imposes some restrictions regarding transfers of local and foreign currency and other currency valuables between Bulgarian and foreign persons. The Currency Act, amended and supplemented in 2006 and effective from 1 January 2007, aims at relieving the foreign exchange regime by lifting restrictions on capital account transactions. This act replaced the regime of permits by a regime of preliminary registrations with the Bulgarian National Bank of transactions between foreign and local persons on the money and capital markets and transactions with shares in companies (foreign persons), as well as all investments deriving from them. The Currency Act requires also that the initial foreign direct investment made by local persons and the financial credits between local and foreign persons be registered with the BNB. Payments and transfers abroad should be effected only through the commercial banks after submitting a declaration on the purpose of payment/transfer. Local and foreign natural persons are allowed to bring national and foreign notes in cash in unlimited amounts into the country, provided that

they have declared the amount before the customs authorities in case its value exceeds EUR10,000.

Local individuals are allowed to take out of the country national and foreign notes in cash, equivalent to no more than EUR10,000 without declaring them; amounts between EUR10,000 and BGN25,000 need to be declared; amounts in excess of BGN25,000 can be taken out with prior certificate for lack of overdue liabilities, issued by the National Revenue Agency. The regime regarding foreign individuals is similar: they are required to declare the amount and the origin of notes with local value equivalent between EUR10,000 and BGN25,000; amounts in excess of BGN25,000 can be taken out after declaring the amount, provided the value of the notes that the person has brought into the country exceeds the value of the notes that he plans to take out. If the amount the foreign individual plans to take out of the country is over BGN25,000 or its equivalent and exceeds the amount he has brought into the country, prior certificate for lack of overdue liabilities, issued by the National Revenue Agency is also needed.



Environmental law

Since 1989, the environmental law has been almost entirely renewed aiming at harmonization of the Bulgarian legal environmental framework with the European rules. The Bulgarian environmental legislation is incorporated in a number of laws and regulations as some of their provisions have been amended and supplemented numerous times, thus complicating their application. Some of the most significant provisions, having impact on foreign investments concern the environmental impact assessment, the permission regimes for usage of some types of resources, some restrictions on the use of natural resources in view of preserving the ecological balance, etc. In accordance with the general process of harmonization is the harmonization with European standards in the area of strict protection and conservation of the environment. According to the Kyoto Protocol, a special regime for trade with greenhouse gas is to be established. A National Register for quotas on greenhouse gas emission has already been introduced. Recently, the European Commission has approved the Plan for distribution of quotas with emission of greenhouse gas for Bulgaria for the period 2008-2012.

In the beginning of 2007, huge public discussions have started on the implementation of the EU Natura 2000 project, which is based on two EU Directives aiming at the establishment of a European Ecological Network. Both Directives were implemented through the Biological Diversity Act (SG 77/2002, amended 103/2009). The latter specifies the conditions for the establishment of a National Ecological Network. The Ministry of Environment and Waters is in charge of collecting the documentation about the protected territories. The territories are determined with a decision of the Council of Ministers. All the activities undertaken in the determined territories should be in compliance with the requirements and rules for their protection and conservation.

The main institutions responsible for environmental protection are as follows:

- ▶ Ministry of Environment and Waters (the central environmental authority)
- ▶ Regional Inspectorates of Environment and Waters and the municipal bodies (the local environmental protection authorities)

Intellectual property

Currently, the Bulgarian intellectual property (IP) regulations are substantially in line with the *acquis communautaire* and provide for the most contemporary solutions for the protection of intellectual property.

The protection of IP rights is regulated by the following laws:

- ▶ Copyright and Neighbouring Rights Act (SG 56/93, amended SG 32/ 2009)
- ▶ Patents and Utility Models Registration Act (PUMRA) (SG 27/93, amended 19/2010)
- ▶ Marks and Geographical Indications Act (SG 81/99, amended SG 19/2010)
- ▶ Industrial Design Act (SG 81/99, amended SG 32/2009)
- ▶ Topology of Integrated Circuits Act (SG 81/99, amended 30/2007), etc.

Bulgaria has ratified the Bern Convention for Protection of Literary and Artistic Works of 1886, the Geneva Universal Copyright Convention, the Convention for Establishment of a World Intellectual Property Organization, the Paris Convention for the Protection of Industrial Property, the Madrid Treaty on the International Registration of Marks, the TRIPS Agreement, etc.

Regional and international trade agreements and associations

Bulgaria has been a member of the World Trade Organisation (WTO) since December 1996. In March 1993, Bulgaria signed the European Agreement of Association with the European Communities and their member states. The country entered into an Agreement with the European Free Trade Association (EFTA), enforced in 1993 and in July 1998, became a member of the Central European Free Trade Agreement (CEFTA). Bulgaria has free trade agreements with Turkey, FYROM, Albania, Israel, Moldova, Bosnia and Herzegovina, Serbia and Montenegro. As a result of these treaties, the number of goods subject to duties has been significantly reduced.

The foreign trade regime in Bulgaria meets the requirements of the WTO. Transactions with a limited number of goods are controlled by the government administration. The Council of Ministers Decree No. 233 of November 2000 further liberalized the foreign trade regime by reducing the number of goods subject to permits.

Importing and exporting

Official data of the National Statistical Institute shows that the Bulgarian foreign trade turnover has doubled for the period 2004-2008: from BGN38.3 billion (EUR19.6 billion) in 2004 to BGN76.3 billion (EUR39.0 billion) in 2008. In 2009, it dropped to the estimated BGN54.1 billion (EUR27.7 million) as a result of the impact of the global financial crisis. Bulgaria has been running an increasingly large trade deficit for some years, which was considered a major deficiency and obstacle on Bulgaria's route to the ERM2: in 2006 it was 21.8%; in 2007, it exceeded 25.2%; in 2008, it remained close to that level. Nevertheless, in 2009 the deficit dropped to 12.1%.

Imports

The FOB imports in Bulgaria in 2007 amounted to BGN40.7 (EUR20.8) billion and in 2008 amounted to BGN46.6 billion (EUR23.8 billion). The lack of significant domestic oil and gas resources contributes to the increase in imports. In 2009, the FOB imports decreased significantly to BGN31.0 (EUR15.9) billion. The major categories of imports are: mineral fuels, lubricants and other

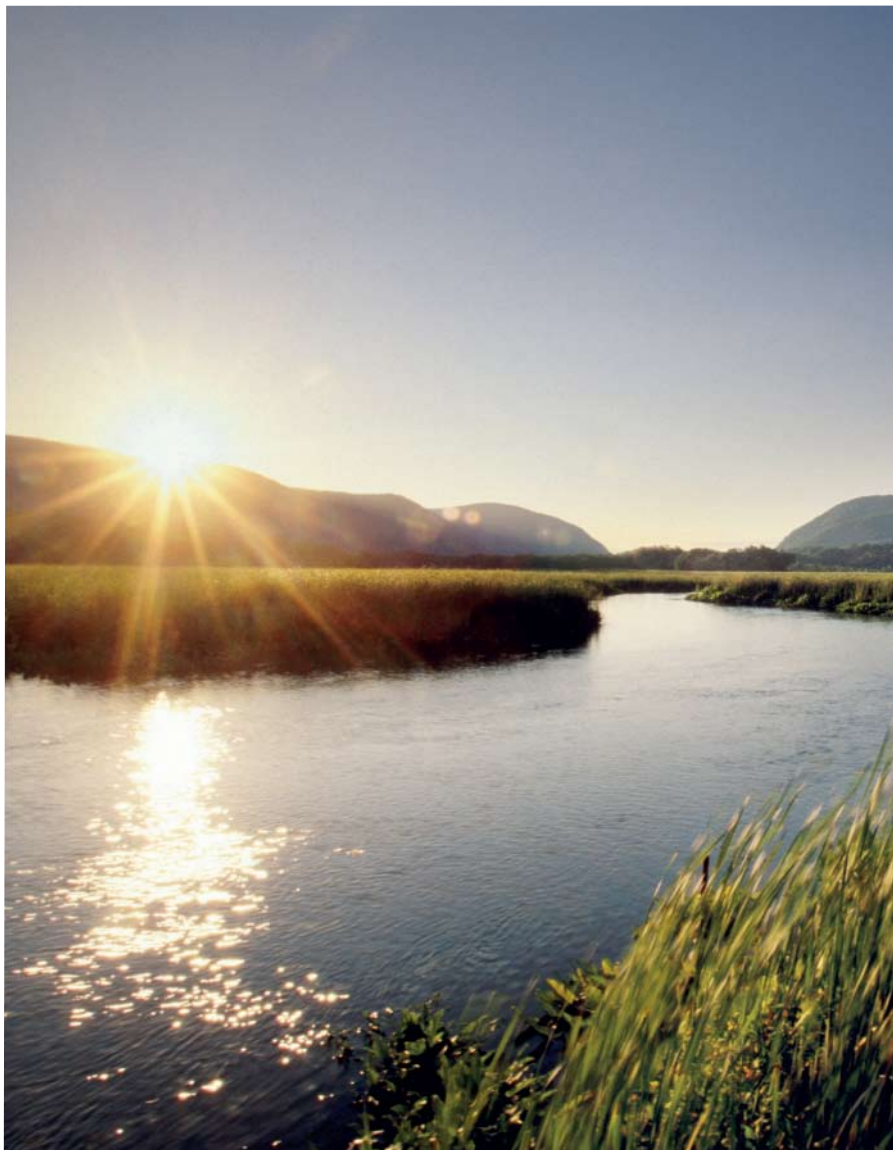
related materials; manufactured goods; machinery and transport equipment. According to NSI, the share of mineral fuels, lubricants and other related materials was 20.2% in 2005, 21.8% in 2006 and 19.9% in 2007, which indicates an increasing level of dependence of the economy on energy intensive productions. In 2009, mineral fuels, lubricants and other related materials accounted for 20.1% of imports.

According to the NSI data, the main origins of imports (CIF) for the 11 months of 2009 were the Russian Federation (13.1%), Germany (12.3%), Italy (7.8%), Greece (6.1%), Turkey (5.6%) and Romania (5.6%). The imports from the Russian Federation are mainly energy resources - crude oil and gas.

Exports


FOB exports amounted to BGN18.5 billion (EUR9.5 billion) in 2005, BGN23.5 billion (EUR12.0 billion) in 2006, BGN26.3 billion (EUR13.5 billion) in 2007 and BGN29.7 billion (EUR15.2 billion) in 2008. In 2009, FOB exports decreased to BGN23.0 billion (EUR11.8 billion).

The major export categories are ferrous and non-ferrous metals, wearing apparel, minerals and fuels, chemicals, machinery and mechanical appliances, food, beverages, tobacco and other finished goods. As of November 2009, Bulgaria's main export destinations were Germany (11.2%), Greece (9.6%), Italy (9.3%), Romania (8.7%), Turkey (7.1%), and Belgium (5.5%).



Tax system





Income tax and social security contributions

Personal income tax

Personal income tax is assessed in Bulgaria in accordance with the provisions of the current Personal Income Tax Act, which came into force on 1 January 2010. Under the Personal Income Tax Act, Bulgarian residents are subject to income tax on their worldwide income. Non-residents are taxed on their Bulgarian source income only.

Under Bulgarian domestic law, a tax resident of Bulgaria, regardless of nationality, is considered an individual, who meets at least one of the conditions mentioned below:

- ▶ He/she has a permanent address in Bulgaria.
- ▶ His/her physical presence in Bulgaria exceeds 183 days in any 12 month period¹.
- ▶ His/her centre of vital interests (his personal and economic relationships) is situated in Bulgaria.

However, if an individual has a permanent address in Bulgaria but his centre of vital interests is not situated in Bulgaria, he/she will not be considered a Bulgarian tax resident.

Determination of tax residence position based on the above criteria takes place each tax year and, therefore, can differ from year to year.

The tax year for personal income tax purposes is the calendar year.

Taxable income

Employment income

Employment income comprises salaries, bonuses, benefits-in-kind and other compensations derived from labour relations. Business trip expenses, such as travel, accommodation – if properly documented – and per diems up to double the amount of statutory per diems are tax exempt. Further, certain social benefits provided by employers are tax exempt, when taxed at the level of the employer. The tax on employment income is calculated on the gross amount of income received in the respective month after statutory deductions, which are as follows:

- ▶ Mandatory social security and health insurance contributions for the account of the individual
- ▶ Voluntary social security contributions of up to 10% of the annual taxable base
- ▶ Voluntary health insurance and life insurance contributions of up to 10% of the annual taxable base

¹ For the calculation of the presence in Bulgaria, days of entrance to and days of exit from Bulgaria are considered full days of presence in Bulgaria.

Tax system

- ▶ Donations to certain institutions, listed in the law, up to 5% of the annual taxable base and up to 50% for donations in favour of the Fund for the Medical Treatment of Children

As of 1 January 2010, employee mandatory social security contributions, paid abroad, are deductible through the monthly payroll. An official document evidencing the amount of contributions paid, issued by the respective foreign authorities, should be obtained. Deduction is possible provided the individual is in a possession of an E-101 certificate proving that he/she remains mandatory socially secured in the home country.

Voluntary social security, health insurance and life insurance contributions made to an authorized fund in the EU/EEA country and, according to its legislation, are deductible in the same way as the Bulgarian ones.

Taxation of employer-provided stock options

Employer-provided stock options are taxed at exercise as employment income.

Director's fees

Management income paid to Bulgarian tax non-residents is subject to 10% withholding tax.

Management income paid to Bulgarian tax residents is taxed as employment income at 10%.

Self-employment and business income

Self-employment and business income is income derived from professional and business activities. The gross income may be decreased by 40%, 25% or 10% depending on the activity performed. This income includes (but is not limited to) the following:

- ▶ Income from activity as a sole-entrepreneur
- ▶ Rental income
- ▶ Copyright royalties
- ▶ Agricultural income
- ▶ Forestry income
- ▶ Earnings from self-employment and non-employment activities

An advance income tax of 10% is payable for all of the above types of income throughout the year except for the sole entrepreneur who is subject to 15% advance tax, paid in accordance with the Corporate Income Tax Act provisions. The advance tax is payable on a monthly basis with the exception where the recipient of the income is a self-insured individual. In such case, the tax is determined and paid by the self-insured person on a quarterly basis.

Investment income

Interest income

Investment income from Bulgarian sources, such as interest income, is subject to 10% withholding tax.

Sale of shares


Income derived from the sale of shares and other financial assets is subject to 10% withholding tax.

Dividends and liquidation quotas

A 5% withholding tax is imposed on dividends and liquidation quotas derived from Bulgarian sources that are paid to Bulgarian and foreign tax residents, as well as on dividends derived from foreign sources and paid to Bulgarian tax residents.

Real estate

For Bulgarian and European Union (EU)/European Economic Area (EEA) tax residents, gains derived from disposals of up to two real estate properties are not taxable if they have been owned for at least five years. Gains derived from disposal of principal private residence would be tax exempt if owned for at least three years. In all other cases, capital gains on real estate are included in the annual taxable income and taxed at flat tax rate of 10%. For non-EU/non-EEA tax residents, such capital gains are subject



to the same 10% rate upon the disposal of the property, unless an applicable Tax Treaty provides for a different allocation of taxation rights.

Exempt income

Certain types of income are not subject to tax, including interest paid on accounts and deposits with any commercial bank and/or branch of a foreign bank established in the EU/EEA, scholarships, pensions from compulsory social security from Bulgaria or abroad, alimony and certain insurance payments.

Other deductions

As of 1 January 2010, individuals who are tax residents of EU countries and Norway and who work in Bulgaria are in principle able to claim the same deductions from their taxable income as Bulgarian tax residents through filing an annual tax return.

Mortgage relief for young families

Tax residents may decrease the annual income tax base with the interest paid on mortgages up to the first BGN100,000 of the loan. This is applicable in case at least one of the spouses is below the age of 35, the mortgage contract is concluded after the marriage and the Bulgarian real estate related to the mortgage is the only one for the family during the respective year.

Tax rate

Bulgaria has introduced a flat tax rate of 10% on employment, non-employment and business related income as of 1 January 2008.

Payment procedures

Advance tax obligations

Advance tax obligation for self-employed (insured) persons

Remuneration paid to self-employed (insured) persons is no longer subject to withholding taxation, regardless of whether the payer of the income is a company or an individual. The beneficiary of the income will have to pay for this income advance tax instead. Tax is due by the 15th of the month following the quarter of acquisition of the income.

Advance tax obligation for employed persons

Advance tax payments on employment income are due on a monthly basis. The employer withholds advance tax at payment of the salary and transfers it to the tax authorities before the 10th of the month following the month of withholding.

Advance tax obligation for foreign persons deriving Bulgarian source income subject to withholding tax

Income, derived by a Bulgarian tax non-resident, which is not realized through

a fixed base in Bulgaria is subject to taxation with one-off tax of 10%. The payer of the income is obliged to withhold and remit the tax due either on a monthly or a quarterly basis depending on the existence of a Tax Treaty between Bulgaria and the individual's country of residence. The tax return should be filed by the payer of the income before the end of the month following the quarter of the payment of the tax. If the payer of the income has no obligation to withhold and remit the tax, the beneficiary of the income should remit the tax and file his tax return before the 15th of the month following the quarter of the acquisition of the income.

Annual tax obligations

The deadline for filing personal income tax return with the National Revenue Agency and paying the tax liabilities is 30 April of the year following the tax year. Extensions of that deadline are not allowed. Any late filing and tax payment may trigger administrative penalties.

Individuals may make corrections to their tax returns within the deadline for filing of the tax return, i.e. 30 April. If they make such corrections, default interest is not due. The corrections are done by filing a new tax return. Bulgarian income tax law provides a 5% discount on final tax liability upon condition that the tax return is filed and the tax is paid before 10 February in the year following the tax year.

Declaration of non-taxable income

Bulgarian tax residents have to declare in the annual tax return the outstanding part of received loans exceeding BGN10,000 unless they are provided by an authorized credit institution. The penalties for non or incorrectly declared loans amount to 10% of respectively the non-declared or incorrectly declared amounts.

Tax residents are obliged to declare the number of shares they possess in foreign entities, as well as the date, year and price of acquisition.

Penalties for non-compliance

Outstanding tax liabilities are collected by the tax authorities from the liable person together with default interest. In addition, there is a range of penalties which can be imposed upon non-compliant liable employers and individuals:

- ▶ If tax on employment income is not withheld and/or not paid to the tax authorities, the employer must pay a penalty of BGN1,000.
- ▶ Failure of a taxpayer to submit a tax return within the statutory deadline is subject to a penalty of BGN500.
- ▶ Failure of a taxpayer to provide information in a tax return which has resulted in a reduction of tax liability is subject to a penalty of BGN1,000.

Corporate income tax

Introduction

Bulgarian companies (i.e. companies incorporated in Bulgaria), as well as other Bulgarian legal entities and non-incorporated civil law partnerships which carry out business activities, are subject to corporate tax on their worldwide income. Foreign companies are taxed in Bulgaria on their Bulgarian source income and on their profit generated from activities conducted through a permanent establishment in Bulgaria. For the purposes of taxation of income sourced from Bulgaria any non-resident, organizationally and economically distinct formation (trust, fund and other) which independently carries out economic activity or performs and manages investments, will likewise be a taxable person where the owner of the income cannot be identified.

Special taxation regimes apply for certain activities, e.g. gambling business.

Shipping companies may opt for taxation based on the tonnage of the operated ships applying a 10% tax rate. Once the shipping companies have elected to be taxed on the tonnage, they must apply this taxation regime for at least a five-year period.

Rate

The corporate income tax rate is 10%. A one-off tax of 10% is imposed on certain expenses, such as employee related fringe benefits and representation related expenses, thereby increasing the effective tax rate for companies incurring such expenses.

Determination of taxable profit

General

The taxable income is based on annual accounts prepared in accordance with Bulgarian accounting standards or the International Financial Reporting Standards (IFRS). However, certain adjustments of the accounting profit are required for tax purposes with respect to items, such as accrual for bonuses, unused paid leave, depreciation, impairment of assets, provisions, etc.

Inventories

All cost methods that are applicable under the IFRS may be used for tax purposes. For manufacturing entities, expenses for raw materials exceeding significantly the usual quantity of raw materials required for the production of a particular unit, when the excess is not due to objective reasons, will be considered tax avoidance and will not be tax deductible.



Provisions

Impairment and write-offs of receivables are not deductible for tax purposes until their materialization or the expiration of the five-year statute of limitation period. Provisions for payables are not deductible for tax purposes before their materialization.

Tax depreciation

Companies must prepare and keep a tax depreciation plan. Bulgarian tax depreciation is applied on a straight-line basis, as illustrated in Table 2.

The accrual of tax depreciations of an asset should be discontinued when the said asset is not in use for a period longer than 12 months.

Losses

Losses can be carried forward consecutively in the next five years. Loss carry-back is not allowed. Exceptionally, in cases where the loss originates from an EU or EEA country in relation to which Bulgaria applies the credit method for the avoidance of double taxation, the loss can be offset against domestic source profits of the same person.

If the loss originates from an EU or EEA country in relation to which Bulgaria applies the exemption method for the avoidance of double taxation on the basis of a Double Taxation Treaty concluded with that country, then the loss can be offset against domestic profits only if the permanent establishment in the other country, which caused such loss, has ceased to exist.

Table 2. Tax depreciation rates

Asset categories	Annual depreciation rates (%)*
I Solid buildings, including investment properties, constructions, transmission facilities, electric power carriers, communication lines	4
II Machines, manufacturing equipment and apparatus	30 or 50**
III Transportation vehicles, excluding automobiles, coverage of roads and aircraft runways	10
IV Computers, peripheral devices, software and the right to use software, and mobile phones	50
V Automobiles	25
VI Intangible and other tangible assets, which are legally protected for a limited period of time	Depending on the period in which the legal protection applies (100/number of years of protection) but not higher than 33 1/3
VII All other depreciable assets	15

* No depreciation allowance is available for land, forests, cultural monuments and goodwill.

** Up to 50% annual depreciation rate may apply for Category II assets if the following conditions are simultaneously met:

- The assets are part of an initial investment or purchased as part of an energy efficiency project for which certain conditions are met.
- The assets are new and have not been used before their acquisition.

Overseas aspects

Treaty relief may be available to avoid double taxation on the foreign source income of Bulgarian legal entities. Generally, Bulgaria follows the exemption method for the avoidance of double taxation of income from branches and real estate property, located in treaty countries.

Groups of companies

Currently, Bulgaria does not have any special legislation for the taxation of groups.

Administration

In all cases, the tax year is the calendar year. All companies (including branches) must submit to the local tax office an annual tax return, accompanied by the annual activity report for statistic purposes. The annual tax return should be filed and the annual tax be paid not later than 31 March of the year following the year to which it relates. Companies subject to tax must make monthly advance payments of tax. Newly established companies and companies with sales of less than BGN200,000 for the preceding tax year are not required to make advance payments. The tax rate for calculating the advance payments is 10%. Companies that generated losses in the preceding year must make quarterly advance payments on the

basis of their actual taxable income for the respective quarters. No quarterly payment is required for the last quarter. Monthly instalments so determined may be reduced by submitting a special declaration in the case where the pre-payments are expected to significantly exceed the anticipated final annual corporate tax liability.

Penalties for non-payment or non-reporting

In the case of non-payment or late payment of tax, default interest of the amount of the Bulgarian National Bank's basic interest percentage plus 10 interest points are due.

Furthermore, any tax liable person who fails to submit a tax return in time, or who fails to state or misstates any particulars or circumstances leading to an under-assessment of the tax due or to undue reduction, retention of or exemption from tax, is liable to a fine in the range of BGN500 to BGN3,000. The exact amount is set by the tax authorities based on the merits of the particular case. In the case of repeated violations, the fine will be doubled.

In addition, if the tax liable person who fails to submit any supplement to the annual tax return (e.g. annual activity report) or who states any untrue particulars or circumstances in any such supplement is liable to a fine in the

range of BGN100 to BGN1,000. In case of repeated violations, the fine will be doubled.

Thin capitalization rules

Thin capitalization provisions regulate tax deductibility on certain types of financial expenses, such as interest on loans from related and non-related parties, financial leases from related parties and bank loans from related parties or guaranteed by related parties. Should the debts of a company to shareholders, third parties and/or to banks of the debtor's group of companies or from bank loans guaranteed by a related party exceed three times the company's equity, then thin capitalization related interest tax deductibility restrictions are triggered.

Specifically, tax deductibility of interest expenses, exceeding interest income, is limited to 75% of EBIT (earnings before interest, i.e. the accounting result before interest expenses and interest income, and tax). Capitalized interest expenses deducted through the depreciation of the asset acquired are not included in the thin capitalization related add-back. The thin capitalization add-back is a timing difference and the Bulgarian thin capitalization rules allow for a five-year carry forward of such portion of the interest.

Withholding tax on cross-border payments

A 5% withholding tax is levied upon payment of dividends or liquidation quotas to non-resident persons, as well as resident individuals or resident legal entities which are not merchants, including any municipalities.

However, since 1 January 2009, dividends distributed to companies which are tax resident in EU/EEA countries are exempt from the 5% withholding tax, regardless of the percentage they are holding in the Bulgarian companies and regardless of the period for which this holding has been maintained. In addition, any income of a local company resulting from a distribution of dividends by foreign persons, who are resident for tax purposes in a EU Member state or in another state which is a contracting party to the agreement on the EEA, is also not recognized for tax purposes.

Foreign persons are taxed with 10% withholding tax on the following Bulgarian source income:

- ▶ Royalties
- ▶ Technical assistance and consultancy fees

- ▶ Management services
- ▶ Interest (including interest under a financial lease); however, interest on bonds traded on a regulated Bulgarian or EU member country stock market is tax exempt
- ▶ Rental (including operational leases) or use of movables
- ▶ Franchising and factoring

The tax obligation arises upon the accrual of the expense by the local payer and not the payment of the income.

Capital gains tax

Tax at 10% applies on capital gains from the alienation of immovable property, shares and stakes, securities and financial assets. However, capital gains derived from the sale of shares through the Bulgarian stock market, as well as through any stock exchange in a member state of the EU or an EEA state, are exempt from tax. Similarly, losses from the sale of shares through the stock exchange are not tax deductible. Bulgaria has quite a wide network of Double Taxation Treaties (see Table 3) that may significantly reduce or eliminate the withholding tax burden upon certain of the above items of income.

However, treaty provisions may not be automatically applied. The foreign person taxable at source in Bulgaria should complete a formal clearance procedure before the National Revenue Agency in order for Treaty relief to apply.

Transfer pricing

There are anti-avoidance and transfer pricing rules under the Corporate Income Tax Act² which require transactions between related parties or between non-related parties to be carried out on an arm's length basis. These rules also apply, *mutatis mutandis*, to any flows between a permanent establishment and other foreign divisions of the same enterprise of a non-resident person, conforming to the specifics of the permanent establishment. In February 2010, the National Revenue Agency released its official Transfer Pricing Documentation (TPD) Guidelines defining the specific TPD that taxpayers need to maintain in their company records.

It is the taxpayer and not the tax authorities who must prove that transactions are negotiated at arm's length.

² Promulgated, State Gazette (SG) No. 105 of 22 December 2006, effective 1 January 2007, amended and supplemented, SG No. 52 of 29 June 2007, effective 1 November 2007, supplemented, SG No. 108 of 19 December 2007, effective 1 January 2007, amended and supplemented, SG No. 110 of 21 December 2007, effective 1 January 2008, SG No. 69 of 5 August 2008, effective 1 January 2009, SG No. 106 of 12 December 2008, effective 1 January 2009, SG No. 32 of 28 April 2009, effective 1 January 2010, SG No. 35 of 12 May 2009, effective 12 May 2009, SG No. 95 of 1 December 2009, effective 1 January 2010

Corporate tax holidays

Tax relief for manufacturing plants in underdeveloped areas

Up to 100% of the corporate income tax for the respective year may be relieved for manufacturers investing in underdeveloped regions, where in the prior year the average national unemployment level is at least 35% higher than the average unemployment level for the country and the acquired assets form part of an initial investment carried out within the next three years following the year for which the tax holiday is obtained.

Further requirements that are in compliance with the EC State Aid Rules must be also observed.

Tax relief for registered agricultural producers

Companies and individuals registered as agricultural producers as per the Agricultural Producers Support Act are entitled to retain 60% of the CIT due on their taxable profit derived from agricultural production, which is not further processed. The CIT is retained, should the following conditions are simultaneously fulfilled:

- ▶ Retained CIT is used for the purchase of new buildings and new agricultural

equipment used in the same activity up to the end of the year following the year in which tax is retained.

- ▶ Assets are purchased at arm's length price.
- ▶ Agricultural activity should continue at least three years after the year of the tax relief and this status is declared in each of the three years in the annual corporate income tax return.
- ▶ Retained CIT should not exceed 50% of the assets value.

The applicability of this relief for 2010 is conditional on obtaining the approval of the European Commission by 31 March 2011 at the latest.

Tax relief for investments enhancing the energy efficiency

Accelerated depreciation of 50% is allowed for machines and manufacturing equipment if the assets are new and are acquired in relation to an investment aimed at enhancing energy efficiency, where additional conditions set out in the Energy Efficiency Act (promulgated, SG No. 98 of 14 November 2008, effective 14 November 2008, amended and supplemented SG No. 6 of 23 January 2009, effective 1 May 2009) must be also satisfied.

Tax relief for hiring of unemployed persons

Employers are entitled to deduct from their financial result amounts, equal to the employment remuneration effectively paid and the mandatory social security contributions, borne by the employer for the first 12 consecutive months with regard to newly employed persons who have been registered as unemployed for more than one year, are over 50 years of age, or have a decreased working capacity. The above exemption is subject to certain conditions, outlined in the Corporate Income Tax Act.

Other tax incentives

Collective investment schemes, which have been admitted to public offering in Bulgaria, licensed investment companies of the closed-end type under the Public Offering of Securities Act and special purpose investment companies under the Special Purpose Investment Companies Act are exempt from corporate income tax. Upon distribution, the profits of the special purpose investment companies are subject to 5% tax; 90% of the profit must be distributed each year.

Treaty withholding tax rates

Bulgaria has signed tax treaties with a number of countries (see Table 3).

As per these agreements, the rates of withholding tax on dividends, interest and royalties may range from 0 to 10% depending on the criteria, set out in the agreement.

Table 3. Tax treaties

Albania	Indonesia	Portugal
Algeria	Iran	Romania
Armenia	Ireland	Russian Federation
Austria	Israel	Singapore
Azerbaijan	Italy	Slovak Republic
Belarus	Japan	Slovenia
Belgium	Jordan	South Africa
Canada	Kazakhstan	South Korea
China	Kuwait	Spain
Croatia	Latvia	Sweden
Cyprus	Lebanon	Switzerland
Czech Republic	Lithuania	Syria
Denmark	Luxembourg	Thailand
Finland	Macedonia	Turkey
France	Malta	Ukraine
Georgia	Moldova	United Arab Emirates
Germany	Mongolia	United Kingdom
Greece	Morocco	United States
Hungary	Netherlands	Uzbekistan
India	North Korea	Vietnam
Egypt	Norway	*Yugoslavia
Estonia	Poland	Zimbabwe

**The treaty applies to Bosnia-Herzegovina, Montenegro and Serbia.*

Indirect taxation of corporations

Introduction

Bulgarian value added tax (VAT) is generally applicable to transactions with goods and services in Bulgaria against consideration, distance sales of goods, intra-Community acquisitions, certain services acquired from foreign suppliers and free of charge supplies. Importers and persons acquiring new means of transport and excise goods from the European Union (EU) are liable for VAT regardless of their status.

Liable persons

As a rule, persons liable to register and charge VAT are companies and individuals carrying out economic activities in Bulgaria. The obligation to register for VAT occurs after reaching a threshold of BGN50,000 (approximately €25,560) from taxable transactions or exempt financial or insurance services. Taxable persons receiving/rendering cross-border services subject to reverse charge should register for VAT purposes regardless of the turnover. The threshold for VAT registration for distance sales is BGN70,000 (approximately €35,790). Persons acquiring goods from the EU should register when the value of these goods reaches BGN20,000 (€10,220).

Voluntary registration is possible, even if the thresholds above have not been reached.

Taxable persons, established in another EU Member State and performing taxable supplies of goods assembled or installed in Bulgaria by them or for their account, should register for VAT purposes in Bulgaria regardless of the taxable turnover if the reverse charge does not apply.

Non-resident traders can register only through a fiscal representative.

Rates

The standard VAT rate is 20%. A reduced rate of 7% applies to certain hotel services. A 0% rate is applicable to intra-community supplies, exports of goods and certain services.

Taxable base

The taxable base includes everything which constitutes consideration received or due to the supplier in return for the supply, from the customer or a third party, including subsidies directly linked to the price of the supply.

The taxable base is the open market value in respect of any supplies between related persons or free of charge supplies. Certain items, such as default interest and discounts, are deducted from the taxable base.

Taxable event

The taxable event for VAT purposes is the supply of goods and services by a taxable person, intra-Community acquisition, as well as the import of goods.

On the date of the taxable event:


- ▶ VAT becomes chargeable for taxable supplies and an obligation arises for the VAT-registered person to account for it.
- ▶ A reason for not charging VAT for exempt supplies and supplies with place of supply outside the territory of Bulgaria occurs.

VAT procedures

Declarations

Bulgarian taxable persons must file monthly VAT returns by the 14th day of the month following the month to which they refer. Full payment of the positive balance between the VAT on sales and VAT on purchases in Bulgarian lev is required by the same date.

Intra-Community supplies of goods and services to recipients, registered for VAT purposes in other EU Member States who are liable to account for VAT there, will be included in the monthly VIES declarations (for sales to EU traders).



Persons registered for VAT in Bulgaria, who trade in goods with other EU countries, must complete statistical reports, known as Intrastat, if the value of the goods received/dispatched from/to the EU exceeds certain thresholds. The statutory thresholds for Intrastat declaration for 2009 are BGN400,000 for dispatches and BGN250,000 for arrivals. Intrastat returns are submitted monthly in electronic format by the 10th day of the month following the respective month.

Deductibility and recovery of VAT

A taxable person registered for VAT may recover input tax from output tax if the purchases are related to taxable sales or sales to foreign persons that would have been taxable if performed on the territory of the country. The right to deduct input VAT arises when the VAT becomes chargeable and can be exercised within the same month or during the following three months.

Excess of input over output VAT is offset against VAT payable within two months. If afterwards, there is undeducted input VAT, it is subject to a refund within 30 days following the submission of a VAT return requesting the repayment. A 30-day term for refund without obligatory offsetting applies to exporters and major investors.

Under certain circumstances, foreign non-registered persons may also refund Bulgarian VAT. The refund is allowed to businesses that are not established in Bulgaria. For businesses established in the EU, refunds are made under the terms of the EU's 9th VAT Directive. For businesses and individuals established outside the EU, a refund is allowed under the terms of the EU's 13th VAT Directive if their country allows reciprocal refunds to Bulgarian businesses.

Incentives

A special incentive applies for major investors allowing them to self-assess VAT on imports (instead of paying it at customs clearance, as usual) and to enjoy a shorter (30-day) refund term with no additional two-month deduction. The incentive applies to entities that have obtained prior permission from the Minister of Finance.

Penalties

Various penalties apply for breaches of VAT obligations, the most significant one being a penalty equal to the amount of unpaid VAT due, in addition to the VAT due.

Customs duties

Customs duties are applied for the importation of goods from third (non-EU) countries. The customs duty

rates are determined according to the Combined Nomenclature applicable in all EU Member States. As an EU Member State, Bulgaria is a party to the free-trade agreements concluded by the Community. Customs suspensions, quotas or anti-dumping measures, introduced by the EU, are also applicable in Bulgaria. EU customs legislation is directly applicable in Bulgaria. Control is exercised mainly at clearance at the border. However, there are exemptions allowing persons having the status of 'approved economic operator' to be subject to post-clearance control and/or to clear goods at a place chosen by them.

Excise duties

The following groups of goods are subject to excise duties in Bulgaria:

- ▶ Alcohol and alcoholic beverages
- ▶ Tobacco products
- ▶ Energy products and electricity

The amount of the excise duty depends on the type of the goods and can be determined as a flat rate based on quantity, proportionally to the value, according to the specifics of the goods (e.g. alcohol percentage) or a combination of these. The taxable base is assessed on the specific measures set for each type of excise goods (volume, number, engine power).

Tax system

Excise duties become due upon the release of the goods for consumption, which is generally the production or the entry of the goods in the territory of the country, unless the goods are covered under an excise duty suspension arrangement. The possibility of applying for a suspension arrangement is open to authorized warehouse keepers. As of 1 April 2010, economic operators are obliged to submit electronic Administrative Documents (e-ADs) for excise movements to other Member States under EMCS. The paper-based procedure will continue to apply for dispatches to some countries, but not later than 31 December 2010.

Ecological duties

Some ecological liabilities arise for those persons who place on the Bulgarian market goods, such as:

- ▶ Packed goods
- ▶ Electrical and electronic equipment
- ▶ Batteries
- ▶ Car tyres
- ▶ Motor oil
- ▶ Motor cars, etc.

Targets for recycling and reuse, which are specific to the different types and categories of products, must be met by their producers/importers.

They can either meet these targets collectively or individually, or must pay a product fee to the state to take on the responsibility for recycling and reuse.

VAT related incentives

The Bulgarian VAT Act allows VAT registered persons implementing large investment projects to import goods in Bulgaria without paying effectively VAT on the importation if the following conditions are met:

- ▶ A permission from the Minister of Finance
- ▶ Importation of goods (save for goods subject to excise duty) included in a list, approved by the Minister of Finance
- ▶ Period of execution of the project - up to two years
- ▶ Investment amount - over BGN10 million
- ▶ Creation of over 50 new jobs
- ▶ Proof of the means for the project financing, as well as of the capability of the large investor to build and maintain facilities for ensuring execution
- ▶ The applicant does not have outstanding tax and mandatory social security and health insurance liabilities

- ▶ Compliance with the requirements of Regulation (EC) No 1998/2006 of the Commission on the Application of Articles 87 and 88 of the Treaty to *de minimis* state aid.

The permission is granted for a term of up to two years.

Export incentives

There are no special export incentives applicable in Bulgaria.

Free zones and free warehouses

At present, there are six operational "free zones" in Bulgaria that are located on strategic trade rail, road and water trade routes:

- ▶ Vidin - around the port facility of this Danube town
- ▶ Rousse - around the port facility of this Danube town
- ▶ Dragoman - near the border with Serbia
- ▶ Svilengrad - near the Bulgarian/Turkish border
- ▶ Plovdiv - includes the territory of the Plovdiv International Fair and the industrial zone of the town having a very well developed infrastructure. The Plovdiv International Airport has air connections throughout Europe, the Middle East and Northern Africa.

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- ▶ Bourgas - around the facilities of Bulgaria's biggest Black Sea port. The zone includes a cargo terminal at the Bourgas International Port. Third country entered into a free zone or free warehouse are deemed not to be imported in Bulgaria and hence, no customs duties or similar charges are imposed. These exemptions are also applicable for tobacco and alcohol products, as well as for manufactured goods that are brought into Bulgaria for processing and subsequent re-export.

Foreign goods may be kept in the free zones and free warehouses:

- ▶ Without special permission, as subject to operations designated to storage thereof, to improve their trade image and quality or processing for new delivery or sale
- ▶ Under customs regimes "importation", "temporary importation", "inward processing" and "processing under customs control".

Bulgarian goods may also be stored in free zones with permission from the customs authorities. Local goods kept in the free zones may be subject only to operations aimed at their storage. These could be subject to other operations beyond storage if they are exported.

Convertible foreign currency may be used, and revenues can be transferred abroad freely without any restrictions.

Designated technology zones

There are no special provisions concerning Designated Technology Zones in Bulgaria.



Financial reporting and auditing



The Accountancy Act provides the legal framework of accounting in Bulgaria. The Law defines the application on the territory of Bulgaria of the International Financial Reporting Standards (IFRS) adopted by the European Union (EU). The application of IFRS in Bulgaria has been legally required since 1 January 2005, except for banks, insurance, investment and social security companies and enterprises which issue securities to the public, for which IFRS were allowed, effective from 1 January 2003.

IFRS includes:

- ▶ International Accounting Standards (IAS)
- ▶ International Financial Reporting Standards (IFRS) and interpretation on their application (SIC-IFRIC)
- ▶ IFRS also include subsequent amendments and additional provisions of standards and interpretation of their application, future standards and their interpretations by the International Accounting Standards Board (IASB)

The entities below are obliged to prepare and present financial statements (FS) on the basis of IFRS, as endorsed by the EU:

- ▶ Banks and other credit institutions, insurance and investment undertakings, companies for additional social security and the funds managed by them
- ▶ Enterprises issuing securities as per the Bulgarian Public Stock Offering Act

The financial reporting framework for Small and Medium-sized Enterprises (SME) is the Bulgarian National Financial Reporting Standards for SMEs.

Annual financial statements should be prepared and presented on the basis of the National Financial Reporting Standards for SMEs by enterprises which, for at least one of the two preceding years, do not exceed the indicators under two of the following criteria:

- ▶ Balance sheet assets as of 31 December: BGN8 million
- ▶ Net income from sales for the year: BGN15 million
- ▶ Average number of personnel for the year: 250 persons

Small and medium sized companies, as well as the newly established companies may choose to prepare and present their financial statements either on the basis of IFRS or on the basis of the National Financial Reporting Standards for small and medium-sized enterprises. An enterprise which has, in one reporting period, prepared and presented its annual financial statements on the basis of International Financial Reporting Standards cannot apply the National Financial Reporting Standards for small and medium-sized enterprises.

The reporting year in Bulgaria is the calendar year and ends on 31 December. Interim financial statements covering a period of less than one calendar year may be prepared where required by a law or a regulation, or upon a decision of the management.

Parent companies should prepare and present consolidated FS by 31 March of the following year. Accountancy Act and IFRS include exemption criteria for preparation of consolidated financial statements. Annual financial statements are prepared in a prescribed format for SME. They consist of a balance sheet, a profit and loss account, a cash flow statement, a statement of changes in equity and notes.

Enterprises the financial statements of which are subject to an audit by independent registered auditors (CPAs or specialised auditing companies) should also prepare management reports. Management reports should present information on development of a company's business, objectives of the company and its future development, research and development activities, significant events that occurred after the date of preparation of the annual financial statements.

As far as joint stock companies are concerned, information should be presented on the share capital structure and changes during the financial year, the existence of any branches, the financial instruments used by the entity, as well as the financial risk management, hedging policies and exposures for price, credit, liquidity risks and cashflow risk.

The auditors are obliged to opine on the consistency of the management report with the financial statements.

The notes to the financial statements should present information about the basis of preparation of the statements and accounting policies adopted with regard to significant transactions and events. They should also contain disclosures, which are required by applicable financial reporting framework but not included elsewhere in the main financial statements, or which are relevant and necessary for fair presentation of the accounts.

Special disclosure requirements apply for banks, insurance, investment companies and some other entities.

Reporting and filing requirements

Companies are required to submit corporate income tax returns to the Tax authorities together with annual activities report, which contains statistical information in a prescribed format and is reported to the National Statistical Institute, by 31 March of the following year. Public companies, banks (branches of foreign banks inclusive), insurance companies, pension funds and investment funds should follow special legally defined reporting and filing requirements. Local regulatory prudential reporting to Bulgarian National Bank is required by banks, leasing companies and consumer finance companies and to Financial Supervision Commission -

by pension, insurance and investment intermediaries and management companies.

Annual financial statements and the management report, approved by the shareholders/owners or the relevant legal body, should be published by 30 June of the following year in the Trade Register (applicable for traders in the meaning of the Commercial Act), in the Central Register to the Ministry of Justice (which applies for non-for-profit organizations) and in the media-economic newspaper/magazine or Internet (applicable for all other enterprises). The companies which are subject to an audit should publish annual financial statements accompanied by management and auditor's reports.

In case financial statements are published only on the Internet, free access to the corresponding Internet site should be available for at least three years after the date of publishing.

Books and records

All companies and sole-traders in Bulgaria are obliged by the Accountancy Act to keep accounting books and records and to prepare annual financial statements. The Accountancy Act regulates the requirements for the comprehensiveness and reliability of the accounting systems; the contents, preparation and publication of the annual financial statements; the persons who prepare the annual

financial statements and their eligibility to perform such a task. The Act defines the accounting documents and the form of accounting and the frequency of the stocktaking process. The Act also sets the rules on archiving of accounting information:

- ▶ Payroll registers should be kept for 50 years.
- ▶ Accounting ledgers and financial statements should be kept for 10 years.
- ▶ Documentation on tax control up to five years after expiry of the prescribed term of paying up the public obligation, certified by this documentation.
- ▶ Documentation on financial audit until the next succeeding internal audit or an audit by the National Audit Office.
- ▶ Any other records should be kept for three years.

Audit requirements

Unless otherwise provided for by the law, annual financial statements of the enumerated entities below will be subject to an independent financial audit by registered auditors:

- ▶ Joint-stock companies and partnerships limited by shares
- ▶ Enterprises which are issuers in the meaning of the Public Stock Offering Act



- ▶ Credit institutions, insurance and investment undertakings, companies for additional social security and the funds, managed by them
- ▶ Enterprises for which this requirement is established by a law
- ▶ All enterprises not mentioned in the items above, with the exception of enterprises applying a simplified form of financial reporting and budget-funded enterprises

“Enterprises applying a simplified form of financial reporting” refers to enterprises which over the current or the previous year do not exceed the indicators under two of the following criteria:

- ▶ Balance sheet assets as of 31 December: BGN1.5 million
- ▶ Net income from sales for the year: BGN2.5 million
- ▶ Average number of personnel for the year: 50 persons

Statutory auditors

The Independent Financial Audit Act (IFAA) provides for:

- ▶ Objectives and principles of auditing
- ▶ Professional standards on auditing applicable in Bulgaria
- ▶ Obtaining of CPA certificates
- ▶ Rights, obligations and responsibilities of registered auditors

- ▶ Status of the Institute of Certified Public Accountants (ICPA) in Bulgaria

The profession of auditors is regulated and independent within the limits set by the law and professional standards. The ultimate responsibility for public oversight over statutory auditors lies with the Commission for Public Oversight of Registered Auditors.

IFAA provides that an audit should be carried out in compliance with International Standards on Auditing, according to which an auditor should issue an independent opinion on whether the financial statements of a company present fairly, in all material respects, its financial position and the results of operations and changes in cash flows in compliance with the Bulgarian accounting legislation.

A statutory audit may be performed by a Bulgarian Certified Public Accountant or by a specialized auditing company registered with the ICPA in Bulgaria.

IFAA requires that any public interest entity shall set up an audit committee. Transparency reports should be published by registered auditors for each audited public interest entity. Public interest entities are:

- ▶ Public entities and issuers of securities in the country, as well as in another member State of the European Union and the European Economic Area

- ▶ Credit institutions
- ▶ Insurance and reinsurance undertakings, health insurance and pension insurance companies
- ▶ Commercial companies which produce, transfer and sell electricity and thermal power
- ▶ Commercial companies which import, transfer, distribute and transit natural gas
- ▶ Commercial companies which provide water supply, sewerage and telecommunication services
- ▶ Bulgarian State Railways
- ▶ Entities which exceed in the current financial year the indicators of two of the following criteria:
 - Balance sheet assets as of 31 December - BGN84 million
 - Net income from sales for the year - BGN97.5 million
 - Average number of personnel for the year - 250 persons



Forms of enterprises

Foreign persons can do business in Bulgaria without incorporation through a permanent establishment.

The Bulgarian Commercial Act (SG/1991, last amended SG 82/2009) provides the main framework for commercial entities' set up and corporate governance in Bulgaria.

Under Bulgarian law, they can also use the following forms of commercial business organization:

- ▶ Sole-trader: an individual
- ▶ Partnership: general partnership, limited partnership, partnership limited by shares
- ▶ Commercial entity (company) set up by two or more individuals or legal entities for the purpose of carrying out business
- ▶ Branch
- ▶ Representative office
- ▶ Consortium and holding
- ▶ Co-operative society

The Commercial Act provides for the following types of companies:

- ▶ Joint-stock company (AD)
- ▶ Limited liability company (OOD)
- ▶ General partnership
- ▶ Limited partnership
- ▶ Partnership limited by shares

- ▶ European Economic Interest Grouping (EEIG)
- ▶ European company (SE)

The joint-stock company and the limited liability company may be set up as sole-ownership companies in which case their acronyms change to EAD and EOOD, respectively.

A person (regardless of whether an individual or a legal entity) may participate as a shareholder/partner in more than one company. An individual may register as only one sole-trader.

In 2006 a new Commercial Register Act (CRA) was adopted (SG 34/2006, last amended SG 44/2009). It came into force on 1 January 2008. The Commercial Register is a centralized electronic database, containing all circumstances and disclosures regarding the traders. The traders are obliged to submit the said information and most circumstances and changes therein become effective for the third parties as of the date of their registration in the Commercial Register. An individual file in electronic form is kept for each trader and branch of a foreign trader. The Commercial Register is public. It is operated by the Registry Agency within the Ministry of Justice.

The Agency provides automated submission of information about entered traders, branches of foreign traders and the circumstances related and the acts announced in the Commercial Register, to the National Revenue Agency, as well as to other subjects, established by law.

Traders, branches of foreign traders and circumstances related, subject to registration in accordance with the law, are registered in the Commercial Register. Acts pertaining to the traders and branches of foreign traders subject to registration should be disclosed in the Commercial Register. All persons registered in the Commercial Register receive an obligatory unified identification code which serves as a proof for the circumstances and acts, entered in the Commercial Register.

All traders and branches of foreign traders registered in the district courts' registers are obliged to re-register under the CRA in a three-year period after the day of its enforcement. No state fee is due in this case. The three-year period expires on 1 January 2011.


A registration regime applies to Bulgarian companies, branches of foreign companies, divisions of European Economic Interest Grouping having their seat in another EU member state. The Registry Agency is empowered to verify the compliance of the incorporation actions and documents with the statutory requirements according to the Commercial Act. A company's existence comes to validity as of the day of its registration in the Commercial Register. With the initial registration, the entities receive an unified identification number (UIN). The registration process takes

usually several days as of the submission of the documents with the Commercial Register depending on its workload (the statutory deadline for the recording is set within the working day following the day of documents' submission). Upon completion of the incorporation process, registration with the National Revenue Agency is done *ex officio*.

The rules for registration of a commercial entity apply to both Bulgarian and foreign nationals. Special regulatory/licensing regime is established for companies intended to operate in the field of banking, insurance, voluntary pension, investment brokerage and certain others.

The Bar Act (BA), adopted in the summer of 2004 (last amended SG 69/2008), introduced a new type of lawyers' associations (law firms). A law firm is a non-commercial entity, recorded in a special register with the respective Bar Association and the District Court. Law firms combine the characteristics of a partnership (e.g. no fixed capital, partners are personally liable for the firm's liabilities to clients) and a co-operative (e.g. the General Meeting is the law firm's supreme body).

The Bar Act provides for terms and conditions under which foreign lawyers may practice their profession in Bulgaria. The regime regarding lawyers from EU member states is preferential. As of the entry into force of the EU Bulgaria



Accession Treaty, the lawyers who are citizens of EU Member States and have obtained their legal qualifications in one of the EU Member States, are entitled to exercise the legal profession. In providing assistance and defence for specific cases, the foreign lawyer is placed on equal footing with Bulgarian lawyers and is bound to use the same name in which exercises the legal profession in the state where he/she has acquired legal competency. Where under Bulgarian law procedural representation is mandatory, the foreign lawyer may take action of procedural representation only together with a Bulgarian lawyer.

Furthermore, a foreign lawyer can establish permanently on the territory of Bulgaria for exercising legal activities under the name used in the state where the legal competency has been acquired, after registration in the Register of Foreign Lawyers. Following registration in the Register of Foreign Lawyers and three years of actual and uninterrupted exercise of legal profession under the name used in the country where legal competency has been acquired, or following an equivalent examination, a foreign lawyer has the right to apply for registration at a Bar Association in the Republic of Bulgaria. The registration at a Bar Association gives foreign lawyers the rights of a Bulgarian lawyer.



Legal representation before a Bulgarian court is possible for a third country lawyer (non-EU), when the latter appears in court jointly with a Bulgarian lawyer and a bilateral agreement between the lawyer's home country and Bulgaria exists, or the principle of reciprocity is applicable.

Sole-traders

Every individual over 18 years of age with a permanent address³ in the Republic of Bulgaria, and who is not insolvent or bankrupt can register as a sole-trader in the Commercial Register. The commercial registration in this case does not infer the establishment of a separate legal entity. The person, sole-trader, preserves his/her status of individual, natural person but ads up the ability of a trader, i.e. to be party to commercial relations. The commercial name of the sole-trader should include the individual's first and last name, and the acronym "ET". Sole-traders would be deleted from the commercial register upon the following circumstances:

- ▶ Upon the individual's written request in case of closure of activity or permanent establishment abroad
- ▶ In case of death of the individual, upon request of the heirs

- ▶ In case the individual's legal capacities have been restricted, e.g. due to mental disease, upon request of the trustee

Companies

Limited liability companies (OOD)

Limited liability companies can be established by one (in the case of sole-ownership limited liability company, EOOD) or more individuals/legal entities provided that all requirements set out in the law are complied with.

Limited liability companies are incorporated further to resolution of the ownership interest holders and recorded in the Commercial Register, administered by the Registry Agency.

An OOD's minimum capital is fixed to BGN2 to be allocated in shares (ownership interests) of value not less than BGN1. Capital instalments can be made by the shareholders either in cash or in kind, whereas a special procedure for the evaluation of the in-cash contribution is provided for by the law.

An OOD is governed by its Articles of Association (AA) executed by the shareholders. The AA includes information on the name, seat and address of management, scope of

activities, managing bodies, books of the OOD, etc. The AA is deposited with the Commercial Register. In Bulgaria, there is no practice that shareholders arrange their relations by a separate Shareholders' Agreement (in addition to the AA). However, such an agreement is not prohibited and can be executed, provided that its stipulations do not inflict imperative provisions of the law.

The governing bodies of an OOD are as follows:

- ▶ General Meeting of its Shareholders
- ▶ One or more Managers, appointed by the General Meeting

The General Meeting of the Shareholders is the OOD's supreme managing body and is competent to resolve the most important corporate issues, e.g. changes in the authorized capital, assignment of Managers, opening and closure of branches, adoption of the annual financial statements and disposal with real estate.

The Shareholders are summoned to sessions by the company's Manager. Voting rights are proportionate to a shareholder's participation in the registered capital unless otherwise agreed in the Articles of Association.

³ Foreign nationals receive permanent address in Bulgaria only if they are allowed permanent residence in the country.

The General Meeting takes most of the decisions with a simple majority (i.e. more than 50% of the capital). The unanimous vote of the shareholders is required for the General Meeting to resolve on increase or decrease in the capital.

Majority of 3/4 of the capital is necessary for decisions on the following:

- ▶ Changes in the Articles of Association
- ▶ Acceptance of and expulsion of shareholders
- ▶ Resolutions for additional in-cash contributions

The Commercial Act allows the General Meeting of an OOD to oblige its shareholders to make additional in-cash contributions proportionate to their participation in the capital, which would serve for the cover of losses or satisfy the company's temporary need of funds. These contributions are granted to the OOD as a loan and the General Meeting can resolve on the payment of interest. Consequences for a shareholder who has failed to comply with the decision for additional contributions are the same as in case he/she has failed to pay its main contribution to the company's capital and may lead to his/her expulsion from the OOD.

An OOD's Manager is appointed by the GM of the shareholders. He/she is responsible for the day-to-day

management of the company and for the implementation of the resolutions of the General Meeting. The Manager is also the OOD's statutory representative to any third parties. In case there is more than one Manager, each of them is entitled to represent the OOD independently unless the AA or the resolution of the GM of the shareholders have provided otherwise.

No other restrictions of the Manager's representative power would be applicable vis-à-vis third parties. The Manager is registered in the Commercial Register.

The personal element involved in the relations among the shareholders in a limited liability company is stronger than the one in a joint-stock company. Therefore, a special procedure is applied for the transfer of shares from a shareholder to a non-shareholder. Shareholders in an OOD have the right and the obligation to take part in the company's management and activity, to be informed and to check the company's books and financial statements.

The Articles of Association of an OOD can provide for an additional supervisory body in the company, named Controller. The Controller is assigned to supervise the observance of the Articles of Association and the management of the company's property. The Controller should report to the General Meeting directly.

In the case of sole-ownership limited liability company (EOOD), the sole-owner of the capital has the competence of the General Meeting of the Shareholders. The sole-owner can manage and represent the EOOD personally or through a Manager. An EOOD would be terminated with the death of the sole-owner, unless his/her heirs decide to continue the company's activity. Should the EOOD be property of a legal entity, the EOOD would be terminated upon winding up/termination of its owner.

Limited liability companies are not statutorily obliged to form special reserves. There is no impediment, however, for decision on the establishment of reserves to be adopted by the General Meeting of the Shareholders/Sole-owner of the capital or provided for in the Articles of Association.

Joint-stock companies

A joint-stock company can be set up by one (EAD) or more individuals/legal entities (AD). The set up of an AD should be resolved by a Meeting of the Founding Shareholders at which the subscription of shares in the capital and adoption of the by-laws take place. The newly incorporated company comes to existence after its recording in the Commercial Register. As the other forms of business, AD is subject to the post-



commercial registrations stated above, which are automatically performed by virtue of the registration in the Commercial Register.

An AD's minimum capital can amount to BGN50,000 divided into shares, each of nominal value not less than BGN1. At least 25% of the capital should be paid prior to the commercial registration.

The share participation in an AD can be evidenced by the following types of shares:

- ▶ Registered shares - the name of the owner is indicated on the share certificate and in the company's Book of the Shareholders. Such shares can be transferred by means of endorsement. The transfer would bind the company after being recorded in the Book of the Shareholders.
- ▶ Bearer shares - title there over is evidenced by the mere physical possession of the share certificate.
- ▶ Preference shares - incorporate some special rights to their holders (e.g. guaranteed dividend, liquidation quota, etc.). The AD is the only legal entity under the Bulgarian law that is allowed to issue bonds.

From the company's incorporation until the issuance of paper-form shares, the shareholders evidence their capacity by temporary share certificates issued against the contributions to the capital.

A joint-stock company can be managed through:

- ▶ One-tier system of management, i.e. by the General Meeting of the Shareholders and a Board of Directors (3 - 9 members)
- ▶ Two-tier system of management, i.e. by the General Meeting of the Shareholders, Managing Board (3 - 9 members) and Supervisory Board (3 - 7 members)

The General Meeting of the Shareholders is the AD's supreme body, competent to resolve the most important issues related to the corporate operation of the company (e.g. changes to the capital, amendments and supplementation to the by-laws, adoption of the annual financial statements). The General Meeting consists of all shareholders with voting rights. In the case of a sole-ownership joint stock company (EAD), the sole-owner of the capital has the competence of the General Meeting.

The General Meeting of the Shareholders should be held at least once per year (regular General Meeting). The General Meeting should take place at the seat of the company or alternative venue in the Republic of Bulgaria. The General Meeting is summoned by the company's managing body, respectively by the Board of Directors or Managing Board/ Supervisory Board.

Shareholders in possession of more than 5% of the authorized capital for no less than three months can request the summoning of a General Meeting. If their request is not satisfied within three months, the General Meeting would be convened by the respective District Court. The invitation for the GM should be published with the Commercial Register at least 30 days prior to the scheduled date of the session.

All materials for the meeting should be at the disposal of the shareholders in the office of the company. If no bearer's shares are authorised, and if allowed by the by-laws of the company, the managing body can send written invitations to the shareholders, and not publish the invitation in the Commercial Register.

The law provides for statutory requisites of the invitation to a GM. It should include information about the date, hour, place, agenda and specific proposal for resolutions of the session. In case members of a managing body would be elected, the names and addresses of the proposed individuals/entities should be mentioned.

The GM takes decisions with simple majority of the represented capital. Special majority of 2/3 of the represented capital is necessary for amendment of the by-laws, changes in the capital, and winding up of the company.

Qualified majority of 3/4 of the represented shares is required for: restricting the rights under preference shares; capitalization of profit; transformation of the company; and for continuing the operation of a wound-up company. The GM sessions and the decisions taken should be documented in Minutes under the agenda and a list of the attending shareholders to which the documents are attached. Upon request of a shareholder or a board member, a Notary Public can be invited to the session and prepare a Notary Deed for the General Meeting.

Only the GM or, if the by-laws allow, the managing body by unanimous vote, can resolve on the following transactions:

- ▶ Transfer or granting the use over the entire commercial enterprise
- ▶ Disposal of assets amounting to more than half of the company's assets according to the latest certified annual financial statements
- ▶ Undertaking of liabilities or provision of securities the amount of which during the current year exceeds half of the company's assets according to the latest certified annual financial statements

Board members in an AD can be individuals or legal entities through their authorized representative. No member to a board can be an individual who:

(i) has been member to a board of a company declared insolvent during the two years preceding the resolution of the insolvency and unsatisfied creditors have remained; (ii) does not comply with other requirements set for in the by-laws. An individual proposed for member of a board should prior to his/her appointment notify the shareholders on being an unlimited partner, or for holding more than 25% of another company's capital, and for his/her participation in the management of other entities.

Quorum of at least half of the board members is needed for the meetings. Decisions are taken by simple majority unless otherwise provided for in by-laws or the law. The by-laws can allow boards to adopt resolutions *per rollam* provided that all board members state their consent in writing. Minutes of the board meetings should be kept and preserved in a special book of the company.

Board members are jointly liable for damages to the company resulting from their activity. Therefore, a guarantee should be deposited by the board members to the company's bank account amounting to not less than three-fold their gross monthly remunerations. Claims against board members can be brought by shareholders of more than 10% of the company's capital.

Joint-stock companies are obliged to form and maintain Reserve Fund of at

least one tenth of the authorized capital. The Reserves Fund could be used only to cover current and prior year losses. The company is free to capitalize any reserve exceeding this amount. Not later than the end of March each year, the Board of Directors/Managing Board should prepare annual financial statements and report on the activity of the AD for the preceding year. The annual financial statements are subject to verification and certification by a certified auditor appointed by the General Meeting. The financial statements and the report for the activity should be further approved by the GM. Dividends can be distributed only if the company's net assets as per the financial statements, exclusive of dividends, exceed the cumulative amount of the authorized capital and the reserve funds. Dividends can be up to the amount of the profit for the respective year, undistributed profit from previous years, the portion of the Reserve Funds and the other funds exceeding the minimum, established by the law or by the Articles of Incorporation, decreased by the uncovered losses from previous years and the mandatory accruals for the Reserve Funds and the other funds of the company.

Public joint-stock companies

An AD that has issued shares following public offering at a stock exchange market or has further registered a stock



edition for trade at a regulated market of securities or has more than 10,000 shareholders on the last day of two successive calendar years is a "Public Company" under the Public Offering of Securities Act (SG 114/1999, last amended SG 93/2009; POSA). Only a joint-stock company can be a public one, and it is recorded in a special register with the Commission on Financial Supervision. Such companies are subject to certain restrictions and reporting requirements.

Special rules apply to the procedure for summoning a General Meeting of the Shareholders, the majority for taking decisions, membership of a managing body, etc. Public joint-stock companies can apply for delisting from the Register of Public Companies provided that the conditions of the POSA are fulfilled.

Special investment purpose companies

Companies of special investment purpose are joint-stock companies formed to invest the funds acquired through issuance of shares in real estate or receivables ("securitization" of real estate/receivables). This type of companies is regulated by the Special Investment Purpose Companies Act (SG 46/2003, last amended SG 53/2007).

Pension insurance joint-stock companies

Joint-stock companies can be set up with the purpose of establishing and operating pension funds. Such joint-stock companies should be licensed for their activity by the Financial Supervision Commission. The regulation applicable to pension insurance companies is provided for in the Social Security Code (SG 110/1999, last amended SG 19/2010).

Partnerships

The Bulgarian Commercial Act recognizes the following types of partnerships:

- ▶ General partnership (in Bulgarian Sabiratelno Drujestvo, SD) - the partners are fully and jointly liable for the entity's liabilities
- ▶ Limited partnership (in Bulgarian Komanditno Drujestvo, KD) - some partners are fully and jointly liable for the entity's liabilities and the remaining partners are liable up to the value of their share contribution
- ▶ Partnership limited by shares (in Bulgarian, Komanditno Durjestvo s Aktzii, KDA) - this type of entity is a mixture between a KD and an AD, as the limited shareholders are issued certificates against their contribution to the capital

The provisions of the Commercial Act regarding joint-stock companies (AD) apply to KDA, including the minimum authorized capital requirement - BGN50,000. The KDA is managed by a General Meeting where only the unlimited partners have voting rights and a Board of Directors consisting of the limited partners.

European Economic Interest Groupings (EEIG)

The Bulgarian Commercial Act recently introduced provisions acknowledging the European Economic Interest Groupings, within the meaning given by Council Regulation (EEC) No 2137/85 on the European Economic Interest Grouping (EEIG), hereinafter referred to as "Regulation (EEC) No 2137/85".

An EEIG which has its registered office in the Republic of Bulgaria, will be a legal entity formed as from the day of its registration in the Commercial Register. The divisions of an EEIG, which has its registered office in another state, will be also registered in the Commercial Register.

The members of the EEIG, recorded in the Republic of Bulgaria, shall be liable for the obligations of the Grouping according to the rules applicable to a general partnership, unless otherwise provided for in Regulation (EEC) No 2137/85.

The registered office of the EEIG may not be transferred to another state where the EEIG owns land in the Republic of Bulgaria. This prohibition shall apply conforming to the conditions ensuing from the accession of the Republic of Bulgaria to the European Union.

European companies (SE)

A European company, within the meaning given by Council Regulation (EC) No 2157/2001 on the Statute for a European company (SE), which has its registered office in the Republic of Bulgaria, shall be incorporated through merger by the formation of a new company or transformation of a joint-stock company, which has its registered office in the Republic of Bulgaria, into a European Company and shall be registered in the Commercial Register. The seat of the European Company shall be the place where the management of the activity is located.

A European Company, which has its registered seat in another Member State, may not be incorporated through merger by the formation of a new company where the transforming corporation, which has its registered office in the Republic of Bulgaria, owns land. A European Company, which has its registered seat in the Republic of Bulgaria and which owns land, may not transfer its registered seat to another Member State.

This prohibition will apply conforming to the conditions ensuing from the accession of the Republic of Bulgaria to the European Union.

Joint ventures

Two or more persons can conclude a joint-venture agreement in order to combine their efforts for the achievement of a mutual business objective. Joint ventures are not legal entities but unincorporated partnerships. The partners input capital/ in-kind contributions, which become joint ownership of all participants. Joint ventures are regarded as separate entities for tax purposes and are subject to corporate income taxation.

Co-operative societies

A co-operative society is a voluntary association for business activities of at least seven individuals. The co-operative society is a legal entity, the number of members and capital amount of which can vary. It is managed by a General Meeting of Co-operators, Management Board, and a Controlling Board.

The cooperative's Chairman represents it before third parties. Seven co-operative societies can form a co-operative union.

Consortia

The Bulgarian Commercial Act defines the consortium as a group of traders united to perform a certain activity.

A consortium can be organized either as a commercial company (e.g. limited liability or joint-stock company), or as a joint venture (civil partnership) whereas the civil contractual legislation would apply to the relations between the partners in the consortium.

Holdings

A holding can be: a joint-stock company, a partnership limited by shares, or a limited liability company purposed to have share participation or manage other companies and without further obligation to perform itself commercial activity. At least 25% of the holding's capital should be invested in its subsidiaries. Subsidiaries are companies in which the holding has or controls directly or indirectly not less than 25% of the shares, or has the power to appoint the majority of the managing body's members.

Branches of foreign legal entities

Any foreign entity, registered under its domestic law with the right to carry out commercial activity, can open a branch in Bulgaria. The branch should be recorded with the Commercial Register. Branches are not regarded as separate legal entities. However, branches of foreign companies are obliged to keep financial books, and prepare separate financial statements. Commercial transactions



between foreign entities through their branches in Bulgaria and local persons are governed by the rules applicable to local persons. In 2005, the Commercial Act was amended in order to implement Eleventh Council Directive 89/666/EEC. The amendments detail the requirements for registration of branches in Bulgaria.

Representative offices

A foreign legal entity can open a representative office (RO) in Bulgaria. Representative offices are not separate legal entities and have no legal capacity to undertake business activities. ROs can only advertise and promote the activity of the parent company, liaise with possible clients in Bulgaria, etc. ROs have to be registered with the Bulgarian Chamber of Commerce and Industry, and are subject to BULSTAT registration. All transactions concluded by the foreign entity with local parties for the purposes of the trade representation are subject to local regulations.

Mergers and acquisitions

The regulation of the reorganization of commercial companies has changed considerably since the amendments in the Commercial Act from June 2003, effective from 1 January 2004, incorporating the provisions of the Third Directive 78/855/EEC on Mergers and Acquisitions of Joint-stock companies

and the Sixth Directive 82/891/EEC on the Split off of Joint-stock companies.

Forms of corporate reorganizations

The Bulgarian Commercial Acts regulates the following forms of corporate reorganizations:

- ▶ Acquisition - one or more than one existing companies are acquired by another existing company
- ▶ Merger (consolidation) - a new company is created by two or more than two existing companies merging with each other
- ▶ Division - one company transfers its assets and liabilities to two or more than two other companies, whereas the company, which is being transformed is wound-up without liquidation
- ▶ Spin-off - one company, without being wound-up, transfers part of its property to another company
- ▶ Spin-off of a wholly-owned enterprise - one company, which is being transformed, transfers part of its assets to one or more than one wholly-owned limited liability or joint-stock companies, and the company, which is being transformed, becomes their sole-owner

- ▶ Transformation into new legal form corporate entity - a company changes its legal form and the newly formed company takes over the company, which is being transformed, whereas the latter is to be wound-up without liquidation
- ▶ Transfer of property to the sole-owner - a wholly-owned company transfers its entire property to its sole-owner, provided that the sole-owner is registered as sole-trader. The company, which is being transformed, is to be wound-up without liquidation.

Since the end of 2007 a new form of multinational reorganization has been introduced as a possibility for the companies in Bulgaria. This form of reorganization encompasses mergers and acquisitions where at least one of the companies involved, has a registered seat in the European Union or in the European Economic Area.

Procedure

The Commercial Act follows a very detailed procedure when corporate entities are being reorganized, which includes the following major phases:

- ▶ A written agreement for reorganization between the participating commercial entities or preparation of a plan for reorganization in the cases of division and spin-off

- ▶ Preparation of a report on behalf of the managing body of each of the participating companies with detailed legal and economic reasoning for the executed agreement/plan for reorganization
- ▶ Presenting the agreement/plan and the report of the managing body to the Commercial Register
- ▶ Review and report on the reorganization by a registered auditor
- ▶ Approval of the agreement/plan and all related changes by the general meetings of the involved companies, taken with a certain qualified majority, e.g. 3/4 of the represented capital for joint-stock companies
- ▶ Registration of the reorganization with the Commercial Register. The reorganization has legal effect as of the day it is registered with the Commercial Register.

Consequences and principles

The reorganization results in the legal succession between the transformed and acquiring/newly established companies of all rights and liabilities. The acquisition is based on the following principles:

- ▶ The shareholders in the companies retain their share portion, even through monetary equalization.

- ▶ The property of the reorganized company would be managed separately from the property of the adopting/newly established company for a six-month period after the registration of the reorganization in the Commercial Register, so that creditors' interests are guaranteed.
- ▶ Shareholders whose legal position in the reorganized company would be changed and have voted against the reorganization at the General Meeting can leave the reorganized company by submitting a notarized notice. The leaving shareholder is entitled to receive the amount of his/her share prior to the reorganization.

Competition rules in relation to mergers and acquisitions

If as a result of the reorganization, there is a concentration of control, within the meaning of the Competition Protection Act, the companies have to notify the Commission for Protection of Competition prior to the implementation of the transaction.

The obligation for notification arises where the aggregate turnover of the companies - parties to the transaction is more than BGN25 million for the previous financial year and the turnover of either each of at least two companies involved in the transaction or of the target company is more than BGN3 million.

Until December 2008, the thresholds were significantly lower and they were increased so as to release from the burden to notify transactions, which do not have significant effect on the competition on the relevant market. If a transaction is not notified, the acquiring company faces the risk to be imposed dramatically high sanctions, which may be as much as 10% of its annual turnover.

Involvement of public companies in a merger or acquisition

Mergers and acquisitions involving at least one public company must be done in accordance with the POSA, which would be applicable together with the Commercial Act.

In November 2008 the Bulgarian Parliament has adopted new Protection of Competition Act (published in State Gazette 102/2008, last amended SG 42/09) (PCA), which replaced the law existing for more than ten years. With the new act Bulgaria is making one big step ahead in harmonization of the Bulgarian legal framework with the *acquis communautaire*. As a result, the Bulgarian Competition Law is currently fully in line with the European competition law standards.



Anticompetitive agreements and concerted practices

Companies are prohibited from entering into agreements or taking part in practices, which have as their object or effect the prevention, restriction or distortion of competition in the relevant market (e.g. price fixing, market sharing, bid ridding, etc.). The prohibition (Article 15 of the PCA) almost literally reflects the provision of Article 81 of the EC Treaty. All agreements or concerted practices between undertakings are prohibited if they have a negative effect on the competition and do not fall within the special exemptions provided for by the law. Anticompetitive agreements and practices are forbidden as between competitors in one and the same market (the so-called "horizontal agreements") but also between participants in different fields ("vertical agreements", e.g. stipulation between a producer and a supplier). Exemption from the prohibition is provided for agreements with immaterial effect, i.e. concluded between enterprises the total market share of which is not more than 15% in case of vertical agreements and not more than 10%, in the horizontal agreements' case.

The individual notification regime for agreements and concentrated practices applied by the derogated CPA has been abolished. The companies should self-assess the compatibility of their

agreements, decisions and practices with the EU and the national competition laws and notify the Commission accordingly.

Abuse of dominant position

Companies are considered of dominant or monopolistic position, should their market share, financial resources and business relations allow them to hinder the competition. Such entities are forbidden from activities, which may directly or indirectly impose prices, limit production, urge contracting parties into undertaking additional liabilities, etc. It should be noted that the dominant position itself is not prohibited by law.

The presumption for determination of a dominant position, i.e. market share bigger than 35 % in the respective market has been removed. By this, the percentage of the undertakings that follow within the scope of the general definition of the dominant position and the supervision role of the Commission expand.

Concentration of business activity

Concentration of business activity is the acquisition or merger between two independent companies, the acquisition of control over a separate enterprise, the establishment of a joint venture, etc. The newly adopted PCA aims at avoiding supervision of concentrations which

do not have a significant effect to the competition on the national market. The Commission should be notified of the concentrations of undertakings where the total turnover of the undertakings involved for the previous year exceeds BGN25 million. Additionally, the turnover of each of at least two of the undertakings - participants at the concentration or the threshold of the undertaking, subject to acquisition, within the territory of Bulgaria, must exceed BGN3 million.

The notification of the concentrations, meeting the above-mentioned criteria, should be made after execution of the respective agreement, the public trade offer announcement or acquisition of control but, in any case, prior to undertaking any actual steps for completion of the deal.

The Commission performs an assessment of the concentration upon notification by the undertakings which are involved in the respective merger, acquisition or have established a joint venture or accordingly, by the undertaking gaining control, or upon Commission's own initiative and issue a decision by means of which to allow or forbid the transaction. The PCA provides for two types of assessment procedures depending on the risk for impediment of the competition - a fast-track assessment and a thorough assessment.

In case of concentrations, which unquestionably will lead to establishment or increase of the dominant position and will restraint the competition on the relevant market, a thorough assessment is to be undertaken. The term for completion of the fast-track assessment is up to one month and the term for completion of the thorough assessment is up to five months.

Unfair competition

The PCA prohibits all actions that contradict the *bona fide* commercial practice and is intended to damage the interests of competitors. Several examples are listed in the law:

- ▶ Damaging a competitor's good reputation
- ▶ Providing misleading information
- ▶ Misleading advertisement
- ▶ Comparative advertisement
- ▶ Unlawful clients attraction, imitation
- ▶ Disclosure of commercial or manufacturing secrets

The new PCA prohibits the use of a domain or the outlook of an internet page, which are identical or close to those of other parties in a way that may lead to misleading or harming the interests of third parties. It should be noted that the provisions related to the misleading and comparative advertising, which

were provided in the Law on Consumer Protection (SG 99/2005, last amended SG 18/2010) are now regulated by the PCA. The misleading and the non-permitted comparative advertising regulated now by the PCA are to be treated also as unfair commercial practice according to the Law on Consumer Protection Act. This division of the scope of the regulations implements the Directive 2006/114/EC.

Every individual or a legal entity that have suffered damages as a result of the breach of the competition protection rules are entitled to file claims against the person in default. The filing of the claim is to be made according to the procedures provided in the Civil Procedure Code.

The Commission is the authority assigned to control the observance of the competition rules and to impose sanctions in case violations are identified. The monetary penalties to be imposed to the undertakings for breach of the competition protection rules have been significantly increased. The Commission may impose a penalty of up to 10% of the total turnover of the undertaking or groups of undertakings for the previous financial year for breach not only of the prohibition related to cartels, concentrations and dominant positions but also to the unfair competition cases. The Commission may impose further sanctions up to the 5% of the average

day-to-day turnover for the previous financial year for each day of default provided that the undertaking fails to comply and fulfil specific commission's resolutions as provided for in the PCA. If the undertaking delivers incomplete, untrue or misleading information and if it fails to provide assistance to the Commission, a penalty of up to 1% from its total turnover could be imposed.

Concession regime

As of May 2006, there is a new Concession Act (CA) (SG 36/2006, last amended SG 103/2009) which harmonizes the legislation with European standards. The law introduces a new definition of the term 'concession' which significantly defers from the old one. As per the definition of the CA, a concession is the right to operate a facility and/or a service of public interest, made available by a grantor to a merchant (the concessionaire), in exchange for the latter's obligation to build or manage and maintain the facility or the service subject to the concession at his/her own risk.

According to its subject, there are three types of concessions - public works concession, service concession and mining concession. A concession is granted on the basis of a long-term agreement in writing involving a defined material interest, executed between the grantor and the concessionaire.



The concessions are granted for up to 35 years.

Public procurement

Public procurement is regulated in Public Procurement Act (PPA) (SG 28/2004, last amended SG 82/2009). As per the law, subject of public procurement is supply of goods through purchase, lease, rental with or without option to buy, or hire purchase, as well as all preliminary operations, necessary for the actual use of the products, services, construction, etc. Contracting authorities can be state and municipal authorities, the President and other institutions, bodies governed by public law, public companies and any combinations, merchants and other persons who are not public companies, where carrying out one or several of the activities covered by law. The contracting authorities are obliged to conduct a public procurement award procedure when the grounds provided in the law exist. Any Bulgarian or foreign natural or legal person, as well as any combination of such persons, may participate in a public procurement procedure. Public procurements can be awarded by conducting an open procedure, a restricted procedure, a competitive dialogue and negotiated procedures. Any decision, action or omission by the contracting authorities in a public procurement award procedure until conclusion of the contract or of

the framework agreement is subject to appeal as to the legal conformity before the Commission for the Protection of Competition.

National regime

The Bulgarian Constitution (SG 56/1991, last amended SG 12/2007) and the Encouragement of Investments Act (EIA) (SG 97/1997, last amended SG 18/2010) provide that foreign investors are entitled to perform economic activity in the country under the same provisions applicable to Bulgarian investors except where otherwise provided by law. The principles cover the entire range of economic and legal forms of activities for accomplishing entrepreneurial businesses. The national treatment of foreign investors extends also to their participation in the process of privatization and acquisition of shares, debentures, treasury bonds and other kinds of securities.

Priority of international treaties

Bulgaria has concluded Bilateral Treaties for Encouraging and Mutual Protection of Investments with most WTO member states, as well as with other countries. These treaties introduce the principles of the Most Favoured Nation and the principle of the national regime for all investors from the other country. In case of conflict between the provisions of the

treaties with the local legal provisions, the treaties' provisions will have priority over domestic law.

Forms of investment

The Encouragement of Investment Act encourages investments in tangible and intangible fixed assets and the creation of new jobs within the territory of Bulgaria, which are in compliance with the requirements of Regulation (EC) No 800/2008. The EIA provides for certification of different investment classes. Obtaining such an investment class certificate ensures significant facilitations in the provision of administrative services, obtaining of title and rights *in rem* in private state and municipal property, financial assistance for construction of technical infrastructure, etc. The recent amendments of the EIA implementing the requirements of Regulation (EC) No 800/2008 provide for declaring of some state aids categories in compliance with Article 87 and Article 88 EC and implement the encouragement of new category of priority investment projects with significance for the economic development of the country and its regions.

Protection against expropriation

The Bulgarian Constitution allows compulsory expropriation of property in the name of the State or for municipal needs only if effected by virtue of a law provided that these needs cannot otherwise be met, and provided a fair compensation has been ensured in advance.

Legal guarantees against adverse changes in the law

The Encouragement of Investments Act stipulates the principle that foreign investment made before the adoption of amendments in law imposing statutory restrictions only with regard to foreign investments, will not be affected by these restrictions. The law provides for guarantees against subsequent legislative changes.

Ownership of real estate

The amendments to the Bulgarian Constitution, relating to a country's membership in the European Union provide for a transitional period prior to direct applicability of the "Free Movement of Capital" rules and principles, applying within the EU. Under the Treaty for Accession of Bulgaria and Romania to the European Union, the above transitional period for acquiring land for second home and land for performing business

activity will be five years, valid from 1 January 2007 for individuals - citizens of any EU member state unless being holders of permanent residence permit and for foreign legal entities, established under the laws of an EU member state. With regard to the agricultural and forest land, the transitional period will be seven years, starting from 1 January 2007. Considering the above described legal considerations, we can conclude that foreign legal entities will not be able to acquire directly land before January 2012.

There are no restrictions against acquisition of land by locally registered companies with majority foreign participation.

InvestBulgaria Agency

The Encouragement of Investments Act allows special institutional help for the investors provided by the InvestBulgaria Agency.

The Agency provides to investors general information and individual administrative services upon request.







Labour law

The labour and social insurance aspects of the employment of foreign individuals in Bulgaria are governed by the domestic labour and social insurance laws unless otherwise provided for in international treaties to which Bulgaria is a party.

The Labour Code (SG 26/1986, last amended SG 15/2010) is the backbone of the Bulgarian labour law framework, whereas a large variety of other legislative instruments (ordinances, decrees, regulations) complement it in the regulation of employment relations.

Protection of the Bulgarian labour force and limitation of unemployment among Bulgarian nationals are contemplated by the authorities. Therefore, some special requirements apply to foreign nationals who intend to work in Bulgaria. Hence, foreigners must obtain a work permit from the National Employment Agency prior to starting work. The permit is issued for one year at maximum, and can be extended not more than twice (i.e. total validity of three years). An exception could be made and longer work permit can be issued for high managerial positions, etc. The work permit grounds the issuance of residence permit for the foreign national, who validates his/her physical stay in the country.

The regime for EU, EEA and the Swiss Confederation nationals differs from the above-mentioned regime. A Resolution of the Council of Ministers was adopted at the end of 2006 stating that Bulgaria

will open its labour market for EU citizens in compliance with Council Regulation (ECC) No 1612/1968. Thus, no work permit or similar acts are generally necessary for these categories of non-Bulgarian nationals who, following Bulgaria EU accession, are no longer regarded as "foreigners" within the meaning of the Act on the Foreigners in the Republic of Bulgaria (SG 153/1998, last amended SG 103/2009). Also, it should be considered that the EU Bulgaria Accession Treaty contains opportunity for Bulgarian authorities in case of restriction measures against Bulgarian nationals to impose such on the basis of reciprocity.

Employment remunerations can be negotiated in BGN or in a foreign currency. However, the actual payment is usually performed in BGN, i.e. in the BGN equivalence of the stipulated salary, as some imperfections of the social security and tax systems do not allow effective salary payment in foreign currency.

Effective as of 1 January 2010, the minimum remuneration of all employees is fixed at BGN240 for normal working time (i.e. eight hours per day and 40 hours per week), and BGN1.42 per working hour.

Employment contracts should be concluded in writing and signed by both the employee and the employer. The employer is liable to notify the National Revenue Agency for the conclusion, amendment or termination of an employment relation. Employment contracts can be for:

- ▶ An indefinite period
- ▶ A trial period - not exceeding six months
- ▶ A fixed term - in case of seasonal or short-term works
- ▶ The completion of specific assignment: when the work is preliminary limited in term and in scope, e.g. on specific projects and programmes
- ▶ Specific working days within the calendar month, etc.

Employment contracts should stipulate on the following issues:

- ▶ Place of work
- ▶ Position (name) and character of the job function
- ▶ Date of execution of the employment agreement and the beginning of its performance
- ▶ Term of the employment contract
- ▶ The amount of the main⁴ and extended paid annual leave and the additional paid annual leaves
- ▶ Termination notice period equal for both parties⁵

- ▶ The main and the additional employment remunerations of constant nature, as well as the period of their payment

- ▶ Duration of the working day or week⁶

Employment contracts can be terminated only on the grounds explicitly listed in the Labour Code, such as:

- ▶ Mutual consent
- ▶ Expiry of term (in case of fixed term employment)
- ▶ Objective reasons outside the control of the parties, e.g. death, serious illness of the employee, etc.
- ▶ Unilaterally upon prior written notice of the employee
- ▶ Unilaterally upon prior written notice of the employer provided that respective causes (as listed in the law) are present⁷
- ▶ Upon initiative of the employer against compensation of not less than four-fold remuneration lastly received by the employee
- ▶ Disciplinary dismissal, etc.

The regular termination notice period under the Labour Code is 30 days. The notice period under fixed-term employment agreements is three months but may not exceed the remaining term of the agreement. The 30 days statutory notice period may be contractually extended in the individual employment agreement to a longer period, up to three months.

Social security law

The Bulgarian social security legislation has been considerably amended during recent years due to the fast development of the economic relations and also in view of the synchronization of the Bulgarian legislation with the European law.

The Social Security Code (State Gazette 110/1999, latest amendments in State Gazette 19/2010 "SSC") is the main source of regulation in the field of social security. It also includes regulation of statutory and private pension funds. Additional provisions can be found in the Annual Budget of the State Social Insurance Act (ABSSIA), where the specific amounts of the minimum and

⁴ not less than 20 working days

⁵ not less than 30 days and not more than three months for indefinite term employment contracts

⁶ normal working time is 8 hours per day, 40 hours per week

⁷ The Labour Code in principle prohibits the introduction of arbitrary redundancies by the employer for employees under indefinite employment contracts. Thus, redundancies should always be well-grounded and for a cause, e.g. closure of the undertaking, objective decrease in the volume of work, etc.



maximum social insurance income and social security contributions are indicated.

Secured risks and compensation

The state social security provides compensation, aid and pensions to secured persons upon occurrence of the following secured risks:

- ▶ Temporary inability to work - it occurs should an employee/assignee be temporarily unable to perform his/her employment obligations due to sickness, as evidenced by a medical certificate.
- ▶ Disability - should be established by a special medical committee, assigned to assess the extent to which the secured person has lost his/her ability to work. The compensation or pension from the state social security is based on that assessment.
- ▶ Maternity - mothers receive a compensation, granted for a period of 410 calendar days (45 prior to and 365 after the child's birth). Mothers receive a monetary compensation for raising a child on a monthly basis until it reaches the age of two.
- ▶ Unemployment - individuals who have been insured for all insurance risks during at least nine of the 15 months preceding the termination of their employment have the right to be

compensated in case of termination. The compensation is calculated per day and amounts to 60% of the individual's average daily income for the nine months preceding the termination. The maximum compensation for unemployment is determined by the Social Security Budget Act on an annual basis (BGN12 per day for 2010). The compensation is due for a term calculated according to the individual's professional experience, which counts for social security purposes, the maximum term being 12 months in case of over 25 years of eligible professional experience.

- ▶ Old age - individuals acquire the right to pension upon reaching a certain age and years of experience.
- ▶ Death - the relatives of an insured individual acquire the right to inherited pension upon his/her death.

Social insured persons and social insurers

The SSC sets for the following major groups of insured individuals for social security purposes:

- ▶ Insured against all social insurance risks - individuals who work under an employment contracts, state officials, military officers, managers, magistrates, etc.

- ▶ Insured against disability, old age and death - the free-lancers, sole-traders, agricultural producers, assignees under civil law contracts, etc.

Insurers are individuals/legal entities in charge with the payment of social security instalments for their employees, assignees, etc. Free-lancers have the combined capacity of insured persons and insurers as they are liable to pay their own social security instalments.

Social security income and social security instalments

Social security income is the income on which social insurance contributions are calculated and includes all remuneration and other income from working activities.

The Budget of the State Social Security Act determines social security related thresholds for payments for each calendar year, namely:

- ▶ Maximum monthly amount of the social security income (BGN2,000 for 2010)
- ▶ Minimum monthly amount of the social security income for self-insurers (BGN420 for 2010)
- ▶ Minimum monthly amount of the insurance income per main business activities and groups of professions. Different regimes and rates apply as regards security instalments.



Social security experience

The professional experience recognized for social insurance purposes (social security experience) does not necessarily match an individual's years of employment. Social security experience is generally:

- ▶ The time during which an individual has worked under employment contract and social insurance instalments have been due or paid-in
- ▶ The time for which self-insuring individuals have personally duly paid their social insurance instalments
- ▶ Certain specific categories of time during which no social insurance instalments have been made, namely: paid and unpaid leave for child birth and raising of a child; paid and unpaid leave due to temporary disability; unpaid leave not exceeding 30 working days in one calendar year
- ▶ The time during which an individual has received compensation for unemployment
- ▶ The time during which self insuring individuals, who pay their insurance fees for all insurance risks except for labour accident, professional disease and unemployment, have received monetary compensation for temporary disability, pregnancy and delivery and for raising of a child, and the periods of temporary unemployment, pregnancy,

delivery and for raising of a child during which they did not have the right of monetary compensation

The cumulated social insurance is taken into account when computing an individual's eligibility to pensioning, right to compensation caused by temporary disability, right to pension due to invalidity, etc. In some cases, individuals are allowed to "buy-off" gaps in their contribution by paying social security instalments for the respective period, e.g. individuals who have reached the age for their pensioning but do not have the required length of social security experience can effect a bulk payment to cover the missing part of the statutory required length of social security experience.

Unemployment law

In order to become a beneficiary of the unemployment related state system and receive monthly compensation for unemployment from the social security fund, individuals should register as unemployed with the local divisions of the National Employment Agency.

The Bulgarian state has undertaken to implement a persistent policy towards stimulation of occupation and decrease of the unemployment rate. Its policy to this effect is generally ruled by the Stimulation of Employment Act (SEA)

(State Gazette 112/2001, last amended SG 74/2009). The SEA sets out the rights and obligations of individuals seeking employment, as well as those of employers. In order to become a beneficiary of the unemployment related state system and receive monthly compensation for unemployment from the social security fund, individuals should register as unemployed with the local divisions of the National Employment Agency. Each Bulgarian citizen, as well as each citizen of another Member State of the European Union, of another Contracting State to the Agreement on the European Economic Area or the Swiss Confederation, who is actively seeking a job, may register with the competent local division of the Employment Agency. Employers willing to take part in the state's programs for boosting employment should announce their vacancies to the above agency.

Notification in case of mass dismissals

Employers are obliged to submit at least 30-days advance notice to the respective division of the National Employment Agency and to the employees' representatives within its entity, should massive dismissals be planned. The following dismissals, if carried out within a period of 30 days, are construed as "mass dismissals":



- ▶ Dismissed individuals exceed 10 employees in entities where 20-100 employees are employed
- ▶ Dismissed individuals exceed 10% of the employees in entities where 100-300 employees are employed
- ▶ Dismissed individuals exceed 30 employees in entities where more than 300 employees are employed

A new Act on Information and Consultation of Factory and Office Workers in Community-Scale Companies, Groups of Companies and European Trade Companies (SG 57/2006) has been in force since 1 January 2007. The law regulates the terms and procedure for the establishment and functioning of a European Works Council or a procedure for information and consultation of factory and office workers in *Societas Europaea* (SE) companies and groups of companies and for involvement of factory and office workers in the affairs of the European Trade Company and the European Cooperative Society. The purpose of the law is to ensure the right of factory and office workers in SE companies and groups of companies and of a European Trade Company or a European Cooperative Society to participate in the management and to have their interests represented by special bodies or according to a particular procedure provided for in the law.

Further to the notification, teams are formed which comprise representatives of the employer, the employees and the National Employment Agency. The purpose of the teams is to develop projects for training and assistance for the dismissed employees.

Pension fund law

Payment of pension instalments and the granting of pensions and compensations are structured on three main benchmarks: statutory pension insurance, additional statutory pension insurance and additional voluntary pension insurance.

According to Bulgarian law, pensions form a part of the general social security system and their regulation is incorporated in the Social Security Code. Payment of pension instalments and the granting of pensions and compensations are structured on three main benchmarks:

- ▶ Statutory pension insurance: all individuals are entitled to pension insurance accumulated in the state's Pension Fund
- ▶ Additional statutory pension insurance: additional pension insurance is statutory for individuals, born after 31 December 1959. Pension insurance contributions are deposited in a

universal or professional pension fund and serve for the accrual of additional pension to be received at the time of retirement. Universal or professional pension funds are legal entities, incorporated by licensed pension insurance joint-stock companies and registered under the Commercial Law or the legislation of another Member State. The shareholders in the licensed pension insurance company should adopt rules for the operation of the universal/professional pension fund to specify the proposed conditions for additional statutory pension insurance, the fees and deductions to be collected by the pension insurance company, the terms and conditions for the payment of pensions and the one-off or deferred payments. Permission for the operation of universal/professional fund is issued by the Deputy Chairman of the Committee for Financial Supervision.

- ▶ Additional voluntary pension insurance: every individual who has reached the age of 16 years is allowed to make voluntary pension instalments to a fund for additional voluntary pension insurance. Such insurance would grant the respective individual the right to receive personal pension for old age, or to receive as a one-off payment the amount accrued.

The persons insured under an occupational scheme for whom social insurance contributions are no longer made, as a consequence of their moving from the Republic of Bulgaria to another member state, preserve the rights to the same extent as for the insured persons in respect of whom social insurance contributions are no longer made but who remain within the Republic of Bulgaria. Payments for any persons insured under an occupational scheme, as well as for any other persons holding entitlement under any such scheme, are made in other member states, net of the taxes and transactions charges due. Voluntary pension instalments are tax deductible.

Private pensions

Individuals who have reached the age of 16 are entitled to make voluntary pension instalments to a private fund for voluntary pension insurance. Such funds should be set up by a licensed pension insurance joint-stock company and permission for their operation is issued by the Deputy Chairman of the Committee for Financial Supervision. Voluntary pension insurance funds should be registered under the Commercial Law. The General Meeting of the Shareholders of the pension insurance company should adopt rules for the organization and activity of the fund.

Useful addresses and telephone numbers

Council of Ministers - Government Information Services

1, Dondukov Boulevard
Sofia 1194, Bulgaria
Tel: +359 2 940 2770/2999; Fax: +359 2 980 2056
Email: gjs@government.bg
www.government.bg

Bulgarian National Bank

1, Alexander Batenberg Square
Sofia 1000, Bulgaria
Tel: +359 2 91459; Fax: +359 2 980 2425; 980 6493
Email: press_office@bnbank.org
www.bnb.bg

Ministry of Foreign Affairs

2, Alexander Zhendov Street
Sofia 1040, Bulgaria
Tel: +359 2 971 1408; Fax: +359 2 870 3041
Email: iprd@mfa.government.bg
www.mfa.bg

Financial Supervision Commission

33, Shar Planina Street
Sofia 1303, Bulgaria
Tel: +359 2 940 4999; Fax: +359 2 829 4324
Email: bg_fsc@fsc.bg
www.fsc.bg

Ministry of Finance

102, G. S. Rakovski Street
Sofia 1040, Bulgaria
Tel: +359 2 9859 2022/2023/2078/2097
Information: +359 2 98591
Email: feedback@minfin.bg
www.minfin.bg

Privatisation Agency

29, Aksakov Street
Sofia 1000, Bulgaria
Tel: +359 2 987 3293/3294; Fax: +359 2 980 9827
Email: press@priv.government.bg
www.priv.government.bg

Ministry of Economy and Energy, Directorate - "Public Relations and Protocol"

8, Slavianska Street
Sofia 1052, Bulgaria
Tel: +359 2 94071; Fax: +359 2 987 2190
Email: public@mee.government.bg
www.mi.government.bg

National Statistical Institute

2, Panayot Volov Street
Sofia 1038, Bulgaria
Tel: +359 2 985 7457/7729; Fax: +359 2 985 7799
Email: presscentre@nsi.bg
www.nsi.bg

Ministry of Regional Development and Public Works, Directorate - "Public Relations and International Relations"

17-19, Kiril i Metodii Street
Sofia 1202, Bulgaria
Tel: +359 2 940 5430; Fax: +359 2 988 2954
Email: press@mrrb.government.bg
www.mrrb.government.bg

Ministry of Transport

9, Dyakon Ignatii Street
Sofia 1000, Bulgaria
Tel: +359 2 940 9301/9534; Fax: +359 2 940 9824
Email: press@mt.government.bg
www.mt.government.bg

Ministry of Sports

75, Vasil Levski Blvd.
Sofia 1040, Bulgaria
Tel: +359 2 930 0575; Fax: +359 2 988 4032
Email: nivanov@youthsport.bg
www.youthsport.bg

Ministry of Justice

1, Slavyanska Street
Sofia 1040, Bulgaria
Tel: +359 2 923 7555; Fax: +359 2 981 9157
Email: pr@justice.government.bg
www.justice.government.bg

Bulgarian Chamber of Commerce and Industry

9, Iskar Street
Sofia 1058, Bulgaria
Tel: +359 2 987 2631; Fax: +359 2 987 3209
Email: bcci@bccci.bg
www.bcci.bg

Ministry of Environment and Water

67, W. Gladstone Street
Sofia 1000, Bulgaria
Tel: +359 2 940 6000; Fax: +359 2 988 5913
Email: press@moew.government.bg
www.moew.government.bg

Bulgarian Industrial Association

16-20, Alabin Street
Sofia 1000, Bulgaria
Tel: +359 2 932 0911; Fax: +359 2 987 2604
Email: office@bia-bg.com
www.bia-bg.com

Ministry of Agriculture and Forestry

55, Hristo Botev Blvd.
Sofia 1040, Bulgaria
Tel: +359 2 985 11199; Fax: +359 2 980 9936
Email: press@mzh.government.bg
www.mzh.government.bg

InvestBulgaria Agency

31, Aksakov Street
Sofia 1000, Bulgaria
Tel: +359 2 985 5500; Fax: +359 2 980 1320
Email: iba@investbg.government.bg
www.investbg.government.bg

Ministry of Labour and Social Policy

2, Triaditsa Street
Sofia 1051, Bulgaria
Tel: +359 2 811 9443; Fax: +359 2 988 4405/986 1318
Email: mlsp@mlsp.government.bg
www.mlsp.government.bg

Bulgaria Economic Forum

86, Vitosha Blvd.
Sofia 1463, Bulgaria
Tel: +359 2 951 5259/5759; Fax: +359 2 953 2924
Email: info@biforum.org
www.biforum.org

Economic performance statistics

The following table presents leading indicators of the Bulgarian economic performance between 2002 and 2009:

	2002	2003	2004	2005	2006	2007	2008	2009*
Real GDP growth (%)	4.9	5.0	6.6	6.2	6.3	6.2	6.0	-5.1
GDP (BGN million)	32335	34628	38823	42797	49091	56520	66728	66197
Year-end inflation based on CPI (%)	3.8	5.6	4.0	6.5	6.5	12.5	7.8	0.6
Unemployment rate (%)	16.3	13.5	12.2	10.7	9.1	6.9	6.3	9.1
Exports of goods FOB (EUR million)	6062.9	6668.2	7984.9	9466.4	12011.9	13511.9	15203.8	11783.3
Imports of goods CIF (EUR million)	7940.9	9093.8	10938.4	13876.1	17574.1	20757.2	23801.1	15867.2
Trade balance FOB/CIF (EUR million)	-1878.0	-2425.6	-2953.5	-4409.7	-5562.2	-7245.3	-8597.3	-4083.9
FDI (EUR million)	980.0	1850.5	2735.9	3152.1	6221.6	8595.8	6549.0	2844.8
BNB reserve assets (EUR million)	4574.8	5308.6	6770.4	7370.3	8926.4	11936.6	12713.1	12531.7

*Preliminary data

Source: National Statistical Institute and Bulgarian National Bank

Exchange rates

The table below provides the average yearly exchange rates of the Bulgarian Lev (BGN) against major currencies between 2002 and 2009.

	2002	2003	2004	2005	2006	2007	2008	2009
U.S. Dollar	2.08	1.73	1.58	1.57	1.56	1.43	1.34	1.41
EUR	1.95583	1.95583	1.95583	1.95583	1.95583	1.95583	1.95583	1.95583
British Pound	3.112	2.828	2.883	2.86	2.869	2.8597	2.4635	2.1960
Swiss Franc	1.3329	1.2866	1.2671	1.2632	1.2436	1.1908	1.2330	1.2956
Japanese Yen (10)	0.1658	0.1494	0.1456	0.1429	0.1341	0.1207	0.1299	0.1503

Source: Bulgarian National Bank

Branch tax calculation

There are no special provisions concerning the Branch Tax Calculation. A branch of a foreign company is identical with local enterprises for accounting purposes. Therefore, the general clauses of the Corporate Income Tax Act shall apply.

Social security contributions

Different social security regimes apply to employees and self-employed persons. Social security contributions due by self-employed individuals also vary depending on the activity performed. No distinction is made between Bulgarian residents and non-residents for social security purposes. Social security contributions are imposed on the gross monthly remuneration (but not less than the minimum amount for the economic activity and the profession, as stated in the Social Security Budget Act for the respective year). The base for calculating social security contributions is subject to a monthly cap of BGN2,000.

Labour is categorized in three categories, depending on the characteristics of the work performed. Professions involving harmful or risky conditions are included in the first and second categories. The rates of social security contributions due from employers and employees falling within the third category (i.e. normal work conditions) are set out in Table 1.

Table 1: Social security and health insurance contributions 2010 (third labour category, all insurance risks)

Employees, III-rd Labour Category, Born before 1 January 1960, All insurance risks

Funds	Total % of contributions	Employer	Employee
Social Security Funds	20.5% + the percentage for Occupational Accident and Disease Fund	11.6% + the percentage for Occupational Accident and Disease Fund	8.9%
Pension Fund	16%	8.9%	7.1%
Sickness and Maternity Fund	3.5%	2.1%	1.4%
Occupational Accident and Disease Fund	From 0.4 to 1.1*	From 0.4 to 1.1*	-
Unemployment Fund	1%	0.6%	0.4%
Additional Mandatory Social Insurance Fund	-	-	-
Employees' Guaranteed Receivables Fund upon insolvency	0.1%	0.1%	-
Health insurance	8%	4.8%	3.2%
TOTAL	28.6% + the percentage for Occupational Accident and Disease Fund	16.5% + the percentage for Occupational Accident and Disease Fund	12.1%

Employees, III-rd Labour Category, Born after 31 December 1959, All insurance risks

Funds	Total % of contributions	Employer	Employee
Social Security Funds	20.5% + the percentage for Occupational Accident and Disease Fund	11.6% + the percentage for Occupational Accident and Disease Fund	8.9%
Pension Fund	11%	6.1%	4.9%
Sickness and Maternity Fund	3.5%	2.1%	1.4%
Occupational Accident and Disease Fund	From 0.4 to 1.1*	From 0.4 to 1.1*	-
Unemployment Fund	1%	0.6%	0.4%
Additional Mandatory Social Insurance Fund	5%	2.8%	2.2%
Employees' Guaranteed Receivables Fund upon insolvency	0.1%	0.1%	-
Health insurance	8%	4.8%	3.2%
TOTAL	28.6% + the percentage for Occupational Accident and Disease Fund	16.5% + the percentage for Occupational Accident and Disease Fund	12.1%

Notes:

* The contribution for the Occupational Accident and Disease Fund ranges between 0.4% and 1.1% depending on the group of economic activity the company falls into as per the National Classification of Economic Activities.

** There is a top cap social security and health insurance base of BGN2,000 per month for FY 2010.

*** The state will contribute to the Pension Fund with 12% upon the total amount of the social security income of all insured persons for the calendar year.

Foreign companies are taxed in Bulgaria on their Bulgarian source income and on their profit generated from activities conducted through a permanent establishment in Bulgaria.

Treaty withholding tax rates

The following table shows the withholding rates applicable to dividends, interest and royalties, under double tax treaties with Bulgaria:

Country	Dividends (%)	Interest (%)	Royalties (%)
Albania	5/15 (h)	10	10
Algeria	10	10	10
Armenia	5/10 (m)	10	10
Austria	0	0	0
Azerbaijan	8	7/0 (dd)	5/10 (ee)
Belarus	10	10	10
Belgium	10	10	5
Canada	10/15 (n)	10	10
China	10	10	7/10 (a)
Croatia	5	5	0
Cyprus	5/10 (r)	7	10
Czech Republic	10	10	10
Denmark	5/15 (b)	0	0
Egypt	10	12.5	12.5
Estonia	0/5 (ff)	5/0 (gg)	5
Finland	10 (c)	0	0/5 (d)
France	5/15 (e)	0	5
Georgia	10	10	10
Germany	15	0	5
Great Britain	10	0	0
Greece	10	10	10
Hungary	10	10	10
India	15	15	15
Indonesia	15	10	10
Iran	7,5	5	5
Ireland	5/10 (r)	5	10
Israel	7,5	5/10 (u)	7,5
Italy	10	0	5
Japan	10/15 (f)	10	10
Jordan	10	10/0 (hh)	10
Kazakhstan	10	10	10
Kuwait	0/5 (v)	5	10

Country	Dividends (%)	Interest (%)	Royalties (%)
Latvia	5/10 (b)	5	5/7 (w)
Lebanon	5	7	5
Lithuania	0/10 (aa)	10	10
Luxembourg	5/15 (h)	10/0 (kk)	5
Macedonia	5/15 (p)	10/0 (hh)	10
Malta	0 (g)	0	10
Moldova	5/15 (h)	10	10
Mongolia	10	10	10
Morocco	7/10 (q)	10	10
the Netherlands	5/15 (i)	0	0
North Korea	10	10	10
Norway	15	0	0
Poland	10	10	5
Portugal	15	10	10
Romania	10/15 (l)	15	15
Russia	15	15	15
Singapore	5	5	5
Slovakia	10	10	10
Slovenia	5/10 (b)	5	5/10 (x)
South Africa	5/15 (h)	5	5/10 (z)
South Korea	5/10 (j)	10	5
Spain	5/15 (i)	0	0
Sweden	10	0	5
Switzerland	5/15 (h)	10	0
Syria	10	10	15
Thailand	10	10/15 (s)	5/15 (t)
Turkey	10/15 (o)	10	10
Ukraine	5/15 (i)	10	10
United Arab Emirates	5/0 (ii)	2/0 (jj)	5/0 (jj)
United States	0/5/10 (bb)	5/0 (cc)	5
Uzbekistan	10	10	10
Vietnam	15	10	15
*Yugoslavia	5/15 (h)	10	10
Zimbabwe	10/15 (k)	10	10
No treaty countries	5/0 (ll)	10	10

**The treaty applies to Bosnia-Herzegovina, Montenegro and Serbia.*

- a. The 7% rate applies to royalties for the right to use industrial, commercial and scientific equipment; the 10% rate applies to other royalties.
- b. The 5% rate applies if the beneficial owner is a company (other than a partnership) holding directly more than 25% of the capital of the payer.
- c. This rate applies to dividends paid from Finland to Bulgaria. The treaty does not provide a withholding rate for dividends paid from Bulgaria to Finland.
- d. The 5% rate applies to royalties for specified types of intellectual property. The rate for other royalties is 0%.
- e. The 5% rate applies if the beneficial owner of the dividends is a company (other than a general partnership) that holds directly at least 15% of the capital of the payer; the 15% rate applies to other dividends.
- f. The 10% rate applies if the recipient is a legal person owning at least 25% of the voting shares of the payer for at least six months before the end of the accounting period for which the distribution of profits is made. The 15% rate applies to other dividends.
- g. The rate is 0% for dividends paid from Bulgaria to Malta. For dividends paid from Malta to Bulgaria, the withholding tax is the lower of 30% of the gross dividend or the tax imposed on the profits out of which the dividends are paid.
- h. The 5% rate applies if the recipient is a company owning directly at least 25% of the capital of the payer; the 15% rate applies to other dividends.
- i. The 5% rate applies if the recipient is a company, other than a general partnership, owning directly at least 25% of the payer. The 15% rate applies to other dividends.
- j. The 5% rate applies if the recipient is a company that is the beneficial owner of the dividends and holds at least 15% of the capital of the payer. The 10% rate applies to other dividends.
- k. The 10% rate applies if the beneficial owner of the dividends is a company that holds at least 25% of the capital of the payer.
- l. The 10% rate applies if the beneficial owner of the dividends is a company that holds more than 25% of the capital of the payer. The 15% rate applies to other dividends.
- m. The 5% rate applies if the beneficial owner of the dividends has invested at least US\$40,000 or the equivalent in another currency in the capital of the payer. The 10% rate applies to other dividends.
- n. The rate of 10% applies to dividends paid by a Canadian investment company, at least 10% of the voting shares of which are controlled directly or indirectly by a foreign company. The 15% rate applies to other dividends.
- o. The 10% rate applies if the beneficial owner of the dividends is a company (other than a general partnership) that holds at least 25% of the payer. The 15% rate applies to other dividends.
- p. The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) holding directly at least 25% of the payer. The 15% rate applies to other dividends.
- q. The 7% rate applies if the beneficial owner of the dividends is a company (other than a partnership) holding directly at least 15% of the capital of the payer. The 10% rate applies to other dividends.
- r. The 5% rate applies if the recipient is a company, owning directly at least 25% of the payer. The 10% rate applies to other dividends.
- s. The 10% rate applies to interest paid to financial institutions including insurance companies. The 15% rate applies to other interest payments.
- t. The 5% rate applies to royalties received for the use of, or the right to use copyrights. The 15% rate applies to other royalties.
- u. The 5% rate applies to interest on loan from bank or financial institutions. The 10% rate applies to other interest payments.
- v. The 0% rate applies if the beneficial owner is a company, other than a partnership, holding directly more than 25% of the capital of the payer.
- w. The 7% rate applies to royalties received for the use of, or the right to use copyrights, patent, logos, models, plans, secret formulas or processes. The 5% rate applies to other royalties.
- x. The 5% rate applies to royalties received for the use of, or the right to use, copyrights (except for cinematographic movies) or scientific, commercial or industrial equipment. The 10% rate applies to other royalties.
- y. A 0% rate applies to dividends paid to entities from European Union (EU) countries if certain conditions are satisfied.
- z. The 5% rate applies to copyright royalties and other similar payments with respect to the production or reproduction of cultural, dramatic, musical or other artistic works (but not including royalties with respect to motion picture films and works on film or videotape or other means of reproduction for use in connection with television) and to royalties paid for the use of industrial, commercial or scientific equipment. The 10% rate applies to other royalties.

- (aa) The 0% rate applies if the beneficial owner of the dividends is a company, other than a general partnership, that holds at least 10% of the payer. The 10% rate applies to other dividends.
- (bb) The 5% rate applies if the beneficial owner is a company that owns directly at least 10% of the voting stock of the company paying the dividends. The 0% rate applies if the beneficial owner is a pension fund resident for tax purposes in the United States. Other condition must be also observed.
- (cc) The 0% applies if any of the following circumstances exist:
- ▶ The beneficial owner is an institution wholly owned by the state
 - ▶ The beneficial owner is a financial institution, provided that the interest is not paid with respect to a back-to-back loan
 - ▶ The beneficial owner is a pension fund, provided that the interest is not derived from the carrying on of a business, directly or indirectly, by such pension fund.
 - ▶ The interest concerns debt claims guaranteed, insured or financed by the state
- (dd) The 0% rate applies if the payer or the recipient of the interest is the government, an administrative territorial subdivision or a local authority thereof, the National bank of either contracting state or the State, or the State Oil Fund of Azerbaijan, or the interest is paid in respect of a loan, guaranteed by any of the above institutions. The 7% rate applies to other cases.
- (ee) The 5% rate applies to royalties received for the use of any patent, design or model, plan, secret, formula or process, or for information, regarding industrial, commercial and scientific experience (know-how). The 10% rate applies to all other cases.
- (ff) The 0% rate applies if the beneficial owner of the dividends is a company holding directly at least 10% of the capital of the payer. The 5% rate applies to all other cases.
- (gg) The 0% rate applies if the interest is paid:
- ▶ To the government, local authority or the central bank of a contracting state
 - ▶ On a loan of whatever kind granted, insured or guaranteed by any of the above institutions
 - ▶ In connection with the sale on credit of any industrial, commercial or scientific equipment
 - ▶ On any loan of whatever kind granted by a bank
- (hh) The 0% rate applies if interest originating from one of the contracting states is paid to the government or the central bank of the other state. The 10% rate applies to all other cases.
- (ii) The 0% rate applies if the beneficial owner of the income derived from one of the contracting states is the other State itself, a political subdivision, a local government, a local authority or the Central Bank thereof, Abu Dhabi Investment Authority, Abu Dhabi Investment Council, International Petroleum Investment Company or any other institution set up by the Government, a political subdivision, a local authority or a local government of that other State, which is recognized as an integral part of that Government, as shall be agreed by exchange of letters between the competent authorities of the Contracting States.
- (jj) The 0% rate applies if the income originating from one of the contracting states is paid to the other State itself, a political subdivision, a local government, a local authority or the Central Bank thereof, Abu Dhabi Investment Authority, Dubai Investment Office, International Petroleum Investment Company, Abu Dhabi Investment Council or any other institution created by the Government, a political subdivision, a local authority or a local government of that other State which is recognized as an integral part of that Government, as shall be agreed through an exchange of letters between the competent authorities of the Contracting States.
- (kk) The 0% rate applies if the interest is paid:
- ▶ In connection with the sale on credit of industrial, commercial or scientific equipment
 - ▶ In connection with the sale on credit of goods or merchandise delivered by an enterprise to another enterprise
 - ▶ On a loan of any kind, not represented by bearer shares, granted by a financial institution or by the government
- (ll) 0% rate applies if the recipient is resident in a EU member state and vice versa (i.e. if the payer is EU resident and the recipient is Bulgarian legal person).

Trading partners

The following table shows Bulgaria's major trading partners from 2001 to 2009.

Exports - FOB (% of total)

Countries	2002	2003	2004	2005	2006	2007	2008	2009*
Turkey	9.3	9.2	10	10.5	11.6	11.4	8.8	7.1
Germany	9.5	10.8	10.2	9.8	9.7	10.3	9.1	11.2
Italy	15.4	14	13.1	12	10.1	10.3	8.4	9.3
Greece	9.2	10.3	9.9	9.4	8.9	9.1	9.9	9.6
Belgium	4.8	6.1	5.9	6	6.6	6.2	5.9	5.5
France	5.3	5.1	4.5	4.6	4.2	4.0	4.1	4.5
Russian Federation	4.2	0.4	1.3	1.3	1.5	2.4	2.7	2.5

* As of November 2009

Source: National Statistical Institute

Imports - CIF (% of total)

Countries	2002	2003	2004	2005	2006	2007	2008	2009*
Russian Federation	18.3	18.5	12.7	15.64	17.2	12.5	14.4	13.1
Germany	14.3	14.3	14.6	13.62	12.5	12.3	11.9	12.3
Italy	11.3	10.2	9.8	8.99	8.8	8.7	8.0	7.8
France	5.6	5.6	5.3	4.69	4.1	3.4	3.4	3.6
Turkey	4.9	6.1	6	6.05	6	6.8	5.6	5.6
Greece	6	6.7	5.7	5.01	5.2	6.2	5.3	6.1
Belgium	1.4	1.4	1.4	1.24	1.2	1.8	1.8	1.7

* As of November 2009

Source: National Statistical Institute

Import and export statistics

The following tables show Bulgaria's principal imports and exports by economic activity groups from 2002 to 2009.

Imports - CIF	2002	2003	2004	2005	2006	2007	2008	2009*
Machinery, equipment, transport vehicles	27.6	28.7	29.5	30.65	29.01	29.50	29.52	26.87
Processed products	20.5	21	21.6	20.16	20.1	20.59	19.38	17.60
Fuels and lubricants	19.6	17.4	16.7	20.15	21.82	19.89	21.84	20.07
Chemical products	10.3	10.1	10.4	9.49	8.82	8.79	8.80	11.36
Raw, non-food products, excluding fuels	4.5	5.5	6	6.14	7.55	7.41	6.71	6.09
Food and live animals	4.5	4.4	4.4	3.92	3.91	4.55	5.39	7.96
Beverages and tobacco	0.6	0.4	0.5	0.35	0.37	0.83	0.97	1.44
Animal and vegetable fats and oils and their derivative products	0.6	0.4	0.3	0.31	0.25	0.32	0.38	0.41
Others	11.8	12.1	10.5	8.84	8.18	8.11	7.02	8.21
Total (%)	100	100	100	100	100	100	100	100
In EUR million	8,411	9,611	11,620	14,668	18,479	21,861	25,094	15,299

* As of November 2009

Source: National Statistical Institute

Exports - FOB	2002	2003	2004	2005	2006	2007	2008	2009*
Processed products	22.5	24.7	27.6	26.5	30.41	29.33	26.47	22.76
Machinery, equipment, transport vehicles	12.4	13	12.4	14.22	13.47	14.94	15.74	17.06
Fuels and lubricants	9.8	8.3	10.3	12.94	15.48	14.71	16.44	12.86
Chemical products	9.3	9	7.7	7.6	6.37	7.77	8.02	7.71
Raw, non-food products, excluding fuels	6	6.3	6.1	6.37	7.14	6.70	6.51	7.38
Food and live animals	8.3	6.7	6.8	6.79	5.71	5.58	8.15	10.40
Beverages and tobacco	2.3	2.1	2.3	1.9	1.51	1.81	1.96	2.91
Animal and vegetable fats and oils and their derivative products	0.3	0.2	0.3	0.3	0.23	0.27	0.49	0.69
Others	29	29.7	26.6	23.36	19.69	18.89	16.21	18.24
Total (%)	100	100	100	100	100	100	100	100
In EUR million	6,063	6,668	7,985	9,466	12,012	13,512	15,204	10,804

* As of November 2009

Source: National Statistical Institute

Ernst & Young in Bulgaria

Ernst & Young has been operating in Bulgaria since 1992 and is a global leader in assurance, tax, transaction and advisory services.

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The quality of our service starts with the quality of our people. In Bulgaria, we have assembled a growing number of highly skilled professionals. Currently, about 200 people work with our clients in a proactive, open and objective way to help them meet their challenge.

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