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Bulgaria Food Industry Privatization Phase I Report - Final Report

Delivery Order No. 21
Bulgaria Food Industry

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

U.S. Agency for International Development
EUR/RME

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July 7, 1993

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Washington, DC 20523

Re: Contract No. EUR-0014-I-00-1056-00, Deliverables for Delivery Order No. 21, Bulgaria Food Industry

Dear Mr. Maher:

In accordance with Article IV of the referenced delivery order, enclosed please find four copies of the following deliverable reports:

- Phase I Report
- Phase II Analysis
- Selvikonserv: Information Memorandum
- Storco Pleven: Information Memorandum

These deliverables were prepared by the Development Alternatives team working in Bulgaria as a subcontractor to Deloitte & Touche under the Eastern European Enterprise Restructuring IQC. If you have any questions concerning this deliverable, please call Lynne Damon at (202) 879-5386. Thank you.

Sincerely,

Kathleen J. Machen

Kathleen J. Machen
Operations Manager

Enclosure

Bulgaria Food Industry Privatization

Phase I Report

Prepared for the U.S. Agency for International Development under contract number EUR-0014-I-00-1056-00

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February 1993

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EXECUTIVE SUMMARY

As mandated by the U.S. Agency for International Development under the Eastern European Enterprise Restructuring and Privatization (EEERP) indefinite quantity contract, Development Alternatives, Inc. (DAI) as a subcontractor to Deloitte & Touche has successfully completed all tasks and analysis included in Phase I of the project and presents its general findings and recommendations for the project's second phase. In accordance with the project's objectives, DAI is working with its counterparts in the Government of Bulgaria (GOB) to promote economic growth and sustainable employment internally through the privatization of selected enterprises in the processed fruit and vegetable subsector. Based on the work completed to date and on extensive discussions with representatives from the Ministry of Industry and the Privatization Agency of the GOB as well as with A.I.D. Bulgaria officers, DAI recommends the following two actions:

- Privatize the state-owned enterprise Selvikonserv as a whole, in its present form; and
- Privatize the state-owned enterprise Storco Pleven in such a way that the firm can be divided into separate clusters. These clusters should be based on investor interest as well as on the combination of operations that offers operational synergies. The process should be flexible enough to allow the clusters to change as needed.

In both cases, the DAI team recommends that no restriction on labor reduction be set. Instead, the government should earmark part of the proceeds from the sale to offer adequate severance packages to excess labor or to implement a job retraining and placement program.

PRIVATIZATION IN THE BULGARIAN ECONOMIC AND POLITICAL CONTEXT

To accomplish successfully its stated goal to create a free market economy, the GOB will need to transfer ownership of many of its state-owned enterprises into private hands. Completed privatizations will help allay the current level of uncertainty within the investment community regarding Bulgaria's commitment to free market principles.

Because of past investment in agribusiness and food processing industries, the processed fruit and vegetable subsector represents a good arena in which to use privatization as a tool for economic growth. To survive, this subsector will have to consolidate and enhance its productivity and efficiency. Both Selvikonserv and Storco Pleven offer investment opportunities that the DAI team feels have a potential to attract foreign investors. The privatization of these enterprises will result in viable companies if done in a way that allows new owners the freedom to make decisions about labor or about other questions, which, in turn, allows the owners to make an adequate return. Furthermore, by offering the workers who are laid off due to privatization attractive severance packages or job retraining and placement, the government will not only ensure a humane privatization that minimizes social costs, but also garner the political support necessary for sustained privatization efforts by any government in transition.

THE PHASE I REPORT

Chapter One of this report introduces the reader to Bulgaria and the Bulgaria Food Privatization Project. Chapters Two and Three describe the Bulgarian processed fruit and vegetable subsector and the legal, regulatory, and institutional privatization framework in Bulgaria. Chapter Four integrates the information and analyses of previous chapters and states the methodology for selection as well as DAI's recommended privatization strategy for each selected enterprise. In Chapter Five, we outline the tasks and analyses to be completed in Phase II of the project.

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CHAPTER ONE

BACKGROUND TO PRIVATIZATION

Bulgaria's economy, like many of its Eastern European neighbors, is in the midst of an historic transformation from plan to market. Stimulating the growth of a vibrant and productive private sector — through both privatization of existing public enterprises and the growth of new private companies — is one of the most important challenges Bulgaria faces in this transformation. Privatization, of course, is not an end in itself and is certainly not the only answer for the difficulties faced by Bulgaria. A variety of efforts must be made to improve the organizational structure and enhance the performance of state-owned enterprises in Bulgaria, and privatization represents only one of these efforts.

Privatization seeks the benefits that can be derived from the efficiency and quality gains generated by the competitive forces and incentive structure that characterize the private sector. However, for privatization to be a true solution to the budget squeeze, governments must not only demonstrate that it offers cost savings but that these savings are realizable. Furthermore, these savings must be achieved in a manner that honors existing bargaining agreements and that considers the costs that a privatization process represents to displaced public sector workers.

However, the combination of a sagging Bulgarian economy due to the overnight collapse of the former Soviet Union (FSU) market and a sharp weakening of domestic demand is causing unsustainable budgetary pressures on the Bulgarian Treasury. In response to this challenge, the Bulgarian government has launched a variety of efforts to improve the system's overall efficiency. These efforts are designed to increase productivity and cut costs wherever possible. One specific effort has focused on the merits and consequences of privatizing the Bulgarian food sector. The Ministry of Industry (MOI) believes that the program for privatization and reorientation to free markets of a key subsector such as food processing is of critical importance for securing rapid and visible success in other priority sectors such as tourism and agriculture. Together, these sectors are expected to become the locomotives for new economic growth through the industries' ability to attract significant direct foreign investment, create new jobs, and generate important export income. Current initiatives in foreign assistance are sketched in Table 1 below.

BULGARIA FOOD PRIVATIZATION PROJECT

Development Alternatives, Inc. as a subcontractor to Deloitte & Touche has been authorized by the U.S. Agency for International Development to execute Delivery Order No. 21, the Bulgaria Food Industry Privatization Project under the Eastern European Enterprise Restructuring and Privatization (EEERP) indefinite quantity contract (IQC).

The Bulgaria Food Industry Privatization Project seeks to capitalize on Bulgaria's past investment in agribusiness and food processing to generate economic growth and employment internally. The first steps in this process can be accomplished through introducing the efficiency of private ownership of state-owned enterprises on a sustainable basis. This project will culminate in the privatization readiness of two state-owned enterprises in the processed food subsector: Storco Pleven and Selvikonserv. We expect the privatization readiness process of these enterprises to also serve as prototypes that will guide future privatization efforts by the Government of Bulgaria.

COUNTRY OVERVIEW

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

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

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

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

In January 1991 Bulgaria became eligible for U.S. Department of Agriculture export credit guarantees. In April 1991 Bulgaria was given most favored nation status. In addition to MFN status on tariffs the agreement improves the capacity of American businesses to operate in Bulgaria. A bilateral investment treaty between Bulgaria and the United States provides basic guarantees to U.S. investment. New tax legislation in 1992 provides tax incentives for foreign investment. Bulgaria maintains intercountry currency convertibility at a floating exchange rate.

Although unlikely to provide much economic benefit in the short run, Bulgaria has signed a new bilateral trade agreement with the Russian Federation. Bulgaria is also a member of the Black Sea Trade Group formed in June 1992 consisting of Russia, Ukraine, Georgia, Moldavia, Armenia, Albania, Azerbaijan, Greece, Romania, and Turkey. The trade group may have some positive trade benefits through Turkey or Greece in the short run but, like the bilateral trade agreement, it will likely take several years before the benefits become measurable.

Bulgaria has a relatively complete commercial and investment code including privatization regulations. The "Economic Activities of Foreign Persons and Protection of Foreign Investment Act"

Table 2
ECONOMIC STRUCTURE OF BULGARIA

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

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

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

The Future

While Bulgaria is considered to be lagging behind many of the other countries in passing and implementing reforms, the true test will be whether they learned from the mistakes of others and keep the momentum built for implementation.

Although slow getting started on reforms progress is being widely recognized. Bulgaria has been successfully complying with the International Monetary Fund (IMF) stabilization requirements. In addition the Overseas Private Investment Corporation (OPIC) has agreed to provide political risk insurance and loan guarantees for equity and debt investments to private businesses.

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

REFORM MEASURE	Bulgaria	Remaining Issues
Foreign Investment Incentives and Regulations	1991 tariff schedule averaged 8 percent for farm products, and 1/2 percent customs clearance fee for imports and exports; Feb. 1991, 15 percent surcharge on most imported goods; hard currency shortages barrier to imports; Nov. 1991, 3-year trade relations agreement with U.S. signed; Foreign investors may not own land or natural resources.	• Foreign ownership of land via participation of Bulgarian firm • Valuation of Investments on a cash basis • Cross registration in both countries required to receive benefits • 'Economic activities' are treated different than 'investment' • 'Demonopolized' firms are still state owned
Key U.S. Agribusiness Investment Opportunities	Financing, farm management, and food processing (especially fruit and vegetable), fine flower industry.	• Debt reduction for state enterprises to be privatized • Upgrading standards and quality of product • Overcapacity throughout the subsector • Many businesses have to be partitioned to make sense

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CHAPTER TWO

THE PROCESSED FRUIT AND VEGETABLE INDUSTRY

There is substantial overcapacity in the fruit and vegetable processing subsector. Currently this subsector operates at approximately 25 percent of its 450,000+ tons annual capacity. The extent of production decline in this subsector between 1989 and 1992 is presented in Table 4.

Table 4
PRODUCTION DECLINE IN FRUITS AND VEGETABLES (1988-1992)
(Production Volume – Tons [000])

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

* Source: Bulgaria Ministry of Industry, Figures are rounded

Processing and packing plants for agricultural produce are common throughout Bulgaria. There are fruit and vegetable processing facilities in virtually every part of the country. Many of these plants are old, have had little repair and maintenance, and do not represent viable assets. On the other hand, some plants have modern, well-maintained production lines.

Irrigation is used in some areas, but the water resources have not been well developed because of the relatively stable climate. Transportation is an asset for Bulgaria with well-developed land and water access to Western Europe, the Middle East, the former Soviet Union, and other potential markets accessible through the Danube or Black Sea.

It is going to be essential for processors to get high-quality product since one of the potential markets is high-quality, glass-packed product available to private labelers in the West. At present the prices for process-grade raw materials are extremely low. It will require a bit of mind set reversal but the managers of the plants need to be shown through financial analysis how paying higher prices for higher-quality raw materials can pay off because of higher values for the packed goods. This is also an important market as well because it is largely driven by contract production, which will help to lend support to the presently unstable processing subsector.

The team was impressed with the number of factories in the processed fruit and vegetable subsector that have expanded or started exporting to new markets; the volumes are small but the direction is positive. A significant increase in the availability of Western market products was noted during 1992. Another positive note for Bulgaria is the opening of the Bulgarian-American Enterprise Fund, and the announcement that OPIC would be providing equity investments and loan guarantees in addition to its insurance for U.S. company investments.

Food product exports have increased since 1991 in a limited number of cases (an example is jams to the European Community and the United States). Domestic and imported products are widely available throughout Bulgaria, something that was not true only three years ago. Prices are much higher because of rapid inflation over the last 18 months but the thinking is that this is being brought under control by strict monetary reform.

It is clear that rich opportunities for indirect and nondivestiture privatization exist as well as for more traditional divestiture in a few cases. Facilities that meet Western standards can be leased, contracted for production, or spun off into separate joint ventures. In some cases the plants might be sufficiently modern to allow a management contract arrangement to provide a workable solution. In all of these cases the government would be relieved of the cost of carrying factories operating well below the breakeven point, and technical assistance would be available to help upgrade skills in anticipation of full divestiture in many cases.

OBSERVATIONS ON THE INDUSTRY

As a result of our visits to several representative plants throughout the country we can make some general observations about the condition and health of the industry. In almost all cases the buildings and production lines are 25-30 years old. The lines are frequently of Bulgarian manufacture or Bulgarian with some parts from Hungary or East Germany. These older lines are frequently in poor condition, are generally of poor construction, and appear to be nearly worn out.

Preventative maintenance was almost nonexistent in the plants we visited. The standard procedure appeared to be rehabilitation as needed to keep the lines in operation, with no thought of working on them until the next season's operation. This was evident in lines that had already completed processing for the year where rubber or fiber belts were left exposed to the elements, the equipment was not thoroughly cleaned, and in most cases critical parts had not been greased, oiled, and prepared for winter weather. In analyses for business plans and profiles of potential investment joint ventures, the cost in time and product from frequent down time will have to be considered along with the capital cost of partial or complete replacement of processing lines within a short period of time.

In contrast, although they were old and frequently badly in need of repair, the buildings were constructed to be spacious with high ceilings and the ability to set machinery in the straight throw manner

- With a very few notable exceptions the plants are relatively small in comparison to similar operations in other countries;

- A wide variety of products are produced in spite of the small size so that few lines can claim to have economies of scale;

- As a result of the loss of the former Soviet Union market, not only has Bulgaria lost its markets but inventories estimated to be in excess of $50 million have built up without much hope for a sale;

- Because of this, the industry is strapped for working capital cash at the same time that government support is waning in response to privatization pressures;

- Compounding this problem are interest rates that are reportedly from 50-70 percent on working capital loans. Banks are preoccupied with debt collection. In the past the government has written off loans; this is not expected to occur in the future although the Ministry of Industry has indicated that it will take over old debt, as a government obligation, as part of a privatization process for the processed fruit and vegetable subsector; and

- Land restitution is reducing the scale of the farms to potentially uneconomic levels. This fact, combined with the inexperience of farmers who are also strapped for cash, means that they may turn their hands to field crops that require less input rather than to the fruit and vegetables needed to fuel the plants.

The land restitution process has proved to be confusing and messy. Early concerns about its potential effect on the processing industry have been partially validated by the past season in which enterprises had to purchase products from all over the country to supply their needs.

Banks are being restructured through the Bank Consolidation Company. This includes rationalization of loan portfolios and consolidation of the banking community.

The decision to build inventories in the face of market loss resulted from a decision that is illustrative of the continued central planning mentality. Both the ministry and the plant managers determined that it was preferable to buy the product from the farmers to preserve their economic viability and produce a product that might, however, not be sold. Although a market-oriented plant might decide to buy product to honor contracts or keep its farmer growers alive, the plant would also recognize that the product mix and packaging would have to adapt to the new market conditions or the additional costs of processing and packaging would not be met by increasing returns.

CHAPTER THREE

LEGAL, REGULATORY, AND INSTITUTIONAL FRAMEWORK

Bulgaria has made significant strides over the past two years to enact laws designed to support a market economy. However, government officials have not yet formulated a comprehensive legal framework nor created and strengthened the legal institutions needed to implement it. Defining real property rights and creating the conditions for free and fair competition are still largely unfinished. Other areas of law, including intellectual property, company, foreign investment, and contract law, are less problematic.[1]

Bulgaria's new constitution was created in July 1991. In its present form, it represents a radical departure from the past. Most socialist phraseology is gone, replaced by democratically oriented legal principles and values. The new constitution provides reasonable protection for the property and economic rights of individuals and creates a favorable legal basis for the development of the private sector for the first time since the end of World War II. The reform of property rights is the most complicated legal challenge in Bulgaria. Reversing marxist attitudes and the laws and institutions that embody them is a sine qua non for private sector development.[2]

THE LEGAL AND INSTITUTIONAL FRAMEWORK OF PRIVATIZATION

A major challenge in developing a market economy in Bulgaria is to eliminate the virtual monopoly of the state over commercial property that existed during the socialist period. This entails both privatizing commercial property (or making restitution to previous owners) and developing an active rental market in property still held by the state.

Identifying a Seller

Before state property can be sold or leased, one must first define the actual owner. This is an important step for Bulgaria. Because it had a tightly planned economy, ownership of social property was indeterminate during the socialist period. The relevant overseeing ministries have ultimate decision-making authority with regard to such property. In the cases of Selvikonserv and Storco Pleven, both enterprises are owned by the Ministry of Industry.

The Law for Agricultural Land Ownership and Use, passed in February 1991, was designed to return parcels of land to their original owners. At the end of 1991, only 10 percent of the land previously owned or held in title by the state had been claimed. This was of great concern because it could force the government to continue operation of state and collective farms. Restitution claims have increased during 1992 but major blocks of land remain in state hands. One major problem that is

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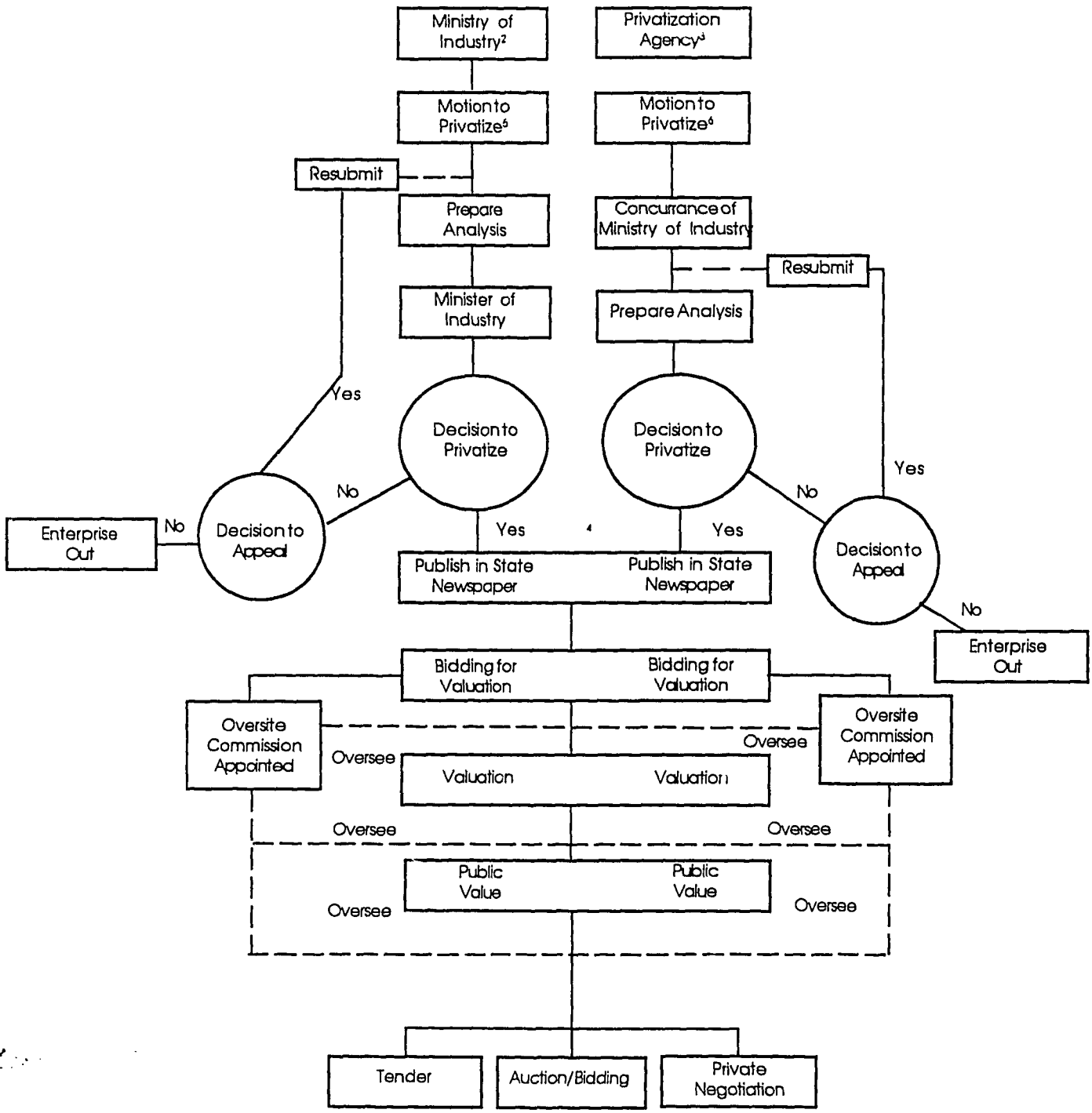
[1] Cheryl W. Gray and Peter Ianachkov, "Bulgaria's Evolving Legal Framework for Private Sector Development," The World Bank, Working Paper 906, May 1992.

[2] Ibid.

STRUCTURE OF MODEL BULGARIAN PRIVATIZATION PROCESS[1]



1. There are five sources for initiating privatization
2. For Companies with Assets < 10 Million Leva
3. For Companies with Assets > 10 Million Leva
4. At this stage the activities are parallel for both ministries but remain separate
5. Source of Selvikonserv Motion
6. Source of Storko Pleven Motion

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CHAPTER FOUR

PRIVATIZING SELVIKONSERV AND PLEVEN

CANDIDATE SELECTION METHODOLOGY

Bulgaria has approximately 100 state-owned processed fruit and vegetable enterprises. Half of these enterprises are state owned and account for the bulk of production. The rest are cooperatives. Twenty of the state-owned enterprises account for nearly 80 percent of total production. Given the project's time constraints, the DAI team asked representatives from the Ministry of Industry and the Privatization Agency to select about a dozen enterprises that were high on their privatization agenda. The DAI team completed on-site visits for 11 processed fruit and vegetable enterprises in Bulgaria. These enterprises were evaluated in four general categories:

- **Management and employee receptivity, market literacy, and privatization readiness.** The process of privatization, including extensive planning and documentation, requires substantial amounts of time and effort. Development of a viable enterprise also entails restructuring, which may affect many positions or change the responsibility of positions. The legal requirements for privatization are onerous, requiring a strong commitment to working within and through the affected government agencies. Commitment from all of the participants in this process is essential.

- **Enterprise viability**. In cosidering enterprise viability, one considers the competing uses of the plant or other resources, the returns possible in the processed food industry, and the value and condition of the plant and equipment. If the plant can be improved to meet generally accepted processed food standards, we seek to answer the question: Can the enterprise be made financially viable?

- **Quality control and sanitation conditions**. A plant or enterprise has to recognize and adhere to quality and product standards. These standards will include levels of hygiene sufficient to pass international inspection (or the ability to upgrade to that level) and product consistency. In addition the enterprises have to have facilities and trained personnel to carry on the minimum levels of quality testing. Finally, there has to be a commitment from the management and employees on the importance of quality standards.

- **Replicability of a privatization readiness prototype**. Replicability of the project for other privatization efforts in the processed food industry, other subsectors in agriculture, and other regional or municipal enterprises for ancillary assets is desired. The target enterprise should be selected so that it has value to the other enterprises in Bulgaria as a model or can be used for training other host country privatization agencies.

Based on the analysis of data gathered from the 11 enterprises, the DAI team selected four for further consideration as privatization candidates under the Bulgaria Food Privatization Project: Brigada, Storco Pleven, Plovdivconserv and Selvikonserv. Following a second site visit and further research on the potential restitution problems each of these choices offered as well as other input from representatives

Plovdivconserv	ketchup tomatoes red pepper pickles	very receptive very good market knowledge ready for privatization	Adequate physical assets good market position very good product quality restitution claims	One of the best	O.K.
Republica	peas pickles tomato paste	receptive O.K. market knowledge not ready	spotty on assets poor market position high debt claims by producers	good	operations shut down
Selvikonserv	jams compotes	very receptive good market knowledge open to privatization	very good assets good liquidity good product quality	good	fair small/specialized
Vitamina	apple concentrate canning tomatoes	negative receptivity gook market knowledge not ready	overall very good assets no problems with liquidity good product quality	good	not very good

of the Ministry of Industry and the Privatization Agency, Selvikonserv and Storco Pleven were selected as the two privatization candidates.

Phase I of the Bulgaria Food Privatization Project concluded with the completion of a detailed enterprise profile of the two selected privatization candidate and the beginning of the consensus building for their eventual privatization.

THE SELLER

DAI has two counterparts within the Bulgarian Government for the Bulgaria Food Industry Privatization project: the Ministry of Industry and the Privatization Agency. MOI is the current owner of both Selvikonserv and Pleven. However, by law, PA is charged with the actual privatization of enterprises with a book value of long-term assets exceeding 10 million levas (approximately half a million dollars). Thus, the DAI team is working closely with the PA on the privatization of Storco Pleven, an enterprise with balance value of long-term assets well above 10 million.

The Ministry of Industry

Since the privatization Act was adopted in April, the new minister of industry, Rumen Bikov, has drawn up a list of 3,000 state companies with assets of up to Lv 10 million to be privatized. The government suggests that a quarter of the total debt of Bulgaria's 20,000 public sector industrial companies should be canceled in order to make them attractive for potential investors; it estimates that the state companies owe the exchequer more than Lv 54 billion. The state forgave a total of Lv 9 billion in debts owned by state firms in 1991. In 1992, however, the Bulgarian National Bank says it is against any plans to write off state companies' debts.[1]

Within MOI, the DAI team has identified Mr. Venchev, Director of the MOI Privatization Unit, as the primary counterpart for the Bulgaria Food Industry Privatization Project. Mr. Venchev and his team have cooperated with DAI staff members to identify appropriate candidates for privatization and start the firm-level and state-level steps necessary to accomplish a transfer of ownership by the end of May 1993. As the official owner of the two privatization candidates, the MOI oversees project work for Selvikonserv and Storco Pleven. Nevertheless, as the government body empowered to sign off on a transfer of ownership for enterprises with balance asset value of less than Lv 10 million, MOI is particularly interested in the privatization process for Selvikonserv.

The Privatization Agency

The Privatization Agency's functions, capacity, rights, and obligations are provided by the Law for Transformation and Privatization of State-owned and Municipal Enterprises, ratified by the National Assembly on April 23, 1992. According to the law, the agency is not the sole body authorized to carry out the privatization. PA, headed by Alexander Bozhkov, will take decisions for privatization of state-owned enterprises with a balance value of long-term assets exceeding Lv 10 million. These enterprises

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[1] The Economist Intelligence Unit Country Report, Bulgaria, November 3, 1992.

The firms, or divisions of firms, contacted to date that have a continuing potential interest are:

- General Foods
- Stoneridge
- SK Foods
- Tri Valley Growers
- Sun Pacific
- Heinz
- Chiquita Brands
- International Multi-Products
- Sun World
- Pillsbury Foods
- Sun Light Agri Products
- Power Packaging
- Con Agra
- Hunt Wesson International

We believe it is important to note that these represent initial conversations that have been preliminary in nature. The companies expressed the desire for further information, some of which we were able to deliver from work already completed. They have a continuing interest in learning more. This should not, however, be construed as a commitment to expend marketing, research, or analysis funds for further exploration beyond that which we will provide through the project.

PRIVATIZATION STRATEGY

The decision to privatize Selvikonserv and Storco Pleven as whole companies or in smaller parts is up to the Ministry of Industry and the Privatization Agency, respectively. To help them make this decision, the DAI team has completed a privatization option analysis for each enterprise. Once these decisions are taken, the Government of Bulgaria will also need to choose a method for the actual transfer of ownership. The table following the privatization option analysis will assist Bulgarian government officials with this task.

Selvikonserv

Based on four important criteria — maximizing price of state assets, maximizing total country employment, ensuring enterprise viability following privatization, and feasibility of privatization plan — we have concluded that the optimal privatization plan for Selvikonserv is:

- **Selling the enterprise as a whole in its present form.**

The DAI team believes that this privatization option is really the only one available. Selvikonserv is already a relatively small enterprise. The company's most promising line is its Terlet Jam operation. Spinning off this operation would leave assets with no value other than what could be received from an asset liquidation.

First, the government wants to maximize price given a set of constraints it has set. The government should clearly understand that constraints on keeping assets in production and setting minimum levels of employment will drastically reduce the price at which a willing buyer will enter this transaction. It may also put such a severe strain on the potential viability that a buyer might not be attracted. Second, some of the assets may have a negative effect on a combined transaction. It is not uncommon in divestiture and sales for the parts individually to be worth more than the whole. Over the long run, if job creation and economic growth are important, the fewest possible restrictions should be placed on the ability of the companies to function in the marketplace.

Privatizing the New Site

This option would consist of privatizing the new building site which includes the freezing operation and cold storage, peas, tomato, and ketchup canning, and the other lines that would be moved to the site. The other sites would be restituted to the owners or parts of them sold. In addition, the can factory would be split off since it occupies several buildings and could not be accommodated at the new site. This option has the advantage of only moving the lines that have comparative advantage. Since some of the lines would be left behind it is assumed that the government would reduce the number of employees. This should be a substantial reduction since the most labor efficient lines would be moved, being the newest and most cost competitive. If the labor reduction is not sufficient for the proportional change in efficiency, then the price would be reduced downward. This reduction would be more than proportional to the effect on the operation's profit.

In conclusion, this is a preferable solution to that of whole unit privatization since it allows the company to eliminate some potential problems with restitution and old lines. It does not give the flexibility of splitting the freezing from the canning operations. It also ignores the very real possibility that the canning lines at the new site might still have a higher value in parts than in the whole.

Privatization of the Metal Can Fabrication Unit

This option would mean the privatization of the entire fabrication unit consisting of the new welded seam can line, the lids and blanks lines, and the can line for making soldered seam cans. This unit has little linkage to the rest of the operation so that splitting it off would have minimal effects. The price of the unit would be reduced if the new owner is forced to take the soldered seam units unless given the option of closing this unit in the near future and relieving the buyer of the employment requirement for this line. The negative effect of this privatization option include the elimination of a line that has demand and operates profitably thus reducing the value of the remaining company.

On the other hand, this unit represents a sensible operating unit. It is not likely that it would be further broken down but rather that the soldered seam unit would eventually be scrapped. It would command a market value price that might reduce the government's need to retain high prices on the remaining assets of the company. In short, it is a logical spin-off, would find a buyer, the price is likely to be very competitive, and it does not detract from the rest of the unit. Yet, it may advisable to hold off sale until the disposition of the other assets has been completed since the can factory is providing positive cash flow to the company.

The team would work with the management and the Privatization Agency to determine how best to split and package the investment options. They would also work together to determine what ancillary services might best be split off either to enhance the salability of the remainder or to increase the overall price of the assets. For instance the laboratory, transportation, the canteen, and other similar business services might be contracted out to separate companies (or companies made up of the employees in these units). They would buy the equipment and lease space from the company as needed. The retail stores could be contracted, leased, or sold individually or in groups. The can line could be separated for sale. The freezer and storage could be offered separately. If restitution issues can be cleared the concentrate and jam lines could be offered separately.

As an alternative, those wishing to buy the lines might purchase them after they have been moved to the new site. This would be preferable since the access is better, the sanitary conditions improved, and they would be closer to the labs and other services. Four separate options might be considered for the operations in the new site.

- First, they could be leased or contracted out, with a separate company or the government retaining the assets but increasing the revenue and eliminating its carrying costs;

- The lines could be sold with a separate owner for the building who would lease space. This owner might also provide lab, canteen, transport, training, or employment origination services to the operators of the lines;

- Third, the building could be condominiumized so that each line or groups of lines along with their proportionate share of the building would be sold, leased, or contracted. The building could contract maintenance services or they could be provided by a service company who also provide the lab, canteen, transport, or other services; and

- Finally, the unit could be sold as a whole with the possible options of selling or contracting out the services mentioned before, such as the laboratory.

This combination of options allows a wide range of potential buyers to be solicited, gives the maximum opportunity for Bulgarians to participate in the sale of assets or continuing businesses, and maximizes employment generation. On the other hand, sale of the unit as a single company limits the potential buyers to a handful at most, effectively eliminates Bulgarians from participating in the business or asset sales, and is likely to result in a company that will close many of its lines and eliminate employment as soon as the mandatory period is up, leaving it to operate the one or several production units it really wanted while reducing the government sale revenues for restrictions that will only have a short-term effect and reducing the potential for internal economic growth.

Leases and management contracts.	No ownership transfer. Under lease, fee is payable to owner of productive facilities, lessee assumes full commercial risk. Under management contract, owner pays for management skills, while manager has full management and operational control. Many variations exist.	No standard method; see actual cases in text.
	Preferred Applications and Special Features	Implementation Issues
	- SOE sound going concern with reasonable earning potential or can be readied to become so. - Objective is widespread ownership. - Existence of equity market or feasibility of structured offering. - Generally more appropriate for larger offerings than direct sale. - Often more acceptable politically.	- Structure or condition of SOE may not permit public offering feasibility of restructuring to be assessed. - Mechanisms necessary to achieve an maintain wide-spread ownership and possibly limit foreign holdings. - Pricing mechanism to be defined. - Distribution mechanisms may need to be introduced to compensate for weakness of equity markets.
	- Because of flexibility preferred method for weak performing enterprises. - In absence or equity market, may be only alternative for sale as a going concern. - Size of enterprise may not justify public offering. - Preliminary step to public offering when presence of leveraged party necessary to turn enterprise around. - New owner known and can be evaluated. Offers flexibility in negotiation, such as obtaining specific commitments from purchaser. Purchaser may bring benefits (management skills, technology, market access, etc.). - Implies SOE is sold with assets and liabilities (there are some exceptions).	- SOE may need be prior financial restructuring; difficult decision on whether to rehabilitate prior to sale. - Employment. - Need for mandatory procedures.
	- Where sale of shares not feasible or objective is sale of individual assets. - Permits privatization of SOEs not salable as going concern. - Often results in separation of assets and liabilities.	- If assets are sold as a result of liquidation or major restructuring, related issues arise. - Relating debt liabilities often not assumed by purchaser.
	- Where objectives to privatize only certain components; where SOE is a monopoly, and break-up will improve competition; or where market will not absorb whole SOE. - Permits privatization of component parts when no taker for the whole. - Permits application of different methods to different parts.	- Depends on privatization method applied to individual entities.
	- Applicable where primary objective not divestiture but provision of new equity by private sector. - Addresses funding problems of undercapitalized enterprises. Offers flexibility: used as first step to, and in conjunction with, sale of government-held equity.	- Implementation issues related to public offering private sale of shares or transfer of assets may arise.

CHAPTER FIVE

PHASE II WORK PLAN

During Phase II of the Bulgaria Food Industry Project, the DAI team will concentrate on implementation of pilot privatization for companies, or segments of companies, that were selected in Phase I. The main objective of Phase II is to complete a successful privatization readiness process that will take the enterprises to the point of transfer of ownership.

Each of the pilot processes will be undertaken with a mix of professionals including financial planners, attorneys, valuation and financial and accounting analysts, economists, management specialists, and industrial engineers, as may be required. To complete the second phase of this project, the DAI team will:

- Based on Phase I, develop an approach for the implementation of the privatization process;
- Complete an assessment of privatization candidates including comparative and market analysis and a survey of ancillary assets;
- Build counterpart consensus for privatization;
- Develop a plan to complete legal documentation and actions needed for transfer of ownership;
- Restate historical, present, and projected financial statements into International Accounting Standards and develop due diligence level information on the enterprises and activities of company;
- With appropriate government officials and selected company management, determine method of valuation, potential sale price, and potential investors;
- Develop business plans including a proposed market strategy; and
- Assess environmental risks of existing and proposed operations.

Overall Approach. The first step of Phase II of the Bulgaria Food Industry Project is to develop an approach for the implementation of the privatization process. This plan will serve as a road map for Phase II efforts. It will be based on clear, agreed-upon objectives of the transfer of ownership. The plan will also be based on the selected method of privatization. During this step, the team will also begin to identify potential foreign investors in the processed food sector and ways to increase their awareness about the Bulgarian market.

General Assessment. During Phase I and the early part of Phase II the team will begin a general assessment of the selected privatization candidates. This assessment will include a comparative advantage study of the subsector(s) and a market study. When combined, these two sources of information will yield a more detailed understanding of the companies' export and domestic market potential as well as their long-term competitive position. The team will also assess employment, production patterns, and

"environmental assessment," but will identify potential hazards or risks, suggest sources of technical or other assistance to deal with them, and most importantly alert the enterprise, the government, and A.I.D. to the potential hazard. Although we may not be able to determine the level of risk we will be able to provide input on whether further professional engineering evaluation is necessary and identify other risks to the successful business. Environmental evaluation is programmed to occur during the planning and strategy process to ensure that the information is available when budgets for operations and capital improvement are being prepared.

ANNEX

ENTERPRISE PROFILES

Storco Pleven Enterprise Profile

Bulgaria

ENTERPRISE PROFILE

January 15, 1993

INVESTMENT OPPORTUNITY

Storco Pleven presents a unique opportunity for a growing food company to expand access to European markets. The enterprise's highly diversified capabilities allow its managers to respond to sudden market changes and control production decisions. Storco Pleven's capacity includes an excellent opportunity to operate a three-stage fruit and vegetable concentrator strategically set up to produce ketchup, high-value-added fruit filling for pastries, and concentrated nectar for fruit drinks for export to EC and Middle East markets. The enterprise offers further opportunity to diversify cash flow through the operation of a state-of-the-art, welded-seam, fully automated Italian Cevolani metal can fabrication line that already has an established market share in Bulgaria in addition to supplying the enterprise's pea, tomato, and mixed vegetable lines. Storco Pleven also offers the opportunity to control a modern Walter Rau frozen fruit and vegetable processing line with automated fillers and a 3-ton/hour Frigoscandia individual quantity freezing (IQF) tunnel.

OVERVIEW

Enterprise Name: Storco Pleven

General Director: Dip. Ing. Dimitar Angelov Makaveev
Telephone: 064/3-32-11 (216)
Fax: 064/3-72-29
Telex: 3-45-02

Location/Address: 5800 Pleven BG
80 G. Kotschev Str.
Pleven, Bulgaria

Ownership Structure:

Single-person Limited Liability Company, 100% state owned. Established in 1936. Enterprise currently operates in four different sites, three of which have legal claims on them. Management plans to move operating lines from sites with claims to a new, larger site that has no claims and already houses over 50% of production capacity.

Business Description:

One of the largest and most diversified processed fruit and vegetable enterprises in Bulgaria with frozen, canned, and concentrated fruit and vegetable operations, as well as jam, ketchup, and modern welded-seam can fabrication operations.

Plant Description

Aggregate Size (m2):	67,598
Capacity (tons):	31,000 finished product
Property (hectares):	15+
Number of Buildings:	39 (book value 12.1 million leva)
Number of Employees:	561 Permanent (176 Administrators) 540 Seasonal

Annual Sales	**1991**	**1992** (9 months)
Volume (tons)		
Food Products	12,578	5,176
Value (million leva)	193.3	99.5
Food Products %	49%	49%
Metal Cans %	22%	26%
Retail Store Sales	9%	19%
Sales of Raw Materials	19%	1%
Other Revenues	1%	5%

PRODUCTION AND PLANT DESCRIPTION

RELEVANT PRODUCTION STATISTICS

	1991	1992[3]
Production (tons)		
Food Products	17,777	6,161
Metal Cans		
Payroll (million leva)	23.7	21.7
Inventories/Raw Material (tons)	360	128
Inventories/Intermediate Product (tons)	3,795	2,159
Inventories/Finished (tons)	180	2,567

MACHINERY USED IN PRODUCTION

Type	Manufacturer	Book Value (million leva)	# Units	Capacity	Age (years)
New site:					
Ketchup	Italian	3.5	1	10 t/8hr	1
	Bulgarian	0	1		10+
Canned Peas	Hungarian	0.9	1	8 t/hr	7
	Hungarian	0	1	8 t/hr	13
Concentrator	Bulgarian	0.8	1	300 t/shift	4
Whole Tomatoes	Bulgarian		1	16 t/shift	2
Pealed Tomatoes	Bulgarian		1	4 t/hr	
Mixed Vegetable	Bulgarian	0.2	1	8 t/shift	2
Rotary Sterilizer	German (Rotomat)	8.0	2		2
IQF Fruit and Vegetable	Holland Frigoskandia Tunnel Walter Raw	27.6	1	5 t/hr	2

[3] 9 months.

MANAGEMENT BIOGRAPHIES

General Manager Dimitar Angelov Makaveev
54 years of age; degree from Higher Food Industry Institute in Plovdiv; worked in Storco for 22 years; General Manager for 10 months; other positions in Storco include Chief of Sites, Technology Engineer, Department Chief, Shift Chief, and Worker.

Production Manager Boris Dachev
53 years of age; degree from Higher Food Industry Institute in Plovdiv; worked in Storco for 9 years; Production Manager for 9 months; other positions in Storco include Deputy Chief of Site and Shift Chief.

Economic Manager Elen Genchev
59 years of age; degree from Higher Finance and Economy Institute in Svishtov; worked in Storco for 20 years; Economic Manager for 10 months; other positions in Storco include Chief Accountant, Deputy Chief Accountant, and Senior Accountant.

Metal Packing Site Manager Alexander Petkov
53 years of age; degree in chemistry from Sofia University; worked in Storco for 26 years; Site Manager for 10 months; other positions in Storco include Deputy Manager, Chief Specialist, Chief of Technology, Chief of Shift Technology, Chief of Laboratory, and Laboratory Technician.

Chief of Quality Control Iordanka Mazkova
49 years of age; degree in chemistry from Sofia University; worked in Storco for 18 years; Chief of Quality Control for 6 months; other positions in Storco include Chemistry Specialist, Chief of Metal Packing Site, Chief of Chemical Laboratory, and Laboratory Technician.

Chief Accountant Margarita Tzvetarova
51 years of age; degree from Higher Finance and Economy Institute in Svishtov; worked in Storco for 26 years; Chief Accountant for 8 months; other positions in Storco include Deputy Chief Accountant and Accountant.

Lawyer Boris Tzvetkov
55 years of age; degree in law from Sofia University; worked as Lawyer in Storco for 3 months.

ANNEX

FINANCIAL STATEMENTS[1]

[1] These financial statements were provided by Storco Pleven and have not been checked by DAI accountants.

STATEMENT
of Income and Expenses
of Storco Pleven
Full Year 1991 and January 1 – September 30, 1992

Expense Items	Amount (,000 leva) previous year	Amount (,000 leva) current year	Income Items	Amount (,000 leva) previous year	Amount (,000 leva) current year
a	1	2	a	1	2
I. Ordinary expenses			I. Ordinary income		
1. Decrease of products in store, work in progress and deferred cost		6,771	1. Net income from sales	193,343	94,701
2. Cost of materials and hired services:			2. production subsidies		
a) cost of materials	137,085	70,867	3. State Budget Grants		
b) cost of hired services	11,392	4,345	4. cost of non– current asset production	1,763	
3. Personal Costs:			5. Increase of products in store work in progress and deferred income	64,321	30,461
a) Wages and other remuneration	14,002	16,161			
b) social security and other welfare allowances	4,760	5,631	6. Other Income		5,187
4. Depreciation of tangible and amortization of intangible non–current assets	2,877	3,635	Total I.	259,427	130,349
			II. Financial Income Totals	2,527	1,354
5. Other Costs	3,056	1,617	7. Interest from income	296	988
Including inventory Write – downs			8. Income from Participations including dividends Other	3	
6. Book value of sold merchandise	43,129	16,223			
Total I.	216,301	125,250	9. Income from transactions with securities		
II. Financial Expenses		45,988	10. Gains from currency exchange rate fluctuations	2,228	366
7. Interest on loans	49,530	45,250	III. Extraordinary income		
8. Losses on securities:			11. From management operations	887	
a) from sale	1,418		12. Other extraordinary income	1,002	1,506
b) from write – downs			Total III	1,889	1,506
9. Losses from currency exchange rate fluctuations	923	738			
Total II	51,871	45,988			
III. Extraordinary Expenses					
10. From management operations	1,076	229			
11. Other extraordinary expenses	351	7,526			
Total III	1,427	7,755			
IV. Taxes					
12. Profit tax					
13. Other taxes					
Total IV	0	0			
Total expenses (I+II+III+IV)	269,599	178,993	Total income (I+II+III)	263,843	133,209
V. Current period profit			IV. Current period loss	5,756	45,784
Grand total (I+II+III+IV+V)	269,599	178,993	Grand total (I+II+III+IV)	269,599	178,993

II. Receivables					*III. Financing*		
1. From customers	34,731			33,705	1. For investment		
2. From participations					2. Other financing		
3. From shortages and deficiencies	14			2	Group III Total	0	0
4. From arbitration and judgement				34	Section B Total (I+II+III)	182,716	227,715
5. Other	16,118			1,314	**C. Deferred Income**		
Group II Total	50,863			35,055			
III. Financial assets							
1. Cash in Leva	402			739			
2. Cash in foreign currencies	168			2,112			
3. Securities, bullion and gems							
Group III Total	570			2,851			
IV. Deferred expenses	35,062			29,744			
Section B Total (I+II+III+IV)	159,004			157,417			
C. Receivables on subscribed shares							
D. Loss	5,756			45,784			
Total Assets (A+B+C+D)	225,088			278,782	Total Liabilities (A+B+C)	225,088	278,782
E. Off balance sheet assets					**D. Off Balance sheet liabilities**		

Selvikonserv
Enterprise Profile

Bulgaria

ENTERPRISE PROFILE

January 15, 1993

INVESTMENT OPPORTUNITY

Selvikonserv offers an attractive investment opportunity to control a state-of-the-art Terlet-built jam and confiture line to serve growing premium jam and yogurt fruit markets in Europe and the Middle East with complementary production of purée, canned fruits, and glass-packed premium vegetables.

OVERVIEW

Enterprise Name:	Selvikonserv
General Director:	Dip. Ing. Bogomil Kassabow Telephone: 0675/45-70 Fax: 0675/45-75 Telex: 67539
Location/Address:	Republika 41A 5400 - Sewliewo Bulgaria
Ownership Structure:	Single-person Limited Liability Company, 100% state owned. Established in 1940. Current factory built in 1959. Only one restitution claim for less than 2% of the land by the Producer's Union. Most of the land was given by the state in 1959.
Business Description:	A sterilized fruit and vegetable processor specialized in jam and purée.

Plant Description

Aggregate Size (m2):	7,519 m2
Storage Area:	6,596 m2 (26% heated)
Sheds:	5,676 m2
Capacity:	8-9 K tons finished product
Property (hectares):	5
Number of Buildings:	8
Date of Construction:	1960

Annual Sales	**1991**	**1992 (9 months)**
Volume (tons)	2,140	870
Value (million leva)	19.8	9.2

MARKETS

Sales	1991	1992[4]	1992[5]	Products
Volume (tons)	2,140	870	1,445	
Value (million leva)	19.8	9.2	16.5	
Volume:				
Domestic	63%	70%	54%	Canned Vegetables, Marmalade
Exports	37%	30%	46%	
NIS[6]	0%	4%	0%	
EC[7]	35%	37%	25%	Jam,Purée,Vegetables
U.S.	0%	2%	50%	Jam
Other[8]	2%	15%	5%	Pickles,Vegetables
Value:				
Domestic	42%	58%	41%	
Exports	58%	42%	59%	

Working with distributors that sell product under private labels. One-year variable-price contract with Altex U.S./Bulgarian Distributor to produce 1,300 tons of jam for the United States through Jana Foods Distributors, Inc. under the Adriatic private label. Expect increase in demand for paprika and bell peppers and canned specialty vegetables such as green beans. Negotiating with Dona Distributor for pickles. Selvikonserv currently has no other open orders.

[4] Based on 9 months.

[5] Full year 1992 estimated amounts based on orders for fourth quarter.

[6] Newly Independent States of the former Soviet Union.

[7] Includes Germany and Holland.

[8] Includes Israel, Greece, and Turkey.

ENERGY AND INDIRECT INPUTS
Owns steam plant on premises using heavy oil for fuel. Enterprise also owns 5 wells. Uses electricity from the national system.
ACCESS TO MAJOR TRANSPORTATION NETWORKS
Good access to main road. Rail is located 30 kilometers away.
TRANSPORTATION USED IN SHIPMENT OF PRODUCT
Selvikonserv does not own any trucks for product distribution. Buyers are responsible for product transportation.

ANNEX

FINANCIAL STATEMENTS[1]

[1] These financial statements were provided by Selvikonserv and have not been checked by DAI accountants.

STATEMENT
of Income and Expenses
of SelviKonserv – Sevilevo
Full Year 1991 and January 1 – September 30, 1992

Expense Items	Amount (,000 leva) previous year	Amount (,000 leva) current year	Income Items	Amount (,000 leva) previous year	Amount (,000 leva) current year
a	1	2	a	1	2
I. Ordinary expenses			I. Ordinary income		
1. Decrease of products in store, work in progress and deferred cost	610		1. Net income from sales	19,846	9,182
2. Cost of materials and hired services:			2. production subsidies		
a) cost of materials	14,503	11,991	3. State Budget Grants		
b) cost of hired services	1,481	948	4. cost of non– current asset production	29	
3. Personal Costs:			5. Increase of products in store work in progress and deferred income	5,872	10,643
a) Wages and other remuneration	2,307	2,519			
b) social security and other welfare allowances	796	882	6. Other income		
4. Depreciation of tangible and amortization of intangible non–current assets	171	98	Total I.	25,748	19,825
			II. Financial income	2,973	47
5. Other Costs	407	174	7. Interest from income	90	34
Including inventory Write – downs			8. Income from Participations including dividends Other		
6. Book value of sold merchandise	1,497	428			
Total I.	21,772	17,040	9. Income from transactions with securities	41	
II. Financial Expenses			10. Gains from currency exchange rate fluctuations	2,843	13
7. Interest on loans	3,293	2,500	III. Extraordinary income		
8. Losses on securities:			11. From management operations	61	41
a) from sale			12. Other extraordinary income	3,065	1,162
b) from write – downs			Total III	3,126	1,204
9. Losses from currency exchange rate fluctuations	2,821	36			
Totals II	6,114	2,536			
III. Extraordinary Expenses					
10. From management operations		100			
11. Other extraordinary expenses	3,446	1,300			
Total III	3,446	1,400			
IV. Taxes					
12. Profit tax	147	88			
13. Other taxes	369	12			
Total IV	516	100			
Total expenses (I+II+III+IV)	31,847	21,076	Total income (I+II+III)	31,847	21,075
V. Current period profit			IV. Current period loss		
Grand total (I+II+III+IV+V)	31,847	21,076	Grand total (I+II+III+IV)	31,847	21,076

II. Receivables					*III. Financing*		
1. From customers	125			255	1. For investment		
2. From participations					2. Other financing		
3. From shortages and deficiencies					Group III Total		
4. From arbitration and judgement					Section B Total (I+II+III)	17,895	24,003
5. Other	46			14	**C. Deferred Income**		
Group II Total	171			269			
III. Financial assets							
1. Cash in Leva	878			171			
2. Cash in foreign currencies				524			
3. Securities, bullion and gems							
Group III Total	878			695			
IV. Deferred expenses	8,088			8,092			
Section B Total (I+II+III+IV)	25,113			30,886			
C. Receivables on subscribed shares							
D. Loss							
Total Assets (A+B+C+D)	28,932			34,661	Total Liabilities (A+B+C)	28,932	34,661
E. Off balance sheet assets					**D. Off Balance sheet liabilities**		