

**Deloitte &
Touche**



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***Bulgaria Agribusiness Industry
Privatization - December 1993
Monthly Report***

Delivery Order No. 27

Project No. 180-0014

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Eastern European Enterprise

Restructuring and Privatization Report

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

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SUMMARY

In December 1993, Development Alternatives, Inc. (DAI) continued work on Phase II of the Bulgaria Food Industry Privatization Project (Delivery Order No. 27). Michael McKone from DAI's Privatization Group visited Bulgaria from December 2 through December 10 to engage Deloitte & Touche, DAI's partners in the project, in the updating of financial information on Storko Pleven and Selvikonserv and to continue work on finding potential investors for the two firms. DAI met with George Tsagaris, President of Pangaea, Ltd., on December 3. This contact led to a plant visit to Storko by one of Mr. Tsagaris' associates, Mr. Michael Pantelidis, a prominent fruit and vegetable producer in Greece. A follow-up visit by Storko management to Mr. Pantelidis' operations in Greece was planned for late December. DAI will learn the results of this trip when the DAI team returns to Bulgaria in early January.

DAI met also with Metalex, an Austrian-Bulgarian joint venture trading company that has been exporting products for Selvi for the past four months. Metalex has expressed an interest in purchasing Metalex, and follow-up discussions are planned for January 1994.

DAI continued discussions with Central and Eastern European Capital (CE Capital) on the interest of certain Japanese investors in both Storko and Selvi. DAI hopes to hold initial meetings with these investors in Bulgaria in early February.

During the December meetings, it was learned that the United Bulgarian Bank (UBB) plans to take legal action aimed at forcing Storko into liquidation. DAI held a series of meetings with UBB and Storko in an unsuccessful attempt to forestall this action. The court ruling is due January 17, 1994. However, DAI was successful in obtaining UBB's agreement to review financial projections developed by Deloitte & Touche that will portray various production and debt-equity scenarios designed to repay Storko's commitment to UBB in interest or dividend payments. UBB has agreed in principle to consider converting part or all of its outstanding debt to equity.

Finally, DAI met with USAID/Sofia to discuss the activities planned under Phase II of this project. It was learned that USAID prefers at this juncture to have DAI spend only a portion of the Phase II money, given USAID's belief that the Bulgarian Privatization Agency may not be fully supportive of USAID's privatization initiatives.

A detailed trip report for December 2-10, 1993, is included as Attachment 1.

DAI has also begun marketing efforts to find potential investors for Storko and Selvi. The Information Memoranda prepared on the two firms have been sent to 14 U.S. firms in the agribusiness sector. Efforts are under way to ascertain the current level of interest of these companies. This feedback is included as Attachment 2.

As part of its December activities, DAI continued discussions with Freshconsult, a Vienna-based consulting firm. Freshconsult may be willing to assist DAI in its search for

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investors in Europe and may be willing to provide technical advice to Storko and Selvi. Deloitte & Touche will also assist in the marketing of Storko and Selvi by listing the firms in its monthly newsletter, distributed to Deloitte & Touche's corporate finance offices throughout Europe.

TASKS COMPLETED IN DECEMBER 1993

During December 1993, DAI completed the following tasks outlined for in the work plan for Phase II of the project:

Update Financial Information on Storko and Selvi

Deloitte & Touche has completed the updating and reformatting of the most recent financial information received in November from Storko and Selvi, as well as new capital expenditure projections. This information has been added to the Information Memoranda and will be reviewed by DAI during its January trip to Bulgaria. Translations of the updated information will be provided to the Agency for Privatization and to Storko and Selvi.

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 revaluation 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 on Storko's debt situation. Discussions were held with the UBB branch in Pleven and with 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. With this in mind, DAI requested that Deloitte & Touche prepare various debt-equity financial scenarios designed to form the basis of discussions with UBB in January.

Marketing Efforts

Efforts are under way to identify possible investors for Storko and Selvi in the United States, Europe, and Japan. One potential investor has already visited Storko, and plans are being made to take this same investor to Selvi during DAI's January visit. An Austrian-Bulgarian firm has shown interest in purchasing Selvi, and follow-up discussions are planned for

January. Several Japanese firms have shown interest in Storko and Selvi; their interest will be gauged, tentatively during February plant visits. Efforts continue to attract additional investment in Europe, through the involvement of Freshconsult and Deloitte & Touche's branch offices, and in the United States, through DAI's in-house marketing efforts.

ATTACHMENT 1
TRIP REPORT
(PREPARED BY THE DAI REPRESENTATIVE)

Date: December 2, 1992

Location: Vitosha Hotel

Attendees: Michael McKone, DAI
George Tsagaris, President, Pangaea, Ltd.

Mr. Tsagaris is a Greek American now living in Sofia. He has met previously with DAI regarding Storko and Selvi. His main activity at present is textile manufacturing. He is interested in expanding into other areas such as food processing.

We discussed the possibility of disseminating investor information on Storko and Selvi to Mr. Tsagaris's contacts in Greece. He feels the best chance for this to happen would be to bring one of his contacts into a Storko and Selvi deal as technical partner with a minor (5 percent to 10 percent) equity position. The areas of technical expertise the Greek investor will focus on are marketing and distribution. The underlying assumption upon which we agreed is that the current managements at Storko and Selvi have proven production skills, although they could use assistance in areas such as packaging, labeling, and cash flow management.

Mr. Tsagaris's contacts would probably consider a management contract with incentive clauses tied to profitability, revenues, capacity utilization, or some combination of these. Mr. Tsagaris has promised to contact several Greek firms no later than the third week in December and advise DAI of the outcome of these inquiries at this time.

Assuming Mr. Tsagaris can generate interest among his contacts, DAI would meet with these firms in Bulgaria in January. In a parallel effort, DAI could then look for additional equity from the Bulgarian Enterprise Fund or other sources — assuming, of course, that Tsagaris's contacts have suitable technical credentials.

Tsagaris also mentioned that he has contacts with a Japanese trading company. He will contact this firm to see if it might be interested in pursuing discussions on a possible investment in Storko and/or Selvi.

Further action by DAI:

- Include in our universe of potential U.S. contacts those firms willing to buy output from Storko and Selvi;
- Include in our search sources of financing outside the agribusiness sector. Specifically, the Washington-based finance institution with which DAI is familiar should be contacted as soon as possible;
- Follow up with Tsagaris the third week in December and schedule appropriate meetings for January as necessary.

Date: December 3, 1992

Location: Deloitte & Touche offices, Sofia

Attendees: Nic Gerra, Deloitte & Touche
Michael McKone, DAI

Nic and I discussed two topics: one, the immediate issue of working with Storko and Selvi to update the firms' financial statements; and, two, the broader issue of Deloitte & Touche's involvement in Phase II of the project.

Regarding the first topic, Nic and I agreed to the following Scope of Work, which will be finalized in writing on Monday, December 6:

- Update financial statements for Storko and Selvi through the third quarter of 1993 consistent with the presentation format contained in the Information Memoranda completed previously for the two firms;
- Complete a strategic planning exercise for both firms using as an outline, but not limiting itself to, the items contained in the Business Strategies previously completed on both firms. The main areas of focus should be:
 - Product line profitability analysis;
 - Capital budgeting;
 - Break-even analysis;
 - A marketing plan that focuses on the firms' individual competitive strengths; and
- Using DAI's previously completed valuation models, develop scenarios for different levels of debt restructuring and/or debt relief, different levels of equity participation, and different production volumes and revenue.

I presented to Nic an outline of how DAI feels Deloitte & Touche could be best utilized during Phase II, without specifying how many days should be allocated to each activity. The areas are:

- Updating financial statements and assisting in strategic planning exercises for Storko and Selvi (mentioned above);
- Assisting in the identification of potential investors in Bulgaria and Europe. Deloitte & Touche will post information on the two firms in its monthly newsletter, which is sent to the Corporate Finance Departments in each of Deloitte & Touche's European offices;

- Providing investment scenarios as mentioned above;
- Assisting in the planning and execution of the roundtable discussion as mentioned in the work plan for Phase II; and
- Providing accounting, strategic planning, and investor identification services for the additional 10 firms to be privatized under Phase II, in a manner similar to that outlined for Storko and Selvi.

Nic; John McGuinness, who will lead the strategic planning exercise; and I will visit Storko and Selvi on Monday, December 6, 1993, so that I can introduce the Deloitte & Touche team to the firms. We also agreed that Deloitte & Touche's team would provide a briefing on its progress immediately before my final departure from Bulgaria.

Date: December 3, 1993

Location: USAID/Sofia

Attendees: Gary Maher, USAID
Lada Stoyanova, USAID
Michael McKone, DAI

Mr. Maher began the meeting by asking where his DAI consultant-in-residence was, referring to the Project Manager. Mr. Maher stated that he had expended considerable effort increasing the number of billable days on this contract so that a Project Manager would be in country at least two weeks per month. I stated that Dan had some minor work to clear up on another project and was trying to conclude his previous commitments so as to be more available for this project after the first of the year.

Our discussion shifted to the work done to date on Storko and Selvi. I mentioned our marketing efforts, including my upcoming trip to Turkey. He asked if I was aware that all trips must be approved in writing by him in advance.

After further discussion of the work plan, Mr. Maher asked whether I was going to supervise Deloitte & Touche's activities at Storko and Selvi. I told him I would, mentioning the progress meeting I planned with Deloitte & Touche's team on Saturday, December 11. He seemed satisfied with the approach, although he reiterated his desire to have DAI involved in all activities related to this project, including the work performed by Deloitte & Touche.

Mr. Maher asked for my assessment of the likelihood for privatizing Storko and Selvi. I said that I would have a clearer judgment after analyzing DAI's marketing efforts during December. Mr. Maher stated that he is under pressure to complete deals on the two firms by April 30.

Although Mr. Maher seemed to appreciate our marketing efforts to date, he advised that DAI should not allocate too much of the project's budget against Storko and Selvi, asking that DAI keep in mind that the project includes work to privatize an additional 10 companies. However, he was also in full agreement with the Agency for Privatization that no work should be done to organize or identify additional candidates until progress has been made on Storko and Selvi.

With this in mind, Mr. Maher suggested a meeting in Washington on the afternoon of Tuesday, December 21, to discuss DAI's approach to the project and the project fund's flows to date.

I also presented to Mr. Maher a draft of the monthly Progress Report for October and November.

Action Items. Based on this meeting, would suggest the following:

- In order to supplement Doyle Peterson's marketing efforts, consider other resources for DAI's initial promotion efforts for Storko and Selvi. If possible, an additional consultant should be added to further this marketing effort; and
- Contact UNIDO in Vienna to see whether it can further DAI's marketing efforts in Europe.

Conclusion. Maximum marketing efforts, in a cost-conscious manner, need to be expended in order to give the two target companies as wide an audience as possible among the investor communities abroad.

Date: Monday, December 6, 1993

Location: Selvikonserv

Attendees: Bogomil Kasabov, Manager, Selvikonserv
Michael McKone, DAI
Nic Gerra, Managing Director, Deloitte & Touche, Sofia
John McGuinness, Deloitte & Touche, Sofia

The purpose of the meeting was to introduce Deloitte & Touche to Selvi management. During the DAI team's previous meeting with Selvi (November 3 and 4, 1993) the idea of DAI's assisting Selvi in developing strategic plans and capital expenditure forecasts was discussed and agreed to.

DAI reviewed with Selvi the discussions held in November and explained that its partner in the Privatization Project, Deloitte & Touche, would be assisting Selvi in the strategic planning and capital budgeting exercises. Mr. Gerra and Mr. McGuinness then gave a brief background on Deloitte & Touche and the firm's history in Bulgaria.

It was agreed that Deloitte & Touche would begin its work at Selvi on Monday, December 13, 1993.

Mr. Kasabov mentioned that an Austrian firm with whom Selvi had been trading for the last three months has shown an interest in becoming an investor in Selvi. Mr. Kasabov asked whether DAI would be willing to meet the firm, and DAI responded positively. Mr. Kasabov promised to arrange a meeting in Sofia later in the week. The DAI-Deloitte & Touche team was then taken on a short factory tour.

Date: Monday, December 6, 1993

Location: Storko Pleven

Attendees: Elen Marinov Gentchev, Finance Director
Michael McKone, Consultant, DAI
Nic Gerra, Deloitte & Touche
John McGuinness, Deloitte & Touche

As with Selvi, DAI explained the purpose of the visit as a follow-up to the meetings held in November. DAI explained that Deloitte & Touche would be implementing the strategic planning and capital budgeting exercises. Storko and Deloitte & Touche agreed to begin work on Monday, December 13.

Gentchev told DAI that UBB had decided to pursue legal action against the firm for nonpayment of outstanding debt and interest. DAI stated that legal action would further complicate DAI's efforts to find a buyer for Storko. Storko understood this and asked DAI to intercede in any appropriate manner with UBB-Sofia to delay this legal action. DAI agreed to look into the matter upon returning to Sofia.

Storko mentioned that the new valuation team would be arriving to begin its work December 13. Storko wondered whether it was appropriate for the Deloitte & Touche and valuation teams to coordinate their activities for the sake of consistency. DAI stated that coordination would be helpful, and Deloitte & Touche promised to work with the valuation team as part of its activities at Storko next week.

Storko mentioned that the preliminary plan was for the valuation team to spin off the retail stores for privatization through the voucher system. The valuation team is expected to complete its work by January 24, 1994.

Date: Monday, December 6, 1993

Location: Informal discussions between DAI and Deloitte & Touche

Deloitte & Touche mentioned that it has had good success in the past attracting potential investors to privatization opportunities by advertising in publications such as *The Economist*, the *European Wall Street Journal*, and other business publications. DAI thought marketing through such channels warranted further investigation and would pursue.

DAI also offered to host investors that come to Bulgaria to hold talks with Storko and Selvi. DAI promised to relay this to DAI management in Washington.

Date: Tuesday, December 7, 1993

Location: Privatization Agency, Sofia

Attendees: Michael McKone, Consultant, DAI
Angelina Vassileva, Privatization Agency
Ana Beshevlieva-Tshorbanova, Privatization Agency

DAI and the Agency spent time discussing the details of a privatization that had occurred recently in Bulgaria. The firm, Nectar, Ltd., produces products similar to those produced at Storko but has a smaller production capacity. The final selling price of the firm was determined to be 71 million leva for 100 percent of the company, although the foreign investor will acquire only 60 percent of the firm, with the remaining 40 percent held for employees and outstanding claims against the firm. The gross value of the firm, before deductions for obligations to suppliers and other government financial support, was 113 million leva, which is roughly the average of the discounted cash flow value (110 million leva) and the net asset value (124 million leva).

Another point made by the Agency was that Bulgarian valuers assume a discount rate of 15 percent to 20 percent when doing valuations, whereas foreign valuers use a higher rate of 20 percent to 25 percent, reflecting the latter's perception of a higher return on equity needed to attract foreign equity to Bulgaria.

DAI mentioned its plans to work with Storko and Selvi to develop strategic plans and investment scenarios. The Agency hoped that DAI-Deloitte & Touche would take into consideration the valuation work being done at Storko in preparing the strategic plans and investment scenarios. DAI told the Agency that activities of Deloitte & Touche and the valuers would be coordinated to the extent practical.

The impending legal action against Storko was also discussed. DAI mentioned its efforts to convene a meeting with UBB-Sofia and promised to advise the Agency when a meeting had been arranged.

Date: Tuesday, December 7, 1993

Location: Center for the Study of Democracy

Attendees: Michael McKone, Consultant, DAI
Ognian Shentov, President

The meeting's purpose was to obtain additional opinions on the state of privatization activities in Bulgaria. The consultant felt that after Mr. Maher's meeting with the Agency last week, an outside opinion on the Agency's commitment to the process might be beneficial in guiding future discussions between DAI and the Agency.

Mr. Shentov's opinion was that, all things considered, the Agency continues to act quite decisively and independently in discharging its responsibilities. He mentioned that the country is genuinely divided over the issue of selling state assets to foreign investors and that certain organizations, such as the owners of *168 Hours*, one of Bulgaria's newspapers, are leading an anti-foreign-investment campaign in the country. Mr. Shentov's opinion is that political leaders, chiefly the former *nomenklatura*, stand the most to gain if the anti-foreign-investment campaign gains momentum and are applying pressure to the current government to slow the privatization process. The current government, which came to power with great enthusiasm for privatization, has lacked the political will to move forward decisively and instead tries unsuccessfully to satisfy many differing political factions.

Given this atmosphere, Mr. Shentov feels the Agency has acted in a decisive manner in moving the privatization process along in an admittedly uncertain political environment. Mr. Shentov attributes the Agency's effectiveness to its semi-autonomous position with respect to the government, and a Board, half of which is elected and half of which appointed, that is firmly behind privatization.

Mr. Shentov also advised that DAI begin working with the local governments in Pleven and Sevlievo as soon as investors are identified. If handled properly, he feels these bodies can be of great assistance in communicating DAI's activities to the community as a whole in order to ease the transition to private ownership at Storko and Selvi.

Date: December 7, 1993

Location: Vitosha Hotel

Attendees: Michael McKone, Consultant, DAI
Kamen Slivkov, Marubeni

This was a follow-up meeting to DAI's discussions with Marubeni in Sofia in November and to discussions held between Marubeni and DAI management in Japan in October.

Mr. Slivkov explained that Mr. Mashiko, Marubeni's General Manager in Sofia, would be traveling to Tokyo on December 11. One of the items on his agenda is a discussion of Tokyo's attitude toward Storko and Selvi. Apparently, Marubeni Sofia has received no feedback from the Tokyo office and cannot proceed with discussions without a positive expression of interest from the home office. Mr. Slivkov felt that Mr. Mashiko would have some kind of response for DAI when DAI returns to Bulgaria in January.

Mr. Slivkov mentioned another firm, headed by a Mr. Karasotakis, that might be interested in Storko and Selvi. Mr. Karasotakis's telephone numbers are 726025 and 884570. DAI promised to follow up on this lead in January.

Date: December 7, 1993

Location: Sofia

Attendees: Michael McKone, Consultant, DAI
Jorttszav Tsdearytsnd, Metalex

Metalex is a 66 percent-34 percent Bulgarian-Austrian joint venture company primarily involved in trade. The company originally began trading in metals, and two years ago began to concentrate on processed fruits and vegetables. The firm has a trading relationship with Del Monte, selling dried fruits and concentrate with emphasis on plums and apples. Because of its relationship with Del Monte, Metalex is looking for a year-round source of supply, which is why it is interested in purchasing Selvi.

Metalex's Austrian partner, Mr. Mueller, owns a firm in the United States through which Metalex has developed the Del Monte connection as well as trade relations in Western Europe.

Metalex stated that it is in a position to finance the deal with Selvi on its own, but would prefer to find other interested investors. DAI then gave a copy of the Selvi Investment Memorandum to Metalex and promised to forward the updated financials once they are prepared by Deloitte & Touche. As a next step, Metalex suggested a meeting between DAI, Selvi, and Metalex in Vienna in January. DAI said it would advise on this.

Date: December 20, 1993

Location: Telecon with Nic Gerra

DAI requested that Deloitte & Touche attempt to have Selvi's financials ready by December 20, so that Metalex has time to analyze them over the holidays. Nic said he would attempt to do so.

Date: December 7, 1993

Location: Vitosha Hotel

Attendees: Michael McKone, Consultant, DAI
George Tsagaris, Pangaea, Ltd.

Mr. Tsagaris said that he has been able to identify a potential investor for Storko and/or Selvi. The firm is Filippos, a Greek fruit-and-vegetable-processing company based in Veria, Greece, and owned and operated by Mr. Michael Pantelidis. Mr. Tsagaris described the firm as "one of the largest processors in Greece."

The firm is prepared to invest \$300,000 to \$400,000 of its own capital and would look to raise addition capital from development agencies or other sources based on its strength as a technical partner.

Mr. Tsagaris wondered whether DAI could shift its marketing efforts to finding marketing partners in the United States if the deal with Filippos moves forward. DAI stated that it could, as well as assisting in locating other funding sources as the deal moves forward.

Mr. Tsagaris said that he is attempting to have Mr. Pantelidis visit Bulgaria this week so that DAI can accompany him on initial site visits to Storko and/or Selvi.

Date: December 8, 1993

Location: United Bulgarian Bank, Sofia

Attendees: Michael McKone, Consultant, DAI
Mrs. Vassileva, Privatization Agency
Ms. Beshevlieva-Tshorbanova, Privatization Agency
Mr. Stephen Strauss, Senior Advisor, UBB
Mr. Atanassov, Manager, Credit Division, UBB
Ms. Petkova, Head of Legal Division, UBB
Mr. McGuinnes, Deloitte & Touche

The meeting's purpose was to discuss the pending legal action on the part of UBB against Storko.

DAI reviewed the purpose and nature of its involvement with Storko. DAI then discussed the work Deloitte & Touche would be doing at Storko, especially the development of financial scenarios designed to provide a basis of discussions between creditors and potential new investors.

Ms. Petkova gave a detailed review of the pending legal action, citing Decree 56, which deals with cases of declaring insolvency. She tried to create the impression that the legal action was not prompted solely by UBB but by all creditors acting in concert.

Mrs. Vassileva stated that, as far as the Agency was concerned, the legal action was initiated by UBB, since it is by far Storko's largest creditor, and that UBB, therefore, could postpone the legal action if it so desired. There followed a rather heated exchange between the Agency and UBB in Bulgarian, of which DAI received only a partial translation. The content of the exchange seemed to be an attempt by the Agency to have UBB withdraw the legal action based upon the facts that (a) the action was unenforceable; (b) it would undermine the Agency's attempts to privatize Storko; and (c) UBB can never hope to recoup the debt owed to Storko, and, therefore, debt forgiveness was the only reasonable course of action.

Mr. Strauss then explained that banks in Bulgaria have limited legal remedies in situations such as this, insolvency proceedings being one of them. To date, neither the Agency nor Storko has offered anything concrete to UBB to cause the bank to alter its initial position. Mr. Strauss suggested that the meeting would be more constructive if discussions turned to what, if anything, Storko was prepared to offer in terms of resuming interest payments, returning its trading account to UBB Pleven, or increasing collateral.

At this point, neither DAI nor the Agency could speak to these particular issues without first consulting with Storko. DAI did, however, offer to work closely with the bank to discuss these and other issues (such as the status of potential investors) once the investment scenarios were completed by Deloitte & Touche.

Mr. McGuinness then discussed the practical difficulties of liquidation, and offered his firm's services in this regard. He also offered to have investment scenarios prepared by Friday, December 10, well ahead of the work plan agreed to by DAI and Deloitte & Touche. UBB agreed to review the plans but was otherwise noncommittal.

Interestingly, UBB agreed to consider converting an unspecified portion of its debt to equity and encouraged DAI-Deloitte & Touche to develop scenarios on this basis. This marked the first time that UBB-Sofia agreed to consider this option.

Once the meeting adjourned, DAI had a private consultation with the Agency. Mrs. Vassileva was not entirely comfortable with Deloitte & Touche's commitment to provide scenarios by Friday, considering that the Agency had recently authorized a new valuation for Storko which would not be ready until January. The Agency felt that UBB would take these scenarios as firm commitments, thereby limiting DAI's ability to negotiate with UBB in the future.

Date: December 8, 1993

Location: Telecon with S. Strauss, UBB

DAI called Mr. Strauss to get informal feedback on the meeting. Mr. Strauss reiterated that UBB, like all Bulgarian banks, has limited recourse against firms that default on loan payments. Even though UBB has to resort to "blunt instruments" such as liquidation proceedings, these actions, in his opinion, do have the desired effect — that is, to get UBB to be taken seriously in the privatization process, to ensure the bank its place in DAI's activities with potential investors, and so forth. The implication was that UBB wants to be included in the process, especially if the sale of Storko will involve debt conversion and/or debt forgiveness.

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Date: December 9, 1993

Location: Vitosha Hotel

Attendees: Various calls between S. Strauss, the Agency, and DAI

Based on yesterday's meeting with UBB and the Agency's obviously negative reaction, DAI spent the day working on an alternative plan that would be acceptable to all parties. Briefly stated, the plan was as follows:

- Deloitte & Touche would perform the Scope of Work as originally outlined, with a target completion date of December 20, 1993;
- The Scope of Work would, however, be expanded to include a detailed analysis of Storko's cash position;
- When the Scope of Work is completed, DAI and Storko would enter into negotiations with UBB-Pleven with the following objectives:
 - To resume some type of interest payments on the current debt outstanding;
 - To resume full banking relationships with UBB-Pleven, including returning Storko's deposit account to UBB-Pleven; and
 - To discuss the various investment scenarios developed by Deloitte & Touche for the purpose of illustrating to UBB-Pleven how the balance of Storko's debt obligations could be repaid assuming various levels of investment, production volumes, and the like.

However, this plan could in no way be completed by the court date of December 13. DAI contacted Mr. Strauss to see whether such a plan would be sufficient to postpone UBB's planned legal action. While he could not speak for the bank in an official capacity, he encouraged DAI to have the plan transmitted to Ms. Petkova through the Privatization Agency.

DAI attempted to reach Mrs. Vassileva several times without success to arrange a meeting to discuss the plan. Mrs. Vassileva called later in the day to say that a meeting was impossible. Since DAI planned to take an investor to Storko the following day, DAI explained the plan to her on the phone. Mrs. Vassileva agreed to ask the Agency head to call Ms. Petkova and follow up the call with a fax if possible.

DAI then called Storko to confirm a meeting between Tsagaris's contact for the following day and set aside time with Mr. Gentchev and Mr. Makaveev to discuss this plan. DAI also requested that Storko set up a tentative meeting with UBB-Pleven in the event Storko management agreed to the plan outlined above.

Date: December 8, 1993

Location: Vitosha Hotel

Attendees: Michael McKone, Consultant, DAI
Kasim Beldawi, Chairman, K.B, Bow and Arrow Group

Mr. Beldawi buys processed fruits and vegetables from Bulgaria for the Middle East market. DAI gave him copies of the Investment Memoranda for Storko and Selvi. He found Selvi to be of particular interest and asked whether DAI could take him to see the firm the following day. DAI explained that it was taking another interested investor to Storko on Friday. Mr. Beldawi asked that DAI fax him when it returns in January so that he can make arrangements to see Selvi.

Date: December 8, 1993

Location: Vitosha Hotel

Attendees: Michael McKone, Consultant, DAI
George Tsagaris, Director, Pangaea, Ltd.
Michael Pantelidis, Vice President, Filippos, S.A.

Mr. Pantelidis gave a brief description of his firm. It has been operating since 1971 and has two production facilities in northern Greece. Filippos has one line with a production capacity of 20,000 metric tons, which cans peaches and strawberries. Some of this product is exported to the United States. The company also produces 4,000 metric tons of tomato paste. Total production of all tomato-based products is 800 metric tons per day. Filippos produces under its own label as well as a private label.

Filippos's interest in Storko and Selvi is to augment its current production and to provide its market with products not currently available in Greece. It is also interested in Storko's freezing capability, which could help Filippos supply markets with frozen product on a year-round basis. Filippos would also like to supply fresh produce from Greece that is currently not available in Bulgaria, possibly selling this produce through Storko's retail stores.

DAI gave a briefing on the current situation at Storko. For the moment, DAI did not supply details of the pending legal action against Storko by UBB.

Mr. Pantelidis also expressed interest in visiting Selvi. Due to time constraints, it was agreed that a visit to Selvi could be arranged in January. Mr. Pantelidis thought it would be beneficial for DAI to visit its production facilities in Greece to get a more detailed picture of Filippos. DAI deferred a decision on this but agreed it would be a good idea if discussions proceeded with Storko and/or Selvi.

Date: December 9, 1993

Location: Storko

Attendees: Michael McKone, Consultant, DAI
George Tsagaris, Director, Pangaea, Ltd.
Michael Pantelidis, Vice President, Filippos S.A.
Mr. Gentschev, Finance Director, Storko
Mr. Makaveev, President, Storko

DAI presented Messrs. Tsagaris and Pantelidis to Storko and gave a brief description of Filippos. Mr. Makaveev then described Storko and its main product lines and production capabilities. Mr. Makaveev then took Messrs. Tsagaris and Pantelidis on a factory tour.

During the tour DAI and Deloitte & Touche met privately with Mr. Gentschev to discuss in detail the plan DAI had developed to forestall UBB's legal action. Mr. Gentschev mentioned that Storko had rejected as unreasonable UBB-Pleven's latest proposal for Storko to pay the bank an amount equivalent to 10 percent of Storko's revenues. Mr. Gentschev also mentioned that Storko had resolved its other claims with creditors, with the exception of payments due to the local water authority. This debt, he felt, could still be a problem and would have to be negotiated.

Mr. Gentschev was generally positive toward DAI's proposal and felt that a meeting with the bank was warranted. He felt Mr. Makaveev would accept the terms of the proposal and would resume normal bank relations with UBB-Pleven if a satisfactory solution to the resumption of interest payments was reached.

Messrs. Tsagaris and Pantelidis returned from their tour. It was agreed that Mr. Makaveev would visit Filippos' facilities in Greece next week to continue discussions about a possible investment in Storko.

Date: December 9, 1993

Location: UBB-Pleven

Attendees: Michael McKone, Consultant, DAI
John McGuinness, Deloitte & Touche
Assistant Manager, UBB-Pleven (no card)
Legal Counsel, UBB-Pleven (no card)

DAI described in detail its proposal for working out the current difficulties between UBB and Storko. DAI emphasized that the plan had the full support of Storko management.

Legal council for UBB-Pleven then detailed the legal process that would begin on Monday. She pointed out that, in theory at least, the court proceedings could still go forward even if UBB withdrew from the legal action, because other creditors were involved in the action. She felt this would be unlikely, though, since UBB had the largest claim against Storko.

UBB-Pleven stated that management would meet the following Monday morning to make a final decision on whether to proceed. Ms. Petkova was due to travel to Pleven the coming weekend, and DAI's proposal would be presented to her.

After departure from Bulgaria, it was learned that legal proceedings were delayed until January 17, 1994.

ATTACHMENT 2
BULGARIA FOOD INDUSTRY PRIVATIZATION
CONTACT STATUS



**BULGARIA FOOD INDUSTRY PRIVATIZATION
CONTACT STATUS**

<u>Contact</u>	<u>Location</u>	<u>Last Contact</u>	<u>Status</u>
CE Capital	United States	1/4/94	Planning site visit to Bulgaria for interested Japanese investors
Filippos SA	Greece	12/93	Visited Storko December 1993; planning visit to Selvi January 1994
Metalex	Austria/Bulgaria	12/93	Planning seminar management meeting for January 1994
Dole	United States	11/93	Waiting for updated Investment Memorandum
Heinz	United States	12/93	Waiting for updated Investment Memorandum
SuperVale	United States	12/93	Waiting for updated Investment Memorandum
SK Foods	United States	12/93	Waiting for updated Investment Memorandum

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