

Eastern Europe

MONDAY, JUNE 24, 2002

POLAND Getting the balance right

ONE OF THE MOST ROBUST ECONOMIES IN EASTERN EUROPE, A MAJOR PRIVATIZATION DRIVE IN POLAND CREATED A VIBRANT PRIVATE SECTOR, BUT FURTHER PROGRESS DEPENDS ON PRIVATIZA-

TION OF THE REMAINING STATE SECTOR. THE GOVERNMENT HAS INTRODUCED THE BELKA PLAN TO ACHIEVE THIS AND OTHER ECONOMIC GOALS, LEADING POLAND TO THE ULTIMATE AIM OF EU INTEGRATION

SOLIDARITY WAS the driving force that gave Poland the historical distinction of being the first of the Eastern European countries to escape from beneath the oppressive Soviet shadow and push through radical reforms that transformed the country's economy into one of the most robust in the region.

And although the spirit of pride and patriotism that formed the foundation of the movement is alive and well in modern-day Poland, the independent union-turned-political-force "Solidarity" is no more than just a relic of the anti-Soviet struggle, having failed to win even one seat in the nation's parliament in last year's elections.

Following a series of economic blunders by the previous right-wing government, the coalition led by Prime Minister Leszek Miller's Democratic Left Alliance swept to victory on a pledge to put the Polish economy back on track and immediately began moves to get Poland into the European Union by the 2004 target date.



President Aleksander Kwasniewski, like Mr. Miller, has a strong commitment to EU mem-

bership, as do some 56% of Poland voters, according to the most recent polls.

Already a member of key alliances such as the Organization for Security and Cooperation in

Europe, the North Atlantic Treaty Organization, the Central European Free Trade Agreement, the Council of Europe and the Organization for Economic Cooperation and Development,

Poland and its 40 million citizens now have their sights set on being included in the next wave of EU members.

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WITH EU INTEGRATION just around the corner, the Polish government is implementing a series of policies to increase economic growth. Both State and citizens are looking forward to being a part of Europe and are optimistic about meeting the 2004 target.

BULGARIA At the crossroads of Europe



GRACE UNDER PRESSURE New Prime Minister Simeon II is hoping reforms pay off.

A GRADUAL BUT STEADY PROCESS OF DEMOCRATIZATION AND STRUCTURAL REFORM HAVE KEPT BULGARIA ON THE PATH TOWARD EVENTUAL INTEGRATION INTO NATO AND THE EUROPEAN UNION

BULGARIA HAS been slow to implement political and economic reforms since the country's 1989 revolution removed Communist Party leader Todor Zhivkov. Its troubled transition to democracy reached a climax during the mid-1990s when inflation reached a staggering 579%. Since 1998, however, things have started looking up in the Balkan state. Between 1998 and 2001, the previous Union of Democratic Forces (UDF) center-right government made significant progress in terms of economic liberalization and gained international approval. Fiscal and current account deficits were brought un-

der control, the country attracted some notable investors, and a clean break with the failed policies of the early and mid-1990s was made. However, the UDF was unable to improve basic living standards and the country was adversely affected by the Kosovo crisis, which cut off its trade routes to the west.

After a decade of halting reform and slow economic growth, Bulgaria became the first country in post-communist Eastern Europe to return a former monarch to power when Bulgarians voted the National Movement for Simeon II into power in July of 2001. The former king of Bulgaria, Simeon II had

been ousted in 1946 at the age of nine and had established himself as a successful businessman in Madrid. He returned to Bulgaria in April 2001 and formed his movement of young, western-educated reformers who favor robust capitalism and support Euro-Atlantic integration. The prime minister promised a new era for the Bulgarian people in which they would begin to enjoy the fruits of economic development. The Saxe-Coburg government, a coalition which includes a party of ethnic Turks, pledged to improve people's lives in 800 days, speed up reforms, cut taxes, attract more foreign investors and boost the fledgling capital market.

Bulgaria needed a savior; since 1989 its GDP has shrunk by almost a third, the country is still near the bottom of the region's income

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The economy grew by 4.9% in 2001 and inflation is predicted to fall to 3.5% in 2002

DIMITAR DILKOFF/REUTERS/POPPERFOTO

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POLAND

Increasing FDI with a little help from their friends

ALTHOUGH POLITICAL RELATIONS ARE EXCEPTIONAL BETWEEN POLAND AND THE U.S., THERE HAS BEEN LITTLE AMERICAN INVESTMENT. POLAND HOPES TO REMEDY THIS BY ASSISTING IN A NUMBER OF WAYS

THERE IS A LONG tradition of warm relations between the United States and Poland. Millions of Americans of Polish descent have contributed greatly to U.S. culture, and on the political scene, Washington maintained close ties to the powerful Eastern European nation during the tense years of the Cold War. But as far as the development of trade and investment are concerned, most economists feel that the United States has overlooked too many golden opportunities in Poland.

"We very much see possibilities of further developing cooperation with America. There is a very positive attitude towards Americans, American investors and American capital here in Poland," says Polish Economy Minister Jacek Piechota.

"We are aware of the fact that there are still many barriers to be eliminated from our side. The current government's economic plan strives for stability, transparency and clarity of all the legal rules and procedures," Mr. Piechota notes. "We also strive to provide good service to foreign investors. We want to build a strong government agency that can help the foreign investor navigate in a sometimes very complex reality of local governments and other institutions. We also want to promote Poland as a good place for profitable for-

eign investment."

U.S. investment in Poland covers a wide range of sectors, from industry (General Motors) to high tech (Motorola). But according to Peter Driscoll, Vice President of the American Chamber of Commerce in Poland and Chairman of PricewaterhouseCoopers in Poland, some very important sectors have gone unnoticed.

"Financial services, for example, is an activity that has been a little bit overlooked despite the fact that it is becoming increasingly important in Poland, and what's good for Polish business is good for American business," Mr. Driscoll explains.

The Polish Agency for Foreign Investment (PAIZ) is the agency that implements the government's policy on attracting Foreign Direct Investment (FDI) to specific sectors of economic activity. PAIZ was voted the European Investment Promotion Agency of the Year in 1997, and is the only Polish government agency to have earned ISO 9001 certification. It is currently in a transition phase as it is merging with the Government Information Agency. The new body will be up and running by January 2003.

One of PAIZ's major achievements, considering its budget restrictions, was the organization of a promotional business trip to Sil-



THE MODERN WORLD Financial services and high-tech industries are two areas where U.S. investment could make a difference.

icon Valley. "This year we have planned three more business trips to the United States to attract high-tech, biotech and defense industries to Poland. These are the priorities of the Polish government for the time being," says PAIZ President Antoni Styrzcula. "We have to make sure that investors have free access to information about how to set up a business in Poland. We also offer a basic consultancy service for the first stage of the investment procedure," he adds.

As sometimes happens, cooperation between strategic political partners does not always manifest itself when it comes to dollars and cents. By the end of June 2001, U.S. companies had invested \$7.5 billion in the country as a whole, which represents only 15% of the total foreign investment in Poland. "There is a need

to increase U.S. FDI in Poland," Mr. Styrzcula points out.

"Political contacts are exceptionally good between the United States and Poland, but taking into consideration the potential of America, investment is not high enough. Out of the 881 companies established in Poland with for-

eign capital, just 123 have U.S. capital, so there could be much more, especially in the area of high technology."

Also important is the building of highways, an absolute necessity for the development of the country. The lack of highways in Poland is one of the most serious barriers

to foreign investors, Mr. Styrzcula notes. "The Polish government is currently trying to attract some FDI in the field of highway construction in order to accelerate the whole growth process and quickly be able to comply to the EU requirements in terms of road networks."

Getting the balance right: Poland must increase economic growth

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To reach that goal, the government in late January approved the Belka Plan, named after the country's popular finance minister, Marek Belka, who is also deputy prime minister. The four-year plan aims to fight unemployment, reduce the public deficit, develop infrastructure and get the Polish economy on track for rapid growth. The idea is to create a strong feeling of optimism among Polish citizens when they head to the polls in 2003 to vote in a referendum on EU integration.

"The Polish economy should be growing at 5% a year without any problem, which is what happened between 1993-98," notes Mr. Belka. "Even during the 1998 Russian crisis and Asian crisis the economy was growing fast. And then it stopped growing. A growth rate of 1% in 2001 for a catching-up economy like Poland's means stagnation. And so it is an obvious obligation for a government to do something to stimulate the economy."

The EU has already acknowledged many of Poland's efforts to meet membership criteria, including the government's success to expand the private sector to provide more than two-thirds of the country's economic activity.

According to Economy Minister Jacek Piechota, Poland is on course for economic growth in the second half of this year, with 3% growth predicted for next year and 5% the year after. "We also assume that joining the EU, and therefore having access to EU funds, will additionally boost growth. There is no turning back from the process of integration and globalization. Already about 70% of Polish trade is with EU countries. Last year, for the first time, we had a positive trade account with Germany, and right now the biggest foreign investor in Poland is France."

In order to raise the competitiveness of the Polish economy, the government's economic program also includes the restructuring of key sectors of the econ-



DAMAZY KWATKOWSKI

MAREK BELKA
Deputy Prime Minister and
Minister of Finance in Poland

omy. Mr. Piechota notes that the move to restructure is a clear intention of the government's forward direction.

"The government wants Poland to be an active participant of international trade, to open the Polish market where Polish companies will compete with foreign competition. The government is not looking for instruments that would close the Polish market to foreign competitors," Mr. Piechota concludes.

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Poland

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Strengthening foundations for long-term stability

IN THE SHORT TERM BRINGING INFLATION DOWN IS A PRIORITY TO MEET EU REQUIREMENTS, BUT THE POLISH GOVERNMENT IS ALSO SET TO IMPLEMENT LONG-TERM STRATEGIES TO GUARANTEE ECONOMIC STABILITY

AS POLAND LOOKS towards European Union membership, the main actors in the country's financial sector have urged the Polish government to avoid the temptation of implementing short-term growth policies, which could spark economic imbalances in the long-term, by sticking instead to fundamental and responsible economic adjustment strategies, especially where monetary policy is concerned.

The government has wisely followed their advice by implementing market-oriented reforms and programs that strengthen the state's services— that are helping Poland catch up with and even surpass the economic outlook of its future fellow members of the European Union.

According to Leszak Balcerowicz, governor of the National Bank of Poland, the country's independent central bank, the country has in many aspects been able to produce better economic and financial track records than several former candidate nations that are now full-fledged European Union members.

"Those fundamental reforms in Poland have produced a very high degree of economic integration with Western Europe. (EU) candidate nation Poland has achieved a higher level of European Union convergence than Portugal, Greece, or Spain and even Ireland at the time of their accession. This should not be overlooked," Mr. Balcerowicz stresses.

The central bank chief adds that his hard-line monetary policies are winning the war against inflation. But at the same time he acknowledges that Poland is currently experiencing low economic growth as a result.

Mr. Balcerowicz, a veteran reformer credited with having launched Poland on its transition to capitalism while serving as finance minister in the early 1990s, says he is confident that his policies will eventually lead to stronger macro-economic foundations in the country. He describes the current economic slowdown as "curative."

"A little more than a year and a half ago, when the current account deficit exceeded 8% of GDP, it was very dangerous for future growth. At the same time inflation was picking up and had exceeded 10% in July 2000," Mr. Balcerowicz recalls.

"Then we moved to tighten macro-economic policy, especially monetary policy. As a result, the current account deficit was reduced to below 4% and the inflation rate was also below 4%. These are very important achievements from the point of view of creating stronger macro-economic foundations."

As the chief monetary policy-maker, the central bank governor says he is dead set against using interest rates as an instrument for stimulating long-term growth. "We have a regime of inflation-targeting. Interest rates in this aspect is the only instrument that the central bank is using for the main purpose of bringing inflation down and keeping it at a low level. The most important issue is long-term, lasting growth. Monetary policy cannot be a substitute for structural reform."

Poland's banking sector is open and competitive. There are more than 80 private banks and 26 foreign banks, which account for nearly 75% of the banking sector's equity. The majority of the Polish banking sector's assets, deposits, and equity are in the hands of the private sector and foreign firms are not restricted access to local finance for

activities carried out in Poland. Recent reforms continue the process of modernizing Poland's banking sector and bringing it in line with that of the European Union.

The Polish Association of Bankers (PAB) was created 11 years ago and is working to create a viable inter-banking infrastructure and a strong work ethic among the sector's commercial banks, two key

characteristics that will help Poland's private banks flourish in a competitive market.

The PAB's most extolled achievement to date has been its participation in establishing three schools of banking in Poland, including the U.S.-funded Warsaw Institute of Banking.

"Training sessions are prepared by U.S. experts in the field," ex-

plains PAB director general Krzysztof Pietraszkiewicz. "Additionally, hundreds of Polish bankers participate in trips to several postgraduate banking schools in different U.S. states. These trips have had a very big influence on our banking community."

Mr. Pietraszkiewicz says that while Poland needs a good dose of foreign investment in the bank-

ing community, the country's economy demands banks with domestic roots. "We need foreign investors because of know-how, new procedures, new products, restrictive credit policies and new regulations. But we also need banks with Polish roots, because these banks very often better understand the needs of domestic clients."

Poland has a better track record than several current EU nations

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ONE POLICY being implemented by the Polish government is the lowering of interest rates to increase consumer growth.

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Careful approach to ensure long-term benefits

BEFORE PUTTING STATE ENTITIES ON THE BLOCK FOR PRIVATIZATION, THE GOVERNMENT SEES THE NEED TO CREATE MARKET COMPETITIVENESS. ENERGY AND DEFENSE HAVE BEEN EARMARKED FOR RESTRUCTURING

AS POLAND heads down the rugged road to full European Union membership and sustainable economic growth, it walks a fine line between privatizing state entities that are truly ready to meet the challenges of competition and the temptation to sell off public holdings for the simple sake of privatization.

Experience has shown the current administration that pulling out of a state company without giving it a reasonable amount of sustainability over the medium term is a no-win situation. The policy of the Polish government and the Ministry of State Treasury, which oversees the privatization process, is now only to sell to strategic investors who make a commitment to invest in the company and only after that company has been given the chance to be competitive.

"If you look back over the last

four years of privatization, you will see that the process was about selling state-owned assets without focus or without concentrating on industrial goals to improve the competitiveness of Polish enterprises. There was little concern about restructuring or fighting to get the

A law has been drawn up to support foreign investors coming to Poland

highest share of the market. The only concern was the budget, and this was very dangerous," recalls State Treasury Minister Wieslaw Kaczmarek. The minister points to the 25% sale of the Polish telecom giant Telekomunikacja Polska S.A. (TPSA) to France Telecom. TPSA, still a Polish state monopoly, is now in effect partially controlled by a monopoly from another country. Mr. Kaczmarek, who supports the privatization of TPSA, argues that the first step should be to make the market competitive.

"This kind of privatization pro-

vided high revenue, but market-wise happens to be very dangerous. We now look for more connections between the industrial policies of the Ministry of Economy and the Ministry of State Treasury in order to improve enterprises or entire sectors of the Polish economy," Mr. Kaczmarek points out.

"Right now my ministry has challenges to face with indus-

tries like defense and energy. The steel industry is even more complicated because we have to make it attractive first before privatizing, and that won't happen before completion of a restructuring plan that might take six months," says Mr. Kaczmarek.

Revenue from privatizations carried out during the previous administration was redistributed into different budget sectors and

was not invested for the long-term good of the economy. "Today, we will continue the privatization process case by case," Mr. Kaczmarek says. "But in the energy sector and the defense industry, we will be looking for investors with commitment for the realization of investment programs. We will not calculate simply in order to draw big revenues from privatization."

The Polish Agency for Foreign Investment (PAIZ) will help weed out the committed investors from the mere speculators. Last year the investment promotion agency focused on attracting Japanese investors, while this year its focus—in keeping with government policy—has shifted to the European Union.

"PAIZ is a state agency for foreign investment, so we are fully linked to the government," says PAIZ President Antoni Styrzula. "We carry out government policy and are professionally ready to be active in all sectors. The government has recently given us two projects on which to concentrate: one for the chemical industry and one for the metal industry."

"We maintain good relations with U.S. investors that are already present in Poland and try to encourage them to invest more," Mr. Styrzula adds. "PAIZ was also involved in drawing up the new investment law that will support foreign investors with a government-financed program that provides training sessions and calls on local authorities to improve the investment climate in their areas."

SELECTED ECONOMIC INDICATORS

	1997	1998	1999	2000	2001
				est.	proj.
GDP (% change)	6.9	4.8	4.1	4.1	4.5
Consumer prices (annual average % change)	14.9	11.8	7.3	10.1	6.8
Current account (in US\$ millions)	-4,312	-6,858	-11,569	-9,978	-11,500
General government balance (% of GDP)	-2.9	-2.6	-3.2	-3.3	-1.8
Trade balance (in US\$ millions)	-11,320	-13,720	-14,380	-13,165	-15,000
Total FDI (in US\$ millions, cash receipts, net)	3,041	4,966	6,348	9,338	8,000
External debt stock (US\$ millions)	49,648	59,163	64,350	na	na
Unemployment (% of labor force)	10.3	10.4	13.1	15.0	14.0
Exchange rate, annual average, zlotys per US\$	3.3	3.5	4.0	4.3	4.6
Gross official reserves, excluding gold (end-year, US\$ millions)	20,298	26,432	24,535	26,562	26,100

Sources: Ministry of Finance and National Bank of Poland



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Poland

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A PLEDGE TO THE NATION no other Polish telecom entity has come close to TPSA's contribution to the continuous expansion of Poland's telecommunications infrastructure.

Polish chemicals giant spreads its wings



LUDWIK KLINKOSZ
President of chemicals conglomerate CIECH

POLAND'S BIGGEST chemicals conglomerate, CIECH, is the perfect example of the Warsaw government's new privatization policy of making state enterprises that are earmarked for sale stronger and more competitive, so they can meet the challenges of a global economy once they are in the hands of private investors.

CIECH President Ludwik Klinkosz says the company's plan is to cut production costs by 20% by increasing productivity—not through layoffs—and by the selective sale of some subsidiaries that are not considered core assets and therefore do not strengthen its position in the chemical market.

If all goes according to plan, Mr. Klinkosz says, the 55-year-old chemical giant CIECH—which is involved in the production, distribution and trade of pharmaceuticals, fertilizers, fuels and other oil-based products and synthetic fibers—will be trading on the

Warsaw Stock Exchange (WSE) within three years.

"Today, CIECH's capital group consists of over 20 domestic and foreign companies. In several cases they could be consolidated so as to reduce costs and raise operational capacities," Mr. Klinkosz explains. "We want CIECH to enter the capital market in two to three years. We also want to play an active role in the privatization of the chemical industry in Poland. Of course, introducing CIECH into the stock exchange will have to be connected with presenting a long-term strategy."

Already armed with an impressive portfolio, the CIECH group is looking to pick up a few profitable chemical companies as the industry privatizes and has even planned to expand production into Eastern Europe, where the company already has a large share of the market.

"At this stage we are looking for financial investors, but we cannot exclude the possibility that a branch investor may emerge at the WSE that will be interested in buying the whole company," Mr. Klinkosz notes. "To execute the long-term strategy we will need capital. The chemical sector is one of the last ones to be privatized in Poland. In order to take advantage of the opportunities in the Polish market, we may need a larger inflow of funds and perhaps at this stage we will have to search out a branch investor interested in making a larger investment."

IT and telecoms: going global

GEARING UP FOR EU MEMBERSHIP MEANS THE TELECOM AND IT SECTORS MUST BE ONLINE TO FACE THE CHALLENGE OF COMPETITION. BOTH SECTORS ARE EXPANDING RAPIDLY TO BE READY TO MEET DEMAND

THE POLISH government is well aware that in order to remain a top contender among candidate nations in line to join the European Union, Poland—as a gateway between Eastern and Western Europe—has to keep improvements to its infrastructure at a steady pace. And while a lot of attention has been focused on the transit nation's roadways, a viable telecommunications system is also a key step on the road to economic growth and EU membership.

The leading telecom company in Poland by far is Telekomunikacja Polska S.A. (TPSA), a state monopoly now making the transition to meet the challenges of competition. With nearly a million new subscribers to TPSA's services each year, no other Polish telecom entity has come close to this company's contribution to the continuous expansion of the nation's telecommunications infrastructure.

TPSA took a giant leap towards total dominance in the sector in 2000, when France Telecom—another former monopoly with the experience of successfully having adjusted to a liberalized market—purchased 25% of TPSA's capital, a clear signal to the rest of the telecommunications industry that the Polish market is worthy of investment. An even clearer signal is the fact that TPSA now accounts for 10% of France Telecom's revenue.

"It is very important to have this strategic investor, because after all, France Telecom is one of the leading telecommunications groups in the world. It provides us

with a very good chance to transform telecommunications in TPSA and in Poland," TPSA President and CEO Marek Józefiak explains.

"We want a company that is user-friendly, and understands customer needs and requirements. We want our company to be able to meet the challenges of the free market economy," Mr. Józefiak adds.

The TPSA president says his group has laid down a clear strategy for 2001-2004 that is based on four main pillars. "The first pil-

lars is mobile telephony, the second pillar is the Internet, the third is data transmission and the fourth is fixed telecoms. The client is at the center of our efforts," Mr. Józefiak stresses.

TPSA already leads the fixed-line market in Poland, and its strategy is to maintain that leadership. It also has a 50% share of the data transmission market, which has already been liberalized.

The TPSA-France Telecom partnership's mobile phone op-

erator is Centertel, with TPSA controlling a 66% share and the French group holding the remaining 34% of the capital. Just two years ago Centertel had just a 17% share of the mobile market. It now has more than three million subscribers and a 29% share of the market which is growing rapidly. As the former CEO of Centertel, Mr. Józefiak was the driving force behind the company's evolution from the outdated analogical system to the modern GSM 900 network it has today.

"On March 1, 2000 we started GSM 900, and in September 2000 we could say that 90% of the Polish population was within reach of our network. So we managed to services of a different nature," the TPSA president points out. "In order to do that we have acquired the Internet portal Wirtualna Polska. It is the second most popular portal in the country and we are still trying to provide more services."

One of the local companies TPSA looks to when it needs comprehensive Information Technology (IT) solutions and systems that fit its growth strategy is Prokom Software, an eight-year-old enterprise that has quickly become one of the leading IT solutions providers in the Polish market and was recently chosen to implement an IT system for the Social Insurance Company, ZUS. The Bank of New York is a strategic shareholder and Prokom is traded on the London Stock Exchange, one of the few Polish companies being quoted outside the country.

"The IT system used in the ZUS project is based on IBM mainframe computers," says Prokom Software President Ryszard Krauze. He adds, "IBM told us that this project, in terms of database size and complexity, is the biggest IT project in the world."

With the prospect of competing within the European Union just around the corner, Mr. Krauze acknowledges that it will not be easy. "Markets in countries like Germany are well defined and well divided. But I definitely see some opportunities. We can offer certain solutions that are far less expensive than the solutions of our German colleagues. On the other hand, Germany is protecting its market against foreign companies, whereas Poland is much more open to international competition."



RYSZARD KRAUZE
President of Prokom Software



MAREK JOZEFIAK
President and CEO of Telekomunikacja Polska S.A.

BULGARIA

Solid economic performance paves the way for EU accession

EXPECTING AN INVITATION INTO THE EU BY 2007 AT THE LATEST, THIS YEAR BULGARIA IS BANKING ON JOINING NATO. THIS MOVE WILL PAVE THE WAY FOR INCREASED TRADE AND INVESTMENT WITH THE U.S.

THE BULGARIAN government understands that economic transformation in the country will go hand in hand with membership in the European Union and NATO. Minister of Foreign Affairs Solomon Passy outlines his government's twin foreign policy priorities. "Chronologically speaking, the first is NATO integration and we are expecting an invitation to join during the 2002 Prague Summit. The second priority is membership in the EU and we are expecting to complete negotiations at least by the year 2004, with membership coming in 2007."

Bulgaria has been blessed with and has worked hard to

preserve its economic and political stability in the midst of ongoing Balkan turmoil, and has greatly expanded its commercial ties with Western Europe and the United States. At present, the EU is Bulgaria's largest trading partner, accounting for 60% of its trade.

The United States is currently Bulgaria's sixth-largest investor

The U.S. is the sixth-largest investor in the country and accounts for 3% of Bulgaria's overall volume of trade. Bulgaria also has a leading role to play in regional economic infrastructures and political stability. The U.S., EU, and the governments of Southeast Europe have committed to a Stability Pact to promote regional prosperity and stability, which will lead to new and expanded trade



BULGARIA'S ABILITY to preserve economic and political stability while surrounding Balkan states suffered is now paying off.

and investment opportunities in Bulgaria over the long term. Bojidar Bojinov, Chairman of the Bulgarian Chamber of Commerce and Industry, states, "this is the first time in history that the governments of the Balkans have shown good will towards each other. It is a very important moment for the future." Mr. Bojinov also mentions the Balkans' movement towards a free trade zone, a fact he believes essential for EU membership.

In February, the government released a plan to wrap up EU entry talks by 2003. The new strategy makes clear that the cabinet will address all the issues the EU has named as the top obstacles to Bulgaria's accession—judiciary, administration and energy sector reforms, privatization and liberalization, eliminating corruption, discrimination against Roma gypsies,

and developing capital and land markets. The action plan includes a six-month program with steps and deadlines for implementation. It will be updated in July and then again each semi-annual period. Also in February, the World Bank agreed to lend Bulgaria \$450 million in balance of payments assistance to sup-

port the country's progress in attaining these goals.

U.S.-Bulgarian bilateral relations are good and continue to improve steadily. Under its Southeast Europe Initiative, the U.S. is encouraging greater American trade and investment in Bulgaria and has offered Most-favored Nation status to

the country. However, as Philip P. Philipoff, Executive Director of the American Chamber of Commerce in Bulgaria, notes, "one of the most important ways to strengthen relations with the U.S. lies in Bulgaria's integration into NATO. This will help boost commercial relations between both countries."



SOLOMON PASSY
Minister
of Foreign Affairs



PHILIP P. PHILIPOFF
Executive Director
of AmCham in Bulgaria

Reforms are speeding up thanks to a substantial IMF loan

Continued from page 1

per capita rates and has a high 17% unemployment. The new government introduced a five-point plan for boosting economic growth composed of tax cuts, privatization, promoting foreign investment, encouraging the development of domestic financial markets and selective support for sectors such as high-technology and tourism.

Things are progressing. There was a 4.9% growth in the economy in 2001. The current account deficit is predicted at 5.9% of GDP for 2002 and the budget deficit is set at 0.8% of GDP. Inflation is well under control in Bulgaria and is predicted to drop from 4.4% to 3.5% in 2002. Last fall, measures were taken to launch the reform of the judicial system, boost the capital market, liberalize the energy sector and speed up sell-offs of other state-owned monopolies. A privatization law which aims for greater transparency and new tax cuts took effect on January 1. Minister of Finance Milen Velchev comments, "over the next four years we would like the government to

bring in substantially greater foreign investment and to have privatized the whole economy." The budget for 2002 includes a 2.6% increase in public sector wages, a 4.2% increase in pensions, and the minimum wage is slated for a 17% increase.

In February, the International

Monetary Fund praised the new government's progress so far and offered a loan of \$450 million to speed up reforms. At the same time, the Bulgarian government approved a new strategy to combat corruption. Mr. Velchev stresses that the new government would be merciless in this cause.



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Bulgaria

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Rising economy seeks to boost investment levels

A HIGHLY SKILLED, LOW-COST WORK FORCE, A PROXIMITY TO LUCRATIVE EUROPEAN MARKETS, AND A LOW CORPORATE TAX RATE MAKE BULGARIA AN OUTSTANDING INVESTMENT DESTINATION

THE SAXE-COBURG government is well aware that privatization is the only practical way for Bulgaria to restructure its economy, create new jobs, and introduce new technology. The authorities hope to sell some 1,700 firms still owned by the state, which will provide the government with \$300 million in sell-off revenue. In November 2001, the government approved changes to laws governing public companies, giving more protection to small shareholders and making the activity of public companies more transparent.

Companies slated for privatization in 2002 include tobacco monopoly Bulgartabak, telecom monopoly BTC, Bulgarian Maritime Shipping Company, Bulgarian River Shipping Company, the State Savings Bank, parts of the National Electric Company and DZI, the state insurance company. Minister of Finance Milen Velchev believes that the Bulgarian people are generally receptive to the idea of privatization. "I think the last 10 years has brought some concerns in terms of cor-

The Saxe-Coburg administration plans to sell the remaining 1,700 state-owned firms

ruption, inefficiencies, and monopoly situations. But now the Bulgarian public does not see much benefit in keeping companies in state hands. There has been no criticism whatsoever so far towards our intentions to privatize certain sectors," he states.

Despite the new government's commitment to eradicating corruption, it still remains a problem, as do bureaucratic delays and barriers to economic development due to government restructuring and reorganization. "The much

talked about corruption is related to two main factors—poverty and the first accumulation of capital," comments Bojdar Bojinov, Chairman of the Bulgarian Chamber of Commerce and Industry. "The issue of

the Balkans is not related to religion or nationality. It has to do with one thing only—the standard of living." The Saxe-Coburg administration intends to combine their privatization efforts with a fierce drive against corruption and an implementation of measures to make the bureaucracy less intrusive in business life.

A sharp increase in foreign investment to boost economic growth is top priority for the Bulgarian government. The country has one of the lowest foreign direct investment levels in Eastern Europe; it stood at a meager \$4.5 billion from 1992 to 2001. Since then, however, great strides have been made in transparency and additional market-oriented changes have been made to the laws governing foreign investment, taxation and land ownership by international investors. In October 2001 the cabinet draft-

ed a new foreign investments bill and prepared a package of legislation for tax reform, a new accounting act and the gradual introduction of international accounting standards.

Corporate tax will be cut in 2002 from a peak rate of 20% to 15% across the board. Some patience may be required for those thinking of investing in Bulgaria, but it is a small price to pay for the outstanding long-term investment possibilities available.

The country offers a highly skilled, low-cost labor force and proximity to both European and Near-Eastern markets. Philip P. Philipoff, Executive Director of the American Chamber of Commerce in Bulgaria, says, "we have established a strong presence as a lobbyist for American business interests here. It will soon become easier to deal with authorities and we applaud the current government's intention to do away with corruption."



INVESTMENT DOWN THE LINE The electricity sector is to be liberalized in the coming months.

Telecoms operators build on phenomenal growth

TAKING FULL ADVANTAGE OF A PRIVILEGED LOCATION AT THE HEART OF EUROPE'S TELECOMS TRAFFIC, BULGARIAN OPERATORS HAVE EXPERIENCED VERTIGINOUS GROWTH IN RECENT YEARS, SETTING THE SCENE FOR PRIVATIZATION

BULGARIA IS strategically located in the Balkans, serving as a cross-point for telecommunications traffic from Europe to the Middle East, and privatization of the sector has been a priority for the Saxe-Coburg government. In February, the government approved plans for the sale of up to 65% of the country's fixed telecommunications network, Bulgarian Telecommunications Com-

pany (BTC), in a two-stage competition open to both telecoms firms and financial investors. The government has aimed at finding a solid buyer with long-term plans and has offered the additional option of a GSM license, which would be the country's third. BTC's stake in Mobikom, Bulgaria's analog cellular network and joint venture with British Cable & Wireless, will also be sold as part of the privatization

package. The government has hopes of wrapping up the deal by mid-summer.

As of January 2001, BTC, which employs some 25,000 people, had a penetration of 35.18 phones per 100 persons and a total of 2,882,000 telephone subscriber lines. Some 11% of residential traffic was generated by digital lines, while 89% was generated by analog subscribers. Profits in 2001 are estimated at \$80 million, a 37% increase from the previous year. Deputy Minister of Transport and Communications Nikolay Nikolov, who also heads BTC, states, "the basic and greatest strength of BTC is that you cannot pass through the Balkan Peninsula without it. In addition, it has three million customers out of a population of eight million. It has a network that reaches the most remote villages and extremely good and well-positioned distribution in the country. It also has the tradition. What we need is to have a committed, well-qualified management, a clear and flexible structure, a market approach, and to develop services that add value to the company—customer relations, the best technical solutions and competitive market behavior."

Besides BTC's fixed network and Mobikom's analog cellular network, Bulgaria has two GSM digital cellular phone networks—

MobilTel (see page 8) and GloBul (COSMO Bulgaria Mobil), a subsidiary of the Greek operator OTE that launched operations in September 2001.

By February of this year and only six months after launch, GloBul had 150,000 subscribers and its network coverage was 42% of the Bulgarian population—a figure the company hopes to boost to 80% by year's end. The company has a 15-year license to operate in Bulgaria. CEO Nicholas Avgerinos elaborates, "one of the cornerstones behind our original decision of investing in Bulgaria was the fact that we believe it is a growing market. Our target is to expand that market. Mobile telephone use in Bulgaria in the last couple of years has grown phenomenally, with rates above 100% in the last two years and we are projecting a further expansion of 60% for the first three years or so of our operations." With regard to business conditions in Bulgaria, Mr. Avgerinos believes that "this is a very good environment. It still has legal frameworks to improve but I think the status is already good. That will soon become obvious to Western European and American investors. The really strong message is that with the determination of the local people and the vision and efforts of international investors, Bulgaria is on the way to creating a success story."



MILEN VELCHEV
Minister of Finance

Foreign investors at the root of banking sector growth

AFTER THE SEVERE financial crisis that Bulgaria experienced in 1996, banking sector reforms focused on consolidation and privatization; subsequent closure of 18 troubled banks has helped to restore confidence in the banking sector and privatization has proceeded smoothly. All banks except the State and Savings Bank (which is slated for privatization this year) have been either sold or are well on their way to being privatized. Today, the largest Bulgarian banks in terms of assets are Bulbank, State and Savings Bank, and United Bulgarian Bank.

Bulgaria sold 93% of Bulbank

to Italy's Unicredito and 5% to Germany's Allianz AG in 2000. Bulbank's net profit rose by 83% and accounted for 60% of the Bulgarian banking system's profit that same year. The bank also controlled 25% of consolidated assets, 25% of deposits and 9% of loans. Executive Director Luigi Lovaglio states, "our goal is to replace these extraordinary figures with sustainable ones coming mainly from commercial business." With regard to the Bulgarian economy, Mr. Lovaglio adds, "Bulgaria will continue to be one of the fastest-growing economies in Central and Eastern Europe. In

general the conditions for new investments in Bulgaria are quite positive because of its financial stability, strong expectations in terms of economic growth and improving legislation."

Elana, a leading Bulgarian brokerage firm, was established in 1991 and was one of the co-founders of the First Bulgarian Stock Exchange, predecessor to the current Bulgarian Stock Exchange-Sofia. The company's three main focuses include brokerage activities, investment banking and corporate finance, and asset management. In July 2000, Elana successfully completed the

first IPO in Bulgaria. The privatization of over 3,000 companies in the country has opened the market of mergers and post-privatization corporate restructuring and Elana believes that this will be the most successful market in Bulgaria for the next few years. On the role of American investors in Bulgaria, CEO Kamen Kolchev states, "there is a lot of opportunity for big investors in Bulgaria now because we have finalized privatization and a great many of these operations will merge. In the second wave of investments in Bulgaria, there will be a lot of room for global players."

Confident operator rises to the challenge

WITH SUBSCRIBERS NOW EXCEEDING 1.4 MILLION AND COVERAGE REACHING 90% OF THE POPULATION, MOBILTEL HAS CONSOLIDATED ITS LEADING POSITION IN BULGARIA'S GSM SECTOR, CORNERING 85% OF THE MARKET



RUMYANA KYUCHUKOVA
Executive Director of MobilTel

AT THE END OF 2000, the two mobile phone companies operating in Bulgaria, Mobikom and MobilTel had captured only 7% of the market, but expectations that this figure would rise dramatically in 2001 are now being realized. MobilTel is the leading national GSM service provider with 85% of market share. Last year it invested around \$110 million in new equipment, network modernization and improved services and the result was a flood of new users. For the first time, subscribers to MobilTel topped the one million mark, so it is not surprising that Executive Director, Romyana Kyuchukova, is determined to focus on retaining customer loyalty.

What are your priorities for the year ahead?

I joined the company in August 1998 when we had 35,000 subscribers. Since then, we have more than doubled our subscriber base each year. At the end of 1999 we were the fastest-growing GSM operator in Eastern Europe according to the Wall Street Journal. Last year we attracted 630,000 new subscribers, a figure up 110% on the previous year.

What do you believe accounts for this tremendous explosion of growth?

There are two reasons. Firstly, the Bulgarian market is still at the dawn of development. Penetration currently stands at around 18.5%. Nowadays people know that a mobile phone is a necessity, and with growth in the economy and higher salaries, the market is booming. Secondly, as our subscriber base increases, MobilTel never ceases to invest in new infrastructure and to promote new services to our customers.

What investments have you made in the last year?

This year we increased our operational base stations to more than 900. The suppliers and subcontractors we use are the best in the

MobilTel has roaming contracts with 250 partners in 106 countries



A DATE WITH THE FUTURE MobilTel's commitment to customer service has paid off.

business: Siemens, Nortel, Alcatel, Nokia, etc. We have also invested in a New Intelligent network platform to support the launch of our pre-paid service. Today, we cover 90% of the population and about 80% of the geographic area, and we have roaming contracts with more than 250 partners in 106 countries, which is

very attractive to our customers.

What investment plans do you have for the future?

We have plans to invest more than \$113 million on continuous upgrades in the form of enhancing the capacity of our network and in what we term our customer focus strat-

egy. We recently signed a contract with IBM for a new database and software to help us, and our customers, manage phone bills. We are also developing a customer loyalty program. One of our slogans is 'Mtel is for you' because our focus is now on providing tailor-made services for our customers.

How has the arrival of GloBul's GSM network affected MobilTel?

We welcome new competition because it keeps a company in good shape. When we started, we were only competing against Mobikom. At first they had more coverage and better connections. Now we have overtaken them, and the result is that we have 85% of the market compared to their share of about 10%. With the launch of GloBul last September, and possibly a third mobile service in the near future, we will have three competitors. This is good because we will have to continue to convince the consumer that we are the best.

What makes you so confident?

As we have expanded we have continued to work as a family. We are now a family of 2,000 employees and all of us are Bulgarian. They give a lot to our company so we give a lot back. We take care of their families and provide them with extra social security and free hospital benefits, for example. We are still very ambitious, but we also like to promote Bulgaria and its people. This is a confident company.

What does MobilTel do to promote Bulgaria?

We sponsor cultural and sports events and we give money to orphanages and sponsor students who wish to study abroad. We want people all over the world to know that Bulgaria has a highly educated workforce that is extremely capable and broad-minded.

Cutting edge technology keeps MobilTel on top

MOBILTEL IS Bulgaria's leading mobile telecommunications company and aims to remain in the number one slot. "MobilTel is committed to keeping the competitive edge in mobile services," says Executive Director, Romyana Kyuchukova. The company, established in 1994, was Bulgaria's first GSM operator and ever since, has experienced fantastic customer and revenue growth. During

2001, MobilTel achieved a 62% growth in sales revenues and a 241% increase in net income. This was largely due to an increase in the number of subscribers spurred on by a decrease in the cost of a GSM handset. Such astonishing success has not escaped the attention of foreign investors, and in December 2001, prompted Austrian investors to acquire full control of MobilTel.

MobilTel has always been aware that, sooner or later, competing GSM companies would enter the Bulgarian market and has continually and heavily invested in network expansion, new switches and platforms and new value-added services. These include the introduction of its dedicated information service (M-Tel) in 1998, and, more recently, the launch of pre-paid scratch cards. In 2001 MobilTel

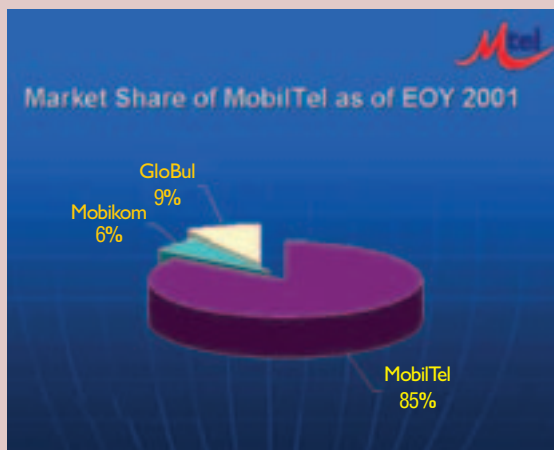
also opened 20 new business centers, giving it a total of 120 business centers in 61 Bulgarian towns.

The company tends to thrive on competition. Following the start-up of mobile phone operator GloBul in September, MobilTel registered sales increases of 21%. This success was due to MobilTel's newly introduced, more flexible schedule of prices and the new packages it has developed for its

subscribers. MobilTel's prices are currently at a similar level to those in Germany, Great Britain and Italy.

Staying ahead of the competition also means playing a leading role in the development of cutting-edge technologies. By forming alliances and subsidiary companies, MobilTel has been able to diversify into navigation and tracking services, Internet solutions, and VSAT communication. This means that it not only offers the full range of GSM telecommunications services, such as international roaming, data transmission, fax, e-mail and internet access, but it is also perfectly positioned to use Digital VSAT technology, 2-way data transfer and point-to-point/multipoint connections for its business customers.

Training and development schemes for personnel at all levels in the company are also at the heart of MobilTel's success story. "All the results of our work could not have been achieved without the efforts, commitment and professionalism of our workforce," says Ms. Kyuchukova.



Bulgaria

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LUKOIL By 2005, the company will build on its own 150 new filling stations in Bulgaria.

International presence revitalizes energy sector

THE COMMITMENT OF SEVERAL MULTI-NATIONAL COMPANIES TO BULGARIA'S ENERGY SECTOR HAS BROUGHT BOTH EMPLOYMENT OPPORTUNITIES AND SUBSTANTIAL FUNDS TO THE COUNTRY

BULGARIA'S FAVORABLE geographical position as a strategic link between east and west and its proximity to the Black Sea has predestined the importance of its energy sector and facilities. Electricity is exported from Bulgaria throughout much of the Balkan Peninsula (Bulgaria covers 50% of the region's power deficit), Russian natural gas is pumped through to Western Europe and Turkey, and the country is a potentially significant transit region for Caspian oil exports to Europe.

Although electricity exports contribute an annual net profit of \$150 million to the state budget, Bulgaria imports about 70% of its energy resources. With the transition to a market economy and the end of favorable Eastern bloc prices for Soviet oil, Bulgarian oil consumption dropped steeply between 1989 and 1997. Since then, however, consumption is once again on the rise. Reform of the sector has been advised by the International Monetary Fund and is necessary for EU integration; liberalization of the sector formed one of the bases of the Saxe-Coburg campaign platform. Energy law amendments took effect on January 1, 2002 liberalizing prices and allowing end-users to make delivery contacts directly with independent producers. In February, the cabinet approved a new strategy for building an energy mar-



VALENTIN ZLATEV
General Manager
of Lukoil Bulgaria

ket in the country over the next four years and preserving the potential for exports of energy products through utilization and improved efficiency.

In July 2001, agreements were signed with two U.S. companies, Entergy and American Energy Systems, for the management of the Maritsa-East 1 and 3 thermal power stations, representing a total investment of \$1.4 billion—the largest made in Bulgaria since the break-up of the eastern bloc. The \$470 million contract with Entergy, a New Orleans-based global energy company with annual revenues of more than \$10 billion, is for the modernization of Maritsa-East 3 thermal station. In February, Entergy received a 20-year license for electricity production in the power plant. The state-owned National Electricity Transmission Compa-

ny holds a 49% share in the joint venture, leaving Entergy with the remainder. Tom Wray, Entergy's Director of Business Development, points out that "this deal has set a precedent in Bulgaria of a successful model of how a country can raise large amounts of finance to invest in large industrial projects without the need for sovereign guarantees. This is one of Bulgaria's key milestones."

Bulgaria also possesses small indigenous oil reserves. In 1999, Russian oil company Lukoil bought a 58% stake in Bulgaria's largest refinery at Bourgas, pledging to invest a further \$400 million above sale price (\$101 million) to upgrade the refinery by 2005. The Bourgas refinery has an 85% share of the domestic market for refined products. Lukoil Bulgaria is now one of the major producers of fuels, petrochemicals, and polymers in the Balkan area, generating a turnover of \$1.3 billion in 2000. General Manager Valentin Zlatev elaborates, "approximately 9% of Bulgaria's GDP was generated by Lukoil's operations here in 2000. In turn, we are the biggest generator and payer of taxes in the country. Also in 2000, we were named 'Investor of the Year'. We are proud to say that we provide work for over 10,000 people in both the refinery and retail operations." According to Mr. Zlatev, by 2003, Lukoil will have effectively switched over to the production of unleaded fuel, a requirement of both EU and Bulgarian legislation.

Lukoil has pledged to invest \$400 million to upgrade the Bourgas refinery

Pharmaceuticals firm corners the market

A PRIME EXAMPLE OF THE ENTERPRISING APPROACH OF THE NEW BULGARIA, PHARMACEUTICAL DISTRIBUTOR COMMERCIAL LEAGUE HAS CARVED OUT A REPUTATION FOR QUALITY OF SERVICE AND GENERIC PRODUCTION

WHEN THE WALL CAME down in Berlin in 1989 and the domino effect rippled throughout southeastern Europe all the way to Bulgaria, Tihomir Kamenov decided to go home. A 30-year-old graduate of international law in Leiden, Mr. Kamenov returned to his native Bulgaria to found the pharmaceutical distributing company, Commercial League.

The year 2000 marked Commercial League's 10th consecutive year of growth. Revenues were 62 million euros (\$54 million) in the company's core businesses alone and net income rose by 272% to 6.5 million euros (\$5.67 million) from 2.5 million euros (\$2.18 million) in 1999. Since its founding in 1991, Commercial League has emerged as one of the blue chips of the new Bulgarian economy and one of the largest pharmaceutical dis-

tributors in Eastern Europe. Since 1996, sales have risen some 900% and market share has increased by 700%. The company currently supplies pharmaceutical products to more than 2,900 pharmacies and has a 57% share of the local Bulgarian pharmaceutical market. Chairman Mr. Kamenov describes the company's position in Bulgaria as "dominant" and goes on to say that Commercial League "supports Bulgarian society by raising healthcare production and commercial standards and provides one of the best bridges towards Bulgaria's early accession to the European Union." The company's commitment to current good manufacturing and good distribution practices is widely recognized as an industry standard and further promotes Bulgaria's case before the EU.



TIHOMIR D. KAMENOV
Chairman of
Commercial League

A bright example of Bulgaria's emergent market economy, Commercial League is a case study of the new breed of Bulgarian companies. "Commercial League was created by 100% Bulgarian nationals, born and educated in Bulgaria," Mr. Kamenov states. "The company uses all the modern techniques of conducting business. We began

Continues on page 10





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purely with product marketing knowledge and then moved on to structural development, legal framework, financial risk management and internal credit organization, recruitment rules and credit control systems. Finally, we now have modern IT in place. According to most of the multinationals we do business with, they feel secure with a company that services over 45,000 lines, and has a structure of 410 cars, 700 people, 28 full-fledged branches, and a developed responsibility chain. This provides them with the modern marketing capacity they like to have."

Since its formation, Commer-

cial League has established its own regional branch structure and its own transport units. With around 300 transport units in operation, the company can deliver to any point in Bulgaria within two hours of order confirmation, 24-hours-a-day, 7-days-a-week, 365-days-a-year, and services over 4,000 orders daily. Bulgaria's recently introduced health-care reform has helped boost demand and Commercial League is the largest supplier for the national health insurance system. Correspondingly, the company launched its Care For You pharmacy benefit program, a first for Bulgaria, involving the gradual accumulation of patient data and the building of data processing

capacity.

Increased generic production and further expansion throughout the Balkan region are on the table. In December 2000, the company inaugurated Tchaikapharma Inc., its GMP-certified facility for solid-dosage packaging and vials labeling. Mr. Kamenov adds, "going into the full-scale modern production of generics in Bulgaria and supplying the rest of the Balkans is what will contribute to tomorrow's accession to the EU. Since modern development of original medicines is not possible in Bulgaria, the production of quality generic drugs is the only proud way to enter Europe with flying colors."



THE CARING FACE OF BULGARIA Commercial League is the largest supplier of medicine for the national health service.

Tapping Bulgaria's tourism potential

UPGRADING EXISTING TOURISM INFRASTRUCTURE AND ACTIVELY PROMOTING THE COUNTRY'S CHARMS ARE VITAL IF BULGARIA IS TO LURE VISITORS TO ITS HISTORIC CITIES AND IMPRESSIVE MOUNTAINSCAPES

BULGARIA, ANCIENT LAND of Orpheus and Spartacus, lies nestled amongst Romania, Greece, Turkey and former Yugoslavia, and is bordered by the Black Sea to the east. Mountainous and forested, the country is rich in history and offers dramatic scenery, haven-like monasteries, as well as Roman and Byzantine ruins. Orthodox religious chants convey the mysticism of regional fables and legends, while in rural villages, the visitor still has the opportunity to experience traditional folk music and dances whilst partaking of home-milked

cheese and watching passing donkey carts.

In the early 19th century, after 500 years of Ottoman rule, Bulgarian culture and folklore blossomed as writers and artists strove to reawaken national consciousness. A premature revolt was brutally suppressed by the Turks at Koprivshitsa in April 1876 (outraged Europeans came to Bulgaria's aid) which was liberated two years later. Today, the Koprivshitsa Folk Festival, held every four years, commemorates the Revival and draws thousands of participants.

It is clear that Bulgaria is full of color and untapped tourism potential. Its troubled transition to democracy weakened its marketing strategies abroad (before 1990 there were 30 Bulgarian promotion offices outside of the country; today there are none), but tourism still continues to account for some 15% of GDP and the number of tourists was expected to top two million in 2001—a 20% rise from the year before. The country is finally beginning to rebound and the upgrading of the tourism infrastructure is a top priority of the new government. General Manager of the Hilton Sofia Armin Zerunyan says that promotion is a must for

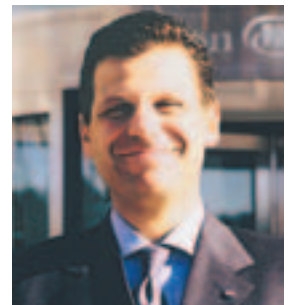
Bulgaria's tourism industry. "There are many things that can be offered—cultural tourism, third-age tours, niche markets, eco-tourism. Bulgaria is a major wine-producing country as well, which is little known. This country

has many similarities to Switzerland—with the added benefits of the sea."

Sofia, the country's capital, reflects these new changes. Thanks to the EU's 'Beautify Bulgaria' campaign, historic buildings are being restored and older neighborhoods re-energized. Medieval and neo-Byzantine cathedrals mix with modern hotels and shopping avenues. Mt. Vitosha, just five miles south of the city, offers winter skiing and there are unparal-

leled hiking opportunities nearby in the majestic Rila Mountains.

The Congress Center-Sofia, with its capacity for 4,000 people, is southeast Europe's largest multipurpose complex. Opened in 1981, it has since become a renowned venue for various national and international conferences and events. Connected to the Congress Center by a pedestrian bridge is the new Hilton Sofia, opened in January 2001. It is the city's premier business hotel and is located in the heart of the city, just 15 minutes from the international airport. The hotel is surrounded by a park and overlooks the Vitosha Mountain and has been designed with the business traveler in mind. All rooms are equipped with PC ports and Internet connections and there is



ARMIN ZERUNYAN
General Manager
of the Hilton Sofia

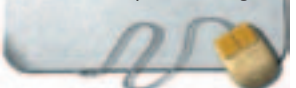
a special executive floor where business assistance is available. Mr. Zerunyan sees the Hilton Sofia as a "new generation hotel. It brings all the advantages of a modern business hotel, especially in terms of telecommunications and communications in general. I would say that almost 85% of our clients are of the corporate nature, including conference business."

With regards to setting up business in Bulgaria, Mr. Zerunyan added, "we believe in the long-term development of this country because you can see that there is light at the end of the tunnel. Sooner or later we will become a member of the EU; NATO is almost a done deal. Above all, I am truly impressed by the quality of the human element in this country. The human potential here is much better than in a lot of neighboring countries, and even better than in some European countries that didn't belong to the eastern bloc."



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Growth has been transforming MobilTel, and MobilTel is transforming Bulgarian telecommunications.



Mtel

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