I. Country information

Bulgaria is situated in the Southeast part of the Balkan Peninsula with a population of 8.2 million. The country has a territory of 110,912 sq. km, bordering Greece and Turkey to the South, and Macedonia and Yugoslavia to the West. The River Danube separates it from Romania to the North. Its natural eastern border is the Black Sea.

The climate is continental-Mediterranean with four seasons. Sofia is the capital of Bulgaria (population of 1.3 mln people); other major cities include Plovdiv, Varna and Bourgas. The official language is Bulgarian, and English, French and German are widely used in business.

Bulgaria has rich deposits of lead-zinc ores, copper, iron and manganese, timber, and a rich biosphere diversity.

II. Economic overview

2.1. General economic indicators

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</thead>
<tbody>
<tr>
<td>1. GDP, USD bn</td>
<td>8.6</td>
<td>10.8</td>
<td>9.7</td>
<td>13.1</td>
<td>9.9</td>
<td>10.1</td>
<td>12.2</td>
<td>12.9</td>
</tr>
<tr>
<td>2. GDP per capita, PPP (in USD)</td>
<td>4,098</td>
<td>4,195</td>
<td>5,010</td>
<td>5,365</td>
<td>4,888</td>
<td>4,622</td>
<td>5,014</td>
<td>5,216</td>
</tr>
<tr>
<td>3. Economic growth rate, %</td>
<td>-7.3</td>
<td>-1.5</td>
<td>1.8</td>
<td>2.9</td>
<td>-10.1</td>
<td>-7.0</td>
<td>3.5</td>
<td>2.4</td>
</tr>
<tr>
<td>4. Industrial production growth rate, %</td>
<td>-18.4</td>
<td>-9.3</td>
<td>10.6</td>
<td>4.5</td>
<td>5.1</td>
<td>-10.0</td>
<td>-12.7</td>
<td>-10.0</td>
</tr>
<tr>
<td>5. Annual inflation rate, %</td>
<td>79.4</td>
<td>63.9</td>
<td>121.9</td>
<td>32.9</td>
<td>310.8</td>
<td>578.6</td>
<td>1.0</td>
<td>6.2</td>
</tr>
<tr>
<td>6. Annual unemployment rate, %</td>
<td>15.3</td>
<td>16.4</td>
<td>12.8</td>
<td>11.1</td>
<td>12.5</td>
<td>13.7</td>
<td>12.2</td>
<td>16.0</td>
</tr>
<tr>
<td>7. Revenues, BGN mn</td>
<td>81,249</td>
<td>117,696</td>
<td>219,778</td>
<td>328,329</td>
<td>579,926</td>
<td>5,607,446</td>
<td>8,913,064</td>
<td>8,776,190</td>
</tr>
<tr>
<td>8. Expenditures, BGN mn</td>
<td>92,287</td>
<td>149,493</td>
<td>248,228</td>
<td>376,583</td>
<td>755,437</td>
<td>6,684,435</td>
<td>8,689,189</td>
<td>9,429,533</td>
</tr>
<tr>
<td>9. Balance of current account, USD bn</td>
<td>-0.8</td>
<td>-1.4</td>
<td>-0.2</td>
<td>0.0</td>
<td>0.0</td>
<td>0.4</td>
<td>-0.4</td>
<td>-0.6</td>
</tr>
<tr>
<td>10. Average monthly gross salary, USD</td>
<td>87.7</td>
<td>116.9</td>
<td>91.5</td>
<td>113.1</td>
<td>79.4</td>
<td>76.3</td>
<td>106.5</td>
<td>107.3</td>
</tr>
<tr>
<td>11. Base interest rates for demand deposits, %</td>
<td>45.00</td>
<td>46.16</td>
<td>63.33</td>
<td>49.14</td>
<td>140.85</td>
<td>71.78</td>
<td>11.30</td>
<td>4.71</td>
</tr>
<tr>
<td>12. External debt (end of year), USD mn</td>
<td>13,806</td>
<td>13,836</td>
<td>11,338</td>
<td>10,148</td>
<td>9,602</td>
<td>9,760</td>
<td>10,251</td>
<td>9,984</td>
</tr>
<tr>
<td>13. Foreign currency reserves, USD bn</td>
<td>0.9</td>
<td>0.7</td>
<td>1.0</td>
<td>1.2</td>
<td>0.5</td>
<td>2.1</td>
<td>2.7</td>
<td>2.9</td>
</tr>
<tr>
<td>14. Exchange rate for 1 USD, end of year</td>
<td>23.3</td>
<td>27.7</td>
<td>34.2</td>
<td>67.2</td>
<td>175.8</td>
<td>1675.5</td>
<td>1760.4</td>
<td>1,836*</td>
</tr>
</tbody>
</table>

Source: National Statistical Institute, Bulgarian National Bank
Note:*On 5 July 1999 the BGL was denominated in a 1000:1 ratio (BGN)

2.2. Foreign trade

2.2.1. Foreign trade regime and major regulations

Bulgaria is a member of WTO since December 1996. A limited number of goods are subject to administrative control.

The foreign trade regime is regulated by an Ordinance of the Council of Ministers No.271/1998 on trade policy measures related to import and export. These include non-tariff measures stipulated by a regulatory act and applied when importing or exporting products, such as a registration regime (automatic licensing), permit regime (non-automatic licensing), safeguard measures, quantitative restrictions, import and export bans. Other restrictive trade measures undertaken pursuant to international commitments of the country are also included, as well as measures related to national security, social order and ethics, the protection of life and health of the people, of animals and plants, of the national wealth and protection of the industrial and intellectual property. A ban on exports is applied to a strictly limited number of products such as land mines, human blood, curative mud in a natural state and products received as humanitarian aid (unless the donor wishes the products to be re-exported from Bulgaria in due course).

2.2.2. Customs regime, export and import quota and license system, tariffs

Registration (automatic licensing) is applied in cases of entry, export and re-export of precious metals, precious stones and articles thereof, and in cases of entry only - of polycarbonates and stampers for CD production. During 2000, export transactions for some commodity groups are subject to registration. These include export and re-export of gold, silver, platinum and articles thereof, and timber.
Quotas are applied and export permits are required for the export of textiles to the USA and Canada.

No customs duties are charged for exported goods.

**Customs law and tariff system**

The Customs Law is based on the EU Customs Code. The Bulgarian Customs Tariff is based on the international Harmonized Commodity Description and Coding System, and on the EU Combined Nomenclature. The customs clearance of goods requires the presentation of a customs declaration, similar to the EU Single Administrative Document, accompanied by the required commercial documents (invoice, certificate of origin, transport document or any other relevant official papers).

The average tariff rate for industrial goods is below 11% for imports from countries treated according to the Most Favored Nation principle.

A large number of commodity groups are zero rated: metal ores, most kinds of coal and coke, natural gas, major parts of medical instruments and equipment, most kinds of medicines, rubber, unprocessed wood, PC hardware, civil aircraft, etc.

A large proportion of EU imports is taxed with reduced or zero import duties. Reduced or zero duties also apply to a large group of products imported from the CEFTA countries, Turkey and Macedonia, in accordance with the respective Free Trade Agreements.

### 2.2.3. Exports and imports

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</thead>
<tbody>
<tr>
<td>Exports, USD mln</td>
<td>3,922</td>
<td>3,721</td>
<td>3,935</td>
<td>5,110</td>
<td>4,890</td>
<td>4,940</td>
<td>4,194</td>
<td>3,959</td>
</tr>
<tr>
<td>Imports, USD mln</td>
<td>4,468</td>
<td>5,058</td>
<td>5,272</td>
<td>5,050</td>
<td>5,074</td>
<td>4,932</td>
<td>4,957</td>
<td>5,450</td>
</tr>
</tbody>
</table>

Source: National Statistical Institute, Ministry of Economy

### 2.2.4. Major trade partners

The major trade partners in 1999 have been Russia (4.8% of total exports and 20.6% of total imports), Germany (9.9% of exports and 15.0% of imports), Italy (14.1% of exports and 8.5% of imports), Greece (8.6% of exports and 5.7% of imports), France (4.6% of exports and 5.2% of imports), Turkey (7.3% of exports and 3.0% of imports), and USA (3.7% of exports and 3.2% of imports). Belgium, Yugoslavia and Spain are among the top export partners, while Austria, UK and Ukraine are among the top import partners.
2.2.6. Structure of foreign trade by commodities (imports and exports)

**Imports (1999)**
- Mineral products and fuels: 24.8%
- Machines: 19.9%
- Chemical products: 12.3%
- Textiles: 11.2%
- Transport equipment: 9.2%
- Base metals and their products: 5.3%
- Food and beverages: 3.4%
- Other: 13.9%

**Exports (1999)**
- Textiles: 17.6%
- Base metals and their products: 16.3%
- Food and beverages: 13.4%
- Chemical products: 12.8%
- Mineral products and fuels: 11.0%
- Machines: 9.8%
- Other: 19.1%

2.2.7. Free zones
Duty-free zones (renamed “free zones” by the Law on Customs, January 1999) were established in Bulgaria in 1987. There are six duty-free zones, located on strategic transport routes leading to the main international markets, namely in Vidin, Rousse, Dragoman, Svilengrad, Plovdiv and Bourgas. All of them are set up and provided with land and infrastructure by the state. A specially established joint stock company or a state owned company manages each zone.

2.3. Foreign exchange regulations
After the introduction of a Currency Board (1 July 1997), all constraints on the trade with hard currency within the country have been removed. On 5 July 1999 the Bulgarian Lev was denominated at a BGL 1,000 to BGN 1 ratio. At present, the BGN is pegged to the DEM at the rate of BGN 1 per DEM 1. Each local or foreign person may own an unlimited number of accounts in any currency, in any bank in Bulgaria.

In 1999, Bulgaria replaced its outdated and fragmented foreign currency legislation and liberalized the current international transactions in line with the IMF article VIII obligations. The foreign exchange regime is now based on the principle of freedom of concluding transactions, actions and payments. Transfers are governed by the Foreign Currency Act (effective as of 1 January 2000); the regulation on export and import of Bulgarian Lev and foreign currency in cash, precious metals and stones (1999); the regulation on trans-border transfers and payments (1999); and the regulation on registration by the Bulgarian National Bank (BNB) of transactions between residents and non-residents (1999). Bulgarian citizens as well as foreigners may take Bulgarian Lev and foreign currency of up to BGN 20,000 or its foreign exchange equivalent out of the country without documentation. However, the export of Lev and foreign currency between BGN 5,001 and BGN 20,000 or its foreign exchange equivalent should be declared at the customs. Transfers above BGN 20,000 must have a prior approval of the BNB. Foreigners are permitted to export as much currency over the foreign currency equivalent of BGN 20,000 as they have imported into Bulgaria without prior approval.

Payments abroad made by businesses (or self-employed business people) can be executed only through bank transfers. Transfers over BGN 20,000 for current international payments (imports of goods and services, transportation, interest and principal payments, insurance, training, medical treatment and other purposes defined by the Bulgarian regulations) must be supported by documentation showing the need and purpose of such payments. Under the Law on Foreign Investment, there are no restrictions on the transfer of investment-related funds.
2.4. Privatisation

2.4.1. Privatisation policy
Privatisation in Bulgaria started in 1993 (based on the Law on Transformation and Privatisation of State-Owned and Municipal-Owned Enterprises, State Gazette No. 38/5 August 1992) using various techniques, such as open and closed tenders, auctions, management-employee buy-outs (MEBOs), negotiations with potential buyers, stock exchange sales, etc. The privatisation process is being carried out under three separate, but associated programmes:

- market (cash) privatization of state and municipal property;
- voucher privatization;
- restitution of real estate property.

Stakes and shares in 4,222 enterprises have been sold between 1 January 1993 and 30 June 2000, including 2,133 enterprises and 2,089 detached facilities.

2.4.2. Large-scale privatisation
The sale of the largest enterprises, which define the structure of the economy, has been completed in 1998-1999. Privatisation in the next 1-2 years will feature some very large deals such as the sale of the Bulgarian Telecommunications Company, Balkancar, Incoms Telecom and Bulgartabac. The preparatory stage of privatisation of certain facilities within the infrastructure branches - energy, railway transport, water supply and sewerage, has been initiated.

2.4.3. Small-scale privatisation
It is close to its completion and has been managed through a number of MEBOs. During the year 2000 about 580 privatisation transactions are expected to take place.

2.5. Foreign investment

2.5.1. Foreign investment by years and by type of investment (in USD million)

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</thead>
<tbody>
<tr>
<td>Privatisation</td>
<td>22.0</td>
<td>134.2</td>
<td>26.0</td>
<td>76.4</td>
<td>421.4</td>
<td>155.8</td>
<td>305.7</td>
<td>1,141.5</td>
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<tr>
<td>Capital</td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Other</td>
<td>34.4</td>
<td>60.4</td>
<td>76.7</td>
<td>136.6</td>
<td>180.0</td>
<td>165.1</td>
<td>400.0</td>
<td>347.3</td>
<td>1,540.5</td>
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<tr>
<td>Total</td>
<td>56.4</td>
<td>194.6</td>
<td>242.7</td>
<td>373.0</td>
<td>581.5</td>
<td>420.9</td>
<td>705.7</td>
<td>2,681.8</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bulgarian Foreign Investment Agency
Note: *Other - Joint ventures, green-field investment, additional foreign investment in companies with foreign participation, reinvested earnings, credits by direct investor

2.5.2. Foreign investment by countries
The EU member countries are the biggest investors in Bulgaria with a 59% share, the largest investors being Germany (USD 425.87 mn), Belgium (USD 373.08 mn) and the Netherlands (USD 165.69 mn). Other big investors include Cyprus (USD 249.37 mn), USA (USD 198.41 mn) and Russia (USD 153.94 mn). Turkey (USD 105.12 mn), Switzerland (USD 89.33 mn), Greece (USD 86.89 mn) and Korea (USD 50.26 mn) also rank among the top investors.

2.5.3. Foreign investment by sectors (1992-1999)

The top investors include Solvay (Belgium), Union Miniere (Belgium), Lukoil Petrol (Russia), Shell Overseas (UK), Heidelberg Zement (Germany), METRO (Germany), Eaststarch (Netherlands), Willi Betz (Germany, Spain), Knauf (Austria) and Daewoo Corporation (Korea).

2.5.4. Government institutions in the field of foreign investment

Bulgarian Foreign Investment Agency (BFIA) - established in April 1995 as a one-stop shop institution for the foreign investors; a governmental body under the Council of Ministers responsible for co-ordination of the activities of the state institutions in the field of foreign investments and for the promotion of foreign investments in the country.

Its core services include: pre- and after-investment care, identification of suitable Bulgarian partners, up-to-date information on the investment process in the country, legal advice, support for priority investment projects, etc.
III. Establishing business in Bulgaria

**Company Regime**

**Legal Framework** Commercial Law (State Gazette No. 48 / 18.06.1991).

**Types of Companies**

- General partnership "Sabiratehno Drujestvo" (SD); Limited partnership "Komanditno Drujestvo" (KD); Limited liability company "Drujestvo s Ogranicena Otgovornost" (OOO); Joint-stock company "Akcionerno Drujestvo" (AD); Limited partnership by shares "Komanditno Drujestvo s Akcii" (KDA).

**Partnerships**

- **Partners** 2 or more partners - domestic or foreign legal or natural persons.
- **Characteristics** The general partnership is an association of two or more legal or natural persons who are personally, jointly and unlimitedly liable towards the creditors for the partnership's obligations. In a limited partnership there are one or more general partners, bearing unlimited liability, and one or more limited partners, whose liability is limited to the extent of their agreed capital contribution. A limited partnership by shares has general partners, who bear unlimited liability, and at least three limited partners, whose liability is limited to the extent of their shareholding.
- **Specific Features** A foreign national must be resident in Bulgaria in order to participate as a general partner in a partnership.

**Limited Liability Company**

- **Members** 1 or more shareholders. If the whole capital belongs to a single shareholder there is a single-owned limited liability company "Ednolichno Drujestvo s Ogranicena Otgovornost" (EOOD).
- **Minimum Capital** BGN 5,000.
- **Share and Contribution Requirements** The minimum contribution of each shareholder shall not be less than BGN 10. At registration at least 70% of the capital must be paid in. Contributions to the foundation capital can be paid in cash or in kind.
- **Company Management** The general meeting of shareholders is the decision-making body in the company. It is generally held at a date determined by the board of directors. The shareholders are elected by the general meeting. They vote proportionately to their shareholding. The board of directors is elected by ordinary resolution of the general meeting. The board of directors consists of 3 members. The appointment of the board of directors is subject to the approval of the general meeting. The company's annual report and the financial statements are presented to the general meeting. The company is rated on a scale of A+ to F. The minimum capital requirements for companies acting as: Banks - BGN 10,000,000; Insurance companies for: insurance and personal accident insurance - BGN 2,000,000; property insurance - BGN 3,000,000; reinsurance - BGN 4,000,000; Investment companies - BGN 500,000.

**Joint-Stock Company**

- **Shareholders** 2 or more shareholders. A single-owned joint-stock company "ednolichno akcionerno drujestvo" (EAD) is possible, but only the Bulgarian state may be the single shareholder.
- **Minimum Capital** BGN 50,000 for companies incorporated simultaneously and BGN 100,000 for companies incorporated successively.
- **Share and Contribution Requirements** The minimum value of each share shall not be less than BGN 0.1. The company may issue either registered, bearer or preference shares. Shares are freely transferable. At least 25% of the capital must be paid up on foundation. Contributions to the foundation capital may be paid in cash or in kind.
- **Company Management** The general meeting of shareholders takes decisions by a majority vote. Pursuant to the one-tier management system, the general meeting appoints a board of directors with 3 + 9 members. The board of directors selects a president and a vice-president among them. The non-executive members should be more than the executive members. According to the two-tier management system, the general meeting appoints a supervisory board consisting of 3 + 7 members. It nominates the managing board with up to 9 managers. Members of the executive bodies in both systems are elected for a period no longer than 3 years for the initial mandate and 5 years for the rest. There are no citizenship requirements.
- **Specific Features** There are higher minimum capital requirements for companies acting as: Banks - BGN 10,000,000; Insurance companies for: insurance and personal accident insurance - BGN 2,000,000; property insurance - BGN 3,000,000; reinsurance - BGN 4,000,000; Investment companies - BGN 500,000.

**Branches**

Domestic and foreign companies may register branches at the Commercial Register of the relevant court. Branches are not separate legal entities but must keep separate account books.

**Representative Offices**

- **Legal Framework** Law on Foreign Investment (State Gazette No. 97/24.10.1997).
- **Registration** Foreign person may register a representative office at the Bulgarian Chamber of Commerce and Industry. Representative offices are not legal entities and may not engage in economic activities.

**Bankruptcy**

- **Legal Framework** Part IV of the Commercial Law.

**Anti-Trust Rules**

- **Legal Framework** Law on Protection of Competition (State Gazette No. 52/08.05.1998).

**Employment of Foreign Nationals**

- **Legal Framework** Regulation on the Terms and Conditions for Issuing Work Permits to Foreigners in the Republic of Bulgaria (State Gazette No. 4/15.01.1993).
- **Characteristics** Foreigners may be employed in Bulgaria if a residence permit and a work permit are issued. The Ministry of Interior gives the residence permits. The employer requests the work permit at the Ministry of Labour and Social Policy. In certain cases foreigners do not need a work permit, including persons with registered business or other activity in the country without receiving pecuniary remuneration or remuneration in kind; managers of companies, foundations and non-profit organisations, registered and performing activity in the country; managers of commercial representative offices or branches of foreign companies.
3.2. Foreign investment regime

Definitions and forms of investment
Foreign persons may freely choose the form of investment to be performed in Bulgaria. Foreign investment is defined as any investment made by a foreign person, including the accretion in value of the investment initially made, in shares and stakes in commercial companies, ownership and limited ownership rights over movable and immovable property, debentures, treasury bonds and other kinds of securities, issued by the State, by the municipalities or by Bulgarian legal persons (with a remaining term until maturity not shorter than 6 months), loans and financial leasing for a term not shorter than 12 months, intellectual property rights, rights stemming from concession contracts, etc.

There are no limitations on the share participation of foreign persons in commercial companies. There are no minimum capital investment requirements, nor is prior permission for the investment needed.

National treatment
The Bulgarian Constitution and the Law on Foreign Investment stipulate that foreign investors are entitled to perform economic activity in the country under the same conditions applicable to Bulgarian investors unless provided otherwise by law. When international treaties to which Bulgaria is a party stipulate more favourable terms and conditions for foreign investment, these terms have precedence over local rules.

Legal guarantees against adverse legislative changes
Foreign investment made prior to the adoption of amendments in laws imposing statutory restrictions regarding the foreign investments only shall not be affected by these restrictions.

Protection against expropriation
Foreign investments in Bulgaria may not be expropriated except for exclusively important state needs which cannot otherwise be met, and subject to prior and adequate compensation in the form of another immovable property in the same location, or, with the foreign investor’s explicit consent, in another location, or in cash if the foreign investor prefers so.

Profit and capital repatriation
Foreign investors can freely purchase foreign currency and transfer it abroad upon presentation of receipts for paid taxes in the following instances:

- income generated through an investment;
- property alienation driven indemnification proceeds, when for state needs;
- liquidation quota resulting from the termination of the investment;
- proceeds from the sale of the investment good;
- sum received after the enforcement of a writ of execution.

Ownership rights over real estate
Foreign persons (foreign nationals and foreign legal entities) may not acquire ownership rights over land in Bulgaria. These persons are entitled to acquire property rights over buildings and limited property rights (right to build and right to use) over land, subject to the foreign exchange regime in the country.

The above provisions do not concern Bulgarian registered companies with foreign participation, irrespective of the percentage of the foreign participation in the company. Thus foreign persons can acquire full ownership rights over land, including ownership rights over agricultural land, by setting up or joining a company incorporated under the Bulgarian legislation. The same rule applies with regard to the acquisition of property rights over buildings, other limited property rights over real estate, including residential property rights. The provisions of the foreign exchange regulations do not apply to Bulgarian companies with foreign participation (100 % inclusive).

Foreign persons and companies with foreign participation need an advance authorisation by the Council of Ministers to acquire ownership rights over real estate in border zones and in areas of importance for the national security, as determined by the Council of Ministers.

Interministerial groups for institutional support for priority investment projects
At the request of an investor, the Foreign Investment Agency may propose to the Council of Ministers to form an interministerial group, comprising representatives of ministries and agencies concerned, in order to provide institutional support for certain investment projects acknowledged by the Council of Ministers as priority investment projects.

Tax incentive for investments in depressed regions
Foreign and domestic entities, investing in regions with a high unemployment rate, listed annually in an appendix to the Law on Corporate Income Tax, enjoy a reduction of the corporate income tax. The corporate tax for the recent year is reduced by an amount of 10 % of the share contributions (for company incorporation or capital increase) provided that the funds generated from the contributions are invested in acquisition, modernisation
The procedure for granting concessions includes:

- sites that are to be built and financed by the concessionaire.
- over existing sites - public state property, but also over reconstruction of tangible fixed assets such as buildings, equipment, transmitters, electricity transmitters, and telecommunication lines. The reduction sum is accounted for as reserves and if it is bigger than the corporate tax due for the respective year it can be used to reduce the corporate tax in the following five years.

3.3. Legislative framework of concessions and public procurement

The Bulgarian Constitution states that concessions can be granted for sites which are public state property or over which the state exercises its sovereign right or has an established monopoly, under the conditions and by the procedure set forth in a special law - the Law on Concessions (published in State Gazette No. 72/17.10.1995, last amended State Gazette 64/4 August 2000). The Law specifies the public state property sites for which concessions may be granted such as the ores and minerals in connection with relevant extraction, the biological, mineral and energy resources of the continental shelf and in the exclusive economic zone and the waterfront beach strip, the national roads, ports for public transport and civil airports, the waters, including mineral waters - sole state property, the forests and parks of national significance, the nuclear facilities, etc. Activities on which state monopoly has been established and which therefore may be subject to concession include the transportation of passengers and cargo by railway, the use of nuclear power and the manufacturing of radioactive products, arms, explosives and substances with strong biological activity.

Under the Law, concessions may be granted not only over existing sites - public state property, but also over sites that are to be built and financed by the concessionaire. The procedure for granting concessions includes:

- decision of the Council of Ministers based on a proposal by the corresponding minister for granting a concession;
- a competition or tender organised and carried out by the minister appointed in the above decision;
- decision of the Council of Ministers for electing a winner, published in the State Gazette and subject to appeal;
- conclusion of a concession agreement.

In some cases envisioned by the law, the concessionaire may be determined without competition or tender. Concessions may be granted for a period of up to 35 years. This term can be extended but the total duration of the concession cannot exceed 50 years. When the contract expires, other conditions equal, the concessionaire under this contract enjoys priority for the conclusion of a new concession contract for the same site or activity.

The Law on Municipal Ownership (published in State Gazette 44/21.05.1996) regulates the granting of concessions over sites that represent public municipal property or for activities performed by the municipalities and aimed at satisfying public needs. The procedure for granting concessions includes the adoption of a decision to grant a concession by the Municipal Council, the carrying out of a competition or tender and conclusion of the concession contract. Such concessions may be granted for a period of up to 35 years. However, the term can be extended. The total duration of the concession may not be longer than 50 years.

The Law on Mineral Resources (State Gazette No. 23/12.03.1999) and the Law on Waters (State Gazette No. 67/27.07.1999) contain provisions on concessions in these specific areas.

The legislative framework governing public procurement is set forth in the Law on Public Procurement (State Gazette 56/22.06.1999), in accordance with the principles of public access and transparency, free and fair competition, equal participation opportunities for all, and confidentiality of any company information provided and of the proposals made by the prospective contractors.

The terms and procedures stipulated in the Law apply to public procurement having value above a certain threshold, depending on the type of works or services ranging from the equivalent of roughly USD 15,000 for services to USD 300,000 for construction works. Below this threshold, public procurement is governed by an Ordinance of the Council of Ministers, providing particular measures to encourage the participation of small and medium-sized enterprises.

Any Bulgarian or foreign natural or legal person may participate in a public procurement procedure as a prospective contractor. Government agencies and any other authorities or organisations, which are empowered to use Consolidated Government Budget funds act as principals for the purposes of the Law on Public Procurement. The Law extends this notion also to business corporations which carry out one or several of the following activities, including activities carried out under a concession or a government license:

- operation of public utility networks for the production, transmission or distribution of drinking water, electricity, gas or district heating, including supply to such networks;
- exploitation of oil, gas or coal deposits or other solid fuel deposits;
- operation of airports or seaports or river-ports or other carrier terminals;
- operation of public transport networks;
- operation of telecommunication networks or supply of telecommunication or postal services, or of automated public service networks.
Public procurement contracts are awarded by an open or closed bidding procedure or by direct negotiation. The principal shall award all public procurement contracts by an open procedure, unless otherwise provided by the law. The closed bidding procedure may apply only where in view of the specific character of the subject of procurement, the latter is only capable of being performed by a limited number of contractors; or the subject of procurement is of complex technical nature, so as to require successive technical or technological specifications to be defined in the course of contract performance; or the open procedure initially announced has been terminated or completed without the conclusion of a contract. A public procurement award procedure shall be terminated where in an open or closed bidding procedure, fewer than three proposals have been submitted. In a limited number of circumstances, the Law allows for the award of public procurement contract by direct negotiation.

3.4. Dispute resolution mechanisms
Bulgaria is a signatory to the New York Convention on Recognition and Enforcement of Foreign Arbitral Awards. It is also a party to the European Convention on International Commercial Arbitration. Parties to commercial disputes may submit their dispute to Foreign Arbitration or International Domestic Arbitration in Bulgaria. Pursuant to the Bulgarian Law on International Commercial Arbitration parties who have their domicile or seat in Bulgaria may subject their dispute only to International Domestic Arbitration in Bulgaria. The Arbitration Court at the Bulgarian Chamber of Commerce and Industry is the main arbitration agent that settles commercial arbitration disputes.

As of March 2000, Bulgaria has signed the Convention on the Settlement of Investment Disputes, though it has not yet obtained the status of Contracting State.

IV. Taxation

Pursuant to the Bulgarian Constitution only the Parliament can impose taxes. The tax year in Bulgaria is the calendar year. Bulgaria’s tax system is comprised mainly of direct taxes (corporate and personal income tax), indirect taxes (value-added tax, excise and customs duties) and real estate taxes. The current Bulgarian tax system includes the following main taxes; (i) Corporate income tax, (ii) Personal income tax, (iii) Value added tax; (iv) Excise and customs duties; (v) Local taxes and fees.

4.1. Corporate income tax
Business profits are subject to corporate income tax and municipal tax. The table below shows the tax rates applicable for 2000 and the expected changes in respect of 2001 and 2002 announced by the Bulgarian Government according to its agreement with the International Monetary Fund.

<table>
<thead>
<tr>
<th>Taxable profit up to</th>
<th>Taxable profit above</th>
</tr>
</thead>
<tbody>
<tr>
<td>BGN 50,000</td>
<td>BGN 50,000</td>
</tr>
<tr>
<td>Municipal tax</td>
<td>Corporate tax</td>
</tr>
<tr>
<td>2000</td>
<td>2000</td>
</tr>
<tr>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>2001</td>
<td>2001</td>
</tr>
<tr>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>2002</td>
<td>2002</td>
</tr>
<tr>
<td>10%</td>
<td>15%</td>
</tr>
</tbody>
</table>

**Taxpayers, taxable base**
Taxpayers are all resident entities (including non-incorporated business) and permanent establishments of non-residents. Resident taxpayers are taxed on their worldwide income. Other entities are taxed on their Bulgarian-source income. The Bulgarian branches of non-resident companies are deemed Bulgarian resident companies for tax purposes. Non-business organisations (including governmental) are taxed for their business activities. Representative offices are not subject to corporate taxation, due to the fact that they are not allowed to carry out business activities.

There are no group taxation rules. Tax anti-avoidance rules cover transfer pricing and related persons. Taxable income is determined based on the accounting income adjusted for tax purposes. In principle, expenses related to business activities are tax deductible. The tax deductibility of the depreciation expenses is restricted by tax allowable depreciation limits. For tax purposes the law determines tax allowable depreciation methods and depreciation rates. Taxpayers are entitled to carry forward losses over the following 5 years (10 years for banks). Carry-forward of foreign source losses is restricted. Loss carry-back is not permitted. The loss carry-over can be used with regard to the advance tax payments as well as on an annual basis.

The thin capitalisation rules establish the maximum interest costs allowed as deductions, and apply if the debt financing of a company exceeds its equity financing for the respective year.

**Tax incentive for investments in depressed regions**
Entities, investing in regions with high unemployment, enjoy a reduction of the corporate income tax (not the municipal tax) amounting to 10% of the investment. The sum used for reduction is accounted for as reserves and if greater than the corporate tax in the respective year, it can be used to reduce the corporate tax in the following 5 years.

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1. The Municipal tax is deductible from the taxable base for the purposes of the Corporate tax.
2. Thin capitalisation rules do not apply to banks and holding companies.
4.2. Personal income tax

**Taxpayers, taxable base, tax rates**

Bulgarian law distinguishes between resident and non-resident taxpayers. Residents, irrespective of their citizenship, are deemed those persons who have their permanent domicile in Bulgaria or reside in the country more than 183 days in any 365 days period (in this case the individual becomes a resident taxpayer for the calendar year in which the 183-day threshold is exceeded). Resident taxpayers are taxed on their worldwide income. Non-residents are liable only for their income derived from Bulgarian sources.

The annual taxable base is the sum of all taxable incomes received, deducted by:

- mandatory and voluntary national insurance, pension, health insurance, unemployment fund contributions
- statutory deductions applicable only to non-employment contracts (e.g. 35% of the gross income for services contracts; 25% for management fees)
- relieves for donations not exceeding 5% of the taxable income after other statutory deductions have been made - not applicable to employment income

There are no tax deductions related to personal allowances for spouses and dependants. In principle, the total annual income is taxed in accordance with an annual progressive scale, the highest marginal rate being 40%.

Incomes derived under an employment contract are taxed on a monthly basis and the annual tax obligation is subject to adjustment on an annual basis, to which the annual progressive scale applies.

The law provides for the specific treatment of such types of income as royalty payments and technical services fees, interest payments, income received by independent contractors and freelancers, rentals, income of managers and board members, etc.

4.3. Value added tax

The Bulgarian VAT legislation generally follows the provisions of the EU Sixth VAT Directive. VAT is charged on the price due to a supplier of goods or services, increased by certain costs, taxes and charges, less the VAT chargeable itself. Most supplies of goods or services and imports are subject to a 20% VAT. A zero rate of VAT applies to export supplies and to supplies of precious metals to the Central Bank. Foreign companies or individuals have the right to recover the Bulgarian VAT subject to certain conditions.

**Types of exempt supplies**

- Supplies delivered outside the territory of Bulgaria (Bulgaria has adopted the EC definition of place of supply of goods and services)
- Supplies of goods in customs warehouses within the frame of the respective customs procedure.
- Supplies exempt due to their subject, such as transfer of ownership and limited property rights on land; financial and insurance services, lease of buildings and parts thereof, if these are leased out for dwelling purposes, etc.

Specific rules apply to registered persons making both taxable and exempt supplies.

**VAT credit**

Only VAT registered persons may charge VAT on taxable supplies and recover input VAT charged to them. The VAT refund can be made within 45 days following the 6-month term. Exporters are entitled to a VAT credit within 45 days. As a rule, VAT is not refundable to non-registered persons. The VAT credit can be offset against the VAT due and against other liabilities to the State within 6 months.

**Registration and tax period**

Any person (legal or natural, resident or non-resident) who has a taxable turnover exceeding BGN 75,000 during the preceding 12 months must register for VAT purposes. Voluntary registration is possible for persons whose taxable turnover is between BGN 50,000 and BGN 75,000. There is no group VAT registration. VAT registered persons must submit VAT returns and pay the VAT due to the State Budget on a monthly basis.

4.4. Excise duties

Excise duties are charged on importation and sale within the country of specific goods such as fuel, tobacco products, alcoholic beverages, coffee, some types of cars. Excise duties are also charged on gambling. Excise duties are calculated as a percentage of the sale price/customs value (e.g. coffee), or as a flat amount in BGN per unit (e.g. fuel, tobacco). Excise duties do not apply to exports. Excise duties paid in respect of exported goods are refunded within 30 days from the date of the export.

4.5. Customs Duties

The Bulgarian customs legislation follows the provisions of the EU legislation. As a rule, goods imported in Bulgaria are subject to:

- customs duty - a percentage of the customs value (which, as a rule, is the transaction value increased by certain costs), and
- VAT at 20% of the customs value increased by the customs duty.

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3 If a double tax treaty is in place, the 183-day residency rule applies in accordance with the provisions of the treaty.
4 Any income derived by an individual from the conduct of business in Bulgaria is deemed to have a Bulgarian source.
5 Fringe benefits under an employment contract are non-taxable (e.g. the value of free of charge prophylactic foodstuffs, antidotes and personal safety guards pursuant to the labour legislation, business travel compensations, etc.).
6 It is expected that the 6-month term will be reduced to 4 months as of 1 January 2001.
The rates applicable to certain goods are notably reduced, in many cases down to nil, as a result of applying the free trade agreements between Bulgaria and EU, EFTA, CEFTA, Turkey and Macedonia.

4.6. Local taxes
The Bulgarian tax system comprises such local taxes as real estate tax, inheritance tax, conveyance of property tax. Local fees are due for services provided by the municipalities as the most significant fee is the garbage collection fee.

4.7. Specific tax regimes

4.7.1. Tax on insurance and re-insurance premiums
Insurers pay a one-time 7% final tax on insurance premiums and on any other kind of income and are not obliged to pay corporate income taxes separately for their activities other than insurance or re-insurance. The rate applicable to life assurance income is 3%.

4.7.2. Taxation of companies in the gambling business
The income of companies (bets collected) organising the games:
- TOTO, LOTTO and bets made on the outcome of sports matches, is subject to a 8% final tax, and
- over the phone, BINGO, KENO, and other lotteries – 12% final tax.

4.7.3. Taxation of company expenses
Entertainment and representative expenses, sponsorship and business gifts, that do not bear the trademark of the donating company, are subject to a final 25% tax. Expenses representing bonuses to staff, benefits in kind, as well as expenses for maintenance, repair and exploitation of cars are subject to a final 20% tax.

4.7.4. Withholding taxes
Certain types of income originating from Bulgaria and payable by a Bulgarian resident to foreign entities are subject to a 15% withholding tax, if the foreign entities do not realise them through a permanent establishment. These types of income are dividends and liquidation proceeds, interest, including such under finance leases, royalties, technical services fees, rentals, payments under operating leases, franchising and factoring, capital gains from sale of real estate, stakes in the limited companies’ capital, securities and financial assets.

4.7.5. Patent tax
Individuals and legal entities conducting certain commercial activities and having a total annual income of up to BGN 75,000 (equal to DEM 75,000) pay patent tax as an alternative to the personal income tax. The amount of the patent tax does not depend on the income derived throughout the year, but is a lump sum set by law for each type of activity and for each region in the country.

4.8. Double tax treaties
According to the Constitution, DTTs override the domestic laws. DTTs set reduced or zero rates of withholding taxes, and apply directly. Currently, Bulgaria is a party to 43 DTTs (please see Attachment).

<table>
<thead>
<tr>
<th>Country</th>
<th>Income</th>
<th>Dividends, Per cent</th>
<th>Interest, Per cent</th>
<th>Royalties, Per cent</th>
<th>Capital gains from securities, Per cent</th>
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<td>10</td>
<td>0</td>
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<td>100</td>
<td>10</td>
<td>0/15</td>
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</tbody>
</table>
Notes:
1. The lower rate applies to dividends paid out to a non-resident, which is the direct owner of at least USD 40,000, forming part of the capital of the company making the payment.
2. The withholding tax on royalties for use (or right to use) of industrial, commercial or scientific equipment is reduced to 7 per cent.
3. The lower rate applies to dividends paid out to a foreign company, which controls directly at least 25 per cent of the share capital of the payer of the dividends. In the specific cases of the different countries more requirements may be in place.
4. There is no withholding tax on royalties for the use (or the right to use) of scientific or cultural works.
5. The lower per cent rate applies to dividends paid out to a foreign company, which controls directly at least 15 per cent of the share capital of the payer of the dividends.
6. There is no withholding tax on interest when paid to public bodies (Government, Central Bank or other state-owned financial or non-financial institutions).
7. 5 per cent royalties are applicable in case the Netherlands applies withholding tax under their domestic law.
8. Up to 10 per cent branch tax may be imposed on permanent establishment profits.
9. The 15 per cent rate applies in specific cases pointed out in the respective treaty.
10. The zero rate on interests applies, if the loan is extended by a bank institution.
11. The zero rate on interest applies, if the interest is paid to public bodies (Government, Municipality, Central Bank or any financial institution owned entirely by the Government), to local persons of the other country when the loan or the credit is guaranteed by its Government, or if the loan is extended by a company for any equipment or goods of scientific or cultural works.
12. The Bulgarian Parliament passed a Law on Termination of the Double Tax Treaty between Bulgaria and Cyprus (published in the State Gazette, issue 48 of 13 June 2000). According to the DTT between Bulgaria and Cyprus, if Bulgaria notifies Cyprus about the termination until the end of June 2000, as from 1 January 2001 the DTT will not be in force. The DTT will cease to be applicable not earlier than 1 January 2002, if the notification is made after the end of June 2000. A draft for a new DTT between Bulgaria and Cyprus is under consideration.

In accordance with the Act, all entities should apply "double entry" system of bookkeeping.

Some general accounting and financial reporting requirements are also established in the Commercial Act of 1991 (with subsequent amendments). All companies, incorporated under the Commercial Act are required to comply with its requirements relating to the maintenance of proper accounting records and the preparation and submission of audited accounts for statutory purposes. For specialized industries, other applicable regulations are in force such as the Law on the Bulgarian National Bank, 1997; the Insurance Law, 1996; the Law on Commercial Banks, 1997; the Law on Public Offerings of Securities, 2000.

The Accountancy Act also establishes statutory auditing requirements. Entities subject to a statutory audit are:
- joint stock and public limited companies;
- banks, insurance and other financial institutions;
- entities, which exceed at least two of the following criteria:
  - reported total assets at the beginning of the reporting period - BGN 300,000;
  - reported sales and financial income in the preceding year - BGN 600,000;
  - employees for the preceding year on a full year equivalent basis - 30.

A statutory audit can be performed by a Bulgarian certified public accountant (CPA), member of the Bulgarian Institute of Certified Public Accountants or by a "specialized auditing company", which meets the following criteria:
- is registered as a trade company in accordance with Art.64 par.1 item 1,2,3 of the Commercial Act;
- at least 51 percent of the shares and the voting rights belong to Bulgarian certified public accountants or Bulgarian and another country's certified public accountants.

V. Audits and accounting

5.1. Accounting and audit legislation
Accounting and financial reporting is regulated by the Accountancy Act of 1991 (amended in 1992, 1996, 1997, 1998, 1999 and 2000). The accounting principles introduced are in general accordance with the EU Directive IV and the International Accounting Standards. The Accountancy Act (the Act) establishes requirements for maintaining accounting records and for presentation of the financial information of the enterprises. The Act requirements are applicable for all types of organizations: business enterprises, public sector entities, non-profit organizations, etc. The main sections of the Act relate to:
- accounting principles;
- documentation of the transactions;
- current and closing valuation of assets and liabilities;
- annual financial statements;
- certified public accountants.

Note: The chart of rates serves for information purposes only. It should not be considered advice, as each DTT has its own peculiarities. Therefore, before applying the above-cited rates, they must be checked in the respective DTT.
Only a specialized auditing company, approved by the Central Bank can certify financial statements of banks. Financial statements of insurance companies are to be certified by at least two CPAs, approved by the Insurance Supervisory Directorate of the Ministry of Finance.

According to the Act, a National Chart of Accounts, National Accounting Standards (NAS) and National Standards on Auditing (NSA) have been established and approved by the Bulgarian Government.

There are thirty-five National Accounting Standards issued. With some exceptions, as described in the following section, the NAS are in compliance with International Accounting Standards (IAS), as issued by the International Accounting Standards Committee (IASC).

Twenty National Standards on Auditing have also been issued and additional 4 are in the course of preparation. They are all in accordance with International Standards on Auditing (ISA) as issued by the International Federation of Accountants (IFAC).

### 5.2. Accounting Principles

Financial statements are to be prepared under the historical cost convention.

The following main accounting principles should be followed in accordance with the Accountancy Act:

- going concern;
- accrual basis;
- matching of income and expenses;
- substance over form;
- true and fair view;
- materiality;
- prudence;
- historic cost;
- separate reporting periods;
- matching of closing and opening balance sheets;
- documentary evidence;
- consistency.

The above principles are in substantial compliance with the principles and requirements of the IAS. However, through further regulations, as set by the Act and NAS, some of the accounting principles are modified or limited in implementation. As a result, in certain cases, the applicable accounting rules are not consistent with the internationally accepted accounting principles. Examples of such exemptions are:

- Provisions for bad debts can be charged up to 50 percent of the original amount of a receivable previously recognized as income, and only if certain conditions are met, i.e. the debt is proved to be irrecoverable, a 100 percent provision can be charged. A debt is considered to be irrecoverable if:
  - (i) the debtor is declared insolvent or in liquidation or
  - (ii) insolvency procedures have ceased, but the debt will not be recovered. Provisions for other types of assets are not allowed.

- Investments in subsidiaries that are included in the consolidated financial statements should be included in the parent's own financial statements at cost or revalued amounts under the parent's accounting policy for long-term investments (NAS 25 Accounting for Investments). Equity method of recording of investments in the parent's own financial statements is not allowed.

- In accordance with NAS 28 Investments in Associates, significant influence is defined as a holding of 25% or more of the shares of the enterprise which differs from IAS 28 definition.

- Investments in associated companies are measured initially at cost and carried thereafter at fair value; equity method of recording of such investments in investor's own financial statements is not allowed.

- In accordance with NAS 28 Investments in Associates, associates, which have a material effect for the true and fair presentation of the financial statements of the group, may be consolidated by applying proportionate consolidation method, which differs from the IAS 28 requirements.

### 5.3. Valuation of the Balance Sheet items

Generally, the historical cost accounting convention is dominant. Assets and liabilities are normally valued at the amount at which they were historically acquired or incurred.

**Fixed assets** are valued at the acquisition cost less accumulated depreciation. The acquisition cost comprises purchase price, transportation, handling and any other costs related to the specific asset's delivery and preparation for use. Depreciation is calculated consistently, based on the useful life of the asset, as assessed by the management. Depreciation rates allowable for income tax purposes are established by the Corporation Tax Law.

Depreciation is not charged for land and forests, as well as for fully depreciated tangible and intangible fixed assets.

Fixed assets are subject to year-end revaluation. Land and forests are revalued at fair market value. Plant, equipment, vehicles and furniture are revalued by applying specific price index by group of assets, published by the National Statistical Institute. An increase of the fair value of a fixed asset is reported as revaluation reserve. Any subsequent decrease of the fair value is taken from the revaluation reserve unless it exceeds the revaluation surplus in which case it is charged as other expenses.
The whole revaluation reserve for an asset should be released to retained earnings upon retirement/disposal of the asset.

**Stocks** are valued at the lower of cost and fair value. Fair value is defined as an exchange price, market price or realizable value. The revaluation is allowed only at the year-end and the revaluation loss is recognized in the income statement. The cost of the stocks is assigned through FIFO, weighted average, LIFO or specific cost formulas for identified supplies.

**Receivables** are valued at the original transaction amount less any provision for doubtful, bad and irrecoverable amounts. Such provision shall not exceed 20 percent for doubtful debts (aging between 90 and 180 days), 50 percent for bad debts (aging more than 180 days) and 100 percent for irrecoverable debts.

**Current investments** are valued at market price. Revaluation is effected on a monthly basis.

**Long term investments** are measured initially at cost and carried thereafter at fair value. Revaluation is effected as at the balance sheet date. When a revaluation gives rise to a value uplift, it should be credited to the revaluation reserve unless it represents a reversal of a revaluation decrease of the same asset previously recognized as an expense, in which case it should be recognized as income. Any subsequent decrease of the fair value of such investment is taken from the revaluation reserve unless it exceeds the revaluation surplus in which case it is charged as financial expense.

**Foreign currency monetary assets and liabilities** are valued at the historical exchange rate at the date of transaction. At the end of each month, such items should be revalued at the closing exchange rate, as established by the Bulgarian National Bank. The effect of such revaluation is recognized as foreign currency exchange gain or loss for the current period.

**Share capital** is valued at its registered total amount. Receivables on subscribed shares are stated as an asset or as a negative amount in the equity section.

**Hyperinflation restatements** of the balance sheet and income statement is required by the NAS 29 in case the cumulative inflation index for three consecutive years is 100% or more. The financial statements adjusted for hyperinflation are recognized as the official financial statements.

5.4. Annual Financial Statements

Financial year for all reporting organizations is the calendar year. The financial statements should be prepared in Bulgarian Levs and in Bulgarian language.

The purpose of the financial statements as described in the Act is to provide true and fair presentation of the financial position, financial results and cash flows of the enterprise.

Annual financial statements include:
- balance sheet;
- income statement;
- cash flow statement;
- statement of changes in equity; and
- notes to the financial statements and disclosure of accounting policies.

The Act and NAS prescribe the format of the financial statements. However, enterprises are free to add items to the standard financial statements where it would result in better presentation of the financial information.

The financial statements are due to be prepared by February 15 and presented to the state authorities (National Statistical Institute and Tax Authorities) by March 31 of the year following the balance sheet date of the reporting year. All companies, subject to annual audit are required to publish their financial statements in a daily or in a specialized economic or finance edition by the end of May and submit them to the Bulgarian Chamber of Commerce by the end of June of the following year. Consolidated financial statements should be prepared by June 15 and published not later that June 30 of the following year. Banks, insurance companies and branches of foreign financial institutions should publish their financial statements in the State Gazette.

VI. Investment opportunities by sectors

6.1. Sector overview

6.1.1. Chemical industry

The chemical sector, which has attracted a number of foreign investors, is a leading growth sector in Bulgarian industry accounting for 21.5% of industrial output in 1999. This sector is well focused with a strong position in several major export markets. It provides a number of intermediary and final products for the domestic and export markets. The location has logistical advantages for trade with Europe and the Mediterranean countries in particular. This sector provides inorganics, fertilisers, soda ash, plastics, PVC, polyamide and polyester fibers, paints and varnishes, phthalic anhydride, detergents, pharmaceuticals, perfumery and cosmetics along with essential oils and essences.
6.1.2. Food-processing, beverages and tobacco industry
The favorable climate and long-established traditions have underpinned the sector’s development. Products of the food, beverages and tobacco industry have accounted for 19.1% of the total industrial output in 1999, with an export share of 16.7%. In terms of output structure it includes ten sectors – meat processing, dairy, canning, sugar, vegetable oils, wine, brewing, fish, milling, tobacco – comprising 306 manufacturing companies.

6.1.3. Ferrous and non-ferrous metallurgy
The share of metallurgical products in Bulgarian export revenues is quite substantial, however it has experienced a certain slowdown in 1998 and 1999 as a result of world-wide stagnation in this sector. There are 46 enterprises in this sector including 21 in ferrous and 25 in non-ferrous metallurgy.

6.1.4. Mechanical engineering
Since 1990 this sector was been the fourth largest source of industrial output after chemicals, metallurgy and the food-processing industry, with 12.9 % of total industrial output in 1999. Mechanical engineering comprises 510 companies in the following sub-sectors - machine tools, forklifts, tractors, harvesters, buses, ship-building and automotive industry.

6.1.5. Electrical engineering and the electronics industry
A strategic sector of economy with priority in long-term development programs. This prominent position is in particular due to its export record and potential. In 1999 the sector's production accounted for 3.05% of total industrial output. This industry comprises 243 companies in the following sub-sectors - electrical engineering, computer and office facilities, electronics, radio engineering and communication equipment, military-industrial complex.

6.2. Infrastructure
6.2.1. Transport
The advantageous geographical location of Bulgaria determines the special importance of transport development. Highways and railways link to European axes, notably the E80 motorway, and provide the most direct overland gateway between Western Europe, Turkey and the Middle East.

Infrastructure development is focused on several projects: European Crete Transport Corridors No. IV, VII, VIII, IX, X (totaling USD 4,068.4 mln). Investment projects for the modernisation of Sofia and Bourgas Airports (total volume of USD 401 mln) are launched. The construction of a second bridge over the Danube River between Vidin and Kalafat (Romania) is expected to be initiated within the next few months, which will significantly increase the traffic capacity over the river.

Additional projects include the restructuring of the Bulgarian State Railways Company ‘BDZ’, rehabilitation of the national road network, the Trans-European Motorway, and a ring transport corridor around the Black Sea coast.

6.2.2. Telecommunications
This is one of the most challenging sectors for foreign investors. Due to the country’s strategic location on the Balkans Bulgaria serves as a cross-point for telecommunications traffic from Europe to the Middle East, and also to the Southern parts of the CIS and Asia. The next few months a tender for a second GSM operator will be announced. The sale of the Bulgarian Telecommunications Company (BTK), the state monopoly, is expected to be linked with a tender for a third GSM operator. The investment strategy of BTK includes the creation of a digital operation network (DON project) under which major Bulgarian cities have already been connected.

In the sub-sector of cellular telephones, at present two operators have established a GSM and an analogue mobile network. Telephone switch exchange manufacturing in Bulgaria also provides another good opportunity for foreign investors. Both of these sub-sectors have already attracted foreign investment.

6.2.3. Energy
The Law on Energy and Energy Efficiency (adopted in July 1999) regulates the energy sector. The first large-scale investment projects in the energy sector have started in 1999. American companies participate in two of Bulgaria's most significant infrastructure projects within the country's largest energy complex "Maritsa East". The project costs are estimated at more than USD 1 billion. A Turkish holding has also initiated a project for the construction of a system of dam lakes and hydro power plants on the river Arda amounting to USD 220 million.

An early closure of reactors 1 to 4 of the Kosloduy nuclear power plant has been scheduled, which will involve substantial investments in their decommissioning and the modernization of units 5 and 6. The restructuring of the state National Electric Company will also create additional investment opportunities.