PD-ACA-874

# Project Completion Report

USAID Privatization Activity in Serbia
Contract No. PCE-I-00-97-00037-00, Task Order No. 805

Period of Performance: September 25, 2001 – May 31, 2004

BearingPoint, Inc.
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Volume I

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Belgrade, Serbia
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SUBJECT: **Serbia Privatization Activity**
**Contract No.: PCE-I-805-97-00037-00**
**Project Completion Report**

Dear Ms. Vukasinovic:

Enclosed you will find the Project Completion Report for the Serbia Privatization Activity project. If you need additional copies of this report or require further information, please feel free to contact me by phone at (703) 747-5821, by fax at (703) 747-8514 or by email at Richard.Longstaff@bearingpoint.com. Alternatively, you may contact the Project Manager, Tina Mendelson, by phone at (703) 747-7376, by fax at (703) 747-8514 or by email at Tina.Mendelson@bearingpoint.com.

Very truly yours,

Richard Longstaff
Emerging Markets Managing Director

cc: Ms. Maureen Shauket, USAID/Budapest Contracting Office, Serbia & Montenegro
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A - Project Summary and Key Points

B - Status of Zorka Companies (As of December 2003)

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## I. Project Background and Overview

The project was initiated in September 2001 for two primary purposes:

1) to assist the Serbian Privatization Agency ("PA"), as well as related governmental bodies, in developing and implementing policies, procedures, laws, regulations and strategies necessary to effectively restructure and privatize certain identified socially-owned companies; and
2) to provide direct technical assistance to the PA in all aspects of the restructuring and privatization of specifically assigned companies.

The targeted companies for this project were among a larger portfolio of socially owned companies under the newly created Restructuring Department of the PA. The Restructuring Department ("RD") was established to deal solely with complex companies (often referred to as 'strategic companies') that could not be privatized under traditional privatization procedures. These companies tended to be "un-privatizable" in their existing condition due to excessive levels of debt in relation to the underlying value of the companies' assets or business value and/or because they were among a group of large holding company structures composed of numerous and various business units and activities which were not attractive as a whole company but could be attractive as smaller concentrated businesses with reasonable levels of debt in relation to asset values.

Initially, during the first few months of the project, a majority of efforts were devoted toward reviewing existing obstacles to the restructuring and privatization process, including review of all related laws, regulations, PA policy and procedures, staffing and organization. Early recommendations were made for various changes in the Privatization Law and related decrees as well as the Bankruptcy Law. Additionally, significant efforts were devoted to coordinating efforts between the PA and the Bank Rehabilitation Agency ("BRA") which controlled a significant level of corporate debt through its oversight of numerous bankrupt banks which held the debt of companies under the RD's responsibility. Recommendations were also made to increase the level of staffing within the RD since it was grossly inadequate to handle the number of companies (approx. 55) and related subsidiaries (approximately 400) in its portfolio. It should be noted that the RD was only established by the PA shortly prior to the initiation of the project so that organizational development was an ongoing process in terms of both staffing and policy/procedures. Likewise, since company restructuring prior to privatization had never been attempted by the PA previously, the initial legal and organizational (both within the PA as well as relevant other governmental organizations) obstacles were quite significant.

The initial project Work Plan, approved by USAID in December 2001, was drafted based on the assumption that significant efforts would be expended on gaining governmental approval of general restructuring/privatization strategy to be utilized by the RD by May

31, 2002, while the remainder of the project (June 2002-August 2003) would be devoted primarily to efforts to restructure and privatize the identified companies. Although the advisors were successful in fulfilling all of the contract deliverables, the pace of progress in the PA's actual privatization of companies under the restructuring program was significantly slower than originally envisioned. The reasons for this will be discussed later in this report.

In July 2002, the project Work Plan was revised to concentrate efforts on Zorka holding and its 20 subsidiary companies and seven textile companies. (Detailed efforts on these companies are included in Section III of this report.) Zorka holding was selected by the PA as the company for the BearingPoint team to provide assistance under the USAID contract, as part of the process of dividing the strategic companies among various donors providing assistance to the PA. In addition, the revised Work Plan transferred responsibility for public relations related assistance from Bearing Point to two other USAID and World Bank projects in order to conserve financial resources needed for specific company and privatization activities.

By far, the most complicated of all companies in the project portfolio was the Zorka Group of companies. Although the project team completed substantially all of the diagnostic work by mid-2002 and the PA officially initiated the restructuring program in July 2002, legal obstacles beyond the control of the PA prevented the restructuring to be completed until September 15, 2003 when the creditors formally approved the plan after obtaining approval of the plan by the Belgrade Commercial Court on July 13, 2003. Since it was impossible to initiate the sale of any Zorka subsidiary or Zorka assets until this process was completed, the first sale of a Zorka subsidiary (Zorka Non-Metals) did not take place until December 26, 2003. **This marked the first successful restructuring and equity sale of any company in the PA's restructuring program.**

During 2002, the PA requested assistance is provided by USAID with seven textile companies on the restructuring list of companies. Accordingly, during the second half of 2002 and first half of 2003, the project team completed all other diagnostic work for the textile companies and most of these companies were substantially ready for sale or restructuring except for certain unresolved matters (primarily related to either obtaining clear title to real estate properties, resolution of creditor claims). While in many cases these unresolved matters should not have been terribly complicated, the speed of their resolution was much slower than expected for a variety of reasons discussed later in this report.

By September 2003, the project staffing level began to be significantly reduced due to the resignation of numerous local hires that wished to seek more permanent employment pending the upcoming end of the project. This reduction in staffing did not have any detrimental impact on the project since the most labor-intensive diagnostic work had been completed by August 2003. On the contrary, to the project's benefit, this resulted in

conserving project funds to allow BearingPoint to provide continued assistance to the PA through the end of May 2004. In late November 2003, based on the likelihood that USAID would not provide additional funds for continuation of the project, the PA engaged a local consulting firm to assume responsibility for the Zorka group of companies and Bearing Point transferred all working documents to the new consultant in December and concentrated its remaining resources solely on the seven textile companies. Additionally, the PA obtained agreement from the World Bank to fund an advisor to assume responsibility for the textile companies in 2004. However, since it was not likely that the new advisor could be engaged until at least May 2004, USAID, at the request of the PA, agreed to extend the project until May 31, 2004 so that Bearing Point would be available to assist in the transition and also provide limited on-going legal assistance to resolve some of the unresolved issues for the textile companies. From February 1, 2004 through May 31, 2004, the project was staffed by one local BearingPoint attorney who provided assistance in resolving issues related to land registration, resolution of creditor claims and other technical matters. Please refer to the Section III and attachment C for details on the current status of each company.

## II. Evaluation of Tangible Results

Tangible Results:

1. <u>All restructuring plans for Zorka Group companies will be completed.</u>

During the contract term, BearingPoint completed the Restructuring Program Documents (RPD) for those companies of Zorka Group with likely privatization potential:

- Zorka Holding Company – Formal Restructuring Completed Sept. 15, 2003
- Thermoplast (in addition, Privatization Program prepared)
- Plant Protection (in addition, Privatization Program prepared)
- Blown Packaging (in addition, Privatization Program prepared)
- Extruded Packaging (in addition, Privatization Program prepared)
- Polyplast (in addition, Privatization Program prepared)
- Plastic (in addition, Privatization Program prepared)
- NAP 2000 (Restructuring Strategy Document)
- Hydrocloric Acid (Restructuring Strategy Document)

The following Zorka Group companies did not require RPD preparation:

- Non-Metals: This company was successfully auctioned without restructuring to a foreign investor on December 26, 2003.
- Non-Ferrous Metals: This company was resolved through a three-year lease.
- Mineral Fertilizers: This company was resolved through a three-year lease.

- Energy: This company will remain in its current status due to the terms of the lease contract for Non-Ferrous Metals.
- Transport: This company will remain in its current status due to the terms of the lease contract for Non-Ferrous Metals.
- Trade, Apartment, Research Center, DIR, Social Standard, Security, Economic and Legal Ownership: These companies have no production capacity, and their resolution option is being coordinated by the Municipality of Sabac. The resolution primarily involves transfer of assets to Municipality or local businesses, with creditors receiving zero proceeds from such transactions.

2. <u>At least ten (10) Zorka Group companies will be auctioned, and remaining companies will be recommended for alternative solutions.</u>

As discussed elsewhere in this report, legal delays in obtaining court approval of the Zorka restructuring plan made it impossible to initiate any sales procedures until September 2003 when formal creditor approval of the plan was obtained. Shortly thereafter, the PA initiated the sale of Non-Metals and the company was sold on December 26, 2003, for just under $5 million to a foreign investor. Furthermore, six other Zorka companies were in a completion status, which should permit their sale in 2004/2005 given the expected level of investor interest and simplicity of asset/company/creditor related issues compared to other subsidiaries. These companies included Plant Protection, Blown Packaging, Thermoplast, Plastics, Polyplast and Extruded Packaging. For the remaining companies, alternative solutions were recommended.

3. <u>All restructuring plans of textile companies will be completed.</u>

As of December 31, 2003, BearingPoint completed RPDs for Prvi Maj Pirot and Leteks, which had the most likely privatization potential. Restructuring Strategies were prepared for those Kluz subsidiaries that will enter restructuring process. No formal restructuring program was required for four of the seven Kluz subsidiaries or for IOB as the diagnostic results indicated a high probability the companies could be sold on an "as-is" basis. For Kostana, BearingPoint delivered a Strategy Recommendation Memo, recommending the PA to initiate a bankruptcy proceeding at the secured creditors' request. Based on the lack of cooperation from management of BVK and Rudnik, the PA requested only limited resources be spent on these two companies.

4. <u>All Independent Business Units of textile companies will be auctioned where feasible. In all other cases an alternative asset disposition strategy will be implemented.</u>

As of May 31, 2004, the PA has announced a July 5, 2004 auction date for three of the Kluz subsidiaries. Also, the following companies are now in an advanced stage of

preparation for sale and we anticipate the PA should be in a position to initiate sales procedures in mid-to-late 2004: Prvi Maj Pirot, Leteks, IOB and Kluz (Grocka and Padobrani).

5. The restructuring and privatization capacity of the Privatization Agency will be strengthened in all aspects of its activity: restructuring plan preparation, creditors negotiations, marketing, auctions etc.

The restructuring and privatization capacity was further strengthened as a direct result of project activity: BearingPoint made detailed recommendations to PA on the creditor meeting/ negotiation process; delivered restructuring documents that are being utilized as a template by the PA staff and other consultants; developed marketing lists and prepared procedures for setting up of data rooms (buyers) due diligence process; and assisted with preparation of privatization programs. Additional recommendations were made to revise the Restructuring Degree in order to make the restructuring process more efficient as well as specific recommendations to strengthen the PA's internal policies and procedures.

6. The Contractor will have delivered at least four seminars for MOE and PA staff to improve the technical skills in areas that may include Valuation of Commercial Entities and/or Real Estate; Financial Analysis; Contract Negotiations; and Management Skills and Organization.

At the PA's request, Bearing Point delivered both on-the-job training and detailed seminars/workshops on restructuring issues including:

- 3 seminars in April and May 2002 on restructuring phases and detailed steps to be taken by enterprises under the restructuring program.
- 1 seminar in April 2002 on "Restructuring for Privatization".
- 1 seminar in August 2002 on "Privatization through Bankruptcy".

## III. Company Specific Restructuring/Privatization Progress and Results

The vast majority of project resources were devoted to the actual restructuring and privatization of individual companies assigned to BearingPoint by the PA Primary efforts were related to Zorka Holding Company (including 20 subsidiary companies) and seven textile related companies, which also held numerous operating subsidiaries or diverse operating divisions. Although the project team successfully completed virtually all of the key deliverables during the term of the project, many hurdles resulted in a significant number of tasks taking much longer than originally anticipated. Major problems included:

Poor financial records and controls. Although it was not expected that socially-owned companies would have modern financial and accounting systems in place, the quality of financial records was generally very poor and, in some cases such as Rudnik, almost non-existent. Some of the companies and/or subsidiaries and operating divisions had either ceased operation or were operating with limited number and quality of staff for several years already. This resulted in the need to re-verify a significant amount of information provided through a series of meetings, phone calls and conferences.

Legal ownership of land, buildings and other assets. Virtually none of the companies, at the beginning of the project held clear registered title to their real estate property, especially in cases where property was held by a holding company structure but utilized by a subsidiary company that would be sold as a separate entity. In other cases, property used by the company was actually owed by some other governmental entity even though the company had been using the land or buildings for many years. In some cases, the division of property from the holding company to the subsidiaries was extremely complex due to the need to obtain creditor approvals. In addition to title problem, liens against company owned property were often difficult to verify due to poor lien registration systems and legal issues that took a significant amount of time to research and resolve.

Creditor Claims and Court Intervention. In order to proceed with reorganization, it was necessary to identify and verify all creditor claims, both as to their validity and proper amount. Although in some cases this was accomplished without too much effort, in other cases (See discussion of Zorka Holding below), it was extremely time consuming and demanded significant resources. In the case of Zorka for example, it was also necessary to obtain approval of the local courts, which were responsible for approving all reorganization plans involving bankrupt creditors (in this case primarily banks). Although Zorka was officially placed in restructuring in July 2002, it was not until July 2003 that the local court eventually approved the restructuring plan.

Lack of clear PA Policies and Procedures. When particular issues surfaced regarding each specific company, the project team attempted to clarify the PA's position in order to determine the appropriate resolution strategy. However, these issues tended to be addressed on an "ad hoc" and often inconsistent basis. This resulted in a significant duplication of effort since the same issues were often addressed multiple times for multiple companies by various consulting team. Although the RD functioned as an independent division of the PA, it was still required to coordinate all legal issues through the PA's Legal Department. Even though the Legal Department sometimes provided written opinions addressing various legal issues impacting the RD, these opinions were never codified or distributed to the PA staff as "official" legal positions. Therefore, whenever a legal issue arose, it became necessary to re-research the issue for each case (even though the issues may be identical to one already addressed) and in some cases, the

PA attorney assigned to a particular case may issue a differing opinion from another PA attorney working on a different case with the same issue.

Despite the above hurdles, the project team was successful in preparing the companies for restructuring and privatization even though the number of sales was less than hoped for at the initiation of the project. However, at the project's conclusion, virtually all of the companies are now either ready to be restructured/privatized or very close to final resolution of outstanding issues which will permit near-term restructuring/privatization.

This report summarizes below the key work performed and status for Zorka and the seven textile companies assigned to BearingPoint during the project. For further detail on the work performed, please refer to the monthly reports submitted by Bearing Point during the term of the project as these will provide significantly more insight as to the day-to-day activities and efforts expended for the various companies.

**Zorka Holding Company and Subsidiaries**

At the very early stages of the project, the PA, USAID and BearingPoint team agreed to select Zorka Holding and its subsidiaries as the primary pilot project to 1) identify issues relevant to the restructuring of companies in the RD; 2) provide a "live" case study that would serve as a basis for future activities of the RD; and 3) hopefully result in the PA's first successful privatization of a restructured company. In October 2001, the project team began a series of meetings and site visits to various Zorka subsidiary companies to initiate the diagnostic phase of the pilot project. By February 2002, the team had classified each of the 20 Zorka subsidiary companies into four categories: Four category "A" companies which required little or no pre-privatization restructuring; Eleven category "B" companies which had good prospects for sale but which required significant levels of restructuring in terms of debt, labor, and/or legal issues; Two category "C" companies which required difficult policy decisions on the part of the PA due to political or other problems; and Four category "D" companies which should either be sold or donated to a local municipality.

At the same time as the diagnostic phase of the Zorka companies was being completed, the project team also spent a considerable amount of time meeting the Bank Rehabilitation Agency ("BRA") and other governmental agencies regarding forgiveness of debt from companies in the restructuring program (Zorka included) to various bankrupt banks administered by the BRA.

Between February and July 2002, the team continued the diagnostic phase of Zorka and its subsidiaries and eventually developed a privatization strategy that served as the basis for the PA's formal initiation of Zorka's restructuring on July 9, 2002. Concurrently,

Bearing Point worked on the numerous technical issues related to the restructuring, including development of a creditor claim database that would be utilized in recording and verifying all creditor claims which were estimated to be up to 10,000 individual claims. Negotiations were initiated with major creditors in July 2002 in order to receive preliminary approval of the proposed restructuring plans. By August 2002, valuations of the companies were substantially completed and the process of reviewing and verifying creditor claims was underway for in excess of 7,000 claims that had already been filed. During this period, efforts were also directed toward the land survey of Zorka property (Zorka operated its subsidiaries from numerous locations but a significant number of subsidiaries operated within one primary location which utilized common infrastructure and lacked any formal easements or right of use agreements related to the infrastructure or common property utilized by more than one subsidiary).

By October 2002, the team was in the process of finalizing formal draft restructuring programs for seven Zorka subsidiaries and had finalized two such programs (Zorka Holding and Blown Packaging), which were being reviewed by the PA and BRA. However, at that time, it became clear that the resolution of Zorka's debt to BRA controlled bankrupt banks would be more complex than originally envisioned. The major complication related to London Club loans originated by Sabacka Bank (then in bankruptcy and under court administration) but funded through Beogradska Bank which was also in bankruptcy and under a different court administration. Other major creditor meetings were also ongoing during this period but the Sabacka/Beorgradska Bank debt remained the most complex and time consuming. Without going into excessive detail (already including in the periodic monthly reports), final resolution of the bank debt issue was not obtained until July 2003 at which time the Belgrade court (responsible for Beogradska's bankruptcy) finally approved the restructuring plan related to the division of Sabacka related debt to Zorka Holding among seven Zorka subsidiaries. However, the legal opinion of the court decision also indicated that additional approval was required of the Valjevo Court (responsible for Sabacka's bankruptcy) for the division of debt as well as division of assets and liabilities among the subsidiaries. This process was completed over the next two months and the PA was finally able to hold a formal creditor's meeting to approve the Zorka restructuring plan on September 15, 2003. Immediately thereafter, priority was given to registering the individual assets in the names of the subsidiaries (this could not be accomplished prior to obtaining the above mentioned court and creditor approvals). In November, Bearing Point, the PA and USAID agreed to concentrate remaining project resources on the textile companies and turn over responsibility for remaining Zorka activities to a new consultant to be engaged by the PA. In December, all work papers and work products generated by Bearing Point were turned over to the new consultant and Bearing Point relinquished any further responsibility for Zorka or its subsidiaries. It should be noted that, on December 26, 2003, the PA successfully sold Zorka Non-Metals through an auction that generated a sales price of approximately $5 million USD. Although this sale officially took place after we relinquished responsibility

for Zorka, the sale would not have been possible had it not been for the almost two years effort of the project team to gain approval of the Zorka restructuring plan.

During the exit meeting in February 2004 with the PA Director, RD key management team, and USAID, the PA Director expressed gratitude to the USAID for the assistance since 2001, emphasizing that the lessons learned by the Zorka restructuring process were key in designing overall policies and procedures that are now applicable for the restructuring of the remaining companies.

## Textile/Clothing Companies

Following the PA's formal initiation of Zorka's restructuring in July 2002, the project Work Plan was revised to focus more work on the seven textile companies assigned to BearingPoint. These seven companies were identified as follows:

1. BVK (woolen yarn)
2. Rudnik (garments)
3. IOB (footware)
4. Prvi Maj (garments)
5. Leteks (wool yarn & fabrics)
6. Kostana (leather shoes)
7. Kluz (garments)

Throughout the remainder of 2002, major efforts were expended in assessing the financial, operating and legal status of the above companies in order to develop viable restructuring/privatization programs for each company. In addition to significant levels of effort from numerous local hires in the financial and legal analysis, the project team also brought in three foreign experts in the respective industries to perform various levels of operational/viability assessment. As a result, there were distinct and significant variations in the attractiveness/saleability of the various companies with some being relatively attractive and currently producing for foreign markets while others had virtually ceased operations or were not viewed as viable. Although the revised July 2002 Work Plan called for BearingPoint to only complete the Phase I Diagnostic Reviews of the seven textile companies, by January 2003 sufficient progress had been made in the diagnostic phases to allow initiation of Phase II (restructuring) and Phase III (privatization) activities for some selected companies. The team had delivered an Executive Summary and Draft Final Report on its findings from the diagnostic reviews in December 2002 and continued to work with the PA in January 2003 to finalize the report and gain PA concurrence on its recommendations.

As an example of the project exceeding expectations to only complete the diagnostic phase for the textile companies, the advisors met with potential investors (United Fashion

Makers from the Netherlands) at Prvi Maj to discuss a range of financial and operating matters. Based on initial analysis, we believed Prvi Maj was an attractive company and could be easily sold in a relatively short period of time following restructuring. In March 2003, the advisors provided a recommendation to the PA to enter Prvi Maj, IOB and Leteks into the restructuring program.

**Prvi Maj -**

Based on the advisors' recommendations, the PA formally placed Prvi Maj in the restructuring program on March 6, 2003. During the next three months, the advisors assisted the PA in completing the various pre-privatization tasks including claims processing and verification, valuation, legal assessment and preliminary privatization strategy assessment. In June 2003, Bearing Point completed the draft Restructuring Program Document ("RPD") and initiated a series of meetings and discussions with PA and Prvi Maj management in order to finalize the document. By August, 2003, the advisors and PA management held a series of meetings to finalize a privatization strategy. These meetings resulted in agreement to pursue a company sponsored sale of its main production facility rather than to proceed with formal restructuring which would take considerably longer to accomplish. This strategy was contingent on the PA being able to achieve a sales price for the production facility close to the final valuation (which we believed possible) in order to minimize any possibility of successful creditor objections to the sale. The primary reason for attempting the company sponsored sale was that the most likely buyer of Prvi Maj's production facility (UFM – a major Dutch clothing producer) indicated a strong preference to close the sale by November 2003 as any delay beyond that point would not allow them to take advantage of the summer clothing production schedule. In September 2003, the advisors met with representatives of UFM, the PA and Prvi Maj to discuss the timing of the sale and numerous technical issues resulting from their initial assessment of Prvi Maj during their site visit in Pirot prior to the meetings in Belgrade.

As a result of the meetings with UFM, two major issues surfaced which ultimately delayed the sale as planned. First, UFM indicated it was not interested in purchasing the Knit Ware production facilities and was only interested in the Structured Clothing division. Because both of these facilities were operated in close proximity within the same complex, they share common infrastructure assets (i.e. streets, water, electricity and steam pipelines and a steam production facility located within the complex). In order to sell Structured Clothing as a separate until, the land and infrastructure assets would have to be legally divided, including a physical survey of the facilities and legal separation of the facilities, including detailed easements and rights of use agreements. The second, and most problematic of the two issues was an old mortgage lien which had been registered by Pirotska Bank on Prvi Maj's production facilities which was claimed by Pirotska Bank in the creditor claim process but disputed by Prvi Maj. UFM expressed much concern

about the legal title to the property and stated it could not proceed with a purchase until the ownership/lien status of the property was resolved.

Following the meetings with UFM in September, the advisors and PA staff were successful in convincing UFM that it should consider purchasing the Knit Ware division of Prvi Maj since the value of the Knit Ware facility was relatively small in relation to the whole facility and it would allow them to control all infrastructure assets without the significant legal hurdles involved in dividing the property. However, the Pirotska Bank mortgage issue continued to delay any possibility of sale. The advisors and PA met on numerous occasions with the BRA (which had oversight over Pirotska Bank) to resolve the Pirotska Bank claim in a timely manner. It should be noted that all documentation available indicated that this lien was no longer valid (see monthly reports for extensive details on this issues) and that Pirotska Bank was being unreasonable in claiming the validity of its mortgage. BearingPoint advisors drafted a proposed settlement agreement between Prvi Maj and Pirotska Bank which we believed to be a very reasonable approach to solving the problem - it would have allowed Pirotska Bank to obtain a mortgage on Prvi Maj's retail stores once the validity and amount of any mortgage was determined. Pirotska Bank refused to be cooperative and this issue was still not completely resolved by the end of the project. Only during the January-May 2004 extension period, the advisors and PA were successful in obtaining additional documentation to support a rejection of Pirotska's mortgage claim and proceed with a sale of Prvi Maj.

**Kluz -**

Kluz actually consisted of eight companies, DP Kluz, the holding company, and seven subsidiaries (Kozara, Padobrani, Trgovaska Mreza, Tisa, Srem, Plitvice, and Grocka). Substantially all of BearingPoint's efforts were directed toward the subsidiaries as the holding company was essentially a shell company that was placed in pre-bankruptcy procedures. Among the subsidiaries, a majority of our work was focused on four subsidiaries (Tisa, Srem, Plitvice and Grocka) which were most likely to be salable within the term of the project. The other subsidiaries involved more complex issues tied to the eventual resolution of the holding company, particularly joint and several liability issues of the subsidiaries for parent company debt. By May 2003, the PA instructed the advisors that only DP Kluz should be placed in restructuring to see if creditors raised the joint and several liability issue.

In July 2003, work was being completed for initiating the sale of Tisa, Srem, Plitvice and Grocka on an "as is" basis without restructuring. At that time, it was believed these four subsidiaries could be sold before the end of 2004. Although all diagnostic work and valuations for these subsidiaries had been completed, the companies themselves were required to complete various tasks such as obtaining lists of immovable property from the Geodetic Office, registration of land in the Cadastre register, and finalizing the formal

privatization programs. Throughout the next few months and into early 2004, the advisors continued to encourage the PA to put pressure on the management of these four companies to complete the necessary steps to initiate the auction procedures. However, the necessary work for Srem, Tisa and Plitvice was not completed until shortly before the project's completion and these companies are now scheduled for auction on July 5, 2004. Thus, although these companies had not been privatized by the end of the project term, BearingPoint's assistance was instrumental in the PA's ability to prepare the companies for sale and implement the official auction procedures.

**IOB –**

On January 22, 2003, IOB creditors approved a Compulsory Composition Plan which provided that its debt be rescheduled with a 2 year grace period on payments and quarterly payments of interest and principal in the third year. Based on the diagnostic work and valuations prepared by BearingPoint, it was believed IOB could be sold on an "as is" basis with the rescheduled debt plan. In July 2003, the advisors delivered a strategy approval memorandum to the PA and began assisting the company in preparing the Privatization Program. Over the next two months, the advisors continued to help the company management in preparing the Privatization Programs. However, during this time, it became clear that certain outstanding issues (related to correcting errors in the company's share register at the Central Share Registry, resolving land ownership issues related to the Zemun parcel which was technically registered as state-owned) were slow in being resolved. Despite several meetings held between the advisors, IOB management, and relevant governmental officials in the Fall of 2003, except for re-registration of the company's property from State-owned to Socially-owned status, necessary cadastre registration for several of the company's retail properties is still outstanding. However, we believe these are relatively minor issues that can be addressed quickly if the PA can encourage management to focus its efforts to get them resolved. Thus, as of the end of the project, IOB was substantially prepared for privatization.

**Leteks -**

All diagnostic and analytical work for the privatization of Leteks was completed during the term of the project, including completing the formal creditor claims process in January 2004. Significant effort was expended by the local Legal Advisor regarding Leteks' land ownership, lien status, major creditor approvals for restructuring and other matters between January and May 2004. As of the completion of the project, the draft Restructuring Program has been prepared and is in the process of being finalized. The advisor believes formal creditor approval of the restructuring plan could be obtained in a very short period of time.

**BVK -**

Following completion of the initial diagnostics and valuation in mid-2003, limited project resources were devoted to BVK, with the concurrence and agreement of the PA and USAID. Initial diagnostics were limited in scope as the advisors were unsuccessful in obtaining much of the necessary data and documents from the company. As of January 2004, only basic balance sheet and income statements had been provided to BearingPoint. However, we were informed by the PA that it formally published notice of BVK restructuring on March 5th 2004 in order to initiate the creditor claims process and all additional analytical work for the restructuring would be the responsibility of the advisor to be engaged with World Bank funds following termination of this project.

**Rudnik -**

Following completion of the initial diagnostic and valuation in mid-2003, virtually no project resources were devoted to Rudnik as little or no data could be obtained from the company which had not been operating as an enterprise for approximately two years. Although one individual continued to function as the company's Managing Director, he was not able to supply many of the documents necessary to assess the company's financial or legal status. Although we believe bankruptcy is the most likely resolution of the company, the PA in January 2004 indicated that the Serbian Development Fund had initiated discussions with the PA's Executive Director regarding a possible debt/equity swap. However, in our opinion, the viability of this plan seems questionable given the non-operating status of the company and uncertainty as to the level of creditor claims and legal status of the company's assets. The PA will transfer further responsibility for Rudnik to a new advisor to be engaged with World Bank funds following termination of our project.

**Kostana –**

Following initial diagnostic work in early to mid-2003, the advisors devoted virtually no resources to this company. Secured creditors were unwilling to support any restructuring proposal and both the PA and management of the company agreed that bankruptcy was the only viable alternative. Accordingly, the resolution of Kostana will be determined by the secured creditors and their decision as to when to initiate formal foreclosure or bankruptcy actions against the company.

## IV. Other Assistance to the Privatization Agency

Throughout the term of the project, Bearing Point advisors provided a wide variety of "other" assistance to the PA, which supported overall privatization strategy and organizational development. Although the monthly reports provide significantly more detail regarding specific activities, following are a summary of some of the major efforts:

Legal and Regulatory Assistance

The advisors drafted the Restructuring Decree, Memorandum of Understanding with the BRA, procedures for formal creditor negotiations, and proposed amendments to the Auction Decree. Additionally, particularly during the first year of the project, a significant amount of resources were devoted to numerous meetings and conferences with various interested governmental and donor organizations in coordinating an overall privatization strategy and issues resolution mechanism. The advisors provided material input in suggested amendments to the bankruptcy law as well as coordinating efforts with the BRA, bankruptcy trustees and judges in gaining support for the restructuring programs of the PA.

Public Relations Assistance

BearingPoint advisors provided a significant level of Public Relations ("PR") assistance to the PA. This project team spent a significant amount of time coordinating these efforts with the PR advisors and the PA in assuring that the PR work products were consistent with the technical aspects of the restructuring/privatization efforts. Particular areas where this project team contributed in the PR area included setting up a press office a the Ministry of Economy and Privatization; generating public awareness and support for the privatization process through billboard and TV media campaigns; development of public awareness surveys; and designing a database of over 700 firms to be privatized in Serbia and which would be integrated into the PA's website for local and foreign investor information.

Marketing

In early 2003, in anticipation of upcoming sales efforts for Zorka subsidiaries (primarily those in the chemical and plastic industries) as well as the textile/clothing companies, the advisors initiated efforts to 1) develop a database of potential local and foreign investors for each company; 2) prepare detailed marketing materials to be provided to potential investors; and 3) prepare guidelines and procedures for the organization and implementation of investor due diligence at the various companies. As a result, BearingPoint provided the PA with an industry-specific database of international companies with relevant contact information that will be invaluable in contacting

potential investors, not just for the companies included in our project but all companies to be privatized in the chemical/plastics and textile/clothing industries. Working with specific companies, and the BearingPoint financial and legal advisors responsible for the relevant companies, the Marketing advisor developed specific marketing letters for each company that provide historical background on the companies as well as relevant financial, legal and technical operational data needed to attract investor interest. Additionally, the Marketing advisor spent a significant amount of time with various company management providing them with guidelines on how to conduct investor due diligence, including procedures for setting up data rooms, relevant information to be included in the data room, management interviews, etc. Even after termination of the project, these efforts will continue to be of value to the PA as many of the work products (i.e. databases, policies and procedures, marketing materials, etc.) will continue to be utilized by the PA and company management for future privatization efforts.

Training

In addition to a significant level of on-the-job training through PA staff attendance at all key meetings and discussions of major project and company related issues, the project team provided five seminars in 2002 dealing with key issues on restructuring and bankruptcy. Additionally, our marketing efforts also provided long-term benefits to the PA and company staff through their participation in the development of marketing materials, data room preparation and due diligence procedures to be utilized during the sale process.

## V. Lessons Learned and Recommendations for Future Activities

As mentioned elsewhere in this report, the advisors and the PA faced numerous hurdles in their efforts to restructure and privatize the companies included in the project portfolio. While some of these hurdles were external (in the case of legislation and judicial procedures), others were management/organizational and dealt with procedures used by the project team, PA and company management in day-to-day activities. As a result of these efforts, we believe the BearingPoint advisors have provided a much stronger organization within the PA staff to carry out the restructuring/privatization procedures in the future. Following are just a few of the areas which we believe the PA staff has a much better understanding and which will contribute to be more effective organization going forward through lessons learned during this project:

1. The need to standardize restructuring and privatization policies and procedures. Formal policies and procedures provide staff with guidance as to how to address various issues as they arise. Throughout much of the project term, we observed significant duplication of effort among the various project teams (not only those under our project but also those being handled by other advisors) in trying to address various legal and procedural issues on a case-by-case basis. In many cases, the lack of formal policies and procedures (including legal opinions) resulted in conflicting positions/approaches among the project teams as well as too frequent changes in positions leading to much lost time and effort.
2. Appoint a company representative from each Independent Business Unit or company to serve as the primary contact for advisor/PA staff and to also serve as the person responsible for assuring company initiated actions were taken in a timely manner. In many cases, the process was slowed down because the project team did not have adequate access to management to gather critical data or because the company did not initiate actions that only it could take (i.e. registering title to its real estate property in a timely manner, clearing up shareholder registration discrepancies, obtaining land surveys, etc.).
3. Secure key stakeholders' informal approvals (creditors, management, labor unions, municipalities, other governmental agencies, etc.) early in the process to avoid unnecessary delays in ultimate resolution. Each of these "stakeholders" can become a major roadblock to the final resolution so identification of potential problems earlier rather than later can avoid wasted time and effort. Although more formal approvals from these stakeholders may be needed at a later date, early informal approvals significantly reduce the probability of having unexpected problems arise at the last minute.
4. Try to finalize a holding company restructuring plan prior to that of any of its subsidiaries. While it is sometimes tempting to devote efforts to subsidiaries that appear less complex and for which sales strategies can be quickly developed, subsequent problems at the holding company level may make these efforts moot if all previous transactions between the holding company and subsidiary (i.e.

transfers of assets & liabilities and inter-company loans) were not totally transparent and without the need for creditor approval.

5. Distribute procedures and templates for restructuring activities (i.e. creditor claims, worker claims, verification of shareholder interest, etc.) to each company immediately upon initiating the restructuring process. Since the companies are ultimately responsible for initiating and administering many of these functions, having them educated and prepared for the process as soon as possible will avoid unnecessary delays.
6. Use bankruptcy where there is little or no hope of achieving a successful restructuring in a reasonable amount of time. While bankruptcy may carry some political risks for the government, postponing difficult decisions is likely to do more harm than good as a) staffing resources could be better devoted to viable companies; b) the value of company assets are likely to continue to decline or be dissipated.

Recommendations for Future Restructuring/Privatization Activities

Based on our observations throughout the term of the project, we have identified several areas in which we believe the PA's restructuring efforts could be improved in the future. These recommendations are intended to be constructive in nature and should not be interpreted as criticisms since the project initiated at the "ground floor" of the PA's efforts to implement a restructuring program.

1. *Consider establishing an inter-governmental disputes/issues resolution committee to deal with land ownership and registration issues as well as consolidation of multi-entity state debt for creditor voting actions.* As it is quite typical for socially owned companies to have the use of property technically owned by another governmental entity, it is critical that property necessary for the use of the company being sold is transferred to the appropriate entity as soon as possible. However, it is often difficult to get a timely response from the other entity not having responsibility for the sale. For example, in the case of Zorka, a significant issue arose because some of the Zorka subsidiaries utilized river shipping to transport its raw materials and finished products. Because the land needed for access to the river was owned by another governmental entity, any potential buyer would either want to own the land or have a long-term right-of-way or easement to assure uninterrupted operations. However, although this issue was identified in mid-2003, we were never able to achieve a resolution. Likewise, a significant portion of socially owned company debt is owed to other governmental agencies or state-owned entities (i.e taxes, social security payments, employee health benefits, utilities, etc.). In achieving majority creditor approval for restructuring plans, it would be much more effective if these debts could be consolidated for voting purposes so the PA would only have to negotiate with one authorized individual or entity.

2. *Consider efforts to educate judges/bankruptcy trustees on restructuring and privatization activities to minimize time utilized on each case-by-case issue.* As previously discussed in the Zorka case, the delays in gaining court approval of the plan were quite excessive and could possibly be avoided in future instances if judges could be informed of the financial and legal issues of a restructuring plan and their key role in the success or failure as well as the importance of timely decisions.

3. *Consider amendment of the Auction Decree to provide specific exceptions for restructured companies.* Unfortunately, the Auction Decree was designed for the sale of companies not going through the restructuring process and contains several provisions which we believe unnecessarily inhibits the PA's ability to sell equity of restructured companies. Although we provided a proposed revision to the Auction Decree to the PA in September 2003, no action was taken to adopt a revision.

4. *Consider formal adoption of policy to sell "IBU Asset Groups" as part of global restructuring.* In late 2003, the PA informally agreed to initiate the sale of individual assets by a company prior to adoption of an official restructuring plan by the creditors. While we agreed this may be done on a limited basis (i e. when the sales price at least equals the valuation of such assets), we also discussed the potential legal risks stemming from potential creditor objects. Even if a creditor challenge to the sale were to be overturned by a court, the challenge itself may still create major problems for the PA and/or buyer until a court decision (and any appeal process) is finalized. While these may be acceptable risks in certain limited cases, we believe the PA should adopt a more formal policy as to when an asset sale may be utilized. This will lessen the uncertainty existing among the PA staff and advisors as when such a sales procedure should be used.

5. *Consider further formalizing and standardizing PA policy and procedures on key issues to reduce timely, and possibly inconsistent, case-by-case decisions.* This issue was addressed in a detailed memorandum from the advisors to the PA on September 3, 2003 and included in the September 2003 monthly report.

6. *Consider amending the tax law or relevant tax regulations to clarify that debt forgiven in companies restructured by the PA does not create a taxable event.* Given the large amount of debt of many companies in relation to their asset values, it is possible that the taxes owed by the new owner may exceed the value of the company. Furthermore, uncertainty over the actual amount of taxes owed may make the companies much less attractive to potential buyers or result in sales proceeds being much less than they otherwise would be. If this issue cannot be

resolved, the PA may be forced to revert to asset sales and eventual liquidation of the companies rather than equity sales.

7. *Consider voluntary liquidation and bulk sale of assets as a more effective method than equity sales.* Asset sales could result in much higher purchase prices, as investors do not have to factor a number of uncertainties into their valuation of the companies. Equity sales result in the buyer being responsible for many contingencies and undisclosed liabilities that may never occur or exist but for which any rational buyer will apply some discount for the risk assumed.

8. *Consider hiring an environmental expert to assess the liabilities of each firm under restructuring which has any identified potential for environmental risks.* If this is not done until after the restructuring program is formally approved by the creditors, the sale may not be successful if such risks exist and need to be factored into the valuation. Otherwise, it will be necessary to go back and re-negotiate the terms of the sale with creditors.

9. *Consider adopting valuation standards, which assure that appraisals properly take into account functional and economic obsolescence in the liquidation approach to value.* In a significant number of appraisals, we noted a material difference between the values derived in the liquidation and the discounted cash flow approaches, with the liquidation values typically much higher than the value obtained from the discounted cash flow method. Generally, investors rely much more heavily on the discounted cash flows in valuing companies. It is our belief that the appraisers are not adequately factoring in functional and economic obsolescence of physical plant and equipment assets; otherwise we would expect the two valuation methods to produce much closer values. If investors will be utilizing the cash flow approach to value in preparing their offers, but the PA is utilizing the higher liquidation values in establishing minimum sales prices, we expect many sales may be unsuccessful and require re-negotiations with creditors to obtain their agreement on a lower sales price.

## VI. Conclusion

At the outset of the project in September 2001, the PA was only in the initial start-up phase of establishing the Restructuring Department and the concept of restructuring non-saleable companies had yet to be tested in Serbia. At that time, it was known that many legal and other obstacles would have to be overcome, including legislative, regulatory and judicial issues as well as organizational and procedural development within the PA. Although it was hoped that the PA would be able to privatize a much larger number of companies through the restructuring program within the term of the project, we view the overall project as very successful for a number of reasons. **The BearingPoint team was**

**the first advisor to the PA's Restructuring Department to successfully complete the full restructuring of a major company (Zorka in September 2003) and follow through with the equity sale of a subsidiary (Zorka Non-Metals in December 2003).** Also, auction sales of three Kluz subsidiaries were announced prior to the project termination date although the auctions will be held subsequently. Also, significant progress has been made in preparing the other companies for restructuring/privatization (diagnostic and valuation work was completed on all companies in the project portfolio) and many are now in the final stages with privatization likely in the current year. More importantly, we believe the project has resulted in a significant strengthening of the PA's organizational capacity to carry out future work in its restructuring privatization efforts. The staff of the RD has now gained extensive experience and knowledge through their day-to-day work with the BearingPoint advisory team and observing their approach to solving complex legal and financial issues that exist in virtually all companies in the RD portfolio.

# BearingPoint's Assistance to the Privatization Agency from Sep 2001 - May 2004:

## Achievements, Lessons Learned and Recommendations

**Project Summary For**
**Completion Report to USAID**
**June 2004**

# Content

BearingPoint

## Key Achievements

Zorka Group Companies

Textile Companies

Other Assistance to the Privatization Agency

## Lessons Learned and Recommendations for Future Activity

# Key Project Achievements

## Sep 2001 – May 2004

# Zorka Group Company –
## Milestones of BearingPoint Assistance

Zorka entered restructuring program in July 2002

Verification and reconciliation of claims finalized by February 2003 (started in July 2002)

**Resolution of complex issue of division of assets and liabilities among Zorka Holding and 20 subsidiaries (pre-contracts signed Jan/Feb 2003)**

Informal Zorka Holding creditors agreement obtained mid-Feb 2003

Land division issues resolved by April/May 2003

Non-metals General Assembly approves Privatization Program in May 2003, and company ready for auction

Non-ferrous Metals and Mineral Fertilizers leases completed in July 2003

**Joint and several liability clause resolved during March – August 2003 (court decision July 2003):**

- Formal Zorka Holding creditors agreement obtained Sep 2003
- Registry of subsidiaries at Commercial Court during Sep/Nov 2003, as a prerequisite for privatization

**Non-metals subsidiary sold Dec 2003 – first company from the PA portfolio of companies under restructuring**

Beginning 12/03, *responsibility for Zorka Companies transferred to Stanišić audit, d.o.o.*

# Zorka Group Companies – Key Deliverables

Valuations completed for 13 subsidiaries of Zorka (the most viable companies)

Social program prepared for all Zorka Group companies

Diagnostics completed for the Zorka Group (Holding company and 20 subsidiaries)

Restructuring Documents completed for 9 companies

Privatization Programs completed for 7 companies

Potential investors/buyers identified and data room procedures set up for investor due diligence process

Resolution of 3 companies

- 1 company sold (Non-metals)
- 2 companies resolved via leasing agreements (Non-ferrous Metals & Mineral Fertilizers)



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# Zorka Group Companies – Summary of Key Deliverables

BearingPoint

| Zorka Holding and 20 Subsidiaries | Valuation | RPD | Privatization Program | Resolution |
|---|---|---|---|---|
| Zorka Holding Company | N/A | ✓ Formal Restructuring Completed Sept. 15, 2003 | N/A | Dismantling – Final transfer of assets and liabilities |
| Thermoplast | ✓ | ✓ | ✓ | Auction |
| Plant Protection | ✓ | ✓ | ✓ | Auction |
| Blown Packaging | ✓ | ✓ | ✓ | Auction |
| Extruded Packaging | ✓ | ✓ | ✓ | Auction |
| Polyplast | ✓ | ✓ | ✓ | Auction |
| Plastic | ✓ | ✓ | ✓ | Auction |
| NAP 2000 | ✓ | Restructuring Strategy Document | | Auction |
| Hydrocloric Acid | ✓ | Restructuring Strategy Document | | Auction |
| Non-Metals | ✓ | N/A | ✓ | Sold, 12/26/2003 |
| Non-Ferrous Metals | ✓ | N/A | N/A | Leasing for three years, with potential privatization afterwards |
| Mineral Fertilizers | ✓ | N/A | N/A | Leasing for three years, with potential privatization afterwards |
| Energy | ✓ | N/A | N/A | In restructuring for 3 years based on a leasing contract of Non-Ferrous Metals, with potential privatization afterwards |
| Transport | ✓ | N/A | N/A | In restructuring for 3 years based on a leasing contract of Non-Ferrous Metals, with potential privatization afterwards |
| Trade, Apartment, Research Center, DIR, Social Standard, Security, Economic and Legal Ownership | N/A | N/A | N/A | These companies have no production capacity, and their resolution option is being coordinated by the Municipality of Sabac. The resolution primarily involves transfer of assets to Municipality or local businesses, with creditors receiving zero proceeds from such transactions. |



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# Zorka Group Companies – Future Activities

BearingPoint

**Next Steps:**

Auction of 6-8 companies (6 of which have privatization program completed)

Resolution of 7 companies in coordination with Municipality of Sabac

Completion of restructuring and privatization activities transferred to the PA and consulting company Stanišić audit d.o.o.

BearingPoint transferred all working files on companies to the PA

# Textile Companies – Key Deliverables

BearingPoint

Diagnostics completed for 7 companies

Valuations completed for 7 companies

Potential buyers identified for most companies

Marketing activities launched for Prvi Maj Pirot, IOB, Kluz

Restructuring/privatization strategies proposed to PA (asset sales adopted as an alternative to restructuring):

- Prvi Maj Pirot – primarily asset sales through auctions
- Kluz – 4 companies sale 'as is'; DP Kluz dismantling; 3 companies restructuring
- IOB – sale 'as is'
- Leteks – initial asset sale, and remaining into restructuring
- Kostana – bankruptcy (initiated November 2003)
- BVK – initial asset sale, and remaining into restructuring
- Rudnik – bankruptcy (this week a debt/equity swap option)

# Textile Companies- Prvi Maj Pirot

BearingPoint

**Achievements to Date**

Diagnostic completed

Formal creditor claims process completed

Company marketing profile prepared

Valuation Completed

Social Program prepared

Company entered restructuring process March 6, 2003

RPD drafted and delivered to Company for approval

Potential buyer identified for structured clothing

PA approved Restructuring Strategy Memorandum to sell company via asset sales

**Outstanding Items**

PMP approval of RPD

Informal and formal creditor meetings

PA facilitation of negotiations with key government creditors

Resolution of potential mortgage of Pirotska banka on production hall:

- Issue needs to be coordinated with BRA to assure Pirotska banka actions are based on factual legal grounds for claim.

# Textile Companies- Kluz

BearingPoint

## Achievements to Date

DP Kluz:

- Diagnostic completed
- Valuation completed

Kluz – Kozara, Padobrani, Trgovacka Mreza:

- Diagnostic completed
- Valuation completed
- Informal creditor claims process completed in February 2003
- Company marketing profile completed
- For Kozara, Strategy Approval Memo delivered to PA

Kluz – Tisa, Srem, Plitvice, Grocka:

- Valuation completed
- Company marketing profile completed and preliminary marketing activities
- BearingPoint recommendation to PA to approve an auction of the company 'as is' in August 2003
- Privatization Program completed
- Marketing letters sent by Bearing Point to potential investors and PA announced auctions for Tisa, Srem and Plivice will be held on July 5, 2004.

## Outstanding Items

DP Kluz:

- Bankruptcy recommended

Kluz – Kozara, Padobrani, Trgovacka Mreza:

- Land Cadastre Registry, including an agreement on division of assets among all companies
- Informal and formal creditor meetings
- RPD preparation and its approval by Company, PA, creditors

Kluz – Tisa, Srem,Plitvice, Grocka:

- Grocka – company must obtain list of immovable property from Republic Geodetic Office to enter auction program
- Tisa, Srem and Plitvice auctions to be on July 5, 2004

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# Textile Companies- IOB

BearingPoint

| Achievements to Date | Outstanding Items |
| --- | --- |
| Diagnostic completed | PA approval of Strategy Memorandum still pending |
| Compulsory Composition Plan partially adopted by the Commercial Court | Determine potential increased secured claim amount arising from Compulsory Composition Plan |
| Valuation Completed | Privatization Program preparation |
| Social Program completed | Registration of shares from previous privatization with Temporary Central Registry |
| BearingPoint delivered Strategy Approval Memo to PA in July 2003 recommending privatization 'as is' | As land of Zemun plant is state owned, PA needs to facilitate with Land Registry to obtain approval for sale |
| BearingPoint delivered in August 2003 form for Privatization Program | PA needs to initiate privatization process |
| Land survey registry completed | |

# Textile Companies- Leteks

BearingPoint

**Achievements to Date**

Diagnostic completed

Formal creditor claims process completed on January 22, 2003

Valuation completed

Social Program completed

Company marketing profile completed

BearingPoint Restructuring Strategy Memo delivered to PA in July 2003

Land survey registry completed

**Outstanding Items**

PA approval of Strategy Memorandum still pending

Share capital registration into court registry, if required

Company needs to provide an updated review of the court/arbitration proceedings

Opinion of an expert on environmental liabilities

Informal and formal creditor meetings

RPD preparation and its approval by Company and PA

Privatization Program preparation



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# Textile Companies- Kostana

| Achievements to Date | Outstanding Items |
|---|---|
| Diagnostic completed<br><br>For all Kostana companies, informal creditor claims process completed<br><br>Informal Creditor Committee meetings resulted in determination that no restructuring would be possible (under PA) due to multiple liens and creditors' unwillingness to compromise<br><br>Valuation completed<br><br>In April 2003, BearingPoint recommended to creditors bankruptcy or sale 'as is':<br>Creditors, management, and PA approved bankruptcy<br><br>Kostana entered bankruptcy process in November 2003 | N/A |



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# Textile Companies- BVK

BearingPoint

| Achievements to Date | Outstanding Items |
| --- | --- |
| Diagnostic partially completed (technical/marketing report) | Initiation of privatization and restructuring process |
| 20 leases to lessees from textile sector, with their commitment to participate in the privatization process | Claims process |
| Company marketing profile completed | Informal and formal meetings with creditors |
| Valuation completed | RPD preparation |
| Social Program completed | Privatization Program preparation, if required |



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# Textile Companies- Rudnik

| Achievements to Date | Outstanding Items |
| --- | --- |
| Diagnostic completed<br>Company marketing profile completed<br>Valuation completed<br>Social Program completed<br>Creditors claim process on hold until recently with the change in company management | Although some discussion took place in early 2004 regarding a potential debt-equity swap with the Development Fund, our belief is that the company is most likely to be resolved through bankruptcy. |



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# Other Assistance to PA

BearingPoint

## Legal and Regulatory Assistance:

Drafting of Restructuring Decree and subsequent recommendations for its amendment

Drafting and negotiation of the Memorandum of Understanding between the BRA and PA

Drafted procedures to be followed during formal creditor negotiation process

## Public Relations Assistance:

Set-up of a press office at the Ministry of Economy and Privatization

Generation of public awareness messages and their dissemination via billboards and TV spots

A trip for the Serbian PA PR staff to the US to meet some of key personnel on Capital Hill

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# Some Lessons Learned and Recommendations to PA for Further Restructuring Activities

# Some Lessons Learned

Have restructuring and privatization policies and procedures standardized to facilitate the process

Try to secure informal creditor approvals prior to formal meetings

Try to finalize a holding company restructuring process prior to its subsidiaries

Distribute procedures and templates for restructuring activities, such as, creditor claims, worker claims process, etc. to each company prior to or as soon as the restructuring process starts

Appoint a company representative from each IBU/company and instruct him/her to cooperate, provide support for all issues related to restructuring

Secure key stakeholders' buy-in: management, labor union, municipality (our Zorka success)

Use bankruptcy where there is no hope of financial restructuring sooner than later

# Recommendations

**Consider establishing inter-governmental dispute/issues resolution committee:**

- Land ownership and registration issues
- Consolidation of multi-entity state debt for creditor voting actions

**Consider efforts to "educate" judges on restructuring and privatization activities (similar to seminars/meetings that BearingPoint team held for judges)**

**Formal adoption of policy to sell "IBU Asset Groups" as part of global restructuring**

**Consider amending Auction Decree to permit exceptions for restructured companies**

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# Recommendations (cont.)

BearingPoint

**Consider further formalizing and standardizing PA policy and procedures on key issues to reduce timely case-by-case decisions**

**Obtain resolution of taxability of forgiven debt**

**Effective use of bankruptcy as restructuring alternative**

**Consider hiring an environmental expert to assess liabilities of each firm under restructuring and privatization process**

**PA should adopt valuation standards and criteria for appraisals (similar to BearingPoint experience with Zorka and textiles):**

Valuation process should be modified to have the appraisers further discount the value from the current non-adversarial liquidation method (otherwise liquidation value continue to be too high and may prevent the court to approve a sale)

| | Name of Company | Current Status | Pending Items | Projected Date of Auction or Other Resolution Alternative | Comments |
|---|---|---|---|---|---|
| 1 | Zorka Holding Company | • RPD adopted by Creditors, at the Formal Creditors Meeting<br>• PA officially approved RPD<br>• Sabacka bank signed contract with Zorka Holding based on Valjevo Court authorization<br>• Subsidiaries outside of Sabac signed Division contracts<br>• ZH GA approved transfer of property and capital to subsidiaries | • Subsidiaries in Sabac to sign Division contract based on pre-contracts<br>• Subsidiaries to register in Commercial Court of Valjevo<br>• Registration of the land ownership owned by subsidiaries | Dismantling – Final Transfer of Assets and Liabilities by Fall 2003. | Legal obstacles have to be resolved in order to enable subsidiaries to do proper land registration.<br>Water Management Authority of R of Serbia has "long standing right of use" and is the only entitled to give necessary consent for registration of the land ownership on respective parcels for both Non metals and Plant Protection. |
| [redacted] | | | | | |
| 2 | Non -Metals<br>HC ownership: 26.03% | • Company sold at Auction 12/26/03<br>• Non Metals GA has approved the sale of HC's 26%<br>• Privatization Program Completed | • None | Sold on Dec. 26, 2003 for approx. $5 million USD | No RPD required. |
| [redacted] | | | | | |
| 3 | Thermoplast<br>HC ownership: 30% | • Company is ready for sale<br>• Creditor claim process, database and verification are finished<br>• RPD prepared and approved by Company<br>• Privatization Program prepared and approved by Company<br>• Division of assets/ liabilities, signed contract with ZH | • PA's internal approval of RPD, in order to proceed with informal and formal creditor meetings<br>• PA Auction Center approval of Privatization Program<br>• Registry into Valjevo Commercial Court has to take place<br>• Registry in R Serbia Land Survey Institute | Auction in 2004 | |
| 4 | Plant Protection<br>HC ownership: 30% | • Company is ready for sale<br>• Agreements with private creditors Monsanto and working with BRA for Sabacka Banka approval<br>• Creditor claim process, database and verification are finished.<br>• RPD prepared and approved by Company<br>• Privatization Program prepared<br>• Division of assets/ liabilities, signed | • PA's internal approval of RPD, in order to proceed with informal and formal creditor meetings<br>• PA Auction Center approval of Privatization Program<br>• Registry in R Serbia Land Survey Institute | Auction in 2004 | |

| | Name of Company | Current Status | Pending Items | Projected Date of Auction or Other Resolution Alternative | Comments |
|---|---|---|---|---|---|
| | | contract with ZH<br>• Company made new registration in Valjevo Commercial Court | | | |
| 5 | Blown Packaging<br>HC ownership: 30% | • Company is ready for sale<br>• Creditor claim process and database are finished.<br>• RPD prepared and approved by Company<br>• Privatization Program prepared<br>• Division of assets/ liabilities, signed contract with ZH | • PA's internal approval of RPD, in order to proceed with informal and formal creditor meetings<br>• PA Auction Center approval of Privatization Program<br>• Registry into Valjevo Commercial Court has to take place<br>• Registry in R Serbia Land Survey Institute | Auction in 2004 | |
| [redacted] | | | | | |
| 6 | Extruded Packaging<br>HC ownership: 30% | • Diagnostic (Phase 1) completed.<br>• Claims are gathered, database is in progress.<br>• RPD prepared and approved by Company<br>• Privatization Program prepared<br>• Company made new registration in Valjevo Commercial Court | • PA's internal approval of RPD, in order to proceed with informal and formal creditor meetings<br>• PA Auction Center approval of Privatization Program<br>• Above mentioned division of assets/ liabilities, and registry into Valjevo Commercial Court has to take place<br>• Registry in R Serbia Land Survey Institute<br>• Informal and formal creditor meetings and PA's RPD approval | Auction in 2004 | |
| 7 | NAP 2000<br>HC ownership: 30% | • Diagnostic (Phase 1) completed.<br>• Claims are gathered, database is in progress<br>• Restructuring Strategy Document prepared and delivered to Company for approval | • Once Restructuring Strategy Document is approved by Company and PA, prepare RPD for Company and PA's approval<br>• Informal and formal creditor meetings<br>• Above mentioned division of assets/ liabilities, and registry into Valjevo Commercial Court has to take place | Auction in 2004 | Potential local buyer interested in Hydrochloric Acid and NAP 2000 as a package |
| 8 | Hydrochloric Acid<br>HC ownership 30% | • Diagnostic (Phase 1) completed.<br>• Claims are gathered, database is in progress<br>• Restructuring Strategy Document prepared and delivered to Company for approval | • Once Restructuring Strategy Document is approved by Company and PA, prepare RPD for Company and PA's approval<br>• Informal and formal creditor meetings<br>• Above mentioned division of assets/ | Auction in 2004 | Potential buyer interested in Hydrochloric Acid and NAP 2000 as a package |



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| | Name of Company | Current Status | Pending Items | Projected Date of Auction or Other Resolution Alternative | Comments |
|---|---|---|---|---|---|
| | | | liabilities, and registry into Valjevo Commercial Court has to take place | | |
| 9 | Polyplast<br>HC ownership: 30% | • Diagnostic (Phase 1) completed<br>• Creditor claim process and database are finished. The verification of claims is in progress.<br>• RPD prepared and approved by Company<br>• Privatization Program prepared | • PA's internal approval of RPD, in order to proceed with informal and formal creditor meetings<br>• PA Auction Center approval of Privatization Program<br>• Above mentioned division of assets/ liabilities, and registry into Valjevo Commercial Court has to take place | Auction in 2004 | |
| 10 | Plastic<br>HC ownership: 30% | • Diagnostic (Phase 1) completed<br>• Claims are gathered, database is in progress<br>• RPD prepared and approved by Company<br>• Privatization Program preparation in process | • PA's internal approval of RPD, in order to proceed with informal and formal creditor meetings<br>• PA Auction Center approval of Privatization Program<br>• Above mentioned division of assets/ liabilities, and registry into Valjevo Commercial Court has to take place<br>• Informal and formal creditor meetings, and PA's RPD approval | Auction in 2004 | |
| [redacted] | | | | | |
| 11 | Non Ferrous Metals<br>HC ownership 30% | • Government finalizing with Binani Group to lease Non Ferrous Metals for 18 months. This strategy affects the restructuring of Mineral Fertilizers, Energy and Transport.<br>• Resolution Strategy Document delivered to PA<br>• Final signing of lease contract with Binani Group (MD Serbian NEWCO and MD International) | • BearingPoint activity ceased due to lease | Alternative resolution Accomplished: Lease for 3 years - with expected privatization thereafter | • The lease requires that Non Ferrous Metals, Mineral Fertilizers, Energy and Transport remain in restructuring program for 3 years, with privatization thereafter. |
| 12 | Mineral Fertilizers<br>HC ownership<br>49.27% | • Diagnostic (Phase 1) completed<br>• Claims are gathered, database is in progress<br>• Resolution Strategy Document | • Bearing Point ceased activity due to leasing strategy adopted by PA | Alternative resolution Accomplished: Lease for 3 years - with expected | • Per Lease Contract of Non Ferrous Metals, Mineral Fertilizers will remain under restructuring for 3 years, with a possibility for privatization |

| | Name of Company | Current Status | Pending Items | Projected Date of Auction or Other Resolution Alternative | Comments |
|---|---|---|---|---|---|
| | | delivered to PA<br>• Leasing approved by PA<br>• Final signing of lease contract with PharmaCom | | privatization thereafter | afterwards |
| 13 | Energy<br>HC ownership: 100% | • Diagnostic (Phase 1) completed.<br>• Creditor claim process and database are finished. The verification of claims is in progress.<br>• Resolution Strategy Document delivered to PA | • Bearing Point ceased activity due to leasing terms of Non-Ferrous Metals and Mineral Fertilizer | Alternative resolution Accomplished: Lease for 3 years - with expected privatization thereafter | • Per Lease Contract of Non Ferrous Metals, Energy will remain under restructuring for 3 years, with a possibility for privatization afterwards<br>• Energy supplies energy to all Zorka and companies outside of Zorka system.<br>• Assets pledged to secure investments of lessee of Non Ferrous Metals |
| 14 | Transport<br>HC ownership: 100% | • Diagnostic (Phase 1) completed.<br>• Claims are gathered, database is in progress<br>• Resolution Strategy Document delivered to PA | • BearingPoint ceased activitiy due to leasing terms of Non-Ferrous Metals and Mineral Fertilizer | Alternative resolution Accomplished: Lease for 3 years - with expected privatization thereafter | • Per Lease Contract of Non Ferrous Metals, Energy will remain under restructuring for 3 years, with a possibility for privatization afterwards<br>• Transport controls rail and port facilities that are required to operate Non Ferrous Metals<br>• Assets pledged to secure investments of lessee of Non Ferrous Metals |
| 15 | Trade<br>HC ownership: 100% | • Diagnostic (Phase 1) completed<br>• Claims are gathered, database is in progress. | • PA to adopt restructuring/ privatization strategy | 2004: No auction – alternative resolution method | • The company has no production. |
| 16 | Apartment:<br>Joint and undivided capital of all shareholders (Zorka Holding, Non Metals, Thermoplast, Polyplast, Paints and Pharma) | • Diagnostic (Phase 1) completed<br>• Claims are gathered, database is in progress. | • PA to adopt restructuring/privatization strategy | 2004: No auction – alternative resolution method | • The company has no production/ |



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| | Name of Company | Current Status | Pending Items | Projected Date of Auction or Other Resolution Alternative | Comments |
|---|---|---|---|---|---|
| 17 | Research Center<br>HC ownership:<br>100% | • Diagnostic (Phase 1) completed<br>• Claims are gathered, database is in progress.<br>• Negotiations with HC, Zorka Pharma & Sabac related to the merger/sale of RC to Zorka Pharma | • PA to adopt restructuring/ privatization strategy | 2004: Depending on the Municipality's negotiations with Zorka Pharma | • Sabac Municipality is taking the lead |
| [redacted] | | | | | |
| 18 | DIR<br>HC ownership<br>100% | • Claims are gathered, database is in progress | • PA to adopt restructuring/ privatization strategy | 2004: No auction – alternative disposition method (transfer to US Steel?) | • Potential merger with another organization (US Steel) for handicapped workers |
| 19 | Social Standard<br>HC ownership<br>100% | • Sabac Municipality is in negotiations with HC on the take over of pool and athletic fields for tax forgiveness.<br>• Claims are gathered, database is in progress | • Government of Serbia's decision to approve a request by Municipality of Sabac to take-over the company<br>• PA to adopt restructuring/ privatization strategy | 2004: No auction – alternative disposition method (transfer of assets to Municipality?) | • Sabac Municipality is taking the lead and will coordinate with the PA |
| 20 | Security<br>HC ownership:<br>100% | • Claims are gathered, database is in progress<br>• Diagnostic (Phase 1) completed<br>• Municipality is leading discussions with Zorka Pharma, Paints and other businesses to take over company | • Same as for Social Standard | 2004: No auction – alternative disposition method (sale to local companies in Sabac or transfer to Municipality of Sabac?) | • Sabac Municipality is taking the lead and will coordinate with the PA |
| 21 | Economic and Legal<br>HC ownership<br>100% | • Claims are gathered, database is in progress | • PA to adopt restructuring/ privatization strategy | 2004: No auction – alternative disposition method | • Potential merger with Holding Company as all financial and legal records are held by company and it has no production or service that can be privatized |

Responsibility for all Zorka Companies was transferred from Bearing Point to the firm of Stanisic Audit, D.O.O, effective December 2003 in order to focus remaining resources on the textile firms during the last few months of the project. This was done with the concurrence of USAID and at the request of the PA.

| | Name of Company | Current Status | Pending Items | Projected Date of Auction of Other Resolution Alternative | Comments |
|---|---|---|---|---|---|
| 1 | **Prvi Maj** | • Diagnostic (Phase 1) completed<br>• Informal Creditor claims process completed<br>• Company marketing profile prepared<br>• Valuation completed<br>• Formally entered restructuring process, March 6, 2003<br>• Incorporation under 1996 Enterprise Law<br>• RPD drafted and delivered to Company for approval<br>• Potential buyer identified for structured clothing<br>• PA Approval of Restructuring Strategy Memorandum—whole company sold as groups of assets | • Company's approval of RPD<br>• PA facilitates negotiations with key government creditors (Ministry of Finance, Development Fund, Pension Fund etc.)<br>• Informal and formal creditors meetings<br>• Resolution of potential litigation by Pirotska Banka if were to challenge the rejection of its claim—BRA should be involved in this.<br>• Final claims to be verified.<br>• Survey and formal division of production facility property, including any necessary easements, if Structured Clothing is to be sold separately from Knitware. | Late 2004 | • When Company initiates asset sales, it determines the sale starting price and organizes sales procedure. PA approval is still required.<br>• Two key assets will be offered for sale: structured clothing and individual retail stores.<br>• Other assets could be sold if procedure adopted to transfer funds to PA account for distribution to creditors. |
| 2 | **DP Kluz** | • Diagnostic (Phase 1) Completed<br>• Valuation completed | • Continued monitoring of bankruptcy status. | 2004: No auction – bankruptcy | • DP Kluz attempted to spin-off 7 subsidiaries and transfer its assets to them in 1998, and is in pre-bankruptcy procedure |
| 3 | **Kluz--Kozara** | • Diagnostic (Phase 1) completed<br>• Informal Creditor claims process completed in February 2003<br>• Company marketing profile done<br>• Strategy Approval Memorandum delivered to PA | • Land Cadastre Registry<br>• Informal and formal creditors meetings<br>• RPD preparation for Company, PA and creditors approval<br>• PA's to adopt restructuring/ privatization strategy<br>• Kluz companies must finalize division of assets in mutual agreement—required for Land Book inscription | Second half of 2004 | • Company must be inscribed in Land Books before privatization can take place. PA must pressure the company to expedite this process. |
| 4 | **Kluz—Padobrani** | • Diagnostic (Phase 1) completed<br>• Informal Creditor claims process completed in February 2003<br>• Company marketing profile done | • Land Cadastre Registry<br>• Informal and formal creditors meetings<br>• RPD preparation for Company, PA and creditors approval | Second half of 2004 | • Company must be inscribed in Land Books before privatization can take place. PA must pressure the company to expedite this process. |

| | Name of Company | Current Status | Pending Items | Projected Date of Auction of Other Resolution Alternative | Comments |
|---|---|---|---|---|---|
| | | | • PA's to adopt restructuring/ privatization strategy<br>• Kluz companies must finalize division of assets in mutual agreement—required for Land Book inscription | | |
| 5 | **Kluz Trgovacka Mreza** | • Diagnostic (Phase 1) completed<br>• Informal Creditor claims process completed February 2003<br>• Company marketing profile done | • Land Cadastre Registry<br>• Informal and formal creditors meetings<br>• RPD preparation for Company, PA and creditors approval<br>• PA to adopt restructuring/ privatization strategy<br>• Kluz companies must finalize division of assets in mutual agreement—required for Land Book inscription | Second half of 2004 | • Company must be inscribed in Land Books before privatization can take place. PA must pressure the company to expedite this process. |
| 6 | **Kluz-Tisa** | • Analysis of key legal and financial information, including creditors composition<br>• Marketing profiles done and preliminary marketing activities<br>• Valuation report<br>• BearingPoint recommendation to PA to approve an auction of the Company 'as is' | • None | July 2004 | • Auction date scheduled for July 5, 2004. |
| 7 | **Kluz-Srem** | • Analysis of key legal and financial information, including creditors composition<br>• Marketing profiles done and preliminary marketing activities<br>• Valuation report<br>• BearingPoint recommendation to PA to approve an auction of the Company 'as is'<br>• Privatization Program complete | • None | July 2004 | • Auction date scheduled for July 5, 2004. |
| 8 | **Kluz-Plitvice** | • Analysis of key legal and financial information, including creditors | • None | July 2004 | • Auction date scheduled for July 5, 2004. |



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| | Name of Company | Current Status | Pending Items | Projected Date of Auction of Other Resolution Alternative | Comments |
|---|---|---|---|---|---|
| | | composition<br>• Marketing profiles done and preliminary marketing activities<br>• Valuation report<br>• BearingPoint recommendation to PA to approve an auction of the Company 'as is' | | | |
| 9 | **Kluz-Grocka** | • Analysis of key legal and financial information, including creditors composition<br>• Preliminary marketing activity<br>• Valuation report<br>• Privatization Program preparation<br>• BearingPoint recommendation to PA to approve an auction of the Company 'as is' | • Land Cadastre Registry<br>• Company must obtain list of immovable property from Republic Geodetic Office to enter auction program | Second half of 2004 | • Company must be inscribed in Land Books before privatization can take place. PA must pressure the company to expedite this process. |
| 10 | **Leteks** | • Diagnostic (Phase 1) completed<br>• Formal Creditor claims process completed January 22, 2004<br>• Company marketing profile completed<br>• Valuations completed<br>• BP recommended strategy in February 2003<br>• RPD drafted<br>• land Survey Registry<br>• Identification/ confirmation by the Company of all assets under lien<br>• Restructuring Program drafted | • Share Capital registration into Court Registry<br>• Company provides an updated review of the court/ arbitration proceedings<br>• Opinion of an expert on environmental liabilities<br>• Informal and formal creditor meetings<br>• Approval of RPD by Company and PA<br>• Preparation of Privatization Program | • Asset Sales in mid 2004<br>• Remaining plant resolution in late 2004 | • The Kosta Stamenkovic and Crvena Zvezda plants can be privatized as asset sales (there are some interested buyers) and a Villa in Sijarinska banja<br>• After asset sales the plant in Leskovac could be sold into restructuring and sold at auction<br>• Interested buyer (Prime Wool Export Pty Ltd, Australia) for Crvena Zvezda plant . |
| 11 | **IOB** | • IOB exited compulsory composition on 1/22/2003<br>• Diagnostic (Phase 1) completed<br>• Valuations completed<br>• Creditor claim process completed<br>• BearingPoint delivered in July 2003 to PA a Strategy Approval Memo recommending privatization 'as is' | • Privatization Program preparation<br>• Land of Zemun plant is state owned, PA must coordinate with Republic Office of Property to obtain approval for sale | Late 2004 | • Compulsory Composition Plan, approved by creditors, calls for a 2-year grace period with principal and interest payments due quarterly in year three |

| | Name of Company | Current Status | Pending Items | Projected Date of Auction of Other Resolution Alternative | Comments |
|---|---|---|---|---|---|
| | | • BearingPoint delivered in August form for Privatization Program<br>• Land Survey Registry<br>• Final Court Decision of compulsory composition (IOB needs to submit)<br>• PA initiated formal privatization procedure | | | |
| 12 | **Kostana HC**<br>• **Fos**<br>• **Kosport**<br>• **Kolibri**<br>• **Ko-Bel**<br>• **Kostana Promet** | • Diagnostic (Phase 1) completed<br>• For all Kostana Companies Creditor claim process under process<br>• Valuations completed<br>• In April, BearingPoint recommended bankruptcy to creditors or sale 'as is'.<br>• Creditors recommended bankruptcy | • Bankruptcy actions by creditors | No sale (bankruptcy) | • Secured creditors are not willing to support restructuring program, and have requested bankruptcy of a company.<br>• Management of the company accepted bankruptcy |
| 13 | **BVK** | • Diagnostic (Phase 1) partially complete (technical/ marketing report)<br>• Company marketing profile completed<br>• Valuations completed<br>• PA initiated restructuring procedure to allow creditors to file claims | • Further legal and financial analysis necessary before developing final recommended strategy | Uncertain | • All necessary documents have not been submitted by the company<br>• Considering the current circumstances, it is not possible to predict the method of restructuring and sale of the company |
| 14 | **Rudnik** | • Diagnostic (Phase 1) completed<br>• Company marketing profile completed<br>• Creditor claim process started but stopped due to lack of employees<br>• Still awaiting financial information from Company<br>• Valuations completed but questionable | • PA to determine further actions after discussions with the Development Fund, which recently discussed a proposed Debt/Equity swap. | Bankruptcy most likely resolution method despite on-going discussions with the Development Fund | • There are no departments that can provide relevant information (the enterprise has not been working for 2 years). The Managing Director is the only operation that is functioning.<br>• It is difficult to carry out restructuring or the creditor claims process in such circumstances |



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**KPMG Consulting**
***Barents Group***

Memorandum to: Vladimir Cupic
Acting Director
Agency for Privatization

Ivan Lujanovic
Restructuring Director
Agency for Privatization

From: J Hambric
Director
Barents Group of KPMG Consulting

Date: November 9, 2001

Subject: Draft Work Plan

Under the terms of our contract, "within 60 days of the contract award (September 25, 2001), Barents Group of KPMG Consulting (Barents), in conjunction with the Ministry of Economy and Privatization (MEP), the Privatization Agency (PA) and USAID, in consideration of ongoing efforts at the National Bank of Yugoslavia (NBY) and the Bank Rehabilitation Agency (BRA), will prepare a work plan for the first year".

We are required to prepare and submit a work plan to USAID on or before November 25th, 2001 outlining activities for the first year of our contract. This work plan should prioritize our activities for the first year of the contract and should include timelines for completion of identified activities. The approved work plan is the basis for USAID's support and deployment of our budgeted resources.

Due to the start-up status of the PA, which is still in the process of determining the restructuring and privatization strategy and defining the role of various donor organizations in this process, we have encountered challenges when forecasting the work plan in detail for the next year of our project. Instead, we are proposing that the work plan is developed for the initial period of up to six months only, when the overall strategy of privatization is better defined. At that time, the additional steps covering the remaining period of the project can therefore be presented.

In this context, our Work Plan consist of the following (see the table for details):

- Phase I: Project Start-up Period (from September 25, 2001 until November 31, 2001)
- Phase II: Strategy Definition Period (December 1, 2001 until May 31, 2002)
- Phase III: Privatization and Restructuring Implementation Period (June 1, 2002 until August 31, 2003)

| Task | Task Order Activity | Work Plan Period | Work Plan Activity |
|---|---|---|---|
| Task 1 | **Assistance to the Ministry of Economy and Privatization** | | |
| 1.1 | Assist to implement newly ratified legislation and regulations affecting privatization, resolution and financial restructuring of non-performing debt to commercial banks and other creditors | • Phase II and Phase III | • Barents will assist in the implementation of newly ratified legislation and regulation upon completion of Task 1.9. |
| 1.2 | Review and analyze existing privatization policies and procedures, make recommendations for improvements, and ensure they comply with other existing legislation | • Phase I and Phase II | • Barents will draw on experience from other privatization programs in order to suggest effective policies and procedures in the privatization process, taking into account the Yugoslav context. |
| 1.3 | Review tender rules and draft and/or strengthen rules and other tender documents (pro-forma contracts, share purchase agreements, etc.) | • Phase I and Phase II | • World Bank consultants are currently reviewing the tender rules and documents, and making recommendations to strengthen rules and procedures governing the tender process. Barents will work with the WB consultants, and, if necessary, provide inputs in coordination with the WB, PA and MEP.<br>• Barents will work with MEP to strengthen rules and procedures governing the auction process. |
| 1.4 | Review and analyze on-going efforts with specific companies to ensure compliance with procedures and recommend alternatives for marketing, contract negotiations, and the solution of specific problems | • Phase II and Phase III | • On a need-be basis, Barents will provide advice to the MEP regarding implementation of restructuring and privatization plans at specific companies, in cases where advisory services are not already provided by other consultants. |
| 1.5 | Assist to coordinate privatization and restructuring efforts with other relevant government entities and agencies | • Phase I | • Barents will assist in coordinating privatization and restructuring efforts between the MEP, PA, NBY, BRA and Ministry of Finance.<br>• Barents is drafting of MOU between the PA and BRA that will govern the issue of non-performing debts of the BRA banks.<br>• Facilitating discussions with Ministry of Finance regarding public debt of enterprises. |
| | | • Phase II and Phase III | • Barents will work to facilitate signature of the MOU between the PA and BRA<br>• Barents will work to facilitate an agreement with Ministry of Finance regarding public debt treatment |

| Task | Task Order Activity | Work Plan Period | Work Plan Activity |
|---|---|---|---|
| | | | • Continuous coordination between the agencies. |
| 1.6 | Review strategies and procedures and coordinate with donors, government agencies, and investment advisors on specific companies | • Phase I | • Coordination with other donor agencies, including DFID, EAR, WB, EBRD, and assisting in integration of all donor agencies into the overall privatization and restructuring strategy |
| | | • Phase II and III | • Continuous coordination between the donor agencies. |
| 1.7 | Participate in and advise on negotiation strategies and ensure the government's interests are protected | • Phase II and Phase III | • Participation in and advice on negotiation strategies will primarily be services provided by investment banks hired to serve as financial advisors to the MEP/PA on privatization transactions. Barents will provide overall strategy advice on an as-needed basis in areas not already covered by financial advisors. |
| 1.8 | Review and improve information packages provided to potential acquirers so as to maximize their use as marketing tools | • Phase II and Phase III | • Information packages will be developed by the MEP/PA's financial advisors. Barents will provide advice on an as-needed basis in reviewing content of information packages. |
| 1.9 | Assist in reviewing existing legislation and in preparing relevant regulations that impact privatization and restructuring procedures; make recommendations for improvements to significantly enhance the competitiveness and transparency of procedures | • Phase I<br>• Phase II | • Barents is currently drafting the Regulation on Restructuring<br>• Evaluate implementation of the Privatization Law and regulations, focusing on obstacles and inefficiencies that have arisen during the implementation process, including issues raised by related legislation (e.g. Law on Enterprises, Bankruptcy Law). Analysis of related legislation to be coordinated with other USAID providers.<br>• Develop suggestions for revisions to these laws and regulations |
| 1.10 | Organize and implement training seminars in relevant technical skill areas | • Phase II and Phase III | • Training to be provided for the MEP staff on the mutually agreed areas, such as valuation, financial statement analysis, privatization methodology, management of the tender process. |
| **Task 2** | **Assistance to the Privatization Agency** | | |
| 2.1 | Analyze/review the portfolio of target companies on the restructuring list; develop overall and sector strategies including priorities and timeframes | • Phase I | • Barents will assist the PA in preparing the terms of reference for Viability Studies and Restructuring Implementation Plans of enterprises to be restructured prior to privatization. Terms of reference will be used to engage consultants funded by donor agencies to perform Viability Studies and Restructuring Implementation Plans for the 28 enterprises designated for pre-privatization restructuring. |

| Task | Task Order Activity | Work Plan Period | Work Plan Activity |
|---|---|---|---|
| | | • Phase II | • Barents will undertake the preparation of a Viability Study and Restructuring Implementation Plan at a Pilot Enterprise Zorka Holding to identify obstacles in the existing privatization policies and procedures.<br>• Based on work undertaken on Zorka Holding, Barents will make recommendations regarding overall strategy for the PA in dealing with preparation of large enterprises for privatization. |
| 2.2 | Examine each of the 28 target companies on the restructuring list and recommend restructuring strategies for each | • Phase I | • Launch a Pilot Project at Zorka Holding Company, to identify the creditors and relevant legal issues.<br>• Develop financial statement templates, using the international accounting standards and taking into account country-specific Yugoslav characteristics. |
| | | • Phase II | • Assist the PA in review and improving restructuring strategies for the 28 target enterprises, based on, *inter alia*, the results of the Pilot Project and above-mentioned Viability Study. |
| 2.3 | Assist in coordinating resolution of bad debt with the BRA, NBY, and other creditors for all 28 enterprises | • Phase II | • Coordinate the bad debt resolution process among the BRA, NBY and the PA on the basis of the above mentioned MOU between the BRA and the PA.<br>• Coordinate the issue of public debt based on the (above mentioned) reached agreement between the Ministry of Finance and the PA.<br>• Providing advice on the bad debt resolution process to specific enterprises undergoing restructuring process during the Phase II |
| | | • Phase III | • Continue with providing advice on the bad debt resolution process to specific enterprises undergoing restructuring process |
| 2.4 | Oversee implementation of restructuring plans, including the preparation of legal and financial documents necessary for sale or liquidation of companies or assets | • Phase II and Phase III | • Provided that the legislation in force allows, Barents will implement the restructuring plan for a pilot project in Zorka Holding.<br>• Based on this experience, Barents will assist the PA in overseeing the implementation of restructuring plans for other enterprises assigned to the PA. |
| 2.5 | Coordinate and monitor investor due diligence | • Phase II and Phase III | • This task will be carried out by the investment banks, functioning as financial advisors to the PA. Barents will provide advice on a need be basis, as requested by the PA. |

| Task | Task Order Activity | Work Plan Period | Work Plan Activity |
|---|---|---|---|
| 2.6 | Assist potential acquirers in addressing specific issues related to due diligence, bid procedures, and contract terms | • Phase II and Phase III | • This task will be carried out by the investment banks, functioning as financial advisors to the PA. Barents will provide advice on a need-be basis, as requested by the PA. |
| 2.7 | Assist the PA to evaluate offers | • Phase II and Phase III | • This task will be carried out by the investment banks, functioning as financial advisors to the PA. Barents will provide advice on a need-be basis, as requested by the PA. |
| 2.8 | Assist the PA in negotiations with potential acquirers and/or preferred bidders | • Phase II and Phase III | • This task will be carried out by the investment banks, functioning as financial advisors to the PA. Barents will provide advice on a need-be basis, as requested by the PA. |
| 2.9 | Assist the PA in coordinating closing procedures, establishing escrow accounts, and negotiating terms and conditions in escrow agreement | • Phase II and Phase III | • This task will be carried out by the investment banks, functioning as financial advisors to the PA. Barents will provide advice on a need-be basis, as requested by the PA. |
| 2.10 | Oversee receivers, trustees, or liquidators when appropriate | • Phase II and Phase III | • Barents will assist the PA oversee receivers, trustees, or liquidators on a need-be basis. |
| 2.11 | Organize and implement training seminars in relevant technical skill areas. | • Phase II and Phase III | • Provide on-site and classroom-type training to the current and newly hired staff on the mutually agreed areas, such as valuation, financial analysis, privatization methodology, enterprise restructuring, tender management process. |
| Task 3 | **Public Relations and Communications Strategy Technical Assistance to the Ministry of Economy and Privatization and the Privatization Agency** | | |
| 3.1 | Assist to develop and implement a communications strategy for the general public involving clear, coherent and comprehensible messages. | • Phase I | • Under a separate USAID contract, Barents' PR Advisor is working at the Ministry of Economy and Privatization to develop an overall PR strategy. |
| 3.2 | Assist to develop and implement media tactics to enhance a comprehensive media campaign | • Phase II and Phase III | • Provide training for the MEP and PA press staff. Work with the PA Director, Minister of MEP and relevant staff to develop messages for privatization effort for both domestic and international audiences. Develop the best tactics to use under budget constraints to best carry out communications campaign. |
| 3.3 | Assist to develop the tools necessary to conduct | • Phase II and | • Work with press staff to design and interpret public opinion research that measures |

| Task | Task Order Activity | Work Plan Period | Work Plan Activity |
|---|---|---|---|
| | research and analysis to measure public opinion and test messages | Phase III | public support for privatization as well as continuous message testing. |
| 3.4 | Prepare materials for print, radio and TV media to communicate the government's privatization and restructuring strategy and the rationale for it | • Phase II and Phase III | • Develop new brochures, booklets, ad concepts for all media, and develop tactical delivery systems such as events, TV, radio and print to disseminate information. |
| 3.5 | Coordinate the Ministry and PA's messages with those being communicated by other government agencies (i.e., NBY, BRA, Ministry of Finance) | • Phase I | • Under a separate USAID contract, Barents' PR Advisor started to coordinate the PR messages of the MEP and PA with the ones of NBY and BRA. |
| | | • Phase II and III | • Continuous coordination with the government agencies. |

**Notes:**

Phase I Project Start-up Period (from September 25, 2001 until November 31, 2001)
Phase II Strategy Definition Period (December 1, 2001 until May 31, 2002)
Phase III Privatization and Restructuring Implementation Period (June 1, 2002 until August 31, 2003)

* **Viability Study Process** includes:

- Due diligence/Diagnostic:
  - Operational
  - Financial
  - Legal
- Valuation: Asset Valuation of the enterprise 'As is'
- Restructuring Plan – Identification of Saleable Business Units:
  - Debt and asset reallocation
  - Employment rightsizing
  - Legal action plan for implementation of enterprise restructuring

**Evaluation of Progress Toward Tangible Results and Benchmarks**

Below we provide an evaluation of progress toward tangible results:

1. All restructuring plans for Zorka Group companies will be completed.

As of September 30, 2003, BearingPoint has completed the Restructuring Program Documents (RPD) for those companies of Zorka Group with the most likely privatization potential:

- Zorka Holding Company – Formal Restructuring Completed Sept. 15, 2003
- Thermoplast (in addition, Privatization Program prepared)
- Plant Protection (in addition, Privatization Program prepared)
- Blown Packaging (in addition, Privatization Program prepared)
- Extruded Packaging (in addition, Privatization Program prepared)
- Polyplast (in addition, Privatization Program prepared)
- Plastic (Privatization Program preparation in process)
- NAP 2000 (Restructuring Strategy Document)
- Hydrocloric Acid (Restructuring Strategy Document)

The following Zorka Group companies do not require RPD preparation:

- Non-Metals: This company does not require restructuring and can enter directly into privatization. Privatization Program prepared.
- Non-Ferrous Metals: This company has been resolved (leasing for three years). No further BearingPoint activity required for the duration of the project.
- Mineral Fertilizers: This company has been resolved (leasing for three years). No further BearingPoint activity required for the duration of the project.
- Energy: This company will remain in restructuring for the duration of three years based on a leasing contract of Non-Ferrous Metals. No further BearingPoint activity required for the duration of the project.
- Transport: This company will remain in restructuring for the duration of three years based on a leasing contract of Non-Ferrous Metals. No further BearingPoint activity required for the duration of the project.
- Trade, Apartment, Research Center, DIR, Social Standard, Security, Economic and Legal Ownership: These companies have no production capacity, and their resolution option is being coordinated by the Municipality of Sabac. The resolution primarily involves transfer of assets to Municipality or local businesses, with creditors receiving zero proceeds from such transactions. BearingPoint will prepare Exit Memo with recommendations for an alternative restructuring options for these companies.

2. At least ten (10) Zorka Group companies will be auctioned, and remaining companies will be recommended for alternative solutions.

Of the above listed companies, only 6 companies have the largest potential of being auctioned, pending the resolution of legal issues, and creditors and PA approvals of the RPDs. We estimate this process will continue throughout late 2003, with initial auctions

potentially scheduled in late 2003/ early 2004. Our priorities will be devoted to Non-Metals (auction scheduled for December 17, 2003), Plant Protection, Blown Packaging, Thermoplast, Plastics, and Extruded Packaging. These five subsidiaries are believed to be the most likely companies to be sold given the expected level of investor interest and simplicity of asset/company/creditor related issues compared to other subsidiaries.

3. All restructuring plans of textile companies (mentioned above) will be completed.

As of September 30, 2003, BearingPoint completed RPDs for Prvi Maj Pirot and Leteks which have the most likely privatization potential. Restructuring Strategies were prepared for those Kluz subsidiaries that will enter restructuring process. No formal restructuring program is required for four (out of seven) Kluz subsidiaries, nor for IOB. For Kostana, BearingPoint delivered a Strategy Recommendation Memo, recommending the PA to initiate a bankruptcy proceeding, at the secured creditors' request. Based on none to limited cooperation from BVK and Rudnik, the PA requested no additional resources are spent on these two companies.

4. All Independent Business Units of textile companies will be auctioned where feasible. In all other cases an alternative asset disposition strategy will be implemented.

Sales of IBUs are estimated to start during Fall of 2003 and ongoing for the following companies:

- Prvi Maj Pirot
- Leteks
- IOB
- Kluz (4 subsidiaries).

5. The restructuring and privatization capacity of the Privatization Agency will be strengthened in all aspects of its activity: restructuring plan preparation, creditors negotiations, marketing, auctions etc.

The restructuring and privatization capacity was further strengthened as a direct result of project activity: BearingPoint made detailed recommendations to PA on the creditor meeting/ negotiation process; delivered restructuring documents that are being utilized as a template by the PA staff and other consultants; developed marketing lists and prepared procedures for setting up of data rooms (buyers) due diligence process; and assisted with preparation of privatization programs. Additional recommendations were made to revise restructuring degree in order to make the restructuring process more efficient.

**Status of Textile Companies as of September 30, 2003**

| | Name of Company | Current Status | Pending Items | Projected Date of Auction of Other Resolution Alternative | Comments |
|---|---|---|---|---|---|
| 1 | **Prvi Maj** | • Diagnostic (Phase 1) completed<br>• Informal Creditor claims process completed<br>• Company marketing profile prepared<br>• Valuation completed<br>• Formally entered restructuring process, March 6, 2003<br>• Incorporation under 1996 Enterprise Law<br>• RPD drafted and delivered to Company for approval<br>• Potential buyer identified for structured clothing<br>• PA Approval of Restructuring Strategy Memorandum—whole company sold as groups of assets | • Company's approval of RPD<br>• PA facilitates negotiations with key government creditors (Ministry of Finance, Development Fund, Pension Fund etc.)<br>• Informal and formal creditors meetings<br>• Resolution of potential lien of Pirotska Banka on production halls of Company—it is crucial that BRA is involved | Early 2004 for all Assets | • When Company initiates asset sales, it determines the sale starting price and organizes sales procedure. PA approval is still required.<br>• Two key assets will be offered for sale: structured clothing and retail networks.<br>• If sale of structured clothing halls is delayed due to non-resolution of mortgage issue with Pirotska Banka, it is recommended that company initiate sales of other assets, i.e. retail stores |
| 2 | **DP Kluz** | • Diagnostic (Phase 1) Completed<br>• Valuation completed | • BearingPoint will develop an Exit Memo containing Company Status Description and Recommendations for PA's restructuring/ privatization activities | 2004: No auction – bankruptcy | • DP Kluz attempted to spin-off 7 subsidiaries and transfer its assets to them in 1998, and is in pre-bankruptcy procedure |
| 3 | **Kluz--Kozara** | • Diagnostic (Phase 1) completed<br>• Informal Creditor claims process completed in February 2003<br>• Company marketing profile done<br>• Strategy Approval Memorandum delivered to PA | • Land Cadastre Registry<br>• Informal and formal creditors meetings<br>• RPD preparation for Company, PA and creditors approval<br>• BearingPoint will develop an Exit Memo containing Company Status Description and Recommendations for PA's restructuring/ privatization activities | First half of 2004 | • Company needs to register in Land Books before privatization can take place. PA's support to expedite this process is required. |
| 4 | **Kluz—Padobrani** | • Diagnostic (Phase 1) completed<br>• Informal Creditor claims process completed in February 2003<br>• Company marketing profile done | • Land Cadastre Registry<br>• Informal and formal creditors meetings<br>• RPD preparation for Company, PA | First half of 2004 | • Company needs to register in Land Books before privatization can take place. PA's support to expedite this process is required. |



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| | Name of Company | Current Status | Pending Items | Projected Date of Auction of Other Resolution Alternative | Comments |
|---|---|---|---|---|---|
| | | | and creditors approval<br>• BearingPoint will develop an Exit Memo containing Company Status Description and Recommendations for PA's restructuring/ privatization activities | | |
| 5 | **Kluz Trgovacka Mreza** | • Diagnostic (Phase 1) completed<br>• Informal Creditor claims process completed February 2003<br>• Company marketing profile done | • Land Cadastre Registry<br>• Informal and formal creditors meetings<br>• RPD preparation for Company, PA and creditors approval<br>• BearingPoint will develop an Exit Memo containing Company Status Description and Recommendations for PA's restructuring/ privatization activities | First half of 2004 | • Company needs to register in Land Books before privatization can take place. PA's support to expedite this process is required. |
| 6 | **Kluz-Tisa** | • Analysis of key legal and financial information, including creditors composition<br>• Marketing profiles done and preliminary marketing activities<br>• Valuation report<br>• BearingPoint recommendation to PA to approve an auction of the Company 'as is' | • Privatization Program preparation. | Auction in late 2003 | • Company has not submitted key documents for completion of Privatization Program |
| 7 | **Kluz-Srem** | • Analysis of key legal and financial information, including creditors composition<br>• Marketing profiles done and preliminary marketing activities<br>• Valuation report<br>• BearingPoint recommendation to PA to approve an auction of the Company 'as is'<br>• Privatization Program complete | • PA initiative for auction | Auction in late 2003 | |
| 8 | **Kluz-Plitvice** | • Analysis of key legal and financial | • Privatization Program preparation | Auction in late 2003 | Company has not submitted key |

| | Name of Company | Current Status | Pending Items | Projected Date of Auction of Other Resolution Alternative | Comments |
|---|---|---|---|---|---|
| | | information, including creditors composition<br>• Marketing profiles done and preliminary marketing activities<br>• Valuation report<br>• BearingPoint recommendation to PA to approve an auction of the Company 'as is' | | | documents for completion of Privatization Program |
| 9 | **Kluz-Grocka** | • Analysis of key legal and financial information, including creditors composition<br>• Preliminary marketing activity<br>• Valuation report<br>• Privatization Program preparation | • BearingPoint recommendation to PA to approve an auction of the Company 'as is'<br>• Land Cadastre Registry | Auction in late 2003 | • Company needs to register in Land Books before privatization can take place. PA's support to expedite this process is required. |
| 10 | **Leteks** | • Diagnostic (Phase 1) completed<br>• Informal Creditor claims process completed February 2003<br>• Company marketing profile completed<br>• Valuations completed<br>• BP recommended Privatization/Restructuring in February 2003<br>• RPD drafted<br>• Land Survey Registry<br>• Identification/ confirmation by the Company of all assets under lien | • Completion of formal creditor claim process<br>• Share Capital registration into Court Registry<br>• Company provides an updated review of the court/ arbitration proceedings<br>• Opinion of an expert on environmental liabilities<br>• Informal and formal creditor meetings, approval of RPD by Company and PA<br>• Preparation of Privatization Program<br>• PA needs to initiate restructuring<br>• PA approval of Restructuring Strategy Memorandum still pending | • Asset Sales in late 2003/ early 2004<br>• Remaining plant resolution early 2004 | • Some parts of Leteks are nationalized and approval from the appropriate authorities is required for their sale<br>• The Kosta Stamenkovic and Crvena Zvezda plants can be privatized as asset sales (there are some interested buyers) and a Villa in Sijarinska banja<br>• After asset sales the plant in Leskovac could be sold into restructuring and sold at auction |
| 11 | **IOB** | • IOB exited compulsory composition on 1/22/2003<br>• Diagnostic (Phase 1) completed<br>• Valuations completed<br>• Creditor claim process completed | • Privatization Program preparation<br>• Registration of shares from previous privatization with Temporary Central Register<br>• Land of Zemun plant is state owned, | Auction late 2003 | • Compulsory Composition Plan, approved by creditors, calls for a 2-year grace period with principal and interest payments due quarterly in year three |



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| | Name of Company | Current Status | Pending Items | Projected Date of Auction of Other Resolution Alternative | Comments |
|---|---|---|---|---|---|
| | | • BearingPoint delivered in July 2003 to PA a Strategy Approval Memo recommending privatization 'as is'<br>• BearingPoint delivered in August form for Privatization Program<br>• Land Survey Registry<br>• Final Court Decision of compulsory composition (IOB needs to submit) | PA required to coordinate with Republic Office of Property to obtain approval for sale | | |
| 12 | **Kostana HC**<br>• **Fos**<br>• **Kosport**<br>• **Kolibri**<br>• **Ko-Bel**<br>• **Kostana Promet** | • Diagnostic (Phase 1) completed<br>• For all Kostana Companies Creditor claim process under process<br>• Valuations completed<br>• In April, BearingPoint recommended bankruptcy to creditors or sale 'as is'.<br>• Creditors recommended bankruptcy | • Based on valuation results, BearingPoint will develop an Exit Memo containing Company Status Description and Recommendations for PA's to initiate bankruptcy for the Company | By end of 2003/ early 2004: No auction – alternative disposition method (bankruptcy) | • Secured creditors are not willing to support restructuring program, and have requested bankruptcy of a company. |
| 13 | **BVK** | • Diagnostic (Phase 1) partially complete (technical/ marketing report)<br>• Company marketing profile completed<br>• Valuations completed | • Based on the valuation results, BearingPoint will prepare and Exit Memo with Status and Recommendations for Further PA Restructuring/ Privatization | Estimated resolution date in mid-2004, pending Company's cooperation | • Of all the requested documents, only balance sheets and income statements were submitted by the company<br>• Considering the current circumstances, it is not possible to predict the method of restructuring and sale of the company |
| 14 | **Rudnik** | • Diagnostic (Phase 1) completed<br>• Company marketing profile completed<br>• Creditor claim process started but stopped due to lack of employees<br>• Still awaiting financial information from Company<br>• Valuations completed | • Based on the valuation results, BearingPoint will prepare and Exit Memo with Status and Recommendations for Further PA Restructuring/ Privatization | Estimated resolution date in mid-2004, pending Company's cooperation | • There are no departments that can provide relevant information (the enterprise has not been working for 2 years). The Managing Director is the only operation that is functioning.<br>• It is difficult to carry out restructuring or the creditor claims process in such circumstances |

**Status of Textile Companies as of September 30, 2003**

| | Name of Company | Current Status | Pending Items | Projected Date of Auction or Other Resolution Alternative | Comments |
|---|---|---|---|---|---|
| 1 | Zorka Holding Company | • RPD adopted by Creditors, at the Formal Creditors Meeting<br>• PA officially approved RPD<br>• Sabacka bank signed contract with Zorka Holding based on Valjevo Court authorization<br>• Subsidiaries outside of Sabac signed Division contracts<br>• ZH GA approved transfer of property and capital to subsidiaries | • Subsidiaries in Sabac to sign Division contract based on pre-contracts<br>• Subsidiaries to register in Commercial Court of Valjevo<br>• Registration of the land ownership owned by subsidiaries | Dismantling – Final Transfer of Assets and Liabilities by Fall 2003. | Legal obstacles have to be resolved in order to enable subsidiaries to do proper land registration.<br>Water Management Authority of R of Serbia has "long standing right of use" and is the only entitled to give necessary consent for registration of the land ownership on respective parcels for both Non metals and Plant Protection. |
| | | | | | |
| 2 | Non -Metals<br>HC ownership: 26.03% | • Company is ready for sale<br>• Non Metals GA has approved the sale of HC's 26%<br>• Privatization Program prepared<br>• Auction scheduled for December 2003 | • Registry in R Serbia Land Survey Institute<br>• Decision by Ministry of Energy and Mining on usage of raw material | Auction scheduled for December 17th 2003. | No RPD required. |
| | | | | | |
| 3 | Thermoplast<br>HC ownership: 30% | • Company is ready for sale<br>• Creditor claim process, database and verification are finished<br>• RPD prepared and approved by Company<br>• Privatization Program prepared and approved by Company<br>• Division of assets/ liabilities, signed contract with ZH | • PA's internal approval of RPD, in order to proceed with informal and formal creditor meetings<br>• PA Auction Center approval of Privatization Program<br>• Registry into Valjevo Commercial Court has to take place (estimated October 2003)<br>• Registry in R Serbia Land Survey Institute | Auction by end 2003/ early 2004 | |

**Status of Textile Companies as of September 30, 2003**

| | Name of Company | Current Status | Pending Items | Projected Date of Auction or Other Resolution Alternative | Comments |
|---|---|---|---|---|---|
| 4 | Plant Protection<br>HC ownership: 30% | • Company is ready for sale<br>• Agreements with private creditors Monsanto and working with BRA for Sabacka Banka approval<br>• Creditor claim process, database and verification are finished.<br>• RPD prepared and approved by Company<br>• Privatization Program prepared<br>• Division of assets/ liabilities, signed contract with ZH<br>• Company made new registration in Valjevo Commercial Court | • PA's internal approval of RPD, in order to proceed with informal and formal creditor meetings<br>• PA Auction Center approval of Privatization Program<br>• Registry in R Serbia Land Survey Institute | Auction by end 2003/ early 2004 | |
| 5 | Blown Packaging<br>HC ownership: 30% | • Company is ready for sale<br>• Creditor claim process and database are finished.<br>• RPD prepared and approved by Company<br>• Privatization Program prepared<br>• Division of assets/ liabilities, signed contract with ZH | • PA's internal approval of RPD, in order to proceed with informal and formal creditor meetings<br>• PA Auction Center approval of Privatization Program<br>• Registry into Valjevo Commercial Court has to take place (estimated September 2003)<br>• Registry in R Serbia Land Survey Institute | Auction by end 2003/ early 2004 | |
| [redacted] | | | | | |
| 6 | Extruded Packaging<br>HC ownership: 30% | • Diagnostic (Phase 1) completed.<br>• Claims are gathered, database is in progress.<br>• RPD prepared and approved by Company<br>• Privatization Program prepared<br>• Company made new registration in Valjevo Commercial Court | • PA's internal approval of RPD, in order to proceed with informal and formal creditor meetings<br>• PA Auction Center approval of Privatization Program<br>• Above mentioned division of assets/ liabilities, and registry into Valjevo Commercial Court has to take place (estimated October 2003)<br>• Registry in R Serbia Land Survey Institute | Auction by end 2003/ early 2004 | |



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| | Name of Company | Current Status | Pending Items | Projected Date of Auction or Other Resolution Alternative | Comments |
|---|---|---|---|---|---|
| | | | • Informal and formal creditor meetings and PA's RPD approval | | |
| 7 | NAP 2000<br>HC ownership: 30% | • Diagnostic (Phase 1) completed.<br>• Claims are gathered, database is in progress<br>• Restructuring Strategy Document prepared and delivered to Company for approval | • Once Restructuring Strategy Document is approved by Company and PA, prepare RPD for Company and PA's approval<br>• Informal and formal creditor meetings<br>• Above mentioned division of assets/ liabilities, and registry into Valjevo Commercial Court has to take place (estimated October 2003) | Auction by end 2003/ early 2004 | Potential local buyer interested in Hydrochloric Acid and NAP 2000 as a package |
| 8 | Hydrochloric Acid<br>HC ownership 30% | • Diagnostic (Phase 1) completed.<br>• Claims are gathered, database is in progress<br>• Restructuring Strategy Document prepared and delivered to Company for approval | • Once Restructuring Strategy Document is approved by Company and PA, prepare RPD for Company and PA's approval<br>• Informal and formal creditor meetings<br>• Above mentioned division of assets/ liabilities, and registry into Valjevo Commercial Court has to take place (estimated October 2003) | Auction by end 2003/ early 2004 | Potential buyer interested in Hydrochloric Acid and NAP 2000 as a package |
| 9 | Polyplast<br>HC ownership: 30% | • Diagnostic (Phase 1) completed<br>• Creditor claim process and database are finished. The verification of claims is in progress.<br>• RPD prepared and approved by Company<br>• Privatization Program prepared | • PA's internal approval of RPD, in order to proceed with informal and formal creditor meetings<br>• PA Auction Center approval of Privatization Program<br>• Above mentioned division of assets/ liabilities, and registry into Valjevo Commercial Court has to take place (estimated October2003) | Auction by end 2003/ early 2004 | |
| 10 | Plastic<br>HC ownership: 30% | • Diagnostic (Phase 1) completed<br>• Claims are gathered, database is in progress<br>• RPD prepared and approved by Company<br>• Privatization Program preparation in | • PA's internal approval of RPD, in order to proceed with informal and formal creditor meetings<br>• PA Auction Center approval of Privatization Program<br>• Above mentioned division of assets/ | Auction by end 2003/ early 2004 | |

| | Name of Company | Current Status | Pending Items | Projected Date of Auction or Other Resolution Alternative | Comments |
|---|---|---|---|---|---|
| | | process | liabilities, and registry into Valjevo Commercial Court has to take place (estimated October 2003)<br>• Informal and formal creditor meetings, and PA's RPD approval | | |
| [redacted] | | | | | |
| 11 | Non Ferrous Metals<br>HC ownership 30% | • Government finalizing with Binani Group to lease Non Ferrous Metals for 18 months. This strategy affects the restructuring of Mineral Fertilizers, Energy and Transport.<br>• Resolution Strategy Document delivered to PA<br>• Final signing of lease contract with Binani Group (MD Serbian NEWCO and MD International) | • No further BearingPoint activity required/ expected | Alternative resolution Accomplished: Lease for 3 years - with expected privatization thereafter | • The lease requires that Non Ferrous Metals, Mineral Fertilizers, Energy and Transport remain in restructuring program for 3 years, with privatization thereafter. |
| 12 | Mineral Fertilizers<br>HC ownership 49.27% | • Diagnostic (Phase 1) completed<br>• Claims are gathered, database is in progress<br>• Resolution Strategy Document delivered to PA<br>• Leasing approved by PA<br>• Final signing of lease contract with PharmaCom | • No further BearingPoint activity required/ expected | Alternative resolution Accomplished: Lease for 3 years - with expected privatization thereafter | • Per Lease Contract of Non Ferrous Metals, Mineral Fertilizers will remain under restructuring for 3 years, with a possibility for privatization afterwards |
| 13 | Energy<br>HC ownership: 100% | • Diagnostic (Phase 1) completed.<br>• Creditor claim process and database are finished. The verification of claims is in progress.<br>• Resolution Strategy Document delivered to PA | • No further BearingPoint activity required/ expected | Alternative resolution Accomplished: Lease for 3 years - with expected privatization thereafter | • Per Lease Contract of Non Ferrous Metals, Energy will remain under restructuring for 3 years, with a possibility for privatization afterwards<br>• Energy supplies energy to all Zorka and companies outside |



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| | Name of Company | Current Status | Pending Items | Projected Date of Auction or Other Resolution Alternative | Comments |
|---|---|---|---|---|---|
| | | | | | of Zorka system.<br>• Assets pledged to secure investments of lessee of Non Ferrous Metals |
| 14 | Transport<br>HC ownership: 100% | • Diagnostic (Phase 1) completed.<br>• Claims are gathered, database is in progress<br>• Resolution Strategy Document delivered to PA | • No further BearingPoint activity required/ expected | Alternative resolution Accomplished: Lease for 3 years - with expected privatization thereafter | • Per Lease Contract of Non Ferrous Metals, Energy will remain under restructuring for 3 years, with a possibility for privatization afterwards<br>• Transport controls rail and port facilities that are required to operate Non Ferrous Metals<br>• Assets pledged to secure investments of lessee of Non Ferrous Metals |
| 15 | Trade<br>HC ownership: 100% | • Diagnostic (Phase 1) completed<br>• Claims are gathered, database is in progress. | • BearingPoint will develop an Exit Memo containing Company Status Description and Recommendations for PA's restructuring/ privatization activities | Late 2003/ Early 2004: No auction – alternative resolution method | • The company has no production. |
| 16 | Apartment: Joint and undivided capital of all shareholders (Zorka Holding, Non Metals, Thermoplast, Polyplast, Paints and Pharma) | • Diagnostic (Phase 1) completed<br>• Claims are gathered, database is in progress. | • BearingPoint will develop an Exit Memo containing Company Status Description and Recommendations for PA's restructuring/ privatization activities | Late 2003/ Early 2004: No auction – alternative resolution method | • The company has no production/ |
| 17 | Research Center<br>HC ownership: 100% | • Diagnostic (Phase 1) completed<br>• Claims are gathered, database is in progress.<br>• Negotiations with HC, Zorka Pharma & Sabac related to the merger/sale of RC to Zorka Pharma | • BearingPoint will develop an Exit Memo containing Company Status Description and Recommendations for PA's restructuring/ privatization activities | Late 2003/ Early 2004: Depending on the Municipality's negotiations with Zorka Pharma | • Sabac Municipality is taking the lead |

**Status of Textile Companies as of September 30, 2003**

| | Name of Company | Current Status | Pending Items | Projected Date of Auction or Other Resolution Alternative | Comments |
|---|---|---|---|---|---|
| [redacted] | | | | | |
| 18 | DIR<br>HC ownership<br>100% | • Claims are gathered, database is in progress | • BearingPoint will develop an Exit Memo containing Company Status Description and Recommendations for PA's restructuring/ privatization activities | Late 2003/ Early 2004: No auction – alternative disposition method (transfer to US Steel) | • Potential merger with another organization (US Steel) for handicapped workers |
| 19 | Social Standard<br>HC ownership<br>100% | • Sabac Municipality is in negotiations with HC on the take over of pool and athletic fields for tax forgiveness.<br>• Claims are gathered, database is in progress | • Government of Serbia's decision to approve a request by Municipality of Sabac to take-over the company<br>• BearingPoint will develop an Exit Memo containing Company Status Description and Recommendations for PA's restructuring/ privatization activities | Late 2003/ Early 2004: No auction – alternative disposition method (transfer of assets to Municipality) | • Sabac Municipality is taking the lead |
| 20 | Security<br>HC ownership:<br>100% | • Claims are gathered, database is in progress<br>• Diagnostic (Phase 1) completed<br>• Municipality is leading discussions with Zorka Pharma, Paints and other businesses to take over company | • BearingPoint will develop an Exit Memo containing Company Status Description and Recommendations for PA's restructuring/ privatization activities | Late 2003/ Early 2004: No auction – alternative disposition method (sale to local companies in Sabac or transfer to Municipality of Sabac) | • Sabac Municipality is taking the lead |
| 21 | Economic and Legal<br>HC ownership<br>100% | • Claims are gathered, database is in progress | • BearingPoint will develop an Exit Memo containing Company Status Description and Recommendations for PA's restructuring/ privatization activities | Early 2004: No auction – alternative disposition method | • Potential merger with Holding Company as all financial and legal records are held by company and it has no production or service that can be privatized |



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