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**BULGARIAN IT SECTOR STILL  
RUNS AT HIGH CLOCK RATE**

**FEBRUARY 2012**

# Contents

<b>BULGARIAN IT SECTOR STILL RUNS AT HIGH CLOCK RATE .....</b>	<b>3</b>
<b>SOFTWARE.....</b>	<b>3</b>
<b>HARDWARE.....</b>	<b>4</b>
<b>SERVICES.....</b>	<b>4</b>
<b>EXPORT .....</b>	<b>4</b>
<b>EMPLOYMENT AND WAGES.....</b>	<b>5</b>
<b>LISTED COMPANIES .....</b>	<b>6</b>
<b>EXPECTATIONS .....</b>	<b>6</b>
<b>DISCLAIMER .....</b>	<b>7</b>

# BULGARIAN IT SECTOR STILL RUNS AT HIGH CLOCK RATE

Unlike most of the sectors of the Bulgarian economy, the IT industry showed a stable performance in 2010 and 2011. However, it was not demand on the local market that supported the IT sector. The IT companies, especially the software developers, counted on foreign clients to keep revenues intact. The trend is expected to continue in 2012 with growing need for highly-qualified IT professionals.

The information and communication technologies (ICT) sector in Bulgaria was estimated at more than EUR 3.0 bln, accounting for nearly 9.0% of the country's GDP in 2010, showed data from the Bulgarian Association of Software Companies (BASSCOM) and market research company CBN Panoff and Stoytchev (CBN). The IT segment made up one-third of the total, or approximately EUR 1.0 bln, 33% of which came from the software companies, as estimated by market representatives.

The number of ICT companies in Bulgaria exceeds 900, with the leading 450 generating 97% of the sector's revenue, according to CBN.

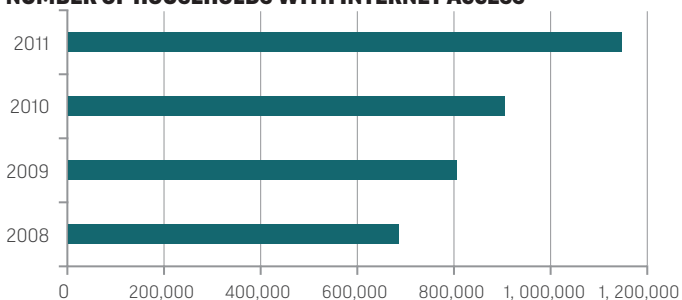
## APPROXIMATE NUMBER OF IT COMPANIES IN BULGARIA BY SEGMENT

Segment	Number
Computer hardware	35 - 40
Computer services	170 - 190
Global service providers	10
Internet services	25 - 30
Office computer hardware	15 - 20
Retail	10 - 15
Software developers	100 - 120

Source: CBN

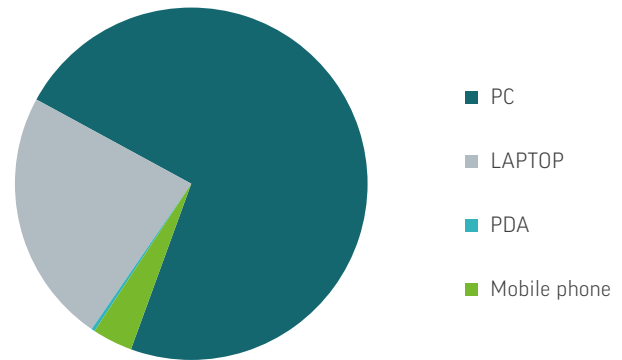
Bulgaria's Ministry of Transport, Information Technology and Communications announced that in 2010 local IT companies and research and development organizations attracted a total of EUR 4.0 mln under EU programmes. The Seventh Framework Programme alone attracted EUR 3.2 mln, double the amount obtained in 2009. Under the ICT Policy Support Programme were attracted an additional EUR 651,530.

## NUMBER OF HOUSEHOLDS WITH INTERNET ACCESS



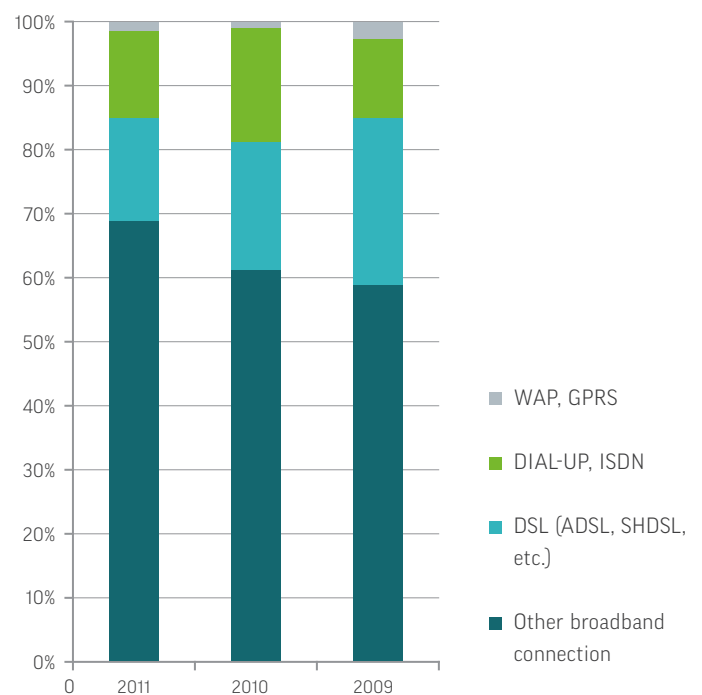
Source: MoF

## HOUSEHOLDS INTERNET ACCESS BY DEVICE



Source:BNB

## HOUSEHOLDS INTERNET ACCESS BY CONNECTION TYPE



Source: NSI

# SOFTWARE

The total revenue of the Bulgarian software companies was EUR 291 mln in 2010, according to a survey of CBN. In 2011 the sum is expected to drop to EUR 260 mln. The segment's best performance was in 2007 when it recorded total revenues of EUR 303 mln.

Independent software vendors (ISVs) accounted for 41% of the total revenue, 44% of the net profit and 44% of the total number of employees in the segment. Software developers came second with a 35% share in the total revenue and net profit and 36% of the staff. Software integrators generated 11% of the total revenue, 9.0% of the profits and employed 14% of the workforce in the sector.

According to BASSCOM data, the software market grew by 5.3% on an annual basis in 2010 and by an average of 8.0% for the period 2008-2010. The total sales volume of the companies that took part in the survey was EUR 163.3 mln in 2010. The survey covered 38 BASSCOM members, which represents one third of the market.

The main problem facing the software industry is the shortage of highly qualified professionals on the local market. If the problem persists, the local IT industry could miss the chance of achieving the expected tenfold growth in the next decade, according to market experts. The lack of well-trained specialists forces domestic IT companies to outsource part of their activities to firms in Macedonia and Serbia or to hire foreigners.

## HARDWARE

A total of 27 companies operate on the Bulgarian IT hardware distribution market, according to data of CBN. Their combined revenue in 2010 amounted to EUR 274 mln, down 4.5% on the year.

The total number of the companies' employees exceeds 1,000 with an average annual salary per employee of EUR 6,900 in 2010, compared with EUR 4,100 in 2007.

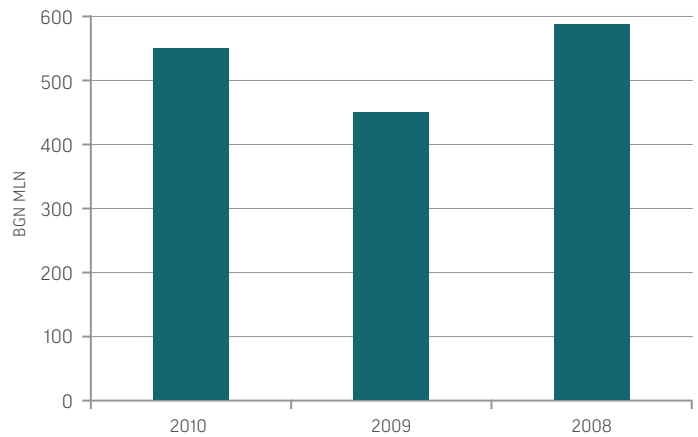
The companies still operate at low profit margins, amid dump prices and gray-market practices. However, the expectations are for an annual growth of up to 3.0% in 2012.

### WHOLESALE AND RETAIL TRADE WITH COMPUTER AND COMMUNICATION EQUIPMENT



Source: NSI

### MANUFACTURING OF COMPUTER HARDWARE, ELECTRONIC AND OPTICAL PRODUCTS



Source: NSI

## SERVICES

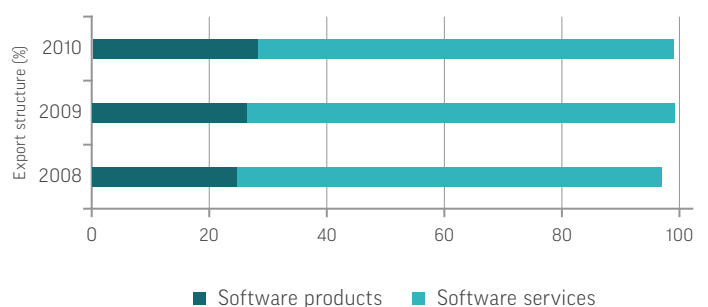
The IT services market is dominated by the system integration segment. In 2010 the segment's revenue reached EUR 299 mln, compared with EUR 135 mln in 2005, CBN data showed. However, the segment experienced double-digit annual drops in 2009 and 2010 and the trend is expected to continue in 2011 with a decline of between 10% and 15%.

The number of tenders for IT services under the public procurement law started to shrink in 2008 and the downtrend continued in 2010 and 2011, reaching 2003 levels. In 2010 a total of 291 procurement contracts worth EUR 20.2 mln were signed, which translates into an annual decline of 21% in number and a 49% drop in value.

## EXPORT

The exports of high added-value software products increased its share in the IT sector's sales abroad to 28% in 2010 from 25% in 2008, according to BASSCOM. The main export markets were Europe with 60% of the total exports and the USA with 35%.

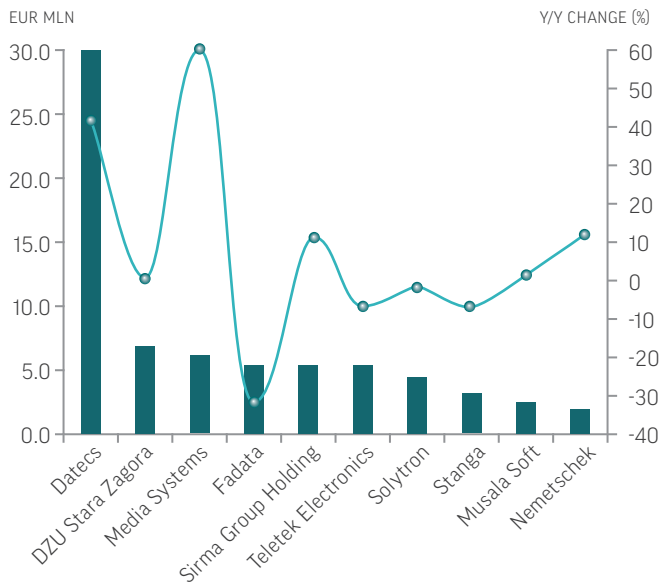
### BULGARIAN IT COMPANIES EXPORT BY PRODUCT/SERVICE



Source: BASSCOM

The total exports of the leading 100 Bulgarian IT companies went up by 38.6% year-on-year to EUR 80.750 mln in 2010, while for 2009 they registered a drop of 10.6%, according to local IT business monthly Computerworld.

### LEADING BULGARIAN IT EXPORTERS



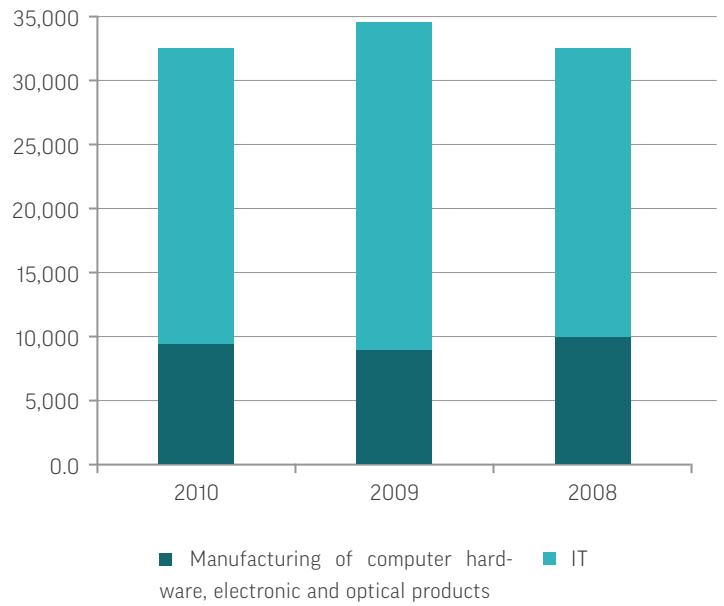
Source: Computerworld

## EMPLOYMENT AND WAGES

The average net monthly salary of an IT specialist in Bulgaria inched down by 2.0% on the year to BGN 1,001 (EUR 512) in 2011, according to a survey by local polling agency Alpha Research and Computerworld. About two-thirds of the IT personnel earns up to BGN 1,000, but the share of high-paid staff, with monthly salaries of between BGN 1,000 and BGN 3,000, rose to 35% in 2011 from 24% in 2010.

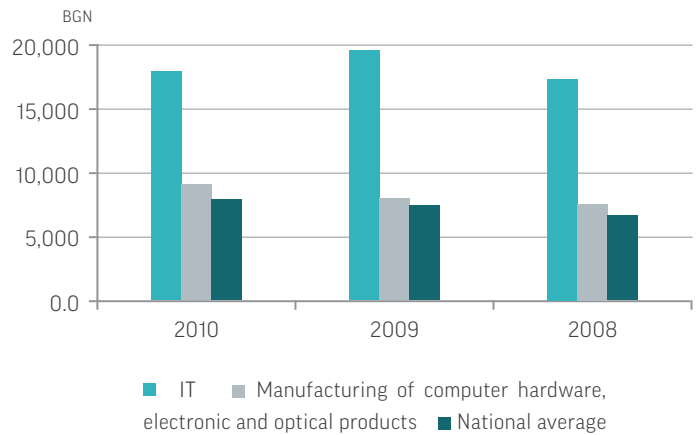
In 2010 the starting net monthly salary for a PHP/MySQL developer was EUR 500 on average, professionals with two to three years of service could earn between EUR 770 and EUR 920 and the most experienced ones - up to EUR 1,020 net. The average net monthly pay for newly recruited .Net developers was EUR 610 and could reach up to EUR 1,300 after a few years on the job. C/C++ and embedded developers were offered EUR 610 to EUR 920 per month. The highest starting remuneration of EUR 770 a month was paid to Java developers.

### AVERAGE NUMBER OF EMPLOYEES UNDER LABOUR CONTRACT



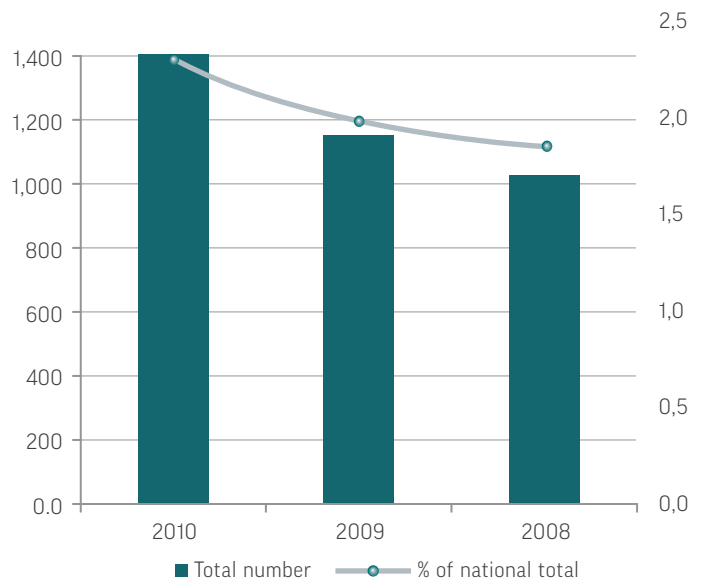
Source: NSI

### AVERAGE ANNUAL SALARY OF EMPLOYEES UNDER LABOUR CONTRACT



Source: NSI

### GRADUATES TERTIARY EDUCATION IN IT



Source: NSI

## LISTED COMPANIES

The shares of seven local IT companies were traded on the Bulgarian Stock Exchange (BSE) as of January 2012. None of the companies was included in any of the BSE indices.

Short overview of the companies:

- Web Media Group AD runs a number of news and lifestyle websites, including news.bg, topsport.bg, money.bg and lifestyle.bg;
- Europa Line Group AD is a high-tech subcontractor;
- Specialized Business Systems AD is a computer system integrator;
- Media Systems AD is a CD/DVD manufacturer. In 2012 the company moved its production site to Bulgaria's capital Sofia from Stara Zagora, central Bulgaria. The company's monthly production in Sofia is 12 million CD/DVDs, while in Stara Zagora it produced up to 5.0 million CD/DVDs;
- Bianor Holding AD bands together five companies active in IT, e-trade and web design - four majority-owned units and one with a considerable minority interest of Bianor;
- Investor.bg AD is an Internet media company. In 2011 the company acquired local media group Az Media and property listings website Imoti.net;
- Mart Bulgaria AD is an electronic retailer of pre-paid telcoms services.

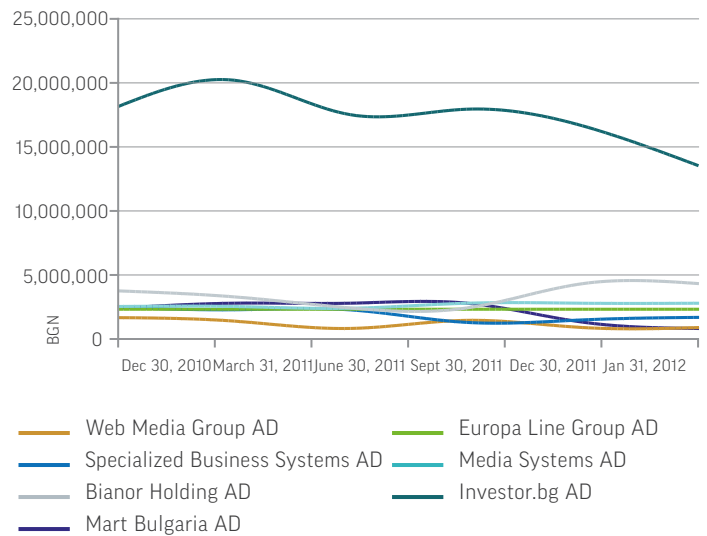
The flotation of another IT company, local Internet portal Dir.bg AD, is expected on the BSE. The company will issue 454,000 new shares with a nominal value of BGN 1.0 a piece.

## EXPECTATIONS

IT sector forecasts for 2012:

- The software segment will continue to enjoy an increase in exports and outsourcing contracts with foreign companies;
- The local market will remain stagnant for computer hardware distributors and software developers;
- The computer and electronics products manufacturers will rely on foreign markets to counterbalance shrinking demand on the local market;

### MARKET CAPITALISATION OF LISTED BULGARIAN IT COMPANIES AS OF:



Source: BSE

- The number of large clients of cloud computing services will be increasing;
- IT spending in the public sector will remain erratic and will depend mostly on the availability of EU funding;
- Demand for software and hardware developers as well as web designers will grow.

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