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**Deloitte &
Touche**



***Bulgaria Food
Industry Privatization
Phase II
October & November 1993
Monthly Report***

Delivery Order No. 27

Project No. 180-0014

Contract No. EUR-0014-I-00-1056-00

**Eastern European Enterprise Restructuring
and Privatization Project**

**U.S. Agency for International Development
EUR/RME**

December 1993

**Deloitte &
Touche**



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December 23, 1993

Gary Maher
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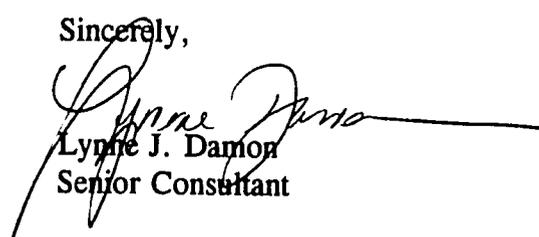
**Re: Contract No. EUR-0014-I-00-1056-00, Delivery Order No.
27, Bulgaria Food Industry Privatization, Phase II -
October & November 1993 Monthly Report**

Dear Gary:

In accordance with Article III of the above-referenced delivery order, enclosed please find four copies of the October-November 1993 Monthly Status Report for the Bulgaria Food Privatization project.

These deliverables were prepared by the Deloitte & Touche team working in Bulgaria. If you have any questions concerning these deliverables, please call me at (202) 879-5386. Thank you.

Sincerely,


Lynne J. Damon
Senior Consultant

Enclosures

**Deloitte Touche
Tohmatsu
International**

SUMMARY

In October, 1993, Development Alternatives, Inc. (DAI) began work on Phase II of the Bulgaria Food Industry Privatization Project (Delivery Order No. 27). A team from DAI's Privatization Group met with the Agency for Privatization and the Agency for International Development. Both agencies stressed the importance of privatizing Storko Pleven (Storko) and Selvikonserv (Selvi) as quickly as possible gain momentum on the Government of Bulgaria's privatization efforts. The group also met with several potential investors who showed earlier interest in Storko and Selvi.

Based on these October meetings the DAI team developed a Work Plan for Phase II. On November 2, 1993 a DAI team returned to Bulgaria to begin implementation of the Plan. The team met with managers at Storko and Selvi, and toured the respective factories. The meetings revealed that both companies have done little strategic planning or capital budgeting in anticipation of discussions with potential investors. DAI offered assistance in this analysis which is currently being executed in conjunction with DAI's local partner on the project, Deloitte and Touche, Sofia.

A detailed trip report for the period November 2-9, 1993 follows.

DAI has also begun marketing efforts to find potential investors for Storko and Selvi. The Information Memoranda prepared on the two firms has been sent to 14 U.S. firms in the agribusiness sector. Efforts are underway currently to obtain initial feedback from these companies. This feedback will be included in the Monthly Report for December, 1993.

DAI has also made contact with a Washington-based group which has forwarded the Information Memoranda on Storko and Selvi to two firms in Japan. Additional contacts in Japan are being pursued through the same group.

DAI held meetings in late November with FreshConsult, a Vienna-based consulting firm. FreshConsult will be assisting DAI in its search for investors in Europe.

DAI is also working with a local, Bulgarian firm to identify possible partners in Greece. The status on this activity will be available in the Monthly Report for December, 1993.

TASKS COMPLETED IN OCTOBER AND NOVEMBER 1993

During October and November 1993, DAI completed the following tasks outlined for November in the Work Plan for Phase II:

Update Financial Information on Storko and Selvi

The DAI team received the most current financial information from Storko and Selvi (through the third quarter of 1993). This information will be reformatted and added to the Information Memoranda by the end of December.

Obtain Status of New Valuation and Restitution Claims

The DAI team continues to track the progress of Storko's new valuation as well as the re-valuation for Selvi. Restitution claims are also being monitored, although the claims do not appear to be of sufficient size to jeopardize discussions with potential investors.

Debt Restructuring

The DAI team held discussions with the United Bulgarian Bank (UBB) on Storko's debt situation. Discussions were held with the UBB branch in Pleven as well as the bank's main office in Sofia. The bank seemed prepared to consider proposals for debt restructuring from prospective investors. The Bank also mentioned the possibility of converting some of the outstanding debt to equity.

Marketing Efforts

Efforts are now underway to identify possible investors for Storko and Selvi in the U.S., Europe and Japan. As individual investors are identified their level of interest will be tracked in tabular form in future Monthly Reports beginning with the Monthly Report for December 1993.

Work Plan Completed

DAI has completed a Work Plan for Phase II of the Project. Deloitte and Touche's involvement in Phase II will commence during December.

Involvement of Voluntary Organizations

DAI is contacting voluntary organizations such as IESC and VOCA to determine whether their particular type of assistance might be of immediate benefit to Storko and Selvi.

PHASE II WORK PLAN

OBJECTIVES

The proposed project, herein referred to as Phase II, is an extension of the activities undertaken in Delivery Order No. 21. The project is designed to create momentum for privatization activities in Bulgaria through a two stage process. The first stage (herein referred to as Stage 1) will focus on completion of successful privatization transactions for two enterprises, Storko Pleven and Selvikonserv. The second stage (herein referred to as Stage 2) will culminate in the development and implementation of a mass privatization model which will be applied to a minimum of 10 additional enterprises to be identified as part of the project. Please note that the work plan which follows delineates activities according to Stage 1 and Stage 2.

STATEMENT OF WORK

Work Performed to Date

Representatives of DAI's Privatization Group visited Bulgaria in mid-October to begin work on Delivery Order No. 27. Through meetings with the Agency of Privatization the team assessed the GOB's current thinking on privatizing Storko Pleven and Selvikonserv and discussed plans for the identification of 10 additional firms to be privatized. In meetings with the Executive Director and the Senior Privatization Expert it was learned that a new tender offer for Storko Pleven was due on the 20th of October. The tender offer is for a new valuation of the firm based upon breaking up certain production lines into independent operating units, which was recommended as part of DAI-Deloitte & Touche's earlier recommendations. The Agency also stated that identification of 10 additional privatization candidates will be a time consuming process since this activity must be coordinated through the Ministry of Industry. The bad debt situation with United Bulgarian Bank and other banks and the need to open discussion regarding debt restructuring and/or debt relief was also discussed.

The team held meetings with the Agency for International Development to focus better the team's efforts in the coming months. The Agency emphasized the need to privatize Storko Pleven and Selvikonserv as quickly as practical to create a positive environment for the privatization process generally within Bulgaria.

Extensive discussions were held with Deloitte and Touche, Sofia, concerning overall contract management, Deloitte participation, using local staff, and project timing and personnel mobilization.

The team also continued follow up meetings with Marubeni, JAIDO and ECFA, all of whom have shown preliminary interest in the two firms being privatized currently.

Work Plan

November 1993

Stage 1 Activities:

- Team members will visit Bulgaria commencing November 1, 1993 for the continuation of October discussions, most notable to obtain further information from the Ministry of Industry and the Agency for Privatization on the on-going re-valuation process of Storko Pleven.
- Enterprise visits to Storko Pleven and Selvikonserv and scheduled, to present to enterprise management an assessment of investment interest to date. Updated financial information will be obtained. Discussion will be required to determine managements' views of the potential break-up of the enterprises into separate lines of business.
- Work plan will be presented to the local partner at Deloitte and Touche, Sofia for incorporation of local Bulgarian staff into on-going project activities. Deloitte and Touche Sofia will be requested to provide the appropriate accounting and financial analysts to update enterprise financial statements.
- Preliminary review of revised valuation of Storko.
- Engage in continuing discussions for development of a specific debt restructuring and work-out plan with United Bulgarian Bank.
- Determine if the participation of voluntary organization such as IESC or VOCA would be useful for enhancing the attractiveness of Storko and Selvi for potential investors.

December 1993

Stage 1 Activities:

- Based upon information obtained during November, complete revised financial statements.
- Incorporate revised valuation estimates into Information Memoranda.
- Target focus of potential agribusiness investors/sales and distribution partners in Europe, Japan, and the United States.
- Investigate leverage impact of contacting multiplier organizations (i.e. UNIDO) for the distribution of Investment Memoranda to target audiences.

- Monitor status of existing restitution claims, including types and amounts of compensation paid to claimants.
- Request services of IESC, if applicable.

Stage 2 Activities:

- Request that the Ministry of Industry and the Agency for Privatization provide preliminary input for the identification of 10 additional privatization candidates. Discuss parameters for the development of a mass privatization model for additional 10 companies.
- Discuss with AID, Sofia, the possibility of leveraging previous privatization activities, i.e. privatization in the electronics industry, for inclusion in the mass privatization program.

January 1994**Stage 1 Activities:**

- Prepare press release on activities to date, including overall climate for privatization of agribusinesses in Bulgaria. Investigate the possibility of preparing promotional materials for dissemination to wider investor audience, in conjunction with the development of mass privatization methods, if needed. Publications such as 168 Days and Bulgaria Business News are possibilities.
- Initiate preparation of local legal documentation necessary for transfer of title and ownership, suitable sales contracts, and delivery orders.
- Deliver investment presentation to 4 potential investors and 3 financial institutions previously identified.
- Continue discussions with local banks on restructuring of enterprise debt.
- Resolution of outstanding legal claims on enterprises.

Stage 2 Activities:

- Gather preliminary data from the Ministry of Industry and Agency for Privatization on additional privatization candidates. Develop outline of triage process for candidate selection.

February 1994

Stages 1 and 2 Activities:

- Begin to organize roundtable discussions, to include representatives of industry Ministry, Agency, and financial institutions officials, investors, AI representatives, and consultants. The purpose of these discussions will be to highlight obstacles, challenges, and successes of the privatization process to date. The GOB will be provided a special briefing to outline the outcome of the discussions, with the aim of streamlining the upcoming mass privatization activity.
- Develop, in conjunction with the GOB, appropriate severance package (compensation, training, job search, etc.) for workers displaced from traditional employment during the privatization process.
- Develop promotional campaign with the aim of educating workers and dependents to be affected by new ownership patterns.

Stage 1 Activities:

- Follow-up discussions with potential investors, sales/distribution partners. Determine level of investor interest in organizing site visits to Bulgaria.
- From information obtained from investor discussions, develop investment structure scenarios which will most likely result in investment or trade transactions.
- Update Information Memoranda with specific deal structures, current financial information, recent valuations.
- Complete employment impact analysis for Storko and Selvi.
- Develop specific debt restructuring plan for enterprises.

Stage 2 Activities:

- Begin triage analysis for additional privatization candidates.

March 1994

Stage 1 Activities:

- Conduct detailed investment/sales negotiations with specific investors. Conduct site visits as necessary.

- Continue liaison role with financing institutions, both local and off-shore.

Stage 2 Activities:

- Conduct roundtable discussions, as outlined in February, above.
- Complete mass privatization decision model, incorporating information requirements, per enterprise to be privatized. The result of the model will be the specific steps necessary for the privatization of the additional 10 enterprises.
- Commence preparation of enterprise profiles for each of the 10 privatization candidates subject to the mass privatization model. Include restatement of enterprise financial statements, and valuation of enterprise assets and cash flows.

Please note: While the above steps at this time appear to be a realistic delineation of tasks according to a specified time frame, it is understood that uncertainties inherent in the sale of an enterprise, and uncertainties inherent in the privatization process in Bulgaria, may alter the timing of certain components.

April 1994

Stage 1 Activities:

- Conclude negotiations, legal documentation, and/or sales contracts for Stage 1 completion, transfer of ownership and sales partners for Storko and Selvi.

Stage 2 Activities:

- From enterprise profiles prepared above, assess market, financial, and operational condition of each company.
- Identify further investors both in Bulgaria, and abroad, with strategic interests compatible with enterprise profiles.
- Complete privatization design, including divestiture strategy, for each of the 10 enterprises.
- Continue role of central coordinator and liaison among government ministries, Agency for Privatization, and investors to ensure orderly transfer of ownership.
- Based upon information gathered to date, and results of roundtable discussions, develop an overall input model for all aspects of mass privatization, streamlined in order to accommodate significant numbers of enterprises within like industrial sectors.

- Provide an assessment of social costs to be incurred in the mass privatization program, including cost to divest social assets, and potential staff reductions.

May 1994

Stage 2 Activities:

- Finalize legal documentation for transfer of ownership and sales contracts for 10 targeted enterprises.
- Assist Agency for Privatization extend mass privatization model to other candidates for privatization.
- Apply the privatization model to 10 selected enterprises.
- Identify investors, conduct preliminary negotiations with interested parties.

June-July 1994

Stage 2 Activities:

- Complete privatization transactions for 10 selected enterprises.
- Transfer privatization model to respective Ministries, and Agency for Privatization.
- Provide all final deliverables:
 1. Ten privatization profiles;
 2. Ten privatization strategies;
 3. Valuation for selected enterprises;
 4. Investor reports for selected enterprises.

Monthly progress reports will be provided by the 10th day of the following month for all months listed above. Progress report for October-November, 1993, will be combined into one report. Distribution of reports will be provided through the prime contractor, Deloitte and Touche, ILA Group, Washington, D.C.

TRIP REPORT

November 2-9, 1993

Team Members: Daniel Hogan, DAI
Doyle Peterson, DAI
Michael McKone, Consultant

Date: Wednesday, Nov. 3 and Thursday, Nov. 4, 1993

Location: Selvikonserv

Attendees: DAI Team
Bogomil Kasabov, Manager
Wenka Hristowa, Finance

After initial introductions, Dan Hogan explained the Phase II work plan in detail, stressing that DAI's efforts would now concentrate on soliciting potential joint venture partners for the firm. The team requested updated financials through the third quarter 1993 which were presented on Thursday. Kasabov also agreed to give his comments on the Information Memorandum prepared by DAI.

A tour of the various production lines revealed the following:

- The jam line was shut down due to a lack of bottles;
- The confiture and fruit concentrate lines were running, although some pieces of machinery were not working because of the lack of spare parts. Other pieces of equipment seemed in need of overhaul or replacement;
- The compote line was not operating due to an early season and poor rainfall.

The plant as a whole was running at about 20% capacity, reflecting the following operational problems as articulated by Mr. Kasabov:

- A drought that adversely affected the supply of raw materials;
- Higher prices for electricity, labor, packaging and raw materials which have strained the company's cash position, particularly since the firm has had little success in passing higher costs on to customers, and is unable to borrow working capital funds.

The team raised the issue of which products were most profitable for the firm. It appeared that the firm has not analyzed production in this way and instead focuses on maximizing employment rather than profit, which might entail rationalizing labor. It became a

concern of the team that interested investors/potential joint venture partners may find the inability to analyze profits by product to be a serious roadblock to negotiations.

The team also discovered that the firm's management has put little thought into strategic planning—throughout the discussions the firm emphasized survival with no mention of proactive plans to place the firm on a more secure financial footing.

The firm's plans with regard to future expenditures seemed vague and contradictory as well. For example, Kasabov mentioned that the cooperatives from which he buys are tied to the old regime and not totally trustworthy. Yet when asked what future investments he would like to make he mentioned investing in one or more of these cooperatives.

Kasabov also stated that the fluctuations in raw material and other costs made planning impossible.

Based on the above, the team concluded that Selvikonserv's management is finding it difficult to make the transition from a central planning mentality, where the state, in essence, absorbed or eliminated risks to the firm, to a market-based planning mode where uncertainty must be quantified to the maximum extent possible.

The firm's current thinking was particularly troubling in light of expectations potential foreign partners have with respect to local partners. In particular, the foreign partner expects the local counterpart to understand and be able to react to domestic market conditions. With regard to privatizing, local management is expected to work with domestic labor markets to ease the impact of labor shedding. In both cases, Selvikonserv's management appears ill-equipped to meet these criteria at present.

The team therefore decided to assist Selvi in developing a coherent three to five year strategic plan that would include product line profitability analysis and some attempt to deal with fluctuating raw material markets. Inherent in the planning exercise would be an attempt to prepare management for the types of questions a potential partner is likely to ask and the general expectations a foreign partner is likely to have of the local partner.

Other issues covered during the team's visit:

- Revaluation—a revaluation was done recently on the firm but Kasabov was unhappy with the results. He has requested and received approval from the Food Processing Council for a new revaluation which is scheduled for completion by the end of November. The results will be reflected in the firm's year end financial statements.
- Restitution Claims—one restitution claim was submitted by a local cooperative. The claim was dismissed by the Privatization Agency; the cooperative plans to appeal the ruling on December 6. The Agency feels that even if the appeal is successful the compensation will be minor. In the meantime, the firm has lodged a counterclaim against the cooperative over rights to a retail store.

Thursday, November 4, and Friday, November 5, 1993

Location: Storko-Pleven

Attendees: DAI Team
Dimitar Angelov Makaveev, President, Storko-Pleven
Elen Marinov Gentshev, Finance Director
Boris Marinov Datshev, Product Manager

Dan Hogan explained the nature of DAI's involvement in Phase Two of the privatization program. As he was detailing the backgrounds of the DAI team members, Mr. Makaveev interrupted. Makaveev was visibly distressed and went on at length about the ill-treatment he felt he and his company had received to this point. He felt the decision to privatize the firm at this particular juncture, and the haste with which it was placed on the list by the Privatization Agency, showed little regard for the plans he had to put the firm on better footing. In particular he mentioned his program to move the administrative offices from their current location to the new facilities under construction. His plan was to consolidate operations and lease or sell the old facilities. However, once Storko became a candidate for privatization the firm's assets were effectively frozen. He was also dismayed that the results of the Phase I analysis of the firm were not discussed with Storko management before they were presented to the Privatization Agency.

Mr. Peterson explained that the impetus for privatizing Storko came from the Agency and not DAI, a fact that seemed to improve the team's relationship with Mr. Makaveev. It did become apparent, however, that Makaveev is generally frustrated at his inability to make critical decisions and does little to hide his displeasure with the Privatization Agency's handling of the firm.

The team toured the firm's three production facilities and can production facility. The operations were well organized and operating at about 15% capacity.

The remainder of the two days was spent with the finance director. Two related issues appear most critical at Storko: its debt with United Bulgarian Bank (UBB), which is in default, and a lack of working capital. With regard to the latter, Mr. Makaveev mentioned that he had to turn down several orders for contracts from Germany due to a lack of internal financing, forgoing 10MM leva in potential revenues.

Discussions with the finance director revealed a number of management issues similar to those found at Selvi: maximum employment rather than profit, a reluctance to rationalize production along profit making products, and a sense of helplessness in the face of fluctuating prices in the raw material markets. The team suggested a strategic planning approach similar to the one proposed at Selvi and it was greeted with some enthusiasm.

The team also requested that Storko develop a capital expenditure budget, which it agreed to do. The team also received financial statements for the third quarter of 1993.

Friday, November 5, 1993

Location: United Bulgarian Bank (UBB), Pleven

Attendees: DAI Team
Elen Marinov Gentshev, Storko
Todor Dimitrov Savov, Director, UBB-Pleven

Mr. Savov was quite cordial and willing to talk about the bank's situation with Storko. He mentioned that the UBB has had a long and, until 1990, mutually beneficial relationship with Storko. He left the team with the impression that the bank was anxious to reach an agreement with Storko and resume normal lending relationships as soon as a concrete proposal was presented. The bank also mentioned that there was a good possibility that Storko's pre-1990 debt might be forgiven through government legislation which would place the debt on the GOB which would, in turn, issue bonds to cover the debt. The credit relationship between the bank and Storko was terminated in August 1992.

Mr. Savov also mentioned that the bank has the flexibility to take equity or some form of convertible debt to cover all or part of Storko's obligations after partial debt forgiveness by the GOB.

Monday, November 8, 1992

Location: United Bulgarian Bank, Sofia

Attendees: Michael McKone, DAI
Ms. Vassileva, Agency for Privatization
Ana Beshevlieva-Tshorbanova, Agency for Privatization
Atanas Atanassov, Manager, Credit Division, UBB
Ina Paskaleva, Manager, Bad Loans and Privatization Dept, UBB

This meeting was arranged by the Agency for Privatization. Mrs. Vassileva began the meeting by stating, quite bluntly, that Storko could not be sold with a negative net worth owing in large measure to the significant debt owed UBB and that a resolution must be forthcoming. This unit of UBB was more circumspect in its support for Storko and was noncommittal in response to Mrs. Vassileva's assertions. The bank made clear that it would respond only to concrete proposals and would not negotiate a resolution to Storko's debt situation in the abstract. The clear implication was that the bank would talk seriously only after an investor makes an offer for the firm which includes a proposal for debt restructuring.

Although the bank took a firm line with the Agency it was also evident that the bank would consider seriously any reasonable proposal.

Monday November 8, 1993

Location: Agency for International Development

Attendees: Michael McKone, DAI
Gerald Zarr, Representative, USAID
Lada Stoyanova, USAID

This meeting was held to brief Mr. Zarr on DAI's activities on Phase II of the privatization program. Mr. Zarr seemed pleased with the team's efforts to date and mentioned several times his willingness to intercede in any way necessary to facilitate our efforts. He also expressed his personal satisfaction at the type of contract DAI has established for this program, i.e. transaction-based arrangement versus a success-fee one which, in his opinion, has the potential to send the wrong signal within the local environment as to USAID's (and the contractor's) motivations in effecting transactions.

DAI then had a private meeting with Lada Stoyanova during which the Phase II work plan was reviewed in detail.

Lada mentioned that Gary Maher from DAI Washington would be arriving in Sophia November 30 and recommended strongly that a DAI team member be present during his visit. DAI promised to follow-up with Mr. Maher in Washington to confirm this.

Monday November 8, 1993

Location: Agency for Privatization

Attendees: Michael McKone, DAI
Ms. Vassileva, Agency for Privatization

The purpose of this meeting was to discuss DAI's plans to commit resources to both Selvi and Storko in formulating strategic plans, developing product line profitability analysis, and providing assistance in preparing for the arrival of potential investors as mentioned above. While the Agency appreciated the briefing, it became clear that its main preoccupation is showing tangible results in the quickest possible time frame. It feels that DAI's, AID's and its own credibility will be enhanced greatly if DAI can bring to Bulgaria serious investors for Storko and Selvi. The agency is confident that the UBB situation with Storko can be resolved, and instructed DAI to communicate this to interested investors.

Monday November 8, 1993

Location Ministry of Industry

Attendees: Michael McKone, DAI
Emil Vanchev, Head of the Department, Privatization

This was a briefing meeting that was unsuccessfully scheduled several times by the full team. Mr. Vanchev was pleased to learn that phase II was underway and praised DAI's efforts to date. He, too, hoped that the DAI contract would be a model for future privatization activities in Bulgaria. He was well versed in the issues regarding Storko's debt and expressed confidence that a successful solution could be found once interested investors are identified.

Monday November 8, 1993

Location: Telecon

With: John McGuinness, Deloitte and Touche

Mr. McGuinness returned the team's calls after several attempts to contact Mr. Gerra who was out of the country. Mr. McGuinness indicated that he was now in charge of D and T's portion of Phase II. DAI mentioned its intention to assist Selvi and Storko in developing strategic plans; the idea was endorsed by Mr. McGuinness who indicated that D and T could provide support for this activity in addition to the accounting and financial support services envisioned under the DAI-Deloitte & Touche agreement. DAI agreed to forward to D and T a tentative scope of work for this activity as well as a proforma manpower loading schedule (attached).

ACTIVITY REPORT

Activity Period: October 1- November 30, 1993

November 24, 1993

Meeting With: Dennis Tomes, President, CE Capital, Inc.

Attendees: Daniel Hogan, DAI
Michael McKone, Consultant

This meeting was a follow-up to several phone conversations between Mr. Tomes and DAI. During the DAI team's trip to Bulgaria earlier in November, Mr. Tomes requested several copies of the Information Memoranda on Storko and Selvi which he forwarded to contacts in Japan. This meeting was convened to obtain an update on CE Capital's efforts to date and explore the possibilities of using CE Capital to identify other potential investors in Japan and/or Asia.

Mr. Tomes stated that the initial reaction from at least one of his contacts was positive. DAI asked about the next logical step. Mr. Tomes felt a meeting in Tokyo would be appropriate once expressions of interest were confirmed. DAI stated that, given the cost and time involved in such a trip, DAI would need to know more about the interested investors and have their interest confirmed in writing. DAI also stated that CE Capital should consider expanding its marketing efforts in Japan and Asia and submit such a plan to DAI with the understanding that only individuals such as Mr. Tomes could be approved for consulting work under the program, not his company.

Mr. Tomes felt he could interest sufficient firms in Japan/Asia so as to make a trip by DAI cost effective and agreed to submit a marketing plan to DAI by late December. DAI again stressed the need to vet properly the interested investors and to verify the bona fides interest on the part of these investors.

SCOPE OF WORK

**Prepared for Deloitte & Touche
by Michael McKone
Development Alternatives, Inc.**

December 6, 1993

OBJECTIVES

- (1) Update financial information for Storko-Pleven (Storko) and Selvikonserv (Selvi);
- (2) Assist Storko and Selvi in formulating strategic plans;
- (3) Develop likely investment scenarios based upon the Valuation Models for Storko and Selvi completed previously by DAI for the two firms.

TASKS

Deloitte and Touche will perform the following tasks to accomplish the stated objectives:

- With regard to objective (1):
 - Using financial information provided previously, develop financial statements for Storko and Selvi through the third quarter of 1993. The statements should be consistent with the presentation formats found in the Information Memoranda prepared previously by DAI on both firms;
 - Provide as footnotes or, if appropriate, as alterations to the basic financial statements the latest information available from the management of Storko and Selvi on new valuations, revaluations and restitution claims;
 - Provide analysis, as appropriate, on key financial indicators such as, but not limited to, inventory turnover, aging of accounts receivable, and an analysis of accounts payable.

- With regard to objective (2), work with the management of Storko and Selvi to
 - Update, expand and quantify the recommendations contained in the Information Memoranda and Business Strategies prepared previously by DAI for Storko and Selvi, placing particular emphasis on:
 - (a) raw material procurement strategies;
 - (b) product line profitability analysis;
 - (c) capital budgeting forecasts;
 - (d) breakeven analysis, by product, by production line, and for the firm(s) as a whole;
 - (e) a needs assessment with regard to marketing activities for both firms with the idea that DAI will investigate the possibilities of requesting the services of volunteer organizations such as IESC and VOCA to follow up on Deloitte and Touche's recommendations for this task. The needs assessment should include an assessment of Storko's and Selvi's relationships with raw material suppliers, methods of distribution, and selling procedures to determine whether improvements can be made in these areas.

- With regard to objective (3), develop investment scenarios and valuation models for Storko and Selvi using the following as variables and assumptions:
 - forgiveness of the pre-1990 debt incurred by Storko at the United Bulgaria Bank; Deloitte and Touche should determine whether or not this debt forgiveness includes capitalized interest;
 - conversion of varying amounts of the remaining loan balance owed to the UBB by Storko to equity, and the affect this has on the value of the firm;
 - determine the likelihood of debt forgiveness and conversion of debt to equity at Selvi and create models accordingly;
 - incorporating the breakeven analyses developed for objective (2) above develop valuation scenarios at likely production/revenue levels;
 - create alternative investment scenarios as deemed appropriate based upon tasks performed on objectives (1) and (2) above.

DELIVERABLES

- A preliminary briefing, verbally and in writing, to DAI on Saturday, December 11, 1993. The briefing will including progress to date on this Scope of Work, problems encountered, and recommendations to modify the Scope of Work, if necessary;
- Updated financial statements, changes to the financial statements, and notes to same in the format required no later than December 19, 1993;
- Updated, expanded and modified Information Memoranda and Business Strategies on Storko and Selvi no later than December 29, 1993;
- Recommendations for further action (i.e., involvement of IESC and/or VOCA) no later than December 29, 1993.