



## I. Economic overview

### 1.1. General economic indicators

Indicators	2002	2003	2004	2005
1. GDP, EUR bln	16.5	17.7	19.6	21.4
2. GDP per capita, EUR	2,101	2,249	2,515	2,771
3. Real GDP growth rate, %	4.9	4.5	5.7	5.5
4. Industrial production growth rate, %	4.6	15.0	17.1	14.0
5. Annual average inflation rate, %	5.8	2.3	6.1	5.0
6. Annual unemployment rate, %	17.8	13.7	12.2	10.7
7. Balance of current account, EUR mln	-402.5	-972.3	-1,131.3	-2,530.6
8. Average monthly gross salary, EUR	132	140	149	164
9. Interest rate on long-term loans (capital assets), %	14.24	13.45	12.73	10.91
10. Interest rate on short-term loans to companies, %	9.71	9.04	9.04	8.25
11. Interest rate on demand deposits, %	2.99	3.12	3.16	3.25
12. Gross external debt stock, EUR mln	10.8	10.6	12.6	14.5
13. Foreign exchange reserves, EUR mln	4.6	5.3	7.1	8.4
14. Exchange rate of BGN for 1 EUR, end of year	1.95583	1.95583	1.95583	1.95583

Source: Bulgarian National Bank, National Statistics Institute

For the last 5 years the Bulgarian economy has grown steadily at 5%. Real GDP growth in 2005 was 5.5% driven mainly by capital investments and household consumption. The rate was kept (at 5.6%) in the first quarter of 2006. Slower growth in real wages and central bank's restrictions on bank lending is expected to lead to more moderate growth of domestic demand in 2006-2007.

The average inflation reached 6.1% in 2004 influenced by the rising prices of fuels and non-processed foods. In 2005 CPI averaged 5% as a result of the last-year floods. The sharp rise of the excise on alcohol and tobacco at the beginning of 2006 would probably keep the annual average inflation above 4% but the steady low wage growth could bring it down in 2007.

### 1.2. Foreign trade

#### 1.2.1. Foreign trade regime and major regulations

Bulgaria applies a liberal foreign trade regime meeting the WTO requirements. Council of Ministers' Decree no. 233/2000, last amendments State Gazette 78/2005 regulates the foreign trade regime in Bulgaria.

Subject to registration regime (automatic licensing) are several kinds of timber and firewood for export.

The permit (non-automatic licensing) regime originates from Bulgaria's compliance with the international agreements and respective domestic laws. Permits are required for transactions with several commodity groups, mainly nuclear material and radioactive substances, gunpowder and explosives,

hunting and sporting arms, pharmaceuticals, military products, goods and technologies with possible dual use (civil and military), wild animals and plant species, etc.

#### 1.2.2. Customs regime

The Bulgarian Customs Act is based on the EU Customs Code and the same customs procedure and regimes are applied as follows: release for import, export, temporary export, transit, customs warehousing, inward processing, outward processing, processing under customs control, etc.

The Bulgarian Customs Tariff is based on the international Harmonized Commodity Description and Coding System and on the EU Combined Nomenclature. No customs duties and taxes are charged on exported goods. Bulgaria applies export quotas only on goods that are subject to international agreements. Imports from developing countries are treated according to the General System of Preferences, recommended by the UNCTAD.

Customs clearance of goods requires presentation of a customs declaration, which is similar to the Single Administrative Document used in the EU, accompanied by the usually required commercial documents.

#### 1.2.3. Exports and imports

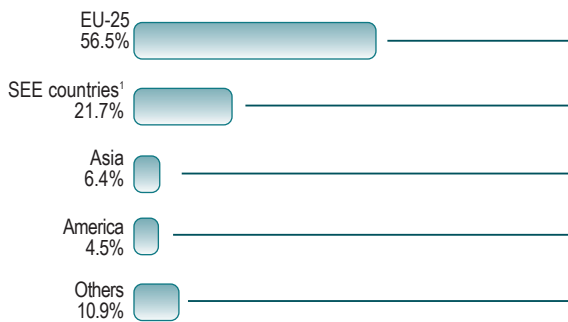
Trade volume, EUR bln	2002	2003	2004	2005
Exports	6.1	6.7	8.0	9.5
Imports	8.4	9.6	11.6	14.7

Source: Bulgarian National Bank

#### 1.2.4. Structure of foreign trade by regions

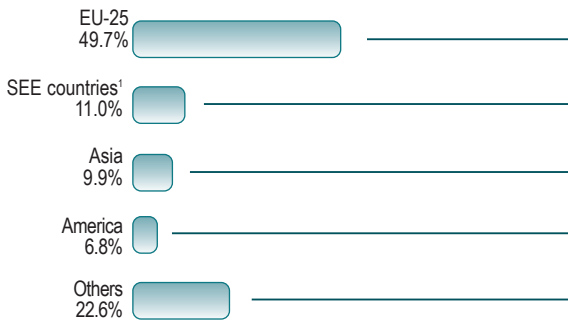
With regard to the future EU membership and the peg of the Bulgarian Lev to the Euro, the main export destinations continue to be the EU and Balkan countries, accounting for almost 80% of total exports in 2004-2005. This tendency makes Bulgaria fully dependent on the European markets.

##### Exports by country groups (2005)



Source: Bulgarian National Bank

##### Imports by country groups (2005)



Source: Bulgarian National Bank

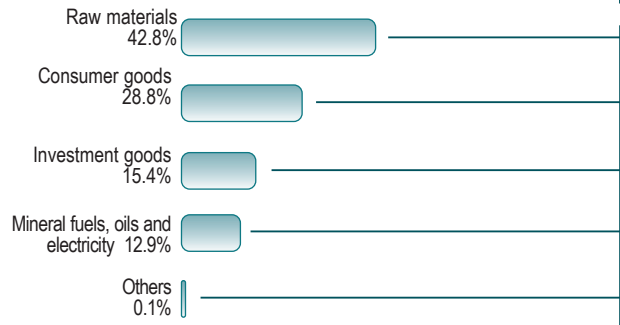
#### 1.2.5. Major trade partners

Top 10 major export partners in 2005: Italy (12%), Turkey (10.5%), Germany (9.8%), Greece (9.4%), Belgium (6%), France (4.6%), Romania (3.8%), Spain (3.3%), USA (3%) and Serbia and Montenegro (3%).

Top 10 major import partners in 2005: Russian Federation (15.6%), Germany (13.6%), Italy (9.0%), Turkey (6.1%), Greece (5%), France (4.7%), China (3.9%), Ukraine (3.8%), Romania (3.7%) and USA (2.5%).

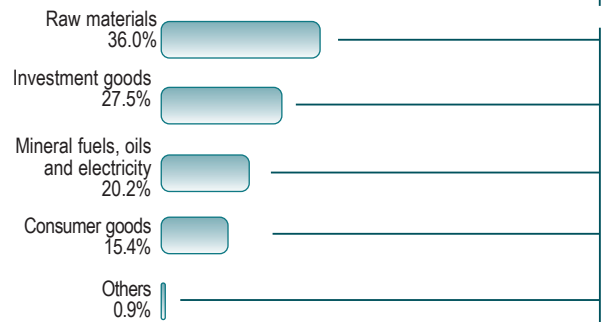
#### 1.2.6. Structure of foreign trade by commodities

##### Exports by commodities (2005)



Source: Bulgarian National Bank

##### Imports by commodities (2005)



Source: Bulgarian National Bank

Clothing and footwear is the major export item accounting for 16.3% of the Bulgarian exports in 2005, followed by petroleum products (10.3%), other metals (10%) and iron and steel (8.1%).

Bulgaria imports mainly crude oil and natural gas for the petroleum industry (15.6% of the total imports in 2005), investment goods like machinery and equipment (9.5%) and vehicles (8.2%) as well as textiles for the apparel industry (9.2%).

#### 1.2.7. Free trade agreements

**WTO:** WTO membership since 1 December 1996

**European Union:** European Agreement of Association, Interim Agreement on Trade and Trade Related Matters; currently, over 95% of Bulgaria's trade with the EU is conducted freely. Bulgaria is expected to become an EU member as of the beginning of 2007.

**Other bilateral and multilateral FTA:** EFTA, CEFTA, Turkey, Albania, Bosnia and Herzegovina, Macedonia, Moldova, Serbia and Montenegro, Israel.

<sup>1</sup>Including Albania, Bosnia and Herzegovina, Croatia, Macedonia, Romania, Turkey, Serbia and Montenegro

### 1.2.8. Free trade zones

There are six duty-free zones (FZ), located on strategic transport routes leading to the main international markets: Vidin, Rousse, Dragoman, Svilengrad, Plovdiv and Bourgas. A purpose-set joint stock company or a state owned company manages each FZ. There is customs brokerage in all FZs. In general, the entry of goods into FZ is free of duty and VAT.

The zones are favorable for general commercial activities: warehousing, packaging, labeling, distribution, re-export. Only under certain conditions the FZ are suitable for manufacturing activities, e.g. inward processing, etc.

### 1.3. Foreign investment

The FDI stock over the period 1992 - 2005 has reached USD 13.4 billion.

#### 1.3.1. FDI by years and by type of investment

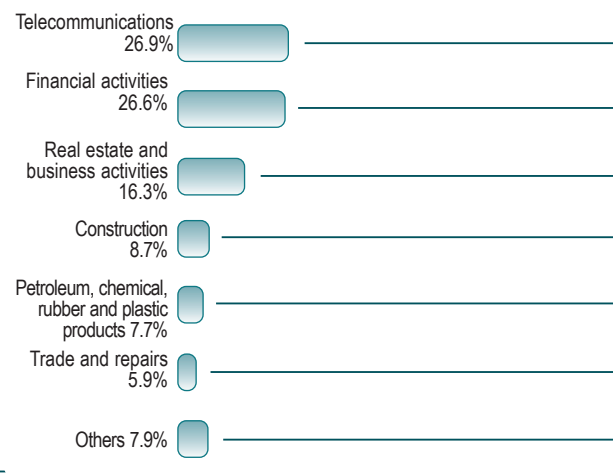
For the past 8 years greenfield and expansion investments have considerably outstripped FDI inflows from privatization.

#### Annual FDI inflows by type of investment, USD mln

FDI, USD mln	2001	2002	2003	2004	2005
Greenfield and expansion	793.7	839.7	1,732.8	2,227.4	2,222.6
Privatization	19.2	130.0	364.1	1,216.0	0.0
Total	812.9	969.7	2,096.9	3,443.4	2,222.6

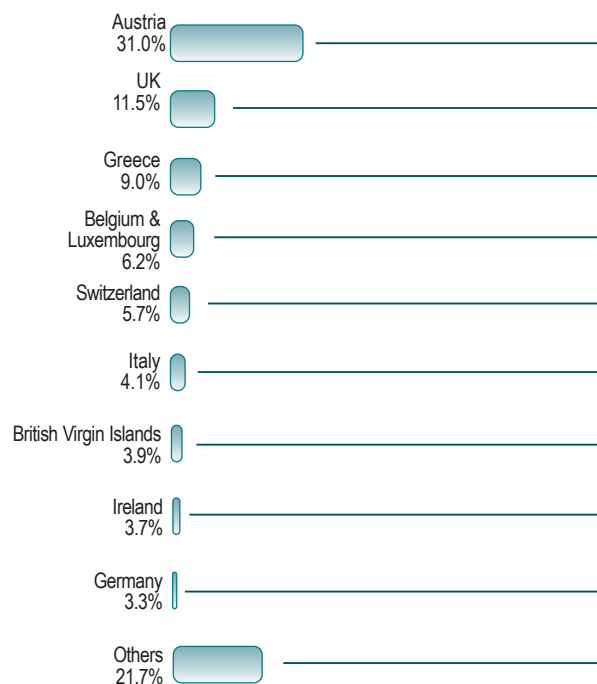
Source: Bulgarian National Bank, InvestBulgaria Agency

#### 1.3.2. FDI by sectors (2005)



Source: Bulgarian National Bank, InvestBulgaria Agency

#### 1.3.3. FDI by countries (2005)



Source: Bulgarian National Bank, InvestBulgaria Agency

The EU countries have traditionally been the largest source of FDI in Bulgaria. EU-25 accounted for 80% of the FDI inflows in 2005. During 2005 Austria kept its leading position in terms of FDI stock in Bulgaria, followed by Greece, Germany, Italy and the Netherlands.

#### 1.3.4. Top foreign investors in Bulgaria

Investor	Sector	Type of investment*	Year
TELECOM AUSTRIA	Telecommunications	G+E	2005
OTE, Greece	Telecommunications	G+E	2001-2005
LUCOIL, Russia, Netherlands	Petrochemical products	P+E	1999-2005
OTP, Hungary	Finance	P+E	2003-2005
UNICREDITO, Italy	Finance	P+E	2000-2005
CEZ, Czech Rep.	Electricity distribution	P	2004
EVN, Austria	Electricity distribution	P	2004
VIVA VENTURES, Austria	Telecommunications	P	2004
SOLVAY, Belgium	Chemical industry	P+E	1997-2005

NATIONAL BANK OF GREECE	Finance	P+E	2000-2005
AMERICAN STANDARD, USA, Netherlands	Plumbing, sanitary ware	P+E+G	1993-2005
RAIFFEISEN BANK, Austria	Finance	G+E	1994-2005
BANK AUSTRIA, Austria	Finance	P+E	2002-2005
E.ON, Germany	Electricity distribution	P	2004
UMICORE, Belgium, Netherlands	Copper smelter	P+E	1997-2005

Source: InvestBulgaria Agency

Note: \* G - Greenfield investment, E - Expansion of existing operation, P - Privatisation

### 1.3.5. Government institutions in the field of foreign investment

Ministry of Economy and Energy is the government institution that is responsible for the investment policy of Bulgaria and co-ordination of the activities of the state institutions in the field of foreign investment.

**InvestBulgaria Agency (IBA)** is an executive agency, working under the supervision of the Ministry of Economy and Energy in line with the 2004 Investment Encouragement Law. Since the beginning of 2005 IBA has opened foreign offices in Los Angeles and Brussels. The Agency is responsible for assisting both foreign and domestic investors. Its core services include: investment marketing, information and individual administrative service, qualification of investment projects for infrastructure support, identification of suitable investment sites and potential Bulgarian suppliers and partners, up-to-date information on the investment process in the country, legal advice, sector analyses, etc.

## 1.4. Investment opportunities by sectors

### 1.4.1. Business process outsourcing

Bulgaria is in the list of the leading outsourcing destinations for technical support and shared services among countries in Eastern Europe. This is due to the large pool of qualified multilingual business service professionals as well as engineers that could be attracted at competitive cost, the reliable telecom infrastructure and availability of modern office space at reasonable rent/purchase price. The A.T. Kearney 2005 Global Services Location Index rated Bulgaria 15th in the world and 2nd in Europe after the Czech Republic in terms of attractiveness.

A number of off-shored technical support as well as business service centres have been established in Bulgaria for the past 3 years - among them the operations of IMRO from Belgium, TaxBack - Ireland, C3i and SysMaster from the USA. At the beginning of 2006 Hewlett Packard chose Bulgaria among 14

European destinations for their new global delivery support centre; Ajilon and Sitel partner HP for this project.

Several Bulgarian outsourcers, including BTC, CallCenter Bulgaria and All Data Processing have been also providing reliable services to foreign customers.

### 1.4.2. Automotive parts industry

Bulgaria has recently become a desired destination for automotive parts manufacturers due to the reasonable operational cost and the tendency for original equipment manufacturers to move eastwards. The Bulgarian automotive parts industry is export oriented as there are no car assembly companies in the country. Major customers of the producers in Bulgaria are Valeo, Delphi, Electricfil, Mannesmann, Sauer-Danfoss, Renault, Rover, Ford, Tyco Electronics, Magneti Marelli, etc.

There are over 25 automotive part companies in the country. Most of the Bulgarian ones currently service the after-market, while the foreign owned producers, like EPIQ, Arkomat, Nursan Otomotiv and Grammer work as tier-two suppliers. Their product range covers from wire harnesses, through piston rings, Al wheel rims, plastic parts to high-end electronic sensors and modules.

In May 2005 the French company Montupet announced a EUR 41 million investment project for an automotive components plant in Rousse industrial zone (at the Danube River). The aluminium details for automotive engine and brake systems to be produced in the new factory will be exported to OEMs and their subcontractors in Europe.

## 1.5. Foreign investment regime

The Law on Encouragement of Investments (State Gazette 37 of 2004, last amended State Gazette 65/2006) which changed the Law on Foreign Investment of 1997, together with the Rules on the Enforcement of the Law on Encouragement of Investments (State Gazette 74 of 2004, last amended State Gazette 78/2005) outline the general framework of the investment climate in Bulgaria.

### Legal framework

Foreign persons may freely choose the form of investment to be performed in Bulgaria. Foreign investment is defined as any investment or increase of investment made by a foreign person or its branch, in shares or stakes of companies, right of 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 period longer than 12 months, right of ownership of detached parts of companies with more than 50% state or municipal participation in the capital in the sense of the Law on

Privatisation and Post-privatisation Control, 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 Encouragement of Investments 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 the local rules.

#### **Legal guarantees against adverse legislative changes**

Foreign investment, made prior to the adoption of amendments in laws imposing statutory restrictions regarding 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 that 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 termination of the investment;
- proceeds from sale of investment goods;
- sum received after the enforcement of a writ of execution.

#### **Investment incentives**

The Law on Encouragement of Investments sets forth preferential treatment measures for investments meeting the following criteria:

- the investment to be in fixed assets with the purpose of creating new or enlarging, or modernizing existing production of goods and/or services;
- new jobs to be created;
- the investment project to be implemented within 3 years.

The incentives in the Law, however, do not apply to investment in banks, non-banking financial institutions, insurance companies, investment companies and companies with special investment purposes, managing companies, pension

funds, health insurance companies, gambling companies and investments made under privatisation agreements.

Different measures apply according to the class of the investments, depending on the investment project value as follows:

- 1st class - investment over BGN 70 million
- 2nd class - investment from BGN 40 to 70 million
- 3rd class - investment from BGN 10 to 40 million

For all investment classes, central and territorial executive authorities, as well as local self-government authorities provide administrative services to investors within time limits by 1/3 shorter than those stipulated in the respective legislation.

Apart from speeded-up administrative service, 3rd-class investments receive by InvestBulgaria Agency information services as follows:

- pre-developed information materials
- information about potential partners and sites in the country
- information about all administrative procedures concerning the implementation of the investment project.

For 2nd-class investments InvestBulgaria Agency provides:

- information services and
- individual administrative services with respect to all central and regional bodies; investors have the opportunity to authorize officials of the Agency to obtain from the corresponding competent bodies on investors' behalf and for investors' account any documents necessary for implementation of the particular investment project.

For 1st-class investments, InvestBulgaria Agency assists investors by providing:

- individual informational and administrative services
- assistance with real estate "titling" issues - on a request of the 1st-class investor the Agency may propose to the corresponding authorities to transfer ownership rights or establish limited ownership rights over real estate, necessary for the implementation of the investment project (private-state or municipal property) without a tender, free of charge or at preferential prices.
- resources for building elements of technical infrastructure to the borders of the investment project site.

#### **Property rights**

At present foreign individuals and legal entities can acquire buildings, premises within a building and limited property rights (e.g., a construction right, right of use) on land in Bulgaria. Foreign entities can acquire ownership rights over land in Bulgaria through a company registered in Bulgaria that could be up to 100% foreign property.

By the Law on Amendment and Supplement of the Constitution (published, State Gazette 18/2005) the Bulgarian Constitution has been amended, liberalizing the regime for acquisition of land by foreigners. Foreign individuals and legal

entities may acquire land under the terms and conditions arising from the accession of the Republic of Bulgaria to the European Union or by virtue of ratified, published and effective international agreements. The specified amendments shall enter into force as of the effective date of the Accession Treaty of the Republic of Bulgaria to the European Union and shall not apply to the current international agreements. The Accession Treaty will provide for a 7-year suspension period. However the EU citizens will be entitled to acquire land immediately as of Bulgaria's accession to the EU in case they reside continuously in Bulgaria or have permanent residence in Bulgaria and are self-employed that carry out agricultural activity in the country.

## II. Establishing business in Bulgaria

### 2.1. Forms of business and corporate governance

<b>Company Regime</b>	<b>Legal Framework:</b> Commercial Law (published, State Gazette 48/1991, last amended, State Gazette 59/2006)
<b>Types of Companies</b>	General partnership (SD); Limited partnership (KD); Limited liability company (OOD); Joint-stock company (AD); Limited partnership by shares (KDA)
<b>Partnerships</b>	<b>Partners:</b> 2 or more partners - domestic or foreign legal or natural persons <b>Characteristics:</b> 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. <b>Specific features:</b> A foreign national must be resident in Bulgaria in order to participate as a general partner in a partnership.
<b>Limited Liability Company</b>	<b>Shareholders:</b> 1 or more shareholders. If the whole capital belongs to a single shareholder there is a single-owned limited liability company (EOOD) <b>Minimum capital:</b> BGN 5,000 <b>Share and contribution requirements:</b> The minimum contribution of each shareholder shall not be less than BGN 10. Contribution to the foundation capital can be paid in cash or in kind. At registration, at least 70% of the capital must be paid in full and each of the shareholders shall have paid at least 1/3 of his share and no less than BGN 10. Company management: The General Meeting of shareholders is the decision-making body of the company. It is summoned at least once a year. The shareholders vote proportionally to their contribution unless otherwise provided in the Agreement of Incorporation. One or more managers are appointed by the General Meeting for a period stipulated in the company's statutory documents. There are no citizenship requirements for the managers. <b>Specific features:</b> If that the company has more than 30 employees, they are represented in the general meeting with a deliberative vote.

<b>Joint-Stock Company</b>	<b>Shareholders:</b> 1 or more shareholders <b>Minimum capital:</b> BGN 50,000 <b>Share and contribution requirements:</b> The minimum value of each share shall not be less than BGN 1. The company may issue either registered, bearer or preference shares. Shares are freely transferable. At least 25% of the capital must be paid in at the moment of registration. Contributions to the foundation capital may be paid in cash or in kind. <b>Company management:</b> The General Meeting of shareholders takes decisions by a majority vote. Pursuant to the one-tier management system, the General Meeting appoints the members of the BoD with 3 to 9 members. The Articles of Association shall determine their exact number. The number of non-executive members should exceed the number of the executive members. According to the two-tier management system, the General Meeting appoints a Supervisory Board consisting of 3 to 7 members. The Supervisory Board nominates a Management Board with 3 to 9 members. Members of the executive bodies in both systems are elected for a period no longer than 5 years. The members of the first board of directors and the first supervisory board may be determined for a period of up to 3 years for the initial mandate. There are no citizenship requirements. <b>Specific features:</b> There are higher minimum capital requirements for companies acting as: <ul style="list-style-type: none"> <li>• Banks - BGN 10,000,000</li> <li>• Insurance companies for: <ul style="list-style-type: none"> <li>- Life insurance and personal accidents - BGN 4,000,000</li> <li>- Property insurance - BGN 6,000,000</li> <li>- Reinsurance related to life insurance and personal accidents - BGN 6,000,000</li> <li>- Reinsurance related to property insurance - BGN 9,000,000</li> </ul> </li> <li>• Investment companies - BGN 500,000</li> <li>• Stock Exchanges - BGN 100,000</li> </ul>
<b>Branches</b>	Domestic and foreign persons may register branches at the Commercial Register of the relevant court. Branches are not separate legal entities but must keep separate accounting books.
<b>Representative Offices</b>	<b>Legal framework:</b> Law on Encouragement of Investment (State Gazette 37/2004) <b>Characteristics:</b> A trade representative office is incorporated through registration into the commercial register with the Bulgarian Chamber of Commerce and Industry.
<b>Registration</b>	On 1 October 2006 the new Law on Commercial Register (published, State Gazette 34/2006) is becoming effective. As of this date the companies as well as the branches and the representative offices will be subject to registration with the specialized Registration Agency.
<b>Bankruptcy</b>	<b>Legal framework:</b> Part IV of the Commercial Law (published, State Gazette 48/1991, last amended, State Gazette 59/2006)
<b>Anti-Trust Rules</b>	<b>Legal framework:</b> Law on Protection of Competition (published, State Gazette 52/1998, last amended State Gazette 59/2006)

## 2.2. Foreign exchange regulations

The foreign exchange regime is regulated by the following basic legal acts - Currency Law (State Gazette 83/1999; last amendment State Gazette 59/2006), Regulation No. 10/2003, issued by the Bulgarian National Bank (BNB), on Export and Import of Bulgarian Levs and Foreign Currency in Cash, Precious Metals and Stones, Regulation No. 28, issued by BNB, on Collecting Information by Banks about Crossborder Transfers and Payments, Regulation No. 27/2003 on Balance of Payment Statistics and Ordinance No. 4, issued by the Ministry of Finance, on the Registration Terms and Procedure and Requirements to the Activity of Exchange Bureauxs.

Each local or foreign person may hold an unlimited number of accounts in any currency in any bank in Bulgaria.

The Bulgarian banks may carry out pecuniary transfers outside Bulgaria after specifying the grounds for the transfer. Documentary evidence should be produced for transfers exceeding BGN 25,000 for current international payments (imports of goods and services, transport, interest and principal payments, insurance, training, medical treatment and other purposes defined by the Bulgarian regulations). Local and foreign individuals may import and export money under the following conditions:

- Amounts not exceeding BGN 8,000 or equivalent in foreign currency - without declaration
- Amounts over BGN 8,000 to BGN 25,000 or equivalent in foreign currency have to be declared at the customs in terms of type of currency and amount.
- Local and foreign individuals can export amounts over BGN 25,000 or equivalent in foreign currency after declaring to the customs authorities the origin of the money and presenting a certificate by the respective tax office for not having overdue liabilities. Foreigners have the option to declare to the customs authorities that the amount exported does not exceed the amount declared by on their last entering the country.

## 2.3. Legislative framework of concessions

Pursuant to the new Law on Concessions (published, State Gazette 36/2006, last amended State Gazette 65/2006), concession is the right of exploitation of a site of public interest, granted by the relevant principle to a concessionaire against the concessionaire's obligation to construct and/or operate and maintain the concession object at its own risk.

Concessions are generally classified as follows:

- Concession for construction;
- Concession for services;
- Concession for extraction.

The Law on Concessions establishes the following qualifying procedures for appointment of a concessionaire:

- Open procedure;
- Restricted procedure;
- Competitive interview procedure;
- Electronic auction, as a supplementary procedure to the open or restricted procedure.

Decisions for starting a concession procedure are taken by the Council of Ministers on the grounds of a proposition of the relevant minister in charge (for state property sites), by the Municipal Council on the grounds of a proposition of the mayor (for municipal property sites) or by the relevant body of the public organization on the grounds of a proposition of the person managing the organization (for sites owned by a public organization).

Granting concessions on some sites is also regulated by special laws - the Law on Waters (for water sites), the Law on Underground Resources (for extraction of underground resources) and the Law on Roads (for national roads).

Concession contracts, irrespective of the property on the site, can be granted for a period of up to 35 years with no option for extension.

## 2.4. Legislative framework of public procurement

Public procurement procedures are regulated by the Law on Public Procurement (published, State Gazette No. 28/2004, last amended, State Gazette No. 37/2006). The law harmonizes Bulgarian public procurement legislation with the four major public procurement directives of the European Union. According to the Law, the Minister of Economy is responsible for the state policy in the area of the public procurement. The minister is assisted by the state Public Procurement Agency, which creates and manages a public procurement register.

Public procurement procedures are opened for purchase of goods, delivery of services, construction works and competition for a project.

The parties under the Law on Public procurement are assignors, candidates and contractors.

Assignors could be any of the following persons:

- The state bodies, the President of the Republic of Bulgaria, the Bulgarian National Bank, as well as other institutions of State established by a statutory instrument;
- The diplomatic missions and the consular posts of the Republic of Bulgaria abroad, as well as the permanent missions of the Republic of Bulgaria to the international organizations;
- The bodies governed by public law;
- The combinations formed by parties referred the preceding three items;
- The public organizations and any combinations thereof, where carrying out one or several of the activities as

described in the next item herein;

- The merchants and other persons which are not public organizations, carrying out one or several of the following activities on the basis of special or exclusive rights:
  - Activities related to natural gas, heat or electric power, including provision or operation of fixed networks intended to provide public services in connection with the production, transport or distribution of: drinking water, electricity, natural gas or heat; or the supply of natural gas, heat or electric power to such networks;
  - Activities related to drinking water, including the provision or operation of fixed networks intended to provide public services in connection with the production, transport or distribution of drinking water; or the supply of drinking water to such networks;
  - Activities related to transport services, including the operation of networks public services in the field of transport by railway, tramway, trolley bus or bus, as well as of automated transport systems or cableways;
  - Activities related to provision of a universal postal service.

A candidate or a participant in a public procurement award procedure may be any Bulgarian or foreign person or an alliance thereof.

Contractor may be a participant in a public procurement award procedure wherewith the contracting authority has concluded a public procurement contract.

Public procurement contracts are awarded following a procedure, which may take one of the following forms:

- Open procedure - all interested persons can participate in the procedure
- Restricted procedure - only candidates approved by the assignor could present their offers
- Competitive interview procedure
- Negotiations procedure:
  - with announcement (in the State Gazette) - the assignor conducts a preliminary selection and invites only the approved candidates for negotiations
  - without announcement - the assignor invites for negotiations a limited number of candidates.

Design competition procedure can be either open or restricted.

The Law similarly to the European legislation provides for special rules for the award of public procurement contracts by entities operating in transport and telecommunications, water and energy supply sectors.

## 2.5. Dispute resolution mechanisms

The national legislation in the field of arbitration consists of the Civil Procedure Code and the Law on International Commercial Arbitration, which is applicable to international commercial disputes, based on an arbitral clause, when the arbitration takes place on the territory of Bulgaria.

Bulgaria has also ratified the following international conventions in the field of arbitration:

- Enforcement of Foreign Arbitral Awards (ratified 1961)
- New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards
- European Convention on International Commercial Arbitration (ratified 1964)
- European Convention on Mutual Assistance in Penalty and Civil Matters (ratified 1994)
- Washington Convention for Settlement of Investment Disputes between States and Other States' Citizens (ratified 2000).
- 56 bilateral agreements on mutual protection and promotion of foreign investment.

The most reputable arbitration courts in Bulgaria function with the Bulgarian Chamber of Commerce and Industry and the Bulgarian Industrial Association. Under the Law on Public Procurement, a specialized Arbitration Court at the Public Procurement Agency has been established (1 October 2004) to deal with public procurement disputes.

The Law on Mediation (published, State Gazette 110/2004) establishes the grounds for independent mediation services for alternative out-of-court settlement of commercial and other disputes.

## 2.6. Operational costs (2006)

Average gross monthly salary, EUR, 2Q 2006	176
Nominal salary growth, %, yoy	6.8%
Price of industrial land, 2005-2006, large cities EUR/sq. m	30 - 100
Office prime rent in Sofia, 1H 2006, EUR per sq. m / month	A class 14-16 B class 6-13
Water charges for corporate clients in Sofia (potable water, sewage, water purification), 2006, including VAT, EUR per m <sup>3</sup>	0.53-0.59
Water charges for household use in Sofia, 2006, including VAT, EUR per m <sup>3</sup>	0.43
Electricity for industrial use, medium voltage (1 kV - 60 kV), EUR / kWh, including VAT, 2006	
3 tariff-reading	
peak electricity	0.074
day electricity	0.046
night electricity	0.028
2 tariff-reading	
day electricity	0.058
night electricity	0.028
1 tariff-reading	0.056
Natural gas for industrial users, VAT included, Q3 2006, EUR per 1,000 m <sup>3</sup> (price depends on the distribution company and the volume consumed)	193 to 290

Source: National Statistics Institute, Colliers International, Sofijska Voda AD, State Energy and Water Regulatory Commission

### III. Taxation

The tax year in Bulgaria is the calendar year. The current Bulgarian tax system includes the following main taxes: Corporate Income Tax, Personal Income Tax, Value Added Tax, Excise and Customs Duties, local taxes and fees.

#### 3.1. Direct taxation

##### 3.1.1. Corporate income tax (CIT)

<b>Legislative framework</b>	Corporate Income Tax Act
<b>Taxpayers</b>	All companies and partnerships (including non-incorporated partnerships <sup>1</sup> ), carrying out business in the country
<b>Tax income</b>	<ul style="list-style-type: none"> <li>Worldwide income for resident taxpayers</li> <li>Bulgarian-source income for non-resident taxpayers<sup>2</sup></li> </ul>
<b>Tax rate</b>	<ul style="list-style-type: none"> <li>15% standard rate</li> <li>Specific tax regimes - 8% &amp; 12% for companies in the gambling business</li> </ul>
<b>Determination of profit for tax purposes</b>	According to the International Financial Reporting Standards
<b>Special rules</b>	<ul style="list-style-type: none"> <li>Loss carry over for 5 consecutive years; carry-forward of foreign source losses is possible solely against foreign-source income originating from the same operation. Loss carry-back is not permitted.</li> <li>Thin capitalization rules - If the debt/equity ratio is higher than 2:1 at the end of the respective calendar year, the maximum tax deductible interest expenses could not exceed the sum of the interest income of the taxpayer and 75% of the EBIT; If the debt-equity ratio of the taxpayer is up to 2:1, the interest costs can be deducted for tax purposes in full. The portion that is non-deductible in the current year can be carried forward and deducted in the following 3 years</li> <li>In case of loss - add the excess of interest expenses over interest income to the financial result and deduct the expenses for interests, with which the financial result is increased at its tax transformation from the taxable income during the next three tax years</li> <li>Capital gains - generally included in the corporate income and taxed at the full corporate tax rate except mainly for: capital gains from shares of public companies as well as from tradable rights in shares realized on a regulated Bulgarian stock market</li> </ul>
<b>Tax losses incurred in the EU member states</b>	Tax losses incurred in any EU country may be carried forward against taxable profits realized anywhere, including in Bulgaria; the regime introduced in 2006 applies also to tax losses incurred after 1 January 2001 in any of the 25 current EU member states if the losses have not been deducted by the end of 2005 and are available for carry forward.

<b>Tax allowances</b>	<ul style="list-style-type: none"> <li>Expenses for donations<sup>3</sup>, entertainment and sponsorship are subject to a 10% lump sum tax.</li> <li>Contributions made by employers for voluntary pension and health insurance and voluntary unemployment insurance and/or "Life" insurance and "Life" insurance, if connected with investment fund, in favour of the employees if such contributions are up to BGN 40 per employee per month. The excess over BGN 40 is subject to 12% lump sum tax.</li> <li>Social expenses incurred for organized catering and recreation of the personnel, provided in kind, are subject to 12% lump sum tax.</li> <li>Operation, maintenance and repair expenses for transportation means related to management activity are subject to a 10% lump sum tax</li> <li>The remuneration as well as the social security and health care contribution to the account of the employer paid for each employee, hired under a labour contract for no less than 12 months within the same tax year and if registered as unemployed for more than 1 year, or over 50 years of age, or with reduced working ability. This tax allowance can be used for the year of hiring the unemployed person.</li> </ul>		
<b>Depreciation</b>	Straight-line depreciation method is to be applied.		
	Category of assets	Asset description	Maximum annual depreciation rate, %
	I	steady buildings, facilities, communication devices, electricity carriers, communication lines	4
	II	machinery, manufacturing equipment, apparatuses	30 (50) <sup>4</sup>
	III	transportation vehicles, excluding automobiles; coverage of roads and airplane runways	10
	IV	computers, software and right of using software	50
	V	automobiles	25
	VI	all other depreciable assets	15

<sup>1</sup> Representative offices are not subject to corporate taxation as they are not allowed to carry out business activities.

<sup>2</sup> Companies that are non-residents in Bulgaria, but operate in Bulgaria through a branch, office, agency or other form of a permanent establishment are only liable to tax on the profits generated through their Bulgarian establishment.

<sup>3</sup> Tax is not levied on donations to some institutions explicitly listed in the Law, such as hospitals, kinder gardens, orphanages, etc.

<sup>4</sup> Up to 50% applicable for new equipment that is part of initial investment.

<b>Tax incentives for investments in depressed regions</b>	<b>Preconditions:</b>
	<p>1. The list of depressed regions is approved by the Minister of Finance</p> <p>2. The application of the corporate tax incentives is possible only upon fulfillment of the state aids granting requirements as follows:</p> <ul style="list-style-type: none"> <li>• If the value of the exemptions/incentives and other state aids for regional development exceeds BGN 75 million, a permission from the Commission for Protection of the Competition is required</li> <li>• If the amount of the state grants and subsidies (excluding the grants provided tax incentives) does not exceed BGN 200,000 in a 3-year period, the tax incentives can be used under less strict conditions.</li> </ul> <p>Companies in liquidation and bankruptcy or in financial difficulties as well as companies engaged in the following activities: automotive assembly, shipbuilding, coal mining, steelmaking industry, manufacturing of synthetic fibers, agriculture and fish breeding - cannot benefit from regional incentives from the date of the EU accession.</p>
	<b>Incentives:</b>
	<p>1. Companies engaged in production, including production under job processing, enjoy 100% exemption of the corporate income tax in case they meet all of the following requirements:</p> <ul style="list-style-type: none"> <li>• All business sites and premises as well as all assets of the company (except for cash in bank accounts and shares or stakes in other companies) are entirely located within the administrative boundaries of the respective depressed region</li> <li>• In the calendar year of exemption the company should not have any outstanding tax or obligatory social security liabilities or any penalty interests on such liabilities.</li> </ul> <p>Corporate income tax exemption could be enjoyed if the amount of the tax, accounted as reserves, is invested for acquiring assets necessary for the production activity within 3 years following the year of exemption. The cost of the fixed intangible assets acquired should not exceed 25% of the costs of the fixed assets. At least 25% of the asset acquisition cost has to be financed by investor's own funds, incl. bank credits. The assets acquired could not be disposed of for a period of 5 years, except for in cases of company merger or restructuring.</p> <p>The incentive is available for a period of 5 subsequent years, subject to meeting its conditions in each respective year. If as a result of decreased unemployment, the municipality is excluded from the list of depressed regions, the incentive is applied until the expiry of its term. If a company that qualifies for the exemption has started preparatory activities for investing in a depressed region, but prior to commencement of manufacturing the region is excluded from the depressed regions list, the company can benefit from the incentive for 4 years.</p> <p>2. Tax credit at 10% of the value of assets acquired as part of initial or investment for expansion of activity in a depressed region; the tax credit can be carried forward for a period of 5 years. Requirements: the acquisition cost of intangible assets should not exceed 25% of the costs of the fixed assets; the assets acquired for the purpose of the incentive-eligible investment cannot be disposed of for a period of 5 years, except in cases of company merger or restructuring.</p>

### 3.1.2. Personal income tax

<b>Legislative framework</b>	Personal Income Tax Act (PITA)
<b>Taxpayers</b>	Resident <sup>1</sup> and non-resident individuals and corporates explicitly enumerated in PITA
<b>Tax income</b>	<ul style="list-style-type: none"> <li>• Worldwide income for resident taxpayers</li> <li>• Bulgarian-source income<sup>2</sup> for non-resident taxpayers</li> </ul>
<b>Standard tax exempt income</b>	<ul style="list-style-type: none"> <li>• Income derived from the sale or exchange of certain types of immovable property (flats, houses or villas) or means of transport, subject to certain conditions</li> <li>• Income derived from the sale or exchange of movable property except for the means of transport as per the preceding bullet irrespective of the time of acquisition</li> <li>• Incomes derived from sale or exchange of property, obtained as inheritance, bequest, donation and restituted property, as well as the inheritance and donations</li> <li>• Compensations received as a result of statutory health and social security insurance</li> <li>• Business trip allowances covered by the assignor under non-employment relations, including travel and accommodation allowances, and daily allowances up to the double amount determined for individuals working under employment contracts</li> <li>• Interest on deposits in local commercial banks and branches of foreign banks, mutual benefit funds, savings and credit co-operations, the interest and expenses on court-awarded claims, the interests and discounts on state, municipal and corporate securities as well as moratoria interests on bond relations, incomes derived from investments of the insurance reserves on "Life" insurance, marriage and children's insurance and insurance "Life", if connected with an investment fund as well as incomes derived from investment of the assets of the voluntary pension funds</li> <li>• Indemnification and other similar payments for average and severe corporal damage, decease or professional disease; compensations on property insurance and compensations for alienation of rights and for losses up to the amount of the loss, indemnification for suffered non-proprietary damages; insurance indemnification for permanent working incapacity and the medical expenses thereof refunded by an insurer when permanent working incapacity has occurred; the sums paid by an insurer for death, the sums for marriage and child insurance when the insurance event has occurred - marriage or birth or the term of the insurance has expired</li> <li>• Interest on court established receivables, which are not subject to taxation and adjudicated indemnification for expenses related to court cases</li> <li>• Income in cash and in kind from social aid, received on the grounds of a normative act and unemployment indemnification and support</li> <li>• Financial aid granted by social funds and organizations</li> <li>• Children subsidies from the state and payments determined by court to child support</li> <li>• Student grants for Bulgarian resident individuals for their education in the country and abroad</li> <li>• Income in cash and in kind from social aid, received on the grounds of a legislative act</li> <li>• Prizes from the lottery and other games of fortune</li> </ul>

	<ul style="list-style-type: none"> <li>Salaries and remuneration for: members of the personnel of the diplomatic representations according to the Vienna convention for the diplomatic relations; the members of the consular offices according to the Vienna convention for the consular relations; employees of inter-governmental and inter-state organizations according to the international contract, concluded with the respective organization, and the members of the families of the above persons, in as much as provided in the respective international contract</li> <li>Company profits distributed as new quotas and shares in commercial companies, as well as the profits distributed as an increase in existing quotas and shares' par value</li> <li>Incomes derived from transactions with public companies' stocks and trading rights on public companies' stocks, made on regulated Bulgarian stock market</li> <li>Incomes from transactions with shares in mutual funds for investment in securities traded on a Bulgarian stock exchange</li> <li>National and state prizes awarded to authors of cultural works</li> <li>Profits, received by natural persons and sole traders - for the unprocessed tobacco, plant and animal production, incl. apiculture, sericulture, fresh water fisheries from artificial basins and greenhouse production without the decorations</li> <li>Rentals from agricultural land</li> </ul>
<b>Tax exemption for income received under a labour contract</b>	<p>The following incomes are non-taxable:</p> <ul style="list-style-type: none"> <li>The value of free of charge prophylactic food-stuffs, antidotes and personal safety guards pursuant to the Labour Code and other statutory instruments</li> <li>The value of the special working clothes, the free of charge working or representing clothes and uniforms which are provided under the Labour Code or other acts (e.g. those provided to state servants)</li> <li>Certain compensations under the Labour Code (e.g. business travel compensations; reassignment compensations)</li> <li>The value of travel cards for traveling from place of residence to place of work provided by the employer to the employee free of charge</li> <li>Social expenditures incurred by the employer and taxed under the Corporate Income Taxation Act (fringe benefits distributed as social expenses)</li> </ul>
<b>Annual taxable base</b>	<p>The sum of all taxable incomes received during the calendar year, reduced by:</p> <ul style="list-style-type: none"> <li>The amount of mandatory national insurance contributions made by the individual, and voluntary pension, health insurance and unemployment fund contributions not exceeding 10% of the taxable income, as well as premiums paid during the year on account of the persons under "Life" insurance contracts and "Life" insurance, if connected with an investment fund, not exceeding 10% of the taxable income</li> <li>Statutory deductions applicable only to non-employment contracts (e.g. 35% of the gross income for service contracts; 10% for management fees)</li> <li>Social expenses to the account of the employer, taxed under the Law on corporate income tax;</li> <li>Donations not exceeding 10% or 50% of the taxable income under some statutory conditions respectively</li> <li>Child allowances - BGN 360 for 1 child, BGN 780 for 2 children, BGN 1,140 for 3 or more children</li> </ul>

Taxation of the adjusted annual income, 2005	Annual income		Tax
	up to BGN 2,160		
from BGN 2,160 to BGN 3,000			20% on the excess over BGN 2,160
from BGN 3,000 to BGN 7,200			BGN 168 + 22% on the excess over BGN 3,000
above BGN 7,200			BGN 1,092 + 24% on the excess over BGN 7,200

<sup>1</sup> Resident taxpayers are persons who have their permanent domicile in Bulgaria or reside in the country more than 183 days in any 365 day period

<sup>2</sup> Including: 1. Incomes paid out by Bulgarian residents or from a permanent establishment to a non-resident on the territory of the country like dividends and distribution of profits of entities with or without legal presence, interest, royalties, rentals, payments under lease, franchising, factoring, as well as fees of freelancers, or members of a managing or controlling body of a Bulgarian corporate; branch of a foreign entity, etc. 2. Incomes derived from the use of real estate and capital gains from the sale of real estate located in the country, as well as incomes from transactions with quotas/shares in local companies and incomes from securities transactions with securities issued by the Bulgarian state and municipalities

Social security system covers retirement, health and unemployment risks and obligations.

Type of insurance	Paid by		Total (%)
	Employer (%)	Employee (%)	
Health	3.9	2.1	6.00
Social:			
Pension insurance fund	14.95	8.05	23.00
Sickness & motherhood insurance fund	2.275	1.225	3.50
Employment insurance fund	0.4 to 1.1	0.00	0.4 to 1.1
Unemployment fund	1.95	1.05	3.00
Guaranteed payment of the employees and servants fund	0.5	0.00	0.5
<b>Total</b>	<b>24 to 24.7</b>	<b>12.43</b>	<b>36.4 to 37.1</b>

Monthly contributions are calculated on the remuneration and other employment income of the employee for the respective month but on not more than the maximum monthly insurance base fixed annually in the Mandatory National Insurance Budget Act, which is BGN 1,400 (around EUR 716) for 2006.

### 3.1.3. Withholding taxes

Types of income subject to standard 15% withholding tax rate: interest, including such under finance leases, royalties, technical services remuneration, rents, payments under operating leases, franchising and factoring, capital gains from sale of immovable property, stakes in local companies, securities and financial assets, remunerations received under

management contracts, remunerations for members of the board of directors or controlling bodies of Bulgarian legal entities.

The withholding tax on dividends and liquidation quotas, distributed by Bulgarian company to resident individuals, resident non-profit entities and non-residents is 7% as of January 2005. Dividends and liquidation quotas distributed by a Bulgarian company to a tax resident in a EU Member state is not be subject to Bulgarian withholding tax, under certain conditions as follows:

- The person is considered a resident of the respective EU country for tax purposes and is not considered resident of a non-EU country by force of a double taxation agreement
- The person has held at least 20% of the shares/stocks of the local entity for at least 1 year
- The person is levied with corporate tax at the respective EU country, without having right of choice for tax exemption

The interest on bonds traded on a regulated Bulgarian or EU country stock market is exempt from Bulgarian withholding tax. The interest on loans provided by an EU tax resident to its Bulgarian parent company is not subject to Bulgarian withholding tax if the loan has been granted following a bond issue by the lender and the bonds are traded on a regulated stock market in Bulgaria or in an EU member state.

Under some double taxation treaties technical service payments fall within the definition of royalty payments and are taxed accordingly.

### 3.2. Indirect taxation

The Bulgarian VAT legislation in many aspects follows the provisions of the Sixth EU VAT Directive.<sup>1</sup>

#### Value added tax (VAT)

<b>Legislative framework</b>	Value Added Tax Act
<b>Mandatory VAT registration</b>	For any person (legal or physical, resident or non-resident) with a taxable turnover (excluding exports) of at least BGN 50,000 during the preceding twelve months As of 2005 non-resident foreign persons that supply certain services (e.g. consultancy, licensing and provision of data) to local VAT registered customers are not required to register for VAT in Bulgaria.
<b>Voluntary VAT registration</b>	Threshold for 12-month taxable turnover of BGN 25,000
<b>VAT account<sup>2</sup></b>	VAT account has to be opened within 14 days from the date of registration under the law. VAT account can be used only for VAT payments. The use of VAT accounts is obligatory for payment of VAT above BGN 1,000 when the customer is VAT registered.

<b>Payment requirements</b>	VAT payments and refunds can only be made in BGN.
<b>VAT credit refund</b>	If for a given month a VAT registered person has more input VAT than output VAT, the tax authorities offset the excess against any other outstanding tax liabilities of the person. If there is any remainder, the person offsets it against the output VAT he charges during a 3-month term following the month, in which the excess of input VAT occurred. If after this term there is still any remainder, the tax authorities set it off against any other outstanding tax liabilities of the person or refund it to him within 45 days as of the submission of the VAT return for the third month. Exporters (persons with turnover from export supplies exceeding 30% of the value of their supplies in aggregate for the preceding 12 months) are entitled to a VAT credit refund within 30 days as of the date of submitting the VAT declaration for the respective month. VAT credit is also subject to recovery in case of carrying out supplies, which are exempt by virtue of international agreements, to which Bulgaria is a party.
<b>Tax base</b>	The tax base for supplies within Bulgaria includes: <ul style="list-style-type: none"> <li>• the price (exclusive of VAT) charged to the customer</li> <li>• all other taxes and fees, including excise duties, subsidies and financing relating to a transaction</li> <li>• any interest and penalties under a transaction</li> <li>• transportation, package and other expenses related to supply if these are borne by the customer</li> </ul> The tax base for imports includes: <ul style="list-style-type: none"> <li>• the customs value</li> <li>• the customs duties</li> <li>• excise duties (if any) on the import goods</li> </ul>
<b>Place of supply</b>	Bulgaria has adopted the EU definitions of place of supply of goods and services.
<b>VAT exempted transactions without right to deduct VAT</b>	<ul style="list-style-type: none"> <li>• financial services</li> <li>• insurance services</li> <li>• provision of legal advice by registered attorneys in accordance with the Attorneys Act and of services under the Notaries Act</li> <li>• transfer of ownership and limited property rights over land</li> <li>• land processing services rendered by co-operatives by means of their own equipment, provided that the land is owned by the co-operative members</li> <li>• lease of buildings and parts thereof, provided these are leased out for dwelling purposes</li> <li>• supply of grain as an in-kind rent for use of land</li> <li>• gambling</li> <li>• donations in favour of certain charity institutions</li> </ul> No VAT is charged on transactions with a place of supply outside Bulgaria, but no VAT deduction could be claimed for such transactions.

<b>Zero % VAT</b>	<ul style="list-style-type: none"> <li>• for export of goods and services</li> <li>• for processing of imported goods that are further re-exported</li> <li>• for transfer of rights over software when the place of execution is out of the territory of the country and the implemented export has been paid by the customer in full amount and received in a local bank</li> <li>• for transfer of rights on films, when the place of delivery is outside the territory of Bulgaria</li> <li>• for international transportation</li> <li>• for public telecommunication services provided by licensed Bulgarian telecommunication operators to foreign operators</li> <li>• for certain services related to carrying out international hunting tourism in Bulgaria</li> </ul>
<b>VAT rates</b>	20% for taxable supplies, including import of goods and services
<b>VAT incentives</b>	<p>Special preferential VAT regime for imports of goods necessary for implementation of an investment project</p> <p>VAT-registered entities developing certain eligible investment projects are entitled to import goods needed for the project implementation (with the exception of excise goods) without effective payment of VAT on the imports. Moreover, such investors are entitled to refund VAT incurred on local purchases within 10 days after filing of the tax return, provided that at least 80% of the monthly VAT charges incurred on purchases are paid through a VAT account.</p> <p>In order to benefit from the special VAT regime, the investor needs to obtain a permit issued by the Minister of Finance. Approval is subject to a number of requirements, as follows:</p> <ul style="list-style-type: none"> <li>• Investment project value - at least BGN 10 million (EUR 5 million) for a period not exceeding 2 years</li> <li>• Term for completion of the project - up to 2 years</li> <li>• The project should create at least 50 new jobs</li> <li>• The project should be eligible for state aid for regional development</li> <li>• The investor should prove an ability to finance the project</li> <li>• The investor should not have outstanding tax liabilities and obligatory social and health insurance liabilities</li> </ul>

<sup>1</sup> As of 1 January 2007 the current VAT legislation will be replaced by a new law to fully comply with the EU standards in this field.

<sup>2</sup> VAT accounts are abolished in the new VAT bill proposed by the government for approval by the parliament and enforcement as of 1 January 2007.

### 3.3. Double taxation treaties

Albania	Indonesia	Poland
Armenia	Ireland	Portugal
Austria	Israel	Romania
Belarus	Italy	Russia
Belgium	Japan	Singapore
Canada	Kazakhstan	Slovakia
China	Korea North	Slovenia
Croatia	Korea South	Spain
Cyprus	Kuwait	Sweden
Czech Republic	Lebanon	Switzerland
Denmark	Luxembourg	Syria

Egypt	Macedonia	Thailand
Finland	Malta	Turkey
France	Moldova	Ukraine
Georgia	Mongolia	United Kingdom
Germany	Morocco	Vietnam
Greece	Netherlands	Yugoslavia
Hungary	Norway	Zimbabwe
India		

## IV. Accounting

### 4.1. Accounting and auditing legislation

International Accounting Standards (IAS) were introduced in Bulgaria in 2003. Since January 2003, IAS have been mandatory for Bulgarian banks, insurance companies, investment companies, social security institutions and public companies. As of the beginning of 2005 IAS are obligatory for all companies in Bulgaria, except for SMEs that can optionally apply them.

### 4.2. Accounting principles

As defined in the Law on Accounting, the common accounting principles are applied in Bulgaria in accordance with the IAS.

### 4.3. Valuation of the balance sheet items

The Law of Accounting only recommends formats of the balance sheet and the elements of the annual financial report. Enterprises are allowed to put the separate items of the balance sheet in the order of their importance and the less important accounting subjects can be unified under "Other assets" or "Other liabilities".

### 4.4. Annual financial statements

As of 1 January 2005 annual financial statements in Bulgaria are prepared in accordance with the International Financial Reporting Standards (IFRS) as applied by the EU. IFRS are mandatory for all companies except for small and medium businesses that can optionally apply the National Accounting Standards.

Under the Independent Audit Act (IAA) annual financial statements are subject to obligatory audits by independent auditors. The requirement for company auditing is in compliance with the Council Directive 84/253/EEC.

## V. Donor funded programmes and projects

### 5.1. Main donors and programmes

Donor	Main areas of support to Bulgaria	Donor contribution		
		2005 <sup>2</sup>	2006	
European Union <sup>1</sup> www.evropa.bg www.evroportal.bg	Institution building, regulatory infrastructure development, economic & social cohesion; agricultural and rural development, environment & transport infrastructure	PHARE	187.2	196
		Trans-border cooperation	40	45
		Kozloduy International Decommissioning Support Fund	50	50
		ISPA	149	168
		SAPARD <sup>3</sup>	73	79
		n.a.		
USAID www.usaid.gov/policy/budget/cbj2006/ee/bg.html	Rule of law, economic growth and prosperity, local governance, community development, ethnic integration <sup>4</sup>	n.a.		
World Bank http://www.worldbank.bg	Structural and institutional reforms, health reform, energy efficiency, environment protection, employment promotion, social welfare, trade and transportation facilitation	USD 750 million <sup>5</sup>		
UNDP www.undp.bg	Poverty reduction - job opportunities through business support, democratic governance, energy and environment, ICT, AIDS	n.a.		
GTZ www.gtz.de	Agriculture, SME promotion, administrative reform	n.a.		
British Know-How Fund <sup>6</sup> www.dfid.gov.uk/countries/europe/bulgaria.asp	Public administration development, civil society, social welfare	n.a.		

Swiss Government www.eda.admin.ch/sofia_emb	Natural resources management, social services, small and medium enterprises	CHF 210 million <sup>7</sup>
Dutch Government www.netherlandsembassy.bg	Agriculture, industry and technology, energy and environment, transport and infrastructure, civil society	n.a.
Japanese Government http://je.a-spectrum.com	Management training local development, culture	USD 578 million <sup>8</sup> JPY 4.5 billion <sup>9</sup>

Donor funding is also mobilized through a large number of EBRD investments (<http://www.ebrd.com/country/country/bulgaria/index.htm>). In 2005 EBRD donor supported projects focused mainly on fostering small businesses through the EU/EBRD SME Finance Facility, development of water, district heating and urban transport, and provision of business advisory services.

### 5.2. Structural Funds available for Bulgaria

After the accession to the European Union in 2007, Bulgaria will benefit from the EU Structural Funds, including European Regional Development Fund, European Social Fund and Cohesion Fund. EUR 6 billion will be the EU funding for the period 2007-2013. Around 60% of the funds will be dedicated to raising the competitiveness of Bulgaria through projects supporting SME development, innovation promotion, job creation as well as key productions for Bulgaria in light of its EU integration. More information could be received at [www.eufunds.bg](http://www.eufunds.bg), developed by the Management of EU Funds Directorate at the Ministry of Finance or [www.evroportal.bg](http://www.evroportal.bg) with contents provided by the Ministry of Foreign Affairs.

<sup>1</sup> The largest multilateral donor

<sup>2</sup> Indicative amounts

<sup>3</sup> Figures from the roadmap of Bulgaria for joining the EU

<sup>4</sup> Areas of support in 2005; 2006 is the last year of new funding.

<sup>5</sup> For 2002 - 2005

<sup>6</sup> Managed and administered by the DFID; due to the forthcoming EU accession of Bulgaria in 2007, in 2005 DFID closed its bilateral programmes and is now supporting the country through multilateral programmes and political dialogue

<sup>7</sup> Since 1992

<sup>8</sup> Official Development Assistance as of August 2005; including government loans, donations, technical cooperation and financial assistance

<sup>9</sup> Donations for cultural projects and local development; as of July 2006

**Useful Internet links**

Council of Ministers	<a href="http://www.government.bg">www.government.bg</a>
Ministry of Foreign Affairs	<a href="http://www.mfa.government.bg">www.mfa.government.bg</a>
Ministry of Economy and Energy	<a href="http://www.mee.government.bg">www.mee.government.bg</a>
Ministry of Finance	<a href="http://www.minfin.government.bg">www.minfin.government.bg</a>
Ministry of Regional Development and Public Works	<a href="http://www.mrrb.government.bg">www.mrrb.government.bg</a>
Ministry of Transport and Communications	<a href="http://www.mtc.government.bg">www.mtc.government.bg</a>
Ministry of Labour and Social Policy	<a href="http://www.mlsp.government.bg">www.mlsp.government.bg</a>
Ministry of Environment and Water	<a href="http://www.moew.government.bg">www.moew.government.bg</a>
Ministry of Justice	<a href="http://www.mjeli.government.bg/">www.mjeli.government.bg/</a>
InvestBulgaria Agency	<a href="http://www.investbg.government.bg">www.investbg.government.bg</a>
Privatisation Agency	<a href="http://www.priv.government.bg">www.priv.government.bg</a>
Bulgarian SME Promotion Agency	<a href="http://www.bepec.government.bg">www.bepec.government.bg</a>
Agency for Economic Analysis and Forecasting	<a href="http://www.aeaf.minfin.bg">www.aeaf.minfin.bg</a>
Bulgarian National Bank	<a href="http://www.bnb.bg">www.bnb.bg</a>
National Statistical Institute	<a href="http://www.nsi.bg">www.nsi.bg</a>
Bulgarian Industrial Association	<a href="http://www.bia-bg.com">www.bia-bg.com</a>
Bulgarian Chamber of Commerce and Industry	<a href="http://www.bcci.bg">www.bcci.bg</a>
Bulgaria Economic Forum	<a href="http://www.biforum.org">www.biforum.org</a>
Bulgarian Association of Regional Development Agencies	<a href="http://www.barda.net">www.barda.net</a>