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Deloitte Touche Tohmatsu

Bulgaria Food Industry Privatization Phase II

Final Report

Delivery Order No. 27

Project No. 180-0014
Contract No. EUR-0014-I-00-1056-00
Eastern European Enterprise Restructuring and Privatization Project

USAID

U.S. Agency for International Development
EUR/RME

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July 31, 1995

Mr. Mark Abramovitz
ENI/PER/EP
U.S. Agency for International Development
Room 3203, SA-15
Washington, DC 20523

Re: Contract No. EUR-0014-I-00-1056-00, Delivery Order No. 27, Bulgaria Agribusiness -- Final Report

Dear Mark,

Enclosed please find the Final Report for the Bulgaria Food Privatization project. This report documents the efforts of the Deloitte Touche Tohmatsu ILA Group Consortium to privatize two agribusiness companies in Bulgaria. Among the deliverables identified in above-referenced delivery order are completed privatization transactions. At the time work concluded on this project, neither Selvikonserv, nor Storko Pleven had been privatized. This was due primarily to obstacles which emerged in the Bulgarian privatization process despite the interest and persistence of potential investors. In this report, DAI elaborates on the lessons learned in the process of guiding investor groups through the Bulgarian privatization process.

These deliverables were prepared by DAI on behalf of the Deloitte Touche Tohmatsu ILA Group Consortium. If you have any questions concerning these deliverables, please call me at (202) 879-5612.

Sincerely,

Lizann Prosser
Senior Manager
Central & Eastern Europe

Deloitte Touche
Tohmatsu
International

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INTRODUCTION

This report summarizes the activities of Development Alternatives, Inc. (DAI), a member of the Deloitte Touche Tohmatsu ILA Group consortium (the Consortium), on the Bulgaria Agribusiness Follow-on Project (Delivery Order No. 27).

DAI began work on the Project on October 10, 1993, and completed formal in-country activities on August 31, 1994.

Detailed monthly reports were submitted during the course of this project. These reports provide a reference to all monthly activities of the project, and include relevant ministerial, Privatization Agency, and USAID correspondence. They should be read in conjunction with this report.

This final report is in three chapters. Chapter One sets forth the Project Cycle and reviews the Tasks and Accomplishments for Phase I of the project, "Delivery Order Task Analysis." Chapter Two is a discussion of "lessons learned" from the project, with emphasis on institutional and macroeconomic issues which affected the transactional nature of the project's implementation. Chapter Three provides a summary of project activities, presented on a monthly basis. Also provided are supplementary data and information on Storko-Pleven and Selvikonserv not provided in previous Monthly Reports, notably a synopsis of investment overtures made in Japan, the concept paper for the establishment of a Bulgarian Farm Management Company, and an analysis of the Bulgarian Financial System, including an overview of the government's role in potential debt restructuring for state-owned enterprises.

CHAPTER ONE

TASKS AND ACCOMPLISHMENTS

Shortly after this project was authorized, Bulgaria's commitment to privatization and pace of change came under question by USAID. As a result, USAID requested that the Consortium focus its efforts on the Transaction Facilitation tasks and postpone the Mass Privatization tasks until such a time that USAID was satisfied with the Bulgarian Government's dedication to democracy and privatization. In July, 1994 in a meeting with USAID, the decision was made to drop the Mass Privatization tasks completely. Accordingly, DAI's efforts in the follow-on project of the Bulgaria Agribusiness Privatization Project focused on Transaction Facilitation for two enterprises: Storko-Pleven and Selvikonserv. DAI and Deloitte & Touche, Bulgaria completed all of the tasks set forth in the Transaction Facilitation section of the Statement of Work. Following is a summary of the accomplishments for each of these tasks.

PROJECT CYCLE

The project cycle encompassed the following:

A. Preparation and Distribution of Information Memoranda on Storko-Pleven and Selvikonserv to list of potential investors and technical partners;

B. Qualification and marketing of interested investors, financiers, and technical partners;

C. Re-introduction and refinement of Asset Valuations and cash flow analysis;

D. Presentation of the above to: a) the Privatization Agency, b) the Ministry of Industry, and c) Senior Management of Storko-Pleven and Selvikonserv;

E. Preparation of working deal parameters;

F. Responses to requests for additional company information;

G. Presentations to labor unions and local municipalities regarding the impact of privatization;

H. Commencement of negotiations with creditor banks, most notably United Bulgarian Bank;

I. Review of outstanding restitution claims;

J. Mediation and negotiation facilitation among the Privatization Agency, Storko-Pleven, and United Bulgarian Bank; and

K. On-going transaction facilitation and assistance to both sides of the transaction, buyer and seller.

DELIVERY ORDER TASK ANALYSIS

Task I:

- **Complete Information Memoranda for Selvikonserv and Storko-Pleven.**
- **Distribute Information Memoranda to limited number of potential investors.**
- **Conduct investment presentations, as appropriate.**

Information Memoranda for Selvikonserv and Storko-Pleven were completed in January, 1994. These memoranda were distributed to various investors, including Novecon, Inc. (Washington, D.C.); Tri-Valley Growers (San Francisco), Kouri Capital (Athens, Sofia, New York); Filippos, S.A. (Veria, Greece); Mitsui and Co. (Tokyo); Bulgarian-American Enterprise Fund (Sofia); Consultech (San Jose, California); Freshconsult (Salzburg); Marubeni International (Tokyo); Central Europe Capital Consultants (Washington, D.C.); Del Monte Foods (San Francisco); Cresta Consulting (Sofia); Conserv GMBH (Vienna). Questions were fielded after distribution of the memoranda, and six presentations were scheduled for those investors who expressed a strong interest.

The potential investors' concerns were many, but centered on two, recurring obstacles that proved difficult to remove: 1) on-going restitution claims; and 2) the significant indebtedness of the enterprises. Both of these obstacles reduced the attractiveness of the enterprises to outsiders, particularly given that numerous overtures to the Privatization Agency and the companies' creditors were received warily; in many cases, the responses of these institutions included the warning that no precedents had been set for final resolution of restitution claims, nor for negotiating debt reduction strategies, leaving investors to feel that the commitment to sell on the part of involved Bulgarian parties was lacking.

Task II:

- **Conduct bi-lateral negotiations with potential deal participants, including: the major banks of each enterprise, the Bulgarian-American Enterprise Fund, the management of the respective enterprises, foreign investors, and appropriate agencies of the GOB.**

Negotiations with deal participants (Filippos, S.A., for which the team-prepared due diligence report is attached, and Conserv GMBH) and providers of funds, including the major banks of the enterprises, were conducted on an ongoing basis. The results of these negotiations resulted in various debt restructuring scenarios, as well as the sourcing of working capital and long-term financing for the enterprises post-sale.

A sample of the correspondence from Filippos, S.A., in the form of a Letter of Intent to Purchase, is attached to this report. This letter states in general terms the conditions under which Filippos was willing to assume ownership of Storko, including the required sensitivity to capital investment and employment requirements promulgated by the Privatization Agency. The letter serves as a clear illustration of not only the firm commitment of the investor to acquire Storko, but the general terms and conditions under which an outside investor was willing to participate in the purchase of Bulgarian state assets.

The Consortium worked closely with the following participants throughout the negotiation and restructuring phase of the Project: Privatization Agency, Ministry of Industry, United Bulgarian Bank, Bulgarian-American Enterprise Fund, World Bank, European Bank for Reconstruction and Development, Japanese bilateral funding agencies, and the relevant trade unions and municipalities.

Ultimately, the Filippos deal and the Conserv deal were not consummated. Oddly enough, these deals were never rejected outright by the companies, the Ministry of Industry, the creditor banks, or the Privatization Agency. Assurances were provided by various parties that the terms were "generally acceptable" and that further negotiations on price were required. However, it became increasingly apparent that there was a lack of willingness on the part of government officials to commit to final negotiations. One can only theorize as to why, but it appeared to the team that this lack of commitment stemmed, in part, to the lack of precedents on what constituted an acceptable price.

The establishment of a price acceptable to investors was based upon various valuation exercises conducted during the course of this project, including valuations based upon fire sale values, on-going concern values, discounted cash flows, and the orderly liquidation of property, plant, and equipment. The Bulgarian officials, including company and government representatives, appeared to have difficulty accepting any offer based upon pricing other that historical values, i.e. the sum total of all original costs for property, plant, and equipment, plus subsequent upgrades, capital improvements, and increased capacity. Investors, interested in the potential cash flows, the ability to service debt, and a fair return on investment, did not choose to share the view that the fair basis of price negotiation was historical costs, plus certain accrued costs for improvements.

Task III:

- **Resolve outstanding legal claims on each enterprise.**
- **Prepare potential solutions to worker compensation claims and severance packages.**
- **Prepare public relations campaign aimed at workers and communities surrounding enterprises.**

Resolution of legal claims, as known at the time of negotiation with management, on the enterprises was completed, including the settlement of all material restitution claims. This process also resulted in establishment of a list of assets for the two enterprises, including multiple locations, types of buildings and equipment, and supply and distribution depots.

Conflicting information, particularly as to the full set of assets, was received from various parties throughout this project. This conflicting information tended to make the outside investors wary as to what they were actually purchasing, at which locations, and for what price. In the case of Filippos, an attempt was made, several times, to dis-aggregate various site and equipment lists to concentrate on those assets that the purchaser needed to maximize the productive capacity of the enterprise. Invariably, each time one of these "definitive" lists was produced for the review of the Privatization Agency and company management, new assets were added. Many times these "new" assets were accompanied by extensive descriptions, often photographs; the investors were asked to consider including these assets in a revised, increased, purchase offer.

Analyses of employment patterns and utilization were completed at both sites. The results of these assessments were incorporated into the business plans which formed part of the purchase offers for the two companies. In conjunction with the employment analyses, public fora were held with municipal and union representatives to explain the privatization process and possible employment changes resulting from the sale of the enterprises.

The reaction to these discussions was generally positive. Local municipal officials, and labor representatives, conceded that some type of intervention was necessary at the company level, as they were aware clearly that state support for the enterprises had evaporated. As industries integral to the well-being of large numbers of families in each location, the principal concern of these officials was employment. They sought assurances that current employment levels would be maintained, at least at the outset, and that the investors were not interested in the companies as idle real estate speculators, or hands-off managers. In each set of meetings, they were assured that these investors were involved in the food industry in their respective countries, and had every intention of operating the plants as on-going concerns. They were also advised that the investors were cognizant fully of government's mandated requirement that outside investors needed to be explicit about employment patterns post-sale, and that the maintenance of acceptable levels of employment were part of all negotiations.

Task IV: • **Define an investment structure for each enterprise most likely to result in a transaction.**

The Information Memoranda contained the three essential components specified by both the Privatization Agency and the Ministry of Industry (and in the case of the Ministry of Industry, a fourth component, environmental impact) for the sale of state assets: an offer price for existing assets, the level and timing of additional capital investment, and an employment impact statement. These components were incorporated subsequently into the offers for the purchases of the enterprises. Two formal offers were prepared and presented by two investor groups: Filippos, S.A. for Storko-Pleven and Conserv GMBH for Selvikonserv, and are summarized in the monthly report for April 1994. That report also includes the text of the offer letter from Filippos to the Privatization Agency.

Task V:
- **Distribute investment information to all relevant parties.**
- **Assist in multi-lateral negotiations to finalize agreements.**
- **Present formal investment proposals to relevant executing agencies.**

During the months of May, June, and July 1994, intensive negotiations were undertaken, guided by the Consortium, which brought the Privatization Agency, Storko-Pleven, and Storko-Pleven's creditor banks to an understanding of the deal structure proposed by Filippos, S.A.. The Consortium also worked with Novecon, Inc. and Conserv GMBH to develop further offers for Selvikonserv.

As a result of the Consortium's efforts, two formal offers were re-presented: the first, from Filippos, S.A. for the purchase of Storko-Pleven; and the second from Conserv GMBH, which decided to form a joint venture with Multi Group, for the purchase of Selvikonserv.

The Storko offer was reviewed and tentatively approved by the Privatization Agency, and submitted to the major creditor bank, United Bulgarian Bank, for approval by its Board of Directors. The Selvikonserv offer was submitted to the Ministry of Industry.

The investment structures proposed for the acquisition of the companies is contained in various correspondence, submitted as an integral part of past monthly reports. Contained herein as an attachment is the last set of letters, dated August 5, 1994, which outline the Storko transaction as of that date, summarize the negotiations, highlight existing differences between the investor and the government parties, and request final consideration of the offer.

As of August 31, 1994, this series of letters received no response from any of the addressees.

In addition to the services and products delivered as outlined above, the project served to increase significantly the capacity of the Privatization Agency to anticipate and respond to potential investors' requests and needs. The Consortium, through its many meetings with the Agency and its involvement in all phases of the investment process, was able to create what amounted to an in-house offer/sale process for the Privatization Agency. This process covered virtually every facet of the privatization process, from investor identification, letter of intent, investor due diligence, enterprise packaging, sales negotiations, to offer letter. This continuum of investment activity did not exist at the Privatization Agency prior to its receiving USAID technical assistance. This technical assistance has resulted in the Privatization Agency, although still a small, overworked group, developing a better understanding of the divestiture process, and a greater understanding of the complexity of bringing a company to market.

Still, there are several questions which must be asked. In our view, the most general yet the most important: were the risks associated with providing technical assistance aimed at developing transactions assumed at an appropriate time in the Bulgarian legal and political environment? Were transactions being forced at a time when political will was expended infrequently on privatization matters?

Chapter Two of this report, Lessons Learned, attempts to quantify the obstacles faced during this project, and answer the above questions.

CHAPTER TWO

LESSONS LEARNED

- Privatization transactions require that most, if not all, of the relevant legal framework be in place, disseminated and understood widely. For example, legislation introduced to the Bulgarian Parliament in early 1994 regarding government re-financing of certain state enterprises that had become non-performing assets within the financial sector precipitated significant debate about which enterprises would, in effect, receive low-cost or no-cost financing from the GOB. This debate, and the uncertainty surrounding implementation of the proposed legislation, impeded the privatization process, creating dis-incentives for enterprise management to negotiate with investors or existing creditors while carrying their existing debt burdens.

- Restitution claims, although assured repeatedly that they had been settled for Storko-Pleven and Selvikonserv, continued to be a series obstacle to preparing offering documentation. New asset lists for both enterprises appeared regularly, many revealing previously unknown enterprise assets, many of which had restitution claims against them.

- Major local creditors, notably the United Bulgarian Bank, were ill-equipped to handle enterprises as work-out clients. Little prior history or experience with work-out situations precluded, for the most part, a pro-active approach on the part of the banks. Local financial institutions had become quite comfortable with a "wait and see" attitude vis-à-vis resolving non-performing asset problems, as they were not faced with having to adhere to any prudential regulations that dictated classification of bank assets according to risk. Technical insolvency throughout the financial sector remains largely unaddressed in Bulgaria.

- The only tool available to local banks to address problem state-owned enterprise debt was the threat of liquidation. Major uncertainties were created by this threat, again hampering the deal making process, tarnishing the image that the Bulgarian parties to the sales transactions were acting in good faith.

- Transparency was lacking within the privatization process in Bulgaria, due to confusion about the exact steps to be taken to be privatized and the government approvals necessary for a sales transaction.

- The mandate of the Privatization Agency remained weak, leading to multiple actors (such as municipalities, enterprise management, and financial institutions) having a significant voice in the transaction cycle, without clear direction from the Agency. Investor confusion ensued.

- Enterprise management viewed placement on the list of privatization candidates as a disincentive to perform daily management and operational tasks. This disincentive was created as managers believed that placement on the list translated to direct government control of the enterprise, and the financing of the enterprise.

- Financial tools and expertise are limited. The lack of capital markets experience was most telling in the valuation process for the enterprises. The Privatization Agency, for example, continued to insist on a valuation for Storko-Pleven on an historic cost basis, and was reluctant to consider a valuation for the company based upon projected cash flows. Discussions with investors about a fair purchase price were impeded.

- It is difficult to be among the first privatization transactions within a transitional economy. No experience with setting fair divestiture prices, deal structure, or conducting investor negotiation leads to a certain paralysis and fear of making a decision. Any type of a prior track record speeds greatly subsequent transactions.

- The privatization process in Bulgaria is also impeded by an undeveloped understanding of markets (and potential investors) outside of the former COMECON region. Accustomed to negotiating with these foreign trading partners, the introduction of new participants, especially such local partners as Greece, Turkey, or Austria, proved difficult.

CHAPTER THREE

BULGARIA FOOD INDUSTRY PRIVATIZATION MONTHLY SUMMARIES

OCTOBER-NOVEMBER

In October 1993, Development Alternatives, Inc. (DAI) began work on the Transaction Facilitation tasks 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 to add momentum to 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 the Transaction Facilitation Tasks. 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 & Touche, Bulgaria.

DAI began marketing efforts to find potential investors for Storko and Selvi. The Information Memoranda prepared on the two firms was sent to 14 U.S. agribusiness firms. Efforts are currently under way to obtain initial feedback from these companies.

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.

DECEMBER

DAI continued work on 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, Bulgaria, DAI's partner 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 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 Selvi.

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, Bulgaria 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 Mass Privatization activities planned under this project. USAID instructed that work on these activities be postponed, given USAID's belief that the Bulgarian Privatization Agency may not be fully supportive of USAID's privatization initiatives.

DAI continued discussions with Freshconsult, a Vienna-based consulting firm. Freshconsult is willing to assist DAI in its search for investors in Europe and may be willing to provide technical advice to Storko and Selvi. Deloitte & Touche, Bulgaria will also assist in the marketing of Storko and Selvi by listing the firms in its monthly newsletter, distributed to Deloitte & Touche corporate finance offices throughout Europe.

JANUARY

In January 1994, Development Alternatives, Inc. (DAI) continued work on the Transaction Facilitation activities of the Bulgaria Food Industry Privatization Project (Delivery Order No. 27). Daniel Hogan and Michael McKone visited Vienna, Austria, from January 10 through January 12 to meet with Conserv GMBH, a food distribution firm jointly owned by Consultech, a company based in the United States and owned by Lawrence Martinelli and Dr. Michael Mueller, an Austrian national. The purpose of the meeting was to continue discussions regarding Conserv's interest in acquiring Selvikonserv. Also discussed were issues raised in a detailed fax message sent to DAI by Conserv in early January. DAI later held further meetings with Conserv's local Bulgarian partner, Metalex, in Sofia. The results of the meetings with Conserv/Metalex were encouraging; further discussions are planned for February.

The DAI team then went to Sofia, Bulgaria, where it met again with representatives of Pangaea, Ltd. and Filippos, S.A., the investment group interested in acquiring both Storko- Pleven and Selvikonserv. It was agreed that the investment group would concentrate initially on Storko. On Friday, January 14, the Pangaea/Filippos investment group presented to Ms. Reneta Injova, Executive Director of the Privatization Agency (PA), a letter expressing the group's intent to develop a formal proposal within the next 60 days to acquire a minimum of 51 percent interest in Storko.

DAI met with the Bulgarian-American Enterprise Fund (BAEF) to determine its interest in providing funds for the purchase of Storko. The BAEF expressed an interest in visiting Filippos' operations in Greece in February, accompanied by DAI.

DAI held a series of informal meetings with various public and private sector individuals to obtain general impressions of the work to date of the PA. DAI was particularly interested in soliciting opinions as to why the privatization process has been proceeding slowly in Bulgaria. After our discussions, it appears that there are four main impediments to the privatization process: (1) the lack of strong consensus for privatization in what is considered generally to be a weak coalition government; (2) the lack of support for the privatization process among important segments of the populace, including many influential business leaders; (3) the PA's overemphasis on legal and transaction details rather than on the end results of privatization; and (4) the lack of clarity in the Privatization Law itself, which makes its interpretation difficult.

DAI's conclusion is that the PA is committed to the privatization process but is hampered by external legal and political issues. However, it appears that the Agency could improve its internal organization and decision-making processes.

During January, DAI continued discussions with CE Capital on the interest of certain Japanese investors in both Storko and Selvi. Representatives of these investor groups as well as a representative of the Government of Japan are tentatively scheduled to visit Bulgaria to begin preliminary discussions in mid-February.

DAI initiated discussions with a local consulting firm about the possibility of its doing a pre-feasibility analysis on a farm management company, which could become part of the overall bid for Storko. (The concept paper for the Farm Management Company (FMC) is attached.)

Finally, Deloitte & Touche, Bulgaria, visited both Storko and Selvi to update these firms' financial statements. Deloitte & Touche, Bulgaria has updated the Investment Memoranda for Storko and Selvi. These updated Investment Memoranda will be issued in February and distributed to the PA and company management, as well as to interested investors.

FEBRUARY

During February 1994, DAI continued work on the Transaction Facilitation activities of the Bulgaria Food Privatization Project (Delivery Order No. 27).

The DAI privatization team held further discussions with Central Europe Capital Consultants (CE Capital) regarding the firm's ability to raise funding for the privatization and expansion of Storko Pleven and Selvikonserv. The discussions produced an agreement in early February regarding CE Capital's involvement in the Food Privatization Project. CE Capital immediately dispatched a representative to Tokyo to begin substantive discussions with potential funding sources. The DAI team also made arrangements to include a CE Capital representative on the team's trip to Sofia in mid-February. The CE Capital representative was to contact local representatives of its funding sources and, if appropriate, work with the DAI team to arrange meetings between the management of Storko and Selvi and CE Capital's funding sources.

Two members of the DAI team, Daniel Hogan, Project Manager, and Mark Baughan, Financial Analyst, visited Vienna, Austria, in early February to continue discussions with Conserv GMBH's President, Dr. Michael Mueller. Conserv has shown a continuing interest in the acquisition of Selvi, and has accessed additional financing. Conserv is well positioned to assist in increasing Selvi sales, having a food distribution and export company in Vienna that specializes in Bulgarian food products.

Mr. Hogan and Mr. Baughan arrived in Sofia February 13 and were met by two other DAI team members, Michael McKone, Financial Analyst, and Lisa Varney, an expert in employment issues. The team's broad objectives were to begin advising the Filippos/Pangaea investment group in preparing its bid to the Privatization Agency (PA) for Storko, to continue discussions with potential third-party investors — the Bulgarian-American Enterprise Fund chief among them — and to begin work on an employment restructuring analysis for Storko and Selvi.

The DAI team met several times with the Filippos/Pangaea group, both in Sofia and in Veria, Greece. Meetings at the latter location were part of DAI's due diligence efforts to determine the Filippos/Pangaea group's financial and technical capability to undertake the purchase of Storko and improve the firm's financial standing and market position. Filippos/Pangaea is gathering further financial and production information and will make the information available during the team's next trip to Bulgaria, scheduled for March 14, 1994.

The Filippos/Pangaea group intends to present a bid for Storko in mid-April instead of mid-March, as originally anticipated. The change in bid date was suggested by the PA, which is encountering difficulty completing the asset valuation for Storko because of improper documentation on several pieces of equipment.

The DAI team made contact with three potential funding sources: the Bulgarian-American Enterprise Fund (BAEF), Kouri Capital, and Mitsui trading. Initial contact was made with BAEF in January, and the fund continues to show interest in participating in the bid for Storko. More detailed information on BAEF's participation will be forthcoming once final preparations for the Storko bid are made by Filippos/Pangaea.

The team met with representatives of Kouri Capital in Sofia and in Athens. Kouri Capital is a worldwide, multibillion-dollar investment fund and merchant banking operation with main offices in New York and Helsinki. Kouri's office in Sofia was established only recently and is now engaged in identification of potential investments.

The representative from CE Capital met with Mitsui's local representative. Because it appeared that detailed communications about Storko and Selvi had not taken place between Mitsui's Tokyo and Sofia offices, the DAI team elected to postpone initial introductions until CE Capital clarified Mitsui's potential interest in one or more of the specific transactions under way.

The DAI team began work on an employment assessment and restructuring plan. The DAI team visited both Storko and Selvi and met with factory managers, union representatives, and municipal authorities to gather employment information. Data on the size, composition, age, education level, and professional experience of the work force were collected at both sites.

The team also held discussions with union representatives at both enterprises. The discussions focused on the specific responsibilities and contributions of unions, including their legal rights in the privatization process. The unions are a strong presence at both factories, with membership levels higher than 90 percent of employees. The information gathered during these meetings will be analyzed and presented to potential investors to assist the privatization process.

MARCH-APRIL

During March and April 1994, DAI continued work on the Transaction Facilitation activities of the Bulgaria Food Privatization Project (Delivery Order No. 27).

The DAI privatization team, including Daniel Hogan, Project Manager, Mark Baughn, Financial Analyst, and James Packard Winkler, Labor Management Specialist, held further discussions with the Privatization Agency and the investor team to understand and analyze the positions of both parties on the value of Storko Pleven. A primary objective at this stage was to put together a formal offer and present it to the PA to initiate formal negotiations.

Mr. Mark Baughn worked closely with John McGuinness, D&T, and George Tsagaris, representative of the investor team, to analyze the profitability of specific product lines of Storko Pleven. Some of the product profitability analysis scheduled to be completed by the end of March had been delayed. This analysis became the basis for projecting future cash flows for Storko.

James Packard Winkler, who had conducted the comparative and competitive analysis in January 1993, Mr. McGuinness, and Mr. Baughan traveled to Storko Pleven to collect additional information and discuss with senior management of Storko the business operations in the past year, and realistic assumptions for the near future. The assumptions about business operations and product profitability were critical inputs for calculating the value of the company based on discounted cash flow projections.

Efforts to complete a formal offer were delayed because the Pantelides brothers were not able to travel to Sophia due to a strike in Greece which blocked all traffic. Through telephone communications with the Pantelides brothers in Greece and discussions with George Tsigaris, DAI assisted the investment team in putting together an initial offer based on the investor's expectations of earning potential of Storko.

The DAI team met several times with the PA to present initial assumptions of an offer price by the investor team, and explain the risks and business rationale of the investor team that factored into the offer. Ms. Vassileva of the PA thought that the offer price was very low compared to other privatization transactions completed recently. She compared the offer price to the square meters of space sold in two recent transactions, rather than comparisons based on valuation of productive assets and business potential. After much discussion, the PA informed DAI that the Agency could authorize a transaction if all legal issues, outstanding debt and labor concerns were satisfactorily addressed.

It became clear that the most important issue in completing a privatization transaction is the outstanding debt of approximately US $ 7 million. The PA made it clear that the outstanding Storko debt must be negotiated directly with the creditors, principally the United Bulgarian Bank (UBB). During a meeting between the investor team, the PA, UBB and DAI, all parties agreed that a formal offer should be presented to UBB during the DAI team's next trip in May so that negotiations could begin on restructuring Storko Pleven's outstanding debt.

MAY

Daniel Hogan, Project Manager, and Mark Baughan, Financial Analyst, visited Sofia in May to further ongoing efforts to privatize Storko and Selvi. The May trip culminated in a) the presentation of the Storko-Pleven investor group's Purchase Proposal to the United Bank of Bulgaria, Storko's largest creditor, and b) the completion of the Farm Management feasibility study, commissioned by DAI in February. The trip also entailed further discussion regarding the sale of Selvi , in particular with Dr. Michael Mueller, CEO, Conserv GMBH Austria, in Vienna.

JUNE

James Packard Winkler and Mark Baughan visited Sofia from June 20 through July 1 to pursue the privatization efforts of Storko and Selvi.

The Storko transaction is contingent largely on the ability of the DAI team to persuade the United Bank of Bulgaria (UBB) to accept a restructuring of Storko's outstanding loans from UBB. The loans amount to roughly 212 million Leva (or about US $4 million at the current exchange rate) and are non-performing; Storko has never made an interest or principal payment to UBB.

Interviews with both Storko management and UBB indicate that the UBB funds were used by Storko to pay normal operating expenses, and not as seasonal working capital or to make plant investments. Consequently, it is the investor group's belief that as UBB provided the funds to Storko without understanding how the funds were to be used, UBB is partly responsible for Storko's currently dire financial situation regarding the repayment of these funds. Current operating projections for Storko, based on recent historical performance, indicate that within two to three years the company will be unable to pay its operating expenses; it is expected then that, barring outside participation, the company will be unable to repay any of its debt (including principal and capitalized interest) to UBB.

The investor group formed by DAI, consisting of Michael and Dimitri Pantelidis, of Filippos, S.A., Veria, Greece, and George Tsagaris, of Pangaea, Ltd., Sofia, proposed to UBB in May that Storko share its net cashflow (cash after all charges and tax) equally with the bank and other creditors over six years. The investor group believes that, with the benefit of its managerial expertise, the UBB portion of the cashflows would amount to approximately one to two million dollars, depending on the arrangement with other creditors. The bank flatly rejected the proposal in May, at which time UBB's Mr. Atanas Atanassov said he thought UBB would return to profitability in the near term, as "the former Soviet market rebounded". He added that UBB would accept a minimum of US $3.5 million, paid up front. His counter-offer was rejected by the investor group as economically unviable.

Upon the DAI team's departure from Sofia in May it had been decided that the Privatization Agency would try to arrange a meeting between George Tsagaris and the Ministry of Finance, in an effort to break the log-jam presented by UBB. Presumably the Ministry could either discuss the advantages of the proposed rescheduling with the bank, or move to forgive other, government credits owed by Storko, making a larger percentage of Storko's future earnings available to the UBB. Unfortunately, upon DAI's return in June, no such meeting had been arranged.

In their initial meeting with the Privatization Agency in June, Mr. Winkler and Mr. Baughan indicated to Ms. Vassileva DAI's disappointment that no meeting had taken place among the Ministry of Finance, the Agency, and Mr. Tsagaris, as had been planned. The DAI team further expressed its desire to move on to other efforts than Storko, given the relative intransigence of UBB. It was reiterated that the Pangea offer was in good faith, placed a fair value on the company, and included significant long-term investment, management expertise, and investor risk, all of which seemed under appreciated by the bank and, perhaps, the Agency. In response to these comments, Ms. Vassileva immediately arranged a third meeting with UBB, avoiding Mr. Atanassov; instead a meeting was arranged with Mr. Ognjanov, Chief of Credit Department. The group met the following day. Mr. Ognjanov listened to the investor group's proposal, presented by Mr. Tsagaris, and subsequently said he thought it an unusual situation which warranted the attention of the bank's review board, which would meet the following week. There was no response from the bank when Mr. Baughan left Sofia July first.

On June 30th Mr. Baughan talked to Ms. Daniela Bobeva at the suggestion of USAID Representative Gerald Zarr. Ms. Bobeva is the apparent spokeswoman for the Commission of Foreign Investment, a seemingly aggressive body with the purpose of promoting foreign, private investment in Bulgaria. Mr. Baughan explained the history of the Storko privatization effort, and the current UBB stalemate, to Ms. Bobeva and requested her assistance if she thought it appropriate. Ms. Bobeva took an immediate interest in the rescheduling proposal, said that she was "not surprised" at the situation, and offered to talk to UBB. Mr. Baughan followed up with a fax to Ms. Bobeva, and asked George Tsagaris to pursue the effort by calling Ms. Bobeva the following week of July fourth. Mr. Tsagaris agreed. There is some chance that Ms. Bobeva, who seems personally committed to privatization, may be able to influence UBB regarding the Storko debt restructuring.

Regarding Selvi, the DAI team learned from Mr. Yuri Tschariski that Mr. Michael Mueller, operating in cooperation with representatives of Sofia's Multi Group, was very close to signing an agreement to take ownership of the company. The acquiring group's interest in Selvi apparently is part of a larger, regional operation . This was not confirmed, however, in a subsequent meeting with Ms. Ivanka Daneva of the Ministry of Industry, who said that no letter of intent for Selvi had been submitted. Ms. Daneva did indicate, however, that entities affiliated with the Multi Group had expressed an interest in Selvi. She also pointed out that Bulgarian entities were making use of the Bad Debts Act (pre-1991) to leverage their privatization offers. Under this provision, Bulgarian persons may purchase bad debts repackaged as state obligations at a discount (65 to 70 percent of face value) and redeem them at face value as part of a privatization purchase. It is believed that foreign persons would have equal access to this provision, which can leverage a cash offer by as much as 54 percent (i.e., from 65 cents on the dollar up to 100).

It is unclear currently exactly what discussions have taken place between Selvi and Mr. Mueller. It is clear, however, that DAI has provided substantial analytical and other information regarding Selvi to Mr. Mueller.

AUGUST

The DAI team of Mark Baughan, Russ Thirkell, and Lisa Varney visited Sofia from August 02 through August 11 to pursue privatization activities regarding Storko-Pleven and Selvikonserv.

Actions taken in the course of this trip concentrated largely on the status of pending offers for the enterprises to be privatized and to assess contingencies remaining to be resolved for a successful transaction. The major emphasis regarding Storko-Pleven was to assist negotiations between the Privatization Agency (PA), United Bulgarian Bank (UBB), and the Investor Group (consisting of Pangea, Ltd., Sofia, and Filippos, S.A., Veria, Greece). (Talks among the parties recently had fallen into a stalemate resulting from inaction on the part of UBB.) The team also performed substantive interviews about the present status of Selvikonserv and its current eligibility to receive serious investor offers insofar as the Ministry of Industry's (MOI) Privatization Unit is concerned.

Regarding Storko, the DAI team was successful in breaking through to UBB's senior executive management, resulting in a meeting at the Privatization Agency between agency personnel, UBB executive management, George Tsagaris of Pangea, Ltd., and moderated by DAI team member Thirkell. In the course of this meeting UBB executive management did commit to obtain a decision from UBB's Board of Directors on Friday, August 12. Although it appeared unlikely UBB would accept the Investor Group's current loan restructure proposal at face value, DAI's team was able to observe rapid improvement in dialogue between principal players. UBB gave verbal assurance that it would return to the bargaining table with PA and the Investor Group on Monday, August 15, and Pangea, Ltd. did inform DAI, privately that Pangea may propose (to Filippos, S.A.) that the Investor Group construct a slightly better debt restructure offer once the official position of UBB's board became known.

Selvi, on the other hand, has recently become the subject of uncertainty regarding its availability, making it impossible for the current mission to assess when a privatization might be expected to occur. According to the highest official source DAI found available to interview in the MOI Privatization Unit, Selvi's restitution claimant can still appeal the claim it previously was denied through the court. Once the time for appeal has lapsed, the Privatization Unit will appoint a chartered accountant to perform the current valuation on Selvi required by law. Offers then will be invited from potential investors within fifteen days following said appointment. There are apparently no investor letters of intent on record with the MOI at this time.

Russ Thirkell visited Sofia from August 22 through August 30. Project Manager Daniel Hogan joined the mission from August 28 through August 30 regarding DAI services and products delivered and to wind up the project funded by USAID.

Actions taken in the course of this trip refocused on contingencies facing Storko and Selvi which have prevented a successful transaction. The major emphasis regarding Storko-Pleven was to pick up where negotiations had been left off among the Privatization Agency (PA), United Bank of Bulgaria (UBB), and the Investor Group (consisting of Pangea, Ltd., Sofia, and Filippos, S.A., Veria, Greece). At the time of DAI's last visit, UBB had agreed to come to a decision about debt restructure on August 12 and to return to the bargaining table with PA and the Investor Group on Monday, August 15.

Regarding Selvi, understanding it would be available for serious investor offers most likely in September, our focus was to identify investors who appear prepared to go on record with the Ministry of Industry (MOI) for an acquisition.

After careful questioning, the financial condition of Storko was confirmed as deteriorating more severely than Bulgarian sources had disclosed before. 1993 balance sheet and P&L verify the enterprise suffered an additional 114,776 Leva (US $ 2,086,000) loss from operations, leaving it with a 122,144 Leva (US $ 2,220,000) negative worth even with its pre-1991 debt removed from the balance sheet. Apparently, the enterprise has suffered similar losses year-to-date in 1994.

Storko has recently requested permission for new borrowings of approximately US $1 million in order to cover current payables and it is asking to sell off certain assets to help reduce book losses. It is generally expected that, barring debt forgiveness and immediate outside participation to manage the company, the Storko enterprise will be unable to operate (short of having major, ongoing subsidized government credits to continue propping it artificially up).

In the same instance, DAI found Bulgaria's PA has recently become guarded about the Investor Group's offer to purchase Storko. This resistance noted, DAI pressed hard during the course of this trip to bring underlying motives at UBB and perhaps within PA to the surface. What DAI learned is not surprising in the CEE environment: UBB is entertaining taking Storko under ownership control, perhaps form a joint venture, and put foreign management in place. UBB (and in apparent concert with the PA) considers the Investor Group (consisting of Pangea/Filippos formed by DAI) a logical joint-venture and management contender. DAI reaches the end of its contract with these substantive talks between all the parties actively under way.

Selvi, on the other hand, appears properly managed and making fair financial progress. In fact, Selvi has posted a profit of 0.5 million Leva in the first six months of 1994 and its management is anxious to see a successful privatization occur.

ANNEX A

INVESTMENT OVERTURES MADE IN JAPAN

Central Europe Capital Consultants, Inc.

March 2, 1994

Daniel F. Hogan
Development Alternatives, Inc.
7250 Woodmont Avenue, Suite 200
Bethesda, MD 20814

Dear Dan,

The purpose of this letter is to inform you of the results of several meetings that were held during February in Sofia, Bulgaria and Tokyo, Japan with representatives of Mitsui and Japan's Ministry of International Trade and Industry (MITI) concerning Japan's prospective participation in the privatization of two Bulgarian food processing companies Selvikonserv and Storco Pleven.

In late January and early February, meetings were held in Tokyo between representatives of Central Europe Capital Consultants, Inc. ("CE Capital") and those of MITI and Mitsui, respectively. The subject of those meetings was the privatization of Storco Pleven and Selvikonserv and the availability of debt financing and marketing technical assistance for those companies. Based on information supplied to CE Capital from DAI and presented to MITI, MITI informed Mitsui that upon initial review these projects met MITI's criteria for support. Consequently, Mitsui should meet with DAI to learn more about the projects and how it might participate with some form of debt financing and marketing assistance.

Mitsui Tokyo informed Mitsui Europe to make arrangements to meet with us in Sofia. Unfortunately, Mitsui Tokyo was not able to transfer the information on the two Bulgarian companies to Mitsui Europe in time for Mitsui Tokyo and Mitsui Europe to confer adequately, and then schedule a to send Mitsui Europe official to meet us in Sofia to discuss in detail the project during the week of February 13. Consequently, Mitsui Europe was not able to send complete instructions to the Mitsui representativeia with respect to having entering into discussions about the projects.

Mitsui Europe asked, however, that Mitsui's representative office in Sofia to have an introductory meeting with DAI to learn firsthand about the project. Mr. Hosoda of Mitsui's representative office in Sofia was instructed to listen to our presentation, learn how we envisioned Mitsui's possible involvement, and in general terms discuss possible debt financing mechanisms.

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On Thursday, February 16, I met with Mr. Hirofumi Hosoda, assistant general manager of Mitsui's representative office in Sofia. I made a presentation on the status of the privatization of the two companies, the main players involved, and how we envisioned Mitsui's prospective role. I explained that we were looking to Mitsui for long-term debt financing for plant modernization and working capital requirements.

I also mentioned that we would also be interested in Mitsui providing marketing technical assistance once the two companies had been modernized and new management installed. Hosoda said that two sections of Mitsui Tokyo (food and machinery) were involved in the Bulgarian food processing companies project, and that Mitsui would be interested in the following:

- providing supplier credits which would be tied to the purchase of Japanese machinery; and
- assisting the Bulgarian companies with marketing assistance in order to help them produce products suitable for the Japanese market.

With respect to Japanese debt financing available for the purposes of plant modernization and working capital, I asked Mr. Hosoda to explain the mechanisms as he understood them. He said Japanese loans would come via two mechanisms. The first would be through Japanese Export Insurance in the form of yen supplier credits that would be tied to the purchase of Japanese machinery. I told him that I had understood that the credits would not be tied. Mr. Hosoda reiterated his position. (After subsequent discussions with MITI in Tokyo, we are under that the supplier credits would not be tied to the purchase of Japanese equipment. I will try to clarify this.

With respect to working capital loan, Mr. Hosoda said that while he was less familiar with the exact details of the mechanism, he said that the loan would come from the proceeds of a Structural Adjustment Loan negotiated between the Japanese Ex-Im Bank (co-financed with the World Bank) and the Bulgarian National Bank, which would in turn make a leva-based loan directly to the two Bulgarian food processing companies.

Mr. Hosoda said that the above arrangements are dependent on the successful outcome of current government-to-government negotiations between Bulgaria and the various members of the Paris Club.

I told Mr. Hosoda that I was glad we had had this opportunity to clarify the situation and thought that now a meeting with his general manager and representatives from DAI would be appropriate so they could discuss the two Bulgarian companies, the status with the Bulgarian Privatization Agency, and the Greek investors/management team. Mr. Hosoda said he would relay the results of our meeting to his superiors in Tokyo and they would decide on the next step.

After the Hosoda meeting, I wrote a memo to my partner in Tokyo summarizing the Hosoda meeting. I also stated the results of follow-up discussions with DAI which outlined the DAI position to be conveyed to MITI and Mitsui Tokyo. This position is encompassed in the following summary points:

1. The technical partners and concomitant equity and management are in place for the privatization of the two Bulgarian food processing firms.

2. DAI is seeking from the Japanese only long-term debt financing. The amount needed is no more than $1 million per company.

3. The loan is to be used to assist in the purchase of the assets of the two Bulgarian food processing companies from the Bulgarian Agency for privatization which owns the companies.

4. The loan is to be used to provide all or part of the working capital.

5. The loan would also be used to provide revolving short-term debt for seasonal working capital operational requirements.

6. Later, DAI would seek Mitsui's technical assistance on marketing the products from these two companies for the Japanese market. We would probably allocated part of the production to Mitsui as compensation.

7. A need to clarify if any of the proposed debt funding is tied to Japanese purchases, and/or requires any type of Bulgarian government guarantee.

DAI would be willing to work with Mitsui to determine which products would be suitable for the Japanese market, and if necessary install a separate production line for those products (using Japanese equipment). In this way we could combine the marketing and financing steps together.

After the Sofia meeting, we requested a meeting in Tokyo with representatives from Mitsui Europe, Mitsui Tokyo and MITI to discuss the situation and coordinate the next steps. In that meeting, MITI stated that its continued support would be dependent on the outcome of current discussions that MITI is having with its West European counterparts and the Bulgarian government regarding trade and assistance to Bulgaria. The purpose is twofold: (1) to determine Japan's position on Bulgaria and (2) to determine Japan's list of priorities.

We again related to MITI that the Bulgarian government has placed a priority on the successful privatization of the two food processing companies. MITI will seek a confirmation of this from the Bulgarian government. The discussions should be completed within two weeks. Assuming there is a general government-to-government agreement, and a confirmation of the priority placed on the privatization from the Bulgarian government, MITI will authorize Mitsui to work with us to come up with a debt/marketing assistance package for the two Bulgarian companies.

My partner will return to Tokyo at the end of next week and will follow up with MITI and Mitsui on this matter. We should hear something by the third week of March; and try to arrange another meeting in Sofia with representatives of Mitsui Europe during the first week of April. Meanwhile, we will give the name of the official at the Agency of Privatization who is familiar with Storco Plevin and Selvikonserv to the appropriate MITI contact.

Sincerely,
Dennis M. Tomes
President

cc: B. Sasaki

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ANNEX B

CONCEPT PAPER FOR A BULGARIAN FARM MANAGEMENT COMPANY

ABSTRACT

The aim of the study is to verify the feasibility and expenditure for the establishment of FMC in Bulgaria. FMC will have the aim to ensure the supply of required quantity of fruits and vegetables for the food processing enterprise - Storko, Pleven. To fulfil this aim FMC will help the farmers with the supply of seeds, working capital as well with agricultural consultations. Farmers will supply the local products to the food processing enterprise - Storko, Pleven. The supply should be of adequate quality, quantity and of different sorts, so that it may compete in the world market, local market as it is defined by the Storko's management.

For the assessment of possibility to establish FMC, the state of Bulgarian agricultural economy was studied. In spite of its small territory, Bulgaria provides with good climate for the growth and development of fruits and vegetable products. At the present moment obstacle for the development of agriculture is the reform in this sector. Cancellation of the previous production structure, while new structure has not yet been developed, leads to a reduction of production of agricultural products.

Considering the experience of Bulgarian enterprises for application of similar scheme, FMC has to carry on its activity to supply the producers with seeds, working capital and agricultural consultations in different spheres. These activities should be carried out on the basis of contracts which will obligate the farmers to sell all their agricultural products, meeting the defined quality, to Storko. The product price will include the service charge of FMC.

For fixing the purchasing price of fruits and vegetables, the approach should be differentiated. For vegetable products the price may be fixed in advance, but of course the high inflation rate prevailing in Bulgaria should also be taken into account. For fruits similar approach carries risk because of variation of quality within a short time period. Among the functions of FMC, it is necessary to include carrying out effective control which will ensure the rules for cultivation of fruits and vegetables.

Similar practice was widely used by all the food processing enterprises in the country. In the new condition they face difficulties to use similar schemes. In spite of that, in case of some more specific agricultural products, the scheme is yet in use. For example, For the cultivation of peas and hot chillies Storko - Pleven has made contract with the producers. According to that contract, responsibilities of the enterprise include ensuring required seeds and ensuring the agro-technical helps. The producers of the fruits and vegetable products are obligated to sell all their products to Storko as per the pre-fixed price. The enterprise tends to make further contracts in bigger scale for procuring the necessary raw materials. But this is not possible due to the following reasons:

Lack of contracts for realisation of finish products;

Lack of financial resources;

Lack of adequate personnel for effective control.
A study was done over 400 private farms and co-operatives to assess their problems which they face during their activities. Result of the study suggests that the main problems are associated with realisation of production and obtaining working capital. The proposed scheme of FMC will be able to solve successfully these two problems.
In respect to the difficulties which the producers face, we think that the proposed scheme will find good acceptability among them. In favour of this fact is the great interest of the farmers which they show in the conditions proposed by Storko. This interest is focused not only in the deficit products, but also towards other traditional and widely used products like tomato, pepper and others.
Application of the proposed scheme bears the risk from the side of the farmers. The risk arises from the probability that the farmers may not fulfil their responsibilities according to the contract. It happens frequently, mainly due to carelessness and negligence, that the farmers sell their products elsewhere. For this reason it is necessary to ensure constant methodological help and to ensure control. Regarding this, there are instances when, despite of contract, producers sell their products to other businessman against higher price.
Care should be taken while selecting the personnel who will undertake the activities of FMC. The success of realisation of the project will depend, to a great extent, on their skill.
Advantages of application of this scheme are: it guarantees the quality of agricultural products required by Storko, not only the deficit products in the country; gives opportunity of cultivation of various kind of fruits and vegetables in the country; quality of the offered fruits and vegetables will improve.
Proposed scheme will bring improvement of the quality of the offered agricultural products in the following ways:
Methodological help for cultivation of fruits and vegetables;
Realisation of control in every basic phases of development of plants;
Supply of quality seedlings to the farmers.
It should be noted that, the probability of improving the quality is less likely in case of fruits compared to the vegetables.
Use of the proposed scheme will encourage the farmers to be reoriented from cultivation of grain crops to production of fruits and vegetables. In this way their (fruits and vegetables) production will be increased.
By importing seeds of artichoke, Brus. sprouts, broccoli and asparagus, which are not familiar to the Bulgarian farmers, FMC will increase the variety of vegetable crops grown in the country. This effect may also be reached by importing new sorts, not yet tested in our country.
There is good environment for production of fruits and vegetables in the region of Pleven, which will enable successful realisation of activities of FMC.

Assessment of potentials for cultivation of fruits in Pleven region, or in the country as a whole, bears a great degree of insecurity, which arises from the fact that with the reinstatement, lands have been redistributed among the former owners, because of which there is a risk that the new owners may destroy plantation in their land.
In the region of Pleven there exists good environmental condition as well as tradition for cultivation of fruits. Demand of Storko may be fully met with the production in the region of Pleven and the neighbouring region of Lovech.
Production of vegetables is well developed in the region of Pleven. As a result of reforms in agricultural economy, a great fall of production of vegetables is encountered during the last few years. But there is a great potential for the development of this production in this region. Cultivation of artichoke, Brussels sprouts, broccoli, maize and asparagus are not tested in the country. So there is scope for importing the seeds.
Considering the location of Storko and the main suppliers, it would be most suitable that FMC be located in Pleven.
For establishment of FMC and organising its activities, approximately 6 months period will be necessary. For effective realisation of its activity and to make initial contracts with the producers, another 6 months period will be necessary. Thus the period defined in this way suggests that to avoid the risk of missing the coming agricultural year, FMC should be formed during the months of May, June.
The total amount of the necessary initial investment is 1,523,300 USD or 83,700,000 leva at an exchange rate of 55 Leva per 1 USD, out of which 1,465,000 USD (80,500,000 leva) will be used as initial working capital that will be provided to producers of agricultural products.

FMC

INTRODUCTION

The aim of the study is to verify the feasibility and expenditure for the establishment of FMC in Bulgaria. FMC will have the aim to ensure supply required quantity of fruits and vegetables for the food processing enterprise - Storko, Pleven. To fulfil this aim FMC will help the farmers with the supply of seeds, working capital as well with agricultural consultations. Farmers will supply the local products to the food processing enterprise - Storko, Pleven. The supply should be of adequate quality, quantity and of different sorts, so that it may compete in the world market, local market as it is decided by the authority of Storko. For the assessment of possibility to establish FMC, the state of Bulgarian agricultural economy was studied.

STATE OF AGRICULTURAL SECTOR IN BULGARIA

Despite small territory, because of unique natural climate, Bulgaria is in a state for development of different agricultural products.

In contrary to the positive potentials in respect to natural climate, the potentials in respect to the working resources are not like that. From the point of view of older population and professionally qualified population, the characteristics of productive manpower is unfavourable. Shut down of industries in villages compel people to be oriented towards agriculture. Besides that during the last 2 - 3 years the tendency (in accordance with reinstatement and massive unemployment) of immigration of working resources from urban to rural areas is an optimism for the change in potentiality of working resource needed for the agricultural sector. The path from shift of working resource from urban to rural area to the formation of hereditary farmer class, however, is far away.

From the point of view of adequate technological level for modern agriculture, the establishments in the primary sector have low potentials for the development of agriculture economy.

In the past, the main problem in agricultural economy was the collective farm model. Now, however, the pivotal problem is the model of reform in this sector. The reform is oriented towards the transformation of government co-operatives with the aim of restoration of ownership of the past owners and putting the agriculture economy in private sector. Multiple private farms and small co-operatives are arising from the previously government owned co-operatives. A big problem arises during redistribution of buildings, store houses, agricultural technology. In many instances this redistribution leads to destruction. A majority of the owners, whose ownership on land property are restored, remain without necessary technical basis for agricultural activity. According to the law of ownership and use of private lands, reinstatement of farming land should be materialised by real borders. This will lead to 12 million separate pieces of land - each of about 3.5 decares. In this way, on an average, a farm will be of 20 decares. This average area will not allow the development of effective

agricultural economy.
Private farmers experience difficulties associated with lack of seeds for vegetable crops. The largest base for production of seeds in Bulgaria, which was located in Svishtov, is ruined. There also exist problems associated with procurement of working capital and realisation of production. All these problems lead the owners to be oriented towards cultivation of grain crops, which needs less finance and labour along with ensured realisation in comparison to that of vegetables.
At the present moment, a few different structures are functioning. Along with the lands consigned temporarily and those which have been really reinstated, the total area owned by private owners is 17,776 thousand decares. This represents 37% of the total farming land. Process of liquefaction of state owned co-operatives continues. Till now 50 liquefaction councils, out of total 4,500, have completed their work. The remaining continue functioning according to the previous form. About 1,400 co-operative farms and farming societies have been formed, two-third of which are registered.

BASIC ACTIVITIES OF FMC

Considering the experience of Bulgarian enterprises for application of similar scheme, FMC has to carry on its activity to supply the producers with seeds, working capital and agricultural consultations in different spheres. These activities should be carried out on the basis of contracts which will obligate the farmers to sell all their agricultural products, meeting the quality, to Storko. The product price will include the service charge of FMC. For fixing the purchasing price of fruits and vegetables, the approach should be differentiated. For vegetable products the price may be fixed in advance, but of course the high inflation rate prevailing in Bulgaria should also be taken into account. For fruits similar approach carries risk because of variation of quality within a short time period. Among the functions of FMC, it is necessary to include carrying out effective control which will ensure the rules for cultivation of fruits and vegetables.

EXPERIENCE OF USING SIMILAR SCHEME IN BULGARIA

In every food processing enterprises in Bulgaria, there are departments which organise the supply of raw materials. Till the beginning of the reform in agricultural economy, it was a regular practice to make contracts in advance with the producers (state owned co-operatives) for purchasing their products. In this way the food processing enterprises received the supply of raw materials which almost fulfilled their requirements. But because of lack of interest of the managing authorities of those enterprises, this way of management did not always improve the quality and quantity of fruits and vegetables. The other cause of low quality was the massive export to the previous Soviet Union, for which high quality was not demanded. Responsibility of the above mentioned department also included rendering agro-technical help. In every fundamental agro-technical activities strict control was maintained. Under the new circumstances the food processing enterprises are facing problems to use

similar plan. In spite of that, in case of some more specific agricultural products, the scheme is yet in use. For example, For the cultivation of peas and hot chillies Storko - Pleven has made contract with the producers. According to that contract, responsibilities of the enterprise include ensuring required seeds and ensuring the agro-technical helps. The producers of the fruits and vegetable products are obligated to sell all their products to Storko as per the pre-fixed price. The enterprise tends to make further contracts in bigger scale for procuring the necessary raw materials. But this is not possible due to the following reasons:
Lack of contracts for realisation of finish products;
Lack of financial resources;
Lack of adequate personnel for effective control.

Reasons for offering such services
At present Storko faces two main problems to carry out its activity:
Problem with realisation of finished product;
Problem with supply of raw materials.
The second problem is associated mainly with the reforms in agriculture. Storko had good co-ordination with the previous state owned co-operatives . But now many small private farms and co-operatives have been formed in place of the previous state owned co-operatives . These new enterprises are yet not well oriented and are directed mainly towards the production of grain crops, which needs least effort and investment. Therefore, to solve this problem, Storko has to create motivation among the producers, which can be achieved through the proposed scheme.
INTEREST AMONG THE OWNERS TO BE INCLUDED IN SIMILAR SCHEME
A study was done over 400 private farms and co-operatives to assess their problems which they face during their activities. Result of the study suggests that the main problems are associated with realisation of production and obtaining working capital. The proposed scheme of FMC will be able to solve successfully these two problems.
Breakdown of the previous structure of Bulgarian agricultural economy gives rise to the problems of supplying seeds to the local producers. The farms dealing with seed business, quite frequently give incorrect advice to the farmers. Due to these reasons it is important to give correct advises to the farmers to choose the seeds, and as per some specific crops are concerned which are not traditional for Bulgaria, steps should be taken to import those seeds. The newly formed private farms and co-operatives do not have experience and tradition of look after of different sorts of fruits and vegetables. They need agro-technical consultations for their activities. At the present moment, the department responsible for supplying raw materials of Storko also provides such service. It would be fruitful if written instructions are prepared for look after of each different sort of fruit and vegetable.
In respect to the difficulties which the producers face, we think that the proposed scheme

will find good acceptability among them. In favour of this fact is the great interest of the farmers which they show in the conditions proposed by Storko. This interest is focused not only in the deficit products, but also towards other traditional and widely used products like tomato, pepper and others.

RISKS AND BENEFITS OF THE PROPOSED PLAN

To accomplish the plan FMC should create all the preconditions which will guarantee a very good co-ordination between its activity and the needs of Storko, Pleven.

Other risk arises from the probability that the farmers may not fulfil their responsibilities according to the contract. It happens frequently, mainly due to carelessness and negligence, that the farmers sell their products elsewhere. For this reason it is necessary to ensure constant methodological help and to ensure control. Regarding this, there are instances when, despite of contract, producers sell their products to other businessman against higher price.

Attention should be paid while selecting the personnel who will undertake the activities of FMC. The success of realisation of the project will depend, to a great extent, on their skill.

Advantages of application of this scheme are: it guarantees the quality of agricultural products required by Storko, not only the deficit products in the country; gives opportunity of cultivation of various kind of fruits and vegetables in the country; quality of the offered fruits and vegetables will improve.

PROBABILITY OF IMPROVEMENT OF QUALITY AND VARIETY OF FRUITS AND VEGETABLES IN BULGARIA

Proposed scheme will bring improvement of the quality of the offered agricultural products in the following ways:

Methodological help for cultivation of fruits and vegetables;

Realisation of control in every basic phases of development of plants;

Supply of quality seedlings to the farmers;

Advance payment of working capital.

It should be noted that, the probability of improving the quality is less likely in case of fruits compared to the vegetables.

Use of the proposed scheme will encourage the farmers to be reoriented from cultivation of grain crops to production of fruits and vegetables. In this way their (fruits and vegetables) production will be increased.

By importing seeds of artichoke, Brussels sprouts, broccoli and asparagus, which are not familiar to the Bulgarian farmers, FMC will increase the variety of vegetable crops grown in the country. This effect may also be reached by importing new sorts, not yet tested in our country.

FMC can improve the quality, quantity and variety of fruits and vegetables by directly helping and encouraging the farmers. The helps may be divided into two interrelated main groups:

Technical help;
Economical help.
Technical help is concerned through the cycle of cultivation. Through the prior contacts, the crops and sorts which will be cultivated in the next agricultural year, will be decided. In this way the variety of vegetables will be ensured. Choice of the sort influences, to a certain extent, the quality of the product as well as the yield per decare.
After selection of the sort, it is necessary to ensure the seedlings. Due to the breakdown of the only seedling supplier Bulgarian enterprise, at the present moment, supply of quality seedlings is a great problem in Bulgaria.
Next step of technical help of the specialists of FMC will be to work out technological plan for cultivation of crops. The plan will point out the necessary agro-technical aspects - preparation of soil, using fertilisers, treating the soil, irrigation etc. Most appropriate fertiliser and manure should be sorted out to ensure the quality and ecological pureness of the products. If there arises any problem with procurement of the suggested fertilisers, their shipment should be ensured.
During the growing phase of the crops, agriculturists of FMC will provide control and consultation. In this way the risk of production failure will be avoided.
Technical help and control provided by the FMC may significantly influence the variety and quality of the produced vegetables.
It is necessary that the technical help for the producers to be coupled also with financial support for the materialisation of production.
Contracts for purchase of products give guarantee and encourage the producers to increase and improve the quality of their products. To improve the quality it is necessary to prefix different purchase values for products of different quality.
The payment of working capital in advance is important for implementation of all the suggested agro-technical aspects and for the use of appropriate fertilisers and manure. Advanced working capital will also ensure the adherence to the technological specifications, which will improve the quality and quantity of the products.
Advance contracts for purchase of production and supplying the working capital in advance are very important in case of non-traditional crops. In this way the risk of the producers is minimised and thus provides opportunity for the production of non-traditional crops. From this point of view, the experience of Storko in the field of hot chillies, non-traditional for Bulgaria, is fully optimistic. In the span of only one year Storko, by ensuring seeds, working capital and advance contracts with the farmers, has ensured enough quantity and quality of hot chillies to accomplish their contract with Germany. This is a quite example showing how the combination of advance contracts for purchase and technological and financial support can ensure quality and quantity of products which are not traditional for Bulgaria.
In conclusion, FMC can increase the variety, quality and quantity of vegetables by

implementation of advance contracts, technological help and financial support.
In case of fruits, the probability that FMC could improve the variety, quality and quantity, is some what restricted. The major factor for this is the specifications of the plants - the plants are perennial and so much longer time and more investments are needed to alter the structure of plantation. Beside this, climatic condition has a stronger influence on the quality and quantity of the product in case of fruits.
In spite of these problems, FMC has potentiality to improve quality and quantity of fruits through providing technical assistance and control. Providing working capital in advance is important, because at the present moment due to lack of financial aid the farmers fail to prepare the soil and soil treatment. This reduces the quality and quantity of the products.
Contracts for purchase of products with different purchase value depending on the quality will encourage good and in-time harvesting, which is of significant importance for the quality and quantity of fruits.

POSSIBILITIES FOR CULTIVATION OF FRUITS IN THE REGION

Assessment of potentials for cultivation of fruits in Pleven region, or in the country as a whole, bears a great degree of insecurity, which arises from the fact that with the reinstatement, lands have been redistributed among the former owners, because of which there is a risk that the new owners may destroy plantation in their land.
APPLES: During 1993, 2,894 tons of apples were produced in 7,204 decares in the region of Pleven and in the whole region of Lovech 7,794 tons in 14,016 decares of land. Although the area has increased in comparison to the previous years, the quantity is less than one-half. This reduction is caused, most likely, due to the draught during 1993 and production failure. Till now Storko has fulfilled its requirement from the apples produced in the region of Pleven.
PEARS: During 1993, 406 tons of pears were produced in 239 decares in the region of Pleven and in the whole region of Lovech 2,732 tons in 806 decares of land. Here also, despite increase in the area in comparison to the previous years, the quantity is less than one-half. Storko has procured the needed quantity from the neighbouring regions.
PLUMS: During 1993, 3,364 tons plums were produced in 6,823 decares in the region of Pleven and in the whole region of Lovech 17,174 tons in 61,834 decares of land. Region of Lovech is the largest producer of plum in our country. Yield per decare in this region is below average for the country, but the quantity of production is quite enough to meet the demand of Storko.
CHERRIES and MORELLOS: During 1993, 720 tons cherry were produced in 1,089 decares in the region of Pleven and in the whole region of Lovech 3,277 tons in 8,574 decares of land. Production of cherry and morello in the region of Pleven is not well developed and Storko has met its demand from the region of Lovech.
PEACHES: During 1993, 371 tons of peaches were produced in 2,300 decares in the region

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of Pleven and in the whole region of Lovech 4,257 tons in 15,778 decares of land. The problem of breakdown of the blocks is very actual in case of peaches. For this reason a fall of production of peaches is observed. So far Storko has met its demand solely from the region of Pleven.

APRICOTS: During 1993, 924 tons apricots was produced in 9,056 decares in the region of Pleven and in the whole region of Lovech 2,328 tons in 12,202 decares of land. Production of apricot has fallen by several folds. Till now Storko has met its demand mainly from the region of Silistra.

POSSIBILITIES FOR CULTIVATION OF VEGETABLE CROPS IN THE Pleven REGION

PEAS: During 1993, 1,191 tons peas was produced in 2,980 decares in the region of Pleven and in the whole region of Lovech 2,645 tons in 8,435 decares of land. There is a great potential for the development of production of peas in the region. During the last few years Storko has processed 5,000 tons peas, the whole quantity of which was supplied from the region of Pleven.

BEANS: During 1993, 747 tons beans was produced in 4,727 decares in the region of Pleven and in the whole region of Lovech 1,211 tons in 7,241 decares of land. Total need of the enterprise is about 700 tons. Till 1993 The demand was met fully from the region. Last year some amount was purchased from southern Bulgaria and from the region of Rousse.

PEPPERS: During 1993, 8,332 tons of pepper was produced in 10,279 decares in the region of Pleven and in the whole region of Lovech 17,323 tons in 20,220 decares of land. To meet the total demand of 6000 tons, Storko has purchased from this region and also from southern Bulgaria.

There is no statistical information available regarding cauliflower and aubergine. During the last year Storko had consumption of 500 tons of aubergine, which was procured from the region. At the present moment cultivation of cauliflower is almost discontinued. There is potentiality for cultivation of cauliflower in this region. In the past few years Storko has exported freeze cauliflower to England. Cultivation of cauliflower needs a great quantity of water, but due to the present ruined irrigation system, the future of cauliflower cultivation faces difficulty.

Artichoke, Brussels sprout, broccoli, maize and asparagus are not produced in Bulgaria. These crops are not even included in the list of crops those are permitted to be produced in Bulgaria. Testing and registration are regulated by the law of sowing seeds, which was established during 1958. According to that law, import of seeds of crops not tested in Bulgaria, is not permitted. To avoid the inconvenience arising from that already old law, one-time import of non-tested seeds has been foreseen. In this regard an application should be submitted to the government sort commission. The application should contain name of the importing farm, quantity and sorts of seeds and a declaration that the seeds will not be used for distribution, but only for its own need. Where and how much area of land will be used

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for the production, are also to be mentioned. After approval from the chairman of the department of vegetable cultivation, government sort commission, the application should be submitted to the ministry of agriculture for formal approval. For the approval of consumption of the sort in the country, the sort has to be tested jointly with the government sort commission for 3 years.

LOCATION OF FMC

On the basis of location of Storko and the main suppliers, it would be suitable FMC to be located within the region of Pleven. According to the specialists of Storko, there is no need to build regional centres under the circumstances that the enterprise processes total less than 200,000 tons of agricultural products annually. In connection with that, purchasing points used by Storko do not enter into the future activities of FMC. These points were used for purchasing the products in fresh form. These points were used to curtail the transport cost and to preserve the quality of the products.

ANNUAL BUDGET OF FMC

For establishment of FMC and organising its activities, approximately 6 months period will be necessary. For effective realisation of its activity and to make initial contracts with the producers, another 6 months period will be necessary. Thus the period defined in this way suggests that to avoid the risk of missing the coming agricultural year, FMC should be formed during the months of May, June.

To carry out normal activities of FMC, 1 director of FMC, 1 technical associate, 2 financial experts and 8 agriculturists are to be engaged. Taking into consideration the fact, that the main realisation of the project will depend on these personnel, they should be offered salary higher than the average for the country. Annual payroll including social security tax will be 26,200 USD (1,440 thousand leva).

Initial investments for the establishment of FMC are:

purchase of office equipment - 7,300 USD (400,000 leva);

office furniture - 5,500 USD (300,000 leva);

purchase of 4 automobiles - 45,500 USD (2,500,000 leva);

initial working capital - 1,465,000 USD (80,547,276 leva).

The necessary initial working capital is defined based on the needed quantities, assuming that Storko works at full capacity and the present product mix. The average yield per decare for each considered crop is defined based on statistical information. In order to define the costs for growing 1 decare of each separate crop information supplied by agricultural experts was used. The amount of the prepayment is defined based on existing practise in the country and its percentage for each crop is different.

Details of the necessary initial working capital is for each crop is presented in annex 2.

A special law treating the support to agricultural producers exists. This law governs granting credits to agricultural producers and 2/3 of the interest is covered by the state budget. The

producers of vegetables are excluded from this law.
A possibility exists that a part from the necessary initial working capital can be supplied by a Bulgarian commercial bank.
Grand total of the necessary initial investment is 1,523,300 USD (83,700,000 leva).
The main operational cost will be for office rent and for the representative purpose. Representative activity is foreseen to organise contacts with other institutions, potential clients and others. This will cost about 4,000 USD (200,000 leva). The office maintenance cost includes expenses for telephone, electricity, heating etc. and amounts to 3,000 USD (150,000 leva) annually. Expenditure for the rent is expected to be 6,000 USD (300,000 leva). Yearly expenditure for transport and official trips have been estimated to be 1,500 and 1,000 USD (80,000 and 50,000 leva) respectively. In other words the total annual operational cost will be approximately 15,500 USD (780,000 leva).

ANNEX C

STORKO PLEVEN EMPLOYMENT SITUATION

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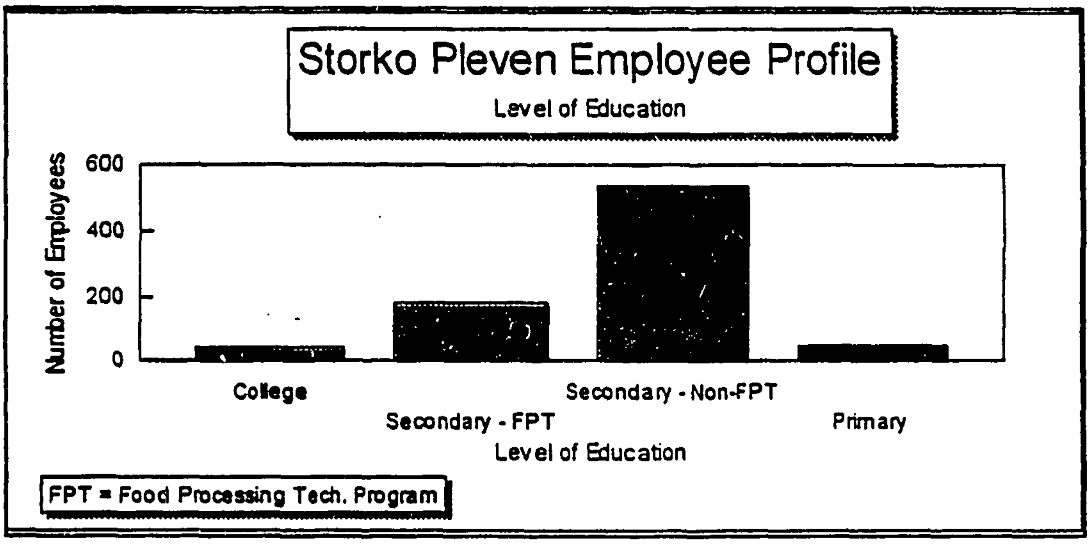
STORKO PLEVEN EMPLOYMENT SITUATION

In an effort to evaluate the current employment situation at Storko Pleven, a meeting was held at the factory in February 1994. Attendees included the President, Financial Manager, Production Manager, and Personnel Manager of Storko Pleven; representatives from both labor unions, the Confederation of Labor Support (CLS) and the Confederation of Independent Bulgarian Trade Unions (KNSB); and representatives from the Regional and Municipal Unemployment Offices. Discussions were held to gather employment statistics[1] and evaluate the roles of the labor unions and the local government.

The Employees

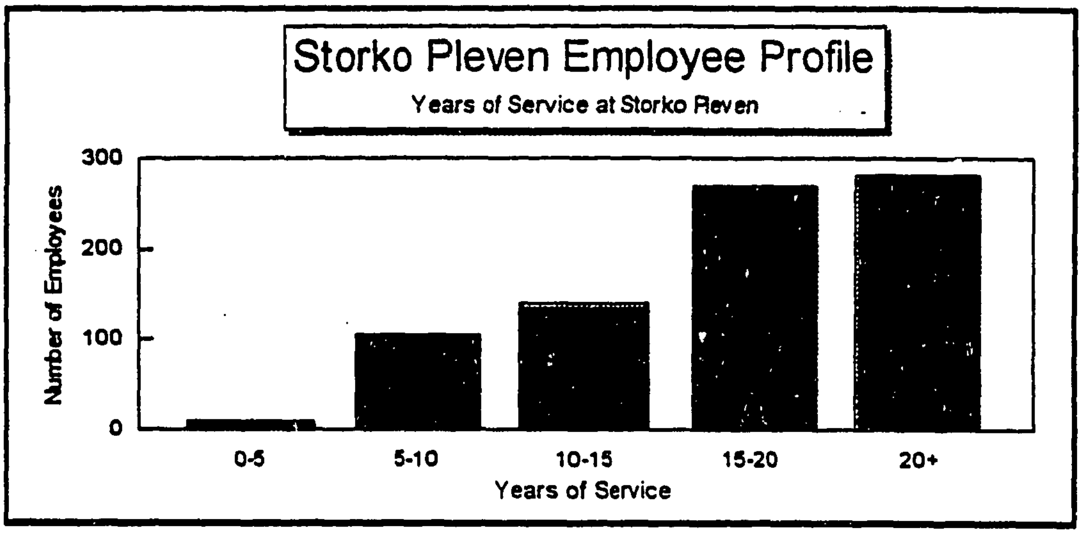
Although the number of employees is constantly fluctuating, the Personnel Director stated that there were 804 full-time, permanent employees as of December 31, 1993. An estimated 150 employees were laid off in January, but seasonal employees are still being hired and will continue to be hired and then let go due to the cyclical nature of production.

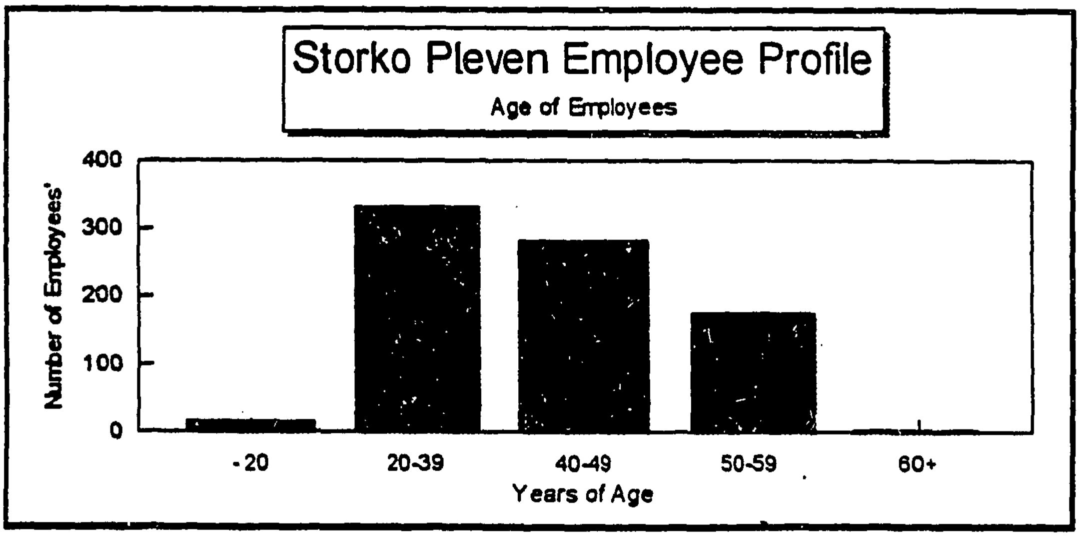
The Storko employees are well educated. Forty-two (5%) have completed college, and 538 (67%) have completed secondary school. An additional 176 (22%) have completed the Food Processing Technology Program offered by the Pleven High School. Only 50 (6%) employees have received no more than primary school education.



[1] All employment statistics are as of December 31, 1993 unless otherwise noted.

More importantly, the employees have a great deal of experience at Storko. Nearly 700 employees (86%) have more than ten years of service with the firm, and 281 (35%) have over twenty years of service with the firm. There are 105 (13%) employees with between five and ten years of experience, and only ten (1%) employees with less than five years of experience. Since 316 (41%) employees are between the ages of 20 and 39 and another 281 (35%) are between the ages of 40 and 50, it is likely that Storko Pleven has been their primary lifetime employer.





Unions

There are 2 labor unions in Bulgaria, the KNSB (Confederation of Independent Bulgarian Trade Unions), and the CLS (Confederation of Labor). Both of these unions are represented at Storko. Approximately 625 employees are union members,[2] including some seasonal workers, who are eligible for union membership because they must comply with the stipulations of the employment contracts negotiated by the unions. The unions negotiate employment contracts at the national level, and all contracts with individual employers must be at least as favorable to labor, and can be more so. In return for having these contracts negotiated, employees pay dues amounting to one percent of their wages.

The KNSB is comprised of the former trade unions that operated in Bulgaria under the socialist system. At Storko, members of this union are represented by a full-time employee of the union, and its membership consists of approximately 600 (92%) Storko employees.

The CLS is sometimes referred to as the "new union", since it was created after the revolution in 1990. On a national level, this union is generally the more popular of the two, but this is not the case at Storko, where it has only 25 members. The low level of membership is primarily due to the fact that the CLS is led by Storko's Deputy Chief Accountant, who also serves as volunteer union leader. Since she is a full time Storko employee, many because employees believe that she is less willing to oppose management on controversial issues.

The major differences between the KNSB and the CLS are on a national scale. Within the company there are few functional differences; workers choose between the two unions for political reasons or personal interpretations of the unions' national platforms. Relations between the two unions are cordial (not necessarily the case at all companies) and they co-operate in all negotiations. The two unions have common goals and work together with few political disagreements and relatively little infighting.

The unions have the authority to call a strike, although this has never been done. In the current contract, it is stipulated that the unions will not call a strike if all conditions of the contract are met. In return, management must comply with the employment contract and provide a full year's work to full time employees even though production is cyclical and seasonal.

Employment Contracts

The unions are responsible for negotiating collective labor agreements which are valid for one year. These contracts state the obligations of both management and employees, and outline very specifically the conditions of employment. Wages, benefits, number of employees, the circumstances under which downsizing can take place, vacations and overtime regulations are all

[2] As of February 15, 1994.

enumerated in these labor agreements.

In addition, the contract contains both sanctions and incentives. Incentives, which can amount to 20% of the base wage, are based on the amount produced and also consist of awards for extraordinary tasks (up to two months additional payment). Management personnel are not eligible for these incentive programs.

Individual workers are responsible for the quality of the goods that they produce, and sanctions are imposed when defective or inferior products are produced. In addition, sanctions can be imposed in cases of absenteeism, excessive and/or continued tardiness, failure to take proper care of equipment. The primary cause for sanctions is thievery. Disciplinary actions are on a sliding scale from verbal warning to dismissal. Monetary punishments are also included; a worker can be docked as much as 20% of his/her salary. However, these measures are difficult to coordinate due to the high number of seasonal employees.

Benefits

BENEFITS MANDATED BY LAW

Although wages are relatively low, Storko employees receive extensive monetary and non-monetary benefits, many of which are mandated by Bulgarian law. Workers make no direct contribution for any of these benefits, which include social security, workers compensation, overtime, unemployment assistance, and retirement benefits.

There is a social security fund which provides payments to mothers, pensioners, and those who are ill. The pension fund is included in social security. The state calculates both employer contributions and disbursements to employees. In addition, those injured on the job receive workers compensation, which is provided by the state savings bank in conjunction with the labor unions. The injured person is supposed to receive financial aid in the amount of the average wage, (contributed by both the state and the union) but it rarely amounts to that much.

Employment law also requires that workers be paid 150% of their base wage for overtime hours worked and 175% of their base wage for hours worked on weekends, holidays, and nights. However, Storko has been unable to pay these premiums of late, which violates both national law and the employment contract. The unions are tolerating it order to keep the company afloat, and compensatory time is sometimes given.

The regional labor departments provide unemployment assistance by making monthly payments to workers for six to twelve months after they are laid off. These monthly payments currently range from 1300 to 2000 leva depending on the age and years of experience of the recipient; they cannot be less than the minimum wage. If individuals are still unemployed at the end of the twelve month period, they may collect social security.

Temporary employees receive no unemployment compensation from Storko, but they can receive national unemployment if they have worked at least 6 months in the current year. Those with less than 6 months of service receive a small stipend from the social security department. Seasonal workers, which are hired under specific contracts for a certain period or task, can collect social security during the period of employment but not after.

Retirement benefits consist of 6 months wages paid in a lump sum upon retirement.

Benefits to families with children are extensive. For the first two years of an infant's life, the mother receives her full salary, but does not have to work. During the third year, the mother does not have to work, but she does not get paid.

Cash support for children is required by law and paid until the child reaches the age of sixteen. The monthly payment for one child is 276 leva. Families with a second child receive an additional 291 leva. Payment for a third child is 306 leva. The premium drops back down to 276 leva per child for each additional child beyond the third.

All Bulgarian firms are required to make a variety of payments to cover the costs of these services. An amount equal to 35% of gross wages must be paid to the social security fund, and an amount equal to 7% of gross wages must be paid to the unemployment fund.

Contributions to the state pension fund vary depending on the category of work. Storko makes payments ranging from 35% to 50% of wages. As of February 15, Storko owes five to six months of payments to the state pension fund.

ADDITIONAL BENEFITS PROVIDED BY STORKO PLEVEN

This year's employment contract extends some of the benefits required by law and provides for some additional non-monetary compensation.

For example, although the law stipulates that employees are entitled to a lump sum payment equal to 6 months wages upon retirement, Storko employees receive a lump sum payment equal to 10 months wages. Employees may receive an additional retirement bonus, depending on the length and quality of service. Those employees who must retire early due to illness receive a pension of 300 leva per month until they are old enough to collect the standard pension. Employees that are laid off continue to receive wages for two months, and then they receive the six months payments from the regional unemployment agency.

In addition, the unions provide a supplementary payment for employees who are ill or who need to support close relatives who are unwell. Finally, the union provides additional supplements for childcare and a cash payment to newlyweds.

Since the Storko production facilities are located on four different sites, the company provides free transport of workers from home to work, a serviced utilized by 90% of the workers. Each site has a snack bar with coffee, cigarettes, and snacks at subsidized prices, and the main building houses a canteen which provides meals at a 50% subsidy.

For those employees who cannot afford shelter for their families, Storko maintains a hostel, which families can rent for 5 leva/month. In the past, it has been used strictly as a temporary shelter; employees described it as "miserable" and most stay there only until they can afford better. However, this hostel is also available to workers who have been laid off, and as downsizing continues, demand for it may increase.

Lastly, Storko Pleven owns dachas on the Black Sea that are used for employee vacations. Total room and board costs are split evenly by the employee and the company. All employees are entitled to use it, but few have in recent years because they have been unable to afford even 50% of the costs.

WAGES

All employees of Storko Pleven are paid monthly. The employment contract outlines minimum wages, and the average wage last year was 3000 leva. This will be increased by 30% next year to compensate for inflation.

Average seasonal wages are about 20% less than the average wage of full time employees, although they can sometimes be higher due to a shortage of labor supply in peak periods. The Financial Manager indicated that minimum and average salaries at Storko are above national average levels.

In addition, banking services are offered to employees. Wages can be directly deposited into State bank accounts, and cash can then be withdrawn. Employees rarely exercise this option, however, due to the extremely inflationary environment. In addition, errors are made quite frequently, preventing employees from accessing the funds. Generally, pay is taken in cash and converted into other assets which hold wealth more effectively.

Wages are not currently indexed to inflation, although the union would like them to be. The unions have been flexible on this and other issues, because they are keeping in mind the overall financial position and problems of the company.

ROLE OF THE MUNICIPALITY

The City of Pleven provides a variety of services to the factory and its workers, which are funded in part by a ten percent tax on business profits. Buses and trolleys are subsidized by the city and water and sewer services are provided at an unsubsidized rate. Storko currently uses the municipal water and sewer but plans to develop their own service in order to save money.

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The city provides an extensive retraining program for the unemployed. Course topics are chosen based on the current needs of local employers and future demands anticipated by the unemployment office. The structurally unemployed are the chief target, and no one who has been fired is eligible.

In 1993, courses taught included starting a business, managing a small business (six months each), computers and accounting (3 months each), job search techniques and resume preparation, construction, tailoring and cooking (one month each). The city organizes tenders for each new course and pays all course expenses.

In conjunction with the regional labor office, the municipality has developed a program to provide temporary employment for those who have been unemployed for more than twelve months. This program pays the unemployed to perform community service work for a small wage. Companies who wish to participate apply to the municipal unemployment office, which matches workers and projects. The municipality pays minimum wage, and the company pays any additional wages, plus social security and pension contributions.

CONCLUSION

In conclusion, despite recent downsizing, Storko is still overstaffed, and the workers are extremely concerned about job security. Employees care little about the philosophical issues of privatization; they simply want to remain employed. In addition, while many benefits are negotiable, Bulgarian workers are accustomed to a very high level of assistance; morale (and therefore productivity) may be severely affected if there are dramatic benefit cuts. This situation represents a major challenge to any potential investor.

The investor must consider absorbing some of the costs of retraining. Since 35% of the employees have worked at Storko for over 20 years, it is likely that they have no other employment experience and few transferrable skills. Another 50% of the employees with between 10 and 20 years of experience will face similar problems if laid off. Creation of a retraining center or support for the municipal retraining and unemployment assistance programs would be both helpful and appreciated.

Storko Pleven is a source of pride for many area residents. Any new investor who wishes to be successful will have to maintain this level of community pride by being not only an employer but also a good corporate citizen, sponsoring local youth activities and public works projects.

ANNEX D

STATEMENT OF WORK

ATTACHMENT A

SCOPE OF WORK

FOOD INDUSTRY PRIVATIZATION IN BULGARIA

I – Background

The Privatization Group of Development Alternatives, Inc. (DAI) and Deloitte and Touche (DT) consortium has successfully completed the analysis and tasks outlined in work order # 21. With the completion of business plans, a final activity underway, their efforts in Bulgaria will result in the privatization readiness of Selvikonserv and Storco Pleven, two enterprises in the processed fruit and vegetable subsector. The consortium has carried out extensive and detailed analysis on the markets and operations of both these enterprises in order to transfer the requisite skills in privatization to the Bulgarian counterparts in the Ministry of Industry (MOI) and the Privatization Agency (PA). Both the MOI and the PA have expressed significant interest in continuing work with DAI-DT and are interested in leveraging the existing bank of information and understanding that they have developed in this subsector and utilizing it to develop a fast-track privatization decision model that can be applied to a mass privatization plan.

The DAI-DT consortium will expand current activities in two areas: continued investment promotion and mass privatization.

- Transaction Facilitation DAI-DT will continue the investor identification, joint venture development, and enterprise restructuring process for Selvikonserv and Storco Pleven. This will include continuing to promote the offer-tender process for these enterprises.

- Mass Privatization DAI-DT will implement a concise decision model for ten (10) additional enterprises in the agribusiness and related light industry sectors: five (5) with physical asset book value of less than 10 million levs and five (5) with physical asset book value of more than 10 million levs. Experience in these sectors allows DAI-DT to design an effective decision model for privatization readiness for individual enterprises which could be implemented in a 10 month period. Because of the work completed under work order #21, the tasks proposed can be accomplished at relatively little marginal expense.

Leveraging AID Resources

The expansion of the contractor's on-going work in Bulgaria will leverage on the existing USAID investment in the processed food subsector. Phase I of the current activity has generated information which is applicable to the 10 enterprises proposed for the new project. DAI-DT has already built a solid understanding of the structure, weaknesses, and opportunities in these important sectors. As a result of the detailed competitive positioning analysis and the market study of the current activity D&T now knows the major sectoral players and the options they have in Bulgaria's emerging free market. Furthermore, they understand the deteriorating nature of Bulgaria's distribution system. The best export opportunities for Bulgarian companies in these sectors have been identified. In addition, the consortium understands the structure and issues driving Bulgaria's current legal, regulatory and institutional framework related to privatization. Most importantly, the DAI-DT consortium has developed a solid relationship with key Government of Bulgaria officials who are

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responsible for moving the privatization process along. The officials' respect and trust in the contractors professional approach, greatly enhance the contractors ability to get results more quickly and efficiently.

II – Objectives

The proposed project will create momentum for privatization activities in Bulgaria through a two phase process. The first phase will focus on iniatiating privatization transactions for two enterprises. The second phase will culminate in the development and implementation of a mass privatization model.

III – Statement of Work

The contractor will assist appropriate Ministries and the Privatization Agency in creating momentum for the privatization process in Bulgaria. The work will be divided into two phases. During phase I, the contractor will work with the Government of Bulgaria to use the privatization readiness analysis completed under work order # 21 to structure a privatization transaction for Storco Pleven and Selvikonserv. Activities undertaken during this phase will be designed to close a privatization transaction. Such a transaction may include, but is not limited to an outright sale of the enterprise, the spinning-off of individual units or facilities, or the implementation of third-party production and distribution contracts that include option to buy enterprise equity at a future date. During phase II, the contractor will work with appropriate ministries and the Privatization Agency to develop and implement a mass-privatization model designed to arrive at privatization decisions quickly and in a cost effective manner. The model will be applied to 10 enterprises in the agribusiness and related industry sectors. Phase II activities will commence following AID contracting officer's evaluation of Phase I activities and official approval of Phase II work.

Transaction Facilitation

Task I: Information Memoranda for Selvikonserv and Storco Pleven will be distributed and marketed to a limited number of potential investors. The identification of potential investors which is currently underway will continue. When appropriate, presentations to investors will be conducted. These presentations will highlight the investment opportunities offered by these enterprises.

Task II: Bilateral negotiations will be conducted with potential deal participants including the major banks of each enterprise, the Bulgarian-American Enterprise Fund, the management of the enterprise, foreign investors and the executing Bulgarian Government Agency. The objective of this task to is construct a consortium of future enterprise owners that addresses the operational, marketing and financial needs of the enterprise.

Task III: While bilateral negotiations are being conducted, the contractors will work with the executing agencies to resolve the outstanding legal claims on each enterprise. The contractor will also seek to assist the Bulgarian Government bodies in developing and institutionalizing appropriate severance packages to be awarded to workers who may be displaced as a result of the privatization. In addition the contractor will assist these agencies in mounting a publicity campaign aimed at the workers and communities surrounding these enterprises. This campaign will educate individuals affected by the reforms about the benefits of privatization and reassuring them that the government is prepared to address the social costs often associated with privatization.

Task IV: With the information obtained from the bilateral negotiations, the contractor will define the investment structure for each enterprise most likely to result in a transaction. Offering memoranda will then be completed for attractive deal scenarios. An employment impact analysis will be completed. Specific recommendations will be made to restructure the enterprises' debts, deal with any resulting redundant labor and resolve existing legal claims.

Task V: Once the deal is structured, appropriate information will be distributed to all relevant parties. Following their review of these materials, the contractor will begin multilateral negotiations to finalize an agreement. Upon completion of this process, the buying group will make a formal proposal to the executing agency.

Note: While, the above strategy is the most realistic delineation of tasks, it is understood that the uncertainties inherent in the sale of an enterprise may alter the timing of certain components -- especially where multilateral negotiations are involved.

Mass Privatization

Task I: Together with the appropriate ministries and the PA, DAI-DT will complete a mass privatization decision framework. The resulting decision model will combine free market principles with economic and social goals of the Bulgarian Government. It will be designed so that with a minimum set of information, the respective Government officials can make a decision on the appropriate course of action for the privatization of a given enterprise. These appropriate actions include: liquidation of assets, selling by auction, formal bidding, special negotiations for enterprises of special interest to the Government of Bulgaria, and combinations of all these actions. They may also include non-traditional divestiture schemes such as: management contracts, leases, fragmentation and demonopolization.

Task II: DAI-DT will complete an enterprise profile for each of the 10 enterprises. Attached to this proposal is a copy of one of the enterprise profiles developed under the current Bulgaria Food Privatization Project. Project staff will use the information in these profiles to assess the market, financial and operational condition of each company, and as a marketing tool for identifying and educating potential investors about the various opportunities in the Bulgarian processed fruit and vegetable subsector.

Task III: Based on data collected from the enterprises, DAI-DT will complete enterprise valuation and restatement of financial statements. An appropriate method(s) of valuation for each of the enterprises will be used. For example, if the initial findings suggest little potential for enterprise survival, they will value the company using a liquidation method. On the other hand, if the enterprise shows promise to emerge as a market leader, discounted cash flow and replacement cost methods of valuation will be used. Other analysis may be conducted as appropriate.

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Task IV: With the information in the enterprise profile and the results of the valuation and restatement of financial statements, the contractor will design a privatization strategy for the individual enterprise. The individual strategies will be tied to the "decision rule" privatization model developed under task I.

Task V: Throughout this process, DAI-DT will work with the appropriate ministries and the PA to set up appropriate organizational structures to implement the agreed-upon mass privatization model for the processed fruit and vegetable subsector. The contractor will also work with the executing agency to conduct a publicity campaign that educates the Bulgarian public on the benefits of privatization and ways to address some of its social costs.

IV -- Deliverables

Phase I:
1. Offering Memoranda
2. Valuation of defined investment scenario
3. Completed privatization transaction as defined on page 2 of this document

Phase II:
1. Ten enterprise profiles (one for each enterprise)
2. Ten privatization strategies
3. Valuation for selected enterprises
4. Investor report for selected enterprises

In addition, the contractor agrees to deliver monthly progress reports and fund flow statements to the AID contracting officer throughout the life of the project.

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ANNEX E

PROFILE OF FILIPPOS, S.A.

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I. Description of Filippos, S.A.

Filippos S.A. (Filippos, or the Company), located in Veria, Greece, is a producer of canned fruit products (peaches, apricots and fruit-cocktail), tomato paste, and fresh fruit. Filippos management estimates 1993 revenues to be 3.5 billion Greek Dracmas (GDR), or about US$ 14.3 million, of which approximately 46% comes from the sale of canned peaches; 21% from tomato paste; 16% from fruit-cocktail; 10% from fresh fruit; and 7% from canned apricots. Exports accounted for approximately 97% of 1993 sales. The Company's top five export markets in 1993 were Mexico, the U.K., France, Poland and New Zealand. The Company employs approximately 55 full-time staff and an additional 600 seasonal staff during the peak production months of July, August and September.

Filippos was founded as a private company in 1975 by P. Pandelides and his two sons, Demetrios and Michael Pandelides. Demetrios and Michael Pandelides (Management) now own and operate the Company, as heads of Sales and Production, respectively. The Company consists of a 15,000 square meter canning facility (including warehouse), and an 11,000 square meter tomato paste facility (including warehouse) acquired in 1992. In 1991, the Company formed Filippos U.K., Ltd., a London-based trading company, to handle exclusively the Company's exports to the U.K. and Ireland.

Management believes the Company has an established reputation and market-share, based on the consistent quality of its products. Veria is located in northern Greece, which is climatically suited to growing various, high-quality fruits and vegetables, including peaches, apricots, oranges, grapefruits and tomatoes. The natural flavor and freshness of the products is optimized throughout the Company's canning process by aggressive quality-control procedures, overseen by Michael Pandelides.

II. Description of Products

Below is a description of the current products produced by Filippos, S.A.

Product	Container Size	Production Capacity	1993 Production
Canned Peaches	1, 5 KG's	27,000 tons	22,000 tons
Tomato Paste	1, 5, 220 KG's	14,000 tons	9,000 tons
Fruit Cocktail	1, 5 KG's	5,000 tons	4,000 tons

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Canned Apricots	1, 5 KG's	4,000 tons	3,000 tons
Fresh Fruit[1]	[New Business]		

As markets in the food industry are heavily influenced by climate, the Company's annual production volume is a factor of commodity pricing and demand, and may fluctuate significantly from year to year. For example, a drought in North America will result in a scarcity of global supply and, consequently, a high production year for Filippos (assuming Greece did not also experience a drought), and vice-versa; whereas a bumper year in North America will result in a glut of supply, and consequently a low production year for the Company.

No such climatic swings occurred in 1993. Management believes, therefore, that the above figures are a fair and accurate representation of the Company's year-to-year production volume.

III. Production Schedule

Below is a schedule of the Company's annual production.

Product	Production Dates	Facility
Canned Apricots	June 10 - July 10	Canning Line
Canned Peaches	July 20 - Sept. 20	Canning Line
Tomato Paste	July 20 - Oct. 20	Tomato Line
Fruit Cocktail	Oct. 1 - Dec. 1	Canning Line
Fresh Fruit	Dec. 1 - April 1	Canning Warehouse
Plant Maintenance	Nov. 1 - June 1	Canning/Tomato Line

The Company's fruit canning line pits, slices, skins, washes, cans, and sterilizes apricots, peaches [and fruit cocktail] between June 10th and December 1st of each year; there is a ten day cleaning and retooling period between each product. As the canning process brings the machinery and equipment into constant contact with citric acid, a more thorough annual cleaning of machinery and equipment begins on November 1st (overlapping the final month of production). During the seven month period from November to May,

---

[1] Oranges, tangerines, grapefruit and lemons.

the entire line is disassembled, cleaned, repaired, and if necessary improved, and reassembled.

The tomato paste line, purchased by the Company in 1992, produces and packages tomato paste for both consumer and industrial markets.

As part of the Company's product expansion strategy, it has recently established a fresh fruit packaging and distribution facility.

IV. Markets

In 1993, 97% of the Company's sales were from export. The top five markets were Mexico, the U.K., France, Poland and New Zealand. In all, Filippos exports to more than 20 countries globally, spanning the Americas, Europe, Africa, Scandinavia, Russia, the Middle East and Asia. Revenues generated from these sales are received in hard currencies.

V. Operating Performance

As a private company registered in Greece, Filippos is required to disclose its operating results and financial statements. Management has stated that its historical performance has been at a level adequate to expand both the production and marketing sides of the business from internally generated funds. The Company has a limited amount of debt relative to both assets and cash flow. Unaudited financial statements are attached.

Acquisition Rationale

Filippos S.A. believes that, under appropriate conditions, long-term investment in the Bulgarian food-processing industry will benefit materially and mutually the current employees and management of Storco-Pleven, the new owners and staff of Storco-Pleven, and the Government of Bulgaria (GOB).

In response to the nomination of Storco-Pleven for privatization, Filippos S.A. was approached by Development Alternatives, Inc., acting on behalf of the Privatization Agency and as contracted by the United States Agency for International Development. After reviewing the assets, operations, and financial condition of Storco-Pleven, and the economic, commercial and social environment of Bulgaria, the Company presented the Privatization Agency with a Letter of Intent, dated January 14, 1994, to purchase a minimum of 51% of the shares of Storco-Pleven. On April 14, 1994

Filippos S.A. presented an Offer Letter to the Privatization Agency describing its cash offer for the acquisition of Storco-Pleven.

Value Added through Purchase

The Company believes that, under appropriate conditions, the purchase of a majority of the shares of Storco-Pleven will offer the following:

* On going long-term growth of Storco-Pleven predicated on self-generated profits and reinvestment;

* A highly trained, economically viable labor force benefitting from cross-training development at the Filippos site in Veria;

* Development of new management from within the restructured Company;

* Development and modernization of the Bulgarian food-processing industry through new capital investment, improved managerial expertise, and, possibly, vertical and horizontal integration;

* Access to new marketing opportunities and product expansion and diversification;

* Access to new and more attractive sources of short-term and long-term financing;

* Provision of new technology and equipment to upgrade existing property, plant and equipment;

Filippos S.A. and the consulting team of Development Alternatives, Inc., after thorough analysis, believe that the above mentioned achievements will offer synergies that will result in improved efficiency, competitiveness, and overall profitability.

ANNEX F

SELVICONSERV EMPLOYMENT STATISTICS

SELVICONSERV EMPLOYMENT STATISTICS
JANUARY 1, 1994

TOTAL NUMBER OF EMPLOYEES = 150, plus 40-50 seasonal workers

YEARS OF EXPERIENCE AT SELVI

-5	47	31.33%
5-10	39	26.00%
10-15	12	8.00%
15-20	7	4.67%
20-25	11	7.33%
25-30	25	16.67%
30+	9	6.00%
TOTAL	150	1

EDUCATIONAL LEVEL

Univ./Coll.	17	11.33%
Spec. Secondary	23	15.33%
Secondary	27	18.00%
Vocational	28	18.67%
Primary	55	36.67%
TOTAL	150	

AGE DISTRIBUTION

	Overall	Male	Female	% Overall
20-25	24	3	21	16.00%
25-30	21	10	11	14.00%
30-35	18	7	11	12.00%
35-40	14	5	9	9.33%
40-45	17	3	14	11.33%
45-50	30	1	29	20.00%
50-55	20	10	10	13.33%
55+	6	6	0	4.00%

EMPLOYMENT CATEGORY DISTRIBUTION

	Actual	Planned	%Actual
Manager	1	1	0.67%
Managing Specialist	11	11	7.33%
Specialist	15	15	10.00%
Auxiliary Staff	3	3	2.00%
Workers	120	138	80.00%
TOTAL	150	168	

Production Sites	102	120
Steam Production	6	6
Transportation	13	13
Trade/Purchasing	7	7
Management	22	22

ANNEX G

STORKO PLEVEN EMPLOYMENT STATISTICS

STORKO PLEVEN EMPLOYEE STATISTICS
DECEMBER 31, 1993

TOTAL NUMBER OF NON-SEASONAL EMPLOYEES: 806

LEVEL OF EDUCATION

College	42	5.21%
Secondary - FPT	176	21.84%
Secondary - Non-FPT	538	66.75%
Primary	50	6.20%

YEARS AT STORKO

0-5	10	1.24%
5-10	105	13.03%
10-15	140	17.37%
15-20	270	33.50%
20+	281	34.86%

AGE DISTRIBUTION

- 20	15	1.86%
20-39	331	41.07%
40-49	281	34.86%
50-59	175	21.71%
60+	4	0.50%

STORCO, PLEVEN

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	Production Line	Current Location	Proposed Location	Current Number of Employees	Title Held	Full time Seasonal Temporary/	Optimum Number of Employees	Title Held	Full time Temporary/ Seasonal	Notes
	SITE 2									
1	Gyuvetch - ready-made meal 05173	new site	new site	1	closing machine operator	FT		same as ←	as at left	
				2	operator	FT	63			
				1	sanitary inspector	FT				
				1	motor truck driver	FT				
				57	worker	S				
				1	shift chief	FT				
2	Gyuvetch - ready-made meal 51153	new site	new site	1	closing machine operator	FT				
				2	operator	FT	74			
				1	sanitary inspector	FT				
				1	motor truck driver	FT				
				68	worker	S				
				1	shift chief	FT				
3	Sterilized green peas	new site	new site	45	worker	S				
				1	closing machine operator	FT	50			
				1	sanitary inspector	FT				
				1	motor truck driver	FT				
				1	operator	FT				
				1	shift chief	FT				
4	Sterilized green beans	new site	new site	22	worker	S				
				1	closing machine operator	FT	27			
				1	sanitary inspector	FT				
				1	motor truck driver	FT				
				1	operator	FT				
				1	shift chief	FT				
5	Sterilized whole unpeeled tomatoes	new site	new site	32	worker	S				
				1	closing machine operator	FT	37			

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	Production Line	Current Location	Proposed Location	Current Number of Employees	Title Held	Full time Seasonal Temporary/	Optimum Number of Employees	Title Held	Temporary/ Seasonal	Notes
				1	sanitary inspector	FT				
				1	motor truck driver	FT				
				1	operator	FT				
				1	shift chief	FT				
6	"Lecho"	new site	new site	40	worker	T				
				1	closing macine	FT				
					operator		45			
				1	sanitary inspector	FT				
				1	motor truck driver	FT				
				1	operator	FT				
				1	shift chief	FT				
7	Frozen fruit	old site	old site	1	motor truck driver	FT				
	and vegetables			1	sanitary inspector	FT				
				1	shift chief	FT	31			
				28	worker	S				
	Employees directly			20		FT	26			
	involved in production			19		S				
	Auxiliary staff			125			71			
	Total			164			97			
	Managing specialists			12			7			
	Specialists			8			6			
	Servicing staff			3			1			
	TOTAL -SITE 2			$\boxed{187}$	Actual Total		111			
	<u>SITE 3</u>									
1	Ajvar "Kajluka"	old site	old site	2	vacuum equipment	FT				
					operator					
				1	closing machine	FT				
					operator		30			
				1	autoclave operator	FT				
				1	sanitary inspector	FT				
				1	motor truck driver	FT				
				1	shift chief	FT				
				25	worker	T				
2	Jam	old site	old site	2	vacuum equipment	FT				
					operator					
				1	closing machine	FT				

	Production Line	Current Location	Proposed Location	Current Number of Employees	Title Held	Full time Seasonal Temporary/	Optimum Number of Employees	Title Held	Temporary/ Seasonal	Notes
					operator		34			
				2	autoclave operator	FT				
				1	motor truck driver	FT				
				1	shift chief	FT				
				27	worker	T				
	Employees directly			10		FT	10			
	involved in production			38		S	31			
	Auxiliary staff			19			20			
	Managing specialists			3			3			
	Specialists			2			2			
	Servicing staff			2			1			
	TOTAL - SITE 3			74			67			
	SITE 6									
1	Tomato puree aceptic storage	old site	new site	1	straining machine operator	FT				
				2	vacuum equipment operator	FT	22			G-6
				1	pump operator	FT				
				1	motor truck driver	FT				
				1	sanitary inspector	FT				
				16	worker	S				
2	Tomato puree in drums	old site	new site	1	straining machine operator	FT				
				2	operator	FT	25			
				1	pump operator					
				1	motor truck driver	FT				
				20	worker	S				
3	Tomato puree 1/99	old site	new site	3	straining machine operator	FT				
				3	operator	FT				
				1	closing machine operator	FT	23			
				1	sanitary inspector	FT				
				1	motor truck driver	FT				
				1	shift chief	FT				
				13	worker	S				

	Production Line	Current Location	Proposed Location	Current Number of Employees	Title Held	Full time Seasonal Temporary/	Optimum Number of Employees	Title Held	Temporary/ Seasonal	Notes
4	Ketchup in twist-off jars 0.5	new site	new site	1	closing machine operator	FT				
				1	labeling machine operator	FT	26			
				1	sanitary inspector	FT				
				1	motor truck driver	FT				
				1	shift chief	FT				
				21	worker	T				
5	Ketchup in bottles 0.340	new site	new site	1	closing machine operator	FT				
				1	labeling machine operator	FT	30			
				1	sanitary inspector	FT				
				1	motor truck driver	FT				
				1	shift chief	FT				
				25	worker	T				
6	Nectar in bottles 0.5	new site	new site	1	straining machine operator	FT				G-7
				1	closing machine operator	FT	36			
				1	sterilizer operator	FT				
				1	labeling machine operator	FT				
				1	sanitary inspector	FT				
				1	motor truck driver	FT				
				1	shift chief	FT				
				28	worker	S				
	Employees directly			13		FT	16			
	involved in production			32		S				
	Auxillary staff			66			51			
	Total				111					
	Managing specialists			9			8			
	Specialists			3			4			
	Servicing staff			2			1			
	TOTAL - SITE 6			125			80			
	METAL CAN SITE									

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	Production Line	Current Location	Proposed Location	Current Number of Employees	Title Held	Full time Seasonal Temporary/	Optimum Number of Employees	Title Held	Temporary/ Seasonal	Notes
1	Meilinger can fabrication line	old site	old site	1	machine operator	FT				
				2	assistant machine operator	FT				
				1	motor truck driver	FT	8			
				1	packaging worker	FT				
				1	fitter	FT				
				1	shift chief	FT				
				1	laboratory assistant	FT				
2	Chevolani can fabrication line			6	turner	FT				
				1	foiling equipment operator	FT	10			
				1	fitter	FT				
				1	electronic engineer	FT				
3	Metal can fabrication			1	cutting machine operator	FT				
				1	collector	FT				
				1	machine operator	FT				
				1	bert machine operator	FT				
				1	closing machine operator	FT				
				1	antibloating machine operator	FT				
				4	can arrangement worker	FT				
				1	foiling equipment operator	FT				
				1	fitter	FT				
	Employees directly involved in production			20			20			
	Auxiliary staff			55			42			
	Managing specialists			4			2			
	Specialists			5			4			
	Servicing staff			6			1			
	TOTAL - MCS			83			69			
	PRODUCTION SITES			469			334			

	Production Line	Current Location	Proposed Location	Current Number of Employees	Title Held	Full time Seasonal Temporary/	Optimum Number of Employees	Title Held	Temporary/ Seasonal	Notes
	TRADE			117			86			
	PURCHASES			31			14			
	TRANSPORTATION			58			53			
	CANTEEN			18			13			
	COMMON			96			76			
	LARGE-SCALE CONSTRUCTION			17			16			
	NEW SITE			0			10			
	OVERALL TOTAL			806			602			
	THE COMPANY									
	Management			3			3			
	Managing specialists			83			63			
	Specialists			67			49			
	Servicing staff			30			13			
	Security guards			36			39			
	Workers			587	← includes seasonal?		435			
	TOTAL			806			602			

ANNEX H

MEMO ON SELVI INVESTOR QUESTIONS

4 MAY 1994

8 March 1995

DAI
Development Alternatives, Inc
Investment and Privatization Services
7250 Woodmont Avenue
Suite 200
Bethesda, MD 20814
Phone: (301) 718-8699
Fax : (301) 907-2655
Telex: 424822 DAI UI

Fax No :011-359-2-888-769

Country :Bulgaria

Charge No :5811

No. of Pages :

To: David Saer, DTT, Sofia
John McGuiness, DTT, Sofia

RE: USAID Bulgaria Project/Selvi Investor Questions

From: Doyle Peterson, Investment and Privatization Services Group

Dear Mr. Saer and Mr. McGuiness:

We have a U.S. investor group, Novecon, who have been going through the Information Memorandum and the other prepared documents for Selvi.

The managing director of Novecon, Anthony (Tony) Tully is trying to put together a presentation for his board of directors to justify further research and a trip to Bulgaria to visit the site and gather additional information. This board meeting is planned to occur this Monday morning coming. Mr. Tully has several questions that we need to have addressed. If you are able to provide the following information or can work with Mr. Kasabov and Ivelina to get the information faxed to us it is essential for the continued interest of this investor.

I am sending this same fax to Mr. Kasabov with the hope that he can help you with the information needed.

1. If you have prepared an charts or tables on Cost of Production by Product Line and Sales by Product Line can you send them to me.

2. If you have a full year 1993 financial statement and income statement, even if it is preliminary we would like that.

3. We need a product price list for ALL products that have a western market in the following format:

		Domestic Price	Export Price
Jam:	Strawberry		
	Cherry		
	etc........		

4. We need to know what countries, quantities, and products have been contracted for sale to western markets for the 1994 year. Then we need to know what the projections are for potential sales to

the western markets, again by product, quantity, and country. In addition to western markets, also break out the sales to former centrally planned eastern economies as well and indicate if they are in hard currency or not.

5. We need to know what the total revenue that can be processed through the Jam line is, ie:

   How many dollars or lev of jam per year can be processed?
   How many dollars or lev of jam can be processed without chemical storage?
   How many dollars or lev of jam can be processed if aseptic storage is available?
   How much will aseptic storage cost to install?

   The figure of 4000 tons per year of jam is given in the memorandum as the volume of the line, what does this convert to in actual revenue that can be generated.

   You can either use an average of all jam prices or actual production to determine the mix of products to use in the calculation.

6. We need Total Sales by product category, Export sales by product category, and domestic sales by product category for the last two or three years. We have charts file names SELDOMES.WK3 and SELEXPOR.WK3 but the charts total rows do not add up by column, the column headings don't line up, and we don't know what the meaning of KT and DT is in the headings. I don't know if this is a chart that Ivelina has or if this is something that DTT has worked on......we just have it in hard copy......could you try to send corrected copies.

7. We need the following table filled out:

	1991	1992	1993	1994 plan
Total Domestic Sales				
Total Export Sales				
Total Sales				
Jam Tot Exp				
Tot Dom				
Tot Sales				
Marmalade Tot Exp				
Tot Dom				
Tot Sales				
Compote Tot Exp				
Tot Dom				
Tot Sales				
Vegetables Tot Exp				
Tot Dom				
Tot Sales				

Main categories of vegetables, ie. like peppers or ajvar......if they make up more then 40% of the sales for a category.

Ajvar Tot Exp
Tot Dom
Tot Sales

8. We need a chart with sales by country or market for any sales made in hard currency as follows:

	1991	1992	1993	1994 Plan
Germany				
U.S.				
Turkey				
Greece				
etc....				
etc....				

Thank you in advance for your help on this. This is an URGENT REQUEST. We have verified that Novecon has invested in Bulgaria in other industries and is prepared to invest in the food industry but it is ESSENTIAL that Mr. Tully receive the information noted above in order to continue his interest and that of his company in time for the Board Meeting.

If only part of the information can be prepared immediately please send what you have, that will allow us to get the analysis started by the Novecon staff.

Sincerely

Doyle Peterson

CC: file, Mr. Kasabov

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ANNEX I

STORKO PLEVEN DEBT RESTRUCTURING PROPOSAL

DAI

Development Alternatives, Inc.
7250 Woodmont Avenue
Suite 200
Bethesda, MD 20814

Mr. Tsotchev, Deputy Prime Minister
Council of Ministers
Sofia
Commission

cc: Executive Director, UBB
Mrs. Vassileva, Privatization Agency
Mrs. Daniela Bobeva, Foreign Investment

August 5, 1994

Dear Mr. Deputy Prime Minister:

In accordance with your position and responsibilities pertaining to foreign investment, and on behalf Filippos, S.A. of Veria, Greece (Filippos) and Pangaea, Ltd., of Sofia (the Investor Group), we are writing to ask for your support in assisting Development Alternatives, Inc. (DAI) in its efforts to restructure and reduce credits owed to United Bank of Bulgaria (UBB) by Storco-Pleven (Storco), a producer of canned foods.

The Filippos offer to purchase Storco is, to our knowledge, the only purchase offer for Storco. The offer represents the culmination of approximately two years' worth of activities in Bulgaria by DAI and Deloitte & Touche, operating jointly under a United States Agency for International Development (USAID) food industry privatization contract. As that contract will expire at the end of this month, on August 31, 1994, it is with great urgency that we solicit your attention regarding our deliberations with UBB. Below is a brief history of the Investor Group's interest in the privatization of Storco, and a short analysis of the situation at hand.

Pursuant to Filippos's Letter of Intent to purchase Storco, submitted to the Privatization Agency January 14, 1994, the company presented a formal offer to Ms. Reneta Indjova, Executive Director of the Privatization Agency, on April 14, 1994. As the Filippos offer price, not including investment capital, was less than Storco's outstanding credits (primarily owed to UBB), the Privatization Agency proposed that Filippos present its offer to UBB for the bank's approval.

Filippos, and/or Pangaea, Ltd., its investment partner, and DAI subsequently held a series of three preliminary meetings with representatives of UBB in an effort to determine UBB's reaction to a proposed debt restructuring, the most recent held on June 23, 1994. Unfortunately, at no time did UBB show a willingness to negotiate, nor to even offer a constructive response to the investors' proposals. The investor group is still waiting to receive UBB's response to the June 23rd meeting.

It is the opinion of the Investor Group that a debt restructuring and reduction is necessary; Storco's outstanding debt to UBB totals approximately 212 million leva (principal plus

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accumulated interest, none of which has been paid by Storco). This is approximately 65% of the company's total debt, and is prohibitively large relative to the company's earnings potential. Even the most optimistic forecast for the company makes significant repayment highly doubtful and probably impossible. Any pay-down of the UBB loans, in fact, likely depends on the complete restructuring of Storco pursuant to the company's purchase by a qualified private investor such as Filippos.

The Filippos investment plan for the restructuring of Storco is based on three strategic areas:

I. Rehabilitation and Technological Advancement of Productive Assets:
The Filippos team will identify and rehabilitate those assets capable of producing earnings for Storco, and replace or transform those assets that are no longer economically viable (e.g., product, production, and mechanical obsolescence).

II. Proven Management Expertise in Marketing, Finance, and Technology:
Once the company's assets have been repositioned for optimum production, the Filippos team will institute the benefits of its marketing, financial and technological management skills gained over its 25 year history as a profitable and successful business in the canned fruit industry.

III. The Creation of Positive, Internally-Generated Cashflows:
The result of these two broad changes will be the creation of positive, self-generated cashflow (i.e., without the benefit of cash subsidies from banks or government) by Storco-Pleven, marking the beginning of true profitability by Storco, and presenting for the first time the possibility of a fully productive bank-client relationship.

Even with such restructuring, however, our analysis indicates that a repayment level exceeding 40% of all Storco debts will result in a cash drain directly and negatively affecting the profitability of the company and its ability to compete in international markets. This 40% "hurdle rate" assumes the successful implementation of the Filippos investment plan and the sharing of cashflows 50/50 between Storco, for reinvestment and growth, and Storco creditors.

Consequently, the Filippos debt restructuring proposal is spread over four to six years and totals 125 million leva (2.3 million dollars), based on a repayment ratio of approximately 40 percent to all creditors: 85 million leva paid to UBB, and 40 million leva paid to other creditors, including Suppliers, Government Debt, Employee Salaries/Insurance, and Other. It is the firm position of the Investor Group that any additional cash amounts be used as working capital and machinery investment rather than as repayment of the loan or as an increase in the purchase price of the company.

In that regard, the Filippos purchase proposal includes one million dollars of working capital investment, to be paid in within the first six-months of operation, and an additional two million dollars of investment in machinery and equipment, to be paid in over the first three years of operation. It is the opinion of the Filippos management team that the above investment, totaling three million dollars, will

- reposition Storco as a leader in Bulgaria's canned food industry;
- draw hard currency revenues through export to some 25 foreign countries;
- strengthen the bank's position regarding collection of the remaining restructured debt;
- guarantee continuous employment for a significant portion of Storco's approximately 750 employees.

Please find enclosed, for your further information, the Investor Group's purchase proposal dated April 14, 1994, and the group's debt restructuring proposal in the form of a sales and profitability forecast for the first six years of operation pursuant to a Filippos/Pangaea purchase, clearly showing that the 2.3 million dollars represents 50% of net cash flow (profit) of the company. Also enclosed is a copy of our August 5 letter to UBB seeking a decision from its Board of Directors.

On August 24, 1994, DAI Project Manager Daniel Hogan and Mark Baughan shall return to Sofia. In order to meet the timing of events required to bring this transaction to its conclusion, we are hoping for a final decision by that time. Grateful for your kindness and your thoughtfulness in hearing our situation, we remain,

Sincerely,

DEVELOPMENT ALTERNATIVES, INC.

By: Mark Baughan, Financial Planner

PANGAEA, LTD.
For and on behalf of the Investor Group

By: George Tsagaris

DAI

Development Alternatives, Inc.
7250 Woodmont Avenue
Suite 200
Bethesda, MD 20814

Mrs. Reneta Indjova, Executive Director, Privatization Agency
Privatization Agency
29 Aksakov Street
Sofia

August 5, 1994

Dear Mrs. Indjova:

In accordance with your position and responsibilities pertaining to the privatization of Storco-Pleven (Storco), and on behalf Filippos, S.A. of Veria, Greece (Filippos) and Pangaea, Ltd., of Sofia (the Investor Group), we are writing to ask for your support in assisting Development Alternatives, Inc. (DAI) in its efforts to restructure and reduce credits owed to United Bank of Bulgaria (UBB) by Storco-Pleven.

Development Alternatives, Inc. and the Investor Group are proud to have a positive working relationship with the Privatization Agency, the staff of which has been extraordinarily helpful in our joint effort to achieve the sale of Storco-Pleven to the Investor Group. We believe that Mrs. Vassileva and her colleagues have done everything in their power to assist us in our efforts to open a constructive dialogue with UBB; our request for your assistance is in no way a reflection on their performance, which has been entirely favorable and commendable.

The Filippos offer to purchase Storco is, to our knowledge, the only purchase offer for Storco. The offer represents the culmination of approximately two years' worth of activities in Bulgaria by DAI and Deloitte & Touche, operating jointly under a United States Agency for International Development (USAID) food industry privatization contract. As that contract will expire at the end of this month, on August 31, 1994, it is with great urgency that we solicit your attention regarding our deliberations with UBB. Below is a brief history of the Investor Group's interest in the privatization of Storco, and a short analysis of the situation at hand.

Pursuant to Filippos's Letter of Intent to purchase Storco, submitted to the Privatization Agency January 14, 1994, the company presented a formal offer to your agency on April 14, 1994. As the Filippos offer price, not including investment capital, was less than Storco's outstanding credits (primarily owed to UBB), the Privatization Agency proposed that the Investor Group present its offer to UBB for the bank's approval.

Filippos, and/or Pangaea, Ltd., its investment partner, and DAI subsequently held a series of three preliminary meetings with representatives of UBB in an effort to determine UBB's reaction to a

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proposed debt restructuring. The most recent of these meetings was held on June 23, 1994. Unfortunately, at no time did UBB show a willingness to negotiate, nor to even offer a constructive response to the investors' proposals. The investor group is still waiting to receive UBB's response to the June 23rd meeting.

It is the opinion of the Investor Group that a debt restructuring and reduction is necessary; Storco's outstanding debt to UBB totals approximately 212 million leva (principal plus accumulated interest), none of which has been paid by Storco. This is approximately 65% of the company's total debt, and is prohibitively large relative to the company's earnings potential. Even the most optimistic forecast for the company makes significant repayment highly doubtful and probably impossible. Any pay-down of the UBB loans, in fact, likely depends on the complete restructuring of Storco pursuant to the company's purchase by a qualified private investor such as Filippos.

The Filippos investment plan for the restructuring of Storco is based on three strategic areas:

I. Rehabilitation and Technological Advancement of Productive Assets:
The Filippos team will identify and rehabilitate those assets capable of producing earnings for Storco, and replace or transform those assets that are no longer economically viable (e.g., product, production, and mechanical obsolescence).

II. Proven Management Expertise in Marketing, Finance, and Technology:
Once the company's assets have been repositioned for optimum production, the Filippos team will institute the benefits of its marketing, financial and technological management skills gained over its 25 year history as a profitable and successful business in the canned fruit industry.

III. The Creation of Positive, Internally-Generated Cashflows:
The result of these two broad changes will be the creation of positive, self-generated cashflow (i.e., without the benefit of cash subsidies from banks or government) by Storco-Pleven, marking the beginning of true profitability by Storco, and presenting for the first time the possibility of a fully productive bank-client relationship.

Even with such restructuring, however, our analysis indicates that a repayment level exceeding 40% of all Storco debts will result in a cash drain directly and negatively affecting the profitability of the company and its ability to compete in international markets. This 40% "hurdle rate" assumes the successful implementation of the Filippos investment plan and the sharing of cashflows 50/50 between Storco, for reinvestment and growth, and Storco creditors.

Consequently, the Investor Group's debt restructuring proposal is spread over six years and totals 125 million leva (2.3 million dollars), based on a repayment ratio of approximately 40 percent to all creditors: 85 million leva paid to UBB; and 40 million leva paid to other creditors, including Suppliers, Government Debt, Employee Salaries/Insurance, and Other. It is the firm position of the Investor Group that any additional cash amounts be used as working capital and machinery investment rather than as repayment of the loan or as an increase in the purchase price of the company.

In that regard, the Investor Group's purchase proposal includes one million dollars of working capital investment, to be paid in within the first six-months of operation, and an additional two million dollars of investment in machinery and equipment, to be paid in over the first three years of operation. It is the opinion of the Filippos management team that the above investment, totaling three million dollars, will

- reposition Storco as a leader in Bulgaria's canned food industry;
- draw hard currency revenues through export to some 25 foreign countries;
- strengthen the bank's position regarding collection of the remaining restructured debt;
- guarantee continuous employment for a significant portion of Storco's approximately 750 employees.

Please find enclosed, for your further information, the Investor Group's debt restructuring proposal in the form of a sales and profitability forecast for the first six years of operation pursuant to a Filippos purchase, clearly showing that the 2.3 million dollars represents 50% of net cash flow (profit) of the company.

So that we can meet the timing of events required to bring this transaction to its conclusion, we are asking for your prompt attention. With kind thanks, we remain,

Yours sincerely,

DEVELOPMENT ALTERNATIVES, INC.

By: Mark Baughan, Financial Planner

PANGAEA, LTD.
For and on behalf of the Investor Group

By: George Tsagaris

DAI

Development Alternatives, Inc.
7250 Woodmont Avenue
Suite 200
Bethesda, MD 20814

Mr. Oleg Nedyalkov, Executive Director, United Bank of Bulgaria
Mr. Dimitir Dimitrov, Executive Director, United Bank of Bulgaria
United Bank of Bulgaria, Sofia

cc: Mrs. D. Bobeva, Foreign Investement Commission

Mrs. Reneta Indjova, Privatization Agency

August 5, 1994

Dear Messrs. Nedyalkov and Dimitrov:

In accordance with your position and responsibilities pertaining to Storco-Pleven (Storco), and on behalf Filippos, S.A. of Veria, Greece (Filippos) and Pangaea, Ltd., of Sofia (the Investor Group), we are writing to ask for the support of your Board of Directors in assisting Development Alternatives, Inc. (DAI) in its efforts to restructure and reduce credits owed to United Bank of Bulgaria (UBB) by Storco-Pleven.

The Filippos offer to purchase Storco is, to our knowledge, the only purchase offer for Storco; the offer represents the culmination of approximately two years' worth of activities in Bulgaria by DAI and Deloitte & Touche, operating jointly under a United States Agency for International Development (USAID) food industry privatization contract. As that contract will expire on August 31, 1994, it is with great urgency that we solicit your attention regarding our deliberations with UBB. Below is a brief history of the Investor Group's interest in the privatization of Storco, and a short analysis of the situation at hand.

Pursuant to Filippos's Letter of Intent to purchase Storco, submitted to the Privatization Agency January 14, 1994, the company presented a formal offer to Ms. Reneta Indjova, Executive Director of the Privatization Agency, on April 14, 1994. As the Filippos offer price, not including investment capital, was less than Storco's outstanding credits (primarily owed to UBB), the Privatization Agency proposed that the Investor Group present its offer to UBB for the bank's approval.

Filippos, and/or Pangaea, Ltd., its investment partner, and DAI have participated in a series of meetings with UBB credit officers in an effort to determine UBB's reaction to a proposed debt restructuring, the most recent with Mr. Ognjanov, General Manager, Credit Department, on June

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23, 1994. While Mr. Ognjanov did agree to present this transaction to the appropriate Board, unfortunately we have not received a response from UBB to the present time.

It is the opinion of the Investor Group that a debt restructuring and reduction is necessary. Storco's outstanding debt to UBB totals approximately 212 million leva (principal plus accumulated interest), none of which has been paid by Storco. This is approximately 65% of the company's total debt, and is prohibitively large relative to the company's earnings potential. Even the most optimistic forecast for the company makes significant repayment highly doubtful and probably impossible. Any pay-down of the UBB loans, in fact, likely depends on the complete restructuring of Storco pursuant to the company's purchase by a qualified private investor such as Filippos.

The Filippos investment plan for the restructuring of Storco is based on three strategic areas:

I. Rehabilitation and Technological Advancement of Productive Assets:
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Once the company's assets have been repositioned for optimum production, the Filippos team will institute the benefits of its marketing, financial and technological management skills gained over its 25 year history as a profitable and successful business in the canned fruit industry.

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Even with such restructuring, however, our analysis indicates that a repayment level exceeding 40% of all Storco debts will result in a cash drain directly and negatively affecting the profitability of the company and its ability to compete in international markets. This 40% "hurdle rate" assumes the successful implementation of the Filippos investment plan and the sharing of cashflows 50/50 between Storco, for reinvestment and growth, and Storco creditors.

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In that regard, the Investor Group's purchase proposal includes one million dollars of working capital investment, to be paid in within the first six-months of operation, and an additional two million dollars of investment in machinery and equipment, to be paid in over the first three years of operation. It is the opinion of the Filippos management team that the above investment, totaling three million dollars, will

- reposition Storco as a leader in Bulgaria's canned food industry;
- draw hard currency revenues through export to some 25 foreign countries;
- strengthen the bank's position regarding collection of the remaining restructured debt;
- guarantee continuous employment for a significant portion of Storco's approximately 750 employees.

Please find enclosed, for your further information, the Investor Group's purchase proposal dated April 14, 1994, and the Group's debt restructuring proposal in the form of a sales and profitability forecast for the first six years of operation pursuant to a Filippos purchase, clearly showing that the 2.3 million dollars represents 50% of net cash flow (profit) of the company. We are confident that your acceptance of this proposal will result in the successful rehabilitation of Storco-Pleven and the most beneficial outcome for your bank.

So that we can meet the timing of events required to bring this transaction to its conclusion, we are asking for your board's prompt decision regarding the same. If it is at all possible, we would be grateful if your written reply could be received by the Investor Group on or before August 24, 1994. Daniel Hogan, DAI Project Manager, and Mark Baughan will return to Sofia also on that date, and shall be happy to assist in any further way that they can.

Yours sincerely,

DEVELOPMENT ALTERNATIVES, INC.

By: Mark Baughan, Financial Planner

PANGAEA, LTD.
For and on behalf of the Investor Group

By: George Tsagaris

ANNEX J

ANALYSIS OF THE BULGARIAN FINANCIAL SYSTEM

BULGARIA FOOD INDUSTRY PRIVATIZATION

THE BULGARIAN FINANCIAL SYSTEM AND AN ANALYSIS OF POTENTIAL DEBT RESTRUCTURING

This report provides an introduction to the Bulgarian Banking System, a description and analysis of Ordinance No. 234 of 24 November, 1992, the prime Bulgarian legislative action regarding the restructuring of state enterprise debt, an overview of recent attempts to reform the banking system, including provisions for bad loans.

STRUCTURE OF THE BANKING SECTOR

Bulgaria's financial system consists of the National Bank, the Bank for Foreign Trade, the Savings Bank, eight older commercial banks (one established in 1981, the rest in 1987), and fifty nine "new" commercial banks (for the most part, former branches of the National Bank), and several recently founded private banks.

For many years, the banking system was similar to that of other Eastern European countries. The National Bank of Bulgaria (NBB), as central bank, monitored the payments of enterprises, received enterprise deposits, and extended credit in leva. The Bulgarian Bank for Foreign Trade (FTB) had the monopoly over foreign exchange operations, including all outward and inward remittances. The State Savings Bank (SSB) dealt exclusively with households, receiving domestic deposits and providing (limited) housing credit.

The system changed in 1981, when the central authorities created a new bank, The Bank for Business Investments, Mineral Bank, organized as a joint stock company. Its main objective was to finance enterprise activities above the nationally planned targets, or new projects not included in central planning documents. It has operated mainly in the light industries sector.

In 1987, the Government of Bulgaria set up seven new specialized banks, organized as shareholding companies; these were to finance sector specific investment in both domestic and foreign currencies. They were the Electronics Bank, the Agro-Cooperative Bank (Plovdiv), the Transport Bank (Varna), the Biochim Bank, The Balkan Bank (formerly Bank for Transport Machinery), the Stroy Bank (construction industry), and the Economics Bank (serving the productive sectors not covered by other specialized banks).

Further significant banking reforms were instituted at the end of 1989. These reforms created 59 "new" commercial banks out of the former branches of the NBB, and effectively established unit banking throughout the country. At the same time, specialization was eliminated. All banks were permitted to act as universal banks, making operating and investment credits to any industry, receiving deposits from individuals, and granting them housing and consumer credits. As the reforms created unit banks, each of the 59 new banks acted as independent corporations, with management and credit decisions made in a decentralized fashion at each bank location. Few shared corporate standards for, say, credit analysis or loan negotiations were shared among the new banks. At present, only the older eight specialized banks and the FTB are licensed to deal in foreign exchange.

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Competition has recently been introduced with the opening of several private banks, most of which grew out of foreign exchange shops. However, competition has yet to improve noticeably the level of services or general access to financial products. Some older banks have purchased or opened branches in different regions, though most smaller cities still have only one bank or branch. There is almost no local competition, except in the largest urban centers. The former specialized banks have diversified somewhat, shifting their lending to new economic sectors, and extending working capital credit. But this change is only starting, and lending portfolios remain dangerously ill-diversified. Older banks still lend to a few firms in designated industries, as in the past, and newly established commercial banks from the former branch system continue to behave as if they were branches of the NBB, both in lending policies and dependence for resources. Foreign debt is a significant encumbrance at the FTB, and its role--halfway between central and commercial bank--is poorly defined.

All banks were established (or re-constituted) as shareholding companies and were licensed to operate as unit banks. Except for two private banks, the banks are either owned by the NBB, FTB, or public sector enterprises.

The three largest Bulgarian banks hold most of the assets, deposits, and capital: NBB, SSB, and FTB hold approximately 24, 13, and 23 percent of total assets; 16, 46, and 10 percent of total deposits; and 56, 3, and 13 percent of total capital.

To address some of the structural issues within the banking sector, the Government of Bulgaria agreed, upon recommendation from the World Bank, to establish a Bank Consolidation Company.

The Bank Consolidation Company (BCC) has been created to begin movement of ownership of banks away from the state, as the ownership of the shares of the banking sector was placed in the hands of the BCC, except for the State Savings Bank. The main responsibility of the BCC is to undertake the mergers of various banks into banking corporations with branch banking systems. It is envisioned that about ten medium size, economically viable banks may emerge from the BCC. The BCC is plays a role also in the development of accounting standards and standardized charts of accounts, and will most likely be instrumental in raising governance and supervision issues, all required for attracting foreign capital into the banking system.

SYSTEMIC FINANCIAL SECTOR ARREARS

The relationship between the quality of the banking system's loan portfolio and enterprise privatization is a complex one with significant implications for the success of divestiture efforts. Problems found in Bulgaria are similar to those throughout the transitional economies of central and eastern Europe; considerable effort, both internally and from outside sources, is being expended on finding creative financial means to resolve banking portfolio quality issues. There are three salient aspects of systemic problem loans:

1) Nature of non-performing loans;

2) Impact of these loans on privatization efforts and the state owned commercial banks (SOCBs);

3) Systemic constraints.

Nature of Non-Performing Loans

Bulgaria's banks have accumulated significant portfolios of non-performing loans from a number of sources. First and foremost are the loans which these banks inherited when they were spun off from the original mono-bank system in Bulgaria which was in effect up until 1981. The majority of the now non-performing loans on the books of various institutions actually represented budgetary advances made in the environment of a planned economy which held little anticipation that these loans advances--loans--would be repaid. Economic upheaval in Bulgaria subsequent to the downstreaming of these loans from the books of the National Bank of Bulgaria has made it difficult for these loans to be repaid even if the best of typical amortization intentions existed. (It is also helpful to bear in mind that these loans were frequently made at what are today below market rates of interest, and therefore are doubly non-performing--even if the loans were accruing interest to be recognized as income, the rate of interest paid is far below the cost of funds to banks today.)

In addition to their inherited loan portfolios, the SOCBs have subsequently made new loans, many of which have also become non-performing. There is a wide variety of reasons for this increase in non-performing loans, though two major factors can be observed readily: a lack of experience in credit based lending as well as pressure for loans from borrowers which are also shareholders. In addition, economic dislocation caused by Bulgarian reform programs, the loss of traditional Soviet and Eastern European markets, and in some cases the unexpected withdrawal of state support for borrowers, have contributed to making originally reasonable lending decisions seem poorly executed. (It seems likely that there may also be interest rate mismatches on at least part of these new loan portfolios, based on the premise that many recent loans were made at fixed rates which are non-adjustable to the fluctuating interest rate environment reflective of Bulgaria's high inflation rate.)

Also with regard to portfolio problems, foreign exchange losses should be mentioned. These losses are difficult to quantify in Bulgaria, where so much attention has been focussed on the staggering amount of state-accumulated arrears. However, it is clear from a preliminary inquiry into bank borrowings that a significant portion of the loan outstandings are denominated in foreign currencies, notably Italian lire and Dutch gilders. The continued devaluation of the leva has exacerbated the debt burden of the enterprises and further weakened bank balance sheets as foreign exchange losses, yet to be calculated, have been incurred by lending institutions.

Impact of Non-Performing Loans

It is difficult to quantify the exact amount of non-performing loans in Bulgaria. Estimates vary widely, with the lowest figure placed at some 45 Billion leva. More accurately, non-performing loans are thought to total approximately 110 Billion leva, with extreme estimates at 125 Billion leva. Any one of these estimates should not be viewed as static figures, given continued economic deterioration, pressure on the banks in some sectors to continue further lending to assure employment stability, unreliable bank bookkeeping, a lack of standard accounting procedures to classify non-performing assets and the continued capitalization of unpaid interest. It is reasonable to assume that the amount of non-performing loans will increase in the future, as SOCBs are privatized, vigorous work out standards are applied, and the legal framework in Bulgaria is developed to process bankruptcy claims. All of these trends will force resolution of cases in which borrowers have been kept afloat by loan rollovers and interest capitalization. It is also reasonable to assume that the continuing movement toward market forces will force marginal enterprises, borrowers all, to be perceived as non-competitive in the marketplace, increasing the possibility of bankruptcy and the inability to meet loan payments.

The existence of the loan arrears portfolios has a number of negative implications for economic reform, and specifically, privatization. Five of the most important implications are highlighted here.

1) Because the banks in may cases continue to capitalize interest on the unpaid debts and in some cases actually extend new credit to borrowers with loan arrears, the banks contribute to the continuation of the blurred line between national budgetary involvement in the productive sector and stand alone profitable enterprises. Clearly, credit subsidies of this nature eliminate the necessary incentives to enterprise managers to direct their business dealings in the manner of a market economy.

2) Any new funding provided to delinquent borrowers ultimately contributes to the fiscal deficit, because the SOCBs are at least partly funded by the National Bank of Bulgaria. This ongoing funding is in turn a source of inflationary pressure, especially in Bulgaria where the government has virtually no access to bond markets.

3) New credit which is provided to borrowers in arrears is credit that cannot be provided to other more creditworthy borrowers; credit allocation growth does not keep pace with the growth of the private sector.

4) The high level of non-performing loans forces the banks to raise interest rates and fees to subsidize the cost of non-accrual assets. As a result, creditworthy borrowers which do gain access to new financing are penalized by paying highly inflated rates on their borrowings, in effect paying for past poor non-market driven credit decisions.

5) The existence of a significant portfolio of non-performing loans, together, in many cases, with accounting practices that make it difficult or impossible to evaluate the nature of a bank's portfolio means that potential bank investors and depositors cannot accurately assess either the bank's current condition, performance over time, or reasonable chances for future profitability. A general lack of confidence in the bank system ensues.

Systemic Constraints

There are an impressive number of constraints facing resolution of Bulgaria's non-performing loans. The most striking problem is simply how to identify these loans. Bulgaria has made some progress in developing accounting standards, charts of accounts, and bank supervision guidelines for establishing accrual, write-off, and loss provision decisions, as well as classification of non-performing loans. However, classifying the loans requires projections of future financial performance of the borrowers, establishing liquidation values, assessing the soundness of collateral, etc. Given the volatility of the Bulgarian economy and the vagaries of the legal system, as well as the fact that prices for goods and services are only beginning to be established according to market supply and demand, the above mentioned normal steps for commencing a loan work out and recovery plan are difficult to implement with any precision.

Not only is it technically difficult to identify non-performing loans and a recovery strategy for them, incentives to do so are lacking. On the part of bank management, dealing with non-performing assets is generally viewed negatively. Identification of all problem loans and making adequate provisions for them could well eliminate bank equity entirely, creating a bankrupt bank with few prospects for attracting investors. Bank sustainability, sufficient to justify the institutions's existence and preserve jobs becomes suspect.

Concern about financial viability stemming from problem identification is exacerbated by the market segmentation of Bulgarian banks, and resultant lack of portfolio diversification. Bulgarian banks vulnerable to loan write offs are likely to find whole segments of their portfolios called into question.

Another negative influence for bankers is pressure from interlocking shareholder and borrower relationships. It is difficult to formulate stringent work out strategies for borrowers which are major shareholders and have always, traditionally, relied on their bank. Within these interlocking relationships in Bulgaria is the enormous role the government has always played in overseeing credit allocation according to favored state owned enterprise relationships. This government role is now seen to be slowing the process of loan arrear clean up, in so far as enterprise managers are looking to the government to fix the problem, and do not believe that the banks and the enterprises need to pursue an active role in rectifying the situation. Indeed, Ordinance 234, discussed below, is interpreted by some as another government intervention of cash, and has probably contributed to the overall impression the Government of Bulgaria will "forgive" past due loans.

Finally, the issues of management time and experience necessary to implement successful loan workouts arises. Experience is non-existent, as the types of credit problems which the banks are now facing have never been a concern in Bulgaria before.

Loan workouts are extremely time consuming. During the intensive early period of rescheduling a loan, it is not unusual in western banking practice for one loan officer to be occupied almost 100 percent of the time for three to six months or more. Even after rescheduling, monitoring requirements are extremely demanding, and are usually the domain of workout departments within banks. Creating such a department, within institutions already suffering from a lack of trained personnel, appears to be an unrealistic option at present, without substantial assistance from abroad.

Clearly, the incentives for loan restructuring are not found within the current structure of the Bulgarian banking system, and therefore will have to originate with the government, both in terms of its direct actions and in terms of the development of a market economy with market incentives.

With regard to direct actions, most specialists agree that the non-performing loans of the Bulgarian banks are a government problem and must be resolved with government assistance. Not only did the government (via the former branch system of the NBB) bequeath a significant portion of these loans to the banks, but the ongoing budget constraint reflected in rolling over these credits is both a cost to the government and a drain on the resources available for privatization. Because the non-performing loan issue has political implications--someone has to decide which enterprises will go bankrupt and be closed--the government cannot leave resolution of the debt problem entirely up to the banks. Here, however, there is an incentive problem for the government. Not only will resolution of the non-performing loan problem be too expensive for the Bulgarian government, but the threat of layoffs, plant closings, and economic and social dislocation due to joblessness has a chilling effect on any government initiative to intervene.

Somewhat more indirectly, the Government of Bulgaria must also contribute to providing the market infrastructure necessary to deal with loan workouts. This infrastructure would include clear bankruptcy, property, security, and contract law, as well as a functioning judicial system, and transparent commercial transaction practices. A vital subset of this infrastructure is clarification on the ability of Bulgarian banks to seize the assets of state-owned enterprises--currently prohibited--in order to proceed with foreclosure.

The most fundamental constraint to resolving the non-performing loan problem is the condition of the economy in which the banks and the enterprises operate. Some specialists note that cleaning up the banks' balance sheets is of little use if the overall Bulgarian economy remains frail: enterprises remain in poor financial condition, and the banks themselves do not have adequate corporate governance and credit approval procedures, nor benefit from an external supervisory and regulatory system.

The urgency for reform of arrears is weakened in Bulgaria (as in other formerly socialist systems) by a common characteristic of enterprise interdependence--credit allocation among state owned enterprises. Bulgarian enterprises have had a tendency to extend inter-enterprise credit when other sources of credit from the government or from the banks are reduced. Obviously, a borrower's creditworthiness deteriorates quite rapidly if it accumulates large receivables and/or payables with other liquidity-strained enterprises. The resolution of inter-enterprise arrears would be a severe challenge for the system, as a clear understanding of who owes what to whom is lacking. Yet a true market economy thrives on a system of contractual payments (and the methods and means of honoring those payments) which must be introduced, beginning at the enterprise level privatization candidates, in Bulgaria.

RECENT GOVERNMENT FINANCIAL SECTOR INTERVENTIONS

In February, 1991, the Government of Bulgaria started adopting measures aimed at correcting certain financial sector problems. These measures were part of the Government Economic Reform Program aimed at transforming the economy into a market economy as supported by an IMF Stand-by Agreement and a World Bank Structural Adjustment Loan (SAL). Among the most important measures concerned with the financial sector were: interventions aimed at correcting credit allocation and bad debt problems.

Through a combination of increased interest rates on deposits, price liberalization, and the issuance of a limited amount of government securities, the Government of Bulgaria slowed the devaluation of the leva and, it appears, began to stabilize inflationary expectations.

However, some important credit allocation issues have arisen. First, the government continues to be in need of significant funding, as expenditures have surpassed projected budgets. Second, banks have allowed, as mentioned earlier, enterprises to capitalize interest on loans. Thus, credit availability continues to be limited, restraining credit to sectors which are emerging and in need of capital, while the sectors that should be adjusting to credit restraints--the government and state-owned enterprises--have benefitted from credit expansion.

ORDINANCE 234

Ordinance 234, promulgated by the Council of Ministers on 24 November, 1992, "on the restructuring into state debts the uncollectible bad debts to banks of single-person companies with state property and of state firms; and on the clearing of the credit portfolios of trade banks with more than 59 percent state participation," is the prime Government of Bulgaria intervention in the banking sector for handling the debts of state owned enterprises. Its main provisions are:

- Establishment of an inter-ministerial commission, to include representatives of banks and state owned enterprises to approve debt restructuring plans;

- Allocation of government budgetary resources to cover bank losses;

- Establishment of procedures to petition the government for debt relief, including financial restructuring plans and projections requirements;

- Empowers banks to take write offs against commission approved bad debts.

While on the surface it would appear that the Ordinance represents considerable progress in wrestling with the level of state owned enterprise indebtedness, the amounts allocated are insufficient to eliminate the debt burden in a timely manner.

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Information Memorandum

Confidential

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PREFACE

This Information Memorandum (the Memorandum) has been prepared by Deloitte & Touche (D&T) and Development Alternatives, Inc. (DAI) solely for information purposes from information supplied to D&T/DAI by Selvikonserv (Selvikonserv, or the Company) in conjunction with the Bulgarian Ministry of Industry (MI) and is being furnished through D&T/DAI solely for use by a limited number of prospective investors in considering their interest in a transaction involving Selvikonserv.

The information contained herein has been prepared to assist interested parties in making their own evaluations of the Company and does not purport to contain all of the information that a prospective investor may desire. In all cases, interested parties should conduct their own investigations and analyses of Selvikonserv and the data set forth in this Memorandum. None of the MI, the Company, or D&T/DAI makes any representation or warranty as to the accuracy or completeness of the information contained in this Memorandum or made available in connection with any further investigation of the Company, including any estimates or projections, and none of them shall have any liability for any representations (expressed or implied) contained in, or for any omissions from, this Memorandum or any other written or oral communications transmitted to interested parties in the course of its evaluation of the Company. The only information that will have any legal effect will be that specifically represented in a definitive agreement.

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The MI reserves the right to negotiate with one or more prospective parties at any time to enter into definitive transaction agreements without prior written notice to you or other prospective joint venture parties or purchasers. The MI reserves the right to terminate, at any time, further participation in the investigation and proposal process by any party and to modify documentation and other procedures without notice and without assigning ant reason therefor.

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EXECUTIVE SUMMARY

Deloitte & Touche (D&T) and Development Alternatives, Inc. (DAI) has been engaged by the U.S. Agency for International Development (USAID) to act as financial advisors to the Bulgarian Ministry of Industry (MI) in the MI's divestiture of state-owned enterprises in the processed fruit and vegetable industry, as part of Bulgaria's transformation to a free market economy. In accordance with the MI's objective of seeking foreign investment in selected state-owned enterprises in this sector, this Information Memorandum presents an operational overview of a leading Bulgarian processed fruit and vegetable enterprise. The Memorandum is intended for preliminary discussion purposes only. When applicable, further enterprise-specific information may be provided at the discretion of D&T/DAI.

Selvikonserv (Selvikonserv, or the Company) is a highly specialized Bulgarian processed fruit and vegetable enterprise. Selvikonserv had sales for the nine months ended 30 September 1993 of BGL 15.6 million (US $ 520,000) - for fiscal year 1992, sales were 18.9 million leva (US $ 630,000)].[1] The Company's products include several varieties of jam, marmalade, purée, fruit compote, and dried fruit, as well as canned vegetables. Selvikonserv operates a modern Terlet jam and confiture line in addition to three vegetable lines and has a rated production capacity of 9,000 tons of finished product per year. Samples of the Company's products have been tested by Silliker Labs and have met FDA standards.

For FY92, approximately 50 percent of the Company's jam exports were shipped under the "Adriatic" label to the private-label market in the United States. Exports to Europe represented approximately 30 percent of total exports, accounted for primarily by Germany and Italy. Exports to Israel, Greece, and Turkey accounted for approximately 35 percent of exports. The former Soviet Union (FSU) and Eastern Europe have historically accounted for the majority of export sales, but due to current economic dislocations of these regions, Western Europe and the Middle East are target markets.

For FY93, the sales for the 9 months were, as follows: for jams, 50% of the sales were for Greece, with approximately 30% for the FSU and Macedonia and some for Turkey and the Middle East. Total exports for Europe represented approximately 60%; Israel, Greece, Macedonia and Jordan accounted for 25%, and there were some sales in FSU and Poland. The expected figures for the total 1993 sales are not very different, except for additional quantities of jam exported for Turkey and some dried fruit quantities exported for the USA.

Selvikonserv generates operating profits from its streamlined operations. The Company has a modern, well-maintained jam line, high production capacity, and a highly trained technical management team. The opportunity exists for a foreign investor to leverage Selvi's highly specialized, low-cost production capabilities with immediate opportunities in the United States, Middle East, and European private-label markets with neither substantial capital investment required nor exposure to Selvi's current capitalization structure. An investment in Selvikonserv would further allow a foreign interest to capitalize on the following:

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[1] Exchange rate, for illustrative purposes only, assumes $U 1.00 equal to BGL 30.00.

- Central location allows low-cost access to Europe, the Middle East, and the FSU;
- Experienced in exporting to non-FSU markets;
- Excellent climate and growing season;
- Streamlined operations, responsive to changing markets;
- Technically qualified management team eager to assume equity stake ;
- Experienced, inexpensive labor force; and
- Government support for food sector investment and reform.

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THE COMPANY

Selvikonserv is a highly specialized Bulgarian processed fruit and vegetable enterprise. Selvikonserv had sales for the nine months ended 30 September 1993 of BGL 15.6 million (US$ 520,000 - FY92 of 18.8 million leva ($US 630,000).[1] Selvikonserv is a Limited-Liability Company wholly owned by the Government of Bulgaria. Selvikonserv consists of a main site with 8 buildings covering approximately 7,500 square meters, with several other much smaller sites nearby, used for the production of dried fruit and storage. The company employs 160 full-time staff and 30 seasonal laborers. The Company was established in 1940 and is located in Sevlievo, northwest Bulgaria.

BUSINESS STRATEGY

Until 1990 Selvikonserv operated within the confines of a command economy with the goal of meeting production targets set by the Ministry of Industry in Bulgaria. The Company received raw materials from regional collectives and state farms and was responsible for processing finished product to be picked up by the state-owned domestic distribution and export trading companies. Prices at all points in this process were set by the government. The Company received credit for work completed on a volume basis.

In response to initial privatization reforms that began in 1991, Selvikonserv pursued an independent business strategy with the objective of becoming a private, diversified fruit and vegetable processing company. Since 1991, the Company's management has assumed responsibility for raw material procurement, product marketing, production planning, operations, and financing, despite the fact that the government continues to own the assets of the Company.

Although management has gained a strong degree of autonomy in enterprise operations, privatization within the agribusiness sector remains incomplete. Because the majority of banks remain state-controlled, access to credit is inadequate, and bureaucratic obstacles to restructuring existing debt persist, although relief may now be granted under a recently passed law on "bad loans" acquired up to 1990. Further complications have resulted from the collapse of the state-owned food distribution system and the absence of an alternative network. Finally, raw material procurement has become more difficult because of increased competition introduced by agricultural reform together with a drop in output caused by the ongoing process of restructuring agricultural holdings. To combat such significant deterrents to free market operations, Selvikonserv adopted an opportunistic strategy that focused on commercial survival. Although the Company was able to continue operations, the distressed political and economic environment was reflected in a significant drop in revenues and higher operating costs for FY91, FY92 and FY93.

Selvikonserv continues to operate according to a short-term survival strategy. Thus, production is almost entirely on a contract basis with raw materials procured as needed. The majority of sales go to export markets. Net margins are targeted at 2-4 percent more out of habit than from a response to market forces. To lower operating costs, management has shut down the workers' canteen, coordinates employee annual leave during lulls in production, and is liquidating underused assets.

Selvikonserv's current management is strong in production and accounting. However, the management lacks sophisticated marketing and management capabilities. As a private entity, the Company's new management should quickly agree on a company mission. Goals, objectives, and tasks that can fulfill this mission must also be developed. With its modern Terlet jam line and relatively small

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[1] Exchange rate, for illustrative purposes only, assumes $US 1.00 equal to BGL 30.00.

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and specialized set of operations, the Company represents an attractive opportunity to an investor who could implement aggressive marketing initiatives.

PRODUCTS

The Company's products include several varieties of jam, marmalade, purée, fruit compote and dried fruits, as well as canned vegetables. A detailed list of the Company's products, packaging, and current markets follows:

Product (Packaging)	Markets
Jam:	
Raspberry, Strawberry, Blackberry, Cherry and Sour Cherry, Plum, Apricot, Mixed Fruit, Peaches, Quince. (Bulgaria 500-g glass jar with press-on lid, 500- and 454-g glass jars with twist-off caps)	United States, EU, Middle East, Domestic, FSU, Eastern Europe
Marmalade:	
Apple, Apricot, Mixed fruit (apple and plum mix; apple, plum and quince mix; apricot and apple mix)	EU, Domestic
Purée:	
Plum, tomato, "Ajvar". (Bulgarian 120-liter plastic drums); Ajvar - 370g and 700g glass jar with twist-off cap.	EU, Middle East, Domestic.
Fruit Compote:[a]	
Plum, Apricot, Cherry, Strawberry, Sour Cherry, Peaches, Prunes. (Bulgarian 820-g glass jar with press-on cap and 720-g glass jar with twist-off cap, Bulgarian 850-g metal can)	EU, Near and Middle East, Domestic, FSU, Eastern Europe
Canned Vegetables:	
Green Beans, Unpeeled Whole Tomatoes, Sliced and Whole Peppers, Pfefferoni Peppers, Pickles, Gherkins, "Lecho". (Bulgarian 800-g glass jar with press-on and 720-g glass jar with twist-off)	Middle East, EU, FSU, Domestic. Eastern Europe
Dried Fruit	
Plum (40 kg bags)	United States

[a] Fruit stewed or cooked in syrup.

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MARKETS

With the economic collapse of the FSU, the primary export market for the Company's food products has shifted to the West. The United States, Germany, Italy, Israel, Turkey, and Greece represent the most significant portion of exports. When the FSU and other emerging Eastern European markets recover from current economic instability, the Company will be well positioned, both geographically and through familiarity with the market and the infrastructure of ex-Comecon countries, to serve the surrounding region. Below are recent data regarding the breakdown of imports/exports:

TABLE 1
BREAKDOWN OF EXPORTS

Sales	1991	1992[a]	1992	1993[a]	Forecast 1993
Volume (tons)	2,140	870	1,729	1,268	1,876
Value (million leva)	19.8	9.2	18.9	15.6	27.0
Volume:					
Domestic	63%	70%	65%	30%	22%
Exports	37%	30%	35%	70%	78%
Value:					
Domestic	42%	58%	63%	43%	30%
Exports	58%	42%	37%	57%	70%

[a] Based on 9 months.

OPERATIONS

Site Layout

Figure 1 shows a map of the main Selvikonserv site. Most of the buildings were constructed in the late 1950s with the exception of the building housing the jam line, which was built in 1989, and the storeroom/hotel, which was built within the last five years. One of the two storerooms is unheated and relies on the heating in the stores on each side of it. There are four separate production lines: the jam line, the green bean line, the plum concentration/tomato purée line, and the cucumber/mixed vegetable/compote line. There is a fifth line for dried fruit at a nearby smaller site.

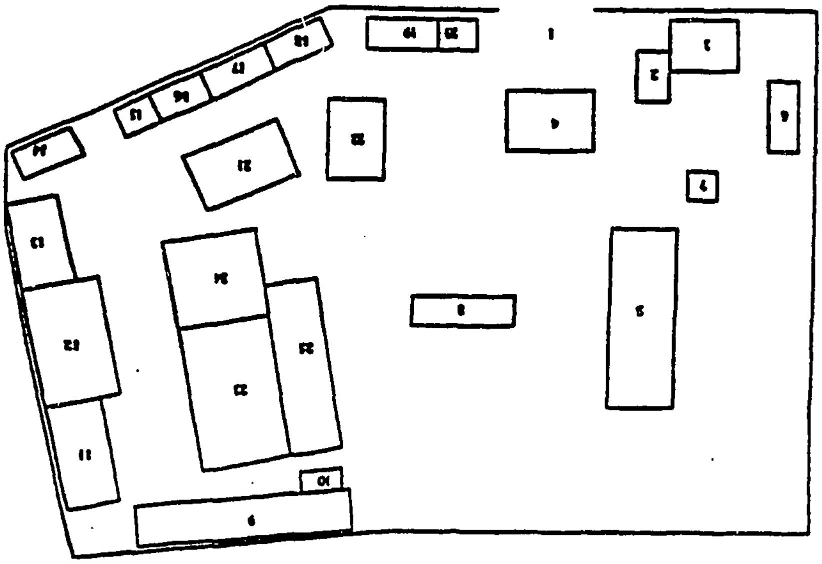
The site has its own steam production, burning fuel oil in two boilers. The boilers and associated control and pumping equipment were replaced in 1990. The major user of steam is the plum concentrator. The jam line uses very little steam.

Organization

Selvikonserv has some 160 employees, of whom 12 are mechanical technicians and 11 are electrical technicians. Typically, the technicians have three years of university training followed by on-the-job training. One professional engineer is in charge of the mechanics and one is in charge of the electricians.

Figure 1: Key to Layout of Selvikonserv Plant

1. Entrance
2. Administration Office
3. Mess Hall
4. Weigh Station
5. Hotel and Storage Building
6. Equipment Cleaning Station
7. Fuel Station
8. Glass Pot Store
9. Jam Line
10. Glass Pot Cleaning
11. Storage (Heated)
12. Storage (Unheated)
13. Storage (Heated)
14. Workshop
15. Old Juice Concentration Machinery
16. Laundry
17. Carpenters
18. Garage
19. Storage
20. Guard House
21. Steam Boilers
22. Oil Storage Tanks
23. Vegetable and Compote Lines
24. Plum Concentration Line
25. Raw Material Store



Operations and Equipment

Following is an accounting of the Company's equipment currently in use or available for use. More specific information evaluating the physical condition of the equipment can be furnished by D&T/DAI upon request.

The Jam Line

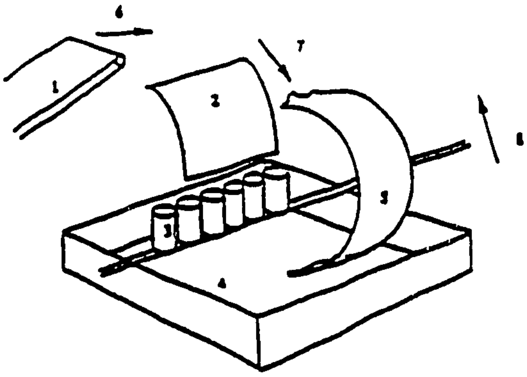
The jam line, bought in 1991, is housed in a building constructed in 1989. The line has a capacity of 1.5 tons/hour. The conveyor belts, inspection lines, and washing lines were made at the Selvikonserv site. The bottle conveyor belts are also Bulgarian. The fruit bins, pectin tank, sugar tank, citric acid tank, boiling pots, and control machinery were made by Terlet of Holland. The filling equipment and "Twist-Off" closing equipment were made in Italy. The equipment for the Bulgarian-style crimped closing tops was made in Bulgaria. The continuous sterilizer and dryer was built at Selvikonserv from an Italian design. The labeling and packaging equipment was bought from Italy.

The Green Bean Line

The green bean line, constructed in 1985, is housed in one of the original 1959 buildings. The line has a capacity of 1.0 ton/hour. The initial washing and inspection line is outside the building under a tin roof. On site are a cutting machine, blancher, and separator. A sketch of the filling machine is in Figure 2.

Figure 2: Green Bean Filling Machine

1. Conveyor Belt
2. Cascade
3. Jars on Chain
4. Collection Trough
5. Cutaway View of Recycling Drum
6. Beans Entering
7. Beans Falling into Jar
8. Beans Being Recycled



The Vegetable and Compote Lines

The vegetable and compote equipment are housed in the same building as the green bean line. The vegetable line is Bulgarian and most of it was constructed in 1980. It has a capacity of 0.6 tons/hour. The compote equipment is also Bulgarian and was constructed in 1982. Its capacity is 0.7 tons/hour. These lines have basically the same sequence of operation as the green bean lines. For all the vegetables and fruit, the initial washing and inspection operations are the same and the line is set up permanently outside the building. From this line, the materials are transported by forklift to a conveyor which takes the material inside. There the machinery used depends on the vegetable or fruit being processed. Spare machinery is kept in the corner of the hall and is pulled out as required to make up new production lines. This machinery includes an apple decorer used for the Russian market. After final processing the pots or cans are filled by hand and then closed. The closing of the compotes is done by an Italian GG 45 "Twist-Off" machine, built in 1989 or Russian-made canning machines built in 1988 and 1981. The closing of the vegetables is done on a Bulgarian glass pot-closing machine, built in 1982.

Concentrated Plum/Tomato Purée Line

The concentration equipment is in the building next to the vegetable processing lines. There is a tomato processing line and a separate plum line, both of which feed into the same set of six concentrator vessels. The tomato processing equipment was built in 1982. The plum concentration equipment was built in 1980. The capacity of the line is 0.4 tons/hour.

Dried Fruit line

The dried fruit equipment is located at a separate nearby site. It consists of two tunnel driers of the "California" type. The equipment is Bulgarian, was built in 1960's and has an annual capacity of 2 tons / 24 hours.

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MARKETING

Because the Company has historically operated in a command economy, marketing and sales strategies are still in the formative stages. At present, marketing efforts are focused on the export market sourcing private-label brands. The Company has established a working relationship with several import/export agents with offices in Bulgaria. While this strategy offers Selvikonserv access to the growing Bulgarian export market, the introduction of an intermediary agent increases sales costs.

MANAGEMENT

The Company's management is well educated and has a combined total of 48 years of experience at Selvikonserv:

General Manager	Bogomil Kassabow, 52 Engineering degree with a concentration in food technology. Mr. Kassabow has spent his entire career at Selvikonserv. He has been General Manager for 19 years. Before that, he was Deputy Director for 6 years and a Foreman of the canned fruit line for 2 years.
Chief Engineer	Totka Kzaseva Boeva, 37 Engineering degree with a concentration in food technology. Ms. Boeva has spent her entire career at Selvikonserv; 2 years as Chief Engineer, 2 as Chief of Quality Control, and the remaining 11 years as a Technologist for the canned fruit and vegetable line.
Chief Accountant	Venka Hristowa, 34 Ms. Hristowa holds an economics degree. She has been Chief Accountant for Selvikonserv for 6 years. Before that she worked as an Accountant elsewhere.

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INVESTMENT CONSIDERATIONS: MAJOR SALES POINTS

- **Flexible Investment Opportunity**
  Selvikonserv is seeking Western capital and management expertise and is amenable to a variety of deal structures that would incorporate these objectives. Such options include outright sale of the Company, the spinning-off of individual units or facilities, or the implementation of third-party production and distribution contracts. The opportunity exists for a foreign investor to leverage Selvikonserv's high-capacity, low-cost production capabilities with the large market demand in the FSU, Europe, and the Middle East with neither a substantial capital investment nor exposure to the Company's current capitalization structure.

- **Central Location Allows Low-Cost Access to Europe, Middle East, and FSU**
  Situated on the Black Sea, Bulgaria is in a prime position to ship to Eastern and Western Europe, the Middle East, and the FSU. Bulgaria has a well-developed transportation infrastructure which will allow it access to these markets by land and sea. Selvikonserv currently ships product at a low cost to Germany, Greece, Turkey, Israel, several Former Soviet Republics, as well as to the United States and Singapore.

- **Experienced in Exporting to Non-FSU Markets**
  Exports accounted for almost 50 percent of Selvikonserv's FY92 sales. Of this amount, the major markets were the United States, Germany, Holland, Israel, Greece, and Turkey. The Company's product is of sufficient quality to penetrate the US., EU, and Middle Eastern markets. During 1993, exports accounted for around 70% of sales volume in the first nine months of the year, and full year volumes are expected to reach 78%. Furthermore, the Company's products may be packaged with any label in "twist-off" containers, allowing Selvikonserv to penetrate the private-label market in the West.

- **Excellent Climate and Growing Season**
  Because of Bulgaria's geographical location, it has an excellent climate and growing season for fruits and vegetables. The country's temperate climate is free of catastrophic weather swings that affect other temperate climates and its rich soil is ideal for fruit and vegetable crops. Bulgaria's wide range of microclimatic zones allows for fruit and vegetable production throughout the entire country.

- **Streamlined Operations, Responsive to Changing Markets**
  Selvikonserv is focused on its core operations of fruit and vegetable processing. The Company's operations are located within one compact site and the Company is not hindered by having to dispose of ancillary, non-core assets. Because of its smaller size, Selvikonserv operates more efficiently and is better positioned to respond to changing markets than are its larger competitors.

- **Technically Capable Management Eager to Assume Equity Stake**
  The management team at Selvikonserv has extensive technical experience with line operations. All members of the management team have advanced engineering degrees and have worked in the industry for their entire professional lives. Furthermore,

management's commitment to privatization is shown by the fact that the management team is willing to invest in an equity position in a newly privatized enterprise.

- **Experienced, Inexpensive Labor Force**
  The Company's skilled employee base is educated and well trained. One legacy of a command economy is that enforced employee placement resulted in Selvikonserv's workforce having lengthy experience, both in the food processing industry and at Selvikonserv. Furthermore, the availability of low-wage seasonal laborers—which account for 50 percent of the Company's workforce during peak season—provides management flexibility in controlling its overhead costs while enabling it to meet staffing requirements.

- **Food Sector Investment and Reform Encouraged by Government**
  The Government of Bulgaria began long-term economic reform in 1991 by implementing the framework for the country's transition to a free market economy. Numerous laws have been enacted to promote the growth of the private sector and to encourage and protect foreign investment. Furthermore, the agricultural and food industry is viewed by the government as a priority sector for foreign investment. Bulgaria has important agricultural natural resources and the economic reforms are designed to stimulate output in this sector. To the extent foreign investment modernizes the food industry to make better use of the raw materials provided by the agricultural base, such investment will be encouraged by the government.

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FOREIGN INVESTMENT FACTORS[2]

THE ROLE OF FOREIGN CAPITAL

The transition process to a free market economy underlies the new economic laws that have already been adopted (the Law on Ownership and Use of Agricultural Land, Business of Foreign Persons and Foreign Investment Protection Act, the Fair Competition Law, the Trade Act, laws on Privatization) and the other laws which are being drafted (Insurance, Taxation, Industrial Property Protection, etc.). These new laws aim at guaranteeing the normal functioning of a free market economy and at the creation of favorable conditions for foreign investment in Bulgaria.

Foreign investments are considered to be of crucial importance for the process of economic reform in Bulgaria. The aim of the Government is to reduce the state's role as a direct investor and to use foreign capital, in the form of loans and credits, in addition to the country's financial resources, for macroeconomic stabilization, (i.e. for restoring basic monetary and financial equilibrium in the domestic market). At the same time foreign investment is a vital instrument for economic restructuring, transformation of ownership, modernizing production capacities and increasing the overall productive output of Bulgaria.

FOREIGN INVESTMENT LEGISLATION

Foreign capital invested in Bulgaria is regulated by the provisions of the Business of Foreign Persons and Foreign Investment Protection Act, passed by the Bulgarian Parliament in January 1992. The Act repeals the Foreign Investment Act and removes several technical obstructions to investment. The Act creates favorable conditions for attracting foreign capital according to simplified legal regulations, and under the same terms as for Bulgarian nationals and legal entities. It also establishes the legal framework for protection of foreign investments, laying strong emphasis on the significance and need for genuine and effective legal guarantees for the investment operations of foreigners in Bulgaria. The new Act defines some basic concepts more precisely. A foreign person is considered to be any legal entity registered abroad, or any partnership that is not a legal entity and is registered abroad, or any individual person (a foreign citizen domiciled abroad). For the first time the status of Bulgarian citizens of dual nationality is regulated. They may choose between the rights of national or foreign citizens.

Any foreign person shall have the right to carry on business in Bulgaria and to acquire shares or interests in a commercial partnership. The same procedures that apply to Bulgarian citizens and legal entities will be applied to foreigners, except where otherwise provided by statute.

One of the advantages of the new Act is the clear and comprehensive definitions and requirements for business activity of foreign individuals in Bulgaria. Foreign individuals are obliged to hold a Bulgarian permanent residence permit for:

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[2] Source: "Bulgaria: Open for Business and Investment," Deloitte Touche Tohmatsu International, 1993.

- Registration as a sole trader;
- Acquisition of interests in cooperatives or general partnerships; or
- Joining limited partnerships or partnerships limited by shares in the capacity of a general partner.

Any foreign individual or partnership that has no legal personality under his domestic law or under Bulgarian law may register a branch in Bulgaria if he or it is entitled to carry on business in a merchant capacity under the law of the respective country of origin.

Foreign persons have the right to open commercial agencies in Bulgaria, which have to be registered at the Bulgarian Chamber of Commerce and Industry. These agencies are not legal entities and cannot perform any business activities.

There are several clearly defined restrictions on foreign persons contained in the Act. Any foreign person may acquire a right of ownership over buildings but are not, however, allowed to acquire a right of ownership over land. This includes such acquisitions through a branch or in a sole trader capacity, but not include, however, acquisitions through a Bulgarian registered limited liability company. No partnership in which a foreign person holds an interest exceeding 50 percent may acquire a right of ownership in agricultural land.

Any foreign person or partnership which holds, either directly or indirectly, an interest that secures a majority in decision making or that can block decision making shall be required to obtain permission for:

- Manufacture of and trade in arms, ammunitions, and military equipment;
- Carrying out banking and insurance activities and getting interest from banking and insurance societies;
- Acquisition of property in geographical regions designated by the Council of Ministers; or
- Exploration, exploitation and extraction of natural resources from territorial waters, the continental shelf or the exclusive sea economic zone.

Permits are issued by the Council of Ministers or by a body authorized by it. Permits for banking will be issued by the Governing Board of the National Bank of Bulgaria.

Foreign investment is defined as any investment made by a foreign person acting, inter alia, in a sole trader capacity or through a branch, or by a partnership in which a foreign person holds an interest exceeding 50 percent in any of the following:

- Shares and interests in commercial partnerships;
- Rights of ownership and limited property rights over fixed assets;
- Ownership of one undertaking;
- Bank deposits;
- Bonds, treasury bills and other securities issued by the State or Bulgarian legal entities; or
- Credit granted for a term exceeding five years.

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FOREIGN INVESTMENT PROTECTION

The protection of an investment made in Bulgaria is of crucial importance to the entire investment process. Investment guarantees are provided in the Act, under which business and investments are immune to superseding statutory restrictions. Article 10 regulates the compulsory purchase of foreign investments by the state. A compulsory purchase may not proceed from a regulation issued by government or other state body. Provisions are made for the compensation of compulsorarily purchased foreign investments. Appeals can be made before the Supreme Court. At the same time, any type of foreign investment (except bank deposits) must be registered at the Ministry of Finance within 30 days of making the investment.

PROFIT REPATRIATION

The legal framework for repatriation of profits derived from an investment made in Bulgaria is of essential importance. There are no restrictions whatsoever in this respect, except that there is a requirement that the investor repatriating profit present receipts for taxes due and paid to the Bulgarian State.

Foreign exchange regulations applying to foreign persons have also been considerably liberalized. Any foreign person may open accounts or deposit foreign currency and leva with Bulgarian banks, as well as dispose of shares, bonds, and other securities. The interaction between the provisions of the Business of Foreign Persons and Foreign Investment Protection Act and the Transferring Abroad Currency Assets and Exchange Controls Act needs to be cleared up. So too do the regulations on employment relationships and insurance provisions between foreign-controlled businesses and their employees.

ANNEX A

HISTORICAL FINANCIAL DATA

***INCOME STATEMENT**
SELVIKONSERV
(In Thousands of Leva)

	Nine Months ended 30-Sep-93			Year ended 31-Dec-92		
Sales		15,588	100.00%		18,883	100.00%
Cost of Sales						
Total Cost Input:						
Materials	13,718			13,997		
Subcontracted Services	654			1,709		
Payroll Compensation	3,240			3,741		
Social Security	1,065			1,255		
Depreciation and Amortization	268			135		
Other Costs	362			615		
Total:	19,303			21,452		
Less:						
Net Raw Materials Sales	705			816		
Net Increase in Inventories	3,559			5,332		
Self-produced Fixed Assets	0			9		
Operating Expenses	2,627			3,764		
	6,891			9,921		
Cost of Sales		12,412	79.63%		11,531	61.07%
Gross Profit on Sales		3,176	20.37%		7,352	38.93%
Operating expenses						
General and Administrative Expenses	2,359			3,381		
Selling Expenses	268	2,627	16.85%	383	3,764	19.93%
Income from Operations		549	3.52%		3,588	19.00%
Other Income						
Interest Income	35			64		
Foreign Currency Translation Gains	57			8		
Late Payment Fines Collected	0			47		
Other	37	129	0.83%	37	156	0.83%
		678	4.35%		3,744	19.83%
Other Expense						
Interest Expenses	1,602			2,064		
Fines for Late Payments	9			119		
Foreign Currency Transaction Losses	61			72		
Other	704	2,376	15.24%	1,414	3,669	19.43%
Income/(Loss) before Tax		(1,698)	-10.89%		75	0.40%
Taxes		0	0.00%		75	0.40%
NET INCOME/(LOSS)		(1,698)	-10.89%		0	0.00%

*COMPILED FROM UNAUDITED DATA.

SELVIKONSERV
BALANCE SHEET
(In Thousands of Leva)

	Notes	At 30 September 1993		At 31 December 1992	
ASSETS					
Fixed Assets (net of depreciation)	1				
Land and Buildings		1,090		1,178	
Plant and Equipment		2,327		2,450	
Fixed Assets under Construction		120		0	
Other		355		99	
Total Fixed Assets			3,892		3,725
Deferred Charges	2		8,488		8,482
Current Assets:					
Cash: Local currency		111		100	
Foreign currency		437	548	947	1,047
Trade Receivables	3		59		1,451
Other Receivables			88		128
Inventories:					
Materials	4	3,725		3,000	
Work in progress		1,284		963	
Finished Goods	5	14,746		14,092	
Cost of Unrealized Sales	6	1,544	21,299	659	18,714
Total Current Assets			21,994		21,340
Total Assets:			34,374		33,547
LIABILITIES AND CAPITAL					
LIABILITIES					
Current Liabilities					
Short-term Loans	7	3,980		3,486	
Accounts Payable: Suppliers	8	4,514		1,837	
Payables to Employees		367		426	
Payables to State Budget		5,129		5,705	
Social Security Payable		191		159	
Customer's Deposits		1,306		1,020	
Deferred Income		6		6	
Total Current Liabilities			15,493		12,639
Long-Term Liabilities	9		10,540		10,540
Total Liabilities			26,033		23,179
CAPITAL					
Capital		3,409		3,409	
Profit and Loss Account	10	1,698		0	
Other Reserves	11	6,630		6,959	
Total Capital			8,341		10,368
Total Liabilities and Capital			34,374		33,547

COMPILED FROM UNAUDITED DATA. THE NOTES FORM AN INTEGRAL PART OF THIS COMPILATION.

NOTES TO THE BALANCE SHEET AT 30 SEPTEMBER 1993

1. The value of the fixed assets is shown at their historical cost. A market price revaluation of the fixed assets is in progress. It is expected that the net book value of the assets after the revaluation will be about BGL51.9 million, classified as follows:

	BGL'000
Land	10,366
Buildings	21,347
Plant and Equipment	18,812
Vehicles	1,126
Implements	260
	51,911

2. The Bulgarian leva was significantly devalued in 1991 so that companies such as Selviconserv, with foreign currency denominated debt, experienced large foreign currency exchange losses. Due to the magnitude of these losses, the Bulgarian government permitted an exception to the general rule of recording the transaction losses as income statement items, allowing companies to list them on their balance sheet as deferred charges. For those companies currently awaiting a revaluation of their fixed assets - either in connection with their restructuring from a state enterprise to a commercial one, or, like Selviconserv, as a part of the privatization process the deferred charges will be capitalised as a part of the cost of fixed assets that were acquired through foreign currency loans. Should the revaluation surplus be higher than the deferred charges, the difference will be credited to capital. If lower, the portion of deferred charges not absorbed by the revaluation write-up will be amortised over the life of the asset.

   This accounting treatment is congruent with International Accounting Standard 21, paragraph 31, which reads:

   > An exchange difference that results from a severe devaluation, or from depreciation of a currency against which there is no particular means of hedging and that affects liabilities arising directly on the recent acquisition of assets invoiced in a foreign currency may be included in the carrying amount of the related assets provided that the adjusted carrying amount does not exceed the lower of replacement cost and the amount recoverable from the use or sale of the asset.

3. In accordance with local accounting practice, the company does not record as turnover and the corresponding trade receivables, any sales where collection has not been made by the date of preparation of the Balance Sheet. The high level of trade receivables at 31 December 1992 is mainly caused by the longer period that the accounts are held "open" before finalising the annual accounts, and is therefore not directly comparable with the position shown at 30 September 1993. The average monthly amount of receivables for 1993 is approximately BGL100 thousand.

4. The components of the raw materials inventory in thousands of BGL at 30 September, 1993 were as follows:

	BGL (000's)
Fresh products (fruits, vegetables etc.) and auxiliary materials such as sugar, salt, vinegar spices	1,021
packaging materials	2,080
Spare parts	377
Working uniforms	109
Fuel	138
Total	3,725

A technical opinion would be needed to determine whether the quantities do not exceed anticipated production needs, and/or the net realisable value is greater than or equal to the historical cost.

5. The company uses the average cost method for costing its work in progress and finished goods inventories. The components of finished goods inventory as at 30 September 1993 are:

	BGL (000's)
Canned vegetables	4,011
Compote	3,792
Jam	2,589
Marmalade	1,593
Juice	38
Brandy	27
Dried Fruits	1,246
Packaging Materials	1,397
Others	53
Total	14,746

A technical opinion would be needed to determine whether the quantities of work in progress and finished goods exceed anticipated sales and/or the net realisable values are greater than or equal to the historical cost.

6. As described in note (3) above, sales are recognised at the time of receipt and they are "accounted for" as "unrealised" while the goods are in transit to the customer or while a receipt has not been processed. Under U.S. generally accepted accounting principles (GAAP), this type of transaction needs to be disclosed separately on the balance sheet. Accordingly, the cost of the unrealised sales has been segregated from the finished goods inventory and disclosed as a separate line item.

7. None of the short-term loans is due earlier than 30 June 1994. The interest on the loans has been paid regularly as of 31 December 1993.

8. The ageing of accounts payable as of 30 September 30 1993 was:

	BGL'000
Less than 30 days	2,705
31 to 60 days	520
61 to 120 days	0
121 to 180 days	1,289
Total	4,514

9. Long-term liabilities are shown at historical cost and represent a foreign currency loan used to purchase a new production line. The company has neither paid nor accrued any interest on the foreign currency loan. As of 30 September 1993 this loan consists of:

- *Dutch Guilder*

Principal	611,420
Accumulated interest	132,213
Total	743,633

- *Italian Lira*

Principal	120,727,597
Accumulated interest	28,084,689
Total	148,812,286

A bad loan law has been approved by Parliament in December 1993. Under this law, "bad" loans of companies accumulated up to the end 1990 will be transformed into government debt that will be paid for by issuing long-term government bonds. It is expected that the loan of Selviconserv will be written-off the balance sheet of the company under this law.

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10. The corporate tax rate is 52% of net taxable profit. Not all expenses are recognised for tax purposes. In particular interest paid has been recognised for tax purposes for the last three years as follows:

from 01.04.1991 till 31.05.1991	7.5%
from 01.06.1991 till 31.12.1991	25.5%
from 01.01.1992 till 30.06.1993	50.0%
from 01.07.1993 till 31.12.1993	75.0%

As a result, taxable profit was greater than reported profit, resulting in the total amount of net profit for 1991 and 1992 being paid as corporate tax.

11. The amount shown for other reserves stems from three main sources: (1) amounts classified as special-purpose funds under the previous national accounting system, such as the Social Fund and the R&D Fund; (2) revaluation to replacement cost of various inventory, (mainly packaging such as jars, containers and lids); (3) profits retained at the end of 1990 when Selviconserv became an independent entity.

SELVIKONSERV
INCOME STATEMENTS

(In Thousands of Leva)

	Year Ended Dec. 31, 1992			Year Ended Dec. 31, 1991		
SALES		18,883	100.0%		19,846	100.0%
COST OF SALES:						
Total cost input:						
Materials	13,997			14,503		
Subcontracted services	1,709			1,481		
Payroll compensation	3,741			2,307		
Social security	1,255			796		
Depreciation and amortization	135			171		
Other costs	615			407		
Total:	21,452			19,665		
Less:						
Net raw materials sales	816			-0-		
Net increases in inventories	5,332			5,262		
Self-produced fixes assets	9			29		
Operating expenses	3,764			2,091		
	<9,921>			<7,382>		
Add:						
Net cost of merchandise sales	-0-			147		
Net cost of casual sales	-0-			1,497		
Inventory shortages	-0-			3		
	-0-			1,647		
Cost of sales		11,531	61.1		13,930	70.2
Gross profit on sales:		7,352	38.9%		5,916	29.8%
Operating Expenses:						
General and administrative expenses	3,381			1,589		
Selling expenses	383			502		
Uncollectible receivables	-0-	<3,764>	19.9	149	<2,240>	11.3
		3,588	19.0%		3,676	18.5%
Operating Income:						
Interest income	64			90		
Income from securities transactions	-0-			41		
Foreign currency translation gains	8			2,843		
Late payment fines collected	48			-0-		
Other	38	156	0.8	-0-	2,974	15.0
		3,744	19.8%		6,650	33.5%
Other expenses:						
Interest expense	2,064			3,293		
Fines for late payments	119			20		
Foreign currency translation losses	72			2,821		
Other	1,414	<3,669>	19.4	-0-	(6,134)	30.9
Pretax income form continuing operations:		75	0.4%		516	2.6%
Taxes		75	0.4		516	2.6
Net income:		-0-	-0-		-0-	-0-%

COMPILED FROM UNAUDITED DATA

SELVIKONSERV
BALANCE SHEETS
(In Thousands of Leva)

	At September 30, 1992		Notes	At December 31, 1991	
ASSETS					
Current Assets:					
Cash: domestic	100			878	
Foreign	947	1,047		-0-	878
Trade receivables		1,451	1		125
Other receivables		128			46
Inventories:					
Materials	3,000		2	6,049	
Work in progress	963			546	
Finished goods	14,092		3	9,381	
Cost of unrealized sales	659	18,714	4	-0-	15,976
Total current assets		21,340			17,025
Fixed Assets (net of depreciation):			5		
Land and buildings	1,176			1,072	
Plant and equipment	2,450			352	
Fixed assets in process	-0-			2,345	
Other	99			47	
Total fixed assets:		3,725			3,816
Intangible Assets:					
Incorporation cost	-0-				3
Deferred charges		8,482	6		8,088
Total Assets:		33,547			28,932
LIABILITIES AND CAPITAL					
LIABILITIES					
Current Liabilities:					
Short-term loans	3,486			3,030	
Accounts payable: suppliers	1,837			479	
Payables to employees	426			325	
Payables to State budget	5,705			506	
Social security payable	159			123	
Customer's deposits	1,020			2,493	
Deferred Income	6			-0-	
Total current liabilities		12,639			6,956
Long-term liabilities		10,540	5		10,939
Total liabilities:		23,179			17,895
CAPITAL					
Capital	3,409		7	3,409	
Reserves	6,959		8	7,628	
Total Capital		10,368			11,037
Total Liabilities and Capital:		33,547			28,932

COMPILED FROM UNAUDITED DATA. THE NOTES FORM AN INTEGRAL PART OF THIS COMPILATION.

NOTES TO THE BALANCE SHEET AT DECEMBER 31, 1992

1. An aged trial balance of the accounts receivable was not available. However, as described in Note 4, the company does not record receivables whose ultimate collectibility is considered highly doubtful.

2. The components of the raw materials inventory at December 31, 1992 were as follows (in thousands of leva):

Fresh products (fruit, etc.) and auxiliary materials such as sugar, salt, vinegar, spices):	1,028
Packaging materials	1,378
Spare parts	331
Working uniforms	91
Scrap items	29
Fuels	143
	3,000

A technical opinion would be needed to determine that: (1) quantities do not exceed anticipated production needs; and (2) net realizable values are at least equal to (but not less than) historical costs.

3. The company uses the average cost method of pricing its work in process and finished goods inventories. A technical opinion would be needed to determine that: (1) quantities of incomplete and completed products do not exceed anticipated sales; and (2) net realizable values are at least equal to but not lower than cost.

4. When the ultimate collectibility of sales revenue from a customer is considered highly doubtful, the company's policy is not to book the sale until its realizability is assured. Under U.S. generally accepted accounting principles (GAAP), this type of transaction needs to be disclosed separately on the balance sheet. Accordingly, the cost of the unrealized sale has been segregated from the finished goods inventory and disclosed as a separate line item.

5. According to the bookkeeper, the book values of the fixed assets are based on historical costs and do not contain any revaluations. A technical opinion would be required to determine whether the book values exceed replacement costs.

   The client provided the team's technical valuer with details of the fixed assets and the long-term liabilities.

6. The Bulgarian leva was significantly devalued in 1991 so that companies such as Selvikonserv, with foreign currency denominated debt, experienced large foreign currency exchange rate translation losses. Because of the magnitude of these losses, the Bulgarian government permitted an exception to the general rule of recording translation losses as income statement items, allowing companies to list them on their balance sheets as deferred charges. For those companies currently awaiting a revaluation of the fixed assets—either in connection with restructuring from a state enterprise to a commercial one, or, like Selvikonserv, as a part of a privatization process—the deferred charge will be capitalized as part of the cost of the fixed assets that were acquired through foreign currency loans. Should the revaluation incremental increase be higher than the deferred charge, the difference would be credited to capital. If lower, the portion of the

deferred charge not absorbed by a revaluation write-up would be amortized over the life of the asset.

This accounting treatment is congruent with International Accounting Standard 21, paragraph 31, which reads as follows:

> An exchange difference that results from a severe devaluation or from depreciation of a currency against which there is no practical means of hedging and that affects liabilities arising directly on the recent acquisition of assets invoiced in a foreign currency may be included in the carrying amount of the related assets provided that the adjusted carrying amount does not exceed the lower replacement cost and the amount recoverable from the use or sale of the assets.

7. The company's capital increased from 1.63 million leva to 3.409 million leva on December 29, 1991 as a result of the capitalization of some debt owed to the state.

8. The amount shown for reserves stems from two main sources: (1) amounts classified as special-purpose funds under the previous national accounting system; and (2) a 1991 revaluation to replacement cost of various inventories, such as jars, containers, and lids (caps). The closest U.S. equivalent would be additional paid-in capital. There are no accumulated retained earnings because the state, which is the company's sole owner, levies taxes in amounts equal to any surplus.

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ANNEX B

THE PROCESSED FRUIT AND VEGETABLE INDUSTRY IN BULGARIA

THE PROCESSED FRUIT AND VEGETABLE INDUSTRY IN BULGARIA

INDUSTRY OUTLOOK

Clearly the largest factor affecting the Bulgarian processed fruit and vegetable industry is the economic collapse of the former Soviet Union, the primary market of the sector. As a result, there is a substantial amount of overcapacity with the resultant high fixed costs of production due to low volume (See Table B-1 below). Also the quality of the produce is not suitable for other markets because of plant or line shortcomings in handling, packaging, and sanitation.

TABLE B-1
PRODUCTION DECLINE IN FRUITS AND VEGETABLES (1988-1992)
(Production Volume — Tons [000])

	1988	1989	1990	1991	1992
Fruit					
Canned Fruit	255	290	211	63	33
Compote	71	93	66	14	16
Confiture and Jellies	32	29	12	8	5
Marmalade	5	7	6	4	3
Total	363	419	295	89	57
Vegetables					
Sterilized (in cans and jars)	241	206	158	110	41
Tomato Paste	37	60	50	21	19
Total	278	266	208	131	60
Grand Total	641	685	503	220	117

* Source: Bulgaria Ministry of Industry, Figures are rounded

Until Bulgaria adapts to the new market environment resulting from the demise of the FSU, certain characteristics will define the sector:

- With the exception of the state monopoly in cardboard boxes, and oligopolies in the production of tin cans, screw-on lids, and glass jars, most firms produce what is perceived to be relatively generic products of equal or marginal quality.
- The sector lacks product differentiation, and suffers from dislocations in distribution systems, and poor marketing, production, and financial management capabilities.

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- The overall quality of production is below Western standards. There is limited production for Western export markets. Traditionally, most exports satisfied the much less demanding Soviet economies.

- Market information is limited since the breakup in mid-1990 of state monopolies that controlled production and distribution of the domestic and export markets.

- Prroducers have not developed the management and marketing skills or production efficiencies to distinguish their products from competitors, or to target export markets effectively.

LIMITED COMPETITION

Processing firms in the fruit and vegetable sector do not compete with one another for either domestic or export markets. The domestic market for processed fruits and vegetables is limited and does not require competitive pricing, product differentiation, or marketing. The old Soviet system that was recently dismantled through demonopolization and liberalization of prices and trade did not prepare producers for competition or create an economy that demanded quality standards.

Producers are almost completely insulated from foreign buyers and their requirements. With few exceptions, producers work through brokers to sell their products overseas. Without direct contact with market forces, consumers and foreign buyers, Bulgarian processors do not understand competition and its requirements for product quality, pricing, and consumer preferences. Producers are adjusting to the structural changes in their industry and striving to survive an extreme credit shortage and a troublesome domestic economy. Several producers are just beginning to realize that market forces will soon determine whether or not firms will survive.

QUALITY DIFFERENTIATION

Previously, Bulgarian brokers and distributors relied on state producers to supply specific products. Brokers knew the relative costs of production of state enterprises because records were open, and brokers could determine prices based on the quantity and quality requested by foreign buyers. Brokers had insider information about the technology, production process, and cost structure for each state producer. Most importantly, brokers usually had a personal relationship with plant managers and relied on their expertise to obtain the quantities requested by foreign buyers at competitive prices.

Today, brokers say that they can no longer rely on the old system. Factory managers have been replaced, some having been appointed for political reasons, and the quality of production has diminished significantly in some plants. Recent demonopolization of the domestic distribution system controlled by Bulgarplod, and the export system through Bulgarplodexport, has resulted in at least 30 small private export brokers and distributors. These private brokers and distributors who formerly worked for state monopolies now exploit the relationships they developed with foreign buyers to buy and sell Bulgarian preserves to export markets.

MARKET ANALYSIS

Table B-2 below indicates the total metric tons and prices inclusive of cost, insurance, and freight (CIF) per ton by country origin provided by USDA's Foreign Agricultural Service office in Bonn, Germany. The table compares Bulgarian competitive prices, which include all duties, against EEC member countries, and Bulgarian CIF prices against non-EEC countries. Although data do not take into account product quality and resultant price fluctuations, the data do suggest that Bulgaria is price competitive in certain markets.

TABLE B-2
COMPETITIVE ANALYSIS OF CIF PRICES

Product Origin	Product at US$ Per Net Metric Ton: Strawberry Jam HS#20079930		Other Jam/Puree HS#20079939		Peaches Syrup HS#20087071		Whole/Parts Tomatoes HS#200210900		Tomato Ketchup Other Tomato Sauce HS#210320000		Whole/Parts Tomatoes Peeled HS#200210100		Frozen Peas HS#20049050	
	MT	$/MT	MT	$/MT	MT	$/MT	MT	$/MT	MT	$/MT	MT	$/MT	MT	$/MT
EEC Countries														
France	33.00	2,988.48	181.00	2,445.43	318.00	1,027.57	8.00	3,008.08	408.00	1,782.87	2.00	1,982.35		
Italy	118.00	2,208.68	492.00	2,282.15	448.00	947.98	1,062.00	837.20	848.00	1,534.34	10,481.00	557.87	7.00	1,252.88
Netherlands	108.00	1,822.88	218.00	1,880.81			1.00	1,118.67	1,013.00	1,884.78	88.00	647.38		
Belgium/Lux	188.00	2,117.73	323.00	2,174.47					1,058.00	1,630.85				
Switzerland	0.00	3,050.00	4.00	4,280.48										
Austria	2.00	6,008.84	11.00	4,478.08										
Finland			0.00	4,500.00										
Denmark	7.00	2,278.73	28.00	2,314.80	43.00	714.98			82.00	1,341.47	22.00	318.87		
Great Britain	8.00	6,748.37	39.00	4,118.91					317.00	1,250.14				
Bulg. Comp. Prices		2,144.64		1,670.20		1,054.17		[illegible]		1,411.38		673.80		1,187.30
Non-EEC Countries														
Greece					2,483.00	983.88			0.00	0.00	1.00	2,230.00		
South Africa					358.00	1,037.87								
USA	0.00	6,700.00	1.00	11,230.00	2.00	1,588.24			281.00	2,458.12				
Israel											201.00	531.47		
Bulgaria									2.00	416.75	33.00	434.86		
CSFR							13.00	308.82					1.00	3,388.67
Russia			2.00	981.80			3.00	298.00						
Turkey	0.00	3,350.00	4.00	1,883.72					4.00	1,125.00	10.00	453.85		
Hungary									38.00	1,087.47				
Mexico									17.00	1,038.48				
Thailand									1.00	2,230.00				
China											12.00	1,058.52		
Spain					1.00	1,442.88			208.00	2,382.00	28.00	782.53		
Total MT	483.00		1,280.00		3,651.00		1,075.00		4,250.00		10,838.00		8.00	
Bulgarian CIF Prices		1,508.14		1,142.62		687.14		803.34		1,140.58		785.78		908.25

Source: USDA's Foreign Agricultural Service Office in Bonn, Germany

Bulgaria compares favorably to EEC countries primarily in jams and marmalades, tomato ketchup, and frozen peas. Prices of canned peaches in syrup and canned tomato products are less competitive, in part due to EEC duties. Despite the EEC sugar-content tariffs imposed on Bulgarian jams, these products traditionally have been very competitive and have been key in penetrating new markets in the EEC.

Bulgarian jams and marmalades, tomato ketchup, peaches, and frozen peas are competitive versus non-EEC producers, as well. As shown in Table B-2, the CIF price for canned whole peeled tomatoes is the lowest among both EEC and non-EEC countries. Bulgaria—behind Israel—was the second largest exporter of peeled tomato goods to non-EEC countries. Although Israel's prices for tomato products are 27 percent higher than Bulgaria's, substantially higher volumes for Israeli imports may result from consumer preferences for kosher products.

SUMMARY

Current conditions indicate that there is limited competition within this industry, which does not fully understand its competitors, consumers, and markets. Bulgarian producers are just emerging from the old Soviet economic system that dictated production requirements and prices to satisfy the planned economy. State firms have not yet adjusted to the market economy and competitive forces emerging in Bulgaria that will eventually determine the firms that will develop or exploit comparative advantages.

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ANNEX C

COUNTRY OVERVIEW

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COUNTRY OVERVIEW

Bulgaria is an urbanized nation of 9 million people. At one time Bulgaria was one of Eastern Europe's most highly centralized economies with extremely strong ties to the former Soviet Union. Yet Bulgaria maintained relations with Western countries and thus served as a conduit between the Eastern Bloc and the West.

Bulgaria is rich in natural resources. From an agricultural standpoint Bulgaria has a wide range of microclimatic zones allowing production of vegetables and fruit products throughout the country. Bulgaria also has a favorable and mild climate for these and other field crops. The main production areas have an abundance of fertile and well-adapted soils for agriculture.

Beginning February 1, 1991, retail prices on virtually all nonessential items were liberalized. (Most essential food items remain under some type of government price control.) Other structural reform measures introduced included a tax overhaul, demonopolization, and privatization plans. A continuing policy problem in the reform process is the government's attempt to shift the burden of the state enterprises' large debt onto the taxpayer and the state budget because of scarce financial resources. Inefficient state enterprises continue running up new debts because of continuing production declines and the resultant increase in costs of production.

The state foreign trade monopoly was abandoned in 1989. Trading entities can gain access to their hard currencies and may retain export earnings. The 1991 tariff averaged 8 percent for farm products. A 15 percent surcharge has been imposed on most imported goods to improve balance of payments. Hard currency shortages and currency inconvertibility remain formidable barriers to trade. Countertrade is practiced with the CIS. Bulgaria imported a considerable amount of corn from the United States in 1991 ($33 million). Export opportunities exist for U.S. grains, oilseeds, livestock genetics, cotton, and farm inputs. U.S. expertise in financing, farm management, and food processing is needed. The fine-flower industry is considering establishing joint ventures. The Union Investment Fund (BIFP) established in February 1992, reports that 75 percent of the projects submitted are in the food industry. Agricultural Exports for 1990 were $1.6 billion (fruit, vegetables, wines, tobacco, cigarettes, eggs, sheep, and live animals). Germany was the largest export trading partner. Agricultural Imports for 1990 were $900 million (corn, sugar, oilseeds, cotton, and tropical products).

In January 1991, Bulgaria became eligible for U.S. Department of Agriculture export credit guarantees. In April 1991 Bulgaria was given most favored nation status. In addition to MFN status on tariffs the agreement improves the capacity of American businesses to operate in Bulgaria. A bilateral investment treaty between Bulgaria and the United States provides basic guarantees to U.S. investment. New tax legislation in 1992 provides tax incentives for foreign investment. Bulgaria maintains intercountry currency conversion at a floating exchange rate. Although unlikely to provide much economic benefit in the short run, Bulgaria has signed a new bilateral trade agreement with the Russian Federation. Bulgaria is also a member of the Black Sea Trade Group formed in June 1992 consisting of Russia, Ukraine, Georgia, Moldavia, Armenia, Albania, Azerbaijan, Greece, Romania, and Turkey. The trade group may have some positive trade benefits through Turkey or Greece in the short run but, like the bilateral trade agreement, it will likely take several years before the benefits become measurable.

Bulgaria has a relatively complete commercial and investment code including privatization regulations. The Economic Activities of Foreign Persons and Protection of Foreign Investment Act opens the country to foreign investment, provides the rules and rights for foreign investors, and provides assurances against government expropriation. This act along with the Overseas Private Investment Corporation (OPIC) insurance provides a sound basis for foreign investment. The commercial code, on the other hand, is still being completed; the code for corporations and relations between business entities are complete, but the definition and regulation of financial transactions and obligations are still incomplete.

Bulgaria has been relatively successful in controlling inflation. By the end of 1992 the surge caused by retail price liberalization had largely become a thing of the past; however, inflation continues to be a concern. The government has maintained tight monetary and wage policies to control inflation and the result is positive for the general population because goods are available in the market and accessible to most workers. However, consumption patterns have changed from high priced meats to some grain products. Specifically for agribusiness, some retail food prices have been liberalized while others, meat, flour, bread, oil, sugar, milk, and butter, are still monitored. In a similar vein producer prices for some products have been controlled, resulting in a severe cost-price squeeze for producers of many agricultural products. These changes combined with the continued reliance on state-owned entities for processing and export have led to slow development of new markets and thus have not stimulated production. This has significant implications for the fruit and vegetable processing subsector because it is important that they be able to pay prices that will entice growers to invest in new production (for instance, trees) and encourage them to produce vegetables that have a higher cost of production than cereals and other field crops. Tables C-1 and C-2 on the economic structure of Bulgaria and on agricultural policy reform follow.

POLITICAL AND ECONOMIC SITUATION

The present political uncertainty will have an impact on this subsector domestically as well as on the interest of potential partners in potential divestiture or indirect privatization. The uncertainty in government and the ability of some factions to enforce a go-slow approach to privatization has resulted in severe economic consequences.

The concern of the external financial community is manifest in the continuing oversight by the International Monetary Fund of its economic stabilization requirements for Bulgaria. The IMF has made a complete and comprehensive privatization program a condition for long-range assistance. With more than $15 billion in foreign debt, the country cannot continue to function without outside monetary assistance and a significant reduction in operating costs of industry through indirect and direct privatization.

Although slower getting started on reforms than some other Eastern European countries, Bulgaria is making progress. Bulgaria has been successfully complying with the IMF stabilization requirements. In addition, OPIC has agreed to provide political risk insurance and loan guarantees for equity and debt investments to private businesses.

TABLE C-1
ECONOMIC STRUCTURE OF BULGARIA

	1987	1988	1989	1990	1991 [a]
GDP (US$ 000,000)	28,101	22,961	21,690	19,905	11,445
GDP growth (%)	15.9	-18.3	-5.5	-8.3	-42.5
Retail trade prices (%)	0.1	0.5	9.0	70.0	334.0
Hard currency (US$ bn)					
Exports	3.3	3.5	3.1	2.5	3.4 [b]
Imports	4.2	4.5	4.3	3.3	2.8 [b]
Current account	-0.8	-0.8	-1.3	-1.2	--
Gross external debt (Dec)	6.2	8.2	10.2	11.0	12.3
Population (mn, end year)	8.97	8.99	8.99	8.95	8.60 [c]
Official rate (ave) Lv/US$	0.863	0.830	0.828	2.313	8.0

[a]Estimates.
[b]Includes hard currency trade with former CMEA.
[c]Official data. For technical reasons the exodus of ethnic Turks form Bulgaria in 1989 was not fully reflected in the population data.

Sources: The World Bank, report dated July 9, 1991; *The Economist Intelligence Unit*, Country Report No. 1, 1992; and The International Monetary Fund, report dated March 19, 1992.

The thousands of small private businesses that have recently opened in Bulgaria are a result of the broad structural reforms recently implemented by the government. These include reducing the state role in the markets, redefining the state role in businesses that have private competitors, and development of a well-planned and well-organized privatization focus with the Ministry of Industry and each of the individual Ministries actively involved in privatization.

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TABLE C-2
SUMMARY OF AGRICULTURAL POLICY REFORM IN BULGARIA

REFORM MEASURE	Bulgaria	Remaining Issues
Land Reform and Restitution	Law passed February 1991 to return parcels of land to igorinal owners. Sept. 1991, only 10 percent of land previously owned or held in title claimed. Government may be forced to maintain state and cooperative farms. March 1991 law limits private ownership to 20 hectares and requires land be farmed.	• Absence of legal title • Remaining 50 percent of land unclaimed • Establishment of legal boundaries • Small plots make operation inefficient • Limits on land ownership and sale
Privatization of State-owned Enterprises	Very little progress; state owns 93 percent of the wealth; government senselessly shifting burden of state enterprises' large tax debt onto taxpayer and state budget.	• Consistent procedure for valuation • How to handle the excessive debt of most enterprises • High percentage of businesses remain state owned (over 90 percent) • Potential for debt forgiveness to aid privatization
Currency Convertibility	Internal currency convertibility; floating exchange rate.	• Price controls on some retail and producer prices • Levels of foreign debt
External Debt	Since March 1990, moratorium on principal and interest debt payments; recently agreed to service official debt extended since Jan. 1, 1991.	• IMF and WB requirements related to privatization program • Negotiation of debt with creditors
Domestic Economy	Severe recessi[illegible]; high inflation; large current account deficit; suffering from increa[illegible] ost of raw materials, revenue losses from lower sales of manufactured goods; energy crunch due to reduced Soviet deliveries oil, gas.	• Price controls on retail food and producer prices • High levels of business bad debt • High interest rates • Wage rates versus increasing cost of living
Economic Reform	Feb. 1991, retail prices nonessential items liberalized, tax overhaul, demonopolization, and privatization.	• Tariffs remain high • Licensing required for many imports and exports • Legal system needs reform and experience in commercial law • Need uniform credit code and banking system reform • Standardized accounting and resolution of debt • Systems to move funds internally and linkage to foreign system
Foreign Investment Incentives and Regulations	1991 tariff schedule averaged 8 percent for farm products, and .5 percent customs clearance fee for imports and exports; Feb. 1991, 15 percent surcharge on most imported goods; hard currency shortages barrier to imports; Nov. 1991, 3-year trade relations agreement with U.S. signed; Foreign investors may not own land or natural resources.	• Foreign ownership of land via participation of Bulgarian firm • Valuation of Investments on a cash basis • Cross registration in both countries required to re[illegible]eive benefits • "Economic activities" are treated different from "investment" • "Demonopolized" firms are still state owned
Key U.S. Agribusiness Investment Opportunities	Financing, farm management, and food processing (especially fruit and vegetable), fine flower industry.	• Debt reduction for state enterprises to be privatized • Upgrading standards and quality of product • Overcapacity throughout the subsector • Many businesses have to be partitioned to make sense

Storco Pleven

Information Memorandum

Confidential

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January 1994

DAI

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PREFACE

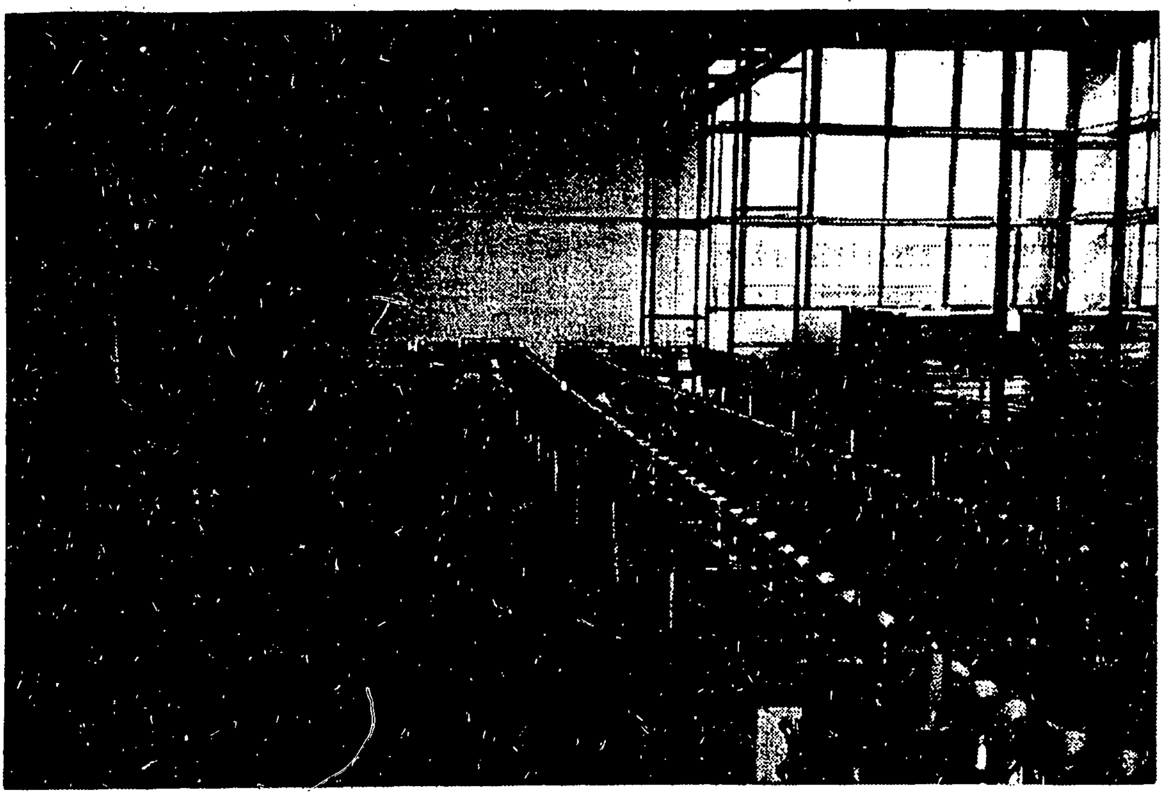
This Information Memorandum (the Memorandum) has been prepared by Deloitte & Touche (D&T) and Development Alternatives, Inc. (DAI) solely for information purposes from information supplied to D&T/DAI by Storco Pleven (Storco, or the Company) in conjunction with the Bulgarian Privatization Agency (PA) and is being furnished through D&T/DAI solely for use by a limited number of prospective investors in considering their interest in a transaction involving Storco Pleven.

The information contained in this Memorandum has been prepared to assist interested parties in making their own evaluations of the Company and does not purport to contain all of the information that a prospective investor may desire. In all cases, interested parties should conduct their own investigations and analysis of Storco and the data set forth in this Memorandum. The PA, the Company, and D&T/DAI make no representation or warranty as to the accuracy or completeness of the information contained herein or of information made available in connection with any further investigation of the Company, including any estimates or projections. Further, the PA, the Company, and D&T/DAI shall have no liability for any representations (expressed or implied) contained in, or for any omissions from, this Memorandum or any other written or oral communications transmitted to interested parties in the course of its evaluation of the Company. The only information that will have any legal effect will be that specifically represented in a definitive agreement.

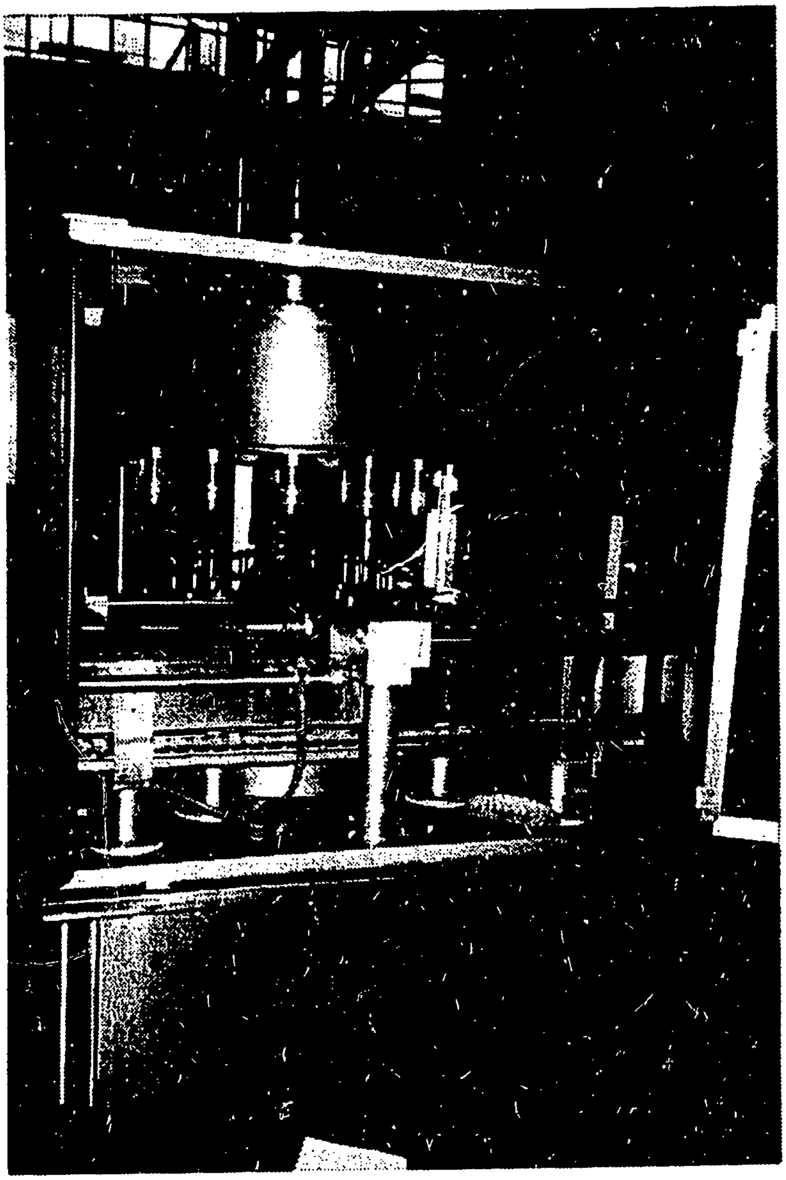
By accepting this Memorandum, the recipient agrees to keep confidential the information contained here or made available in connection with any further inquiries or any investigation of the Company. Without limiting the foregoing, the recipient acknowledges and agrees that (1) none of the PA, the Company, or D&T/DAI will be subject to any liability based on the information contained in the Memorandum, errors therein or omissions therefrom, whether or not the PA, the Company, or D&T/DAI knew or should have known of any such errors or omissions, or was responsible for or participated in its inclusion in or omission from this Memorandum; (2) the recipient will not copy, reproduce, or distribute to any third party this Memorandum in whole or in part; (3) if the recipient does not wish to pursue this matter, it will return this Memorandum to D&T/DAI as soon as practicable, together with any other material relating to the Company that it may have received from D&T/DAI, the PA, or the Company, without retaining any copies thereof; and (4) any proposed actions by the recipient that are inconsistent in any manner with the foregoing agreement will require the prior written consent of the PA or D&T/DAI.

The recipient agrees that D&T/DAI, an advisor to the PA, is an agent of the PA who is a principal, and further waives and agrees not to assert any claim against D&T/DAI based upon the form, accuracy, completeness, or adequacy of information, communicated orally or in writing in connection with the proposed transaction. For all purposes hereof, the term D&T/DAI shall include any affiliates, officers, directors, controlling persons or employees of Development Alternatives, Inc. This provision is agreed for the benefit of D&T/DAI.

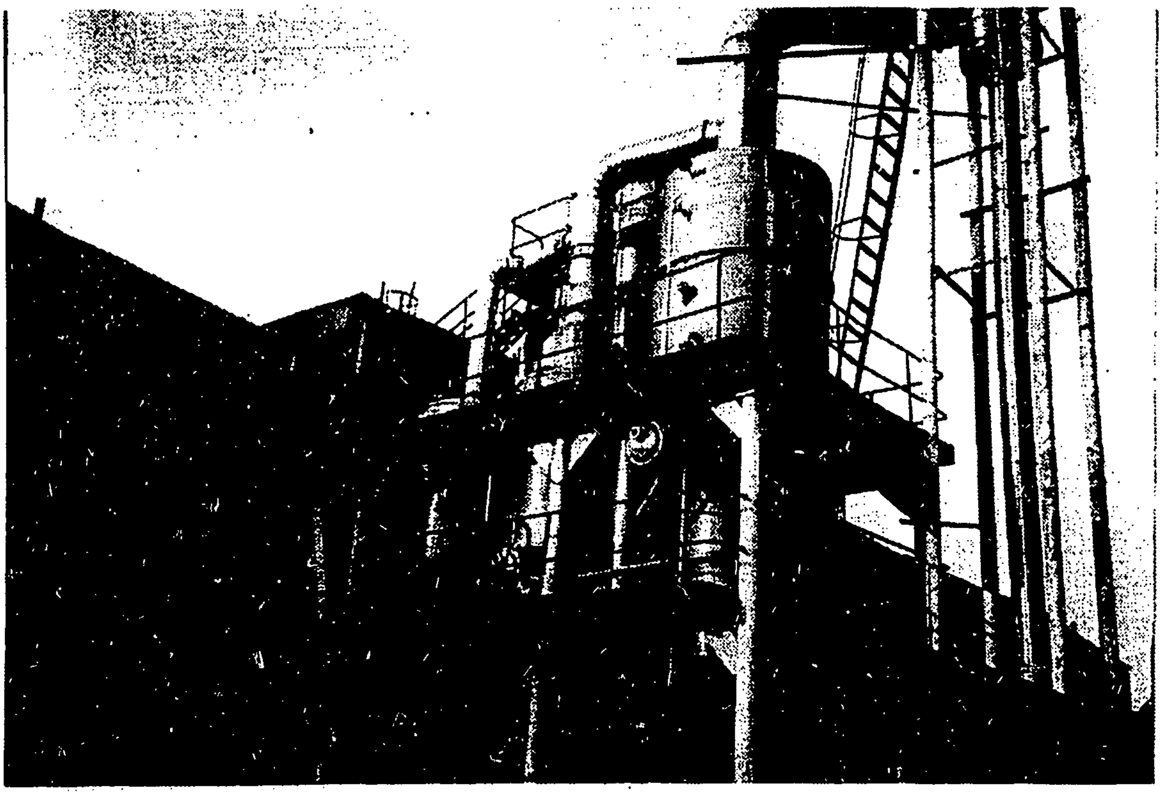
The PA reserves the right to negotiate with one or more prospective parties at any time and to enter into definitive transaction agreements without prior written notice to that party or other prospective joint venture parties or purchasers. The PA reserves the right to terminate, at any time, further participation in the investigation and proposal process by any party and to modify documentation and other procedures without notice and without assigning any reason thereto.



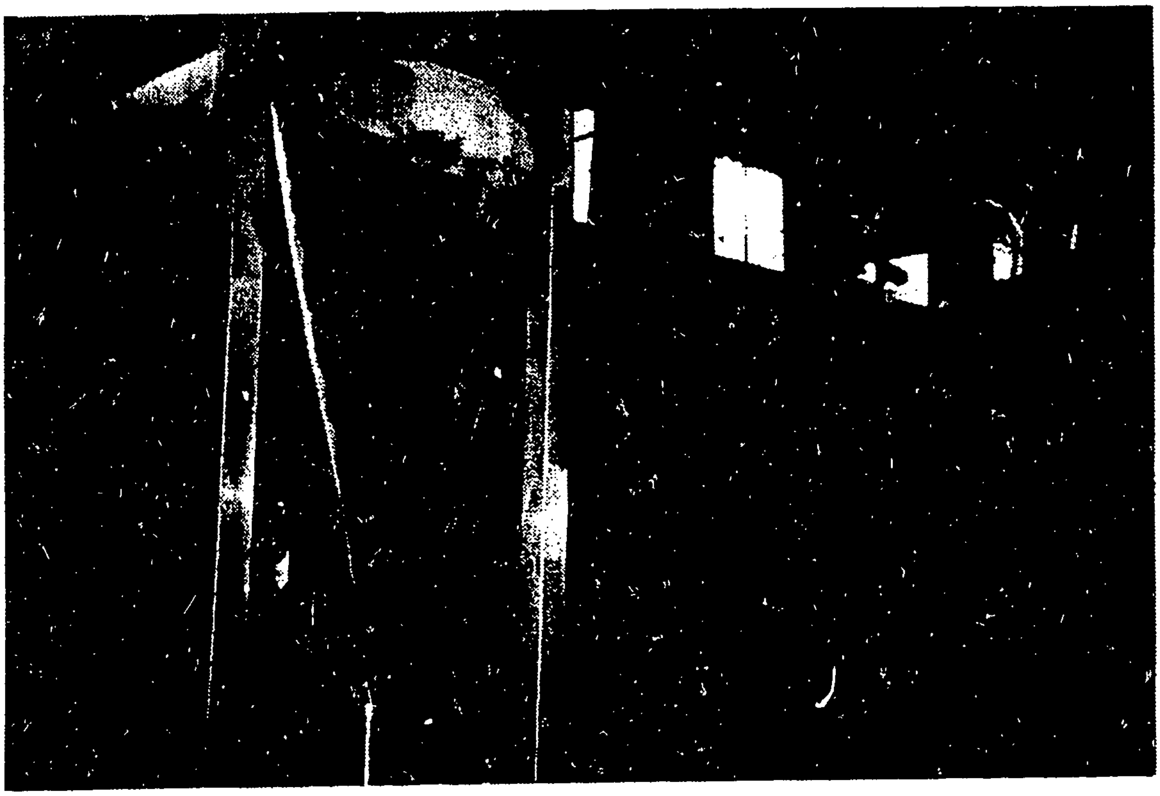
Cevolani Can Fabrication Line



Ketchup Filler



Three Stage Condenser



Blancher for Freezing Tunnel

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EXECUTIVE SUMMARY

Deloitte & Touche (D&T) and Development Alternatives, Inc. (DAI) has been engaged by the U.S. Agency for International Development (USAID) to act as financial advisor to the Bulgarian Privatization Agency (PA) in the PA's divestiture of state-owned enterprises. In accordance with the PA's objective of seeking foreign investment in the processed fruit and vegetable sector, this Information Memorandum presents an operational overview of a leading Bulgarian processed fruit and vegetable enterprise. The Memorandum is intended for preliminary discussion purposes only. When applicable, further enterprise-specific information may be provided at the discretion of D&T/DAI.

Storco Pleven (Storco, or the Company) is one of the largest and most diversified processed fruit and vegetable enterprises in Bulgaria. Total revenues for the period ending September 30, 1993 were BGL 158.4 million (US$ 5.3 million).[1] Food products including bottled and canned vegetables, fruit compote, jam, marmalade, brandy, and canned meat constituted approximately 68 percent of revenues; metal containers and lids accounted for approximately 13 percent of revenues; and the Company's 40 retail stores and the sale of raw materials accounted for the remaining 19 percent of revenues.

The Company possesses highly automated production capacity, including a three-stage fruit and vegetable concentrator, a new Cevolani metal can fabrication line, and a modern Walter Rau frozen fruit and vegetable processing line with a Frigoscandia individual quantity freezing tunnel. Storco has a rated annual production capacity of 200,000 tons of raw material yielding 50,000 tons of food product. Samples of the Company's products have been tested by Silliker Labs and have met standards set by the U.S. Food and Drug Administration.

Exports represent some 88 percent of Storco's food product revenues. The Company's primary market is Europe, with exports to Germany and former Soviet Union accounting for more than 60 percent of total sales. Greece accounts for a smaller portion of the European market. Second to European market is the Middle East, represented primarily by Israel and Turkey, followed by Eastern Europe.

Opportunity exists for a foreign investor to leverage Storco's high-capacity, low-cost production capabilities with immediate opportunities in the German and other European private-label markets, with neither substantial capital investment required nor exposure to Storco's current capitalization structure. Storco is amenable to a variety of deal structures that would incorporate Western capital and management expertise. Such options include an outright sale of the Company, the spinning-off of individual units or facilities, or the implementation of third-party production and distribution contracts. An investment in Storco would further allow a foreign interest to capitalize on the following:

- Central location allows low-cost access to Europe, the Middle East, and the FSU;
- Modern, diversified, high-capacity production capabilities;
- Excellent climate and growing season;

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1 Exchange rate, for illustrative purposes only, assumes US$ 1.00 equal to BGL 30.00.

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- Technically qualified management team eager to assume equity stake;
- Experienced, inexpensive labor force; and
- Government support for food sector investment and reform.

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THE COMPANY

Storco Pleven is one of the largest and most diversified processed fruit and vegetable enterprises in Bulgaria. Total revenues for the period ending September 30, 1993 were BGL 158.4 million (US$ 5.3 million).[2] Food products including bottled and canned vegetables, fruit compote, jam, marmalade, brandy, and canned meat constituted approximately 68 percent of revenues; metal containers and lids accounted for approximately 13 percent of revenues; and the Company's 40 retail stores and the sale of raw materials accounted for the remaining 19 percent of revenues. Storco is a single-person Limited Liability Company and is currently owned entirely by the Government of Bulgaria. Storco consists of 39 buildings covering 68,000 square meters and employs approximately 670 full-time staff and 810 seasonal laborers. The Company was established in 1936 and is located in Pleven, in north-central Bulgaria.

BUSINESS STRATEGY

Historical

Until 1990 Storco operated within the confines of a command economy with the goal of meeting production targets set by the Ministry of Industry in Bulgaria. The Company received raw materials from regional collectives and state farms and was responsible for processing finished product to be picked up by the state-owned domestic distribution and export trading companies. Prices at all points in this process were set by the government. The Company received credit for work completed on a volume basis.

In response to initial privatization reforms that began in 1991, Storco forged an independent business strategy with the objective of becoming a private, diversified fruit and vegetable processing company. Since 1991, the Company's management has assumed responsibility for raw material procurement, product marketing, production planning, operations, and financing, despite the fact that the government continues to own the assets of the Company.

Although management has gained a strong degree of autonomy in operations, privatization within the agribusiness sector remains incomplete. Because banks remain state-controlled, access to credit is inadequate and bureaucratic obstacles to restructuring existing debt persist. Further complications have resulted from the collapse of the state-owned food distribution system and the absence of an alternative network. Finally, raw material procurement has become more difficult due to increased competition introduced by agricultural reform. To combat such significant deterrents to free market operations, Storco adopted an opportunistic strategy that focused on commercial survival. The Company was able to continue operations, but the distressed political and economic environment was reflected in a significant drop in revenues and higher operating costs since 1991.

Current

With a change of management in mid-1992, Storco has developed a more comprehensive and goal-oriented strategy. Dimitar Makaveev, previously Chief Engineer of one operation site became the new General Manager. Under his leadership, Storco has started to implement a three-pronged strategy

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2 Exchange rate, for illustrative purposes only, assumes US$ 1.00 equal to BGL 30.00.

designed to retain market share in Bulgaria's processed fruit and vegetable subsector. The three parts of the Company's current strategy are (1) to develop the Bulgarian export market for private label food products, (2) to lower production costs by consolidating operations and reducing the labor force, and (3) to secure sufficient quality and quantity of raw materials to support production targets.

Export Market: The Company's principal market until 1991 was the Soviet Union. With the breakup and economic decline of this market, "soviet-quality" goods have been directed toward Bulgarian consumers. However, Bulgaria's domestic market has been shrinking because of rapid inflation and subsequent erosion of consumer purchasing power. Alternatively, Storco has been expanding export sales for ketchup, concentrated fruit purée for manufacturing, jam, canned and frozen peas, beans, and mixed vegetables. In 1993 the Company recovered its competitive position in the former Soviet Union.

To develop export sales to Western Europe, the United States, and the Middle East, Storco is participating in trade shows and has begun to develop a network of agents that work with importers in target countries. Agents arrange the transportation of goods from the factory to the point of destination. Currently, 80 percent of Storco's food sales is sold in this manner. The remaining 20 percent is sold through the Company's 40 retail shops and to independent retail shop owners who pick up product on-site.

Production Cost: The consolidation of operations currently under way will result in significant improvements in operating efficiency. Consolidation to a single plant will reduce shipment between sites and make inventory control easier. In addition to consolidation, management in the last few months has succeeded in reducing the labor force from 1,200 permanent employees to 670. Management is also in the process of negotiating third-party leases for the Company's retail stores. These stores have been unprofitable since 1990 and currently represent a significant drain on company resources. Finally, Storco is exercising its right to liquidate up to 10 percent of the enterprise by selling underutilized assets including rolling stock.

Raw Materials: Storco has been trying with limited success to secure contracts with raw material suppliers early in the season. Being one of the largest processors in Bulgaria, the Company has a good network of suppliers. However, management's failure to adapt to the liberalized economic structure of the raw materials market has prevented Storco from securing sufficient raw materials at attractive prices. In addition, crop varieties and other production inputs for high- quality products are not always available in Bulgaria. Finally, the Company has been used to buying raw materials at state controlled prices and now finds itself caught in a squeeze between stable international prices and rising raw product costs.

Outlook

Once Storco begins operations as a private company, it should focus on three key areas. First, the development of a strong marketing effort is crucial. Second, the Company should refocus its product mix to target existing market demand. Third, the Company should restructure its product line to achieve greater economies of scale. The Company currently lacks sufficient working capital to pursue any of these objectives, yet these goals should be of extremely high priority for the use of any proceeds invested in the Company.

PRODUCTS

The Company produces bottled and canned vegetables, fruit compote, jam, marmalade, and canned meat for domestic and export consumption. The Company also produces metal containers and lids for its own use and for third parties. A detailed list of Storco 's products follows:

Product (Packaging)	Markets
Canned Meat and Vegetables	
Pork, Veal and Beaf in Sauce, White Beans with Pork, Concentrated Soups, Stuffed Cabbage (Bulgarian 500- and 600 -g cans)	Domestic, FSU, Macedonia
Canned Vegetables	
Sterilized Vegetables: Peas, Sliced and Whole Peppers, Gherkins, Mixed Vegetables (4.15-kg, 820-850, 425-440, 560 metal can and 800-g press-on 650-700, 270-g, and 2.65-kg glass jar with twist-off caps)	Domestic, FSU, Europe, Middle East
Concentrates: Tomato Paste, Grape Concentrate. (Bulgarian 850- and 425-g cans, 340-ml bottles with plastic lid, 340-, 450-, and 500- ml glass)	Domestic, FSU, Europe, Middle East
Sauces: Tomato Sauce "Ketchup" (Bulgarian 850- and 425-g cans, 340-ml bottles with plastic lid, 340-, 450-, and 500- ml glass)	Domestic, FSU, Europe, Middle East
Fruit Cans	
Jam: Raspberry, Strawberry, Cherry and Sour Cherry, Plum, Apricot, Mixed Fruits. (370- and 454-g glass jars with twist-off caps)	Domestic, FSU, Middle East, Germany
Nectar: Plum, Cherry, Apple, Quince. (250-, 450-, and 530-g glass jar with twist-off cap)	Domestic, FSU, Germany
*Fruit Compote:** Plum, Apricot, Cherry, Strawberry, Sour Cherry, Peaches, Prunes, Peeled and Unpeeled Whole Tomatoes. (720-g glass jar)	Domestic, FSU, Middle East
Individual Quantity Frozen Foods (IQF):	
Peas, Gumbo, Carrots, Red Peppers, Mixed Vegetables, Sour Cherries, Raspberries, Plums. (10- to 18-kg cardboard boxes lined with polyethylene)	Domestic, FSU, Greece, Turkey
Pickles:	
Cabbage, Peppers, Carrots, Gherkins, Green Tomatos (plastic cans)	Domestic
Metal Cans:	
Several sizes	Domestic

* Fruit stewed or cooked in syrup.

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MARKETS

The primary export market for the Company's food products in 1992 is Europe. Germany and FSU represent the most significant portion of European exports, followed by Greece. The Middle East, represented by Israel and Turkey, constitutes another large export opportunity for the Company behind Europe. When the FSU, and other emerging Eastern European markets, recovers from current economic instability, the Company will be well positioned, both geographically and through familiarity with the market and the infrastructure of ex-Comecon countries, to serve the surrounding region. Below are recent data regarding the breakdown of domestic sales/exports:

TABLE 1
DOMESTIC SALES AND EXPORTS

(BGL Million)	1991	1992	1993 (9 months)
Total Revenues	193.3	176.7	158.4
Food Products	50%	65%	68%
Metal Cans	22%	18%	13%
Retail Store Sales	9%	16%	18%
Sales of Raw Materials	19%	1%	1%
Volume (tons of food)	12,578	10,558	7,198
Domestic	38%	47%	11%
Exports	62%	53%	89%
% of Exports			
NIS*	60%	32%	62%
Germany	19%	38%	16%
Other	21%	30%	22%
Value (food products)	95.5	106.8	107.6
Domestic	39%	40%	12%
Exports	61%	60%	88%

* Newly Independent States of the former Soviet Union.

SITE LAYOUT

The Company's current operations cover four sites, as shown in Figure 1: the New Site, the Metal Can Site, the Old Pepper Mill, and the Administration Site. Management plans on consolidating its operations by moving the majority of its processing lines to the New Site. This consolidation is under way and its completion is expected sometime in June, 1994. A more detailed description of the Company's operations and facilities follows:

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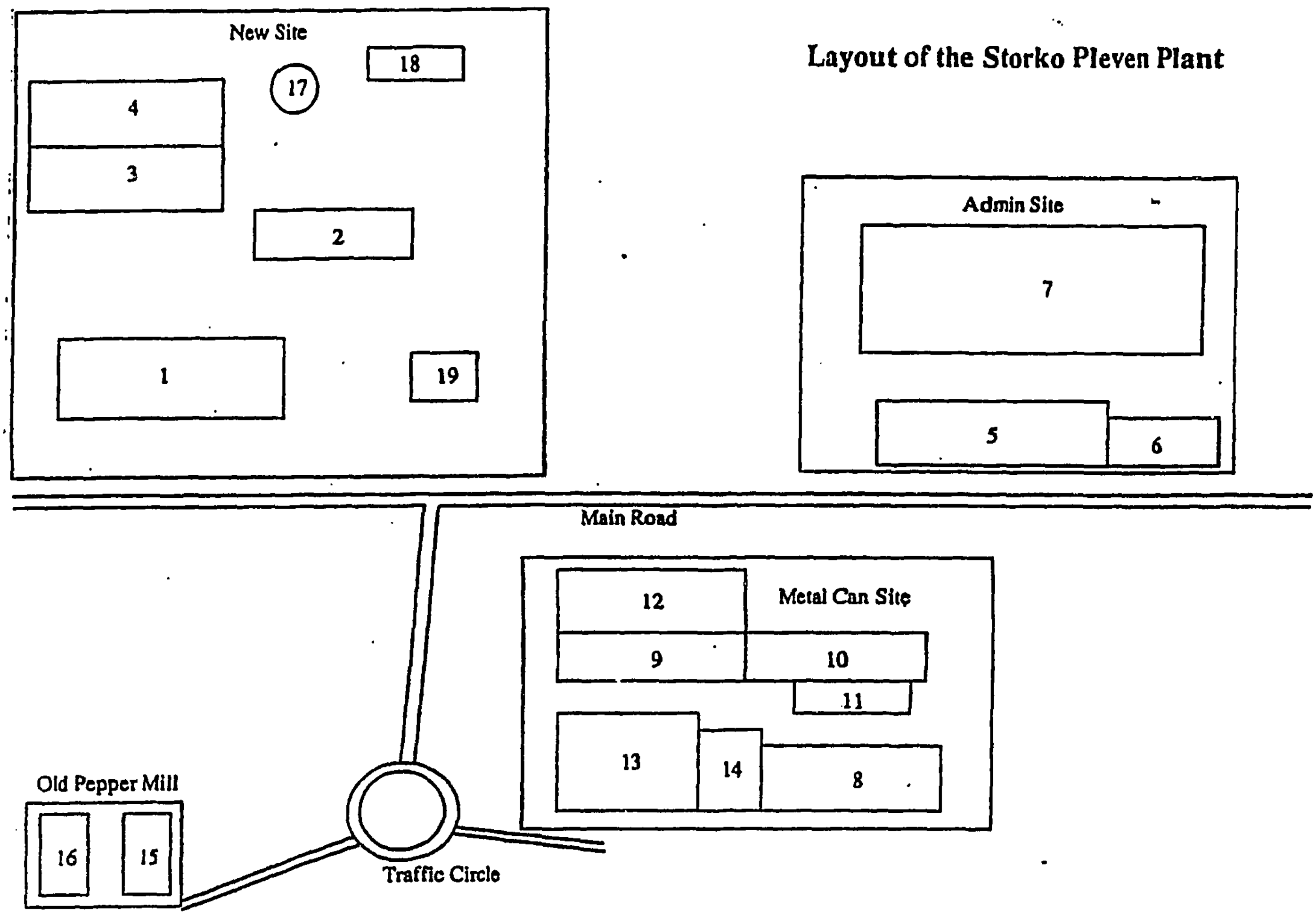
FIGURE 1: LAYOUT OF THE STORCO PLEVEN PLANT



Key to Layout of Storco Pleven Plant

1. Freezer Tunnel and Cold Storage Houses
2. Unfinished Administration Building
3. Ketchup Lines
4. Vegetable Lines
5. Old Meat and Sterilized Vegetables Canning Line
6. Administration Building
7. Storage Buildings
8. Vacuum Evaporators
9. Lacquer Lines
10. Old Russian and Italian Can Fabrication Lines
11. Lid Production Lines
12. Cevolani Can Fabrication Line
13. Fruit Juice Equipment
14. Purée Storage Vessels
15. Jam Factory
16. Compote Line and Sterilizers
17. Site for Compressors
18. Electricity Substation
19. Metal Workshop

OPERATIONS

New Site

- Two freezer tunnels (a two-year-old one made by Walter Rau make, and a 30-year-old American made tuunel) situated between two cold storage buildings.

- One vacuum concentrator and two ketchup production lines. The newer line makes ketchup for export to the EEC, while the older makes lower-quality ketchup for export to Russia.

- One Hungarian canned pea line bought in 1982 that outputs cans to one of two identical Hungarian continuous sterilizers. The sterilizers can be used interchangeably in case of maintenance problems. The expected use of the second sterilizer is for the output of the whole and peeled tomato canning lines, which are under construction.

- One semi- automated line for making cans of mixed vegetables. To sterilize the vegetables evenly there are two new Rotomat rotary sterilizers.

Once consolidation occurs, the New Site will have a set of autoclaves, a line for peeled tomatoes, a fruit juice line, a purée line, and two extra vacuum concentrators for the purées and fruit juices.

Metal Can Site

- The new Cevolani line for can production, two older can machines—one Russian and one Italian.

- Five lines for making can lids, three lines for lacquering tin sheet, and a machine for making beer bottle caps.

- Two vacuum concentrators for making purées with associated bottling equipment and a set of 156 purée storage tanks.

- One line for concentrating fruit juice.

Old Pepper Mill Site

- One line for processing and concentrating jam or ajvar and one predominantly manual line for making compote.

- There are also nine sterilization pots, three of which are new.

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Administration Site

- One older line used for canning meat or vegetables. Most of the operation is by hand so production is flexible. This line ends at one of two continuous sterilizers.

ORGANIZATION

The engineering organization is broken into five groups. There are 25 technicians for the freezer plant, 29 technicians for the ketchup and pea lines, 20 technicians for the can fabrication lines, 20 technicians for the vacuum evaporators, and 7 technicians on the Jam Site. There are also 6 technicians who can be directed to any part of the plant. For major projects such as building new machinery the task is broken down and spread among the groups.

OPERATIONS AND EQUIPMENT

Following is an accounting of the Company's equipment currently in or available for use. More specific information evaluating the physical condition of the equipment may be furnished by D&T/DAI upon request.

The New Site

The Freezer Plant. Storco's frozen food plant consists of a Walter Rau freezing tunnel, an older U.S.-made freezing tunnel, and two cold storage buildings. There are two separate refrigeration circuits; one serves the Walter Rau tunnel, while the other serves the older tunnel and the storage houses.

The modern freezer tunnel, constructed by Walter Rau two years ago, consists of the refrigerator tunnel made by Frigoscandia, three Walter Rau ammonia compressors (in the machine room), two intermediate low temperature ammonia accumulator tanks, and an evaporator unit inside the Frigoscania tunnel. The system typically is operated from May until October and has a capacity of 5,000 tons/year (at 24 tons/hr).

The American freezing system, acquired in 1950, has capacity to freeze 2-3,000 tons/year. The ammonia refrigeration supply for this tunnel is from the same system as the cold storage houses.

The Company uses standard Bulgarian washing and inspection equipment that requires 20-25 laborers when operating. In addition there is a Walter Rau blancher and bagging machine, as well as standard weighing machines.

The cold storage facilities consist of two buildings, each with 20 rooms. The two buildings were constructed in 1952 and 1956, respectively, and have a capacity of 1,500 tons each. See Figures 2 and 3 for graphics on the freezer plant.

\\\\(5)

The Ketchup Lines. There are two ketchup lines, which are supplied by the vacuum concentrator on the New Site or by purée shipped from the Metal Can Site. The concentrator on the New Site is three years old. After being concentrated, the purée is pumped to mixing and heating vessels. The purée is then pumped to either the new line or the line for the Russian market. The new line, bought in 1992, uses filling and "Twist-Off" closing equipment made by Gherri of Italy. The closed bottles then pass into a Bulgarian linear continuous sterilizer that was made in 1985. The final labeling machinery is Italian, made by ABL, and 7-8 years old.

FIGURE 2:
REFRIGERATION CIRCUIT

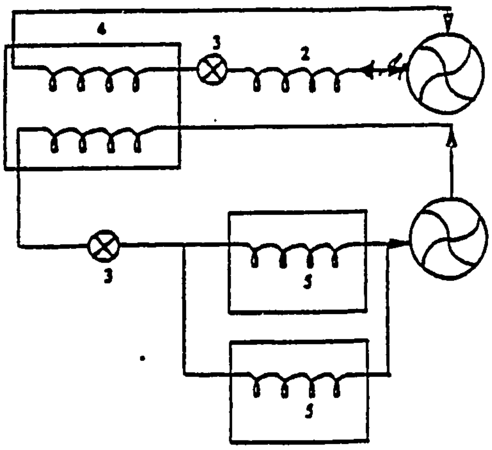
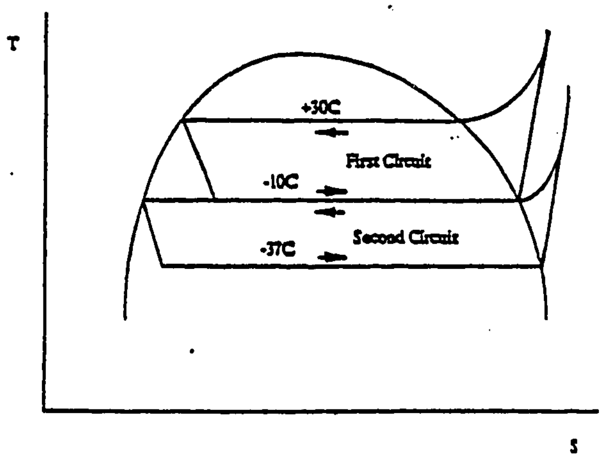


FIGURE 3:
T-S DIAGRAM FOR DUAL COMPRESSION



1 Compressor
2 Condensor Exposed to Atmosphere
3 Throttle
4 Heat Exchanger
5 Evaporators in Store Rooms

The Hungarian Pea Line. There are two raw material cleaning and inspection lines that feed into two selectors that separate the peas into four sizes. Each size then has a filling and canning line. The fillers are Hungarian and were purchased in 1982. The canning machines—of that there are a total of 15 at Storco—are Russian made and were purchased between 1969 and 1988.

The Mixed Vegetable Line. The mixed vegetable line consists of the standard set of 5-10-year-old Bulgarian washing and inspection equipment followed by manual filling and a Russian canning machine.

The Metal Can Site

The Cevolani Can Fabrication Line. The Cevolani can production machine was bought in 1991 and is housed in a building constructed in 1983. The capacity is 100,000 cans/8 hours; the machine is occasionally operated for 16-hour shifts. The system, maintained by Italian-trained Bulgarians, makes cans with 73mm diameter and 0.4 or 0.5 kg of contents. The line

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may be adjusted to make 99mm cans. The line includes machines for cutting, continuous seam welding, lacquering the weld, transportation, and adding the bottom to the can.

Older Can Fabrication Lines. There are two older can fabrication lines—one Italian from 1965 and one Russian from 1975—that use lead soldered seams and make 99mm cans. The Italian line is still used to produce food cans for export to Russia. The Russian line is used occasionally to make low-quality paint cans.

Tin Sheet Lacquer Lines. There are three lines to lacquer the tin sheets used to make the cans. These lines supply the raw material for the Cevolani machine. There are three German-made lacquer drying machines; one was bought in 1969, the other two in 1972.

The Production of Can Lids. There are five machines for making can lids. One machine is a 6-year-old Cevolani that makes 99mm diameter lids. There are two Russian machines acquired in 1989 that make 73mm lids at a rate of 90,000 lids in 8 hours each. There is also a pair of 15-year-old Italian machines that can make 73mm lids.

The Vacuum Concentrators. The purée concentrators are housed in a building that is in very poor condition but the equipment is soon to be moved to the New Site. There are standard 10-year-old Bulgarian washing and inspection lines. The tomatoes are then pumped into tanks that separate the skins, seeds, and juice. From there the mush is pumped to one of the two concentrators. The concentrators were built by Rossi and Catelli in 1968 and 1974. From the concentrators the purée is sent to a filling and closing line. The line was built in 1968 of Bulgarian equipment but several components have been replaced. The fillers are Italian and 10 years old. There are two Russian canning machines that are two years old. There is a 10-year-old Bulgarian glass pot closer and a 6-year-old Manzini canning machine from Germany. The cans are sterilized in one of two 10-year-old Bulgarian continuous sterilizers. The glass pots are sterilized in a set of 15-year-old Bulgarian autoclave pots.

Each of the 156 purée storage tanks can hold 20 tons. The tanks were built between 1979 and 1982.

The Fruit Juice Line. This line is currently dismantled. The equipment consists of the usual Bulgarian washing, inspection, filling, and bottle closing equipment and is 15 years old.

The Old Pepper Mill

The Jam Line. The jam line has a standard set of Bulgarian washing, seed separation, inspection, and blanching equipment built in 1955. Parallel to the fruit line there is similar equipment for processing peppers for the Ajvar. After blanching, the fruit passes through a deseeding mill and the peppers pass through one of three grinders. The material is then pumped into one of the concentrators. These concentrators are Bulgarian and are 10 to 20 years old. Two Inewl vessels are being installed. These have been fabricated on the Storco site from parts of old vessels. After the concentrators, the jam or ajvar goes to a steam kettle and then to a Bulgarian filling and closing machine.

On the Old Pepper Mill there are 7 autoclaves that are 5-10 years old and 3 new autoclaves that have never been used. Last year a compote line was built on the site. The line consists of tables where the fruit is prepared, then a conveyor belt where the fruit is filled by hand. The conveyor ends with an 8-year-old Hungarian "Twist-Off" machine.

The Administration Site

The Meat and Vegetable Processing Lines. The vegetable preparation lines are 15-year-old Bulgarian machines. The meat is prepared by hand then fed through one of three German grinders which are three years old. The cans are then filled with meat at the tables and the vegetables are added by hand on the rotary measuring table. Water and steam are added before the cans are closed by a 4-year-old Russian canning machine. The cans are then put in a 1967 Dutch sterilizer or a 1976 Bulgarian copy.

MARKETING

Because the Company operated in a command economy until recently, marketing and sales strategies are still in the formative stages. At present, marketing efforts are focused on the sourcing of private-label brands for export. The Company has established a working relationship with several import/export agents with offices in Bulgaria. This strategy offers Storco access to the growing Bulgarian export market, but the introduction of an intermediary agent increases sales costs.

MANAGEMENT AND EMPLOYEES

The average number of persons employed by Storco during the current period is analyzed below by type of work:

Production and development	432
Distribution and selling	153
Administration	91
Total	676

The Company's management is well educated and has a combined total of 127 years of experience at Storco:

General Manager — Dimitar Angelov Makaveev, 55
degree from Higher Food Industry Institute in Plovdiv; has worked at Storco for 23 years; General Manager for 1 year and 9 months; other positions at Storco include Chief of Sites, Technology Engineer, Department Chief, Shift Chief, and Worker.

<u>Production Manager</u> Boris Dachev, 54
degree from Higher Food Industry Institute in Plovdiv; has worked at Storco for 10 years; Production Manager for 1 year and 8 months; other positions at Storco include Deputy Chief of Site and Shift Chief.

<u>Financial Manager</u> Elen Genchev, 60
degree from Higher Finance and Economy Institute in Svishtov; has worked at Storco for 21 years; Economic Manager for 1 year and 9 months; other positions at Storco include Chief Accountant, Deputy Chief Accountant, and Senior Accountant.

Metal Packing
<u>Site Manager</u> Alexander Petkov, 54
degree in chemistry from Sofia University; worked at Storco for 27 years; Site Manager for 1 year and 9 months; other positions at Storco include Deputy Manager, Chief Specialist, Chief of Technology, Chief of Shift Technology, Chief of Laboratory, and Laboratory Technician.

Chief of
<u>Quality Control</u> Iordanka Markova, 50
degree in chemistry from Sofia University; worked at Storco for 19 years; Chief of Quality Control for 1 year and 9 months; other positions at Storco include Chemistry Specialist, Chief of Metal Packing Site, Chief of Chemical Laboratory, and Laboratory Technician.

<u>Chief Accountant</u> Margarita Tzvetanova, 52
degree from Higher Finance and Economy Institute in Svishtov; worked at Storco for 27 years; Chief Accountant for 1 year and 7 months; other positions at Storco include Deputy Chief Accountant and Accountant.

INVESTMENT CONSIDERATIONS: MAJOR SALES POINTS

- **Flexible Investment Opportunity**
  Storco is seeking Western capital and management expertise and is amenable to a variety of deal structures which would incorporate these objectives. Such options include an outright sale of the Company, the spinning-off of individual units or facilities, or the implementation of third-party production and distribution contracts. The opportunity exists for a foreign investor to leverage Storco's high-capacity, low-cost production capabilities with the large market demand in Europe and the Middle East without making a substantial capital investment.

- **Central Location Allows Low-Cost Access to Europe, Middle East, and FSU**
  Situated on the Black Sea, Bulgaria is in prime position to ship to Eastern and Western Europe, to the Middle East, and to the FSU. Bulgaria has well-developed transportation infrastructure that will allow it to access these markets by land and sea. Storco currently ships product at a low cost to Germany, Greece, Turkey, Israel, several former Soviet Republics, as well as the United States and Singapore.

  Storco is producing product—namely canned tomato goods and ketchup—that is of sufficient quality to enter European private-label markets. The Company is currently shipping to Germany to meet demand within the former East German market as well as the lower-end West German market. In addition, Bulgaria is well situated and has historic ties to serve the chronically food-deficient FSU and other Eastern European countries.

- **Modern, Diversified, High-Capacity Production Capabilities**
  Storco's potential to gain a higher share in export markets is enhanced by its modern, diverse, and high-capacity production capabilities. The Company's highly diverse capabilities allow it to respond effectively and in a timely way to market changes. This capacity includes a three-stage fruit and vegetable concentrator, which is strategically set up to produce ketchup, high value-added fruit filling for pastries, and concentrated nectar for fruit drinks for export to Europe, the Middle East, and the FSU. Storco offers further diversification with its state-of-the-art, welded-seam, fully automated Italian Cevolani metal can fabrication line. The Company's modern Walter Rau frozen fruit and vegetable processing line with automated fillers and a three ton/hour Frigoscandia IQF tunnel offers further diversification.

- **Excellent Climate and Growing Season**
  Bulgaria's geographical location allows it an excellent climate and growing season for fruits and vegetables. The country's temperate climate is free of catastrophic weather swings that effect other temperate climates and its rich soil is ideal for fruit and vegetable crops. Bulgaria's wide range of microclimatic zones permits fruit and vegetable production throughout the entire country.

- **<u>Technically Capable Management Eager to Assume Equity</u>**
  The management team at Storco has extensive technical experience with line operations. All members of the management team have advanced engineering degrees and have worked in the industry for their entire professional lives. Furthermore, management's commitment to privatization is shown by the fact that the management team is willing to invest in an equity position in a newly privatized enterprise.

- **<u>Experienced, Inexpensive Labor Force</u>**
  The Company's skilled employees are educated and well trained. One legacy of a command economy and enforced employee placement is that Storco's workforce has lengthy experience in both the food processing industry and at Storco. Furthermore, the availability of low-wage seasonal laborers—which account for 50 percent of the Company's workforce during peak season—provides management flexibility in controlling its overhead costs while enabling it to meet staffing requirements.

- **<u>Food Sector Investment and Reform Encouraged by Government</u>**
  The Government of Bulgaria began long-term economic reform in 1991 by implementing the framework for the country's transition to a free market economy. Numerous laws have been enacted to promote the growth of the private sector and to encourage and protect foreign investment. Furthermore, the agricultural and food industry is viewed by the government as a priority sector for foreign investment. Bulgaria has important agricultural natural resources and the economic reforms are designed to stimulate output in this sector. The government will encourage foreign investment that modernizes the food industry to make better use of the raw materials provided by the agricultural base.

FOREIGN INVESTMENT FACTORS[3]

THE ROLE OF FOREIGN CAPITAL

The transition process to a free market economy underlies the new economic laws that have already been adopted (the Law on Ownership and Use of Agricultural Land, Business of Foreign Persons and Foreign Investment Protection Act, the Fair Competition Law, the Trade Act, Laws on Privatization) and other laws being drafted (Insurance, Taxation, Industrial Property Protection, and so forth). These new laws aim at guaranteeing the normal functioning of a free market economy and at the creation of favorable conditions for foreign investment in Bulgaria.

Foreign investments are considered of crucial importance for the process of economic reform in Bulgaria. The aim of the government is to reduce the state's role as a direct investor and to use foreign capital, in the form of loans and credits, in addition to the country's financial resources, for macroeconomic stabilization (in other words, to restore basic monetary and financial equilibrium in the domestic market). At the same time foreign investment is a vital instrument for economic restructuring, transformation of ownership, modernizing production capacities, and increasing the productive output of Bulgaria.

FOREIGN INVESTMENT LEGISLATION

Foreign capital invested in Bulgaria is regulated by the provisions of the Business of Foreign Persons and Foreign Investment Protection Act, passed by the Bulgarian Parliament in January 1992. The Act repeals the Foreign Investment Act and removes a number of technical obstructions to investment. The Act creates favorable conditions for attracting foreign capital according to simplified legal regulations, and under the same terms as for Bulgarian nationals and legal entities. It also establishes the legal framework for protection of foreign investments, laying strong emphasis on the significance and need for genuine and effective legal guarantees for the investment operations of foreigners in Bulgaria. The new Act defines some basic concepts more precisely. A foreign person is considered to be any legal entity registered abroad, or any partnership that is not a legal entity and is registered abroad, or any individual person (a foreign citizen domiciled abroad). For the first time the status of Bulgarian citizens of dual nationality is regulated. They may choose between the rights of national or foreign citizens.

Any foreign person shall have the right to carry on business in Bulgaria and to acquire shares or interests in a commercial partnership. The same procedures that apply to Bulgarian citizens and legal entities will be applied to foreigners, except where otherwise provided by statute.

One of the advantages of the new Act is the clear and comprehensive definitions and requirements for business activity of foreign individuals in Bulgaria. Foreign individuals are obliged to hold a Bulgarian permanent residence permit for:

- Registration as a sole trader;
- Acquisition of interests in cooperatives or general partnerships; or

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[3] Source: "Bulgaria: Open for Business and Investment", Deloitte Touche Tohmatsu International, 1993.

- Joining limited partnerships or partnerships limited by shares in the capacity of a general partner.

Any foreign individual or partnership that has no legal personality under his domestic law or under Bulgarian law may register a branch in Bulgaria if he or it is entitled to carry on business in a merchant capacity under the law of the respective country of origin.

Foreign persons have the right to open commercial agencies in Bulgaria, which have to be registered at the Bulgarian Chamber of Commerce and Industry. These agencies are not legal entities and cannot perform any business activities.

There are several clearly defined restrictions on foreign persons contained in the Act. Any foreign person may acquire a right of ownership over buildings but are not, however, allowed to acquire a right of ownership over land. This includes such acquisitions through a branch or in a sole trader capacity. No partnership in which a foreign person holds an interest exceeding 50 percent may acquire a right of ownership in agricultural land.

Any foreign person or partnership which holds, either directly or indirectly, an interest that secures a majority in decision making or that can block decision making will be required to obtain permission for:

- Manufacture of and trade in arms, ammunition, and military equipment;
- Carrying out banking and insurance activities and getting interest from banking and insurance societies;
- Acquisition of property in geographical regions designated by the Council of Ministers; or
- Exploration, exploitation, and extraction of natural resources from territorial waters, the continental shelf, or the exclusive sea economic zone.

Permits are issued by the Council of Ministers or by a body authorized by it. Permits for banking will be issued by the Governing Board of the National Bank of Bulgaria.

Foreign investment is defined as any investment made by a foreign person acting, inter alia, in a sole trader capacity or through a branch, or by a partnership in which a foreign person holds an interest exceeding 50 percent in any of the following:

- Shares and interests in commercial partnerships;
- Rights of ownership and limited property rights over fixed assets;
- Ownership of one undertaking;
- Bank deposits;
- Bonds, treasury bills and other securities issued by the state or Bulgarian legal entities; or
- Credit granted for a term exceeding five years.

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FOREIGN INVESTMENT PROTECTION

The protection of an investment made in Bulgaria is of crucial importance to the entire investment process. Investment guarantees are provided in the Act, under which business and investments are immune to superseding statutory restrictions. Article 10 regulates the compulsory purchase of foreign investments by the state. A compulsory purchase may not proceed from a regulation issued by government or other state body. Provisions are made for the compensation of compulsorily purchased foreign investments. Appeals can be made before the Supreme Court. At the same time, any type of foreign investment (except bank deposits) must be registered at the Ministry of Finance within 30 days of making the investment.

PROFIT REPATRIATION

The legal framework for repatriation of profits derived from an investment made in Bulgaria is of essential importance. There are no restrictions whatsoever in this respect, except that there is a requirement that the investor repatriating profit present receipts for taxes due and paid to the Bulgarian State.

Foreign exchange regulations applying to foreign persons have also been considerably liberalized. Any foreign person may open accounts or deposit foreign currency and leva with Bulgarian banks, as well as dispose of shares, bonds, and other securities. The interaction between the provisions of the Business of Foreign Persons and Foreign Investment Protection Act and the Transferring Abroad Currency Assets and Exchange Controls Act needs to be cleared up. So too do the regulations on employment relationships and insurance provisions between foreign-controlled businesses and their employees.

ANNEX A

FINANCIAL STATEMENTS
FISCAL YEAR 1992 AND AS AT SEPTEMBER 30, 1993

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STORCO PLEVEN
INCOME STATEMENT

	Year Ended September 30, 1993			Year Ended December 31, 1992		
	(BGL ,000)	(BGL ,000)	% Sales	(BGL ,000)	(BGL ,000)	% Sales
SALES		158,444	100.0%		176,697	100.0%
COST OF SALES:						
Total Cost Input:						
Materials	147,999			100,306		
Subcontracted services	3,999			6,961		
Payroll compensation	25,791			23,247		
Social security	8,979			8,072		
Depreciation and amortization	3,860			4,919		
Other costs	5,683			3,144		
Total:	196,311			146,649		
Less:						
Net increase in inventories	53,681			9,243		
Self-produced fixed assets	426			0		
Operating expenses	12,080			8,561		
Inventory overages	147			1,081		
	66,334			18,885		
Add:						
Net cost of casual sales	29,836			27,363		
		159,813	100.9%		155,127	87.8%
Gross profit on sales:		1,369	0.9%		21,570	12.2%
Operating expenses:						
General and administrative expenses	9,287			6,711		
Selling expenses	2,793			1,850		
Uncollectible receivables	89	12,169	7.7%	28	8,589	4.9%
Operating income:		13,538	8.5%		12,981	7.3%
Other income:						
Interest income	242			580		
Fines for late payment	293			942		
Foreign currency translation gains	904			483		
Other	9,008	10,447	6.6%	4,266	6,271	3.5%
		3,091	2.0%		19,252	10.9%
Other expenses:						
Interest expense	59,988			68,679		
Fines for late payments	810			6,085		
Currency commissions	287			0		
Foreign currency translation losses	505			871		
Other	193	61,783	39.0%	2,608	78,243	44.3%
Net Profit / (Loss)		64,874	40.9%		58,991	33.4%

COMPILED FROM UNAUDITED DATA

STORCO PLEVEN
BALANCE SHEET AS AT

	Notes	September 30, 1993		December 31, 1992	
		(BGL ,000)	(BGL ,000)	(BGL ,000)	(BGL ,000)
ASSETS					
Current Assets:					
Cash: domestic		2,046		2,740	
foreign		1,746	3,791	4,556	7,296
Trade receivables		37,618		52,464	
Other receivables	1	11,937	49,555	1,255	53,719
Inventories:	2				
Materials		24,233		27,182	
Work in progress		73,055		24,862	
Finished goods		29,099	126,387	26,114	78,158
Total Current Assets:			179,733		139,172
Investments:					
Participation in other companies			253		253
Fixed Assets (net of depreciation)	3				
Land and Buildings		12,269		12,195	
Plant and Equipment		33,675		53,889	
Fixed Assets in Process		8,834		5,218	
Other		5,344		4,662	
Total Fixed Assets:			60,122		75,964
Deferred charges	4		48,558		47,868
			288,666		263,257
LIABILITIES AND CAPITAL					
LIABILITIES					
Current Liabilities:					
Short-term loans	5	77,589		77,089	
Accounts payable	6	63,861		22,889	
Payables to employees		7,872		2,030	
Payables to State budget		32,702		32,745	
Social security payable		3,664		525	
Other	7	82,936		24,229	
Total Current Liabilities:			268,624		159,507
Long-Term Liabilities	8		110,182		110,182
Total Liabilities:			378,806		269,689
CAPITAL AND RESERVES					
Capital	9	30,357		48,549	
Reserves	10	3,091	33,448	4,010	52,559
Less current period loss			123,588		58,991
Total Capital and Reserves			90,140		6,432
			288,666		263,257

COMPILED FROM UNAUDITED DATA.
THE NOTES FORM AN INTEGRAL PART OF THIS COMPILATION.

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NOTES TO THE BALANCE SHEETS AT SEPTEMBER 30, 1993 AND AT DECEMBER 31, 1992

1. Details of the aged trial balance of accounts receivable of September 30, 1993, supplied by the client are as follows:

Days Outstanding	Amounts in BGL	Percentage of Total	Cumulative Percentage
1 - 30	5,583,074	11.3	11.3
31 - 60	14,274,624	28.8	40.1
61 - 120	2,531,311	5.1	45.2
121 - 180	10,038,785	20.3	65.4
181 - 240	7,143,648	14.4	79.9
241 - 300	148,001	0.3	80.2
301 - 360	25,415	0.1	80.3
More than 360	9,810,361	19.7	100.0
Total	49,555,219	100	

The very slow turnover of accounts receivable and payable became a widespread phenomenon in the newly emerging democracies as the Comecon markets collapsed, prices were freed, and the cost of credit soared. Under the previous systems, the credit period was generally 15 days and bad debts could not be recorded until legal proceedings against debtors had failed. As market conditions tightened and meeting payrolls became a first priority, firms in business communities facing common social problems were reluctant to recognise uncollectibility and extended the period for receivables. In evaluating the net realisable value of receivables in these circumstances, the strength of social networks has to be considered.

The "vicious circle" of overdue debt is now creating concern in Western Europe where, in some countries such as the United Kingdom, average repayment periods are running almost three times the credit period (*Financial Times*, February 23, 1993). Although no exact statistics have been found concerning average repayment periods in the newly emerging democracies, eight months would probably not be an unusual delay. That, coincidentally, is about 80 percent of Storco's accounts receivable as of September 30, 1993 versus 66 percent as of 1992 year end. Examining the pattern of repayments is one of the commonly encountered methods of evaluating net realisable value and would be useful in connection with this client.

2. The company applies the average-cost method of pricing its work in progress and finished goods inventories. A technical opinion would be needed to determine whether or not quantities on hand are excessive in view of actual or anticipated demand and net realisable values are at least equal to, but not less than, historical costs.

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3. According to Bulgarian Law, a valuation of the fixed assets of the company should be performed for the accounts for the year ended 31 December, 1992. To date, no adjustment has been made for this revaluation in these accounts. A revaluation of the fixed assets was performed by a team assigned by the company, and the details are as such as below:

	Land	Buildings	Total
Cost	147	16,282	16,429
Accumulated depreciation	-0-	4,463	4,463
Book values	147	11,819	11,966
New values	25,279	119,774	145,053

4. The deferred charges represent capitalised foreign currency translation losses, on foreign currency-denominated loans obtained to acquire capital equipment, incurred when the Bulgarian leva was significantly devalued in 1991. Because of the significant losses involved, the Bulgarian government permitted an exception to the general rule of requiring them to flow through the income statement. Instead, they will be capitalised to the extent that they do not exceed asset revaluation amounts and will therefore flow through the income statement as depreciation expenses. Any excess over asset revaluation amounts will be amortised over the life of the asset or the life of the loan.

   This accounting treatment is consistent with International Accounting Standard No. 21, paragraph 31.

5. The short-term notes payable at September 30, 1993 are disclosed with the following table:

Creditor	Amounts (GL .000)	Due Dates
Commercial Bank Pleven	41,485	Overdue
	35,604	Overdue
Bank for Agricultural Credit	500	Sept. 30, 1993
Total:	77,589	

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The first credit was drawn in 1990 and according the management a part of it, which amounts to BGL 30.765 million, could be considered as a "bad debt" by the government and thus be forgiven. The premise of this is the recently approved Law for unpaid loans, contracted till December 31, 1990. Credits that have not been paid back for more than 6 months will be exchanged for state bonds. This would reduce the short-term payables of the company to BGL 56.324 million.

6. Set out below is summary information on accounts payable as of September 30, 1993:

Days Outstanding	Amounts in BGL	Percentage of Total	Cumulative Percentage
1 - 30	12,486,089	19.6	19.6
31 - 60	13,018,346	20.4	39.9
61 - 120	17,590,595	27.5	67.5
121 - 180	9,713,047	15.2	82.7
181 - 240	8,119,620	12.7	95.4
241 - 300	2,933,426	4.6	100
Total	63,861,122		

This shows a faster turnover than accounts receivable. While it illustrates a general picture of delayed repayments, the situation has improved significantly over the past 12 months.

7. The other current liabilities consisted of:

	At Sept. 30, 1993 (BGL ,000)	At Dec. 31, 1992 (BGL ,000)
Interest payable to banks	80,355	23,869
Amounts owed to related companies	2,581	360
Total:	82,936	24,229

8. The long-term loans payable as of September 30, 1993 systematised are given as follows:

Creditor	Amounts in (BGL .000)	Interest Rates	Terms	Dates
United Bulgarian Bank	759	43	Not given	1990
Pleven	2,300	43	Not given	1991-2
	3,059			
United Bulgarian Bank, Pleven	50,557	49	5 years	1992
Agricultural Coop Bank,	50,491	49	5 years	1989
Plovdiv	6,075	N/A	Not given	Capitalized interest
	56,566			
Total:	110,182			

As it is stated, two of the long-term loans with total amount of BGL 57,325 million were received before 1990 year end and the management expects their converting into state bonds.

9. The capital account decreased from 48.549 million at December 31, 1992 to 30.357 million at September 30, 1993. This resulted from a revision of a previous decision for accounting of fixed assets obtained through a barter agreement.

10. The chief accountant provided the following analysis of the reserves:

	Amounts (BGL .000)
Balance at December 31, 1992	4,010
Less write down of the "Packing Materials" fund and other funds	919
Balance at December 31, 1992	3,091

The company's losses for the period ending September 30, 1993 exceeded its total capital, resulting in a deficit of BGL 90.140 million.

ANNEX B

THE PROCESSED FRUIT AND VEGETABLE INDUSTRY IN BULGARIA

THE PROCESSED FRUIT AND VEGETABLE INDUSTRY IN BULGARIA

INDUSTRY OUTLOOK

Clearly the largest factor affecting the Bulgarian processed fruit and vegetable industry is the economic collapse of the former Soviet Union, the primary market of the sector. As a result, there is a substantial amount of overcapacity with the resultant high fixed costs of production due to low volume (See Table B-1 below). Also the quality of the produce is not suitable for other markets because of plant or line shortcomings in handling, packaging, and sanitation.

TABLE B-1
PRODUCTION DECLINE IN FRUITS AND VEGETABLES (1988-1992)
(Production Volume –Tons [000])

	1988	1989	1990	1991	1992
Fruit					
Canned Fruit	255	290	211	63	33
Compote	71	93	66	14	16
Confiture and Jellies	32	29	12	8	5
Marmalade	5	7	6	4	3
Total	363	419	295	89	57
Vegetables					
Sterilized (in cans and jars)	241	206	158	110	41
Tomato Paste	37	60	50	21	19
Total	278	266	208	131	60
Grand Total	641	685	503	220	117

* Source: Bulgaria Ministry of Industry, Figures are rounded

Until Bulgaria adapts to the new market environment resulting from the demise of the FSU, certain characteristics will define the sector:

- With the exception of the state monopoly in cardboard boxes, and oligopolies in the production of tin cans, screw-on lids, and glass jars, most firms produce what is perceived to be relatively generic products of equal or marginal quality.
- The sector lacks product differentiation, and suffers from dislocations in distribution systems, and poor marketing, production, and financial management capabilities.

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- The overall quality of production is below Western standards. There is limited production for Western export markets. Traditionally, most exports satisfied the much less demanding Soviet economies.
- Market information is limited since the breakup in mid-1990 of state monopolies that controlled production and distribution of the domestic and export markets.
- Prroducers have not developed the management and marketing skills or production efficiencies to distinguish their products from competitors, or to target export markets effectively.

LIMITED COMPETITION

Processing firms in the fruit and vegetable sector do not compete with one another for either domestic or export markets. The domestic market for processed fruits and vegetables is limited and does not require competitive pricing, product differentiation, or marketing. The old Soviet system that was recently dismantled through demonopolization and liberalization of prices and trade did not prepare producers for competition or create an economy that demanded quality standards.

Producers are almost completely insulated from foreign buyers and their requirements. With few exceptions, producers work through brokers to sell their products overseas. Without direct contact with market forces, consumers and foreign buyers, Bulgarian processors do not understand competition and its requirements for product quality, pricing, and consumer preferences. Producers are adjusting to the structural changes in their industry and striving to survive an extreme credit shortage and a troublesome domestic economy. Several producers are just beginning to realize that market forces will soon determine whether or not firms will survive.

QUALITY DIFFERENTIATION

Previously, Bulgarian brokers and distributors relied on state producers to supply specific products. Brokers knew the relative costs of production of state enterprises because records were open, and brokers could determine prices based on the quantity and quality requested by foreign buyers. Brokers had insider information about the technology, production process, and cost structure for each state producer. Most importantly, brokers usually had a personal relationship with plant managers and relied on their expertise to obtain the quantities requested by foreign buyers at competitive prices.

Today, brokers say that they can no longer rely on the old system. Factory managers have been replaced, some having been appointed for political reasons, and the quality of production has diminished significantly in some plants. Recent demonopolization of the domestic distribution system controlled by Bulgarplod, and the export system through Bulgarplodexport, has resulted in at least 30 small private export brokers and distributors. These private brokers and distributors who formerly worked for state monopolies now exploit the relationships they developed with foreign buyers to buy and sell Bulgarian preserves to export markets.

MARKET ANALYSIS

Table B-2 below indicates the total metric tons and prices inclusive of cost, insurance, and freight (CIF) per ton by country origin provided by USDA's Foreign Agricultural Service office in Bonn, Germany. The table compares Bulgarian competitive prices, which include all duties, against EEC member countries, and Bulgarian CIF prices against non-EEC countries. Although data do not take into account product quality and resultant price fluctuations, the data do suggest that Bulgaria is price competitive in certain markets.

TABLE B-2
COMPETITIVE ANALYSIS OF CIF PRICES

	Product at US$ Per Net Metric Ton													
Product Origin	Strawberry Jam HS#20079933		Other Jam/Puree HS#20079939		Peaches Syrup HS#20087071		Whole/Parts Tomatoes HS#200210000		Tomato Ketchup Other Tomato Sauce HS#2103020000		Whole/Parts Tomatoes Peeled HS#200210100		Frozen Peas HS#20049030	
	MT	$/MT	MT	$/MT	MT	$/MT	MT	$/MT	MT	$/MT	MT	$/MT	MT	$/MT
EEC Countries														
France	33.00	2,888.48	181.00	2,445.43	318.00	1,027.57	8.00	5,008.08	408.00	1,783.87	2.00	1,862.35		
Italy	118.00	2,205.82	492.00	2,282.15	445.00	947.88	1,052.00	637.23	848.00	1,536.34	10,481.00	537.87	7.00	1,232.88
Netherlands	108.00	1,822.88	218.00	1,860.81			1.00	1,118.67	1,013.00	1,884.78	98.00	847.38		
Belgium/Lux	189.00	2,117.73	323.00	2,174.47					1,058.00	1,630.85				
Switzerland	0.00	5,050.00	4.00	4,280.48										
Austria	2.00	6,038.84	11.00	4,478.09										
Finland			0.00	4,500.00										
Denmark	7.00	2,278.73	28.00	2,314.80	43.00	714.58			82.00	1,341.47	22.00	516.87		
Great Britain	8.00	6,748.37	35.00	4,118.91					317.00	1,250.14				
Bulg. Comp. Prices		2,144.84		1,870.20		1,084.17		600.98		1,411.38		873.80		1,187.31
Non-EEC Countries														
Greece					2,483.00	993.88			0.00	0.00	1.00	2,250.00		
South Africa					358.00	1,037.87								
USA	0.00	6,700.00	1.00	11,250.00	2.00	1,588.24			281.00	2,458.12				
Israel											201.00	551.47		
Bulgaria									2.00	418.73	33.00	434.88		
CSFR							13.00	308.82					1.00	3,368.67
Russia			2.00	961.80			3.00	288.00						
Turkey	0.00	3,350.00	4.00	1,883.72					4.00	1,125.00	10.00	453.85		
Hungary									38.00	1,087.47				
Mexico									17.00	1,008.48				
Thailand									1.00	2,250.00				
China											12.00	1,058.52		
Spain					1.00	1,442.88			208.00	2,382.00	28.00	792.53		
Total MT	483.00		1,280.00		3,651.00		1,075.00		4,250.00		10,838.00		8.00	
Bulgarian CIF Prices		1,508.14		1,142.82		687.14		600.34		1,140.58		763.78		999.23

Source: USDA's Foreign Agricultural Service Office in Bonn, Germany

Bulgaria compares favorably to EEC countries primarily in jams and marmalades, tomato ketchup, and frozen peas. Prices of canned peaches in syrup and canned tomato products are less competitive, in part due to EEC duties. Despite the EEC sugar-content tariffs imposed on Bulgarian jams, these products traditionally have been very competitive and have been key in penetrating new markets in the EEC.

Bulgarian jams and marmalades, tomato ketchup, peaches, and frozen peas are competitive versus non-EEC producers, as well. As shown in Table B-2, the CIF price for canned whole peeled tomatoes is the lowest among both EEC and non-EEC countries. Bulgaria—behind Israel—was the second largest exporter of peeled tomato goods to non-EEC countries. Although Israel's prices for tomato products are 27 percent higher than Bulgaria's, substantially higher volumes for Israeli imports may result from consumer preferences for kosher products.

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SUMMARY

Current conditions indicate that there is limited competition within this industry, which does not fully understand its competitors, consumers, and markets. Bulgarian producers are just emerging from the old Soviet economic system that dictated production requirements and prices to satisfy the planned economy. State firms have not yet adjusted to the market economy and competitive forces emerging in Bulgaria that will eventually determine the firms that will develop or exploit comparative advantages.

ANNEX C

COUNTRY OVERVIEW

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COUNTRY OVERVIEW

Bulgaria is an urbanized nation of 9 million people. At one time Bulgaria was one of Eastern Europe's most highly centralized economies with extremely strong ties to the former Soviet Union. Yet Bulgaria maintained relations with Western countries and thus served as a conduit between the Eastern Bloc and the West.

Bulgaria is rich in natural resources. From an agricultural standpoint Bulgaria has a wide range of microclimatic zones allowing production of vegetables and fruit products throughout the country. Bulgaria also has a favorable and mild climate for these and other field crops. The main production areas have an abundance of fertile and well-adapted soils for agriculture.

Beginning February 1, 1991, retail prices on virtually all nonessential items were liberalized. (Most essential food items remain under some type of government price control.) Other structural reform measures introduced included a tax overhaul, demonopolization, and privatization plans. A continuing policy problem in the reform process is the government's attempt to shift the burden of the state enterprises' large debt onto the taxpayer and the state budget because of scarce financial resources. Inefficient state enterprises continue running up new debts because of continuing production declines and the resultant increase in costs of production.

The state foreign trade monopoly was abandoned in 1989. Trading entities can gain access to their hard currencies and may retain export earnings. The 1991 tariff averaged 8 percent for farm products. A 15 percent surcharge has been imposed on most imported goods to improve balance of payments. Hard currency shortages and currency inconvertibility remain formidable barriers to trade. Countertrade is practiced with the CIS. Bulgaria imported a considerable amount of corn from the United States in 1991 ($33 million). Export opportunities exist for U.S. grains, oilseeds, livestock genetics, cotton, and farm inputs. U.S. expertise in financing, farm management, and food processing is needed. The fine-flower industry is considering establishing joint ventures. The Union Investment Fund (BIFP) established in February 1992, reports that 75 percent of the projects submitted are in the food industry. Agricultural Exports for 1990 were $1.6 billion (fruit, vegetables, wines, tobacco, cigarettes, eggs, sheep, and live animals). Germany was the largest export trading partner. Agricultural Imports for 1990 were $900 million (corn, sugar, oilseeds, cotton, and tropical products).

In January 1991, Bulgaria became eligible for U.S. Department of Agriculture export credit guarantees. In April 1991 Bulgaria was given most favored nation status. In addition to MFN status on tariffs the agreement improves the capacity of American businesses to operate in Bulgaria. A bilateral investment treaty between Bulgaria and the United States provides basic guarantees to U.S. investment. New tax legislation in 1992 provides tax incentives for foreign investment. Bulgaria maintains intercountry currency conversion at a floating exchange rate. Although unlikely to provide much economic benefit in the short run, Bulgaria has signed a new bilateral trade agreement with the Russian Federation. Bulgaria is also a member of the Black Sea Trade Group formed in June 1992 consisting of Russia, Ukraine, Georgia, Moldavia, Armenia, Albania, Azerbaijan, Greece, Romania, and Turkey. The trade group may have some positive trade benefits through Turkey or Greece in the short run but, like the bilateral trade agreement, it will likely take several years before the benefits become measurable.

Bulgaria has a relatively complete commercial and investment code including privatization regulations. The Economic Activities of Foreign Persons and Protection of Foreign Investment Act opens the country to foreign investment, provides the rules and rights for foreign investors, and provides assurances against government expropriation. This act along with the Overseas Private Investment Corporation (OPIC) insurance provides a sound basis for foreign investment. The commercial code, on the other hand, is still being completed; the code for corporations and relations between business entities are complete, but the definition and regulation of financial transactions and obligations are still incomplete.

Bulgaria has been relatively successful in controlling inflation. By the end of 1992 the surge caused by retail price liberalization had largely become a thing of the past; however, inflation continues to be a concern. The government has maintained tight monetary and wage policies to control inflation and the result is positive for the general population because goods are available in the market and accessible to most workers. However, consumption patterns have changed from high priced meats to some grain products. Specifically for agribusiness, some retail food prices have been liberalized while others, meat, flour, bread, oil, sugar, milk, and butter, are still monitored. In a similar vein producer prices for some products have been controlled, resulting in a severe cost-price squeeze for producers of many agricultural products. These changes combined with the continued reliance on state-owned entities for processing and export have led to slow development of new markets and thus have not stimulated production. This has significant implications for the fruit and vegetable processing subsector because it is important that they be able to pay prices that will entice growers to invest in new production (for instance, trees) and encourage them to produce vegetables that have a higher cost of production than cereals and other field crops. Tables C-1 and C-2 on the economic structure of Bulgaria and on agricultural policy reform follow.

POLITICAL AND ECONOMIC SITUATION

The present political uncertainty will have an impact on this subsector domestically as well as on the interest of potential partners in potential divestiture or indirect privatization. The uncertainty in government and the ability of some factions to enforce a go-slow approach to privatization has resulted in severe economic consequences.

The concern of the external financial community is manifest in the continuing oversight by the International Monetary Fund of its economic stabilization requirements for Bulgaria. The IMF has made a complete and comprehensive privatization program a condition for long-range assistance. With more than $15 billion in foreign debt, the country cannot continue to function without outside monetary assistance and a significant reduction in operating costs of industry through indirect and direct privatization.

Although slower getting started on reforms than some other Eastern European countries, Bulgaria is making progress. Bulgaria has been successfully complying with the IMF stabilization requirements. In addition, OPIC has agreed to provide political risk insurance and loan guarantees for equity and debt investments to private businesses.

TABLE C-1
ECONOMIC STRUCTURE OF BULGARIA

	1987	1988	1989	1990	1991 [a]
GDP (US$ 000,000)	28,101	22,961	21,690	19,905	11,445
GDP growth (%)	15.9	-18.3	-5.5	-8.3	-42.5
Retail trade prices (%)	0.1	0.5	9.0	70.0	334.0
Hard currency (US$ bn)					
Exports	3.3	3.5	3.1	2.5	3.4 [b]
Imports	4.2	4.5	4.3	3.3	2.8 [b]
Current account	-0.8	-0.8	-1.3	-1.2	--
Gross external debt (Dec)	6.2	8.2	10.2	11.0	12.3
Population (mn, end year)	8.97	8.99	8.99	8.95	8.60 [c]
Official rate (ave) Lv/US$	0.863	0.830	0.828	2.313	8.0

[a]Estimates.
[b]Includes hard currency trade with former CMEA.
[c]Official data. For technical reasons the exodus of ethnic Turks form Bulgaria in 1989 was not fully reflected in the population data.

Sources: The World Bank, report dated July 9, 1991; *The Economist Intelligence Unit*, Country Report No. 1, 1992; and The International Monetary Fund, report dated March 19, 1992.

The thousands of small private businesses that have recently opened in Bulgaria are a result of the broad structural reforms recently implemented by the government. These include reducing the state role in the markets, redefining the state role in businesses that have private competitors, and development of a well-planned and well-organized privatization focus with the Ministry of Industry and each of the individual Ministries actively involved in privatization.

TABLE C-2
SUMMARY OF AGRICULTURAL POLICY REFORM IN BULGARIA

REFORM MEASURE	Bulgaria	Remaining Issues
Land Reform and Restitution	Law passed February 1991 to return parcels of land to igorinal owners. Sept. 1991, only 10 percent of land previously owned or held in title claimed. Government may be forced to maintain state and cooperative farms. March 1991 law limits private ownership to 20 hectares and requires land be farmed.	• Absence of legal title • Remaining 50 percent of land unclaimed • Establishment of legal boundaries • Small plots make operation inefficient • Limits on land ownership and sale
Privatization of State-owned Enterprises	Very little progress; state owns 93 percent of the wealth; government senselessly shifting burden of state enterprises' large tax debt onto taxpayer and state budget.	• Consistent procedure for valuation • How to handle the excessive debt of most enterprises • High percentage of businesses remain state owned (over 90 percent) • Potential for debt forgiveness to aid privatization
Currency Convertibility	Internal currency convertibility; floating exchange rate.	• Price controls on some retail and producer prices • Levels of foreign debt
External Debt	Since March 1990, moratorium on principal and interest debt payments; recently agreed to service official debt extended since Jan. 1, 1991.	• IMF and WB requirements related to privatization program • Negotiation of debt with creditors
Domestic Economy	Severe recession; high inflation; large current account deficit; suffering from increased cost of raw materials, revenue losses from lower sales of manufactured goods; energy crunch due to reduced Soviet deliveries oil, gas.	• Price controls on retail food and producer prices • High levels of business bad debt • High interest rates • Wage rates versus increasing cost of living
Economic Reform	Feb. 1991, retail prices nonessential items liberalized, tax overhaul, demonopolization, and privatization.	• Tariffs remain high • Licensing required for many imports and exports • Legal system needs reform and experience in commercial law • Need uniform credit code and banking system reform • Standardized accounting and resolution of debt • Systems to move funds internally and linkage to foreign system
Foreign Investment Incentives and Regulations	1991 tariff schedule averaged 8 percent for farm products, and .5 percent customs clearance fee for imports and exports; Feb. 1991, 15 percent surcharge on most imported goods; hard currency shortages barrier to imports; Nov. 1991, 3-year trade relations agreement with U.S. signed; Foreign investors may not own land or natural resources.	• Foreign ownership of land via participation of Bulgarian firm • Valuation of Investments on a cash basis • Cross registration in both countries required to receive benefits • "Economic activities" are treated different from "investment" • "Demonopolized" firms are still state owned
Key U.S. Agribusiness Investment Opportunities	Financing, farm management, and food processing (especially fruit and vegetable), fine flower industry.	• Debt reduction for state enterprises to be privatized • Upgrading standards and quality of product • Overcapacity throughout the subsector • Many businesses have to be partitioned to make sense

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