

The 1000th Company Privatized - Aims Achieved

Socially owned company Metal Trade from Sabac is the 1000th privatized company in Serbia, thus achieving one of the aims set by the Serbian Government after adoption of the Law on Privatization in 2001. The aim of Serbian privatization concept is change in economic structure and creation of strong and efficient private sector, which invests in production and modernization of companies, creates new job openings and raises the competitive edge of the economy.

The first tender privatization, and at the same time the first privatization transaction altogether in Serbia, was realized on January 30th 2002, when three cement plants acquired renowned world leaders in cement industry for strategic partners. The first auction buyer bought a company from Priboj - Autoservis. Since the adoption of the Law on Privatization in mid-2001, the budget proceeds from privatization have reached a sum of 1.3 billion Euros, agreed compulsory investments are worth 700 million Euros and investments in workers' protection programs ca. 280 million Euros.

The implementation of the privatization model so far confirmed the principle of social justice, but at the same time managed to fulfill two more goals - to secure the highest level of investments and improve the quality of corporate management. The losses of privatized companies were cut by half, and the real effects of privatization on the volume and quality of industrial production will become noticeable in the year 2004.

The privatization proceeds were largely used for commencing the restructuring of large socially owned systems and workers' protection programs in those companies, as well as for subsidizing their work capital thus enabling their successful privatization and competitiveness on the market.

Pursuant to the Law on Privatization, 10% of the proceeds was paid to the Republic fund for pension and disability insurance of employed individuals. Five percent of the proceeds go to the special fund for compensating the owners of the companies nationalized after the World War II. The means of employment of these funds will be regulated by law on denationalization. One part of the privatization proceeds is used for debt settlement in cases where the Republic of Serbia is guarantor or obligor. The amount of funds allocated for this purpose is set by Serbian Government, in accordance with the law. Finally, five percent of the privatization proceeds are used for reconstruction of road and railway infrastructure in the home regions of the privatized companies. Those funds are used for reconstruction of road and railway network, renovation of the heating system, waterworks and sewage system, as well as for development of other infrastructural installations. The implementation of this project is financed through special programs for economy development and environment protection, adopted by local governments. Smaller part of the privatization proceeds is placed through the Development Fund as favorable credits for small and medium enterprises.

The Ministry for Economy and Privatization and the Privatization Agency will celebrate the realization of its aims by a benefit auction. This auction will be in many ways different from all other auctions held so far in the privatization procedure; it will raise substantial funds for Citizens' Association "Children First", intended for orphan children. For the first time, the auction will gather the largest buyers in the privatization process so far, who responded to humanitarian appeal, and returned as buyers, but this time for a quite different occasion, thus showing not only their confidence in the privatization process and institutions, but also confirming themselves as long-term Serbian partners and friends.

Subjects of the sale will be "the symbols" of the privatization - auction gavel, whose thump signified 800 auction buyers at 96 auctions, the first published Company Prospect announcing the beginning of privatization in Serbia, the first published Public Invitation for tender sale of three cement plants, later to become the first

concluded privatization transaction, the first Public Invitation for a Public Auction held on April 3rd 2002, and the Official Gazette containing the Law on Privatization, which started the whole process.

The Citizens' Association "Children First" was founded at the initiative of Mr. Zoran Djindjic and Mrs. Ruzica Djindjic. The Ministry for Economy and Privatization and the Privatization Agency chose this foundation in token of gratitude to Mr. Zoran Djindjic, for all his support and faith.

Belgrade, December 4th 2003.

With Privatization to Successful Private Sector

The aim of the Privatization Agency and the Ministry for Economy and Privatization is creation and development of healthy and successful economy, based on strong private sector that generates profit, provides work for workers, and secures better living standard for all citizens. One of the ways for achieving this aim is a transparent and public privatization process.

Successful implementation of the privatization concept, marked as the best in the Central and East Europe by leading global financial institutions, started to show its first results in terms of more efficient economy with a substantial contribution of the private sector to the growth of economic activities. According to the most recent studies and gathered statistics, which take into account private enterprises in Serbia, among the companies with the largest profit in Serbia, over 90% are privately owned.

According to research data and analyses that, contrary to official statistics, take into account the private enterprises, the industrial production shows growth rate of 6%, which is 4% more than official registered growth rate in 2002 (1.7%) This indicates that the real growth rate of production in the private sector in 2003 will be substantially larger than expected. In addition, it is realistic to expect that the actual positive effect of the privatization and this year's investments in privatized companies will be noticeable in the following year, which would also have a positive effect on economic activities, and contribute to the creation of strong and efficient private sector.

Very important segment of the transition in Serbia is restructuring of large, heavily indebted and nonprofit socially owned systems. The restructuring process, by which the heavily indebted and nonprofit systems are being prepared for privatization and transformed into companies that are attractive for strategic partners, together with workers' protection programs provided by the state, involves 54 parent companies with some 450 smaller subsidiary companies. Restructuring of the companies, which entails separation of healthy parts of the company, debt settlement and dealing with the forced redundancy issue, is a process that puts a considerable strain on the Serbian budget. The principle of Serbian Government - that the process of reforms must meet the standards of the social justice principle, i.e. that the cost of transition have to be equally distributed, was applied on restructuring of large economic systems. The restructuring programs are mainly financed from the privatization proceeds. The fact that the debts encumbering economy have been considerably reduced *inter alia* under the auspices of restructuring indicates the success of those programs. Industrial net loss in 2001 was 72.2 billion dinars, and it was half the size in 2002 - 35.8 billion dinars.

Restructuring have already produced results - Copper Rolling Plant from Sevojno recently gained a strategic partner, the tender procedure for "Matroz" is in progress, and the auction is scheduled for 4 more companies

that have successfully concluded the restructuring process. At this moment, 38 companies are being restructured.

Since the adoption of the Law on Privatization in mid-2001, the budget proceeds from privatization have reached a sum of 1.3 billion Euros, agreed compulsory investments are worth 700 million Euros and investments in workers' protection programs, made in cooperation with the company trade unions, ca. 280 million Euros.

Thirty-one tender transactions were successfully concluded, with a rate of success of 47%. The previously set aims of the tender privatization were completely achieved, even exceeded in terms of the number of attracted foreign strategic partners. More than 15 largest multinational companies have invested so far in Serbia through privatization, some of them being "Titan", "Lukoil", "British American Tobacco", "Galaxy", "Hellenic Sugar Industry", "Holcim", "Philip Morris", "Henkel", and "Lafarge". The presence of such large multinational companies proves in practice that Serbia is an attractive destination for investments. Apart from investments that will give an energetic impetus to Government efforts aimed at creating efficient economy, large multinational companies that are now strategic partners to local companies will also contribute to export sale growth, thus reducing the foreign trade deficit. At the moment of privatization, the companies that gained their strategic partners in the tender process employed 28.000 workers.

From the aspect of the sale price, investments and social program, the share of foreign investors amounted to 99% of the total results of privatization by tender. The total proceeds from the tender procedures is 800 million Euros. These funds have been used for restructuring of large nonprofit systems, development of the local communities, settling the budget liabilities of the Republic of Serbia and healing the Fund for pension and disability insurance. Investments agreed by contracts are worth 323 million Euros. 135 million Euros was allocated to the workers' protection programs for the companies privatized by tender process alone.

In the previous two years, the sale of capital by auction was the most frequent method of privatization, which attracted mostly domestic capital. Public auctions achieved very high success rate of 87%. Eight hundred and seven companies gained new owners, thereby the opportunity for further development in accordance with healthy market conditions. The proceeds from the auctions were 209 million Euros. In the companies privatized by this method, at the moment of sale there were 68.723 employees.

The Capital Market, where the state offers its minority stakes in companies privatized under the old laws on privatization, that is the ownership transformation, from 291 offered companies 160 gained new owners, which is the success rate of 55%. The profit earned was 151.152.000 Euros. The companies privatized by this method employed 34.101 workers.

The Privatization Agency Identity Card

ESTABLISHMENT

The Privatization Agency is the central institution in charge of implementation of the new privatization concept in Serbia. The role of the Agency is to promote, initiate, implement and control the privatization procedure. This state institution was established by The Law on the Privatization Agency, that was passed at the same time as the Law on Privatization and The Law on the Share Fund, on June 29th 2001, and came into effect on July 7th 2001.

COMPETENCY

Taking the multiply legal authority as a starting point, the Agency has been operating successfully for more than two years, and it represents the key lever and at the same time the most important institution for the implementation of the privatization procedure. The Agency's task is to enable efficient privatization within the scope of its competency through its expert services, to inform permanently the public on the results and the manner in which the privatization procedure is being conducted, to organize and implement the privatization procedure and to control it.

ORGANIZATION

The Privatization Agency has some 250 employees divided into seven organizational centers. Four of them represent sale channels (tenders, auctions, capital market and restructuring), with the support of Finance Center, Legal Center, and Privatization Support Center. Four regional centers have been opened so far (offices in Novi Sad, Nis, Kraljevo, and Kragujevac), as a result of the orientation towards decentralization of the privatization process in Serbia. After successful privatization by tenders and auctions, in the last six months special attention has been given to strengthening of the Contract Execution Control Center within the Support Center. In post-privatization period, special Monitoring Section of the Agency is in charge of monitoring the fulfillment of the buyer's covenants. So far, based on the filed objections, 23 sale and purchase agreements have been terminated due to buyers' default. Agency teams consisting of lawyers and economists visit privatized companies on a regular basis and upon filed objection take appropriate steps within their competency.

SUPERVISION

The control of privatization is being executed at several levels. The control is executed by the Agency, Ministry for Economy and Privatization, Serbian Government, and finally National Parliament. Once a month, the Privatization Board consisting of the representatives of all parliamentary parties - both ruling and opposition - analyze reports on executed transactions and sale and purchase agreements. So far, no material remark has been given on the legality of the privatization process.

1.770.000 DINARS FOR ORPHAN CHILDREN

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The following buyers in the privatization process took part in this special auction:

1. Vranje Tobacco Industry - BAT with 300.000 dinars
2. Hemofarm with 300.000 dinars
3. Beopetrol-Lukoil with 150.000 dinars
4. Frikom with 100.000 dinars
5. MK Commerce with 100.000 dinars
6. Delta with 150.000 dinars
7. Zorka Boje, Sabac with 100.000
8. Nasice Cement with 150.000
9. Toza Markovic - Polet Novi Becej with 100.000 dinars
10. HLC with 100.000 dinars
11. Impol - Seval, Sevojno with 120.000 dinars
12. Zdravlje, Leskovac with 100.000 dinars

Total funds raised - 1.770.000 dinars

Vranje Tobacco Industry - BAT bought the Official Gazette, Hemofarm is the new owner of the auction gavel, and Delta is the new owner of the first published Public Invitation for auction. Impol Seval bought the first Prospect, the very same that was prepared for Seval, later to be privatized by Impol. The owner of the first Public Invitation for tender is Nasice Cement.

The standard auction rules were altered for the purpose of this special auction, so that all sums offered by the participants in the course of the auction went to the Citizens' Association "Children First". The members of the Auction Commission were Serbian media representatives - Svetlana Vukovic, Misa Brkic, Milan Culibrk and Biljana Stepanovic.

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ANNOUNCEMENT

The 1000th company, DP "Inos metali" from Belgrade, was privatized on Thursday, December 4th 2003, at the 96th public auction organized by the Privatization Agency. This sale symbolically signified the achievement of privatization goals set in the strategy of Serbian Government and Ministry for Economy and Privatization. The 1000th company was offered for 8.473.000 dinars, and sold for 191.000.000 dinars. In the following period, the Privatization Agency will continue working on transformation of the economy structure in Serbia and development of strong and efficient private sector.

No.	Company	Opening Price (dinars)	Total liabilities*	Sale Price (dinars)	Buyer
1.	DP INOS METALI, Beograd	8.473.000	9.643.000	191.000.000	«Interprom» d.o.o.
2.	DP METAL TRADE, Sabac	1.339.000	3.498.000	6.700.000	Dragoljub Vasić
3.	DP JABUKA, Jabuka	6.961.000	34.440.000	57.000.000	Miroslav Živanov konzorcijum

4.	DP HLADNJAČA, Kraljevo	17.831.000	60.068.000	17.831.000	Irema Kočević
5.	DP ŽITOPROMET, Ivanjica	5.858.000	5.318.000	41.000.000	Saša Kostić konzorcijum
6.	DP TAMIŠ INFORMATIKA, Pančevo	1.465.000	1.114.000	45.000.000	Jovica Božić
7.	DP CENTROSREM- TEKSTIL, Stara Pazova	9.739.000	8.626.000	201.000.000	Vojislav Kovačević
8.	DP AUTOPREVOZ, Vrnjačka Banja	45.005.000	134.348.000		UNSUCCESSFUL
9.	DP ELEKTROMONTAŽA, Zaječar	6.997.000	10.158.000		UNSUCCESSFUL
10.	DP INOS KRUŠEVAC, Kruševac	7.983.000	22.575.000		UNSUCCESSFUL
11.	DP DUŠAN DUGALIĆ, Batočina	2.061.000	25.818.000		UNSUCCESSFUL
12.	DP TOPLIČKI MOTIVI, Prokuplje	680.000	3.437.000		UNSUCCESSFUL
13.	AD MIN HOLDING ČELIK, Žitorađa	26.304.000	75.778.000		UNSUCCESSFUL

* **Total liabilities: long-term** (a. to associated companies, b. long-term loans, c. other long-term liabilities, d. liabilities that can be converted into capital), **short-term** (a. short-term loans b. suppliers, c. salaries and compensation for salaries, d. taxes, contributions, other duties e. advances, deposits and guarantees received, f. other short-term liabilities)