

Republic of Serbia

**SOLICITATION OF EXPRESSIONS OF INTEREST
FOR A
FINANCIAL ADVISOR FOR
PRIVATIZATION THROUGH RESTRUCTURING OF
«ELEKTRONSKA INDUSTRIJA» AD, Nis**

The Government of Serbia (hereinafter: the GoS), has received a Grant from European Agency for Reconstruction (hereinafter: the EAR), to be administered by the World Bank (hereinafter: the WB), to facilitate and accelerate the privatization, restructuring and bankruptcy of the socially- and state-owned enterprises (SOEs) in accordance with the provisions of the Privatization Law as well as the Bankruptcy Law.

The GoS now intends to apply part of this Grant for services to be provided by a Financial Advisor to undertake the privatization through restructuring of a company «Elektronska industrija» AD, Nis.

HOLDING KORPORACIJA «ELEKTRONSKA INDUSTRIJA» AD, Nis – in restructuring (referred to herein as Elektronska industrija, Company) is an open-end joint stock company, organized as mixed holding consisting of small and medium sized companies.

Elektronska industrija was founded in 1948, as a manufacturing company mainly producing radio tubes and X-ray equipment. In following years its production was extended to a broader variety of electronics goods, metal and plastic parts for finished products and to machine tools.

Currently the **core business** of EI is manufacturing and selling of consumer electronic goods, home appliances and metal and plastic parts. These products were designed primarily for the markets of the former Yugoslavia, Western Europe and the former Soviet Union.

Over the last decade Elektronska industrija market share was reduced. Economic isolation of Serbia, lack of access to capital and to modern technologies prevented Elektronska industrija from updating technologies, reduced products innovation and kept away modern management techniques.

During the last decade the Company was not able to follow the pace of rapid technological changes that took place in the world. The lack of fresh capital to support new investments and to modernize the product lines, resulted in outdated, low quality products not meeting demands of the international market. In spite of these difficulties, management has maintained the facilities at a technically acceptable level.

Most of the **production facilities** of Elektronska industrija are located at the factory site in Nis. Some activities are carried out in Belgrade and other cities across Serbia. A small part of the company's business is located abroad.

On June 29th, 2006 the Privatization Agency has passed the Decision on restructuring of the Elektronska industrija.

Before that Decision 10 subsidiaries of Elektronska industrija were sold at the public auction, and two subsidiaries were sold by the asset sale.

Elektronska industrija currently has 73 subsidiaries, 10 of which are under direct management of the Holding and 100% majority capital, 47 subsidiaries are under direct management of Holding and with majority capital under 100%, 12 subsidiaries are in bankruptcy, and 4 subsidiaries are located abroad. The Privatization Agency passed the decision on privatization by method of

public auction for 23 subsidiaries, 17 of which are currently in privatization program verification process.

Among the subsidiaries 36 have production facilities and 13 operate as service companies in logistics, commercial services, import/export, quality control and banking. The Group precise structure is unclear and needs to be explained.

In fiscal year 2006, Elektronska industrija generated **sales** revenues of around EUR 6.2 million and net loss of EUR 13.4 million. Total book value of the operating assets at the end of the year was EUR 41.1 million and the initial capital of the Company was EUR 23.1 million.*

In fiscal year 2005, Elektronska industrija generated sales revenues of around EUR 16.3 million and net loss of EUR 6.4 million. Total book value of operating assets at the end of the year was EUR 55.4 million and the initial capital of the Company was EUR 37.6 million.*

The most promising sectors of Elektronska industrija is precision mechanics manufacturing where expansion of existing production facilities could be justified by:

- a) low cost of labor and high intensity of work operations,
- b) availability of skilled workforce,
- c) high international demand for precision mechanics products.

The potentially profitable production might include:

- a) Production of mechanical and plastic enclosures, where the estimated increase in production and sales could double
- b) Production of TV tubes, where the facility could reach one million tubes per year equivalent to 3% of the European market starting from the current capacity of 400,000 units.

Equity structure: 97.70% socially owned capital, 2.30% share capital (2,27% Republic of Serbia Development Fund and 0.03% Niska banka).

Total number of employees in the Elektronska industrija on December 10th, 2007 is 1333, plus 32 in Holding company. In 2001, Elektronska industrija had 9006 workers. In 2006 the number of employees was reduced by 584 workers (severance payments).

Company Profile of the subject enterprise can be obtained on the website of the Privatization Agency (www.priv.yu) or from the Project Manager, Ms. Dragana Puzic (dpuzic@priv.yu).

The objective of assignment in this privatization is restructure the Company in a suitable manner to attract commercially oriented investors who can provide management and production know-how, investments in modern technology and access to the local and export markets in order to provide for a continuation of the operations of the enterprises.

Given the Companies' operational and financial difficulties, the Company is subject to pre-privatization restructuring before it, or its constituent parts, can be offered for sale through tender or auction. This process may include appropriate reorganization and spin off of parts, asset sales, financial restructuring, and/or labor "right-sizing" supported by Government-assisted social programs, and liquidation / bankruptcy procedures for non saleable parts of the enterprises.

The Financial Advisor will: (i) conduct the necessary Due Diligence and undertake a diagnosis that will suggest how best to reorganize company to maximize the possibility of its privatization; (ii) prepare a restructuring program or in case a restructuring procedure may not be required prepare immediately the privatization strategy (iii) accompany the implementation of the required restructuring measures, if these are advised; (iv) prepare valuations, the necessary sales documentation, draft share purchase agreements, etc for the saleable business units and (v)

undertake and advise on the implementation of the privatization and/or their component parts through one or more open, competitive international tenders, and/or auctions as may be appropriate.

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 Privatization Agency, Republic of Serbia now invites expressions of interest from eligible financial advisors for the preparation of a short list of firms to whom Requests for Proposals will be sent. Eligible firms must have strong experience in the field of restructuring in general and more specifically in the relevant industry as well as in the preparation of socially-owned enterprises for privatization. The financial advisor must be able to field a team of experienced experts or otherwise provide a team of relevant experts on the ground with strong knowledge of the industry. Preferably eligible firms shall have successfully completed on one or more comparable assignments. If the firm can not provide the complete expertise it may wish to form a consortium of specialists, either through subcontracting or a joint venture.

EOIs from eligible firms/consortia 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 sub-consultancy, 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).

The CVs shall clearly line out the most relevant and recent projects, which the eligible firm considers to be most relevant and which best document the teams experience in accordance with the requirements lined out hereinbefore.

In addition, in order to avoid possible over commitment, firms will be shortlisted for this assignment based on their capacity and current commitments.

A financial advisor will be selected in accordance with procedures set out in the World Bank's *Guidelines: Selection and Employment of Consultants by World Bank Borrowers* May 2004. The method used to select the financial advisor will be **Quality and Cost based Selection (QCBS)**.

Interested and eligible firms should mail or email their EOIs by **January 24, 2008 by 15 hours local time.**

Contact: **Ms. Zorica Petrovic,**
PMU Director
Privatization Agency, Republic of Serbia
Terazije 23,
11 000 Belgrade
Tel.: (381 11) 3029 968
Fax: (381 11) 3020 828
E – Mail: zpetrovic@priv.yu

Cc: **Ms. Ankica Momcilovic**
Procurement Officer
Privatization Agency
Republic of Serbia
Terazije 23, 6th floor
11000 Belgrade

Tel: (+381 11) 30 20 815
Fax: (+381 11) 30 20 828
E-mail: amomcilovic@priv.yu