

BUSINESS ENVIRONMENT

LEGAL FRAMEWORK

Sofia
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1. BUSINESS CLIMATE

Why invest in Bulgaria?

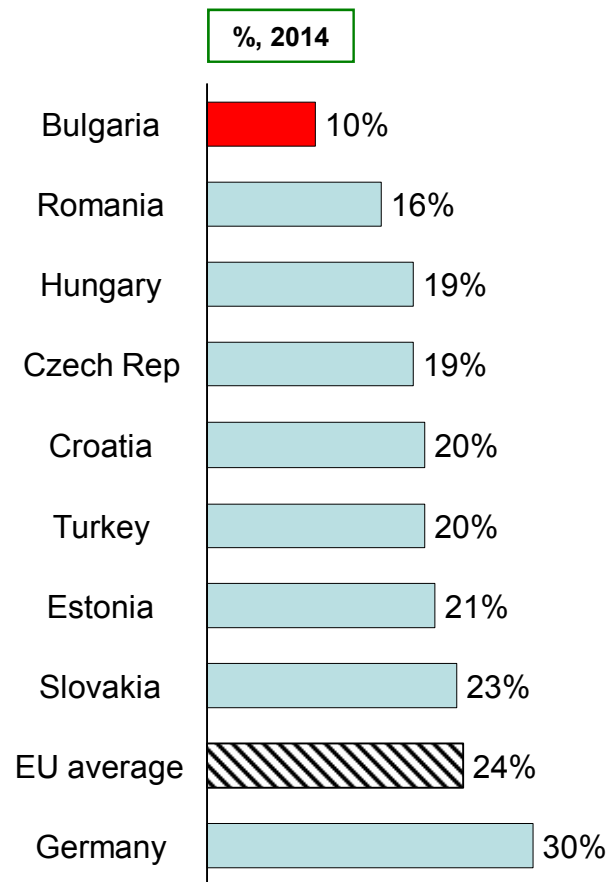
- Political and business stability
 - EU and NATO member
 - Currency board
 - Low budget deficit and government debt
- Low cost of doing business
 - 10% corporate tax rate (0% in high unemployment areas)
 - 10% personal income tax
 - Lowest cost of labor within EU
 - Favorable office rents and low cost of utilities
- Access to markets
 - European Union / EFTA
 - Russia
 - Turkey / Middle East
- Educated and skilled workforce
- Government incentives, provided in The Investment Promotion Act



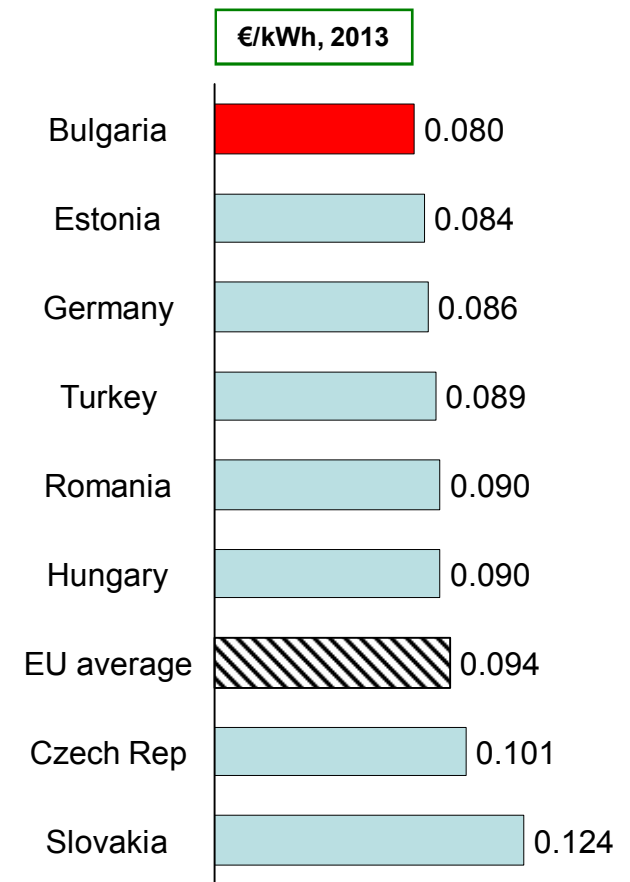
Bulgaria has one of the lowest business costs in Europe

- Bulgaria has the most favorable tax regime in Europe. Corporate income tax rate is 10%. Personal income tax is 10%, flat rate. Industries in high-unemployment areas are granted 0% tax rate
- There is a 2-year VAT exemption for imports of equipment for investment projects over €5 million, creating at least 50 jobs
- Depreciation time for computers and new manufacturing equipment is 2 years
- 5% withholding tax on dividends and liquidation quotas (0% for EU tax residents)
- Bulgaria has one of the most competitive costs of labor in Central and Eastern Europe
- Favorable office rents and low cost of utilities.
- Bulgarian cost of electricity for industrial users is 70% of the European average

Lowest corporate income tax rate in Europe

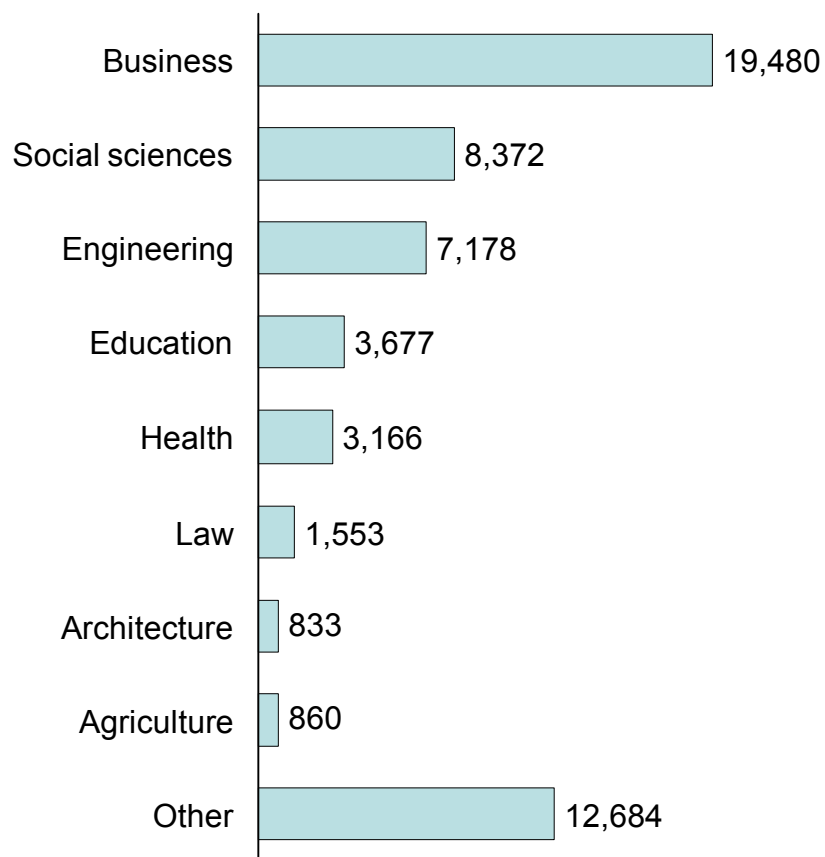


Electricity prices for industrial users in Europe

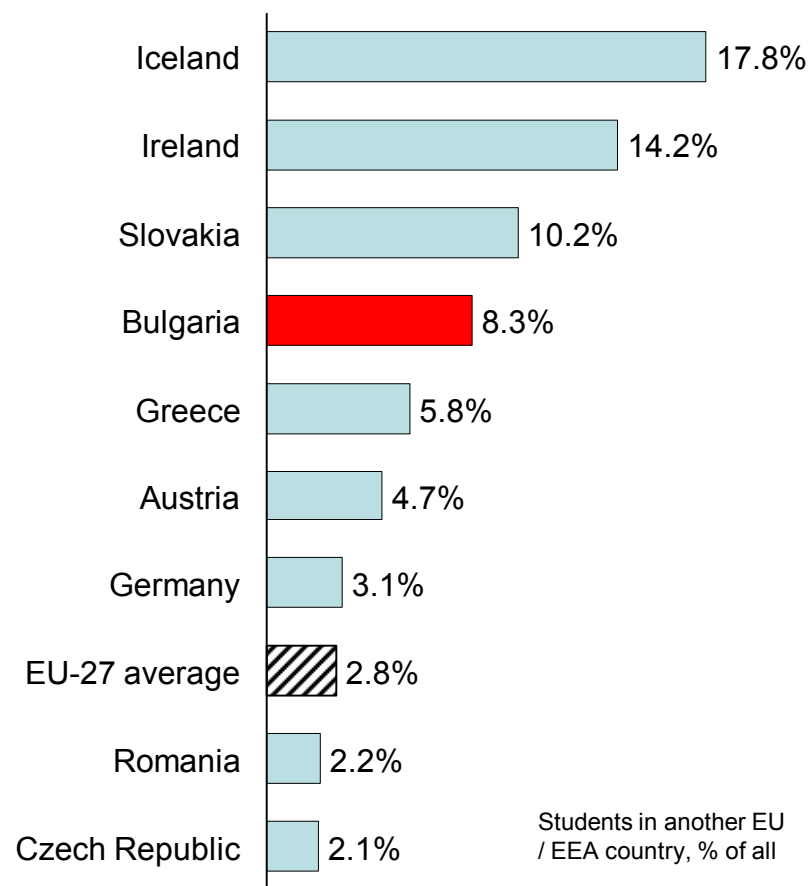


Educated and skilled workforce is among the main advantages of Bulgaria

Almost 60,000 students graduate every year from over 50 universities



Bulgaria has one of the highest proportions of students abroad from all European countries



2. INCENTIVES UNDER THE INVESTMENT PROMOTION ACT

- The Investment Promotion Act, developed in 2004, last amended in 2013, supports prospective investors to Bulgaria by introducing a system of incentives.
- Companies, fulfilling the set of criteria outlined on the next several slides, are eligible for receiving the “Certified as Class A or Class B Investor” status, which confers the following benefits:
 - Purchase of state or municipal land or acquisition of limited real rights over such land without a tender procedure (for both Classes)
 - Shorter terms for administrative services (for both Classes)
 - Individual administrative services (for Class A investments)
 - Financial support for selected infrastructure elements (roads, water, etc.) (for both Classes)
 - Financial support for selected professional trainings of the personnel in areas with high unemployment and in high tech activities (for both Classes)
 - Reimbursement of social insurances for 24 months (for both Classes)
- In addition to the abovementioned incentives, the priority investment projects may receive some further benefits, outlined below

Who can become a Certified Investor, awarded with Class A or Class B certificate?

- Investment must be related to one of the following activities:
 - Setup of a new enterprise
 - Extension of an existing enterprise or activity
 - Diversification of the output of an enterprise or activity into new additional products
 - Fundamental change in the overall production process of an existing enterprise or activity
- At least 80% of future income of the investment project must come from the following industries:
 - Manufacturing
 - High-tech activities in the field of information technologies and services
 - Research and development
 - Warehousing and support activities for transportation, which includes supporting production activity services (operation of warehouses and transport infrastructure - airports, ports etc.)
 - Program products
 - Technical analysis and outsourcing, accounting services and call centers
 - Education
 - Human health care
- Employment must be created and maintained for at least 3 years for small and medium enterprises and 5 years for large enterprises
 - For investments in existing organizations, the project must lead to a net increase in the number of employees, compared to the average number for the previous 12 months

The supported Class A or Class B investments should fulfill one of the following criteria:

- Criteria - Minimum investment amount:
 - For investments in the manufacturing industry:
 - € 5 million for Class A
 - € 2,5 million for Class B
 - For investments in the services sector:
 - € 1,5 million for Class A
 - € 750,000 for Class B



* The amount of the required investments may be reduced under some conditions, provided in the Investment Promotion Act

- Criteria – Number of jobs created (+ Investment amount)
 - For investments in the Industrial sector:
 - € 2 million and 150 new jobs for Class A
 - € 1 million and 100 new jobs for Class B
 - For investments in the services sector:
 - € 500 000 and 150 new jobs for Class A
 - € 250 000 and 100 new jobs for Class B

Criteria – Number of jobs created:

- Where the Investment is implemented in municipalities with rate of unemployment equal or **higher than the national average**, the number of people employed has to be at least:
 - 25 new jobs for Class A
 - 10 new jobs for Class B
- Where the investment is implemented in **the high technology activities of the industrial sector** of the economy, the number of people employed has to be at least:
 - 25 new jobs for Class A
 - 10 new jobs for Class B
- Where the investment is implemented in **the high technology activities of the services sector** of the economy the number of people employed has to be at least:
 - 50 new jobs for Class A
 - 25 new jobs for Class B

Priority investment project certificate – a form of support for the biggest investors

- Priority projects can be related to all sectors of the economy, which do not contradict regulation 800/2008 of the European Commission
 - Subsidies not allowed in mining, primary agriculture production, shipbuilding, steelmaking, synthetic fabrics manufacture.
- Priority projects should exceed € 50 million and create at least 200 new working places for a 3-year period or:
 - € 25 million + 100 working places for certain manufacturing projects
 - € 10 million + 50 working places for high-tech services and R&D
- Priority projects receive all benefits for certified investors, as well as the following:
 - Lowest possible costs for the acquisition of government and municipal land + waived taxes for land status change
 - Working group for project support may be assigned by the Council of Ministers
 - Financial grant scheme for up to 10% of the investment project cost (50% for R&D)



3. MOST COMMON FORMS OF BUSINESS ORGANIZATION

- Limited Liability Company
- Joint Stock Company
- Branch of a Foreign Company
- Trade Representative Office
- Setting up of LLC – procedure and documents

Limited Liability Company (LLC)

- The liability of shareholders is limited to the amount of the registered capital.
- Minimum capital requirement of BGN 2 (approximately € 1), divided in shares with value of not less than BGN 1.
- Both cash and in-kind contributions can be made by the shareholders.
- Shares of the company may be transferred by notarized share transfer agreement entered into the Commercial Registry.
- Simplified corporate governance structure consisting of General meeting of shareholders and Manager(s) who manage and represent company before third parties.
- There is no restriction for foreigners to be appointed as managers and shareholders.
- If all shares are owned by one person, it is sole-owner limited liability company.

Joint Stock Company

- The minimum registered capital required is € 25,000 distributed in shares with value of not less than BGN 1 (higher capital may be required for carrying out certain types of activity).
- At the time of establishment of the company at least 25% of the nominal value of the shares must be paid in and the rest of total amount of the capital must be paid in within two years.
- Both cash and in-kind contributions are acceptable.
- The shares are tradable instruments and there is no legally provided restrictions on its transfer. Such restrictions may be provided in by-laws of the company and are binding for both shareholders and company.
- The corporate governance structure consists of: (i) a general meeting of the shareholders, and (ii) a board of directors (in the case of a one-tier governance system), or a supervisory board and a managing board (in the case of a two-tier governance system).

Branch of a foreign company

- Only legal entities that have right to perform commercial activity under their national law are entitled to establish a branch.
- It should be registered at the Commercial Registry.
- Neither separate governance structure nor paid up capital is required.
- Its assets and liabilities are considered assets and liabilities of the mother company.
- The branch is obliged to keep a separate commercial book and to prepare a separate balance sheet.



Trade Representative Office

- Only legal entities that have right to perform commercial activity are entitled to establish a trade representative office in Bulgaria.
- It should be registered at the Bulgarian Chamber of Commerce and Industry.
- Its purpose is to perform activities as promotions, exhibitions or demonstrations, etc.
- Trade representative office is not a separate entity and it should not perform a commercial activity.



Setting up of LLC – procedure and documents

- Procedure (step by step):
 - Reservation of a business name in the Trade Registry (optional)
 - Holding of a foundation meeting
 - Adoption of Articles of Association
 - Appointment of a manager
 - Depositing of the company capital in special account
 - Sending the set of documents in the Trade Registry
- Required documents:
 - Application A4 for registration of LLC - Notarized specimen of the manager
 - Articles of Association - Declarations under the Commerce Act
 - Minutes of the foundation meeting with decision of the General Assembly for establishment the company, appointing the manager, accepting the Articles of association and registration in the Trade Registry
 - Manager's contract - Document for payment of the state fee for registration
 - Bank Certificate for depositing of the company capital in special account
- Approximate fees – € 80 for registration, € 10 for notary fees, € 25 for bank certificate and € 25 for reservation of a business name
- Time for establishment – about 1 week

4. RESIDENCE PERMITS VIA INVESTMENT

Obtaining of an extended residence permit

- It may be granted to foreigners who wish to settle on a prolonged or permanent basis in the Republic of Bulgaria and possess a long-term visa with a validity term of up to six months.
- Foreigners, eligible to obtain an extended residence permit, are those who:
 - Engage in commercial activity in the country, by means of which at least 10 job positions for Bulgarian citizens have been opened;
 - Represent foreign trade companies, registered in the Bulgarian Chamber of Commerce and Industry;
 - Have invested no less than € 300,000 per foreigner in order to obtain real estate on the territory of the Republic of Bulgaria;
 - Are owner of over 50 percent of the capital of a Bulgarian commercial company and has invested this same amount in the capital of the company and as a result the company obtained title on real estate at this value in Bulgaria;
 - Have invested in an economically disadvantaged region by contributing no less than €175,000 to the capital of a Bulgarian commercial company, whereas the foreigner is a partner or a shareholder with registered stock and owns at least 50 percent of the company's capital and as a result new assets at the same value or more are acquired and at least 5 jobs are opened for Bulgarian nationals;

Obtaining of a permanent residence permit

- Permanent residence permit may be obtained by foreigners who:
 - Have invested up to € 500,000 or have increased their investment over this amount by acquisition of:
 - Shares in Bulgarian companies traded on the Bulgarian regulated market;
 - Bonds and treasury bills as well as derivative instruments issued by the state or municipalities, with a residual maturity of not less than 6 months;
 - Ownership of assets of a Bulgarian company with more than 50 percent state or municipal participation in the capital in accordance with the Privatization and Post-privatization Control Act;
 - State or municipality shares owned of a Bulgarian company in accordance with the Privatization and Post-privatization Control Act;
 - An intellectual property;
 - Rights under concession contracts operating in the Republic of Bulgaria;
 - Have deposited invested over € 500,000 in Bulgarian licensed credit institution for a period of not less than 5 years;
 - Have invested at least € 3 million in the capital of a Bulgarian company whose shares are not traded on a regulated market;
 - Have received a certificate for class investment/priority investment project under the Investment Promotion Act;
 - Have made an investment by contributing not less than € 250 000 in the capital of a Bulgarian trade company whereas the foreigner is a partner or a shareholder with registered stock and owns at least 50 percent of the company's capital and as a result new assets at the same value or more are acquired and at least 10 jobs are opened for Bulgarian nationals.

Supplying with long-term visa

- The application for a long-term visa should be submitted personally by the applicant in the Bulgarian diplomatic or consular missions at his permanent place of residence
- The following documents should be attached:
 - Visa application form
 - A regular foreign travel document with its term of expiration at least 3 month after the travelling
 - Copies of the pages of the foreign travel document with the personal information and the visas laid and/or copies of the permits for stay possessed
 - Recent passport-size color photograph
 - Fingerprints of the ten fingers of the applicant
 - Document for paid fee for issuing of visa
 - Insurance certificate for the term of the travel with insurance coverage of at least € 30 000
 - Documents, proving that the applicant has funds for living while he is in Bulgaria
 - Documents, proving that one of the conditions for obtaining of extended or permanent residence permit is available for the applicant
- The approximate time for issuing - about 35 days from the application
- Fee for issuing of long-stay visa is € 500

5. InvestBulgaria Agency (IBA)

InvestBulgaria Agency is a Government investment promotion arm, part of the Ministry of Economy and Energy

IBA services:

- Macroeconomic data on Bulgaria
- Legal advice
- Data on operational costs
- Regional information: industrial zones and infrastructure, data on unemployment, skilled labour force and level of education
- Recommendation of investment project sites
- Identification of potential suppliers, contract manufacturers and joint-venture partners
- Personalized administrative servicing
- Liaison with central and local governments
- Liaison with branch chambers and NGOs



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AGENCY

