



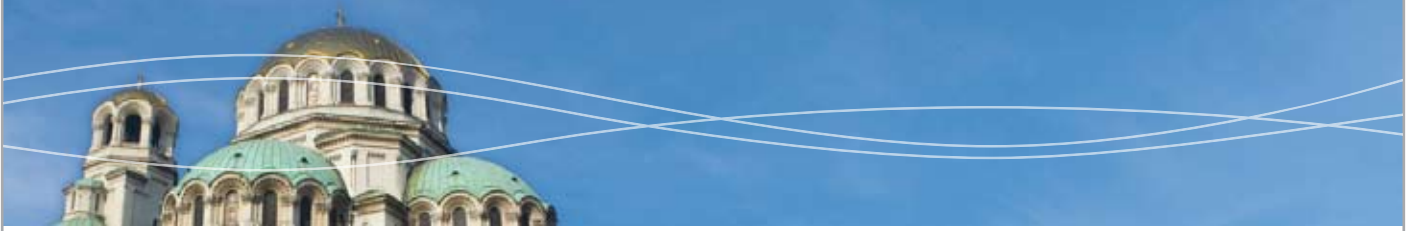
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Excellence in Global Corporate Services. Since 1975

DOING BUSINESS IN BULGARIA

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BULGARIA BUSINESS SERVICES OVERVIEW

OCRA Worldwide's experienced team of lawyers and accountants in Bulgaria provide a comprehensive range of customised services to include the formation of Bulgarian Corporate entities, advice relating to the structuring of foreign direct investment into Bulgarian and the Balkans region and specialist advice regarding Property transactions and ownership structures.

Despite a turbulent history, Bulgaria is the oldest surviving state in Europe to have kept its original name (since AD681) and most of the population is descendants of the Bulgar invasion of the south Danube around that time.

Part of the Ottoman Empire for around 500 years and a former satellite of the Soviet Union for nearly half a century, Bulgaria succeeded in integrating into western alliances when it became a NATO member in March 2004.

The 10 November 1989 marked the beginning of the democratic changes in Bulgaria. In 1990 Zhelyu Zhelev became the first democratically elected President of Bulgaria. A new constitution was adopted (1991), the political parties were restored, and privatization and restitution of the land started. After joining NATO, the key priority in Bulgaria's foreign policy was to join the European Union and as of 1 January 2007 Bulgaria became a Full Member. Depending on the pace of reforms, it should be on course for membership in 2007.

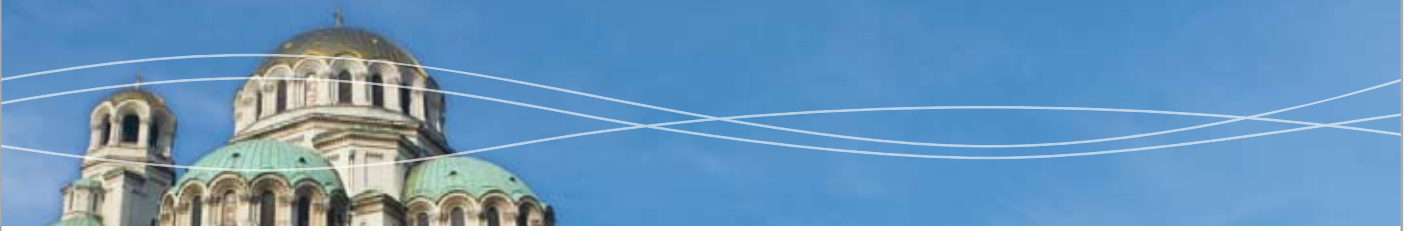
ABOUT BULGARIA

Overview

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Geography

Bulgaria is situated in the South-Eastern part of the Balkan Peninsula. The country's population is 7.97 million and has a territory of 110,912km², bordering Greece and Turkey to the South, Republic of Macedonia and FR Yugoslavia to the West. The River Danube separates it from Romania to the North. Its natural eastern border is the Black Sea. Bulgaria ranks fifteenth in size among the European countries. Its climate is Continental-Mediterranean.

Bulgaria is situated in the centre of a region, which is undergoing dynamic transition. Within 500km of its capital Sofia (1.2 million people) a population of over 60 million is concentrated throughout 10 countries, most of which have only recently embarked on their way to a market economy. This is a large market with one of the most rapidly increasing market demands in Europe. All these regions are only several hours' drive from any point in Bulgaria. A network of international motorways crosses the country, making vital connections to Western Europe, Russia, Minor Asia, to the Adriatic, the Aegean and the Black Sea. Both sea and river transport (the Black Sea and the Danube River) offer good communications and transportation to and from the region.

Political Structure

Bulgaria is a parliamentary republic that abides by the Constitution of the Republic passed by the Grand National Assembly in July 1991. The constitution of the Republic of Bulgaria is the supreme law of the country and no other law may contravene it. All international treaties, which are ratified pursuant to the constitutional procedure, are considered part of the domestic legislation.

The supreme legislative body is the National Assembly (Narodno Sabranie), seated in the capital Sofia. It enacts legislation and ratifies international treaties. Municipal councils perform legislative functions at the local level and in full compliance with the laws enacted by the National Assembly.

The 240 members of the National Assembly are elected for a four-year term directly by the electorate based on a system of proportional-majoritarian representation. The Council of Ministers heads the Executive on a national level. District Governors and Mayors represent the Executive, and implement the Government's policy within their respective jurisdictions at the local level.

The President is elected directly for a five-year term. He has limited authorities in the law-making process, certain representative functions and symbolizes the unity of the nation.

Country Structure

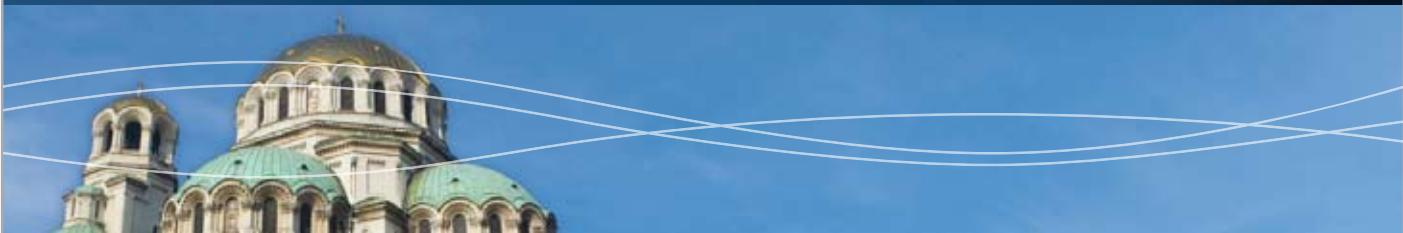
The territory of the Republic of Bulgaria is divided into 278 municipalities and 28 regions. Municipalities are legal entities and have the right of ownership and independent municipal budgets. Mayors of the municipalities and municipal councils are elected through direct local elections at every 4 years, following the law regulations. The municipal council is the local government authority, which determines the development policy of the municipality. The municipal council consists of the directly elected municipal councillors. The executive power body in the municipality is the mayor of the municipality.

The regions are administrative-territorial units executing the regional policy of the central government. The regional government is performed by regional governors and regional administration staff on municipality budget expenses. The regional governor is a monocacy body of the executive power in the region, performing the state government in the region and providing compliance of national and local interests in executing the regional policy. The regional governor is appointed by the Council of Ministers.

Facts and Figures

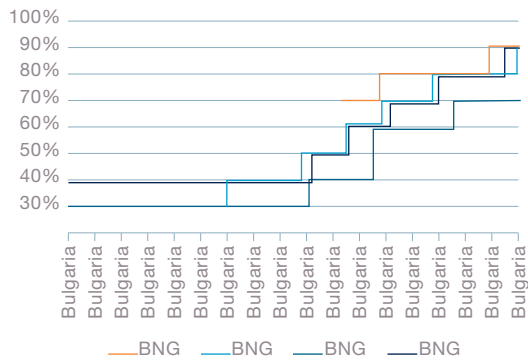
General Economic Indicators

	2000	2001	2002	2003	2004	2005E
GDP (EUR bn)	13.7	15.2	16.5	17.6	19.4	21.1
GDP Growth (%)	5.4	4.1	4.9	4.5	5.6	5.2
GDP per Capita (EUR)	3.274	3.704	4.109	4.398	4.901	5.329
Population (m)	8.2	8.0	7.9	7.8	7.7	7.7
Unemployment (eoy %)	18.0	17.9	16.3	13.5	12.2	10.6
Average Monthly Gross Wage (Avg.EUR)	115	123	132	140	154	162
Export (EUR m)	5.253	5.714	6.033	6.668	7.994	9.511
Import (EUR m)	6.533	7.493	7.755	8.868	10.712	13.010
FDI (EUR m)	1.103	903	980	1.851	2.278	2.200
FDI (% of GDP)	8.1	5.9	5.9	10.5	11.7	9.5
Inflation (avg.%)	10.3	7.4	5.8	2.3	6.1	4.4
Budget Deficit (% of GDP)	-1.0	-0.9	-0.7	0.0	1.7	-0.3
Government Debt (% of GDP)	85.8	69.9	55.9	48.4	43.5	41.0
EUR/BGN Exchange Rate - Pegged at 1.95583	1.96	1.96	1.96	1.96	1.96	1.96
USD/BGN Exchange Rate (Annual Avg)	2.12	2.16	2.08	1.73	1.57	1.56
Base Interest rate (Avg.%)	3.97	4.59	4.00	2.70	2.60	n.a



Investment Climate

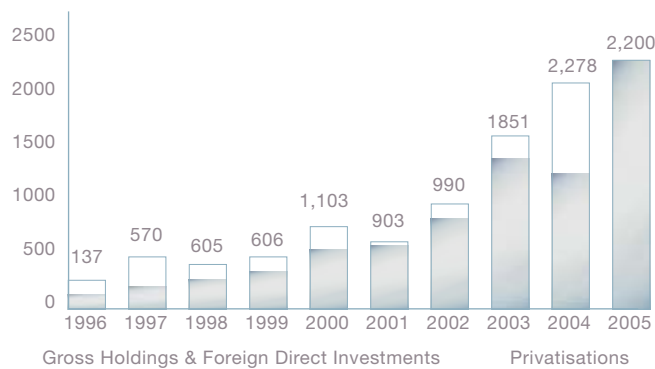
Bulgaria's Credit Rating



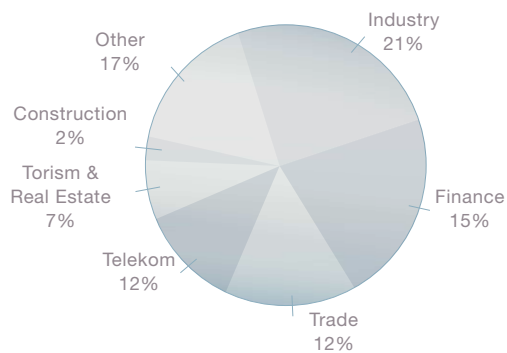
- Five year average GDP growth of 4.9%
- Budget surplus, low inflation, currency peg to EUR
- 80% private economy
- EU accession in 2007, NATO member
- Investment grade rating BBB by S&P and Fitch
- Foreign direct investment at 11.7% of GDP (Eur 23 bin in 2004)

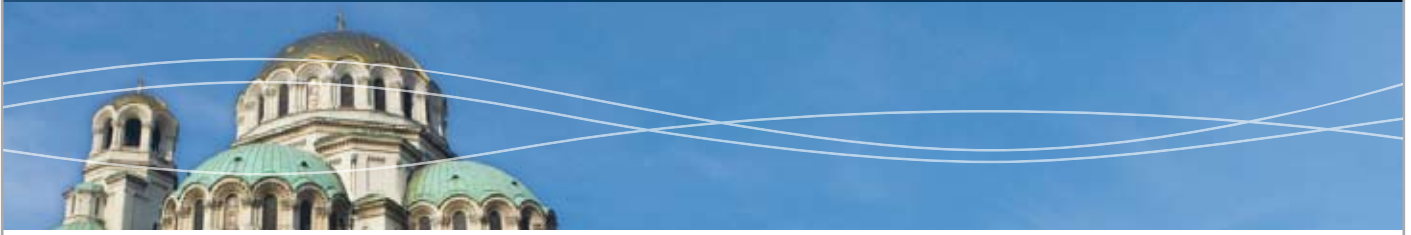
Foreign Direct Investment

FDI inflow in Bulgaria 1995-2005E, EUR m



FDI stock by sector 1992 - 2004





DFI as % of GDP and FDI Stock by Sector
Graph info TBC

Bulgaria and the European Union

In the recent years the key priorities in Bulgaria's foreign policy became the membership in the European Union and NATO. As a result of the country's considerable progress towards meeting the criteria for EU membership, Bulgaria received on 10 December 1999 the invitation to start the pre-accession negotiations.

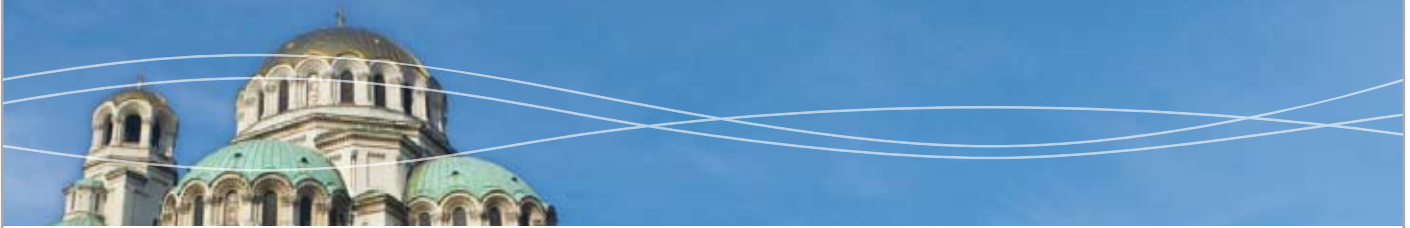
Bulgaria joined NATO in 2004 and signed the Agreement for Accession to the EU on 25 April 2005 in Luxembourg, and as of 1 January 2007 became a full member of the European Union.

Judiciary System

The judicial power in Bulgaria is independent. It is built up on the basis of a procedure of three instances.

Statutory law governs Bulgaria. Case Law doctrines of precedent and stare decisions are unknown. The legal system is based on legal models found elsewhere in Europe, especially on the civil law systems of France, Germany, Italy and Belgium. After the Second World War and the Soviet troop invasion in the country Soviet influenced laws were introduced. However, most of the principles of the civil law system were not destroyed.

After 1989 democratization of the country, most of the laws based on the Soviet Union system were repealed and replaced with acts influenced by the EU legislation.



The harmonisation of the Bulgarian legal system with the EU one is still continuing.

A major effort toward democratization is the Constitution of 1991, which sets forth the principle of new social order: supremacy of national laws and international treaties ratified by the National Assembly; separation of powers and independent judiciary; respect for the human rights, including private property rights; free economic entrepreneurship and equal treatment of state and private property; protection of foreign investments, among others.

Bulgarian judicial system comprises of three instances. Regional courts, District courts, Courts martial, Courts of appeal, Supreme Court of Cassation and Supreme Administrative Court operate within its structure.

The Regional court operates only as a first instance court. All cases are under its competence, except those, which, according to the provisions of the law, are jurisdictional to another court.

The District Court operates either as a first or as a second instance court. Some categories of civil and criminal cases, provided by the law, are jurisdictional to the District court as a first instance court. As a second instance court it functions on cases initiated upon claims and protests against Regional court's decisions. The District court may comprise Civil, Commercial, Penal and Administrative departments.

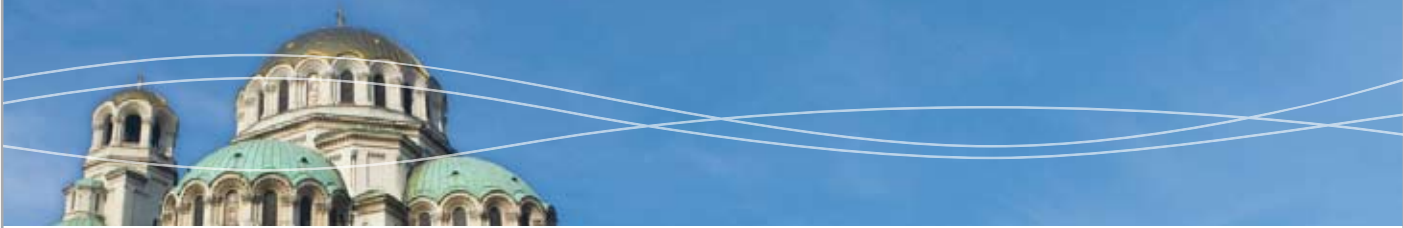
Court of appeal operates only as a second instance court on cases upon appeals and protests against first instance court's decisions. The Court of appeal may comprise Civil, Commercial and Penal departments.

The Supreme Court of Cassation is the high instance for penal and civil cases. It exercises supreme judicial supervision for precise and equal application of the law by all Courts. Its jurisdiction spreads upon the whole territory of the Republic of Bulgaria. It consists of civil, penal and military college, divided into departments.

The Supreme Administrative Court is the high instance for administrative justice. It is an instance of cassation for the judicial acts of all Courts concerning legality of the administrative acts. The law defines a group of acts, subject to appeal at the Supreme Administrative Court, for which this is the sole instance.

The Supreme Administrative Court (SAC) and the Supreme Cassation Court (SCC) exercise control over the implementation of the law by the courts of lower instances, SAC takes decisions on the legality of the executive power's acts.

Lack of Jurisdiction – Bulgarian courts do not have jurisdiction over foreign states. Diplomats enjoy full jurisdictional immunity.



SETTING UP A BUSINESS IN BULGARIA

All persons wishing to undertake economic activity through a local company in Bulgaria have to apply to the Bulgarian District Court for registration at the special Commercial Register kept by the Court. Authorization to conduct economic activity is given from the date of entry in the Commercial Register. Foreign entities may operate through joint-ventures, wholly owned subsidiaries and branches in Bulgaria. Foreigners may own buildings and limited rights over immovable property. Nevertheless, direct ownership of land is prohibited and ownership of agricultural land by foreign persons is restricted.

Organisational Forms of Doing Business

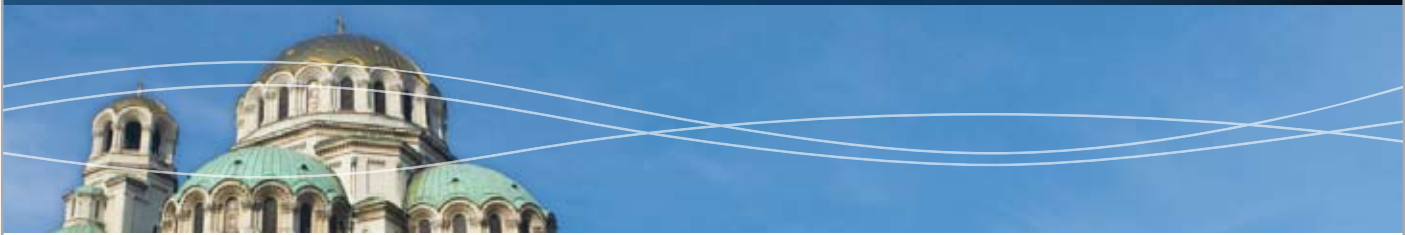
The organisational forms of doing business are stipulated for in the Bulgarian Commercial Code. It was enacted in 1991 and draws on the principles and practice of German law.

A “merchant” is such an individual or an entity that executes business transactions on a regular basis and for profit. Farmers and self-employed professionals (artisans, doctors, lawyers, etc.) are excluded from the scope of the law.

The types of merchants are:

- A Sole Proprietorship (ET)
- An Unlimited (General) Partnership (SD)
- A Limited Partnership (KD)
- A Limited Liability Company (OOD)
- A Joint-stock Company (AD)
- A Public Company
- A Joint Venture
- A Branch
- A Holding
- Public Limited Partnership (KD s aktzii)
- Cooperative (regulated by the Cooperatives Act)

Merchants are registered with the District court on the basis of information provided by the partner(s)/ promoters. This information concerns the owners, the management, the capital, the scope of activity and other circumstances. The Commercial Register kept by the District Court is public.

**Sole Proprietorship**

Any capable individual, having permanent residence in Bulgaria, can register as a sole trader – an individual who conducts business activities on a regular basis must be entered in the Commercial register of the respective District Court.

A sole proprietor:

- Is not obliged to have start-up capital in order to obtain the court registration
- Bears unlimited liability for his/her debts
- Is subject to personal income tax
- Must keep books, usually using the single entry accounting method. Double entry accounting method is also permitted

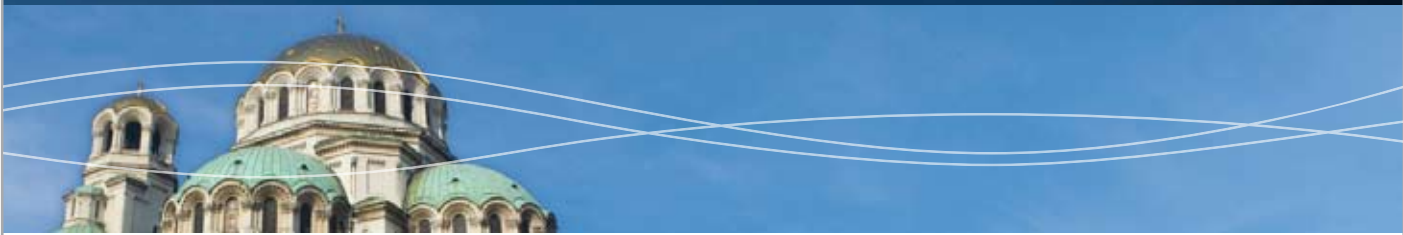
Unlimited Partnership

Two or more persons may join efforts to do business together by having an equal say in the management and being liable for the debts of the company. An unlimited partnership:

- Is established by means of an agreement between the would-be partners
- Is registered with the Commercial register of the District Court
- Is not a subject to minimum capitalization requirements
- Is a legal entity separate from the partners. Nevertheless, all partners bear unlimited liability for the debts of the partnership
- Is taxed at the corporate level and later the partners pay personal income tax on their shares of the profit

Limited Partnership

The difference from the unlimited partnership described above is that some of the partners bear limited liability for debts of the partnership and, correspondingly, have limited management powers. The limited Partnership Company is founded by two or more persons for the purpose of engaging in commercial transactions under a joint business name. There are one or more general partners, bearing unlimited liability, and one or more “limited partners”, the liability of which is limited to the extent of their agreed contribution. A foreign person must have permanent residence in Bulgaria in order to participate in a limited partnership as a general partner. The general partners are responsible for managing the partnership. A limited partnership must be registered with a district court and entered into the commercial register.



Limited Liability Company

The Limited Liability Company is the favourite structure of foreign investors in Bulgaria. It combines several advantages:

- Very low capitalisation requirement – BGN 2 (Approx. Euro 1), formed by the quotas (shares) of its members
- The participants own “shares” in the company which are transferable under certain conditions
- The minimum authorized capital is BGN 5,000 of which at least BGN 1 must be paid up before registration;
- The shareholders bear limited liability up to the value of their shares

The same registration procedure, as for partnerships, is applied.

The company is governed by the General Meeting of Shareholders and managed by a Manager /Director.

The Bulgarian Law recognises also the Sole Proprietorship Limited Liability Company or Single –member limited liability company (EOOD). Usually, the foreign investors structure their direct investments in the country through this form of Limited Liability Company. The EOOD has a sole owner of the authorized capital. The sole owner resolves on any issue connected with the company’s policy. Therefore, the multinationals find this form of doing business as the best vehicle for their centralized policy of taking decisions.

A Joint-Stock Company / Stock Corporation

The capital of this legal entity is divided in to shares, each of par value of at least BGN 1. The company is liable to its creditors to the extent of its assets.

At least two persons are needed to form a Stock Corporation.

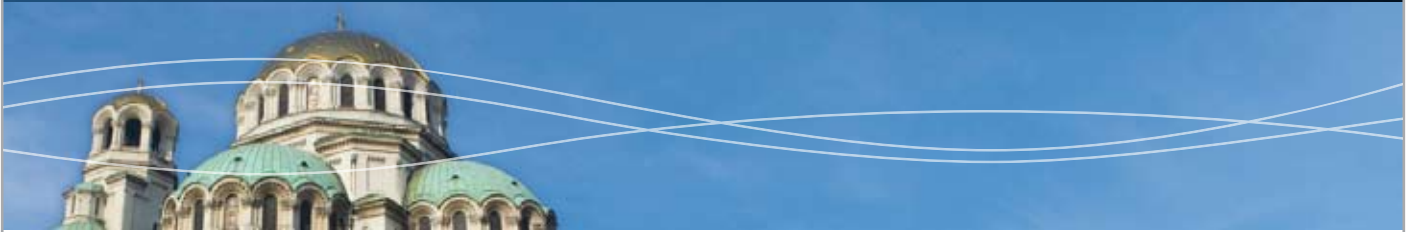
The minimum authorised capital is BGN 50,000, (Approx. EUR 25,000).

A joint-stock company may issue either registered, bearer or preference shares.

Management:

A Stock Corporation chooses a one-tier and two-tier system of management.

Under the one-tier system the Board of Directors manages the day-to-day operations and reports directly to the General Meeting of Shareholders.



Under the two-tier system the Managing Board runs the business in a way overseen and guided by the Supervisory Board.

Most of the authorities are entrusted to the General Meeting of Shareholders.

Like the Limited Liability Company it is possible for a Sole Proprietorship Stock Corporation to be established.

Bonds may be issued two years from date of incorporation.

The annual balance sheet and Profit and Loss account of the stock corporation must be certified by a chartered accountant.

A Public company

This is a type of joint stock company initially introduced by the revoked Securities, Stock, Exchanges and Investment Companies Act 1995 and currently regulated by the Public Offering of Securities Act 1999 (POSA).

A company must register as a public if (i) it makes primary offering of shares, or (ii) its shares are registered for trading on an organized securities market.

Another way to create a public company is through a business combination involving at least one public company – the surviving company will be public, too.

A Joint Venture

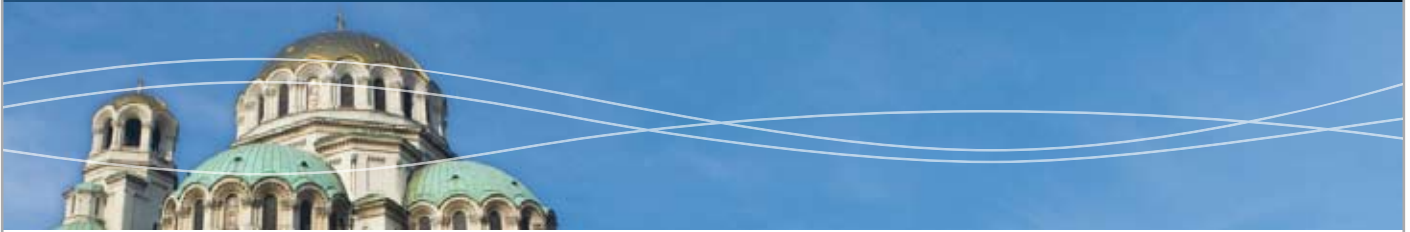
This type of company is formed jointly by a Bulgarian and a foreign partner. The extent of the foreign participation in a joint venture is not limited. Joint venture must make one of the forms of business entities under the Commercial Act. Establishing a joint venture is one of the forms of investing in Bulgaria.

A Branch

Foreign legal entities registered abroad, as well as foreign individuals or persons other than legal entities, can register a branch in Bulgaria if duly incorporated and entitled to conduct business activities under their national law.

The branch is not a legal entity, but:

- Is considered as such for tax purposes
- May conduct business activities



A branch of a foreign person is part of its parent company, but has a different seat. A branch is not a legal entity. However it must keep account books just like independent legal entities do.

No authorised capital is required to found a branch.

Public Limited Partnership

In fact, this is a limited partnership, where the limited partners own stock equivalent to their participation in the company.

This form is rarely used in practice.

Representative Office

Foreign entities are allowed to operate in Bulgaria through a representative office whose activities are effectively limited to marketing and providing support to the foreign entity. The representative office itself cannot undertake economic activity.

A representative office is registered with the Bulgarian Chamber of Commerce and Industry. A representative office:

- Is not a legal entity
- Does not have to keep books except for payroll purposes
- May not conduct business activities
- Does not pay corporate taxes since no income is generated
- May not recover VAT credit

COMPANY REGISTRATION PROCEDURES

Registration of a Limited Liability Company

The Limited Liability Company is founded or owned by one or more persons, including foreign natural or legal persons. The minimum authorized capital is BGN 5,000. The basic steps in the formation process are, as follows:

- Reservation of the name of the company and issuance of a certificate for uniqueness of the name
- Composing articles of association or founding a deed for a single-member LTD
- Formation of company's share capital (at least BGN 5,000)

- Issuance of bank deed certifying that at least 1 BGN of the registered capital has been paid
- Appointment of managing body
- Registration in the commercial register of the relevant district court by the appointed manager who possesses representative power
- Issuance of a permit from the competent body for performing specific commercial activity before entry into the commercial register (e.g. investment broker)
- Completion of the establishment: court decision for entry into the commercial register
- Publication of the registration into the state gazette
- Registration at the respective territorial division of the Registry Agency

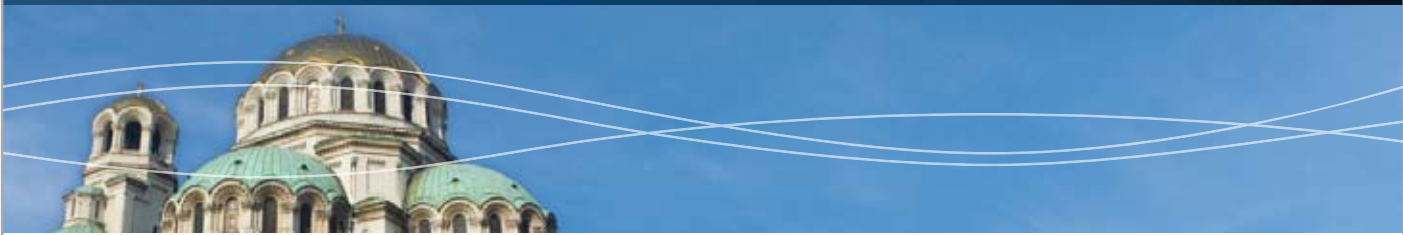
The necessary documents for registration of a limited liability company in the Commercial Register are, as follows:

- Application for registration
- Memorandum of association
- Constituent meeting minutes
- Notary certified consent with specimen of signature for each of the managers
- Declaration in compliance with art. 142 CA (Commercial Act)
- Bank document of capital deposited
- Company name uniqueness certificate
- Certificate for actual status of a shareholder-legal person
- Decision of the managing body of a shareholder-legal person
- Receipt for paid state taxes
- Receipt for paid state tax for publishing in the State Gazette

Registration of a Joint-Stock Company

Persons entitled to request registration-only the relevant managing body of the company could request registration in the Commercial register. The basic steps in the formation process are, as follows:

- Reservation of company name and obtaining a certificate for uniqueness of the company name
- Holding a Constitutive Meeting, where the memorandum of association is accepted and the managing bodies are voted. At the meeting all shares of the JSC capital should be subscribed
- Founders Contributions, which must be made by the founders-in money or non-cash



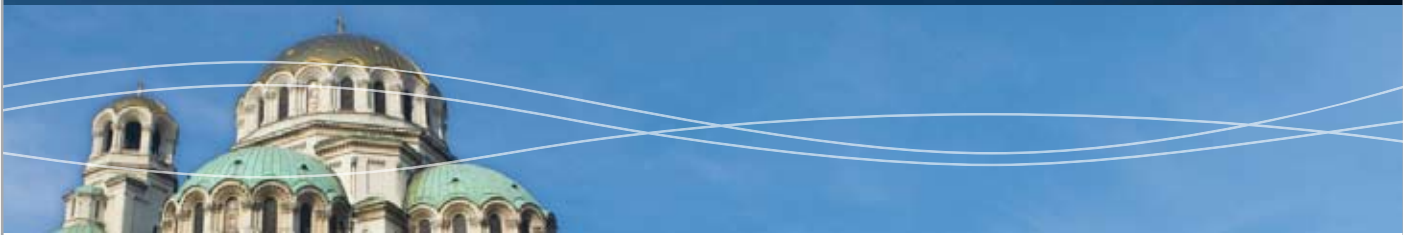
The necessary documents for registration in the Commercial Register are as follows:

- Application signed by all members of the managing body
- Memorandum of association, accepted on the constitutive meeting
- Minutes of the constitutive meeting, drawn in compliance with the terms and conditions of art.232 and subsequent from Commercial Law
- List of the persons, subscribing shares upon the incorporation (founders) attested by the managing body
- Bank document for pecuniary contributions, installed by the subscribers
- Written consent with a notary certified signature of the contributor of a non-cash contribution
- Notary certified signature specimens of the persons, who shall represent the company
- Founders' declarations (if natural persons) stating that they are not declared insolvent and court certificates for the founders-legal persons are not declared insolvent
- Declarations of the members of the managing authorities that they agree to become members of the relevant authority
- Experts' statement duly admitted by the district court if non-cash contributions are made
- For founder-legal person-registration judgment, certificate for actual status, managing body resolution for participation in the joint-stock company and an express notary certified power of attorney of the person who represents the legal person at the constitutive meeting
- Receipt for paid state taxes
- Receipt for paid fee for publishing in the State Gazette

Registration of Trade Representative Office of a Foreign Person

The required documents and procedure for registration of trade representative office of a foreign person are as follows:

- Application form with a registration request filed with the Bulgarian Chamber of Commerce and Industry
- Official document for the registration of the foreign person, issued by the competent authority in compliance with the person's national legislation
- Resolution of the managing body of the foreign person to open a trade representation office in Bulgaria
- Special power or attorney in the original, notary attested issued by the person in item 2 to the person authorised to register and govern the representation office. As well as the volume of permitted rights



- Official document indicating the persons representing and binding the foreign person
- Original specimens of the persons, representatives in the Republic of Bulgaria by right or by special powers, notary attested
- Document for paid fee for registration in BCCI
- Filled-in registration card for the information system of BCCI

TAXATION

The Bulgarian tax regime can be classified in two main categories:

Direct Taxation:

- Corporate income tax
- Personal income tax
- Withholding taxes

Indirect Taxation:

- VAT
- Excise Duties

Corporate Income Tax

Under the Corporate Income Tax Act (CITA) all companies and partnerships (including non-incorporated partnerships), carrying out business in the country, are liable to a corporate income tax at a rate of 10%. Bulgarian resident entities are taxed on a worldwide basis. Foreign entities are taxed on their Bulgarian-source income. Companies are considered to be tax residents if they are registered in Bulgaria. Companies that are non-residents in Bulgaria, but operate in Bulgaria through a branch, office, agency or other form of a permanent establishment are only liable to tax on the profits generated through their Bulgarian establishment.

Annual profit must be declared no later than 31 March of the year following the taxable year. Generally, the taxable profit is determined in accordance with the financial result reported in the Profit and Loss Account ("P&L") adjusted for tax purposes. Depreciation is calculated by systematically applying the straight-line depreciation method. Depreciation norms should not exceed the following rates:

Category of Assets	Assets Description	Annual Depreciation norms (%)
I	steady buildings, facilities, communication devices, electricity carriers, communication lines	4
II	machinery, manufacturing equipment, apparatus	30 – 50*
III	transportation vehicles, excluding automobiles; coverage of roads and aeroplane runways	10
IV	computers, software and right of using software	50
V	automobiles	25
VI	all other depreciative assets	15

*Possibility to be 50% when new investment is made and the equipment is new and purchased after January 1, 2005

Tax Exemption for Manufacturing Businesses

Manufacturing companies enjoy 100% exemption of the corporate income tax for investment in depressed regions, in case they meet the following conditions:

- All the sites and assets (except for cash in bank accounts and equity) of the company are entirely located within the administrative boundaries of a depressed region
- The company does not have any due tax or obligatory social security liabilities

Under CITA “depressed regions” are municipalities with unemployment exceeding 50% the average of the country and enumerated in a list annually approved by the Minister of Finance.

The exemption could be enjoyed if the amount of the tax credit is invested for acquiring fixed assets, necessary for the manufacturing activity, within a period of three years, following the year in which the tax credit was used. The value of the intangible assets (licenses, patents and know-how) should not exceed 25% of the value of the tangible assets. At least 25% of the value of the assets must be financed by company's own funds, including loans. The ownership of the acquired assets can not be transferred for a period of five years as of the date of their acquisition, except for in cases of reorganization of the company in compliance with the Commercial Law.

The company, which enjoys the exemption, could exercise it for a period of 5 subsequent years, even if as a result of decreased unemployment, the municipality is excluded from the above mentioned list.

Tax Credit for Investment in Depressed Regions

Companies investing in depressed regions enjoy reduction of the corporate tax by 10% of the amount invested in acquisition, modernization or reconstruction of fixed assets including buildings, equipment, transmitters, electricity networks, telecommunication lines, machines, production facilities, transportation

facilities, (excluding personal cars), road cover, computers and peripheral devices, software and the right to use software. The cost of intangible assets should not exceed 25% of the acquisition costs of the fixed assets. The acquired assets could not be disposed for a period of 5 years, except in cases of reorganization of the company. The tax credit can be used for a period of 5 years.

Personal Income Tax

Under Personal Income Tax Act (PITA) tax liable persons are individuals – residents and non-residents, and corporate entities explicitly enumerated therein. Residents are considered individuals who reside in Bulgaria longer than 183 days for each 365 days period. Residents are liable for their world-wide income. Non-residents are considered those individuals who do not fit the above criteria for residents. Non-residents are liable only for their income derived from Bulgarian sources.

Local entities with annual turnover for the preceding year up to BGN 50 000 are taxed by a final annual (patent) tax for income resulting from sources in Bulgaria.

Incomes derived under an employment contract are taxed on a monthly basis as follows:

Monthly Income	Tax
up to BGN 180	non-taxable
from BGN 180 to BGN 250	20% on the excess over BGN 180
from BGN 250 to BGN 600	BGN 14 + 22% on the excess over BGN 250
above BGN 600	BGN 91 + 24% on the excess over BGN 600

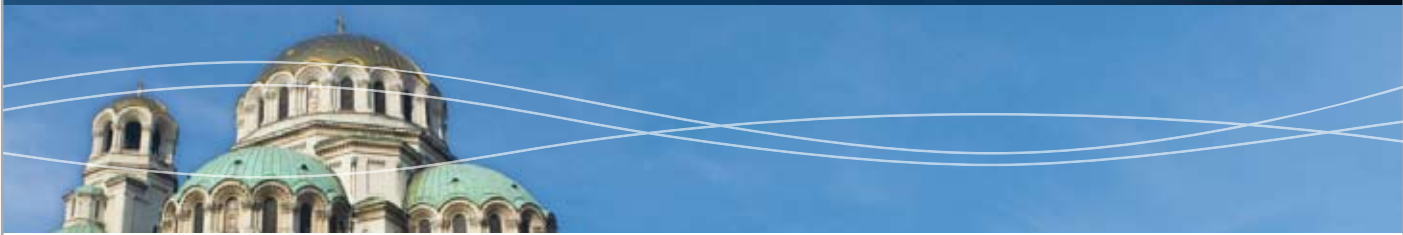
The annual taxable base is the sum of all taxable incomes received during the calendar year.

The total annual income is subject to some adjustments and is then taxed in accordance with an annual progressive scale as follows:

Annual Income	Tax
up to BGN 2,160	non-taxable
from BGN 2,160 to BGN 3000	20% on the excess over BGN 2,160
from BGN 3,000 to BGN 7,200	BGN 168 + 22% on the excess over BGN 3,000
above BGN 7,200	BGN 1092 + 24% on the excess over BGN 7,200

Withholding Taxes

Certain types of income from sources in Bulgaria and payable to non-resident legal entities (if not generated through a permanent establishment) or individuals are subject to withholding taxes. The types of income are defined in CITA as:



- Dividends and liquidation quotas
- Interest, including such under finance leases
- Royalties
- Technical services remuneration
- Rents
- Payments under operating leases, franchising and factoring
- Remuneration under management contracts
- Capital gains from transfer of shares in local companies, securities issued by the State, a municipality or a local entity and local real estate

The withholding tax rate is 5% on dividends and liquidation quotas and 15% on the other types of taxable income. The withholding tax rate may be reduced under an applicable double tax treaty.

Withholding Tax Exemption for EU Citizens

Dividends and liquidation shares, distributed by a local person in favour of a foreign natural or legal person, local for an EU member-country, are not subject to withholding tax under the conditions that:

According to the tax legislation of the respective EU member-country the person is considered as local of this country for tax purposes and by force of an agreement for avoiding the double tax levying with a third state is not considered as local person of a state out of the EU

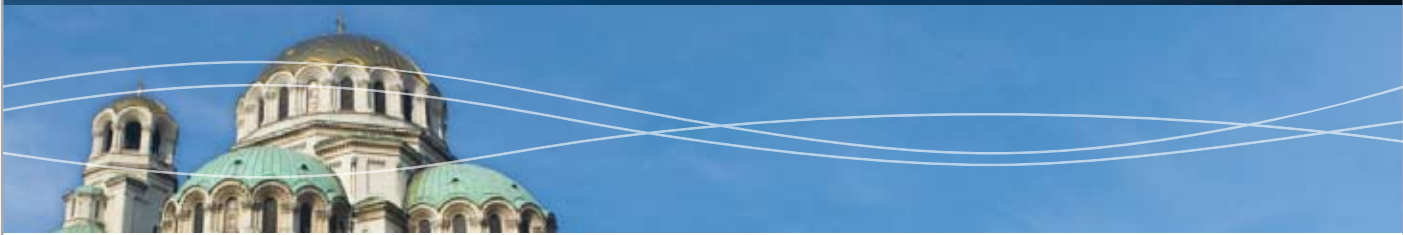
The person is levied with corporate tax, without having right of choice or exemption from levying with this tax:

- The person is the actual possessor of the income and holds at least 20% of the shares/stocks of the local entity
- By the moment of calculating of the dividends or the liquidation shares the person has owned the shares/stocks of item 3 continuously for a period not less than one year

Value Added Tax (VAT)

The Value Added Tax Act (VAT Act) currently in force is effective as from 1 January 1999. Although Bulgaria is not a member of the European Community, the VAT legislation in many aspects follows the provisions of the Sixth Council Directive 77/388/EEC on the common system of VAT and the uniform basis for its assessment.

The standard VAT rate is 20%. Zero rate of VAT applies to exports of products, certain eligible exports of services, as well as to some other transactions.



VAT Registration

Bulgarian and foreign businesses which carry out taxable transactions with a place of supply in Bulgaria and have a taxable turnover of at least BGN 50,000 during the preceding twelve months is obliged to register for VAT purposes. Non-residents, except for branch offices, are registered for VAT through a VAT representative. Voluntary VAT registration is limited to some specific cases such as:

If the business performs both VAT taxable transactions and zero-rated transactions (i.e. export) and has a turnover of at least BGN 50,001 (as of the 1-st of April, 2006 the required turnover drops to BGN 25, 001);

- If a company incorporated in Bulgaria has a registered and paid up share capital of at least BGN 500,000

There are special rules for the VAT registration in some cases of commercial companies' transformation and acquisition.

VAT Credit Refund

The VAT credit to be refunded can be set off against the VAT due, as well as against other liabilities to the state. The offsetting takes place during a 3-month term following the month in which the VAT credit occurred. If after this term there is still VAT to be refunded, the taxpayer may request a refund or continue offsetting it in the following months. Within three months as of the date of submitting the request for refund the tax authorities have to refund the remaining VAT after setting it off against any outstanding tax liabilities (there are indications that the second 3-month term may be reduced to 45 days).

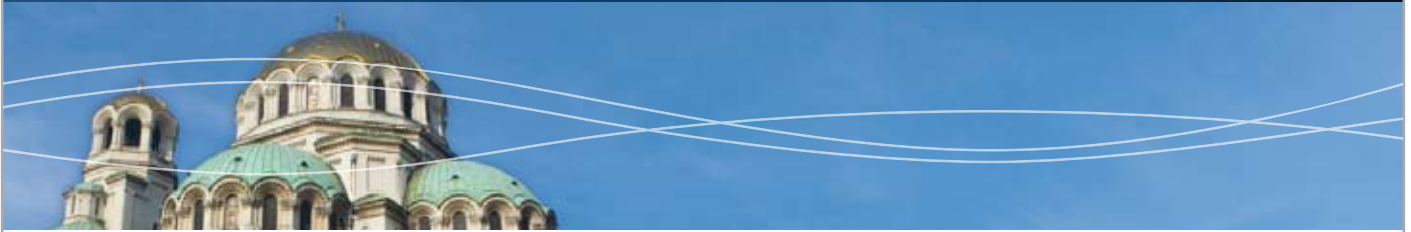
Special preferential VAT regime for imports

As of 1 January 2003 VAT on the import of goods can be charged by the VAT registered importer if he holds a permit issued by the Minister of Finance and imports goods (with the exception of excise goods) according to a list approved by the Minister of Finance.

The importer shall exercise his right by:

- Declaring in the filed customs declaration that he will use this regime
- Declaring that at the time of the import he is registered for VAT and has no outstanding tax liabilities and liabilities to the obligatory social and health insurance

Where the importer has exercised his right, the customs authorities shall admit lifting the goods without effective payment or securing of the VAT.



The special import regime is applicable to a person who simultaneously meets the following requirements:

- Realises an investment project approved by the Minister of Finance
- Is registered for VAT
- Has no outstanding tax liabilities and obligatory social and health insurance liabilities
- Has obtained a permit by the Minister of Finance
- The project should be eligible for state aid for regional development

The investment project shall be approved by the Minister of Finance in compliance with the following requirements:

- Term of fulfilment of the project – up to two years
- Size of the investment – over BGN 10 million for a period not longer than two years
- Opening of more than 50 new jobs
- The possibilities of the person to finance the project, as well as to construct and maintain sites providing its fulfilment

The permit shall be issued for a period of up to two years on the grounds of a written request, to which the document designates by the law are enclosed.

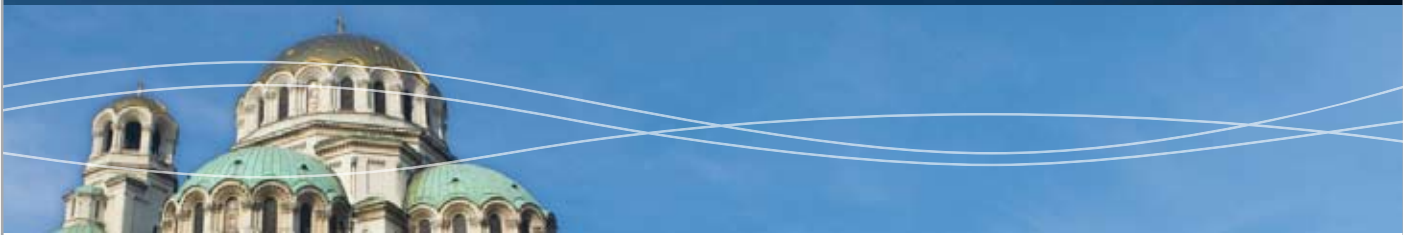
Excise Duties

Excise duties are levied on goods and services listed in the Excise Duties Tariff, which are:

- Subject to transactions performed in Bulgaria, or
- Subject to cross-border transactions from abroad to Bulgaria

Subject to excise duties are:

- Spirit drinks, including beer and wine
- Tobacco products
- Fuels
- Some types of automobiles
- Gambling machines and other casino facilities
- Coffee and tea
- The Excise Duties Act provides for reimbursement of excise duties upon exportation of goods, when excise stickers have been paid but not used by producers, etc



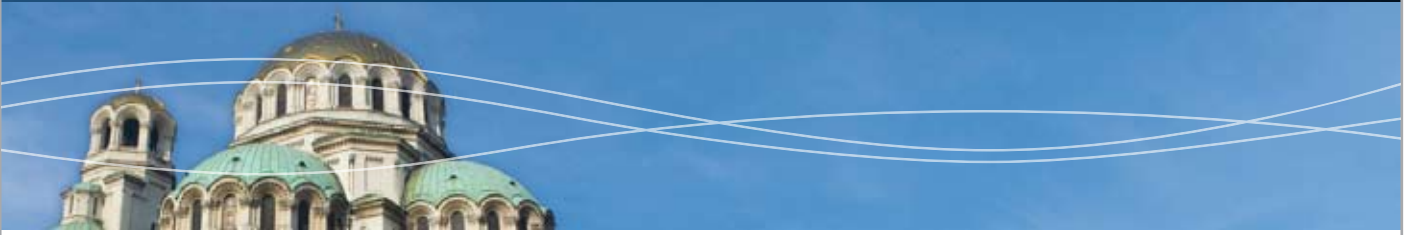
Double Tax Treaties

Bulgaria is a party to fifty-three bilateral double tax treaties which provide for a relief of tax or a reduced rate of tax. Double Tax Treaties with Algeria, Egypt and Latvia have been signed, but are not effective yet. The multilateral COMECON treaty could still apply to some former USSR countries (such as Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) (A broad information on the withholding system of taxation on straightforward charges is provided in the Appendix below.

Procedures for claiming relief under a Double Tax Treaty Claims of benefits under a Double Tax Treaty (such as exemption from income tax withholding or a reduced rate of tax) are subject to issuance of a decision for clearance by the Bulgarian tax authorities.

Below is a list of countries, with which Bulgaria has concluded Double Tax Treaties:

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



WHO TO CONTACT

The OCRA Worldwide Group has a presence spanning every continent in the world with offices in 20 locations. We are open 24/7 around the world, speak many languages and are in tune with the world's many cultures, but above all else 'our business' is about people and we have people to serve you!

If you have read this document and found something that relates to your circumstances, then be assured that we are dedicated to the delivery of business solutions designed to reduce costs and maximise profits.

The consulting office for doing business in this country follows below. Should you prefer to deal with another of our offices, please visit our website at www.ocra.com for a full listing of office contact details.

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