

**All the contents of Action Plan are important and it is advisable that you read it carefully. It is the last Action Plan in the Financial Year 1 March 2008 to 28 February 2009. The Plan is in three sections as follows:**

- A. General Overview and Matters Applicable to all Clients
- B. Report on Activities for you in the months of December 2008, January and February 2009
- C. Your own Individual Action Plan for the months of March, April and May 2009.

## **A. GENERAL OVERVIEW**

### **1.0 Latest Currency Exchange Rate News**

#### *1.1 Sterling Overview*

- 1.1.1 I think that, by now, you all know that I do my level best to keep abreast of developments in the currency market - particularly as regards the Euro and the Lev and that I always do my best to keep clients updated and to offer a view as to what is likely to happen over the three months covered by my Action Plans.
- 1.1.2 There are two reasons why I do it:
  - the first is to make sure that, so far as possible, you understand what is happening and, hopefully, learn to keep a weather eye on what is going on in the currency world;
  - the second is so that I am as sure as I may be that, when fixing the rate for use in the Budget for the forthcoming quarter, I have thought it all through properly and have some degree of confidence that I have "guesstimated" it as accurately as possible.
- 1.1.3 Now, for the first time since I started doing these Action Plans, I am almost completely dumbfounded. As you are probably already aware the Pound has been up and down like a whore's drawers over the past 6 months.
- 1.1.4 Between 1 May and 30 September 2008, the average exchange rate for the Pound was 1.25 Euros or 2.42 BGN. By 17 October 2008 it had dropped to - what was then - "a new low" of 1.16 Euros. At the present time, I think we would all be really happy if it managed to get back up to 1.16!!
- 1.1.5 In consequence - and taking my usual "conservative" (pessimistic) view, I decided to work on the basis of an exchange rate of 2.16 Leva to the Pound (rather less than 1.16 Euros to the Pound) for the last quarter.
- 1.1.6 Almost as soon as I had done this the Pound began to drop like a stone. January and the first 10 days of February 2009 saw some dramatic falls and rises and, at its lowest point, the Pound (mid-market rate) fell to 1.01 Euros. This meant that the actual exchange rate available to you and I was actually less than 1 Euro to the Pound.
- 1.1.7 Shoppers in France and Northern Ireland started coming to the UK to do their shopping!
- 1.1.8 So incredible were the daily swings that it was not unusual for the Pound to rise and fall by 4 per cent from one day to the next. In one week at the end of January the Pound fell from 1.12 Euros on the Monday to 1.02 on the Wednesday and then back up to 1.11 by the Friday.
- 1.1.9 I think it was at that point that I threw my crystal ball into the recycle bin! I realised that my estimate of 2.16 Levs to the Pound had been destroyed and for the first time ever I had to write to three clients advising them of a "Budget Overrun" due wholly or partly to adverse exchange rate fluctuations.
- 1.1.10 Mercifully, things do appear to have settled down rather for the moment. The Pound has been holding steady at between 1.10 and 1.12 Euros since the day before the Bank of England made its February adjustment which saw the Bank Rate fall by a further 0.5 per cent. This meant that the market had already anticipated and factored in the rate change.
- 1.1.11 The exchange rate held firm despite the fact that the European Central Bank did NOT reduce its own rate.

- 1.1.12 My guess - and it is only a guess - is that the Pound is going to stay mostly in the region of 1.07 to 1.12 Euros (with occasional variations) over the coming three months. This is *not so much because the Pound is strengthening against the Euro* but because of the
- worsening economic position of the “PIIGGS” (Portugal, Ireland, Italy, Greece, Germany and Spain) and
  - likelihood that the ECB must soon reduce its base rate
- and these factors are tending to weaken the Euro.
- 1.1.13 In support of that contention, I offer you the fact that, on 9 and 10 March 2009, on the back of the bad news from LloydsTSB/HBOS, the midmarket rates for the Pound dropped to 1.089 Euros and 2.1288 Levs. The effective exchange rate for our purposes at PostBank on 10 March 2009 was 2.0952.
- 1.1.14 Against all of this, I am supposed to stick my neck out and give you a reasoned prediction! As you can see this is not at all easy and I must be conservative.
- 1.1.15 My decision is that an anticipated effective exchange rate of 2.085 must be applied in each client’s Budget. I fully realise that this has an adverse impact on everyone and am willing to listen to any arguments suggesting that my thinking is wrong.

## **2.0 Bulgarian Property Market Overview**

- 2.1 I reported in my last Action Plan that the Bulgarian property market had, basically, collapsed in just the same way that the UK domestic property market has done.
- 2.2 As most of you know, I prefer to fly out to Varna using Bulgaria Air. I tried to book a flight out to Bulgaria this month but found that, because so few people are going out to Varna from the UK at the moment, they have cancelled or suspended this service. It may revive when the tourist season begins at the end of April/beginning of May 2009 when Balkan Holidays bookings begin but ... who knows? At present, the only direct service to Varna is BA from Gatwick on Sundays and Tuesdays / Wednesdays.
- 2.3 I also said that, as in the UK, there is no expectation that things will improve until, at least 2010. Frankly, my feeling is that we will not see any resurgence in the Bulgarian market for at least 12 months after our own domestic market begins to improve when confidence in foreign investment will begin to be restored.
- 2.4 The following press report appeared in Bulgaria on 18 February 2008:

The Bulgarian Prime Minister Sergey Stanishev admitted on Wednesday that the country is already seeing the first negative effects and signs of the global financial crisis, the Darik radio reported.

Stanishev spoke at the official opening of the economy forum, titled "Bulgaria's Development in Conditions of Global Financial Crisis," held Wednesday in Sofia.

The PM pointed out that lack of industrial orders, diminished demand, reduced loan granting from banks were just some examples of the crisis' effects in Bulgaria, adding that the Cabinet had already implemented some of the measures from its anti-crisis action plan such as offering funds to small and medium enterprises through the Bulgarian Bank for Development.

Stanishev also spoke about the importance of the fight against corruption and improving the effectiveness of the judicial system as a way to gain more of the foreign investors' trust and achieve better results in the absorption of the EU funds. The PM vowed BGN 27 M to be provided by his Cabinet to employers to help them maintain job positions plus an additional BGN 190 M for creating 50,000 new job opportunities. The government is also going to slate additional funds for the increase of retirement pensions and State assistance to disabled people.

Stanishev underlined the importance of the Bulgarian Currency Peg for the stability of the financial system and said the Peg will continue to exist until Bulgaria is accepted in the Euro zone.

Other high ranking participants in the Forum include the Bulgarian President Georgi Parvanov, the Speaker of the Parliament Georgi Pirinski, Sofia's Mayor Boyko Borisov and many others.

- 2.5 As a former communist bloc country, Bulgaria still suffers from “official spin” and the down-playing of bad news. If you recall, I laid before you adequate evidence that the world wide recession was already hitting Bulgaria badly in my last Action Plan. This latest information only confirms that the situation is bad enough already for the Bulgarian government to have to take steps very similar to those now being taken by our own government.

- 2.6 Other news stories include reports that, overall, by the end of 2008, building projects in Bulgaria were down by 30 per cent on the previous year. You can read more by visiting this website:

<http://www.novinite.com/category.php?categ=Global%20Financial%20Crisis&more=1>

**My advice is that you “Bookmark” this excellent website in your browser and revisit it periodically to keep yourself updated with current market and economic events in Bulgaria.**

- 2.7 In addition, if you are brave enough and fell able to interpret the raw, and sobering, data coming out of Bulgaria (published by Reuters), then you should go to:  
<http://www.xe.com/news/2009/03/10/292297.htm?categoryId=1&currentPage=1>. It makes for pretty chilling reading!

### **3.0 General Recommendations**

- 3.1 I have already said that I do not expect the market to improve before 2010 but I now believe that it will be even later. Bulgaria is still an “inwards only” investment country and foreign investors will want to see their own houses in order before resuming investments in Bulgaria.
- 3.2 For that reason, unless there is some very good reason for it (e.g. action to prevent deterioration) it would be prudent to defer any projects aimed at improving property or the status of land with a view to adding value in readiness for a sale until some “green shoots” of recovery start to appear.
- 3.3 With unemployment in the UK set to rise to a staggering 3 million by the end of 2009 (I think it will actually be by the end of Q3 in 2009), I do not foresee anyone being advised to do anything before this time next year (2010).
- 3.4 Unless one can be satisfied that any particular property has dropped in price to an extent at least equal to the fall in the value of the Pound against the Euro plus a further reduction in line with the state of the Bulgarian market generally, this is not a good time to consider buying property in Bulgaria.
- 3.5 Conversely, because one can get many more Pounds per Euro than before, this is a good time to sell - IF you can find a buyer.
- 3.6 Having said that, one client has just managed to enter into a preliminary contract for the sale of a property halfway between Varna and Dobrich for 25,000 Leva. About 18 months ago he was considering putting it on the market for the same amount of Euros. That is how bad things are.

### **4.0 New Client Service Contract**

- 4.1 These were circulated with the last Action Plan and all but two clients have signed and returned them. I am not aware of any reason why these have not been returned but then, following my shoulder operation on 17 December, I have only just started to work again and, in fact only just noticed that these two are missing!
- 4.2 I should like to thank everyone for their co-operation and my special thanks go to those of you who contributed to the document.

### **5.0 SunSeaBulgaria Charges and other Expenses**

- 5.1 I gave advance warning of the necessary changes to the charging structure in the December Action Plan and those changes come into effect as of 1 March 2009. I also gave you the reason why some increases were essential. The year on year increase in “EU harmonised price inflation” in Bulgaria was 11.7 per cent in January 2009. I do not think that I need say any more!
- 5.2 I have not made these changes lightly. Although this economic crisis affects every single aspect of my business, I am also acutely aware that each and every one of my clients is also affected by the current crisis in one way or another. At least two of you are extremely concerned about future employment prospects and others have valid causes for concern.
- 5.4 For this reason, I have tried hard to mitigate the effect of the changes - the reason for which were set out in the December Plan.

- 5.5 I confirm that, from 1 March 2009, the hourly charge per hour for work will be 50 Leva and travelling expenses will be 50 Stotinki per kilometre. This is a rise of only 5 Leva and 50 Stotinki respectively.
- 5.6 Although the Client Service Agreement still specifies a Quarterly Administration Fee of £50, as a concession - to last until things show signs of improvement - I am reducing this, by way of temporary concession only, to £40 per quarter. This is a 20 per cent reduction. I am resolved to do this because, if you have taken my advice on board, activity will be much lower and I will have less to do!
- 5.7 I do have some bad news. We had arranged with a new accountant that she would undertake the completion of your annual Tax Returns for 120 Leva. This lady was, in fact, already retired but was glad of the work because the buying power of her retirement income had been reduced. Sadly the lady became seriously ill last month and has told us that she will be unable to undertake this, or any other, work.
- 5.8 Accordingly, our existing accountant will be doing the work and her charge will be 220 Leva per company as it was last year.
- 5.9 Finally, some (minor) good news, from 1 March 2009, I will not be charging for the “monthly visit to the Bank”. Basically the reason for this is that it takes me far too long to divide the charge properly between the clients to whom the visit relates and the difference it makes to each client is disproportionate to the effort involved! This item is now, therefore, part of the Quarterly Management Charge.
- 5.10 Special visits to the bank (i.e. where funds for a client need to be withdrawn at a time other than the regular monthly visit) will continue to be charged at the fixed rate of 0.8333 of an hour which is the equivalent of 50 minutes. You will remember that visits to the bank can be as quick as 45 minutes but often take longer - sometimes as long as 1.5 hours - depending on the length of the queue. For this reason we decided long ago to work to a standard charge. Where the special visit is for more than one client, it will of course be divided equally between them.
- 5.11 Everything else is the same as in the December Plan.

## **6.0 New Client “Leva” Account and Format for Client Account Balances**

- 6.1 One innovation for the new financial year has been the creation of a Client Leva Account.
- 6.2 Until now there has been only a Sterling Account but, from time to time, we have received money for or from Clients in Leva (e.g. where there has been change from a sum withdrawn from the Sterling Account for a specific purpose, you have given us money in Bulgaria for a specific purpose or on the sale of property where the price is being paid in local currency).
- 6.3 Sometimes the amount is small and it would be wasteful to convert it back into Sterling at a poorer rate.
- 6.4 In February, we opened a Leva Client Account so that it can receive funds belonging to clients which were either too small to convert economically, we have received Leva from you or where if it more advantageous for the client (because, for example, of the present exchange rate) to keep it in Leva.
- 6.5 For the new financial year each page of your Client Account Balance Statement will show - in separate tables (one below the other) what is held for you in both currencies.
- 6.6 Of course, if you feel that you want all your money to be held in Sterling only, it will be a simple matter to withdraw your Leva balance, convert it to Sterling and pay it into the Sterling Account. You only have to ask!
- 6.7 In addition, where a client still holds a personal account at PostBank, there is a reminder on the first sheet of your IBAN Account Number and the nominal amount in the account. I say “nominal” because this was the amount left in the account after February 2008 when any substantial balances over £10 were transferred to the Client Sterling Account.

## **B. Report on Activities for You - 1 December 2008 to 28 February 2009**

### **1.0 Planning Status of your Plots**

- 1.1 During the quarter the actual status of your plots has been identified with clarity. Basically, it is clear that they were not in Regulation when you bought them and this continues to the present day.
- 1.2 The good news is, however, that the position is far from hopeless. In fact the land is not “zoned” or “scheduled” for any use (i.e. it is our planning equivalent of “white land”).

- 1.3 During the period, Kristina applied to Kavarna municipality for permission to present an application for PUP. I have already (in an email) explained exactly what this is and will not repeat myself.
- 1.4 Because of the degree of importance attached to ensuring that the land can be built on, it was decided between \*\*\*\*\* and I that the application for PUP (which includes application for Regulatory status and outline planning consent) should be expedited.
- 1.5 Accordingly, your papers have been passed to Hydromap for the application to be prepared. This should be ready by the end of March 2009. As previously notified, their fees will be 500 Leva for each plot - a total of 1,000 Leva.

## **2.0 Plot Skitsas**

- 2.1 You will remember that the Company's title to the plots had not even been registered with the Municipality and that the map at the Cadastral Agency did not show them.
- 2.2 This situation was corrected in the previous quarter but Kristina was able to collect the updated maps etc from the Agency just before Christmas on 19 December 2008. That is why we were able to progress the PUP applications.

## **3.0 Property Taxes and Tax Office Penalties**

- 3.1 No doubt, you remember the absolutely horrendous amount of Property Tax arrears and the penalties imposed by the Tax Office for the failure to submit the required Tax Declarations.
- 3.2 While there was no way to get a reduction in the Property Taxes, we were very lucky to get minimal Tax Penalties for both the Company and the Manager. These were 500 Leva against the Company and 250 Leva against the Manager for each of the two years in which a Declaration was not filed. This is much less than the worst case scenario I previously laid before you.
- 3.3 Because of the "Regulation" issue and the poor rate of exchange at the time, Keith and I decided to proceed cautiously but still in line with the last Action Plan.
- 3.4 In line with the Manager's decision, on 20 January the sum of 1,040 Levs (due for the year 2005/06) was paid to Kavarna municipality for property taxes when she went there to apply for PUP.
- 3.5 The next day, she went to the Tax office and paid the Company's penalty for the first of the two years - 502.00.
- 3.6 On 13 February, after further discussion with Keith as Manager when it was decided that we could still pay the second Company Tax penalty and still have enough left to pay Hydromap, Kristina went to the Tax office and paid it.
- 3.7 So far as concerns the Property Taxes, a total of 1,472.81 Leva is still outstanding to 31 December 2008. A total of 604.57 Leva is now due for this year. This last figure includes a 5% discount if it is paid before the end of March 2009. The individual amounts making up these totals are specified in the Budget.
- 3.9 The Manager's Tax Penalties remain unpaid and amount to 500 Leva.
- 3.8 I have made some suggestions as to how you should proceed in the next main section.

## **5.0 Other Work and Miscellaneous**

- 5.1 Although there have been a good number of conversations between Keith and I over the period because of the complexity of the matter, you have my complete sympathy and I certainly do not propose any additional charge for this.
- 5.2 No other substantive work was done for you in the period.

## **C. YOUR INDIVIDUAL ACTION PLAN**

### **1.0 Property Taxes and Tax Office Penalties**

- 1.1 Your Property Tax is now due and payable. There is a "prompt payment" discount for those who pay before the end of April 2009.
- 1.2 The taxes for this year (including the discount) amount to a total of 604.57 Leva and this is shown in your Budget for the coming quarter. This is also sent with this Plan.

- 1.3 To make some effort to mitigate your very considerable expenses, I suggest that priority be given to paying this year's property taxes immediately even if you elect to leave the arrears over to a later quarter.
- 1.4 We should also be thinking about paying at least one of the two Manager's Tax Penalties (250 Leva each).
- 1.5 Having said that I have put all of the above liabilities into the Budget so that you may discuss the matter between you and then tell me how you wish to proceed.

## **2.0 Annual Tax Return**

- 2.1 This **MUST** be filed at the Tax Office before the end of March and, with or without your approval, I am prioritising this and using available funds to make sure this happens. Further penalties would be both much higher and completely unnecessary.
- 2.2 The actual Return has already been prepared. The accountancy charges and our estimated fees for lodging it at the Tax Office are shown in the Budget.

## **3.0 Applications for PUP**

- 3.1 I anticipate that these will be ready for submission before the end of this month. At that point Kristina will go to collect them - and the supporting documents - from Hydromap who will then need to be paid their 1,000 Leva.
- 3.2 Once she has these, Kristina will then go to Kavarna to present them and, should funds permit, pay the Property Taxes for this year.
- 3.3 At present, your Client Account Balance is a carefully preserved 443.54 GBP but this only equates to around 925 Leva. To do both straightaway, I will need a further 330 GBP on account pretty much immediately.

## **4.0 Summary**

- 4.1 Clearly there are choices to be made in the event that it is not possible to deal with everything this quarter.
- 4.2 Drawing the strands of the above together, my recommendation is that, *as a minimum*, you should, in this coming quarter, be dealing with the following, namely paying:
- this year's Property Taxes - 604.57 Leva
  - Hydromap, collecting the PUP applications and lodging them at Kavarna - 1,000 Leva plus and fees and expenses
  - one year's Manager's Tax Penalty - 250 Leva
- 4.3 This amounts in itself to 1,855 Leva (around £888) but with everything taken into account, the total is likely to be around 2,300 Leva or around £1,100. As I said, I only have £443.54 in hand (to save you working it out - the difference is around £660).
- 4.4 As I have said, I have included everything in the Budget so that you should be aware of the entire position but, subject to the payment of this year's Property Taxes as an urgency, I will await your early instructions.

## **5.0 SunSeaBulgaria Charges**

- 5.1 Please refer to the opening sheet of your Client Account Balance for 2009/2010.
- 5.2 You entered the new financial year with a balance of £502.52 from which has been deducted this quarter's Administration Charge (at the temporarily reduced rate) and your share of the cost of the Bank Safety Deposit Box for the whole year. After the deduction of those items the balance is £443.54.
- 5.3 The only other matter to remember is your share of the quarterly Bank transfer - this is in the Budget.
- 5.3 The only other item to remember for the future is the annual fee for your registered office address - 100 BGN - which will be payable on 1 October 2009 (this will be in your Budget for Quarter 3 - 1 September 2009).

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**9 March 2009**

**Paul E. Moody**  
**SunSeaBulgaria**