

SERBIA AND MONTENEGRO
Republic of Serbia

SOLICITATION OF EXPRESSIONS OF INTEREST
FOR A
FINANCIAL ADVISOR TO PRIVATIZE A POOL OF THREE CONSTRUCTION COMPANIES
(“POOL 20”):

- 1. DP VALJEVOPUT, Valjevo;**
- 2. GRADJEVINAR d.o.o. Nis; and**
- 3. ZGOP, Novi Sad**

The Government of Serbia (hereinafter: the GoS), through Serbia and Montenegro, is expecting to receive a Grant from European Agency for Reconstruction, administered by the World Bank, to support the privatization, restructuring and bankruptcy of the socially-and state-owned enterprises (SOEs) in accordance with the provisions of the Law on Privatization as amended in 2005.

The GoS now intends to apply part of this Grant for services to be provided by a Financial Advisor to undertake the privatization through international tender privatization of a pool of the following three (3) Companies:

Socially-owned Company for construction and overhaul of roadways, remount and maintenance of railways and airfields – **DP “Valjevoput”** was established in 1962. It is located in Valjevo, strategically and conveniently situated in western Serbia, some 120 km from Belgrade. “Valjevoput” is one of the few remaining socially/state-owned construction companies and as such potentially appealing to investors who wish to enter the Serbian market or add to holdings they may already own thus expanding their coverage of the market. As of January 2005, “Valjevoput” employed 138 workers. In fiscal 2004, “Valjevoput” had sales revenues of around EUR 3.3 million and a net profit of EUR 113,000. Book value of assets for the Company was EUR 2.6 million, and the book value of equity was close to EUR 1.3 million. The Company’s equity structure is as follows: 97.33% socially-owned capital and 2.67% privately owned capital. The Privatization Agency is offering 70% of the Company’s socially owned capital for sale with a goal of attracting a reputable, international or domestic strategic investor. In accordance with the Law on Privatization the remainder of the share capital is reserved for the free of charge distribution to employees (up to 15%) and citizens through the Privatization Registry (at least 15%).

Socially-owned Company “**Gradjevinar” d.o.o.** of Nis was established in 1946. It is located in the southern part of the Republic of Serbia, some 250 kilometers south-east of the capital of Belgrade. As of January 2005, the Company employed 1,212 workers. The Company engages mainly in construction of housing space throughout the country, but it also produces other construction accessories and components. In addition, it performs specialized works as per customer demand. In a market where construction is foreseen to be steadily gaining demand in view of country’s tendencies toward EU, “Gradjevinar” may present a fine opportunity as significant contributor to the supply side in the construction industry. In fiscal 2004, “Gradjevinar” had sales revenues of around EUR 10.5 million and a net loss of EUR 1.2 million. Book value of assets for the Company was around EUR 12.2 million. The Company’s equity structure is composed of 95.42% socially owned capital and 4.58% privately owned capital. The Privatization Agency is offering 70% of the Company’s socially-owned capital for sale with a goal of attracting a reputable, international or domestic strategic investor. In accordance with the Law on Privatization, the remaining of the share capital is reserved for the free of charge distribution to employees (up to 15%) and citizens through the Privatization Registry (at least 15%).

Joint Stock Company “**ZGOP”** was founded in 1957. It is located in Novi Sad, the largest city in Vojvodina Province, some 70 km northeast of Belgrade. In June 2005, the Company employed

531 workers. Main operating activity of the Company is construction and overhaul of the railways. ZGOP is the only provider of those types of services in Serbia and Montenegro. The land surface used by the Company is around 3,8 ha. Floor surface of the buildings owned by the Company is ca. 7,400 m², comprising of halls for overhaul and maintenance of the machines and warehouses. The main equipment consists of tamping and ballast cleaning machines. The Company employs sufficient number of qualified workers for performing operating activities. The Company achieves the most of its revenues in domestic market. However, in 2004, the Company achieved 15% of the total revenues in the foreign market (overhaul of the railways in neighboring countries). In 2003, the Company achieved net sales in the amount of EUR 10.676 million, with the net result equal to zero. Total value of operating assets at the end of the year was EUR 15.3 million, and total book value of the equity was EUR 7.4 million. In 2004, the Company achieved net sales in the amount of EUR 6.47 million, with the net result equal to zero. Total book value of operating assets at the end of the year was EUR 15.3 million, and total book value of the equity was EUR 10 million. The Company is a non-polluter. Modernization of the equipment is considered to be a necessity in the near future. In the capital structure, the share of socially-owned capital is 99.93%. Remaining 0.07% is share capital. Privatization Agency offers 70% of the socially-owned capital for sale. The aim of the sale is to attract a reputable strategic investor which would make significant investments and provide know-how in order to modernize and basically prepare the Company for expected rise of demands for their services in the local market in the near future. Remaining 30% of the socially-owned capital shall be distributed in accordance with the Law on Privatization.

More details about the above three Companies can be obtained from the website of the Privatization Agency, Republic of Serbia www.priv.yu, or from the Project Manager in charge of the Pool 20, **Mr. Ljubisa Popovic** (lpopovic@priv.yu).

The objective of the GoS in these privatizations is to attract reputable domestic or foreign strategic investors with industry expertise, management know-how and financial strength necessary to improve the Companies' performance and fulfill the necessary investment program in order to utilize and secure the long term development potential.

To achieve this goal, the Privatization Agency, Republic of Serbia (hereinafter: the PA) intends to hire a Financial Advisor to: (i) undertake the necessary vendors due diligence and prepare a Diagnostic Report suggesting necessary pre-privatization measures and the envisaged privatization strategy; (ii) conduct an investors search and actively market the investment opportunity to a wide group of potential purchasers and present a market assessment report comprising the feedback from potential purchasers; (iii) prepare the required tender documentation; (iv) prepare an environmental audit; (v) conduct a valuation; (vi) implement the privatization of the companies through a competitive tender process and manage the sales process until closing of the privatization transaction. All of these activities will be funded by a combination of a Retainer Fee to be financed under the Grant, and a Success Fee to be funded out of the proceeds of the actual sales.

The PA now invites Expressions of Interest (hereinafter: the EOIs) from eligible firms based on which they are to be included in a short list of candidates who are to be sent the relating Requests for Proposals. It is desirable that EOIs include only the most relevant information and do not exceed more than 50 (fifty) pages. Eligible firms must have strong experience in the field of privatization in general, and more specifically in the relevant industry, as well as in the preparation of socially-owned enterprises for privatization, to be documented by the most relevant references. Preferably, eligible firms should have successfully completed one or more comparable assignments. The Financial Advisor must be able to form a team of experienced experts to carry out the subject assignment. The team shall preferably include investment bankers, privatization experts, financial experts, industry experts and legal experts. If a firm cannot provide complete expertise, it may form an association (consortium) with other firm or group of firms. Such an association may take the form of a 'joint venture' or of a 'subconsultancy'.

The EOIs from eligible firms should specify the following relevant information in order to be considered for short-listing: (i) short introduction of the firm/consortium; (ii) evidence of the track record in this type of assignment and the relevant industry, with a maximum of 15 most comparable projects best documenting the required experience (in case of a joint venture, such evidence is required for all members of the joint venture, while in case of a subconsultancy, it is required only for the leading firm); and (iii) names and curricula vitae for proposed professional staff only (project manager, leading privatization expert, financial expert, relevant industry expert, and the leader of the legal counsel). It is strongly desirable if the information required above under (ii) and (iii) is provided in the formats available at the web-site of the Privatization Agency, Republic of Serbia: www.priv.yu/jn/formats.zip ('Format for Evidence of the firm's/consortium's track record' and 'Format for CV for proposed professional staff').

A Financial Advisor will be selected using the **Quality-and Cost-Based Selection (QCBS)**, in accordance with the procedures set out in the **Guidelines: Selection and Employment of Consultants by World Bank Borrowers, May 2004**.

Interested and eligible Consultants who wish to participate should submit their EOIs to the below indicated officials of the PA, **by 31st October, 2005 (Monday), and not later than 16:00 hours (local time)**.

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