PD-ABL-996

Enterprise Restructuring and Privatization for Central and Eastern Europe: Hungary

Accelerating Privatization in Hungary and Enhancing Post-Privatization Viability (IMPACT II)

U.S. Agency for International Development
Delivery Order #17

Contract No. EUR-0014-C-00-1058-00

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September 29, 1995

Volume 1 of 4

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September 29, 1995

Mr. James Grossman
U.S. Agency for International Development
Bureau for Europe and New Independent States
1800 N. Kent Street
SA-15, 3rd Floor
Arlington, VA 22209

Re: Contract No. EUR-0014-I-00-1058/Delivery Order #17, IMPACT II

Dear Mr. Grossman:

Enclosed are the final drafts of the deliverables prepared in the implementation of the IMPACT II project. The objectives of the assistance provided to the Government of Hungary were to increase the number of privatizations, to support the successor agency to the SPA and the AVRt in utilizing ESOPS and other privatization methodologies, and to enhance the post-privatization economic success of firms acquired by Hungarian nationals.

The assistance provided by USAID to develop and promote the use of ESOP and other methodologies has played a major role in Hungarian privatization efforts and in broadening the ownership of Hungarian companies. By the end of the IMPACT II assistance 210 companies, and more than 75,000 employees, had used ESOPs in structuring the privatization of their enterprise. The ESOP program in Hungary is looked to as a model by other Central and Eastern European countries and is a direct result of the technical assistance funded by USAID.

Coopers & Lybrand is proud of its participation in IMPACT II and of its association with USAID in promoting privatization in Hungary.

Best regards,

Robert J. Rourke

Enclosures

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August 31, 1995

"IMPACT II" TASK ORDER
DRAFT FINAL REPORT

EXECUTIVE SUMMARY

The IMPACT II Task Order (TO) was designed to have two major thrusts:

1. *Continue the work of the IMPACT TO, which terminated in August 1994, to supporting the Government of Hungary in introducing new methods to accelerate privatization. This technical assistance (TA) was performed in the context of a new government formed after the elections of May 1994, and focused on assisting the new government to define and implement its privatization strategy, benefiting from the experience of the TA over the previous three years.*

2. *Start a new activity of post-privatization TA to help newly privatized companies become financially viable in the market economy. This TA focused on the over 200 Hungarian companies privatized partly or entirely to their management and employees.*

The IMPACT II TO has reached practically all of its benchmarks and deliverables as specified in the Work Plan of November 1994, approved by USAID. Some of the notable achievements of the IMPACT II TO were:

- *A major computer model was developed to project the financial results of a "Hungary Country Fund" consisting of minority positions in selected enterprises, which would be marketed to international financial investors. The results of the model showed that such a "Country Fund" could provide a rate of return acceptable to international financial investors only if the shares were offered at discounts which would not be politically feasible. Based partly on the TA's conclusions, the government has greatly de-emphasized the concept of "country funds", which in early versions of the Privatization Law was to be the cutting edge of the government's privatization policy.*

- *Through its counterparts and especially through the Hungarian ESOP Association and the Share Participation Foundation, the recommendations of the TA have been increasingly incorporated into successive drafts of the new Privatization Law. The Law as enacted in May 1995 had lost much of the near-exclusive emphasis on cash sales which dominated the first version of October 1994, and became far more supportive of the alternative privatization methods pioneered by the TA under the COMPASS and IMPACT TOs.*

- *The TA reviewed and made recommendations to SPA regarding the reorganization and debt restructuring plans of a number of companies. Based partly on the TA's findings, in some cases the SPA Board reversed its former decision to liquidate the company, and approved sale to a domestic bidder as recommended by the TA.*

- *The TA introduced "ownership training" to give employees of ESOP companies the knowledge and attitude necessary to behave like owners of their companies. The TA provided a wealth of tested training materials in "ownership training", prepared a group of Hungarian trainers to continue giving such training, and institutionalized it as part of the regular training program of the Hungarian ESOP Association.*

- *The TA "put on the map" in Hungary the concept of "participative management" practiced in leading US companies such as AVIS, POLAROID, Web Industries and United Airlines. In June 1995 the top management of 11 ESOP companies (including 8 CEOs) have been intensively trained in participative management, prepared plans to introduce this methodology in their companies, and committed to report after three months on the results. The TA prepared a group of Hungarian trainers as instructors of "participative management", and helped to institutionalize this practice in Hungary as (1) a part of the regular training program of the Hungarian ESOP Association, and (2) the major focus of future activity of the Share Participation Foundation with individual companies.*

- *The TA prepared a major study of "Model Contracts and Financing Mechanisms for Transactions Involving ESOPs and Other Domestic and Foreign Investors", which is likely to have important applications in the growing trend to include minority employee ownership in the privatization of strategic companies (eg. utilities).*

I. Objectives of the IMPACT II Task Order

The IMPACT II (Accelerating Privatization in Hungary and Enhancing Post-Privatization Viability) Task Order was TO number 17 (PIO/T 180-0014-3-462-3864) under Contract EUR-0014-C-00-1058-00 (the Enterprise Restructuring and Privatization Project for Central and Eastern Europe IQC). IMPACT II entered into effect on August 22, 1994 and terminated on August 31, 1994. Article II of Attachment A of the TO stated that the objectives of IMPACT II were:

> *"to increase the number of privatizations, help the State to monitor and manage its post-privatization interests in privatized companies, and ennance the post-privatization economic success of firms privatized to domestic owners."*

II. Overall Benchmarks for Monitoring the IMPACT II TO

Beside specific benchmarks for monitoring the effectiveness of the different components of the TO (see V.B.1, V.C.1 and V.D.1 below), the following benchmarks were intended to monitor the overall environment in which the TO operated:

1. Overall Benchmark #1: The number of privatization transactions using the new methodologies in FY95 exceeds the number in corresponding months of FY94.

Achievement of Benchmark: The following table shows the number and value of privatizations in the nine-month period Oct. 1, 1993 - June 30, 1994 (roughly the period of the IMPACT DO) and in the nine-month period Oct. 1, 1994 - June 30, 1995[1] (roughly the period of the IMPACT II DO).

	1/10/93-6/30/94	1/10/94-6/30/95
Firms 100% sold, no.	352	108
Of which: ESOPs	143	25
Leasing	16	0
Revenues (billion HUF):		
Cash	28.1	27.6
E-credit and related credits	25.9	10.4
Restitution bonds (R-bonds)	20.0	30.2
Total revenue	74.0	68.2

The above figures show that the number of privatizations in 94/95 has sharply decreased in comparison with 93/94. Total privatization revenues, and cash revenues from privatization, have also decreased.

ESOPs and leasing were particularly hard hit: In January-August 1995, 17 firms (value - 2.0 billion HUF) were privatized through ESOPs, compared with 62 firms (value - 13.7 B HUF) in 1994, 124 firms (value - 22.6 B HUF) in 1993 and 8 firms (value - 9.8 B HUF) in 1992. By August 1995 210 companies with 75,000 employees and value of 40 billion HUF have been privatized through ESOPs. As to leasing, in 1995 the privatization authorities allowed leasing bids in only 6-8 cases, and none was successful. This compares with 15 privatization leases (value - 3.1 B HUF) in 1994 and 9 leases (value - 3.0 B HUF) in 1993. This slowdown was mainly due to:

1. the inevitable dislocation caused by the installation of a new government;
2. the limits set by the new government on E-credit (50 M HUF per transaction) and on R-bonds (20% of the transaction value);
3. the government's initially negative attitudes to ESOPs and to the use of R-bonds;
4. low confidence by foreign investors (esp. after the Hungarhotels deal);
5. the delay in the new privatization law (initiated in July 94, enacted in June 95);
6. the confusion caused by the merging of the SPA and ÁVRt.

2. Overall Benchmark #2: ESOPs become a significant minority partner in ÁVRt transactions.

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[1] *The figures for the period 10/1/93 - 6/30/94 were interpolated from the figures available for the period 8/21/93 - 6/30/94. The privatization revenue figures for the period 10/1/93 - 6/30/94 are for the SPA only; however, since the AVRt had practically no privatization revenues during this period, they are comparable with the revenue figures for 10/1/94 - 6/30/95, which are for the SPA and AVRt combined.*

Achievement of Benchmark: A growing trend in large (ÁVRt) firms privatized mainly to strategic and financial investors is to allocate 5-10% of the shares to employees, through ESOP or individually, in order to involve them closer with the company. In particular:

i. Rába (truck manufacturing) - started an ESOP organization, submitted a bid to privatize 10% of its shares via ESOP.

ii. Ikarus Holdings (bus manufacturing) - those Ikarus companies which can be salvaged are to be spun off via ESOP/MBOs.

iii. MOL (fuel distribution) - submitted a bid for employee buyout of 5% of shares.

iv. MÁV (railways) - the initial privatization tender includes 10% for ESOP. MÁV plans to issue tenders including ESOPs for all 40 companies of the MÁV group.

v. MVM (electricity, 200 B HUF in assets) - employees and managers will have an option to buy 5-8% of the shares in some of the plants and distribution networks.

vi. HUNGEXPO - initiation of an ESOP is in process.

vii. ERAVIS (chain of lower-price hotels, capital - 2.9 B HUF) plans to offer 15% of its shares to employees and management via ESOP at 50% of face value.

These initiatives to privatize ÁVRt companies partly via ESOPs have benefitted from the TA's activities, especially Deliverable C.2.b regarding "Model Contracts and Financing Mechanisms for Transactions Involving ESOPs and Other Domestic and Foreign Investors".

3. Overall Benchmark #3: The privatization authorities have functioning systems to monitor and manage the state interest in companies privatized through deferred payments.

Achievement of Benchmark: The privatization policy of the new government disapproved of deferred payments. By December 1994 there were 24 cases of privatization leases and about 10 installment payment contracts. In 1995 these numbers have not increased. The monitoring of these contracts has been performed by PRI-MAN Kft. (a wholly-owned subsidiary of SPA); at present it is intended to re-integrate it within the new ÁPVRt. The monitoring system set up by the SPA (with TA from the COMPASS and IMPACT TOs) is capable of handling this number of contracts.

III. IMPACT II Statement of Work

The Statement of Work (Attachment A, Article III) stated that:

"The TA will be flexible and responsive to the rapidly changing needs of the three above-mentioned recipients. The Work Plan ... will determine which of the activities below will receive priority". The activities envisioned by the IMPACT II Statement of Work were:

A. TA to the SPA (State Property Agency) or its successor agency on:

1. Privatization Policy
2. Enterprise Restructuring
3. Monitoring and Management of SPA's continuing responsibilities in companies privatize through deferred payments
4. Additional privatization methodologies

B. TA to the ÁVRt or its successor agency on:

1. Training
2. Development of procedures
3. Company identification
4. Financing methods
5. Promoting foreign investment
6. Pilot ÁVRt ESOPs
7. Legal assistance

C. TA to the Share Participation Foundation and other non-profit business support organizations to build their capacity to provide post-privatization services:

1. Company diagnosis
2. Ownership training
3. Participative management
4. ESOP computer systems

The achievement by IMPACT II of the specified benchmarks and deliverables for these activities is detailed in Section V below.

IV. Macro-Development of Privatization in Hungary during the Period of the TO

The new government inaugurated in July 1994 took a long time to establish its top economic team. The first Minister of Finance, Mr. Bekesi, resigned in January 1995 over differences of privatization strategy with Prime Minister Horn. This followed the resignation in late December of Mr. Bartha, Commissioner of Privatization, due to cancellation of the Hungarhotels privatization deal by Mr. Horn. The void at the top economic policy-making positions was filled in February 1995 with the installation of Péter Bokros as Minister of Finance, György Surányi as President of the National Bank of Hungary and Tamás Suchman as Minister of Privatization.

The government likewise took much longer than expected to define its privatization policy. The new Privatization Law, scheduled for October 1994, entered in force only on June 16, 1995. The hundreds of amendments introduced by both coalition and opposition MPs had the effect of making the law far less radical than originally intended and more a continuation to the privatization policy of the former four years, including use of the new privatization methods introduced with the assistance of the TA under the COMPASS and IMPACT TOs. The major effects of the new law are (1) amalgamation of the SPA, ÁVRt and Treasury Asset Management Company into the

Hungarian Privatization Trust Company (ÁPVRt), (2) requirement for a larger cash component in privatization bids, and (3) accelerated, management-driven privatization of the remaining small and medium SPA companies.

In the portfolio of the former SPA remain only about 300 majority state owned companies. Of these, the 275 small and medium companies (under 500 employees and 600 million HUF turnover) should be sold by December through "simplified privatization" (by advertisement or, if that fails, by their management). After several abortive starts, the government tackled seriously the privatization of banks and utilities, which the former government did not touch. OTP Bank shares with value of 1.4 B HUF were sold to employees and the public. Among strategic companies, preparations are proceeding for privatization of MVM (electricity), MOL (oil), MATAV (telcom), Antenna Hungaria (TV), gas distributors, 6 electricity distributors, 7 power plants, and strategic industrial firms (eg. Rába trucks, Borsod Chemicals). EBRD will participate. Planned foreign participation is 51% in gas distribution and initially 48% in electrical distribution companies.

This privatization occurred against a background of generally declining economic activity. Foreign investment in Hungary in 1994 totalled US$1.3 billion, as compared with US$2.5 million in 1993. Most foreign investments were greenfield or in expansion of existing facilities - not in privatization. The government introduced on March 12, 1995 the Bokros austerity package, which aims to control the budget deficit mainly through a 8% import surcharge introduced in April, and through cuts in the number of civil servants and services, in the armed forces and in social security benefits. Important parts of the Bokros package were rescinded in June by the Constitutional Court, and had to be replaced by other levies such as a 8% surcharge on energy prices. Partly owing to this, the government has not been successful so far in securing a $400 million IMF loan.

V. Accomplishments of the IMPACT II TO

The deliverables specified in the TO and the corresponding outputs of the TA are as follows[2]:

A. Documentation of Action Steps Taken and Success Achieved

1. Deliverable: Work plan for project implementation signed by appropriate SPA and ÁVRt officials and reviewed by the USAID representative in Budapest and approved by USAID/Washington. To be updated as required (but signatures not required).

Product: "Draft - Impact II Work Plan", November 28, 1994.

2. Deliverable: Brief monthly reports to USAID/Washington with copies to the USAID Representative's Office in Budapest summarizing activities and progress to date on benchmarks.

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[2] *Note that one product may answer the requirements of more than one deliverable.*

Products: Monthly progress reports for August/September, October/November and December 1994 and for January, February, March, April, May and June 1995 (included in deliverables; the July report was merged with the present Final Report).

3. Deliverable: Final report to USAID listing deliverables delivered, discussing activities and success achieved against objectives and quantifiable benchmarks.

Product: The present Draft Final Report.

B. Benchmarks and Deliverables Provided through SPA or its Successor Agency.

1. Benchmarks

a. Benchmark: The new leadership of the privatization agencies will become familiar with the privatization experience acquired during the past two years.

Achievement of Benchmark: Through their counterparts in the SPA and ÁVRt, the TA transmitted to the new top management teams of the SPA and ÁVRt the experience acquired with the new privatization methods. In particular, the TA former work on debt restructuring, asset management contracts and other new privatization methods were of interest to the new management, and the position papers on these subjects prepared by the TA during IMPACT II were transmitted to the new management. At the same time, through the Hungarian ESOP Association and the Share Participation Foundation, the recommendations of the TA have been increasingly incorporated into successive drafts of the new Privatization Law. The Law as enacted in May 1995 had lost much of the near-exclusive emphasis on cash sales which dominated the first version of October 1994, and became far more supportive of the alternative privatization methods developed by the TA under the COMPASS and IMPACT TOs.

b. Benchmark: Systems will be installed for post-privatization monitoring of transactions involving deferred payments (eg. installments, leasing).

Achievement of Benchmark: The Work Plan specified that "this activity will be undertaken if and when requested by the SPA's successor agency". In the event, the number of privatization leases (24 in December 1994) and installment payment contracts (7 in June 1994) grew only marginally during the term of IMPACT II. SPA's monitoring systems already in place (in whose design the TA assisted under the COMPASS and IMPACT TOs) were capable of responding to this work load.

In addition, the TA prepared at the request of US Embassy in Budapest a monitoring report titled "Privatization in Hungary from July 1st, 1994 to March 31, 1995 and Ongoing Activities" (updated version - May 26, 1995) to compare the speed and volume of privatization under the new government with former performance.

c. Benchmark: Additional privatization methods such as asset management contracts and asset holding companies will be made operational.

Achievement of Benchmark: The privatization methods which the TA was requested to work on were chiefly (1) Hungary Country Funds and (2) debt restructuring.

a. Hungary Country Funds: A privatization concept which enjoyed high priority in the early privatization plans of the new government was the establishment of "Hungary Country Funds" which would consist of minority positions in selected (mostly ÁVRt) enterprises and would be marketed to international financial investors. The TA was requested jointly by SPA and ÁVRt and authorized by the Work Plan to devote a substantial level of effort to investigating the feasibility of such Country Funds (see Deliverable b. below). The TA prepared a major computer model to forecast the financial performance of such funds, based on 1993 financial statement data for 21 major ÁVRt enterprises, and updated the model using privileged 1994 financial data for the same companies. The model showed that to provide a rate of return acceptable to international financial investors, the proposed "country fund" would have to be marketed at a net loss (compared with book value of the companies) ranging in different scenarios from $800 million to $1,100 million. Only two of the 21 companies could be sold at a premium to book value; the average discount to book value indifferent scenarios ranged from 61.4% to 86.6%. The TA's analysis of the international experience with country funds indicated a number of other constraints to the use of this concept as proposed in Hungary. Based partly on the TA's conclusions, the government has decided not to proceed with implementing country funds targeted on foreign institutional investors.

b. Debt restructuring: The TA analyzed the reorganization and debt restructuring plans and recommended to the SPA Board debt rescheduling/privatization strategies for a series of companies, chiefly REANAL (pharmaceuticals), Békécsabai Hütőipari Rt (freeze-drying), Kispesti Textile Co., and GANZEG WEST Co. (machine components). In the case of REANAL and Békécsabai, based partly on the TA's recommendations the SPA board reversed its former decision to liquidate the companies.

2. **Deliverables**

The Work Plan specified that the TA was to deliver some or all of the following:

a. Deliverable: A series of position papers on the debt restructuring programs and other topics of high current priority will be delivered to the decision-making levels of the privatization agencies.

Products:

i. "Memorandum regarding Reorganizational Plan of REANAL Co.", Dec. 12, 1994.

ii. "Reorganizational Plan of REANAL - Going-Concern and Liquidation Values", Jan. 12, 1995.

iii. "Reorganization Plan/Going-Concern Viability of Békécsabai Hütőipari Rt (BH Rt)", Feb. 27, 1995.

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iv. "Reorganization Plan/Going-Concern Viability of Kispesti Textile Co.", Feb. 27, 1995.

v. "Reorganization and Privatization of GANZEG WEST Co., Zalaegerszeg - Analysis of Present Status and Future Alternatives", March 10, 1995.

vi. "Comments on the Proposal of the East European Finance and Trade Company for Advance Financing of Hungarian Privatization", March 27, 1995.

b. Deliverable: A series of position papers will be delivered to the privatization authorities on implementation issues of the new methodologies and their adaptation to changing conditions and priorities.

Products: The TA has been requested jointly by SPA and ÁVRt to investigate the feasibility of creating "Hungary Country Funds" which would consist of minority positions in selected (mostly ÁVRt) enterprises and would be marketed to international financial investors. The TA produced the following reports:

i. "Assistance Required from a Capital Markets Expert Regarding Creation of a Fund for Foreign Investment in a Portfolio of Minority Positions in Hungarian Companies", September 16, 1994.

ii. "Interim Report on World-Wide Experience with Country Funds as it may Apply to Hungary", September 22, 1994.

iii. "Hungarian Investment Fund - Pre-Feasibility Analysis - Draft - Privileged and Confidential" (111 pages), February 28, 1995, containing:

- Executive Summary (Assumptions, Observations and Conclusions, Other Matters)
- Assumptions (Macroeconomic, Fund)
- Results (Market Value, Sensitivity Analysis)
- Pro Forma Financial Statements 1995-2002 (for 21 ÁVRt companies)

In this report the TA developed a major computer model for (1) projecting the amount of foreign currency which the government could raise through such a fund, (2) calculating the discount from book value which would result from selling enterprise shares through the Fund, and (3) comparing the costs and net proceeds of the Fund with those of a sovereign debt bond issue.

C. Benchmarks and Deliverables Provided through ÁVRt or its Successor Agency

1. Benchmarks

a. Benchmark: Relevant ÁVRt staff will have the required skills to tender and process privatization offers which involve the use of ESOPs and other new privatization methodologies.

Achievement of benchmark: The Work Plan specified that "this activity will be undertaken if and when requested by the ÁVRt's successor agency". Neither the ÁVRt nor its successor the ÁPVRt have issued to the TA such a request.

b. Benchmark: ÁVRt will possess procedures for tendering and processing ESOP bids, including their comparison with other bids.

Achievement of benchmark: The major change introduced by the Privatization Law of May 1995 at the level of tendering and processing was a greater emphasis on cash sales and a larger cash component in many types of privatization transactions. Otherwise, the procedures for tendering through ESOPs, MBOs, compensation vouchers, etc. have not been changed from those which were developed (with assistance from the TA) during the COMPASS and IMPACT TOs. The TA updated the computer models it had devised under the IMPACT TO to compare bids using different privatization methods, so as to reflect this increased emphasis on cash sales.

c. Benchmark: ÁVRt companies suitable for the establishment of ESOPs will be identified.

Achievement of benchmark: The Work Plan specified that "the TA will upon request assist ÁVRt staff to prepare criteria and guidelines for selecting the companies most appropriate for each of the privatization methodologies". In the event, for strategic companies (banks, utilities, telcom) the new government adopted the policy of selling a majority or a controlling minority share to a strategic foreign investor, and for medium and small companies the government left it to the initiative of company management to decide which type of privatization methodology to use in their bid.

d. Benchmark: Model contracts and finance mechanisms will be available for financing of privatization transactions which involve ESOPs, other domestic investors, and foreign investors.

Achievement of benchmark: This subject was thoroughly covered in the TA's report titled "Model Contracts and Financing Mechanisms for Transactions Involving ESOPs and Other Domestic and Foreign Investors" (Deliverable b. below).

e. Benchmark: Model contracts and finance mechanisms will be available for transactions which involve share acquisition by employees and contracting the operation and management of the company to a strategic investor.

Achievement of benchmark: This was accomplished together with Benchmark d. in the above-mentioned report.

f. Benchmark: Comprehensive technical assistance will be delivered by the Share Participation Foundation under the guidance of the TA on all the ESOP-specific aspects of the privatization of one or more pilot ÁVRt company(ies).

Achievement of benchmark: The Work Plan specified that "this activity will be undertaken if and when requested by the ÁVRt's successor agency". As no ÁVRt

companies have been privatized during the period of IMPACT II, the TA was not requested to provide this type of technical assistance.

g. Benchmark: Legislative amendments necessary for establishment of ESOP in ÁVRt companies will be presented to and discussed with the Parliament Economic Committee.

Achievement of benchmark: This subject was thoroughly covered in the TA's report titled "Legal Amendments Required for the Establishment of ESOPs at Companies Included in the Portfolio of the ÁVRt" (Deliverable d. below). The conclusions of that report were discussed with members of the Parliament Economic Committee and of the Tripartite Reconciliation Committee.

2. **Deliverables**

As agreed in the Work Plan, the TA was to deliver the following:

a. Deliverable: Procedures for tendering and processing ESOP bids, including their comparison with other bids.

Products: The new Privatization Law did not introduce changes which require new procedures for tendering and processing ESOP bids which had been developed by SPA with assistance of the TA during the period of the ESOP, COMPASS and IMPACT TOs. The TA updated the computer models prepared under the IMPACT TO to compare ESOP bids with bids using other privatization methods.

b. Deliverable: Model contracts and finance mechanisms for financing privatization transactions which involve ESOPs, other domestic investors and foreign investors.

Products: "Model Contracts and Financing Mechanisms for Transactions Involving ESOPs and Other Domestic and Foreign Investors - Main Contractual and Financing Relationships between ESOPs and Co-Owners", July 20, 1995, containing:

- Purpose of the Study
- Typical Contractual Relations, Financing Mechanisms and Financial Operations Related to Gaining Ownership and Practising the Ownership Rights of the MRP Organization
- Conditions for the Application of Consortium and Syndicate Contracts
- Typical Issues and Possible Options to be Considered when the Syndicate Contract is Formulated
- Examples of Consortium and Syndicate Contracts
- Sample Contents for Consortium and Syndicate Contracts
- Appendix A: Advantages and Disadvantages of Employee Ownership Established Before Developing a Strategy for Privatizing the Rest of the Company Shares
- Appendix B: Problems of MRP Officials Resulting from Concluding Consortium Contracts, and Suggestions for Solving Them

c. Deliverable: Model contracts and finance mechanisms for transactions which involve share acquisition by employees and contracting the operation and management of the company to a strategic investor.

Products: This subject was covered in the above report (Deliverable b.)

d. Deliverable: Legislative amendments necessary for establishment of ESOPs in ÁVRt companies.

Products: "Legal Amendments Required for the Establishment of ESOPs at Companies Included in the Portfolio of the ÁVRt", July 31, 1995, containing:

- Introduction
- Characteristics of ÁVRt. Companies as far as Employee Ownership is Concerned
- Situation of EO in Hungary, with Special Regard to ÁVRt Companies
- Financial Mechanisms Facilitating Employee Ownership in ÁVRt Companies
- Effective Legal Framework of Employee Ownership and its Criticism
- Problems Related to Lack of Capital Resulting from Legal Regulations
- Legislative and Regulatory Tasks Necessary for Improving Opportunities to Gain Employee Ownership
- Recommendations

D. Benchmarks and Deliverables Provided through the Share Participation Foundation and through other Non-Profit Business Support Organizations

1. Benchmarks

a. Benchmark: Key companies privatized through ESOPs or other methodologies will have a diagnosis of their critical problems such as governance, management, marketing, administration, etc., and identification of adequate sources of expertise to solve these problems.

Achievement of Benchmark: In general, the record of ESOP companies for meeting their payments obligations and for survivability has so far been better than that of non-ESOP companies (perhaps because employees MUST meet the payments to save their jobs). Of the 210 companies privatized through ESOP by August 1995, none has been liquidated so far[3], while about 50 or more of the approximately 500 companies privatized to private investors during the same period either have not fulfilled the agreed down payment or have been liquidated.

The TA and the Share Participation Foundation have started the diagnosis of critical problems of ESOP companies with a survey of the 168 ESOP companies existing at the start of IMPACT II. This population was winnowed down to 32 companies, then to the 16 companies with the highest potential for foreign investment from the points of

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[3] *About 5-10 distressed ESOP companies avoided liquidation by selling a part of their shares to a venture capital investor to raise funds.*

view of profitability, capital requirements and foreign exchange generation. Eleven companies were interviewed for a diagnosis of their critical problems: Centrum (department stores), Perion (batteries), Orex (jewellery and watches store chain), Budapest Chemical Works, Amphora (glass and porcelain wholesale), Pátria (printing), PEMÜ (plastics), Csepel Transformer Plant, MMG Automatika (car components and household articles), KÖZÉV (construction and renovation), First Pest Rolling Mills (flour). The interviews covered ownership structure, current financial position, management practices, and special issues posed by employee ownership. The results of the interviews were used to select promising companies for foreign investment.

b. Benchmark: Employees of ESOP companies (or companies privatized with other methodologies) will acquire through mass communication campaigns the knowledge and attitude necessary to behave like owners of their companies.

Achievement of Benchmark: At the end of IMPACT II, shop-floor "ownership training" has occurred in a number of companies, the management of many more ESOP companies has been exposed to "ownership training" methodologies, a group of Hungarian trainers has been prepared to continue giving such training, and this training has been institutionalized as part of the regular training program of the Hungarian ESOP Association. Towards these results, the TA contributed the following:

i. The TA assisted the Share Participation Foundation in planning the Third Annual Hungarian ESOP Conference which took place on November 3-4, 1995. About 300 persons attended. One of the TA advisors addressed this conference. One of the main theme of the conference was how to make the ESOP "real" to the company's employees.

ii. The TA provided training on "how to take decisions like an owner" on 2/21/95 to department heads of the Gas Appliances Repair and Installation Kft and on 2/23/95 to members of the Hungarian ESOP Association.

iii. The TA trained on 3/31/95-4/1/95 16 trainers of the Hungarian ESOP Association, the Share Participation Foundation and several ESOP companies in (1) using adult interactive training methods, and (2) delivering a module on "Making Meetings More Effective".

iv. The TA prepared two trainers of the Share Participation Foundation to give the "Making Meetings More Effective" training at "MMG Automatika" (two sessions for 12 management and shop-floor employees).

v. The TA gave a half-day presentation for 15 union officials.

c. Benchmark: Participative management materials (booklets, training guides, videos, films, etc.) will be adapted and Hungarian personnel trained on-the-job in how to introduce participative management to ESOP companies, and one or more pilot companies will have functioning, replicable participative management schemes for increasing profitability through involving teams of employees in making improvements within their areas of responsibility.

Achievement of Benchmark: The major event in the introduction of participative management techniques to Hungary has been the three-day workshop for top management of ESOP companies implemented on June 21-24 in Keszthely by the Share Participation Foundation with substantial TA from IMPACT II. The seminar included 22 Hungarian participants representing 11 ESOP companies. Eight of these were CEOs, ten were other top managers, and four were from boards of ESOP organizations. Two US CEOs, a US ESOP consultant and USAID representatives addressed the seminar. The presentations and exercises were grouped around the following topics:

- Changing the paradigms of management
- "Zapp - the Lightning of Empowerment"
- Steps of the problem-solving process
- Brainstorming as a tool of problem solving
- Management styles
- The future of ESOP companies
- Sharing experience with the US participants
- Dealing with resistance to change
- Specific three-month action plan for each participating company
- Management's vision for each company's future

Participants' evaluation of the workshop was very positive. Participants drafted at the workshop action plans for their companies, and agreed to implement them and report after three months on the results. A follow-on workshop is planned for fall 1995.

In addition, the TA contributed the following to the implantation of participative management in Hungary:

i. Organized for 14-17 trainers from the Hungarian ESOP Association, the Share Participation Foundation, several ESOP companies and management consulting firms the following train-the-trainers workshops:

- "Training Committees in Group Problem-Solving" on June 2-3
- "Training Supervisors - Leading Worker-Owners" on June 30-July 1

ii. Delivered on June 8 a one-day workshop at the Perion Battery Company on appropriate management styles for ESOP companies.

iii. Translated the book "Zapp - The Lightning of Empowerment" by W.C. Byham and J. Cox, which explains in simple language the principles of participative management and has proved very popular with Hungarian managers.

iv. Nearly completed translating the book "The Great Game of Business" by Jack Stack (CEO of the ESOP Springfield Manufacturing Company), which will be used in future training.

This training in participative management introduced by the TA has been institutionalized in Hungary by becoming (1) a part of the regular training program of the Hungarian ESOP Association starting in fall 1995, and (2) the major focus of future

activities of the Share Participation Foundation with individual companies.

d. Benchmark: One or more ÁVRt companies privatized with ESOPs will have adequate ESOP accounting/administration systems, replicable to other ÁVRt companies.

Achievement of Benchmark: The Work Plan stated that "this activity will be undertaken if and when requested by the ÁVRt's successor agency". As no ÁVRt companies have been privatized (through ESOP or otherwise) during the life of IMPACT II, there was no request for this type of TA.

2. **Deliverables**

a. Deliverable: Reports on the diagnosis of the critical problems of selected ESOP privatized companies. Reports to include critical problems such as governance, management, marketing, administration, etc., and identification of adequate sources of expertise to solve these problems.

Products:

i. "Questions Related to the Third National ESOP Conference", August 31, 1994 (the replies to this questionnaire furnished a data base on the financial situation of ESOP companies and the felt needs of their management for technical assistance).

ii. "Questionnaire Regarding ESOP Companies", September 30, 1994. This questionnaire was sent to 168 companies.

iii. "Summary about the Need of Additional Capital for ESOP Companies (Processing of the Questionnaires)", Nov. 24, 1994. 32 answers to the above questionnaire were received and analyzed. The replies provided a data base regarding the capital needs and foreign exchange generation of ESOP companies, to identify potential targets for foreign investment.

iv. "Financial Data of 16 High-Capitalization ESOP Companies", Nov. 11, 1994.

v. "Selection Criteria and Reasons for Selection for Technical Assistance - Attachment to the List of 16 ESOP Companies Selected", April 18, 1995.

vi. "Financial Analysis of ESOP Companies", November 1994.

vii. "Interviews Prepared at ESOP Companies in December 1994 and January 1995".

viii. "Financial Analysis of 32 ESOP Companies Selected", April 18, 1995.

b. Deliverable: Copies of Hungarian ownership education materials for employees (eg. basic financial skills, understanding of corporate management) developed.

Products:

i. "Questionnaire Regarding Training Needs of ESOP Companies". This questionnaire was filled by 82 representatives of ESOP companies at the Third National ESOP Conference, 3-4 Nov. 1994.

ii. "Discussion of Results of the Questionnaire Regarding Training Needs of ESOP Companies", Nov. 24, 1994. The results of the above questionnaire were analyzed and incorporated into design of the ESOP training program.

iii. "MRP 'Ownership Training' Program: Goal, Purpose, Outputs and Activities", Dec. 16, 1994.

iv. "Criteria for Design of the 'Ownership Training' Program", Dec. 21, 1994.

v. "Training Plan for the IMPACT II Technical Assistance to ESOPs", Jan. 11, 1995, including:

- Annex A - National Association of ESOP Organizations - Training and TA Plan for 1995
- Annex B - Pilot Project for Management and Ownership Redefinition in ESOP Companies ("Project for MORE")

v. "Available Modules for Ownership Training", Dec. 21, 1994.

vi. "Our Daily Bread Kft. - the MRP Role-Acting" (training module for performing the roles of board members in a fictionalized employee-owned bakery).

vii. "Widgets" (training module for organizing task forces to work on production, marketing and financing problems of a hypothetical manufacturing company).

viii. "Making Meetings More Effective", March 1995.

ix. "Introduction to Training Employee Owners", March 1995.

x. "Train the Trainers - Participant's Manual", March 1995.

xi. "Train the Trainers - Instructor's Manual", March 1995.

xii. "Orientation to Employee Ownership - Participant's Manual", March 1995.

xiii. "Orientation to Employee Ownership - Instructor's Manual", March 1995.

xiv. "Instructional Design Brief for an ESOP Employee Orientation Training Course", July 17, 1995.

c. Deliverable: Copies of participative management materials (booklets, training guides, videos, films, etc.) developed.

Products:

i. "Recommendations for Establishing Employee Involvement Programs in Hungarian ESOP Companies, Based on the North American Experience", March 8, 1995.

ii. "Draft In-Company Ownership Training Program", March 17, 1995.

iii. "Report of Technical Assistance Provided to the Share Participation Foundation "Project for MORE", March 18, 1995.

iv. "Analysis and Recommendations for Hungarian ESOPs, Based on the Algoma Steel Case Study", May 1995.

v. "Group Consensus Decision-Making - Trainer's Guide and Participants' Handouts", May 1995.

vi. "Group Problem-Solving - Trainer's Guide and Participants' Handouts", May 1995.

vii. "Debriefing a Training Exercise".

viii. "Evaluation Form - Training Committees in Group Problem-Solving".

ix. "Training Committees: Group Problem-Solving" - "Agenda" and "Results of Evaluation", June 2-3, 1995.

x. "Managing Owners - Trainer's Guide and Participants' Handouts", June 1995, including:

- Text
- Diagrams
- Handouts
- Slides

xi. "Training Supervisors to Lead Employee Owners - Workshop Materials Not included in Module on Managing Owners", June 1995, including:

- Workshop Agenda
- Group Dynamics
- Choosing the Best Team Members
- Effective Feedback
- Worker Owner Steering Committees in the US
- Ownership Education Program

xii. "Empowerment - Trainer's Guide and Participants' Handouts", June 1995, including:

- Diagrams
- Handouts
- Slides

xiii. "CEO Retreat Case Study", June 1995.

xiv. "N-ERG! - A Felhatalmazás Villáma" (Hungarian translation of "Zapp - The Lightning of Empowerment" by W.C. Byham and J. Cox (Ballantine Books, 1992)

VI. Overall Description of the Activities under the Task Order, including Locations and Individuals

Practically all activities took place in Budapest. The following experts (in alphabetical order) were involved:

- Itil Asmon, Financial Planner (for duration of TO)
- Daniel Bell - Management/Labor Specialist (March 15-April 2, May 22-31 and June 17-July 2, 1995)
- Michael Delfre - Mgmt/Labor Specialist (March 5-18 and April 30-May 20, 1995)
- Denis Desjardins - Mgmt/Labor Spec. (March 5-18 and April 30-May 20, 1995)
- Steve Martin - Financial Planner (Feb. 7-March 11 and June 6-July 13, 1995)
- Vincent Morabito - Financial Planner (for duration of TO)
- Jim Shields - Financial Planner (Nov. 7-22 and Dec. 4-14, 1994)
- Ferenc Simon - Senior Hungarian Financial Planner (for duration of TO)
- János Szántai - ESOP Legal Expert (July 3-29, 1995)

VII. Methods of Work Used

The work was accomplished through consultations with government officials, company management, local experts, and other relevant persons; writing and distribution of papers; assistance to SPA in negotiations with banks; preparation of training materials; conduct of training workshops for members of the ESOP Association, top and middle management of ESOP companies, officials of ESOP organizations ad trade unions; conduct of train-the-trainers workshops for trainers belonging to the ESOP Association, Share Participation Foundation, management consulting firms, and ESOP companies.

VIII. Location, Number and Nationality of Trainees--Type, Duration and Purpose of Training

All trainees were Hungarian. For details of the training, see Benchmarks D.1.b, D.1.b and D.1.c above.

IX. Comments and Recommendations Regarding Unfinished Work and/or Project Continuation

The work of IMPACT II in providing TA to recently privatized Hungarian companies will be continued to a certain extent by the upcoming USAID Corporate Finance Resources Center, with more emphasis on the financial aspects.

APPROVED WORKPLAN

November 28, 1994

DRAFT

IMPACT II - WORK PLAN

I. The Present Situation

I.1 Current status of Hungarian Privatization strategy: It has been necessary to delay as long as possible the submission of the draft work plan until the government announced the basic outline of its privatization strategy. The new government which took power in 1994 has spent the past five months determining what changes would be effected in the legal and institutional framework of Hungarian privatization. Consensus within the government has now been reached, and we expect the new privatization law to be enacted in early 1995. The major change to be effected by the new law will be the amalgamation of the SPA, AVRt and Treasury Asset Management Company into a new entity - a state-owned joint-stock corporation whose shares will be held by the Ministry of Finance. The draft privatization bill builds upon the experience of the past four years, renews the emphasis on cash sales, and plans the rapid privatization of AVRt assets (the larger, strategic state-owned companies). At the same time, the bill continues to emphasize the use of new methodologies such as ESOPs in the continuing privatization of small and medium size state-owned enterprises. An additional component of the strategy is the possible creation of "country funds" (mutual funds holding minority positions in state-owned enterprises) whose targets will be international financial investors, and similar mutual funds whose shares will be sold to holders of compensation vouchers or transferred to the Social Security (health and pension) authorities as compensation of outstanding claims of Social Security against state enterprises. As will be discussed later, the contractor has been active to date in advising the privatization authorities on many aspects of development of the new privatization strategy.

I.2 Counterparts of IMPACT II: In anticipation of the IMPACT II Delivery Order, the contractor requested of Dr. Lajos Csepi (then Managing Director of the AVRt and the #3 person in the new privatization hierarchy) to assign the contractor counterparts within the privatization agencies, with the expectation that these counterparts would occupy after the reorganization positions of significant responsibility in implementation of the new privatization strategy. On August 15 Dr. Lajos Csepi appointed the following individuals as IMPACT II counterparts:

- Dr. Csaba Gál (Director of the AVRt Property Transfer Directorate)
- Dr. Péter Kazár (Director of the SPA Portfolio Management Directorate)
- Dr. Erzsébet Lukács (Director of the AVRt International Relations Directorate)
- Dr. Mária Vanicsek (Director of the SPA Economics Directorate)

Since the signing of the IMPACT II DO about August 24, the contract team has been working closely with these individuals to develop the work plan and to provide technical assistance (TA) as required.

The counterpart for the post-privatization assistance aspect of IMPACT II is principally the Share Participation Foundation. The Foundation has reviewed the post-privatization part of the Work Plan and made its inputs.

I.3 Technical Assistance Provided to date: In view of the prolonged government discussion of the new Privatization Law (originally scheduled to be enacted in November), the TA has purposefully economized on LOE (by taking overdue vacations, etc.) in order to conserve the maximum of LOE for the period starting January 1995 when the government's priorities will be better defined and its need for TA more urgent. The main TA activities to date have been as follows:

- Update of the computer model which calculates the cash value of privatizations realized through different methodologies, and its installation on the new computer system of the SPA Economics Department.

- A major analysis of the international experience of "country investment funds" and their possible application to Hungary.

- Recommendation of the criteria for companies to be included in a "Hungarian Investment Fund".

- A large computer model for projecting the costs and net proceeds of a "Hungary Investment Fund" and comparison with those of a sovereign debt bond issue.

- Analysis of the proposed 1995 company tax legislation and its implications for foreign investments in ESOP/MBO companies.

- Analysis of financial statement data of 33 ESOP/MBO companies.

- Survey of the investment needs and foreign exchange generation of ESOP/MBO companies to identify the potential for foreign investments.

- Questionnaire to ESOP companies to determine the special problems of these companies due to the fact that they are employee-owned.

- Development of methods for enabling ESOP/MBO companies to obtain equity capital from international financial investors.

- Assistance in planning the Third National ESOP Conference and addressing the conference.

II. The Draft Work Plan

The draft IMPACT II Work Plan is more well-defined for the period November 1994-January 1995, but necessarily tentative for the period February-August 1995, and can be expected to be modified as the new government privatization corporation becomes established and defines its overall work plan. The draft Work Plan is discussed below in terms of the items in the IMPACT II PIO/T Statement of Work. For every item, the Work Plan specifies how and to what extent it plans to achieve the benchmark or deliverable specified in the PIO/T.

A. TA to the SPA or its Successor Agency

A.1 Privatization policy

Benchmark: The new leadership of the privatization agencies will become familiar with the privatization experience acquired during the past two years.

Workplan activities: The TA will work on achieving this benchmark by ongoing consultations with their counterparts and formulation of position papers which will include consideration of Hungary's past privatization experience.

Deliverable: Position papers will be delivered to the privatization authorities on the implementation issues of the new methodologies.

Workplan activities: The forthcoming Privatization Law is expected to announce for the new privatization methodologies (MBOs, installment payments, etc.) different terms and conditions than the existing ones. The TA will analyze the likely influence of the new terms on the demand for state assets by various classes of buyers - taking into account the varying quality of the assets offered for privatization - and recommend implementation measures which are likely to increase the demand.

A.2 Enterprise restructuring

Deliverable: Position papers on the debt restructuring program and other topics of high current priority will be delivered.

Workplan activities: The TA will continue assistance to the debt consolidation program on demand by the competent authorities.

A.3 Monitoring and management of SPA's continuing responsibilities

Benchmark: Systems will be installed for post-privatization monitoring of transactions.

25

Workplan activities: This activity will be undertaken if and when requested by the SPA's successor agency.

A.4 Additional methodologies

Benchmark: Additional privatization methods such as asset management contracts and asset holding companies will be made operational.

Workplan activities: A new privatization methodology currently enjoying high government priority is the "Hungarian Country Fund", for which the TA has reviewed the international experience and formulated a computer model, as discussed in I.3 above. The TA will continue to work on refinement of this privatization methodology and, if requested, on preparations for its implementation.

The TA was also asked to examine, at a later date, the feasibility of increasing the liquidity of the Budapest Stock Exchange by floating on it the shares of foreign companies which are strategic investors in Hungary, through a mechanism resembling ADRs (American Depository Receipts) or otherwise.

B. TA to the AVRt or its Successor Agency

B.1 Training

Benchmark: Relevant AVRt staff will have the required skills to tender and process privatization offers which involve the use of ESOPs and other privatization methodologies.

Workplan activities: This activity will be undertaken if and when requested by the AVRt's successor agency.

B.2 Development of procedures

Benchmark/Deliverable: AVRt will possess procedures for tendering and processing ESOP bids, including comparison with other bids.

Workplan activities: The focus of this activity will be expanded to development of procedures for each of the new privatization methods, as required by the new terms and conditions of these methods.

B.3 Company identification

Benchmark: AVRt companies suitable for the establishment of ESOPs will be identified.

Workplan activities: In conjunction with A.1, A.4 and B.2, the TA will upon request assist AVRt staff to prepare criteria and guidelines for selecting the companies most appropriate for each of the privatization methodologies under the new terms and conditions for use of these methodologies.

B.4 Financing Methods

Benchmark/Deliverable: Model contracts and finance mechanisms will be available for financing of privatization transactions which involve ESOPs, other domestic investors, and foreign investors.

Workplan activities: This activity is developed together with B.5 in the following.

B.5 Promote foreign investment

Benchmark/Deliverable: Model contracts and finance mechanisms will be available for transactions which involve acquisition of shares by employees and contracting the operation and management of the company to a strategic investor.

Workplan activities: Topics B.4 and B.5 are being dealt with together under the auspices of the Share Participation Foundation (C. below), which is currently the main organization supporting the further development of ESOPs. The TA will develop methods which would qualify Hungarian ESOP/MBO (which are typically non-publicly-traded small and medium companies) to obtain equity capital from international investors.

B.6 Pilot AVRt ESOPs

Benchmark: Comprehensive technical assistance will be delivered by the Share Participation Foundation under the guidance of the TA on all the ESOP-specific aspects of the privatization of pilot AVRt company(ies).

Workplan activities: This activity will be undertaken if and when requested by the AVRt's successor agency.

B.7 Legal assistance

Benchmark/Deliverable: Legislative amendments necessary for establishment of ESOP in AVRt companies will be presented.

Workplan activities: This item will concentrate on analyzing and recommending changes in the tax treatment of ESOP companies which receive post-privatization foreign investments, where such changes might be required to achieve the foreign investments targeted under B.4 and B.5.

C. TA to the Share Participation Foundation to Build its Capacity to Provide Post-Privatization Services

C.1 Company diagnosis

Benchmark: Key companies privatized through ESOPs or other methodologies will have a diagnosis of their critical problems.

Deliverable: Reports on the diagnosis of the critical problems of selected ESOP privatized companies.

Workplan activities: Since IMPACT II does not have the resources to assist companies in all of their business problems, the diagnosis will concentrate on identifying those company problems which are associated with employee ownership.

Several site visits will be made to selected ESOP companies to make a rapid diagnosis of their problems related to employee ownership. The results will feed into design of interventions (item C.2) to correct the problems identified.

C.2 Ownership training

Benchmark: Employees of ESOP companies or companies privatized with other methodologies will acquire through mass communication campaigns the knowledge and attitudes necessary to behave like part owners.

Deliverable: Copies of Hungarian ownership education materials for employees developed.

Workplan activities: This "ownership training" is broadly interpreted to include all interventions necessary to make the employees behave like owners. Based on analysis of the questionnaires and on the site visits (item C.1), the TA will determine the most effective way to pass on to employees the skills and attitudes necessary to function as owners.

C.3 Participative management

Benchmark: Participative management materials will be adapted and Hungarian personnel trained in how to introduce participative management to ESOP companies.

Deliverable: Copies of participative management materials developed.

Workplan activities: Companies which the diagnosis phase identifies as having potential and interest for participative management and Total Quality Management (TQM) will be referred to organizations specializing in these aspects, and coordination

will be maintained to achieve synergy between TQM or similar programs introduced in a given company, and the "ownership training" (C.2) performed by the TA for employees of the same company.

C.4 ESOP computer systems

Benchmark: One or more AVRt companies with ESOPs will have adequate ESOP accounting/administration systems.

Workplan activities: This activity will be undertaken if and when requested by the AVRt's successor agency.

We reiterate that the above is a tentative work plan as a function of the TA requirements and official requests to date. Consequently this draft Work Plan is better-defined for November 1994-January 1995, but necessarily provisional for February-August 1995, and can be expected to be modified as the new privatization agency becomes established.

MONTHLY PROGRESS REPORTS

October 13, 1994

IMPACT II TASK ORDER - FIRST PROGRESS REPORT AUGUST/SEPTEMBER 1994

Introduction

The IMPACT II Task Order was approved by USAID/Washington effective on August 22, with a life of project of 12 months. The objectives of IMPACT II are to increase the number of privatizations, help the State to monitor and manage its post-privatization interests in privatized companies, and enhance the post-privatization economic success of firms privatized to domestic owners. The recipients of the IMPACT II technical assistance (TA) are (1) the AVRt (State Asset Holding Company) or its successor agency, (2) the SPA (State Property Agency) or its successor agency, and (3) the Hungarian Share Participation Foundation.

The Scope of Work (SOW) of IMPACT II was purposefully broad. The SOW states that "the TA will be flexible and responsive to the rapidly changing needs of the above-mentioned recipients, generally within the strategic areas discussed in the following":

- For the SPA or its successor agency - privatization policy, enterprise restructuring, monitoring and management, and additional methodologies.

- For the AVRt or its successor agency - training, development of procedures, company identification, financing methods, promoting foreign investment, pilot ESOPs and legal assistance.

- For the Share Participation Foundation - company diagnosis, ownership training, participative management and ESOP computer systems.

The SOW states that "the Work Plan, to be reviewed by the TA recipients and approved by USAID/Budapest and USAID/Washington, will determine which of these activities will receive priority".

A. Staffing

There was a two-week break between the end of IMPACT I on August 7 and the beginning of IMPACT II on August 22. IMPACT II activities started as soon as the Task Order became effective. The following US consultants contributed to IMPACT during August-September:

- Itil Asmon (Aug. 22 - Sep. 23)
- Vincent Morabito (Aug. 22 - Sep. 30)

B. Macro-Developments Influencing the Work Plan

The overarching process which affects the unfolding of the IMPACT II TA is the definition of the new privatization policy and institutional framework of the new government.

The legal and institutional framework of Hungarian privatization is currently in the process of rapid change following the inauguration of the new government in July 1994. The government has announced the basic outlines of its privatization policy. The basic decision has been taken to amalgamate the SPA, AVRt and Treasury Asset Management Company into a new entity, the APRt (State Privatization Corporation) - a state-owned joint-stock corporation whose shares will be held by the Ministry of Finance. A Commissioner of Privatization and the directors (heads of departments) of the new corporation have been nominated. The new Privatization Law, which will legally establish the APRt, is expected to be enacted in December 1994, and the new agency to be established in January 1995. However, the APRt's staff at the operating level has not yet been nominated, and naturally has not yet formulated their own working plans, which define their priorities for TA and thus the IMPACT II work plan.

On August 15 the TA has been informed by a letter from Dr. Erzsébet Lukács, AVRt Director of International Relations, that Dr. Lajos Csepi, then Managing Director of the AVRt, had nominated as counterparts of the IMPACT II TA Dr. Csaba Gál (Director of the AVRt Property Transfer Directorate) and Dr. Péter Kazár (Director of the SPA Portfolio Management Directorate). These counterparts are in addition to Dr. Mária Vanicsek, Director of the SPA Economics Directorate, who had been the counterpart of the TA during the IMPACT I Task Order and continues to serve as a counterpart.

C. Activities of the TA Team during August-September

During August-September the TA focused its activities on (1) country investment funds, (2) installation of procedures and systems, (3) post-privatization assistance to companies owned by their management and employees, and (4) preparation of the IMPACT II Work Plan.

1. Country Investment Funds

The first major privatization thrust of the new government is the setting up of a portfolio management company which will hold minority positions in state-owned enterprises (especially AVRt enterprises which have not been subject to privatization in the past) and sell its own shares on the international financial market. The Hungarian government refers to this concept as a "country investment fund". The government is also in the process of establishing (1) similar "investment funds" whose shares will be transferred to the Social Security authorities, and (2) "investment funds" whose shares will be sold to holders of compensation coupons.

These "investment funds" constitute a new privatization methodology, and thus within the scope of the SOW item A.4, "additional methodologies". The TA in place in Budapest - with important inputs from Coopers & Lybrand capital market experts in Washington and New York - has undertaken a major analysis of the international experience of similar funds and their possible application to Hungary. An interim report was presented to the SPA and AVRt in September, and the final report will be delivered in October. We expect to receive requests for continuation of such assistance as this "country investment fund" is established and implemented.

2. Installation of Procedures and Systems

One of the early privatization policy indications of the new government is a renewed emphasis on generating cash from privatization transactions. Accordingly all other privatization methodologies (installment payments, leasing, E-credit etc.) are to be appraised in terms of their cash equivalent. Under a former Task Order, the TA has devised a computer model to compare privatizations realized through different methodologies. This computer model (in Hungarian) has been updated to reflect the emphasis on cash transactions, and installed on the new computer system of the SPA Economics Department.

3. Post-Privatization Assistance to Management- and Employee-Owned Companies

This assistance is channelled through the Share Participation Foundation. In the framework of assistance to the Foundation (part C of the Scope of Work), the TA has embarked on the following activities:

a. Strategic planning: The TA has assisted the Foundation to develop its own strategic plan so that it will be in position to effectively utilize the TA and to provide appropriate post-privatization assistance to ESOP companies.

b. Company questionnaires: To provide a realistic data base for this post-privatization assistance, one questionnaire was sent to all 170 ESOP companies in Hungary regarding their profitability and other balance sheet data, and a second questionnaire regarding investment needs and foreign exchange generation. Answers to the first questionnaire are already in, with an extremely high degree of response. The questionnaire data will be analyzed to help in the selection of companies for post-privatization assistance.

c. Foreign investment: ESOP companies are typically small and medium non-publicly-traded companies, which thus are usually not objects of foreign investment. To make ESOP companies eligible for foreign investment, the TA has started investigating possible amendments to the tax treatment of ESOPs which would provide incentive to such investment.

d. ESOP conference: The TA assisted the Foundation in planning of the Third Annual Hungarian ESOP Conference. One of the advisors has been invited to speak in this conference. (The USAID/Budapest Representative will also speak at the conference, and an official of USAID/Washington plans to attend).

4. Preparation of the IMPACT II Work Plan

The TA has started working with its counterparts on the preparation of the Work Plan mandated in the SOW. This planning will continue in October as the privatization authorities' own work plans become better defined, and the Plan submitted to USAID for review.

D. Documents Produced by the Project Team during August-September

1. "Assistance Required from a Capital Markets Expert Regarding Creation of a Fund for Foreign Investment in a Portfolio of Minority Positions in Hungarian Companies", September 16, 1994

2. "Interim Report on World-Wide Experience with Country Funds as it may Apply to Hungary", September 22, 1994

3. "Questions Related to the Third National ESOP Conference", August 31, 1994

4. "Questionnaire Regarding ESOP Companies", September 30, 1994

IMPACT II
MONTHLY PROGRESS REPORT
OCTOBER/NOVEMBER

A. Staffing

The following U.S. consultants contributed to IMPACT during October and November.

Itil Asmon
Vincent Morabito
Jim Shields

B. Macro Developments Influencing the Workplan

Consensus within the government has now been reached regarding the changes to be effected in the legal and institutional framework of Hungarian privatization, and we expect the new privatization law to be enacted in early 1995. The major change to be effected by the new law will be the amalgamation of the SPA, AVRt and Treasury Asset Management Company into a new entity, the Hungarian Privatization Trust Company (APV Rt). This will be a state-owned joint stock corporation whose shares will be held by the Ministry of Finance.

The draft privatization bill builds upon the experience of the past four years, renews the emphasis on cash sales, and plans the rapid privatization of AVRt assets (the larger, strategic state-owned companies). At the same time, the bill continues to emphasize the use of new methodologies such as ESOPs in the continuing privatization of small and medium size state-owned enterprises (about 50 ESOP/LBO bids are presently under consideration by the SPA). An additional component of the strategy is the possible creation of "country funds" (mutual funds holding minority positions in state-owned enterprises) whose targets will be international financial investors, and similar mutual funds whose shares will be sold to holders of compensation vouchers or transferred to the Social Security (health and pension) authorities as compensation of outstanding claims of Social Security against state enterprises. As will be discussed later, the contractor has been active to date in advising the privatization authorities on many aspects of development of the new privatization strategy.

C. Activities of the TA Team

During October/November the TA focused its activities on (1) country investment funds, (2) post-privatization assistance to companies owned by their management and employees, and (3) preparation of the IMPACT II Workplan.

1. Country Investment Funds

In order to privatize state-owned enterprises and raise foreign currency, the new government is considering setting up a "Hungarian Investment Fund" which will hold minority positions in state-owned (AVRt) enterprises and sell its own shares on the international financial market. The TA has been asked to help determine the feasibility of this concept. As a part of its pre-feasibility study, The TA has developed a major computer model for (1) projecting the amount of foreign currency which the government could raise through such a fund, (2) the discount relative to book value which would result from the sale of enterprise shares through the Fund, and (3) comparing the costs and net proceeds of the Fund with those of a sovereign debt bond issue. The model was well received by the TA counterparts, who subsequently asked for it to be updated with projected 1994 financial data of the companies.

2. Post Privatization Assistance to Companies Owned by their Management and Employees

The TA has performed the following activities on this part of the SOW:

a. **ESOP Conference**: The TA assisted the Foundation in planning the 3rd Annual Hungarian ESOP Conference. About 300 persons attended. One of the advisors addressed this conference.

b. **Questionnaires regarding financial data and need for investment capital**: Questionnaires were sent to 168 ESOP companies regarding their needs for investment capital and their foreign exchange generation capabilities, 32 answers were received and analyzed. In addition, financial data of 16 high-capitalization ESOP companies were analyzed. The results will help in the selection of companies for post privatization assistance.

c. **Questionnaire regarding training needs of ESOP companies**: This questionnaire was filled by 82 representatives of ESOP companies at the 3rd National ESOP Conference, November 3-4. Analysis of the questionnaire results has been incorporated into design of the ESOP training program.

d. **Tax implications of venture capital investments**: The TA has consulted with Hungarian tax experts regarding the implications of the proposed 1995 company tax legislation for ESOP and other companies

if they receive investment from foreign sources of venture capital. The TA examined possible amendments to the tax treatment of ESOPs which would provide incentive to venture capital investments.

3. Preparation of the IMPACT II Workplan

On November 28 the TA completed and submitted to USAID its workplan.

D. Documents Produced

1. "Hungarian Investment Fund" (113 pages), containing[1]

   - Summary of Analysis
   - Macroeconomic Assumptions
   - Comparison of Investment Fund Alternatives
   - Projections for Portfolio Companies

2. "Summary about the Need of Additional Capital for ESOP Companies (Processing of the Questionnaires)", November 24.

3. "Financial Data of 16 High-Capitalization ESOP Companies", November 11.

4. "Questionnaires Regarding Training Needs of ESOP Companies", distributed at the 3rd National ESOP Conference, November 3.

5. "Discussion of Results of the Questionnaire Regarding Training Needs of ESOP Companies", November 24.

6. "Draft IMPACT II Workplan", November 28.

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[1]Note: The data and conclusions of this report constitute privileged information which cannot be released at this time without special permission from AVRt and SPA.

January 9, 1995

IMPACT II TASK ORDER - PROGRESS REPORT
DECEMBER 1994

A. Staffing

The following US consultants contributed to IMPACT II during December:

- Itil Asmon (Dec. 1-31)
- Vincent Morabito (Dec. 1-31)
- Jim Shields (Dec. 4-14)

B. Macro-Developments Influencing the Work Plan

Toward the end of 1994, much of the early emphasis which the government's economic decision-makers had given to cash privatizations has been attenuated by the growing realization of the limitations to cash sales. The transactions undertaken show a mixed use of cash, compensation coupons and E-credit.

The new Privatization Law will be discussed by Parliament beginning in February, and the bill is most likely be enacted in March or April.

In the meantime, however, privatization continues according to the existing legislation. The SPA called for tenders for 110 companies, to be closed about February 8. SPA Privatization transactions are expected to continue at the relatively rapid pace (5-10 per week) which characterized January-March and October-December 1994. The AV Rt is also preparing many companies for privatization (eg. in the utilities sector), and it tendered for bids for privatization of the Budapest Bank. The new methodologies developed with the assistance of the TA (ESOPs, MBOs, leasing, installments, asset management contracts, possibly country funds, etc.) are likely to play an important role in these privatizations.

C. Activities of the TA Team during December

During December the TA focused its activities on (1) country investment funds, (2) debt restructuring, and (3) post-privatization assistance to companies owned by their management and employees.

1. Country Investment Funds

The TA revised and improved in December the computer model which it had developed in November to help determine the pre-feasibility of a "Hungarian Investment Fund", which will hold minority positions in state-owned enterprises and sell its own shares on the international financial market. The revised model is based on the expected 1994 financial data of AV Rt companies (the previous draft used actual 1993 financial information). The revised model was presented to AV Rt and SPA.

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2. Debt Restructuring

Upon request of the SPA Economics Department, the TA analyzed the reorganizational plan presented by REANAL (a trading and production company for laboratory chemicals) and the financial restructuring options presented by the Hungarian Credit Bank (MHB), REANAL's major creditor, in order to help SPA formulate its position in the debt restructuring negotiations.

3. Post-Privatization Assistance to Companies Owned by their Management and Employees

The TA started planning, in conjunction with the Hungarian MRP (Employee Ownership) Association and the Share Participation Foundation, the "ownership training" program which will provide to managers and employees of MRP companies training oriented to improving the economic performance of such companies. As a part of this program, monthly training events have been scheduled for February-June 1995.

At the same time, the TA started adapting existing US "employee ownership" training materials for use in such training.

D. Documents Produced during December

1. "Hungarian Investment Fund" (113 pages), containing:[1]

- Summary of Analysis
- Macroeconomic Assumptions
- Comparison of Investment Fund Alternatives
- Projections for Portfolio Companies

2. "Memorandum regarding Reorganizational Plan of REANAL Co.", Dec. 12, 1994

3. "MRP 'Ownership Training' Program: Goal, Purpose, Outputs and Activities", Dec. 16, 1994

4. "Criteria for Design of the 'Ownership Training' Program", Dec. 21, 1994

5. "Available Modules for Ownership Training", Dec. 21, 1994

6. Materials for "Ownership Training":

   a. "Our Daily Bread" (training in performing the roles of board members in a fictionalized employee-owned bakery)

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[1] *Note: The data and conclusions of this report constitute privileged information which cannot be released at this time without special permission from AVRt and SPA.*

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b. "Widgets" (training in organizing task forces to work on production, marketing and financing problems of a hypothetical manufacturing company)

IMPACT II TASK ORDER - PROGRESS REPORT
JANUARY 1995

A. Staffing

US consultants who contributed to IMPACT II in Hungary during January:

- Itil Asmon (Jan. 1-31)
- Vincent Morabito (Jan. 1-18 and Jan. 25)

B. Macro-Developments Influencing the Work Plan

Final debate of the new privatization law started in the parliament on January 31. Lengthy debate is expected.

Mr. Bekesi, Minister of Finance, resigned in January due to major differences between his economic strategy and that of Prime Minister Horn. Among others, Mr. Bekesi wanted to put privatization under the control of his ministry. His resignation follows the resignation in late December of Mr. Bartha, commissioner of privatization, due to the cancellation of the Hungarhotels privatization deal by Mr. Horn. The foreign and Hungarian media reacted negatively to the resignations, remarking that the National Bank has had no president since November. The Hungarhotels deal has also been criticized as undesirable direct government intervention into transactions.

The technical preparations for merging the privatization agencies is proceeding. Mr. Horn announced in January that a ministry of privatization will be established. It is still not clear whether this ministry, if established, will replace the three privatization agencies or will control the agencies.

During January the SPA launched 14 tenders for majority shares and 2 for minority shares in state companies. The value of offered parts is mostly between 100 and 600 million HUF. All 16 firms are well-known, middle or upper-middle sized industry and trade firms. Payments in restitution bonds and in E-credit are accepted, up to 20% of the price. In addition, 4 tenders have been launched for real estate assets.

Preparations to privatize OTP, the largest Hungarian bank, have advanced. About one-third will be sold to foreign investors. Budapest Bank is also in the advanced stage of privatization. Privatization of the electricity and gas utility companies has also progressed. Major firms from Germany, UK, US, and France have already indicated an interest in participating. Tenders are expected to come out in the next 1-2 months. A tender for the radio/TV transmission company Antenna Hungaria is expected to come out in the next few weeks. The above-mentioned transactions are expected to yield approximately 100 million USD per deal.

The above developments signify less privatization activity in SPA than during the corresponding period last year, but more in AVRt. There will also be a second round of land privatization for restitution coupons. Over 200,000 hectares are to be sold. Selection of state lands for this has been completed.

C. Activities of the TA Team during January

During January the TA Team focused its activities on (1) country investment funds, (2) debt restructuring, and (3) post-privatization assistance to companies owned by their management and employees.

1. Country Investment Funds

   The TA Team updated in January the computer model which it had developed in November-December to help determine the pre-feasibility of a "Hungarian Investment Fund," which will hold minority positions in state-owned enterprises and sell its own shares on the international financial market. The revised model is based on projected 1994 financial results of the subject companies (the previous draft used actual 1993 financial information). The revised model was presented to AVRt and SPA.

2. Debt Restructuring

   The TA Team finalized and submitted to SPA its report and recommendations concerning SPA's options regarding the debt financial restructuring and privatization of the pharmaceutical chemicals production and import company REANAL.

   The TA Team received and started analyzing the data regarding debt restructuring of the Bekescsabai Freezing Company (which does freeze-drying of fruits and vegetables). A visit to the company is planned for February.

3. Post-Privatization Assistance to Companies Owned by their Management and Employees

   The TA Team formulated in January 1995 its training plan for the "IMPACT II" technical assistance to Hungarian employee-ownership companies (see Deliverable 5). The plan will support the training activities of (1) the Hungarian ESOP Association and (2) the Share Participation Foundation.

As a part of defining the training needs of ESOP companies, the TA undertook in January the diagnosis phase planned in the Scope of Work by field visits to three ESOP companies (PERION battery manufacturers, PEMU Plastics, and First Pesti Mills), including extensive discussions with their CEOs, middle management and employees.

a. Support of the Training Activities of the Hungarian ESOP Association

The Hungarian ESOP Association has an on-going training program which in January 1995 has expanded to involve weekly training events (every Thursday - see Deliverable 5, Annex A). In this program, IMPACT II programmed half-day training events for February, March, April, May and June, and additional full-day training events for March and June. These training events are aimed at the general membership of the Association. The TA Team developed/adapted during January the training modules "Farmers" (how to hold an effective meeting) and "Our Daily Bread Kft." (how to make decisions like an owner).

It is also planned to use these training modules for training in individual companies and for the boards of their ESOP organizations, both in order to have an immediate impact and to field-test the new training modules before using them for the general membership of the Association.

In addition, a train-the-trainers workshop is planned for the end of March to train about 10 of the Association's regular lecturers in using the new materials and applying interactive training methods.

b. Support of the Training Activities of the Share Participation Foundation

The Share Participation Foundation, which functions as a "think tank" and lobby organization for the Hungarian ESOP companies, presented in January its training plan (Deliverable 5, Annex B). The objective of this training is to introduce to Hungary the most up-to-date methods of participative management and employee involvement which have been used in successful employee-owned US companies such as AVIS Rent-a-Car, Web Industries, Polaroid, Republic Engineered Steels, etc. This is a long-term objective which the Foundation will continue beyond the time horizon of the IMPACT II TA. The TA Team will assist the Foundation in the following activities:

- Selection, adaptation and translation of training materials (all the materials generated for the ESOP Association's training above will be used here);

- Participation in a 3-day workshop for about 20 CEOs of Hungarian ESOP companies, which aims to persuade some of these CEOs to "buy into" the new management techniques and agree to introduce them in their companies;

- Introduction of the methods in three pilot ESOP companies.

To support the training activities of the Association and the Foundation, the TA Team plans to use the 100 person-days of management/labor training specialists included in the IMPACT II Scope of Work. The CVs of three such specialists are being presented by the prime contractor to USAID for approval.

D. Documents Produced During January

1. "Hungarian Investment Fund Pre-Feasibility Analysis" (115 pages[1]), containing:

   - Summary of Analysis
   - Assumptions and Analysis
   - Projections for Portfolio Companies

2. "Proposed Hungarian Investment Fund"[1], January 10, 1995

3. "Memorandum Regarding Reorganizational plan of REANAL - going concern and liquidation values", January 12, 1995

4. "Our Daily Bread Kft. - the MRP Role-Acting"

5. "Training Plan for the IMPACT II Technical Assistance to ESOPs", January 11, 1995

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[1]Note: The data and conclusions of this report constitute privileged information which cannot be release at this time without special permission from AVRt and SPA.

IMPACT II TASK ORDER PROGRESS REPORT

FEBRUARY 1995

A. STAFFING

The following US consultants contributed to IMPACT during February:

- Itil Asmon (February 1-28)
- Steve Martin (February 7-28)
- Vincent Morabito (February 17-28)

B. MACRO DEVELOPMENTS INFLUENCING THE WORKPLAN

The void at the top economic policy-making positions of the government was filled in February with the Prime Minister's nomination and Coalition acceptance of Peter Bokros as Minister of Finance, Gyorgy Suranyi as President of the National Bank of Hungary and Tamas Suchman as Minister of Privatization. The new Minister for Privatization said in his first pronouncements that he does not mean to interfere in specific transactions.

The government's privatization bill was countered in Parliament with hundreds of amendments. Some of these concern the unification of SPA and AVRt. Others want a larger use of non-cash privatization methods and more favorable treatment of ESOPs than proposed in the bill. Approval of the modified bill is expected in March or April.

The trade unions have gained veto rights on privatizations of food processing firms. This is likely to increase attention to the employment aspects of transactions.

The latest privatization statistics show that up to the end of January 1995 SPA privatized majority stakes in 865 firms and minority positions in 43 firms (908 firms total 150 firms privatized since the end of October 1994!). SPA privatization proceeds in 1994 amounted to 97 billion HUF (actually only 81 billion HUF, if the revaluation of compensation coupons is taken into account), as against 82 billion HUF in 1993. These figures indicate that the perceptible slowdown of privatization in April-September was to a large extent compensated by more transactions at the beginning and end of 1994. At the end of January 1995 SPA retained majority shares in 276 firms and minority shares in 356 firms (total 632 firms, with book value of 232 billion HUF). This means that <u>if past rates are maintained</u>, privatization of the SPA portfolio could be practically completed within about 3 years.

C. ACTIVITIES OF THE TA TEAM DURING FEBRUARY

During February the TA focused its activities on (1) debt restructuring and (2) post-privatization assistance to companies owned by their management and employees.

1. Debt Restructuring

REANAL: Based partly on the team's analysis in January, which recommended selling the REANAL pharmaceutical company as a going concern, the SPA board reversed its earlier decision to liquidate the company and approved its sale to a Hungarian strategic investor.

During February the IMPACT team assisted SPA in the restructuring of (1) Bekecsabai Hutoipari Rt and (2) Kispesti Textile company.

a. Bekecsabai Hutoipari Rt (BH Rt) is a fruit and vegetable freeze drying plant in eastern Hungary. BH Rt is in default of some financial obligations and asked SPA for capital infusion. The team analyzed the company's financial statements, interviewed the company's top management and its bankers, and prepared for the SPA an analysis of the company, including restructuring alternatives.

b. Kispesti Textile Company is the only remaining textile company in Hungary. It needs government financing for working capital and to upgrade its technology. The team analyzed the company's financial statements, reviewed the company's business plan, interviewed its top management and their consultants, and prepared for the SPA an analysis of the company, including restructuring alternatives.

2. Post-Privatization Assistance to Companies Owned by their Management and Employees

a. Training - On February 21 the IMPACT II ESOP specialist made a test training of "how to make decisions like an owner" with a group of department heads of the Gas Appliances Repair and Installation Kft", using the "Our Daily Bread" role-acting exercise. On February 23 the exercise was performed with the member of the Hungarian ESOP Association at the weekly training session. After the session, the Association staff created a working committee to further adapt the exercise to Hungarian accounting practices.

b. Preparation of Materials - We are in the process of preparing another exercise "KOCSIS Kft", which trains employees to read financial statements.

c. Expatriate Trainers - USAID approval was obtained and preparations made for arrival of 3 IMPACT II ESOP training experts: two on March 5th and one on March 15th.

D. DOCUMENTS PRODUCED DURING FEBRUARY

1. "Reorganization Plan/Going-Concern Viability of Bekecsabai Hutoipari Rt (BH Rt)", 2/27/95.

2. "Reorganization Plan/Going Concern Viability of Kispesti Textile Co.", 2/27/95 (draft-final version will be delivered in March)

A number of deliverables are in process and will be presented in March, including: (1) Reorganization plan of Ganzeg West Co., (2) reports on the diagnosis of the critical problems of selected companies privatized through ESOPs, and (3) a manual for training employees in basic financial concepts.

IMPACT II TASK ORDER - PROGRESS REPORT

MARCH 1995

A. STAFFING

The following U.S. consultants contributed to IMPACT during March.

- Itil Asmon (March 1-31)
- Daniel Bell (March 15-April 2)
- Michael Delfre (March 5-18)
- Denis DesJardins (March 5-18)
- Steve Martin (March 1-11)
- Vincent Morabito (March 1-31)

B. MACRO-DEVELOPMENTS INFLUENCING THE WORKPLAN

GOH figures released during March show that in 1994 foreign investment in Hungary totalled US $1.3 billion, as compared with US $2.5 million in 1993. Almost all investments were greenfield or in expansion of existing facilities - not in privatization. The downward trend is continuing in 1995, with no foreign investment so far in privatization and in the Hungarian stock market. Credit Suisse withdrew from the privatization of the Budapest Bank, and no further bank privatizations are under way at the moment. Privatization income in January and February totalled 6.8 billion HUF - about 42% of the average two-month investment in 1994.

The SPA and AV Rt are now located in the same building, but activities have not yet been merged. A joint board of directors is planned.

Mr. Mihalyi of the AV Rt board estimated losses due to delayed privatization at 120 million HUF (US $1 million) per day.

The MBOs are becoming institutionalized. An "MBO Club" was established at the end of March to represent the interests of the approximately 200 MBOs or MBO-related firms and to provide services to existing and future MBOs. The club's president is the Minister of Privatization, and top SPA personalities were involved in its organization.

A follow-up of firms on which the Coopers/Chemonics team performed privatization analysis for the SPA show that:

- MGM Roller Bearing Company has accumulated a debt of 5 billion HUF and showed in 1994 an operating loss of 300 million HUF. GOH has not yet decided whether to give the company another injection of funds or let it be liquidated.

- Sopron Carpet Manufacturing Company was privatized for 37 million HUF.
- REANAL was privatized for 80 million HUF.
- Bekescsabai Cold Storage Company was helped once again by an MBF Rt bond issue.

C. ACTIVITIES OF THE TA TEAM DURING MARCH

During March the TA focused its activities on (1) debt restructuring and (2) post-privatization assistance to companies owned by their management and employees.

1. Debt Restructuring & New Privatization Methodologies

   a. GANZEG WEST Company: The TA analyzed for SPA the present financial status and the reorganizational alternatives of GANZEG WEST, a medium-sized countryside manufacturer of machine components. The TA concluded that liquidation would be a bad alternative for the company, SPA and for the regional economy, as well as for OKHB Bank, the main creditor. Therefore, the TA recommended streamlining of the company, debt-equity conversion and debt rescheduling, recommended a privatization strategy, and indicated the potential buyers and the expected privatization revenue.

   b. Proposal of the East European Finance and Trade Company for international pre-financing of privatization: Upon SPA request, the TA commented on the above proposal. The proposal suggests to accelerate privatization by providing to the investors loans from a consortia of international donors, sharing the increase of company value after the first three years of operation. The TA pointed out that the proposal does not address such issues as foreign exchange problems, loss in value of the company, the large negative effect of the loan and value sharing on the selling price, credit risks, etc. The TA concluded that the proposal does not satisfy the objectives of successful privatization, it is rather a commercial lending with too many risks for all parties.

2. Post-Privatization Assistance to Companies Owned by their Management and Employees

a. Planning the training activities: The TA submitted a plan, to be implemented by the Share Participation Foundation, for introducing in pilot ESOP companies productivity-enhancing techniques based on employee involvement in decision-making at the workplace level.

b. Training: The TA organized on March 31-April 1 a "Train the Trainers" workshop, 16 participants attended, trainers of the Hungarian ESOP Association, the Share Participation Foundation, and four privatized companies. The objective of the training was to (1) give participants the skills necessary to deliver effective training using active learning methods, and (2) train them in delivering the module on "how to organize effective meetings". Evaluation of the workshop by the participants was very positive. Similar train-the-trainer workshops are planned for late May and late June.

c. Preparation of Materials: During March the TA prepared a considerable number of training modules, including:

- Making Meetings More Effective (participant's and instructor's manuals)
- Introduction to Training Employee Owners (participant's and instructor's manuals)
- Training the Trainers (participant's and instructor's manuals)
- Orientation to Employees Ownership (participant's and instructor's manuals)

D. DOCUMENTS PRODUCED DURING MARCH

Debt Restructuring & New Methodologies:

1. "Reorganization and Privatization of GANZEG WEST Co., Zalaegerszeg - Analysis of Present Status and Future Alternatives", March 10, 1995

2. "Comments on the Proposal of the East European Finance and Trade Company for Advance Financing of Hungarian Privatization", March 27, 1995

Needs Assessments for ESOP Companies (reports of TA done in late 1994/early 1995):

3. "Interviews Prepared at ESOP Companies in December 1994 and January 1995"

4. "Selection Criteria and Reasons for Selection for Technical Assistance, Attachment to the List of 16 ESOP Companies Selected", April 18, 1995, (companion document to the deliverable "Financial Data of 16 High-Capitalization ESOP Companies" of November 11, 1994 (not included in the IMPACT I 1994 deliverables)

5. "Financial Analysis of ESOP Companies, November 1994" (not included in the IMPACT I 1994 deliverables)

6. "Financial Analysis of 32 ESOP Companies Selected", April 18, 1995

Design of a Training Program for ESOP Companies:

7. "Recommendations for Establishing Employee Involvement Programs in Hungarian ESOP Companies, Based on the North American Experience", March 8, 1995

8. "Draft In-Company Ownership Training Program", March 17, 1995

9. "Report of Technical Assistance Provided to the Share Participation Foundation, "Project for MORE", March 18, 1995

ESOP Training Materials:

10. "Making Meetings More Effective", - Participant's and Instructors Manual, March 1995

11. "Introduction to Training Employee Owners", - Participant's and Instructor's Manual, March 1995

12. "Train the Trainers - Participant's Manual", March 1995

13. "Train the Trainers - Instructor's Manual", March 1995

14. "Orientation to Employee Ownership - Participant's Manual, March 1995

15. "Orientation to Employee Ownership - Instructor's Manual", March 1995

IMPACT II TASK ORDER - PROGRESS REPORT
APRIL 1995

A. STAFFING

The following US consultants contributed to IMPACT during April:

- Itil Asmon (April 1-14 and 24-30)
- Vincent Morabito (April 1-17)

B. MACRO-DEVELOPMENTS INFLUENCING THE WORKPLAN

During April, the budget deficit was stabilized at its March level (147 billion HUF for the first four months of 1995). This is still very high compared with the planned deficit of 283 billion HUF for the entire year.

The government announced further restrictive measures: reduction of the number of university teachers by 20%, closing some of the smaller countryside hospitals, reduction of the non-military staff of the army by 20%. The new Social Insurance Law, enacted in April, reduces the benefits provided by social insurance and increases the financial burdens on the employers. An 8% extra import levy was introduced causing immediate increase in the prices of all imported goods.

A rumor that the government will freeze all foreign exchange accounts resulted in a panic among depositors. The panic decreased deposits by some 300 million US $.

The compensation voucher reached its lowest rate over 17 HUF for a 100 HUF note.

Privatization of the banks and utilities has not advanced during April. On the other hand, a number of privatization transactions concluded for medium-sized firms, and dozens of tenders have come out for medium-sized firms and for a few large ones (flour milling, tobacco trading, etc.)

An assessment of privatization performance up to 3/31/95, performed by the TA at the request of the US Embassy, revealed that despite the lack of a new privatization law and continuous policy uncertainties, **the average number of privatization transactions per month under the new government is similar to that under the former government.**

C. ACTIVITIES OF THE TA TEAM DURING APRIL

During April the TA focused its activities on (1) monitoring of privatization activities, and (2) post-privatization assistance to companies owned by their management and employees.

1. Monitoring of Privatization Activities

At the request of the US Embassy in Budapest, the TA prepared a report of privatization performance for the period of July 1, 1994 - March 31, 1995 in order to compare the speed and volume of privatization under the new government with former performance. A preliminary report was sent to the Embassy on April 26 and an updated version was sent on May 29. The report includes changes in SPA and AV Rt. portfolios, privatization revenues, transactions by each privatization technique, foreign investments in privatization per country of origin, major on-going privatization tenders and recent tender decisions.

2. Post-Privatization Assistance to Companies Owned by Their Management and Employees

a. Training: The TA organized on March 31-April 1 a "Train the Trainers" workshop for 16 participants, trainers from the Hungarian ESOP Association, the Share Participation Foundation, and four privatized companies. The objective of the training was to (1) prepare the participants to deliver effective training using active-learning methods, and (2) train them to deliver the module "how to organize effective meetings". Evaluation of the workshop by the participants was very positive. Follow-on workshops are planned for June 2-3 and June 30-July 1.

b. Expatriate trainers: Terms of reference were updated and preparations completed for the second stage of work of the expatriate ESOP trainers: two arriving on April 30 and one on May 22.

D. DOCUMENTS PRODUCED DURING APRIL

1. "Privatization in Hungary from July 1, 1994 - March 31, 1995 and Ongoing Activities", draft version April 26, 1995 (to reduce duplication of deliverables, the updated version of May 26, 1995 is included).

IMPACT II TASK ORDER - PROGRESS REPORT
MAY 1995

A. STAFFING

The following US consultants contributed to IMPACT during May:

- Itil Asmon (May 29-31)
- Daniel Bell (May 22-31)
- Michael Delfre (April 30-May 20)
- Denis DesJardins (April 30-May 20)
- Vincent Morabito (May 1-26)

B. MACRO-DEVELOPMENTS INFLUENCING THE WORKPLAN

The privatization law was enacted by Parliament. The rules are very flexible, without specifying criteria for when to use each of the privatization techniques. The Minister of Finance is in exclusive charge of bank privatization, while the MBF Rt is entitled to take over large state firms from SPA or AV Rt (now APV Rt) and reorganize or sell them. Such companies will not be under the rules of the privatization law. The new law does not answer what to do with the 120 billion HUF worth of compensation vouchers still unused. It gives priority to cash deals, but in the case of medium-sized companies, after one unsuccessful attempt to sell for cash company management may arrange privatization by other means. MBO/ESOP, leasing, installment payments are permitted, but exact criteria are not specified. E-credit is limited to 50 million HUF per transaction.

The two major privatization agencies have been physically merged. A cut of 20% in staff is planned. The name of the new organization is the State Privatization and Asset Management Rt (APV Rt).

An update of the assessment of past privatization performance, performed by the TA at the request of the US Embassy, revealed that despite the lack of a new privatization law and continuous policy uncertainties, **the average number of privatization transactions per month under the new government is similar to that under the former government.**

The government announced that Hungarhotels will be privatized without Hotel Forum, which will be sold alone first. The major obstacle for the SPA to decide independently about privatization of Hungarhotels is the ownership share of the Budapest local government in the chain.

Agrobank went bankrupt. The bank's owners and managers were arrested again (the first time was in November). Depositors have besieged the bank to collect their money. The government demanded of the largest owners to hand over their

controlling share to the second largest owner (the state) free of charge as a precondition of a state-financed rescue of the bank. The owners handed over their shares, the government promised to give 10 billion HUF into the bank to save it.

The privatization supervisory committee listed 43 former transactions as suspicious. Further investigations will be effected.

C. ACTIVITIES OF THE TA TEAM DURING MAY

During May the TA focused its activities on (1) monitoring of privatization activities, and (2) post-privatization assistance to companies owned by their management and employees.

1. Monitoring of Privatization Activities

The TA updated its preliminary report of privatization performance for the period from July 1, 1994, and adding new figures up to March 31, 1995, in order to compare the speed and volume of privatization under the new government with former performance.

One May 24 the TA participated in a round-table discussion between the SPA top management, donor agencies (USAID, PHARE, etc.), and consultants providing the TA, regarding the new privatization law. The TA was made aware of possible modalities of implementing the law, and offered its comments.

2. Post-Privatization Assistance to Companies Owned by Their Management and Employees

a. Training: The TA prepared two trainers of the Share Participation Foundation trainers to give company level training at "MMG Automatika" (producers of car components, household and other small products, etc.) The training was based on the "Making Meetings More Effective" workshop, delivered by the TA on March 31 and April 1. The training at MMG Automatika consisted of two sessions for 12 employees including one top manager, six middle managers and several rank and file employees.

The TA gave a half-day presentation for 15 union officials, including the vice-president of the largest trade union in Hungary.

The TA made preparations for delivering the next train-the trainer workshop. "Training Committees in Group Problem-Solving", on June 2 and 3.

b. Development of Materials: The TA prepared training modules (consisting of trainer's guide and participants' handouts) for "Group Consensus Decision-Making" and "Group Problem-Solving".

The TA developed suggestions and recommendations for organizational development and training in Hungarian ESOPs, based on a case study of the process of introducing organizational change at Algoma Steel Company.

The TA also assisted in developing the plan for the CEO workshop to be conducted by the Share Participation Foundation on June 21-24.

D. DOCUMENTS PRODUCED DURING MAY

1. "Analysis and Recommendations for Hungarian ESOPs, Based on the Algoma Steel Case Study", May 1995

2. "Group Consensus Decision-Making - Trainer's Guide and Participants' Handouts", May 1995

3. "Group Problem-Solving - Trainer's Guide and Participants' Handouts", May 1995

4. "Debriefing a Training Exercise"

5. "Evaluation Form - Training Committees in Group Problem-Solving"

IMPACT II TASK ORDER - PROGRESS REPORT
JUNE 1995

A. STAFFING

The following US consultants contributed to IMPACT during June:

- Itil Asmon (June 1-30)
- Daniel Bell (June 1-10, June 17-July 2)
- Steve Martin (June 6-30)
- Vincent Morabito (June 19-30)

B. MACRO DEVELOPMENTS INFLUENCING THE WORKPLAN

The AV Rt and SPA ceased to exist on June 16 and were replaced by the State Privatization and Asset Holding Company (APV Rt), a wholly owned state company with funding capital of about $2.5 billion, mostly in shares of state companies. The APV Rt's declared objective is to privatize all state companies except 170 until the end of 1997. Most former board members and top directors, as well as 300 managers of state companies, have been replaced.

In the portfolio of the former SPA, only 306 majority state owned companies are left. Of these, all small and medium companies (under 500 employees and 600 million HUF turnover) will be tendered in two waves, one by September 30 and the other by December 31. Among strategic companies, the Csepel electrical power plant was sold (98%) in June to a British company. Preparations are proceeding for privatization of MVM (electricity - value about $4 billion), MOL (oil), MATAV (telecom), gas and electricity distribution firms. Planned foreign participation is 51% in gas distribution and initially 48% in electrical distribution companies. Trade unions want to limit the latter to 25%. The Minister of Industry, Pal Laszlo, has resigned in protest against the high rates of privatization. Privatization of OTP bank will start in July, about 20% to foreign and 25% to Hungarian investors. Thirty companies will be floated on the Budapest stock exchange until the end of 1996.

The reduction of social security benefits and increase of tributaries, major elements of the Bokros austerity program, were revoked by the Constitutional Court as unconstitutional. Largely because of this, negotiations of Prime Minister Horn with the IMF for a $400 million loan have failed. A 4-day cabinet session is scheduled for the end of July, and possibly an extraordinary session of Parliament, to redress the budget.

C. ACTIVITIES OF THE TA TEAM DURING JUNE

During June the TA focused its activities on post-privatization assistance to companies owned by their management and employees.

1. Post Privatization Assistance to Companies Owned by their Management and Employees

   a. Training: On June 2 and 3 the TA organized a train-the-trainers workshop on "Training Committees in Group Problem-Solving". Seventeen persons participated, including almost all participants of the March/April train-the-trainers workshop. The participants originated from the Hungarian ESOP Association, the Share Participation Foundation, several companies with employee/management ownership, and several management consulting firms which intend to use the training as part of the services they offer to Hungarian companies. Workshop evaluation by the participants has been very positive (see Deliverable 1).

   On June 8 the TA delivered a one-day workshop at the Perion Battery Company (an employee ownership company). The workshop gave hands-on experience in management styles for ESOP companies (authoritative vs. participative, when to use each).

   On June 21-24 the Share Participation Foundation implemented at Keszthely the seminar for CEOs of employee-owned companies, which had been prepared with substantial technical assistance from IMPACT II. The seminar included 22 Hungarian participants representing 11 ESOP companies. Eight of these were CEOs, 10 were other top managers, and four from managements of ESOP organizations. Two US CEOs and an ESOP consultant had been invited from the US through another USAID project to address the seminar. USAID representatives also visited the seminar. The topics around which the presentations and exercises were grouped included:

   - Changing the paradigms of management
   - "Zapp - the Power of Empowerment"
   - Steps to the problem-solving process
   - Brainstorming as a tool of problem solving
   - Management styles
   - The future of ESOP companies
   - Sharing experience with the US participants
   - Dealing with resistance to change
   - Specific three-month action plan for each participating company
   - Management's vision for each company's future

Participants' evaluation of the seminar was very positive. Participants will report after three months the results of the action plans, drafted at the seminar, they agreed to implement in their companies. Participants showed interest in participating in a follow-on seminar in the fall.

On June 30 and July 1 the TA organized a train-the-trainers workshop on "Training Supervisors - Leading Worker-Owners", which culminated the series of three two-day workshops started with the March 31 - April 1 workshop. About 14 Hungarians participated, as well as two US resource persons, the CEO of a US ESOP company and the director of the NE Ohio Employee Ownership Center. The first day of the workshop focused on management styles which maximize employee involvement in production. The second day included presentations by the US participants, and planning the institutionalization of materials taught in the train-the-trainers workshops in the Hungarian ESOP Association's fall program.

b. Development of Materials: The TA prepared training modules (consisting of trainer's guide and participants' handouts) for a train-the-trainers workshop on "Managing Owners", materials for "Empowerment" workshop, and a case study for the CEO seminar.

D. DOCUMENTS PRODUCED DURING JUNE

1. "Training Committees: Group Problem-Solving"-"Agenda" and "Results of Evaluation", June 2-3, 1995

2. "Managing Owners - Trainer's Guide and Participants' Handouts", June 1995, including:

   - Text
   - Diagrams
   - Handouts
   - Slides

3. "Training Supervisors to Lead Employee Owners - Workshop Materials Not included in Module on Managing Owners", June 1995, including:

   - Workshop Agenda
   - Group Dynamics

- Choosing the Best Team Members
- Effective Feedback
- Worker Owner Steering Committees in the US
- Ownership Education Program

4. "Empowerment - Trainer's Guide and Participants' Handouts", June 1995, including:

   - Diagrams
   - Handouts
   - Slides

5. "CEO Retreat Case Study", June 1995

A. TECHNICAL ASSISTANCE TO THE SPA OR ITS SUCCESSOR AGENCY

A.1 PRIVATIZATION POLICY

MEMORANDUM

To: Mária Vanicsek/Director/SPA Economic Directorate
From: Coopers/Chemonics IMPACT II
Date: March 27 1995
Subject: Comments on the proposal of the East European Finance and Trade Company (referred later as EEFTC) for advance financing of Hungarian privatization

Introduction

The proposal of the EEFTC is a draft on one possible alternative to pre-finance the Hungarian privatization. The proposal assumes that the three major conflicts of the Hungarian privatization are the 1. immediate need for budget revenues, 2. the low marketprice of state firms if they are sold in their present state, 3. foreign investors have to pay large sums when they buy state companies and invest significant amounts to make them profitable. The proposal suggests to set up a financing consortia of major international donors as EBRD, EBB, the World Bank and the IFC. Privatization contract will be concluded between the Western buyer and the Hungarian state, stipulating price and share sold. They will also agree that the whole or part of the sale price will be paid by the consortia and not by the actual buyer. For payment terms a trilateral agreement is to be made between the Hungarian state, the buyer and the consortia. A final balance between the buyer and the Hungarian seller is to be made after three years. They will share the increase in the company's value achieved during the three years. The credited part of the selling price will be repaid to the consortia with interest at the time of the above final settlement between the seller and buyer. Projects for the scheme will be determined case to case. The Hungarian government will oblige itself to use part of the privatization revenue for industry restructuring, reform of public finances.

Advantages expected from the scheme are as follows; Hungary would receive immediate privatization revenue, price will be determined on the improved state of the company and not on present one, buyer can use its financial sources for improvement of the firm instead of paying selling price. Privatization would have an international control and a transparency which is required by international investors. The scheme would serve as a pattern for the privatization of the large utilities.

Comments

a./ The basic conflicts of privatization

All the three aspects mentioned are very important issues of the Hungarian privatization. Although we do not share the common view that budget deficit oriented privatization serves the interests of the Hungarian economy (and of the state budget), we acknowledge that the present situation of the budget makes immediate revenues imminent. On longer term the restructuring of the Hungarian economy has to be the ultimate strategy of the privatization which is not necessarily equal to the highest privatization revenue.

The present state of the state-owned companies; as the privatization experience of the past four year shows not only profitable companies can be sold at fair prices, but companies just breaking even or in the red can be sold well, provided they have a perspective after some adjustments (we can call it as investment in the future of the company). Companies without market future, without a chance to have at least trading profit can not be sold even if part of the price is deferred. Privatization of the pharmaceutical, food industries show that foreign investors are ready to pay full price and invest massively after buying if the company is viable.

We think that there are other conflicts in the privatization which are very important as well. Primarily the Hungarian privatization (and generally the whole financial policy) lacks first of all confidence. The international investment community wants unambiguous signals about the political will and direction of the country, clear policy (sectorial, finance, etc.), real action, fair competition, predictable regulatory environment (taxation, foreign exchange, foreign trade policy) no direct state interference into daily management, employment, wage and other aspects of the private sector. It is needless to say that the present situation and messages of the Hungarian economy are very different. Hungarian decisionmakers have to realize that there are still hundreds of companies which can not be privatized by any technics and which can not be reorganized and be made viable by any resturcturing technics. Pre-financing of privatization prices would not save these companies either. The main problem of privatization is with the AV.Rt. controlled portfolio of some 160 very large firms. The SPA controlled portfolio is decreasing and even without new financing methods it will be privatized or liquidated within 1-2 years. Therefore any new solution have to address the AV.Rt. portfolio.

b./ Pre-financing of privatization revenues

The idea to pre-finance privatization is not a new one. In 1994 the AV Rt. has already received a major loan from the EBRD as "advance" on the future revenues of privatization. In this case the foreign buyer has no advantages at all. It is the Hungarian state which gains immediate revenues against the future privatization revenues. This solution results in growing indebtedness of the Hungarian state including interests to repay, does not change the state of the companies to be privatized, makes the actual, immediate privatization of the companies not so urgent, does not effect the restructuring of the economy at all. Shortly it does not replace doing privatization.

Another alternative is if the the would-be buyers have a chance to receive credits directly to finance their buyings. In this case the Hungarian side has no future financial obligations, all the price is paid in cash, revenues are received only from real, actual, immediate privatization deals. The foreign buyers would concentrate their financial resources on restructuring instead of paying all the price upon contracting. Of course the investors will pay interests and when they calculate the acceptable purchase price, they will take into consideration the accumulated interest as part of the purchase costs. It would decrease the range of companies viable for purchase as not many of the companies will qualify to produce enough profit to pay out purchase price, interest and restructuring costs. We can suppose that in most cases of large privatization deals so far the foreign buyers used external credit lines to finance their buyings.

Logically there is a third alternative according to which the pre-financing is settled in a trilateral way combining the advantages of the first two alternatives. The credited amount is given to the Hungarian seller directly by the financing institution or consortia but it is deducted from the selling price to be paid by the buyer. The repayment is the obligation of the buyer. The parties also share the increase in business value of the firm during the credited time. This is what the EEFTC suggests.

c./ The EEFTC proposal for pre-financing

This alternative has a number of advantages: it provides full privatization revenues to the Hungarian seller upon contracting provided tendering was successful. It does not increase the indebtedness of the Hungarian state. It is strictly privatization deal oriented and not a credit without or before doing privatization. It provides a chance to improve the company and share the difference between present and future value. As any other methods it has also some critical points. A major issue is the interest rate.

The buyer have to take into consideration 1.the cash to be paid, 2.the credited part of the price including 3.interests to be repaid and 4.investment injections required to make the company so viable that it will be worthwile its whole purchase price (1+2+3). The buyer also has to take into consideration that if its injections are successful and the company is becoming more valuable than at the time of buying, the increase in value is to be shared with the Hungarian seller. Of course the buyer will accept such a set-up only if 1. the interest rate is lower than market rates, 2. the company is strong enough to generate enough revenues to pay out 1+2+3 on medium term (not necssarily within the first 3 years), the volume of the money to be invested into the freshly purchased company and the the ratio of division of value increase of the company are proportional. It would not be fair to let the foreign investor to pay part of the price in cash, to pay the remaining part later, to pay interests, to invest into the company and afterwards to give too large portion of the yields (ie.of value increase) to the seller which does not contribute to the improvement of the sold company at all.

We also have to point out some problematic aspects and limitations of this alternative. It does not yield immediate cash to the Hungarian seller. Revenue is subject to succesful tendering. Therefore it is another privatization technics like leasing, E-credit, etc. with some advantages but without a general ability to provide immediate revenues. Certainly it means real additional money. The method has to focus on the sale of large companies as the AV Rt. portofolio include typically large companies and the financing consortia certainly will evaluate the company to be bought from the aspect of the credit too. The buyer company also has to meet the strict creditworthiness criterias of the involved international financing institutions. It is very likely that only very large, well performing companies will satisfy those conditions. Generally those companies have enough sources to buy the targeted companies for cash too. We have to emphasize that the credit will be in foreign exchange, therefore one of the parties have to undertake the exchange rate risk. The recipient company will compare the consortial interest rate with the rate of other financing lines. It is also an open question that who will provide the necessary foreign exchange to pay back the credit even if the privatization is successful and the privatized company is performing well (in HUF). The recipient of the credit will compare all risks, costs and benefits from the privatization deal and the proposed financing technic has to be attractive enough for them. It is predictable that the interest rate repayment, the foreign exchange risks, the risk of restructuring, the sharing of the increase in company value, the required restructuring investments in the privatized company has to be compensated by discounted low selling price. The value increase of the privatized company will be shared between the buyer and the seller. It can be assumed that the consortia which risks its money will ask for its share from the increase too.

It goes without saying that this method would not help the privatization of companies in hopeless financial and market situation. It is not worked out in the proposal how the creditworthiness will be evaluated and how the credit will be offered for the would-be buyer before tendering (on condition of winning for example) or it will be granted only after successful tendering. Both solutions mean significant risks for both parties of the credit. It is also not stated if the buyer backed by the consortial credit will enjoy any preference or special conditions during tendering compared with other buyers or not. It is also not worked out how the rights of thew parties will be effected if the value of the company is not increasing -or what is even worse- it is decreasing during the three years period.

Conclusions

We summarize our conclusions as follows. The method recommended by the EEFTC is worth of further considerations, although it does not adress all conflicts of the Hungarian privatization. It is not yielding immediate revenues; revenues are subject to the tendering process and its timing. The credit in foreign exchange results in a number of risks to be shared and compensated primarily but not exclusively by discounted selling price. The buyer takes many costs and risks in the deal and the consortia also will require its risk to be compensated from the value increase of the privatized firm. Certainly this privatization technic can work only for a selected group of Hungarian firms as saleable and creditworthy ones (to be selected by their financial performance and indicators) and of Western firms qualifying for the credit. It is also evident that it can not be used as a technics to save companies in hopeless state.

The viability of the method depends on 1. the willingness of international donors and their creditworthiness criterias to select buyers and targets of buyings, 2. political will of the Hungarian state, 3. working out (modelling) of reasonable ratios, price discount, value sharing, etc. or to find out if mathematically the technic would not be viable. 4. to work out contract relations, payment terms of the three parties, incl.special tendering rules if any, evaluation methods, contract forms, meausuring of value increase, etc. and to make it compatible with other existing technics and procedures, 5. to educate the public and the professional community that it is not a trick to make Hungary more indebted, to eat up the future or to sale out companies to foreigners without money. (otherwise such reactions can be expected under present circumstances).

We believe that the most crucial points of the method are the conditions of the consortia (credit terms, risk sharing), the incentives given to the buyers (and their calculations) and the political will of the Hungarian side.

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We believe that modelling will find out the acceptable terms, ratios of payment terms for a group of companies, which will qualify for the scheme based on their present and expected performance.

Budapest, March 27, 1995

DRAFT

ANALYSIS AND RECOMMENDATIONS FOR HUNGARIAN ESOPS BASED ON THE ALGOMA STEEL CASE STUDY

PREPARED FOR

COOPERS AND LYBRAND/CHEMONICS INTERNATIONAL

MAY 1995

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EXECUTIVE SUMMARY

This case study was produced under the USAID-funded Impact II Delivery Order implemented by Coopers and Lybrand/Chemonics International.

The study is a collaborative effort to facilitate the move to democratisation of the Hungarian economy as well as the move to privatisation of Hungarian companies. It is intended to provoke thought and consideration about the issues involved with employee ownership training and organizational structures. It is not intended as a blueprint nor does it purpose that the method used at Algoma is the only method of proceeding with employee ownership.

What is the special relevance of Algoma Steel Co. to Hungarian ESOPs, which merits a detailed case study under the aspect of the IMPACT II Delivery Order which aims to assist the economic stabilization of Hungarian companies recently privatized through employee ownership?

Emloyee ownership has experienced a rapid growth in Hungary. Well over 200 companies have been privatized between mid-1992 and mid-1995 through employee and management buyouts. Privatization, however, is only the first step in the transformation to a viable company competing successfully in a free market. Many or most Hungarian ESOP companies - like other privatized Hungarian companies - are in a precarious financial condition: loss of COMECON markets, obsolete equipment, lack of working capital and new investments, onerous interest rates, antiquated management and accounting methods, all militate against their survival and success.

While the establishment of ESOPs in Hungary has been inspired by the ESOP experience in the US, there are some fundamental differences between them which make the practice of most US ESOPs less than relevant for Hungarian ESOPs struggling to make it in the market economy. The most basic differences are:

US ESOPS	HUNGARIAN ESOPS
- Typically established in economically successful companies (98% of cases)	- Usually established in economically distressed companies
- Organized by management - workers mostly passive	- Employees must be involved (at least 40% must make commitment)
- Used typically by retiring owners to sell closely-held companies, or as a tax-efficient pension plan	- Used exclusively for privatization of state-owned companies
- Driven by financial considerations, sometimes to ward off takeover	- Driven by employees and management trying to save their jobs
- Typically minority ESOP ownership	- Typically majority ESOP ownership
- Union involvement rare	- Frequently significant union role
- Government incentives - tax breaks	- Government incentives - credit

Algoma Steel Co. in Ontario, however, is in most of the above aspects atypical of North American ESOPs and its starting conditions resembled more those of Hungarian ESOPs. The company had a lengthy history of sour labour relations, high-cost operations and aging facilities at a time of low world-wide steel demand and a general economic lull. After seven years of losses, Algoma went bankrupt in 1991 and headed into receivership which would have spelled disaster for its 6000-member workforce and the community that depended on its payroll. Faced with this prospect, the employees - with the involvement of their unions - organized a majority buyout. While the Government did supply some loan guarantees, the workers made large personal sacrifices and contributed a portion of their incomes to purchase controlling interest in the Company.

As capital for technological improvements was severely limited, the new Algoma leadership had to engineer a turn-around based on their one unexploited resource - the determination of its workers to save their jobs. The employees' only recourse was to generate the cost savings and the productivity improvements that would make Algoma profitable. Management style was changed from control of the workforce to empowerment of workers. Worker participation and self-direction became the dominant values. A plan for change was enshrined in the Collective Bargaining Agreement and systematically implemented, based on massive "just-in-time-training" of all workers. A unique approach called Participative Process Improvement (PPI) was developed in-house. The "PPI ToolBag" combines many modern management techniques such as statistical process control, cause and effect analysis, analytical troubleshooting, team problem-solving, leadership and facilitation skills, consensus decision-making, multi-skilling and networking. The Algoma approach goes beyond Total Quality Management to what may be called "Total Quality of Work Life Management", which achieves a high-quality working environment, safety and facilities together with high-quality products at the lowest possible cost.

The results have been dramatic. Within two years Algoma turned around from near-bankruptcy in 1991 to break-even in 1993, by 1994 it returned to profitability and by 1995 it was investing for the future. While the turn-around was buoyed by a world-wide recovery in the steel sector, it certainly could not have happened without the new structure and processes established at Algoma.

Thus there is much that Hungarian ESOPs could learn from the Algoma experience in their search for a locally adapted Hungarian formula to achieve profitability and viability in the market economy. Not the least of Algoma's lessons is that in what was a very conservative company the structure could be changed from a hierarchy to a network, and management style could be changed from authoritarian/conflictive to collaborative, within the short span of two-three years. The methods by which Algoma's workers, management and union made these remarkable achievements are analyzed under five chapters: I. - the five phases of restructuring; II. - organization structure processes; III. - human resources development and management; IV. - organizational development; V. - the role of the union. The specific recommendations from Algoma's experience to Hungarian companies are recorded at the end of each chapter.

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Matrix

Glossary of Terms

CBA	Collective Bargaining Agreement
CEO	Chief Executive Officer
DSC	Department Steering Committee
EPP	Employee Participation Process
EPU	Employee Participation Unit
JSC	Joint Steering Committee
JTC	Joint Training Committee
KT	Kepner Tregoe training material
MOA	Memorandum of Agreement
PPI	Participative Process Improvement
PSCS	Problem Solving & Cost Saving Task Force
SDWG	Self Directed Work Groups
SUB	Supplementary unemployment benefits
USWA	United Steelworkers of America

INTRODUCTION

The organizations that will be the focus of this case study are Algoma Steel Inc., a steel manufacturing firm located in Sault Ste. Marie, Ontario, Canada and the United Steelworkers of America, an international union which represents hourly and salaried workers at Algoma.

The objective of the case study is to analyze which lessons of experience Hungarian ESOPs can draw from the succesful example of Algoma. The purposes are to impart the knowledge and experience which workers of Algoma have gained and to try and share it in some meaningful way with other employee-owned companies. The case study method was selected so that a structured, progressive sequence of events could be documented, which depicts the actual evolution of the largest employee takeover of a business in the world to date.

While the case study is intended as a learning tool, it has another purpose which is equally important. It is the human element of this business story.There were no Government bail-outs or infusions of capital from management or investors to save Algoma Steel. Nor was there any money for facility and technological improvements. Instead, it was Algoma Steel workers who saved the Company. They represent the hopes and dreams of millions of shop floor workers around the world who are faced with massive global economic restructuring, corporate rightsizing and job loss which creates financial uncertainty, economic vulnerability and family dislocation. Workers and their United Steelworkers Union are a modern day David which took on the corporate Goliaths of banks and creditors who were prepared to abandon the workers in favor of financial writedowns and to let a major North American steel producer die. Armed with nothing more than courage, self-determination and a willingness to make personal sacrifices, the United Steelworkers Union and their members came up with a better idea. This is their story.

ORGANIZATION OF THE CASE STUDY

Each chapter contains descriptions of the processes and transformations which were initiated within an emerging joint structure in an attempt to rebuild the company as an ESOP. A question-and-answer format is used to relate the lessons Algoma has learned and which might generally apply in Hungary.

A matrix is provided which chronologically traces the conditions that prevailed at Algoma during the five year period 1991-1995. Pre-1991 recounts the near-collapse into bankruptcy of Canada's third largest steelmaker. 1991-1992 was the restructuring phase which saw the greatest amount of innovative thinking and re-engineering. 1992-1993 was a stabilization period before returning to profitability in 1993-1994, a mere two years after Algoma was nearly written off for dead. Investing for the future was the theme in 1995-1996 as Algoma prepared for the inevitable downturn in the perpetual business cycle. This case study is designed to illustrate the vision and commitment to success of the men and women of Algoma and to show how they were prepared to prove their detractors wrong. There is a lesson in the sequence of steps - the lesson of daring to dream an impossible dream and the necessity of having a plan, no matter how ambitious, if the eventual destination is to be reached.

The case study consists of five chapters which are sequenced for effect and is written in the present tense because events are still unfolding daily. The five phases of restructuring are described in Chapter One. Algoma Steel's organizational structure, which is the contextual shell within which the transformation occurred, is described in Chapter Two. The characteristics of the organization which facilitate or support critical processes such as decision-making, problem solving, communication and participation are detailed. The new roles for formal and informal leaders as a result of restructuring are covered. Chapter three adds the "people dimension" within the framework of human resource development and management. It discusses human resource functions which are integral to the change process such as training, workforce planning, salary administration and contract negotiations. Next, chapter four looks at organizational development which combines the structure and its people in relation to totally new and previously unheard-of organizational development concepts which were (and are) being pioneered at Algoma. The economic and political environment which guided organizational development is surveyed together with organizational development issues such as empowerment vs. managerial control and supervision vs. self-direction. This chapter contains information about the pace of restructuring, strategic planning and some financial implications of change. Chapter five discusses the critical role of the union and the process of collective bargaining to demonstrate the new spirit and style of doing business as an employee-owned company (ESOP). Topics in this chapter include changes to the collective bargaining process in a worker-owned company and an exploration of the new roles for union leaders under this scenario. The perceived loss of a negotiating adversary, which is a logical assumption as a result of conversion to employee ownership, is discussed.

The case contains suggestions and "recommendations" which the authors offer to employee owners of Hungarian E.S.O.P. companies. It is presumptuous to expect that there could be an exact application to the Hungarian situation of the circumstances, events or solutions which Algoma workers created. This is clearly not our purpose. Every

enterprise is unique and constantly changing and while being aware of another's misfortunes and innovations may serve as a guide to adapt one's own strategies for success, the caution exists of attempting to replicate the Algoma story in Hungary. There is plenty of new knowledge to be discovered and new concepts to be developed in the fields of workplace re-design, employee participation, worker ownership and management.

Every day, workers at Algoma Steel are making innovations, taking intelligent risks and adding to their rich repertoire of worker-ownership. This case study is meant to inspire others, particularly Hungarian worker-owners, to do the same.

Sources of Information

This case study was completed as part of "Project for MORE" (Management and Ownership Redefinition) of the Hungarian Share Participation Foundation. It was made possible through the financial support of the United States Agency for International Development (USAID). The Foundation intends to use the case to assist Hungarian E.S.O.P. companies to develop similar innovations and workplace re-design technologies for long-term economic viability and to assist with the democratization of the Hungarian economy. Important sources of information for this case were the staff of the Foundation, particularly its executive director Mr. Janos Lukács and Dr.Ilona Erős. Their insightful questions and debate about the concepts of employee ownership (not just in Hungary) have given the authors a new understanding about the relevance of the Algoma story, especially in a pre-capitalist economy. Similarly, Mr. Itil Asmon and Mr. Vince Morabito of Chemonics shed significant light on the Hungarian situation which enabled the authors to focus on the change process while considering cultural variables as much as is prudent to do so.

The authors had the opportunity to meet and talk with numerous workers, managers, trade unionists, students and ordinary citizens during a five-week period in the spring of 1995 in Hungary. Each person recounted their hopes and fears for tomorrow's Hungary. While this is a case study about a North American (Western) concern, many of the comments we heard such as the demise of the middle class, the strong urge to return to old familiar ways and the pain of subsistence living transcend international boundaries.

Algoma Steel is a corporation which has been studied by journalists, union researchers, academics and internal company personnel. The authors have reviewed and consulted other case studies and briefs[1].

The major source of information was the personal experience of Mr. Denis DesJardins, who is the Union coordinator for the Worker Participation Program at the Algoma Steel Inc. Through a series of focused interviews and by responding to innumerable questions, much of the information which is contained in this case is a personal recollection by a major proponent of employee self-determination through ownership with over thirty years of experience at Algoma Steel.

The final source of information was the Algoma Steel annual report for 1994 which noted "the significantly improved financial results recorded during 1994 reflect not only strong market conditions, but also Algoma's excellent facilities and highly trained

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1. "Employee Buyouts in Canada: A Blending of Cultures", by Morley Gunderson, Jeffrey Sack, James McCarthy, David Wakely and Jonathan Eaton.
   - "Innovation and Cooperation in Canadian Industrial Relations: Adapting to NAFTA", by Richard Chaykowski.
   - "Algoma Steel Inc.: Employee Buyout Case History" by Jennifer Hutchinson.
   - "Canadian Co-Determination : The Story of Algoma Steel", by USWA National Office.

and motivated employees who are capable of maximizing the potential of these facilities in terms of quality, output and cost levels. The strong base of facilities and people combined with the elements of the new strategic plan should ensure a strong and competitive company into the future".

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CHAPTER ONE

THE FIVE RESTRUCTURING PHASES OF ALGOMA STEEL

Pre-restructuring Phase (Pre-1991)

We will begin the Algoma Story with an explanation of the circumstances which led up to the eventual re-structuring of the company and an exploration of the conditions which existed during five distinct phases from 1990 to 1995. Generally the circumstances and conditions could accurately be grouped under the title of "industrial relations", because, while there are financial and product implications to the story, the inability to resolve these and all other related organizational problems were essentially due to people issues. Few people inside or outside Algoma would disagree that post-war labour relations at the company were bad. Workers were seen as simply units of production - each was given a number and all were a cost to be borne as were raw materials, fuel, equipment, etc. In contrast to today's way of thinking, very little was asked of Algoma workers, and workers lived up to their end of the bargain exceedingly well. They were expected to show up on time, do only what they were told, not leave work early and not argue with their superiors. It was a classic case of leave-your-brain-at-the-gate because someone else (management) had it all figured out and organized. Top management made the big financial decisions which they revealed to only a select few, who certainly did not include workers nor their representatives, but also didn't include lower levels of management. Middle managers oversaw front-line managers who watched workers do the work. It was a case of classic Taylorism with the occasional foray into some popular (for the moment) management theory deviations. But the largest single aggravation came, ironically, from the Human Resources department-despite the implications of the division's name. For it was here that the collective agreements (and dis-agreements) were hammered out, and it was here that human resource policy was developed for Algoma Steel. Long time employees can all recount at least one serious run-in with one or more of these policies. Over the years, worker attitudes were honed and tempered in the fires that burned on the picket lines during months of bitter strikes and lock-outs. One decision which more than any other created untold acrimony in the labour relations of Algoma was the constant and repeated decision to hire management people and try to keep the plant running when there was a legal work stoppage. Algoma's strikebreaking efforts galvanized the Union and workers individually to such an extent that for many, a decision to buy the bankrupt company was easy. Most felt they could only improve the situation.

During the years leading up to 1991 many militant unionists were elected, especially at the local union level, although occasionally they would seek and secure a higher office. This meant that when the time came for the ultimate decision of whether or not to shut the place down, the union leadership was peopled by a group of determined and resolute leaders. Had this not been the case, the verve needed to stand by a radical counter-proposal might have been lacking in more moderate leaders.

In terms of its products, Algoma, like all businesses, had to be able to withstand the vagaries of competition, legislation, new technologies and changes in consumer preferences. For a while Algoma was price competitive, however at a much greater

distance from its markets. Plate, sheet, rails and structural steel were the mainstay, but plate was severely compromised by the Free Trade Agreement with the United States and the rail business dried up as rail travel was displaced by cheaper and faster air travel. Algoma was on a collision course with destiny, and low oil prices in the 80's dropped the bottom out of the tubular products division at a time when Algoma was in the midst of constructing a new rounds caster after buying the Mannesman Tube mill and building an expansion mill. Eventually oil prices went up, but by that time world-wide supply of pipe for drilling had caught up and the demand for oil decreased as cars were becoming lighter, replacing steel with plastic, further adding to Algoma's woes. The recession of the early eighties coupled with a too-strong Canadian dollar resulted in massive lay-offs at the Sault Ste. Marie plant. For the 10-year period 1980-1990, Algoma's workforce was cut in half, from a high of 12,000 to just over 6,000. Newly developed U.S. mini-mills and off-shore imports resulted in financial losses for seven of the nine years from 1982-1990. Dofasco, which purchased Algoma for its slab steel capacity - a low profit margin, further cannibalized what was left of Algoma by buying the company, eliminating its sales force and sending all the highly profitable orders to its Hamilton works, leaving Algoma the low-end slab sales, expensive off-shore markets and the secondary, domestic market. The script had been written, and when Dofasco announced it would write down its Cdn. $700 million investment and stop supplying any more operating dollars to Algoma Steel, time ran out for the company.

The Re-structuring Phase (1991-92)

Immediately, Algoma had to advise its creditors as to how it would alleviate its massive debt and workers wanted to know how they were going to receive their recently won strike benefits. Numerous high level meetings involving banks, both companies (Dofasco and Algoma), Federal and Provincial governments and the Union were held to try to resolve a very complicated problem because, by that time, the playing field was starting to become more level. The serious debt which the companies had fallen into took away much of their perceived authority position - they could no longer hide their ineptitude and inability to keep the company on an even keel. Labour, on the other hand, had never been given a chance and now it had a sympathetic government which would at least ensure its point of view was heard. A task force was set up at USWA's request while the banks and Dofasco were convinced to supply temporary loan guarantees so the company could keep operating until a longer-term solution was found. Algoma received protection from its creditors under a piece of legislation called the "creditors protection act" and enough time was bought for a company-led restructuring plan to be developed. What began to emerge however was a stronger role for the Union as many of the interim manoeuvres were designed by the Steelworkers to keep a presence at the table and to ensure that the company didn't merely capitulate to the creditors.

On September 23, 1991, Algoma made public its new business plan which proposed reduction of the workforce by a further 1850 people in addition to currently laid-off workers, closure of its ore division, 20% salary reductions for the rank and file. The plan had the structural and tube mills still operating; however, as the restructuring facilitator at the time noted, keeping these mills in operation "will take a remarkable degree of co-operation between labour and management". Many industry analysts pointed out basic flaws with the plan (in terms of the projected lower Canadian dollar and demand level projections). However, it was the huge cost of the company's plan in terms of lost income and tax revenues and the devastating effect these would have on the local (and national) economy which opened the door for a Union-led counter proposal. The Steelworkers soundly denounced what they called "Dofasco's plan" and advised that they would present an employee-buyout alternative. To back their offer, they put Cdn. $10 million of their own wages up to buy the time it needed to construct the take-over plan. The pendulum had clearly swung in the Union's favor because, throughout the entire restructuring period, the company continued to lose money and prospects for the company's plan kept getting dimmer.

Finally, on Friday, February 28, 1992 was announced the Union rescue deal that would save Algoma from closure. A new Algoma Steel Inc. would be incorporated with employees owning a 60% controlling interest in the form of common shares of the company, acquired over the following five years. They would have control as owners through their representatives on the Board of Directors and through a joint management process along with special voting rights through employee co-operatives. The workplace would be redesigned to permit greater employee participation, reinforced through contract language which both sides would have to agree to. The plan received the support of all parties and the collective agreement was re-opened to eventually close the deal. One small step towards empowering workers had been taken.

Many of the organizational and structural changes that were mandated in the collective bargaining agreement (CBA) became effective upon the signing of the contract on June 1, 1992. The process of creating the participation vehicles was begun with the hiring of a Union co-ordinator and an assistant whose job it was to see that the Union agenda was followed. Postings for the three main task forces seeking volunteers went up and an objective process was used to short-list applicants to be recommended to the Union Steering Committee for selection. Interviews were held with each applicant to ensure that they possessed the proper understanding and interest in ownership and participation. The process ensured that any and all workers who were interested had the opportunity to come forward, plus it gave the Union an indication of the resources that would be available on the shop floor when committee members began doing their work. There was no shortage of work to do, since the company was still losing money, but now the workers and their leaders had to come through with solutions to what was plaguing the company. Workers on the task forces (problem-solving and cost reduction, workplace redesign and training) were given their specific mandates under the contract. The manner in which managers were appointed to the committees was flawed as they were merely selected and told who would and wouldn't belong. Immediately, there was a continuity problem as the management co-ordinator left to work elsewhere and a new co-ordinator had to be found and brought up to speed, all of which wasted precious time. In fact, over-all company leadership was a problem at this stage because the company President had not been asked to stay on by the Board and, until a new one who was acceptable to the Union could be found, there was no leadership at the top. Consequently, most managers felt secure in not supporting the restructuring efforts, safe in the knowledge that the top was not terribly interested either.

The Stabilization Phase (1992-93)

Eventually, a CEO who understood the power of participation and was supportive of dismantling the old regime was found and a new era began. One of his first actions was to hire a new Director of the Human Resources Department, who shortly removed the existing head of the H.R. department. The long task of rewriting and reshaping human resources policy into a more modern and useful resource started to take shape. A period of stabilization began but the company was still losing money, although signs were starting to appear that this condition was no longer inevitable.

Two interesting sidebars appeared at this juncture of the transition process. Since time clocks had been removed (a largely symbolic gesture), management feared that workers were leaving work early and weren't being disciplined for this. Some management had become reluctant to fulfill their disciplinary responsibilities for fear of reprisal from the union, but the union asserted that discipline was management's prerogative and not the union's. Role conflict and blurring was an issue to be resolved but at least now there was a participative process in which to do it. The other phenomenon which occurred was the struggle between the task forces and the elected Union leadership. Many felt their authority was being usurped and that the changes being proposed by the largely union-dominated task forces were too much and too fast. The union executive also felt that the process was out of control and that they were not able to keep up with it. However, once the problem surfaced it was added to the menu of problems and the process took over. By this time, more training was occurring giving workers the information and skills they needed to use it to participate and make input to the solutions being recommended about virtually all aspects of the company's operations. Communication had also started to improve, bringing more workers than ever before into the bargain. The Joint Steering Committee (JSC) process started to take hold. More significantly, the collective bargaining agreement was treated as a living document, and modified as needed to accommodate the needs of the task forces and the workers. In the past, any attempt to modify or even interpret the agreement was met with stiff opposition and usually resulted in expensive arbitration. By the summer of 1993, this and many other aspects of Algoma Steel Inc. were taking on a new dynamism and a life of their own - a far cry from the gloom and doom two years earlier.

The "Return to Profitability" Phase (1993-94)

Incredibly, at least for some industry analysts, a period of profitability emerged (June 1993-December 1994) as Algoma's participative systems kicked in just as the steel industry and the economy began to brighten. The company made some strategic decisions such as exiting the off-shore market and putting a halt to slab sales, which was a marginal profit producer anyway. Business volume became so healthy that debates occurred at the JSC about the restrictive hiring policy invoked by the CEO. At one point, the large number of employees in training was questioned as manpower shortages meant potentially lost sales. But the long-term horizon indicated another industry downturn was inevitable, and the need to be ready with more highly skilled and therefore efficient workers (instead of the traditional lay-offs) won the day. A sense of maturity pervaded the company along with the awareness that more strategic thinking was at work, largely as a result of the processes that had been put in place. The process really shone when just prior to the 1994 annual meeting, a series of secret bonuses for 100 select managers was revealed by the shop floor representatives on the Board. The Board voted to rescind the bonuses, discontinue the process and, in the bargain, five senior executives including the CEO gave back their bonuses as well - all told over Cdn. $3 million saved.

1994 saw more training occur than ever and the departure of more upper management who were replaced from within, usually with a strong recommendation from hourly personnel. Ongoing contract negotiations focused on income security[1] till 1999 (to facilitate employees offering significant and sometimes radical ideas for improved viability without fearing job loss); amalgamation of the three different unions was discussed to remove cross-jurisdictional barriers, simplify contract administration and add flexibility in the movement of workers from area to area within the company; pension improvements were discussed since the overall size of the workforce would have to be reduced, but by attrition; and a new business plan to build a thin slab caster would require a reconfiguration of ownership in order to raise the necessary capital. It was discovered that majority ownership did not give the workers the effective control they desired or thought they had, but changes to the organizational development structures and policies were made (such as a veto on any new CEO) which ensured that even in the case of losing majority ownership, control would remain in the Union's hands. Other significant changes during this phase included the implementation of the business unit concept in strategic departments (the tube mill was first) in order to permit and increase innovation in the product line and exploration of new markets. The business unit concept, widely used in firms such as IBM and General Motors, added to the company another level of maturity and sophistication which reassured workers that "someone knows what they're doing for a change".

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[1] Income Security: this is not job security, but rather a top-up to unemployment insurance that a worker would receive from the government as a result of being laid off. This amount can vary, but in Algoma's case, it was to provide 90% of the workers' wages.

The "Invest for the Future" Phase (1995 and beyond)

The final phase, the one the company is in the midst of as this case is written, can be titled "Invest for the Future" since it covers the period from January 1995 to the end of 1997. In January 1995, the Joint Steering Committee began to re-negotiate the organizational structure of Algoma, the strategic plan for long-term viability, income security for all present employees, a vastly improved pension plan and a gainsharing and profitsharing program. What resulted was possibly the most advanced collective agreement in Canada to date, and certainly the most progressive contract Algoma workers have ever seen. The Union agreed to reduce its majority ownership and to amalgamate all union locals, in exchange for:

Control Issues:

- the right to effectively[1] veto any new appointments to the Board (through its representatives on the board)
- the right to effectively veto the hiring of any new CEO
- the right to veto any new share issue (through a vote of the cooperatives)
- the right to participate in any strategic planning of any nature
- the right to establish departmental steering committees (mini-JSCs), with a union steward sharing the chair with a departmental superintendent

Monetary Issues:

- the best pension plan in Canada (50% increase)
- gainsharing and profitsharing (escalating scale)[2]
- wage increases
- the ability to sell a portion of the shares

Income Security:

- every current employee gets income security to 1999 or is guaranteed 90% of wage through a Suppledmentary Unemployement Benefits top-up

Union Resources:

- two additional full-time co-ordinators and 50% budget increase.

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[1] Effective veto: the board established committees to approve any new board members and to search, if needed for any new CEO. The committees were made up of two management and two Union members. A 3/4's recommendation of the committee was required; this meant that the selection was dependent on the support of the candidate by Union half of the committee.

[2] Gainsharing: this refers to the financial gains made through suggestions of the employees in either products or processes. The gains/savings are shared with the workers.

Profitsharing: this refers to the financial gains made through profits of the company as a whole. It is a means of rewarding workers for their part in making the company profitable.

The Management's Rights Clause was changed to read:

" Management of the plant and the direction of the workforce will be jointly administered to the extent provided for in Sec. 3 of the General Article of this agreement. Management retains the right to discipline but shall do so in a manner consistent with the principles and objectives set out in the Collective Bargaining Agreement.

During this phase the final negotiations were completed to create the 800-member salaried bargaining unit which, in addition to removing a monumental barrier to cooperation, will also likely mean that training will escalate as supervisors begin to recognize the collective will and the needs of the broader company horizon.

The immediate challenges are to raise the capital (Cdn. $500 million) to proceed with the mini-slab caster mill, and to normalize operations through training and organizational development (e.g. bring the salaried bargaining unit into the fold). The mindset which has been created is that the processes are irrevocable, and the evidence that they work is the Cdn. $127.5 million profit the company earned in 1994 - new profits from new processes such as participation and ownership. These profits belong to different kinds of shareholders and will be used for very different purposes than ever before.

The Union signed a memorandum of understanding with the company and agreed to recommend to the workers that they reduce their majority ownership position as part of the new collective agreement. These changes will only become effective upon ratification by the two cooperatives (salaried and union workers).

CHAPTER TWO

ORGANIZATIONAL STRUCTURE PROCESSES

Characteristics of Change

The most notable characteristic of the organizational structure of Algoma Steel is the degree of jointness in the structure. The previous structure was very linear, which enabled top-down decision-making and authoritative control to be exercised and which inhibited bottom-up participation and influence by workers. The present structure consists of a series of parallel and converging committees which operate as a balance, with the joint committees acting as the fulcrum. The Joint Steering Committee, made up of 6 management and 6 union representatives, is co-chaired by the company CEO and the International staff representative of the USWA. The committee is mandated to make everyday decisions or recommendations to the Board, depending on the matter at hand.

The Joint Training Committee also makes decisions about training needs and issues or recommends actions to the JSC. The Joint Technical Change Committee, as the name implies, assesses changes brought about or necessitated by technology (all types) and makes appropriate recommendations, usually right at the departmental level. It is here that the self-directed workgroup process gets its impetus as the most notable workplace redesign technology. The Joint Problem Solving and Cost Saving Committee oversees the Employee Participation Process and facilitates input into all facets of Algoma's operations. The schedules of these committees vary from daily to weekly meetings, and metings are held most often at the company's restructuring centre. All committees have access to administrative support and the on-line computer system (PROFS) for distribution of minutes, reminders of meetings, etc. The restructuring effort and resources which have been assigned to it corresponds to the size of the company and are an indication of the massive workload which is required to rebuild Algoma Steel from the ground up.

There are many questions about employee-owned firms in relation to their organizational structure, not the least of which is "does structure facilitate ownership and the processes that go with it?" There are certainly many organizational structures, from hierarchical to totally flat (even inverted), but do any of them facilitate or foster the change that is expected when employees purchase a stake in their company? As noted earlier, Algoma experienced several significant structural changes in the five-year period when every effort was made to keep the company alive. Some of the structures were designed to increase joint decision making, while other arrangements were simply meant to ensure that the right people were indeed talking together. Several organizational configurations were tried which contrived to bring Algoma to a state of employee ownership. The question is the same: is ownership (or even the transition process to ownership) enhanced or facilitated by organizational structure and if so, what should that structure look like?

The general agreement in the case of Algoma Steel is a resounding belief that for the first time in most employees' memory, the ability to meet management on equal terms, whether at the boardroom table, in committee or right on the shop floor is the key to overcome the years of mistrust and acrimonious labour relations that contributed to

the decline of the company. There are innumerable ways this jointness in terms of the way the company in presently structured can be assessed to determine how the working relationship has changed.

Decision Making

The way decisions are made, for example, is a significant indication of organizational structure which many people would expect would change as a result of a new ownership paradigm. Regardless of the significance of the decision for the company, whether it is at the workplace (eg. to schedule vacations) or at the Board level (eg. concerning product line changes), **the process used to make decisions gives worker-owners meaningful opportunities to contribute ideas, suggestions and opinions and to have influence in the ultimate decision.** Because of the varying complexity of issues and the huge volume of decisions which workers make every day, Algoma does not employ a standard methodology or model for decision making. **One premise is that the experienced worker (especially one who has been properly trained and who possesses adequate information) need only rely on common sense to make the decision which is in the company's best interest.** Algoma has recently begun ensuring that workers in fact have the training and information (previously the purview of managers) to combine with their experience in order to make effective decisions. For specific, larger problems requiring (and now desiring) employee participation, the company has turned to a more systematic process known as the K.T. (for Kepner Tregoe) decision making methodology and to several structural vehicles such as the joint problem solving and cost savings committee, the joint union management steering committee and the joint technical change committee, to name a few.

These committees are composed equally of management and union members who meet on a regular basis using pre-approved employee input processes (some ideas arrive via e-mail) to gather, review and decide on workplace improvements. **The single greatest motivator which induces employees to suggest improvements and cost savings is that there is a credible and consistent (objective) process which employees have confidence will work because there are workers just like them involved at all levels. Employees are not paid for suggestions and, since they own a large stake in the company, receive no direct financial reward.** Yet the structured approach to decision-making has netted millions of dollars in real savings and potentially millions more in intrinsic value. The same applies to joint decisions which prove to be incorrect - the responsibility and accountability is now shared jointly and workers (who have always had managers to blame) and managers (who have always had workers to blame) now must jointly accept the consequences of their decisions.

> Example: Algoma had three 50-ton coal scrapers and they wanted to retire two of them and replace them with 2 new 100-ton scrapers. The new scrapers would move more coal faster, which would save a lot of money. The decision would mean three employees would be laid off. The decision was made unilaterally by management, before there was a requirement for any employee or Union input. Subsequent to purchasing the equipment, the company discovered that the new equipment was too heavy for most of the existing bridges at the plant and that a lot of bridge infrastructure would have to be modified at considerable cost. There was another problem. The tires on these new machines were too large for the company's repair equipment and would have to be sent out for repair, again at higher costs. In discussions with the Union and the frontline workers (the equipment operators), the suggestion was made that some of the first-year savings be used to purchase the larger tire repair equipment and the surplus employees be trained to change the tires in-house, thereby avoiding the lay-offs of seasoned operators and eliminating contracting out. The company agreed and a win-win decision resulted.

These are the decisions Algoma looks for now - ones that include an element of benefit to the employee instead of purely the bottom line. The process of input and debate results in a slower process, but this is vastly outweighed by fewer errors and much greater commitment to put the decision into force on a timely basis. **The element of owning the solution is as critical as owning the company, and the joint committee structure ensures employees will have a say.**

Participation Processes

Structure alone may prove disappointing if employee participation levels don't match the degree of involvement needed to make different decisions in different ways. Participation is a more difficult concept to grasp, especially after decades where employees were unwelcome at the table. Buzz-words such as "empowerment" fail to inspire the kind of trust and openness that companies need of their workers - both employees and managers, in order for them to take ownership of the situation and make the company profitable. At Algoma Steel, participation was mandated in the Collective Bargaining Agreement to allow any employee who wanted to participate in all aspects of the company life through the vehicles and processes referred to earlier. **The very language of the agreement was used to ensure that decision making and involvement would be pushed down to the shop floor level** where the employee who was performing the task knew best what was required to make a quality product, improve productivity and profitability. From the Board level where four Union representatives (greater than the number of managers) participate with full voting rights, down to numerous task forces and committees at Algoma Steel, workers can participate in important and significant ways. A formal and comprehensive Employee Participation Program was instituted consisting of a mandatory 8-hour training course that described the Union's goals and objectives for the joint participation process; the creation of countless Employee Participation Units (typically numbering 20 employees) which foster dialogue and joint problem solving on the job; and the assignment of Employee Participation Unit representatives, whose job it is to keep the process running smoothly. In a sort of cascading model, the plan eventually is to facilitate such high levels of interaction among workers and managers that these overt structures are not required any longer. The evidence to date is that there are many non-believers, especially among long-time employees who are rightly skeptical of a "flavour of the month" style of organizational change. Many workers believe that if they are going to have to take the responsibility which previously earned managers higher pay rates, they should be similarly compensated. The entire system of participation is totally voluntary, and only time will engender large numbers to buy in. Typically, newer and younger workers embrace participation, as they are usually anxious to secure their employment status and view this vehicle as a method of doing so.

Employees now participate more actively in training as a result of the new and increased emphasis on getting involved. Visual signs, newsletters, posters and electronic messages all exhort workers that "this is their company - let's manage it!" **The real advantage to a comprehensive employee participation program is that it yields big dividends for relatively little cost - provided workers help design the process, run it and ultimately benefit financially.** An example of how workers who participate in committees to assist with cost-saving decisions can be seen in the example of the steel ladle transfer car:

Example: After the joint steering committee was formed, another decision was debated which took a while to resolve. At issue was the steel ladle transfer car. Algoma management had unilaterally decided they were going to contract out the building of the car to another firm to try to save money. The company had plenty of facts and figures which, when the Union had a chance to look at them, showed that it would be cheaper this way. But the Union objective was different. There were many people still laid off at the time and the Union was interested in getting these people back to work. Since the collective agreement obliged the company to allow workers to participate in major expenditure decisions and the company was forced to disclose the information they had collected, a team of two management and two union people (Joint Steering Committee members) were told to research the project. The job would require three welders and a boilermaker and, at the companies inflated charge-out rates of Cdn $76/hr, there was no way to compete with the outside contractor. However, in the course of the discussions at the JSC it was discovered that the company didn't have all the costs. For instance, the ladle car was so large it could not be shipped in one piece but would have to be shipped in sections and re-assembled by Algoma's people upon arrival. This meant much higher shipping costs than previously accounted for. Also. all the hydraulic lines would have to be connected, filled with fluid and bled using Algoma employees. When all these new factors were included it was agreed that it made sense to produce the car in-house. People were brought back to work and the costs were similar - another win/win decision.

Communications

Of all the organizational structure issues facing employee-owned companies, none can be more important than effective communication methods to ensure that collaboration and shared ownership evolve. Much has been said and learned about communication in traditional organizational structures, all of which applies in employee-owned companies. But there is an added dimension - that of the new communication role which the union must adopt as people begin to make the transition to ownership - whether this is to gain support for the new ways or merely to help employees understand that it is now their responsibility to manage their companies affairs. In the beginning stages of ownership, the workers typically turn to the union for accurate information about the takeover deal, especially if management has little credibility with the workers. At Algoma, even the Union learned the importance of communication and the lesson of taking nothing for granted when major change threatens to upset the status quo.

Example: Early in the restructuring process, Algoma was still losing a lot of money on its operations and some employees were still on lay-off. Whether or not the company would survive was still unknown and things were pretty desperate. Immediately following the signing of the restructuring agreement in June of 1992, the Union and company proceeded with the negotiated agreement to do eight hours of restructuring orientation and some initial training with as many workers as possible. A group of employees objected to this because they thought the company could not afford to be spending money on such a frivolous thing when the company was financially in such bad shape. They organized a petition which about 10% of the workforce signed and took it to the company and the union to try to get the training stopped. It was very divisive and came at a crucial time in the restructuring process. The union had failed to communicate the importance of getting people trained so that they could begin solving the company's problems. It also neglected to communicate that it had been successful in tapping into some outside funding to help it with the cost of the training. When this was all explained the opposition disappeared, but **the Union learned the importance of letting people in on the information which its leadership knew well and had assumed everyone else knew.**

Both the Union and the company began to explore ways of communicating more effectively with the workforce, both separately and together. Townhall meetings were held at the Union hall for both management and hourly employees, and the task forces made presentations to those who attended. The task force members themselves - including the CEO and other senior managers - went into the workplace and communicated directly with workers. The Union and the company published bi-weekly newsletters to update employees on events and issues. The e-mail system was greatly expanded and workers were given accounts to be able to dialogue plant-wide, send or receive information and stay abreast of major developments. Previously this system was only for managers, and opening it up showed workers the company wasn't trying to hide anything or electronically spy on them. Even the Union hall was brought on-line to close the communication loop. Still some workers felt they were in the dark, especially those who weren't computer literate and wouldn't use the new communications technology. To solve the problem and to guarantee that a steady source of accurate and up-to-date information was always available, a Communication Co-ordinator position was created whose job it was to take charge of the various communications methods used at Algoma and to update the workplace.

More recently, **training in effective meeting skills and interpersonal skills have become mandatory** for people in positions such as task forces, E.P.U. reps and other committees where a high degree of interaction exists. The very structure of joint committees and the frequency of meetings means people can't avoid talking to each other, and they needed the skills to do it effectively.

Profitability

But decision-making, participation and communication are irrelevant if the company fails to generate a level of profitability to make it viable. The issue of profitability is probably the most contentious when new values accompany new owners, in this case employees. At Algoma Steel, profitability was the subject of much discussion when the joint steering committee first began to meet. The company's position was to be profitable at all cost. The Union believed that the goal was to be economically viable, which meant something altogether different from the company's definition. The Union argued that "profits were for shareholders" and that return on investment was the principle goal of profits. Although the employees were now shareholders, the Union argued that return on investment should not be the only focus, especially if profits fail to support workers who are laid off during periods of downturn in the economy. Profitability has to equal sustainability of well-paying jobs and security of investment for the worker. In addition, costs (such as training) must be re-defined as investments, just as technology is seen as an investment in profitability. In other words, **people's needs and priorities had to be factored into the profitability equation now that they were owners.** Different companies will have different circumstances; however, profitability is a fundamental issue when employees buy a piece of the action. Sometimes individual employees or minority groups can break solidarity with the ranks to try to maximize their benefit, especially if they have long seniority and feel protected against lay-off.

Quality Improvements

Another way to measure whether the structure of an organization supports employee ownership is the quality improvements which should emerge as a result of the transition and processes mentioned earlier. Algoma workers know that their competitors in the steel industry are as concerned about quality as they are and especially that customers want quality steel to put into their products. Traditionally, quality was the responsibility of the Quality Control Department, despite the company's attempts to encourage employee involvement in quality control. What was missing was any contact with customers (end-users) and lack of direct involvement of workers in the process to improve quality. In the absence of evidence to the contrary, workers believed their products were satisfactory or, in the event they learned that a shipment was defective and was returned by an unhappy customer, it was someone else's loss (i.e. the company) and the worker felt unrelated. Concepts and trends like TQM (Total Quality Management) or CQI (Continuous Quality Improvement) came and went as quickly with their usual management exhortations and fervor but without any lingering, structural alterations to the way things had always been done. The same can be said for re-engineering, quality circles and management by objectives - what many people refer to as "flavour-of-the-month management"). These theories were refinements of a totally faulty management-of-quality paradigm, and in some ways contributed to making a bad thing worse (especially when the cost of the consultants who were hired to preach these theories was factored in).

As part of the new Algoma, a process called Participative Process Improvement (PPI) has been developed in-house which relies on the talents and

capabilities of a highly trained workforce and incorporates elements of quality of work life, productivity and product quality together. It does not separate the product quality from worklife quality and thus it attempts a more holistic approach to quality improvement. The program is aimed at reducing waste, error and re-work to reduce costs and improve productivity, customer service and over-all profitability. Central to the elimination of waste, error and re-work is a "tool-bag", commonly known to the employees who have one as the PPI ToolBag. Included are statistical process control (SPC) methods such as Pareto Analysis, Cause and Effect (fishbone diagram), control charts, Process Capability Methodology and a Measurement System Evaluation. There are also problem solving methodologies such as Analytical Troubleshooting and an SPC Problem Solving Strategy. Rounding out the tool bag are interpersonal skills such as Team Building, Managing Change, Leadership Skills and Facilitation Skills. There are techniques for cost-benefit analysis, baselining and benchmarking, ergonomics and a corporate resource directory for reference. With this tool bag at their disposal, shop floor workers can perform virtually all the functions previously relegated to the Quality Control department and thereby achieve immediate quality improvements during the actual production process. Many workers have received training on all the "tools", and the process of training many more is continuing. In the meantime, those who are competent are fulfilling the role of facilitating quality discussions in groups and with self-directed work teams.

What's especially different about this approach is the combination of production quality and quality of work life as an incentive to encourage workers to be quality conscious. This means that not only are the products of better quality, but the safety, environment and facilities do not suffer in the drive towards higher quality at the lowest possible cost. There is balance between product and process with the worker being able to manage the scales - a stark contrast to the more narrowly focused Total Quality Management.

A Dialogue About Co-Determination at Algoma Steel

In order to concentrate on Algoma Steel and the organizational structure issues it faced in greater detail, we now will turn to some specific questions. It is the authors' hope that the use of this question and answer technique in each chapter will animate the case study for the reader and show how dynamic the restructuring process was at Algoma.

Q. Let's begin at the beginning. Did workers actually believe that buying such a large piece of such a troubled company was their best option? Was no one else interested in a partnership?

A. No one was interested. After all the attempts to negotiate the companies debt with Dofasco and the other creditors, it became clear that the only people interested in saving our jobs were the Union and the various levels of government. You have to remember the state of the steel industry at the time as well as the general economy around 1991. There was far more steel available in the world at low prices than there was a demand for, and we were not the cheapest producer by a long shot. Algoma has a long history of labour-management strife and we had just come off a four-month strike where we gained wage increases and the workers were not in a mood to give them back. The real problem was that no one, either at Algoma or Dofasco, really cared about the workers - they were interested only in the finances of both companies and in protecting managers jobs at the expense of workers, and there were no joint processes or anything like what we have now to influence that agenda. When the Union saw the proposals from Dofasco and Algoma, particularly the size of the job losses, they knew immediately that they had to come up with an alternative plan.

Q. Can you describe how the company was organized which accounted for this attitude of disregard for the workers?

A. Algoma Steel was as traditional an example of Taylorism as you'd find in North America and, worse still, it was a very conservative company. Just about every condition that would cause a company - any company - to fail was present and, in Algoma's case, the conditions all came together at one time. The hierarchy of management was well defined and entrenched, which meant there were too many layers between the problem and the solution and workers had no independent authority whatsoever. The company was severely top-heavy because, after the 1969 strike, Algoma increased the size of the management ranks when they found they couldn't operate the plant when the workers went out on strike. These numbers just kept on increasing and the other problem was that many managers had no shop floor experience (we call that "the relative effect") and so they only added to the dissension when they would try to tell experienced workers how to do their jobs. The union itself was operating as a traditional adversary, which was all it had ever been asked or needed to be. Neither organization structure was particularly conducive to co-operation - we sort of tolerated each other when we had a contract and hated each other the rest of the time. The company people always got better treatment inside and outside the plant. There had always been two standards at Algoma throughout the company's history, which created hard feelings and jealousy - things like using family influence to get hired and managers being able to get away with using their positions to get access to company property, while workers would be summarily fired for much less serious offenses. There were simply no bridges or ways to find any common ground that had been developed and so confrontation, suspicion and dislike prevailed. Morale was abysmal, even among some managers. Lower managers were treated only marginally better than hourly personnel; especially those that attempted to walk the middle ground and treat workers like human beings. Employees painted all with the same brush, much like was done to them.

Q. What did management expect when it proposed its restructuring plan? Did they think it would be accepted? What was wrong with it in the Union's eyes?

A. First of all, what we got was not Algoma's plan - Dofasco was calling the shots at the company and it was very clear that they neither knew nor cared about the history, the local community or the resolve of the Union and most workers to save their jobs. If it had been an Algoma plan it probably would have been similar, but I'm sure they would have expected it to be rejected. The plan didn't offer any promise that anything significant would be different. What it amounted to was making a poorly structured and managed company into a smaller, poorly structured and managed company. Less but more of the same. There was every indication, to us at least, that the few jobs they proposed to keep would be just as vulnerable as the ones that were lost. It was a financial solution to a structural problem and it didn't fit. There were lots of other things wrong with their plan, such as the fact that Dofasco would retain majority ownership (36%), which promised more low-end work and an absentee owner with no commitment to our community or our future. We'd had too many bad experiences with absentee owners in the past to see any promise that this arrangement would succeed.

In management's re-structuring plan the traditional hierarchy still existed, but we wanted a different organizational chart. We were not worried that the loss of a hierarchy would create chaos or be disorienting because the processes we wanted would replace the lock-step approach we always had. Besides, what we wanted was change if our viability was ever going to happen. There were many "lead-hand-jobs" already in the plant as well as other organizational structures such as our own union structure. If anything, Algoma Steel was over-managed and over-organized, when what we needed was room to breathe and to explore new ways of operating. A formal leader makes workers wait for instructions and that's why decisions usually take a long time in coming - they have to pass through a long chain of command, plus there are the inevitable communication break-downs. Informal leaders, on the other hand, give on-the-spot solutions and decisions, if management has the confidence in them and they have the information they need.

Q. And the Union's plan. How was it different? Where did it come from? Whose idea was it and how did you go about selling it-to the companies involved, the creditors and, especially the workers?

A. We did our homework, especially concerning employee ownership, because we had a totally different focus - a human focus because to us, that was what was threatened. Management focused on money because it traditionally represented shareholders' interests and had negotiated the financial obligations of the company. Managers' necks were on the line with the creditors and so their response was designed to suit their audience. But they forgot that they also had obligations to the workers, obligations they had freely entered into under contracts, and we felt it was time to hold the company to its responsibilities. Because of our union networks around the world, we were aware of this concept of employee ownership and so we brought in a German trade unionist to advise on the issue and thoroughly researched the Japanese, Swedish and American models in order to look at the pros and cons of this sort of structure. We knew that on one hand it would take a big selling job with our members because there would be sacrifices and change is always a fearful thing. What we counted on was that saving a lower-paying job which offered the hope and opportunity of better working conditions and individual influence for the future would be a better alternative than what was on the table already. The other thing we did was to inform people every step of the way because we didn't want to leave ourselves open to any criticism that we were operating the same way the company did - in private. I think there was a combined effect of credible Union leaders and discredible management, a legacy of failure and a promise of hope, a mature workforce, a supportive government and community, and the fact that we were our last resort. Luck played a part (having a labour government for example). In retrospect, where we are going could turn out to be the norm someday because most workers want the same things - security, the ability to be proud of their work, and a measure of respect, especially self-respect. If your focus is on people, you know that.

Q. Let's turn to some of the characteristics of the way the company operates now which relate to it being an ESOP. Have decisions or decision-making improved? How?

A. Decisions are of much better quality. I don't mean they're necessarily all correct, although I think even that has improved, but I mean that the decisions which are made now as a result of worker input have a better effect in the workplace. There are ways we can tell that decisions are of better quality because of the way they are taken - for instance, there is less need to "sell" people on the merit of a decision because everyone knows how it was made and who made it and why it was made. This means decisions get implemented sooner and with more enthusiasm. Many people would expect that the more people involved in the decision the harder and longer it would take to reach consensus and the more costly it would be because of the delay. I think the evidence will show that improved quality of decisions justifies the higher cost (if in fact there is one) because they are probably more accurate and don't result in costly errors and having to repeat the entire process. Take the coal scraper example for instance. We might have realized that the scrapers were too heavy for the plant's bridges if the operators who drove over the bridges every day had been consulted. How much more time would that take? There's no substitute for common sense. All along, workers had the experience and the knowledge - there was just no opportunity to put it to use.

Q. Can you identify one major requirement still to come regarding how decisions are made as an employee-owned company?

A. To make re-structuring work in the long term, management has to put people first - ahead of profits, quality, customers, everything. If people are successful workers, the company can't help but be successful. Even the management theorists of today are undecided about whether customers or employees need to take precedence, but it's obvious to me that you can't have happy customers without first having happy workers to make the products or provide the services customers want. For workers as owners, they need to believe in themselves and get involved. There is no one to blame if the company fails and the worker hasn't taken the initiative to take charge of the situation which affects him or her, to make suggestions and take pride in ownership. It's like a family-owned business which has your name on the sign out front - we collectively own a large piece of the company. It's us who make the steel, not banks or the creditors, and we have to protect our investment. If we don't do it, who will?

Q. What will the organization structure look like in the future?

A. There already are signs of a more integrated structure than the one we have today and we have already achieved a high level of integration through the Joint Steering Committee, the number of workers on the Board, numerous joint committees and the participation processes that are in place. However, there are still two entities - the company and the union - in fact and in most people's minds. This separation is necessary to provide a balanced decision making process. The Union brings its strong characteristics to the partnership and the blending of those characteristics makes for stronger and healthier decisions. If everyone thought like managers, what would we have accomplished? We would simply have come full circle. Every new hire gets the employee ownership orientation package immediately to get them thinking the right way from the start. Gradually, what you might call a "culture of ownership" will evolve over time and for many people, there's no other way for it to happen. But there are other, more invisible ways we are making the "new" Algoma, which are faster and more conducive to an integrated structure. I'm referring to the use of information technology and to training. Information and the ability to exchange it is power in any human organization. We are rapidly increasing workers' access to information and raising the level of transfer by using communications technologies (like e-mail) more widely than ever before. Workers can get detailed data about costs, production volumes, prices and profits, and they are actively involved in setting and managing budgets. Information which is easily and regularly accessible creates a level playing field for all, workers and managers alike. Of course, workers need to be trained to use this technology and to understand complex financial and other kinds of information, which leads me to my second point - training. We have dramatically increased the amount, kind and methods of training being delivered both in-house and by training partners such as colleges and private training companies. We are trying to create a versatile workforce by multi-skilling as many people as possible and we're looking at rejuvenating our apprenticeship program to prepare for the day when large numbers of skilled trades people will be retired. In terms of what the structure will look like on paper, it will be neither a pyramid nor flat but a system of inter-connected loops, much like the Olympic rings. These will include our suppliers and customers, and conceivably our competitors if there is a certain strategic advantage that we can achieve together which neither of us can do alone. There is certainly an element of uncertainty this early in the game, and maybe from now on, considering how quickly things change. That's why we can't ever allow ourselves to stand still in any one organizational configuration.

Q. How have workers attitudes changed about working at Algoma Steel? Is it as a result of becoming owners?

A. On the surface not much has changed in the daily routine for workers as a result of becoming owners-except maybe the disappearance of time clocks and the loss of the prime parking spots for managers. It's tough to assess people's attitudes but, in the past, people generally hated to say they worked at Algoma Steel. For many, if you worked at "the plant" it was because you hadn't gone to school and couldn't get a better job. People certainly didn't go out of their way to say where they worked or to boast about the world-class products they sometimes made, which was a sign that they were not proud of their company, or maybe even of themselves. Getting out of work was as important as getting the job done for some and there was a lot of indifference - towards safety, waste, the environment and even the profitability of the company. People had the opinion that if the company lost money, it was someone else's money and they didn't really care whose. Most parents wanted something better for their kids and were determined their sons and daughters wouldn't "end up there", meaning at Algoma Steel. All in all, and I realize I'm speaking generally, few people looked forward to coming to work every day, let alone making Algoma Steel the best steel company in the business.

What is different is the way things are changing - the involvement and participation by shop floor workers right on up to the Board room. There is more optimism - a kind of curiosity, as if this is all a big experiment. Certainly the amount of interest and attention we have received is showing workers that lots of other people are curious about what we're up to, and this can only result in them being curious as well. If nothing else, we have something to prove to the world - that workers can make a difference if given the opportunity to participate - and that alone gives us a sense of mission or purpose. It's safe to say we are now being treated as adults, as thinking adults and as members of a team. This is much more than symbolic or semantic because outside of our working lives we see other kinds of teams - sports teams, debating teams, all kinds of successful achievements that we see and are involved in, but always outside of the workplace. It takes a different attitude to be a team player, more co-operation and less individual demands. We realize that we're all in the same boat now, and while that might have always been the case, there's no denying it now.

Q. How does worker participation manifest itself? Could an outsider identify any tangible expressions of worker involvement?

A. Again, on the surface, it may be difficult to show an outsider how the average worker is getting more involved with the operation of the company; however, there are a few things I could mention. Certainly cost savings would head the list. Last year, workers collectively saved Algoma over Cdn. $2 million confirmed and Cdn. $7.5 million unconfirmed as a direct result of the structures and processes wherein they could be actively involved in decisions. As worker confidence increases and workers get a better understanding of the costs of production, these figures are bound to increase. There are many more people taking training in a wider variety of subjects than ever before - not only because some of it is required for them to do their committee work but also because people are finding the training useful. Some trainers have noted a greater participation in the sessions, fewer absences and less griping about having to be there. More often when there are complaints, they are accompanied with suggestions for improvements which shows that workers are taking a greater interest in finding solutions instead of merely being unhappy. Our public image has also improved and that will spell multiple benefits. All in all, while an outsider may not be able to recognize the fundamental changes that have happened, I expect any worker could easily tell him - and that's what's important.

Q. You've said that participation is voluntary and that it's a process which can't be taught but must be implemented. What if someone doesn't buy into the concept? Can they be empowered?

A. Participation is voluntary - how can it be anything else? If someone opts not to participate, say in a problem solving discussion, then he loses an opportunity to have his say and to try to influence the eventual decision. It's just like voting. If you don't vote, you can't complain about who gets elected. It's no different than before, except now there is an opportunity to participate. Unless you seize it, nothing's going to change for you. No one can empower another - we used to think so but we were only fooling ourselves because each of us is an individual with our own work ethic. But that's not to say that nothing can be done to facilitate personal empowerment or to support workers who decide to take the risks associated with taking ownership. Clearly workers are going to make mistakes and get discouraged; when they do, that calls for a new role for managers and other leaders in the organization, both formal and informal, as in the case of the elected Union official. This is the role of coach and mentor you read about in the literature and it means a recognition that mistakes are a means of learning . Only motivated people make mistakes that result in new learning and change. Before, we organized our workplaces to minimize mistakes and all we got was minimized effort.

Today we look for what we call the "creative genius" of the worker. Any worker worth his or her salt can show you how to save 15 minutes in a shift - and that's the difference between profit and loss. We can find those efficiencies only if we consult with the only people who know where they're hidden - the workers. It's really not difficult to understand, especially when you take it out of the industrial context. Liberalization and democracy are breaking out all over the world. Our workers experienced the liberal 60's, 70's and 80's when finding your own space and being your own person was emphasized. The post-war "baby boomers" are now in mid-life and they won't accept anything but modern, mature leadership. Because of information technology, particularly telecommunications and global travel, our workers know how the other half lives and are much better educated to boot. All of this adds up to a restlessness and demand for the kind of structures that put power in the hands of people, or at least into the hands of those with people's interest paramount on their agenda. How can the workplace escape these influences? Indeed they can't, and that's why we're seeing the rise of employee ownership in some very surprising places. In Algoma's case necessity was the mother of invention and that shouldn't be surprising, not when workers had nothing to lose and everything to gain (in both cases their jobs). Here in Hungary, much the same situation exists and that's why the ESOP movement is so strong - plus you have the added incentive of needing to democratize the entire economy. Privatization kills two birds with one stone so long as workers' rights win out in the end; otherwise it won't be sustainable.

Q. Did the government play a role in the buy-out of Algoma Steel and was it an important player?

A. In one sense, you could say that fate lent a hand when it came to the government's involvement. For the first time in the entire history of Ontario a labour government was in office, which gave the Union a strong ally. Historically in Canada labour governments have been relatively small and powerless; however, in this case they had a majority of seats and could play an influential role when it came time to call on them. The bad news was that there was no privatization legislation in place, no financial (tax) advantages available to anyone and the Province's debt was staggering which meant the government's ability to offer the workers a bailout was nil. Besides, Algoma Steel wasn't the only steel company in trouble and there were trade agreements with the U.S. which tied the government's hands when it came to essentially subsidizing the company. The way the government helped was to focus on the bigger picture which was the impact the closure of the company would have on the local community and the tax losses all three levels of government would face, plus the cost of labour adjustment measures and income supports (unemployment insurance and welfare). **The government played the correct role - it facilitated dialogue and made sure the parties who had to talk to one another did so.** It used its legislative authority to advantage and came away with a solution that was acceptable to everyone.

Q. Have concepts such as authority and responsibility changed? How?

A. The answer is yes and no. There are still managers who make the decisions and many who continue to make those decisions alone. But there's no going back to the old ways and those managers who don't catch on soon will find their days are numbered. The list of ways authority and responsibility have changed is almost endless: the union can veto the hiring of a new CEO and any major spending or investment decision. There's contract language which provides participation opportunities as well as access to information. There are employees on the Board of Directors and numerous joint committees and processes (described earlier) in place which permit shared authority and responsibility. The reduction in the size of the management complement means there are fewer managers to share power with and the ratio of workers to managers is more balanced. Probably the single greatest indication of the changes in this area is the rapid rise of self-directed work groups (SDWG) which, while they are not supervisorless, will be once they have fully matured. The other outstanding indicator is the recent forming of a supervisory bargaining unit and its decision to be represented by the same Union which represents the hourly workers at the plant. This is a clear vindication for workers who have always had to band together in the face of a minority powerbase and it means that the same processes and structures available to workers will be available to managers, all of which makes for a transparency amongst the workforce. What really matters however, and where the big pay-off in this transition will come, is from the thousands of workers taking responsibility for the thousands of individual, minute-to-minute decisions and actions, which all compound to point the company toward a new kind of profitability.

Q. Everything sounds so rosy. What about performance deficiencies? How are they identified and corrected?

A. We believe we have to get past reacting and start preventing problems if we're going to make a big enough impact on the bottom line. There's never enough time to get it right but there's always time to do it over. Sound familiar? **We must find and develop the "preventative maintenance" mindset for our processes and structures.** We're hoping that participation and our structured processes for decision making and problem-solving (the PPI tool-bag I spoke of earlier) will result in fewer deficiencies. We think that because our systems are voluntary they will result in the greatest amount of buy-in. We also believe the adage that nothing succeeds like success. So we try to celebrate our small successes, and are always on the lookout for opportunities to score a major victory in the fight against complacency and mediocrity. It's a case of leadership with vision and courage vs. managerial control. There will always be mistakes and let-downs, discipline problems and problem employees. People are only human, but there are programs and solutions such as Employee Assistance Programs (EAP). However, such employees are a very small minority and we have to be careful we don't demoralize everyone by painting all employees with the same brush. If workers are trained and supported, if the risks and rewards are shared and if they can see some long-term security, they'll react very predictably at work as they would in any other part of their lives. Besides, we know what the alternative approaches produce!

Q. Will all of the processes and the structures you've talked about result in profitability for the company?

A. Because of what was going to happen at Algoma Steel (i.e. closure), you could say that everything we've done so far has been net gain, but that would be too simple. What really needs to happen is that **the concept of profit has to be re-thought**, just as every other aspect of the company has come under review. Profit should not be immune from the microscope of re-design and re-structuring. In the past, profits were what resulted from industrial activity, after all the necessary costs were subtracted. They were the "end", the goal if you will. That meant it was acceptable to try to find every conceivable way to maximize them, since the prevailing belief was that profits were what made a company successful. This was too narrow a definition, and it was especially too short-sighted because it failed to consider one fundamental element of success - continuance. **Success is only success if it stays around and so an element of sustainability has to be factored in** somewhere. In the classic sense, companies did make attempts to propagate success, mostly by investing in new equipment and especially new technology. More time, effort and money went into researching, experimenting and buying equipment and technology to increase capacity, speed or to reduce error than ever went into training or developing workers to make a profit.

This isn't surprising when you consider two things: first companies get to write down the depreciation of capital investments and second, **training has always been considered a cost rather than an investment.** But look at the scenario another way. Capital investments have an average 10-year lifetime pay-back, while investments in people last 30 years or more, or for as long as that worker remains your employee. Also, the potential or capacity of a piece of equipment is quite fixed whereas the potential of a human being is limitless. Everyone knows that when you buy new technology, let's say computers or phone systems, they're obsolete before they're ever paid for, sometimes before you can get the full value out of the investment. But investing in people pays back dividends again and again and there's little depreciation to worry about - in fact, employees get better with age. So we have to learn that the cost of making profit can't hurt a company's capacity to sustain that ability, or the profit takers will pay a greater price in human costs - poverty, crime, welfare and non-competitiveness. Profits should become the means to sustainability - or as we termed it in our plan, viability. People make profits and so it is people, not profits, who make companies successful. At Algoma Steel, we want to achieve a balance and stability which will smooth out the peaks and valleys of the business cycle, which means we have a long-term view of things. Profits are typically a short-term phenomenon and to maximize financial investments there are better ways, such as stock markets, than trying to use an industrial concern which has such a large impact on people's welfare. There's really no other alternative or way to look at it since, as owners, we're not going to take our profits out and leave our own company without the money we need to develop in the long term. Profits are integrated once employees own all or some of the company, and profit-taking would be like cutting off your stronger arm. Why would you do that?

Suggestions for Hungarian ESOP Companies

This section of the chapter on organizational structure contains suggestions from the experience of Algoma Steel, which the authors believe will generally apply to Hungarian ESOP companies. They do not carry the weight of recommendations and the reader must be cautious of any attempt to use these suggestions out of context. For this reason the suggestions are not prioritized or ranked in any way.

- **Discuss and resolve any authority issues** between elected union officers and appointed or volunteer committee people in order to avoid conflict.

- **Get agreement in writing about all aspects of the restructuring process prior to proceeding**, to ensure continuity when people, priorities and circumstances change.

- **Make participation voluntary** and put in place a selection process which ensures fairness and effectiveness.

- **Do not be afraid to err on the side of leeway for the Union** to ensure the process doesn't stop before it really gets rolling. Balance will come with experience.

- **Seek financial assistance outside the company**, such as the Government which has a large stake in the success of the venture.

- **If possible, negotiate an income security program** to make the restructuring program long-term and to encourage employee participation from a high security level.

- **Pay people according to the value of their work** using a common pay structure for all employees (workers and managers). Eliminate favouritism.

- **Develop a mission statement based on shared values.** Create a sense of vision and communicate extensively inside and outside the company.

- **Focus on issues and solutions instead of personalities and the past.** Implement one effective and consistent problem solving methodology and stick with it long term.

- **Combine quality improvement of products/service with quality of work life.**

- **Give workers all the information they need and provide continuous training.**

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CHAPTER THREE

HUMAN RESOURCE DEVELOPMENT AND MANAGEMENT

Introduction

Since the traditional functions of the Human Resource Department (HRD) are contract negotiations, salary/benefits administration, personnel and training, this department is the natural source to facilitate re-structuring negotiations. The staff of this department usually have the experience, history, knowledge and information to ensure an efficient and effective transition, once the decision has been made to change the nature of the company.

This was not the case at Algoma Steel as the "resource " or service mentality of HRD was completely lacking and, in fact, many staff actually hindered the process for as long as they could. The hierarchical structure had allowed personality conflicts to linger, as this suited the company's adversarial approach to collective bargaining. This approach had fostered acrimonious labour relations in the past and was a contributing factor to the unvariability of the company in the first place. Thus, not surprisingly, when it came time to seek assistance and support for the newly negotiated joint processes, it was not forthcoming from HRD. So people simply circumvented HRD and used the joint committee structure to discuss their needs and make recommendations to the Joint Steering Committee, which had the clout to make change happen. The results were nothing short of dramatic.

Training

The most obvious sign that something significant has changed at Algoma is in the area of employee training. For the first time in the company's long history, experienced workers are being asked and encouraged to become workplace-based trainers in order to capitalize on the wealth of knowledge and skills they possess. A large number have received formal train-the-trainer instruction to ensure that a standard of high quality, consistent training is delivered. The menu of courses and subjects available to workers on demand has been vastly expanded. In the pre-restructuring era, there were as few as 10-15 courses available to take and very few employees received any training. Contrast this to the present day trainers pool of 5 management and 5 union trainers (full-time) and up to 20 part-time trainers in the union ranks alone. For the first time ever, the number of training courses and subjects grew so large that a training catalogue was printed so workers could select from a menu and the company could ensure it would have the trained workers needed to meet its long-term viability goal. Training now occurs at the work-site, at the re-structuring centre, at the training department and off-site as needed. Training Needs Assessment,[1] which precedes all training decisions, has been vastly improved, as has post-training evaluation.

A direct result of the broader approach to training, especially within the context of re-structuring, is that training has stopped being the solution to every problem that ever occurred at Algoma. Instead, the joint structure and various processes, such as participation, are the solution processes and, only once they are in place, do workers need the training to participate. Training is the means to participation - successful ownership is the end. Therefore, training requires a strategic approach and training activities must be constantly monitored, because skills which are received before they can be used are soon lost, and skills received too late are worthless to maintaining change momentum. The concept of "just in time" training can be adapted as a quality improvement, akin to just in time production. At Algoma, training is a tool for creating the new structure whereas, in the past, it more or less maintained the status quo.

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[1] Training Needs Assessment: A survey of the workforce (through questionnaires, interviews, etc.) to determine what type of training is required by the workers.

Workforce Planning and Management

Personnel and personnel-related functions always had a narrow scope at Algoma because the workforce had only one dimension, which was the unit cost of production. Seen as such, it only required minimal attention from the HRD department (there certainly wasn't much development of the human resources), except in tough financial times when workforce reductions were a quick and easy remedy. Management reacted to more orders by hiring and to fewer orders by laying off, and nothing, including the collective agreement, required HRD to operate any differently. From 1991 -1995, little or no hiring occurred (although many were re-called towards the latter years of the period as things started to pick up as a result of the changes). The Union had agreed to reduce the workforce by attrition and, combined with the hiring freeze, excessive levels of over-time resulted for a while. The joint committee process demonstrated that **workforce planning** was needed rather than reaction to outside events, and that it would also have to be strategic to avoid an uncontrolled loss of experienced employees, particularly tradespeople. Discussions are now underway aimed at reviving the dormant apprenticeship program (clearly a developmental program HRD should have promoted). Amalgamating the three unions into one has contributed to workforce mobility within the plant. The **multi-skilling** of the workforce is seen as a critical manoeuvre for workforce flexibility and versatility, which will be needed to cope with the next steel industry down-turn.

Salary and Benefits Administration

This area of HRD has also undergone radical change, both to correct deficient systems and to harmonize functions now that the playing field has become more level. The historically separate pay scales for workers and managers created a double standard which also had no connection to productivity, knowledge or experience. Management arbitrarily claimed the process as a right and would only negotiate what suited its purpose, another example which made their approach adversarial. While the union was successful in bargaining for a bonus system, there were no performance or merit increments for workers who wanted to better themselves (in terms of education, skills or qualifications), while managers enjoyed these opportunities under the Hays system. It was common knowledge and practice that managers' pay would be adjusted once the contract raises were negotiated in order to keep them "ahead of the workers". Merit very seldom entered into the equation.

The salary and benefits puzzle was made more complex by the different pay scales for different unions and locals within the same union. This created inequity and a feeling of workers competing against each other for the best deal - hardly a collaboration builder. Management's pay was largely determined by the number of employees supervised, which fostered empire building, especially amongst middle and senior managers who were under the Hays system.[1]

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[1] Hays System: A salaried pay classification system based on comparisons with similar jobs in other programs; used to arrive at a rate of pay for salaried workers.

While the salary and benefits implications of the creation of the salaried bargaining union are as yet unknown, there are a number of initiatives underway to re-structure all pay systems at Algoma. The CBA contains language to forge one pay system for all employees, beginning with the CEO. The union amalgamation has removed a source of inequity and contention while at the same time resulted in some catch-up opportunities as a result of the melded scales.

Contract Negotiations

The final area of the HRD domain was collective bargaining. Here too an adversarial approach ensured that while agreements would eventually be hammered out, there would be no love lost between the parties and a history of resentment and dislike would always colour subsequent negotiations. The chances of innovating or creating more progressive industrial relations technology were virtually impossible. As a result, the process took on an aura of defensiveness and one-upmanship which benefited no one.

The problem was that the company was seen separately from its workers, as a legal entity to be protected from undue costs, such as wage increases. This was the traditional separation of Taylorism at work as applied to the collective bargaining process. The agreements, which were almost always difficult and protracted (not to mention stressful) to reach, would then be defended like battlements as if they were cast in stone. Costly arbitrations emanated which only added fuel to the eternally smouldering fire.

Any improvement in what had been a hugely divisive and expensive process would be a large improvement. While traditionally HRD did the senior managers' bidding, the new joint process has involved a larger and wider variety of stakeholders to become engaged in charting the future course for the company. The CBA has already proven itself to be a "living document" which guides decisions and provides a backdrop of dynamism. As a result of the many new processes, employees "are" the company. There has also been a change in the outlook of the HRD which now fulfills a service role to internal customers - the committees, departments and individuals which all comprise the new Algoma Steel.

A Dialogue About Human Resource Development and Management

Q. Since HRD issues are generally people issues, they are usually the most difficult to resolve. What brought about solutions to these problems at Algoma?

A. Not all the problems are solved and I think some of them will never be solved, because there are always emotions and personal opinions involved in HRD issues. The best we can hope for is that the processes that we have begun to implement, such as self-direction and participation, will give people enough control over their worklives that they will not feel as victimized as they used to. It is still very early in the game, and the next industry down-turn will tell us if there is enough balance in the organization to stay on the path we're on now.

Unless people begin to have expectations that they'll be successful, there will never be enough of them with the personal vision to succeed. People need to see themselves succeeding and making a difference to become really excited and make the great commitment they need to make. It isn't good enough to say "we just won't operate the way we used to" and expect that we'll have enough innovation and new ideas to forge ahead. Knowing what not to do isn't enough. What we need is synergy - the combined efforts where the whole is greater than the sum of the parts. You get this by supporting people to take risks, intelligent risks, and sharing all you can. It's similar to a marriage where two people form a bond that becomes a new entity. That's why participation is so important. Human beings want to belong - that's why we create clubs, organizations, teams, you name it. Our identity comes from what we do and our self-worth from the contributions we make for the benefits we receive. So there have to be opportunities for that. The last, and maybe most important, stimulus for change is personal pride. Almost one-third of our lives is spent working, so it's important for us to be able to be proud of the work we do. Companies have to create opportunities for workers to feel a sense of pride - they must be recognized for their efforts. When they are, they return the favor many times over. Recognizing workers publicly doesn't cost a cent, yet it unleashes enormous pride and productivity for the company.

Q. What are some of the differences between traditional organizations and empowered ones in terms of HRD functions or processes?

A. This subject was hotly debated throughout re-structuring, as people struggled to define the ideal organization and to identify specific things that would have to change for there to be a truly "new" Algoma. A few minor changes at the fringes wouldn't have made enough of a difference, considering the run-down state of the company. The easiest way is for me to contrast them:

Traditional	Empowered
-management driven	-customer driven
-isolated specialized workers	-multi-skilled workers
-many job descriptions	-few job descriptions
-limited information	-widely shared information
-many levels of management	-jointness
-department focused functions	-company focused functions
-seemingly organized	-seemingly chaotic
-problem solving emphasis	-purpose achievement emphasis
-high management commitment	-high worker commitment
-incremental improvements	-continuous improvements
-management controlled	-self-controlled
-policy/procedure based	-value/principle based
-control oriented	-involvement oriented
-one person responsible	-everyone responsible
-little worker training	-open access to training
-quick decisions	-sound decisions
-unilateral decisions	-consensus decisions
-rewards for managers	-rewards for all
-one-way communication	-multi-way communication
-inhibits challenge	-encourages challenging
-quality of product	-quality of everything
-little pride	-lots of pride
-no trust	-trust building
-negative ideas	-positive outlook
-red tape	-open channels

Q. You mentioned a service mentality for the Human Resources Department. Can you elaborate on that? Who are internal customers?

A. At Algoma, in fact in most manufacturing businesses, there are the producers and those who support the production processes. In our case, they include maintainance, stores, transportation, utilities and administration, which is where H.R. belongs. These "support" services keep the steelmaking, rolling and tube mills operating smoothly so that they can satisfy the demands of the external customer; the one who pays the bill. The production departments are the customers of the service departments because they need the services these departments provide to keep rolling. As customers, they actually create the jobs for workers in the service departments. In the case of the Human Resources Department at Algoma Steel, its job evolved into much more. It became the vehicle to control workers, as opposed to supporting workers. In the new Algoma, it is hoped that the HRD will attempt to meet the needs of the employees as they work towards a more participative process.

Q. What are the key Human Resources programs which are crucial to the change process? Are they all in place at Algoma after five years?

A. Very few people can grasp the theoretical concepts of a transformation as large and complex as Algoma's, and few even care. What they want to know is "what's in it for me?". In order to put their minds at ease and allay any fear or threat to their security (which interferes with the entire process), it's important to attend to the issues that affect them first. Payroll modifications for averaging hours for all workers is a topic which requires immediate attention. Also important is a humanistic approach to discipline and grievances (there are usually a lot of outstanding grievances on the books which should be resolved using the new approach). Training support and development, job evaluation (where jobs are added or combined), supportive policy-making and the development of new programs such as pay-for-knowledge, gainsharing and profit sharing are all important Human Resources initiatives to be attended to in the transformation to employee ownership.

Of these new initiatives, pay-for-knowledge is already in place at Algoma and the profit-sharing program has been defined in the recent collective bargaining process. Gainsharing remains still to be developed.

Suggestions for Hungarian ESOPs

- Give training organizational objectives.
- Identify internal customers and their needs to service departments.
- Provide open access to training.
- Develop in-house capability for training.
- Use an effective training needs assessment methodology.
- Develop a succession plan[1] tied to training.
- Have a single, company-wide salary/benefits system.
- Reduce the number of job descriptions. Multi-skill the workforce.
- Design your CBA as a guidebook and use it daily.
- Provide unlimited access to information.
- De-layer management levels.

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[1] Succession Plan: A Strategic Plan which includes training priorities, in order to ensure that the company has adequate manpower to meet its requirements for adequately trained personnel to continue to move the company forward.

CHAPTER FOUR

Organizational Development

Introduction

In traditional Taylorist companies with traditional management hierarchies, traditional organizational development results. This was certainly the case at Algoma Steel. In its day, Taylorism might have been the optimum organizational development strategy for the kinds of workers and the circumstances which prevailed in the 19th and early 20th centuries, especially before the information age appeared on the scene. However, towards the end of the 70's and 80's, new management and organizational development theories were being discussed and taught, primarily emanating from Japan and the U.S. Algoma Steel managers knew about quality circles, management by objectives and the other popular theories; however, the traditional hierarchy remained in place and the old ways of doing things prevailed.

There are three predominant types of planning techniques commonly used in industry: strategic, long-range and functional planning. At Algoma Steel, there was plenty of strategy but minimal planning. The strategy was to maintain control and maximize profits. Most management decisions were reactions rather than strategic interventions designed to improve the lot of workers. The hierarchy of responsibility said that only management's ideas were good ideas, and input from workers wasn't actively sought. There were also long-range (5-year) plans but they mostly dealt with capital improvements, construction and expansion. When workforce development issues and needs would surface, they would be relegated to the collective bargaining process. Long-range planning did not include worker input either, although their future was being discussed too.

Functional planning was done by front-line supervisors and its quality varied from department to department. There were examples of workers being allowed to work at their own pace and, if they could finish their work early (provided it served the company's interest), they would be allowed to punch out early. In other departments, especially those that were particularly hot or dirty, there was no such autonomy and money was used to motivate workers to do unpleasant chores. The real evidence that the organization was not developed beyond its 19th century design was the minimal amount of employee training and the lack of organizational structure modifications. The economic models (environment) did not support a humanistic style of organizational development, as profits were never targeted towards workplace improvements. Development was narrowly defined as product mix adjustments or business mergers and acquisitions. Even departmental budget planning and management did not seek worker involvement.

The formal power structure was very exclusive and not shared. It was the informal power that got the job done and kept Algoma running, but the clock was ticking and eventually Algoma caved in on itself from being too top-heavy and from lacking a solid foundation. Authority was defined in terms of management's rights to manage and responsibility for making decisions. Responsibility did not equal accountability and numerous policy documents, precedents, history ("that's how it has always been done") and unwritten rules governed. The Collective Bargaining Agreement was put away after it had been signed and only referred to once a problem had already occurred. It rarely served as a guide or in a preventive manner, even though it generated the greatest amount of discussion and debate about conditions at the plant.

Managerial Control vs. Empowerment

The restructuring process shed light on new organizational development concepts such as participation, inclusion and self-direction. These processes looked radically different and promised a quantum change. In order for workers to embrace these new and different ways of operating, they would have to feel empowered (obviously management couldn't or wouldn't direct them to). An excerpt from the Plan of Arrangement sums up the new management style:

> "The leadership of the USWA and Algoma management have indicated a willingness to work together to redesign the workplace to achieve significant cost reductions and productivity increases. The process of redesigning the workplace will rely extensively on greater employee participation and involvement. It will result in a flattening of the organization, with the elimination of layers of management and administration and overhead costs. Joint programs will be initiated with the objective of creating a more participative and less authoritarian workplace. It is expected that through these programs and joint training initiatives, the skill content of jobs will be enhanced and the skills of all employees will be continually upgraded. In Algoma's restructured workplace, workers will exercise greater influence, responsibility and control and will be encouraged to identify and solve operating problems". (p.26)

There is a formula which many leaders of Algoma's transformation refer to: OxI=C, where O stands for ownership, I for investment and C for commitment. Not all workers or managers make the transition the same way or at the same pace; however, the process is underway and moving forward.

Pace of Change

The speed (or lack thereof) at which change occurs is an interesting and complex issue. Some want to proceed slowly - whether to ensure they get it right or because they don't approve of the changes. Others want to set a fast pace lest the opportunity disappear before them. Then there's the question of whether the pace can even be set and maintained or does it simply evolve. Whatever the case, the pace of change at Algoma Steel occurred at lightning speed (considering the decades of lethargy that preceded).The company was losing money at a time when the industry and the economy were bottomed out. Closure would have cost the Canadian economy an estimated 20,000 direct jobs, lose millions in tax revenues for all levels of government, decimate the local economy and cost millions more in social welfare costs.

The pace of change is governed by many factors. Some of those which affected Algoma were the need to satisfy its creditors (debt); what the competition was doing (Dofasco had implemented self-directed work teams two years before and were reporting success with the concept); champions had surfaced within the Union ranks who would have to be listened to; and eventually a CEO (among others) with vision who supported a participative process arrived on the scene to support the transition.

Personal Finances and Benefits of Restructuring

Unless restructuring achieves significant financial improvement, both for workers and the company, there will be no support for lasting change. Initiatives such as a melded wage scale for all unions, income security guarantees and a consolidated company-wide wage scale helped Algoma begin the financial transformation process to employee ownership. On a macro scale for workers, share values are expected to make up for wage concessions, there is long-term job security, an improved pension plan and the opportunity for input into the company's financial decisions such as investing and borrowing. Eventually, profitsharing and gainsharing will follow. The chart below demonstrates the dramatic turn-around in corporate profits during the re-structuring era. There have also been significant cost savings of Cdn $2.7 million in 1994.

ALGOMA STEEL FINANCIAL PICTURE (1991 TO 1995)

1991	1992	1993	1994	1995
ANNUAL RESULTS	ANNUAL RESULTS	ANNUAL RESULTS	ANNUAL RESULTS	FIRST QUARTER RESULTS
(CDN $ 155,6 M) LOSS	(CDN $ 74,1 M) LOSS	CDN $ 7 M PROFIT	CDN $ 127,3 M PROFIT	CDN $ 45,1 M PROFIT

The story of the $100 screwdriver best illustrates the financial benefits of restructuring, and we will use it to close this chapter:

> There's an old story that went around the plant that to buy a simple screwdriver, worth about $10, would cost $100 because of the time, the bureaucratic red tape and the paperwork that was involved in getting the request approved. At least three layers of management had to approve the request, sign and forward the paperwork, presuming no one along the way questioned if the screwdriver was actually needed. It was a big joke, but it cost the company millions in wasted time and effort, to say nothing about management's credibility. Today, some workers have their own budgets and they are empowered to shop where they get the best deal for the company - whether that's internally or in a local retail store. Budgets are set and reviewed periodically.

A Dialogue About Organizational Development

Q. Some companies separate training and organizational development. What is the relationship at Algoma Steel? Are system wide solutions accepted? How has this happened?

A. I don't think training can be separated since its only purpose is to develop the workers who are the company. So for Algoma Steel, it's the same. With the joint training committee at the helm, there have been major improvements to our training strategy in the last 2 years. In fact, it's the first time we can say we even have a strategy. We are talking about rejuvenating our apprenticeship program to supply us with skilled trades people as older workers retire. This is a strategic intervention which has long-term implications. Union amalgamation vastly improves the mobility of the workforce and also gives us access to skilled people when and where they are needed. That's strategic. Reducing the number of job descriptions and multi-skilling the workers creates a much greater degree of flexibility and versatility. I think all these strategic moves will have long-term benefits.

Q. What about other strategies? How are organizational development issues identified? Who raises them and where?

A. This is where we can see real gains because of the process. Organizational issues used to be talked about only by top managers, if at all, and hardly ever included worker issues. Because of the committees and the Employee Participation Program and self-directed work groups, the organization is continually being developed and re-made. That's why it sometimes seems so chaotic - there are different things happening all over the place which suit the different needs which are identified and acted on by the workers in those departments. New compensation techniques (gainsharing - which pays workers for immediate efficiency and productivity improvements that result in cost savings) and profitsharing will have a huge impact on the bottom line - both financially and in terms of worker influence. The formal power structure will continue to divest control and things like pay-for-knowledge will recognize people's skills instead of merely who they are in the hierarchy. Recruitment is not likely to be large in the future, except when appears a certain skill need that we can't train ourselves for. Otherwise, virtually all of the processes will continually develop Algoma Steel and move us along towards our goal of being the best steel company in the world.

Q. You've mentioned several times the role information plays in empowering workers. Can you elaborate? What kind of information? What sources?

A. Before restructuring, workers and even many managers knew virtually nothing about the financial health of the company, its costs of operations, or anything like that. I doubt very many of them read the annual report, nor did the company make an effort to visit the worksite to explain it and answer questions. There were questions but there was no way to get answers. Now, that's all changed.

It goes without saying that information is power and workers with information are powerful workers. In order for them to make the productivity and efficiency improvements that must be made, workers need to know where to start - they need a baseline to measure the effectiveness and projected impact of planned changes. They need to know accurate costs - all costs which contribute to the selling price of our products. They need to know production targets, volumes and unit costs of everything from raw materials, fuel, manpower hours - anything that will help them understand costs so they can begin problem solving and coming up with suggestions for improvements. This is where service departments such as stores, accounting, purchasing and personnel have to do their jobs well. Whether employees are full or partial owners, unless they know and understand the profit and loss situation of the business they will be powerless to improve it.

Q. What about organizational development down the road? How will Algoma sustain it? What will it look like?

A. As far as we can see for now the organization will be de-layered, which will also lower the manager/worker ratio. Supervisors will become coaches and team process will expand. Business units will flourish and the concept of "internal customers" will be much more evolved. The task forces will disband once their transitional work is completed, the co-ordinator jobs (maybe not all of them) will disappear, but the departmental steering committee structure (mini JSCs) will vastly increase in number and influence. None of this even resembles a hierarchy. We are always looking to network and to have a look at what others are doing to try to develop their organizations, which is an outward focus we never had.

Suggestions for Hungarian ESOPs.

- Make transition to participation the top priority.
- Commit to empowerment and do not waiver, no matter how chaotic it seems.
- Look for champions and support them.
- Develop your own formula for success (OxI=C).
- Encourage employees to own the process of participation.
- Give workers authority to make decisions.
- Move at your own pace. Do not try short-cuts. Build your foundation solidly.
- Invest in people equal to technology.
- Look at the effect of technology on people (social implications).
- Support, encourage, reward.
- Continually strive for improvement.
- Look at better ways (processes) to involve people.
- Do not cap training costs.
- Be fair and honest with employees and trust the process.
- Develop good consensus decision making methodologies.

CHAPTER FIVE

THE ROLE OF THE UNION IN RESTRUCTURING

Introduction

The buy-out of Algoma Steel was union-led for several reasons, notwithstanding the complete unacceptability of the management plan. The USWA plan asserted that the only way to avoid this tragedy was to rebuild Algoma through worker ownership. USWA National Director Leo Gerard declared: "Algoma employees are prepared to bear difficult and substantial personal financial sacrifices to ensure the success of a restructured Algoma. Without the commitment of Algoma's employees to the process, the Company cannot be saved. With it and the continuing goodwill and effort of Algoma's other stakeholders, not only will Algoma be saved, but it will become a strong, competitive and viable Canadian steel producer".

The Steelworkers proposed a restructuring based on eight principles. Eventually, every one of these principles was achieved.

1. Algoma must restore all lines of business to profitability, including the iron mine and sinter operation at Wawa;
2. In exchange for a commitment to restore Algoma's long term profitability, employees must become the majority owners of Algoma;
3. The government must enact legislation supported by the United Steelworkers to simplify and expedite worker ownership;
4. Algoma must commit to a major program of capital investment to modernize and upgrade the plant;
5. The government must provide bridge pensions to allow the necessary work force reduction to occur without layoffs;
6. Dofasco must pay its fair share of the cost of restructuring the Company;
7. Algoma must act as a responsible corporate citizen and not compromise the environment;
8. The government must provide substantial funding for a Sault Ste. Marie Training and Economic Development Council to upgrade the skills of all Algoma employees and attract high skill, high wage employers to Sault Ste. Marie.

The new agreement drastically increased the influence and responsibility of hourly employees in the ownership and operation of Algoma Steel. What made it possible was the desire to provide more influence for workers over their jobs - a desire that is totally contrary to virtually all conventional and generally accepted management theory being practiced in Canada today.

The Union's Role

Throughout the restructuring years, the one thing which enabled all three Union levels (local, district and national) to maintain their focus and single-minded determination was the very core of unionism - its worker orientation. The basic issue was the preservation of jobs, without which a domino effect would be set in motion. If workers lost their jobs, they would cease being consumers of goods and begin being consumers of social assistance. This double whammy to the local, Provincial and National economy would multiply in all other sectors producing goods and services and create a kind of self-fulfilling prophesy as far as the general economy was concerned - one with no end in sight. Because of their worker orientation, the union recognized this phenomenon while other stakeholders only saw a narrow horizon full of debt and destruction. The union's role was to broaden that horizon to other, more constructive tactics, and they could do it from an awareness base of participation, worker control and empowerment.

Champions emerged from the union ranks to fill the leadership void within the company which had been created by the Dofasco purchase and the history of adversarialism the Union had endured for decades. The union ensured that communication channels remained open between the three union levels but, more importantly, that painstaking efforts were made to inform the rank and file of their every move and to ensure the membership would be able to cast informed and intelligent votes on the eventual deal. There was no "big bang" or single moment of inspiration which can be recalled or pointed to when the solution became clear. Instead, long-held principles and philosophies of worker rights and the dignity of work prevailed. From the outset, the Union recognized the need for capable and independent management at Algoma Steel. On the other hand, employees demanded and won substantial input into the operations of the new Company. This system of checks and balances is necessary to prevent authoritarian rule, but also to continue to pursue long-term viability through effective and efficient decision-making.

The Collective Bargaining Process

The style of negotiations which prevailed during the restructuring years set the stage for a new collective bargaining process - in terms of atmosphere as well as substance. Gone is the tense and bitter acrimony which characterized previous contract negotiations. It has been replaced with a respect for opinion and a constructive challenging of new ideas. The substance of talks is still the same - pay and benefits, pension improvements and reduced managerial control - but now these items are discussed within a framework of common goals and shared vision. Disagreements still do (and must) occur to provide the creative energy to go beyond immediate solutions, but everyone now owns a stake in those solutions, so there is no room for a win-lose end result.

To say that the new collective agreement is unusual is a monumental understatement. It contains extensive detail about items which were totally foreign to labour agreements until now such as income security, strategic planning, joint decision making, joint workplace redesign and employee participation process. The agreement authorizes the union to conduct independent evaluations of the entire restructuring process every other year, at Company expense. There are clauses governing new CEO hiring, Board composition, corporate strategy and planning issues, the disposition of shares and every other conceivable issue which might effect the future of the Company. It is unique and remarkable for the detail it contains and the spirit it conveys - all of which contributes to making it a "living agreement", suitable to guide daily ownership decisions. This agreement raises the threshold for all collective bargaining agreements which follow at Algoma and elsewhere, because workers and managers now know that it can be done.

A Dialogue About the Union's Role

Q. Is it a reasonable assumption to expect, when employees own the majority of a company, that the negotiating adversary will disappear? How can a separate union and company continue to operate under employee ownership?

A. It might be reasonable to an outsider because he would expect that there would be no distinction between workers as owners and employees. But there is. Workers own the Company collectively, not individually. They are still employees of Algoma Steel and need to be represented as such. What has changed is the way they are represented. It is more participative and influential, right on the shop floor instead of only at contract time or during grievances. Workers now represent their Union and themselves because of the processes and structure we've created so that they can impact on the operation of the Company and their individual (or team) work. But the Union still has to fight for things like wage increases and to ensure that the language that's in the contract is followed. We still have to police the document because, while we share common goals with management, they have different ways of getting there and the process is still very new. We need to maintain a balanced operation so that there can be collaboration and synergy. Think of it as parallel roads we're traveling on: if they come together, there's danger of a collision unless there are signals and signs to guide us. The negotiating adversary is still there, but the adversarial way we relate to each other is gone.

Q. What about the "tough issues"things like discipline, absenteeism, theft etc. What impact has restructuring of the new company-union relationship had on these issues?

A. This is a very important question, especially given the history of bad relations at Algoma and people's tendency to want to carry resentments into the new Algoma. There's no difference - management has the right and duty to protect the company from inappropriate behaviour of all employees, whether that's stealing, missing work, insubordination, etc. The Union has always expected management to do its job in this area. What we now can ensure is that management exercises its rights in a fair and consistent manner and that all workers are treated the same - hourly or salaried. We can also ensure that all employees are given due process - something we could only hope for in the past, but really felt cheated of as many decisions were arbitrary. We also have to ensure that workers don't start to police each other looking for every opportunity to improve efficiency so that their share value will perceivably go up. This hasn't happened because of the training we have done and the positions such as coordinators and Union Steering Committee which keeps people on track and in touch with the Union goals and the collective bargaining language.

Q. What if you had it to do all over again? What would you do differently?

A. Ideally, it would stand a better chance of being successful if all the parties were supportive of the process; although I think there is an argument to be made for allowing people to work through their difficulties and thereby gain a mutual understanding for each other's positions. It also leads once in awhile to a working relationship and mutual respect and trust.

I would recommend that all of the players involved in the joint structure spend a lot of time together getting to know one another and jointly developing a mission and a vision.

Other than that, I think it's important to have obstacles during the restructuring of the organization. It's how we learn what it takes to succeed, what works and what doesn't. That's how we learn to problem solve together. It makes the success all the more enjoyable.

Suggestions for Unions in ESOP Companies:

There is one cardinal rule that is mandatory for any Union thinking about getting involved with participative programs: **If you don't have an agreement IN WRITING detailing all of the program, DON'T GET INVOLVED.**

1. Never allow "no" to be an acceptable answer to anything.

2. Be actively involved in every aspect of the business.

3. Drive the process and thereby ensure its direction.

4. Develop specific Union goals that you want to accomplish.

5. Get resources for the Union to be able to do things independently.

6. Maintain strong and courageous leadership.

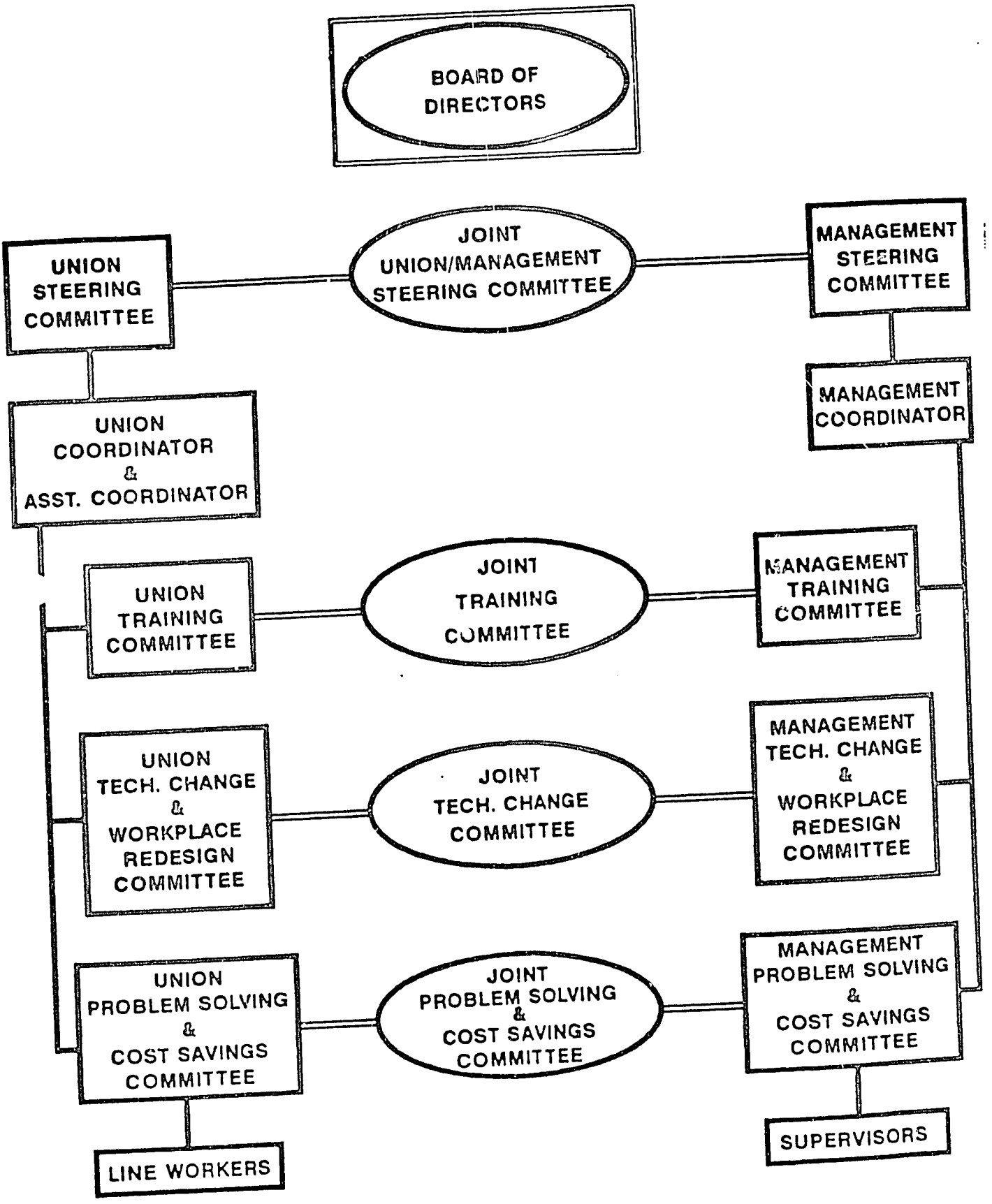
7. Be open and honest with the people you represent; let them decide.

8. Promote the Union constantly and use this program as an opportunity to strengthen your Union. A strong Union is the company's best bet for success.

9. Promote an active role for the Union executive.

10. Make your contract into a living document and continually ensure that changes which occur are written into the collective agreement.

EMPOWERING MODEL OF WORKER PARTICIPATION



ALGOMA STEEL INC.

EMPLOYEE OWNERSHIP TRANSACTION - INPUTS AND BENEFITS TO THE VARIOUS PLAYERS

Participants	Provided	Received
Banks: Royal Bank. Toronto Dominion Bank. Canadian Imperial Bank of Commerce. Hong Kong Bank of Canada	• Were owed over $400 million in unpaid interest and loans.	• Banks got $.60 for every $1.00 with dividends of 5.5% • Remaining $.40 from every $1.00 owed was converted to common shares leaving the banks with a total of 25.1% ownership of Algoma.
Debenture Holders (note that Dofasco was owed $124.5M on its debentures by Algoma)	• Were owed money by Algoma Steel in arrangements made previous to the employee buyout	• Received 60% of the principal they were owed and 100% interest on distress preferred shares
Dofasco	• Gave up $05M preferred shares without compensation • Gave up $100M unsecured leans without compensation • Provided a letter of credit worth $10M over 3 years • Paid $30M in return for tax losses	• Received $150M in tax losses over the next three years after paying $30M to Algoma Steel for this privilege
Creditors and Preferred Shareholders	• Exchanged what Algoma owed them for 14.9% share ownership of Algoma	• Ownership of 14.5% of Algoma Steel
Algoma Steel Employees	• Made wage and benefit concessions of $2.89 for hourly workers and 14.5% for salaried workers. • Decreased holidays for 1 week starting 1993. • Production bonuses remain at 1991 levels • 1600 persons eliminated from the payroll through attrition and early retirement.	• 60% ownership of Algoma Steel • Receive their shares from trust when they retire or die with terms of 5 year holding period • Shares have very little value currently. but successfully bought jobs
Ontario Government	• $90M loan guarantee • Lower rates on Algoma Central Railway • Along with the Federal Government. funded a bridge pension program to encourage early retirement	• Did not lose the $85M over 3 years that was estimated tax revenue if Algoma closed
Federal Government	• Along with the Ontario Government. funded a bridge pension program to encourage early retirement	• Did not lose the $185M over 3 years estimated tax revenue if Algoma closed

ORGANIZATIONAL CHANGE AT ALGOMA STEEL COMPANY (A CASE STUDY)

	STRUCTURE	PRE-1991 PHASE I: BACKGROUND
PROCESSES	ORG. STRUCTURE	
	Authority/Responsibility H.R.D. Promotions Financial Decisions	Only management, except some (a few) hourly jobs Policy fortress (Union busters) Mostly who-you-know based Top Management and Board
	HRD FUNCTIONS	
	Staffing/Personnel Hiring/Policy Career Planning Contract Bargaining Discipline Policy Making	Hire/Fire/Lay off/Recall Major layoffs during this period MBA for mgt. personnel Hardline (Union Busters) Swift/Severe/Final To regulate workforce
	PLANNED CHANGE	
PROBLEMS	Org. Develop Communication Technology Learning Organization	Joint Health & Safety Programs News letters/Notices/Dept. meeting Lots (not people oriented) Non existent
	TRAINING FUNCTION	
	Curriculum Scheduling Financial Billing Development	Health/Safety (Leadership for mgt.) Training Department & Dept. Head A.S.C. (billed to dept. budget) very little (health & safety)
	STRATEGIC PLAN	
	Mission	Profits (and good jobs for upper mgt)
PEOPLE	Vision	Concentrate on prime product (sheet) (improve process)
	CHALLENGES	
		Compete/keep costs down Survive Eliminate (low profit) products Reduce workforce
	PROBLEMS	
		Distance from markets High Canadian Dollar Recession High debt load

	STRUCTURE	91/92 PHASE II: RESTRUCTURING
PROCESSES	ORG. STRUCTURE	
	Authority/Responsibility H.R.D. Promotions Financial Decisions	Only management, some high-end jobs Not very active (low profile) Only when others left (mostly top management positions)
	HRD FUNCTIONS	
	Staffing/Personnel Hiring/Policy Career Planning Contract Bargaining Discipline Policy Making	Weak markets/Lay-offs/No hiring No new employees (essential people only) None (except by individuals) Union drove agenda (did whole thing) Mgt. reluctant to issue discipline Policy now done by JSC (Union)
	PLANNED CHANGE	
PROBLEMS	Org. Develop Communication Technology Learning Organization	Totally laid out in contract language Meetings (many) news letters (local paper) Very little techn. change (some) Begins late 1992 (Union driven)
	TRAINING FUNCTION	
	Curriculum Scheduling Financial Billing Development	Orientation to ownership Union trainers ASI (restructuring) (grants) Some beginnings
	STRATEGIC PLAN	
	Mission	Value of employees, increase productivity/quality/reliability
PEOPLE	Vision	Highly trained/skilled Workforce making decisions
	CHALLENGES	
		Survival Restructure the plant Put restructuring plan together Keep costs down
	PROBLEMS	
		Company restructuring plan Costs too many jobs/money Union has to develop a plan Acceptable to all stake holders

	STRUCTURE	92/93 PHASE III: STABILIZATION
PROCESSES	ORG. STRUCTURE	
	Authority/Responsibility H.R.D. Promotions Financial Decisions	JSC/Top management/Task forces Paralyzed On replacement basis only Top management/JSC/Board approval
	HRD FUNCTIONS	
	Staffing/Personnel Hiring/Policy Career Planning Contract Bargaining Discipline Policy Making	New CEO (late 92) starts January 1, 1993 No new employees/some recall Very little Daily through J.S.C. (new living agreement) Paralyzed (supervisors afraid) CBA and JSC/Top management/Board
	PLANNED CHANGE	
PROBLEMS	Org. Develop Communication Technology Learning Organization	New CEO/JSC/Task forces. Cut ties with parent co. E-mail/news letters/Town hall meeting Minor technological changes Continues to grow rapidly
	TRAINING FUNCTION	
	Curriculum Scheduling Financial Billing Development	E-mail/problem solving/soft skills Training Department/Task forces ASI (restructuring) (grants) Whole scale development
	STRATEGIC PLAN	
	Mission	Strong independent union Strong independent management
PEOPLE	Vision	Reduce ratio of salaried to hourly Reduce layers of management
	CHALLENGES	
		Go to value added sales Train employees Find new CEO Share decision making
	PROBLEMS	
		Low morale/antagonistic Management/losing money still

	STRUCTURE	93/94 PHASE IV: RETURN TO PROFITABILITY
PROCESSES	ORG. STRUCTURE	
	Authority/Responsibility H.R.D. Promotions Financial Decisions	JSC/Top management/Task forces Existing manager let go On replacement basis only Top management/JSC/Board approval
	HRD FUNCTIONS	
	Staffing/Personnel Hiring/Policy Career Planning Contract Bargaining Discipline Policy Making	Some senior staff leave No hiring policy Employee educational assistance J.S.C. (living agreement) Minor discipline issues CEO/JSC
	PLANNED CHANGE	
PROBLEMS	Org. Develop Communication Technology Learning Organization	New director of HRD/Business Work E-mail/news letters/Town hall meeting New product ideas 7.2 million spent on training
	TRAINING FUNCTION	
	Curriculum Scheduling Financial Billing Development	New catalogue of courses Training Department/Task forces/Departments C.S. Tech. ASI (grants) Ongoing development (SDWG)
	STRATEGIC PLAN	
	Mission	Dedicated to economic security Empowerment of employees
PEOPLE	Vision	Thin slab caster/one union Income security/flexibility
	CHALLENGES	
		Meet manpower requirements Maximize profits/pay loans Restructure debt Win over management
	PROBLEMS	
		Persuade management to buy in Tons of training to do Lack of manpower

	STRUCTURE	95/96 PHASE V: INVEST FOR THE FUTURE
PROCESSES	ORG. STRUCTURE	
	Authority/Responsibility H.R.D. Promotions Financial Decisions	EPU/SOWG's/Task forces CEO/JSC New Director of HRD (supportive of efforts) Some input into selection process CEO/JSC/DSC
	HRD FUNCTIONS	
	Staffing/Personnel Hiring/Policy Career Planning Contract Bargaining Discipline Policy Making	Selective staffing (EMT's) No hiring policy Looking at revitalized apprenticeship Renegotiated contract to 1999. New look (consistent with principles) CEO/JSC
	PLANNED CHANGE	
PROBLEMS	Org. Develop Communication Technology Learning Organization	One union/DSC/Salaried union (Income security) E-mail/CEO meetings/Bulletins Contract new thin slab caster 12 million spent on training
	TRAINING FUNCTION	
	Curriculum Scheduling Financial Billing Development	More and more modules (expanding) Training Department/Task forces/DSC C.S. Tech./ASI/developmental grants Lots of new dev. (PPI)
	STRATEGIC PLAN	
	Mission	Build on strengths of people Be best in quality, productivity, reliability
PEOPLE	Vision	Build on existing low cost pos. in liquid steel Expand to include sheet+complete rounds caster for pipe.
	CHALLENGES	
		Be prepared for the next downturn by continuing to cut manhours and by being low-end producer.
	PROBLEMS	
		Ratify new CBA/Raise capital Succession planning Construct thin slab caster

M E M O R A N D U M

To: Mr. John M. Madden, US Embassy, Budapest
From: IMPACT II Project Office, Budapest
Date: May 26, 1995
Re: PRIVATIZATION IN HUNGARY FROM JULY 1, 1994 TO MARCH 31, 1995 AND ONGOING ACTIVITIES

Note: Unless stated otherwise, the first figure (in brackets) in each row refers to total privatization from January 1, 1990 until March 31st, 1995, while the second figure refers to the period July 1st, 1994 - March 31st, 1995.

1. SPA portfolio changes during the period:

Number of firms sold:	(936)	160
-of which 100% sold:	(681)	112
-of which 50% or more sold:	(208)	41
-of which less than 50% sold:	(47)	7
-value privatized (billion HUF):[1]	(491.7)	74.2
-revenue gained:	(295.1)	62.8

Firms still in SPA control on March 31st, 1995

-number of firms:	616
-value (billion HUF)[1]:	220.6

Note that beside privatization, the portfolio is also influenced by the number of company liquidations, mergers and separations. Note also that majority may be sold in more than one step; for example, a minority share may be sold twice, but the company shows up in the category of companies privatized over 50%.

2. AV Rt.portfolio changes - June 1, 1994 to March 31, 1995

Number of firms sold:	(23)	14
-of which 100% sold:	(0)	0
-of which 50% or more sold:	(9)	7
-of which less than 50% sold:	(14)	7
-value privatized (bill. HUF)[2]:	(165.5)	66.50
-revenue gained, bill. HUF (est.):	(125.8)	8-11

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[1] *Both operating companies and assets*

[2] *Operating companies only*

Firms still in AV Rt control on March 31st 1995:

-number of firms[3]:	158
-value, billion HUF[4]	1,042

Note that beside privatization, the portfolio is also influenced by the number of company liquidations, mergers and separations. Note also that majority may be sold in more than one step; for example, a minority share may be sold twice, but the company shows up in the category of companies privatized over 50%.

3. Privatization revenues (billion HUF):

Source	SPA		AV Rt[5]	
Dividends	(10.57)	1.60	(10.24)	0
Forex	(99.18)	4.52	(90.40)	0
HUF cash	(53.87)	9.36	(3.05)	1.15
All cash	(163.62)	15.48	(103.69)	1.15
E-credit[6]	(63.42)	13.94	(0.90)	1.15
R-bonds[7]	(67.98)	39.30	(22.09)	8.29
Total revenue:	(295.02)	68.72	(125.79)	8.55

4. Privatization sales per sale technique:

Technique	No., SPA		Nom. value, SPA (billion HUF)		No., AV Rt[8]	Nom. value, AV Rt (bill. HUF)
ESOP	(200)	36	(40.30)	8.24	(2)0	(0.8)0
Leasing	(24)	3	(6.09)	0.29	(0)0	(0)0
E-credit[6]	(na)	na	(63.42)	13.94	(na)na	(0)0
R-bond[7]	(na)	na	(67.98)	39.30	(na)na	(21.3)12.8

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[3] *Total, including companies planned to remain under state control*

[4] *Without companies planned to remain under state control*

[5] *OOOOOOOOOctober 1, 1994 - March 31, 1995*

[6] *E-credit and related credits*

[7] *Restitutional bonds (compensation vouchers), at face value*

[8] *June 1, 1994 - March 31, 1995*

5. Privatization investments per countries of origin (SPA + AV Rt. sales combined):[9]

Country	No.of Firms		Investment[10] (billion HUF)	
Germany	(80)	5	(81.96)	3.76
USA	(29)	3	(78.98)	17.56
Austria	(107)	5	(43.48)	3.96
UK	(32)	2	(22.82)	2.04
France	(36)	2	(22.86)	3.00
Netherlands	(12)	0	(16.04)	2.18
Belgium	(8)	0	(14.24)	0.97
....				
all countries	(402)	30	(323.39)	40.01

6. Comparison of privatization performace of first quarter 1994 and of first quarter 1995

Privatization revenues in billion HUF (SPA only):

Source	1st quarter of 1994	1st quarter of 1995
Dividends	0.1	0.5
Foreign exchange	1.1	1.5
HUF cash	2.9	2.0
All cash	4.1	4.0
Credits	8.1	1.4
R-bonds	8.5	3.7
All revenues	20.7	9.1

[9] *May 1, 1994 - March 31, 1995*

[10] *As purchase price, apport, capital increase, etc.*

7. Major privatization tenders during March-April-May 1995 (not yet included in previous figures): illustrative list

Company[11]	Sector	Value to be Sold (million HUF)
Gerbeaud house[12]	real estate	3-4 billion
Hungarotabak Rt	tobacco trade	982
Dohanyfermentalo Rt	tobacco proc.	799
Ipari Szerelvenygyar Rt	fittings	655
Opal Ker. Rt	trade	370
Monarchit Rt	construction	410
Tisza Butor Rt	furniture	640
Altalanos Husipari Kft	meat	310
Athenaeum Nyomda	printing	946
Szikra Nyomda	printing	931
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Mezogep Eger	agric.machinery	190
Felnemeti Furesz. Rt	woodprocess.	132
Ujpesti Gepelem Kft	machinery	164
Jarmualkatresz Rt	automotive	229
MOM Vizmerestechnika	measuring inst.	235
Mezogep Gyongyos	agric machinery	110
Gyoriterv	engineering	181
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Tonus Ker. Kft	trade	37
HOFA Kft	woodprocessing	19
Interpik Kft	trade	38
Ny-Pest Elelmiszer Rt	food retail	45
Traverz Rt	container manuf.	93
Kemecse Agrar Rt	farming	56
Perjes Mezog. Rt	farming	59
Hungaroton shops	retail	51
Mezogep Ontode	foundry	70
Mezogep Cibakhaza	agric.machinery	32
Mezogep Hort	agric.machinery	40
Veszpa Patyolat	loundry	97
Szugyi Agrar. Rt	farming	81
..etc.		

[11] *Assets of companies sold separately; liquidations are not included*

[12] *Gerbeaud house is real estate, not a company*

8. Privatization tender decisions during March - early May 1995: an illustrative list

The following table shows an illlustrative (incomplete) list of tender decisions made by the SPA during March - early May, 1995. Most of these sales are not included in the sales figures given above in this paper.

Company	Sector	Value Privatized (million HUF)
Kisalfoldi Mezog. Rt	agriculture	281
Soproni Szonyeggyar	carpet manuf.	818
Hajdusagi Borgyarto Rt	leather proc.	271
Banyagpegyarto Rt	machinery	280
Hogyesz Farm Rt	farming	294
Eger East-West Rt	trade	209
Bp.Tuzep Rt	trade	592
Reanal	chemical	675
Spiral Auto	automotive	720
Alfoldi Kohaszati Rt	steel, machinery	435
Express[13]	newspaper, daily	2 billion HUF
MOM Elektromechanika Rt	electrical instr.	245
Univerzal Kft	trade	273
Gyula Huskombinat	meatprocess.	248
Dravapakett Kft	wood processing	260
Csoszer Rt	installation	274
Karancshus Rt[14]	meat processing	n.a.
Del Tuzep Rt[15]	trading	600
Magyar Viscosa Rt[16]	chemical	1.1 billion HUF
Kuhne Rt	agric.machinery	356
....etc.		

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13 *Canadian buyer*

14 *A US and a Hungarian buyers*

15 *German buyer*

16 *US buyer, contract negotiations started*

A.2 ENTERPRISE RESTRUCTURING

DRAFT

NOTE : THIS DRAFT HAS BEEN SUBSTANTIALLY AMENDED BY THE MEMORANDUM of THE SAME NAME DATED . JAN. 12, 1995

MEMORANDUM

RE: Reorganizational plan of REANAL Co.
TO: Maria Vanicsek
FROM: IMPACT II consulting team
DATED: December 12, 1994

The following remarks are initial observations based on our study of REANAL's reorganization plan and other documents. These observations may be substantially changed as result of discussion with REANAL's management.

1. REANAL's going concern value: To compute the going concern value, the following assumptions were made:

- The operating profit is as per REANAL's restructuring plan for 1994-1996 (ie. assumes that the restructuring plan started already in 1994)
- The financial charges are as per REANAL's "without restructuring" projections, less 130 M HUF/year (the interest reduction as per MHB's written proposal: 28.4% interest on REANAL's 287.731 M HUF written down and 170 M HUF converted to equity)
- The discount rate for calculating present value is 40% (which is minimal, in view of current commercial interest rate at 34% and increasing)

Based on these assumptions, **REANAL's present value (Annex A) is only about 16 M HUF.** This low value is due to the fact that with MHB's proposed debt restructuring, the results for 1994 and 1995 are still negative and only in 1996 become positive.

2. REANAL's restructuring plan:

Our analysis of REANAL's reorganization plan (Annex B) indicates that although REANAL's management has taken some positive steps to alleviate the company's financial crisis (eg. staff reduction, structural reorganization), it has been slow to respond to changing conditions (eg. it has not yet introduced a computerized inventory control system). More seriously, it does not seem from the plan that management has a fully thought-out marketing strategy.

REANAL's main activity is to supply laboratories, pharmaceutical companies, hospitals, research institutes, etc. with various chemicals necessary for tests and analyses. REANAL is predominantly a chemicals trading company, with limited production facilities. About 85% of its market is domestic. Its possibilities of significantly increasing exports are limited due to the reduced purchasing powers of the Eastern Block markets and the presence in Western Europe of large, entrenched companies which supply the same products. The Hungarian market for REANAL's products is shrinking in the medium term due to the financial crisis of many of its clients (research institutes, hospitals, etc.) Within this shrinking market, REANAL's position is being eroded both because (1) some pharmaceutical companies have been privatized to West European

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investors, and are likely in the future to obtain their chemicals from the mother company; and (2) several Kft's have started competing for REANAL's market share by supplying the same products.

It may be concluded that if REANAL can survive in these conditions, it is likely to be as a much smaller company supplying a range of basic products more limited than its present array.

3. Verification of the restructuring plan: REANAL's restructuring plan assumes operating profits of about 36 M HUF in 1994, 83 M HUF in 1995 and 138 M HUF in 1996. To accept these estimates, the following issues need to be verified with REANAL's management:

- Can "other expenses" be brought down from 180 M HUF in 1993 to 61 M HUF in 1994, 48 M HUF in 1995 and 45 M HUF in 1996, as the plan forecasts?
- Is it reasonable to expect the proposed improvements to increase sales by 10%, 16% and 14.7% respectively in 1994, 1995 and 1996 with respect to the "no improvement" alternative, while production expenses increase only by 8.5%, 14.7% and 8% in the same years?
- What is a realistic cost for the improvements proposed by the plan? (The costs of eg. 4 M HUF for computer system, 6 M HUF to renew the whole transport fleet, seem underestimated).

If these issues are not verified, the going concern value will have to be discounted accordingly.

4. Liquidation value: The going concern value needs to be contrasted with the liquidation value. This is difficult because we do not have market value of the assets. However, for the sake of discussion, let us assume that REANAL's assets (1408 M HUF in 1994) will bring in a liquidation - after deducting liquidation expenses - 50% of their book value, ie. 704 M HUF. REANAL's 1994 liabilities are 1018 M HUF, ie. 314 M HUF more than its assets. Thus a liquidation bringing 50% of asset book value will leave no net value to SPA as shareholder. Net liquidation proceeds must be over 72% of book value for SPA to realize anything out of liquidation. If MHB writes down 288 M HUF of its debt, net liquidation proceeds must be at least 52% of asset book value for SPA to realize anything out of liquidation.

Obviously, SPA needs to verify that REANAL does not have hidden liquidation values (values which are not adequately expressed in the balance sheet). Such hidden values may be due to:

- real estate whose market value exceeds book value
- non-tangible assets such as patents, contracts, licenses, etc.
- high realization value of its inventory and receivables

A professional appraisal is necessary to assure that there are no hidden values. Unless there is significant hidden value, selling REANAL as a going concern value may bring higher returns to the SPA than liquidation, if the ratio of net liquidation proceeds to

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asset book value is below the limits discussed above.

5. MHB first (written) proposal: The main elements of this proposal are:

- writedown of about 288 M HUF (46% of MHB's credit);
- conversion to equity of 170 M HUF (27% of MHB's credit);
- if REANAL is sold, MHB will get its 170 M HUF at par value out of the sale proceeds;
- if REANAL is not sold by 12/31/95, SPA will have to pay MHB 170 M HUF and take back its shares.

Annex C, which analyzes REANAL's most critical financial ratios, indicates that the effect of this proposal on REANAL's financial projections would be similar to that of Alternative I of REANAL's own restructuring plan - one of the alternatives under which REANAL felt it could overcome its difficulties. If REANAL's projections of operating profits materialize, under MHB's proposal the ratio of operating profit to debt service obligations will be only 0.98 in 1995, obliging REANAL to capitalize a small amount of debt, and will become satisfactory (1.63) only in 1996. The cash adequacy will be tight (cash on hand equal to 7 days' current expenses). The current ratio is also low (1.50 to 1.35). On the balance, **REANAL might be able to survive under this restructuring plan if the operating profit projections materialize, but it will have no margin for errors.**

From SPA's point of view, the main disadvantage in MHB's proposal is the last condition, which implies that if REANAL is not sold by 12/31/95, SPA will in effect have to invest another 170 M HUF in REANAL by buying back MHB's shares. In this worst-case scenario, SPA would still would increase the book value of REANAL - which it owns - by 288 M HUF (the amount of MHB loan writedown). Based on this information, SPA's negotiations with MHB should focus mainly on the terms under which SPA must repurchase MHB's shares. Possible terms to negotiate for could be:

- extend the "privatize or pay" date to 12/31/96, or
- obligate SPA only to give MHB priority on its 1996 restructuring budget.

6. MHB second (informal) proposal: We understand the elements of this proposal to be -

- MHB will write off 50% of its 627 M HUF debt;
- MHB will sell the other 50% at discount to buyer of company;
- no debt-to-equity conversion.

The effects of this debt restructuring proposal on REANAL would be similar to that of the first proposal above. From SPA's point of view, the second proposal is better since (1) SPA will get 100% of the price paid by the buyer, and (2) SPA will not have to invest another 170 M HUF in REANAL (by buying back MHB's shares) if REANAL is not sold by 12/31/95.

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7. Selling REANAL for 80 M HUF: We were informed that a potential buyer has recently indicated an interest in offering 80 M HUF for buying REANAL together with its liabilities. Since our discussion above shows that the going concern value may well be only about 16 M HUF and the liquidation value to the owner is possibly even negative, there are two possibilities why a buyer might be willing to offer a higher value:

- REANAL might have a hidden liquidation value, or
- the buyer might have a business plan according to which REANAL's going-concern value is in excess of 80 M HUF.

Consequently, if SPA verifies by means of an asset appraisal that there is not likely to be a hidden liquidation value, then such a offer would merit serious consideration by SPA. Naturally SPA could try to negotiate for a higher price, since the buyer's initial price may not be the final price he would be willing to pay.

ANNEX A: "REANAL" PROFIT AND LOSS STATEMENT 1994-1996 - WITH MHB RESTRUCTURING (46% of MHB's debt written off - 27% converted to equity)

		1994	1995	1996	
I.	Net sales income	1,156,900	1,300,000	1,400,000	
II.	Other income	16,000	9,000	9,000	
III.	Direct cost of sales	673,558	755,071	769,900	
IV.	Sales, general and adm. costs	402,000	423,000	456,000	
V.	Other expenses	61,000	48,000	45,000	
A.	Operating profit (I+II-III-IV-V)	36,342	82,929	138,100	
01	Interest income	8,000	8,000	8,000	
02	Income from investments	2,000	0	0	
03	Other financial income	0	22,000	95,000	
VI	Financing income (01+02+03)	10,000	30,000	103,000	
04	Interest expenses - without restructuring	205,000	232,000	232,000	
05	Interest reduction - 28.4% on 170 M HUF equity swap and 287.731 M HUF writedown	130,000	130,000	130,000	
06	Interest exp. with MHB restructuring (04-05)	75,000	102,000	102,000	
07	Depreciation on investments	0	30,000	95,000	
08	Other financial expenses	0	0	0	
VII	Financing costs (06+07+08)	75,000	132,000	197,000	
B.	Financial profit (loss)	(65,000)	(102,000)	(94,000)	
C.	Ordinary result (A+B)	(28,658)	(19,071)	44,100	Residual
D.	Tax (est. 18% in 1996)	0	0	(7,938)	Value
E.	Post-tax profit	(28,658)	(19,071)	36,162	90,405
F.	Present value - at 40% discount factor	(20,470)	(9,730)	13,179	32,946
G.	Total present value	15,925			

ANNEX B: SUMMARY OF THE "REANAL" REORGANIZATION PLAN

1. History and privileged situation:

REANAL started in the '50s as a successor of a private-sector pharmaceutical/cosmetic company. It gained exclusive rights to import, produce and sell chemical products for laboratory tests and medical diagnoses. REANAL made enormous profits - thanks to its privileged monopolistic situation - in the following fields:

- importing chemicals from the USSR, relabelling them and exporting to the West;
- sole importing of test and lab chemicals from the West;
- large-scale processing of animal intestines with outdated technology and selling the resulting biochemical products to the USSR;
- producing and selling all necessary test and diagnostic chemicals for domestic hospitals and laboratories without any competition.

2. Result:

This comfortable situation guaranteed profit to REANAL regardless of its competitiveness, level of technology used and quality of services. REANAL had a hierarchical organizational setup, which was unable to react flexibly to market trends. It did not have to consider cost levels. It had very high general overhead costs and a much higher staff than required by its level of production and trade. Although it served 5,000 customers, due to its monopolistic position it did not feel obliged even to computerize its manual, time-consuming processing of orders.

Thanks to its guaranteed profit, REANAL could afford to try a range of products and activities in which it had no experience, technical and personnel qualifications (agrochemicals, cosmetics, medicines, etc.) Although these new ventures failed, REANAL was not shaken due to the guaranteed profit from its main activities.

REANAL could also afford financial management failures such as binding 400 million HUF in non-profit research institutions, while the running of main activities and the expansion to new activities required to borrow about 500 million HUF of short-term commercial credits. It is noteworthy that REANAL manufactured only a small part of the products what it sold. Dominantly it was a wholesale, import company and not a manufacturer.

3. Market collapse:

In the early '90s the situation has changed completely. Relabelling of Russian products could go no further. REANAL lost its exclusive role as sole importer of Western test and diagnostic products. It lost its exclusive role in domestic supplies as well, as small new private firms entered the wholesaling of laboratory chemicals. The Russian market has ceased to exist for a while. Already in 1990, REANAL's debt reached 400 M HUF. Interest payments alone run to 93 M HUF per year - 63% of the profit of that time. Nevertheless, REANAL was still expanding its personnel, and the

general overhead costs were increasing by 20% per annum(!)

In 1991-1992 REANAL tried to regain its lost balance. It entrusted a German consulting firm to evaluate the market position of its main product groups and tried to eliminate the production and trade of low-profit products. It also reduced the staff significantly. Based on the consultant's advice, REANAL was reorganized - its functional units became profit centers. It also tried to integrate marketing and production/product development, which were totally separated before.

Despite these positive steps, REANAL's position deteriorated further. The general overhead costs and the growing debt burden ate up the operating profits and drove the company into the red. Between 1991 and 1994 REANAL had to fight for the pure survival, decisions were taken on a daily basis without strategy and REANAL remained on the verge of liquidation.

4. Financial position in 1993-1994:

REANAL's incorrect capital structure was indicated above (400 M HUF tied, 500 M HUF borrowed, 400 of it in USD). REANAL managed in 1992 to sell one of its illiquid investments (shares in MEDIMPEX medical export-import company) for 143 million HUF.

REANAL also succeeded to pay back part of its short-term credits (about 60 million HUF) and to swap its foreign exchange debts for Forint debts. In 1993 REANAL sold some of its assets and improved its financial position. Thanks to the above measures along with a cut in general costs REANAL managed to pay its obligations in time, including taxes, social insurance fees and import duties. REANAL suffered a new loss in 1993 from devaluation of the Forint (120 million HUF loss on exchange rates). In 1994 REANAL could repay 23 million HUF debt only through selling some of its real estate.

5. Privatization attempts:

REANAL was transformed into an Rt. on July 1, 1992. The compulsory recalculation of the balance sheet during the transformation increased the book value by 250 million HUF). The first attempts to privatize REANAL were in 1993 through self-privatization, which was done with the assistance of a consulting firm affiliated with MHB. There were no bids on the two tenders launched. ESOP attempts also failed as the ESOP organization did not bid on the tenders, because the financial obligations of REANAL made it impossible to guarantee E-credit to the ESOP organization.

6. Market opportunities:

The previous strategy of REANAL, i.e. to supply all possible chemicals to Hungarian laboratories as the big Western firms do, has to be abandoned. REANAL should narrow its product range and focus on the staple chemicals, which guarantee a regular revenue and a reasonable profit level (300 products instead of 3,000). REANAL must also find new suppliers and bargain in its purchases for better conditions.

REANAL has also started preparations to introduce the "ISO 9000" international quality standard and the TQM system in order to shift from quantity to quality. REANAL also considers entering new fields such as additives for the canning and meat industries.

In export REANAL wants to focus on the most developed countries, especially the USA and Switzerland (its traditional partners). It does not want to increase activities in the medicine and agrochemical branches, which proved to be a false direction of previous profile changes.

7. Reorganization of resources:

a. **Organizational structure:**

The 1991 reorganization into profit centers failed due to the very small size of the separated units. In many cases it meant that the same customer or supplier had to turn to two or more divisions within REANAL for various products. It resulted in a weakened bargaining position both in purchases and supplies, and complicated follow-up.

REANAL has decided to change its organizational structure for a product management system in which each main product has one manager, who follows up everything related to that product. This is a proven system for companies with few main groups of products and a very wide range of customers.

b. **Computerized processing:**

The very wide range of products and customers makes it essential to introduce a computerized recording and processing of orders, invoices and supplies. This would decrease the time required to fulfill orders from one month to a few days and would reduce costs (sales, administration, storage, transport, etc.) The computerized inventory control system requires a surprisingly modest investment and could bring about a quick increase in profit and an improved market position.

c. **Personnel:**

The number of employees has been decreased by more than 20% in two years but overstaffing still exists. REANAL intended to further decrease employment in 1994 by 10-15%.

As regards wages REANAL wants to introduce a more differential system along with higher wages. This will mean higher wage costs (by 10-15% per annum), in spite of the staff reduction.

d. **Investments:**

The above reorganizational concept does not require substantial investments. The key for success is computerized processing, i.e. a computer system which keeps record of all orders, stocks, supplies and payments. It would make

REANAL able to react quickly, shorten delivery time and therefore make its clients more satisfied and gain new clients as well, resulting in higher turnover with higher profit. It would reduce recording, administration costs as well. Last but not least, it would reduce inventory to the minimum possible and save in storage and transport costs. According to the reorganizational plan, computerization requires an investment of only 4 M HUF. (This probably includes only the hardware).

International-level quality control is also proposed. It requires 6 million HUF worth of quality control instruments. There are other investment needs for trucks, storage of liquid products, etc. Total investments required are about 40 M HUF, which could be financed from operational profits.

e. **Financial reorganization:**

Alternatives for financial reorganization can be seen from the tables in REANAL's reorganization plan. Without a financial reorganization REANAL will not be able to have a positive cash flow and meet the payment obligations. Solution should be either a debt writeoff, a debt/equity swap, a temporary moratorium on repayment, further credits, or a combination of the above. It depends basically on the willingness and preferences of the creditor banks and the social insurance authority. REANAL must also divest itself of its non-profit organizations like the three research institutions.

8. Summary:

According to the summary of the reorganizational plan, the problems of REANAL have started in the mid '80s and accelerated in the early '90s due to the forced growth.

Management believes that the problems are a result of the supply side (ie. of the products sold and produced) and not of the demand side (ie. of the market). It feels that REANAL is competitive in price and quality but due to lack of financial sources it could not finance the purchase of the optimal composition of products. The risk-taking capacity of REANAL has decreased to almost nil. Personal consequences were delayed.

REANAL did make some important steps toward recovery such as staff reduction, changing organizational structure, etc. but it was not enough. The marketing analysis shows that REANAL's products have a good market prospect in both the short and long term. Their profit level is satisfactory. The range of products has to be narrowed, making it possible to reduce the inventory. Delivery time must be reduced by computerized processing of orders.

Management feels that financial reorganization, without major investment, would make REANAL regain the leading position in its sector. The reduction of the interest burden by 70% would make REANAL able to repay its debts and would open the way to privatization.

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ANNEX C: ANALYSIS OF SOME CRITICAL RATIOS OF "REANAL" RESTRUCTURING PLANS

CRITERION	ANALYSIS PROCEDURE AND RESULTS						
Is company's operating profit positive?	Operating profit/year:	1991	1992	1993	1994	1995	1996
	W/o consolidation	170,236	-120,730	-152,715	-17,120	-347	15,279
	Rest. plan option I	170,236	-120,730	-152,715	36,342	82,929	138,100
	MHB's proposal	170,236	-120,730	-152,715	36,342	82,929	138,100
Will the company have sufficient liquidity to operate during the plan period?	Days cash for material+salaries	1991	1992	1993	1994	1995	1996
	Without consolidation	2	3	11	10	4	6
	Rest. plan option I	2	3	11	10	7	7
	MHB's proposal	2	3	11	10	7	7
Is operating profit sufficient to meet debt service obligations? (Ratio of operating profit to debt service)	Oper. prof/debt serv	1991	1992	1993	1994	1995	1996
	Without consolidation	1.71	-0.67	-1.69	-0.09	-0.00	0.07
	Rest. plan option I	1.71	-0.67	-1.69	0.31	1.12	2.19
	MHB's proposal	1.71	-0.67	-1.69	0.49	0.98	1.63

CRITERION	ANALYSIS PROCEDURE AND RESULTS						
Is company's operating profit positive?	Operating profit/year:	1991	1992	1993	1994	1995	1996
	W/o consolidation	170,236	-120,730	-152,715	-17,120	-347	15,279
	Rest. plan option I	170,236	-120,730	-152,715	36,342	82,929	138,100
	MHB's proposal	170,236	-120,730	-152,715	36,342	82,929	138,100
Does the plan assure that the company will be able to meet its current obligations?	Curr. asst/curr. liab.	1991	1992	1993	1994	1995	1996
	Without consolidation	1.52	0.71	0.73	0.55	0.45	0.37
	Rest. plan option I	1.52	0.71	0.73	1.42	1.45	2.84
	MHB's proposal	1.52	0.71	0.73	1.50	1.40	1.35

ANNEX D: COMMENTS ON "REANAL" RESTRUCTURING PLAN

REANAL is not legally in liquidation and thus is within SPA purview, but financially it is bankrupt.

1. Completeness: We need the marketing analysis to evaluate the assumptions regarding the future demand for REANAL's products and the feasible price increases, which are the basis of the reorganization plan.

2. Consistency: There is one major inconsistency: On the one hand the plan claims that the present crisis was caused by too large a range of products and the entering of new areas, and on the other hand the organization plan recommends opening activities in new areas such as food additives.

The price comparison with MERCK (in the US or Western Europe) is not too meaningful. The important price comparison is with other Hungarian suppliers of the same products (DIAGNOSTIKUM, FABIO, IZINTA). This latter comparison shows that REANAL underprices these firms in 72 of the cases cited and overprices in 25 cases. Thus REANAL may have some room for price increases, but not as much as the comparison with MERCK would suggest.

3. Reliability: Investment cost requirements are grossly underestimated. An average pick-up costs 2-3 M HUF while the plan indicates 6 M HUF to renew the whole transport fleet. Computer system costs are 4 M HUF in the plan, but if software, training, putting into operation, etc. is also included it is grossly underestimated. However, even if the real cost is 2-3 times higher it would not materially change the reorganizational plans.

Another questionable figure is that in all cash flow projections the situation of the company is changing for the better from 1994 because of one single item - a major cut in "other expenses" from 180 M HUF to 60 M HUF in a year. All other operating costs and revenues are essentially the same. It is necessary to find out what is involved in this cost category, why is the big drop, and whether it is well founded.

4. REANAL's liquidation value: It must be emphasized that our assessment of REANAL's liquidation value (Annex B) is strictly a very approximate desk-top estimate. It is based on opinions by SPA personnel regarding the percentage of book value which different types of assets are likely to bring in a liquidation on the average, without reference to REANAL's particular conditions. To draw valid conclusions regarding REANAL's liquidation value it would be necessary to make a professional appraisal, with particular attention to:

With these limitations in mind, our estimate is that liquidation of REANAL's assets would bring a net value of roughly 566 M HUF.

If this estimate of the liquidation value is approximately correct, then REANAL's liabilities (about 1017 M HUF) are considerably larger than the liquidation value of its assets. Thus from SPA's point of view, any price which is offered by a buyer who is willing to take REANAL together with its liabilities would be better than what SPA would obtain through liquidation, namely nothing.

5. MHB's restructuring offer of Nov. 25: The main elements of this proposal are -

a. MHB will write down 287.731 M HUF (45.9%) of its 627 M HUF loan;
b. MHB will swap 170 M HUF for shares (24.3% of REANAL's equity);
c.

6. Alternative MHB proposal - write off 50% of debt, sell off the other 50%

We understand that MHB is also considering the alternative of writing off 50% of its debt and selling the other 50% in the market, preferably to a buyer of REANAL. From SPA's point of view this would have the same implications as section 3. above: The investor would offer a price to SPA, and if the appraisal shows that the liquidation value of REANAL's assets is likely to be inferior to REANAL's liabilities, it would be in SPA's interest to accept it; negotiations with the investor would focus on obtaining guarantees for REANAL's continued operation.

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ANNEX E: ESTIMATE OF "REANAL" GOING CONCERN VALUE

Net liquidation value (of REANAL's assets - before deducting liabilities!)

Item/Estimate>	12/31/94 Balance	High	Medium	Low
Real estate	529,200	317,520	211,680	158,760
Technical equipment	113,000	33,900	22,600	16,950
Other equipment	28,150	2,815	1,408	0
Investments	5,000	250	125	0
Shares in other companies	129,900	51,960	38,970	25,980
Loans	11,500	9,200	5,750	2,300
Inventories	354,143	212,486	159,364	106,243
Receivables	196,000	98,000	58,800	39,200
Securities	5,120	2,048	1,536	1,024
Cash and banks	6,000	6,000	6,000	6,000
Total, liquidation value		734,179	665,597	356,457
Less: Liquidation costs (15%)		110,127	99,840	53,469
Net liquidation value		624,052	¦565,757¦	302,988

Present value of future income (going-concern value):

Item/Discount factor>	Value in Year Received	Present Value, at the Following Discount Rate: High (40%)	Medium (35%)	Low (30%)
Operating profit, 1994	36,342	25,959	26,920	27,955
Operating profit, 1995	82,929	43,311	45,503	49,071
Operating profit, 1996	138,100	50,328	56,130	62,858
Proceeds from sale of REANAL		125,820	160,370	209,528
Total, going-concern value		¦245,418¦	288,923	349,082

EMLÉKEZTETŐ

Tárgy: A REANAL Rt. átszervezési terve
Címzett: Vanicsek Mária
Küldő fél: IMPACT II szakértői csoport
Dátum: 1994 december 12.

A következő megjegyzéseket tesszük előljáróban Reanal átszervezési terve és más dokumentumok áttanulmányozása után. Ezek a megállapítások lényegesen módosulhatnak a Reanal vezetőivel folytatott beszélgetések eredményeképpen.

1. A Reanal Rt. továbbműködő vállalati értéke: A továbbműködő érték kiszámításakor a következőket tekintettük kiindulási alapnak.

- Az üzemi eredmény a Reanal 1994-6-os szerkezetváltási tervének megfelelő lesz, azaz feltételezzük, hogy a szerkezetváltás már 1994-ben elkezdődött.

- A pénzügyi terhelést a Reanal "szerkezetváltás nélküli" előrejelzései alapján vettük figyelembe, tehát évenként 13o millió forintot [kamatcsökkentés az MHB írásbeli javaslata lapján: Reanal 287,731 millió forintjára számolt 28,4% kamat le van írva, és 170 millió forintot pedig átforgattak saját tőkébe.

- A jelenérték kiszámításához használt leszámítolási kamatláb 4o% [amely a jelenlegi 34%-os illetve egyre növekvő kereskedelmi kamatlábak mellett a minimális érték].

Mindezen kiindulási alapokat tekintve, **Reanal jelenértéke ['A' melléklet] csupán 16 millió Ft körül van.** Az alacsony érték abból adódik, hogy az MHB által javasolt adósságátütemezés mellett az 1994 és 1995 évi eredmény még mindíg negatív, mely csak 1996-ban fordul pozitívba.

2. <u>Reanal szerkezetváltási terve</u>

Reanal átszervezési tervének ['B' melléklet] áttanulmányozása után ugy látjuk, hogy noha Reanal vezetősége tett ugyan konkrét lépéseket a vállalat helyzetén könnyítendő [pl. lé számleépítés, struktúra váltás], ám túl lassan reagált a változó körülményekre, [például nem vezette még be a számítógépes készletnyílvántartási és irányítási rendszert]. Továbbá a tervből nem látszik, hogy a vezetsőgnek lenne egy jól végiggondolt marketing stratégiája.

Reanal fő profilja olyan különböző vegyianyagok eladása gyógyszergyáraknak, kórházaknak, kutató intézeteknek, stb., melyek a laboratóriumi vizsgálatokhoz szükségesek. Reanal elsősorban vegyiagyag kereskedelmi cég, termelési kapacitása korlátozott. Tevékenységének 85%-a a belföldi piacra irányul. Kevés esélye van az export nagyarányú növelésére, mert a kelet-európai piacok beszűkültek, Nyugat-Európában pedig olyan nagy cégek forgalmazzák ugyanezeket a termékeket, melyeknek a piaci helyzete ugyancsak

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stabilnak mondható. A Reanal termékek magyar piaca ráadásul fokozatosan szűkül, mert több ügyfél [kutató intézetek, kórházak, stb.] súlyos anyagi gondokkal küszködik. A szűkülő piacon romlik a Reanal helyzete, mert [1] néhány gyógyszergyár nyugat-európai befektetők kezébe került, és valószínűleg a vegyianyagokat a jövőben anyavállalatuktól fogják beszerezni, és [2] több konkurens Kft próbálja a Reanal piacait elhódítani, ugyanazokat a termékeket értékesítve.

Összességében el lehet mondani, hogy ha a Reanal ilyen feltételek mellett talpon is tud maradni, valószínűleg sokkl kisebb vállalat lesz, és az általa forgalmazott termékek köre is leszűkül.

3. A szerkezetátalakítási terv igazolása: Reanal szerkezetátalakítási terve feltételezi, hogy az üzemi eredmény 1994-ben 36 millió Ft, 1995-ben 83 millió Ft és 1996-ban 138 millió Ft lesz. Ahhoz, hogy el tudjuk fogadni ezeket a becsléseket, a következő kérdésekre kell választ kapnunk a vállalat vezetésétől:

- Vajon az "egyéb ráfordítások" tétel csökkenthető-e az 1993-as 18o millió Ft-ról 61 millió Ft-ra 1994-ben, 48 millió Ft-ra 1995-ben és 45 millió Ft-ra 1996-ban, ahogy az a tervben szerepel?

- Vajon reális elvárás-e az, hogy a javasolt fejlesztések az értékesítést 1o, 16 és 14,7%-al növelik 1994, 1995 és 1996 években, a "nincs fejlesztés változathoz" képest, és ugyanakkor a termelési költségek csak 8,5, 14,7 és 8%-al növekednek ugyanazokban az években?

- A terv által kilátásba helyezett fejlesztéseknek mekkorák lesznek a reális költségei? [Pl. a 4 millió forintos költség a számítógépes rendszerre, vagy pedig a 6 millió forint az egész gépkocsipark korszerűsítésére, alulbecsült előirányzatnak tűnik.]

Hogy ha a ezeket a becsléseket nem támasztják alá, akkor a cég továbbműködő értéke ennek megfelelően automatikusan csökken.

4. Likvidációs érték: A továbbműködő értéket a likvidációs értékkel kell szembeállítani. Ez viszont nehéz, mert nem ismerjük az eszközök piaci értékét. Mindenesetre vitaalapul tegyük fel, hogy a Reanal eszközei felszámolás esetén a könyvszerinti érték 5o%-át, 7o4 millió Ft-ot hoznak [a felszámolási költségek levonása után]. Reanal-nak 1994-ben 1o18 millió forint kötelezettége van, 314 millió Ft-al több, mint az eszközök. Íly módon - ha a likvidáció a könyv szerinti érték 5o%-át éri el -, az ÁVÜ-nek, mint részvényesnek nem marad nettó érték. A likvidációs árbevételnek legalább a könyv szerinti érték 72%-ának kell lennie ahhoz, hogy az ÁVÜ valamit is kapjon a likvidáció során. Ha az MHB 288 millió Ft-ot leír az adósságból, akkor a nettó likvidációs árbevételnek legalább a könyv szerinti érték 52%-ának kell lennie, ahhoz, hogy az ÁVÜ valamit is nyerjen a likvidáción.

Nyilvánvalóan az ÁVÜ-nek bizonyítani szükséges, hogy a Reneal-nak nicsenek rejtett likvidációs értékei [olyan értékek, melyek nem tükröződnek megfelelően a mérlegben]. Az ilyen rejtett értékek a következők miatt merülhetnek fel:

- ingatlan, melynek a piaci értéke meghaladja a könyv szerinti értéket

- vagyoni értékű jogok, úgymint szabadalmak, szerződések, licenszek, stb.
- magas áron értékesíthető követelések és készletek

Szakszerű vagyonértékelés szükséges ahhoz, hogy bizonyossá váljon, hogy nicsenek ilyen rejtett értékek. Hacsak nincsen jelentős rejtett érték, a Reanal eladása működő vállalati értéken nagyobb bevételt eredményezhet az ÁVÜ számára, mint a likvidáció, feltéve, hogy a likvidációs árbevétel és az eszközök könyv szerinti értékének aránya a fent említett határértékeken belül esik.

5. Az MHB első [írásbeli] javaslata: Ennek a javaslatnak a fő elemei a következők:

- kb. 288 millió forint leírása [az MHB hitel 46%-a]
- 17o millió forint törzstőkésítése [az MHB hitel 27%-a]
- ha Reanal-t eladják, az MHB a 17o millió forintot névértéken kapja meg az eladási árbevételből
- ha Reanal nem kerül eladásra 1995 december 31-ig, az ÁVÜ köteles az MHB-nak 17o millió Ft-ot fizetni és a részvényeit visszavenni.

A 'C' melléklet, mely Reanal legkritikusabb pénzügyi arányszámait elemzi, kimutatja, hogy e fenti javaslat a Reanal pénzügyi előirányzataira való hatásában hasonló lenne Reanal saját szerkezetváltási tervének 1. sz. variációjához; ez utóbbi az egyik olyan kidolgozott alternatíva, melyről a Reanal azt gondolta, hogy segítségével felül tud kerekedni a nehézségeken. Hogy ha Reanal valóban teljesíti az üzemi eredmény előirányzatokat, az MHB javaslat értelmében az üzemi eredmény és az adósságszolgálati kötelezettségek közötti arányszám 1995-ben csak o.98 lesz, ami arra kötelezi a Reanal-t, hogy egy kis adósságösszeget tőkésítsen; ez az arányszám csak 1996-ban lesz kielégítő [1,63]. A készpénzmegfeleltetési mutató is szűkös kereteket enged [a pénztári készlet csak 7 napnyi folyóköltséggel egyenértékű]. A likviditási arány szintén alacsony [1,5o és 1,35 között]. Mindezek mérlegelésével **Reanal talpon maradhat a szerkezetváltás időszaka alatt, feltéve ha a cég teljesíti az üzemi eredmény előirányzatokat, amellett, hogy a hibák fedezetéül semmiféle ráhagyás nincs beépítve.**

Az ÁVÜ szemszögéből az MHB javaslatának legnagyobb hátulütője az utolsó feltétel, amely leszögezi, hogy ha a Reanal nem kerül értékesítésre 1995 december 31-ig az ÁVÜ-nek gyakorlatilag további 17o millió Ft-ot kell a Reanal-ba fektetnie azáltal, hogy visszavásárolja az MHB részvényeket. Ebben a legrosszabb esetben az ÁVÜ megnövelné a tulajdonában lévő Reanal könyv szerinti értékét 288 millió Ft-al [az MHB kölcsön leírt összege]. Ennek az információnak az alapján az ÁVÜ és az MHB között zajló tárgyalások homlokterében főleg annak meghatározása lesz, hogy az ÁVÜ milyen feltételek mellett köteles visszavásárolni az MHB részvényeit. A következő lehetséges feltételek jöhetnek számításba:

- meghosszabítani a "privatizáljon vagy fizessen" határidőt 1996 december 31-re
- arra kötelezni az ÁVÜ-t, hogy az MHB-nak csak az 1996-os szerkezetátalakítási költségvetésére adjon prioritást

6. Az MHB második [nem hivatalos] javaslata: Értelmezésünk szerint e javaslat elemei a következők:

- Az MHB elengedi a 627 millió Ft-os adósság felét
- Az MHB eladja a vásárló cégnek a másik 5o%-ot engedményes áron
- az adósság nem lesz törzstőkésítve

Ennek az adósságátütemezési javaslatnak az elsőhöz hasonló hatása lenne a Reanalra nézve. Viszont az ÁVÜ szempontjából a második javaslat jobb, mivel 1. az ÁVÜ a vásárló által fizetett vételár egészét megkapja és 2. az ÁVÜ-nek nem kell befektetnie plusz 17o millió Ft-ot a Reanalba [azáltal, hogy visszavásárolja az MHB részvényeit], amennyiben a Reanal nem kel el 1995 december 31-ig.

7. A Reanal eladása 8o millió Ft-ért: Úgy értesültünk, hogy egy potenciális vásárló olyan ajánlatot tett, hogy megveszi Reanalt a kötelezettségeivel együtt 8o millió Ft-ért. Tekintve, hogy a fent leírt gondolatmenet alapján a működő vállalati érték valószínűleg csak 16 millió Ft körül mozog, és a likvidációs érték a tulajdonos számára valószínűleg negatív, két oka lehet annak, hogy miért ajánlanak ennél magasabb értéket:

- Reanal-nak rejtett likvidációs értéke van, vagy pedig
- a vásárlónak olyan üzleti terve van, amely szerint Reanal működő vállalati értéke a 8o millió Ft-ot meghaladja.

Következésképpen ha az ÁVÜ vagyonértékelés által bizonyítja, hogy nem valószínű, hogy van rejtett likvidációs érték, akkor egy ilyen ajánlat komoly megfontolásra érdemes. Természetesen az ÁVÜ megpróbálhat magasabb árat is kiharcolni, mert meglehet, hogy az első ajánlati ár nem a legmagasabb összeg, amit az ajánlattevő hajlandó lenne fizetni.

B Melléklet: A Reanal átszervezési tervének összefoglalása

1. Előzmények és a privilegizált helyzet:

Reanal az 5o-es években egy magán gyógyszerészeti/kozmetikai cég utódjaként kezdte meg működését. Kizárólagos jogokat szerzett
a labóratóriumi vizsgálatokhoz és orvosi diagnosztikához szükséges vegyi anyagok importjára, előállítására illetve értékesítésére. Reanal hatalmas nyereséggel dolgozott - monopolhelyzetének köszönhetően -, a következő területeken:

- a Szovjetúnióból vegyi anyagokat importált, melyeket átcímkézett és nyugatra exportált
- kizárólagos nyugati importőre a vizsgálati és laboratóriumi vegyi anyagoknak
- állati bél és zsigerek idejétmúlt technológiával való nagyüzemi feldolgozása; az így előállított biokémiai termékeket a Szovjetúnió felé értékesítették
- az összes vizsgálathoz és diagnózishoz szükséges vegyi anyag előállítása és értékesítése a hazai kórházak és laboratóriumok részére mindenféle konkurencia nélkül

2. Eredmény:

Ez a kényelmes helyzet garanatálta Reanalnak a hasznot, függetlenül a versenyképességétől, az alkalmazott technológia színvonalától illetve a szolgáltatások minőségétől. Reanalnak hierarchikusan felépített szervezeti rendje volt, mely nem tudott rugalmasan reagálni a változó piaci viszonyokra. Nem volt rászorulva arra, hogy a költségtényezőket különösképpen mérlegelje. Nagyon magasak voltak az általános rezsi költségek , és indokolatlanul magas volt a létszám a termelési és az értékesítési szintekhez képest. Noha 5ooo ügyféllel tartottak kapcsoaltot, a cég monopolisztikus helyzete miatt még arra sem szorult rá, hogy az időigényes, kézzel írott rendelésnyilvántartást számítógépesítsék.

Tekintve, hogy Reanal nyeresége mindenképpen szavatolva volt, megengedhették maguknak, hogy kipróbáljanak számos olyan terméket illetve tevékenységet, mellyel kapcsolatban nem rendelkeztek a megfelelő tapasztatlattal illetve szakértelemmel [mezőgazdasági vegyianyagok, kozmetikumok, gyógyszerek, stb.]. Noha ezek a próbálkozások sorra kudarcot vallottak, Reanal helyzete nem rendült meg, hiszen szavatolva volt a fő profiltevékenységek utáni haszon.

Reanal pénzügyi baklövéseket is megengedhetett magának, úgymint pl. 4oo millió Ft lekötését non-profit kutatóintézetekben, míg a fő tevékenységek működtetéséhez és az új tevékenységek bevezetéséhez kb. 5oo millió Ft rövidlejáratú kereskedelmi hiteleket vett fel. Érdemes megjegyezni, hogy Reanal az álatla értékesített termékeknek csupán töredékét állította elő önmaga. Elsősorban nagykereskedelmi és import cég volt, nem pedig termelő vállalat.

3. A piac összeomlása:

A 9o-es évek elején a helyzet gyökeresen megváltozott. Az orosz áruk átcímkézése nem volt többé járható út. Reanal továbbá elvesztette kizárólagos importőri szerepét a nyugati vizsgálati és diagnosztikai termékekre. A belföldi piacon is konkurenciával kellett

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szembenéznie, mivel kis magáncégek jelentek meg a laboratóriumi vegyianyagok nagykereskedelmében. Egy időre az orosz piac megszűnt létezni. Már 199o-ben Reanal adóssága elérte a 4oo millió Ft-ot. Csupán a kamatterhek évente 93 millió Ft-ot tettek ki - az akkori nyereség 63%-át. Ennek ellenére Reanal tovább folytatta a munkaerőfelvételt, és az általános rezsiköltségek évente 2o%-al [!] nőttek.

1992-93-ban Reanal megpróbált visszazökkenni az egyensúlyi állapotba. Megbízott egy német szakértői céget azzal, hogy mérjék fel a főbb termékek piaci kilátásait, és megpróbálta leállítani a kis haszonnal értékesíthető illetve előállítható termékekkel való foglalkozást. Ezenkívül jelentős létszámleépítést is hajtott végre. A szakértők tanácsára átszervezték a céget, és a funkcionális egységek nyereségközpontokká váltak. Reanal megkísérelte integrálni a marketinget és a termelés/termék fejlesztést is, mely korábban két teljesen különálló terület volt.

Mindezen konkrét lépések ellenére Reanal helyzete tovább romlott. Az általános rezsiköltségek és a növekvő adósságterhek felemésztették az üzemi eredményt és veszteségessé tették a céget. 1991 és 1994 között Reanal a puszta talpon maradásért küzdött; a döntéseket a napi helyzet diktálta - startégiai megfontolások nélkül -, és a vállalatot folyamatosan a felszámolás veszélye fenyegette.

4. Az 1993-94. évi pénzügyi helyzet

Reanal helytelen tőkeszerkezetére már fentebb utaltunk [4oo millió Ft lekötve, 5oo millió Ft kölcsöntartozás, ebből 4oo USD-ban]. Reanalnak 1992-ben sikerült eladnia az egyik nem azonnal pénzzé tehető befektetését [a Medimpex nevű egészségügyi export-import vállalat részvényeit] 143 millió Ft-ért.

Reanalnak továbbá sikerült visszafizetnie a rövid távú hitelek egy részét [kb. 6o millió Ft-ot] és átalakította külföldi valutában fizetendő adósságait forint tartozássá. 1993-ban Reanal értékesítette vagyona egy részét, és javított pénzügyi helyzetén. A fenti intézkedéseknek és az általános költségek csökkentésének tulajdoníthatóan Reanal kötelezettségeit határidőre ki tudta egyenlíteni, beleértve az adókat, a társadalombiztosítási járulékokat és a behozatali vámokat. Reanalt újabb veszteség érte 1993-ban a forint leértékelés kapcsán [12o millió Ft árfolyamveszteség]. 1994-ben Reanal csak úgy tudott kifizetni 23 millió Ft adósságot, hogy ingatlanvagyonának egy részét értékesítette.

5. Privatizációs próbálkozások

Reanal 1992 július 1-én átalakult részvénytársasággá. A mérleg kötelező átszámítása az átalakulás alatt megnövelte a könyv szerinti értéket 25o millió Ft-al. A Reanal privatizációjára az első kísérletek 1993-ban önprivatizáció keretében történtek, egy olyan szaktanácsadói cég segítségével, mely az MHB társult vállalata. A két meghírdetett pályázatra azonban nem érkezett ajánlat. Az MRP próbálkozások szintén kudarcot vallottak, mivel az MRP szervezet nem nyújtott be tenderpályázatot, tekintve, hogy Reanal pénzügyi kötelezettségei mellett nem lehetett az E hitelt garantálni az MRP szervezet számára.

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6. A piaci lehetőségek

Reanal korábbi stratégiájáról [hogy a nyugati cégekhez hasonlóan minden lehetséges vegyi anyagot szállít a hazai laboratóriumoknak] le kell mondani. Reanalnak le kell szűkítenie termékskáláját, és az alapvető vegyi anyagokra kellene koncentrálnia, mert ez rendszeres jövedelmet garantálna kielégítő haszonkulcs mellett [a 3ooo termék helyett 3oo lenne]. Reanalnak továbbá új beszállítók után is kell néznie és jobb vásárlási feltételeket kellene kialkudnia.

Reanal előkészületet tett arra is, hogy bevezesse az ISO 9ooo nemzetközi minőségszabványt és a TQM rendszert, annak érdekében, hogy áthelyezze a hangsúlyt a mennyiségről a minőségre. Reanal ezenkívül fontolgatja azt is, hogy új területekre terjeszti ki működését, mint például a konzerv- és húsipar által használt tartósítószerekre és adalékanyagokra.

Reanal exportjában a legfejlettebb országokat óhajtja megcélozni, különösképpen hagyományos partnereit az USA-t és Svájcot. Agrokémiai és gyógyászati tevékenységét nem szeretné fokozni, mert ezek a korábbi profilváltások helytelen iránynak bizonyultak.

7. Az erőforrások átrendezése

a. A szervezeti felépítés

Az 1991-es nyereségközpontokra való osztás nem volt sikeres, mert a szétválasztott egységek túl kicsik voltak. Sok esetben ez azt jelentette, hogy egyazon ügyfélnek vagy beszállítónak két vagy több Reanal részleget is fel kellett keresnie különböző termékek ügyében. Ez viszont azt eredményezte, hogy gyengébb lett a vállalat tárgyalási helyzete mind a beszállítókkal szemben, mind pedig értékesítéskor, ráadásul az ügyintézés is bonyolultabbá vált.

Reanal úgy határozott, hogy átalakítja a szervezeti felépítést termék menedzseri szervezetté, amelyben minden főbb termék egy menedzserhez tartozik, aki a termékkel kapcsolatos minden teendőért felelős. Ez a rendszer jól bevált olyan vállalatoknál, ahol kevés termékcsoport van és nagyon széles az ügyfelek köre.

b. Logisztika

A termékek és az ügyfelek széles köre miatt fontos, hogy a beszállítások és a számlák feldolgozása és nyilvántartása számítógépen történjék. Ez csökkentené a rendelések teljesítési határidejét - egy hónapról pár napra, és csökkentené a költségeket [értékesítés, adminisztráció, raktározás, szállítás, stb.]. A számítógépesített logisztikai rendszer meglepően szerény beruházási igényeket támaszt, viszont gyorsan megugrana a nyereség és a cég piaci helyzetét is javítaná.

c. **Létszám**

Az alkalmazottak száma két év alatt több, mint 2o%-al csökkent, de még mindig van felesleges létszám. Reanal 1994-ben további 1o-15%-al szándékozta csökkenteni a foglalkoztattak számát.

Ami a bérszínvonalat illeti, Reanal differenciáltabb rendszert szeretne bevezetni, kiemelt fizetésekkel. Ez a bérköltségek évi 1o-15%-os növekedését eredményezné, a létszámcsökkentés ellenére.

d. **Beruházások**

A fenti átszervezési koncepció nem igényel nagy volumenű beruházást. A siker kulcsa a számítógépes logisztika bevezetése, tehát a rendelések, készletek, beszállítások és ki/befizetések számítógépes nyilvántartása. Ezáltal Reanal gyorsan tudna reagálni, a megrendelések átfutási idejét rövidíteni tudná, tehát az ügyfelek elégedettebbek lennének, ennek eredményeképpen kibővülne a klientúra, ami végső soron növelné a forgalmat és egyben a hasznot is. Csökkennének továbbá az adminisztrációs és nyilvántartási költségek is. Végül, de nem utolsó sorban, a lehető legminimálisabbra zsugorodnának a készletek, s íly módon raktározási és szállítási költségmegtakarításokat lehetne elérni. Az átszervezési terv szerint a számítógépesítés csupán 4 millió forintos beruházás lenne [ez valószínűleg csak a hardware-t foglalja magában].

A nemzetközi színvonalú minőség szintén előtérbe kerül. Ez 6 millió Ft beruházást jelentene minőségellenőrzési eszközök vásárlásába. További beruházást igényel a tehergépkocsipark, a folyékony termékek raktározása, stb.. Összesen 4o millió Ft beruházás szükségeltetik, amit az üzemi eredményből lehetne finanszírozni.

e. **A vállalati gazdálkodás átszervezése**

A vállalati gazdálkodás átalakításának alternatíváit Reanal átszervezési tervének táblázataiból lehet kiolvasni. A pénzügyek átszervezése nélkül Reanal nem lesz képes pozitív cash flowt produkálni és kötelezettségeinek eleget tenni. A megoldás a következőkben merülhet ki: adósságelengedés, adósság/törzstőke csere, a visszafizetés ideiglenes moratóriuma, további hitelek felvétele, illetve ezek együttes kombinációja. Végeredményben minden a hitelező bankok és a társadalombiztosítási hivatal hajlandóságától és preferenciáitól függ. Reanalnak meg kell szabadulnia az olyan non-profit szervezetektől is, mint a három kutató intézet.

8. Összefoglalás

Az átszervezési terv összefoglalása szerint Reanal problémái a 8o-as évek közepére nyúlnak vissza, melyek csak fokozódtak a 9o-es évek elején az erőltetett növekedés miatt.

A vezetőség úgy gondolja, hogy a problémák nem a piaci keresletből, hanem a kínálatból eredeztethetők [az előállított és értékesített termékekből]. Úgy vélik, hogy Reanal

versenyképes árakat és minőséget tud ajánlani, de pénzügyi erőforrások híján nem tudják finanszírozni az optimális termékösszetételt. Reanal kockázatviselési képessége csaknem a nullára csökkent. Ennek személyes következményei pedig késlekedést szenvedtek.

Reanal kétségtelenül tett néhány fontos lépést a talpraállás és a szervezeti felépítés megváltoztatása érdekében, de ez nem volt elég. A piacelemzés azt mutatja, hogy a Reanal termékeknek jó piaci kilátásai vannak, mind rövid, mind hosszú távon. Megfelelő haszonkulccsal dolgoznak. A termékskálát le kell szűkíteni, azért, hogy a készleteket csökkenteni lehessen. A rendelések átfutási idejét le kell rövidíteni a megfelelő szintű logisztika alkalmazásával.

A vezetőség úgy érzi, hogy a különösebb beruházást nem igénylő vállalatgazdálkodási rendszer átalakítása lehetővé tenné Reanal számára a vezető szerep visszaszerzését az adott ágazatban. A kamatterhek 70%-os mérséklése lehetővé tenné Reanal számára az adósság visszafizetését és megnyitná az utat a privatizáció felé.

'A' MELLÉKLET: REANAL EREDMÉNYKIMUTATÁSA 1994-1996 - AZ MHB ADÓSSÁGÁTÜTEMEZÉSSEL (MHB elengedi az adósság 46%-át - 27%-ot átalakít saját vagyonná)

	1994	1995	1996
I. Értékesítés nettó árbevétele	1.156.900	1.300.000	1.400.000
II. Egyéb bevételek	16.000	9.000	9.000
III. Értékesítés közvetlen költségei	673.558	755.071	769.900
IV. Értékesítési, igazgatási és egyéb általános költségek	402.000	423.000	456.000
V. Egyéb ráfordítások	61.000	48.000	45.000
A. Üzemi tevékenység eredménye (I+II+II+IV+V)	36.342	82.929	138.100
01 Kamatbevétel	8.000	8.000	8.000
02 Befektetésekből származó jövedelem	2.000	0	0
03 Pénzügyi műveletek egyéb bevételei	0	22.000	95.000
VI Pénzügyi műveletek bevételei (01+02+03)	10.000	30.000	103.000
04 Kamat költségek - átütemezés nélkül	205.000	232.000	232.000

05 Kamatcsökkentés - 28,4% a 170 millió Ft adósságtörzstőke cserére és 287,731 millió Ft leírása	130.000	130.000	130.000	
06 Kamatterhek az MHB átütemezéssel (04-05)	75.000	102.000	102.000	
07 Pénzügyi befektetések leírása	0	30.000	95.000	
08 Egyéb pénzügyi ráfordítások	0	0	0	
VII Pénzügyi műveletek ráfordításai (06+07+08)	75.000	132.000	197.000	
B. Pénzügyi eredmény	(65.000)	(102.000)	(94.000)	
C. Szokásos vállalkozási eredmény (A+B)	(28.658)	(19.071)	44.100	Maradványérték
D. Adó (becsl. szerint 18% 1996-ban)	0	0	(7.938)	
E. Adózás utáni eredmény	(28.658)	(19.071)	36.162	90.405
F. Jelenérték - 4o%-os diszkont ráta mellett	(20.470)	(9.730)	13.179	32.946
G. Jelenérték összesen	15.925			

C MELLÉKLET: A REANAL SZERK. ÁTALAKÍTÁSI TERVÉBEN SZEREPLŐ NÉHÁNY ARÁNYSZÁM ELEMZÉSE

KRITÉRIUM	ELEMZETT ALTERNATÍVÁK ÉS AZ EREDMÉNYEK						
Pozitív-e a cég üzemi eredménye?	Üzemi eredmény/ év	1991	1992	1993	1994	1995	1996
	Konszolidáció nélkül	170.236	-120.730	-152.715	-17.120	-347	15.279
	Szerk. átal. terv 1. vált.	170.236	-120.730	-152.715	36.342	82.929	138.100
	MHB javaslat	170.236	-120.730	-152.715	36.342	82.929	138.100
Lesz-e a cégnek megfelelő likviditása ahhoz, hogy az átlakulás alatt üzemelni tudjon?	Napi készpénz anyagra + fizetések	1991	1992	1993	1994	1995	1996
	Konszolidáció nélkül	2	3	11	10	4	6
	Szerk. átal. terv 1. vált.	2	3	11	10	7	7
	MHB javaslat	2	3	11	10	7	7

	Üzemi eredmény/ adósság-szolgálat	19391	1992	1993	1994	1995	1996
Fedezi-e az üzemi eredmény az adósságszol-gálatot? (az üzemi eredmény és az adósságszolg. aránya)	Konszolidá-ció nélkül	1,71	-0,67	-1,69	-0,09	-0,00	0,07
	Szerk. által. terv 1. vált.	1,71	-0,67	-1,69	0,31	1,12	2,19
	MHB javaslat	1,71	-0,67	-1,69	0,49	0,98	1,63

C.1 folyt.

KRITÉRIUM	ELEMZETT ALTERNATÍVÁK ÉS AZ EREDMÉNYEK						
Pozitív-e a cég üzemi eredménye?	Üzemi eredmény/ év	1991	1992	1993	1994	1995	1996
	Konszolidáció nélkül	170.236	-120.730	-152.715	-17.120	-347	15.279
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	MHB javaslat	170.236	-120.730	-152.715	36.342	82.929	138.100
Biztosítja-e a terv, hogy a cég eleget tud tenni jelenlegi kötelezettségeinek?	Forgó eszk./folyó kötelez.	1991	1992	1993	1994	1995	1996
	Konszolidáció nélkül	1,52	0,71	0,73	0,55	0,45	0,37
	Szerk. által. terv 1. vált.	1,52	0,71	0,73	1,42	1,45	2,84
	MHB javaslat	1,52	0,71	0,73	1,50	1,40	1,35

MEMORANDUM

RE: Reorganizational plan of REANAL - going-concern and liquidation values
TO: Maria Vanicsek
FROM: IMPACT II consulting team
DATED: January 9, 1995

Following the meeting on Dec. 21 between Mr. Zsigmond László, director-general of REANAL, Mr. László Kis of SPA and Messrs Itil Asmon and Ferenc Simon of Chemonics, the following remarks are offered regarding REANAL's reorganization plan.

1. Background and present situation of REANAL

REANAL's main activity is to supply laboratories, pharmaceutical companies, hospitals, research institutes, etc. with various chemicals necessary for tests and analyses. REANAL is predominantly a chemicals trading company, with limited production facilities. About 85% of its market is domestic.

In the past, REANAL had a privileged monopoly situation in this market. However, the market has changed radically since 1990. The domestic market for REANAL's products is shrinking in the medium term due to the financial crisis of many of its clients (research institutes, hospitals, etc.) Within this shrinking market, REANAL's position is being eroded both because (1) some pharmaceutical companies have been privatized to West European investors, and are likely in the future to obtain their chemicals from the mother company; and (2) several Kft's have started competing for REANAL's market share by supplying the same products. REANAL's possibilities of significantly increasing exports are limited due to the reduced purchasing powers of the Eastern Block markets and the presence in Western Europe of large, entrenched companies which supply the same products.

These marketing problems were compounded by an inappropriate financial structure. During the 1980s REANAL had invested in several research institutions which are not commercially self-sufficient. Then when the market shrank REANAL was obliged to borrow heavily, including foreign exchange loans which subjected it in 1992 and 1993 to heavy exchange rate losses, until they were replaced in 1994 by forint loans. REANAL was in arrears to its suppliers to such an extent that they would deliver raw materials only against cash payments; the lack of working capital further limited REANAL's ability to fulfill the orders it did have. Our analysis of REANAL's reorganization plan (Annex B) indicates that in the past REANAL's management has been slow to respond to changing conditions (eg. it has not yet introduced a computerized inventory control system). By early 1994 it seemed that there was no way to avert bankruptcy, and employee morale was very low.

However, since mid-1994 there are several signs of improvement. During 1994 management has taken several positive steps to alleviate the company's financial crisis: staff reduction, structural reorganization along product lines, and reduction of its product line which formerly amounted to some 3000 items. Management intends to ultimately

reduce its product line to 600-700 high-margin items of its own production, plus some 300 items imported on a commission basis. A computerized inventory management system is being introduced.

Our limited inquiries with some REANAL clients indicated that the quality of REANAL's products is satisfactory and their price is competitive. The main complaint has been about slowness of deliveries - a problem which the computerized inventory managment system should help to solve.

REANAL's management feels confident that if REANAL's debt load is reduced to about 140 M HUF (debt service obligations of about 50 M HUF), REANAL could survive and operate profitably, albeit on a more limited scale than in the past.

2. REANAL's 1994 financial results: REANAL's turnover in 1994 was about 1038 M HUF. This was very close to the mid-1994 turnover projections for the case of no debt relief, which were 1050 M HUF.

REANAL's management succeeded in cutting down direct costs, mostly through phasing out low-margin products and concentrating on fewer high-margin products.

Consequently, REANAL's 1994 operating profit was about 10.5 M HUF. This is considerably better than the mid-1994 projections, which predicted for 1994 an operating loss of 17 M HUF if no debt relief was provided.

REANAL's 1994 net financial charges are about 135 M HUF. This is also considerably better than the mid-1994 projections, which predicted for 1994 net financial charges of 195 M HUF. The difference occurred mainly because IBUSZ Bank gave REANAL an informal moratorium on its 4th quarter interest payment.

As a result, REANAL's pre-tax 1994 result is a loss of about 121 M HUF, rather than 212 M HUF as was predicted by the mid-1994 projections for the case that no financial restructuring was provided.

Although the mid-1994 projections assumed that debt consolidation will happen in 1994, this has not yet started. REANAL's 1994 liabilities consist mainly of a debt of 627 M HUF debt to MHB, about 90 M HUF to IBUSZ Bank,[check this figure] 195 M HUF to suppliers and 105 M HUF of other short-term liabilities (eg. to government entities). The effective interest rate on REANAL's bank loans (including quarterly loan renewal charges) is 31%-33%.

IBUSZ Bank has apparently indicated its willingness to give REANAL a one-year moratorium on interest payments if REANAL's main debt to MHB is consolidated.

3. Verification of REANAL's restructuring plan: Our visit to REANAL has verified to our satisfaction the issues which were raised by our memo of Dec. 12:

- REANAL's "other expenses" have been reduced significantly, since they were related to conversion-rate losses on a foreign exchange loan which since has been

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replaced by a forint loan;

- REANAL has increased its sales proportionately more that its cost-of-goods-sold by eliminating many low-profit products;

- the planned improvements in computer systems, transport fleet etc. will be financed by the depreciation allowance.

Thus it is reasonable to assume that, given debt restructuring, REANAL could reach its planned profit targets.

4. The offer to buy REANAL for 80 M HUF: SPA has in the past tendered REANAL several times without receiving any offers. We have been informed by Mr. László Kis that a Hungarian investor (a chemist, who apparently intends to keep REANAL in operation, and may thus be qualified as a strategic investor) has recently offered to buy REANAL, on approximately the following conditions:

- the investor will buy SPA's 96.5% share in REANAL for 80 M HUF, to be paid mostly in compensation coupons;
- MHB will write off 287 M HUF of REANAL's debt;
- 140 M HUF of REANAL debt will remain with MHB;
- the investor will buy out 200 M HUF worth of debt from MHB for approximately 120 M HUF;
- this debt will remain on REANAL's books, and the investor will decide whether to collect interest on it from REANAL's operating profit before tax and pay personal income tax on it, or to collect dividends from REANAL after company tax.

The offering price of 80 M HUF is considerably lower than REANAL's book value, which at the end of 1994 was about 444 M HUF. The following calculations are intended to give SPA some basis for considering whether this offer is of interest in view of (1) REANAL's going-concern value (capitalization of expected future income), and (2) what SPA could be expected to obtain from liquidation of REANAL.

5. REANAL's going concern value: REANAL's going concern value was computed on the basis of this offer. In the computation, the following assumptions were made:

- REANAL's 1995 operating profit will be 54.8 M HUF (as projected in management's plan of Dec. 6, 1994);
- REANAL's operating profits will be 110 M HUF in 1996 and 138.1 in 1997 (the reasons for this projections are discussed in Annex A);
- REANAL will obtain a moratorium on interest from IBUSZ bank until its IBUSZ debt is paid off in 1997;
- in return for this moratorium, REANAL will use its post-tax profits first to pay off its IBUSZ loan until it is paid completely by the end of 1997;
- REANAL will obtain a moratorium on interest on its "other short-term obligations" of 105 M HUF, which consist mostly of payables to government entities (this is implicitly assumed in REANAL's mid-1994 projections);

- The discount rate for calculating present value is 40% (which is minimal, in view of current effective interest rate at 31-33% and increasing).

Based on these assumptions, **REANAL's present value to the buyer (Annex A) is only about 48.8 M HUF.** (This relatively low value is due to the fact that with the proposed MHB debt restructuring and the assumption that the IBUSZ debt will be repaid out of post-tax profits, the buyer will start receiving profits only towards the end of 1997). **The present value of SPA's 96.5% stake in REANAL is thus about 47 M HUF.**

6. Liquidation value: The going concern value needs to be contrasted with the liquidation value. This is difficult because we do not have market value of the assets. However, for the sake of discussion, let us assume that REANAL's assets (1408 M HUF in 1994) will bring in a liquidation - after deducting liquidation expenses - 50% of their book value, ie. 704 M HUF. REANAL's 1994 liabilities are 1018 M HUF, ie. 314 M HUF more than its assets. Thus a liquidation bringing 50% of asset book value will leave no net value to SPA as shareholder. Net liquidation proceeds must be over 72% of book value for SPA to realize anything out of liquidation.

Obviously, SPA needs to verify that REANAL does not have hidden liquidation values (values which are not adequately expressed in the balance sheet). Such hidden values may be due to:

- real estate whose market value exceeds book value
- non-tangible assets such as patents, contracts, licenses, etc.
- high realization value of its inventory and receivables

REANAL's director-general informed us that REANAL's real estate consists of three adjacent plots in the XIV district, totalling 22,000 m^2. Current market value of industrial real estate (including buildings) in this vicinity are about 3000-4000 HUF/m^2, ie. about 88 M HUF for REANAL's real estate. The 1994 book value of REANAL's real estate was 529.2 M HUF. Thus at first view, it does not appear that REANAL has a hidden real estate value.

A professional appraisal is however necessary to assure that there are no hidden liquidation values. Unless there is a significant hidden value, selling REANAL as a going concern value may bring higher returns to the SPA than liquidation, if the ratio of net liquidation proceeds to asset book value is below the limits discussed above.

7. Conclusions regarding the purchase offer

Since the above discussion shows that the going concern value of SPA's shares in REANAL may well be only about 48.8 M HUF and the liquidation value to the owner is possibly even negative, there are two possibilities why a buyer might be willing to offer 80 M HUF for SPA's shares in REANAL:

- REANAL might have a hidden liquidation value, or
- the buyer might have a business plan according to which REANAL's going-concern value is in excess of 80 M HUF.

Consequently, if SPA verifies by means of an asset appraisal that there is not likely to be a hidden liquidation value, and/or is satisfied that the buyer is a strategic investor who intends to keep REANAL in operation, then such a offer would merit serious consideration by SPA. Naturally SPA could try to negotiate for a higher price, since the buyer's initial price may not be the final price he would be willing to pay.

ANNEX A: PRESENT VALUE OF "REANAL" (in M HUF)

Item / Year	1995	1996	1997	Post-1997
Operating profit	(a) 54.8	(b) 110.0	(c) 138.1	138.1/year
Net financial charges	50.0	50.0	50.0	50.0/year
Pre-tax profits	4.8	60.0	88.1	(d) 220.2
Tax, 40%	1.9	24.0	35.2	88.1
Post-tax profit	2.9	36.0	52.9	132.2
Post-tax profit after repaying 90 M HUF to IBUSZ	0.0	0.0	1.8	132.2
Discount factor = $1/(1+0.4)^n$, where n = 1, 2, 3	0.714	0.510	0.364	0.364
Discounted post-tax profit after paying the IBUSZ loan	0.0	0.0	0.7	48.1
Total discounted post-tax profit				48.8

Note: Management's projections of Dec. 6, 1994 (based on the expected 1994 year-end statements) are only for 1995. Projections for 1996 and 1997 are available only from the restructuring plan of June 20, 1994. To obtain projections of operating profit for 1996 and 1997 on the basis of 1994 year-end results, the following assumptions were made:

(a) REANAL's 1995 operating profit is 54.8 M HUF as projected in management's plan of Dec. 6, 1994. This is 28.1 M HUF less than the 1995 operating profit according to the mid-1994 projections, because the restructuring plan would start in early 1995 rather than in mid-1994.

(b) REANAL's 1996 operating profit will be 110 M HUF (28.1 M HUF less than the 1996 operating profit according to the mid-1994 projections, which is 138.1 M HUF).

(c) REANAL will reach in 1997 the operating profit of 138.1 M HUF (one year later than according to the mid-1994 projections).

(d) REANAL's total residual value after 1997 = 88.1/0.4 = 220.2 M HUF, where 0.4 is the discount factor.

ANNEX B: SUMMARY OF THE "REANAL" REORGANIZATION PLAN

1. History and privileged situation:

REANAL started in the '50s as a successor of a private-sector pharmaceutical/cosmetic company. It gained exclusive rights to import, produce and sell chemical products for laboratory tests and medical diagnoses. REANAL made enormous profits - thanks to its privileged monopolistic situation - in the following fields:

- importing chemicals from the USSR, relabelling them and exporting to the West;
- sole importing of test and lab chemicals from the West;
- large-scale processing of animal intestines with outdated technology and selling the resulting biochemical products to the USSR;
- producing and selling all necessary test and diagnostic chemicals for domestic hospitals and laboratories without any competition.

2. Result:

This comfortable situation guaranteed profit to REANAL regardless of its competitiveness, level of technology used and quality of services. REANAL had a hierarchical organizational setup, which was unable to react flexibly to market trends. It did not have to consider cost levels. It had very high general overhead costs and a much higher staff than required by its level of production and trade. Although it served 5,000 customers, due to its monopolistic position it did not feel obliged even to computerize its manual, time-consuming processing of orders.

Thanks to its guaranteed profit, REANAL could afford to try a range of products and activities in which it had no experience, technical and personnel qualifications (agrochemicals, cosmetics, medicines, etc.) Although these new ventures failed, REANAL was not shaken due to the guaranteed profit from its main activities.

REANAL could also afford financial management failures such as binding 400 million HUF in non-profit research institutions, while the running of main activities and the expansion to new activities required to borrow about 500 million HUF of short-term commercial credits. It is noteworthy that REANAL manufactured only a small part of the products what it sold. Dominantly it was a wholesale, import company and not a manufacturer.

3. Market collapse:

In the early '90s the situation has changed completely. Relabelling of Russian products could go no further. REANAL lost its exclusive role as sole importer of Western test and diagnostic products. It lost its exclusive role in domestic supplies as well, as small new private firms entered the wholesaling of laboratory chemicals. The Russian market has ceased to exist for a while. Already in 1990, REANAL's debt reached 400 M HUF. Interest payments alone run to 93 M HUF per year - 63% of the profit of that time. Nevertheless, REANAL was still expanding its personnel, and the

general overhead costs were increasing by 20% per annum(!)

In 1991-1992 REANAL tried to regain its lost balance. It entrusted a German consulting firm to evaluate the market position of its main product groups and tried to eliminate the production and trade of low-profit products. It also reduced the staff significantly. Based on the consultant's advice, REANAL was reorganized - its functional units became profit centers. It also tried to integrate marketing and production/product development, which were totally separated before.

Despite these positive steps, REANAL's position deteriorated further. The general overhead costs and the growing debt burden ate up the operating profits and drove the company into the red. Between 1991 and 1994 REANAL had to fight for the pure survival, decisions were taken on a daily basis without strategy and REANAL remained on the verge of liquidation.

4. Financial position in 1993-1994:

REANAL's incorrect capital structure was indicated above (400 M HUF tied, 500 M HUF borrowed, 400 of it in USD). REANAL managed in 1992 to sell one of its illiquid investments (shares in MEDIMPEX medical export-import company) for 143 million HUF.

REANAL also succeeded to pay back part of its short-term credits (about 60 million HUF) and to swap its foreign exchange debts for Forint debts. In 1993 REANAL sold some of its assets and improved its financial position. Thanks to the above measures along with a cut in general costs REANAL managed to pay its obligations in time, including taxes, social insurance fees and import duties. REANAL suffered a new loss in 1993 from devaluation of the Forint (120 million HUF loss on exchange rates). In 1994 REANAL could repay 23 million HUF debt only through selling some of its real estate.

5. Privatization attempts:

REANAL was transformed into an Rt. on July 1, 1992. The compulsory recalculation of the balance sheet during the transformation increased the book value by 250 million HUF). The first attempts to privatize REANAL were in 1993 through self-privatization, which was done with the assistance of a consulting firm affiliated with MHB. There were no bids on the two tenders launched. ESOP attempts also failed as the ESOP organization did not bid on the tenders, because the financial obligations of REANAL made it impossible to guarantee E-credit to the ESOP organization.

6. Market opportunities:

The previous strategy of REANAL, i.e. to supply all possible chemicals to Hungarian laboratories as the big Western firms do, has to be abandoned. REANAL should narrow its product range and focus on the staple chemicals, which guarantee a regular revenue and a reasonable profit level (300 products instead of 3,000). REANAL must also find new suppliers and bargain in its purchases for better conditions.

REANAL has also started preparations to introduce the "ISO 9000" international quality standard and the TQM system in order to shift from quantity to quality. REANAL also considers entering new fields such as additives for the canning and meat industries.

In export REANAL wants to focus on the most developed countries, especially the USA and Switzerland (its traditional partners). It does not want to increase activities in the medicine and agrochemical branches, which proved to be a false direction of previous profile changes.

7. Reorganization of resources:

a. **Organizational structure:**

The 1991 reorganization into profit centers failed due to the very small size of the separated units. In many cases it meant that the same customer or supplier had to turn to two or more divisions within REANAL for various products. It resulted in a weakened bargaining position both in purchases and supplies, and complicated follow-up.

REANAL has decided to change its organizational structure for a product management system in which each main product has one manager, who follows up everything related to that product. This is a proven system for companies with few main groups of products and a very wide range of customers.

b. **Computerized processing:**

The very wide range of products and customers makes it essential to introduce a computerized recording and processing of orders, invoices and supplies. This would decrease the time required to fulfill orders from one month to a few days and would reduce costs (sales, administration, storage, transport, etc.) The computerized inventory control system requires a surprisingly modest investment and could bring about a quick increase in profit and an improved market position.

c. **Personnel:**

The number of employees has been decreased by more than 20% in two years but overstaffing still exists. REANAL intended to further decrease employment in 1994 by 10-15%.

As regards wages REANAL wants to introduce a more differential system along with higher wages. This will mean higher wage costs (by 10-15% per annum), in spite of the staff reduction.

d. **Investments:**

The above reorganizational concept does not require substantial investments. The key for success is computerized processing, i.e. a computer system which keeps record of all orders, stocks, supplies and payments. It would make

REANAL able to react quickly, shorten delivery time and therefore make its clients more satisfied and gain new clients as well, resulting in higher turnover with higher profit. It would reduce recording, administration costs as well. Last but not least, it would reduce inventory to the minimum possible and save in storage and transport costs. According to the reorganizational plan, computerization requires an investment of only 4 M HUF. (This probably includes only the hardware).

International-level quality control is also proposed. It requires 6 million HUF worth of quality control instruments. There are other investment needs for trucks, storage of liquid products, etc. Total investments required are about 40 M HUF, which could be financed from operational profits.

e. Financial reorganization:

Alternatives for financial reorganization can be seen from the tables in REANAL's reorganization plan. Without a financial reorganization REANAL will not be able to have a positive cash flow and meet the payment obligations. Solution should be either a debt writeoff, a debt/equity swap, a temporary moratorium on repayment, further credits, or a combination of the above. It depends basically on the willingness and preferences of the creditor banks and the social insurance authority. REANAL must also divest itself of its non-profit organizations like the three research institutions.

8. Summary:

According to the summary of the reorganizational plan, the problems of REANAL have started in the mid '80s and accelerated in the early '90s due to the forced growth.

Management believes that the problems are a result of the supply side (ie. of the products sold and produced) and not of the demand side (ie. of the market). It feels that REANAL is competitive in price and quality but due to lack of financial sources it could not finance the purchase of the optimal composition of products. The risk-taking capacity of REANAL has decreased to almost nil. Personal consequences were delayed.

REANAL did make some important steps toward recovery such as staff reduction, changing organizational structure, etc. but it was not enough. The marketing analysis shows that REANAL's products have a good market prospect in both the short and long term. Their profit level is satisfactory. The range of products has to be narrowed, making it possible to reduce the inventory. Delivery time must be reduced by computerized processing of orders.

Management feels that financial reorganization, without major investment, would make REANAL regain the leading position in its sector. The reduction of the interest burden by 70% would make REANAL able to repay its debts and would open the way to privatization.

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EMLÉKEZTETŐ

Tárgy: A REANAL Rt. átszervezési terve - a működő vállalati és a likvidációs érték
Címzett: Vanicsek Mária
Küldő fél: IMPACT II szakértői csoport
Dátum: 1995 január 9.

A REANAL vezérigazgatója, László Zsigmond, az ÁVÜ képviselője, Kis László, valamint a Chemonics munkatársai, Itil Asmon és Simon Ferenc urak között december 21-én lezajlott megbeszélés alapján a következő megjegyzéseket tesszük a REANAL átszervezési tervével kapcsolatban.

1. A REANAL háttere és jelenlegi helyzete

A REANAL fő tevékenységi területét a laboratóriumok, gyógyszergyárak, kórházak, kutatóintézetek, stb. különböző, tesztekhez és elemzésekhez nélkülözhetetlen, vegyi anyagokkal való ellátása alkotja. A REANAL elsősorban vegyi anyagokat értékasító vállalat, korlátozott gyártási lehetőségekkel. 85%-ban a hazai piacot látja el.

A REANAL a múltban kivételes monopolhelyzetben volt. A piac azonban 1990 óta radikálisan átalakult. A REANAL termékek piaca középtávon szűkül sok ügyfelének (kutatóintézetek, kórházak, stb,) pénzügyi gondjai következtében. Ezen a szűkülő piacon belül a REANAL helyzetét tovább gyöngíti, hogy (1) egyes gyógyszergyárakat nyugat-európai befektetők privatizáltak, akik a jövőben valószínűleg az anyavállalattól szerzik be a felhasználandó vegyi anyagokat; és az, hogy (2) több Kft. szállt versenybe a REANAL-lal a piacon azáltal, hogy elkezdte ugyanazokat a termékeket értékesíteni. A REANAL számottevő exportnövekedési lehetőségeit korlátozza egyrészt a Keleti Tömb piacainak csökkent vásárlóereje és azoknak a nagy, megerősödött vállalatoknak a jelenléte Nyugat-Európában, amelyek ugyanazokat a termékeket értékesítik.

Ezekhez a marketing problémákhoz járult még egy nem megfelelő pénzügyi struktúra. Az 1980-as évek során a REANAL több olyan kutatóintézetbe fektetett be, amelyek kereskedelmi szempontból nem önellátók. Aztán amikor a piac beszűkült, a REANAL kénytelen volt súlyos kölcsönöket fölvenni, beleértve a devizahiteleket, amelyek 1992-ben és 1993-ban súlyos devizaveszteségekhez vezettek, míg fel nem váltották őket 1994-ben a forint alapú hitelek. A REANAL akkora lemaradásban volt az ellátókkal szemben, hogy azok csak akkor voltak hajlandók nyersanyagot szállítani, ha az ellenértéket készpénzben kapták; a működő tőke hiánya tovább korlátozta a REANAL-t abban, hogy megrendeléseinek eleget tegyen. A REANAL átszervezési tervével foglalkozó elemzésünk (B Függelék) kimutatja, hogy a REANAL vezetése a múltban lassan reagált a változó

feltételekre (pl. még mindig nem vezették be a számítógépes készletgazdálkodási rendszert). 1994 elejére úgy tűnt, már semmiképpen sem lehet elkerülni a csődöt, s a munkamorál is nagyon lesüllyedt.

1994 közepe óta azonban a fejlődés jelei kezdenek mutatkozni. 1994-ben a vállalat vezetése több pozitív lépést tett annak érdekében, hogy a vállalat pénzügyi válságát enyhítse: csökkentette a dolgozói létszámot, szerkezetátalakítást hajtott végre termékei körében, csökkentette az általa forgalmazott termékek számát, amely korábban körülbelül 3000 cikket jelentett. A vezetés végső szándéka az, hogy termékcsaládját 600-700 fajta, magas hasznot hozó, saját gyártmányú cikkre csökkenti, hozzáadva 300 fajta jutalékos alapon importált árucikket. Most vezetik be a számítógépes készletgazdálkodást.

A REANAL néhány ügyfele körében végzett felmérés azt mutatta, hogy a REANAL termékek minősége kielégítő és áraik versenyképesek. A legfőbb panasz a szállítások lassúságát emelte ki - ennek a problémának a megoldásában segíthet a számítógépes készletgazdálkodás.

A REANAL vezetésének meggyőződése, hogy ha a vállalat adósságterhei 140 millió forintra csökkennek (az adósságszolgálati kötelezettség kb. 50 millió forint), akkor a REANAL talpon marad és képes lesz jövedelmezően működni, jóllehet korlátozottabb skálán, mint a múltban.

2. <u>A REANAL 1994-es pénzügyi eredményei</u>: a REANAL 1994-es forgalma körülbelül 1038 millió forint volt. Ez nagyon közel állt az 1994-es évközepi adókönnyítés nélküli forgalom-előrejelzéshez, amely 1050 millió forint volt.

A REANAL veztése sikeresen csökkentette a közvetlen költségeket, főképp azáltal, hogy kiiktatta a termékek köréből a kevés hasznot hozókat és kevesebb, nagyobb hasznot jelentő termékre koncentrált.

Következésképpen a REANAL 1994-es üzemi nyeresége körülbelül 10,5 millió forint volt. Ez számottevően jobb, mint az 1994-es évközepi előrejelzés, amely 1994-re 17 millió forintos üzemi veszteséget jósolt, ha nem nyújtanak adósságkönnyítést.

A REANAL nettó pénzügyi költsége 1994-ben 135 millió forint. Ez is sokkal jobb, mint az 1994-es évközepi előrejelzés, amely 1994-re 195 millió forint pénzügyi költséget jósolt. A különbség elsősorban abból adódott, hogy az IBUSZ Bank informális haladékot adott a 4. negyedévi kamatfizetésre.

Ennek eredményeképp a REANAL 1994-es adózás előtti eredménye kb. 121 millió forint veszteség az 1994-es évközepi előrejelzésben megjósolt 212 millióval szemben, ami akkor következhetett volna be,

ha nem lett volna pénzügyi szerkezetváltás.

Bár az 1994-es évközi előrejelzés feltételezte, hogy 1994-ben megtörténik az adósság-konszolidáció, az még el sem kezdődött. A REANAL 1994-es fő tartozásai: 627 millió forint az MHB felé, 90 millió forint az IBUSZ Bank felé, [ellenőrizzük ezt az adatot] 195 millió forint a szállítók felé, és 105 millió forint értékű egyéb rövid lejáratú tartozás (pl. kormányszerveknek). A REANAL bankhiteleit terhelő reálkamatláb (beleértve a negyedéves hitelhosszabbítási költségeket) 31% - 33%.

Az IBUSZ BANk hangot adott nyivánvaló szándékának, mely szerint egy évre szóló kamatfizetési haladékot nyújt a REANAL-nak, amennyiben az konszolidálja fő tartozását az MHB felé.

3. A REANAL átszervezési tervének hitelesítése: A REANAL-nál tett látogatásunk megelégedésünkre szolgálóan igazolta a december 12-i emlékeztetőben felvetett témákat:

- A REANAL "egyéb ráfordításai" jelentősen csökkentek, mivel forint alapú kölcsönnel váltották fel a devizahitelt, amelyet a devizaárfolyam veszteségek károsan befolyásoltak;

- a REANAL jelentős mértékben növelte növelte eladási forgalmát azáltal, hogy sok gyengén jövedelmező terméket kiiktatott;

- a számítógépes rendszer, a járműpark, stb, tervezett fejlesztését az értékcsökkenési leíráson keresztül fogják finanszírozni.

Joggal feltételezhető tehát, az adott adósság átütemezéssel, hogy a REANAL el tudja érni tervezett nyereség-célkitűzéseit.

4. A REANAL megvásárlására tett 80 millió forintos ajánlat: Az ÁVÜ a múltban már többször is felkínálta eladásra a REANAL-t, de egy ajánlatot sem kapott. Kis László úrtól megtudtuk, hogy egy magyar befektető (egy vegyész, akinek világos szándéka a REANAL működésének fenntartása, s így stratégiai befektetőként minősíthető) nemrégiben fölajánlotta, hogy megvásárolja a REANAL-t nagyjából a következő feltételek mellett:

- a befektető megvásárolja a REANAL részvények ÁVÜ tulajdonban lévő 96,5%-át 80 millió forintért, amelyet nagyrészt kárpótlási jegy formájában fizet ki;
- az MHB leírja a REANAL 287 millió forintos adósságát;
- A REANAL tartozásából 140 millió az MHB-nál marad;
- a befektető kivásárol 200 millió forint értékű tartozást az MHB-tól megközelítőleg 120 millió forintért;
- ez a tartozás a REANAL könyveiben marad, és a befektető eldönti, hogy behajtja-e a REANAL adózás előtti üzemi nyereségéből származó kamatot, s arra személyi jövedelemadót fizet, vagy az osztalékot tartja meg a REANAL-tól a vállalati

adózás után.

5. A REANAL működő vállalati értéke: a REANAL működő vállalati értékét ennek az ajánlatnak az alapján számítottuk ki. A számítások során a következő feltevésekre jutottunk:

- a REANAL 1995-ös üzemi nyeresége 54,8 millió forint lesz (ahogy azt az 1994. december 6-i vállalatvezetési terv is előirányozza);
- a REANAL üzemi nyeresége 1996-ban 110 millió forint lesz,1997-ben 138,1 millió (ennek az előrejelzésnek az okára mutat rá az 1-es Függelék;
- A REANAL kamatfizetési haladékot kap az IBUSZ Banktól, amíg az IBUSZ felé irányuló tartozását ki nem egyenlíti 1997-ben;
- a haladékért cserébe a REANAL adózás utáni nyereségét először az IBUSZ-hitel visszafizetésére használja fel, amíg azt teljesen ki nem egyenlíti 1997 végéig;
- A REANAL kamattörlesztési haladékot kap 105 millió forint értékű "egyéb rövid lejáratú kötelezettségei" után, amely főleg a kormányszerveknek járó kifizetendő összegekből áll (ezzel a REANAL 1994-es évközi előrejelzése is számolt);
- A jelenlegi érték kiszámításához használt leszámítolási kamatláb 40% (amely minimális, ha figyelembe vesszük, hogy a jelenlegi reálkamatláb 31-33% és növekszik).

E feltevések alapján a REANAL jelenlegi értéke a vásárló **számára (A Függelék) csak körülbelül 48,8 millió forint.** (Azért viszonylag alacsony ez az érték, mert a javasolt MHB adósság átütemezés és az a feltevés, mely szerint az IBUSZ tartozást az adózás utáni nyereségből fizetik vissza, arra utal, hogy a vásárló csak 1997 vége felé számíthat nyereségre.) **Az ÁVÜ birtokában lévő 96,5% REANAL részvény jelenlegi értéke tehát 47 millió forint körül van.**

6. Likvidációs érték: A továbbműködő értéket a likvidációs értékkel kell szembeállítani. Ez viszont nehéz, mert nem ismerjük az eszközök piaci értékét. Mindenesetre vitaalapul tegyük fel, hogy a REANAL eszközei felszámolás esetén a könyvszerinti érték 50%-át, 704 millió forintot hoznak - a felszámolási költségek levonása után. A REANAL-nak 1994-ben 1018 millió forint kötelezettsége van, 314 millió forinttal több, mint az eszközök. Ily módon - ha a likvidáció a könyv szerinti érték 50%-át éri el -, az ÁVÜ-nek, mint részvényesnek, nem marad nettó érték. A likvidációs árbevételnek legalább a könyv szerinti érték 72%-nak kell lennie ahhoz, hogy azÁVÜ valamit is kapjon a likvidáció során.

Nyilvánvalóan az ÁVÜ-nek bizonyítani szükséges, hogy a REANAL-nak nincsenek rejtett likvidációs értékei (olyan értékek, amelyek nem tükröződnek megfelelően a mérlegben). Az ilyen rejtett értékek a következők miatt merülhetnek fel:

- ingatlan, amelynek a piaci értéke meghaladja a könyv szerinti

értéket
- vagyoni értékű jogok, úgy mint szabadalmak, szerződések, licenszek,stb.
- magas áron értékesíthető követelések és készletek

A REANAL vezérigazgatója tudatta velünk, hogy a REANAL-ingatlan három egymással szomszédos XIV. kerületi telekből áll, amelynek összterülete 22 000 négyzetméter. Az ipari ingatlan (az épületeket is beleértve) jelenlegi piaci értéke a körzetben kb. 3000-4000 forint/négyzetméter, ami azt jelenti, hogy a REANAL-ingatlan értéke 88 millió forint. A REANAL tulajdonában lévő ingatlan 1994-es könyv szerinti értéke 529,2 millió forint volt. Így <u>első látásra nem úgy tűnik, hogy a REANAL-nak rejtett ingatlanértéke lenne.</u>

Szakszerű vagyonértékelés szükséges ahhoz, hogy bizonyossá váljon, hogy nincsenek ilyen rejtett értékek. Hacsak nincs jelentős rejtett érték, a REANAL eladása működő vállalati értéken nagyobb bevételt eredményezhet az ÁVÜ számára, mint a likvidáció, feltéve, hogy a likvidációs árbevétel és az eszközök könyv szerinti értékének aránya a fent említett határértéken belül esik.

7. <u>A vásárlási ajánlat alapján levonható következtetések</u>

Mivel a fentiekből kiderül, hogy az ÁVÜ birtokában lévő REANAL részvények működő vállalati értéke mindössze csak 48.8 millió forint, és a likvidációs érték a tulajdonos számára még valószínűleg negatív is, két lehetséges oka van annak, miért hajlandó egy vásárló 80 millió forintot ajánlani az ÁVÜ birtokában lévő REANAL részvényekért:

- a REANAL-nak lehet rejtett likvidációs értéke, vagy
- a vásárlónak lehetnek olyan üzleti tervei, amelynek alapján a REANAL működő vállalati értéke meghaladja a 80 millió forintot.

Következésképpen, ha az ÁVÜ vagyonbecsléssel igazolja, hogy nem valószínű, hogy van rejtett likvidációs érték, és/vagy megelégszik azzal, hogy a vásárló stratégiai befektetőnek számít, akinek a REANAL működtetése a feltett szándéka, akkor egy ilyen ajánlat komoly megfontolásra érdemes. Természetesen az ÁVÜ megpróbálhat magasabb árat is kiharcolni, mert meglehet, hogy az első ajánlati ár nem a legmagasabb összeg, amit az ajánlattevő hajlandó lenne fizetni.

A FÜGGELÉK: A "REANAL" JELENLEGI ÉRTÉKE (Millió forintban kifejezve)

Tétel: Év:	1995	1996	1997	1997 után
Üzemi nyereség	(a)54,8	(b)110,0	(c)138,1	138,1/év
Nettó pénzügyi költségek	50,0	50,0	50,0	50,0/év
Adózás előtti nyereség	4,8	60,0	88,1	(d)220,2
Adó, 40%	1,9	24,0	35,2	88,1
Adózás utáni nyereség	2,9	36,0	52,9	132,2
Adózás utáni nyereség a 90 millió Ft IBUSZ-nak történő kifizetése után	0.0	0,0	1,8	132,2
Diszkonttényező = 1/(1+0,4)n, ahol n = 1, 2, 3	0,714	0,510	0,364	0,364
Csökkentett adózás utáni nyereség az IBUSZ-hitel kifizetése után	0,0	0,0	0,7	48,1
Adózás utáni nyereség végső összege				48,8

Megjegyzés: A december 6-i vállalatvezetési előrejelzések (amelyek az1994-es várható évvégi kimutatás alapján készültek) csak 1995-re vonatkoznak. Az 1996-ra és az 1997-re vonatkozó előrejelzéseket kizárólag az 1994. június 20-i átalakítási tervből lehet kiolvasni. Hogy az 1996-os és az 1997-es üzemi nyereségről előre tudjunk képet alkotni az 1994-es évvégi eredmények alapján, a következő feltevéseket fogalmaztuk meg:

(a) Az 1994. december 6-i vállalatvezetési terv 1995-re 54,8 millió forint üzemi bevételre számít a REANAL-nál. Ez 28,1 millió forinttal kevesebb, mint az 1994-es évközi előrejelzés az 1995-ös üzemi nyereségre vonatkozóan, mert az átalakítási terv 1995 elején indulna, nem pedig 1994 közepén.

(b) A REANAL 1996-os üzemi nyeresége 110 millió forint lesz (28,1 millióval kevesebb, mint ahogy az 1994-es évközi előrejelzés mondta, mely szerint az 1996-os üzemi nyereség 138,1 millió lenne).

(c) A REANAL 1997-re eléri a 138,1 millió forintos üzemi nyereséget (egy évvel később, mint az 1994-es évközi előrejelzések mutatták).

(d) A REANAL teljes kiselejtezési értéke 1997 után = 88,1/0,4 = 220,2 millió forint, ahol a 0,4 a diszkonttényező.

MEMORANDUM

RE: Reorganizational plan of REANAL - going-concern and liquidation values
TO: Maria Vanicsek
FROM: IMPACT II consulting team
DATE: January 12, 1995

Following the meeting on Dec. 21 between Mr. Zsigmond László, director-general of REANAL, the responsible SPA official and members of the IMPACT II technical assistance, the following remarks are offered regarding REANAL's reorganization plan.

1. Background and present situation of REANAL

REANAL's main activity is to supply laboratories, pharmaceutical companies, hospitals, research institutes, etc. with various chemicals necessary for tests and analyses. REANAL is predominantly a chemicals trading company, with limited production facilities. About 85% of its market is domestic.

In the past, REANAL has had a privileged monopoly situation in this market. However, the market has changed radically since 1990. The domestic market for REANAL's products is shrinking in the medium term due to the financial crisis of many of its clients (research institutes, hospitals, etc.) Within this shrinking market, REANAL's position is being eroded both because (1) some pharmaceutical companies have been privatized to West European investors, and are likely to obtain their chemicals from the mother company; and (2) several Kft's have started competing for REANAL's market share by supplying the same products. REANAL's possibilities of significantly increasing exports are limited due to the reduced purchasing powers of the Eastern European markets and the presence in Western Europe of large, entrenched companies which supply the same products.

These marketing problems were compounded by an inappropriate financial structure. During the 1980s REANAL had invested in several research institutions which are not commercially self-sufficient. Then when the market shrank REANAL was obliged to borrow heavily, including foreign exchange loans which subjected it in 1992 and 1993 to heavy exchange rate losses, until they were replaced in 1994 by forint loans. REANAL was in arrears to its suppliers to such an extent that they would deliver raw materials only against cash payments; the lack of working capital further limited REANAL's ability to fulfill the orders it did have. Our analysis of REANAL's reorganization plan (Annex B) indicates that in the past REANAL's management has been slow to respond to changing conditions (eg. it has not yet introduced a computerized inventory control system). By early 1994 it seemed that there was no way to avert bankruptcy, and employee morale was very low.

However, since mid-1994 there are several signs of improvement. During 1994 management has taken several positive steps to alleviate the company's financial crisis: staff reduction, structural reorganization along product lines, and reduction of its product line which formerly amounted to some 3000 items. Management intends to ultimately

reduce its product line to 600-700 high-margin items of its own production, plus some 300 items imported on a commission basis. A computerized inventory management system is being installed.

Our limited inquiries with some REANAL clients indicated that the quality of REANAL's products is satisfactory and their price is competitive. The main complaint has been about slowness of deliveries - a problem which the computerized inventory managment system should help to solve.

REANAL's management feels confident that if REANAL's debt load is reduced to about 140 M HUF (debt service obligations of about 50 M HUF), REANAL could survive and operate profitably, albeit on a more limited scale than in the past.

2. REANAL's 1994 financial results: REANAL's turnover in 1994 was about 1038 M HUF. This was very close to the mid-1994 turnover projections for the case of no debt relief, which were 1050 M HUF.

REANAL's management succeeded in cutting down direct costs, mostly through phasing out low-margin products and concentrating on fewer high-margin products.

Consequently, REANAL's 1994 operating profit was about 10.5 M HUF. This is considerably better than the mid-1994 projections, which predicted for 1994 an operating loss of 17 M HUF if no debt relief was provided.

REANAL's 1994 net financial charges are about 135 M HUF. This is also considerably better than the mid-1994 projections, which predicted for 1994 net financial charges of 195 M HUF. The difference occurred mainly because IBUSZ Bank gave REANAL an informal moratorium on its 4th quarter interest payment.

As a result, REANAL's pre-tax 1994 result is a loss of about 121 M HUF, rather than 212 M HUF as was predicted by the mid-1994 projections for the case that no financial restructuring was provided.

Although the mid-1994 projections assumed that debt consolidation will happen in 1994, this has not yet started. REANAL's 1994 liabilities consist mainly of a debt of 627 M HUF debt to MHB, 85 M HUF to IBUSZ Bank, 195 M HUF to suppliers and 105 M HUF of other short-term liabilities (eg. to government entities). The effective interest rate on REANAL's bank loans (including quarterly loan renewal charges) is 31%-33%.

IBUSZ Bank has apparently indicated its willingness to give REANAL a one-year moratorium on interest payments if REANAL's main debt to MHB is consolidated.

3. Verification of REANAL's restructuring plan: Our visit to REANAL has verified to our satisfaction the issues which were raised by our memo of Dec. 12:

- REANAL's "other expenses" have been reduced significantly, since they were related to conversion-rate losses on a foreign exchange loan which since has been

replaced by a forint loan;

- REANAL has increased its sales proportionately more that its cost-of-goods-sold by eliminating many low-profit products;

- the planned improvements in computer systems, transport fleet etc. will be financed by the depreciation allowance.

These considerations, together with REANAL's better-than-expected performance in 1994, make it reasonable to assume that with debt restructuring REANAL could reach its planned profit targets.

4. The offer to buy REANAL for 80 M HUF: SPA has in the past tendered REANAL several times without receiving any offers. We have been informed by the responsible SPA official that a Hungarian investor (a chemist, who apparently intends to keep REANAL in operation, and may thus be qualified as a strategic investor) has recently offered to buy REANAL, on approximately the following conditions:

- the investor will buy SPA's 96.5% share in REANAL for 80 M HUF, to be paid mostly in compensation coupons;
- MHB will write off 287 M HUF of REANAL's debt;
- 140 M HUF of REANAL debt will remain with MHB;
- the investor will buy out 200 M HUF worth of debt from MHB for approximately 120 M HUF;
- this debt will remain on REANAL's books, and the investor will decide whether to collect interest on it from REANAL's operating profit before tax and pay personal income tax on it, or to collect dividends from REANAL after company tax.

The offering price of 80 M HUF is considerably lower than REANAL's book value, which at the end of 1994 was about 444 M HUF. The following calculations are intended to give SPA some basis for considering whether this offer is of interest in view of (1) REANAL's going-concern value to SPA (capitalization of expected future income), and (2) what SPA could be expected to obtain from liquidation of REANAL.

5. REANAL's going concern value: REANAL's going concern value was computed on the basis of this offer. In the computation, the following assumptions were made:

- REANAL's 1995 operating profit will be 54.8 M HUF (as projected in management's plan of Dec. 6, 1994);
- REANAL's operating profits will be 110 M HUF in 1996 and 138.1 M HUF in 1997 (the grounds for this projections are discussed in Annex A);
- REANAL will obtain a moratorium on interest from IBUSZ bank until its IBUSZ debt is paid off in 1997;
- in return for this moratorium, REANAL will use its post-tax profits first to pay off its IBUSZ loan until it is paid completely by the end of 1997;
- REANAL will obtain a moratorium on interest on its "other short-term obligations" of 105 M HUF, which consist mostly of payables to government

entities (this is implicitly assumed in REANAL's mid-1994 projections);

- The discount rate for calculating present value is 40% (which is minimal, in view of current effective interest rate at 31-33% and increasing).

Based on these assumptions, **REANAL's present value after repayment of the IBUSZ loan (Annex A) is only about 48.8 M HUF.** (This relatively low value is due to the fact that with the proposed MHB debt restructuring and after repayment of the IBUSZ loan out of post-tax profits, REANAL will start yielding net profits only towards the end of 1997). **The present value of SPA's 96.5% stake in REANAL is thus about 47 M HUF.**

6. Liquidation value: The going concern value needs to be contrasted with the liquidation value. This is difficult because we do not have market value of the assets. However, for the sake of discussion, let us assume that REANAL's assets (1408 M HUF in 1994) will bring in a liquidation - after deducting liquidation expenses - 50% of their book value, ie. 704 M HUF. REANAL's 1994 liabilities are 1018 M HUF, ie. 314 M HUF more than its assets. Thus **a liquidation bringing 50% of asset book value will leave no net value to SPA as shareholder.** Net liquidation proceeds must be over 72% of book value for SPA to realize anything out of liquidation.

Obviously, SPA needs to verify that REANAL does not have hidden liquidation values (values which are not adequately expressed in the balance sheet). Such hidden values may be due to:

- real estate whose market value exceeds book value
- non-tangible assets such as patents, contracts, licenses, etc.
- high realization value of its inventory and receivables

REANAL's director-general informed us that REANAL's real estate consists of three adjacent plots in the XIV district, totalling 22,000 m^2. Current market value of industrial real estate (including buildings) in this vicinity are about 3000-4000 HUF/m^2, ie. about 88 M HUF for REANAL's real estate. The 1994 book value of REANAL's real estate was 529.2 M HUF. Thus **at first view, it does not appear that REANAL has a hidden real estate value.**

A professional appraisal is however necessary to assure that there are no hidden liquidation values. **Unless there is a significant hidden value, selling REANAL as a going concern value may bring higher returns to the SPA than liquidation,** if the ratio of net liquidation proceeds to asset book value is below the limits discussed above.

ANNEX A: PRESENT VALUE OF "REANAL" (in M HUF)

Item / Year	1995	1996	1997	Post-1997
Operating profit	(a) 54.8	(b) 110.0	(c) 138.1	138.1/year
Net financial charges	50.0	50.0	50.0	50.0/year
Pre-tax profits	4.8	60.0	88.1	(d) 220.2
Tax, 40%	1.9	24.0	35.2	88.1
Post-tax profit	2.9	36.0	52.9	132.2
Post-tax profit after repaying 90 M HUF to IBUSZ	0.0	0.0	1.8	132.2
Discount factor = $1/(1+0.4)^n$, where n = 1, 2, 3	0.714	0.510	0.364	0.364
Discounted post-tax profit after paying the IBUSZ loan	0.0	0.0	0.7	48.1
Total discounted post-tax profit				48.8

Note: Management's projections of Dec. 6, 1994 (based on the expected 1994 year-end statements) are only for 1995. Projections for 1996 and 1997 are available only from the restructuring plan of June 20, 1994. To obtain projections of operating profit for 1996 and 1997 on the basis of 1994 year-end results, the following assumptions were made:

(a) REANAL's 1995 operating profit is 54.8 M HUF as projected in management's plan of Dec. 6, 1994. This is 28.1 M HUF less than the 1995 operating profit according to the mid-1994 projections, because the restructuring plan would start in early 1995 rather than in mid-1994.

(b) REANAL's 1996 operating profit will be 110 M HUF (28.1 M HUF less than the 1996 operating profit according to the mid-1994 projections, which is 138.1 M HUF).

(c) REANAL will reach the operating profit of 138.1 M HUF in 1997 (one year later than according to the mid-1994 projections).

(d) REANAL's total residual value after 1997 = 88.1/0.4 = 220.2 M HUF, where 0.4 is the discount factor.

ANNEX B: SUMMARY OF THE "REANAL" REORGANIZATION PLAN

1. History and privileged situation:

REANAL started in the '50s as a successor of a private-sector pharmaceutical/cosmetic company. It gained exclusive rights to import, produce and sell chemical products for laboratory tests and medical diagnoses. REANAL made enormous profits - thanks to its privileged monopolistic situation - in the following fields:

- importing chemicals from the USSR, relabelling them and exporting to the West;
- sole importing of test and lab chemicals from the West;
- large-scale processing of animal intestines with outdated technology and selling the resulting biochemical products to the USSR;
- producing and selling all necessary test and diagnostic chemicals for domestic hospitals and laboratories without any competition.

2. Result:

This comfortable situation guaranteed profit to REANAL regardless of its competitiveness, level of technology used and quality of services. REANAL had a hierarchical organizational setup, which was unable to react flexibly to market trends. It did not have to consider cost levels. It had very high general overhead costs and a much higher staff than required by its level of production and trade. Although it served 5,000 customers, due to its monopolistic position it did not feel obliged even to computerize its manual, time-consuming processing of orders.

Thanks to its guaranteed profit, REANAL could afford to try a range of products and activities in which it had no experience, technical and personnel qualifications (agrochemicals, cosmetics, medicines, etc.) Although these new ventures failed, REANAL was not shaken due to the guaranteed profit from its main activities.

REANAL could also afford financial management failures such as binding 400 million HUF in non-profit research institutions, while the running of main activities and the expansion to new activities required to borrow about 500 million HUF of short-term commercial credits. It is noteworthy that REANAL manufactured only a small part of the products what it sold. Dominantly it was a wholesale, import company and not a manufacturer.

3. Market collapse:

In the early '90s the situation has changed completely. Relabelling of Russian products could go no further. REANAL lost its exclusive role as sole importer of Western test and diagnostic products. It lost its exclusive role in domestic supplies as well, as small new private firms entered the wholesaling of laboratory chemicals. The Russian market has ceased to exist for a while. Already in 1990, REANAL's debt reached 400 M HUF. Interest payments alone run to 93 M HUF per year - 63% of the profit of that time. Nevertheless, REANAL was still expanding its personnel, and the

general overhead costs were increasing by 20% per annum(!)

In 1991-1992 REANAL tried to regain its lost balance. It entrusted a German consulting firm to evaluate the market position of its main product groups and tried to eliminate the production and trade of low-profit products. It also reduced the staff significantly. Based on the consultant's advice, REANAL was reorganized - its functional units became profit centers. It also tried to integrate marketing and production/product development, which were totally separated before.

Despite these positive steps, REANAL's position deteriorated further. The general overhead costs and the growing debt burden ate up the operating profits and drove the company into the red. Between 1991 and 1994 REANAL had to fight for the pure survival, decisions were taken on a daily basis without strategy and REANAL remained on the verge of liquidation.

4. Financial position in 1993-1994:

REANAL's incorrect capital structure was indicated above (400 M HUF tied, 500 M HUF borrowed, 400 of it in USD). REANAL managed in 1992 to sell one of its illiquid investments (shares in MEDIMPEX medical export-import company) for 143 million HUF.

REANAL also succeeded to pay back part of its short-term credits (about 60 million HUF) and to swap its foreign exchange debts for Forint debts. In 1993 REANAL sold some of its assets and improved its financial position. Thanks to the above measures along with a cut in general costs REANAL managed to pay its obligations in time, including taxes, social insurance fees and import duties. REANAL suffered a new loss in 1993 from devaluation of the Forint (120 million HUF loss on exchange rates). In 1994 REANAL could repay 23 million HUF debt only through selling some of its real estate.

5. Privatization attempts:

REANAL was transformed into an Rt. on July 1, 1992. The compulsory recalculation of the balance sheet during the transformation increased the book value by 250 million HUF). The first attempts to privatize REANAL were in 1993 through self-privatization, which was done with the assistance of a consulting firm affiliated with MHB. There were no bids on the two tenders launched. ESOP attempts also failed as the ESOP organization did not bid on the tenders, because the financial obligations of REANAL made it impossible to guarantee E-credit to the ESOP organization.

6. Market opportunities:

The previous strategy of REANAL, i.e. to supply all possible chemicals to Hungarian laboratories as the big Western firms do, has to be abandoned. REANAL should narrow its product range and focus on the staple chemicals, which guarantee a regular revenue and a reasonable profit level (300 products instead of 3,000). REANAL must also find new suppliers and bargain in its purchases for better conditions.

REANAL has also started preparations to introduce the "ISO 9000" international quality standard and the TQM system in order to shift from quantity to quality. REANAL also considers entering new fields such as additives for the canning and meat industries.

In export REANAL wants to focus on the most developed countries, especially the USA and Switzerland (its traditional partners). It does not want to increase activities in the medicine and agrochemical branches, which proved to be a false direction of previous profile changes.

7. Reorganization of resources:

a. **Organizational structure:**

The 1991 reorganization into profit centers failed due to the very small size of the separated units. In many cases it meant that the same customer or supplier had to turn to two or more divisions within REANAL for various products. It resulted in a weakened bargaining position both in purchases and supplies, and complicated follow-up.

REANAL has decided to change its organizational structure for a product management system in which each main product has one manager, who follows up everything related to that product. This is a proven system for companies with few main groups of products and a very wide range of customers.

b. **Computerized processing:**

The very wide range of products and customers makes it essential to introduce a computerized recording and processing of orders, invoices and supplies. This would decrease the time required to fulfill orders from one month to a few days and would reduce costs (sales, administration, storage, transport, etc.) The computerized inventory control system requires a surprisingly modest investment and could bring about a quick increase in profit and an improved market position.

c. **Personnel:**

The number of employees has been decreased by more than 20% in two years but overstaffing still exists. REANAL intended to further decrease employment in 1994 by 10-15%.

As regards wages REANAL wants to introduce a more differential system along with higher wages. This will mean higher wage costs (by 10-15% per annum), in spite of the staff reduction.

d. **Investments:**

The above reorganizational concept does not require substantial investments. The key for success is computerized processing, i.e. a computer system which keeps record of all orders, stocks, supplies and payments. It would make

REANAL able to react quickly, shorten delivery time and therefore make its clients more satisfied and gain new clients as well, resulting in higher turnover with higher profit. It would reduce recording, administration costs as well. Last but not least, it would reduce inventory to the minimum possible and save in storage and transport costs. According to the reorganizational plan, computerization requires an investment of only 4 M HUF. (This probably includes only the hardware).

International-level quality control is also proposed. It requires 6 million HUF worth of quality control instruments. There are other investment needs for trucks, storage of liquid products, etc. Total investments required are about 40 M HUF, which could be financed from operational profits.

e. Financial reorganization:

Alternatives for financial reorganization can be seen from the tables in REANAL's reorganization plan. Without a financial reorganization REANAL will not be able to have a positive cash flow and meet the payment obligations. Solution should be either a debt writeoff, a debt/equity swap, a temporary moratorium on repayment, further credits, or a combination of the above. It depends basically on the willingness and preferences of the creditor banks and the social insurance authority. REANAL must also divest itself of its non-profit organizations like the three research institutions.

8. Summary:

According to the summary of the reorganizational plan, the problems of REANAL have started in the mid '80s and accelerated in the early '90s due to the forced growth.

Management believes that the problems are a result of the supply side (ie. of the products sold and produced) and not of the demand side (ie. of the market). It feels that REANAL is competitive in price and quality but due to lack of financial sources it could not finance the purchase of the optimal composition of products. The risk-taking capacity of REANAL has decreased to almost nil. Personal consequences were delayed.

REANAL did make some important steps toward recovery such as staff reduction, changing organizational structure, etc. but it was not enough. The marketing analysis shows that REANAL's products have a good market prospect in both the short and long term. Their profit level is satisfactory. The range of products has to be narrowed, making it possible to reduce the inventory. Delivery time must be reduced by computerized processing of orders.

Management feels that financial reorganization, without major investment, would make REANAL regain the leading position in its sector. The reduction of the interest burden by 70% would make REANAL able to repay its debts and would open the way to privatization.

MEMORANDUM

RE: Reorganization plan/going-concern viability of Kistext Textile Company (KT)
TO: Dr. Mária Vanicsek
Dr. László Kiss
FROM: IMPACT II consulting team
DATE: February 27, 1995

The following remarks are offered regarding the future viability of Kistext Textile Company (KT). The Company has managed to survive in a very competitive market and is the last remaining textile company in Hungary. It lacks financial resources, however, and requires some minimal technological upgrades to remain competitive. The debt burden of the company is very high relative to its cash generating capacity and does not allow any reinvestment into the business.

The following remarks describe the primary issues affecting the future performance of the company and its ability to generate a positive cash flow available for debt service. These remarks are preliminary and the result of ongoing meetings held with the following:

State Property Agency - Dr. Vanicsek
Dr. Kiss

Kistext Textile - Mr. Robert Wieland, General Manager
Ms. Susanna Ipacs, Director of Finance
Mr. Varga Tamás, Director of Marketing

Számadó Céh (Local Consultant hired by Company)
Mr. Csikos Ferenc

Summary

KT has faced a very difficult market, yet management has managed to keep the Company alive. The majority of its markets collapsed and it quickly attempted to shift to new Western buyers. Management has done a good job with limited resources in maintaining sales and cutting capacity, yet the Company has some serious operational problems.

In the current high interest rate environment, the Company has a serious working capital management problem. Inventories and receivables are almost 1.5 billion. Every incremental sale must be financed so that the Company is losing money on every product is sells. Some of this problem resulted from the necessary set-up of a wholesale subsidiary, when the domestic distribution channels were disrupted.

We believe the Company is worth more as a going-concern than in liquidation. The

Company has operational challenges, however, and requires owners who are familiar with the industry and can bring technology, investment, and other resources to the Company.
In other words, the SPA is not the appropriate entity to tackle the Company's tough operational problems. New money invested by the State, without major restructuring and operational improvements, is likely to merely be captured by the banks.

The best way to save the Company is for the State to be willing to transfer its equity, which is currently worth nothing, to the buyer who can negotiate a buy out of the banks' claims. The current management supported by new owners and resources, with a reasonable Balance Sheet, has the greatest chance to maximize the employment and economic prospects for Hungary.

1. Background and present situation of KT

KT is a vertically integrated textile company producing predominately cotton products. The Company has two plants and employs 1,473 people. The Company declared itself bankrupt in June 1992. Thereafter, it reached an agreement with its creditors, rescheduling or postponing much of its debt. The Company is again overburdened by debt service and needs financing for both working capital and technology upgrades.

Present Operations:

KT's operations include cotton mill (spinning), a mass production process that currently runs three shifts with 91% capacity utilization. The Company also has weaving mills that further process cotton into simple products such as bed linens and household textiles. The Company's printing facilities are outdated, but have traditionally been a strength of the Company. The current machinery can only print in 8 colors, while the industry standard is 16, yet the Company has a broad range of relatively good quality cotton products, mostly targeted at the middle income range consumer.

In 1992, the Company set up a ready made cloths facility, which has up to date technology. The Company has successfully used this division to transition from a dependence on Eastern markets, which demanded inexpensive, low quality products to Western markets, which demand higher quality products, but have greater margins.

The Company has two facilities, both in Budapest. KT has cut its fixed costs and capacity during the last three years by closing or selling some production facilities and all of its activities not directly connected to production (social welfare facilities). The Company's willingness to adapt to its rapidly changing market environment is one reason why it is the last surviving textile company in Hungary.

Markets:

Until 1990 the USSR was an unlimited market for the Hungarian textile industry. The

textile companies attempted to exploit this opportunity by increasing production. The Soviet market required a large volume of low quality, homogenous products. In 1989, one third of KT's total output was sold to the USSR. These products were not marketable anywhere else after the collapse of the COMECOM markets.

In 1990 the Hungarian textile industry attempted to shift its focus to Western markets, but the consumer demands were completely different, requiring higher quality, more fashion oriented goods, making the transformation difficult for most companies. In addition to different consumer demands, payment terms in the market economies were very different. COMECOM buyers paid (or credited) the supplier upon shipment, while Western buyers paid 30 to 90 days after the receipt of the goods. Given a 30% interest rate environment and the lack of financial infrastructure, companies were quickly hit with very large financing expenses for inventory and receivables. Companies were not accustomed to financing all of their working capital and inventory control, cash management, and collections policies for receivables, for example, did not exist and had to be developed.

The collapse of the COMECOM markets in 1990-1991, also disrupted the domestic market. Many of the trading companies that handled distribution to the East also acted as wholesalers for domestic sales. Many of these trading companies went into liquidation as a result of the market collapse for exports, for textiles, for example, there was effectively no established channels of distribution. A dramatic increase in smuggling and products from poorer surrounding countries has also hurt the lower end of the market.

The Company estimates that the demand for printed cotton has declined in Hungary from 45-50 million square feet in 80s to 25 million as of the end of 1993. In the 80s, the domestic producers met 90% of the local demand, today it is about 65%, the rest being met my imports. Most [illegible] believe that the market has bottomed and the forecast for demand is for modest increas[illegible]. Concomitant with the increase in demand is increasing pressure from imports, particularly troub[illegible]some, are low cost, (and improving in quality), products from India and the far East.

Competition:

There were only two companies to survive in this segment of the Hungarian textile industry through 1994, Kistext and SECOTEX Rt. A new firm with Western capital was recently established, KBC Kft., focusing on the high end market. Their relative sales volumes at the end of 1993 is as follows (in million square meters):

Firm	Domestic Volume	Export Volume	Total
Kistext Textile	10	10	20
SECOTEX	5	10	15

KBC	1	7	8
Total	16	27	43

SECOTEX was liquidated in 1994, and the sale of its inventory depressed the prices in the market; but longer term, KT is hoping to capture a substantial portion of SECOTEX's sales. The major competitive threat is from imports and smuggling. Most of the imports are through private Kfts from three distinct origins: 1. Far-East, which produces low priced, variable quality goods, 2. Eastern Europe, which produces very low priced, very low quality products, and 3. Western-Europe, which produces higher quality, higher priced products.

KT has been successful in quickly reorienting its exports to Western markets, 90% of its total export is to Western markets. Approximately 15% of Company's forint sales are to one Company, Quelle of Germany, the largest mail order company in Europe. The benefit of this dependence on one customer is that Quelle pays on time, an advantage for a company that has difficulty financing its working capital.

Financial Position:

Results of Operations:

According to Hungarian accounting the Company has a positive trading profit for the last two years, although on a cash flow basis the Company is facing a greater problem than is immediately apparent. The reported trading profit was a positive 102 thousand in 1993 and 20 thousand in 1994, but several items are worth noting.

The Company reports several non cash revenue items. These are items that the Company claims as revenues, but for which no cash is received as of the date of the financial statements. The inclusion of these items, therefore, overstates the cash position of the firm. For example, the Company includes the capitalized value of their own production in the total revenues, when really this item is similar to a change in inventory. KT has done nothing wrong in including this, this is a standard Hungarian accounting item, but as a rough guide to the cash generating ability for a Company many analysts add depreciation to earnings before interest and taxes. This is not appropriate for this company.

In addition to the capitalization of production item, the Company has also included the shipment of products to a 100% owned subsidiary in its revenues. With the disruption in the markets the Company was forced to create new channels of distribution within Hungary for its products. The Company did this successfully by creating COTEX, a wholesaler for the domestic market. COTEX required inventory for its wholesale operations which the Company provided and booked as revenues. The Company booked a corresponding receivable for the "sale" to COTEX, but the important issue is that no cash has yet been received for all of the transfers of products to COTEX. This is apparent in the large increase in receivables on the Company's Balance Sheet.

The generation and uses of cash by the Company are examined further in the following section. The Company has increased sales to Western markets in each of the last three years, and the total forint amount of sales has also increased every year. Given inflation of approximately 15% in 1994, the nominal increase reported of 3.3% roughly equated to a 12% decrease in volume shipped. Never-the-less, the Company has responded well on the sales side to a very difficult market.

The Company's profit and loss for each of the last three years is presented in Annex I. Overall, the Company has been effective in cutting capacity and trimming its costs. As a percentage of sales, material costs were down to 57% of revenues in 1993 compared to 70% the year before. (As a percentage of sales both material costs and labor costs have slipped upwards in 1994 compared with 1993, which is worrisome if the trend continues.) The Company has disposed of all non essential services and sold affiliates that were not crucial to its core operations. The Company is in the process of instituting a more accurate cost accounting system to improve its margins for each specific product. These are examples of some of the positive steps taken by a proactive management.

It is clear, however, that the Company cannot support the current debt burden. Interest expense of 155 and 136 million in 1993 and 1994 caused the Company to report net losses for both years. More importantly, the debt service uses all remaining cash flow from operations. No significant amounts of cash are available for reinvestment in the business, which needs some technological upgrades. There has been insignificant amounts of investment in fixed assets, for example, during the last three years, while during the same time long term liabilities have increased by almost one billion forints.

By the end of 1994 the Company had long term liabilities of 1.7 billion forints. Assuming the market interest rate of 25%, this implies 425 million forints in interest expense, before any principal repayment. The Company's operations cannot support this level of cash outflow.

Liquidity and Financial Resources:

While the Company has been showing positive trading profit for the last two years, its cash deficits, partially described above, have been financed with short term credits. Credits to financial institutions rapidly increase to the point that all new infusions of capital (from the sale of a division, from operations, or new borrowings, for example,) are used to pay debt service. The following is an approximate summary of the cash generated and used during 1994.

Sources and Uses of Cash During 1994

	Change 12/31/93 - 12/31/94
Sources of cash:	
Long term credits	876,031

Depreciation	52,855
Total sources	928,886
Uses of cash:	
Loss before taxes, not including capitalized value of production	225,760
Increase in receivables	198,808
Decrease in short term credits	471,431
Other increases in working capital	32,887
Total uses	928,886

This chart demonstrates that of the 928 million forints of cash that the Company generated, essentially all was from new long term credits. Half of this amount was used to pay off short term credits, so on a net basis the Company was forced to borrow an additional 400 million forints. This 400 million additional borrowings will cost the Company an additional 100 million in interest expense per year, assuming the current market rate.

This 400 million borrowing did not increase the productive capacity of the firm. None of it was used for investment in new plant or equipment. At the end of 1994 the fixed assets of the Company were roughly unchanged from 1993. Rather, half of the amount was used in the operations of the business and the other half was used to finance additional working capital. Of the amount used in the operations of the business, (approximately 175 million), most of this was used to pay finance charges from previous debts.

In conclusion, half of the 400 million additional money needed by the business went to pay the banks and the other half was used to finance additional working capital. There has been no additional investment in technology.

Working Capital Deficits

Currently, the Company is a net user of cash before considering the debt service of its existing debts, even though it reports a positive trading profit. An examination of the Company's Balance Sheet (Annex II) shows the following components of working capital as of the end of 1994:

Inventories	542,541	Accounts Payable	272,728
Receivables	974,552	Accrued Expenses	257,747
Total	1,517,093		530,475

Inventories and receivables are almost three times as large as trade payables. The Company is financing every incremental forint of sales. If this relationship continues, as the Company increases its sales it will be further behind because it is financing these sales with 25% money and generating a substantially lesser return.

This is occurring because the Company is paying for raw materials, wages and overhead early relative to the time it takes for the Company to convert these inputs into finished products, sell the products and collect the cash from the sale. In an ideal situation, the profit from the eventual sale covers the financing cost of these working capital items. (And the Company develops techniques for shortening the sale cycle and minimizing working capital needs). However, the Company, like many in Hungary, had two bad years adjusting to a market economy and operating losses plus the need to finance working capital in a 25% interest rate environment can quickly overwhelm a company. The Company is still only break-even operationally, so increases in sales with their corresponding increases in working capital force the Company to continuously borrow increasing amounts.

Part of the Company's working capital problem is related to the establishment of COTEX, its wholly owned distribution subsidiary. To the extent that the increase in receivables and other working capital items were a one time event and will not continue to grow in the same proportion to future increases in sales, the working capital strain will be lessened. While it will not be as dramatic, however, even without the setup of COTEX, future sales are likely to require a net usage of working capital. The Company must earn an adequate return on these sales to finance the additional working capital, or it will be forced to continue to borrow.

The Company has two solutions to its working capital problem, both easier said than done. The first critical item is the Company must increase its operational profitability to cover the financing cost of incremental sales. Secondly, the Company must improve its working capital management. Traditional solutions for profitable, growing companies to a working capital squeeze are to shorten the sales cycle time, essentially turning inventory at a faster rate. Just-in-time materials handling processes are an attempt to decrease the investment in inventory (and to decrease wastage). Additionally, companies focus on decreasing the time receivables are outstanding, offering discounts, for example, to customers who pay their bills within prescribed times (obviously, the discounts offered are structured to be less expensive than financing the sale). And they stretch their own payables as long as possible.

Some of these have immediate applicability for KT. Currently, for example, receivables are averaging 147 days. Even assuming that they are all collectable, such a long carrying period is too expensive to finance.

Long Term Debt

The working capital shortages described above plus operational losses forced the Company to borrow large amounts of short term credits. To manage the liquidity problem the interest and repayment of the these short term credits caused, the Company has borrowed long term credits to pay off its short term credits. The Company is aware that it cannot handle the total debt burden, but, to its credit, it is doing everything it can to survive and stretching out the repayment of its debts and then attempting to get write-offs is one tactic. A new difficulty the Company is facing is that it also needs new investment in plant and equipment, to update its color printing capability, for example, if it is to be competitive.

MEMORANDUM

RE: Reorganization plan/going-concern viability of Békéscsabai Hűtőipari Vállalat (BHRt.)
TO: Mária Vanicsek
FROM: IMPACT II consulting team
DATE: February 23, 1995

The following remarks are offered regarding the future viability of BHRt. It is clear that the company will be unable to meet its current financial obligations for 1995, even after considering the credit guarantee of 600 million forints granted in November 1994, and, furthermore, the company is requesting new credits from the SPA and debt relief. The following remarks describe the primary issues affecting the future performance of the company and its ability to generate a positive cash flow available for debt service. These remarks are preliminary and the result of meetings held:

February 8, 1995 IMPACT team
SPA - Dr. Vanicsek, Dr. Kiss

February 15, 1995 - IMPACT team
SPA - Dr. Vanicsek
Inter-Europa Bank - loan officer, Valastyánné Dr. Vízhányó Júlia
BHRt. - General Manager, Ms. Nagyné Ivanov Milka

February 20, 1995 - IMPACT team
SPA - Dr. Vanicsek
BHRt. - General Manager, Director of Marketing and Production, Director of Accounting

Summary

BHRt. has over-capacity and high operational costs that are hindering its profitability. Operational losses plus its large working capital finance needs make the Company particularly sensitive to the current high interest rate environment. The debt burden of the Company has quickly overwhelmed its equity value. New infusions of money and debt forgiveness without operational improvements only start the process of debt accumulation again.

The Company has liabilities of over one billion forints so that the liquidation proceeds would have to be 80% of the book value of total asset for the SPA to realize any revenue. Liquidation would result in the loss of employment at the Company and would severely damage many of the suppliers in the region whose livelihood depends on sales to BHRt.

Given the current operations of the Company, any infusions of money into the Company would essentially go to the banks. If the SPA believes that the Company will be

able to drastically and quickly improve its operations, then it might consider investing new money if it can get the new investment secured by receivables and inventory, and if the bank would forgive some debt. The bank is in a very strong position with a mortgage on the assets and a state guarantee; it may not be easy to negotiate with, or willing to further finance the Company. As the preceding discussions indicate, however, the Company is likely to require a large amount of debt forgiveness, new investment, and improvements in operations to survive. Given a choice, it is a better alternative for the SPA to let the banks finance the Company, even if it means sacrificing any paper equity position, rather than the SPA investing new money.

Another alternative for the SPA is to attempt to sell the Company to the strategic investor most likely to improve operations and provide some employment for the region. Since the Company is currently loss-making, it is unlikely that the SPA would realize any proceeds from the transaction, never-the-less, a sale before the Company deteriorates further may improve the employment and economic prospects for the region.

1. Background and present situation of BHRt.

Company Description:

The company is one of the largest vegetable processing and storing facilities in Hungary. Historically, the company processed vegetables and fruits, and in addition, stored meats and other products as a service firm. Currently, BHRt. predominately concentrates on processing an assorted line of vegetables in addition to several unrelated pasta filled desserts, but the company has a great amount of over-capacity. Utilization is estimated at 60-70%, although that amount may be overstated due to the seasonality of the business. There is a canning factory in the immediate vicinity which competes with the company for raw materials.

BHRt. is a major employer in the region with an average staff of 486 employees. Average wages for 1994 were 373,000 forints per employee (based on the wage expense reported in the profit and loss statement). The company has an important economic impact on this relatively poor region through its contracts with suppliers and most of the producers/farmers in the vicinity. Increasingly, however, the farmers have other buyers for their products, including the canning factory, which would slightly mitigate the loss of the company.

Financial Results:

Results of Operations

The company was transformed (corporatized) into an Rt. in 1992. The company's over-capacity and the associated high fixed costs made it difficult for the company to compete profitably in a market environment. While the company reported a positive trading profit in 1992 of 44 million forints, it was actually in a cash flow crisis and losing money on operations before considering finance charges. This was due to the inclusion of noncash revenues in its profit and loss, such as the capitalized value of goods produced

yet not sold (essentially changes in inventory) of 142 million in 1992. In addition to the cash drain from operations, the company had finance charges of 100 million forints in 1992.

The company increasingly financed its cash deficits with short term credits, borrowing new short-term monies to pay finance charges at an accelerating pace. By the end of 1993 the company had over one billion forints in short term credits, very little of which had gone into new equipment or technology. The Company had improved operations slightly to approximately break-even on an operational basis, before paying any finance charges. By this time, however, the company was overwhelmed by its debt burden.

The company has resisted making drastic changes or in acknowledging and managing a crisis situation. The company has been reluctant to cut employees or capacity, which is understandably difficult given the specialized nature of the company's assets and the scarcity of alternative employment in the region.

A summary of the last three years of profit and loss appears in Annex I. The capitalized value of the company's own production has been broken out of revenues to present a cleared picture of the company's results. As a percentage of total revenues, both material costs and labor costs are significantly up in 1994 compared to 1993. Part of the reason for this is the company could have achieved higher revenues in 1994, but was constrained by the lack of financial resources. Nominal revenues were essentially the same, but given inflation of 15% to 20% for the year, real revenues were down in the same magnitude. The company has relatively high operating leverage, amplifying the impact of this decrease in real revenues. Additionally, the energy costs of this type of business are a major component in the cost structure, and energy costs charged to the company have increased significantly in the last three years.

Liquidity and Financial Resources:

Early in 1994 the company urgently applied for debt relief and new credits to finance the year's production. The 600 million forints of state guarantees granted by the end of the year were only a temporary measure, as the company's fundamental operational problems have not yet been solved. Though the company shows a marginal positive operational income for 1994, it is still negative on a cash flow basis before financial charges, and faces the same lack of resources to finance production that it faced in 1994. Of the 600 million forints of new credits guaranteed by the government, approximately 450 million forints were used for finance charges or operational losses, leaving very little for use by the company to solve its underlying problems, or finance new production. An approximate summary of the sources and uses of cash during 1994 is as follows:

Sources and Uses of Cash During 1994

Change 12/31/93 - 12/31/94

Sources of cash:

Increase in long-term credits	654,200
Decrease in receivables	3,958
Depreciation	44,981
Total sources:	703,139
Uses of cash:	
Decrease in accounts payable	160,954
Decrease in short term credits	296,530
Trading profit loss plus fin. charges	194,386
Increase in other working capital items	51,269
Total uses:	703,139

In the summary of cash generated, presented above, it is clear that the only significant net inflows of cash in 1994 were from the long-term credits from Inter-Europa Bank and this credit will begin costing the company 15 million forints a month (180 million per annum) before principle repayment. The proceeds of this credit did not enhance the revenue generating capacity of the company, in fact it was mostly used to pay other finance charges and short-term payables in the process of generating an operational loss.

Given the current structure of the company and the industry, the company is a net user of cash, even as it grows. An examination of the company's balance sheets (Annex 2) shows inventories, receivables and total accounts payable of:

Inventories	379,966	Accounts and trade payables	155,750
Receivables	174,329		
total	554,295	total	155,750

Inventories and receivables are three and a half times as large as accounts payable. This means the company has to finance a portion of every incremental forint in sales. This is because the company must pay for raw materials (and wages and overhead) early relative to a slow sales cycle of converting these raw materials first into inventory then into receivables, and finally converting these receivables into cash collections. Currently, that process may take the company 165 days before there is a cash inflow from the production process.

As the financials demonstrate, the company cannot finance incremental sales with trade and accounts payable only, trade creditors demand to be paid quicker than the sales cycle, so the Company uses short term credits to finance these sales. Ideally, there is enough profit in the end sale to cover these finance costs. But if there are operational losses, the company is quickly behind the eightball, particularly in a 25%+ interest rate environment, because every sale of the company carries a finance charge and an operational loss.

This is devastating to a high capacity firm, such as BHRt., because if the company is only operationally breaking even, any growth in revenues will cause the company to

lose greater and greater amounts of money. The company must generate enough profit to at least cover the finance charges for an increased working capital. The firm must finance all of its sales, so if it cannot cover those working capital finance charges, its total debt will rapidly accelerate, even if it is break-even operationally. BHRt. is currently below break-even operationally and it has a heavy debt burden from past borrowings, before even considering the finance charges it needs to cover for any current operations.

Traditional solutions for profitable companies to this working capital squeeze are to shorten the sales cycle time, essentially turning inventory at a faster rate. Just-in-time materials handling processes are an attempt to decrease the investment in inventory (and to decrease wastage). Additionally companies focus on decreasing the time receivables are outstanding, offering discounts, for example, to customers who pay their bills within prescribed times (obviously, the discounts offered are structured to be less expensive than financing the sale). And they stretch their own payables as long as possible.

Comparable Companies:

In BHRt.'s defense, in their industry it is difficult to greatly decrease the sales cycle due to the seasonality of the business, and an examination of some of the company's competitors would shows that they are experiencing the same type of difficulties. Annex 3 presents the summary financials as of 12/31/93 of two other deep freezing companies in the SPA portfolio, Miskolci and Székesfehérvári. Székesfehérvári, the most profitable, earns 6% trading profit on its sales, as opposed to a 7% loss by BHRt., and is burdened by less total debt; yet still has a working capital problem.

Both BHRt. and Székesfehérvári have a similar volume of sales, 1.2 billion versus 1.4 billion respectively. Székesfehérvári has total debt of only 539 million forints (as of 12/31/93) in comparison with over one billion for BHRt. Yet even with much greater profitability, short-term credits are increasing for Székesfehérvári. The firm is paying less than a 16% interest on its debt, which probably is some sort of short term relief that will not continue. Even with its much greater profitability, Székesfehérvári will have finance charges of almost 220 million forints, if it pays a market rate and does not change its asset management/sales cycle. Even Székesfehérvári is not profitable enough to bear this magnitude of finance charges, and it is only a matter of time before these other companies seek debt relief, as well.

More to the heart of BHRt.'s problem is its lack of profitability. Hungary's high interest rate environment has made these difficulties more problematic, particularly for a firm that has such large working capital finance needs. Given the current sales cycle of the company and its current asset management, it needs to earn at least 12% on its sales, before interest and taxes to finance its working capital needs. In 1994, the company lost 7% on sales, before finance charges, indicating that the company has to cut operating costs for an equivalent level of sales by 19%, in order to break-even. This is before it pays any interest (or principle) on debts previously incurred.

Crisis Management

The Company has been in a crisis, exasperated by high financing costs, yet has

been reluctant to take decisive action. In order to compete profitably, the company will need to reduce operating costs significantly, in both labor and material costs. In addition, the Company has too much capacity and very little cost information on the profitability of particular products. The Company will have to negotiate more aggressively with suppliers, and manage its inventories and receivables much more aggressively. To run efficiently, the Company may have to be half its current size and concentrate on those products where they can make much larger margins.

Of course it is much easier to make recommendations than to implement them. The main point is the Company needs to recognize that it faces impending liquidation unless it takes dramatic steps very quickly. While the new general manager seems very talented, she may be an isolated proponent of change for a Company that is slow to adapt. In many ways, early sale to a new owner is the best course of action in such a situation because the new owners and managers are often able to force the difficult changes (and cuts) that are necessary if the Company is to survive. Sale to a stronger industry partner can also ease the working capital finance burden the Company faces.

Plan for 1995

The Company has presented its plan for 1995 that forecasts sales increasing 21% (nominal) to 1.5 billion forints. The Company forecasts that their gross margin will increase by 7% because of decreases in material costs. Labor is forecasted to remain at roughly the same amount as 1994, which would mean as a percentage of sales, labor costs would decrease from 23% to 19%. Other costs are forecast to decrease from 7% of sales to 4.5%.

With these improvements the Company forecasts a trading profit of 138 million forints. 138 million trading profit, if achieved, will not solve the Company's cash flow problem, the central issue, however. The Company's optimistic forecast, with the improvements listed above, still forecasts a 300 million cash deficit. This deficit is before any additional investment in plant and equipment.

Alternatives:

Liquidation Value:

We do not have market values for the Company's assets, although we have visited the facilities. The main real estate of the Company is in a relatively poor, agricultural region of the country. The primary production equipment, including the freezers, are of varying age. Two of the five main freezers are over 30 years old.

For the sake of discussion, assume the assets of 1,563 million forints will bring 50% of their book value, after deducting liquidation expenses. The liquidation proceeds of 781 million forints would be significantly below the liabilities of 1,213 million forints, leaving no net asset value for the SPA. The Company's assets are also mortgaged, ensuring that any proceeds realized from the sale of assets will be captured by the debtors. Net liquidation proceeds must be in excess of 78% of book value of the total

assets for the SPA to realize anything from a liquidation.

We have not verified that BHRt. does not have hidden liquidation values, (values which are not apparent from the balance sheet and an accounting system base on historical costs). Such values could be equipment that is significantly more valuable than its depreciated basis, copyrights, special valuable distribution channels, brand name identity, valuable real estate, or special contracts. These would need to be reviewed by the SPA and a professional appraiser, but in the absence of these items, it appears that a liquidation is not likely to generate proceeds for the SPA.

Support the Company with further guarantees, or infusions:

In January 1995, the Company requested that the Ministry of Finance and Inter-Europa Bank reschedule the 180 million in interest due in 1995, along with the 90 million in principle repayment. In addition, the Company suggests that the SPA provide an additional 150 million for the Company to finance its production and implement its reorganization plan.

The following is an estimate of the minimum cash and debt relief that the Company will need to survive for another year. This assumes that there is some, but not any radical, improvement in the Company's performance.

Working Capital/Production finance	150 million
Forecast loss from operations	100
Interest on LT debt	180
Principle repayment	90
	520

If the SPA contributed 150 million and the banks postponed the interest and principle payments, the SPA's ownership position would not likely be enhanced. The banks would capitalize the interest, adding it to the principle outstanding, and any loss would decrease the equity of the SPA. Also, the SPA would have injected 150 of real new money into the company, which mostly would end up being paid to the banks in one form or the other. Incidentally, 150 million forints would almost pay the wages and salaries of all the employees for a year.

Going concern value

The main caveat to this analysis is if the Company can so improve its performance in another year of survival that it dramatically increases its going concern value. This has to come from management improvements because even with the 520 million debt relief and new investment, listed above, there is no new equipment or plant that is coming on line.

In order to analyze this, the SPA should consider a scenario in which the Company increased its profitability to the point where it generated 200 million in cash flow per year, before debt service; (the Company will have over 200 million in finance charges, so on a net profit basis this is break-even). Unless the Company adopts some

crisis measures very quickly, this is unlikely, since currently the Company is losing about 100 million, but for discussion purposes, assume after a year the Company is at that point.

A potential buyer might value the Company at 1 billion forints, which is 5 times cash flow before interest and taxes. It is doubtful that the Company would be valued much more than this due to the recent instability of its cash flow and the significant amount of debt that would have to be renegotiated. There are many variables in such a valuation, including the amount of debt relief, government and municipal supports, employment guarantees needed, etc., but for this type of company 5 times trading profit is probably not too low. By this time the Company will have over 1.5 billion forints in total liabilities. In this case the SPA receives no proceeds. Unless the Company is sold for over 1.5 billion forints, which in a year would be in excess of four times the book value of the Company, the SPA will not receive anything.

Sale of the Company

While the SPA may not receive any sizable revenues from the sale of the Company as a going concern, it may still be an advisable course of action. The going concern value of the Company is probably more than the liquidation value, if the buyer can get some concessions from the banks or the government. While a new management might cut the employment of the Company, it is likely that more of the employees would keep their jobs than if the Company were liquidated. New ownership could bring additional resources to the Company and improve its operations, which would economically help the region. Before debt service and the financing requirements for working capital the Company is not far below break-even, and might have some strategic value for a larger food processing or distribution firm. The Company is very short on resources, however, and a sale sooner is preferable than waiting. Significant delays in selling the Company are likely to worsen the Balance Sheet of the Company.

In four other sales of freezing/processing companies in Hungary, the sales prices as a multiple of book value was generally within a range of 50% to 150% of book value. We have not reviewed these transactions, so we do not know how comparable they are, never-the-less, realizing a sales price in excess of 4 times book value for a freezing plant with BHRt.'s current technology is not likely, absent some other special variables that we are not aware. Even if the SPA does not receive proceeds from the sale, which would be the case if it is sold for less than four times book, it still may enhance the economic prospects of the employees and the region if it can find a strategic buyer for the Company.

This alternative has the advantage of conserving the limited investment funds of the SPA.

MEMORANDUM

To: Mária Vanicsek/Director/SPA Economic Directorate
From: Coopers/Chemonics IMPACT II
Date: March 10, 1995
Subject: Reorganization and privatization of GANZEG West Co., Zalaegerszeg
Analysis of present status and future alternatives

Introduction

Based on the analyses of the information provided to us which included both the financial information from 1992 through 1994, the company's reorganization plan and several other additional sources of information relevant to GANZEG West Co. We have been able to formulate the following conclusions. Before listing those we should like to caution the reader that we have not verified the financial information provided to us. Therefore our conclusions should be considered as tentative until the information has been verified as correct. In addition we have not interviewed any persons from the GANZEG West Co.'s executive staff. Therefore the only opinions that we have regarding the management are tentative and based only on the analyses of the financial situation and our opinion regarding decisions management must have taken in the past to achieve these results.

Summary

While domestic sales revenues have fallen slightly during the past three years foreign sales have increased significantly during the same period causing a significant increase in sales revenues in real terms. This is a significant achievement. Export sales accounted for over 80% of total sales revenue in 1994. Apparently most if not all these sales are to one Western European company who has contracted with GANZEG West Co. for specific parts which GANZEG is producing in accordance with specifications supplied by that company. This of course makes this client extremely important to GANZEG. The loss of these orders would have catastrophic results. Clearly those interested in GANZEG West Co.'s reorganization and successful privatization should do everything to protect GANZEG's ability to fulfill its obligations to the foreign buyer so as to protect this market the loss of which would almost certainly force GANZEG West Co. into liquidation.

We were asked to look specifically at GANZEG's cost structure. While we do not possess the information or the industrial specific expertise to thoroughly analyze GANZEG's cost of operations and cost of production we have been able to compare some of GANZEG's costs to generally accepted norms for Western light manufacturers: direct costs to revenues in 1994 were 55%, the norm is 50% which would indicate the GANZEG is operating fairly efficiently in terms of its direct costs of production. Other expenses listed as selling, administrative and overhead are approximately 40% as compared to revenues. The norm before financial expense sould be between 15 and 20% at revenue. Clearly the company is <u>not</u> operating efficiently with respect to non direct costs. From our financial analyses this is the single largest negative. We suggest that company management should be encouraged to review the number of white collar workers

and their actual contributions to productivity and efforts should be put in place to reduce these costs an acceptable range.

Short term credits and interest expense have been pointed out to us as a significant problem. This of course is true when one considers the present cost structure of the company. However the amount of short term debt and its corresponding financial cost is not excessive if the company was operating at optimal efficiency with respect to its cost structure. Current debt only represent 31% of assets. This would be considered acceptable for most companies with this type of industrial and financial profile.

We have attached to this Memorandum a summary of financial findings which with the exception of the cost issue cited above clearly indicate a well managed company from the perspective of marketing, inventory, receivables, management. This has led us to conclude that the present management of GANZEG in the areas where it has been able to either maintain or increase efficiencies it has done so. But in the case playing off significant numbers of white collar workers it may not have had the strength or the economic and political resolve to do so.

Reorganization proposals

As a result of the above described financial situation, the company cannot be privatized in its present state and even the operation of the company is cannot be insured without intervention. For the purpose of financing the present operations and debt servicing, the company is obliged to take new credits at market rate which would only worsen its financial situation and its indebtedness. However, the company's financial, market, quality and management situation indicates that a relatively inexpensive intervention can improve the financial situation and make the company self-financing, i.e. privatizable. This alternative is far better than liquidation.

a. Liquidation as a bad alternative

- Revenues: In the case of liquidation, only a fragment of the HUF 537 million book value of tangible assets (i.e. land, buildings, machinery) can be acquired. Based on the present experience it can be 10 to 50%. The value of patents, trade marks and financial investments is insignificant. Inventories in the value of HUF 127 million can generate revenues of max. 25-50%. Certain part of the receivables of HUF 77 million is apparently doubtful (e.g. MÁV which faces serious problems); the German buyers would probably make payments. The liquid assets of the company (cash, bank deposits) can be mobilized and it would mean HUF 16 million. A total revenue of HUF 300-350 million seems to be realistic.

- Expenses and losses: The severance payment to 460 employees means an immediate expenditure of HUF 40-50 million in severance payment and a further 20-25 million in payments to the social security (TB). The liquidator also has to be paid which means some further millions. As an indirect expense (expense for the national economy) we can mention that the employees will probably be permanently unemployed which means HUF 60-80 million annually. As additional losses, the country would be deprived of an annual DM 6-7 million foreign

exchange income as well as of revenues from personal income tax and social security contribution. These would mean an annual loss of HUF 75-90 million in non-generated state income even if we count with the default payment of the social security contribution. An additional loss that cannot be expressed in figures is that there would be only one metal processing company remained in the industrial culture of Zala county.

- Creditors and liquidation: Based on its mortgage right, the OKHB (National Commercial and Credit Bank) would receive its HUF 56 million and the interest (we presume that the bank has mortgage right). The liquidation would only partially cover the 280 million credit of the State Development Institute (ÁFI). The social security would probably have to do without getting its claim of HUF 42 million. The suppliers would not get any of their claims of HUF 116.8 million.

- As far as the potential revenues of the SPA are concerned, it would not have any revenues after the liquidation.

b. Reorganization

Considering the situation of the company, reorganization must be quick, expenditures must be decreased (administrative costs), the company shuld be put in a position where it is not obliged take credits at market rate and ongoing operation must be facilitated in order to generate sales income and operational profit. Another important aspect is that the creditors should not suffer bigger losses than in the case of liquidation.

The following measures are required:

- Administration costs must be reduced immediately (category of office workers, engineers). Severance must be payed from SPA resources or by selling real property. The income after selling the building of a plant, for example, which was supposed to be given to TB (Social Security), should be used for that purpose instead (19 million Ft).
- The debt towards the State Development Institute (in a total amount or remitting some of the debt) must be converted into ownership shares, preserving the SPA majority. ÁFI should be persuaded to give a waiver of interest. In case of liquidation ÁFI would expect less, anyway.
- Agreement with TB about the waiver of interests and rescheduling debts for 1996-1997. In case of liquidation TB would not get anything.
- It should be investigated which of the inventories, buildings and machinery are idle, what could be sold without endangering main activities and incomes, and they should be sold.
- The most critical creditor is K & H Bank, because in case of liquidation they would be in an advantageous position. They have to be persuaded that in case of the reorganization of the company they can keep a self-sustaining, solvent partner, in case of liquidation they might have a positional advantage in the short run, but they would lose an important partner, and there are few of them in Zalaegerszeg. One alternative might be debt allowance, the other one might be a combination of allowance - rescheduling. The final solution depends largely on the bank's

willingness to make compromise. It would be the SPA's task to buy out the remaining debt, hoping to get the expected amount of the privatization revenues.

- Suppliers: suppliers cannot expect much from a possible liquidation, nevertheless, they can make the situation of the company difficult, if they stop supplying in case of reorganization. That is why a seperate agreement should be made with them, on the basis of which a certain amount of the total debt of 117 million would be covered, the rest would be rescheduled. Suppliers, of course, should be treated differently, in other words, the ones who play key roles should get a preferential treatment, even at the others' expense.
- In order to reorganize the company as fast as possible and hoping for a privatization revenue, it would be necessary for SPA to contribute to the survival of the company (eg. meeting the suppliers' demands) also by giving cash. Possible ways to achieve this purpose: increasing equity, non-refundable grant.

Proposal for privatization

The reorganization above would make the company stand on their own feet. On the one hand, they could get rid of a considerable amount of the operating costs and the operating result of the company would increase essentially this way. On the other hand, liabilities would decrease or would be adjourned to such an extent that they would not be forced to ask for market credits endangering their position. It can be claimed with certainty that under such circumstances the opportunities for the privatization of the company would be much better.

Potential buyers are the following:

- A combination of MBO/MEP; with 20% compensation coupons, 40% E-credit and 40% cash. On the basis of their earlier results, members of management would become good owners.
- German buyers; the company would be more interesting for them in a clear form than in its present form. It must be considered what the German can win in the role of owners, taking into account the present seller/buyer and contract work relations. The ownership of the State Development Institute might be a bit risky for them, as they would not be able to acquire 100% ownership in one step. Later they can buy the shares of the State Development Institute as well.
- DKG: Trans-Danubian Petrol Machinery Company. Their sales are ten times as high as Ganzeg's, which also operates in Zalaegerszeg. This company is very similar technologically; they turn steel tubes, plates and moulds. They are export-oriented. The owners are Russian trade investors.

- Privatization revenues: according to our estimates privatization could bring a revenue of HUF 400-450 million. That is why it is more advantageous for SPA than liquidation. This is true even in that case when the SPA grants the company a principal of HUF 50-100 million in the form of equity increase or rather in the form of a non-refundable grant. The latter seemingly costs more, but it is more preferable from the point of view of privatization, so eventually it is more

profitable for SPA as well than increasing the equity.

All things considered, we propose the reorganization of the company on the basis of the statements above. It may result in privatization and a considerable revenue.

Conclusions

Financial restructuring of GANZEG West Co. based on the information available to us would yield very positive results. In that we are quite sure that the going concern value that the SPA and others would achieve at the sale of this company should significantly higher than the liquidation value. Once cost efficiency has been achieved and the financial restructuring taken place this company should be eminently salable. We would add one cautionary statement and that is at present the company is totally dependent on one market, efforts by all those involved should be to preserve this market until the successful privatization of GANZEG West Co. and its transition to new ownership.

A.3 MONITORING AND MANAGEMENT OF SPA'S ACTIVITIES

NOT REQUESTED BY THE SUCCESSOR AGENCY TO THE SPA AS DISCUSSED IN THE USAID APPROVED WORKPLAN

A.4 ADDITIONAL METHODOLOGIES

16 September, 1994

ASSISTANCE REQUIRED FROM A CAPITAL MARKETS EXPERT REGARDING CREATION OF A FUND FOR FOREIGN INVESTMENT IN A PORTFOLIO OF MINORITY POSITIONS IN HUNGARIAN CO'S

Background:

The Government of Hungary is evaluating different alternatives to establish something they call "Hungarian Country Fund". The stated objectives of the Fund are (1) to accelerate selling of minority positions in SPA and AVRt companies to foreign financial investors, and (2) to raise quickly foreign currency to alleviate the balance-of-payments deficit (which was $1.6 billion in the first 6 months of 1994). The "Country Fund" will be organized from a legal point of view as a joint-stock corporation and capitalized with a portfolio consisting of minority positions in several Hungarian state-owned enterprises. Thus initially the new corporation will be a 100% state-owned portfolio holding company. Next, the corporation will offer its shares to foreign "financial investors". When 51% of the shares are subscribed, majority privatization of the corporation will have occurred.

At present, few if any of the enterprises whose stock will be contributed by the government to the portfolio holding company are publicly traded. Therefore at the initial offering stage, the holding company will behave like a closed-end country stock fund.

The above refers to a holding company/fund (HC/F) for foreign investors only. In addition, the government is actively studying two other variations of fund concept, both based on minority positions in Hungarian enterprises contributed by the government. One will be a group of funds will be owned by the Social Security Authority, and the other a group of funds to be sold to holders of compensation coupons (which numerous Hungarian citizens received as reparation for property nationalized after the Second World War) in exchange for their coupons. Each of these HC/F will be managed as a separate entity.

All of these HC/F will share the following characteristics:

- The shares contributed by the government will be minority positions in companies in the SPA or the AVRt portfolio;
- These companies will not be publicly traded in the near future;
- The majority of stock in these companies will be in the process of other forms of privatization (to strategic investors, management, employees, other HC/Fs, etc.), or remain in government possession;

- There is a great variance in the quality of companies which make up the SPA and AVRT portfolios (generally speaking, AVRt companies are the better performers). There will be competition among the HC/Fs for getting stock of the best-performing companies;

- Once the HC/Fs become publicly traded, they will compete with each other for liquidity in the Hungarian capital market.

In addition, in the case of the HC/F oriented to foreign financial investors, the option of using outside professional management has not been ruled out.

This initiative of HC/F for foreign financial investors is driven largely by the perceived need of the new government to raise more foreign exchange quickly, and is therefore currently on top of the government's privatization agenda. The AVRt Managing Director (Dr. Lajos Csepi) has assigned to the IMPACT II project the task of advising the SPA Director of Portfolio Management and the AVRt Director of Property Transfer on the establishment of this holding company/fund for foreign financial investors.

Every other donor-financed consulting group or project is working at present on this general subject. In addition, our two counterparts are not the only two persons responsible for developing these concepts. However, it is safe to assume that our two counterparts will be influential in the final decision-making and may have operational responsibilities for some of these funds in the future.

Please bear in mind that our counterparts are more financially sophisticated than has been the case in the past, and we should expect to go more deeply into the subject and offer advice which is more pragmatic than conceptual.

The Context:

The following seven points constitute an outline for our final paper, to be titled "World Experience with Emerging-Country Investment Funds and Their Possible Application to Hungary", which is due on or before Oct. 5:

1. Statement of purpose of the fund
2. Objective of the paper
3. Relation of the fund with other Hungarian gov't funds;
4. Selected issues which should affect gov't decision regarding structure of fund;
5. World-wide experience with country investment funds;
6. Investors' expectations and topics which they investigate;
7. Conclusions and recommendations about follow-on steps.

VM and IA feel that they can handle points 1-4, and therefore ask that you provide a capital market specialist with hands-on experience who can address points 5-7, which are the most important part of the paper.

Specific Questions on Country Funds:

The following are some questions which VA and IA thought of, but please do not limit your assistance to these questions but address all the technical aspects which need to be considered to reach the government's objective stated above.

1. The key question: Typically what is the process of establishment of emerging country stock funds, and how are they managed? (This has to be as specific as possible)

2. What do investors in emerging country funds look for and what are their criteria whether or not to invest? What are their yield expectations?

3. How do such investors do their investment analysis and decide which of the multiplicity of existing funds to invest in?

4. How do they evaluate country risk?

5. What is the typical range of sizes (in $) for emerging country investment funds? (especially starting size?)

6. What is the range of management costs of such funds?

7. What are the considerations for blending shares in the composition of the portfolio?

8. What are the advantages and disadvantages of closed-end versus open-end funds?

9. Are US institutional investors prohibited by law from investing in closed-end emerging-country stock funds?

10. How much money is potentially available for investment in CEE funds? What is the total present value of the country stock funds in CEE, and its rate of growth?

11. How do the Chinese "B & H" shares operate? (One of our counterparts specifically mentioned them as an example to study)

12. Another key question: Could the HC/F oriented to foreign investors use financial procedures other than sale of blocks of shares to raise foreign exchange quickly? (Our interlocutor has specifically instructed us to study the potential of using convertible debentures securitized by the shares).

13. In addition to answering these questions, any analytical articles, monographs or books about world experience with emerging-country investment funds (as opposed to just news stories) which could be DHLed to us would be extremely helpful for fulfilling our part of the assignment.

Time Lines:

As soon as you have selected the appropriate person to work with us, we would need to telcon with him/her to discuss this scope of work. Please bear in mind that the preliminary written report covering at least some of the above aspects should be faxed to us on Friday 9/23 and final report on Friday 9/30, in order to be able to submit our report to the clients on Wednesday 10/5.

MEMORANDUM

To: Dr. Kazár Péter, Director, Portfolio Management Directorate, SPA
Dr. Gál Csaba, Managing Director, Property Transfer Directorate, AVRt
From: Vincent Morabito/Itil Asmon
Date: September 22, 1994

Subject: INTERIM REPORT ON WORLD-WIDE EXPERIENCE WITH COUNTRY FUNDS AS IT MAY APPLY TO HUNGARY

In the course of fulfilling your request, several major issues have arisen which we would like to bring to your attention, and if necessary seek your clarification and guidance. To begin with, the following statement reflects our understanding of what the Hungarian government is currently considering. We ask that you indicate to us whether we have understood properly the basic idea of the three types of entities referred to as "country funds", "social security funds" and "compensation coupon funds" and how these funds may interrelate.

Nature and Purpose of the Proposed funds

The Government of Hungary is evaluating different alternatives to establish a "Hungarian Country Fund". The stated objectives of the Fund are (1) to accelerate selling of minority positions in SPA and AVRt companies to foreign financial investors, and (2) to raise quickly foreign currency to alleviate the balance-of-payments deficit. The "Country Fund" will be organized from a legal point of view as a joint-stock corporation and capitalized with a portfolio consisting of minority positions in several Hungarian state-owned enterprises. Thus initially the new corporation will be a 100% state-owned portfolio holding company. Next, the corporation will offer its shares to foreign financial investors. When 51% of the shares are subscribed, majority privatization of the corporation will have occurred.

At present, few if any of the enterprises whose stock will be contributed by the government to the portfolio holding company are publicly traded. Therefore at the initial offering stage, the holding company will behave like a closed-end country stock fund.

The above refers to a holding company/fund for foreign investors only. In addition, the government is actively studying two other variations of the fund concept, both based on minority positions in Hungarian enterprises contributed by the government. One will be a group of funds will be owned by the Social Security (Health Insurance and Pension) Authorities, and the other a group of funds to be sold to holders of compensation coupons in exchange for their coupons. Each of these funds will be managed as a separate entity.

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If the above description is reasonably accurate, our initial study of possible reaction of the international investment community to the proposed "country fund" has encountered a number of issues, which we will briefly summarize as follows:

1. Name: the proposed concept is not a "country fund" by the Western definition of the term. Normally the term "country fund" means an entity established by a financial intermediary (eg. a brokerage firm, an investment bank or an individual) who convinces investors (eg. pension funds, insurance companies, individuals) to place funds in a portfolio of securities of a certain country, to be selected by the intermediary. The investors do so by buying shares of the new "country fund" established by the intermediary. With the capital in hand, the intermediary selects a portfolio of securities of the country which meet his investment criteria.

In the proposed "Hungary country fund", the process is reversed: A portfolio of government securities will be established first, and then investors will be sought to buy shares in it. Western financial investors will not evaluate this investment opportunity as a "country fund"; they will look evaluate it more like a private placement or an IPO (initial placement offering). The difference is far from semantic: country funds and IPOs are traded in different financial markets, appeal to different types of investors, and are usually handled by different financial intermediaries. Thus referring to the product as "country fund" when addressing it to the international financial community will not send the right signals to the right target group.

2. Valuation: Underwriters will want to have complete and detailed financial and business information available to them about the underlying assets of the fund, ie. the individual companies whose stock is in the fund. It is therefore highly doubtful that investors will purchase an index stock of a closed-end fund without, at the very least, very deep discounts. Even if the decision were made to take this fund public on an international stock exchange, the need to provide adequate information about the underlying assets would be the same.

3. Management: Outside professional management (sponsorship) will be essential for Western investors to feel confident in buying into the proposed fund. For the most part, this means an internationally recognized financial intermediary. The question here is not if to involve such an intermediary but when - whether after the portfolio has been selected or before, and what management authority the professional management would have over the portfolio during and after the subscription phase. The reactions we have received clearly indicate that in order for the financial market to pay serious attention to the fund, the intermediary which will manage and market it should be involved from the beginning, including in the selection of the assets which would comprise the portfolio. If a highly reputable intermediary is given this task, it will increase the chances of subscription to the fund.

4. Involvement of international donors: While we have said that quality of assets and management - by implication, the projected return - are the key ingredients to marketability, it should be noted that several potential investors indicated that they put at least some weight on whether international donor-funded institutions such as the EBRD or IFC were involved.

5. Criteria for selecting the assets to create the fund: Here we have heard two distinct approaches - one, that the fund should be comprised of high-quality or undervalued stock; and the other - that the fund should blend high-quality with lower-quality assets.

There are pros and cons to both approaches. However, the basic issue is the same: the market's ability to evaluate the underlying assets will reflect in the price and the marketability. If the fund is basically comprised of minority shares, investors and underwriters will also want to know in advance what will happen to the majority of the shares, ie. government plans regarding privatization of the underlying assets and identity of the future majority owners. In industries where profitability depends heavily on price regulation (eg. in the energy sector), the investors would also expect to know government policy regarding future prices.

6. Sale of alternate financial products: To overcome the marketing limitations of closed-end funds, it has been suggested that - rather than the fund selling its own stock - it could perhaps sell debt instruments secured by its stock, eg. convertible debentures with or without guaranteed returns, etc. At this stage of the discussion, the issue remains the same: the market will make its decision based on the underlying value of the asset which secures the transaction, regardless of the choice of instruments.[1]

7. Size of the fund: In theory, on the demand side, if such a fund were to offer to the market a highly attractive investment opportunity, fund availability on the international market would not be a constraint. The issue is on the supply side - whether a sufficient quantity of attractive shares would be made available to the fund. Our contacts suggested that it is likely to be advantageous to offer initially a smaller fund, which would allow investors to develop confidence while not exceeding the supply of quality assets available today; an initial size on the order of $150-$300 million may be appropriate. The professional management referred to above should be called upon to advice the size of the fund likely to be most acceptable to the market.

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[1] *Unless of course such an instrument is offered to the market with the full-faith-and-credit guarantee of the Hungarian government, which would probably change the market's reaction. This, however, would increase government liabilities by the same amount, and in essence amount to selling a bond, with some additional complications.*

8. The relationship between the "country fund" and other potential funds (social Security and compensation coupon funds): The potential overlap here is both on the supply and the demand sides. On the supply side, all of these funds will be competing for their "fair share" of the high-quality assets. It's hard to imagine a state-sponsored criterion which would allow the high-quality assets to be purchased by the international investors and relegate the lower-quality assets to Social Security and the compensation coupon holders. However, it is certain that international investors will be the most demanding, and a failure to meet their criteria will be more easily discerned by inability of selling the stock, or larger discounts than may be acceptable.

We are continuing to study the issue and plan a more detailed report. In order to help us we would like to solicit your reactions to the issues we have outlined above. In particular we would like to assure ourselves that we understand the concept in sufficient detail to formulate opinions. Second, whether there is a particular area which we have overlooked or in which you wish more specific and detailed information in our final paper. We would be in touch with you in the next few days to solicit your reaction to this memo.

We have purposefully not made any final conclusions, and our opinions are tentative and subject to change.

Issues

The following issues are derived from our understanding of the above:

Issue #1: Name

While we would not normally take issue with the name of the fund, the proposed name ("Country Fund"), in our opinion there exists at least a potential semantical question. In the Western investment community the name "country fund" carries with it a very specific understanding. There are numerous such funds operating throughout the world, and many whose focus is on Central Europe and the Newly Independent States. If our understanding of what is being tentatively proposed for Hungary is correct, calling it a "Country Fund" will potentially create unnecessary confusion when it is offered to the market. The markets approach to evaluation of the traditional "Country Fund" simply will not apply in the traditional sense - in other words, the criteria which underwriters use to evaluate the assets of a "country fund" will be distinctly different - simply put, what is currently proposed will be viewed as a different financial product from a "country fund" by the Western financial market. If we understand the basic concept, Western financial markets will look at this investment opportunity and evaluate it more like a private placement or an IPO. In which case the most important evaluation criteria will be the underlying assets. This means that in a closed-end fund such as that proposed, the investor will ultimately make his decision based on his evaluation of each individual block of stock which composes the portfolio. In other words, buying a share which is in itself a composite and therefore an index, will only be accepted if sufficient information is available about the underlying assets to justify the

growth predictions. In the current concept, the portfolio of assets is put together by either the state or an agent of the state. We believe that this will cause an immediate lack of confidence by investors unless there is full disclosure regarding the quality of the underlying assets. The simplest way to overcome this problem would be if all the assets which comprise the fund would be publicly traded. Given the size of the Budapest Stock Exchange and the characteristics of the assets concerned, this is probably not possible at the present time.

B. TECHNICAL ASSISTANCE TO THE AVRT OR ITS SUCCESSOR AGENCY

B.1 TRAINING

January 11, 1995

TRAINING PLAN FOR THE "IMPACT II" TECHNICAL ASSISTANCE TO ESOPs

The training activities of the TA will have two thrusts, in support of the ESOP training activities of (1) the MRP Association and (2) the Share Participation Foundation.

A. Support of the training program of the MRP Association

Objective: The objective of this activity is to adapt and field-test materials, and prepare Hungarian experts, for imparting to management of MRP companies and to board members of their MRP organizations the skills necessary for the efficient governance of MRP companies. The need for such training will be especially large if the new privatization law will stipulate, as expected, that only non-managers may serve on the boards of MRP organizations; this will generate an enormous need to train the new non-management members of the MRP boards in the basics of corporate governance.

This activity is in support of the MRP Association's training program, which consists of weekly all-day training events for MRP companies and MRP organizations (Annex A). The pilot training events conducted by IMPACT II will be done by US and Hungarian experts. The latter will be in workshops and on-the-job to continue providing this type of training.

Target group: The target of training activities of the MRP Association, which this activity supports, are the management and ESOP board members of the approximately 60 member companies of the Association, and interested officers of other companies and MRP organizations who attend the weekly training events of the MRP Association.

Training schedule: A train-the-trainers workshop in the second half of February. One-half day training workshop to members of the Association on the fourth Thursday of February, March, April, May and June 1995, plus one-day training workshop on the fifth Thursday of March and June.

Possible topics of training:

- Role-acting in taking decisions as the board of an MRP company
- Understanding the terminology of financial statements
- Analyzing financial statements as a basis for making decisions
- Dealing with recessions/taking decisions on the basis of consultants' reports
- Taking decisions on expanding into new products and markets
- How to have effective meeting/techniques for generating creative solutions

B. Support of the training program of the Share Participation Foundation

Objective: The TA will prepare and test training materials, and prepare Hungarian trainers through workshops and on-the-job in pilot companies, in support of the Share Participation Foundation's long-term program of improving the economic

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performance of MRP companies by mobilization of the employee-owners' knowledge and skills (Annex B). To this end, the TA will introduce team problem-solving and employee involvement methodologies used in some of the most economically successful US employee-owned companies, and assist in adapting them to Hungarian usage and management practices.

Target group: The target group of the training provided by the Share Participation Foundation, which this activity supports, consists during the life of IMPACT II of (1) a group of 30 CEOs, and (2) three pilot companies (total about 1000-1500 employees). After IMPACT II the techniques developed in the pilot companies will be disseminated to other MRP companies interested in enhancing productivity through better use of their human resources.

Training schedule: In the first half of this activity, leading to the CEO workshop, the TA will assist the Share Participation Foundation in -

- diagnosis of problems of MRP companies;
- development of training materials;
- field testing in selected groups and training-the-trainers;
- planning and participating in an intensive 2-3 day workshop which the Foundation will hold on April 20-22 for CEOs of about 30 companies.

The objectives of the workshop are to (1) obtain the commitment of three companies willing to install pilot projects for performance enhancement through employee involvement, and (2) identify at least 10 companies interested in this approach and willing to apply later the methodologies introduced in the pilot companies.

After the CEO workshop, the TA will assist the Foundation in development of materials, programming, and training-the-trainers for the pilot training which will take place from May to August in three companies to improve their economic performance by mobilizing the employees to identify and solve problems related to their working environment. The pilot training - in team problem-solving techniques and basic financial understanding - will be provided by the Foundation to middle management, employee leaders (eg. union officials) and employee "peer trainers".

Possible topics of training:

- What are the company's products, customers, competition, and business plan (company-specific)
- Training of union officials, middle managers, and employee "peer trainers" to serve as channels of communication to the entire work force
- How to have effective meeting/techniques for generating creative solutions
- Group solving of problems related to the group's work: identification, priority-setting, formulating solutions, proposing to management
- Understanding the terminology of financial statements
- Analyzing financial statements as a basis for making decisions
- The company's specific MRP - explanation from the beneficiary's point of view (rights and responsibilities)

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C. Inputs of IMPACT II to the training program

The inputs of IMPACT II project to both the above training programs will be:

- Half-time of the TA financial analyst/ESOP specialist
- Part-time of the TA team leader as necessary
- About 4 person-months of ESOP training consultants (management/labor relations experts)
- 2 full-time translators/interpreters for materials preparation/training
- other logistical services for the TA

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Financial analysis of ESOP companies
(November, 1994)

The database has been compiled of the caracteristics of ESOP transactions and financial figures of companies. CEOs and representatives of ESOP organizations was asked to send us the public balance sheet and the profit and loss account of their company which they had to announce in at least two papers with wide circulation. We have received about 43 balance sheets and profit and loss statements, in the other 29 cases we collected data from the press itself.

We compiled the data base of 1993 data. Since 1991 and 1992 were the years of transformation for most of those ESOP companies which were privatized before November of 1994, it is impossible to collect comparable figures about company performance in the years before and after the transformation.

In November, 1994 39.6% of the 186 Hungarian ESOP companies supplied data about their 1993 business year. We compare the data of the ESOP companies with those of the state enterprises and companies within the competence of the State Property Agency, as contained in the publications of the Agency.

Table 1 - Cash-flow I.

Categories by value of indicator	Number of companies	Breakdown* (%)	Average** (HUF' 000)
Negative	2	1,10	-4,487
Positive	69	37,91	413,069
Subtotal	71	39,01	**401,313**
0	1	0,55	0
No data	110	60,44	0
Total	182	100,00	

* Hereinafter breakdown means breakdown of number of companies.
** without 'No data'

The gross cash flow figures of the state enterprises were invariably negative in 1992 and 1993. However, only 2.7% of the ESOP companies had negative gross cash flow, and as regards the rest of these enterprises, the value of their gross cash flow varied from some hundred thousand forints to billions, depending on the volume of their operations.

Table 2 - Profitability of Owners' Equity
Average value of ratio (without No data) is 1,67 percent.

Categories by value of ratio (%)	Number of companies	Breakdown (%)
Negative	7	3,85
0	9	4,95
0,01-1,99	22	12,09
2,00-4,99	15	8,24
5,00-9,99	14	7,69
10 and over	5	2,75
No data	110	60,44
Total	182	100,00

According to the financial information in the balance sheets and profit and loss acccounts, the profitability of the privatized companies is higher than the profitability of the former state enterprises and that of all companies based on a representative survey. In 1993, whereas the economy as a whole was losing money, only a small fragment of the ESOP companies were money-losing. The efficiency of the owners' equity in ESOP companies amounted to 1.7%, while the same index was -7% in state-owned enterprises within the competence of the State Property Agency.

The ratio of the money-losing enterprises among the ESOP companies supplying information was 9.7%., which is significantly lower than that of the state enterprises. The profitability of 43% of the ESOP companies is below 2%, that of two-thirds is below 5%, and the after-tax profit is above 10% of the owners' equity only in the case of 6.1% of these companies. These low profitability figures draw attention to the fact that the renewal of the capital of

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ESOP companies and the financing of their investments without the improvement of their profitability can pose a seriour problem, which may result in the deterioration of their competitiveness.

Table 3 - Liquidity of Current Liabilities I.
Average value of indicator (without 'No data') is 1,62.

Categories by value of indicator	Number of companies	Breakdown (%)
0	4	2,20
0,01-1,99	46	25,27
2,00-4,99	16	8,79
5 and over	6	3,30
No data	110	60,44
Total	182	100,00

The liquidity rate of both the state anterprises and the companies amounts to 1.25. However this index is higher by 30% in ESOP companies, which means that the value of current assets is 1.6 times as much as the value of their liabilities. This index closely approximates the munimum required value for safe operation. In 43 companies the liquidity rate does not reach this mimimum, but in 43% of the companies it exceeds the minimum, moreover, in 6 companies this index is above 5.

Table 4 - Ratio of External Resources
Average value of ratio (without 'No data') is 32,73 percent

Categories by value of ratio (%)	Number of companies	Breakdown (%)
0	2	1,10
0-30	23	12,64
31-50	17	9,34
51-100	21	11,54
100 and over	9	4,95
No data	110	60,44
Total	182	100,00

The rate of external assets in the enterprises within the competence of the State Property Agency amounts to 55.3%, while the same rate is 32.7% in ESOP companies. The indebtedness of 35% of ESOP companies is below 30%, which does not involve unbearable burden under the conditions of balanced operations. In 23.6% of these companies 30-50% of the owners' equity is indebted. With this level of indebtedness, the operation of the companies can be generally maintained only with the losing of their assets. The indebtedness of 29% of these companies is as high as 50-100%, which means that these companies face the danger of bankruptcy, and have a chance to survive only if they sell some of their assets, shrink their operations, undertake radical transformation and seek new investors. The future of 12.5% of these companies having liabilities exceeding their owners' equity also give reason for concern. This level of indebtedness is bearable only if the turnover of their assets is fast.

Table 5 - Profit to Number of Employees
Average value of ratio (without No data) is HUF 105,000.

Categories by value of ratio (HUF' 000)	Number of companies	Breakdown (%)
Negative	11	6,04
0	3	1,65
1-49	15	8,24
50-99	15	8,24
100-499	22	12,09
500 and over	6	3,30
No data	110	60,44
Total	182	100,00

The profit per one emloyee in the state enterprises within the competence of the State Property Agency is HUF -4,310 (this index has deteriorated as compared to that of the previous year), whereas the same figure of ESOP companies amounted to HUF 105,000 in 1993. 15.3% of the ESOP companies were money-losing. while 4.2% of these ccompanies closed the year with break-even. In 20.8% of these companies, one employee produced annual profit between HUF 1,000 and 5,000, and in 20.8% between HUF 100,000 and 500,000. In 30.6% of ESOP companies this figure amounts to HUF 100,000 to 500,000, whereas in 6 companies it exceeded HUF 500,000.

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Table 6 - Profit to Sales Income
Average value of ratio (without No data) is 2,5 percent.

Categories by value of ratio (%)	Number of companies	Breakdown (%)
Negative	8	4,40
0	4	2,20
0,01-1,99	26	14,29
2,00-4,99	18	9,89
5 and over	16	8,79
No data	110	60,44
Total	182	100,00

The profit to sales income in companies within the competence of the Sate Property Agency is invariably a negative figure, because these companies produced a total loss of HUF 30 billion, which means that each 100 forints of income resulted in a loss of nearly 5 forints. However, in ESOP companies, the pre-tax profit per net sales income was 2.5%. Only 11% of the ESOP companies have negative figures of this index. The table shows that the profit to sales iscome is low in almost all of the companies.

Explanations of Financial Indexes for Analysing Companies

nancial indexes	Explanations	
	Method of calculation*	with categories
ısh-flow I.	eF+eöVI+m44+m45-m48-ef15	profit after tax + depreciation + capital reserve + accumulated profit reserve - provisions - dividends paid
ofitability of Owners' Equity	eF/(m42+m48)	profit after tax/(owners' equity + provisions)
quidity of Current Liabilities I.	m19/m60	current assets/current liabilities
ıtio of External Resources	(m52+m67)/(m42+m48)	(liabilities + accrued expenses)/(owners' equity + provisions)
ofit to Sales Income	eE/el	profit before tax/turnover
ofit to Number of Employees	eA/Number of Employees	trading profit/number of employees

Caracters = the categories of Hungarian balance sheet (m) and profit and loss account (e/ef/eö); see: Appendix

Attachment A

Financial indicators

There are a lot of books and papers on corporate finance that we can study how business works and what kind of financial indicators or ratios can be used for analysing companies. State Trustee Organizations, companies itself, auditing companies and other financial and privatization consultants also use different financial indicators for different purpose - for instance making financial report for shareholders- in their practice.

The starting point is the income statement and the balance sheet that you can find enclosed. Basically, the income statement tells you how the company did last year, whether it had a profit or loss, and how much, and the balance sheet tells you how strong its finances are by showing you what company owns and what it owes on a certain date.

If you read a financial report, you will find only absolute figures in it from which you can estimate the size, the performance and the position of the company. However, if you want to know anything about the company compared to others, you have to generate financial indicators from categories of balance sheet and profit and loss statement.

Perhaps the most well-known financial indicator is the Cash-flow that refers to cash that is actually generated by the business. Financial analysts calculate two type of it. Cash-flow II. includes net profit and depreciation, and Cash-flow I. also includes capital reserve, accumulated profit reserve minus provisions and dividends.

According to the similar content of financial indicators, there are several group of them listed in "Table on financial indicators for analysing companies" enclosed. The first group of Liquidity indexes contents 8 type of it, but the two most popular are the Acid Test Ratio and the Liquidity of Current Liabilities V. These indexes are show the relationship between the current assets and current liabilities. The first rough test for an industrial company is to compare the current assets figure to the total current liabilities. While there are many exceptions, analysts generally say that minimum safety requires current assets to be at least 1.8 times as large as current liabilities.

Going further on the Table you can find many other groups with financial indicators highlighted in it that are used most frequently for general analysis of a certain company. For consideration indicators of group of Capital, you must remember:

- in the broadest sense Capital Stock represents shares in the proprietary interest in the company,
- these shares are represented by the stock certificates issued by the corporation to its shareholders,

- but a corporation may issue several different classes of shares, each class having slightly different attributes.

Very important financial indicator is the Indebtedness Rate especially in Hungary. State Trustee Organizations or other owners are sensible for the value of Ratio of External Resources.

While the balance sheet shows the fundamental soundness of a company by reflecting its financial position at a given date, the income statement may be of greater interest to investors because it shows the record of its operating activities for the whole year. It serves as a valuable guide in anticipating how the company may do in the future. An income statement matches the amount received from selling goods and services and other items of income against all the costs and outlays incurred in order to operate the company. The result is a profit or loss.

The most important source of revenue always makes up the first item on the income statement: sales income. Profit to Sales Income and Profit to Number of Employees are also a good financial indexes to evaluate the relative performance of the company.

Table on financial indicators for analysing companies

No.	Tools for financial analysis	Method of calculation
	Grops and elements	Characters = the categories of Hungarian balance sheet {m} and profit and loss account {e/ef/eö}: (See: Appendix)
	Number of employees	
	Cash-flow I.	eF+eöVI+m44+m45-m48-ef15
	Cash-flow II.	eF+eöVI
	Added Value	eI-eöIV-eöVI
	Own Financing	m42+m48
	Loans Drawn	m54+m55+m56+m64+m65
	Liquidity Indexes	
1	Liquidity of Accounts Receivable	m27/eI
2	Liquidity of Liabilities	m19/m52
3	Liquidity of Current Liabilities I	m19/m60
4	Liquidity of Current Liabilities II	(m33+m37)/m60
5	Liquidity of Current Liabilities III	(m28+m33+m37)/m60
6	Liquidity of Current Liabilities IV	m60/eI
7	Liquidity of Current Liabilities V	m60/(eF+eöVI+-m44+-m45-ef15)
8	Acid Test Ratio	(m19-m20)/m60
	Capital	
9	Ratio of Own Resources	(m42+m48)/m82
10	Annual Turnover of Circular Capital	eI/m19
11	Amount of Total Capital Lock-up	eI/m82
12	Market Value at Stock Exchange	m43*market rate/100%
13	Capital Intensity	m8/m82
14	Capital Balance	(m42+m48)/m43
15	Coverage of Investments	(m42+m48)/m1
16	Velocity of Capital	eI/(m42+m48)
17	Own Resources per One Share	m42/number of shares (HUF)
18	Profitability of Owners' Equity	eF/(m42+m48)
19	Profitability of Total Equity	(eF+interest of long-term external resource)/ (m42+m48+m53)
20	Velocity of Invested Assets	eF/m8
	Indebtedness Rate	
21	Amount I	(m54+m55+m56+m64+m65)/(m42+m48)
22	Amount II	(m52-m27)/(m42+m48)
23	Ratio of External Resources	(m52+m67)/(m42+m48)
24	Index of Financial Autonomy	m53/m42
25	Covered Position of External Resources	m41/(m52+m67)
	Miscellaneous	
24	Distribution of Interests Payable	payable within 5 yrs+payable over 5 yrs= 100%
25	Interest Cost Ratio	Interest payed/eI
26	Income Tax Cost Ratio	efX or eöXIII/eI
27	Coverage of Liabilities	m27/m52
28	Change of Amount of Accounts Receivable	Change of Accounts payable/m27

29	Change of Amount of Liabilities	Change of liabilities/m52
30	Foreign Currency Management Ratio	Profit from foreign currency management/ loss from same
	Profit	
31	**Profit to Sales Income**	eA/eI
32	**Profit to Sales Income**	eE/eI
33	**Profit to Number of Employees**	eA/number of employees
34	Profit to Stocks	eA/eI
35	Profit to Wages	eE/eö9
36	Net profit per Ordinary Share	eF/number of ordinary shares
37	Accumulatable Ratio of Profit	eG/eI
	Dividend	
38	Dividend per One Ordinary Share	(ef15 - dividend of preference shares)/ number of ordinary shares
39	Dividend Coverage	eF/ef15
40	Share Yield	ef15/the market value of the shares at the Stock Exchange
	Cash-flow (Extended Profit Category)	
41	Gross Return	Cash-flow/eI
42	Return on Capital Employed	eF/Cash-flow
43	Profitability of Capital	Cash-flow/(m42+m48)
44	Gross Profitability	Cash-flow/m82
45	Cash-flow per One Share	Cash-flow/number of shares issued
	Distribution of costs	
46	Administrative Cost Ratio	ef6/eI
47	Raw Material Cost Ratio	eölV/eI
48	Research and Development Cost Ratio	R+D costs/eI
49	Interest Cost Ratio	ef11/eI
50	Staff Costs Ratio	eöV/eI
51	Materialized Labour Ratio	(eölV+eöVI)/eI
52	Income Tax Cost Ratio	efX/eI
53	Ratio of Input Loadable on Products Sold	efIII/eI
54	Trade Cost Ratio	ef5/eI
55	Ratio of Depreciation Write-off	eöVI/eI
	Fixed Assets, Property	
56	Machinery Ratio	(m10+m11)/m8
57	Depreciation Level of Machinery	(m10+m11)/gross value of machinery
58	Amount of Investment	(m12+m13)/tangible assets
59	Fixed Asset Efficiency	eI/m8
60	**Profit before Tax to Tangible Assets**	eE/m8
61	**Profit-Sharing Ratio**	m15/m8
62	**Depreciation Coverage of Investment**	eöVI/(m12+m13)
63	Rate of Depreciation	eöVI/m8
64	Structure of Assets I	m1/m82
65	Structure of Assets II	m19/m82
	Stocks, Assets	
66	Assets per One Share	m41/number of shares
67	Stock Efficiency	eI/m20
68	Stocks to Sales Income	m20*360/eI (days)
69	Velocity of Materials on Stock	eölV/m21

70	Average Stocking Period	360/velocity of materials on stock (days)
71	Stock Intensity	m20/(m42+m48)
72	Coverage of Invested Assets	(m42+m48)/m1
	Structure of Assets and Liabilities	
73	Labour Cost Ratio (in Relation to Value Added)	eöV/(eI-eöIV-eöVI)
74	Technical Asset Ratio (in Relation to Value Added)	eöVI/(eI-eöIV-eöVI)
75	Rate of Investment to Cash Flow	(m12+m13)/cash flow
76	Invested Asset Intensity	m1/(m1+m19)
77	Current Asset Intensity	m19/(m1+m19)
78	Structure of Liabilities	(m42+m48)/m82
79	Structure of Assets	(m82-m42-m48)/m82
	Human resources	
80	Average Wage Ft/Person*month	eö9/Number of employees
81	Average Staff Costs	eöV/number of employees
82	Average Social Security Costs	eö11/number of employees
83	Average Pension Costs	Pension costs/number of employees
	Markets, Sectors	
84	Segmentation of Markets	Market "A"+market "B"+....=100% sales income
85	Export Ratio	ef2/eI
86	Segmentation of Sectors	Sector "A"+sector "B"+....=100% sales income
87	Profitability per Markets	Market "A"+market "B"+...=total profit
88	Profitability per Sectors	Sector "A"+sector"B"+...=total profit
89	Break-Down of Fixed Assets per Sectors	Sector"A"+sector "B"+...=100% fixed assets
90	Break-Down of Profit per Markets	Market "A"+market "B"+... 100% profit
91	Break-Down of Profit per Sectors	Sector "A"+ sector"B"+....=100% profit
92	Sales Income to Orders Received	eI/Value of orders accepted
	Business Administration Figures	
93	Performance Efficiency	Planned input per units/actual input per units
94	Productivity I	eI/number of employees
95	Productivity II	Value Added/number of employees
	Laying Ground-Work for the Future	
96	Research and Development Cost Ratio	R+D costs/eI
97	Rate of Investment to Cash Flow	(m12+m13)/cash flow

THE BREAKDOWN OF THE HUNGARIAN BALANCE SHEET

ASSETS	
m1	A. Fixed assets
m2	I. Intangibles Assets
m3	1. Rights, representing assets
m4	2. Goodwill
m5	3. Trade-marks, Patents
m6	4. Capitalized value of research and development
m7	5. Capitalized value of formation promotion and restructuring expenses
m8	II. Tangible Assets
m9	1. Land and buildings
m10	2. Technical equipment, machinery, vehicles
m11	3. Other equipment, furniture, fittings, tools, fixtures, vehicles
m12	4. Assets in course of construction (Equipment and construction in process)
m13	5. Advances (Prepayments)
m14	III. Investments (Financial assets)
m15	1. Shares and participations
m16	2. Securities
m17	3. Loans
m18	4. Long term bank deposits
m19	B. Current Assets
m20	I. Stocks (Inventories)
m21	1. Raw materials and consumable goods
m22	2. Goods
m23	3. Advances (Prepayments)
m24	4. Livestock
m25	5. Work in progress (Work in process)
m26	6. Finished goods
m27	II. Debtors (Receivables)
m28	1. Trade debtors (Receivables from customers)
m29	2. Bills (drafts) receivable
m30	3. Unpaid issued capital
m31	4. Debt due to (Receivables from) founding members
m32	5. Other debtors (Other receivables)
m33	III. Securities
m34	1. Bonds bought for resale
m35	2. Own shares, partnership shares, shares bought for resale
m36	3. Other securities
m37	IV. Liquid assets
m38	1. Cash, cheques
m39	2. Bank deposits
m40	C. Accrued and deferred assets
m41	Total Assets
SOURCES (EQUITY AND LIABILITIES)	
m42	D. Shareholders' equity (Stockholders' equity)
m43	I. Called up share capital (Issued capital stock)
m44	II. Capital reserve
m45	III. Accumulated profit reserve
m46	IV. Losses brought forward from previous year
m47	V. Retained profit (earnings) of the year (Net profits)
m48	E. Provisions

m49	1. Provisions for expected losses
m50	2. Provisions for expected liabilities
m51	3. Other provisions
m52	F. Liabilities (Creditors)
m53	I. Long term liabilities (Creditors: amounts falling due after more than one year)
m54	1. Investment and development credits
m55	2. Other long term credits
m56	3. Long term loans (Loans due after more than one year
m57	4. Debts on the issue on bonds
m58	5. Liabilities due to founders
m59	6. Other long term liabilities (Creditors: amounts falling due after more than one year)
m60	II. Current liabilities (Creditors: amounts falling due within one year)
m61	1. Advances (Prepayments) received from customers
m62	2. Trade creditors (Accounts payable)
m63	3. Bills payable
m64	4. Short term credits
m65	5. Short term borrowings, loans
m66	6. Other short term liabilities
m67	G. Accrued expenses
m82	Total sources

THE BREAKDOWN OF THE PROFIT AND LOSS STATEMENT

Version A

e1	Net domestic sales
e2	Net external sales
eI	Turnover (Sales, Revenue)
eII	Other income (Other revenues)
eö3	Own work capitalized
eö4	Change in self-manufactured stocks (Change in self-manufactured inventories)
eöIII	Own performance capitalized
eö5	Cost of raw materials and consumables
eö6	(Material) Services consumed
eö7	Cost of good sold
eö8	Performance of subcontractors
eöIV	IV Material-type costs
eö9	Wages and salaries
eö10	Other staff emoluments (Employee benefits)
eö11	Social insurance contribution
eöV	Staff costs (Employee costs)
eöVI	Depreciation
eöVII	Other costs
eöVIII	Other operating expenses
eA	TRADING PROFIT (INCOME FROM OPERATIONS)
eö12	Interest receivable and similar income (Interest income)
eö13	Income from investments
eö14	Other income (Earnings) from financial activities (Financial income)
eöIX	Income (Earnings) from financial transaction (Financial income)
eö15	Interest payable (Interest expenses)
eö16	Depreciation on investments
eö17	Other expenses on financial transactions
eöX	Expenses on financial transactions (Financing expenditures)

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eB	PROFIT ON FINANCIAL TRANSACTIONS (FINANCING PROFITS)
eC	PROFIT ON ORDINARY ACTIVITIES (BEFORE TAXATION)
eöXI	Extraordinary income (Extraordinary benefit)
eöXII	Extraordinary expenses
eD	EXTRAORDINARY PROFIT
eE	PROFIT BEFORE TAXATION (INCOME BEFORE TAXES)
eöXIII	Taxation
eF	PROFIT AFTER TAXATION
eö18	Use from the accumulated profit reserve for dividends and profit sharing
eö19	Dividends and profit-sharing paid payable
eG	RETAINED PROFIT (EARNINGS OF THE YEAR)
Version B	
e1	Net domestic sales
e2	Net external sales
eI	I. Turnover (Sales, Revenue)
eII	II. Other income (Other revenues)
ef3	Direct cost of manufactured goods sold
ef4	Purchasing cost of goods sold and subcontractors' work value
efIII	III. Direct cost of sales
ef5	Distribution costs (Selling expenses)
ef6	Administrative expenses (Administration cost)
ef7	Other overhead
efIV	IV. Indirect cost of sales
efV	V. Other operating expenses
eA	A. TRADING PROFIT (INCOME FROM OPERATIONS)
ef8	Interest receivable and similar income (Interest income)
ef9	Income from investments
ef10	Other income (Earnings) from financial activities (Financial income)
efVI	VI. Income (Earnings) from financial transaction (Financial income)
ef11	Interest payable (Interest expenses)
ef12	Depreciation on investments
ef13	Other expenses on financial transactions
efVII	VII. Expenses on financial transactions (Financing expenditures)
eB	B. PROFIT ON FINANCIAL TRANSACTIONS (FINANCING PROFITS)
eC	C. PROFIT ON ORDINARY ACTIVITIES (BEFORE TAXATION)
efVIII	VIII. Extraordinary income (Extraordinary benefit)
efIX	IX. Extraordinary expenses
eD	D. Extraordinary profit
eE	E. PROFIT BEFORE TAXATION (INCOME BEFORE TAXES)
efX	X. Taxation
eF	F. PROFIT AFTER TAXATION
ef14	Use from the accumulated profit reserve for dividends and profit sharing
ef15	Dividends and profit-sharing paid payable
eG	G. RETAINED PROFIT (EARNINGS OF THE YEAR)

List of 182 ESOP companies selected (November, 1994)

Ranked by county and Registered Capital

ESOP companies	Town	Owners' Equity (HUF' 000)	Registered Capital (HUF' 000)	Stock of ESOP organization (%)	Number of Employees	Cash-flow I. (HUF' 000)	Profitability of Owners' Equity (%)	Liquidity of Current Liabilities I.	Ratio of External Resources (%)	Profit to Number of Employees (HUF' 000)
Centrum Áruházak Rt.	Budapest	8 768 163	5 000 000	26,00	4 800	4 010 935	1,66	1,60	21,75	66,800
MOGÜRT Rt.	Budapest	0	2 950 000	94,71	628	0	0,00	0,00	0,00	0,000
MMG AM Rt.	Budapest	4 413 966	2 800 000	49,77	2 950	1 781 503	0,00	2,17	22,80	54,388
MASPED Rt.	Budapest	2 960 590	2 650 090	51,00	342	0	0,00	0,00	0,00	0,000
Caola Rt.	Budapest	2 868 139	1 800 000	15,00	1 400	1 397 213	0,52	1,69	23,08	80,477
PERION Akkumulátor Rt.	Budapest	1 907 080	1 409 000	50,10	865	818 242	10,40	4,29	19,35	404,466
Középületépítö Rt.	Budapest	1 619 676	1 200 000	25,00	1 300	449 640	2,96	1,16	92,14	95,029
RICO Kötszermüvek Rt.	Budapest	1 250 355	1 104 000	7,97	529	0	0,00	0,00	0,00	0,000
Elsö Pesti Hengermalom Rt.	Budapest	2 359 107	1 081 160	37,30	355	19 702	0,73	0,00	36,76	514,859
Vegyépszer Rt.	Budapest	1 423 256	1 073 000	21,89	3 537	1 377 823	1,72	1,19	176,56	125,026
AMFORA Rt.	Budapest	1 305 914	1 036 491	37,10	754	0	0,00	0,00	0,00	0,000
Budapesti Vegyi Rt.	Budapest	4 274 741	1 000 000	52,44	1 268	3 352 650	0,37	1,13	29,92	176,890
Pátria Nyomda Rt.	Budapest	1 172 354	916 000	51,00	817	371 097	7,51	1,33	53,94	302,426
OREX Rt.	Budapest	948 049	800 000	52,50	586	288 675	3,04	2,21	52,27	364,445
Állami Nyomda Rt.	Budapest	1 050 425	755 995	15,87	357	1 048 172	1,53	3,59	28,26	85,291
F-1 Vagyonkezelö Rt.	Budapest	773 360	703 360	71,59	65	0	0,00	0,00	0,00	0,000
Metrimpex Rt.	Budapest	1 695 707	700 000	87,87	488	0	0,00	0,00	0,00	0,000
Magyar Építö Rt.	Budapest	880 366	643 000	7,78	413	374 335	3,29	1,55	78,84	244,600
Egyesült Vegyimüvek Rt.	Budapest	1 102 228	630 000	50,50	464	597 468	8,56	1,94	28,91	338,735
KONSUMEX Rt.	Budapest	1 007 649	578 400	25,00	400	0	0,00	0,00	0,00	0,000
Szalag- és Zsinórgyár Rt.	Budapest	603 995	541 300	50,99	529	68 589	1,93	2,88	13,18	38,253
Grafika Kereskedelmi Rt.	Budapest	641 267	462 785	84,29	250	209 755	8,41	1,59	51,88	379,500
GANZ Készülékgyártó Kft.	Budapest	552 276	436 500	24,00	532	129 384	1,16	1,77	42,26	142,466
SOLVENT Kereskedöház Rt.	Budapest	503 146	434 000	37,50	170	175 316	-5,19	1,87	92,01	-113,476
Járműszerelvény Gyártó Rt.	Budapest	267 089	400 000	54,17	260	18 495	0,00	0,00	0,00	19,435
Aranypók Rt	Budapest	739 111	389 440	47,81	412	371 078	3,64	2,88	19,34	110,857
Csonka János Gépgyár Kft.	Budapest	325 566	276 640	13,95	131	51 597	0,00	0,75	69,42	-33,794

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ESOP companies	Town	Owners' Equity	Registered Capital	Stock of ESOP organization	Number of Employees	Cash-flow I.	Profitability of Owners' Equity	Liquidity of Current Liabilities I.	Ratio of External Resources	Profit to Number of Employees
		(HUF' 000)	(HUF' 000)	(%)		(HUF' 000)	(%)		(%)	(HUF' 000)
Csepel Transzformátorgyár Rt.	Budapest	257 950	270 300	77,21	209	52 257	-35,29	1,68	29,30	-390,660
Díjbeszedő Rt.	Budapest	313 665	266 650	75,17	1 700	0	0,00	0,00	0,00	0,000
BAUGÉP Kft.	Budapest	378 742	264 910	100,00	281	165 746	-12,42	8,70	4,36	-177,409
Vízkutató és Fúró Rt.	Budapest	323 159	238 760	100,00	389	138 814	-13,50	0,64	60,35	-73,576
SZTÁV Rt.	Budapest	203 500	170 000	79,65	44	0	0,00	0,00	0,00	0,000
Paszomány Kft.	Budapest	210 164	166 200	50,06	125	65 588	15,09	6,92	16,60	341,592
Agroinvest Rt.	Budapest	192 511	150 000	95,87	60	50 563	2,00	0,97	334,45	-627,783
Magyar Divat Intézet Kft.	Budapest	154 367	138 930	100,00	13	0	0,00	0,00	0,00	0,000
AGMI Rt.	Budapest	133 781	133 000	93,76	173	0	0,00	0,00	0,00	0,000
Bútoripari Fejlesztési Kft.	Budapest	141 702	130 000	7,15	97	0	0,00	0,00	0,00	0,000
METAL-CARBON Kft.	Budapest	181 943	119 330	50,01	105	0	0,00	0,00	0,00	0,000
ÓBUDAI ÉPFU Kft.	Budapest	119 530	115 350	84,22	64	0	0,00	0,00	0,00	0,000
KJK Rt.	Budapest	127 643	102 820	82,00	105	0	0,00	0,00	0,00	0,000
Saldo Rt.	Budapest	122 554	92 392	62,61	239	0	0,00	0,00	0,00	0,000
ÉTK Kft.	Budapest	142 105	89 660	93,71	80	0	0,00	0,00	0,00	0,000
Műszaki Fordító és Szolg. Rt.	Budapest	93 499	74 799	89,30	41	0	0,00	0,00	0,00	0,000
Műszaki Könyvkiadó Kft.	Budapest	61 892	70 000	58,37	100	0	0,00	0,00	0,00	0,000
Kerepesi úti Autó Kft.	Budapest	79 114	66 380	49,88	146	0	0,00	0,00	0,00	0,000
Medicina Könyvkiadó Rt.	Budapest	49 800	49 800	100,00	30	0	0,00	0,00	0,00	0,000
Európa Könyvkiadó Kft.	Budapest	50 276	46 530	68,39	82	0	0,00	0,00	0,00	0,000
UNIFORM Kft.	Budapest	0	44 660	48,00	13	0	0,00	0,00	0,00	0,000
Jelmezkészítő és Kölcsönző Kft.	Budapest	74 245	44 170	100,00	134	0	0,00	0,00	0,00	0,000
CORVINA Kiadó Kft.	Budapest	55 146	41 930	100,00	67	0	0,00	0,00	0,00	0,000
EÜBER Kft.	Budapest	39 609	25 470	100,00	38	17 010	5,33	1,30	323,58	-37,105
ÉGSZI-Senior Kft.	Budapest	0	20 000	100,00	40	0	0,00	0,00	0,00	0,000
Magvető Kft.	Budapest	17 591	15 840	25,25	36	0	0,00	0,00	0,00	0,000
Móra Ferenc Könyvkiadó Rt.	Budapest	15 197	13 680	39,97	87	0	0,00	0,00	0,00	0,000
SZOLORG Kft.	Budapest	7 000	6 300	100,00	10	0	0,00	0,00	0,00	0,000
Magasépítési Tervező Kft.	Budapest	4 850	4 850	100,00	76	0	0,00	0,00	0,00	0,000
Mecsek Fűszért Rt.	Pécs	962 207	705 307	10,07	776	303 532	6,17	1,35	65,94	282,325
TRITEX Rt.	Pécs	515 399	403 000	93,49	179	0	0,00	0,00	0,00	0,000
DRÁVA PIÉRT Rt.	Pécs	467 879	380 000	50,00	174	100 520	10,45	3,58	21,83	583,977

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		(HUF' 000)	(HUF' 000)	(%)		(HUF' 000)	(%)		(%)	(HUF' 000)
Baranya m-i Sütöipari Rt.	Pécs	364 168	306 880	22,81	564	0	0,00	0,00	0,00	0,000
Pécsváradi AGROVER Rt.	Pécsvárad	0	127 660	73,35	197	0	0,00	0,00	0,00	0,000
Pécsi Geodéziai Kft.	Pécs	164 756	126 480	52,62	350	0	0,00	0,00	0,00	0,000
MEVID Rt.	Pécs	150 317	105 650	66,26	229	0	0,00	0,00	0,00	0,000
Pécsi Építő és Tatarozó Rt.	Pécs	63 298	72 280	73,66	170	-8 031	-24,88	0,51	95,36	-46,659
KUNPLAST Rt.	Kiskunfháza	535 813	410 000	85,50	672	125 813	1,25	1,77	41,04	32,682
Szikra Borászati Kft.	Nyárlőrinc	0	276 500	75,87	266	0	0,00	0,00	0,00	0,000
Kecskeméti Parkettagyártó Kft.	Kecskemét	385 248	240 000	96,07	365	0	0,00	0,00	0,00	0,000
TIGÉP Kft.	Tiszakécske	459 157	199 500	85,00	300	278 287	0,49	1,94	57,80	37,367
Bajai Építőipari Rt.	Baja	100 508	80 000	89,70	159	0	0,00	0,00	0,00	0,000
Békéscsabai Agroker Rt.	Békéscsaba	0	300 000	65,92	148	0	0,00	0,00	0,00	0,000
Alföldi Téglaipari Kft.	Mezőtúr	621 366	295 230	92,47	426	0	0,00	0,00	0,00	0,000
AKVALINE Rt.	Újkígyós	0	145 100	100,00	146	0	0,00	0,00	0,00	0,000
GYULAKENYÉR Kft.	Gyula	150 363	136 000	53,03	268	0	0,00	0,00	0,00	0,000
BÉKÉSTERV Kft.	Békéscsaba	38 460	38 460	88,35	36	0	0,00	0,00	0,00	0,000
Miskolci Élelmiszerker. Rt.	Miskolc	337 392	371 285	25,00	683	103 354	0,00	1,34	40,36	0,000
BRODECO Sütöipari Rt.	Kazincbarcik	363 100	290 500	74,55	852	0	0,00	0,00	0,00	0,000
Mályi AGROKER Rt.	Mályi	387 215	264 000	47,22	105	162 825	1,11	2,13	59,49	208,133
PERLIT-92 Kft.	Pálháza	231 226	228 240	26,29	100	9 628	0,00	4,27	31,65	56,480
GÁLA Kereskedelmi Rt.	Miskolc	358 892	200 000	90,80	155	0	0,00	0,00	0,00	0,000
Északmagyar Téglaipari Rt.	Mályi	0	189 830	8,30	551	0	0,00	0,00	0,00	0,000
Zemplén Bútoripari és Ker. Kft.	Sátoraljaújh.	155 943	154 480	30,55	169	13 336	3,11	1,32	31,51	51,822
Sátoraljaújhelyi Sütöipari Kft.	Sátoraljaújh.	172 314	151 000	19,87	518	102 260	0,26	1,60	36,46	0,000
BORSODTERV Kft.	Miskolc	56 200	52 200	83,33	38	0	0,00	0,00	0,00	0,000
Szegedi Ruhagyár Rt.	Szeged	414 875	515 000	50,10	1 506	105 454	3,09	2,12	54,11	35,707
DÉLTERV Kft.	Szeged	117 472	95 600	89,33	169	0	0,00	0,00	0,00	0,000
Fémtechnika Kft.	Hódmezővh.	149 307	92 730	8,48	113	0	0,00	0,00	0,00	0,000
Tisza Téglaipari Kft.	Szeged	40 740	37 040	100,00	65	0	0,00	0,00	0,00	0,000
ALBA RÉGIA Rt.	Székesfv.	1 213 157	942 500	22,28	1 497	323 326	1,97	0,53	92,75	91,681
CERBONA Rt.	Székesfv.	1 773 244	699 400	10,41	505	1 115 334	2,00	1,49	47,44	279,226
KORONA Rt.	Székesfv.	471 435	364 482	62,71	313	0	0,00	0,00	0,00	0,000
Nehézfémöntöde Kft.	Székesfv.	342 618	259 210	24,17	131	103 518	2,71	6,84	22,06	82,244

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		(HUF' 000)	(HUF' 000)	(%)		(HUF' 000)	(%)		(%)	(HUF' 000)
Székesfehérvári Agroker Rt.	Székesfv.	279 562	250 560	83,13	79	10 604	4,97	0,94	133,26	739,937
Csákvári Mezögazdasági Rt.	Csákvár	859 740	247 900	16,14	320	654 511	1,84	2,61	21,73	113,938
DUTEX Kft.	Dunaújváros	64 053	60 000	91,33	297	-542	0,00	16,15	26,06	0,000
KISALFOLD FÜSZÉRT Rt.	Györ	414 779	341 000	24,80	561	0	0,00	0,00	0,00	33,094
Györi Agroker Rt.	Györ	367 899	302 500	98,74	108	0	0,00	0,00	0,00	0,000
ÉD MÉH Rt.	Györ	544 167	301 390	76,52	426	243 647	0,00	2,44	13,67	60,566
GÉFI Kft.	Györ	181 010	181 010	86,59	64	0	0,00	0,00	0,00	0,000
LÖVÉR Sütö Rt.	Sopron	174 036	160 000	51,00	296	45 765	7,73	1,43	24,31	80,507
BUDALAKK Szivárvány Kft.	Györ	233 893	128 000	100,00	130	0	0,00	0,00	0,00	0,000
Beledi Betonáru Kft.	Beled	108 569	85 000	86,60	129	0	0,00	0,00	0,00	0,000
Györi PATYOLAT Kft.	Györ	37 000	37 000	100,00	161	0	0,00	0,00	0,00	0,000
ELKI Kft.	Mosonmóvár	12 630	7 000	83,57	29	0	0,00	0,00	0,00	0,000
HAJDÚGABONA Rt.	Debrecen	2 390 650	2 275 000	64,57	932	0	0,00	0,00	0,00	0,000
HÁÉV Rt.	Debrecen	1 704 359	1 200 000	22,17	1 566	0	0,00	0,00	0,00	0,000
Clvis Hotel és Gasztronómia Rt.	Debrecen	1 578 915	1 102 800	40,49	679	587 258	1,70	3,19	6,81	32,253
ALFÖLD FÜSZÉRT Rt.	Debrecen	707 219	649 670	25,00	1 089	934 132	0,00	0,99	138,94	-77,112
Hajdúsági Iparmüvek Rt.	Téglás	856 087	560 000	10,50	2 300	532 143	4,56	1,90	165,42	28,011
HAVAS Kereskedelmi Rt.	Debrecen	366 515	352 000	50,10	183	0	0,00	0,00	0,00	0,000
TOPÁN Kereskedelmi Rt.	Debrecen	318 669	300 000	50,00	223	33 961	-21,97	1,18	122,87	14,897
VENTIFILT Légtechnikai Kft.	Hajdúnánás	245 980	245 980	77,70	464	0	0,00	0,00	0,00	0,000
DOKUT Rt.	Debrecen	0	139 730	75,00	56	0	0,00	0,00	0,00	0,000
Debreceni Ruhagyár Kft.	Debrecen	201 521	124 210	20,00	850	0	0,00	0,00	0,00	0,000
Keletmagyarországi Terv. Kft.	Debrecen	119 300	87 000	88,62	75	0	0,00	0,00	0,00	0,000
AROMA Rt.	Gyöngyös	414 089	402 650	60,00	521	50 935	5,16	1,64	32,07	5,098
Piszkei Papír Rt.	Lábatlan	1 694 484	1 035 200	20,00	1 130	771 871	7,84	1,12	56,62	234,782
HUNGAROGRAIN Rt.	Komárom	525 541	525 540	21,98	466	0	0,00	0,00	0,00	0,000
Tatabányai Sütöipari Kft.	Tatabánya	188 878	169 550	46,54	224	0	0,00	0,00	0,00	0,000
Gasztrometál Rt.	Tatabánya	141 770	106 000	98,49	315	0	0,00	0,00	0,00	0,000
Tatai Cserépipari Rt.	Tata	106 002	71 400	100,00	140	0	0,00	0,00	0,00	0,000
KOMBER Kft.	Tatabánya	13 160	13 160	86,63	31	0	0,00	0,00	0,00	0,000
VILKA Szervíz Kft.	Tata	14 395	10 500	73,62	31	0	0,00	0,00	0,00	0,000
ELKA Kft.	Tatabánya	9 771	8 800	100,00	40	0	0,00	0,00	0,00	0,000

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ESOP companies	Town	Owners' Equity (HUF' 000)	Registered Capital (HUF' 000)	Stock of ESOP organization (%)	Number of Employees	Cash-flow I. (HUF' 000)	Profitability of Owners' Equity (%)	Liquidity of Current Liabilities I.	Ratio of External Resources (%)	Profit to Number of Employees (HUF' 000)
SVT Wamsler Rt.	Salgótarján	1 258 435	1 000 000	5,10	1 150	389 802	1,57	1,63	69,64	33,474
Nógrádker Rt.	Salgótarján	377 293	374 700	55,80	353	0	0,00	0,00	0,00	0,000
Nógrád Gabona Rt.	Balassagy.	602 653	157 000	64,99	190	468 178	0,53	1,80	37,60	58,742
NOMBERTORG Rt.	Salgótarján	20 020	17 500	91,83	40	5 204	9,69	1,09	457,13	78,325
FORTE Fotokémia Rt.	Vác	1 438 784	1 077 000	50,00	636	530 517	-8,59	1,67	42,72	-169,997
PEMÜ Kft.	Solymár	1 462 000	800 000	56,47	1 480	0	0,00	0,00	0,00	0,000
Aranygallér Sütőipari Rt.	Cegléd	7 984	230 000	67,72	465	7 984	100,00	51,85	983,13	21,557
Felsőbabádi Term. Szolg. Rt.	Ócsa	0	222 800	100,00	110	0	0,00	0,00	0,00	0,000
HARTECH Rt.	Nagykáta	162 626	138 440	51,00	450	27 662	0,20	2,04	43,71	1,091
Ceglédi Autójavító Kft.	Cegléd	70 179	63 160	85,00	157	0	0,00	0,00	0,00	0,000
Pest Megyei Építő Kft.	Cegléd	84 720	47 600	90,95	287	0	0,00	0,00	0,00	0,000
ZÉTA Kft.	Dabas	4 775	2 700	70,48	19	0	0,00	0,00	0,00	0,000
Vízügyi Építő	Budaörs	0			480	0	0,00	0,00	0,00	0,000
KVGY Kft.	Kaposvár	507 779	457 000	18,86	896	0	0,00	0,00	0,00	0,000
AGROKER Rt. Kaposvár	Kaposvár	496 527	422 423	50,00	60	76 704	7,63	9,98	7,41	931,617
Somogyker Rt.	Kaposvár	0	300 000	0,00	0	0	0,00	0,00	0,00	0,000
Dél-Dunántúli Vízü. Építő Kft.	Kaposvár	316 241	285 000	39,88	750	162 120	2,87	1,50	43,34	-0,025
AGRO-SZTÁR Rt.	Öreglak	0	157 540	90,00	0	0	0,00	0,00	0,00	0,000
MARYLLA Kft.	Marcali	72 147	65 000	93,54	143	0	0,00	0,00	0,00	0,000
Somogyterv Kft.	Kaposvár	22 040	19 840	100,00	86	0	0,00	0,00	0,00	0,000
RENOME Rt.	Nyíregyháza	0	480 745	8,30	0	0	0,00	0,00	0,00	0,000
CAROLFLEX Kft.	Kisvárda	408 177	356 640	94,20	400	77 189	2,87	1,63	45,21	188,428
AGROKER Rt. Nyíregyháza	Nyíregyháza	452 833	328 000	50,10	108	10 248	0,39	0,00	94,87	203,444
DIRUVÁLL Ruházati Kft.	Nyíregyháza	93 867	84 480	43,50	272	0	0,00	0,00	0,00	0,000
Nyírségi Pátyolat Kft.	Nyíregyháza	64 779	51 680	11,03	118	0	0,00	0,00	0,00	0,000
NYÍRTERV-PLUSZ Kft.	Nyíregyháza	32 130	21 600	81,48	113	0	0,00	0,00	0,00	0,000
Sz-Sz-B. M. Beruházási Kft.	Nyíregyháza	22 548	12 240	84,97	57	0	0,00	0,00	0,00	0,000
Aprítógépgyár Rt.	Jászberény	739 111	610 000	26,23	948	0	0,00	0,00	0,00	0,000
SOLAMI Húsipari Rt.	Szolnok	680 467	600 000	22,48	1 120	0	0,00	0,00	0,00	0,000
AGROKER Rt. Szolnok	Szolnok	0	418 000	25,00	125	0	0,00	0,00	0,00	0,000
Szolnoki Bútoripari Kft.	Szolnok	126 498	101 000	33,27	453	0	0,00	0,00	0,00	0,000
Vezérléstechn. Alkatrészgy. Rt.	Mezőtúr	122 527	100 000	36,32	344	0	0,00	0,00	0,00	0,000

ESOP companies	Town	Owners' Equity	Registered Capital	Stock of ESOP organization	Number of Employees	Cash-flow I.	Profitability of Owners' Equity	Liquidity of Current Liabilities I.	Ratio of External Resources	Profit to Number of Employees
		(HUF' 000)	(HUF' 000)	(%)		(HUF' 000)	(%)		(%)	(HUF' 000)
SZÁSZAKKU Kft.	Szászberek	85 764	45 000	77,78	124	0	0,00	0,00	0,00	0,000
Bánhalmai Faipari Kft.	Bánhalma	51 409	23 040	100,00	100	0	0,00	0,00	0,00	0,000
Kunsági Téglaipari Kft.	Kisújszállás	25 659	23 000	100,00	65	0	0,00	0,00	0,00	0,000
EMA-LION Kft.	Bonyhád	365 443	329 000	20,00	995	0	0,00	0,00	0,00	0,000
Tolnai Sütőipari Rt.	Szekszárd	200 815	180 800	100,00	305	0	0,00	0,00	0,00	0,000
Szekszárdi Patyolat Kft.	Szekszárd	116 650	116 650	59,27	422	0	0,00	0,00	0,00	0,000
LYRA Bútorgyár Rt.	Szekszárd	61 600	61 600	93,67	147	0	0,00	0,00	0,00	0,000
FERROSUT Kft.	Szombathely	564 785	464 860	36,34	762	172 302	8,07	2,32	15,28	76,256
AGROKER Szombathely Rt.	Szombathely	353 361	310 000	61,70	91	56 532	8,68	1,61	69,56	534,725
HÉTFORRÁS FÜSZERT Kft.	Szombathely	295 893	266 300	28,02	216	0	0,00	0,00	0,00	0,000
VASÉP-GÉP Kft.	Szombathely	0	40 100	100,00	58	0	0,00	0,00	0,00	0,000
Bakony Müvek Rt.	Veszprém	3 049 939	2 000 000	25,00	2 450	1 116 366	1,01	1,75	21,70	102,589
Herendi Porcelánm. Rt.	Herend	1 459 122	1 120 000	60,98	1 849	413 194	25,46	2,39	24,57	305,956
Balatoni Borászati és Ker. Rt.	Balatonfüred	482 800	580 000	76,12	287	0	0,00	0,00	0,00	0,000
Balaton Bútorgyár Rt.	Veszprém	331 339	268 500	13,07	553	0	0,00	0,00	0,00	0,000
Veszprém Agroker Rt.	Veszprém	297 810	249 745	81,05	116	0	0,00	0,00	0,00	0,000
Dunántúli Vízügyi Építő Kft.	Veszprém	297 104	240 000	100,00	568	131 131	6,69	1,72	53,16	43,489
Füzfői Papír Rt.	Balatonfüzfő	0	186 110	20,00	591	0	0,00	0,00	0,00	0,000
Zalai Húsipari Rt.	Zalaegersz.	0	760 000	47,32	1 400	0	0,00	0,00	0,00	0,000
ZALAIPARKER Rt.	Zalaegersz.	748 442	698 524	50,82	508	94 330	3,86	1,36	44,29	198,325
Zalagabona Rt.	Zalaegersz.	915 640	557 920	24,00	254	378 240	1,44	1,66	50,44	189,343
Zala Bútorgyár Rt.	Zalaegersz.	628 064	513 035	51,87	980	165 093	1,77	1,85	36,35	44,749
ZÉTA Kereskedelmi Rt.	Nagykanizsa	420 224	370 000	85,50	508	58 524	6,91	1,83	40,96	65,366
Zalaegerszegi Agroker Rt.	Zalaegersz.	215 137	190 093	50,61	76	46 804	4,08	1,21	72,55	569,224
ZAL-AGRO Rt.	Zalaegersz.	0	159 850	25,00	500	0	0,00	0,00	0,00	0,000
Zalai Nyomda Rt.	Zalaegersz.	150 000	110 000	10,06	267	0	0,00	0,00	0,00	0,000
KANIZSATEX Kft.	Nagykanizsa	88 737	81 200	100,00	71	0	0,00	0,00	0,00	0,000
Total		96 256 799	74 427 381		82 069					

Financial analysis of 32 ESOP companies selected

In order to make a comparison among ESOP companies of rather different industries with the help of financial indicators, we selected six most characteristic ones from "Table on financial indicators for analysing companies". However, selection was based not only on suggestion of financial consideration. We have got figures only of main balance sheet and income statement categories, so we had to select the indicators which we could calculate in most of the cases.

In November, 1994 182 ESOP companies operated in Hungary. We have been sent financial information by 72 of these.

We have not chosen the 32 companies constituting the sample only and primarily according to financial indexes. We also took into consideration the export figures and the forecasted export performance, their expressed need for technical assistance és our personal feelings coming from direct contact when we met the managers of these companies.

It is reasonable to think that if a company meets several criteria of selection, the chances for the technical assistance to be really helpful and efficient are the better.

Table 1 - Cash-flow I.

Categories by value of indicator	Number of companies	Breakdown* (%)	Average** (HUF' 000)
Negative	0	0.00	0
Positive	18	56.25	414,562
Subtotal	18	56.25	414,562
0	0	0.00	0
No data	14	43.75	0
Total	32	100.00	

* Hereinafter breakdown means breakdown of number of companies.
** without 'No data'

This table clearly shows that there are relatively few companies in the sample which have not supplied data about the 1993 business year, and that there are two companies in the sample with negative cash flow. In relation to the portion of the ESOP companies, the companies with large money circulation became significantly larger, which may be proven by the increase of gross cash flow per one company.

Table 2 - Profitability of Owners' Equity
Average value of ratio (without 'No data') is 1,32 percent.

Categories by value of ratio (%)	Number of companies	Breakdown (%)
Negative	1	3.13
0	3	9.38
0,01-1,99	5	15.63
2,00-4,99	4	12.50
5,00-9,99	4	12.50
10 and over	1	3.13
No data	14	43.75
Total	32	100.00

Of the 32 companies in the sample only one company is money-losing, which involves a ratio of 5.6% (isntead of the former nearly 10%). However, the average return on the owners' equity in our sample is lower than the average of all of the ESOP companies. As regards the return of the capital employed, the companies vary widely, which means that the contradiction cannot be explained by the change of the listing of the companies according to this index. The fact that the figure is lower than the average of ESOP companies is due to the lower profitability level of the large capital-intensive companies (e.g. Caola Rt with 0.52 return on capital emlpoyed and HUF 2.9 billion owners' equity) and the lower capital-intensity of the companies with higher figures of return (e.g. Dráva Piért Rt. with 10.45% return on capital employed and HUF 468 million owners' equity).

Table 3 - Liquidity of Current Liabilities I.

Categories by value of indicator	Number of companies	Breakdown (%)
0	1	3.13
0,01-1,99	10	31.25
2,00-4,99	6	18.75
5 and over	1	3.13
No data	14	43.75
Total	32	100.00

Some change is experienced in the listing of the companies in the sample according to their liquidity figures, which is a cosequence of the increased portion of companies with current liability liquidity under 2. The amount of liquidity is in no direct relation with the owners' equity amounts of these companies, and the figures vary widely. This index exceeds the minimum required for the safe operation of a company in 38.9% of

the companies in the sample, approximates the the minimum in 16.7% of the companies. In the rest of the companies (38.9%) the index is between 0.6 and 1.33.

Table 4 - Ratio of External Resources

Categories by value of ratio (%)	Number of companies	Breakdown (%)
0	1	3.13
0-30	7	21.88
31-50	2	6.25
51-100	5	15.63
100 and over	3	9.38
No data	14	43.75
Total	32	100.00

The ratio of external resources of the companies in the sample is 45%, which is significantly higher than the saame figure of ESOP companies, which is 32%. The level of indebtedness ranges from 13% to 33.4%. 66.2% of the owners' equity is concentrated in the 7 companies with the lowest indebtedness levels. More than half of the corporate assets is burdened with liabilities in 8 companies. These companies have 27.4% of the owners' equity. In 5 companies more than 60% of the owners' equity is burneden with liabilities, which involves 12.6% of their assets. In 3 companies, the liabilities exceed the amount of the owners' equity. One of these has owners' equity of HUF 1.4 billion, whereas the remaining two also have significant - though smaller - amounts of assets at risk. These 3 companies having 9% of the total owners' equity are jeopardized by bankruptcy of winding-up.

Table 5 - Profit to Number of Employees

Categories by value of ratio (HUF' 000)	Number of companies	Breakdown (%)
Negative	3	9.38
0	0	0.00
1-49	3	9.38
50-99	4	12.50
100-499	6	18.75
500 and over	2	6.25
No data	14	43.75
Total	32	100.00

The profit to number of employees of the companies in the sample - the average being HUF 17,500/person - is higher than that of ESOP companies. The loss of Agroinvest Rt per one employee amounts to HUF 628,000, and in Dráva Piért - the most profitable

company - each employee contributed to the company's profit by HUF 584,000. The average is rather high, because the number of employees working for the money-losing companies is only a fragment of the total number of employees; nearly 40% of the total employees work for the companies in which this index is higher than the average.

Table 6 - Profit to Sales Income

Categories by value of ratio (%)	Number of companies	Breakdown (%)
Negative	1	3.13
0	0	0.00
0,01-1,99	5	15.63
2,00-4,99	9	28.13
5 and over	3	9.38
No data	14	43.75
Total	32	100.00

The profit to sales income is a negative figure only in Vízkutató és Fúró Rt, in which each 100 forints of income bear 16 forints of loss.The profit to sales income figures of profitable companies range from 0.5% to 6.85%, which involve rather humble results, and mean that the companies managed to realize meagre margins in their markets.

List of 32 ESOP companies selected

Ranked by Owners' Equity

ESOP companies	Town	Owners' Equity (HUF' 000)	Number of Employees	Cash-flow i. (HUF' 000)	Profitability of Owners' Equity (%)	Liquidity of Current Liabilities I.	Ratio of External Resources (%)	Profit to Sales Income (%)	Profit to Number of Employees (HUF' 000)
MMG AM Rt.	Budapest	4 413 966	2 950	1 781 503	0,00	2,17	22,80	0,52	54,388
Bakony Müvek Rt.	Veszprém	3 049 939	2 450	1 116 366	1,01	1,75	21,70	3,61	102,589
Caola Rt.	Budapest	2 868 139	1 400	1 397 213	0,52	1,69	23,08	0,77	80,477
HAJDÚGABONA Rt.	Debrecen	2 390 650	932	0	0,00	0,00	0,00	0,00	0,000
PEMÜ Kft.	Solymár	1 462 000	1 480	0	0,00	0,00	0,00	0,00	0,000
Vegyépszer Rt.	Budapest	1 423 256	3 537	1 377 823	1,72	1,19	176,56	1,29	125,026
Pátria Nyomda Rt.	Budapest	1 172 354	817	371 097	7,51	1,33	53,94	5,71	302,426
OREX Rt.	Budapest	948 049	586	288 675	3,04	2,21	52,27	3,49	364,445
ZALAIPARKER Rt.	Zalaegerszeg	748 442	508	94 330	3,86	1,36	44,29	2,01	198,325
Grafika Kereskedelmi Rt.	Budapest	641 267	250	209 755	8,41	1,59	51,88	4,62	379,500
Alföldi Téglaipari Kft.	Mezötúr	621 366	426	0	0,00	0,00	0,00	0,00	0,000
Szalag- és Zsinórgyár Rt.	Budapest	603 995	529	68 589	1,93	2,88	13,18	3,55	38,253
ÉD MÉH Rt.	Győr	544 167	426	243 647	0,00	2,44	13,67	2,29	60,566
DRÁVA PIÉRT Rt.	Pécs	467 879	174	100 520	10,45	3,58	21,83	6,85	583,977
Kecskeméti Parkettagyártó Kft.	Kecskemét	385 248	365	0	0,00	0,00	0,00	0,00	0,000
Győri Agroker Rt.	Győr	367 899	108	0	0,00	0,00	0,00	0,00	0,000
GÁLA Kereskedelmi Rt.	Miskolc	358 892	155	0	0,00	0,00	0,00	0,00	0,000
AGROKER Szombathely Rt.	Szombathely	353 361	91	56 532	8,68	1,61	69,56	3,61	534,725
Nehézfémöntöde Kft.	Székesfehérvár	342 618	131	103 518	2,71	6,84	22,06	5,81	82,244
Vízkutató és Fúró Rt.	Budapest	323 159	389	138 814	-13,50	0,64	60,35	-15,86	-73,576
HÉTFORRÁS FÜSZÉRT Kft.	Szombathely	295 893	216	0	0,00	0,00	0,00	0,00	0,000
Járműszerelvény Gyártó Rt.	Budapest	267 089	260	18 495	0,00	0,00	0,00	3,12	19,435
Agroinvest Rt.	Budapest	192 611	60	50 563	2,00	0,97	334,45	3,06	-627,783
METAL-CARBON Kft.	Budapest	181 943	105	0	0,00	0,00	0,00	0,00	0,000
HARTECH Rt.	Nagykáta	162 626	450	27 662	0,20	2,04	43,71	0,27	1,091
Gasztrometál Rt.	Tatabánya	141 770	315	0	0,00	0,00	0,00	0,00	0,000
Bajai Építöipari Rt.	Baja	100 508	159	0	0,00	0,00	0,00	0,00	0,000
DIRUVÁLL Ruházati Kft.	Nyíregyháza	93 867	272	0	0,00	0,00	0,00	0,00	0,000
Müszaki Fordító és Szolg. Rt.	Budapest	93 499	41	0	0,00	0,00	0,00	0,00	0,000
Medicina Könyvkiadó Rt.	Budapest	49 800	30	0	0,00	0,00	0,00	0,00	0,000
EÜBER Kft.	Budapest	39 609	38	17 010	5,33	1,30	323,58	0,58	-37,105
Győri PATYOLAT Kft.	Győr	37 000	161	0	0,00	0,00	0,00	0,00	0,000

B.2 DEVELOPMENT OF PROCEDURES

March 8, 1995

RECOMMENDATIONS FOR ESTABLISHING EMPLOYEE INVOLVEMENT PROGRAMS IN HUNGARIAN ESOP COMPANIES, BASED ON THE NORTH AMERICAN EXPERIENCE

The first phase of IMPACT II technical assistance to the "Project for MORE" (Management and Ownership Redefinition for ESOP Companies) of the Share Participation Foundation started with the TA answering a series of questions by Share Participation Foundation personnel regarding North American practices for introduce in the work place productivity enhancement techniques based on employee involvement. Annex A gives these questions and answers. This report gives more general recommendations to the Share Participation Foundation regarding how to implement the "Project for MORE".

The initial discussions with the Foundation centered mostly on training issues, which is not surprising. However, it would be a gigantic mistake to concentrate all of the Foundation's efforts on training without promoting introduction of the accompanying changes in the structure and governance areas. Those who are to be trained will need the opportunity to practice these new skills in the workplace. You need to think through the process of what it means to empower the work force and what you intend to have the managers and workers do in this new work environment. How will they work together? What responsibilities will they share? How will they resolve disputes? Who will mediate? What is the appellate process? These questions and many others will need to be answered up front or you risk an early demise for the empowerment program.

Negotiate beforehand with the CEOs of the pilot ESOPs and obtain an agreed schedule of training and a commitment to support the process. If they are not willing to do that, then you had better rethink your approach to this process. A strong commitment to training is the foundation upon which successful ESOPs are built. Training should be done by in- house trainers, who must take a "Train the Trainer" course and then familiarize themselves with the subject matter. They should also pilot their respective modules so as to attain some experience in delivery prior to actually instructing the work force. This will give the best chance at success. It is important to have some small successes initially in order to have people feel positive about what is happening. Have the pilot company's own people develop in-house courses wherever possible, starting with the process and the products of that particular ESOP company. It is important that they know what they produce, for whom, and how that process fits into what they do at their work station. It is further recommended that a two-person training team be used where possible, combining one management person and one employee instructing jointly, for training employees and management together. This will hopefully send the message that "we are in this together" and help to build trust and teamwork. The training may prove expensive and therefore you will need to try to get financial assistance wherever possible. Certainly the government has a stake in seeing the work force retrained. You may be able to exchange trainers and modules among ESOPs, thereby reducing the costs somewhat. Similarly, the educational institutions are likely to be interested in a such a venture. Look for one that can provide you with the "soft-skill training" required. It is

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strongly recommended that the Foundation purchase the problem-solving modules of "Kepner Trego". These modules have served well in the training program at Algoma Steel and have proved to be one of the most popular courses - there is always a waiting list to take this course. Perhaps "Kepner Trego" can persuade their government to provide their expertise to you; it certainly worth a try. Finally, perhaps it would be wise to have each pilot company set up for the "ownership training program" a central cost center for the whole company, rather than having each department budget the training.

Having a "mission statement", goals and objectives gives the whole process a sense of direction and an agreed strategic plan which can be referred to if need be. It also allows long-range planning of the training, including succession planning for the trainers.

Most North American companies are top-heavy with managers - about a 4/1 ratio. The trend through empowerment is towards a ratio of 50/1. Therefore you need to be careful about promoting or even filling vacated management positions. The new role of managers, including that of the Human Resources Development personnel, is to act as resources to many different self-directed teams, and therefore presumably fewer are required. These new managers act more as coaches and facilitators than as controllers. If your goal is to have the employees solve problems on the shop floor, then you will need to truly empower them to do so. In this type of fast-moving processes, all too often we overlook the fact that we need to stop and celebrate even our smallest successes or to acknowledge a job well done. A simple "thank you" sometimes goes a long way to maintaining and even increasing productivity.

Finally, it is important to find a fair way for the employees to share in the financial success of the company.

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ANNEX A: QUESTIONS AND ANSWERS ABOUT TRAINING PROGRAMS

Overview

The work plan of the TA involved review of a number of questions compiled by the Share Participation Foundation, the focus being on the TA's practical experience and therefore its ability to succinctly address the issues raised.

An additional component of the diagnosis was for the TA to review with the Foundation any problematic issues which could potentially arise pertaining to the questions posed and offer, through its practical experience, possible remedies.

Finally, the TA was requested to put forward a suggested "Action Plan" based on the information contained in the questionnaire. The questions are recorded below and grouped by category.

A. Design and Implementation of the Training

What were the aims of your training system in the start-up phase, and what are they now?

The aim of the training, then and now, is to provide employees with the necessary tools to allow them to make sound decisions. Included in the original package of the training was an "ESOP orientation and awareness program" which is no longer applicable except if we were to hire new employees.

What are the key points in designing a training program?

Any good training program should include a "Needs Assessment" prior to its development. The principle behind sound training practices is to provide timely training on an "as-needed" basis. Being able to bring the training to the work site is sometimes a necessity.

Whom and how have you consulted about the training modules and materials?

We received a number of training proposals from a variety of training providers. All were costly and mirrored one another. We decided to only purchase what we could not produce in-house ourselves, or materials which it didn't make sense to develop ourselves. We purchased licenses from a company called Zenger-Miller for many of the "soft skills" and from a company called Kepner-Trego for the problem-solving skills.

How many Algoma employees were involved in the design and development of the training program?

A good number of employees were involved in the development phase of different modules. When people who had the qualifications expressed a desire to develop specific modules they were supported and encouraged to do so. Perhaps as many as fifty or sixty individuals made various contributions.

Describe the process of design and implementation.

Occasionally entire groups of ten or more work on a module, and at other times it may have been a single individual. They did their own research and designed the material. Others travelled to places where similar models were being developed and joined in the process. In some cases outside expertise was brought in to work with individuals and groups. Pilot sessions were always run and adjustments made prior to implementing the modules.

How did you win the support of management for the changes?

The training was clearly spelled out in the agreement which management signed and therefore there were few arguments afterwards. A problem did arise however with the middle managers because training costs were coming out of their departments budget. Some managers refused to release employees for training.

B. Contents of the Training

How have the trainers been trained to be able to perform in-house training?

All the trainers received the five day "Train the Trainer" course. Some were also trained by outside training providers to deliver the courses we had purchased from them.

What conditions may influence the success of the training of interpersonal skills, from a racial/social/gender/age perspective?

There was no perceived conditions of discrimination against any minority group who took the interpersonal skills. However, this may be because the law and our collective agreement as well as our constitution does not allow it.

What kind of cultural or other barriers did you experience during implementation of training and change of the organizational structure?

Many barriers were in places and in some cases still exist. None was more evident than the barrier between employees and managers. Years of bitterness had built up resentments. The employees themselves were occasionally the barriers. Some felt they were too old to learn new methods and others simply resisted the change because they were comfortable in the old way.

What are the cultural issues (eg. learning style, management culture, etc.) influencing the modules and methodologies?

No cultural issues were addressed during the development of the modules or methodologies. In preparing delivery of the modules, the concentration was on the employees' ability to understand the material. Simplicity was the rule. Most of our workplace has at least a high school education and therefore few learning difficulties. We also offered literacy and numeracy skill training for those who required it.

What kind of factors (eg. corporate culture, efficiency, effectiveness) influenced the balance between "hard" and "soft" training?

In our mind, one is not more or less important than the other. It is every bit as important for the employees to learn "people skills" as it is for them to learn problem-solving skills. One will not work effectively without the other.

C. Expectations from and Evaluation of the Training

Did the training help to meet the expectations of employees related to the employee buyout?

Employees had no specific expectations because of their ownership position, except that things would be different. However, training and awareness programs elevated the shop floor workers to the point that they felt comfortable making decisions. Training helped create a level playing field.

How did you find out what the training needs were?

We knew up front that we would require a lot of "soft skills" and we also knew that we wanted to go in the direction of Self Directed Work Teams. We did a needs assessment up front and we talked to other training providers and groups who had already embarked on this process. The training requirements for participative management programs are quite similar, no matter were you go.

How do you find out whether the training meets the needs?

We continually evaluate the training, both upon completion of the course and on an ongoing basis in the plant. Feedback allows us to fine-tune the modules, alter or eliminate some as required. All trainers make recommendations periodically and questionnaires are circulated regularly.

Do you make cost-effectiveness analysis and, if so, what are the results?

We do not do cost benefit analysis because if you use this judgement method you would never do any training. You cannot measure directly the benefits of soft skills training and attitude change, but we know that they are beneficial.

Because of the training and involvement of our employees, we have identified through employee suggestions a confirmed annualized savings of 2.2 million dollars, with additional potential annualized savings of 7.5 million dollars which have not yet been confirmed. That is in a two year span.

Has your company curriculum shown any evidence of value added?

As a direct result of the curriculum and training we have provided our employees, our largest customer has doubled his orders with us for the fiscal year 1995. We have also received a number of awards from various customers and have been designated as

their preferred supplier in terms of quality and reliability.

D. Planned Change

What, if any, was the role of a corporate mission or vision in strategic planning and organizational change?

The language agreed to by the management and the union spelled out in its mission statement and in its goals and objectives, the organizational changes for the company:

- creating a learning organization
- reducing the layers of management
- reducing the number of front-line supervisors

How do you make your training effective long term?

We determine our goals and objectives and plan the training to meet those goals and objectives; for example, if the goal is to establish Self-Directed Working Teams then the training is known.

How did you build a supportive organizational structure for training?

We offered the training to everyone who wanted it, and we paid people to train during their time off work. We were able to quickly demonstrate the effectiveness of the training. We provided assistance to individuals and departments to free up employees to go to training. For example, where in some cases it was necessary, we provided additional manpower to replace employees who were in training.

What can be some of the factors which positively influence an employee ownership culture?

An understanding and awareness of what are the benefits of employee ownership both to the individual and to the company. Turning the company around so that it is profitable. Establishing a sense of pride and trust through open and honest communication and instituting equality and fairness for all in the workplace will quickly improve morale and atmosphere.

What kind of communication structure related to training have you built to get feedback?

We have created a training catalogue and made all of the training contained in it available to everyone. We also have an internal electronic communication system which highlights all of the training offered as well as a schedule of the training. Every employee has been trained to use this e-mail system and this allows employees to sign up for courses from the job site. Finally, we have training coordinators who in some cases schedule whole teams for training together.

Describe the overall communications system of your company.

Our main communication tool is our e-mail system. It provides the opportunity for individuals to communicate with each other, as well as the for company and for task forces to communicate news through general-access electronic bulletin boards. We also utilize in-plant newsletters and we regularly hold town hall meetings as well. In-house department bulletin boards are also utilized.

N.B.- the importance of communicating information to the employees cannot be over emphasized.

E. Organizational Problems

What were the expectations of different groups of managers and employees before, during and after the buyout?

Managers expected to lose many jobs and employees expected to control the plant. Eventually, the managers saw that they would be treated humanely and the employees realized that ownership did not necessarily mean control. Collectively they own the company, but individually they are only shareholders. Attrition was adopted as the method of downsizing, and governance issues were addressed.

What drives training decisions in an ESOP context?

Any organization's training decisions are driven by its goals and objectives. If you don't know were your going, how can you get there?

Our goals and objectives were to push the decision making down to the shop floor and to develop self directed work teams throughout the organization. We also had the objective of creating a highly skilled, highly trained, flexible work force capable of making operating decisions on a day-to-day basis.

Have you identified the company problems?

The problem was quite clear to everyone: make the company profitable and viable in the long term or perish. Specific problem solving was left to individual departments, as we had stated in our goals and objectives. Occasionally problems of a greater magnitude or involving customers and two or three departments was also attended to by upper management.

What problems did the company identify in the start-up phase, and who was involved in the identification?

Everyone's focus was on creating a viable company. Individual departments looked at their respective areas and solved problems were possible. This is an ongoing process.

What kind of problems can be tackled by training?

Any type of problem can be tackled using the Kepner-Trego "Problem Solving and Decision Making" process or the "Analytical Trouble Shooting" process. Both courses are part of the problem-solving methodology offered by Kepner-Trego and they do have a training consultant in Europe.

How can a balance be found between employee empowerment, managerial control and actions on market challenges?

The companies which find this balance will meet and exceed the challenges of the market place. However, managerial control is not synonymous with employee empowerment. Responsibilities are assigned to both groups, but the role of the manager becomes one of coach, facilitator and resource to the employees. Employees who are empowered actually require less control by management. That is the concept of empowerment.

What is the organizational structure and process of training ?

We have a joint training department comprised of managers and workers, administered by the Human Resources Development Department which takes direction from the Joint Steering Committee. The training department is expected to meet the needs of its customers, namely the employees. If necessary, the trainers go to the job site.

F. Organizational Structure

What can be or should be the employee promotion and evaluation (management/shop floor) process in an ESOP context?

Managers should be selected because of their people skills and they should be the best persons for the job. However, the goal is to reduce indirect labor costs as much as possible and to proceed with an empowered self - directed work force.

What can be the intrinsic and extrinsic incentives and rewards?

There are any number of reward systems. Employees should be allowed to share in the financial success of their efforts by means of "gainsharing programs" and "profit sharing". Other rewards may consist of site visits to other plants, worker exchange programs, all of which will also ultimately result in some payback to the company in the form of new ideas. Sometimes a simple "thank you" will suffice. Recognition is important.

How does Human Resources Development management fit into the authority/responsibility structure in an ESOP context?

The HRD department still has the responsibility to maintain order in the company and to deal with unruly employees, hopefully in a fair and reasonable manner befitting an

employee company. It is also charged with the task of removing barriers to empowerment, providing training, and developing programs and addressing the needs of the employees. It should become an additional resource to the employees who seek to be empowered.

What are the necessary size, financing, hiring and promotion of staff for the new management and training system?

Trainers should be selected from the shop floor and taken off the job as needed to do the training. Different employees should be used to deliver different modules.

Costs will be incurred in training these individuals and in purchasing outside training expertise; however, the payback is potentially not far down the road. Training is an investment much like any other, but training has the potential for a relatively quick payback. No additional HRD staff is required. Training may be shared with other sources in order to keep costs down. In some cases the company may be able to recoup some training cost by providing trainers to others.

B.3 COMPANY IDENTIFICATION

List of 16 ESOP companies selected, ranked by Owners' Equity

ESOP companies	Owners' Equity	Number of Employees	Cash-flow I.	Profitability of Owners' Equity	Liquidity of Current Liabilities I.	Ratio of External Resources	Profit to Sales Income	Profit to Number of Employees
	(HUF' 000)		(HUF' 000)	(%)		(%)	(%)	(HUF' 000)
MMG AM Rt.	4 413 966	2 950	1 781 503	0,00	2,17	22,80	0,52	54,388
Bakony Müvek Rt.	3 049 939	2 450	1 116 366	1,01	1,75	21,70	3,61	102,589
PEMÜ Kft.	1 462 000	1 480	0	0,00	0,00	0,00	0,00	0,000
Vegyépszer Rt.	1 423 256	3 537	1 377 823	1,72	1,19	176,56	1,29	125,026
Pátria Nyomda Rt.	1 172 354	817	371 097	7,51	1,33	53,94	5,71	302,426
OREX Rt.	948 049	586	288 675	3,04	2,21	52,27	3,49	364,445
Zalaiparker Rt.	748 442	508	94 330	3,86	1,36	44,29	2,01	198,325
Grafika Rt.	641 267	250	209 755	8,41	1,59	51,88	4,62	379,500
Kecskeméti Parketta Kft.	385 248	365	0	0,00	0,00	0,00	0,00	0,000
Györi Agroker Rt.	367 899	108	0	0,00	0,00	0,00	0,00	0,000
AGROKER Szombathely Rt.	353 361	91	56 532	8,68	1,61	69,56	3,61	534,725
Vizkutató és Fúró Rt.	323 159	389	138 814	-13,50	0,64	60,35	-15,86	-73,576
HÉTFORRÁS FÜSZERT Kft.	295 893	216	0	0,00	0,00	0,00	0,00	0,000
Agroinvest Rt.	192 611	60	50 563	2,00	0,97	334,45	3,06	-627,783
HARTECH Rt.	162 626	450	27 662	0,20	2,04	43,71	0,27	1,091
EÜBER Kft.	39 609	38	17 010	5,33	1,30	323,58	0,58	-37,105

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List of 16 ESOP companies selected, ranked by Cash-flow I.

ESOP companies	Owners' Equity	Number of Employees	Cash-flow I.	Profitability of Owners' Equity	Liquidity of Current Liabilities I.	Ratio of External Resources	Profit to Sales Income	Profit to Number of Employees
	(HUF' 000)		(HUF' 000)	(%)		(%)	(%)	(HUF' 000)
MMG AM Rt.	4 413 966	2 950	1 781 503	0,00	2,17	22,80	0,52	54,388
Vegyépszer Rt.	1 423 256	3 537	1 377 823	1,72	1,19	176,56	1,29	125,026
Bakony Müvek Rt.	3 049 939	2 450	1 116 366	1,01	1,75	21,70	3,61	102,589
Pátria Nyomda Rt.	1 172 354	817	371 097	7,51	1,33	53,94	5,71	302,426
OREX Rt.	948 049	586	288 675	3,04	2,21	52,27	3,49	364,445
Grafika Rt.	641 267	250	209 755	8,41	1,59	51,88	4,62	379,500
Vízkutató és Fúró Rt.	323 159	389	138 814	-13,50	0,64	60,35	-15,86	-73,576
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EÜBER Kft.	39 609	38	17 010	5,33	1,30	323,58	0,58	-37,105
PEMÜ Kft.	1 462 000	1 480	0	0,00	0,00	0,00	0,00	0,000
Kecskeméti Parketta Kft.	385 248	365	0	0,00	0,00	0,00	0,00	0,000
Győri Agroker Rt.	367 899	108	0	0,00	0,00	0,00	0,00	0,000
HÉTFORRÁS FÜSZÉRT Kft.	295 893	216	0	0,00	0,00	0,00	0,00	0,000

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List of 16 ESOP companies selected, ranked by Profitability of Owners' Equity

ESOP companies	Owners' Equity	Number of Employees	Cash-flow I.	Profitability of Owners' Equity	Liquidity of Current Liabilities I.	Ratio of External Resources	Profit to Sales Income	Profit to Number of Employees
	(HUF' 000)		(HUF' 000)	(%)		(%)	(%)	(HUF' 000)
AGROKER Szombathely Rt.	353 361	91	56 532	8,68	1,61	69,56	3,61	534,725
Grafika Rt.	641 267	250	209 755	8,41	1,59	51,88	4,62	379,500
Pátria Nyomda Rt.	1 172 354	817	371 097	7,51	1,33	53,94	5,71	302,426
EÜBER Kft.	39 609	38	17 010	5,33	1,30	323,58	0,58	-37,105
Zalaiparker Rt.	748 442	508	94 330	3,86	1,36	44,29	2,01	198,325
OREX Rt.	948 049	586	288 675	3,04	2,21	52,27	3,49	364,445
Agroinvest Rt.	192 611	60	50 563	2,00	0,97	334,45	3,06	-627,783
Vegyépszer Rt.	1 423 256	3 537	1 377 823	1,72	1,19	176,56	1,29	125,026
Bakony Művek Rt.	3 049 939	2 450	1 116 366	1,01	1,75	21,70	3,61	102,589
HARTECH Rt.	162 626	450	27 662	0,20	2,04	43,71	0,27	1,091
MMG AM Rt.	4 413 966	2 950	1 781 503	0,00	2,17	22,80	0,52	54,388
PEMÜ Kft.	1 462 000	1 480	0	0,00	0,00	0,00	0,00	0,000
Kecskeméti Parketta Kft.	385 248	365	0	0,00	0,00	0,00	0,00	0,000
Győri Agroker Rt.	367 899	108	0	0,00	0,00	0,00	0,00	0,000
HÉTFORRÁS FÜSZÉRT Kft.	295 893	216	0	0,00	0,00	0,00	0,00	0,000
Vízkutató és Fúró Rt.	323 159	389	138 814	-13,50	0,64	60,35	-15,86	-73,576

List of 16 ESOP companies selected, ranked by Liquidity of Current Liabilities								
ESOP companies	Owners' Equity	Number of Employees	Cash-flow I.	Profitability of Owners' Equity	Liquidity of Current Liabilities I.	Ratio of External Resources	Profit to Sales Income	Profit to Number of Employees
	(HUF' 000)		(HUF' 000)	(%)		(%)	(%)	(HUF' 000)
OREX Rt.	948 049	586	288 675	3,04	2,21	52,27	3,49	364,445
MMG AM Rt.	4 413 966	2 950	1 781 503	0,00	2,17	22,80	0,52	54,388
HARTECH Rt.	162 626	450	27 662	0,20	2,04	43,71	0,27	1,091
Bakony Művek Rt.	3 049 939	2 450	1 116 366	1,01	1,75	21,70	3,61	102,589
AGROKER Szombathely Rt.	353 361	91	56 532	8,68	1,61	69,56	3,61	534,725
Grafika Rt.	641 267	250	209 755	8,41	1,59	51,88	4,62	379,500
Zalaiparker Rt.	748 442	508	94 330	3,86	1,36	44,29	2,01	198,325
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PEMÜ Kft.	1 462 000	1 480	0	0,00	0,00	0,00	0,00	0,000
Kecskeméti Parketta Kft.	385 248	365	0	0,00	0,00	0,00	0,00	0,000
Győri Agroker Rt.	367 899	108	0	0,00	0,00	0,00	0,00	0,000
HÉTFORRÁS FÜSZÉRT Kft.	295 893	216	0	0,00	0,00	0,00	0,00	0,000

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List of 16 ESOP companies selected, ranked by Ratio of External Resources								
ESOP companies	Owners' Equity	Number of Employees	Cash-flow I.	Profitability of Owners' Equity	Liquidity of Current Liabilities I.	Ratio of External Resources	Profit to Sales Income	Profit to Number of Employees
	(HUF' 000)		(HUF' 000)	(%)		(%)	(%)	(HUF' 000)
Agroinvest Rt.	192 611	60	50 563	2,00	0,97	334,45	3,06	-627,783
EÜBER Kft.	39 609	38	17 010	5,33	1,30	323,58	0,58	-37,105
Vegyépszer Rt.	1 423 256	3 537	1 377 823	1,72	1,19	176,56	1,29	125,026
AGROKER Szombathely Rt.	353 361	91	56 532	8,68	1,61	69,56	3,61	534,725
Vízkutató és Fúró Rt.	323 159	389	138 814	-13,50	0,64	60,35	-15,86	-73,576
Pátria Nyomda Rt.	1 172 354	817	371 097	7,51	1,33	53,94	5,71	302,426
OREX Rt.	948 049	586	288 675	3,04	2,21	52,27	3,49	364,445
Grafika Rt.	641 267	250	209 755	8,41	1,59	51,88	4,62	379,500
Zalaiparker Rt.	748 442	508	94 330	3,86	1,36	44,29	2,01	198,325
HARTECH Rt.	162 626	450	27 662	0,20	2,04	43,71	0,27	1,091
MMG AM Rt.	4 413 966	2 950	1 781 503	0,00	2,17	22,80	0,52	54,388
Bakony Müvek Rt.	3 049 939	2 450	1 116 366	1,01	1,75	21,70	3,61	102,589
PEMÜ Kft.	1 462 000	1 480	0	0,00	0,00	0,00	0,00	0,000
Kecskeméti Parketta Kft.	385 248	365	0	0,00	0,00	0,00	0,00	0,000
Györi Agroker Rt.	367 899	108	0	0,00	0,00	0,00	0,00	0,000
HÉTFORRÁS FÜSZÉRT Kft.	295 893	216	0	0,00	0,00	0,00	0,00	0,000

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List of 16 ESOP companies selected, ranked by Profit to Sales Income								
ESOP companies	Owners' Equity	Number of Employees	Cash-flow I.	Profitability of Owners' Equity	Liquidity of Current Liabilities I.	Ratio of External Resources	Profit to Sales Income	Profit to Number of Employees
	(HUF' 000)		(HUF' 000)	(%)		(%)	(%)	(HUF' 000)
Pátria Nyomda Rt.	1 172 354	817	371 097	7,51	1,33	53,94	5,71	302,426
Grafika Rt.	641 267	250	209 755	8,41	1,59	51,88	4,62	379,500
AGROKER Szombathely Rt.	353 361	91	56 532	8,68	1,61	69,56	3,61	534,725
Bakony Művek Rt.	3 049 939	2 450	1 116 366	1,01	1,75	21,70	3,61	102,589
OREX Rt.	948 049	586	288 675	3,04	2,21	52,27	3,49	364,445
Agroinvest Rt.	192 611	60	50 563	2,00	0,97	334,45	3,06	-627,783
Zalaiparker Rt.	748 442	508	94 330	3,86	1,36	44,29	2,01	198,325
Vegyépszer Rt.	1 423 256	3 537	1 377 823	1,72	1,19	176,56	1,29	125,026
EÜBER Kft.	39 609	38	17 010	5,33	1,30	323,58	0,58	-37,105
MMG AM Rt.	4 413 966	2 950	1 781 503	0,00	2,17	22,80	0,52	54,388
HARTECH Rt.	162 626	450	27 662	0,20	2,04	43,71	0,27	1,091
PEMÜ Kft.	1 462 000	1 480	0	0,00	0,00	0,00	0,00	0,000
Kecskeméti Parketta Kft.	385 248	365	0	0,00	0,00	0,00	0,00	0,000
Győri Agroker Rt.	367 899	108	0	0,00	0,00	0,00	0,00	0,000
HÉTFORRÁS FÜSZÉRT Kft.	295 893	216	0	0,00	0,00	0,00	0,00	0,000
Vízkutató és Fúró Rt.	323 159	389	138 814	-13,50	0,64	60,35	-15,86	-73,576

List of 16 ESOP companies selected, ranked by Profit to Number of Employees								
ESOP companies	Owners' Equity	Number of Employees	Cash-flow I.	Profitability of Owners' Equity	Liquidity of Current Liabilities I.	Ratio of External Resources	Profit to Sales Income	Profit to Number of Employees
	(HUF' 000)		(HUF' 000)	(%)		(%)	(%)	(HUF' 000)
AGROKER Szombathely Rt.	353 361	91	56 532	8,68	1,61	69,56	3,61	534,725
Grafika Rt.	641 267	250	209 755	8,41	1,59	51,88	4,62	379,500
OREX Rt.	948 049	586	288 675	3,04	2,21	52,27	3,49	364,445
Pátria Nyomda Rt.	1 172 354	817	371 097	7,51	1,33	53,94	5,71	302,426
Zalaiparker Rt.	748 442	508	94 330	3,86	1,36	44,29	2,01	198,325
Vegyépszer Rt.	1 423 256	3 537	1 377 823	1,72	1,19	176,56	1,29	125,026
Bakony Müvek Rt.	3 049 939	2 450	1 116 366	1,01	1,75	21,70	3,61	102,589
MMG AM Rt.	4 413 966	2 950	1 781 503	0,00	2,17	22,80	0,52	54,388
HARTECH Rt.	162 626	450	27 662	0,20	2,04	43,71	0,27	1,091
PEMÜ Kft.	1 462 000	1 480	0	0,00	0,00	0,00	0,00	0,000
Kecskeméti Parketta Kft.	385 248	365	0	0,00	0,00	0,00	0,00	0,000
Győri Agroker Rt.	367 899	108	0	0,00	0,00	0,00	0,00	0,000
HÉTFORRÁS FÜSZÉRT Kft.	295 893	216	0	0,00	0,00	0,00	0,00	0,000
EÜBER Kft.	39 609	38	17 010	5,33	1,30	323,58	0,58	-37,105
Vízkutató és Fúró Rt.	323 159	389	138 814	-13,50	0,64	60,35	-15,86	-73,576
Agroinvest Rt.	192 611	60	50 563	2,00	0,97	334,45	3,06	-627,783

Selection criteria and reasons for selection

for technical assistance

Attachment to the List of 16 ESOP companies selected

Selection criteria:

- recent export activity and expectations of management about future export activity (see the attached 'Report on Survey of Export Activity')
- interest of company management in obtaining technical assistance (see: as above)
- six financial indicators (see: financial analysis below)
- personal feelings coming from visits and previous direct contacts

Export activity in Hungary, a small country offering a narrow, competitive and open market is a very important thing not only for the whole economy but for ESOP companies as well. So we think that technical assistance should be provided mainly to the companies with significant export activity because it is reasonable to expect that a proper kind of technical assistance can quickly improve the performance of these companies, if they use it partly to develop their foreign market activity. So later other ESOP companies can learn very much from the experience of these companies. The reason why we chose six financial indicators as selection criteria is the same as the reason why we chose export activity. The expressed interest and the demand for technical assistance is welcomed everywhere; the commitment to using the experience of technical assistance can guarantee the success of our activity. The personal feelings worked as a check point in selection.

Nevertheless, you can see, for example, that the performance of some companies is not very good, that is: it was not necessary for a company selected in this group to reach a good value in each four selection criteria, but we took into account the particular combinations of these selection criteria. The better each selection criteria is, the better are the chances that the company obtaining technical assistance can get real help to improve its performance in the very near future.

Financial analysis of 16 ESOP companies selected

Table 1 - Cash-flow I.

Categories by value of indicator	Number of companies	Breakdown* (%)	Average** (HUF' 000)
Negative	0	0.00	0
Positive	12	75.00	459,427
Subtotal	12	75.00	459.427
0	0	0.00	0
No data	4	25.00	0
Total	16	100.00	

* Hereinafter breakdown means breakdown of number of companies.

** without 'No data'

We possess no financial data about one-fourth of the 16 companies that remained after the third round of selection. According to the information in our possession, we may state that the hightly capital-intensive companies are overrepresented in this smallest sample, which is clearly shown by the 14% increase of the average cash-flow. The reason for this is that 3 of the 4 companies with the highest cash-flow figures were selected into this sample, and due to the small number of elements the companies with low cash-flow figures have less effect in lowering the average.

Table 2 - Profitability of Owners' Equity

Categories by value of ratio (%)	Number of companies	Breakdown (%)
Negative	1	6.25
0	1	6.25
0,01-1,99	3	18.75
2,00-4,99	3	18.75
5,00-9,99	4	25.00
10 and over	0	0.00
No data	4	25.00
Total	16	100.00

This indicator of the profitability of capital is the highest in this small sample, although the sample includes a company, namely Vízkutató és Fúró Rt, which has a negative figure of 13.5%. The primary reason for the improvement of this indicator is that the highly capital-intensive companies with low profitability carry less effect, and the ratio of the companies with high profitability grew.

Table 3 - Liquidity of Current Liabilities I.

Categories by value of indicator	Number of companies	Breakdown (%)
0	0	0.00
0,01-1,99	9	56.25
2,00-4,99	3	18.75
5 and over	0	0.00
No data	4	25.00
Total	16	100.00

The listing of the companies according too liquidity has changed. In two of the companies the value of current assets is lower than that of the liabilities, in seven companies the liquidity of current liabilities ranges from 1.2 and 1.75, that is,

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lower than the minimum needed for safe operation, but in three companies this indicator is over 2.

Table 4 - Ratio of External Resources

Categories by value of ratio (%)	Number of companies	Breakdown (%)
0	0	0.00
0-30	2	12.50
31-50	2	12.50
51-100	5	31.25
100 and over	3	18.75
No data	4	25.00
Total	16	100.00

The average ratio of external resources in this sample is 53.9%, which is the highest value obtained in all the data bases. The increase of this index is due to the decreasing effect of the companies with low indebtedness. 62.2% of the total capital operates in the four companies in which the ratio of liabilities to owners' equity does not exceed 50%, which is not a bad rate. In the five companies operating one-fourth of the total capital the ratio of liabilities ranges from 50 to 100% . The three companies with liabilities higher than their owners' equity are still present in this sample, and these unstable companies operate 12.3 of the total capital.

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Table 5 - Profit to Number of Employees

Categories by value of ratio (HUF' 000)	Number of companies	Breakdown (%)
Negative	3	18.75
0	0	0.00
1-49	1	6.25
50-99	1	6.25
100-499	6	37.50
500 and over	1	6.25
No data	4	25.00
Total	16	100.00

Profitability is the highest in this sample, the average being HUF 132,000/person. As compared to the previous samples, a significant change has occured, namely that now only one of the companies with figures less than HUF 100,000/person has remained. In other words, the less efficient large firms dropped out, and the number of the most profitable and the money-losing companies have remained the same.

Table 6 - Profit to Sales Income

Categories by value of ratio (%)	Number of companies	Breakdown (%)
Negative	1	6.25
0	0	0.00
0,01-1,99	4	25.00
2,00-4,99	6	37.50
5 and over	1	6.25
No data	4	25.00
Total	16	100.00

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The profit to sales income figures on the companies are rather low. One-fourth of the companies were not able to realize even a 1 per cent margin in its markets, and even the most profitable of the companies have a profit ratio of 5.7%.

B.4 FINANCING METHODS

MODEL CONTRACTS AND FINANCING MECHANISMS FOR TRANSACTIONS INVOLVING ESOPs AND OTHER DOMESTIC AND FOREIGN INVESTORS

Main contractual and financing relationships between ESOPs and co-owners

COOPERS & LYBRAND/CHEMONICS IMPACT II
USAID PROJECT OFFICE

July 20, 1995

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Executive Summary

Up to the 1994 Parliament elections the privatization of the public sector reached the stage where the privatization process of most companies to be fully privatized was completed or majority private ownership was established. These companies are mostly small or medium-sized ones.

On the other hand the privatization of companies remaining fully or partially in state ownership was slow and stayed in the initial phase, the process for the public service companies just started. The State Property Agency (SPA) that had been in charge of privatization of state owned companies since 1990 was bifurcated in August 1992, which had an obvious impact on the privatization process. As a result of the bifurcation the privatization of companies remaining in state ownership in the long run got in the scope of authority of the State Trustee Joint Stock Company (AVRt). The management of AVRt has been replaced several times since then and along with that the policy has changed as well (whether the companies should be reorganized first and then be privatized or just be privatized at their present state).

The Hungarian privatization was consistent all along in one concept: except for the employee preferences the method of privatization was tendering and sales based on market principles.

It follows from these premises that significant privatization and employee ownership as its part came to existence only at the SPA. However, the AVRt. also introduced its concept of acquiring ownership rights by employees in the spring of 1994, the title of which was "Property Acquisition by Employees at AVRt. companies" but to our best knowledge this concept was never applied since there were no cases of privatization. Attempts had been made to request from AVRt. the establishment of employee ownership with preferences at some large companies before the tender for privatization was invited but these attempts failed as well.

Government decrees and AVRt. decrees in compliance with the government decrees regarding privatization of national public service companies and as its part the establishment of employee ownership with preferences were passed last year after Parliament elections. To our understanding these initiations never had any results. (We were involved in initiations like this ourselves.)

Summarizing the above-mentioned we can conclude that despite the privatization process, up to date there has been no preferential property acquisition by employees or privatization at companies that remain partially in state ownership in the long run and are managed by AVRt. Experience of this kind is known only at SPA, which - as it is well-known - merged into the new privatization organization, the State Privatization and Trustee Rt., which is the legal successor of AVRt. This way we think lessons learnt so far will be made use of by the new privatization organization as well.

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In this essay we will take as a base the practice of SPA, the new privatization law in effect and its related laws - the Civil Code, the Law on Business Organizations, the ESOP Law.

We gained our experience from contributing through our law office to the transformation of 30 large state owned companies, and to cases of privatization resulting in employee or management majority ownership (ESOPs and MBOs). Dr. Bertalan Retter's experience also provided excellent resource for our essay. Dr. Retter as a business consultant - partially through our law office - has also taken part in the transformation of several state owned companies and in privatization cases which resulted in employee or management majority ownership.

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Section I. - Purpose of the Essay

The purpose of the essay is to analyze and define the main contractual and financing relations in case of a privatized company[1] between the ESOP[2] and the co-owners as a consortium, between the consortium and its members and the company.

Despite of the above stated purpose of the essay we do not intend to give model contracts and suggestions how they should be used, since there was already an attempt by the Legal Directorate of SPA[3], which was terminated with the new Privatization Law[4] coming into effect (hereinafter: PL), to attach model contracts to the tenders, compulsory to use. This attempt failed, because in order to overprotect the interest of the government as usual the one inviting the tender used general contractual criteria which would have shut down the operation of any company. All bidders considered these model contracts unacceptable and they unitedly refused to use them.

In accordance with Paragraph 5(1), Law Decree no. 2 of 1978 on the Implementation of the Civil Code[5] general contractual criteria can be impugned in court by the aggrieved parties or the Supreme Prosecutor, the Chamber of Commerce, economic representations of interests, trade unions and the national organizations or federations representing citizens' interests. The impugnment in court never happened because the Legal Directorate of SPA relinquished the application of the model contracts.

The essay will analyze the legal principles and the aspects expedient to define in a consortium, syndicate, share ownership, etc. contract related to privatization.

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[1]In this essay by "company" we mean all forms of enterprises (different business organizations, cooperatives, state owned companies, etc.)

[2]In a strict sense it means only the ESOP Organization defined in Law IV of 1992 on ESOPs, in this essay we use the broader sense, which means preferential property acquisition facilities by a group of employees at their own company.

[3]State Property Agency

[4]It is Law no. XXXIX of 1995 on the Sales of Stated Owned Entrepreneurial Assets.

[5]Law no. IV of 1959 on the Civil Code of the Hungarian Republic.

Section II. - Typical Contractual Relations, Financing Mechanisms and Financial Transactions Related to Property Acquisition by the ESOP Organization and their Exercising of Ownership Rights

A. Typical Contractual Relations and Contracts Related to Property Acquisition by the ESOP Organization and their Exercising of Ownership Rights

The ESOP Organization will establish the following typical contractual relations with its neighboring parties in connection with property acquisition by employees and their exercising ownership rights:

- *with the State Trustee Organization:*
  - shares, business shares sales-purchase pro forma contracts or contracts
  - syndicate contracts and employee share ownership agreements

- *with creditor banks*:
  - credit and loan agreements
  - contracts of bailment
  - pledge and mortgage deeds
  - bailment agreements

- *with third party co-owners*
  - consortium contracts
  - syndicate contracts
  - credit and loan agreements
  - shares, business shares sales-purchase pro forma contracts or contracts

- *with the company itself:*
  - credit and loan agreements
  - shares, business shares sales-purchase pro forma contracts or contracts

- *with co-owner employees participating in ESOP:*
  - syndicate contracts
  - shares, business shares sales-purchase pro forma contracts or contracts

- *with not co-owner (third party) natural and legal persons:*
  - agreements to support the ESOP organization
  - shares or business shares sales-purchase contracts

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Chart 1.
Contractual Relations

As a conclusion we can state that the typical contracts related to privatization are the following:

1. consortium contracts
2. syndicate agreements
3. shares, business shares sales-purchase pro forma contracts, (share ownership agreements) contracts,
4. credit and loan agreements,
5. contracts of bailment
6. pledge and mortgage contracts,
7. bailment agreements,
8. guarantor contracts.

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B. Typical Financing Facilities and Financial Transactions Related to Property Acquisition by the ESOP Organization and Their Exercising Property Rights

B1. Financing Facilities

The Privatization Law lists the preferential privatization facilities in the following order:

- sales with instalment payment facility
- sales with retaining ownership (privatization lease purchase)
- management, employee buy out
- preferences for property acquisition by employees
- Existence-credit
- Employee Stock Ownership Plan (ESOP)

In Article No. 38 of the Privatization Law it is stated that preferential facilities can be used when small and medium-sized companies (belonging to the circle which is defined later) cannot be sold for cash in the first round.

According to Article No. 37 of the Privatization Law those companies belong to this category

a.) whose equity does not exceed HUF 600 million and
b.) where the number of full-time employees does not exceed 500 on an annual average.

The Hungarian Privatization and State Holding Company makes a separate decision about companies which do not belong to the circle defined above.

As it is stated in the Privatization Law private owners can use the following financing facilities in accordance with the requirements of the tender invitation:

a.) *cash* payment
b.) purchase with *instalment payment*
c.) *E-credit* payment (The total amount of E-credit for all buyers (except for ESOP) cannot exceed HUF 50 million. In the case of ESOP 50% of the purchase price can be paid with E-credit)
d.) payment with *compensation coupons* on the basis of Article No. 2, point i.) of the Privatization Law and the Compensation Law.

In privatization practice, however, only a minor percentage of the purchase price could be paid with compensation coupons.

Cash payment means that the applicant pays the purchase price from his own resources or from credits given by banks, with the exception of the E-credit.

From among the privatization facilities listed above

a.) the following techniques are considered to be sales with instalment payment facilities:

- sales with instalment payment
- privatization leasing
- individual employee buy-out which is described under the title "Preferences for gaining employee ownership"

b.) management and employee buy-out means payment in cash

c.) purchasing property for E-credit is a preferential financing mechanism which is special at the same time because the State Property Agency cannot keep the purchase price coming in from the E-credit. According to the current regulations the installments must be used for decreasing the national debt. That is why the installments are due to the Hungarian National Bank.

The ESOP Law contains regulations about financing mechanisms with E-credit and instalment payment. The SPA practice, however, made it possible for ESOP organizations to use all of the financing mechanisms listed above, in accordance with the regulations of the invitation for tender.

B2. Typical financial relations resulting from financing mechanisms

By the privatization of state property and by exercising the rights of employee owners ESOP organizations form specific financial relations with

- the national property agency
- the bank which gives credit
- third person co-owners
- co-owner employees
- the employer company
- third persons who are not co-owners

The most important specific financial relations are the following:

- *with the national property agency:*
- the potential buyer pays deposit as a precondition for bidding
- after winning the bid he pays the total overdue purchase price in cash or he pays the installments in cash
- in case of unsuccessful bidding the deposit is paid back to the bidder

- *with the creditor:*
  - the bank fulfills its payment obligations on the basis of the bank guarantee
  - the bank provides credit for the buyer
  - the debtor repays the credit to the bank

- *with third person co-owners:*
  - the ESOP fulfills payment obligations imposed on it instead of the consortium partner on the basis of joint responsibility
  - the consortium partner repays the payment obligation already fulfilled by ESOP
  - the consortium partner fulfills payment obligations instead of the ESOP on the basis of joint responsibility
  - the ESOP repays the payment obligation already fulfilled by the consortium partner
  - settling up the selling price of stock or business shares sold to a third person by the ESOP organization
  - settling up the purchase price of stock or business shares sold to the ESOP organization by a third person

- *with the employer company:*
  - fulfilling payment obligations as guarantors or cash guarantors instead of the ESOP organization
  - the ESOP organization settles its previous debt
  - transfer of dividends and cash from the pre-tax profit to an extent of 20% of the corporate tax base, the profit and capital reserves

- *with co-owner employees who are ESOP participants:*
  - participants' pay using their own resources
  - settling up the purchase price of stock or business shares repurchased from former and present participants
  - as a place for paying personal income tax personal income tax is deducted here and transferred to the tax authorities
  - the remaining cash on the former participant's share account is paid at the final settlement of the account
  - in case of selling stock or business shares the buyer pays the selling price

- *with natural and legal entities who are not co-owners (third persons):*
  - support paid in by third persons
  - settling the selling price of stock or business shares in case they are sold to third persons

From the perspective of the present study the following typical financial activities are of special importance:

- *financial activities related to the purchase of company shares by the ESOP organization with credit or instalment payment*
- *financial activities related to the repayment or settlement of the company debt:*

a.) payment liabilities met by the ESOP organization as debtor
b.) payments made by the ESOP organization instead of others
c.) payments to the ESOP organization
d.) payments made by others instead of the ESOP organization

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Chart 2.
FINANCIAL RELATIONS

State Asset Management

Bank

•guarantee
•dividends
•giving cash

•deposit
•giving loan
•installments
•purchase price in arrears
•repaying deposit

•repayment
•bank guarantee

Employer company

ESOP Organization

•own resources
•repurchased shares
•personal income tax deducted
•keeping & settling share accounts

•support
•selling & buying shares

Other non-owner persons

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C. Relation between financing mechanisms and certain types of contracts.

The sale-purchase contracts for shares and company shares lay down the applied financing mechanisms as privatization transactions.

According to the privatization practice, cash payment obligation always applies to either a part of the purchase price or to the entire amount of the purchase price. It is often the case that all forms of financing mechanisms are applied within one privatization transaction.

Consequently, consortium and syndicate contracts may contain all the possible forms of financing transactions in connection with one transaction deal.

The two basic types of loan contracts are Existential credit and other (commercial) credits.

As opposed to commercial credits, the main feature of Existential credit is that, depending on the purchase price, the viability and liquidity of the company, the term can be as long as 15 years, and the interest rate is only 7% (at present). The interest rate is determined by the Government resolution about Existential credit. Therefore, the banks extending E-credit stipulate a floating rate of interest in the loan contracts. This does not apply to ESOP Organizations, in case of which, 7% interest rate is determined by the ESOP Law. This may only be modified by the Parliament's modification of Law.

In case of commercial credits, banks extend loans at the usual market interest rate, while maintaining the right to change the interest rate.

Contracts of bailment, pledge and mortgage and guarantee contracts do not regulate privatization financing mechanisms.

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Section III - Criteria of the application of consortium and syndicate contract

A. Consortium Contracts

A1. Objective of the consortium contracts

The word "consortium" is a latin word, which means corporation, association. In the economic sense, a consortium is usually a temporary association for the implementation of a particular transaction, the purpose of which is to increase strength and limit risk. The consortium transaction is done on the basis of a consortium contract. Normally, consortiums are established for the implementation of higher-risk and capital-intensive transactions. In the international practice, the executive committee of a consortium is referred to as syndicate.

In the Hungarian privatization practice, consortiums are established in relation to privatization transactions, usually for the purpose of the purchase of majority ownership from the state holding company.

Such corporations are formed between ESOP organizations and other private owners in connection with privatization transactions. According to the practice in Hungary, such consortium contracts are valid only for the application evaluation period (see reasons later), and issues concerning expectable payment obligations are in case of winning the tender, are to be settled among the parties.

A2. Legal regulation of consortiums in the Hungarian legal system.

In its legal sense, a consortium is usually a temporary association. This is a basic difference between consortiums and economic associations. When Law No. VI of 1988 on Economic Associations came into force a more than 100-year-old trade law became void (Article XXXVII. of 1875). Section 62 of the new law defines consortiums as associations established in order to make profit or loss together in one or more commercial transactions. This act does not regulate at length either the organizational structure, or the representation of the consortium, as it is normally the case with economic associations.

Law No. VI of 1988 on Economic Associations does not contain regulation regarding Consortiums. Section XLVI on corporations of the Civil Code stipulates the establishment of such temporary associations in the form of civil law corporations for the case if the consortium contract is not based on the regulations of the company law of the Civil Code. However, in the Hungarian privatization practice the latter is characteristic of the consortium contracts.

Section XLVI on civil law corporations of the Civil Code states that all members are entitled to administration of affairs. Members must also be entitled to representation of the rest of the members in administrative affairs. The majority of the members may withdraw the right to representation even in the case when the representative was appointed by the corporation law.

The rules of administration and representation must be applied also during the account of settlement.

A3. Typical consortium partners of ESOP organization

A3a. *Reasons for the need of a consortium partner*

According to the privatization practice so far, the ESOP organizations of companies belonging to the State Property Agency, for the purpose of acquiring majority ownership sought for consortium partners in the following cases:

- the ESOP organization was established relatively independently form the management
- the ESOP organization was established without the participation of the management
- the ESOP organization was established separately from the management and the management is also an applicant.

It is a well-known fact that the ESOP organization does not have its own financial means during the period of formulation. Before the Privatization Law became effective, this problem was overcome by the fact, that *half of the costs of privatizations experts employed the trade unions had to be borne by the company.* The Privatization Law does not maintain this significant financial support anymore.

The financial resources of the company is at the disposal of the management. Therefore, if the management is the advocate of the ESOP, the most important problems of the ESOP are solved, because:

a. the financial resources necessary for the application are available,
b. information regarding the company and which are also necessary for the application are available,
c. in order to prepare the application, only some outside experts have to be hired, who take control of the preparation of the application, while the whole company management is available with their expertise, consequently, a competent application may be prepared at a relatively low cost.

All these advantages are missing in case the management does not take part in the preparation of the application. Such cases are not rare.

Obviously, such problems also occur if the management teams up with the employees not in the framework of ESOP, but in some other form, or, if there are incompetent people in the management of the company. (Several such cases are known which had serious consequences.)

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A very effective way to avoid such problems is that the ESOP organization and the managers, within the framework of the MBO, jointly apply in 50-50% ownership ratio, and as a result of this, the managers will acquire ownership in both places to the extent that they feel rightful. Ownership acquisition within the ESOP in this case corresponds to the ESOP philosophy.

At companies, where this does not happen, the ESOP organization sought for partners outside the company, first of all among the suppliers, distributors and trade investors.

Even if the above-mentioned problems do not occur, the ESOP Organization often teams up with other partners, for the following reasons:

The state, as owner of companies never provided enough working capital for state-owned companies, and their situation will not change when these companies are privatized. Even if the operating results of a company are positive, most companies will still be loss-making as a result of the high interest rate on the commercial credits taken in order to supply working capital. Consequently, even in the case of companies operating with profit, additional capital increase is needed in order to maintain operations. Employees do not have the necessary funds for this. In case some employees (e.g. a part of the managers) have available cash or loan, their intention will be to invest these funds in the company, separately from the ESOP organization. The question is, whether the interested parties should do this in the form of purchasing state-owned assets or in the form of capital increase.

The majority of Hungarian companies need additional capital investment for the following reasons besides the lack of working capital: (only the most important ones)

- development of production structure and technology
- need for restructuring
- mitigate environmental damages
- extension of exports
- stop the process of losing markets
- acquire new markets

These require:
- the acquisition of state-of-art international techniques, management and marketing experiences
- convince domestic suppliers and distributors

A3b. Usual consortium partners of ESOP organizations

Modern technologies, management and marketing experiences may be expected first of all from foreign investors. However, due to the lack of appropriate connections, the ESOP companies are not familiar with the potential foreign investors, such as those investors are not aware of the potential advantages of ESOP companies, therefore, it is not characteristic of ESOP companies to team up with foreign consortium partners for a tender application.

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In most cases the ESOP organization submits applications with the following organizations:

a. management, in the form of MBO or owners' association
b. trade investors
c. in food industry: domestic supplier cooperatives, distributors, mostly using restitution bonds
d. in case of trading companies: wide range of domestic suppliers
e. local governments (capital, districts of the capital, regional cities, towns), also using restitution bonds

- in accordance with the first generation privatization law (in the initial stage of privatization) *as one of the owners* of the company at the time of the tender

- in the second generation package of the privatization law they are entitled to receive the value of these sites or its ownership *as potential owners* in case an agreement has been signed with SPA

A4. Typical Issues and Possible Options to be Considered When Forming the Consortium Agreement

According to the present privatization practice, consortium agreements are meant to regulate the following issues.

1.) The bidding parties that have established the consortium unambiguously declare their intention to *prepare a joint business plan and, based on that plan*, to *buy out the business share* of a state company subject to the tender invitation as well as determine the amount of shares or the size of the business share that they intend to buy.

2.) In order to achieve the objectives mentioned in item 1.) the parties decide to *collaborate* by *mobilizing their financial sources* and providing collateral for credits that are needed to pay the purchase price included in the bid.

3.) The parties determine the *share of consortium members* from the business share acquired by the consortium if the bid is successful.

4.) The parties oblige themselves to *act jointly* in order to acquire the necessary *credit in the form of cash* and request jointly a promissory note from the financial institution.

5.) The parties determine the *method of representation of the consortium and the identification data for its representatives.* Furthermore they determine the *decision making mechanism of the consortium* that restrict the representative of the consortium. They also determine the persons that *have the right to sign the contracts and agreements* with the state trustee organization and the creditor bank. If the consortium is established in the form of a

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civil-law partnership, then the representative is entitled to sign all the contracts alone. If the consortium does not have its own separate organization (non-civil law form), then the related contracts are signed by the representatives of each consortium member.

6.) The parties determine the *duration of the consortium*. The duration of the consortium is often just the duration of the bidding process but with the stipulation that if the bid is successful then, having the particular sales-purchase conditions and other information, a new (syndicate) agreement is concluded regarding the rules of cooperation. The consortium *may last* until the privatization debt of the consortium members is paid back or until they have ownership in the company.

7.) The parties determine if, as debtors, *they have joint responsibility or not*. The regulation of the SPA regarding bidding stipulates joint responsibility of the consortium members in the bidding process as well as in the case of sales purchase contracts for shares or business shares. There were cases however when the creditor *bank* did not require joint responsibility. Therefore the consortium agreement deals with issues related to the joint responsibility of its members. As a part of it, members agree on their share of the *cash that has to be paid* as a precondition of bidding.

8.) The parties oblige themselves to bring *unambiguous decisions that reflect common interests and to represent* these decisions on the general assembly of the company and on any other forum where owners participate.

9.) The parties agree on *initiating the amendment of the statutes of the company as a result of the sales purchase and credit agreements as well as the consortium agreement that is to be concluded*. They also agree on the principles of the amendment.

10.) The parties declare that, prior to the cooperation, they *became familiar* with the statutes, procedures and ownership structure of the *member organizations*.

11.) The parties agree on the *way of amendment and termination of the consortium agreement*.

12.) The parties regulate the *way of settlement of potential disputes* between the parties.

B. Syndicate contracts

B1. Purpose of syndicate contracts

The word "syndicate" has various meanings. It originates from France, where it has the following meaning: association created on the basis of common interest. In Germany, it means a group of organized cartels, which is a higher level of association. While cartels are established based on internal contracts, without outside organizations, syndicates created such

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outside organizations, their operations being regulated by law. Later, the word syndicate was used to described cartels themselves.

As far as companies are concerned, a syndicate is an association of banks and other entities established for the purpose of a particular business transaction in order to advance capital necessary for the company. It also means the central administration organ which controls the overall activities of the companies included in the syndicate. In fact, it is a small group of fiduciaries, who determine or implement activities promoting the success of the companies and advise the particular companies to implement certain procedures that are necessary to achieve the common goals. This work can be done by a leading bank, which receives commission for this, while the participants share the profits or losses, in proportion to the extent of participation.

Both in Hungary and in foreign countries syndicates are also to be understood as temporary associations established for the purpose of keeping stock properties and controlling their rate.

It is characteristic of the Hungarian privatization that the final conditions of the sale/purchase agreement are formed only after the evaluation of the applications, during the process of formulating the sale/purchase agreement, as a result of the discussions between the state holding company (vendor) and the consortium (buyer).

These conditions, however, are usually different from consortium contracts in certain aspect (such as purchase price), and on the other hand they also contain conditions which are not included among the conditions set forth in the tenders (e.g. further collateral obligations). It is usually at this point when the members of the consortium usually start dealing with issues of cooperation indispensable during the exercise of ownership rights. These issues of cooperation regulate rights and obligations for a longer period of time. These issues also have to included in the contract.

After the successful bid, in light of the conditions set in the sale/purchase contract, the contract to be concluded among the members of the consortium is called syndicate contract in the Hungarian privatization practice.

B2. Legal regulations of syndicate contracts in the Hungarian legal system.

Syndicate contracts -- similarly to consortium contracts -- are usually based on the regulations concerning Company Law of the Civil Code. Legally, however, it is allowed that the contracting parties, when concluding the contract, apply the regulations of the Civil Code pertinent to civil law corporations. The new privatization law

B3. Typical syndicate partners of ESOP organizations

In case the consortium wins the bid, the ESOP organization has to conclude syndicate

contracts in the following three directions:

a. before the application with the co-owner, bidding with the ESOP organization,
b. with the representative of the state as owner, within the framework of the sale/purchase contract on ownership interest,
c. and with the employees who had already obtain ownership through the ESOP organization.

B3a. The Hungarian State as co-owner

Whenever the SPA concluded a sale purchase contract with the ESOP organization as with a majority owner, the SPA as minority owner always stipulated its rights to intervene in the decisions of the company, i.e. all the rights which are obligatorily included in the model lease contracts. With regard to this contract, one of the contracting parties is the SPA, the other is the consortium, consequently, the consortium partners of the ESOP organization are also bound by the stipulations of this contract. Therefore, the SPA as a contracting partner of the consortium, is necessarily a syndicate partner.

B3b. The original consortium partner as co-owner

Even if the consortium contract is effective not only for the bidding process, but until the settlement of mutual debts, the bidding partners, as co-owners are required to conclude a new contract, which is called syndicate contract. This also makes sense, since before the submission of the application a number of issues are not settled, which are subject of the sale/purchase contract and that of the loan contract. Therefore, in case of a successful bid, the second partner to conclude a syndicate contract with the ESOP organization (voluntarily cooperating with it) is the co-owner bidding together with the ESOP organization.

B3c. The ESOP organization and the employees as co-owners who had already acquired ownership through ESOP.

The real problems for ESOP officials will only occur following this. The first two syndicate contract contain serious liabilities for the ESOP organization in many respects, which are binding for the organization for the entire life of the contract. Usually, these liabilities are such that the ESOP organization -- in possession of simple majority of votes, and by way of general assembly resolutions -- can enforce from the board of directors and/or the management and if necessary, by way of compensation, from the other owners. However, the real problem for the ESOP organization is to preserve the number of votes necessary for simple majority of votes, since the SPA on the first occasion, in most cases only sells majority ownership worth of 50%+1 vote or in the best case, 51%.

It is not simple to preserve votes for the following reason: the effective ESOP Law defines the ESOP organization as a privatization technique -- as opposed to an ownership organization -- and the number of votes diminishes as the organization gradually settles its

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liabilities. The shares purchased by the ESOP organization using employees's own resources, must be transferred to those employees, as shares and business shares without limitations, immediately after the ownership acquisition.

It is not sufficient if ESOP officials make the ESOP general assembly vote for the measures based on liabilities in the share purchase agreement with SPA and in the syndicate contract. Regarding these issues, voting can be avoided at the general assembly of the ESOP organization if the liabilities have been previously accepted in a resolution, prior to the conclusion of the contract.

However, these measures have to be approved and voted for also by the general assembly of the company, and the ESOP organization, due to the diminishing number of votes it is entitled to, will not have enough votes. The ESOP organization will have to win the votes due on business shares already transferred into the possession of the participants. In the best case it is enough to collect votes from the ESOP participants, from the retired participants and heirs, but in the worst case, the votes of participants, laid off due redundancy, might also be necessary. However, ESOP officials do not have either the necessary financial means, nor the appropriate legal means. Their only possibility is to convince them.

Consequently, the ESOP organization has to conclude three syndicate contracts:
a) with the co-owner even before the tender
b) with the representative of the state as owner within the framework of the share purchase agreement
c) and finally with employees who have already gained shares through ESOP

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Section IV - Typical Issues and Possible Options to be Considered during the Elaboration of Syndicate Agreements

A. Issues to be Considered during the Preparation of Syndicate Agreements

The technical content of syndicate agreements is *different depending on the contracting parties* mentioned in the above section. The technical content is however of the same nature when the agreement is concluded between an ESOP and a co-owner or a consortium and the SPA.

In the share or business share sales-purchase contract, the SPA as a minority co-owner protects very carefully interests of the state and, after the privatization of the state-owned stake, interests of the future minority owner.

The SPA so far *have not differentiated between contracts concluded by the SPA as a seller or a co-owner.* Every issue was regulated in the share or business share sales-purchase contract. As a result, we have a very *peculiar, mixed-type contract where*, in addition to the side obligations that guarantee the contract, the *SPA* in issues in the scope of authority of the general assembly tries to ensure itself a vote exceeding its ownership share and as a seller usually succeeds.

With full knowledge of the share or business share contract and credit agreement, in the syndicate agreement consortium members as owners *specify the items that can simply be copied from consortium contracts* and *regulate other issues.*

B. Typical Issues and Possible Options to be Considered during the Elaboration of Syndicate Agreements with the SPA and the Consortium Partner

Syndicate agreements at present regulate the following issues (or those of importance in the individual cases) between the SPA and the consortium and between the initial members of the consortium (ESOP and the co-owner who submitted a joint bid).

1. At the first general assembly after the conclusion of the share sales-purchase contract, consortium members initiate and support by casting their votes that the company takes *guarantee of payment at first call* for the liabilities of the consortium as buyer towards the SPA.

2. Consortium members determine the number of members of the *Supervisory Committee and the Board of Directors* of the corporation and the number the consortium members are entitled to delegate. Consortium members are obliged to vote for the election and replacement of the members.

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3. In order to enforce the stipulation of the sales-purchase contract and other strategic interests, consortium members oblige themselves to initiate with other co-owners and the board the amendment of the statutes of the corporation within a certain time after the conclusion of the sales-purchase contract and decide on what issues should fall in the scope of authority of the general assembly (either full or 3/4 approval) of the corporation in addition to those included in the Law on Economic Corporations. Consortium members also take the obligation to vote identically in these issues, e.g:

a) *Consortium members have to agree regardless the size of their ownership share on the following issues:*

- amendment of the statutes of the company
- every decision that requires 3/4 preliminary oral approval from the supreme board of the corporation according to the Law on Economic Corporations
- if the company intends to join another corporation with unlimited liability
- alienation or encumbrance of the *assets of the company* over a certain amount either for a longer period or in a lease-purchase arrangement
- *alienation* of any of the real estates of the company.
- undertaking guarantees that exceed a certain portion of the registered capital of the company
- establishing or joining a *foundation*, undertaking *public services* or making *free legal transaction*
- if it is a joint-stock company, *share acquisition that entitles to direct management rights* in another joint-stock company
- initiating a process (either by the company or an outsider) that results in the *liquidation of the company*
- *leasing* real estates or other *valuable assets* of the company *except* if the company is entitled within a certain notice period to terminate the lease contract concluded for an indefinite time
- taking or providing *loans* that exceed a certain proportion of the equity and undertaking guarantee for the repayment of the loan
- declaring self-bankruptcy.

4) Based on the sales-purchase contract concluded with the SPA, consortium members determine how they share among themselves the stock and the purchase price in the light of the price discount provided to ESOP.

5) Consortium members agree that

a) if either the *board of the company or any board member* is sued for damages or other reasons by e.g. co-owners as a *result of the guarantee stipulated in the credit agreement*, consortium members will interfere in order to win the lawsuit. If the Court makes a *final judgement on the indemnification liability* of the board or any board member of the company, consortium members take the liability and share it among themselves in proportion with their ownership share.

b) they will formulate a common standpoint regarding *items of the agenda of the*

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company's general assembly. In order to enforce the majority vote, ESOPs try to preserve the unanimity of votes on shares distributed among employees, retired employees and participants by promoting that they voluntarily join the organization and enter a "consensus voting agreement".

c.) *the company gives over 20% of its tax base to the ESOP organization during the period of repayment* and with this taken into consideration they decide on the size of the dividend to be paid

d.) *they repay their E-credit on the same schedule if possible.* In case the ESOP organization finds resources which - as a consequence of the corporate tax allowance - exceeds the payment liabilities of the credit contract those resources can only be used for exercising the ESOP organization's right of purchase and pre-emption and for settling the operational costs

e.) *what ownership percentage they would like to achieve* finally. In order to gain that percentage members of the consortium are obliged to inform each other if a third person intends to sell shares to them

f.) in order to gain majority vote *none of the parties concludes a contract* with a third person which is *against the interests of the other party*

g.) *nobody sells the shares repurchased* from the amount that came as support from the pre-tax profit of the company *as long as* the partner has not met his payment liability defined in the credit agreement. In case this period of time is longer than the life period determined in the statutes of the ESOP organization the ESOP organization is obliged to prolong its period of operation accordingly

h.) *they can depart from what is stated in the common tender* - about selling shares that are still in state ownership - *only on the basis of a mutual agreement*

i.) if the issue of increasing equity has not been settled in the common tender, then the procedure to be followed should be described if there is a need to increase equity

j.) depending on the size of property acquired by the members of the consortium together they should determine the procedure to be followed if other issues come up within the general assembly's authority.

C. Typical issues, possible options to be considered when forming a syndicate contract between the ESOP and employees as co-owners who have already acquired shares in ESOP

We have prepared a separate syndicate model contract for ESOP organizations, one for those who are still participants of ESOP and one for those who are no longer participants in ESOP. We have also prepared written information to persuade the parties concerned.

As the models demonstrate the agreements include the following:
- authorization for the representative of an ESOP participant who already owns shares or of a former ESOP participant on the basis of the number of shares acquired in ESOP in accordance with the provisions of the Law on Economic Associations, on the condition that the representative can exercise the rights of the shareholder or he can vote only in accordance with the majority decision made at the general assembly of ESOP
- present agreement does not restrict any of the parties in selling their shares without the consent of the other party, except when the parties are obliged to ask for such consent because they concluded a separate contract on the right of pre-emption
- a private shareholder can abrogate the syndicate agreement with immediate effect but the ESOP representative can only do so if he is authorized by the ESOP general assembly. As it has already been mentioned above the ESOP organization tries to obtain the right of pre-emption for all those shares that cannot be repurchased on the basis of the ESOP Law.

Section V - Examples of consortium and syndicate contracts

A. Examples of consortium contracts

It is a well-known fact that contracts in general are considered to be business secrets between the ones concluding the contract. This statement is especially true for consortium contracts. Thus, despite the fact that tender participants always conclude consortium contracts, no concrete examples can be published. The usual content of such studies, however, has already been described in point A4., section III. and in point B., section IV. of the present study.

There is nobody to talk about successful consortiums in case of ESOPs because of lack of time, money and publicity; there are more people, however, who talk about failures since ESOP is not a popular type of ownership structure to them. It is true - at the company level as well - that there are two big problems coming up in the case of the democratic procedure: it takes time and requires publicity.

Nevertheless, the golden rule is that ESOP should be organized only where the calculations and the real conditions guarantee that relying on future profit all costs will be recovered not only from the economic but also from the financial point of view either in case of bank credits or in case of installments due to the state as seller.

In case this rule is violated any initiative will fail even if the ESOP debt could be settled immediately by selling real property. Even in such a case ESOP is not the appropriate choice, it is more expedient for employees to establish an investment company, naturally accepting the financial consequences of a possible failure as well. Unfortunately, there are charlatans who often organize their own version of ESOP in order to get a considerable amount of the preferences that can be given to ESOPs . These cases, however, are disguised as ESOPs but they are in fact buyouts which would not contribute to the good reputation of ESOPs no matter how successful they are. In the background the interests of management or smaller employee groups are emphasized, they want the buyout, it can be seen clearly if we have a closer look at the ESOP statutes.

That small group, which takes the philosophy of ESOP seriously and has organized and still organizes ESOPs accordingly, can look forward to the future, especially if - besides the democratic distribution of shares among employees - "employee involvement" is introduced as well, which program is, in fact, an integral part of the Employee Share Ownership Plan. In this participation program employees are involved in the direct decision making process at work and this way they are made interested in making work more effective at every level of their company which is the key to success.

We are convinced that privatizations started in the form of real ESOPs can be very successful if the management does not turn off the road chosen with ESOP.

For all those consortium partners who are interested in the successful long-term operation of the company ESOP might be a very favorable partner.

B. Examples of syndicate contracts

It is true of these contracts as well that they are considered to be business secret so concrete examples cannot be published without breaking the law.

Materials containing reference information and model contracts between ESOP organizations and employees who have already acquired shares in the framework of ESOP are the exceptions and they are published within the National Association of Employee and Management Shareholders, ESOP and MBO Organizations.

Section VI - Model contents of consortium and syndicate contracts

Point A4., section III. of the present study corresponds well enough to the title as far as consortium contracts are concerned.

Point B., section III. contains the description of syndicate contracts to be concluded with co-owners outside ESOP.

B.5 PROMOTE FOREIGN INVESTMENT

November 24, 1994

DISCUSSION OF RESULTS OF THE QUESTIONNAIRE REGARDING TRAINING NEEDS OF ESOP COMPANIES

The representatives of ESOP companies who attended the Third National ESOP Seminar on Nov. 3-4 were asked to state in order of priority, on a scale of 1 to 5, those problems of their companies which are related to the fact that the company has an ESOP.

81 filled questionnaires were received. These may be considered a good representation of Hungary's 178 ESOP companies, especially those who were interested enough to attend the conference and thus are likely to be better targets for future TA activities. If the answers are weighted by 5 for the highest priority, down to 1 for the lowest priority, the following results are obtained.

A. Results of the Questionnaire.

Problem #1: "Employees do not feel that they are part owners and have not changed their working attitudes". This problem received the highest score (3.96 out of 5), and 37 respondents classified it as their largest problem related to employee ownership.

Problem #2: "Employees feel that as owners they are entitled to interfere in day-to-day management decisions". This problem received a score of 3.23 out of 5, and 17 respondents classified it as their largest employee-ownership problem.

Problem #3: "Employees feel as owners that profits should be distributed as dividends or bonuses, not be re-invested in the company to improve its performance". This problem was rated almost equal in importance to problem #2 (a score of 3.19 out of 5), and 13 respondents designated it as their largest employee-ownership problem.

Problem #4: "It is more difficult to lay off workers when it is necessary because they are owners". This problem received a much lower score (2.34 out of 5), and only 4 respondents considered it as their largest employee-ownership problem.

Problem #5: "The company and the ESOP do not have a good accounting system for keeping track of the shares each employee has in the ESOP". This problem had the lowest score (1.96 out of 5), and only 2 respondents identified it as their largest employee-ownership problem.

Other problems identified by the respondents were of **much** lower priority, and furthermore were either (1) particular aspects under the above five large problems, or (2) problems which are not related to the **employees** (eg. uncertainties of the ESOP tax treatment and access to credit, lack of investment capital, delays in SPA decision-making).

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B. Discussion of the Results.

Problems #1, #2, #3 and #4 all belong to the type of problems which can be tackled by "ownership education". Within the general field of "ownership education", the following interventions would address these problems:

1. Information regarding the employees' rights under the ESOP: Explaining to employees their existing ESOP program will help to make the ESOP real to them and to change their work attitudes (problem #1). Explaining an existing program to the employees is quite different from explaining to management how to set up an ESOP, which has been the thrust of ESOP promotion up to the present.

2. Education regarding corporate governance: Having employees understand how a corporation operates - the different roles and powers of shareholders (general assembly) board of directors and management - will help to defuse problem #2 (employees feeling that as owners they may interfere in day-to-day management decisions) and problem #4 (employees believe that as owners they cannot be laid off).

3. Basic financial education: Training employees to understand some very basic financial concepts - eg. the effect of cost reductions on earnings, and the effect of retained earnings on share value - will help employees realize the impact of their behavior (eg. reducing scrap losses and absenteeism) on the value of their ESOP shares (problem #1). It will also let employees understand how retaining the earnings in the company can give them in the future a larger return through share appreciation than the immediate return they can get through dividend distributions (problem #4).

4. Organization of employee groups to solve workplace-related problems identified by them: Participation of employees in such groups is highly likely to make the participating employees change their work attitudes, contributing to the solution of problem #1.

A problem of a different nature is #5 (lack of a computerized ESOP administrative/accounting system). Objectively speaking, every company of over 50-100 employees does need such a system, since over that size it is impractical to keep track of the employees' share allocations by hand. The low priority assigned to it is a matter of timing (management is not yet faced with the task of allocation) and perception (management does not assign priority to setting at present the data base for future allocations). The recommended actions are (1) installation of the ESOP accounting software in the companies of the 13 respondents which indicated the lack of it as their first or second priority, and (2) aggressive marketing among the other ESOP companies to make management realize that the software can solve some present problems, such as (1) keeping track of what employees are entitled to vote in the annual meeting of employee-owners and for how many shares each, as well as (2) making the ESOP more real to employees (problem #1) by printing their share certificates, etc.

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SUMMARY

About the need of additional capital for ESOP companies
(Processing of the questionnaires)

In late September, 1994 we sent out questionnaires to the chief executives of the companies, where the ESOP organization had concluded a sales purchase agreement with one of the state trustee organizations about a purchase of a business share or of teh company as a whole. Of the 168 target companies 32 responded. Of these 32, two companies sent a letter politely explaining there is no need for capital increase in their company, and we received four additional letters not answering or giving a negative answer to question 4.a).

Statistical characteristics	piece	%
Number & proportion of questionnaires sent	168	100,0
Number & proportion of responds	32	19,0
From this: number & prop. of negative responses	6	3,6
number & prop. of positive responses	26	15,4

We have processed all the filled-in questionnaires we received. All our findings for can be found in the file called "capitrl.xls". In the following, we summarize the responses to our questions and draw the appropriate conclusions. Ultimately, in accordance with the purpose of the survey, on the basis of the data given, we identify the ESOP companies that are likely to use capital increase in a successful way.

1.1 Group "A" (Tables 1.1 & 1.2):

- they have low hard currency export sales, but they are expected to grow,
- most of these companies need significant capital increase

Evaluating the responses given for question # 1, we found the hard currency export of 20 companies does not exceed 25%, however 13 companies of this group (one of them is unidentifiable) expect this percentage to grow within the next three years. This conclusion is drawn from the responses to question 3.

Of the 13 companies listed in Table 1.1, 11 companies require additional capital (*the two exceptions are in italics*), and 12 chief executive officers specified in their response to question 4.b) the amount of the required additional capital. Most of the companies would require a significant amount of additional capital both in absolute terms and also relative to the subscribed capital and owners' equity, the relative figures being 25-50%.

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Ten companies would prefer the additional capital in the form of capital increase, 4 companies would prefer loans. The acquired capital would mainly be used for purchase of machinery and equipment (8 companies) and/or to upgrade their marketing activities (7 companies) while three companies would use the funds to improve product quality. Among other objectives teh chief executives mentioned sale network development, product development, installation or updating of a computerized information system, extension of activities and profile. Three companies comsidered working capital financing. (Table 1.2)

According to the estimations, as a result of capital injection, the revenues and the profits of all companies are expected to increase. Some companies forecast a significant increase, and ezpress it also in figures.

I.2. Group B (tables 2.1 and 2.2)

- low quantity hard currency exports, which are not expected to increase
- different need for additional capital

Seven out of the 20 companies with hard currency exports lower than 25% will probably not be able to exceed this figure in the next year either, or in the forthcoming three years.

The companies would need additional capital except for Műszaki Fordító Rt (Technical Translations Rt.). The value of the needed capital, both in absolute terms and relative to the owners' equity, widely varies. Most companies would prefer capital increase, two companies would prefer drawing a loan. Three companies would spend the additional capital on purchase of machinery and equipment, one company would improve product quality, two companies would upgrade their marketing activities.

I.3. Group C (Tables 3.1 and 3.2)

- hard currency exports are of higher quantity
- the majority of the companies would need significant amount of additional capital

Seven out of the ten companies in this category have hard currency exports which total over 25% of the current sales (first column of Table 3.1). The percentage is between 25-50% in 2 companies (Bakonyművek Rt., Vegyépszer Rt.), 50-75% in 3 companies (ÉD MÉH Rt, Járműszerelvény Rt., Kecskeméti Parkettagyártó Rt.), over 75% in 2 companies (Agroinvest Rt, DIRUVÁLL). 5 companies out of the 7 projected further increase of hard currency sales, however, none of them answered to Question 3, i.e. whether they expect further increase in the next three years. The remaining three companies did not indicate which export category they fall in, however, Medicina Publishing House projected increasing

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export revenues.

Of the 10 companies 9 require additional capital (the exception is Vegyépszer Rt.). Both in absolute terms and relative to the equity and the registered capital, the need for additional capital shows a diverse picture, but the average is between 25-50%. The following companies have a remarkable additional capital requirement: Kecskemét Parquet Manufacturing Kft., Agroinvest Rt., Medicina Book Publisher Rt., and Agroker Szombathely Rt.

In this group most of the companies (6 altogether) would use the additional capital in the form of equity increase, however five other companies would prefer access to credit. In two cases (Bakonyi Works Rt. and Bajai Construction Rt.) both forms were indicated, while Agroinvest Rt. make their preference dependent on the conditions. It is a striking characteristic feature for the group that in 7 cases, the additional capital would be used for purchasing machinery and equipment, the goal of increasing product quality was set only in two cases and another two companies marked increasing quality marketing activities as a goal. As an additional goal, four companies would use the additional capital for working capital financing (Agroinvest Rt.would like to finance the working capital for new business events), AGROKER Szombathely Rt. would like to continue construction works, Bajai Construction Rt. would start constructions financed by themselves, four companies did not indicate other activities. As an influence of using the additional capital, revenues and the profit would increase at all companies, some companies project very significant growth.

II. Group D (Tables 4.1 and 4.2):

On the basis of

- expectations regarding volume and/or growth of export,
- capital volume
- capital needs and
- existence of contacts

we chose 15 companies for further consideration and ranking in order to select the 5 ESOP companies we are going to visit.

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1.1 táblázat/TABLE	HEADQUARTERS		HUF MILLION		HUF MILLION	EQUITY	REGISTERED CAPITAL					
Társaság neve/COMPANY	Székhelye	2.a)	2.b) (millió Ft)	2.b) (%)	4.b) (millió Ft)	Saját tőke	Jegyzett tőke	5a	5b	6a	6b	6c
DRÁVA PIERT Rt.	Pécs	NO/nem			100	420,561	380,000	x				x
Gasztrometál Rt.	Tatabánya	YES/igen	15-20		15-20	141,770	106,000	x	x	x	x	x
Grafika Kereskedelmi Rt.	Budapest	YES/igen	100	4	70-100	708,963	462,785	x		x		x
Győri PATYOLAT Kft.	*Győr*	NO/nem			50	37,000	37,000	x		x		
HARTECH Rt.	Nagykáta	YES/igen	50		50-100	153,820	138,440	x		x		x
METAL-CARBON Kft.	Budapest	NO/nem			50	181,943	119,330		x	x		
Nehézfémöntöde Kft.	Székesfehérvár	igen YES	15-20	20-25	30-50	322,931	259,210	x			x	x
OREX Rt.	Budapest	NO/nem			200-400	968,049	800,000	x				
PEMÜ Kft.	Solymár	YES/igen	100		100-300	1,462,000	800,000	x		x		x
Szalag- és Zsinórgyár Rt.	*Budapest*	YES/igen	10	2		601,421	541,300		x	x	x	
Vízkutató és Fúró Rt.	Budapest	NO/nem			200	430,614	238,760	x		x		
ZALAIPARKER Rt.	Zalaegerszeg	YES/igen	10	40	150	713,209	698,524	x				x
Ismeretlen cég		NO/nem			300				x			

TABLE 1.2

Company	6.d)	7.a)	7.b)
Dráva PIÉRT Rt.	Network development	by 10%, in the long run 50-60%	by 10-15%
Gasztrometál Rt.	Product development	should increase with other conditions	would increase it
Grafika Trading Rt.	Working cap. fin., computer tech.	would be 500 million	would be 100m HUF profit
Győri Paty. Kft.	no answer	would sign. increase	would increase
HARTECH Rt.	no answer	significant increase	increase
METAL-CARBON Kft.	no answer	increase	increase
Nehézfémöntöde Kft.	raw material procure-ment	net sales in 5 years would inc. by 60-70%	in 5 years increase by the double
OREX Rt.	network development, invent. financing	would increase	would increase it
PEMÜ Kft.	no answer	increase by 20-30%	40-50% increase
Szalag zsinórgyár Rt.	no answer	would increase	would increase
Vízkut. Fúró Rt.	for tendering	significant increase	signif. increase
Zalaiparker Rt.	extend info system, sale network	even increase	signif. increase in short term
Unknown company	extend activities and provile	would increase it	would increase it

2.1 táblázat/TABLE	HEADQUARTERS	HUF MILLION	EQUITY	REGISTERED CAPITAL					
Társaság neve /COMPANY	Székhelye	4.b) (millió Ft)	Saját tőke	Jegyzett tőke	5a	5b	6a	6b	6c
Alföldi Téglaipari Kft.	Mezőtúr	60	829,278	295,230		x	x		
EÚBER Kft.	Budapest	50-100	28,302	25,470	x				
G^LA Kereskedelmi Rt.	Miskolc	50	358,892	200.000	x				x
Győri Agroker Rt.	Győr	100	367,899	302,500	x				
HÉTFORRÁS FŰSZÉRT Kft.	Szombathely	250	295,893	266,300	x				x
Műszaki Fordító és Szolg. Rt.	Budapest		93,499	74,799		x	x		
Pátria Nyomda Rt.	Budapest	150	1,187,673	916,000	x		x	x	

TABLE 2.2

Companies	6.d	7.a	7.b
Alföldi Téglaip. Kft.	establish a plant to extend profile	would increase by 150 m HUF	would increase to 8%
FŰBER Kft.		significant & "jump" increase	moderate increase
GÁLA Keresked. Rt.		would signif. increase	would increaase
Győri Agroker Rt.	extend profile, establish trade network	2-3 years	3-5 years
HÉTRORRÁS Füszért Kft.	working capital financing	would increase by 1-1.5 billion HUF	would increase it by 75 million HUF
Műszaki ford. Rt.		increase	increase
Pátria printing Rt.		smaller increase	higher increase

3.1 táblázat /TABLE	HEADQUARTERS			HUF MILLION		HUF MILLION	EQUITY	REGISTERED CAPITAL					
Társaság neve	Székhelye	1	2.a)	2.b) (millió Ft)	2.b) (%)	4.b) (millió Ft)	Saját tőke	Jegyzett tőke	5a	5b	6a	6b	6c
Bakony Művek Rt.	Veszprém	b	igen/YES	100	10	300	3,030,860	2,000,000	x	x	x	x	x
Vegyépszer Rt.	Budapest	b	nem/NO				1,423,256	1,073,000		x	x		
ÉD MÉH Rt.	Győr	c	nem/NO			50	308,245	301,390	x		x		
Járműszerelvény Gyártó Rt.	Budapest	c	igen/YES		5-10	100	465,909	400,000		x	x	x	
Kecskeméti Parkettagyártó Kft.	Kecskemét	c	igen/YES	40-50	10	200-300	385,248	240,000	x		x		
Agroinvest Rt.	Budapest	d	igen/YES		25-30	300	195,863	150,000					
DIRUVÁLL Ruházati Kft.	Nyíregyháza	d	igen/YES	8-10	10	25-30	93,867	84,480	x		x		
Medicina Könyvkiadó Rt.	Budapest		igen/YES	6	5	50-60	49,800	49,800		x			x
AGROKER Szombathely Rt.	Szombathely					1000	352,257	310,000	x				
Bajai Építőipari Rt.	Baja					10-20	100,508	80,000	x	x	x		

Table 3.2			
Name of Company	6d	7a	7b
Bakony Művek Rt		would increase	would increase
Vegyépszer Rt.		would increase	would increase
ÉD MÉH Rt.	increase of working fund	would increase	would increase
Járműszerelv. Gyártó Rt.		increasing	increasin
Kecskeméti Parketta gy.Kft	for financing production	by 20-30%,approx.HUF 30 million	by 30-40%.,approx. HUF 15-20 m
Agroinvest Rt.	for financing working capital of new business activities	would increase	would increase
DIRUVÁLL Ruházati Kft		would increase	would increase
Medicina Könykiadó Rt.	working capital financing	HUF 10 m increase	HUF 12-15 m increase
AGROKER Szombathely Rt.	continue investment	increase 4-5 times	3 times
Bajai Építőipari Rt.	self-financed implementation, sale	would increase	would increase

4.1 táblázat/TABLE	HEAD-QUARTERS	RELATIONSHIP	HARD CURRENCY	DOES EXPORT INCREASE	HOW MUCH?		DOES EXPORT INCREASE IN 3 YEARS	ADDITIONAL CAP. REQUIREMENT		EQUITY	PROPORTION OF CAP. REQUIREMENT	FORM OF CAPITAL EQUITY INCREASE	CREDIT TAKING
Társaság neve	Székhely	kapcsolat	kemény valutás export (%)	export nő-e 95-ben	mennyivel? (millió Ft)	(%)	export nő-e 3 éven belül	további tőke igénye	(millió Ft)	saját tőke (ezer Ft)	tőkeigény aránya (%)	tőke forma alaptőkeem	itelfel
(kérdés sorszáma)			1	2.a)	2.b)		3	4.a)	4.b)		4.b)/saját tőke	5.a)	5.b)
Agroinvest Rt.	Budapest	NO/nincs	FACT tény>75	igen YES		25-30		igen YES	300	195,863	153.17		
Kecskeméti Parkettagyártó Kft.	Kecskemét	NO/nincs	50-75	igen YES	40-50	10		igen YES	200-300	385,248	77.87	x	
Bakony Művek Rt.	Veszprém	NO/nincs	25-50	igen YES	100	10		igen YES	300	3,030,860	9.90	x	x
Vegyépszer Rt.	Budapest	YES/van	25-50	nem NO						1,423,256	0.00		x
PEMÜ Kft.	Solymár	YES/van	tény<25	igen YES	100		YES/igen	igen YES	100-300	1,462,000	20.52	x	
Pátria Nyomda Rt.	Budapest	YES/van	tény<25	nem NO			NO/nem	igen YES	150	1,187,673	12.63	x	
OREX Rt.	Budapest	YES/van	tény<25	nem NO			YES/igen	igen YES	200-400	948,049	42.19	x	
ZALAIPARKER Rt.	Zalaegerszeg	YES/van	tény<25	igen YES	10	40	YES/igen	igen YES	150	713,209	21.03	x	
Grafika Kereskedelmi Rt.	Budapest	NO/nincs	tény<25	igen YES	100	4	YES/igen	igen YES	70-100	708,963	14.11	x	
Vízkutató és Fúró Rt.	Budapest	YES/van	tény<25	nem NO			YES/igen	igen YES	200	430,614	46.45	x	
Győri Agroker Rt.	Győr	NO/nincs	tény<25	nem NO			NO/nem	igen YES	100	367,899	27.18	x	
HETFORRÁS FŰSZERT Kft.	Szombathely	NO/nincs	tény<25	nem NO			NO/nem	igen YES	250	295,893	84.49	x	
HARTECH Rt.	Nagykáta	NO/nincs	tény<25	igen YES	50		YES/igen	igen YES	50-100	153,820	65.01	x	
EÜBER Kft.	Budapest	NO/nincs	tény<25	nem NO			NO/nem	igen YES	50-100	28,302	353.33	x	
AGROKER Szombathely Rt.	Szombathely	NO/nincs						igen YES	1000	352,257	283.88	x	

Table 4.2						
Company name	Purpose of additional capital				effect of additional capital	
	machinery	product quality	marketing	other	on revenues	on profit
No. of question	6a	6b	6c	6d	7a	7b
Agroinvest Rt.				new business activities for financing working capital	would increase	would increase
Kecskeméti Parkettagyártó Kft.	x	x	x	for financing production	would increase by 20-30%, appr. 30 m	30-40% incr., 15-20 mHUF
Bakony Művek Rt.	x	x	x		would increase	would increase
Vegyépszer Rt.	x				would increse	would increase
PEMÜ Kft.	x		x		20-30% increase	40-50% increase
Pátria Nyomda Rt.	x	x			slight increase	larger increase
OREX Rt.				network development, inventory financing	would increase it	would increase
Zalaiparker Rt.			x	to extend info system, sale network	even increase	drastic short term increase
Grafika Ker. Rt.	x		x	current asset financing, computer technology	would be 500 mHUF	100 mHUF profit
Vízkutató és Fúró Rt.	x			resources for tendering	significant increase	pickvick

Győri Agroker Rt.				to extend profile, establish trade network	2-3 years	3-5 years
Hétforrás Füszért Kft.			x	working capital financing	1-1.5 billion increase	would increase by 75 mHUF
HARTECH Rt.	x		x		significant increase	increase
EÜBER Kft.					sign. & jump incr.	slight increase
Agroker Szombathely Rt.				to continue investments	4-5 times increase	3 times

September 30, 1994

QUESTIONNAIRE REGARDING ESOP COMPANIES

1. What percentage of your current sales are for hard currency exports?

   a) less than 25% b) 25%-50% c) 50%-75% d) more than 75%

2. a) Can you forecast how much your hard currency sales will increase next year?

   Yes No

   b) If yes, by how much? (amount)..... (%).....

3. If you have less than 25% of hard currency sales, do you expect to increase that percentage in the next 3 years?
   Yes No

4. Do you need additional capital to

   a) implement your business plan to full extent?
   Yes No

   b) If yes, how much? .....

5. Would you prefer to get the additional capital that you need

   a) by increasing your equity (through taking in additional shareholders) or

   b) by borrowing?

6. If you had additional capital, how would you spend it?

   a) purchase of machinery and equipment

   b) improvement of quality of products

   c) marketing

   d) other: .....

7. If you spent the capital that way, what would be the short- and medium-term effect
   a) on revenues? .....
   .....
   b) on profit?.....
   .....

B.6 PILOT AVRT ESOPS

NOT REQUESTED BY THE AVRT OR ITS SUCCESSOR AGENCY AS DISCUSSED IN THE APPROVED WORKPLAN

B.7 LEGAL ASSISTANCE

Legal Amendments Required for the Establishment of ESOPs at Companies Included in the Portfolio of AV Rt

COOPERS& LYBRAND/CHEMONICS IMPACT II
USAID PROJECT OFFICE

July 31, 1995

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A. Introduction[1]

A1. Objective of the Report

The objective of the report is to reveal the elements of the present laws and regulations that impede employee ownership in companies falling in the portfolio of ÁV Rt and to give suggestions for their elimination.

A2. Companies Included in the Report

According to Law No. XXXIX. of 1995 on the sale of state venture capital, effective as of June 17, 1995, (hereinafter the Law), the State Asset Management Share Holding Company (hereinafter ÁV Rt) and the State Property Agency (hereinafter SPA) have been merged into one organization called the Hungarian Privatization State Privatization and Asset Management Share Holding Company (hereinafter ÁPV Rt). As a result, companies that used to belong to the SPA and are for sale in 100% now also fall under the authority of the new organization.

In this report the term "ÁV Rt companies" means companies of strategic importance falling in the portfolio of the ÁV Rt, where the government intends to keep long term state ownership.

A3. Types of Employee Ownership Included in the Report

Employee ownership or ESOP as a collective term involves not only employee ownership acquired according to the ESOP Law but also by means of any other ownership acquisition technique or financing mechanism.

It is a different issue which one of the potential facilities is the most expedient for the employees to use for ownership acquisition. Apparently those requiring the less burden (disinvestment) for both the employees and the company should be recommended. Therefore those offering preference(s) should be promoted.

A4. Arguments for ESOPs in companies that remain in long term state ownership

A4a. Political Considerations

Social changes in the Eastern European (post-socialist) countries justify the idea that economic rationale alone is not a satisfactory consideration during the state regulation of certain issues that have a profound effect on the society such as the transformation to market economy and the privatization of state assets which is the precondition of the first. Political stability however has to have first priority.

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[1] *As a resource material for this report we used the study prepared for this purpose under the same title by Miklós Lengyel with the help of dr. Miklós Mocsáry.*

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The majority of Hungarian adult citizens are active workers i.e. they have a major impact on the public opinion. Therefore it is important to convince active workers of the importance of market economy and, as a part of it, the importance of privatization.

According to an opinion poll made in *1945*, 67% of the respondents supported nationalization.

According to the data of the European Union, the judgement of the transformation to market economy in Hungary in the past few years has been changing as follows:

Respondents consider market economy

in	good	bad	do not know
1991	65%	23%	12%
1992	55%	28%	17%
1993	46%	29%	25%
1994	44%	32%	24%

There is a good reason to assume that transformation to market economy in 1989-90 had a higher support from the public opinion than in 1991, i.e. support for market economy was at least as high as support for nationalization in 1945. *However support for market economy has been decreasing since then.*

This trend is in *full harmony* with the opinion poll made in 1992, which revealed that privatization was supported only by 39% of the respondents. This is in harmony with the above table, i.e. in 1992 market economy was only supported by 55% of the respondents.

Negative speculations that cannot be legally sentenced or persecuted cannot (at least not always) precluded in the privatization process in Central and Eastern Europe and therefore they play an important part in the development of the above trend. Instead of the original objective of privatization, the objective of buying a company according to these negative speculations is the short term acquisition of funds by all means, even by closing down the operations. On the contrary, employee stock ownership by its nature sets clear objectives, applies clear methods aimed at sustaining the long term viability of the company and therefore hinders negative speculations. Therefore in the long term employee ownership serves the real objectives of the transformation to market economy.

A4b. Major Social and Economic Advantages of Employee Stock Ownership

The major social and economic advantages of employee stock ownership are as follows:

a.) reduces the aversion of these companies toward privatization,

b.) improves labor-management relations,

c.) outside investors' money stays in the company and improves productivity,

d.) has a positive impact on productivity,

e.) in addition to their wages, employees are entitled to obtain ownership proportionate capital income regardless their conditions of employment and take part in the decisions made by company owners,

f.) makes employees (both as owners and employees) interested in the viability and

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success of the company,

g.) as owners, employees are entitled to have access to any company information that other owners may obtain.

A4c. Impediments to Employee Ownership in the Privatization of ÁV Rt companies

There are only two corporations in the portfolio of ÁV Rt where privatization included ESOPs. The majority ownership by ESOP at the porcelain factory of Herend is the most significant.

The Workers' Council, which is the biggest trade union in the factory has been supporting from the very beginning the transformation of the company as a piece of treasure of Hungary and the maintenance of domestic ownership (more particularly majority employee ownership).

Upon the transformation of the company from state owned company to share holding company, the *statutes*[2] of the company was signed by the State Property Agency (hereinafter SPA) where the company used to belong to before September 1992 together with other companies.[3]

The other company in the portfolio of ÁV Rt where employee ownership was established before May 1995 is the Debrecen Tobacco Research Share Holding Company.

On the other hand out of the 207 companies in the SPA's portfolio, ESOP has been established in 207 companies, out of which 110 established majority employee ownership.

The main reason of the great discrepancy between the two state asset holding organizations however does not lay in the legal regulations. The previous law No. LIV of 1992 on the ÁV Rt and law No. LIII. of 1992 on the SPA has identical provisions regarding employee ownership acquisition.

In accordance with the effective framework regulations regarding privatization, prior to the law on privatization the Parliament determined the privatization strategy and other issues in annual decrees called Asset Policy Guidelines (hereinafter APG) which had regulations for companies falling under both laws as far as employee ownership

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[2] *As a lawyer, the writer of this report edited and counter-signed the statutes of the Herend Porcelain Factory.*

[3] *The transformation of the Herend Porcelain Factory from state owned company to share holding company in 1992 was the result of thorough preparations. On the initiative of the Workers' Council and still in the phase of state ownership, the company council replaced the management by a new management selected from among the middle managers. From that time on and prior to the ESOP Law's coming into effect, the management of the company and the Workers' Council consciously started the preparation of the transformation and majority employee ownership with the coordination of six private individuals and with the help of the Share Participation Foundation that was set up in 1989 and foreign ESOP consultants. The Foundation was set up on the initiative of János Lukács, then research fellow of the Sociology Research Institute of the Hungarian Academy of Sciences and the writer of this report is one of the founding members.*

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acquisition is concerned.

Nevertheless, after the new privatization law packet came into effect on August 27, 1992, the SPA also identified itself with the principle that preferential employee ownership acquisition my only take place after the sale of the company's majority stake so that the market price of the state owned stake can be established.

Therefore the discrepancy in my opinion lies in the different results of the two asset holding organizations in the field of privatization. We all know that prior to the new government's inauguration in 1994, out of the companies in the ÁV Rt's portfolio, only some big companies of national importance started privatization.

The ÁV Rt issued its recommendations called "Employee Ownership in the ÁV Rt companies" as late as spring 1994 and they were not implemented before the governmental changes and as we all know privatization has been slowing down also at the SPA since the new government took over.

One of the reasons why preferential employee ownership acquisition did not really take place is that the organization and the personnel of the ÁV Rt was not prepared in the fields of privatization and within that preferential employee ownership acquisition.

Prior to the governmental changes, the writer of this report participated as a consultant in the preparation of a bid submitted to the ÁV Rt regarding employee stock ownership acquisition in one of the big companies of national importance that is meant to be kept in partial state ownership and also held meetings with the managers and desk officers in charge of the ÁV Rt. Based on my experience I can say that there were no problems with the of the personnel. The reason why the initiative did not come through is that there was no decision taken on the privatization strategy of the company.

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B. Characteristics of ÁV Rt. Companies as far as Employee Ownership is Concerned

B1. Present Situation of the Privatization Portfolio

The following Table shows the results as of May 1995:

Denomination	**ÁV Rt.**	**SPA**	**Total**
Situation as of January 1, 1995	(number)	(number)	(number)
State owned company	0	1848	1848
Economic Corporation	0	0	0
Changes			
Companies and Corporations liquidated	-13	-547	-560
Corporations other than those transformed from a company	0	+271	+271
Firms transferred to other asset manager	-13	-276	-289
Firms taken over from other asset managers	+184	0	+184
100% privatized companies	0	+696	+696
Situation as of May, 1995	**ÁV Rt.**	**SPA**	**TOTAL**
State owned company	5	3	8
Economic Corporations	153	597	750
Book Value of Equity	**(HUF billion)**	**(HUF billion)**	**(HUF billion)**
Company	3.0	1.14	4.14
Corporation			
- Assets in long term state ownership	341.0	0	341.0
- Assets subject to privatization	1042.0	204.5	1246.5
Assets Separated	0	9.38	9.38
Total	1386.0	215.02	1601.02

Number of Employees	(number)	(number)	(number)
State owned companies + economic corporations Total	124,000	250,000	374,000

(Source: Privinfo, SPA)

The above table indicates that

a. the *book value of equity in state ownership* is still HUF 1624 billion
b. out of which the book value of assets in *long term state ownership* is only HUF 669 billion
c. the book value of *equity subject to sale* is around HUF 1000 billion.

B2. Characteristics of ÁV Rt companies

According to Article No 7. of the privatization law, the assets (or a limited portion of the assets) of a company may remain in long term state ownership only if the asset or the company that operates the assets

a) is a national public utility
b) is of strategic importance for the national economy
c) has military or other outstanding function.

Furthermore, shares that are essential to maintain majority state ownership according to Law No. XVI. of 1991 on concessions will also remain in long term state ownership.

The general principle of the Privatization Law is that the minimum share of the state in corporations in long term state ownership is 50%+1 vote. The privatization Law (i.e. the Parliament) however may determine on a case-to-case basis the minimum state ownership in 25%+1 vote or voting share.

The list of companies that will remain in long term state ownership as well as the extent of state ownership, the name of the organization or Minister entitled to membership (shareholders') rights is attached to the Privatization Law. The Minister named in the attachment of the Privatization Law is responsible for the determination of the pace and extent of the privatization of the company share over the stake that remains in state ownership while the ÁPV Rt, in accordance with the above mentioned Minister, is in charge of the implementation of privatization.

There are major differences between the former and the present regulation regarding the group of companies remaining in long term state ownership.

According to the former Privatization Law, the Government was entitled to determine the group of companies where long term state ownership can be sustained and the extent of ownership share. The Government used to decide on the extent of state ownership share on a case-to-case basis while keeping some general principles. In many cases - especially in the energy sector and the related fields - the state only wanted to keep a primary share

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which ensures extraordinary rights.

According to the new Privatization Law, the above rights are exercised by the Parliament, which, based on the new privatization strategy, has significantly narrowed down the group of companies in long term state ownership but intends to maintain at least 50%+1 vote majority ownership in these corporations.

The list of corporations remaining in long term state ownership (either partial or full) according to the former and the present Privatization Law and their characteristics are included in Attachment A.

Corporations in the portfolio of the ÁV Rt operate in different industries and have special features that determine the way of their management and privatization.

Majority of the companies in the ÁV Rt's portfolio are characterized by some sort of disorder, e.g.:

- *lack of transformation* (9 out of the 19 companies in human infrastructure were not transformed into corporative form as of the beginning of 1994)
- *monopolistic position*
- lack of regulations regarding *ownership* relations and exercise of rights (e.g. IKARUS company)
- *lack of strategy* for the operation of the company (e.g. energy sector)
- *price formula* to be applied (energy sector), etc.

The above factors impeded privatization and employee ownership in companies in the ÁV Rt's portfolio and contributed to the failure of their privatization.

According to the legal regulations, AV Rt's portfolio comprises of companies with large equity and high number of employees, e.g.:

- companies from the *energy sector* and related areas (e.g. Hungarian Electric Works (MVM Rt.), Hungarian Petrol Industry Co. (MOL Rt.), Power Supply Works in Paks, electricity supply companies);
- *infrastructure, transport* and related industries (MALÉV, (Hungarian Airlines), MAHART (Hungarian Shipping Co.), HUNGAROCAMION, MATÁV (Hungarian Telecommunication Co.), etc.);
- *manufacturing industry* (DUNAFERR Rt., Duna Steel Works, HUNGALU (Hungarian Aluminium Works Co., IKARUS, pharmaceutical companies, etc.);
- companies selected for a *particular reason*. e.g. brand protection, safety, etc. (Herend Porcelain Manufacturing Co., Zsolnai Porcelain Manufacturing Co., Medical Appliances Rt., HUNGAROPHARMA Rt.;
- *agricultural* companies engaged in plant improvement, basic seed-grain production or forestry;
- certain companies engaged in *research and development*, design or quality control;
- companies from human infrastructure, book- and film industry;
- certain *banks, financial institutions and insurance companies*.

The above facts make it unambiguous that, despite their smaller number, the book value of companies in ÁV Rt is much higher than that of the SPA companies.

Another feature of the privatization of companies in long term state ownership is that usually a *minority share* is sold therefore employees can only acquire minority positions.

We have to note however that there are two types of assets in companies in the portfolio of ÁPV Rt:

- registered capital in line with the profile of the company; 25-50-75% or in some cases even 100% may be kept in long term state ownership. In these cases we mean partial ownership that can be bought out in the form of shares or business shares from the property share as opposed to the registered capital.
- companies in the portfolio of the ÁPV Rt (including companies that will remain in 100% state ownership) also have profile-extraneous capital. As far as we know the ÁPV Rt brought a decision that these assets have to be contributed to companies and fully privatized.

The assets of these units are included in the capital reserves of the company. Therefore there are no theoretical impediments to their privatization, not even to a 100% privatization including employee ownership especially because the capital value of these plants is usually quite low.

Examples for these assets are the wood-mills and other activities by coincidence pursued by forestries that will remain in 100% state ownership.

Another peculiarity of these companies is that ESOPs have to collaborate with other minority owners (social security, compensation coupon funds, foreign investors, etc) that represent different interests, sometimes in contradiction with ESOPs. Their privatization usually effects complicated industrial or national issues (priced regulation, monopolies, etc.). These problems are of different type in the different ÁPV Rt companies (e.g. in electric energy industry the problem is related to village electrification and energy prices, in coal mining to the maintenance of the operation of mines and export-import price regulation) therefore we have to determine for each company which type of privatization brings the best results.

C. The situation of employee ownership in Hungary, with special regard to ÁV Rt companies .

C1. Relation between the objectives of the government and the legal framework of employee ownership acquisition.

The real objectives of the government is a more hardly definable category than the legal framework of employee ownership acquisition.

The government's aims are followed by the relevant law much later in time, since legislation is a long process. Laws regarding the transformation and privatization of state enterprises, may only be modified after their enactment if the negative social and political effects of the law are obviously present. Consequently, legal regulations usually reflect

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the objectives of the government only years after the new government takes over.

When we evaluate the objectives of governments, we have to examine the legal environment in which the government started and the legal environment as a result of modifications made by that particular government. On the basis of this we can draw conclusions.

C2. The legal environment provided for the first government

The legal framework represented by laws and government resolutions regulating privatization strategies during the period of 1988 and 1990, in connection with employee ownership acquisition is described in: Section "B" entitled "Advantageous employee ownership acquisition in Hungary during the years of 1990-1995", annexes a) benefits of employee ownership acquisition and the way of its utilization, b) the strategy of implementation of employee ownership acquisition. The first government was operating within the following legal environment, with regard to employee ownership.

C2a. The extent of benefits

The Property Policy Guidelines[4] of 1990 (hereinafter PPG) determines the extent of preferencial purchase as maximum 15% of the registered capital, and the price reduction may not exceed 50% of the total purchase price.

According to the PPG, the price reduction is not allowed to give in case ESOP is applied in its form already existing in the form of draft law.

According to the PPG, the SPA should carry out the sale of property through entities usually trusted with this assignment.

The PPG requires from the SPA that:

- the conditions of sale should facilitate the availability of preferential privatization credit facilities
- in each case the SPA should examine the means by which the employees can be made solvent.

C2b. Preferential privatization technique in case of joint-stock companies

Law No. XIII regulating the transformation of state enterprises into economic associations, known as the Transformation Law (hereinafter TL), in order to encourage the transformation of state enterprises into joint stock companies, introduced preferential, non-cash techniques up to 20% of the registered capital, or up to 50% of the registered capital in the food industry. This technique is called the leveraged temporary shares, and were issued for the purpose of supporting joint ownership acquisition -- resulting in joint

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[4] Government Resolution which regulates the extent of benefits extended by the state holding company.

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property ownership -- of Social Security, local governments, local employee communities, insurance and self-supporting organizations.

In case these shares were issued to the debit of capital reserves, then, in the case of companies under government supervision, 100% of the dividends, in the case of competitive sector companies, 80% of he dividends is due to the state holding organization until the repayment reaches the par value of the share. When this happens, temporary shares have to be changed for shares.

Until this time, 20% dividends, remaining at the company, has to be contributed to the equity.

C2c. Obligatory issuance of employee shares

According to the TL, the legal successor of companies in the competitive sector, were allowed to freely sell their shares exceeding their temporary shares for 3 years following the transformation. 80% of the incoming purchase price was due to the state holding company, 20% was due to the company, on condition, that the company had to use that 20% to increase its equity, with the purpose of using that for the issuance of employee shares, according to Section 244 of the Law on Economic Associations.

C2d. Preferences in the case of transformation into limited liability company

The only preference provided by the TL to the transformation of state companies into limited liability companies is that, instead of one year, there is a two-year grace period for taking in 50% of the cash contribution.

C3. The objectives of the government and the legal framework of employee ownership under the first government after the political transformation (1990-1994)

Based on the outline in Annex "B" we can say that it took two years for the first government after the first democratic parliamentary elections to prepare the new privatization law packet and the ESOP law while at the same time the pace of privatization increased. Therefore during the first two years the government was trying to carry out its objectives within the limits set by the former regulations while keeping the regulations of the SPA as the state trustee organization, the Asset Policy Guidelines and its own internal regulations.

The Hungarian Democratic Forum, winner of the 1990 parliamentary elections, promoted social market economy and employee ownership as early as in its election campaign. Prime Minister József Antall in some of his television speeches determined the future extent of employee ownership in 10% of the registered capital. However the legislation and the implementation of employee ownership was much slower than expected.

According to the 1992 "second generation" law packet, the objectives of the government are as follows:

(1) The government replaced the instalment payment facility of the first generation law packet resulting in collective employee ownership in max. 20% of the registered capital (issuance of temporary shares supported by credits to insurance and self-supporting organizations of employees) by a preferential facility provided by the ESOP law which results in individual employee ownership.

(2) The government did away with the practice of reinvesting 20% of the sales revenue in the companies and issuing employee shares from this amount. The government instead introduced the system of registering property notes among shares in the registered capital and issuing employee shares from it. If this is not feasible then the company is obliged to repurchase the property note at min. the par value using the capital reserves.

(3) In spring 1991 the government issued a decree regarding the utilization of the existence loan and the procedure, which made it possible for Hungarian investors to use credits for their purchases.

(4) The government gave statutory force to the principle that, if the bidders undertake the same conditions, than domestic investors should be preferred to foreign investors and ESOPs should be preferred to other domestic investors.

(5) The government accelerated the process of placing state companies in the competitive sector under public administration, deprived the founding state administration bodies of founders' rights. In order to accelerate transformation, the government standardized the transformation of state owned companies into joint-stock or limited liability companies by transforming them into one-party state corporations. This process is often called re-nationalization.

(6) The government centralized the privatization process but, in order to keep the balance, gave legal force to the principles of bidding, involved representatives of the employees' business federations in the privatization decision making process and placed a great emphasis on giving bigger control and publicity to the different processes, meeting the old demand of trade unions first by means of a government decree and then in the framework of the 1992 privatization law packet.

(7) The establishment of ÁV Rt gave space to a new strategy called reorganization in companies outside the competitive sector, which caused delays in the preparation of the privatization of these companies.

C4. The objectives of the government and the legal framework of employee ownership under the second government after the political transformation (May 1994-May 1995)

The new privatization law clearly indicates (and our experience is the same) that political changes have brought a "wave" of impediments to employee ownership acquisition. We are convinced however that, as time passes by, *this wave of impediments will stop under the economic and public pressure just like it happened at the beginning of the term of the previous government* and employee ownership will expand like it did under the previous government.

In August 1994 the government announced a technical discussion over the *first draft* of the third-generation privatization law, which came into effect on June 17, 1995. It means that there was a *long technical debate and lobbying* prior to the finalization of the law. Probably this is the reason why the *wording of the law* is so far from being perfect; it has

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many undefined terms, it includes a supplement to the ESOP law without any reference to the law itself, etc.

The draft, with respect to the privatization strategy, is a *return to the first generation privatization law, except for ESOP* which replaced the insurance and self-supporting organization of employees and instead of collective ownership it results in individual ownership.

Drafters of the law[5]

a.) in order to accelerate the process tried to avoid
- including *bidding* in the law as a requirement
- participation of *trade unions* in decisions related to privatization
- preparation of an annual *privatization strategy* in the form of parliamentary decree, and

b.) tried to limit the *utilization of preferential privatization techniques (first of all buy-out from E-loan)* to a small group (buy-out from E-loan was not among the techniques when the first generation privatization law was under preparation)

c.) gave priority to *cash* sales and, in order to promote it, it was stipulated that if the sales-purchase contract is concluded within one year after the effective date of the privatization law then 10% of the sales revenue goes to the company and has to be used to increase the registered capital and the issued shares or business shares have to be offered to the managers (50%) and employees (50%) of the company for free ownership acquisition (the first generation law stipulated 3 years and 20% and the capital increase (from the sales revenue) had to be used to issue employee shares in accordance with Article 244).

The draft however *put emphasis on the following requirements* as a new element compared to the first generation law:

a. *requirement of publicity*

b.) *requirement of parliamentary control*

c.) possibility given to *employees to purchase 15% of the registered capital under favourable conditions in cases* when the investor who acquired majority control does not take any contractual obligation in the sales-purchase contract to *offer further employment or improve working conditions*. (The buyer is not obliged to undertake any contractual obligations to keep or offer *acceptable personal income*);

d.) the *privatization strategy* should not be amended in annual parliamentary decrees.

After the technical discussions during more than a year, the privatization law preserved the following regulations of the 1992 privatization law packet:

- *the principle of bidding*
- *preferential facilities* in the case of small and medium companies but only allowed them when the first cash sales tender failed.

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[5] *The first draft of the new privatization law was prepared by the same group of people who drafted the legal regulations including the law on economic corporations and the ÁT between 1988 and the governmental changes.*

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In other issues however the above suggestions of the drafters have been implemented.

Nevertheless there are *several important issues related to preferential employee ownership acquisition* which had not been solved by the former government and keep being unsettled. In July 1995, the Privatization Committee of the Interest Reconciliation Council discussed the draft *bidding regulations* which had been submitted by the ÁPV Rt on behalf of the government. The draft however did not bring any changes in the regulation of these unsettled issues as compared to the privatization law. Thus we expect further debates in each transaction over the issues outlined in Attachment B (only those of great importance).

C5. Strategy of State Trustee Organizations regarding Employee Ownership

C5a. Strategy of the SPA

The privatization strategy of the SPA changed many times in the period between May 1990 and August 1992.

The *temporary Asset Policy Guidelines of 1990* were in force until the *effective date* of the new privatization law packet at the end of August 1992. Despite the stipulations of the ÁT, employee ownership from the very beginning has rather been implemented in the form of other facilities instead of temporary shares supported by credits mainly because

- a significant part of companies in the competitive sector were transferred into *limited liability companies instead of joint-stock companies* in which case neither the facility of temporary shares combined with instalment payment nor other facilities were applicable.
- in spring 1991, the Existence-loan (hereinafter E-loan) facility was introduced as a vehicle to facilitate ownership acquisition by domestic investors including employee ownership.

During this period (from 1991 until the first half of 1992) and also later, the direct decision-making body of the SPA was *averse to bids aimed at majority employee ownership especially to ESOPs*. This is difficult to understand since every expert knew from the very beginning that, *from among the different facilities, ESOPs bring the least burden to the company (smallest disinvestment)* because of the significant price discount and the 20% company tax relief during the repayment period.

Aversion to ESOPs was luckily not among the characteristics of the entire SPA Board which had to bear *political responsibility* for the pace of privatization and the *public opinion about privatization.*[6]

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[6] *The judgement of ESOPs in the SPA's Board of Directors was greatly influenced by the board member appointed by the employee side of the Interest Reconciliation Council (János Lukács) and other members devoted to employee ownership and its introduction in Hungary as well as other impartial members. János Lukács, engineer-sociologist, research fellow of the Hungarian Academy of Sciences, prior to 1989 spent a long time in the United States studying ESOPs there, participated in the ESOP legislation and played major role in the dispersion of ESOPs that follow the American ESOP philosophy.*

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Aversion to employee ownership by the SPA Board of Directors is the reason why instalment payment facilities (privatization lease-purchase, instalment payment set by the Civil Code, instalment payment set by the ESOP law) have been applied in such a *small group* despite the facts that a detailed regulation was elaborated for these facilities, the Board of the SPA accepted the regulation at the beginning of 1993 and the rules were issued in a manual. Still the staff of the SPA preferred the E-loan facility since its implementation meant incomparably smaller burden and responsibility the staff of the SPA than instalment payment which is a long-term task.

From among the preferential facilities, the SPA gave priority to the E-loan privatization facility therefore the potential group of owners of the Hungarian economy can be found *at banks*. Apparently, banks were more willing to provide ESOP organizations with E-loan when the management of the company was the main supporter of employee ownership. This is the reason why a *great part of ESOP organizations conceal management buy-out*. The framework nature of the ESOP law provides good opportunity for this.

The *strategy of the SPA regarding ESOPs and employee ownership acquisition* is as follows:

- the ESOP bid was *only accepted when* there were no other bids of almost the same value
- *ESOP-MBO bids were preferred* to sole ESOP bids
- in the SPA *investors had great advantage* over the employees in the privatization process. In the privatization process, entrepreneurs had better means to lobby both at banks and at the SPA. On the other hand, employees have been (and will be) able to influence the political will and, with an appropriate social background, they can enforce their rights that are included in the legal regulations but have not been enforced so far, e.g. giving priority to employees if the bidders undertake the same conditions.

C5b. Strategy of ÁV Rt.

As far as state assets in long term state ownership are concerned, there is nothing to mention under the Strategy of ÁV Rt regarding employee ownership since there were no such transactions.

ÁPV Rt, the state trustee organization established as the result of merging ÁV Rt and SPA according to the new privatization law, made a great progress in the field of preferential employee ownership acquisition in companies that will not remain in long term state ownership. ÁPV Rt brought a *decision on the conditions of preferential share purchase by the management and the employees of OTP Bank (National Savings Bank) on June 19*. As we all know, the government decided upon the future privatization of several big companies that will remain in long term state ownership so we expect the newly established privatization organization to make decisions about these companies in the second half of the year.

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C6. Results of Privatization that Established Employee Ownership

C6a. Results during the Term of the First Government (1990 - May 1994)

The following table shows the results of privatization under the first government and, as a part of it, development employee ownership.

(in %)

Denomination	At the time of establishment		May 1994	
	ÁV Rt	SPA	ÁV Rt	SPA
State Ownership	91.80	84.76	82.40	60.29
- long term	43.20	-	42.90	-
Local Government	2.00	4.85	4.00	4.49
Domestic	6.00	5.37	7.90	23.51
- employee ownership	-	0.28	-	6.33
Foreign ownership	0.20	5.02	5.70	11.81
Total	100%	100%	100%	100%

The following table shows some features of companies where ESOP organizations had partial ownership as of May 1994:

Denomination	ÁV Rt	SPA	TOTAL
Number of corporations	2	162	164
Nominal Value (billion HUF)	0.80	30.81	31.61
Approx. Staff Number	3000	22,000	25,000

Most of the ESOP organizations acquired majority ownership. If we compare the figures in the tables we can see that although ESOP was established in 164 corporations, employee ownership only amounts to 6.33% at the SPA and 0.28% at the ÁV Rt which has much higher value in its portfolio. The total is between the two which is far below the 10% projections of the former government. The 10% could only be achieved if the average proportion of employee ownership in ÁV Rt companies was over 10%.

The above tables also support a former statement i.e. ESOPs played some role in the privatization of SPA companies but were not given any importance in the privatization of ÁV Rt companies. Out of the two ÁV Rt companies, the Herend Porcelain Manufacturing Co. is more significant where the ESOP organization prepared for the majority ownership acquisition while belonging to the SPA.

C6b. Results under the Second Government (May 1994 - May 1995)

The following tables show the results of privatization during the first year of the second government:

(in %)

Owner	May 1994		May 1995		Changes	
	ÁV Rt.	SPA	ÁV Rt	SPA	ÁV Rt	SPA
State ownership	82.40	60.29	73.60	48.58	-8.80	-11.71
- long term	42.90	-	25.00	-	17.90	-
Local Government	4.00	4.49	4.58	4.46	0.58	-0.03
Domestic	7.90	23.51	16.10	32.46	8.20	8.95
- employee ownership	-	6.33	-	7.19	-	0.86
Foreign	5.70	11.81	5.72	14.56	0.02	2.75
Total	100%	100%	100%	100%	100%	100%

The tables indicate that:

a.) *state ownership* decreased by 11.71% at the SPA and 8.80 at the ÁV Rt last year
b.) ownership share of *domestic owners* went up by 8.95% at the SPA and 8.20% at the ÁV Rt
c.) ownership share of *foreign investors* raised by 2.75% at the SPA and 0.02% at the ÁV Rt
d.) *employee ownership* within domestic ownership increased by 0.86% at the SPA and did not change at the ÁV Rt.

The long term state ownership decreased more than the total state-owned assets because the new Privatization Law limited the number of companies that may belong to this group.

The following table has some information about ESOP-owned companies in May 1995 as compared to May 1994.

Denomination	ÁV Rt	SPA	Total
Number of Corporations	-	45	45
Nominal Value (billion HUF)	-	9.25	9.25
Estimated Staff Number	-	15,000	15,000

The tables reveal that

a.) within one year, 45 ESOP organizations concluded sales-purchase contract with the SPA for the sale of state-owned shares or business shares in nominal value HUF 9.25 billion (as opposed to 1993 when 123 ESOP organizations concluded contracts for the purchase of shares in the value of HUF 22.49 billion).

b.) last year none of the companies in the ÁV Rt portfolio established ESOP organization or, even if established, did not buy state-owned shares.

C6c. Results since the Beginning of the Privatization Process until May 1995

(in %) (at the time of establishment) (May 1995)

Denomination	ÁV Rt	SPA	ÁV Rt	SPA
State Ownership	91.80	80.70	73.60	48.58
- long term	43.20	-	25.00	-
Local Government	2.00	4.60	4.58	4.40
Domestic Investors	6.00	7.26	16.10	32.46
- employee ownership	0.00	0.43	0.0	7.19
Foreign Investors	0.20	7.44	5.72	14.56
Total	100%	100%	100%	100%

End of May 1995

Denomination	ÁV Rt	SPA	Total
Number of Corporations	2	207	209
Nominal Value (billion HUF)	0.80	40.06	40.86
Estimated Staff Number	3000	72,000	75,000

The two tables justify the former statement that

- ESOPs played some role in the privatization of *SPA companies* but
- did not have any function in the case of *ÁV Rt companies*
- we are happy to see that the proportion of ESOP at the SPA raised from 6.33% in May 1994 to 7.19% as a result of share purchase by 45 ESOP organizations but this still far bellow the expectations and does not reach the objective of the former government.

Note:

We do not have data about employee ownership acquired through other methods, e.g:

a.) preferential *employee shares* issued by joint-stock companies

b.) property acquired by the employees through property note/share swap

c.) property given to employees according to the Asset Policy Guidelines on preferential terms regardless any tender invitation, etc.

However, the majority of assets owned by employees was purchased by ESOP organizations.

C6c(1). Employee Ownership in the Privatization of State Farms

Employee ownership in the agrarian industry needs special attention.
There are *121 farms* that used to be in state ownership, 25 out of which will remain in long term state ownership according to Government Decree No. 126/1992 (VIII.28) and in line with the previous privatization law. They have already started to sell property shares that are included in the capital reserves of the company and are to be kept in temporary state ownership.

From among the companies in temporary state ownership, 69 underwent proprietary changes in the value of *HUF 45.3 billion which equals to 47%*.

The ownership structure of companies engaged primarily in agriculture and sold so far is as follows:

New Owner	Ownership Share
ESOP+MBO and employees	52%
Domestic Investors	32%
Foreign Investors	8%
SPA	5%
Local Governments	3%

D. Financial Mechanisms Facilitating Employee Ownership Acquisition in ÁV Rt Companies

D1. Present Privatization Vehicles

D1a. Privatization Methods of State Assets

According to the present legal regulations, there are three methods for the privatization of state property:

a.) according to Article III of the Privatization Law, by means of *sale* and without cash payment on a case-to-case basis (but not without any compensation)
b.) based on an *asset management contract* according to Article 69 of the law
c.) *in accordance with Law No. II of 1991 on bankruptcy, liquidation and final settlement of accounts* if there is no legal successor to the company.

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D1b. Privatization Methods included in the Privatization Law

Sales can be done *against cash* according to Article III of the Privatization Law or by means of *preferential techniques* according to Article IV of the Privatization Law.

Sales according to Article III of the Privatization Law can be done:

a.) through *tender invitation*
b.) on a case-to-case basis *without tender invitation* (Section (2) Article 28) or
c.) *by offering minority shares for sale* according to Article 36.

According to Section (2) of Article 27, sales are done by the ÁPV Rt

a.) *directly*
b.) through the *institution of capital markets*
c.) through *investment funds or corporations*
d.) with the help of *company managers* (simplified privatization) using the following facilities:
    a) open or closed *tender*
    b) *auction*
    c) *open bidding* (hereinafter a,b and c together: *bidding*)
    d) public trading
    e) close-end *placement*
    f) order to sell on the *stock exchange*
    g) *without bidding* (Section (2) Article (28)).

According to Section (2) of Article 28 of the Law, bidding can be precluded in the following cases:

a) *public trading of shares of joint-stock companies* set up for the purpose of *portfolio* management
b) *close-end placement and order to sell on the stock exchange*
c) *share swap* deals
d) when company shares are transferred as *non-cash contribution to corporations set up for the purpose of facilitating privatization*
e) when state assets are *sold by the ÁPV Rt to employees up to a certain extent on preferential terms* according to Articles 54-57 of the Privatization Law.
f) if the ÁPV Rt (or its legal predecessor) have given *right of first refusal* to outside investor(s)

After the sale of majority shares, minority shares may be disposed of as follows:

a) on auction or through public trading of shares
b) through close-end placement with the exception of cases listed in *Article 35 of the Privatization Law.*

According to Article 35 of the Privatization Law, state assets can be transferred by the ÁPV Rt without cash compensation in extraordinary cases as follows:

a) to buyers who provide *adequate guarantees to meet the obligations included in Section (3) of Article 32* of the Law
b) if assets are transferred to foundations or other public associations which will *take*

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over public duties or substitute for state liabilities according to the law

c) in other cases included in the *annual Law on the State Budget.*

State assets can be transferred to the bidder without cash compensation according to Article 35 of the Law if the bidder provides adequate guarantee to carry out the following tasks as they are included in the tender invitation:

a) *reorganization*
b) *capital increase*
c) *technical development*
d) *structural changes*
e) *employment, wages and social benefits*
f) *mitigation of environmental damages and burdens.*

According to Article 36 of the Law, minority shares can be offered for sale to

a) *other members of the corporation or*
b) *to the corporation*

in this order if the state-owned share is *less then 25%+1 vote* and not included in the privatization portfolio. If this process *fails*, the shares will be sold at *auction.*

In order to facilitate cash sales, Section (2) of Article 44 of the Law stipulates that, if the sales purchase contract is concluded *within one year* after the effective date of the new Privatization Law then *10% of the sales revenue* goes to the company and has to be used for capital increase and the *shares or business shares issued this way have to be used for free ownership acquisition by the managers (50%) and the employees (50%) of the company.*

D1c. Privatization through Asset Management Contracts

According to Article 69 of the Law, privatization can be effected through asset management contracts if

a) it is stipulated in the *asset management contract*
b) two years have passed *since the conclusion of the asset management contract*
c) *any of the contracting parties* requests it in a written form.

An *important* item of the contract is that either the asset manager or the organization that exercises state ownership rights *may unilaterally decide upon the sale.*

Therefore, according to Articles 3 and 4 of the Law, asset management contracts have to determine *every condition of the contract* with special regard to the counter value and the method of compensation.

D1d. Privatization through Termination without Legal Successor

According to Law No. IL of 1991 on Bankruptcy, Liquidation and Final Settlement of Accounts, if the company is terminated without legal successor then the *liquidator is obliged to sell* the state assets to the employees, the creditors and, if there are assets free

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from encumbrances, to sell these assets in order to meet the demands of owners.

This kind of process lasts for years. In the meantime, the company under liquidation is usually run by the liquidator. One of the methods of maintaining operation is that employees of the company set up a corporation or association for the purpose of operation. At the beginning they rent real estates and assets from the company under liquidation and later they buy the assets for their own company. For this purpose, the Hungarian National Bank offers a preferential credit facility that is also available for Hungarian citizens.

In this case the corporation or association established by the employees is not a legal successor to the company under liquidation and the company is terminated without legal successor and employees are not entitled to the preferences included in Article 57 of the Privatization Law.

D2. Present Forms of Employee Ownership Acquisition

Employees can acquire ownership

a) when selling state assets, using any of the above mentioned methods regulated by the Privatization Law
b) in the form of employee share according to Article 244 of the Law on Economic Corporations (available only for employees)
c) through buy-out in kind if the company is terminated without legal successor.

Since employees have preferences in buying their companies, we should only include here facilities based on preferences given to employees.

Article 4 of the Privatization Law on Preferential Privatization Facilities gives legal force to the following methods:

(1) instalment payment (Article 46-49)
(2) sales with the preservation of ownership rights (privatization lease-purchase) (Articles 50-52)
(3) management and employee buy-out (Articles 53-54)
(4) common stock purchase on preferential terms with three-year instalment payment as a basic facility (Article 57)
(5) employee share purchase (Section (3), Article 57)
(6) Existence-loan (hereinafter E-loan) (Articles 58-59)
(7) Employee Share Ownership Program (Articles 60-61 and the ESOP Law of 1992)

In our opinion management and employee buy-out and the E-loan facility are *not suitable when the number of employees and/or the value of the acquired property is too high* for the following reasons (companies in the portfolio of ÁV Rt usually fall in this category):

In the case of management and employee buy-out, participants have to *take a high risk that we cannot expect from non-manager employees.* Non-manager employees can have a word in issues related to business and personnel only as owners and only through their votes in the general assembly held annually or twice a year. Furthermore, employees usually do not have the material background needed for taking the risk. Moreover, the

Privatization Law excludes preferences given to employees (Section (5), Article 54)

As far as the E-loan facility is concerned, Articles 58-59 of the Privatization Law stipulate that the *maximum amount of E-loan* that can be provided in the course of the privatization of a company is *HUF 50 million* (to all the buyers except the ESOP and *regardless the number of contracts*). Therefore E-loan can only be applied in small companies (small registered capital) and can hardly be used at companies in the portfolio of ÁV Rt.

Accordingly here is the list of facilities to be applied on a large scale:

(1) instalment payment (Article 46-49)
(2) sales with the preservation of ownership rights (privatization lease-purchase) (Articles 50-52)
(3) common stock purchase on preferential terms with three-year instalment payment as a basic facility (Article 57)
(4) employee share purchase (Section (3), Article 57)
(5) Employee Share Ownership Program (Articles 60-61 and the ESOP Law of 1992)

Another facility is the *transfer of shares to the management* (50%) and the *employees* (50%) after the obligatory capital increase regulated in Section (2) Article 44 of the Privatization Law.

D3. Financial mechanisms available at ÁV Rt companies for the purpose of gaining employee ownership

During privatization private owners can use the following financing mechanisms within the restrictions of the tender as it is stated in the Privatization Law:

a.) payment *with cash*
b.) payment *with instalments*
c.) payment *with E-credit* (with exception of ESOP the maximum amount of E-credit to all buyers cannot exceed HUF 50 million when a company is privatized. In case of ESOP 50% of the purchase price can be payed with E-credit.)
d.) payment *with compensation coupons* in accordance with the Compensation Law and Point i.) Paragraph 1, Section 2 of the Privatization Law on privatization requirements.

Payment with cash means that buyer uses his own savings and credits from banks to pay the purchase price, except E-credit.

The ESOP Law contains regulations on financing mechanisms applying E-credit and instalments. Nevertheless, the practice at SPA made it possible for ESOP organizations to use any of the financing mechanisms enlisted above in accordance with the bidding regulations.

In the practice of privatization so far the enlisted financial mechanisms have been used together in certain legal transactions by SPA within the following combination *in case of selling shares with a preferential privatization technique:*

a.) part of the purchase price had to be deposited on the bank account of SPA *in cash* under the title of deposit and privatization costs when the tender was submitted
b.) only a small percentage of the purchase price could be paid with *compensation coupons* - originally 10%, in the privatization of the food industry this number was 20%
c.) the value of centrally located land could be paid with *instalments* to the local government concerned
d.) the rest of the purchase price could be paid in one by the winner of the tender with *E-credit.*

The detailed invitation for tender contains methods and ratios of payment.

From among the privatization techniques enlisted in section D2,
a.) techniques qualified as sale with instalments:

- sale with instalments
- privatization leasing
- individual employee buy-out described under the heading of preferential ways to gain employee ownership

b.) management and employee buy-out means *payment with cash*

c.) gaining shares for *E-credit* is a preferential but special financing mechanism with cash because state property organizations cannot keep the purchase price coming in from E-credit. According to the current regulations the instalments must be used for reducing the national debt. That is why the instalments are due to the Hungarian National Bank.

E. The current legal framework of gaining employee ownership and its criticism

E1. The legal background to the application of preferences in gaining employee ownership

In accordance with the current Hungarian law the following regulations regulate directly the preferential ways of gaining employee ownership:
a) *the Law on Economic Association* (in the form of employee shares)
b) *the Privatization Law* (regulations enlisted in section D2. of the present study)
c.) *Government decrees* on the privatization of certain companies under the authorization by the Privatization Law.

E2. Regulations of the Law on Economic Associations concerning employee shares

Section 244 of the Law on Economic Associations contains the regulations concerning employee share issue. *Company management determines the detailed conditions* of gaining and transferring such shares in compliance with the regulations of the company statutes. Free and preferential employee shares can be issued from the company's assets above owners' equity, increasing equity at the same time, to a maximum of 10% of the increased equity.

In case an employee dies or leaves the company - retirement is an exception - *the company has the right to purchase employee shares* but it can exercise its right only at market value or at nominal value at least. *Thus the company cannot set a repurchase price lower than the nominal value.* The definition of conditions involves the definition of the circle of those who are entitled to apply for shares.

When employee shares are issued or sold the nominal value have to be taken as a projection base and *preference* can be given *up to 90% of the nominal value* at most.

This form is very likely to be realized when those companies are privatized which have permanently been state-owned because these companies have very large working capital. The purchase price, that is twice as much as the HUF 219,600 preference for one person which cannot exceed 150% of the annual minimum wage (at present it is HUF 12,200/person/month), amounts to several million Forints for companies, even billion Forints for some of them. The ownership share that can be bought from this, however, is far below 10% of the registered capital.

Gaining 10% of the shares means such a small number of votes that employees - according to the Law on Economic Associations - do not have more rights as owners in decision making than those who simply have one share and one vote.

Section 44, paragraph (1) of the Law on Economic Associations says that any member (shareholder) can ask the court to revise the company's resolution if it is in conflict with the law, some regulations, the corporate contract (founding document) or the statutes, except *for that member who voted for the resolution - cases enlisted in Section 210 (constraint, error, deception) are excluded.*

According to Section 268 of the Law on Economic Association every shareholder is entitled to:

a.) take part in the general assembly
b.) ask for information
c.) make comments
d.) and on the basis of voting shares he is also entitled to
- make proposals and
- vote

That is why at most ÁPV Rt companies - probably - the importance of ownership rights guaranteed by shares will be emphasized as opposed to the rights of the general assembly.

It would be expedient if employees or other members (shareholders) who vote together with them on the basis of the syndicate contract fully used the opportunity of share issue which can go up to 10% of the registered capital so that their participation in decisions made by owners

a.) would include the right to ask the supervisory board to investigate management if the cause for such an investigation is clearly defined in writing on the basis of Section 275 of the Law on Economic Association

b.) and would also include the right to ask management to put a certain issue on the agenda of the general assembly which management is obliged to do if the cause and the purpose are clearly defined in writing. If management refuses to do so they could turn to the Court of Registration that will act within three days after the relevant request has been submitted.

A 10% ownership share can have special importance when the right of preference dividend comes with it as a separate type of share. On the basis of the law on personal income tax 10% source tax must be paid after the dividend, so eg. as income for the 13th month it is a much smaller cost burden for the company than wages.

E3. Other relevant regulations of the Privatization Law

Section 38 of the Privatization Law says that preferential techniques can be used when small and medium-sized companies (belonging to the circle defined below) could not be sold for cash in the first run.

According to Section 37 of the Privatization Law the following companies belong to this circle:

a.) their *equity* does not exceed HUF 600 million
b.) the *number of full-time employees* does not exceed 500 on the annual average.

The Hungarian Privatization and State Holding Company makes separate decisions about companies which do not belong to the circle defined above.

According to Section 37 of the Privatization Law the board of directors of the Hungarian Privatization and State Holding Company may depart from the regulations described above considering the opinion of the ministers concerned.

E4. Government decrees, rules and regulations of the Hungarian Privatization and State Holding Company

Paragraph (2) in Section 8 of the Privatization Law provides that the Government has to make a decision on the privatization concept of companies that play an important role in the national economy and their decision has to be approved by Parliament. The legal *form* of the decision is a government decree.

The circle of companies that play an important role in functioning national economy is determined by Parliament within 60 days after the law has come into effect - *on the basis of the motion submitted by the minister without portfolio who is responsible for privatization and by the minister of finance.*

Organizations representing the interests of the trade and the employees can express their opinion about these concepts *before the decision is made.*

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Even *before the Law on Privatization came into effect last year government decrees were issued* concerning the privatization concept of several companies with an important role in functioning national economy. These decrees contain *regulations on gaining employee ownership in a preferential way.*

Following the provisions in the sections of Chapter 7 (under the title of Shares in other Companies) of the Law on Economic Association the board of directors of the Hungarian Privatization and State Holding Company can give orders to the management of stock companies which are more than 75% owned by them until the assets of these stock companies are separated from the assets of the Privatization and State Holding Company by decreasing equity through the current modification of the statutes of AV Rt.

E5. The ESOP Law

The rules of the Hungarian Employee Ownership Program are determined by Law XLIV. of 1992 supplemented by Sections 60 and 61 of the Privatization Law. Regulations have a framework character. As a consequence, *the ESOP can serve the interests of a small group (hidden management buyout)* without violating the law. In order to prevent the problems described above the conditions of applying the law should be developed into a complete system.

The basic purpose of ESOP is to make the purchase of the company shares safer. To make the foundation and operation of the organization simpler the ESOP Law should be modified at several points.

E5a. *The economic concept of the ESOP Law*

Those who prepared the draft law (experts for the Ministry of Finance and the Ministry of Industry) *did not want ESOP to become an ownership organization, they wanted it to become the most favorable preferential privatization technique for employees.* The law passed unanimously by Parliament - rejecting our bill - serves this purpose.

In accordance with the basic principle of the law
a.) shares bought by using the employees' own resources will at once be owned by the payers
b.) company shares bought with credit or instalments go over from the ownership of the ESOP organization to participants in proportion to the organization's debt repayment. Company shares, however, can enter into the possession of participants only after the final instalment has been repaid. When it happens the ESOP organization ceases to exist.

In practice, these are the regulations that cause most of the problems. The 50%+1 voting package of shares purchased in the bidding procedure - due to the obligatory minimum of 2% payment from own resources - does not ensure majority vote for the ESOP organization for even a minute. Therefore, there is a constant danger that the ESOP cannot meet its collective voting obligations stipulated by the seller in the share or

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business share purchase agreement. Until the last instalment has been payed at the end of the 10-year-period, the organization is not entitled to handle shares in the unlimited property of those who invest their own savings into purchasing shares.
Any party of counter-interest can easily buy - at a very high price if necessary - one or two shares out of the package providing one-vote majority when shares are given over to the ownership and property of buyers. Thus, majority ownership can be changed.

The ESOP Law states that the ESOP organization is a "temporary" organization established explicitly for a predetermined period of time. Following the example of American ESOP we find it favourable to operate Hungarian ESOP organizations as organizations for owners until the company works.

E5b. The financial concept of the ESOP Law

The law obligatorily states that, as long as the organization has not repaid the credit used for gaining ownership or the purchase price instalments, the dividend on company shares purchased with credit or instalments must be used for repaying the current debt, irrespective of who owns the shares (the organization, a participant, or a former participant) *except for shares owned by pensioners and inheritors of former participants who are already dead.* With this previous regulation *the ESOP Law excludes the possibility for the organization to use dividends to increase equity or distribute part of the dividends to employees.*

The enlisted restrictions do not apply to incomes from transferring funds up to 20% of the tax base by the employer company or from other sources. In reality, however, *these sources are not even sufficient* for the ESOP organization to repurchase shares from former participants. Repurchasing shares is the most important way of repaying debt for ESOP organizations.

Appendices "C1" and "C2" contain the detailed interpretation and criticism of the ESOP Law. The following major statements can be made based on them.

E5c. Extra preferences provided by the ESOP Law compared to other constructions

The ESOP Law offers the most preferences for employees from among all the possible constructions for the following reasons:
1.) employees can use the maximum discount that can be granted in the privatization process for them within this construction
2.) in addition to this the following preferences are offered by ESOP:
a) the condition of purchase stated in the law is the payment of *the smallest cash percentage* (2% of the purchase price to be payed)
b) *compensation coupons can also be used* as own resources
c) if *the ESOP organization* purchases compensation coupons it *does not have to pay tax after the current rate profit* that can be very high today

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d) the overdue purchase price is burdened by *the longest period of repayment* (maximum 15 years), *the lowest interest rate* (7%/year at present) *and default interest* (6%/year at present)
e) the bank giving E-credit *can conclude a contract of reinsurance* with Credit Guarantee Rt up to the amount of HUF 100 million or 80% of the actual damage in case the ESOP is unsuccessful
f) in case of default *neither the seller*, the state property organization, *nor the bank* giving E-credit *is entitled to withdraw the contract*, so the shares repaid until the default are due by all means to the ESOP and its participants; the state property organization as seller and the bank as creditor *can cancel the contract only for the future* if repayment is not made
g) irrespective of the percentage of purchased shares *the employer company is entitled to use a maximum of 20% corporate tax allowance* if the company has already given over 20% of the tax base as support to the ESOP during the period of repayment
h) *Employees who are participants of ESOP* are not liable for the debt of the ESOP organization, so if they purchase shares in ESOP *they only risk the shares they have gained by using credit in ESOP.*

E5d. Disadvantageous regulations of the ESOP Law which can be avoided but are still in effect today

The disadvantageous regulations of the ESOP Law are the following:
a) the dividends on shares purchased with credit or instalments - irrespective of the fact who are the owners: the organization, the participants or the former participants - *have to be used for repaying debt* even if - compared to the repayment determined in the credit agreement and/or in the share purchase agreement - this *results in prepayment*. Thus, *the dividend cannot be used for increasing equity or paying to employees* as long as the debt has not been completely repaid
b) shares purchased with credit or instalments can be repurchased only by the ESOP organization, not by the company or the employees until the repayment has not been made. It *unnecessarily prevents, almost excludes the formation of an internal market for shares*. Creditors's interests are not influenced by the internal market for shares if the regulations are appropriate.
c) the framework character of the law makes it possible for the management of the company to delegate an outsider expert or a manager - except for the general manager and his deputy - as ESOP official without asking ESOP participants. That person might even have counter-interests and as a representative of ESOP might make decisions at his discretion in the name of the organization at the company's general assembly
d) the ESOP is not allowed to pursue any economic activity, so the ESOP's only role can be to gain ownership
e) on the basis of the general regulations of the Civil Code officials of the ESOP organization are liable for the damages caused by measures that are illegal or in contrast with the statutes or by default. Participants can claim such damages, practically without time restrictions, as opposed to the regulation restricting shareholders in the Law on Economic Associations, according to which any general assembly resolution can be submitted by any shareholder to the court of competent jurisdiction exclusively within 30 days after the resolution has been passed.
f) the ESOP organization can purchase shares only if a feasibility study is made about the

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return of the credit used and the overdue purchase price and if that study is qualified by a company representative who is often an official with counter-interests or a member of management.
g) the general rule is that after the debt has been repaid the ESOP organization is supposed to cease to exist, so the ESOP cannot be considered an employee ownership organization as long as the company works.

E5e. Contradictions of the Privatization Law and the ESOP Law

It has already been mentioned before that the ESOP Law was passed earlier than the privatization law package which introduced bidding into the privatization process in 1992. These contradictions have not been solved by the Privatization Law despite the fact that it deals with ESOP (sections 60 and 61 of the Privatization Law), inconsistencies between the current law and the ESOP have become stronger. From among the possible owners of the company it is only the ESOP that is driven into a disadvantageous position compared to other majority owners by Paragraph (3) Section 60 of the Privatization Law which states that the leading official and general manager of a company and his deputy cannot be members of the ESOP board. Owners usually try to take over leading positions in order to protect their interests. This regulation deprives the ESOP of this opportunity.

The motives of this regulation can be understood and accepted. The company is liable for ESOP debts. Employer's rights against employees are exercised by the general manager which gives him special power over his employees. It is understandable that there is a need to prevent incompatibility and abuse of power. The problem is that even in the case of MBO it should be regulated on the same basis who is supposed to fill top positions within the company and officials of other ownership organizations should also be prohibited from filling positions enlisted above. As this provision of the Privatization Law does not contain such a stipulation it can be taken as discrimination against ESOP which - in my view - violates the provisions on equality before the law in Section 70/A of the Constitution.

E6. The amended Law XC. of 1991 on personal income tax

The 1995 amendment of the law abandoned the former allowance, the so-called investment allowance, which was due to every natural person in Hungary. Hungarian private persons who purchased state property directly from the state property organization were entitled to reduce their annual personal tax base up to the amount of their investment in privatization. This reduction, however, could not exceed 30% of the tax base.

This investment allowance ceased to exist this year and was replaced by the so-called investment tax credit (Point m), paragraph (1), Section 38/A. of the Law). This provision states that Hungarian private persons, under the legal title of investment tax credit, can deduct a maximum of 30% of the amount which is not more than the accrual of the private person's investment portfolio - exceeding the previous year's base of the investment tax credit portfolio - for the current tax-year. (In order to calculate the accrual of 1995 the previous year's base of the investment credit portfolio should be taken as zero.)

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Investment tax credit cannot be used in the case of shares purchased through ESOP. This is gross injustice compared to other share purchase procedures.

E7. The amended Law LXXXVI. of 1991 on corporate tax

A former provision is still in force after the 1995 amendment of the law; it states that the company's general assembly is entitled to give over 20% of its tax base to the ESOP organization during the period of repaying the credit used for purchasing shares or the overdue purchase price in the case of instalments.

There is a change in the law that is favourable for enterprises: the corporate tax went down to 18%. There is, however, an unfavourable factor as well: the repayment instalments of the ESOP organization are burdened by a further 23% of corporate tax. The two taxes together amount to 33.3% of the tax base. This is slightly lower than the 36% in the provision that was in force until the end of year 1994. Nevertheless, if Hungarian private persons use the dividends for repaying their privatizational E-credit they are exempt from this additional taxation.

As a result, compared to individual buyouts by Hungarian private persons, employees are discriminated from the perspective of the ESOP which leads to Hungarian private persons' ownership, and from the perspective of personal income tax and corporate tax. We may venture to say that these provisions are not only unfair but also violate Paragraph (3) Section 70/A of the Constitution on equality before the law, according to which the Republic supports equality before the law by taking measures targeted at eliminating the inequality of chances.

F. Problems related to lack of capital resulting from legal regulations

State-owned companies are such one-person enterprises whose only owner is the Hungarian State and whose ownership rights are exercised by the state administration body that founded the company. Consequently, at these companies it is only the founder who can increase equity.

The state as an owner has never provided Hungarian state companies with sufficient working capital, that is how they are privatized. Even if the company can be considered successful from the point of view of accounting, with good operating results, the majority of companies makes a big loss by the end of the year because the interest rate on Hungarian commercial credits used for compensating the lack of working capital is so high. Thus, in order to maintain operation *at the majority of companies* that work well both technically and professionally, *with good operating results, additional capital injection is needed*. Employees lack sufficient resources for that purpose. Even if some employees (eg. a few of the managers) have enough cash or credit they obviously want to invest it into the company separately from the ESOP. *The question* might also be asked what is more expedient for the persons concerned: *to purchase state property or increase equity*?

The majority of Hungarian companies is <u>in need of additional capital injection because of the following reasons (besides the lack of working capital)</u>:

- need for developing production and technology
- necessity of reorganization
- reduction of environmental damages and burdens
- increasing export
- stopping the process of losing markets
- finding new markets.

In order to fulfil these needs the following things should be done:
a.) gaining the most advanced international
    - technologies and
    - management and marketing experience plus
b.) winning domestic suppliers and sellers.

The most advanced technologies, marketing and management experiences can be expected from foreign strategic investors first of all. Because there is no sufficient contact between them the ESOP companies do not know the potential foreign strategic investors well enough and those investors do not really know the advantages of ESOP companies. That is why it is *not characteristic of ESOP organizations to bid together with foreign consortium partners*. It is much more characteristic that they submit tenders together *with domestic suppliers and distributors*.

The ESOPs usually know the advantages they can expect from involving consortium partners. Potential partners, however, *know much less about the advantages of the increased interests of ESOP companies in maintaining operation*, especially if employee ownership is combined with a system of employee involvement (participation).

Some experts find that - especially in the case of national public-service corporations that form natural monopolies - instead of strategic investors the involvement of financial investors would be more favourable. In the case of companies with such scope of activities there is no competition in the market, so keeping the price of services at a socially acceptable level is not so much a market category but a complicated professional, branch and state task of price regulation.

Since the price of the services provided by these natural monopolies equals the total amount of the following:
a.) fair profit on the necessary capital
b.) necessary costs. In the case of privatization the state as an owner, especially when minority state ownership is kept, must regulate the starting price level and the mechanism of increasing prices several years in advance, with special regard to inflation and the necessity of additional capital injections.

Nevertheless, estimating any of the two price-forming factors even roughly during the time of share distribution is a very complicated task, a minor mistake can carry serious consequences for the country. (One example for that is described in an article written by dr. Mária Illés in the July 26 issue of Magyar Nemzet, on page 15, under the title: "A nagy gazdasági csapda" /"The big economic trap"/.)

Electric power consumption in Hungary is 30-35 billion kilowatt-hour a year. (Consumer's price/kilowatt-hour - depending on the size of consumption - is HUF 6.50-8.50. Further price rises can be expected in the near future.) When the starting price of the service is set every one-Forint miscalculation might mean that HUF 30-35 billion goes abroad without compensation if the owner is a foreigner. In case of a miscalculation of HUF 4/kilowatt-hour an amount equal to the real value of the expected privatization profit escapes from the country every year without compensation. In case of financial investors it does not necessarily appear in the form of dividends, it might take up one of the forms of income withdrawal which does not result in any profit in the state budget. That is why in the case of natural monopolies there are so many people of the opinion that it is more expedient to give preference to financial investors instead of foreign strategic investors because they wish to return their investment in the form of dividends. However, we can be witnesses to the formation of an entirely different privatization technique in the privatization of the electric power sector launched by the government which caused anxiety among consumers. The Government makes it possible for strategic investors to participate in the sector's privatization gaining majority ownership - it is true that only in the form of option so far.

In oil industry, on the other hand, on the basis of Government Decree 1066/1995. (VII.6.) the Government would like to sell a percentage of MOL (Hungarian Oil and Gas Company) shares (above the permanent state percentage - 25%+1 votes) through
a) an international open tender for financial investors

b) selling ordinary shares to employees with preferences stated in the Privatization Law

c) selling shares publicly in the domestic market and on the stock exchange

G. Legislative and regulatory tasks necessary for improving opportunities to gain employee ownership

G1. Motions for amendment

Besides the Privatization Law the issue of gaining employee ownership is dealt with in the ESOP Law, the tax laws and - through employee shares - provisions of the Law on Economic Associations.

In this present study and its appendices we have dealt with the legal environment and its criticism in detail

a) in Appendix "A", "B" and "D" about the Privatization Law and its privatization strategy

b) in section E.5. and Appendix "C2" about the ESOP Law

c) in section E.6. and E.7. about laws on taxation

These criticisms contain a lot of suggestions concerning the expedient modification of the relevant laws.

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On the basis of the enumeration it would seem to be natural that the Privatization Law should be amended as soon as possible. But the privatization practice of the previous 6 years has proved that privatization strategies can be modified even without the modification of the privatization laws. These laws so far have only provided an opportunity to create better conditions for privatization strategies considered to be favourable compared to other strategies in a certain period, but they have not provided the conditions for the modification of the privatization strategy that was considered to be good.

The statement above proves that even when the first generation privatization law encouraging sale for cash was in force - from the second half of year 1991 - in tenders for selling majority state shares preferential privatization techniques came to the front, although at the legislative level they were given priority only by second generation privatization laws that came into force on 27 August, 1992.

The Parliament did not even adopt new Property Policy Guidelines for the modification of the privatization strategy.

G2. Internal regulations of ÁPV Rt

Experts dealing with tenders for employees during the previous administration period were of the opinion that the internal regulations of the state property organization play just as an important role as the law itself (organizational and operational regulations, bidding regulations, regulations for supervision).

These internal regulations define *the decision making authority*, processes to be used, *the content of tenders*, including *privatization techniques* with which participation in tenders is possible, criteria and methods of evaluating tenders, etc. within the organization when they call for and evaluate tenders; so they define *all the issues that have an impact on who the new owner is going to be.*

H. SUGGESTIONS

H1. For government bodies

Due to the framework character of the second generation package of privatization law the Government could have modified the privatization technique by modifying the current Property Policy Guidelines, just like in 1991. That is why it was difficult to understand why the privatization of SPA companies slowed down so much *when they were appropriately prepared for tenders unlike ÁV Rt companies.*

There is only one answer to this question: a long period of consideration is needed for the Government - more precisely: for the coalition parties, or better to say: for *representatives of the Hungarian Socialist Party to accept* the following:

a.) the priority of the privatization of small and medium-sized companies with cash within

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the competitive sector *as opposed to preferential privatization techniques ensuring equal chances for domestic investors*

b.) *the priority of privatization allowing foreigners to gain majority ownership* in the case of natural monopoly public service corporations of strategic importance, so the short term fiscal approach as opposed to the long term approach of market economy-building.

It also took some time to make changes in staff which was considered necessary by leading company officials, *with special regard to the preferential employee and management buyout opportunity* introduced by the Privatization Law, in which newly appointed members of management can also participate as leading officials.

At small and medium-sized companies privatization concerns employees closely because *since the beginning of 1985 employees elected the general managers of these state companies either directly or through delegates and they also made decisions on how to use 75% of the profit after tax on personal income and development.*

Employees lost these rights when state companies were obligatorily transformed into economic associations in 1992 and 1993. *Before the Privatization Law came into force, however, they had the opportunity to take part in any tender with preferential techniques* and there was a stipulation which guaranteed that employees could purchase 10% of the registered capital with the conditions of sale formed in the tender.

In point A4a of the present study there is a good description of how public opinion was influenced by the obligatory transformation of state companies into economic associations in 1992. It is stated that *the number of those people who consider market economy a good thing was decreasing one year after the other and only 39% of the people who took part in that survey favoured privatization.*

It is a well-known fact that the *previous government parties* (MDF, KDNP), whose target was to establish and maintain social market economy, obtained only a very low share of votes in the 1994 parliamentary elections despite the fact that during their government period

- they did not try to reshape the welfare system

- already in the year of the election net salaries increased

- the economy started to grow

- inflation remained on the same level.

From this the following consequence can be drawn: public opinion is influenced more by measures that concern certain individuals closely than by laws in force, and *employees can play an important role in influencing public opinion.*

Employees still hope today that the 1995 calls for tender with cash will fail. If ÁPV Rt

sells state shares and business shares at a reasonable price with acceptable guarantees there will be a new opportunity for employees to gain majority ownership with preferential techniques, especially within the framework of ESOP.

At small and medium-sized companies invitations to tender with cash cannot be avoided any longer with special regard to the fact that the Privatization Law came into force not so long ago and the lists were published this year. That is why we think that instead of modifying parts of the privatization law criticized by employees those elements of the privatization strategy should be rethought that need no modification. Accordingly, it would be useful to rewrite the internal regulations of ÁPV Rt on the government level, with special respect to the expedient privatization strategy of company shares exceeding the amount that can be kept in permanent state ownership, which in reality is not an ÁPV Rt task, but a task for the Government and the Parliament. In this respect the Privatization Law plays no role in effect. The Privatization Law deals fully only with the privatization processes (simplified privatization) of small and medium-sized companies and states what are the rules to be followed.

It would be useful and there is a chance to modify - executive type - laws (corporate and personal income tax law, ESOP law) that have a direct impact on privatization and not only maintain but increase domestic investors' - employees belong to this category as well - further participation in purchasing *companies that could not be privatized for cash* in a preferential way.

The ESOP Law has to be modified by all means this year because the Privatization Law has been modified without even referring to the existence of the ESOP Law. Tax laws are modified by Parliament every year. Thus, the modification of these laws as suggested above would not out of place in the predetermined process of legislation.

H2. For organizations representing the interests of employees and employers

In the Privatization Committee of the Reconciliatory Council the representatives of different interests have had tough debates for years - usually for the same purpose - to clarify and expand laws concerning privatization and the internal regulations of state property organizations.

The Committee has discussed the organizational and operational regulations of ÁPV Rt plus its bidding regulations recently. They will discuss the issue of the supervisory regulations of ÁPV Rt within a few days.

These regulations so far have not been able to correct the mistakes of previous regulations if this kind. The most urgent task is to build the current clarifications and addenda into these regulations.

It is still an open question, however, *in which way some essential and debated issues of gaining preferential employee ownership should be regulated as the previous government did not solve this problem.* The Privatization Committee of the Reconciliatory Council discussed the *draft bidding regulations* submitted by ÁPV Rt in the name of the

Government this July. Compared to the content of the Privatization Law, however, this draft is not a real breakthrough in the regulation of these open issues. Thus, occasional debates can be expected in certain transactions about what the following concepts mean in the Privatization Law:

- the term "accepting equal conditions" has been applied in the Privatization Law since 1992 (Paragraph 5, Section 27 and Paragraph 1 in Section 33 of the Privatization Law), (on the basis of which method can we compare quantifiable and non-quantifiable factors?)

- "the real (recently estimated) value, market value (present value)" of the profit expected on the basis of the selected privatization technique (method of payment) after several offers have been compared (Paragraph 5, Section 27 and Paragraph 3 Section 32 of the Privatization Law), (in case of discounting which algorithm should we think of; there are several well-known methods of discounting)

- in case employees purchase shares individually in a preferential way the interest on the overdue purchase price is "the current interest on the national debt" (Paragraph 2, Section 57 of the Privatization Law), (which national debt should we think about: the external or the internal or the two altogether, if so how can we calculate the average of the two?)

- in case of sale in instalments the interest on the overdue purchase price "cannot be less than 50% of the central bank prime rate (Paragraph 4, Section 46 of the Privatization Law), (who determines for what circle and period of time the size of the interest to be used, perhaps the decision making body in the case of every transaction?),etc.

- it has never been an unchangeable fact if companies were listed as permanently state-owned. The Privatization Law itself does not exclude the requirement of modification for next year that is why in Paragraph 1, Section 8 it states that - among others - "the organizations concerned which represent the interests of employers and employees" can propose a motion. The open question is: who can be qualified as "concerned"?

- organizations representing the interests of employees should agree on how to use properties which serve welfare or social purposes. (Questions: which properties belong to this circle and which organizations practice the right of agreement?)

- before a privatizational decision is made the seller of the property is obliged to provide an opportunity for employee organizations to express their opinion and this opinion must be attached to the memorandum specified in Section 34 of the Privatization Law. (Questions: What is the content of the information to be provided to which the employee organizations can react by expressing their opinion? Which employee organizations are entitled to do so?)

Thus, it is a <u>task</u> for local groups of employees and trade unions to fill the open issues of the Privatization Law and the Bidding Regulations of ÁPV Rt with *technical content* so

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that they can help employees to gain ownership preferentially with amendments of the law or with addenda in the technical regulations of ÁPV Rt.

The necessary (but not sufficient) conditions of the successful fulfilment of these tasks are basically the following:

- rethinking privatizational experience collected so far
- developing a good strategy for gaining employee ownership successfully within the framework of the current regulations
- teaching this strategy to employee representatives in wide circles
- technical assistance to groups of employees so that they can organize ways of gaining ownership and submit an investor's offer to ÁPV Rt.

Besides solving operational problems of ESOP and MBO organizations *these are the most important tasks for the "National Association of Employee and Manager Owners, ESOP and MBO Organizations"* which is an association representing technical interests with a membership of 40% of Hungarian ESOP organizations.

H3. For groups of employees

We consider the following *principles the most important in forming a suitable strategy for gaining employee ownership* successfully within the framework of the current regulations.

H3A. Defining the problem

The circle of companies concerned can be characterized by considerable property and a large number of employees. Despite their large number there is only *a 50% purchase price discount for employees to be used jointly and the total purchase price is usually not enough to guarantee a sufficient amount of shares for them.* Finding the necessary financial resources to pay half of the total purchase price can be a serious problem as well.

H3B. Strategies to be selected

The purpose of preferential share purchase for employees can be the following:

a) *to use the preference exclusively or part of it* in which case they buy shares at a purchase price that can be maximum twice as much as the preference due to the participants jointly
b) *to obtain 15% of the registered capital at once* which is stated as the upper limit in Paragraph 1, Section 56 of the Privatization Law. (Eg. if the purpose of the management is to acquire a considerable amount of shares - 25%+1 votes - on the basis of the Law on Economic Associations.)

Shares that cannot be acquired preferentially outside of bidding can be obtained by employees within the framework of tenders in accordance with the current regulations of the Privatization Law.

The period of payment which is longer than three years in case of preferential purchase - *regulated as a basic construction* in Section 57 of the Privatization Law - is of primary importance only if employees wish to buy shares at a purchase price higher than twice the preference which is due to participants jointly so that *they can possess a percentage of shares with a certain floor value.*

In accordance with the regulations (Law VI. of 1988 on Economic Associations) which determine the sphere of authority of the owners' general assembly *the floor values of authority* are the following:

(1) *1 piece of voting shares* (even if there are no special rights related to it, just like to the so-called golden share) authorizing its owner to fully practice the rights of the general assembly and to attack any general assembly resolution in court if it is in conflict with the law, the regulations, the founding document or the statutes, except if the owner voted for the passing the resolution previously

2) *10% of the shares and the votes* so that the group of owners can have any case investigated and bring it to the general assembly

3) *25% of the shares + 1 vote* so that without the consent of the group of owners the general assembly

- cannot modify the statutes
- cannot decrease or increase equity, except if on the basis of the statutes management have originally been authorized to increase equity by issuing new shares or by debt/equity swop
- cannot change the rights related to different types of shares
- can decide on joining or merging with other joint-stock companies, its separation, winding-up or transformation into a new form of economic association
- cannot make a decision on changing the type of the shares by stamping

4) *50% of shares + 1 vote* so that the group of owners can make every decision alone at the general assembly except for the ones in point (3)

(5) *75% of the shares and the votes* so that the group of owners can make all the decisions at the general assembly alone.

It does not have to be proved that with the preferential purchase for employees as described in the Privatization Law *only the purpose stated in Paragraph 2 - gaining*

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shares that guarantee 10% of ownership and votes - can be achieved. Preferential purchase, however, is suitable for creating favourable conditions to achieve further purposes. (*Issuing employee shares also* serves this purpose as the upper limit of issue is 10% of the registered capital.)

The most important target for employees is to take all possibilities into consideration and to determine *what legal form and which preferential technique enables them to acquire most of the shares and to find appropriate partners to establish a consortium that can gain the targeted number of voting shares that exceeds 25+1.* In order to achieve this purpose employees have to take part in tenders.

In order to make the tender and cooperation successful employees are required to conclude *consortium, syndicate and shareholder agreements* with their consortium partners even before submitting the tender. The agreements should contain the accepted conditions of long-term cooperation.

Natural partners of employees are any applicants or shareholders *who are interested in maintaining the company's operation in the long run* (on the basis of our experience the following can be qualified as co-owners: the management of the company at first place, the state, different local governments and strategic investors, etc.)

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C. TECHNICAL ASSISTANCE TO THE SHARE PARTICIPATION FOUNDATION TO BUILD IT'S CAPACITY TO PROVIDE POST PRIVATIZATION SERVICES

C.1 COMPANY DIAGNOSIS

November 14, 1994

QUESTIONNAIRE REGARDING TRAINING NEEDS OF ESOP COMPANIES
KÉRDŐÍV AZ MRP VÁLLALATOK OKTATÁSI IGÉNYEINEK FELMÉRÉSÉRE

(please fill this questionnaire if you are working in a Hungarian company which has an ESOP or plans to establish an ESOP)
(kérjük töltse ki ezt a kérdőívet, ha Ön egy olyan vállalatnál dolgozik, ahol már van MRP vagy tervezik annak elindítását)

1. What are in your opinion the problems of your company which are related to the fact that it has an ESOP? Please list them in order of priority (most important = 1, etc.)

1. Az Ön véleménye szerint milyen problémákkal jár az, hogy a vállalatuknál elindították az MRP-t? Kérjük jelölje őket fontossági sorrendben (legfontosabb = 1, stb.)

|_| Employees do not feel that they are part owners and have not changed their working attitudes

|_| *A munkavállalók nem érzik, hogy résztulajdonosok lennének és nem változtattak a munkához való hozzáállásukon*

Score	Number of Responses
1	37
2	23
3	6
4	8
5	6

|_| Employees feel as owners that profits should be distributed as dividends or bonuses, not be re-invested in the company to improve its performance

|_| *A munkavállalók mint tulajdonosok úgy érzik, hogy a nyereséget osztalék vagy prémium formájában szét kellene osztani, nem pedig visszaforgatni a vállalatba a teljesítmény javítása érdekében*

Score	Number of Responses
1	13
2	19
3	27
4	14
5	8

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|_| It is more difficult to lay off workers when it is necessary because they are owners_

|_| *Szükség esetén nehezebb elbocsátani a dolgozókat, mert tulajdonosok*

Score	Number of Responses
1	4
2	8
3	17
4	28
5	19

|_| Employees feel that as owners they are entitled to interfere in day-to-day management decisions

|_| *A munkavállalók úgy érzik, hogy tulajdonosként joguk van beleszólni a napi vezetői döntésekbe*

Score	Number of Responses
1	17
2	19
3	20
4	16
5	9

|_| The company and the ESOP do not have a good accounting system for keeping track of the shares each employee has in the ESOP

|_| *A vállalat és az MRP nem rendelkezik olyan számviteli rendszerrel, amivel jól nyomon követhetők lennének az egyes munkavállalók MRP-ben meglévő részvényei*

Score	Number of Responses
1	2
2	11
3	10
4	13
5	41

|_| Other (describe: _____ _____)

|_| *Egyéb (konkrétan:* _____)

Other answers were as follows:

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Number of Responses	Answers
(8)	The uncertainties of the legal and economic environment (amendments of the law, changing conditions for acquiring credits) endanger the security and existence of the ESOP and also have a negative impact on the behaviour of employees.
(7)	Lack of capital - no developments, production cannot be made more effective, therefore the repayment of the ESOP loan is a great burden.
(3)	The SPA has been delaying decision-making, the company is not invited for tender although the ESOP organization is ready, we have an up-to-date statutes, feasibility study and the company makes profit. We even have the approval of the owner - but the owner itself puts the company in an absurd situation.
(2)	ESOP participants are not familiar with the operational structure of a share-holding company.
(2)	Interests of other co-owners (legal entities) against the ESOP organization.
(2)	Lack of a joint decision-making mechanism (envolving the management and the ESOP); the partial ESOP assemblies cause delays in the decision-making process.
	The company would need a significant amount of short-term credits; the interest rate on short-term credits is 29-30% which has a negative impact on the profit.
	Situation of the parent company (liquidation, final settlement)
	Separation from the parent company in order to establish the ESOP.
	The company management was exclusively motivated by political reasons. Privatization and restructuring was driven by personal and material inerests.
	Profit is not generated; there is no return on investments.
	The protraction of the privatization process is extremely demoralizing (delays in the tender invitation, evaluation, etc.)

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It is difficult to acquire credit. The majority of the employees do not have sufficiant money.

It is harder to overcome the suspicion of banks deriving from the "different owners - different interests" concept.

There is no management which is able to manage the company, it is difficult to find new experts.

Many administration tasks.

Accounting and taxation problems.

Who is going to be the owner - former managers, ESOP or foreign investors?

Lack of communication system between the management and the ESOP organization.

Ownership pattern: MBO/person/share >> ESOP/person/share

2. Your position is:
2. *Az ön beosztása:*

9 General manager/*Vezérigazgató*
18 Head of department/*Főosztályvezető*
7 Supervisor/*Csoportvezető*
3 Employee/*Munkavállaló*
53 Other/*Egyéb*

7 Economic Director/*Gazdasági Igazgató*
1 Commercial Director/*Kereskedelmi Igazgató*
1 Technical Director/*Műszaki Igazató*
5 Chief Accountant/*Főkönyvelő*
1 Deputy Manager/*Igazgató-helyettes*
3 Manager
1 Administrative Manager/*Adminisztratív vezető*
1 Member of the Rt's Board of Directors/*Rt. Igazgatótanács tagja*
15 Head of Section/*Osztályvezető*
1 Head of Accounting Section/*Számviteli osztályvezető*
1 Controlling Manager/*Controlling Igazgató*
3 Legal Advisor/*Jogtanácsos*
1 Technical and Economic Advisor/*Műszaki és Gazgasági Tanácsadó*
1 Chairman of the ESOP Organizing Committee/*MRP Szerv. Biz.*

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elnöke

3 Member of the Organizing Committee/*Szervező Bizottsági tag*
3 Trade Union Representative/*Szakszervezeti képviselő*
1 Chairman of Workers' Council/ *Üzemi tanács elnöke*
1 Senior Construction Manager/*Főépítésvezető*
2 ESOP Representative/*MRP képviselő*

3. Name of your company (this question is optional):
3. *Az Ön vállalatának a neve (nem feltétlenül kell kitölteni):*

.....

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Attachment

LIST OF COMPANIES RESPONDED

Bakonyfűszért Rt.
VOLÁN Rt.
Pécsi Geodézia Kft.
Agroker Rt., Szombathely
Nógrádker Rt.
Miskolci Élelmiszer Rt.
Kemikál Rt.
Komplett Kereskedelmi Rt., Szeged
Hajdúsági Gabonaipari Rt.
Szabolcstej Tejipari Rt.
mezőgazdasági üzem
Mezőgazdasági Rt., Hódmezővásárhely
Centrum Áruházak Rt.
Budalakk Kereskedelmi és Festékgyártó Kft.
Pátria Nyomda Rt.
Agroker Kft., Kecskemét
Fantázia Kereskedelmi Rt.
Metal Karbon Kft., Budapest
MMG Automata Művek RT.
HIM Rt.
Ezaris Rt.
Hungaroton Magyar Hanglemezgyártó Vállalat
DIRVVÁLL Ruházati Kft.
TS Rt.
Ferion AKKV Rt.
Répcelaki Sajtgyár Rt.
Solvent Kereskedőház Rt.
Kossuth Nyomda Rt.
Aranypók Rt.
BÓLY Rt.

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November 24, 1994

DISCUSSION OF RESULTS OF THE QUESTIONNAIRE REGARDING TRAINING NEEDS OF ESOP COMPANIES

The representatives of ESOP companies who attended the Third National ESOP Seminar on Nov. 3-4 were asked to state in order of priority, on a scale of 1 to 5, those problems of their companies which are related to the fact that the company has an ESOP.

81 filled questionnaires were received. These may be considered a good representation of Hungary's 178 ESOP companies, especially those who were interested enough to attend the conference and thus are likely to be better targets for future TA activities. If the answers are weighted by 5 for the highest priority, down to 1 for the lowest priority, the following results are obtained.

A. Results of the Questionnaire.

Problem #1: "Employees do not feel that they are part owners and have not changed their working attitudes". This problem received the highest score (3.96 out of 5), and 37 respondents classified it as their largest problem related to employee ownership.

Problem #2: "Employees feel that as owners they are entitled to interfere in day-to-day management decisions". This problem received a score of 3.23 out of 5, and 17 respondents classified it as their largest employee-ownership problem.

Problem #3: "Employees feel as owners that profits should be distributed as dividends or bonuses, not be re-invested in the company to improve its performance". This problem was rated almost equal in importance to problem #2 (a score of 3.19 out of 5), and 13 respondents designated it as their largest employee-ownership problem.

Problem #4: "It is more difficult to lay off workers when it is necessary because they are owners". This problem received a much lower score (2.34 out of 5), and only 4 respondents considered it as their largest employee-ownership problem.

Problem #5: "The company and the ESOP do not have a good accounting system for keeping track of the shares each employee has in the ESOP". This problem had the lowest score (1.96 out of 5), and only 2 respondents identified it as their largest employee-ownership problem.

Other problems identified by the respondents were of much lower priority, and furthermore were either (1) particular aspects under the above five large problems, or (2) problems which are not related to the employees (eg. uncertainties of the ESOP tax treatment and access to credit, lack of investment capital, delays in SPA decision-making).

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B. Discussion of the Results.

Problems #1, #2, #3 and #4 all belong to the type of problems which can be tackled by "ownership education". Within the general field of "ownership education", the following interventions would address these problems:

1. Information regarding the employees' rights under the ESOP: Explaining to employees their existing ESOP program will help to make the ESOP real to them and to change their work attitudes (problem #1). Explaining an existing program to the employees is quite different from explaining to management how to set up an ESOP, which has been the thrust of ESOP promotion up to the present.

2. Education regarding corporate governance: Having employees understand how a corporation operates - the different roles and powers of shareholders (general assembly) board of directors and management - will help to defuse problem #2 (employees feeling that as owners they may interfere in day-to-day management decisions) and problem #4 (employees believe that as owners they cannot be laid off).

3. Basic financial education: Training employees to understand some very basic financial concepts - eg. the effect of cost reductions on earnings, and the effect of retained earnings on share value - will help employees realize the impact of their behavior (eg. reducing scrap losses and absenteeism) on the value of their ESOP shares (problem #1). It will also let employees understand how retaining the earnings in the company can give them in the future a larger return through share appreciation than the immediate return they can get through dividend distributions (problem #4).

4. Organization of employee groups to solve workplace-related problems identified by them: Participation of employees in such groups is highly likely to make the participating employees change their work attitudes, contributing to the solution of problem #1.

A problem of a different nature is #5 (lack of a computerized ESOP administrative/accounting system). Objectively speaking, every company of over 50-100 employees does need such a system, since over that size it is impractical to keep track of the employees' share allocations by hand. The low priority assigned to it is a matter of **timing** (management is not yet faced with the task of allocation) and **perception** (management does not assign priority to setting at present the data base for future allocations). The recommended actions are (1) installation of the ESOP accounting software in the companies of the 13 respondents which indicated the lack of it as their first or second priority, and (2) aggressive marketing among the other ESOP companies to make management realize that the software can solve some **present** problems, such as (1) keeping track of what employees are entitled to vote in the annual meeting of employee-owners and for how many shares each, as well as (2) making the ESOP more real to employees (problem #1) by printing their share certificates, etc.

ANNEX B:

Pilot Project for Management and Ownership Redefinition in ESOP Companies

Background

Most Hungarian ESOP companies do not have easy access to the capital they desperately strive for with the purpose to finance promising projects or to finance their working capital with lower interest-rates than their existing burdensome short-term loans. Most of them cannot expect much interest of neither from the institutional or venture capital investors willing either to raise their registered capital, or provide long-term loans to them. This is the situation now for many reasons (uncertainty of the region, general economic problems of the country, etc.) even if they are actually or at least potentially profitable promising businesses.

On the other hand they could keep their reasonable market position and become much more profitable without much new investment, if they could better utilize their existing assets, especially the human-capital of their employees But to stabilize and/or strenghten this market position in a market with strong competition of imported goods and services and domestic private competitors, and to achieve better performance, they have to continously improve the quality of their products and/or services and reduce their costs. To do that and to utilize better their existing resources they need to exhaust all possible inputs from their employees, especially from the synergy given from the committment of the employees and their mental -- problem-solving -- capacities.

Even those ESOP companies which have realized that they have these resources, don't have the necessary know-how to make use of them. To collect the available technical knowledge and develop the necessary management skills and organizational structures relying only on their own resources would be a very time-consuming and costly process with uncertain results. At the moment time and financial resources are simply not enough for experimentation without help. If there are models, existing practices of successful ESOP companies, and there are organizations willing to support the process of speeding-up and saving on the cost of learning, they should

learn from these experiences. The ultimate goal of this project is to help to speed up and to make this learning process less costly.

For the Hungarian ESOP companies it is not enough to train their employees to **understand ownership** and to exercise their ownership rights, but employees should get

- more **knowledge about business** -- they should be trained about business in general and in particular, to help them to contribute their best knowledge and efforts to the business they partially own
- help to develop their capacity to **identify production and/or business related problems**, which incur quality problems, costumer complaints and unnecessary costs
- knowledge and practice of techniques of **collecting and analysing production/business data**
- knowledge and practice of techniques of **team-work** -- in production, but especially in problem-solving
- rewarded - not only in form of some gain-sharing arrangement, but also as owners in form of dividends and value of their shares.

If we expect much result, especially long-lasting results in improvement of the performance of ESOP companies, we should establish a complex promotion system, which besides some training methodologies and materials about management styles, team-work in general, model-examples of crisis-management and training in balance-sheet literacy, contains a comprehensive approach of modern management, which in its best sense can be called Total Quality Management (TQM).

TQM for an ESOP company should mean an organization built and ran around the concept of "continuous improvement" in supplying the customers with products and services, which at least meet, but possibly exceed customers' expectations. The delivery of such products and services should be a dominant cultural value for the entire ESOP company, in which not only the traditional and modern techniques of quality management are trained to and applied by possibly all employees, but employee owners are trained and empowered to participate in analysis and decision-making related to the work they perform by getting information also about the whole business. Informations, communicated horizontally and vertically besides contributing to

employees' capacity to exercise their ownership rights in a sensible way, also help upper management to act in the best way and timing.

To build a promotion system can be done basically in two ways.
One is prepare the training materials and let the consulting firms take and use them in a way they usually do. The advantage of this approach could be, that these consultancy firms having financial and market interest would push hard in promoting their services based on the prepared methodology and training materials. These firms may also have the necessary resources in providing the service, and could make spectacular short-term results. The disadvantage of this path is that the necessary knowledge would be kept in hands of these consultants, and they not necessarily maintain the ultimate conceptual framework, the project will be built on.
The other way is is to provide conceptual framework and technical assistance for ESOP companies to establish internally an organizational system of training and team-work support, and externally inter-company network. The advantage of this way is that the organizational background and the network helps them to be basically independent from regular and costly involvement of professional consultants, so the committed companies through very hard work can build their own long lasting system. They can use the services of consultants, if they need, but based on their accumulated knowledge, they can make the most careful choice and a much better use of the avaliable services.

The mission and major task of the project is to follow the second path and develop the necessary technical assistance for ESOP companies to build their internal organizational system and their inter-company network with other interested companies. We would like to develop training methodology and materials for those, who want to apply them, keeping the underlying principles of the whole project. We wish to help the user companies to have a bigger chance to decide, which consultants they want to hire and to what extent. Experience of successful ESOP companies shows, that long-lasting result can be expected the most, if companies make their own effort in developing their own organizational system of trainig and team-work.

In our understanding of the project, the comprehesive and systematically applied principles and practice of Total Quality Management combined with

training of and communicating to employee owners offers the best way to achieve the above goals.

I.
Role of Share-Participation Foundation

The mission of the Foundation

The Foundation serves the ESOP community, i.e. companies and employee-communities of these companies in helping them from the very beginning to become and/or helping them to remain successful business operations long-term by application of most up-to-date participative management methods, contributing to the ever increasing wealth of their participant employees.

Characteristics of the mission:

- not for profit service
  the Foundation gives service for as much fee as covering its costs of maintaining the services, but also generating funds to keep the organization alive with the necessary minimum staff to serve its overall goals and develop the necessary means to meet these goals.
- service for ESOP community
  To serve the ESOP community means
  1. to help to establish the ESOP community
     in two senses: the Foundation works hard for helping those wanting to transform the company ownership structure to set up ESOP company. On the other hand ESOP companies are set up for many reasons. Some of them are not based on general principles and values of employee ownership, in many cases only tax benefits and other advantages played dominant role in the decision for going the ESOP way. We do not exclude these companies from ESOP community. However some of them are not ready to take the necessary effort and not able to exploit the synergical advantages of a broad-based employee ownership structure, combined with participation. We hope that at a later stage they may realize their potentials and may get closer to the community. The Foundation aims to speed up this process by its intensive communication efforts.

2. contribution to maintain the ESOP community.
   Companies employing sound ESOP principles and being successful in business are the strongholds of the ESOP community by providing models to other ESOP but also to non-ESOP companies. The Foundation's major efforts aim the building of a broad and strong community in this sense.

- To collect and make available already existing and to create new tools for ESOP companies to be successful
  Traditionally managed ESOP companies should change their existing practices to exploit full advantages of employee ownership. The Foundation is a leading organization in promotion of this change. The most up-to-date business and management practices having proven as successful ones, should be collected, adapted as well as new ones should be designed and offered to the companies ready for the change.
- The service offered by the Foundation should be attractive
  The service offered by the Foundation fulfills the aims of establishing the ESOP community, if companies served by the Foundation are becoming successful business operations. These companies may serve as models to others, who can learn from their successful parctices. This helps the Foundation to create its image as an organization promoting the success of both the individual companies and the whole ESOP community.

Services offered by the Foundation

- **Project for Management and Ownership Redefinition**
  as a contribution to utilization the synergy of employee ownership and participative management,
- **Information**
  collected and transmitted to members of the ESOP community about successful business and management practices of other ESOP companies in Hungary and abroad. To satisfy this task the Foundation publishes newsletters, organizes conferences, workshops, directs research projects,
- **Network building**
  among ESOP companies in Hungary and abroad and promoting the institutionalization of such networks
- **Lobbying**
  and helping to amend law(s) serving the interest of the ESOP community

II.

Companies envisioned

Members of the ESOP community of the future

The Foundation strives for the establishment of an ESOP community of companies, which

a. driving steadily for economic success by
   - best service for customers
   - continuous improvement of quality
   - reduction of costs

   achieved by

b. seeing their greatest potential and most important asset in their employees and relying on input of their employees

   this is achieved by
   - development of a network of participation groups for
     - cooperation with each other
     - identification of problems, finding a solution to fix them, and introduce the necessary changes
   - having a support group to maintain and develop participation group activities

c. establishing managerial atmospere and strategy to support these processes

d. training knowledgeable employees, who care about business both in their job as well as in the company

   this is achieved by setting up a
   - communication system
   - by training to understand and use information transmitted to help the company to be more successful

III.

Project for Management and Ownership Redefinition

The Foundation makes all the necessary efforts to deliver the services mentioned in Part I for the establishment companies envisioned. The most important element of these services is just now under development, and could be called as Project for Management and Ownership Redefinition in ESOP companies or as a Project for MORE.

Mission of the Project for MORE

Target companies should achieve greater economic success by better customer services, continuous improvement and cost reduction. They achieve this since CEOs see themselves as leaders of change, the companies' managements have the vision and practice of using the human potential of the company the best way and the whole company implements the best methods of participative and quality management. The way to reach this is designing and implementing a program with a holistic view. The program contains development of training materials, exposing CEOs to existing models and pracitces of such management techniques and initiate and help to install such practices.

Target companies

Those who

- face general economic and organizational problems
- have problems stemming from expectations and fears because of their ESOP ownership structure and
- need ideas and technology how to tackle these problems.

Aims of the Project

To promote the companies to develop

- a ***vision*** of an ESOP firm as a successful business, which satisfies also expectations of its employees both in financial and human relations terms
- ***technics*** and technologies for solving those problems listed above
- ***capability*** to build ***organizational*** and ***managerial*** background to improve their ESOP system continuously, without dependance on external profit oriented consulting organizations
- ***capability*** to ***consult*** and ***train*** non-professional trainers of their fellow companies to help to build their own capacities for continuous improvement

Structure of the Project for MORE

There are several reasons to design the Project for MORE as a pilot project:

- first, employee ownership is a new ownership structure, unprecedented and unknown in Hungary until 1989,
- company management in Hungary is traditionally autocratic and paternalistic, managers are unfamiliar with modern cooperative and participative management techniques, as TQM
- little understanding of modern financial and business practices among not only employees, but also managers.

So the basic structure of the Project for MORE intends to

- help CEOs to
  - see themselves as leaders of change.
  - identify the core problems in business and management terms
  - develop the vision of the company as an employee owned company
  - find the Project for MORE as a possible tool to help tackling their problems
- develop training materials

  by collecting, translating, adapting the best training materials available, and to design new ones, experimenting and modifying and developing them to create a comprehensive set of modules.
- install practices in 3 pilot companies

IV.
Project implementation

Tasks and ways

1. Collecting available training models and materials

   Resources:
   - all accessible organizations, handbooks, publications, etc. having up-to-date training methodology and training materials already in practical use on training and facilitation of team-work in the field of quality management, employee education, involvement and participation,
   - North-East Ohio Employee Ownership Center through Chemonics - methods, training materials on participation
   - National Center of Employee Ownership - research materials on synergy effects of ownership, participation and productivity/sales

- Web Industries - history of the gradual development of existing practices, methodological description of organizational structure, training process and training materials
- Rupublic Steel - system and materials on Owner Education Program
- Weirton Steel - get detailed methodology of setting up , traning and running Employee Participation Groups supported by in-house group of facilitators, and a system of internal communication, get their training materials,
- Polaroid - same as Weirton
- Avis - same as Weirton
- Baxi Partnership - same as Weirton
- BBC series of videocasettes on TQM - through Know How Fund
- Development Strategies - an organization in GB with Nigel Mason, Simon Carter (former CEO of Baxi Parnership), William Coupar (former CEO of Chesterfield Transport)
- Oxford Conference - get information from participants on their experiences and get training materials
- College of Foreign Trade (Budapest) - TQM course

Ways:

- Mail, phone calls, meetings at conferences or seminars
- Visits to companies
- Lectures by and workshops with participation of foreign company executives and other experts in Hungary,

2. Translating and adapting collected materials and prepare training methodologies and manuals

   Way: translate, modify and experiment with available training materials (possible participants:fellows of the Foundation and guest-participants; one department of a willing and enthusiastic company, training sessions or club meetings of the Hungarian ESOP Association) prepare adapted materials. The adaptation has different phases. It starts with simple translation from English into Hungarian. However there are cultural and economical, legal differences. These differences should be taken account while modifying the materials. To do this successfully, the moduls should be experimented first in workshops at the Foundation, later at the Association's training sessions and in a department of a volunteer company. The manuals should go to print after this experimental phase.

3. Collecting information about business-management problems of Hungarian companies and ways of thinking by CEOs about these problems and how they see the ways out

   Way: There are several existing channels to CEOs to collect such informations, however they have not been exploited directly for this project. There have been:

   - visits to companies with Lily Hagen, as well as with other visitors,
   - regular telephone and personal contacts with CEOs,
   - Association's club meetings
   - annual conferences
   - research on ESOP companies

4. Organizing the collected informations and adapted training materials, designing a comprehensive training program and preparing of implementation of project for MORE

   Way:

   ~ help fellows of the Foundation in some specialized areas (marketing, facilitating, TQM, etc.)

   ~ select some external consultants, who are ready to accept the values of the project and are willing to train company non-professionals to become trainers, and accept the fact that their role is to made themselves gradually unnecessary.

   ~ design-work by the Foundation with the help of selected consultants and foreign experienced experts;

   ~ workshop with Hungarian experts as well as possible promoters to inform them about the stages of the project and get their mental and financial support;

5. Exposing CEOs to the Project for MORE and to TQM-based participative management models and practices of foreign employee owned companies

   Ways - a successive approach, by gradually giving a complete view about the Project1s aims, methods, conditions, etc.:

~ Newsletter	Deming interview, Charles Edmunson's presentation on the conference, information about the Project plan, letter referring to the Project	to all CEO plus ESOP board members
~ Letter	information about the workshop	to all CEOs

~ Phone calls and visits	detailed information giving and collecting, closer contact	to those company CEOs whose participation in the workshop can be expected
~ Workshop	familiarize CEOs with the models and practices of the Project	for max 30 CEOs

6. Implementing the Project for MORE in pilot companies
   2-3 volunteer companies must be found to implement the Project.
   Implementation structure: one company - one professional consultant
   Role of the professional consultant:
   - contribution to the adaptation and design work of training materials
   - participation in the workshop for CEOs
   - participation in implementation in pilot companies
   - participation in the roll-out phase, relying on involvement of company non-professionals

7. Evaluating the results, modifying elements, planning a roll out phase

Structure of implementation of the pilot Project

i. Training for the management and regular team-meetings

aims:

- to learn the methods of problem analysis and team-work
- to get involved, and be open to teamwork with fellow supervisors/managers and subordinates
- to solve an existing company problem

Training	to train possibly all members of upper management to identify and analyze problems, work in team with people from different departments	1 week/ 1 group, 5-6 weeks altogether
Meetings	to solve a problem chosen by the managmenent teams	2 hours a week. 15-20 weeks
Annual vision retreat	develop strategies for product development and budget, brainstorm about the future of the company	annually, 2-3 days

ii. Non-professional trainers training

aims:

- to learn each training module of the Project in practice
- to learn facilitating teamwork
- to learn problem-solving skills

Task-force training	to provide basic skills in team-work and to select willing and able employees to become non-professional trainers as their full-time job in the company	1 week/ 1 group
Problem-solving team-work	to solve problems chosen jointly by management and by problem solving groups;	2 hours a week, 15-20 weeks
Trainer and facilitator training	to train selected (expected ratio 1 trainer out of 3 participants of the task-force) team members to become full-time non-professional trainers and facilitators	1 week

iii. Organizational structure building

Setting up an independent company-level Employee Participation Facilitator Group (EPFG) reporting directly to the CEO

aims:

- to train basic skills of team-work and other ownership- and quality-management-related topics to employees of their company
- to facilitate team-work
- to evaluate results and report to the CEO
- to develop methodology
- to develop a network among inter-company trainers, to provide training of trainers, training of teams and facilitating services for other companies

Planned roll-out phase

Overall concepts, methodologies and training modules developed in the pilot phase should be offered as a package to ESOP and non-ESOP Hungarian companies and as widely implemented as possible.

- The Foundation will produce the training materials, trainers' handbooks in printed form. These materials will be complete enough to be used independently by company in-house trainers.
- It will be necessary to expose top management of companies to the concepts and to methodologies in introductory workshops first. Another inevitable task is to train trainers of the company. Workshops and training are to be conducted by professional trainers and facilitators. Such a group of experts is to be set up at the Foundation based on the staff of the pilot project. Services of the group will be offered on cost-covering, non-profit basis.
- Extensive marketing of the training package should approach ESOP and also other non-ESOP Hungarian companies. Events organized or supported by the Foundation, such as annual ESOP conferences, workshops, seminars, regular training courses, and publications of the Foundation, such as its Newsletter will be used for promotion. This promotion will be based mainly on success of the pilot project. This success should make the package attractive to non-ESOP companies too.
- The package and services of the expert-group should be made available to educational institutions and to for-profit consultancy organizations. The Foundation will provide them with copyrighted training materials on a cost coverage basis. The Foundation will safeguard the honest application of the whole package. This means, that the basic general principles and the overall framework of the concept must be followed and maintained.

To cover the safeguarding and other costs, the Foundation will ask a royalty fee. For further development of the methodologies and the training package the Foundation needs more than its existing resources. Therefore the Foundation will seek further financial and technical assistance from national and international donor organizations.

Appendix I

Months	Jan	Feb	March	Apr	May	Jun	Jul	Aug	Sep	Oct
Weeks	1 2 3 4 5 6	7 8 9 10	11 12 13 14 15	16 17 18 19	20 21 22 23 24	25 26 27 28	29 30 31 32 33	34 35 36 37	38 39 40 41 42	43 44 45
1 conceptualizing										
2 visiting 3 compa										
3 collecting, translating, adapting materials										
4 planning										
5 training in Association										
6 workshop for individual exper x										
7 workshop for institutional exper x										
8 visiting US companies										
9 training in US										
10 CEO workshop				x						
11 preparing materials, manuals										
12 consultation with CEOs										
13 management training in co I										
14 task force training in co I										
15 organization building work in co I										
16 problemsolving teamwork by task force in co I										
17 report of task force in co I										
18 management training in co II+III									x	
19 task force training in co II+III										
20 organization building work in co II+III										
21 problemsolving teamwork by task force in co II+III										
22 report of task force in co II+III										
23 finalizing training mat-s+manuals										x
24 training of trainers in co I+II+III										
25 evaluation, preparing roll out phase										

Outlined schedule
for involving foreign experts

11 January

Schedule	no of days	Tasks	Cooperators
20 - 3 Feb March Michael Delfre	10	1 conceptualizing, designing the whole program, including but not limited to the fields of participation, empowerment, business literacy, consumer awareness, quality management, 2 collecting, evaluating, developing materials, methods, manuals	staff of Share-Participation Foundation (Sh-P F) individual experts institutional experts
27 - 17 Feb March Denis Desjardin	15	1 conceptualizing, designing the program fitting to the needs of an ESOP company 2 collecting, adapting developing materials, methods, manuals 3 preparing 2 workshops for diffi types experts	staff of Sh-P F individual experts institutional experts
20 - 31 March *Daniel Bell*	*10*	*1 designing training program for the Association* *2 collecting, adapting training materials*	*staff of ESOP Association, Itil Asmon* *in the rest of the time: staff of Sh-P F*
10 - 22 April Michael Delfre	10	1 preparing the CEO workshop, 2 training facilitating	staff of Sh-P F individual experts
18 - 29 April Denis Desjardin	10	1 preparing the CEO workshop, 2 training facilitating 3 preparing, developing materials, manuals	staff of Sh-P F individual experts
29 - 9 May June John Logue	10	1 preparing mgmt and task force training	staff of Sh-P F individual experts mgmt group task force group
12 - 30 June Daniel Bell	15	1 starting problem-solving teams 2 modifying materials, manuals	staff of Sh-P F individual experts in the rest of the time staff of Assoc

INTERVIEWS PREPARED AT ESOP COMPANIES IN DECEMBER 1994 AND JANUARY 1995

As a preparation for providing post-privatization technical assistance, especially to companies privatized through ESOP or ESOP/MBO, a needs assessment was undertaken in a number of such companies. As a part of the need assessment, structured interviews were undertaken with the assistance of the Share Participation Foundation in 12 such companies:

- Centrum (department store chain)
- Perion (battery manufacturers)
- Orex (jewellery and watches store chain)
- Chemical Works of Budapest
- Amfora (glass and porcelain wholesale)
- Pátria (printers)
- PEMÜ (manufacture of plastics articles)
- Csepel Transformer Plant (manufacture of transformers)
- MMG Automatika (producer of car components, household products, etc.)
- KÖZÉV (building construction & renovation)
- First Pest Rolling Mill (flour milling)

The interviews covered the present ownership structure, current financial situation, future business plans (with special emphasis on the needs for foreign investments), management practices, and any special issues posed by employee ownership.

The results of these interviews were combined with the financial analysis of 32 ESOP companies, which was later refined for 16 of these companies, to formulate a strategy for post-privatization technical assistance to the ESOP/MBO sector.

Interviews
Prepared at ESOP Companies
in December 1994 and January 1995

Centrum Rt.

Interviewee:	Mr. István Brückner Ms. Józsefné Filák	
Registered capital:	HUF 5 billion	
Ownership structure:	ESOP	26%
	Individual employees	10%
	Management	4%
	Consortium partners	25%
	Local governments	13%
	SPA Investment Fund	7%

Centrum is the only national network that has survived the transformation. The majority of the owners are Hungarian.

It is (one of) the biggest ESOP organizations in Europe with 4000 employee-owners. This is of vital importance as far as the present and the future are concerned and the enthusiasm is not just temporary.

The company has been profit-making for the last 4-5 years, its assets have increased, they have built three new department stores and refurbished more than 50% of the stores. They have laid down the basis of the computer network but they do not have an integrated system yet. At present they work on the modernization of the organization and of the internal division of labor. This work is at least as important as the privatization. Presently the main objectives are simplification and rationalization.

Staff number has decreased from 7500 to 4000.

Answers to questions related to **investment**:

1. A company that undergoes modernization will always need investment; it has to be decided whether it needs financial or strategic investors. The developments require investments in the value of HUF 1-1.5 billion, which would be spent on equipment and computerization (1 billion), and network development (500 million). These investments have a good rate of return, they have first priority, while the "prestige"

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investments can wait. The company could also absorb more investment (HUF 2.5 billion) in the first phase.

2. The asset-proportionate profit is not attractive now, (400 million gross profit/5 billion); in two years it will increase to 700 million. In 2-3 years the net profit will increase to 10%.

The turnover-proportionate profit will reach the international level.

Collateral of the investor:

- plants, real estates, 80% in town centers
- HUF 3.3 billion reserve capital
- the present trends that guarantee profits
- employee ownership

Privatization was meant to be implemented in four steps:

1. Ownership transfer
2. Modernization
3. Capital increase
4. Public offering (end of 1995 (or 1996) the earliest, after the positive effect of the first capital increase)

Employee-owners have known from the very beginning that their ownership is not sufficient and there is a need for additional capital in order to improve the company. **The ESOP organization asked the management to acquire additional capital of at least HUF 1 billion.** Public offering is of great interest but it can only be implemented after Steps 2 and 3.

Convertible bond was proposed in the privatization bid; they have received two promissory notes and a World Bank credit is also among the possibilities. The best solution would be an external investor. If no deadline can be set, only then comes the version of convertible bonds.

They expect financial investors because their experience is that, having bought a company, strategic investors act like "market-buyers" rather than real owners. They want to sell their merchandise and technology as long as the investment returns. However, from the owner's point of view, strategic investor is also of great importance because it raises the value of the company. After the public offering, the investor will be selected on the stock exchange and the management will have no word in this decision.

Hungary is a very small market. Department store chains have no frontiers and integration will undoubtedly happen.

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First they need a financial investor and then they will look for strategic investors. There should not be a dominant external investor. One solution can be that the investor sells its shares to the strategic investor.

At present, ownership-proportionate representation is proposed though the state and the local governments have bigger ownership share. This is most likely if an investor wants significant ownership share.

The assumption that the ESOP hinders the decision-making process is not true. This is well supported by the fact that, within two weeks, employees not only expressed their intention to buy the company but also put the money down the table. There have been two general assemblies held simultaneously at 22 divisions without any difficulties though the results are not unanimous.

It is not easy to predict whether real profits will be generated or not because there is no correct information regarding inflation that can form the basis of projections. They have export activity but it is not significant and there are no plans to increase it. Two potential ways are (1) make the turnover more dynamic and (2) increase profits. Inflation causes the decline of demand and it does not really bring benefits to them.

The investors' real guarantees are as follows:

- a very logical organization
- wide profile
- employee-owners
- massive property

and, as a result, room for manoeuvering.

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PERION

Interviewee:	Dr. József Kéri
Registered capital:	HUF 1.4 billion (HUF 0.37 billion capital reserve)
Balance Sheet Total:	HUF 2.1 billion
Sales Revenue:	HUF 2.4 billion
Ownership structure:	ESOP 50% Management 46% Local governments 4%
Number of employees:	650
Number of ESOP members:	550 (everybody who meets the conditions)

Presently the company undergoes:

a. modernization
b. development of new activities
c. development of new technology:
   - for processing production waste; it is successful and sold world-wide;
   - plant development for the reutilization of run-down batteries.

There is a chance for expansion in the company in the field of three product lines:

- led batteries - the biggest volume
- dry batteries
- nickel-cadmium alkaline batteries.

90% of the products are sold in Hungary:

- in own shops
- at dealers
- at wholesalers
- to large companies, e.g. Posta or MÁV
- car manufacturers, e.g. Suzuki or Opel.

10% is sold abroad: to the NIS (mainly the tractor manufacturer in Minsk), to the Far- and Middle-East and Europe.

These products are also imported; after the 1989 import liberalization, sales dropped but the trend changed in 1992 while 1993 brought record sales and this year is also expected to be a record year.

They are the exclusive suppliers of Suzuki and Opel. Both companies qualified them

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separately. This year they started to introduce ISO 9000 which is essential for the company being generally accepted.

They have the whole range of production waste processing is in operation: machinery manufacturing, exports, royalty. As an experimental operation, this year they will start the reutilization of used batteries in the value of HUF 30 to 40 million, using their own patent. This will prove that the new technology works. It is rather risky but it is meant to be the source of dynamism because there is a need for expansion. The advantage of the new technology is that it is more environment-friendly, and less expensive. If somebody invests in this area, he will never want to get out because, if it really works, then there will be a need for new systems and investing in a new system is also risky.

Decision-making mechanism:

If an investor wants to invest here, there is no problem with the decision-making process. According to the present mechanism, the general assembly brings the decision about the separation of a large property share.

According to the chief executive, decision-making is quick because, although ESOP has 51%, it also involves the management therefore decisions are always made by the management. There is a need for radical decisions. Employees have trust in the management, they say that the management plays a fair game. According to the chief executive, they cannot say that the ESOP is good and the management is bad or vica versa but the interests of the whole company have to be enforced.

A system is being developed for the qualification of the employees on the basis of the quality of their work.

When the first supply was sent to SUZUKI, they complained that the labels are stuck on improperly. Employees who have worked for the company for 8 years were used to a situation where the buyers begged for the goods and now the company is begging for the purchase. An employee who sticks the labels will not understand what goes on in the market.

Now they understand a bit more.

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OREX

Interviewees:	Mr. Sándor Supák, Chief Executive Ms. Ferencné Csík, Representative of the ESOP Organization Ms. Márgit Kis-Lukács, lawyer
Registered capital:	HUF 800 million (HUF 200 million capital reserve)
Balance Sheet Total:	HUF 1.5 billion
Sales Revenue:	HUF 2.5 billion
Ownership structure:	ESOP 52% Commercial and Credit Bank (KHB) 23% SPA 10% Employees (mainly management) 12% Local governments 2%
Number of employees:	450

The company was set up in 1950. Its main profile (75%) is jewelry retail (4/5 of the 75%) and wholesale (1/5 of the 75%) as well as watch trade (20%) and gifts (fake jewelry, leather work, etc.) (10-20%).

The company was transformed at the end of 1991. Earlier they had 100 outlets, after the transformation they had only 62, out of which 11 outlets are owned by them, 51 are rented (rented shops are not included in the balance sheet).

The ESOP Organization and KHB have right of first refusal until 1996.

They have credits in the amount of HUF 400-500 million, mainly from banks, partially from suppliers. Interest payment is a great burden, HUF 120 million annually and it is an obstacle to further development. They give credits to wholesale buyers.

They have full ownership of a watch trading unit which is part of the Omega world-wide repair network.

Parallel with the transformation, they set up their own jewelry-making unit in order to be less import-dependent. They also have some exports. They have a buying-up outlet in Thailand. They also have a 100% stake in a package delivery service which is now being introduced to the market.

They have two warehouses: watches and gifts at Törökbálint, gold in down-town. The latter also functions as an exhibition room and there is another exhibition room in the

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city center.

They have 21 shops in Budapest, 5 in down-town and the rest at busy spots. They also have 41 outlets in the country, mostly in shopping streets.

They are planning to develop exports:

- to Romania, watches and gifts this year
- Ukraine
- Slovakia
- Rumanian goods to France.

They are upgrading their integrated computerized information network which has data of two wholesale warehouses and all the retail outlets. It is good because there is no need for new credits even if the inventories are bigger.

The original staff number was 900, which decreased to the half as the result of the withdrawal of funds and restructuring. The staff number at the headquarters was cut drastically and further decreases are expected in 1995.

They think that they finally found the right form of management which helps to stay in the market and facilitates expansion. The information network makes it possible to set up a product manager system. The managers will be in charge of the whole process from the purchase to the sale, including the price, inventories, turnover and marketing.

The network has to be expanded. Agreements have been made regarding the possible venues. A business plan has to be prepared for the increase of foreign trade and network expansion. A big outlet costs HUF 20 to 30 million.

The funds required for the development are being created, e.g. the efficiency of the present network is being improved. The optimal size is 60 sq.mts and there outlets of 200 to 30 sq.mts in the country. They want to sell the stores that are too big and the office building. They need easily accessible outlets which would also give space to the wholesale warehouses and exhibition rooms, i.e. the network has to be developed economically.

They are moving towards the "shop in shop" concept. It might be financed from the sales and is meant to utilize the existing dynamics.

They want to be publicly traded within 3-5 years which they consider sufficient for the general market improvement.

"We want to stabilize our position".

The standard of the stores is close to that of the Swiss stores, that is why they can sell Omega, Raymond, Quartier, etc. products. This affirms the company's market position.

Competitors:

The main competitor is the black market which involves purchase in other countries, street vendors and private traders. Tax has to be paid which equals to 125% of the acquisition price. Black traders do not pay this tax, they sell low- and medium-quality watches.

They apply a differentiated business policy, every store is supplied with goods according to the local demand.

To be on the safe side, they buy only directly from the producer.

They have a relatively new name, it has to be introduced to the public.

Another competitor is the Inter-Gold network with 25-30 outlets and a smaller range of products.

They need expertise, which the score employees have and the competitors do not have. 25 employees just finished a course of jewelry evaluators. As a specialized company, they have a good reputation.

After the liberalization, many firms launched new activities that they were not familiar with; companies that pursue the well-known activity can stay in the market.

They started to emphasize the one-line-business nature.

Certain part of the inhabitants use gold as a means of preserving the value of their money but privatization, state bonds, etc., present competition. During the periods of political instability, the demand increases.

Imports are mainly contract work from Italy, Israel, Germany and Thailand and the price primarily depends on the world-market price of gold.

30-35% is domestic production, half of which is own production. It is cheaper because the devaluation of the forint increases import prices.

The development of the wholesale activity requires about HUF 100 million.

Next year they are planning to open 5 stores. HUF 15 million is needed for the inventories and 5 million for store construction in the shop-in-shop system.

Two business centers: each one requires HUF 10 million for land, HUF 10 million for equipment and HUF 25 million for inventories. They expect a turnover of HUF 70-100 million, a margin of HUF 20-30 million and a profit of HUF 15-25 million in the third year.

Fake jewelry and watches have a higher profit margin but require more work.

They initiated the trading house nature.

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CHEMICAL WORKS OF BUDAPEST

Interviewee:	Mr. Emil Valovits, Chief Executive	
Registered capital:	HUF 1 billion (3 capital reserve)	
Balance Sheet Total:	HUF ... billion	
Sales Revenue:	HUF 3 billion	
Ownership structure:	ESOP out of the ESOP 50 managers, 46-47% SPA Employees Local governments	50+1% 9% 28% 5% 18%
Number of employees:	1000	

The company is 123 years old, it has been profit-making ever since.

Disadvantage of the location (XI. district): the chemical works is not popular in the city but they do not want to liquidate it; they voluntarily discontinued the contaminating technologies (e.g. sulphur acid production, artificial fertilizer [super-phosphate] production). Sales revenues dropped to half but they also eliminated the need to handle 300,000 tons of materials.

Restructuring took place in June 1992, buy-out in March 1994. There was no MBO because of the traditions of the company and also because board members were politicians who had no trust in the management.

The SPA had the management surveyed by a human resources Kft in 1993. They interviewed 250 people of how familiar they were with the company's strategy. The answer was that "they were not familiar with the strategy but whatever the top management does is right". "That is why we dared to launch an ESOP because otherwise it is not a well-manageable form."

As a consequence of technological changes, they had to dismiss 150 people in the country. They have done it in silence and paid double severance.

- 20% of the sales revenues come from exports to developed markets (some years ago it was 7%), 80% is domestic sales. 75% of the latter used to come from sales to the agrarian industry but it has dropped to 40% because of problems in the industry and liberalization.

- 1/3 is inorganic chlorine-alkali electrolysis. It has a steady market, this is the

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only company producing bottled chlorine and high-purity hydric chloride for the pharmaceutical industry.

They have been developing high-value organic intermediaries for 10 years. 1 USD primary material can yield 10 USD in Switzerland.

The technical and labor standards are high, these might be the drawing power in the future. It is difficult to meet the demands.

The purpose of investments is to provide the highest quality because that is the only way to stay in the market. The purity of their materials is higher than 99% and pharmaceutical companies are ready to pay for it. China and India are the main competitors but they do not provide the same quality.

When the interview was made, they started to audit ISO 9001 for the whole factory; they have been working on it for a year.

Six months ago they established a computerized network with 130 terminals for the purpose of production management, quality control and administration.

Reforms are brought to the company by these changes and not by the fact that employees have become owners. It takes some more time until they will act like owners. The best would be if everybody worked here the same way as in their homes.

Development plans:

Production of organic chemical intermediaries (farming, pharmaceutical industry) in the highest quality. They have their own foreign trade section and also collaborate with Chemolimpex and a Swedish-British small enterprise.

In 1978, close to Pécs, they built a waste deposit for the storage of 15 tons of waste material with high chlorine-content, in line with the then effective regulations. Now the waste deposit has to be liquidated. An international tender was invited, the winner was a French firm called Hungaro-Pack. They set up a French-Hungarian share-holding company with 74% French and 26% Hungarian ownership share. They are planning a modern, high halogen-content waste burner, the investment will cost about HUF 5 billion. At the beginning they wanted to collaborate with several Hungarian companies but gave it up because it was impossible to establish cooperation.

Banks have shown interest; the company is thinking about selling shares, but shares would sell better when the waste burner already operates. Advantage: they can burn 60-70% chlorine content and they produce hydric chloride instead of foots. Out of seven burners, the French company has 1 state-of-the-art high halogen-content burner.

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The law on environment protection has finally been passed and regulates dangerous waste disposal. This burner may give a boost to the chemical industry because they will be able to utilize the waste.

Six weeks ago a new organic intermediary plant was put into operation and the reconstruction of an electrolysis plant started.

The company has taken HUF 60 million long-term credit and HUF 900 million operating credit on which they pay HUF 300 million interest.

If there were a HUF 100 million investment, the present 20% intermediary production in the overall production could be raised by 10% because there is a market demand for that. An existing plant would be extended, the payback period would be 2-3 years. The new plants are computer-controlled. Certain operations would be launched by means of a photo-chemical process. This is designed and produced by German specialists and expected to bring HUF 100 million profit.

Environment pollution:

The soil inside the plant (600,000 sq.ms) is contaminated by different materials therefore nobody wants the company leave this field. When the company was transformed, they had the soil examined both inside and outside the plant; outside there is no contamination. The contaminated area has to be cleaned within the next 10-30 years. Both plants have a network of monitoring wells.

Competition:

- Borsodschem is the main competitor for certain products, e.g. sodium hydrate.
- Non-organic chemicals will not be imported because transportation costs are high, e.g.in the case of alkali which has 50% water content.
- There might be competitors for pesticides.

They have developed a bio-active herbicide, the dose of which is 20 grams per hectare. It is being used on 13 thousand hectares and brings good results.

They have three research companies:

- organic chemistry
- pesticides
- biologic station.

Quality control:

- there is a central department with 26 employees including 6 employees with at least a BA degree, plus every plant has its own laboratory for internal quality control.

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Amfora

Interviewee:	Dr. Zoltán Együd, CEO Mr. Ferenc Jakab, ESOP Chief Executive
Registered Capital:	HUF ... billion (HUF 3 billion capital reserve)
Balance Sheet Total:	HUF ... billion
Sales Revenue:	HUF ... billion
Ownership Structure:	ESOP 37% MBO 25%+1 SPA % Local Governments % Bank, Company %
Number of Employees:	500

The company was privatized in summer 1993.

It is the biggest Hungarian glass- and porcelain wholesale company. The traditional wholesale activity is getting less important.

Problems of trade in Hungary:

- there are no rules of ethics (somebody wants to do business)
- big domestic competition
- there are some new western competitors
- drastic changes in the scope of activity
- drastic changes in the structure.

Changes:

They have found the activities that carry great potential for future increase. These activities are self-service and retail trade and the rest is going to be discontinued.

Changes are necessary also because the proportion of idle/dead stock is too high. They want to utilize many assets i.e. convert them into cash and get rid of banks.

3/4 of the changes have taken place and are expected to be finished by the end of 1995. This also means that there will not be any increase before 1996 because the ratio of activities that can be developed is too low.

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They are currently preparing the opening of 15 warehouses. This, however, only means expenditure and does not bring revenue.

Using a 30% banking loan, they can open one warehouse per month.

There has been increase in the company but its too low and the volume of the total sales is not sufficient.

Vertical integration is planned but it requires massive capital, a part of which can be returned to the "object".

Vertical integration is essential because certain intrestedness has to be established with the suppliers otherwise the competitors will do it.

They have some intrestedness in the plastic industry and they try to acquire some in the glass industry.

When they look for investors, shares should be sold to small investors because the major part is owned by the ESOP and the ESOP wants to keep it, therefore they do not look for big investors.

The number of employees is 400-500 persons, which equals to 1/3 of the former number.

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PÁTRIA PRINTING HOUSE

Interviewee:	Lajos Füleki, general manager, former financial manager
Registered capital:	HUF 1 billion
Balance sheet footing:	HUF 1.8 billion
Sales revenue:	HUF 2.4 billion - 6-800 products
Ownership structure:	MRP 51% SPA 44% Local governments 5%
Number of employees:	740 persons in one, sometimes two shifts

The company is the biggest organization producing and selling printed matters.

Products and markets:

- foldouts for computers 55-60%
  Their proportion is growing, the problem is that they cannot produce colored ones.
- traditional printed matters 30%
  Their proportion is decreasing.
- fax paper rolls
- envelopes 15-20%
  There is a bigger demand for good quality products.

Property:

- 3 printing houses - printed matters own property
- wholesale trade network own property
  They sell their own products and purchased products.
- retail trade network own + rented

Competition:

There is one important rival in the market with 50% market share, but they can produce more modern products with more modern technology.

- foldouts 35-40% market
- traditional products 55-60%

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Because of the privatization instability there was no essential investment for three years, the number of employees remained stable and, as a consequence, they lost some of their markets.

In 1992-93:	Profit before tax: HUF 170 million = 7%
Expected for 1994:	HUF 120 million
Plan for 1995:	HUF 130 million. This is a realistic objective, as some customers who changed sides are coming back.

The characteristics of the market for printed matters:

The ministries and the authorities decide through tender, on the basis of competitive prices and good contacts. Even those who lose can win the tender the next year, because those who have won already might not be able to finance distribution. There is and there will be a market for intelligent printed matters like addressed envelopes, for lower level intelligent printed matters like data mailer, or direct mail printing.

Development:

- Investment with leasing, which they have to do to remain in a winning position in the market. This will require an investment of HUF 200 million.
  In several steps they could get to data mail, then to direct mail.
- Improving the business network.
  This will involve an immediate cash income.

The demand for foldouts is growing, especially for custom-made products of higher quality.

There are all types of technologies: letterpress, photogravure, monochrome, offset, colored offset - it is the direction they are trying to follow. The current investment is done by four-colored water offset printing. There are different processes, from paper roll to paper roll is the more productive way; the product can be cut into sheets if necessary, or it can be folded into zigzags as well.

The project would end in the second half of 1996.

The impact of the investment:

- There is going to be a 10% growth in foldouts, because a lot of traditional printed matters can be converted into this form, and traditional foldouts are also important.
- Extra income can be expected (10-15%, or more).
- It will provide an opportunity for the growth of the company.
- It helps preserving the market.

The technology must be worked out and competitive prices must be offered, because no customers will commit themselves in advance. They have already started importing, though foreigners are still not important rivals, because:

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- for western companies the Hungarian market is small, and
- development is expensive and
- they must be within the market,
- delivery costs are high, too.

They have computerized:
- order recordings,
- dealing with customers,
- inventories.

There are retailers all over the country, with all sorts of legal forms between them.

The overall picture of the company is not bad because
- the quality of the printing house's products is acceptable,
- they have a consignment store
- and a distribution network,
- they have good contacts with suppliers,
- good liquidity.

Further **uncertainties:**

They signed a contract with SPA not long ago. It is still not clear what the SPA intend to do with their own property, if they will give it to the social security, accident insurance.

The employees are entitled to buy out 10%, by paying 50%, buying out the rest within 8 years.

If an investor would be interested in the company, the MRP organization would have to give up their 51%. The other solution is to reduce the capital before the investment, in this case the investment would not reduce the MRP shares.

They have contacts with two banks, because of their commercial activities they need a lot of cash. Interest costs: HUF 100 million/year.

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PEMÜ
(Pest County Plastic Company)

Interviewee:	Bernát Sarlós, general manager
Registered capital:	HUF billion
Sales revenue:	HUF 4 billion
Ownership structure:	MRP 65% PEMÜ Kft. 29% They would like to sell it to a financial investor. Local governments 6.4%
Number of employees:	1200 persons (earlier it was 2500)

Characteristics of the company:

The company produces articles and components made of plastic. These are the following:

shoes	48%
products by injection moulding	15-20%
shoe-components	10%
others	

The company was founded in 1959 to produce mass-articles made of metal.

Their first plastic products were celluloid dolls. There was a constant danger of fire and explosion, that is why the plant was built on the top of a hill so that fire could not spread.

They had to reduce the number of employees because of the decrease of orders and competitiveness.

The general manager started to work for the company in 1960 as an unskilled worker, he has been general manager for 3 years.

The company has some enterprises as well, American-Hungarian and German-Hungarian.

There are 8 branches which need to be reorganized.

The raw materials are partly from the domestic market, partly imported.

Processing vinyl (PVC) is not essential;

- poliolefins are more determining
- poliuretan takes 14-15% (in order to replace its import they established the neighboring German-Hungarian partnership)

Processing

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- injection moulding
- extrusion
- foaming (watering)

Export: 20% goes to German-speaking territories

They started a joint enterprise with a German company before the privatization, but the SPA ordered them to sell the shares to Vavin, it was a sales revenue of HUF 1.5 billion.

Marketing

It is combined with restructuring the branches.
Profit and loss statements are prepared below the division level.

Privatization

There were 3-4 privatization alternatives, the general view then was that an essential proportion of employee ownership is needed.

There was no MRP law then, they tried to follow the example of Herend and Gépszerelő Vállalat (Remanufacturing Company).

The SPA did not even want to hear about MBO or a holding company, in the end there was MRP, the company was bought out on that basis.

Budapest Bank granted the E-credit for 10 years with a grace period of 2 years.

Members of management are also members of the MRP.

Present objectives:

- improving the financial position of the company

  3 years ago they had a debt of HUF 2 billion, a long-term credit within the framework of the World Bank project. They received $ 10 million for modernization, the interest rate of the credit then (5 years ago) was 4%; business plans were prepared on this basis. The interest rate at present is 24%; there are some short-term liabilities as well, they amount to HUF 400 million by now.

- carrying out privatization

Future:

They do strategic planning with a Hungarian and a Dutch company, like

- portfolio analysis
- restructuring (into strategic divisional units)

Looking for **investors:**

If they cannot sell business shares they have to decrease capital; they would rather sell business shares.

They prepared a PEMÜ presentation with a Dutch consulting firm, on the basis of that it is also the Dutch who are trying to find investors (a list containing 120 investors)

Use of **money:**

- Replacement (financing of current assets), because they have to pay SPA

- New ideas for development
  - technical development
  - final implementation of a quality control system (though TÜV works already in car manufacturing); in March, 1995, they will implement ISO 9002 at company level.

CSEPEL TRANSFORMER PLANT

Interviewee:	István Antal, general manager Bálint Török, quality manager
Registered capital:	HUF 270 billion, HUF 93 million reserves
Sales revenue:	**HUF 379 with breakeven point (they planned 350 million and a loss of 14 million)**
Ownership structure:	MRP 82.7% Local government ....%
Number of employees:	126 persons, 151 before privatization

They became a joint stock corporation on 31 December, 1991.

Privatization:

After the failure of a tender the employees could buy the company. 119 employees agreed on establishing MRP. 42 of them used their own resources, the size of their contribution depended on how much they could afford.

They managed to gain nearly the same amount of shares. Management did not want to get into a dominant position. It is bad from a managing point of view.

Results of the company:

Everybody wants to achieve results, but in a different way.

The situation of economy is not favorable for transformer production.

Export takes 50%, because there has been a decline in domestic purchases for several years. This year the domestic market demanded more.

The company might even reach the breakeven point. There are orders worth HUF 100 million for 1995.

Above HUF 380 million in sales revenue the company could be profitable. They would be able to produce two or three times as much.

The general manager has been working for the company since 1961.

On 21st of December there was a general meeting for reelection of officials. The whole management + the supervisory board was replaced, only the auditor remained. The cause of these changes was that the people who carried out MRP wanted real renewal. They had a lot of debts, few orders, they did not need to work, they could not work. It was a difficult period of time, but people understood that they had to do something and they did.

Liquidity problems:

- It has already happened that 3 days before payday it was not guaranteed that there would be enough cash to give out wages. The trade union (being very well organized) also helped in decreasing tension.

- There was a high credit on current assets, with an interest rate of 28% + 5% fee for handling with quarterly renewals, it is about 48%. They have paid it back, the suppliers and the state are the creditors now.
- There has been liquidity in the sense that the accounts payable equal the accounts receivable.
- They have 52 thousand square meters, but it cannot be converted into cash.

Looking for **investors:**

They started selling the shares in the summer of 1994, especially to Hungarian trade investors; the most potential buyers were the ones who use the products, but the electricity suppliers themselves were being privatized.

Foreigners: 2 trade investors have shown interest, but it is threatening for the 42 owners. They would like to sell the shares because they cannot finance development projects from their own resources.

They are afraid to use credit of a higher amount, at least not at the present level of demand. Their weakest point is marketing, especially abroad. Former foreign trade companies have fallen apart, those who managed to survive have a different profile. The reason is that there are strict quality requirements + guarantee is needed, i.e. cash must be deposited for guarantee. That is why a trade investor would be needed who could also bring market, not only cash into the company. They are having negotiations with one of them, no agreement has been made on what the profile will be, how many people will be employed, how high the average wage will be. They wish to have a guarantee that the plant will continue to operate. In the case of the financial investor there is no such a danger, but he wants to see his money increased.

They do not support a business in which dividends are not distributed in proportion to the investment.

If there will be no trade investor, assets must be sold.

Cash would be used for:

- technological modernization
Transformers with a low level of loss from idle running and a low level of noise will be needed. They are unable to produce such transformers.

- bringing in natural gas (costs would be covered within 4 years)
One third of the energy costs is steam coming as long as 4 kilometers, the loss from the pipeline is covered by the company.

- achieving ISO 9001 for next year.

Market:

There are no Hungarian rivals, there are foreigners, but what they can sell are only the more expensive transformers with a low level of loss from idle running and a low level of noise. They will not push traditional transformers out of the market, though, eg. only 10% of the buyers in Budapest wish to purchase these types.

Buyers: electric suppliers, private companies. These products are acceptable in southern and eastern markets, in western markets they are willing to pay only half as much for Hungarian products as for western products. An Italian salesman managed to get 25% more for their own products.

The Transformer Plant has never taken the risk of producing low quality. After the introduction of ISO western customers will put more trust in the company. They do hope that they can attract new customers, and primarily, they hope that they can keep the present ones.

They export mainly to the Ukraine, Egypt and Byelorussia. Several customers buy transformers here for HUF, the strange thing is that they ask for data plates in foreign languages.

Capacity:

From among 126 employees 86 are involved in direct production.

The plan for 1995 might be HUF 450-500 million, this would require 20 persons more, taking the present level of technology into account. With technological development they would need fewer people than at present. The spooling apparatus, for example, was planned in 1959, one spool can be made in 4 hours (the employee must stand on one foot), with modern technology 4 spools can be made during the same period of time (and the employee can sit).

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MMG Automatika

Interviewee:	Tamás Borai, general manager
Registered capital:	HUF billion m reserves
Balance sheet total:	HUF 4 billion
Sales revenue:	HUF million break-even point
Ownership structure:	MRP+MBO 50,1% ÁVÜ 34% wants to sell it, but there is no plan local governments 9%
Number of employees:	2400 persons in Budapest, Bicske, Kecskemét, Szekszárd

The company was founded in 1910 with 12 persons, by the time of the second world war it was medium-sized. In 1949 it was nationalized and merged with other companies. There was "autarky" in the 50s, that is why they were doing lots of things. In the 60s and 70s they already tried to turn towards the West. They traded with the Soviet Union, oil was coming in, manufactured products were going out, in which they used western components as well. They had to export to be able to pay western credits.

They have a chance to improve, especially because they could survive after the collapse of the Soviet market. People would like to preserve the company. That is partly why they managed to win the tender. (He was working here from 1972 to 1984.) He is not afraid because a lot depends on how they can communicate. The employees as owners or union members do not always know what to ask and where.

Company problems:

The structure is out-of-date, there has been no technical development. Good experts have left the company because they saw no future in it.
The company cannot guarantee jobs for the people.
The next step is to increase registered capital, nobody wants to sell the shares now.
The general assembly is the decisive forum, in which 1 person represents the employees and the management.

The general manager came back to the company not so long ago, but his experience is that if he provides selected but not manipulated data, people can be convinced that he is working for them.

Investor:

A financial or technical investor would be needed, the MRP is an emotional investor. A strategic investor would be better, because the modernization of softwares, machinery and CAM is necessary. There are 140 terminals - hardware is OK but software is not.

Problems of planning:

Materials are needed 2-3 months earlier, they have business talks with Russian customers for several months, for example, and then they ask for delivery on the day following the signing of the contract.
If 80% of the production is lost, 20% of it will be very expensive.
There are a lot of products and technologies, a lot of side effects must be taken into account at every decision.

Products:

1. Mass production, such as car components, household products
2. Small products, some hundred thousand pieces
3. Computerized system to oil production, American technology is used for that purpose, because the Russian insist on it.

Those who work in production here are more intelligent.
He wants to subordinate these three different lines to one technical control, but the wage system is also different.

The company needs

- integration,
- more concentrated management,
- bigger responsibility.

Then, perhaps, they can start decentralization. At the moment every plant is working for another, they cannot be separated.

Market:

The small products are prepared for Russia, Poland, Rumania, Slovakia and the Czech Republic, plus for domestic use. These products are prepared in good quality, at a relatively low price. Most of them are accepted by the EC. But competition is harsh. They are in a better position with labor-intensive products, because of lower wages. Productivity is 1/8 of that in Germany, wages are 1/10. This will partly remain the same, because not everything can be automated.

The wages:
HUF 30 thousand in Budapest/month
HUF 25 thousand in Kecskemét

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HUF 24 thousand in Szekszárd

Quality control:

The final auditing of ISO 9000 is going on in Szekszárd, Kecskemét is going to follow, Budapest will be the last in the row.

Improvement opportunities:

In the field of mass production there are a lot of reserves in quality and in production. In process control (pollution-control) there is some specialty.
Their strength is that they are present in Russia.
Their problem is the market.

The general manager wishes to:
- meet American managers from different levels
- see and hear case studies
- meet people who may understand their problems
- learn how to reorganize a company
- learn effective communication with employees
- learn what sort of and how much financial information should be spread within the company.

They have to decide whether they want to go forward or backwards on the basis of market opportunities. Going backwards: the company is smaller but more profitable.

KÖZÉV (Public Construction Company)

Interviewee:	Albert Kreszán, general manager Tamás Schmidt
Registered capital:	HUF 1.2 billion, 400 million reserves
Sales revenue:	HUF 6.2 billion, half through permanent staff, half through subcontractors
Ownership structure:	MRP+MBO 50.1% Employee ownership 4% ÁVÜ would like to sell 31.4% perhaps to TB (Social Insurance) Local governments 14.2%
Number of employees:	1200, 850 of them are manual workers

It was established in 1948 by the nationalization of several private companies.
In 1991 it was transformed into a corporation (Rt).
It was privatized on 6th of December, 1993.

Their **activities** include construction and reconstruction:

Half of them are new constructions, half of them are reconstructions.
Mainly: 1. buildings for health care
2. offices - flats

Before the Austrian hotel construction companies KÖZÉV did everything, for example, Museum of Fine Arts, Gallery of Fine Arts, Basilica, Academy, Hotel Hélia, etc.

Competitiveness:

- in quality
- in meeting deadlines
- in productivity

It is proved by the fact that they won several tenders before foreigners.
Competitive drawback:

- Bad capital structure, because the biggest part of the registered capital is invested into real estate, but the real estate market is "stagnating", otherwise they could sell from it.

- Lack of funds. At the moment they are financing their activities from operating loan, but cash is the most expensive. Houses are financed, and then the one who orders

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pays for it, but scheduling is not appropriate, that is why liquidation problems arise. There is always a house that is financed by the company, then it is sold. It costs about HUF 250-300 million. In 10-15 other companies HUF 200 million is placed - related to the construction industry.

Privatization:

In the first run the MRP+MBO+financial investors (American investors and a French group) applied for the total state property, but the SPA did not accept it, they wanted to keep 31%.

They wanted to do the buyout together with somebody, but not with an Austrian professional investor who would only like to buy the market. They prefer a financial investor.

The capital structure is being transformed now, so that they have enough resources for their activity. They did not intend to increase capital, because they would like to remain majority owners. If the situation will not get better, they might give up this idea and will be forced to become minority owners.

There is E-credit at the moment - with serious payment obligations. The dividend is not attractive.

Future plans and problems:

- The company plays a decisive role in the decreasing market, and it wants to preserve its position.
- The internal operation must be improved, partly by technical development, HUF 300-500 would be needed for this purpose.
- Hungarians used to play an important role in the German construction industry, but the number of Hungarians to be employed has decreased, earlier it was 15 thousand, it will probably be 5 thousand. There are a lot of Portuguese, Spanish, etc. workers in the European Community.
- The company should not increase sales revenues, a lot goes away on interests. If it was not necessary to apply for credits continuously, there would be a 100% profit improvement.

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Első Pesti Hengermalom (First Rolling Mill in Pest)

Interviewee:	Tibor Csonka, general manager Ildikó Paliga, MRP Board president
Equity:	HUF 180 million
Sales revenue:	HUF 3 billion, 300 million balance-sheet profit
Ownership structure:	MRP 51% Employee shares 12,4% ÁVÜ 11%
Number of employees:	487, 300 MRP members

Activity:

They provide one third of the country with flour and other products. It is also their task to supply animal feed for livestock-farmers in Pest county.

Earlier:

It used to be a trust company. By restructuring their assets and income they received the task of supplying 3 million people. It was at the time when the price of 1 kilogram bread was HUF 3.60. It was a difficult task and a heavy burden, some neighboring countries gave some help. When the trust ceased to exist, the main authorities graded the company as one that is unable to survive. It was necessary to reorganize the company in order to make it profitable. That is why they introduced a strict cost-management, they calculated that a considerable amount of capital injection was needed, what they meant was financial capital.

Privatization:

The question was: should the state inject capital or sell it under price. In 1991 they had to prepare a privatization plan, which included the following:

- selling the small units (14 mills, feed mills)
- transforming the medium-sized units into a Kft. together with the agricultural plants and bakeries of the region
- selling the big units within the transforming Rt. to financial investors (Cerealfoods showed interest, then Cargill)

But the decision was:

- to sell the mill in Buda to foreigners, that is why the state withdrew capital and sold it. Finally, a Hungarian investor bought it without capital investment, under its real value, for compensation coupons in 100%. The condition was: 25% to agricultural plants, 10% to employees with the same conditions that he had when he bought the mill.

Some units were taken away for warehouses (warehouse capacities). So today's Rt. is about one third of the old company. The restoration burdens of the mill in Buda came here, in order to compensate for this the cash income of the smaller sold units remained here.

There have been internal structural changes, redundancies, profit centers were created. These things happened earlier here than at other companies. That was how they could survive despite the label "unable to survive". From among 19 grain trading companies they managed to get from the 18th place to the 2nd. In addition, they could increase their prices, and as they had the biggest market, it was an advantage. They issued property notes, making the employees interested this way. They paid a lot of dividends then. They were doing so to give employees purchasing power to buy company shares.

Step 1.

By increase of capital, paying in 10%, a 100% ownership could be gained. At the time of the transition people received shares for property notes through property note-conversion. At the beginning of privatization there was a 12.4% ownership. The rest was advertised by SPA in the following way:

Credit of HUF 60 million	90 million - compensation coupons
51%	E-credit of HUF 360 million, to anyone
25+1%	to agricultural plants
11%	ÁVÜ (SPA)

The local governments were paid HUF 58 million of cash. The MRP submitted a tender at a rate of 130% , they were the only ones applying for 51%. That was how 12.4% was formed (from which 2.4% - ordinary shares, 10% employees' shares) + 51% (MRP). They bought it for 700 million.

360 million - E-credit; 58 million - instalment, 282 million - compensation coupons (payment by employees, short-term credit)

The applicant was the consortium of the MRP + the bank. Liabilities: increase of capital by HUF 100 million within 180 days through the bank. They signed a contract with SPA on 28th of July, 1994.

Credits: 58 million for 10 years; 360 million for 15 years, with a grace period of 2 years.

This year they pay dividends of 5% to employees. They pay the local government for the plot, it is as if the dividends were 8%.

Market

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Earlier they wanted to export, because it was a profitable activity. This company was obliged to sell in the domestic market, that is why they could not export.

The domestic purchase price has already reached the foreign prices, so everybody wants to use the capacities. The foreign flour market demands 1.5 million tons of grain. The total capacity of the country with 3 shifts (weekends not included) makes it possible to process 2.5 million tons. There is a fierce competition only in Budapest. Excess capacity.

Earlier they used to buy grains only in the region, now they buy grains from the whole territory of the country. The only condition is good quality..

The task is: to produce products of high quality at a low price.

Problems:

Because of warehousing there was a year when the burden of interest itself was HUF 260 million. They try to repay these credits. That is what they use the extra profit for. At the moment, for example, they pay a certain amount to agricultural plants two months earlier, they pay the rest two months later. That is how they balance the burdens.

Development used to be done at the mill in Buda that was privatized separately. The mill in Pest is the oldest in the country. It is a museum piece. They are doing their best to bring it to the level of the Buda mill. Something is changed every year.

Making decisions is not more difficult because of the MRP. The plant manager, who has direct control, can use the opportunity originating from MRP. The problem, in which they would like to get some help, is that middle managers have not been prepared for what market economy is, how customers should be kept, etc.

That is why they have started a training program on how to attract customers. The participants of the training are plant managers, heads of departments and managers, but the information does not get through.

A lot of time is needed to take over sophisticated methods. There are still reserves in the field of cost reduction, but the main concern for buyers is the price.

Employees receive shares now, but dividends only later, so it will take years for them to understand the relation between their work and the dividends.

In Western Europe and the United States there is essential centralization in the field of processing and trading grains. In countries joining the EC multi-companies start working at once and make it impossible for small companies to survive. The main objective of management today is to make agricultural plants become owners. That is why they give credit to producers, or they give a guarantee.

Issues related to MRP:

The managers work a lot, that is why the employees understood the importance of MRP, because

1. at the general assembly there were as many people as never before. The employees were afraid of what would happen if others bought the company. The employees were reassured and they trust management as they did before. Employees feel it more that the company is theirs as well, and they do not tolerate those who do not fit into this picture. They think that they can benefit from working for this company.

At the moment they are not trying to use MRP reserves. Shares with a 10% increase of capital were offered in proportion to their incomes, but not everybody used this opportunity. 10% had to be paid.

2. during distribution others could buy up the shares. These are voting shares. Staff has of course been reduced, the rest of the shares has been redistributed. The returning shares were possessed by the company.

Employees are interested in today's wages and the dividends at the end of the year. Earlier they were able to create more advantageous situations with property notes in the form of tax free income.

Management has a higher ratio of ownership (because it is in proportion to their income). Approximately 30 persons belong to this category, they paid 3 times as much as others on the average. The problem is that they do not give out information. People collect information at a personal level, listen to lectures, read the book entitled "100 Questions, 100 Answers". Representatives of the center visited the plants. Personal relations seem to be more important. They plan to put together a publication on cost management that is easy to understand by everyone. Employees get written information about how much they have on their share accounts and about allocation. The statutes can be found at every plant.

Principles of distribution:

60% - in proportion to income
30% - payment by employees
10% - time spent at the company

Accordingly, what they have repaid will be distributed plus an amount that equals the value of the compensation coupons. They are preparing their own registration system. One member of the board is a financial expert - an accountant for MRP. The chairman of the board will do the allocation. The 3rd delegated member, the plant manager of the mill in Érd, will be responsible for maintaining relations with the plants. There has been one general assembly so far, the second one will be held before the general assembly of the company, with interim meetings.

Possible training subjects:

What they are supposed to know about MRP they think they know, so no training is needed in this field.

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As far as basic financial information is concerned the educational backgrounds are so different at every plant that no training can be organized for a bigger group of people. People do have information about waste costs.

Training on how to work in groups would be needed. But they need to work out a system that can not only identify problems but can also provide solutions to them.

Some people know a lot about MRP; the chairman of the MRP board, for example, gives information to other companies as well, if they ask for it. There is no distinction between MRP members and other employees of the company. The information that is supposed to get to everybody should be stated clearly. The most important thing is to assure that the information gets to the employees. It is simpler to go to them than to wait for them to come. They bring up problems in their own environment. The employees are not only members of MRP, but because of the employee shares they are shareholders as well, so they personally can take part in the general assembly. The only thing people have on their mind is that they are owners, and they are not interested in whether they belong to MRP or anything else. The only thing they are interested in is how much money they can take home. Few people can see everything clearly nowadays. The employees' attitude to work is much better today than it was before, they consider it to be their own business. Lots of them even applied for credit from the HNB (OTP) to be able to buy shares.

Though it will not happen in the near future, they would like to complete settling the debts as soon as possible. It must be taken into account, however, that people come from the countryside, they go home after work, and they are only interested in their everyday problems.

C.2 OWNERSHIP TRAINING

December 17, 1994

MRP "OWNERSHIP TRAINING" PROGRAM: GOAL, PURPOSE, OUTPUTS AND ACTIVITIES

1. Mission statement of the "ownership training" program: Hungarian MRP companies are financially successful

   - [needs some quantification at this level]

2. Purpose of program: Employees of ESOP companies acquire the knowledge and attitudes necessary to behave like part owners of their companies

Situation in the medium term (Dec. 1990): 30 MRP companies have undergone "ownership education" training programs -

- 300 middle managers/union representatives/training coordinators receive training (10 per company)
- 150 non-management members of MRP boards and MRP companies' boards receive training (10 per company)
- 9000 employees receive training (300 per company)

3. Outputs at the end of USAID intervention (July 1995):

   a. **Three pilot companies have functioning "ownership training" programs:**

      - company CEOs are committed to continuation of program in their companies with their own resources; recommend the program to other companies
      - middle managers are cooperative and have acuqired the skills to function as coaches for their work teams
      - employees:
        - are motivated to learn new skills
        - know what their rights within the MRP (allocation, distribution, voting, etc.) and their responsibilities
        - have basic financial understanding (eg. how cost-cutting and expanded sales increase profits, how profits & reinvestments increase value of their shares)
      - several task forces are formed to brainstorm, identify work-related problems, prioritize, make action plans, present to management, implement plans

   b. **Tested training materials in Hungarian are available** to conduct "ownership training"

   c. **At least ten other companies are interested** in implementing "ownership training"

   d. **The Share Participation Foundation has the institutional capacity** (qualified people and financial resources) to continue the program on a large scale:

- the Foundation has network of Hungarian and foreign training experts
- the Foundation has two persons working full-time in training
- the Foundation has adequate financing to continue training from: companies (training fees, donations), Ministry of Industry and Trade (productivity enhancement program), Hungarian Development Bank (MBFB Rt), Hungarian Foundation for Enterprise Promotion, Credit Guarantee Rt, etc.; or
- the Foundation sells/franchises the "ownership training" materials to one or more consulting companies which are interested in performing such training on commercial basis

4. Activities:

a. **One-on-one meetings with CEOs** of MRP companies to identify and prioritize those company problems which are due to employee ownership or which employee ownership can help to solve (eg. productivity, quality, profitability, employee commitment, communication with employees, etc.)

- In the meetings, get top management commitment to come to a two-day seminar, to be titled e.g "increasing productivity of MRP companies"

b. **Meeting(s) with possible consultants** (eg. half-day brainstorming workshop?) to get their ideas about overall training program/about seminar for top management, obtain their commitment, select trainers

c. **Two-day Seminar for top management** of about 20 companies. At end of seminar, top management will:

- have overall view of the contents, methods and outputs of an in-company "ownership training" program
- be convinced that the goals of "ownership training" program can be reached
- feel that such a program will serve their objectives and that they will be in effective control of it
- CEOs of at least three companies will agree on conditions of participation in program
- at least ten other CEOs are familiar with the solutions to their MRP-related problems and interested in adapting in their companies the programs developed in the pilot companies

Activities of top management seminar:

- introduction of participants
- top management brainstorm/identify/prioritize the company problems which they would want the "ownership training" program to solve (see Annex A for possible problems), identify potential outputs
- managers from US/UK employee ownership companies describe the systems of participation and the ESOP-related training programs in their companies
- short presentation of international experience regarding connection between ownership, participative management and productivity (based on NCEO data)

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- top management participates in demonstration of training exercises, eg.:
  - "farmers" (solving a problem by piecing everybody's partial information)
  - "ESOP game" (role-playing of decisions which MRP board needs to take over number of years)
- ..... [to be completed]

Preparations for top management seminar:

- get commitments of CEOs to participate in seminar
- design program of seminar
- prepare training materials
- get trainers

d. **Workshop(s) for middle management/company training coordinators/officials of company's union** (in-company or common to the three pilot companies). ... days long - ... middle managers participate. At end of workshop:

- middle managers feel that "ownership training" helps them to achieve their objectives
- middle managers have the leadership and communication skills to lead problem-solving teams
- company training coordinators have skills required to coordinate "ownership training" activities in their companies

Activities of middle management workshop:

- middle managers identify from their point of view the problems of operating an employee ownership company
- managers participate in training exercises, for example:
  - "farmers" (solving a problem by piecing everybody's partial information)
  - "ESOP game" (role-playing of decisions which MRP board needs to take over number of years)
  - "widgets" (solving problems by communication between departments)
  - basic training in interpreting financial data from employee-owner point of view
- managers, with assistance of trainers, start designing company-specific project

Preparations for middle management workshop:

- CEO of each pilot company selects "ownership training" coordinator for his company
- CEO of each pilot company selects middle managers to participate in training
- get employees' inputs (eg. visit plant at lunch hour, get spontaneous group of employees together, have them discuss what they would like to learn about the MRP and about company activities'
- design program of seminar
- prepare training materials
- get trainers

e. **Training for employee "peer trainers"**

These employee "peer trainers" are expected to do the bulk of actual training of employees in the pilot company, first under supervision of the program's trainers, then independently. Training of the peer trainers may happen together with training of middle management and union officials (d.) or separately.

f. **Training events for employees in the pilot companies:**

Themes of possible training events (see Annex A):

- explanation of the company's MRP (allocations, distributions, voting, etc.)
- basic financial concepts:
  - Profit and loss statement - how small cost savings can translate into large profit increases
  - effect of earnings (P/E ratio) on share value
- .....

Preparations for employee training events:

- design company-specific program (with middle management and coordinators)
- develop training materials

g. **Meetings of "MRP Association"** - CEOs of pilot companies share with management of other MRP companies their experiences with the "ownership training" program

h. **Training seminar(s) to personnel of consulting companies** to give them the skills necessary to extend the methodologies and materials developed in the pilot companies to other MRP companies

5. Resources:

a. Share Participation Foundation: Janos Lukacs (program design/training), Ilona Erôs (program design/coordination/preparation of materials/training), a trainer to be hired by the Foundation (program design/preparation of materials/training), Janos Hovorka (logistics)

b. Chemonics: V. Morabito (program supervision), I. Asmon (program design/ preparation of materials)

c. C&L: Short-term (ST) consultants - in-house, outside (eg. from NE Ohio Employee Ownership Center's program in Russian employee-owned companies)

d. MRP Association: J. Szantay (organization of sessions for CEOs)

e. Istvan Bajtai (program design/training)

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f. Eva Acs (?)

g. Charles Edmunson (review program design/identify US experts/possibly training - methodologies used at Web Industries)

h. Foreign Service Volunteer Corps (Chris Black) - bring US managers of ESOP companies (participation in training: methods used in their companies, experience)

i. Center for Private Enterprise Development (Kézdi Arpád): Materials/training on TQM subjects

j. Know-How Fund (Vanessa Howe-Jones) - bring UK managers of ESOP companies (participation in training: methods used in their companies, experience)

k. Ministry of Trade and Industry (Gulacsi)/Hungarian Development Bank (Csuhaj) - financial support (?)

ANNEX A: COMPANY PROBLEMS WHICH MAY BE IDENTIFIED BY CEOs AND POSSIBLE MRP-BASED RESPONSES (TRAINING MODULES)

PROBLEM	RESPONSE (MODULE)	TARGET GROUP
1. Dividend policy in ESOP companies	Training about the effect of earnings (P/E ratio) on share value	Employee board members/ employee-owners - in class-size groups
2. Reducing staff to optimal size (how to lay off owners)	?	?
3. Motivating the remaining staff	Profit and loss statement - how small cost savings can translate into large profit increases	Employee-owners (class-size groups)
4. Improve quality, service, safety etc., increase sales, reduce costs	Brainstorm to identify production/cost/quality problems, prioritize, problem-solving techniques, present solution to Board, approve action, implement by group	Small task-oriented groups
5. Conflict of interest for employees as employees (salaries, job security) and as owners (share appreciation) - learn how to behave as owners	5.a Basic understanding of financial statements (?) 5.b Training of company's trade union officials	All MRP members (what group size?) Communicate with employees through union officials (?)
6. Communication to employees about MRP events (eg. MRP general assembly)	6.a Circulars to all employees 6.b Talk to all employees together	Prepared by personnel dept. Company chairman
7. Communications: 7.a between MRP and other owners 7.b between MRP and MBO 7.c between MRP and non-MRP employees	 ? ? ?	MRP board members/ MRP representatives on Company board

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8. How to keep long-term employee ownership, after MRP credit is paid off	?	?
9. Make non-management members on MRP board and on comany board a positive factors for company performance	Financial and managerial training for non-management board members	
10. ?	?	?

Themes for Monday meeting with JL:

11. Egypt

12. Részvenyes: explain how lack of progress on software impedes training program
    - agree about annual marketing plan with monthly targets; if targets not met, get it into private-sector distribution system (franchise it to software companies? have software salesman get orders on commission basis?)

13. Situation with USAID resources ($25,000 and $24,000)?

14. Training program: fix together medium-term goals

15. Ideas about successful seminar for CEOs/about possible training modules

16. Relations with Bajtai? agree to get Bajtai on board

17. Scehdule for interviews with company managers

18. Meeting with Kézdi Arpád to talk about possible collaboration?

December 21, 1994

CRITERIA FOR DESIGN OF THE "OWNERSHIP TRAINING" PROGRAM

- The training should have the potential to be established ultimately in all MRP companies, wherever CEOs are interested in implementing more effective management methods - "potentially reach the universe" of MRP companies

- The first stage (till Sept. 1995) must create a product which is potentially useful and which could be marketed to all MRP companies whose CEOs are interested

- Modular approach - start with a few modules (eg. training for employee board members which would make them cooperate with CEOs for overall success of company) in a number of companies, gradually add modules, rather than start with in-depth approach (middle management/peer trainers/entire work force) in one or a few companies

- Work out alternative scenarios (eg. what Foundation would do with $49,000 - what it would do if additional $600,000 were available

- Consider alternative venues (eg. small-group training, videos, conferences), where each would fit in a small/an extended program

- Clarify responsibilities: beyond first stage (Sep. 1995), program is responsible, not Foundation

- Quantify outputs: eg. how many modules developed and field-tested by Sept. 1995

- Create training which is specific to MRP companies - may include elements of TQM, but do not compete head-on with professional TQM training companies

Issues to clarify:

- Economies of the training: trainer person/day requirements and costs of training per company?
- How many MRP consulting companies are there?
- What would motivate them to make "ownership training" a line of their activities?
- Would distressed companies be interested in this kind of training or only stable companies? how to market the program to distressed companies?

December 21, 1994

AVAILABLE MODULES FOR OWNERSHIP TRAINING

MODULE	CONTENTS	TARGET GROUP	TIME
"Farmers" exercise	How to have an effective meeting	CEOs/employee board members/middle mgmt/union officials/peer trainers/ rank & file emp.	1½ hours
Problem-solving techniques	Brainstorming/prioritizing problems/ brainstorming solutions/plus-minus analysis	Employee board members/ middle mgmt/union officials/peer trainers/ rank & file employees	2 hours
"Widgets" exercise	Group problem-solving: within department/inter-departmental	Employee board members/ middle mgmt/peer trainers/ union officials/rank & file employees	½ day
How the ESOP works	The ESOP from beneficiary's point of view: Eligibility/allocation/vesting/ distribution/valuation regulations	Employee board members/ middle mgmt/union officials/peer trainers/ rank & file employees	½ day
The ESOP Game	Taking decisions as employee-owners	CEOs/Employee board members/middle mgmt/union officials/peer trainers/ rank & file employees	½ day
Dave's Delivery	Understanding terminology of financial statements	Employee board members/ middle mgmt/peer trainers/ union officials/rank & file employees	1 day

5c

"Widgets" Financial Statements	Analyzing financial statements as a basis for decision-making	Employee board members	1 day
Recession/Cash Flow ("Buckeye Industries")	Dealing with recessions/taking decisions on the basis of consultants' studies	Employee board members	1 day
Marketing ("Cutting Edge Industries")	Expanding into new products and markets	Employee board members	1 day
Leadership	Overview of supervisor training ("Quincy Castings")/seasonal leadership exercise (1½ hours)	Supervisors	1 day
Skills for supervising groups	Task roles vs. maintenance roles/group processes/active listening skills/dealing with difficult people	Supervisors	1 day
Conflict Management Workshop		Supervisors	1 day
"Convergent Choice"	Training "peer trainers" to explain the ESOP to employees (2 days about the company and the ESOP + 1 day group leadership skills)	Peer trainers	3 days
"What is our business?" (to be designed - company-specific)	What are our products? Who are our customers? What do they expect? Who are our competitors? What is our business plan to survive and prosper?	Employee board members/middle mgmt/union officials/peer trainers/ rank & file employees	eg. 4 1-hour ses-sions

GROWING PAINS AT EMPLOYEE-OWNED WIDGETS, INC.

Employee-Owned Widgets is a manufacturing firm which was created on January 1, 1987, as the result of an employee buyout. The purchase price was $5.6 million. The 320 salaried and hourly employees were only able to borrow $4 million through the ESOP. In order to make up the $1.6 million gap, the original owner kept about 25% of the stock with the hope that the ESOP would buy it when the company had some surplus cash.

Given the highly leveraged state of the company, it was agreed that everyone needed to contribute their knowledge and years of experience to making the company succeed and so a structure was set up which would allow direct employee input into company decisions.

Four teams were created to identify and resolve problems in four areas: Sales, Production, Purchasing and Finance.

While Employee-Owned Widgets' first year was unprofitable, the company was able to pay the bank, the suppliers, and the employees. After a second year of operation, things seem to have gone extremely well. EOW overcame its losses and actually turned a profit of $319,000. Sales increased from $10 to $17 million. The value of the shareholder equity increased from $0.27 to $0.43 per share.

Despite these positive signs of success, everyone in the company seems to be upset. Sales personnel are receiving too many complaints from customers. Production people are complaining that there are constant delays in production beyond their control. Purchasing is complaining that the suppliers are unhappy. And the Finance department is upset because the company had to borrow $23,000 recently just to meet payroll.

The CEO has called the four departmental teams together and asked you to go back to your departments, identify the problems, and come up with some workable solutions before the company blows apart. You feel that your team is ready for the challenge because you have just returned from an educational weekend at the employee-owner retreat where you gained a better understanding of how your company operates and improved your problem solving and team effectiveness skills.

Your team will meet two times. This evening you will meet to get organized and make sure every member understands the task. Next you will identify the three most significant symptoms/complaints in your department and bring them back to share with the other departments. Do not decide what problem to resolve yet. By the end of the evening, working together, the departments will have agreed on the problem which everyone will be trying to solve.

Tomorrow morning, your group will meet for 90 minutes to develop and prioritize ways in which your department or the company as a whole can solve the identified problem. Your group will also develop the first step of an implementation plan.

Each team has been given additional information which is specific to its department. Your team will be better informed if you seek relevant information from the other teams.

ACCOUNTING & FINANCE DEPARTMENT INFORMATION

In the first year of operations, Employee-Owned Widgets' financial situation was pretty solid. Despite heavy losses due to a low level of sales during the first quarter of the start-up, there was always sufficient cash to cover paychecks, pay suppliers, and make the loan payment to the bank.

During the second year, all of the company's cash seems to have dried up. The purchasing department is constantly requesting that the company send checks to suppliers, but often there is not enough cash in the checking account to cover the bill. You are frequently waiting for a check to come in from a customer before a supplier can get paid. And what is worse, the sales people have convinced top management to extend the customers' payment terms from 15 to 30 days. That means EOW has to wait even longer to get paid.

The production department has been much less efficient in the past year also. They used to produce widgets in 25 days. Lately, it has been taking as long as 35 days. This means that a lot of the company's cash is tied up in unnecessary inventory. It also means that a lot of extra paid time is going into each widget.

It has become increasingly difficult to come up with the cash to cover the weekly payroll. In the last month it was necessary to borrow $23,000 so that no one's check would bounce. This short-term borrowing with a 14% interest rate is much more expensive than the long-term loan which had a rate of only 9.5% if only there were a way for the finance department to get a clearer idea of the cash needs from the other departments, then it would be easier to plan for long-range financing.

Something has to be done soon or this highly profitable company is going to be filing for bankruptcy court protection.

PURCHASING DEPARTMENT INFORMATION

In the first year of operations, your suppliers were eager to get your business. They gave you 30 days to pay your bills and delivered raw materials within 7 to 10 days. Whenever the production crew ran out of something, you could just pick up the phone and call for an emergency delivery within 48 hours.

How did you keep your suppliers so happy? Well, the people in your department have really become more motivated since they became employee owners. They know that a happy supplier is one who gets paid on time so they have developed a smooth system for processing supplier bills quickly. Previously bills used to get lost or put aside under a stack of things to do. Now you have everything on computer. You know what the bill should be even before it's sent. If you have not received a bill within ten days, you are on the phone to your supplier asking about it. It is a rare occasion that you are unable to send a request for payment of a bill to the Accounting & Finance Department within 15 days of a shipment delivery.

Since your department is giving those A&F people at least 15 days to send a check, there is no excuse for a late payment. Nevertheless, this is what is happening. Over the last few months, your suppliers have repeatedly had to call you and ask where payment was. When you refer them to the finance department, they call back a few minutes later complaining that they cannot get a straight answer.

You are no longer a preferred customer. Now when you call up with an emergency order, the 48 hour service is unavailable. Even your regular orders get delayed longer than the usual 7 to 10 days because suppliers hold the shipments as ransom while they are waiting for a previous payment. Some of your suppliers are threatening to begin requiring cash on delivery.

Furthermore, your attempts to limit excessive purchases have been frustrated by the difficulty of dealing with the people in Production. You are never sure which items are a priority because the night shift manager is always telling you one thing and the day shift manager another. They do not seem to agree on what is needed nor do they think to order materials early if there is the possibility that the following shift will run out. Then when materials run out, the Purchasing Department gets blamed.

SALES DEPARTMENT INFORMATION

In the first year of operations, sales were low and the company lost money. Your department set its sights on the lofty goal of raising sales by 50%. In fact, you were overwhelmingly successful. You increased sales 70% from $10 to $17 million.

How did you achieve this? You had a great marketing tool. While all of the other widget markers only give their customers two weeks to pay for merchandise, last year while out playing a round of golf with the CEO, you convinced him to let you offer your customers terms of 30 days.

While initially your customers were very responsive, lately many have been threatening to go back to their previous suppliers. And, even worse, some of your original customers are saying the same thing. Why are they unhappy?

Customers are complaining that their widget deliveries are constantly late. While you used to deliver your widgets in seven days, over the last few months deliveries have been taking two to three weeks. This is making it difficult for your customers to keep their shelves properly stocked with widgets. When they run out they are out of stock for so long that their customers are beginning to complain.

Furthermore, because they no longer can work on a regular weekly delivery day, customers complain that your random deliveries interfere with their work schedules. They never know when to have employees available for unloading and storing a new shipment of widgets.

An additional complaint from your customers is that your bill collectors in the Accounting and Finance Department are very rude. They are constantly getting phone calls asking where payment is. More often than not, when the customer receives a call, the check is already in the mail. And when a customer asks for a couple of extra days, the answer is always an abrupt "No!"

Another serious charge from your customers is that there is an inconsistency in the quality of the widgets they have been receiving.

Something has to be done about this poor customer service or sales are going to drop back to the levels at which Employee-Owned Widgets was losing money. And besides, your sales commissions are at stake!

PRODUCTION DEPARTMENT INFORMATION

In the first year of operations, production went very smoothly. Everyone was highly motivated, raw materials were always available, and production was always a step ahead of demand.

When things were running smoothly, it used to take 39 to 45 days from the time raw materials are ordered to the time a customer receives a shipment of widgets. If would take 7 to 10 days to order raw materials and get them delivered; it would take 25 days to produce a finished batch of widgets; and it would take 7 to 10 days to deliver a shipment of widgets to a customer.

This year, sales have increased so quickly that it has been difficult to keep up with demand. Production has had to add a third shift and hire more than a hundred new employees. Very few of the first year owners were willing to work the midnight shift. This shortage of experienced employees on third shift has been the source of frequent production delays because machines are not repaired as quickly and the production process is missing the clockwork coordination that was developed by the day shift during the first year. Moreover, while Maintenance pretty much had everything in hand during the first year, with the increased pace of production dealing with breakdowns has taken the time that should have gone into preventive maintenance. Accounting and Finance has been too tight fisted to give Maintenance the necessary overtime hours to carry out the proper preventive program, so the rate of machine breakdown has gone up too. This can add an additional 5 days to the production schedule.

Before when production ran out of some materials, the Purchasing Departmen would get an emergency delivery within 48 hours. Lately the people in Purchasing have been more difficult to deal with. They don't seem to understand the urgency of getting materials in to keep production moving. This means that production can be delayed an additional 5 days if some materials are depleted. And the company has been running out of raw materials more often than usual. Employee-Owned Widgets used to keep a week's supply of raw materials in stock. The purchasing department has not been buying the quantities necessary to keep up with the increase in sales.

These production delays have created a shortage of finished widgets also. The company used to keep a week's supply of finished widgets available to ship as soon as a sale was made; now there is only a couple days supply available and orders may be held up if a particular type of widget is still in production.

Something has to be done to get production back under control!

March 17, 1995

DRAFT IN-COMPANY OWNERSHIP TRAINING PROGRAM

A. Introduction

This is a very early draft of a model in-company training program that might be implemented in Hungarian companies which intend to establish participative management systems. The first phase of the consultation was hardly sufficient to provide for a proper needs assessment or organizational assessment of the Hungarian ESOP situation. What follows is an ambitious program; yet it can be implemented, providing that the necessary commitment is obtained and the necessary resources to manage all of this training is secured. The program is structured in such a way that if there is not sufficient support to carry out all of the program, one will nevertheless have a solid foundation on which to build in the future. The training is prioritized so that employees will clearly understand the " why" [purpose] and therefore hopefully "buy in" from the outset. The tendency all too often is to jump ahead to the "how", all the while ignoring the purpose of the training. One cannot over- emphasize the importance of people buying into the concept of training as a "lifelong learning" process. It is important not only for the employees but for everyone in the company. One must always remember that the formula for success is ownership + involvement = success.

Many programs fail because employees perceive the program as just another "flavor of the month" attempt to get them to do more work. If management demonstrates a commitment to the employees and to training, it will have an opportunity to gain their trust; this is likely to translate into greater participation and eventually a prosperous and productive company. A company built on the power of its people has a good chance of success.

The pressures to leapfrog over some training to get to the "hard stuff" is enormous. However, experience has shown that without the "soft skills" the employees are not equipped to properly handle all of the additional responsibilities which are associated with assuming a great deal more decision-making authority. It would be much like throwing a novice football player in with the professionals. He has some skills but no experience, and may end up being injured. One must walk before one can run, and in the long haul it will pay dividends. Some modules or workshops in this training program have prerequisites and require that the participant has taken a prior course; please do not circumvent that requirement as the courses are built on one another so as to provide a solid foundation from which to progress to the next module or workshop. It is important that the training be provided in a timely fashion in order to provide the necessary tools which the employees require, at the right time. Training is a product like any other, and will need to be reviewed and refined on an ongoing basis to meet the needs of your customers - the employees.

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B. Structure of the Ownership Training Program

This program outline is structured in such a way as to provide a solid foundation on which to build the complete training program, whatever that might be. Some modules require prerequisite courses in order to solidify the training process. The program outline is also constructed in a way which coincides with the strategic events of the CEO workshop in June 1995 and the ESOP National Conference in October. At each of these junctures, the program outline is designed to be a stand-alone complete package of modules that will sustain the training program. However, at each juncture there is also a post development and additional training schedule, predicated on the assumption that there will be a need for additional training. This program outline anticipates that enthusiasm and support for the training will be forthcoming from the workshop participants. The program outline also assumes that additional trainers will be trained as required and that the necessary resources will be available to proceed with additional module development and field testing in order to build on the base established.

The requirements for training various levels of management and employees are discussed in Annex A and summarized in the accompanying matrix labelled Annex B . This training hierarchy contains one additional level - training of union leaders. This level may or may not be applicable in a specific situation. The program also indicates that some modules may be optional for some managerial levels. It is however important that all managers have a knowledge of the modules that the employees are taking and their participation is recommended even if the training is optional. Experience shows that even middle managers in most companies get very little training. As can be seen from the matrix, the majority of the training is required for supervisors, union leaders and employees. These are the people who need it most this type of training.

The modules vary in length and range from simple executive overviews to four-hour introduction modules, to eight-hour workshops and to the five-day train-the-trainers module. A series of accompanying training pamphlets will clearly indicate the duration of the module at each level. The frequency will vary depending on availability of participants, but the training should be fitted to the customers' requirements. For example, during field-testing of the train-the-trainers module, either four eight-hour sessions or five six-hour sessions could be held, depending on the wishes of the participants.

The number of participants for the field-testing scenario will ideally be about twelve individuals. It is recommended that the class size should not exceed fifteen participants.

C. Recommendations Regarding Topics and Content

It is important that the topics provide to employees the necessary tools to enable them to take on a more active role in the participatory process. To that end, the first phase of the program addresses the "why" issues and provides the basic tools with which to begin. It

would make no sense, for example, to begin training with a five-day course on work reorganization or ergonomics or in-depth participation workshops. That level of sophistication is far down the road and is totally dependent on the success or failure of the "ownership training program". Therefore the topics and content of the modules are predominantly introductory or basic level courses and workshops; with two exception: the Kepner-Tregoe "problem solving and decision making" module and the KT "analytical trouble shooting" module are advanced courses and are well worth the money if one can afford them. They are recommended because they have served well on similar occasions. However, there are more basic problem-solving courses which are far less expensive. The Japanese use a very simple and inexpensive problem-solving course which simply asks the question "why?" repeatedly five times in dealing with decision making. In between those extremes are any number of problem-solving methodologies at varying prices. The training program will need to be adjusted to the budget available; if one can't afford the cadillac version, the Volkswagen will still get you there.

D. Implementing the Ownership Training Program

A thorough needs assessment must be completed at the ESOP company which plan to introduce participative management before final design and implementation of the program. During the consultants' field visits, for example, we were impressed by the level of sophistication and skill of the employees at the MMG AM plant. In such a company, the needs assessment may indicate a training program quite different from the outline proposed here.

The training should be provided to employees who volunteer to take training. Participants forced to take courses deprive others of the opportunity to learn from each other, because these reluctant participants invariably do not make a contribution. Avoid such situations as far as possible.

For the October ESOP workshop, the program outline recommends that all participants - including the CEOS and all other levels of management present - make at least an initial attempt at developing some form of "credo" pertaining to training. They will also need to begin to define some of their joint goals and objectives, so that they might better plan their training needs and target implementation dates beyond Phase II and Phase III.

If training costs are charged to departmental budgets, this is likely to pose a problem for the program. Experience indicates that department heads resist sending employees for training if it is charged to their budget. It is strongly recommended that the ESOP companies establish a central charge account to which all training is charged.

We suspect that a number of middle managers and union leaders will resist in some cases taking the training. Their argument is likely to be "oh! I already know that stuff". It is however important that they take the training, for several reasons:

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1. everyone needs to be "singing from the same hymn book";
2. the employees need to see that the leaders are committed to training;
3. the leaders need to be aware of the training which employees receive;
4. some courses are prerequisite courses and must be taken to benefit from others.

E. Conclusion

It is not an easy task to attempt to implement a full-scale employee training program from scratch and expect immediate buy-in, especially where very little training culture existed before. Do not be discouraged. Go slowly at first and build for the future on a solid foundation. Involve as many employees from all levels as possible. The largest asset which any company has at its disposal, and the least utilized, is the creative genius which lies within each and every employee. Profits can be achieved through people.

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ANNEX A: EMPLOYEE OWNERSHIP TRAINING PROGRAM - ACTION AND IMPLEMENTATION PLAN

INTRODUCTION

The Employee Ownership Training Program consists of a number of training modules designed exclusively for employee owned companies. An action plan has been developed to implement this program on a controlled basis. Using a hypothetical ESOP company of approximately 500 employees, the program might be implemented as follows:

PHASE 1

Modules: Train the Trainers (30 hours)
Orientation to ESOPs (8 hours)
Basic Business Operations and Finance (8 hours)
The Hungarian Economy (6 hours)
Meeting Skills (4 hours)

Target Group: Core Trainers (field-testing of modules; number of trainees - 12)

Trainers: Technical assistance experts

Delivery Date: May 1-30, 1995

Objectives:
1. Field-test modules and assess relevance to Esop company needs.
2. Train a group of core trainers to implement the program long term.
3. Prepare for the presentation of the program to other ESOP companies.

Note: At the end of the first phase of implementation, a gathering of representative leaders of ESOP companies would vet the program at an annual conference designed for this purpose. The program would be demonstrated and results of the field trials would be reported. The target group in particular is senior officers of ESOP companies, whose support for the program will be required for phase 2 to proceed.

PHASE 2

Modules: Introduction to Employee Ownership Training Program (4 hours)
Orientation to Employee Ownership (8 hours)
The Employee Participation Process (8 hours)
Basis Business Operations and Finances (8 hours)
The Hungarian Economy (6 hours)
Meeting Skills (4 hours)

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Product and Process (in development)

Target Groups:

Introduction to Employee Ownership Training Program:

Middle Managers (6)
Supervisors (10)
Union Leaders (10)

Orientation to Employee Ownership:

Middle Managers (10)
Supervisors (20)
Union Leaders (20)
Employees (60)

The Employee Participation Process:

All employees

Business Operations and Finances: All Employees (optional for middle managers)

The Hungarian Economy: All Employees (optional for middle managers)

Meeting Skills: Supervisors (8)
Union Leaders (8)
Employees (10)

Trainers: Core trainers from phase 1

DELIVERY DATES: July - October 1995

Objectives:

1. Train employees at designated levels in the skills required for profitable ESOP companies.
2. Promote the Employee Ownership Training Program to additional ESOPs.

Note: The Employee Ownership Training Program would be featured at the annual National ESOP Conference which is normally held in October. There would be demonstration workshops, consultations with former CEO trainees and others who have completed modules in the program. This would be a prime promotion opportunity.

PHASE 3

Modules:
- Problem Solving (in development)
- Analytical Troubleshooting (in development)
- Introduction to Employee Ownership Training Program (8 hours)
- Orientation to Employee Ownership (8 hours)
- Employee Participation Process (8 hours)
- Basic Business Operations and Finance (8 hours)
- Meeting Skills (4 hours)
- Health and Safety (in development)
- "Soft" Skills - Training the Trainers
- Self-directed Work Groups (in development)

Target Group: All modules delivered once to all employees of the target company.

Trainers: Core trainers

Delivery Date: November 1995 - February 1996

Objectives:
1. Train additional trainers to deliver the program.
2. Complete one entire delivery of all modules to all employees.
3. Revise the program as needed.

Annex B: Employee "Ownership Training Program" Action and Implementation Plan

Level	1995, May through June					1995; July, Aug., Sept., Oct.								1995; Nov. and Dec. 1996; Jan. and Feb.									
	Phase I					Phase II								Phase III									
	Train the Trainer	Intro to ESOPs	Basic Business and Operation Econ	Meeting Skills	Intro to EOTP CEO Workshops	Intro to EOTP	Orient. to Employee Ownership	Emp Participation Process	Basic Company Financial Skills	Operation Economy Module	Meeting Skills	Product and Process	ESOP Workshop on Goals, Mission statements Goals and objectives	Problem Solving	Analytical Troubleshooting	Intro to EOTP	Orient. to Emp. Ownership	Emp Participation Process	Basic Financial Skills	Meeting Skills	Health and Safety Module	Soft Skills	SIWCI Module
CEO	In this phase, all of these modules will be developed. Meeting Skills is part of Train the Trainer.				X			•				Development		Development	Development			○			Development	Train the Trainers	Development
Top management					X		•	•									○	○					
Middle management						X	X	X	○	•						X	X	X	○				
Supervisors						X	X	X	X	X	X					X	X	X	X	X			
Union Leaders						X	X	X	X	X	X					X	X	X	X	X			
Peer Trainers	X	X	X	X								X		X	X						X	X	X
Employees							X	X	X	X	X						X	X	X	X			

The symbol [•] indicates that the course is optional at this level.

Foundation to train peer trainers in meeting skills based on the information in the Train the Trainer module.

Notes

- This is an ambitious training program and is predicated on a firm commitment made to training be the CEOs at the CEO workshop, and again at the ESOP workshop.
- It is recommended that the Employee Ownership Program be implemented under controlled conditions; e.g., one company only until the number of trainers is expanded and all modules have been field tested and revised.
- The Orientation to Employee Ownership Workshop must be a prerequisite for taking the Employee Participation Process.
- It may be feasible in Phase III to begin working with a second company if technical obstacles permit and if previous results support such a move.
- Continue to offer courses as demand warrants and expand the program by developing additional materials and training additional trainers.

March 18, 1995

REPORT OF TECHNICAL ASSISTANCE PROVIDED TO THE SHARE PARTICIPATION FOUNDATION "PROJECT FOR MORE" (Management and Ownership Redefinition for ESOP Companies)

The IMPACT II Delivery Order provides technical assistance to the long-term "Project for MORE" of the Hungarian Share Participation Foundation for the establishment of improved management techniques based on employee participation in Hungarian ESOP companies. The first phase of this TA was performed by two IMPACT II consultants during the period March 5-18, 1995.

After some orientation to the Hungarian situation, it became apparent that in designing a training module to train workplace-based trainers, several constraints must be considered. These include the following:

1. Training culture in Hungary is minimal.
2. Hungarians are generally difficult to draw into participating in training.
3. Andragogy practices are virtually unknown.
4. Training diffusion is unheard of.
5. ESOP companies and the economy in general are in a survival mode, making training a low priority.
6. Many Hungarian workers are living at subsistence levels.

Any of the factors noted above might mitigate against training and the success of "Project For MORE". With these constraints in mind, the TA was challenged to map out an effective employee ownership training program. We believe that, subject to complying with some basic principles which are spelled out in the program, "Project For More" could be eminently successful.

The "employee ownership training program" will succeed or fail depending on the amount of employee participation. This participation will have to be at all levels of the organization to ensure depth of understanding of the philosophy, objectives and content of the program. One of the most important elements of the "employee ownership training program" is a program for training the trainers. A number of critical factors in training the trainers will ensure successful implementation of the other modules in the "employee ownership training program":

1. Selection of potential trainers must ensure that only dedicated, committed and interested employees are selected to become workplace-based trainers.
2. Once trained, the trainers will require sufficient opportunity to use their new-found skills soon and often, in order to develop proficiency.
3. Trainers will require sufficient opportunities to continue to learn about adult education, which is a rapidly expanding technology.
4. Training must be considered investing in people, equal in importance to capital acquisitions and technology, in order for the company to eventually evolve a "training culture".

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Considering the constraints noted earlier, the proposed train-the-trainer program is very ambitious in content, pace and objectives. Participation has been designed into the fabric of the module and is inherent in delivery style, content, exercises, feedback and evaluation. There are also several innovations worth noting, many of which are designed to increase and improve trainee participation. These include:

1. A "participant readiness to learn checklist" has been devised to prompt trainee assessment of their learning motivation on a daily basis. Somewhat similar to an "instructor readiness checklist", it asks the participant a number of self-assessment questions which are designed to foster accountability and personal responsibility for learning.

2. Course evaluation has been separated from instructor evaluation in order to obtain input early in the implementation of the employee ownership training program about these two critical elements of the program. Separate evaluation forms also increase the amount of evaluative input.

3. Course evaluation will be done daily rather than at its usual time at the end of the course. This change was made for three reasons:

   a) it vastly increases the amount of input;
   b) it increases participant involvement;
   c) it allows interim modification of curriculum to ensure participant needs are being met.

4. A course evaluation form has been devised for the instructor to complete which includes an instruction delivery self-assessment, in order to assist first-time trainers to measure (over time) their effectiveness and to make improvements in their technique.

"Training the trainers" is a composite course which has been drawn principally from two sources: the Sault College Adult Instruction Methods course (which was derived from the Teacher of Adults diploma program) and the Algoma Steel Train- the-Trainers course. The course is rife with participant learning aids and references to several adult education theories. The main text which was used in the development of the course is "The Art of Teaching Adults" by Renner. The course is 30 hours in total, spread equally across 5 days. It includes numerous interactive exercises and an opportunity for each participant to develop and deliver a lesson. The course extensively uses experiential learning methodology, which also promotes participation. The skills acquired from this course may also be applied by the trainee in other activities such as conducting effective meetings and making effective presentations.

Consultations of the TA with several people has resulted in a clearer definition of recommendations which are implementable. These standards will ensure that a cadre of high quality, professional workplace trainers will develop to assist ESOP companies. The TA cannot over-stress the importance of sound adult education principles and techniques to ensure that modules delivered by subject experts have their full impact on the profitability of ESOP companies.

Recommendations:

1. A sufficient number of trainers should be trained to ensure an adequate supply of qualified workplace trainers are available to the ESOP community.

2. Only subject experts who have been trained in adult education methods by a qualified trainer should be allowed to instruct other modules in the employee ownership training program.

3. Employees who participate in the field-test sessions of modules in Phase 1 should form a group of expert trainers with the responsibility to monitor the delivery of other modules at random and to revise modules and assist subject experts as needed.

4. Completion of the train-the-trainers course should be a pre-requisite to teaching other modules in the program.

5. Periodic refresher training should be provided to trainers.

6. As many managers as possible (especially first-line supervisors) should be trained as trainers, to help evolve the coaching role of supervision as well as to improve support for training in the workplace.

In addition to the instructor and participant manuals, learning aids and references (all of which make up the module), the Share Participation Foundation has been supplied with numerous other materials which support the train-the- trainers course and other modules. These are listed in the summary of deliverables attached. The Foundation has also been provided with a variety of related texts and articles which support the module which it plans to make available to trained trainers.

Summary

The train-the-trainers course is the cornerstone of the employee ownership training program. It is obvious that without trained, qualified instructors, the other modules in the program cannot be delivered effectively. These "champions" will have to bring rigorousness and discipline to modern adult education practices in order to overcome the constraints standing in the way of workplace-based training in Hungary. Customization of each module to the participants' needs and learning styles is an absolute necessity if CEOs and employees are to realize the payback of the investment of time and money. Furthermore, adaptation of modules to the unique needs of different companies is a definite requirement. Trainers must teach frequently for the material to become imbedded and for their delivery style to become a habit. A poor trainer can do more harm than no trainer. Finally, awareness and promotion of the employee ownership training program must be undertaken to create sufficient demand for giving trainers opportunities to implement the program. With quality delivery and widespread participation, the employee ownership training program will assist ESOP companies to become profitable through people.

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INTRODUCTION TO TRAINING EMPLOYEE OWNERS
Presented by the MRP Association
March 31 and April 1, 1995
Budapest, Hungary

March 31 - Friday

10:00	Introduction of Workshop and Participants
10:45	Adult Learning
11:30	Break
11:45	Sample Training Session: Farmers
1:15	Lunch
2:15	Facilitation Skills: Attending and Observing
3:20	Break
3:30	Facilitation: Listening and Questioning
5:00	Workshop Adjourns

April 1 - Saturday

9:00	Presentation Skills
10:15	Team Preparation
10:30	Break
10:45	Team Presentations
12:15	Break
12:30	Running and Debriefing "Farmers"
2:00	Lunch

HANDOUT 2: TRAINING ADULTS

Often when people become trainers, they begin with an image of training based on how they were taught as children in school. It is important for you to remember that employee owners are not children and must be treated as adults. The training approach will therefore be significantly different.

CHILDREN	ADULTS
Rely on others to decide what is important to be learned.	Decide for themselves what is important to be learned.
Accept information being presented at face value.	Need to validate the information based on their beliefs and experiences.
Expect what they are learning to be useful in their long-term future.	Expect what they are learning to be immediately useful.
Have little or no experience upon which to draw -- are relatively "clean slates."	Have much past experience upon which to draw -- may have fixed viewpoints.
Little ability to serve as a knowledgeable resource to teacher or fellow classmates.	Significant ability to serve as a knowledgeable resource to the trainer and fellow learners.

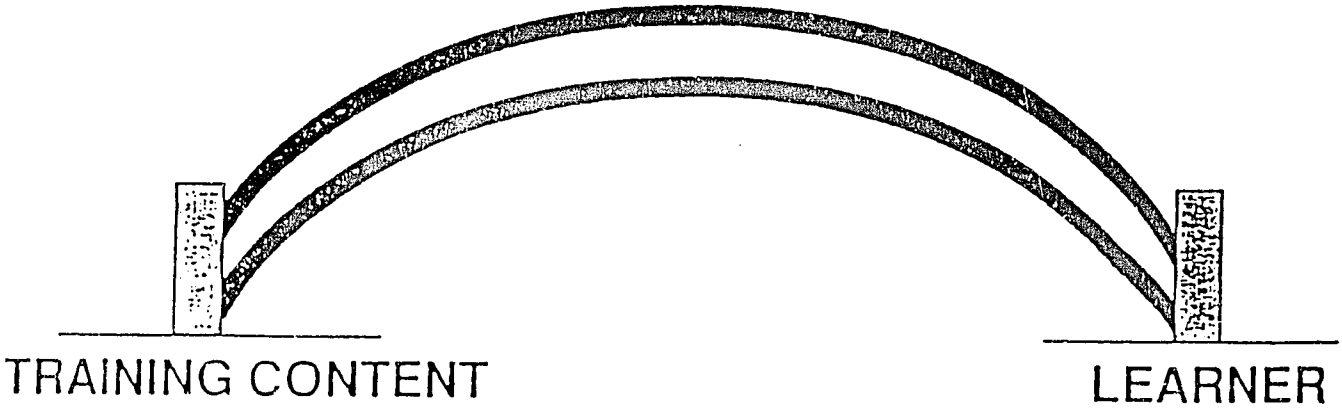
Ask yourself as you plan your workshop, does your training:

- Focus on "real world" problems?
- Emphasize how the learning can be applied?
- Relate the learning to the learner's goal?
- Relate the material to the learner's past experiences?
- Allow debate and challenge of ideas?
- Provide opportunities for you to listen and respect the learners' opinions?
- Encourage learners to be resources to you and to each other?
- Treat learners like adults?

HANDOUT 3: USING BASIC FACILITATION SKILLS

Definition and Purpose

Learners learn best when they participate in the training process. When you use facilitation skills, you encourage involvement by showing interest in the learners and making them feel free to comment and ask questions. Facilitation skills also help you to obtain feedback from the learners about how the training is being received. This enables you to respond to the learners' needs most appropriately.



- ATTENDING
- OBSERVING
- LISTENING
- QUESTIONING

ATTENDING SKILLS

"Attending" means presenting yourself physically in a manner that shows you are paying attention to your learners. When you use attending skills, you are building rapport with your learners. You are communicating that you value them as individuals and are interested in their learning.

Attending helps you gather information from the learners. Your physical positioning enables you to observe learners' behaviors, which are important sources of information for you in assessing how the training is being received. It also encourages the learners to interact verbally with you.

There are four attending behaviors that show you are interested in your learners. They are:

1. Facing the learners.
2. Maintaining appropriate eye contact.
3. Moving toward the learners.
4. Avoiding distracting behaviors.

DO	DON'T
• Position your body so you face all the learners	• Talk to visual aids.
• Continually scan the group with your eyes.	• Turn your back to part of the group.
• Walk toward learners.	• Stare at individuals.
• Smile at individuals.	• Avoid eye contact or scan the group too frequently or too rapidly.
• Nod affirmatively.	• Distance yourself from the learners.
• Circle the room during exercises to check learners' progress.	• Stand in fixed positions.
• Use natural facial expressions in talking with learners.	• Shuffle papers or look at your watch while learners are talking.

OBSERVING SKILLS

Observing skills help you assess how the training is being received. Based on your observations over time, you can make decisions to continue the learning process as planned, or to modify it to respond to the learners' needs.

Enthusiasm/ Understanding Smiling Nodding affirmatively Leaning forward Eye contact	• Several learners display the behavior. • One learner displays behavior.	• Continue, and make a mental note that the training is being well-received. • Continue, and make a mental note to check again later.
Boredom Yawning Vacant stare Shuffling feet Leaning back in chair Looking at clock	• Several learners display the behavior • Only one learner displays the behavior.	• Try taking a break, speeding up, or checking your training method to be sure that the learners are involved in the training process. • Continue, but make a mental note to reassess later.
Confusion Frowning Scratching head Pursing lips Vacant stare Avoiding eye contact	• Several learners display the behavior. • One learner displays the behavior.	• Ask learners about areas of confusion, and provide clarification by giving examples or rephrasing information. • Ask learner about areas of confusion and provide clarification. Or if time is limited, talk with learner at next break.

LISTENING SKILLS

Listening, as we define it, means obtaining verbal information and verifying that you understand the information. Listening skills enable you to demonstrate your understanding of the learners' perspective. They also provide you with feedback about how the training is being received. You can use this feedback in considering how you need to proceed in conducting your training.

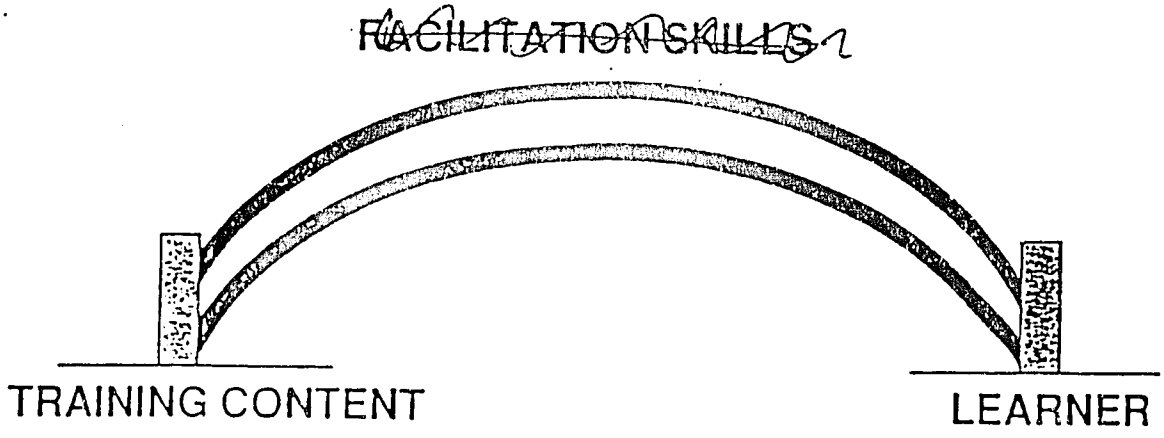
ACTIVE LISTENING TECHNIQUES

TYPES	PURPOSE	EXAMPLES
A. NEUTRAL	1. To encourage the person to continue talking. 2. To convey that I am interested and listening.	1. "I see". 2. "Uh-huh". 3. "That's very interesting". 4. "I understand".
B. REFLECTIVE	1. To show that I understand how he feels about what he is saying. 2. To help the person to recognize and evaluate his own feelings as expressed by someone else.	1. "You feel that . . ." 2. "It was a shocking thing as you saw it". 3. "You felt you didn't get a fair shake". 4. "It really made you angry".
C. CLARIFYING	1. To get at additional facts. 2. To help him explore all sides of a problem. 3. To check my meaning and interpretation with his.	1. "Can you clarify this?" 2. "Do you mean this . . .?" 3. "As I understand it then your plan is. . .? 4. "This is what you have decided to do and the reasons are . . .?"
D. SUMMARIZING	1. To bring all the discussion into focus in terms of a summary. 2. To serve as a springboard for further discussion on a new aspect or problem.	1. "These are the key ideas you have expressed". 2. "If I understand how you feel about the situation".

QUESTIONING SKILLS

Questions play a major role in conducting training. Some of the purposes questions serve in training are to:

- Help you determine what the learners already know about a topic so you can focus your training on what they need to learn.
- Invite learner participation and involvement in the training process.
- Provide you with feedback about how the training is being received.
- Enable your learners to assess their learning and to fill in their own learning gaps.



- ATTENDING
- OBSERVING
- LISTENING
- QUESTIONING

There are three skills associated with the questioning process. They are:

1. Asking questions.
2. Handling learners' answers to questions.
3. Responding to learners' questions.

CHOOSING HOW TO DIRECT QUESTIONS

Directing Questions

The final consideration in asking effective questions is how to direct your question. There are two ways to direct questions:

1. To the group.
2. To a specific individual.

IF YOU WANT TO ...	THEN ...
Stimulate thinking of all learners. Allow learners to respond voluntarily. Avoid putting an individual learner on the spot.	Direct the question to the group. Example: "What experiences have you had on this issue?"
Stimulate one learner to think and respond. Tap the known resources of an "expert" in the class.	Direct the question to an individual. Example: "Mary, you have had a lot of experience in applying these regulations with clients. What would you do in this case?"

GUIDELINES FOR PHRASING QUESTIONS

Phrasing Questions

Once you have decided on the type of question you will use, you need to determine how you will phrase it. There are important considerations in phrasing questions so that the learner is focused on the precise information you are trying to obtain.

DO	DON'T
• Ask clear, concise questions covering a single issue.	• Ask rambling, ambiguous questions covering multiple issues.
• Ask reasonable questions based on what the learners can be expected to know at this point in the training.	• Ask questions that are too difficult for the majority of the learners to answer.
• Ask challenging questions which provide thought.	• Ask questions which are too easy and provide no opportunity for thinking.
• Ask honest, relevant questions which direct the learners to logical answers.	• Ask "trick" questions designed to fool the learners.

TIPS FOR HANDLING LEARNER ANSWERS

Some ways to handle learners' answers that will maintain a high level of learner participation are to:

- Use positive reinforcement for correct answers.
- Acknowledge the effort of the respondent, regardless of whether the answer was right or wrong.
- Minimize potential learner embarrassment for wrong or incomplete answers.

IF THE LEARNER'S ANSWER IS:		
Correct	**Incorrect**	**Partly Correct**
Use positive reinforcement Examples: "Yes." "Good point." "That's right."	• Acknowledge the effort then • Redirect the question to others or answer it yourself. Examples: • "I can see how you might come up with that. Who else has an idea?" • "That's not exactly what I was looking for. What I was looking for was _____."	• Reinforce the correct portion then • Redirect the question to the same learner, to another learner, or answer it yourself. Examples: • "You're on the right track. What other ideas do you have?" • "That's one good point, Joe. Who else has some ideas?"

HANDOUT 3A: CARDS FOR PRACTICE USING OBSERVING SKILLS

Directions: Cut out the cards below. Make a set for each group. Give one card to three members in each group. Ask the card holder to role play the behaviors on the card and for the rest of the group to write down the behaviors they see and to guess what the individual might be feeling.

INSTRUCTIONS: When the trainer says "start," display the behaviors listed below, or any other behaviors that express the feelings of enthusiasm/understanding.

Behaviors	Feeling
Smiling Nodding affirmatively Leaning forward Eye contact	Enthusiasm/understanding

---

INSTRUCTIONS: When the trainer says "start," display the behaviors listed below, or any other behaviors that express the feelings of boredom.

Behaviors	Feeling
Yawning Vacant stare Shuffling feet Leaning back in chair Looking at clock	Boredom

---

INSTRUCTIONS: When the trainer says "start," display the behaviors listed below, or any other behaviors that express the feelings of confusion.

Behaviors	Feeling
Frowning Scratching head Pursing lips Vacant stare Avoiding eye contact	Confusion

---

HANDOUT 3B: PRACTICE USING OBSERVING SKILLS

The purpose of this exercise is to give you a chance to observe some typical non-verbal behaviors displayed by learners and to make inferences about what the learners may be feeling.

The workshop leader will ask a few members of your group to display specific non-verbal behaviors while you observe them.

1. *List what you observe about the person's face, body position, and body movements.*

2. *Write down the feelings you infer, based on the behaviors you observed.*

BEHAVIORS OBSERVED:

INFERRED FEELINGS:

BEHAVIORS OBSERVED:

INFERRED FEELINGS:

BEHAVIORS OBSERVED:

INFERRED FEELINGS:

HANDOUT 3C: PRACTICE USING LISTENING SKILLS

The purpose of this exercise is to give you a chance to practice using listening skills.

The workshop leader will read three statements which might be made by learners. Write paraphrase statements to illustrate your understanding of what was said.

YOUR PARAPHRASE STATEMENT:

YOUR PARAPHRASE STATEMENT:

YOUR PARAPHRASE STATEMENT:

HANDOUT 3D: PRACTICE USING QUESTIONING SKILLS

The purpose of this exercise is to give you practice in using questioning skills.

Below are three typical workshop situations. Write the response you would make for each situation.

SITUATION 1: You have just introduced the topic of the training, "Making Meetings More Effective." You want to find out what knowledge and experience your learners already have with this topic.

SITUATION 2: During your training on making meetings more effective, you ask the learners to name important elements presented earlier for making meetings more effective. One learner volunteers one of the elements, "developing the agenda."

SITUATION 3: In your "Making Meetings More Effective" workshop, a learner asks, "How can I stop a discussion of an agenda item that is going on too long?

4/16

LESSON 9

USING BASIC FACILITATION SKILLS

OBJECTIVES

At the end of this lesson, learners will be able to:

- Make accurate observations of learners' non-verbal behaviors.
- Demonstrate listening skills through paraphrasing.
- Use appropriate questioning techniques.

ESTIMATED TIME

3-1/2 hours

METHOD OF INSTRUCTION

Demonstration

Group discussion

Structured exercises

Trainer presentation

LEARNER MATERIALS

Coursebook, Lesson 9, Using Basic Facilitation Skills

TRAINING AIDS

Transparencies

T 3-1	Steps in Developing and Conducting Training
T 9-1	Facilitation Skills

EQUIPMENT AND SUPPLIES

Flipchart and markers

Vu-graph projector

3 – 3 x 5 cards for observing exercise

NOTES TO INSTRUCTOR

This lesson covers basic facilitation skills. The lesson starts with a group discussion designed to create an awareness of the need for a learning environment that invites the active participation of the learners. In conducting this discussion, and throughout the lesson, it is important that you model the four facilitation skills covered in the lesson.

At the beginning of the lesson, learners are introduced to a model that depicts facilitation skills as the bridge between the training content and the learners. The focus of the lesson is on four basic facilitation skills a trainer can use to enhance learning. They are:

- Attending skills
- Observing skills
- Listening skills
- Questioning skills

The segment of the lesson on attending skills requires you to demonstrate the guidelines covered in Figure 9-2 of the Coursebook.

There are four exercises in this lesson. The first one allows learners to observe three group members exhibiting non-verbal behaviors and to draw inferences about the feeling state of the group members. Prepare three 3x5 cards as shown on the next page to be given to the learners demonstrating the behaviors. Use care in selecting people to demonstrate behaviors. They should be people who will be comfortable doing the demonstration, and those who you feel will portray the behaviors as realistically as possible. It is important that learners realize that there are no right or wrong answers in this exercise. Rather, learners should be encouraged to report what they see and their inferences about the people's feelings based on their observations.

The second exercise allows learners to practice effective listening skills by paraphrasing some hypothetical learners' statements. In this listening exercise as well, there are also no right or wrong answers so long as the answers reflect appropriate rationale. The third exercise calls for the learners to practice effective questioning skills when given descriptions of hypothetical classroom situations.

In the final exercise, learners are asked to incorporate questions into the training plan they have been developing. Circulate among the learners during this exercise. Pay particular attentiсn to the first 15 minutes of their training plan to ensure that learners will have a chance to practice facilitation skills when they conduct their practice training in Lesson 11.

CONTENT OF LESSON	NOTES TO INSTRUCTOR

I. OVERVIEW

A. Introduce the topic.

1. This lesson covers basic facilitation skills—key skills you will use in conducting training.

Show T 3-1.

2. In Lesson 8, you developed your training plan, which brings together the training content, training methods, and training aids you will use in conducting your training.

3. But in order for your trainees to <u>learn</u>, they must become involved in the training process.

4. When you use effective facilitation skills, you help your learners learn by:

   a. Involving them in the training process;

   b. Assessing how the training is being received; and

   c. Responding to their learning needs.

B. Overview the lesson.

1. During the lesson you will learn four basic facilitation skills.

2. Facilitation skills are the bridge between your training content and your learners.

Show T 9-1.

3. You will practice using these skills during the lesson.

4. During the lesson, you will also return to your training plan to incorporate these facilitation skills into your training.

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CONTENT OF LESSON	NOTES TO INSTRUCTOR

II. LESSON OBJECTIVES

A. Review objectives.

1. The objectives for this lesson call for you to learn how to:
   - Make accurate observations of learners.
   - Use paraphrasing to demonstrate effective listening.
   - Use appropriate questioning techniques.

Refer learners to the top of Coursebook page 9-2.

III. IMPORTANCE OF A COMFORTABLE LEARNING ENVIRONMENT

A. Introduce discussion.

1. Before we begin our lesson on facilitation skills, I'd like to ask you to participate in a discussion related to your previous training experiences.
2. Think back to a training situation where an instructor made you feel involved in the session.

> Q. What was the situation, and what did the instructor do that made you feel involved?
>
> Q. How did your involvement in the session affect your learning?

FC

List the instructor behaviors on the flipchart.
Have learners discuss the impact on their learning.

48'

CONTENT OF LESSON	NOTES TO INSTRUCTOR

B. Emphasize the need to create a comfortable learning environment.

1. A comfortable learning environment enables people to get involved in the training process.

2. People learn more when they are involved in the training.

3. In this lesson you will learn the basic facilitation skills that will help your trainees get involved in the training.

IV. ATTENDING SKILLS

A. Introduce the topic.

1. The first group of facilitation skills we'll discuss are "attending" skills.

B. Refer learners to Coursebook.

1. There are four attending behaviors we will consider. They are:

   a. Face the learners.

   b. Maintain appropriate eye contact.

   c. Move toward the learners.

   d. Avoid distracting behaviors.

2. As you read in your Coursebook, these behaviors communicate to the learners that you are interested in them.

3. Your Coursebook also covered "do's" and "don'ts" for each of these behaviors.

Have learners read "Using Basic Facilitation Skills," Coursebook page 9-2, through Figure 9-2 on page 9-4.

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CONTENT OF LESSON	NOTES TO INSTRUCTOR
C. Demonstrate attending skills. 1. I'll demonstrate some of the "do's" and "don'ts" for you.	Demonstrate each behavior shown below. Comment about what you are doing as you demonstrate the behavior and ask for learners' reactions to the behavior. **Don't:** – Talk to a visual aid. – Distance self. – Stand in fixed position. – Scan group too rapidly. – Stare at one person. – Turn back to part of the group. – Look at watch. **Do:** – Face the learners. – Appropriately scan group. – Walk toward learners. – Smile at individuals. – Nod affirmatively. – Circle room during exercise. – Use natural facial expressions.

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CONTENT OF LESSON	NOTES TO INSTRUCTOR
Q. What training experiences have you had where good attending skills were **not** used?	Allow learners to discuss previous experiences where the trainer did not communicate interest in the trainees.

V. OBSERVING SKILLS

A. Introduce the topic.

1. Attending skills communicate interest in the learners.
2. Attending also enables you to observe the learners.
3. The next group of facilitation skills we'll discuss are observing skills.
4. Observing means just what the term implies: watching your learners' behaviors for cues about how they are receiving the training.
5. When you observe the learners' behaviors, you can develop inferences about how the learners are feeling about the training process.
6. Then you can respond to the learners' needs.
7. Your Coursebook has information about some common classroom behaviors and some possible feelings you might infer from them.

Have learners read "Observing Skills," Coursebook pages 9-4 through 9-6.

B. Discuss possible trainer actions in response to inferred learners' feelings.

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CONTENT OF LESSON	NOTES TO INSTRUCTOR

1. Let's talk about learner behaviors and what you might do as the trainer based on what you infer from the behavior.

Q. What might you do if you infer that your learners are bored?

A. Possible Answers:

- Try speeding up the pace.
- Take a break to allow learners to get up and move around.
- Build more opportunity for learner participation into the training activity.

Q. What might you do if you infer that learners are confused about what is being covered?

A. Possible Answers:

- Ask questions to clarify confusions.
- Give examples to clarify confusing areas.

Q. Suppose you infer from your observations that your learners are enthusiastic and are understanding what you are covering?

A. Possible Answer:

Feel good about what you are doing, and continue as planned.

CONTENT OF LESSON	NOTES TO INSTRUCTOR

VI. EXERCISE 1

A. Introduce exercise.

1. In this exercise you will practice observing some behaviors and drawing inferences about the learners' feelings.

Refer learners to Coursebook page 9-7.

1. Have them read the instructions.
2. Select a learner to display "boredom," and give the person the 3x5 card with the instructions on it, as shown in the Instructor Notes, page 9-4.
3. Ask the rest of the learners to observe the person.
4. Have the person display the behaviors indicated on the card.
5. Have learners complete Example 1 in their Coursebooks.
6. After learners have finished, have them discuss their answers and have the person who displayed the behavior tell the behaviors and the feeling indicated on the 3x5 card.
7. Repeat the process for the other two examples.
8. Allow 25 minutes total time for the exercise.

3 x 5 CARDS FOR OBSERVING EXERCISE

Make up three 3x5 cards for the three learner behavior categories as shown below:

Instructions:

When the trainer says "start," display the behaviors listed below, or any other behaviors that express the feelings of enthusiasm/understanding.

Behaviors	Feeling
Smiling	Enthusiasm/understanding
Nodding affirmatively	
Leaning forward	
Eye contact	

Instructions:

When the trainer says "start," display the behaviors listed below, or any other behaviors that express the feeling of boredom.

Behaviors	Feeling
Yawning	Boredom
Vacant stare	
Shuffling feet	
Leaning back in chair	
Looking at clock	

Instructions:

When the trainer says "start," display the behaviors listed below, or any other behaviors that express the feeling of confusion.

Behaviors	Feeling
Frowning	Confusion
Scratching head	
Pursing lips	
Vacant stare	
Avoiding eye contact	

EXERCISE 1: USING OBSERVING SKILLS

The purpose of this exercise is to give you a chance to observe some typical non-verbal behaviors displayed by learners and to make inferences about what the learners may be feeling.

Your instructor will be asking a few members of the group to exhibit specific non-verbal behaviors while you observe them. Using the worksheet on the following page:

1. List what you observe about the person's face, body position, and body movements.

2. Jot down the feelings you infer, based on the behaviors you have observed.

There will be a group discussion after each example.

EXERCISE 1: USING OBSERVING SKILLS (Continued)

Example 1

Behaviors observed _____

_____

_____

Inferred feelings _____

_____

_____

Example 2

Behaviors observed _____

_____

_____

Inferred feelings _____

_____

_____

Example 3

Behaviors observed _____

_____

_____

Inferred feelings _____

_____

_____

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CONTENT OF LESSON	NOTES TO INSTRUCTOR
VII. LISTENING SKILLS	
A. Introduce the topic.	
1. The next group of skills we'll discuss involve effective listening.	
2. Listening skills involve two steps. They are:	Write on flipchart: LISTENING STEPS
a. Listen to the words being expressed.	1. LISTEN TO WORDS
b. Paraphrase what was said.	2. PARAPHRASE WHAT WAS SAID
3. Your Coursebook has information about these two steps and why they are important in training.	
	Have learners read Coursebook pages 9-9 and 9-10.
B. Discuss listening skills.	
1. Let's talk about listening to the words being expressed.	
2. Your Coursebook mentioned two kinds of distractions that keep you from listening to the learner.	
Q. What are some of your internal distractions you must avoid?	
A. Possible Answer:	
• Thinking about what you will say next.	
• Trying to guess what the learner may say next.	
Q. What are some external distractions you might encounter?	
A. Possible Answers:	
• Other learners wanting to say something.	
• People passing by the training room.	

CONTENT OF LESSON	NOTES TO INSTRUCTOR
Q. Why is it important to overcome these barriers to listening? A. Possible Answer: They interfere with hearing the learner.	
3. Now let's talk about paraphrasing.	
4. Your Coursebook mentioned to begin your paraphrasing with a phrase such as these phrases.	Record on the flipchart: "YOU'RE SAYING ..." "AS I UNDERSTAND IT ..."
Q. What are some other phrases you might start out with? A. Possible Answers: • "What I hear you saying is ..." • "In other words ..."	Add phrases to the flipchart.
Q. What effect does paraphrasing have on the speaker? A. Possible Answers: • Lets speaker know you're listening. • Encourages speaker to continue with input.	Use paraphrasing in responding to learners' answers to these questions.
Q. What effect does this paraphrasing have on other learners? A. Possible Answers: • Clarifies speaker's information for them. • Encourages them to offer input too—they know you'll listen.	

CONTENT OF LESSON	NOTES TO INSTRUCTOR
Q. What have I been doing as we have been talking? A. Paraphrasing responses.	Have learners discuss the effect your paraphrasing had on them.

VIII. EXERCISE 2

A. Introduce exercise.

1. In this exercise you will practice writing three paraphrasing statements.

Refer learners to Coursebook page 9-11. Have them read the instructions.

2. I will read three statements learners might make in the classroom.
3. After each one, take a few minutes to write a paraphrase statement of what you heard.
4. After each one, we'll discuss your statements.

Read the following statement out loud, allowing sufficient time for learners to write in their Coursebooks:

1. "It seems to me that even children could benefit from adult learning principles. Even though they have little past experience, they do have some and could possibly be resources to each other."

5. Let's discuss your answers.

CONTENT OF LESSON	NOTES TO INSTRUCTOR
Q. What did you write down as your paraphrase statement? A. Possible Answer: "You're saying children have enough experience to act as resources to one another."	Accept any paraphrase statement that captures the key ideas. Repeat the process for the other two statements shown below. 2. "The reason my learning goals included creating and using visual aids is that I don't think of myself as artistic and I have been afraid to try using transparencies or flipcharts." Possible Paraphrase: "You're saying that in the past you haven't felt comfortable making visual aids because you think you're not artistic." 3. "Sometimes I am asked to put together training in a very short period of time. I often don't know who the trainees will be or how many there will be. It makes it difficult for me." Possible Paraphrase: "You're saying that your work is made harder by short time frames and by limited information about the learner population."

EXERCISE 2: USING LISTENING SKILLS

The purpose of this exercise is to give you a chance to practice using listening skills.

Your instructor will read three statements which might be made by learners. Using the worksheet below, write paraphrase statements to illustrate your understanding of what was said.

There will be a group discussion after each statement, and volunteers will share their paraphrase statements with the class.

Example 1

Your Paraphrase Statement: _____

_____

_____

_____

Example 2

Your Paraphrase Statement: _____

_____

_____

_____

Example 3

Your Paraphrase Statement: _____

_____

_____

_____

CONTENT OF LESSON	NOTES TO INSTRUCTOR

IX. QUESTIONING SKILLS

A. Introduce the topic.

1. The next group of skills we'll discuss is questioning skills.
2. The use of good questioning skills is a key part of conducting effective training.
3. We will talk about three aspects of questioning. They are:
   a. Asking questions.
   b. Handling learners' answers to questions.
   c. Responding to learners' questions.

Refer learners to Coursebook page 9-12. Have them read through the middle of page 9-15.

B. Discuss asking questions.

1. Let's discuss what you've read about asking questions.
2. Let's start with types of questions.

Q. What are the advantages of closed questions?

A. Possible Answers:

- Save time.
- Direct learners to a single answer.

Q. Why would open questions stimulate group discussion?

A. Possible Answers:

- Stimulate thinking and ideas.
- Requires more than one word answer so learners generate more ideas to discuss.

C. Discuss phrasing and directing questions.

1. Let's talk about phrasing questions.

Q. What happens when a trainer asks a confusing question?

A. Possible Answer:

Learners don't know how to respond.

Q. Why should you avoid "trick" questions?

A. Possible Answers:

- Adults don't like to be made fools of.
- Make learners reticent to answer future questions.

2. You can improve your phrasing of questions by:

   a. Practicing formulating clear and relevant questions.

   b. Writing them out in advance.

3. Now let's talk about directing questions.

Q. When might you use a question directed to an individual?

A. Possible Answer:

To recognize the special knowledge or experience a learner has.

Q. What might be some problems in using directed questions?

A. Possible Answers:

- Might embarrass a learner who doesn't know answer or is shy.
- Might cause other learners to "tune out" or be afraid of being called on next.

D. Discuss handling learner responses to questions.

1. When you ask questions, you must be prepared to handle the answers that learners offer.
2. Your Coursebook has some information on handling answers.

Have learners read Coursebook page 9-15 through the middle of page 9-16.

Q. How would you handle an answer that's partly right?

A. Possible Answer:

- Recognize the correct part and redirect the question to elicit the rest of the information.

CONTENT OF LESSON	NOTES TO INSTRUCTOR
Q. When might you want to redirect the question to the same learner who answered it partly right? A. Possible Answer: If you think the person might be able to come up with the rest of the answer. Q. What experiences have you had where positive reinforcement was not used when you responded to questions?	Allow learners to discuss. Ask how the failure to reinforce affected their willingness to answer future questions.
Q. What kinds of things can you do to give positive reinforcement to learners? A. Possible Answers: • Verbal comments. • Nonverbal responses, e.g., a nod, smile, etc. or recording learner input on a flipchart.	
E. Discuss responding to learners' questions. 1. The last aspect of questioning we'll discuss is responding to learners' questions. 2. Your Coursebook has some information on the subject.	Have learners read Coursebook pages 9-16 and 9-17.

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Q. Why do you think learners' questions are important?

A. Possible Answers:

- Questions tell you how the learning is progressing.
- Questions indicate interest in the subject.
- Questions help that learner and other learners understand.

Q. Why should you try to redirect questions to the learners whenever you can?

A. Possible Answers:

- To give them more opportunity to participate.
- They learn more when they answer the questions themselves than when the trainer answers them.

Q. Going back to types of questions, if I needed to end this discussion now, would I want to ask an open or a closed question?

A. Answer:

Closed.

Q. What is an example of a closed question I could use to end this discussion now?

A. Possible Answer:

- "Do you have any questions about what we just discussed?"

CONTENT OF LESSON	NOTES TO INSTRUCTOR

X. EXERCISE 3

A. Introduce exercise.

1. In this exercise you will practice using questioning skills.

Refer learners to Coursebook page 9-18.

1. Have them read the instructions and complete the exercise.

2. Allow 10 minutes.

2. Let's hear some examples.

Q. What question did you write for the first one?

A. Possible Answer:

- "What experiences have you had in conducting group meetings?"

Q. What response did you make to the second one?

A. Possible Answer:

- "Yes, that is one of the elements. Who has another?"

Q. How would you respond to the third one?

A. Possible Answer (redirecting to learners):

- "What ideas do the rest of you have about how to end a prolonged discussion of an agenda item?"

Accept answers so long as there is appropriate rationale.

EXERCISE 3: USING QUESTIONING SKILLS

The purpose of this exercise is to give you practice in using questioning skills. On the worksheet on the next page are three typical classroom situations. List on the worksheet the response you would make for each situation. Refer to Figures 9-5 through 9-9 for help in completing your responses.

Following the exercise, there will be a group discussion, and volunteers will be asked to share their responses with the class.

EXERCISE 3: USING QUESTIONING SKILLS (CONTINUED)

Situation 1:

You are using the "ROPES" model for conducting training, and you are in the REVIEW portion of your training. You have just introduced the topic of the training "Conducting Effective Meetings." You want to find out your learners' knowledge of or experience with the topic.

Develop a question that will accomplish your goal.

_____

_____

_____

Situation 2:

During your training on how to conduct effective meetings, you ask that the learners name the three critical elements you presented earlier in connection with planning effective meetings. One learner volunteers one of the elements, "developing the agenda."

Develop your response.

_____

_____

_____

Situation 3:

In your "Conducting Effective Meetings" course, a learner asks, "How can I stop a discussion of an agenda item that is going on too long?"

Develop your response.

_____

_____

_____

Q. By the way, how might you diplomatically end a prolonged discussion?

A. Possible Answer:

- With a statement such as, "That item certainly generated a lot of good discussion, but we need to move on now to the next item."

XI. EXERCISE 4

A. Introduce the exercise.

1. In this final exercise you will review the training plan you developed in Lesson 8 to incorporate questions into your training plan.

Refer learners to Coursebook page 9-20.

1. Have them read the instructions and complete the exercise.
2. Allow 15 minutes.
3. Be prepared to respond to learners' questions as they complete the exercise.

XII. SUMMARY

A. Summarize key points of the lesson.

1. In this lesson you have learned about four basic facilitation skills.
2. You have practiced these skills and have found ways to incorporate them into your training plans.

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3. In Lesson 11, you will have an opportunity to try them out when you conduct your practice training.

B. Make transition to next lesson.

1. In Lesson 10 you will learn how to handle problem situations that may occur when you are conducting training back on your job.

2. The basic facilitation skills you learned in this lesson will help you in handling these problem situations.

* *Information which will help you plan*
* *Structuring your training workshop*
* *Creating a learning environment*

INFORMATION WHICH WILL HELP YOU PLAN

The best training programs are designed to respond to the specific needs of the learners in a concrete situation. Before planning a workshop, you should know:

1. **Who requested training? How did they state the need?**

   Requestor other than learner? Statement of need determines how success will be evaluated.

2. **Why is training required?**

   Consequences of providing/not providing the training. Expected changes.

3. **Who are the learners?**

   Identification of the learners, their familiarity with the training content, and anticipated learner reactions to the training. Have they been involved in designing the training?

4. **What is the training content?**

   The nature of the training content, possible resources, and anticipated difficulties in developing the content.

5. **What are the timing issues?**

   The starting date, length/frequency of the training, and any known timing issues.

6. **Where will the training be conducted?**

   The location and number of learners, and an assessment of the space, equipment, and other resources that are needed and available.

STRUCTURING YOUR TRAINING WORKSHOP

Workshops can be divided into four pieces (each taking different amounts of time):

---

1. Getting learners' attention (5-10%)

* Introduce the workshop topic.
* Have the learners share their knowledge of or past experiences with the topic.
* Recognize the potential resources in the group.

2. Overview of the workshop (10-15%)

* Overview the activities that will occur in the workshop.
* Cover the learning objectives.
* Establish why it is important for the learners to learn the training content.

3. Learning activities (70-80%)

* Exercises designed to provide shared experiences from which the learners can discover new learnings
* Debriefing discussions facilitated by the trainer to help learners discover new learnings
* Presentations of information by the trainer to clarify new learnings
* Exercises designed to help learners practice new learnings and receive feedback on how they are doing

4. Summarizing the learning (5%)

* Summarize the workshop, stressing important points.
* Answer learners' questions.
* Prepare the learners to apply the new learning back in their daily lives.
* Get feedback from the learners on the workshop.

CREATING A LEARNING ENVIRONMENT

The environment you create for your learners will have a direct impact on their ability and openness to learn. Here are some suggestions:

---

1. Arrange the workshop room to be comfortable (see Diagram 1)

* Never seat learners in rows like school children
* Round tables are the best, one for each group of 4 to 8 people; make sure learners have enough elbow room and space for their materials
* Use a room with extra space; tables should be separated to allow group discussions, and located near walls where information can be posted
* Make sure that all visual aids are located where everyone can easily see them; do not seat people between the presenter and other learners
* Have a refreshment table located in the back of the room so that learners can refill their cup at anytime without disturbing the learning activity

2. Help the learners feel at home

* Have coffee, tea, soft drinks and water available continuously
* Donuts or cookies reduce the "hunger" distraction; bringing in homemade cookies sends a clear message that you care about your learners
* Let learners know when and where they can smoke (not in the workshop!)
* Give directions to the restrooms, telephones and other important locations

3. Respect the schedule

* Let people know at what time there will be breaks and when the workshop will end; this allows them to plan phone calls back to their organization
* Do not directly confront latecomers, but try and give them an incentive for coming on time (some trainers start after each brake with a good joke; latecomers feel uncomfortable not knowing why people are laughing)
* End on time. Have some optional things you can delete if necessary.

HANDOUT 5: MAKING EFFECTIVE PRESENTATIONS

KNOW YOUR OBJECTIVES

* At the end of the presentation, I want the learners to remember...
* Your purpose should guide <u>what</u> you say and <u>how</u> you say it

---

KNOW YOUR AUDIENCE

* How much do they already know? Experts or neophytes?
* Why is this presentation important to them? How will they use this information?

ORGANIZE THE PRESENTATION

* Get their attention with a story, question, show of hands, a promise, an unusual statistic, a provocative statement
* Remember the "3 times" rule:
  - Tell them the 3 or 4 major points you want them to remember
  - Explain these points more fully
  - Summarize these points a third time as you end your presentation
* Divide the presentation into timed segments
* Remember the "20 minute" rule: People only retain what they listen to for 20 minutes (up to 90 minutes if only for understanding)
* Use visual aids: People retain more if they both see and hear something

---

BE COMFORTABLE AND CONFIDENT

* Practice aloud as if it were the actual presentation in front of someone who gives you feedback
* Do not change your hair style, wear a new suit or do anything else which will make you feel self-conscious

---

DURING THE PRESENTATION

* Get off to a good start by:
  - Taking a few deep breaths
  - Establishing eye contact with a few people (3-5 seconds on each)

* Be Honest: If you do not know, say so, and offer to get the answer later

* Smile: Be friendly and they will be friendly back

* Start and end on time
  - Have some optional items which you can leave out
  - Have partner be your timekeeper

USE A PARTNER

* Divide the presentation between you

* When the one presenting makes a mistake or gets stuck, the other says:
  - "Let me restate the issue"
  - "Here's another way to look at it"
  - "This reminds me of a story"

* If you are unsure how to respond, look to your partner for help

* Give each other feedback after the presentation

HANDOUT 6: USING FLIP CHARTS AND OVERHEAD SLIDES

Visual aids, like a flip chart or overhead slide, are intended to illustrate or help your learner focus on a key point. You should fully develop the point orally, not on the visual aid:

DO	DON'T
COMFORTABLE ROOM * No Rows * Round Tables * Spacious * No Obstacles * Strategic	**1. Arrange the workshop room to be comfortable (see Diagram 1)** • Never seat learners in rows like school children • Round tables are the best, one for each group of 4 to 8 people; make sure learners have enough elbow room and space for their materials • Use a room with extra space; tables should be separated to allow group discussions, and located near walls where information can be posted • Make sure that all visual aids are located where everyone can easily see them; do not seat people between the presenter and other learners • Have a refreshment table located in the back of the room so that learners can refill their cup at anytime without disturbing the learning activity

GUIDELINES FOR PREPARING FLIP CHARTS & OVERHEAD SLIDES

- Use as few words as possible to communicate your ideas
- Keep information to six lines or less, with no more than six words per line
- Highlight key points or illustrate ideas with:

Pictures	Shapes	Graphs
Colors	Boxing	Underlining

- Cover only one major idea, with up to three subpoints, on one slide
- Check readability from the back of the room

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TIPS FOR USING...

Slides...

IF...	THEN...
You are using more than one slide	* Turn the projector off between slides if not being shown quickly * Don't leave a slide on too long; the image becomes tiring to viewers
You want the group to focus on a specific area	* Lay a pencil on the slide or point to the image on the screen * Reveal one area at a time by covering the rest of the slide with a piece of paper
You want to use the slides again at another workshop	* Prepare them with permanent markers * Store them between pieces of paper
You wish to write something during the session and then erase it	* Use water-soluble marking pens. Run water or a damp cloth over the area to remove the ink

Flip Charts...

IF...	THEN...
You are recording learners' input	* Record key words quickly * Check to be sure ideas are recorded accurately * Alternate colors between ideas
You want learners to compare and contrast data	* Use two flip charts
You want to keep information displayed for a period of time	* Hang pages on the wall
You want to look professional	* Practice tearing pages cleanly before trying it in front of the group * Tab prerecorded charts to eliminate searching for them when needed * Cover flip chart information when not in use

HANDOUT 7: DEBRIEFING A TRAINING EXERCISE

Training exercises can be enjoyable but sometimes workshop participants leave without knowing why they did the exercise. To effectively use an exercise, the trainer must facilitate a discussion which is called **DEBRIEFING** or processing the exercise.

For debriefing to be effective:

(1) The trainer must know the learning objectives;

(2) There must be enough time for learners to derive learnings and applications; and,

(3) The trainer must guide the participants through a series of debriefing steps.

STEP ONE: EXPERIENCING

This step is fairly simple. The trainer simply follows the instructions for running the exercise. The learners will experience the learning objectives which the exercise was designed to produce.

STEP TWO: DESCRIBING WHAT HAPPENED

Participants report what happened (thoughts, feelings, what people said and did) while the trainer records on a flip chart what they have said using their own words.

* If comments are all positive (negative), ask "I see a lot of positive reactions here. Were there any negative ones?"
* "What did you observe happening with other persons?"
* To focus learners' attention on particular data, you can begin by labeling the flip chart, ie, "What I thought, What I felt, What I observed of others."

STEP THREE: INTERPRETING THE DATA

Help participants put the raw data into meaningful forms by perceiving patterns, sequences, trends, dynamics or groupings.

* "As you look at this data, what patterns do you see?"
* "What do you make of that?"
* "How can we account for that?"
* "What `pops' off the page for you?"
* "What matches do you see?"

STEP FOUR: GENERALIZING TO THE LEARNING OBJECTIVES

Draw out what participants have learned. Feel free to help if they seem to be missing something.

* "What learnings are here for you?"
* "What here helps you make sense out of the experiences you've had?"
* "What associations do the data help you make?"

STEP FIVE: APPLYING THE LEARNING OBJECTIVES TO REAL LIFE

Ask the participants to think about how they can actually use these learnings.

* "How can you use this learning back at the company?"
* "If these learnings are important to you, how can you best hold on to them?"
* Perhaps, ask participants to make a contract or write a letter to themselves reminding them of how they intend to use this learning.

HANDOUT 7A: DEBRIEFING FARMERS

Use this worksheet to prepare for debriefing the "Farmers" exercise. It is based on the information in Handout 5: Debriefing a Training exercise. Use the space by each step to write the things you would expect to hear from your participants as you debrief "Farmers" with them.

LEARNING OBJECTIVES FOR DEBRIEFING FARMERS

At the end of the debriefing, you want your participants to discover for themselves or hear you recommend that meetings work better when the group:

(1) Knows the purpose in advance

(2) Agrees to follow a structured process

(3) Empowers someone to enforce the process

(4) Asks a recorder to write key information in front of everyone

(5) Summarizes the meeting results for everyone's review

DESCRIBING WHAT HAPPENED

INTERPRETING THE DATA

GENERALIZING TO THE LEARNING OBJECTIVES

APPLYING THE LEARNING OBJECTIVES TO REAL LIFE

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HANDOUT 8: EVALUATION - TRAINING EMPLOYEE OWNERS

Please help us improve future workshops by filling out this evaluation. You may return it anonymously or signed. Please write additional comments on the back.

1. Are you: [] MRP Board member [] Shop floor worker [] Other
[] Manager [] MRP consultant
[] Supervisor [] Union leader _____

2. The room was: Too large [] Too small [] Just right []
Too hot [] Too cold [] Just right []

3. As a whole, the workshop was: Too long [] Too short [] Just right []
Too simple [] Too complex [] Just right []

4. We tried to maintain a balance between lectures by the trainer, discussions by the group, and experiential exercises. What should we do more or less of?

- Lecture	More []	Less []	No change []
- Discussion	More []	Less []	No change []
- Experiential exercises	More []	Less []	No change []

5. Please rate from (5) "I learned a lot", to (1) "Was a complete waste of time":

	Learned a lot				Waste of time
Day 1:					
Elementary school role play	5 []	4[]	3[]	2[]	1[]
Lecture: Adult learning principles	5 []	4[]	3[]	2[]	1[]
"Farmers" exercise	5 []	4[]	3[]	2[]	1[]
Discussion of "Farmers"	5 []	4[]	3[]	2[]	1[]
Lecture: Effective meetings	5 []	4[]	3[]	2[]	1[]
Exercise: The message	5 []	4[]	3[]	2[]	1[]
Attending skills	5 []	4[]	3[]	2[]	1[]
Observing skills	5 []	4[]	3[]	2[]	1[]
Listening skills	5 []	4[]	3[]	2[]	1[]
Questioning skills	5 []	4[]	3[]	2[]	1[]
Day 2:					
"Bad presentation"	5 []	4[]	3[]	2[]	1[]
Lecture: Making presentations	5 []	4[]	3[]	2[]	1[]
Practicing team presentations	5 []	4[]	3[]	2[]	1[]
Discussion: Debriefing	5 []	4[]	3[]	2[]	1[]

6. Please answer both how you felt before and after this workshop:

Before the workshop I felt...						After the workshop I feel...				
Prepared				Unprepared		Prepared				Unprepared
5[]	4[]	3[]	2[]	1[]	Making presentations	5[]	4[]	3[]	2[]	1[]
5[]	4[]	3[]	2[]	1[]	Leading discussions	5[]	4[]	3[]	2[]	1[]
5[]	4[]	3[]	2[]	1[]	Training effective meetings	5[]	4[]	3[]	2[]	1[]

7. The most important thing I learned at today's workshop was:

8. One way that the workshop could be improved is:

9. This workshop attempts to transfer experience developed in Western countries with market economies. What aspects of this workshop or this experience are relevant or irrelevant to Hungary?

10. I would recommend this workshop to a friend. Yes [] No []

Why or why not: _____

CHILDREN	ADULTS
Rely on Others	Decide for Themselve
Accept Information	Challenge Information
Future Use	Immediate Use
Little Experience	Experience Biases Vie
Not Knowledgable	Source of Information

Slide 1 : Differences between children and adult lea

TRAINING ADULTS

- Focus on "real world" problems
- Emphasize applications
- Relate to learner's goals
- Relate to past experiences
- Allow debate of ideas
- Respect learners' opinions
- Use learners as resources
- Treat learners like adults

Slide 2: Adult learning principles

FACILITATION SKILLS

* ATTENDING

* OBSERVING

* LISTENING

* QUESTIONING

Slide 3: Basic Facilitation Skills

ATTENDING

* FACE LEARNERS

* EYE CONTACT

* MOVE FORWARD

* DON'T LOOK AWAY

Slide 4: Attending

OBSERVING

Are Learners...

* ENTHUSIASTIC?

* BORED?

* CONFUSED?

Slide 5: Observing

LISTENING

* ENCOURAGE MORE

* SHOW UNDERSTANDING

* GET CLARIFICATION

* SUMMARIZE

Slide 6: Listening

QUESTIONING

* Asking Questions

* Handling Answers

* Responding to Questions

Slide 7: Questioning

ASKING QUESTIONS

* Individual or group
* Open or Closed
* Should be...
  - Clear
  - Reasonable
  - Challenging
  - Not "Tricks"

Slide 8: Asking questions

HANDLING ANSWERS

* POSITIVE REINFORCEMENT
* ACKNOWLEDGE RESPONSE
* MINIMIZE EMBARRASSMENT

Slide 9: Handling answers

RESPONDING

* ANSWER YOURSELF

* REDIRECT

* DEFER

Slide 1 0: Responding to questions

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ORGANIZING A WORKSHOP

* ***PLANNING***

* ***STRUCTURING***

* ***CREATING LEARNING CLIMATE***

Slide 11 : Organizing a training workshop

PLANNING

REQUESTOR

REASON

LEARNERS

TRAINING CONTENT

SCHEDULING ISSUES

LOGISTICS

Slide 1 2: Information which will help you plan

STRUCTURING

Get attention

Overview

Learning activities

Summary

Slide 1 3: Structuring your training workshop

LEARNING ENVIRONMENT

COMFORTABLE ROOM

FEEL AT HOME

RESPECT SCHEDULE

Slide 1 4: Creating a learning environment

EFFECTIVE PRESENTATIONS

KNOW OBJECTIVES

KNOW AUDIENCE

ORGANIZE

BE COMFORTABLE

Slide 1 5: Making effective presentations

REMEMBER...

* Attention Getter
* "3 times" rule
* Time Control
* "20 minute" rule
* Visual aids

Slide 1 6: Organizing the presentation

WHILE PRESENTING...

* Deep Breaths
* Eye contact
* Honesty
* Be friendly
* Start and end on time

Slide 1 7: During the presentation

USE A PARTNER

* Divide presentation
* Help when stuck
* Rely on partner
* Give feedback

Slide 1 8: Working with a partner

Minimize Words

Up to Six Lines

Highlight Key Points

Only one major idea

Back of the room test

Slide 1 9: Using flip charts and overhead slides

DEBRIEFING

(1) Know Objectives

(2) Time to Process

(3) Follow Debriefing Steps

Slide 20: Debriefing a training exercise

FIVE STEP DEBRIEFING

EXPERIENCING

DESCRIBING WHAT HAPPENED

NTERPRETING THE DATA

GENERALIZING TO THE LEARNING OBJECTIVES

APPLYING THE LEARNING OBJECTIVES TO REAL LIFE

Slide 21 : Steps to debriefing

LEARNING OBJECTIVES FOR DEBRIEFING FARMERS

(1) Know Purpose in Advance

(2) Agree on Structured Process

(3) Empower Process Enforcer

(4) Use Flip Chart

5) Review & Agree on Results

Slide 22: Learning objectives for debriefing farmers

TRAINER GROWTH

1) Survival

2) Getting Facts Right

3) Trying Techniques

4) Using Techniques Spontaneously

Slide 23: Stages of trainer development

EMPLOYEE OWNERSHIP TRAINING PROGRAM

ORIENTATION TO EMPLOYEE OWNERSHIP

INSRUCTOR'S MANUAL

MARCH 1995

Instructor Readiness Checklist
Complete prior to course start

Training room confirmed	O
No. of participants known	O
Participant manuals available	O
Paper/pens	O
Name cards	O
Flipcharts/pens	O
Seating arrangement	O
Temperature	O
Lighting	O
Ventilation	O
Refreshments	O
Smoking (ashtrays)	O
Audio-visiual	O
Hand-outs (sufficient)	O
Rest rooms	O
Coat racks	O
Parking	O
Directions to room posted	O

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(contact)

_____

(date)

INTRODUCTIONS / EXPECTATIONS:

INTRODUCTION:

GOALS: MAKE SURE THAT PARTICIPANTS KNOW EACH OTHER
GET PEOPLE USED TO TALKING
LET THEM HEAR OTHER PARTICIPANTS EXPECTATIONS
GATHER THEIR EXPERIENCES AS A BASIS OF DISCUSSION

A] GOOD JOBS:

GOALS: TALK ABOUT ESOPS GIVE BACKGROUND
FIND OUT WHAT THEY THINK ARE GOOD JOBS
HAVE THEIR JOBS CHANGED DUE TO THE ESOP
DISCOVER THE MEANING OF EMPLOYEE OWNERSHIP

B] ORGANIZATION OF WORK:

GOALS: DELIVER CONCEPT OF WORK ORGANIZATION
GIVE PARTICIPANTS A WORKING KNOWLEDGE OF WORK ORGANIZATION.
EXPLAIN PRINCIPLES OF TAYLORISM
SCIENTIFIC MANAGEMENT THEORY

C] WORKPLACE PRESSURES:

GOALS: DISCUSS INTERNAL AND EXTERNAL PRESSURES
LINK PRESSURES TO REORGANIZING THE WORKPLACE

D] WORK REORGANIZATION:

GOALS: DISCUSS THE PROCESS OF WORK REORGANIZATION
SHOW PARTICIPANTS OPTIONS FOR WORK DESIGN
EXPLAIN CURRENT TRENDS IN WORK ORGANIZATION

ICE BREAKER EXERCISE - INSTRUCTIONS

PARTICIPANTS NEED TO BE COMFORTABLE IN A LEARNING ENVIRONMENT IF THEY ARE GOING TO LEARN. EVEN IF THEY KNOW EACH OTHER AT WORK. ADULTS HAVE SOMETHING REAL TO LOSE IN A CLASS ROOM SITUATION. SELF-ESTEEM AND EGO ARE ON THE LINE WHEN THEY ARE ASKED TO RISK TRYING A NEW BEHAVIOR IN FRONT OF CO-WORKERS.

THE ICE BREAKER INVOLVES ACTUALLY HAVING TO FIND OUT SOMETHING ABOUT EACH OTHER. IT ENCOURAGES PARTICIPATION AND LESSENS THE FORMALITY.

THE ICE BREAKER SHOULD TAKE NO MORE THAN 10 MINUTES TO COMPLETE. PARTICIPANTS ARE FREE TO WALK AROUND TO COLLECT NAMES. DISCUSSION IS OPTIONAL.

FIND SOMEONE WHO:

	NAME
1. Has a pet bird.	_____
2. Speaks a second language.	_____
3. Has three children.	_____
4. Was born under your astrological sign.	_____
5. Has more than one middle name.	_____
6. Likes to cook.	_____

RULES

a) You can use each person's name only once!
b) You may be asked to prove that you have found people with these characteristics.
c) Time to complete - 10 minutes.

TRAINEE READINESS CHECKLIST

STUDENT TO REVIEW BEFORE STARTING EVERY DAY

ARE YOU:		YES	NO
1.	OPEN TO NEW IDEAS?	O	O
2.	WILLING TO LISTEN?	O	O
3.	POSITIVE ATTITUDE?	O	O
4.	NOT TOO TIRED?	O	O
5.	WILLING TO PARTICIPATE?	O	O
6.	OPTIMISTIC ABOUT OUTCOMES?	O	O
7.	KNOW SOMEONE IN THE GROUP	O	O
8.	HAVE MATERIALS NEEDED?	O	O
9.	CAN HEAR INSTRUCTOR?	O	O
10.	CAN SEE (FLIPCHART/CHALKBOARD/T.V.)?	O	O
11.	FAMILIAR WITH SURROUNDINGS?	O	O
12.	HAPPY TO BE HERE TODAY?	O	O

PARTICIPANT EXPECTATION CHECKLIST

COURSE NAME _____ **DATE TAKEN** _____

ASK FOR SHOW OF HANDS AND RECORD ON FLIPCHART

1. THE REASON YOU ARE TAKING THIS COURSE IS:

- TO LEARN SOMETHING NEW?
- TO IMPROVE YOUR CHANCE OF PROMOTION?
- TO MAKE MORE MONEY?
- TO MAKE THIS COMPANY MORE PROFITABLE?
- OTHER?

2. IT IS MY JOB TO:

- KEEP CONTROL OF THE CLASS?
- DO MOST OF THE TALKING?
- KEEP YOUR ATTENTION?
- DO MOST OF THE WORK?
- LISTEN?
- OTHER?

3. IT IS YOUR JOB TO:

- PARTICIPATE?
- KEEP AN OPEN MIND?
- HELP EACH OTHER LEARN?

THOUGHT FOR TODAY:

- GIVE A MAN A FISH . . . FEED HIM FOR A DAY
- TEACH A MAN HOW TO FISH . . .FEED HIM FOR LIFE

SHARE PARTICIPATION FOUNDATION

EMPLOYEE OWNERSHIP TRAINING PROGRAM

COURSE EVALUATION FORM
(to be completed by participants immediately following course)

NAME OF COURSE/WORKSHOP_____

INSTRUCTOR_____

1. WHAT IS YOUR OVERALL EVALUATION OF THE COURSE/WORKSHOP?

EXCELLENT ( ) GOOD ( ) SATISFACTORY ( ) FAIR) POOR ( )

2. COMMUNICATIONS/PROMOTION:

a)DID YOU HEAR ABOUT THIS COURSE/WORKSHOP BY: PAMPHLET ( )
FRIENDS ( ) NOTICE AT WORK ( ) YOUR SUPERVISOR ( ) OTHER ( )

b)DID THE PAMPHLET PROPERLY DESCRIBE THE COURSE/WORKSHOP?
YES ( ) NO ( )

3. COURSE/WORKSHOP

a) WERE YOU PROVIDED WITH A COURSE OVERVIEW?
YES ( ) NO ( )

b)WERE YOUR PERSONAL OBJECTIVES MET? YES ( ) NO ( )

c)WAS THE CLASSROOM/FACILITY ADEQUATE? YES ( ) NO ( )

d)WAS THE COURSE/WORKSHOP:
too long ( ) just right ( ) too short ( )

4. PROGRAM DEVELOPMENT

a) WHAT OTHER COURSES WOULD YOU LIKE TO TAKE?
1)
2)
3)

b)WHAT OTHER COURSES SHOULD BE DEVELOPPED?
1)
2)
3)

GENERAL COMMENTS

_____

_____

THANK YOU

SHARE PARTICIPATION FOUNDATION

EMPLOYEE OWNERSHIP TRAINING PROGRAM

INSTRUCTOR EVALUATION FORM
(to be completed by participants immediately following course)

NAME OF COURSE_____

INSTRUCTOR_____

1.INSTRUCTOR READINESS

a)DID THE INSTRUCTOR APPEAR READY TO TEACH? YES ( ) NO ( )

b)WERE THE TRAINING MATERIALS AVAILABLE FOR YOU AT THE BEGINNING OF THE COURSE? YES ( ) NO ( )

c)WAS THE CLASSROOM READY ? YES ( ) NO ( )

d)ANY COMMENTS?_____

2. DELIVERY STYLE

a) DID THE INSTRUCTOR INVOLVE YOU IN THE COURSE? YES ( ) NO ( )

b) DID THE INSTRUCTOR DEVELOP AN ENJOYABLE LEARNING ENVIRONMENT? YES ( ) NO ( )

c) WAS THE PACE OF THE COURSE: fast ( ) adequate ( ) slow ()

d) ANY COMMENTS? _____

3. EFFECTIVENESS

a) DID THE INSTRUCTOR HOLD YOUR ATTENTION FOR THE ENTIRE COURSE? YES ( ) NO ( )

b) DID THE INSTRUCTOR KNOW THE SUBJECT MATTER THOROUGHLY? YES ( ) NO ( )

c] DO YOU FEEL YOU HAVE LEARNED? A LITTLE ( ) SOME ( ) A LITTLE ( )

d) ANY COMMENTS?_____

THANK YOU!

SHARE PARTICIPATION FOUNDATION

EMPLOYEE OWNERSHIP TRAINING PROGRAM

COURSE EVALUATION FORM
(to be completed by instructor immediately following course)

NOTE: THIS EVALUATION FOR IS FOR YOUR USE ONLY. NO ONE ELSE NEEDS TO SEE IT. IT IS DESIGNED FOR YOU TO MEASURE YOUR EFFECTIVENESS AS A WORKPLACE INSTRUCTOR AND TO MAKE IMPROVEMENTS WHERE NEEDED. KEEP THIS SELF-EVALUATION FORM ON FILE ALONG WITH OTHERS YOU COMPLETE AND REVIEW THEM PERIODICALLY TO OBSERVE COMMOM ELEMENTS AND TRENDS WHICH WILL DEVELOP IN YOUR TEACHING STYLE.

COURSE NAME: _____

YOUR NAME: _____

1) CONTENT

a) DID THE CONTENT MATCH THE LEVEL OF THE STUDENTS?
TOO DIFFICULT ( ) ABOUT RIGHT ( ) TOO EASY ( )

b) DID THE AMOUNT OF MATERIAL COVERED SUIT THE LEVEL OF THE STUDENTS?
TOO MUCH ( ) ABOUT RIGHT ( ) TOO LITTLE ( )

c) DID THE EXCERSISES ATTRACT THE STUDENTS PARTICIPATION?
A LOT ( ) SOME ( ) FEW ( )

d)ANY COMMENTS? _____
_____
_____

2)YOUR DELIVERY STYLE

a) DID THE STUDENTS RESPOND TO YOUR DELIVERY STYLE?
A LOT ( ) SOMEWHAT ( ) HARDLY ( )

b) DID THE STUDENTS SEEM TO ENJOY THE COURSE?
A LOT ( ) SOMEWHAT ( ) A LITTLE ( )

c) WERE YOU ABLE TO STAY ON TIME THROUGHOUT THE COURSE?
YES ( ) MOST OF THE TIME ( ) NO ( )

d) WHAT WOULD YOU CHANGE FOR THE NEXT COURSE?

YOUR PACE ( ) THE TYPE OF QUESTIONS ( )
SEATING ARRANGEMENT( ) SCHEDULE)
LENGTH OF COURSE ( ) START TIME ( )
LOCATION ( ) LENGTH OF BREAKS ( )
AMOUNT OF STUDENT PARTICIPATION ( )

c) ANY COMMENTS?_____
_____
_____

3. READINESS

a) DID YOU COMPLETE THE INSTRUCTOR READINESS CHECKLIST IN ADVANCE OF THE COURSE ? YES ( ) NO ( )

b) DID YOU HAVE SUFFICIENT INFORMATION ABOUT THE PARTICIPANTS PRIOR TO THE COURSE? YES ( ) NO ( )

c) WHAT ONE THING WILL YOU DO TO MAKE THIS COURSE BETTER?

_____

_____

d) WHAT ONE THING WILL YOU DO TO MAKE YOU A BETTER INSTRUCTOR?

_____

_____

_____

Notes:

We hope you have enjoyed the train the trainer course from the Share Participation Foundation. This course is part of the employee ownership training program which the foundation offers to employees of ESOP Companies.

As a work place trainer you will face many challenges and obstacles to delivering high quality, effective training for workers, There is no subsitution for being prepared. A well prepared instructor enjoys the teaching experiance because s/he knows adults learn better from a well-organized teacher.

We encourage you to add resources to the instructor and participant manuals and to develop your own style of teaching. If you continue to learn about learning, your lessons will be rich and and rewarding.

We also encourage you to mentor and network with other workplace instructors to share your knowledge and experiance.

Happy teaching!

INSTRUCTOR NOTES :

ACTIVITY :

1- **INTRODUCTION AND EXPECTATIONS :**

YOU SHOULD START BY INTRODUCING YOURSELF AND GIVE A LITTLE OF YOUR BACKGROUND. TELL THEM WHY YOU WANTED TO INSTRUCT THIS WORKSHOP.

GO AROUND THE ROOM AND HAVE PEOPLE INTRODUCE THEMSELVES . THIS WILL HELP SET THE TONE FOR ACTIVE PARTICIPATION. ASK PEOPLE TO GIVE :

THEIR NAME

THEIR JOB TITLE OR POSITION

THE UNION THEY BELONG TO [IF APPLICABLE]

HOW LONG THEY HAVE WORKED AT THE FIRM.

ASK THEM TO IDENTIFY ONE THING THEY WOULD LIKE TO GET FROM THIS WORKSHOP. WRITE THESE DOWN ON THE FLIP CHART AND REVIEW AT END OF SESSION TO SEE IF THEIR EXPECTATIONS HAVE BEEN MET .

INSTRUCTOR TIP :

THIS IS A WORKSHOP ABOUT WORK ORGANIZATION AND REORGANIZATION. WE ARE ALL LIVING IN A TIME OF RAPID CHANGE; CHANGES IN TECHNOLOGY, IN MARKETS , CHANGES IN PRODUCTS AND CHANGES IN PARTICIPATIVE PROCESSES. THE GOAL OF THIS COURSE IS TO HELP THE PARTICIPANT GAIN A BETTER A BETTER UNDERSTANDING OF THE CHANGES THAT ARE OR MIGHT BE GOING ON IN THEIR WORKPLACE.

TRY TO SPEAK TO THE CONCERNS AND EXPECTATIONS THAT THEY HAVE RAISED. IF THE CONCERNS OR EXPECTATIONS ARE ENTIRELY OUTSIDE THE REALM OF THE COURSE, IT IS IMPORTANT TO LET PEOPLE KNOW THAT .

INSTRUCTORS NOTES:

ACTIVITY : GOOD JOBS :

THE FOLLOWING IS A LIST OF GOOD JOB CHARACTERISTICS WHICH YOU MAY WISH TO USE TO STIMULATE DISCUSSION :

SECURE JOBS:	UNCERTAINTY OF PLANT CLOSURE OR LAYOFF
GOOD WAGES	BEING ABLE TO LIVE COMFORTABLY ON MY PAY
BENEFITS :	SOME SICK COVERAGE AND PENSION REQUIREMENTS
SAFE JOBS:	POTENTIAL FOR INJURY SHOULD BE LOW
FAIR SCHEDULE:	REASONABLE NUMBER OF HOURS OF WORK
PHYSICAL DEMAND:	NOT PHYSICALLY EXHAUSTING JOBS
JOB TRAINING:	PROPER ON THE JOB TRAINING
SKILL TRAINING:	ADDITIONAL UPGRADING AND TRAINING
CONTROL:	OVER WHAT THEY DO; HOW THEY DO IT
PROMOTION:	ABILITY TO MOVE UP TO OTHER POSITIONS
RESPECT:	RESPECT FOR WHAT WE CONTRIBUTE & WHO WE ARE

FAIRNESS: TREATING EVERYONE EQUALLY

DECISIONS: BEING INVOLVED IN DECISION MAKING

SATISFACTION: FEELING OF PRIDE IN WHAT I PRODUCE

VARIETY: ABILITY TO TRY NEW JOBS

INSTRUCTOR NOTES :

GOOD JOBS - SAFE JOBS :

GOALS : TO DEMONSTRATE THE LINK BETWEEN JOB DESIGN AND EMPLOYEE GOALS.

TO DEMONSTRATE THE LINK BETWEEN JOB DESIGN AND SAFE JOBS.

ACTIVITY :

1] LARGE GROUP BRAINSTORM : ATTRIBUTES OF A GOOD JOB:

THERE IS INCREASING EVIDENCE THAT JOB DESIGN IS CLOSELY RELATED TO YOUR HEALTH AND THAT MANY ASPECTS OF JOB DESIGN CAN AFFECT YOUR HEALTH.

LET'S TALK ABOUT WHAT A GOOD JOB COULD BE AND HOW THAT RELATES TO SAFETY. THINK ABOUT WHAT WOULD MAKE A JOB A GOOD JOB.

AS A LARGE GROUP , MAKE A LIST OF THE ATTRIBUTES OF A GOOD JOB. THE INSTRUCTOR SHOULD WRITE THIS DOWN ON A FLIP CHART.

YOU MAY GET ANSWERS LIKE :

SAFETY
VARIETY
CONTROL
SKILL UPGRADING
RESPECT
ACCESS TO PROMOTION
PRIDE IN PRODUCT PRODUCED
REASONABLE PACE OF WORK
GOOD WORK SCHEDULE
GOOD WAGES AND BENEFITS
SECURE JOBS

COMPARE WITH LIST OF " GOOD JOB DESIGN " ARE SOME THE SAME ? ARE THERE SOME DIFFERENT ONES ? WHY ?

HOW MANY OF THE PARTICIPANTS BASED ON THE LISTS , THINK THEY HAVE A GOOD JOB.

2] **INSTRUCTOR LED DISCUSSION: JOB DESIGN AND SAFETY**

ASK THE QUESTION :
WHAT IMPACT DOES JOB DESIGN HAVE ON SAFETY ?
GIVE EXAMPLES :

MANY PEOPLE DIE EACH YEAR BECAUSE OF SERIOUS INJURY DO TO POORLY DESIGNED JOBS. IN JAPAN, THEY HAVE WHAT IS CALLED " KAROSHI " OR SUDDEN DEATH FROM OVERWORK. THIS IS ONE EXAMPLE OF BAD DESIGN.

TWO SAFETY ISSUES CONNECTED TO JOB DESIGN ARE STRESS AND REPETITIVE STRAIN INJURIES. THIS IS A CLASS OF INJURIES THAT COME FROM ONGOING EXPOSURE TO RISK FACTORS THAT INCLUDE: AWKWARD POSTURE, LACK OF REST, REPETITION, FORCE.

WHAT ARE SOME OF THE SOURCES OF STRESS CONNECTED WITH YOUR JOB ?

YOU SHOULD GET ANSWERS LIKE :

LACK OF PROPER TOOLS
PRODUCTION PRESSURE
BOSS LOOKING OVER MY SHOULDER
JOB INSECURITY
CHANGING MARKET DEMANDS
LACK OF LEADERSHIP AND DIRECTION

NEW SCIENTIFIC STUDIES TELL US THAT STRESS AT WORK IS CAUSED BY A COMBINATION OF FACTORS , INCLUDING :

CONTROL OVER THE WORK PROCESS

DEMANDS PLACED ON EMPLOYEES BY THE PROCESS

SOCIAL/ TECHNICAL SUPPORT WITHIN THE PROCESS

JOB RE-DESIGN MAY REDUCE STRESS

CAN YOU SEE WAYS THAT JOB RE-DESIGN OR RE-ORGANIZATION COULD EITHER INCREASE OR DECREASE STRESS ?

GIVE EXAMPLES FROM YOUR OWN EXPERIENCE [INSTRUCTOR]

INSTRUCTOR NOTES : PARTICIPANT LEARNING AID #3

TAYLORISM :

PROVIDE AN UNDERSTANDING OF WHY WORK IS ORGANIZED THE WAY IT IS NOW . EXPLAIN THE PRINCIPLES OF TRADITIONAL WORK ORGANIZATION AND TAYLORISM .

ACTIVITY :

INSTRUCTOR LED DISCUSSION :

YOU HAVE DISCUSSED SOME OF THE DIFFERENT WAYS THAT THE WORK CAN BE ORGANIZED . BUT IN THE INDUSTRIALIZED WORLD, THERE IS ONE DOMINANT FORM OF WORK ORGANIZATION, WHICH WE MUST HAVE SOME UNDERSTANDING OF, BECAUSE IT IS WHERE WE ARE STARTING FROM WHEN WE DO ANY WORK ON WORK RE-ORGANIZATION.

THE MOST COMMON " SCIENCE " OR METHOD OF WORK ORGANIZATION DESIGN TODAY IS CALLED TAYLORISM OR SCIENTIFIC MANAGEMENT . IT IS NAMED AFTER AN ENGINEER BY THE NAME OF FREDERIC TAYLOR WHO LIVED IN THE LATE 1800'S . TAYLOR WAS CONCERNED ABOUT THE CONTROL THAT CRAFT WORKERS HAD IN THE WORKPLACE OVER HOW WORK WAS DONE. IN ORDER TO GIVE MANAGEMENT MORE CONTROL, HE TRIED TO SET UP A SYSTEM WHERE WORKERS WOULD HAVE TO KNOW AND THINK AS LITTLE AS POSSIBLE.

TAYLOR'S SYSTEM WAS BASED ON THE ASSUMPTION THAT THERE IS ONE BEST WAY TO DO A JOB AND THAT MANAGEMENT SHOULD BE RESPONSIBLE FOR DETERMINING WHAT THAT WAY IS . THUS HE BELIEVED IN THE SEPARATION OF PLANNING FROM EXECUTION [THINKING FROM DOING], IN THE BREAKING DOWN OF WORK INTO SMALL TASKS AND IN THE GROUPING OF THOSE TASKS INTO REPETITIVE JOBS THAT COULD ALSO BE DONE BY THE CHEAPEST LABOR POSSIBLE.

TIME STUDY AND INDUSTRIAL ENGINEERING ARE OUTGROWTHS OF TAYLOR'S WORK.

TAYLORISM IS ONE WAY TO ORGANIZE WORK. IS IT THE ONLY WAY ?

PARTICIPANT LEARNING AID #3

WORK ORGANIZATION:

THE PRINCIPLES OF TAYLORISM

TAYLORISM IS NAMED AFTER FREDERICK WINSLOW TAYLOR WHO LIVED IN THE LATE 1800'S AND EARLY 1900'S. TAYLORISM, OR SCIENTIFIC MANAGEMENT , IS THE DOMINANT FORM OF WORK ORGANIZATION IN MOST INDUSTRIALIZED COUNTRIES .

TAYLORISM STARTS FROM THE ASSUMPTION THAT THERE IS THE " ONE BEST WAY " TO DO ANY JOB AND THAT THIS WAY CAN BE DISCOVERED THROUGH SCIENTIFIC INVESTIGATION . IT ALSO STARTS FROM THE ASSUMPTION THAT WORKERS WILL " SOLDIER" OR WORK AT LESS THAN CAPACITY IF THEY ARE GIVEN THE CHANCE. THEREFORE CONTROL OVER THE WORK PROCESS MUST BE TAKEN AWAY FROM THE WORKERS .

IN ORDER TO TAKE CONTROL AWAY, TAYLORISM SEEKS TO SEPARATE PLANNING FROM EXECUTION [OR THINKING FROM DOING]. THE THINKING IS , OF COURSE, GIVEN TO MANAGEMENT. PHYSICAL WORK IS THEN BROKEN DOWN INTO THE SMALLEST POSSIBLE PIECES AND PRODUCTION PROCESSES ARE RE-ASSEMBLED AS A SERIES OF REPETITIVE AND SUPPOSEDLY MINDLESS TASKS. THIS THEN ALLOWS THE USE OF UN-SKILLED AND " CHEAPER " WORKERS.

THE ASSEMBLY LINE IS A CLASSIC EXAMPLE OF THE APPLICATION OF TAYLOR'S METHODS

PARTICIPANT LEARNING AID #4

WORK ORGANIZATION:

QUOTES FROM FREDERICK TAYLOR

HARDLY A COMPETENT WORKMAN CAN BE FOUND WHO DOES NOT DEVOTE A CONSIDERABLE PART OF HIS TIME TO STUDYING JUST HOW SLOWLY HE CAN WORK AND STILL CONVINCE HIS EMPLOYER THAT HE IS GOING AT A GOOD PACE.

1903

UNDER OUR SYSTEM, THE WORKMAN IS TOLD WHAT HE IS TO DO AND HOW HE IS TO DO IT. ANY IMPROVEMENTS WHICH HE MAKES UPON ORDERS GIVEN HIM IS FATAL TO SUCCESS .

1906

SOMEDAY, SOMEONE WILL PUBLISH THE LAWS OF THE MOVEMENT OF MEN IN THE MACHINE SHOP. WHY ? BECAUSE IT PAYS, ANY DEVICE WHICH RESULTS IN INCREASED OUTPUT IS BOUND TO COME ....AUTOMATICALLY.

1915

THE FULL RESULTS WILL NOT HAVE BEEN REALIZED UNTIL ALMOST ALL OF THE MACHINES ARE RUN BY MEN WHO ARE SMALLER CALIBER, AND THEREFORE CHEAPER, THAN THOSE REQUIRED UNDER THE OLD SYSTEM.

1903

INSTRUCTOR NOTES :EXERCISE #1

OIL CHANGE:

STATEMENT:

WHEN YOU LOOK AROUND YOUR WORKPLACE, YOU WILL SEE THAT THERE ARE MANY DIFFERENT WAYS OF GETTING WORK DONE, MANY DIFFERENT WAYS OF ORGANIZING WORK, DEPENDING ON THINGS LIKE:

WHO DOES THE WORK

HOW MANY PEOPLE ARE INVOLVED

HOW TASKS ARE DIVIDED

WHAT SCHEDULES YOU WORK

HOW AND BY WHOM DECISIONS GET MADE

WHAT KIND OF EQUIPMENT YOU HAVE

BREAK THEM INTO SMALL GROUPS AND FOLLOW THE DIRECTIONS FOR EXERCISE I .

EACH GROUP SHOULD HAVE A FLIP CHART:

AFTER TWENTY MINUTES EACH GROUP SHOULD MAKE A PRESENTATION HAVE THEM TALK ABOUT WHY THEY DIVIDED THE WORK THE WAY THEY DID.

INSTRUCTOR TIP :

THE MAIN POINTS THAT SHOULD COME OUT OF THIS EXERCISE ARE :

THE LIST OF TASKS AND ACTIVITIES INVOLVED IN EVEN A SIMPLE OPERATION SUCH AS CHANGING OIL IS QUITE LONG.

THERE ARE MANY DIFFERENT CHOICES ABOUT HOW TO DIVIDE UP WORK, DEPENDING ON WHAT YOUR MAIN CONCERNS ARE .

THE DIFFERENT WAYS OF DIVIDING WORK WILL CREATE DIFFERENT KINDS OF JOBS FOR THE PEOPLE INVOLVED.

MATERIALS :

HANDOUTS: EXERCISE I

INSTRUCTOR NOTES :EXERCISE # .

FORCES FOR CHANGE :

GOALS : TO IDENTIFY AND DISCUSS THE EXTERNAL FORCES THAT ARE AT WORK.

TO BEGIN TO MAKE THE LINK BETWEEN THE FORCES AND THE PRESSURES FOR WORK REORGANIZATION.

ACTIVITY :

1- SMALL GROUP-EXERCISE

IT SEEMS THAT ALL WE HEAR ABOUT TODAY IS CHANGE . NEW AND IMPROVED IS ON EVERYTHING WE BUY . IF YOU HAVE A CERTAIN MODEL OF VCR AND YOU LOSE IT, YOU CAN'T BUY ANOTHER ONE BECAUSE THE SAME MODEL IS NO LONGER MADE. THIS IS ESPECIALLY TRUE IN THE COMPUTER FIELD. RE-ENGINEERING, THE INFORMATION AGE , THE COMPUTER REVOLUTION ETC!, EVERYWHERE YOU LOOK THINGS ARE CHANGING VERY RAPIDLY.

IN ORDER TO UNDERSTAND CHANGE, TO UNDERSTAND THE PUSH FOR WORK RE-ORGANIZATION, WE NEED TO FIRST GET AN UNDERSTANDING OF THE FORCES THAT ARE AFFECTING THE INDUSTRY AND IN PARTICULAR YOUR FIRM. YOUR PLANT DOES NOT EXIST ON IT'S OWN, BUT INSTEAD INTERACTS WITH THE OUTSIDE WORLD AS A COMPETITOR, A CORPORATE CITIZEN AND AS AN EMPLOYER.

BREAK INTO SMALL GROUPS AGAIN AND FILL IN THE FOLLOWING DIAGRAM:

EXERCISE

YOU NEED TO BASICALLY ANSWER TWO QUESTIONS :

1] WHAT FORCES ARE AFFECTING INDUSTRY AS A WHOLE ?

2] WHAT FORCES ARE AFFECTING YOUR PARTICULAR FIRM ?

THERE WILL BE A LOT OF OVERLAP , THAT IS , FORCES THAT ARE AFFECTING INDUSTRY AS A WHOLE WILL ALSO BE AFFECTING YOUR FIRM AS WELL.

GIVE PEOPLE ABOUT 15 MINUTES TO DO THIS EXERCISE. YOU SHOULD HAVE A FLIP CHART UP FRONT ON WHICH YOU CAN DRAW THE DIAGRAM. GATHER THEIR ANSWERS ONTO THE FLIP CHART BY GOING AROUND AND ASKING EACH GROUP TO GIVE ONE FORCE AND WHO IT IS AFFECTING .

AFTER YOU HAVE IDENTIFIED THE FORCES, GO BACK AND ASK PEOPLE IN THE LARGE GROUP HOW EACH OF THE FORCES IMPACTS THE INDUSTRY AS A WHOLE AND /OR THEIR FIRM. PAY SPECIAL ATTENTION TO THE IMPACT ON THEIR FIRM.

INSTRUCTOR TIP:

IN THE END YOU SHOULD HAVE A LIST OF FORCES AND IMPACTS THAT INCLUDES MANY OF THE FOLLOWING :

FORCES	IMPACTS
CHANGING TECHNOLOGIES	AFFECT ABILITY TO COMPETE
INCREASED COMPETITION	AFFECT SALES/ MARKET/ PRICES/PROFIT
NEW MATERIALS	AFFECT DEMAND / PRICES
WORLD MARKETS	MORE COMPETITION
CHANGING DEMAND	PRICES / MARKETS
GOVERNMENT REGULATION	NEED TO CHANGE PROCESS/HIGHER COSTS
GOVERNMENT POLICY	ACCESS TO MARKETS, LABOR COSTS
[TRADE/LABOR LAW]	COUNTERVAILING DUTIES

INDUSTRY IS BEING HIT BY FORCES WHICH ARE SOMETIMES BEYOND THEIR CONTROL.

NEW ALTERNATIVE MATERIALS ARE AVAILABLE ADDING PRESSURE TO COMPANIES TO CUT COSTS. NEW EQUIPMENT MAKES PRODUCTION CHEAPER.

THE FORCES FOR CHANGE IDENTIFIED ARE VERY POWERFUL AND VERY REAL. EMPLOYEES AND MANAGERS MAY DISAGREE ABOUT WHAT TO DO IN RESPONSE TO THESE FORCES, BUT WE CANNOT IGNORE THEM; WE CANNOT PRETEND THAT THEY ARE NOT THERE.

MATERIALS :

FLIP CHART

INSTRUCTOR NOTES :

WHY RE-ORGANIZE ?

GOALS:

TO HAVE PARTICIPANTS UNDERSTAND THAT THERE ARE OPTIONS FOR WORK DESIGN.

TO EXPLAIN THAT DIFFERENT OPTIONS ACHIEVE DIFFERENT GOALS.

TO UNDERSTAND THAT THE DIFFERENT PARTIES HAVE DIFFERING REASONS TO WANT WORK REORGANIZATION , AND WOULD PROBABLY MAKE DIFFERENT CHOICES ABOUT HOW TO RE-ORGANIZE WORK.

ACTIVITY :

1- **INSTRUCTOR LED DISCUSSION : WHY RE-ORGANIZE ?**

THE FORCES DISCUSSED IN THE LAST SECTION PUSH COMPANIES TO MAKE CHANGES IN HOW THEY OPERATE . THERE ARE MANY DIFFERENT POSSIBLE RESPONSES, BUT THEY CAN BE BROKEN DOWN INTO FOUR CATEGORIES :

CHANGE THE FORCES ON THE COMPANY
[RE-WRITE GOVERNMENT REGULATIONS, SET TRADE BARRIERS]

MOVE TO ANOTHER BUSINESS

CHANGE CUSTOMERS

DEMAND CONCESSIONS FROM LABOR, RAISE PRICES, PAY SUPPLIERS LESS.

DO A BETTER JOB OF PRODUCING
[CHANGE THE WAY WORK IS ORGANIZED]

ASK FOR EXAMPLES FROM PARTICIPANTS FOR EACH OF THE ABOVE :

THE FOCUS OF THIS WORKSHOP IS ON CHANGING THE WAY PRODUCTION HAPPENS. THERE ARE MANY WAYS TO CHANGE THE WAY WE WORK, EACH OF WHICH WILL HAVE DIFFERENT IMPACTS ON THE NEEDS OF EMPLOYEES , MANAGEMENT AND CUSTOMERS.

WORK RE-ORGANIZATION TODAY , GENERALLY IS DRIVEN BY NEW ORGANIZING PRINCIPLES . ONE FACTOR FAST BECOMING THE NORM IS THE NEED TO HARNESS THE CREATIVITY, INNOVATION, KNOWLEDGE AND FLEXIBILITY OF THE WORK FORCE IN THE WORK PROCESS.

PUTTING BACK IN, WHAT TAYLOR TOOK OUT :

WORK RE-ORGANIZATION IS USUALLY UNDERTAKEN IN RESPONSE TO OUTSIDE FORCES; BUT IT IS ALSO A GOAL OR VALUE DRIVEN PROCESS.

UNDERSTANDING THE GOALS THAT DRIVE THE PROCESS AND HOW THEY RELATE TO THE VARIOUS PLAYERS INVOLVED IS IMPORTANT. IT MUST SERVE THE REAL INTEREST OF COMPANIES AND WORKERS.

EXERCISE :

USING A FLIP CHART, MAKE A LIST OF EMPLOYEE GOALS , MANAGEMENT GOALS AND GENERAL GOALS OF THE COMPANY.

INSTRUCTOR TIP :

THESE ARE SOME SAMPLES OF THE TYPES OF ANSWERS YOU MIGHT GET .

RE-ORGANIZE:

COMPANY :

NEED TO MOVE TO OTHER PRODUCTS
NEED BETTER QUALITY
NEED MORE PRODUCTIVITY

EMPLOYEES:

NEED JOB SECURITY
NEED BETTER SAFETY RULES
NEED BETTER PAY

MANAGERS:

EMPLOYEES MAKE BETTER DECISIONS
EMPLOYEES TAKE ON MORE RESPONSIBILITY
EMPLOYEES PAY ATTENTION TO QUALITY

DON'T RE-ORGANIZE :

COMPANY :

MIGHT GO BANKRUPT
LOSE MANY ORDERS
POOR QUALITY GOODS

EMPLOYEES :

MAY LOSE JOBS
MAY TAKE A CUT IN PAY
LEFT OUT OF DECISION MAKING

MANAGEMENT :

CONTINUE IN SAME OLD WAY
MORE ARGUMENTS WITH WORKERS
MORE RESPONSIBILITY

INSTRUCTOR NOTES :

BE AWARE THAT THIS I S A WORKSHOP ON ESOP ORIENTATION; IT IS NOT TRAINING. YOU ARE COMBINING LECTURE [INFORMATION] WITH THE PRACTICAL EXPERIENCES OF THE PARTICIPANTS, TO BRING THEM TO AN AWARENESS POINT .

GENERAL POINTS :

YOU NEED TO BE VERY AWARE OF YOUR AUDIENCE. IF THESE WORKSHOP SESSIONS ARE TO BE SUCCESSFUL, YOU NEED THEIR INVOLVEMENT. YOU WANT THE INVOLVEMENT OF EVERYONE, NOT JUST A FEW WHO ARE COMFORTABLE SPEAKING. THIS MEANS THAT YOU NEED TO CALL ON PEOPLE WHO HAVEN'T SPOKEN AND DISCOURAGE PEOPLE FROM DOMINATING THE DISCUSSION. ESPECIALLY BE AWARE OF ISSUES AROUND LITERACY , SKILLED AND SEMI- SKILLED WORKERS AND GENDER ISSUES. DO THINGS TO SET THE AUDIENCE AT EASE AND GIVE THEM A SAFE PLACE TO TALK. AT THE SAME TIME , PUSH TO GET EVERYONE INVOLVED . ALWAYS REPEAT THINGS AS YOU WRITE THEM DOWN; YOU SHOULD TRY TO RE-PHRASE THINGS IN SIMPLE LANGUAGE--AND SPEAK SLOWLY.

THE INSTRUCTOR NEEDS TO BE CONTINUALLY AWARE OF HOW MUCH TIME THE PROCESS IS TAKING OR YOU MAY NOT BE ABLE TO GET THROUGH THE MATERIAL. IF YOU ARE BEHIND SCHEDULE, YOU MAY WANT TO REPHRASE THE QUESTIONS TO GET " YES " OR " NO " ANSWERS.

DON'T BE AFRAID OF CONTROVERSY. WE ARE HERE TO BRING OUT PEOPLE'S FEELINGS , IDEAS AND CONCERNS, AND MANY OF THE WILL BE CONTROVERSIAL. DON'T , ON THE OTHER HAND, LET CONTROVERSY STAND IN THE WAY OF GETTING THINGS DONE AND DON'T LET IT FRIGHTEN PEOPLE FROM CONTRIBUTING .

WE NEED TO RECOGNIZE THAT PEOPLE EMPLOYERS AND EMPLOYEES CAN ONLY RESOLVE THEIR DIFFICULTIES BY TALKING ABOUT THEM. WE ARE ATTEMPTING TO GIVE A COLLECTIVE VOICE TO BOTH THE PROBLEMS AND THE SEARCH FOR SOLUTIONS .

EMPLOYEE OWNERSHIP TRAINING PROGRAM

ORIENTATION TO EMPLOYEE OWNERSHIP

PARTICIPANT'S MANUAL

MARCH 1995

TRAINEE READINESS CHECKLIST

STUDENT TO REVIEW BEFORE STARTING EVERY DAY

ARE YOU:		YES	NO
1.	OPEN TO NEW IDEAS?	O	O
2.	WILLING TO LISTEN?	O	O
3.	POSITIVE ATTITUDE?	O	O
4.	NOT TOO TIRED?	O	O
5.	WILLING TO PARTICIPATE?	O	O
6.	OPTIMISTIC ABOUT OUTCOMES?	O	O
7.	KNOW SOMEONE IN THE GROUP	O	O
8.	HAVE MATERIALS NEEDED?	O	O
9.	CAN HEAR INSTRUCTOR?	O	O
10.	CAN SEE (FLIPCHART/CHALKBOARD/T.V.)?	O	O
11.	FAMILIAR WITH SURROUNDINGS?	O	O
12.	HAPPY TO BE HERE TODAY?	O	O

PARTICIPANT EXPECTATION CHECKLIST

COURSE NAME _____ **DATE TAKEN** _____

ASK FOR SHOW OF HANDS AND RECORD ON FLIPCHART

1. THE REASON YOU ARE TAKING THIS COURSE IS:

- TO LEARN SOMETHING NEW?
- TO IMPROVE YOUR CHANCE OF PROMOTION?
- TO MAKE MORE MONEY?
- TO MAKE THIS COMPANY MORE PROFITABLE?
- OTHER?

2. IT IS MY JOB TO:

- KEEP CONTROL OF THE CLASS?
- DO MOST OF THE TALKING?
- KEEP YOUR ATTENTION?
- DO MOST OF THE WORK?
- LISTEN?
- OTHER?

3. IT IS YOUR JOB TO:

- PARTICIPATE?
- KEEP AN OPEN MIND?
- HELP EACH OTHER LEARN?

THOUGHT FOR TODAY:

- GIVE A MAN A FISH . . . FEED HIM FOR A DAY
- TEACH A MAN HOW TO FISH . . .FEED HIM FOR LIFE

ORIENTATION TO EMPLOYEE OWNERSHIP

At the end of the course participants should be able to answer the following questions :

What is an ESOP ?

What is the organization of work ?

What are the forces driving change ?

What is work reorganization ?

What does management want from the reorganization of work ?

What does the worker want from the reorganization of work ?

Why there needs to be a joint participation program ?

This introductory course is designed to help the participants understand the changes that are occurring in today's workplaces and what forces are driving those changes. The course will provide an understanding of work reorganization that will meet the separate needs of both the workforce and the companies. It is flexible and is designed to be adaptable to the needs of specific workplaces.

March 8, 1995

ORIENTATION TO EMPLOYEE OWNERSHIP

Introduction :

We are all here today because we need to do something that will help save our company. It is important that we communicate with one another about the changes that are occuring in our workplace. Every worker and manager needs to have a better understanding of worker ownership and how it affects their role as employees of the company. It is also very important that we hear from you about your ideas, concerns and questions . Our company has gone through a lot of change in the last couple of years and will go through more in the future. These changes will demand a lot of us as employees. We need to have a good understanding of what has happened so that we can work together to make and implement our plans for the future .

WORKSHOP BACKGROUND :

This workshop is designed to help participants understand the employee ownership issue and whether that it is a good or bad experience. Are they good jobs or bad. What are good jobs ? The participant will understand the way work is organized at the ESOP and some of the history of organizing work. Governance issues and flexible work will be discussed as well as internal and external pressures that are forcing change on workers. Work reorganization will be introduced as a means of meeting those new challenges. The workshop is designed to be flexible and to build on the experience and knowledge of the participants.Work reorganization is a process of change that involves conflict, struggle, negotiation and compromise which are a natural part of any change process and as such should not be avoided but rather looked upon as an opportunity .

Outline :

A] GOOD JOBS :

1- Definition of an ESOP. [what is it? how we got here.]

2- Do you know of any examples were ESOP companies are profitable ?

3- Does ownership give workers more power ?

4- Does ownership give managers more power ?

5- How has it changed or reshaped the workplace to any degree ?

6- How has ownership meant more control for workers over their jobs ?

7- How has it meant more control for managers ?

8- What does it mean to be an employee owner ?

9 Does employee ownership mean good jobs ?

B] ORGANIZATION OF WORK:

What is work organization ?

1 Do employee owners have any say in how their work is organized ?

2- Do managers have any say in how their work is organized ?

3- How is work organized in the your company ?

B] ORGANIZATION OF WORK :

4- What are the rules that govern work in your company ?

5- What external and internal forces control your work ?

6- In what way can you control your work ?

B] ORGANIZATION OF WORK :

7- What flexibility is there in the way your work is organized ?

8- What flexibility is there in the way managers organize work ?

9- What are the good and bad points about the way the work is organized now ?

BREAK :

C] WORKPLACE PRESSURES :

1- What are those pressures on the workplace to change the way we work ?

2- Is there stress in your company for workers and managers because of the pressures ?

3- Are these pressures internal or external ? [discuss]

C] WORKPLACE PRESSURES :

4- How do workers and managers cope with this stress ?

3- Are the forces which are putting pressure on your company a good thing or a bad thing ?
Discuss:

D] WORK REORGANIZATION:

What is work reorganization ?

1- Can you think of any ways your workplace could be reorganized ?

2- How can work reorganization benefit our company ?

3- How will it benefit workers ?

D] WORK REORGANIZATION :

4-- How will it benefit management ?

5- How will workers have more " control " if work is reorganized ?

6- Can managers have more control if work is reorganized ?

7- What can change for workers and managers if we reorganize the workplace ?

E] JOINT PARTICIPATION :

1- How should [workplace governance] issues be reorganized ?

2- How will this create flexibility in the workplace ?

3- How will reorganizing the company be good for us or bad for us ?

E] **JOINT PARTICIPATION :**

4- What new skills will the workers and managers require ?

5- How will they get the new skills they need ?

6- Will this give workers and managers more or less control ?

7- What other skills will workers and managers need in this new workplace ?

SUMMARY :

This workshop is only an introduction to workplace reorganization and is designed for learning and active participation. The type of questions asked are intended to get people involved and interested. The workshop is designed to help participants understand the reorganization of work that is occuring in many companies and to think about whether such a work reorganization will benefit them and their company . A much more detailed program of workplace restructuring can be made available if their is an interest in proceeding with reorganization in your workplace. We hope we have been successful in helping you address some of the issues confronting your workplace. You are not alone in your situation, workers all over the world are getting more involved in how work is performed and in how workplace reorganization is carried out in their companies. Good Luck with your reorganization.

EVALUATION :

Please take a couple of minutes to fill out the evaluation form and turn it in before you leave. It is totally anonymous and there is no signature required. Your comments will assist us in meeting the needs of participants such as yourselves in other companies . If you did not enjoy the workshop or did not think it was understandable, please feel free to say so.

THANK YOU

PARTICIPANT LEARNING GUIDE #1

WHAT IS AN ESOP

AN ESOP IS AN EMPLOYEE STOCK OWNERSHIP PLAN. IT IS A PROCESS WHEREBY EMPLOYEES OF A COMPANY ARE SUPPORTED AND ENCOURAGED BUY STOCK IN THEIR COMPANY.

IT IS A QUALIFIED PLAN IF IT COMPLIES WITH VARIOUS PARTICIPATION, VESTING, DISTRIBUTION AND OTHER RULES ESTABLISHED BY THE CODE TO PROTECT THE INTEREST OF THE EMPLOYEES.

IT IS CLASSIFIED AS A TYPE OF DEFERRED COMPENSATION PLAN WHICH INVEST PRIMARILY IN STOCK OF THE EMPLOYER'S CORPORATION.

AN ESOP IS A " DEFINED CONTRIBUTION PLAN ". THAT IS , THE EMPLOYER'S CONTRIBUTION IS DEFINED AND THE EMPLOYEE'S BENEFIT IS VARIABLE .

IT IS A RECOGNIZED FORM OF CORPORATE FINANCING IF THE APPROPRIATE LEGISLATION IS ENACTED.

A LEVERAGED ESOP USES FUNDS BORROWED TO PURCHASE EMPLOYER STOCK;

WITH SUCH A LOAN TO BE REPAID BY THE ESOP OUT OF FUTURE CONTRIBUTIONS AND DIVIDENDS PAID ON THE STOCK SO ACQUIRED.

SPECIAL ESOP REQUIREMENTS :

REGULATIONS NORMALLY REQUIRE FOR THE " PASSING THROUGH " OF VOTING RIGHTS ON ESOP STOCK ALLOCATED TO PARTICIPANTS.

IN A LEVERAGED ESOP , SHARES OF EMPLOYER STOCK ACQUIRED WITH LOAN PROCEEDS ARE ALLOCATED TO PARTICIPANTS ONLY AS THE ESOP LOAN IS REPAID PER ALTERNATIVE FORMULAS IN ESOP LOAN REGULATIONS.

HUNGARIAN ESOPS :

PARTICIPATION ONLY AT DECISIVE FORUMS OF THE SHAREHOLDERS AND GENERAL ASSEMBLY AND SHAREHOLDERS MEETING. [NOT ON THE SHOP FLOOR]

SIMILARITIES :

SHARES IN LIEU OF A WAGE INCREASE :

DISSIMILARITIES :

MANDATE OF 25% ALLOWED AS ACCEPTABLE IN ORDER TO ESTABLISH AN ESOP.

A HUNGARIAN ESOP CAN BE INITIATED BY ANYONE, WITHOUT BEING EMPLOYED AT THE COMPANY .

40 % ONLY OF PARTICIPANTS ATTENDING FOUNDING ASSEMBLY OF THE ESOP HAVE TO AGREE TO THE STATUTES .

THERE IS NO PROTECTION AGAINST UNJUST DISMISSAL FOR MEMBERS OF THE ESOP ORGANIZING COMMITTEE IN CASE OF CONFLICT, UNLESS THEY ARE A TRADE UNION OFFICER OR FACTORY COUNCIL OFFICER AT THE SAME TIME .

PARTICIPANT LEARNING GUIDE # 2

WHAT IS WORK ORGANIZATION ?

WORK ORGANIZATION IS THE WAY WE USE MATERIALS, MACHINES, TOOLS, INFORMATION AND KNOWLEDGE TO MAKE GOODS AND PROVIDE SERVICES.

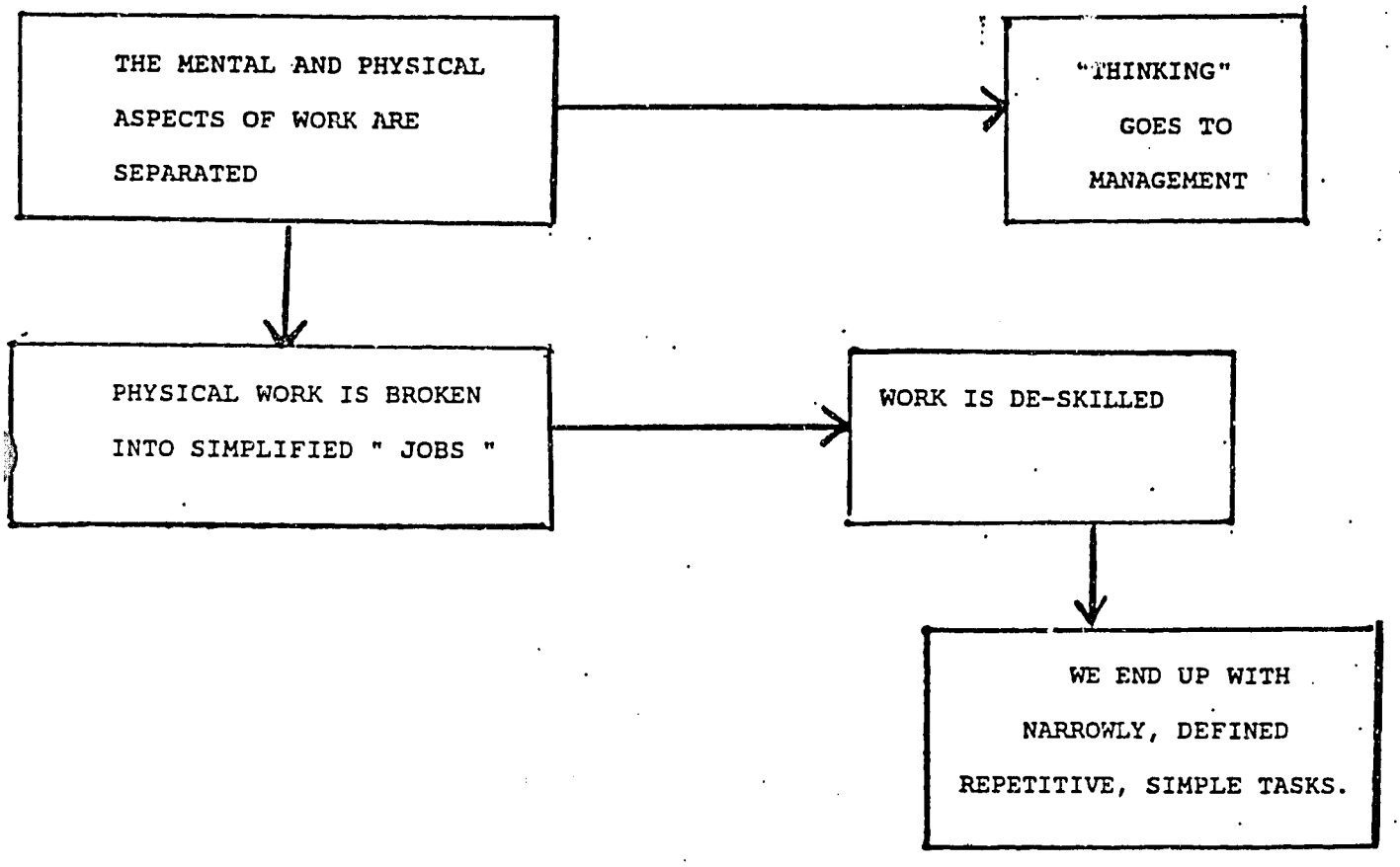
THE WAY WE DO OUR WORK

BASICALLY, WORK ORGANIZATION REFERS TO THE WAY THAT THE ACTIVITIES THAT MAKE UP DESIGN ; PURCHASING , PHYSICAL LAYOUT, PLANNING, AND DECISION MAKING ARE LAID OUT INTO TASKS, HOW THESE TASKS ARE GROUPED INTO JOBS, AND HOW THOSE JOBS ARE LINKED TOGETHER. INFORMATION FLOW AND LOCATION OF DECISION MAKING ARE ALSO KEY ELEMENTS.

PARTICIPANT LEARNING AID

" SCIENTIFIC MANAGEMENT "

{ ALSO KNOWN AS " TAYLORISM " }



PARTICIPANT LEARNING AID # ,

WHAT IS WORK RE-ORGANIZATION

WORK RE-ORGANIZATION SIMPLY REFERS TO CHANGES IN THE WAY WORK IS ORGANIZED . IT IS NOT IN ITSELF A GOOD OR BAD THING.

IT MEANS CHANGING THE WAY THAT WORK IS PERFORMED , IN OTHER WORDS , CHANGING THE TASKS THAT HAVE TO BE PERFORMED, THE WAY THE TASKS ARE GROUPED OR THE WAY THAT JOBS INTERCONNECT. CHANGES IN TECHNOLOGIES SUCH AS NEW MATERIALS , MACHINES, TECHNIQUES, COMPUTERS , OR SOFTWARE, OFTEN LEAD TO WORK REORGANIZATION AS THEY CHANGE THE TASKS THAT ARE NECESSARY. BUT WORK RE-ORGANIZATION CAN TAKE PLACE WITHOUT ANY CHANGE IN THE UNDERLYING TECHNOLOGY.

SHARE PARTICIPATION FOUNDATION

EMPLOYEE OWNERSHIP TRAINING PROGRAM

COURSE EVALUATION FORM
(to be completed by participants immediately following course)

NAME OF COURSE/WORKSHOP_____

INSTRUCTOR_____

1. WHAT IS YOUR OVERALL EVALUATION OF THE COURSE/WORKSHOP?

EXCELLENT ( ) GOOD ( ) SATISFACTORY ( ) FAIR) POOR ( )

2. COMMUNICATIONS/PROMOTION:

a)DID YOU HEAR ABOUT THIS COURSE/WORKSHOP BY: PAMPHLET ( )
FRIENDS ( ) NOTICE AT WORK ( ) YOUR SUPERVISOR ( ) OTHER ( )

b)DID THE PAMPHLET PROPERLY DESCRIBE THE COURSE/WORKSHOP?
YES ( ) NO ( )

3. COURSE/WORKSHOP

a) WERE YOU PROVIDED WITH A COURSE OVERVIEW?
YES ( ) NO ( )

b)WERE YOUR PERSONAL OBJECTIVES MET? YES ( ) NO ( )

c)WAS THE CLASSROOM/FACILITY ADEQUATE? YES ( ) NO ( )

d)WAS THE COURSE/WORKSHOP:
too long ( ) just right ( ) too short ( )

4. PROGRAM DEVELOPMENT

a) WHAT OTHER COURSES WOULD YOU LIKE TO TAKE?
1)
2)
3)

b)WHAT OTHER COURSES SHOULD BE DEVELOPPED?
1)
2)
3)

GENERAL COMMENTS

_____

_____

THANK YOU

SHARE PARTICIPATION FOUNDATION

EMPLOYEE OWNERSHIP TRAINING PROGRAM

INSTRUCTOR EVALUATION FORM
(to be completed by participants immediately following course)

NAME OF COURSE_____

INSTRUCTOR_____

1.INSTRUCTOR READINESS

a)DID THE INSTRUCTOR APPEAR READY TO TEACH? YES ( ) NO ( )

b)WERE THE TRAINING MATERIALS AVAILABLE FOR YOU AT THE BEGINNING OF THE COURSE? YES ( ) NO ( )

c)WAS THE CLASSROOM READY ? YES ( ) NO ( )

d)ANY COMMENTS?_____
_____
_____

2. DELIVERY STYLE

a) DID THE INSTRUCTOR INVOLVE YOU IN THE COURSE? YES ( ) NO ( )

b) DID THE INSTRUCTOR DEVELOP AN ENJOYABLE LEARNING ENVIRONMENT? YES ( ) NO ( )

c) WAS THE PACE OF THE COURSE: fast ( ) adequate ( ) slow ()

d) ANY COMMENTS? _____
_____
_____

3. EFFECTIVENESS

a) DID THE INSTRUCTOR HOLD YOUR ATTENTION FOR THE ENTIRE COURSE? YES ( ) NO ( )

b) DID THE INSTRUCTOR KNOW THE SUBJECT MATTER THOROUGHLY? YES ( ) NO ( )

c] DO YOU FEEL YOU HAVE LEARNED? A LITTLE ( ) SOME ( ) A LITTLE ( )

d) ANY COMMENTS?_____
_____

THANK YOU!

EMPLOYEE OWNERSHIP TRAINING PROGRAM

TRAIN THE TRAINERS

INSTRUCTOR'S MANUAL

MARCH 1995

Instructor Readiness Checklist
Complete prior to course start

Training room confirmed	O
No. of participants known	O
Participant manuals available	O
Paper/pens	O
Name cards	O
Flipcharts/pens	O
Seating arrangement	O
Temperature	O
Lighting	O
Ventilation	O
Refreshments	O
Smoking (ashtrays)	O
Audio-visiual	O
Hand-outs (sufficient)	O
Rest rooms	O
Coat racks	O
Parking	O
Directions to room posted	O

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Train the Trainer

A course for those conducting training in the workplace

Sponsored by

Share Participation Foundation

1995

Share Participation Foundation Employee Ownership Training Program

Train the Trainer Course

Goal: This course is designed to provide the participants with an overview of the theory of adult education and practice in the application of the theory. Participants will examine the needs of adult learners and develop curriculum to meet the learner needs. A variety of teaching techniques will be demonstrated and practiced in the course. Measurement and evaluation of student performance and teaching effectiveness are included.

Objectives:

At the completion of the course the participants will:

1. Conduct a needs assessment with a group of learners.

2. Develop a curriculum outline for a topic of their own choice.

3. Complete a Learning Activity Plan for that topic.

4. Demonstrate effective teaching delivery methods.

5. Assess and evaluate their own teaching delivery and those of others in the class.

Time: 30 hours

Evaluation:

Completion of self and peer evaluation of teaching techniques demonstrated during course.

Schedule:

Day 1

Introduction
Adult Educator Role
Adult Learner Assessment

Day 2

Curriculum
Goals, objectives, domains of learning
Teaching Strategies

Day 3

Measurement and Evaluation

Day 4

Student presentations
= 3/4 hour each
Each student in group completes peer evaluation form

Day 5.

Student presentations continue
Wrap up - question and answers
Course evaluation

Teaching Methodology:

Various instructional strategies are employed in this course. The training consists of a blend of instructor-led, self-awareness development exercises, hands-on exercises applying to the workplace, etc. Particular emphasis will be placed on teaching participants the importance of establishing clear and measurable standards and conditions in performance and learning objectives

Recommended
Class size: 12 maximum

Program Lesson Plans

Day 1

Introduction
Adult Learners - learning styles
Adult Learner assessmenet
Role of Adult Educators
The art of asking questions

Day 2

Curriculum Development

Needs analysis, topic analysis, learning goals, objectives, sequencing topics, resource materials, learning activity plans, teaching.

Teaching Strategies

lecture, group discussions, demonstrations, field trips, learning circles, role plays, brainstorming, guest speakers.

Use of Audio Visual resources

Overhead projectors, video tapes, flip charts and blackboards, slide projectors.

Day 3

Types of Evaluation

Outcome, process and structure

Outcome - student feedback, designing quizzes and tests, demonstrations, questions to class, journal recording.
Process - designing questionnaires, getting feedback
Structure - designing questionnaires, making observations

Day 4

Student presentations - teaching topic of their own choice, using one or more teaching techniques; = 3/4 hour.
each student in group completes peer evaluation form for others in class:

Day 5

Student presentations continue

Course review

Course evaluations

Day 1.

DELFREI\INSTRUCT\DAY1.WP

Day one daily lesson plan

Topics to cover	Instruction Method(s)	Suggested timetable	Notes
Introduction	Ice breaker	20 min	
Course overview and daily lesson plan review	Lecture	10 min	
Participant readiness checklist	Checklist	10 min	
Participant expectations	Facilitation	20 min	
Understanding adult learning	Q/A	20 min	
Adult learning styles assessment	Facilitation	60 min	
- Break -		20 min	
Adult learner assesment	Q/A	60 min	
- Lunch -		30 min	
Role of adult educators	Q/A	60 min	
The art of asking questions	Discussion	30 min	
Daily evaluation	Review participant expectation exercise	20 min	

ICE BREAKER EXERCISE - INSTRUCTIONS

PARTICIPANTS NEED TO BE COMFORTABLE IN A LEARNING ENVIRONMENT IF THEY ARE GOING TO LEARN. EVEN IF THEY KNOW EACH OTHER AT WORK. ADULTS HAVE SOMETHING REAL TO LOSE IN A CLASS ROOM SITUATION. SELF-ESTEEM AND EGO ARE ON THE LINE WHEN THEY ARE ASKED TO RISK TRYING A NEW BEHAVIOR IN FRONT OF CO-WORKERS.

THE ICE BREAKER INVOLVES ACTUALLY HAVING TO FIND OUT SOMETHING ABOUT EACH OTHER. IT ENCOURAGES PARTICIPATION AND LESSENS THE FORMALITY.

THE ICE BREAKER SHOULD TAKE NO MORE THAN 10 MINUTES TO COMPLETE. PARTICIPANTS ARE FREE TO WALK AROUND TO COLLECT NAMES. DISCUSSION IS OPTIONAL.

FIND SOMEONE WHO:

	NAME
1. Has a pet bird.	_____
2. Speaks a second language.	_____
3. Has three children.	_____
4. Was born under your astrological sign.	_____
5. Has more than one middle name.	_____
6. Likes to cook.	_____

RULES

a) You can use each person's name only once!
b) You may be asked to prove that you have found people with these characteristics
c) Time to complete - 10 minutes.

TRAINEE READINESS CHECKLIST

STUDENT TO REVIEW BEFORE STARTING EVERY DAY

ARE YOU:		YES	NO
1.	OPEN TO NEW IDEAS?	O	O
2.	WILLING TO LISTEN?	O	O
3.	POSITIVE ATTITUDE?	O	O
4.	NOT TOO TIRED?	O	O
5.	WILLING TO PARTICIPATE?	O	O
6.	OPTIMISTIC ABOUT OUTCOMES?	O	O
7.	KNOW SOMEONE IN THE GROUP	O	O
8.	HAVE MATERIALS NEEDED?	O	O
9.	CAN HEAR INSTRUCTOR?	O	O
10.	CAN SEE (FLIPCHART/CHALKBOARD/T.V.)?	O	O
11.	FAMILIAR WITH SURROUNDINGS?	O	O
12.	HAPPY TO BE HERE TODAY?	O	O

PARTICIPANT EXPECTATION CHECKLIST

COURSE NAME _____ **DATE TAKEN** _____

ASK FOR SHOW OF HANDS AND RECORD ON FLIPCHART

1. THE REASON YOU ARE TAKING THIS COURSE IS:

- TO LEARN SOMETHING NEW?
- TO IMPROVE YOUR CHANCE OF PROMOTION?
- TO MAKE MORE MONEY?
- TO MAKE THIS COMPANY MORE PROFITABLE?
- OTHER?

2. IT IS MY JOB TO:

- KEEP CONTROL OF THE CLASS?
- DO MOST OF THE TALKING?
- KEEP YOUR ATTENTION?
- DO MOST OF THE WORK?
- LISTEN?
- OTHER?

3. IT IS YOUR JOB TO:

- PARTICIPATE?
- KEEP AN OPEN MIND?
- HELP EACH OTHER LEARN?

THOUGHT FOR TODAY:

- GIVE A MAN A FISH . . . FEED HIM FOR A DAY
- TEACH A MAN HOW TO FISH . . .FEED HIM FOR LIFE

Understanding adult learning

Take time to find out about your learners - who they are: what they do; what they know about the topic; why are they taking the course: do they have any concerns or problems related to the topic.

See the learner as an equal partner in the learning process not as an empty vessel or a blank slate to be filled.

Ask: How do you like to learn?

Ask: The Old View of Learning? The New View of Learning

(record answers on flip chart and discuss)

Option: Have a volunteer act as recorder.

Refer students to:
Learning aids in student manual:

1. Principles of learning
2. Characteristics of adult learners
3. General principles of learning - self - assessment
4. 30 things we know for sure about adult learning.

Understanding learning learning styles

Read:

Although you may not be aware of it, you have your own style of learning. which is as distinct a part of you as your handwriting. Our academic successes are often influenced by how well our learning styles match the specific demands of different disciplines or teachers.

To help students make the most of their own skills there is a Learning Style Inventory (LSI).

Say:

We are going to complete our own learning style inventory. The purpose is to make you aware of the need to know the kind of learners you are teaching so you can adjust your teaching style to be more effective.

Do:

Have participants complete the learning style inventory (approx. 15 minutes). Re-assure them that this is not a test and that no learning style is better than another.

Learning-Style Inventory

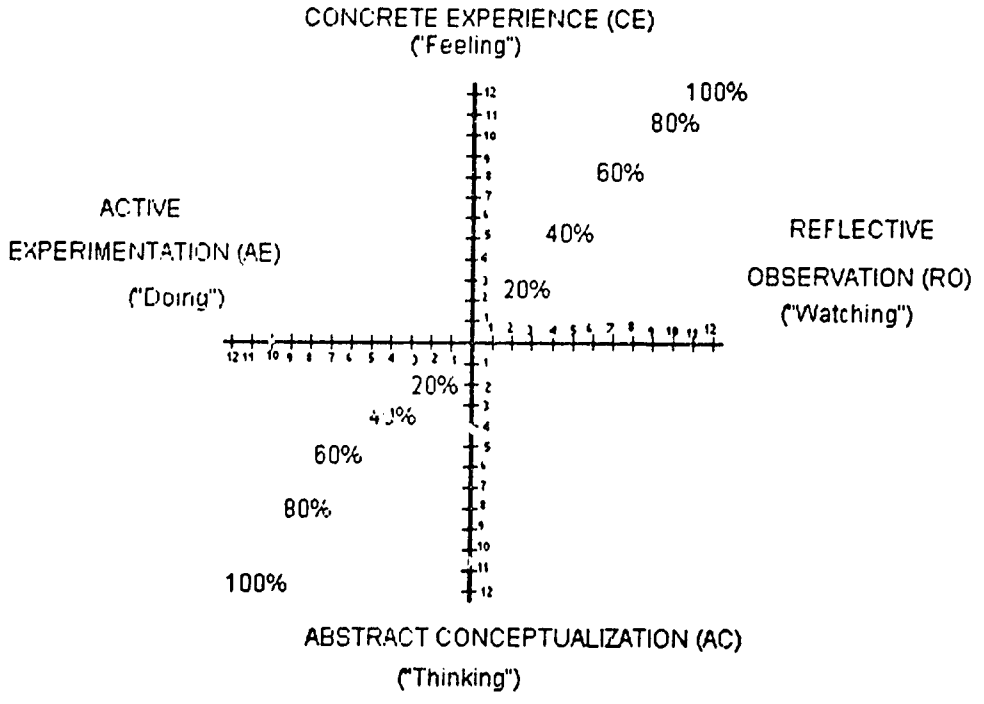
1. When I learn:	___I like to deal with my feelings.	___I like to watch and listen.	___I like to think about ideas.	___I like to be doing things
2. I learn best when:	___I trust my hunches and feelings.	___I listen and watch carefully.	___I rely on logical thinking.	___I work hard to get things done.
3. When I am learning:	___I have strong feelings and reactions.	___I am quiet and reserved.	___I tend to reason things out.	___I am responsible about things.
4. I learn by:	___feeling.	___watching.	___thinking.	___doing.
5. When I learn:	___I am open to new experiences.	___I look at all sides of issues.	___I like to analyze things, break them down into their parts.	___I like to try things out.
6. When I am learning:	___I am an intuitive person.	___I am an observing person.	___I am a logical person.	___I am an active person.
7. I learn best from:	___personal relationships	___observation	___rational theories.	___a chance to try out and practice
8. When I learn:	___I feel personally involved in things	___I take my time before acting.	___I like ideas and theories.	___I like to see results from my work
9. I learn best when:	___I rely on my feelings	___I rely on my observations	___I rely on my ideas.	___I can try things out for myself.
10. When I am learning:	___I am an accepting person.	___I am a reserved person.	___I am a rational person.	___I am a responsible person.
11. When I learn:	___I get involved.	___I like to observe.	___I evaluate things.	___I like to be active.
12. I learn best when:	___I am receptive and open-minded.	___I am careful.	___I analyze ideas.	___I am practical.
TOTAL the scores from each column: and transfer to next page.	☐ Column 1	Column 2	Column 3	Column 4

The Cycle of Learning

The four columns that you have just totaled relate to the four stages in the Cycle of Learning from Experience: Concrete Experience (CE), Reflective Observation (RO), Abstract Conceptualization (AC), and Active Experimentation (AE). Enter your total scores from each column:

Column 1 (CE): ☐ Column 2 (RO): ☐ Column 3 (AC): ☐ Column 4 (AE): ☐

In the diagramm below, put a dot on each of the lines to correspond with your CE, RO, AC, and AE scores. Then connect the dots with a line so that you get a "kitelike" shape. The shape and placement of this kite will show you which learning modes you prefer most and which you prefer least.



The Learning-Style Inventory helps you understand your strengths and weaknesses as a learner. It measures how much you rely on four different learning modes that are part of a *four-stage cycle of learning*. Different learners start at different places in this cycle. Effective learning uses each stage. You can see by the shape of your profile (*above*) which of the four learning modes you tend to prefer in a learning situation.

On the next page are explanations of the different learning styles.

The Four Stages of the Learning Cycle and Your Learning Strengths

Concrete experience (CE)

This stage of the learning cycle emphasizes personal involvement by people in every situations. In this stage, you would tend to rely more on your feelings than on a systematic approach to problems and situations. In a learning situation, you would rely more on your ability to be open-minded and adaptable to change.

Learning from feelings

- Learning from specific experiences
- Relating to people
- Sensitivity to feelings and people

Reflective observation (RO)

In this stage of the learning cycle, people understand and situations from different points of view. In a learning situation your would rely on patience, objectivity, and careful judgment but would not necessarily take any action. You would rely on your own thoughts and feelings to form opinions.

Learning by watching and listening

- Careful observation before making a judgment
- Viewing things from different perspectives
- Looking for the meaning of things

Abstract conceptualization (AC)

In this stage, learning involves using logic and ideas, rather than feelings, to understand problems or situations. Typically, you would rely on systematic planning and develop theories and ideas to solve problems

Learning by thinking

- Logical analysis of ideas
- Systematic planning
- Acting on an intellectual understanding of a situation

Active experimentation (AE)

Learning in this stage takes an active form - experimenting with influencing or changing situations. You would have a practical approach and a concern with what really works, as opposed to watching situation. You value getting things done and seeing the results of your influence and ingenuity

Learning by doing

- Ability to get things done
- Risk taking
- Influencing people and events through action
-

Remember:

1. The LSI gives you a general idea of how you view yourself as a learner.
2. Because learning is a cycle, the four stages occur time after time. Often in a learning experience you may have to go through the cycle several times.
3. The LSI does not measure your learning skills with 100% accuracy. You can find out more about how you learn by gathering information from other sources - your friends, instructors, and co-workers.

Ask: What is your dominant learning style? (List participant names by category on flip chart and post).

Thinker

Feeler

Watcher

Doer

Discuss: How does knowing participant learning styles help the instructor.

Adult Learner Assessment

Ask: What do you need to know about the learners in your group, before you start planning the course? (Record points on flip chart)

Ask: Why do adults learn? What motivates them? (discuss)

Do: List six reasons why adults enroll in courses. (Record on flip chart)

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____

Ask: What are some of the barriers adults have as adult learners? (Record on flip chart)

Ask: How can the instructor remove these barriers? (List suggestions on flip chart)

Refer students to
Learning aids in student manual:

1. Barriers to adult learning.
2. Typical things that help learning.

Role of adult educators

Ask: Who was your best teacher? Why? (Discuss)

Who was your worst teacher? Why? (Discuss)

Do: Characteristics and Behaviors of Effective Adult Educators (List on flip chart)

Do: Once a variety of characteristics are listed, ask participant to rate the top 5. Try to get consensus. This is a group building exercise.

Refer students to
Learning aid in participant manual:
1. Characteristics of an effective teacher.

ART OF ASKING QUESTIONS

Read: Most effective training sessions promote participation. Trainers encourage participation in various ways such as asking people for their observations. opinions or reactions: giving specific assignments; using buzz groups: asking for volunteers; responding positively to questions and comments; getting responses to scenarios; and reinforcing the good contributions that people make to the session.

The art of asking questions is especially important in promoting participation and keeping a session moving in the right direction.

Ask for examples:

Six Question Types	Suggested Examples
1. Open questions: invite a true expression of opinion and feelings; show the other person that you are interested and want to understand; cannot be answered "yes" or "no".	1. What do you think of the..... Why do..... How can .....
2. Factual questions: seek data, information. facts; sometimes require only "yes" or "no" answer.	2. How many..... Did you
3. Leading questions: suggest the desired answer.	3. Don't you agree.....

THE ART OF ASKING QUESTIONS (Cont'd)

4. Controversial questions: stimulate new thoughts; challenge traditional concepts.	4. Is a desire for safety inborn or learned?
5. Provocative questions: stimulate new thoughts; challenge traditional concepts.	5. "A thing is safe if its risk are judged to be acceptable. " What's your reaction to this concept?
6. 'Directive questions: direct the discussion toward positive factors toward perceived areas of agreement.	6. How much time do you think this corrective action will save in your area?

Daily Evaluations

This course requires you to conduct daily evaluations to ensure the participants needs are being met.

You can refer to the participant expectation exercise completed earlier in the day

Invite participants to comment about anything they liked or disliked from todays lesson. Suggest they review their own readiness - to - learn checklist at the beginning of each day.

Evaluations help adults take responsibility for their learning. They also take the pressure off the instructor to do all the work.

- Complete the evaluation orally now -

End of day 1.

Day 2.

* Remind participants to review participant readiness checklist *

Day 2. Daily Lesson Plan

Topics to Cover	Instruction Method(s)	Suggested Timetable	Notes
Review daily lesson plan	Lecture	10 min	
Curriculum	Discussion	10 min	
Needs analysis	Lecture	10 min	
Topic analysis	Exercise	20 min	
Learning goal	Lecture	10 min	
Learning objectives	Lecture	60 min	
Break		20 min	
Sequence topics	Discussion	20 min	
Resource materials	Discussion	20 min	
Learning activity plans	Lecture	30 min	
Lunch		30 min	
Teaching techniques	Discussion	70 min	
Audio visual resources	Discussion	30 min	
Daily evaluation and wrap up		20 min	

Curriculum Development

Curriculum

Read: The curriculum is the very heart of learning. The topic must inspire curiosity and questions, challenges and re-thinking previously held beliefs.
Effective curriculum builds on the existing knowledge or skill and is only valuable if it adds new knowledge or skill.
Today we are going to learn about curriculum and how it is developed

Curriculum is a plan which shows **what** the students will be learning, **why** they will be learning it, and **how** the learning will take place.

List: Steps in Curriculum Development - on flip chart.

Needs Analysis

Topic Analysis

Teaching Goal

Learning Objectives

Sequence Topics

Resource Materials

Learning Activity Plans

Teaching

Evaluation

Say: 1. Needs Analysis

Some questions to guide your analysis of learning needs.

a. Who are the learners?

b. What do they already know? How can you find this out before the class begins?

c. What do they need to learn?

d. Why do they need to learn it?

e. What is the best way for them to learn it?

f. Where is the best person to teach them?

g. Who is the best person to teach them?

h. When is the best time to schedule this learning?

Effective training means you have to meet the learners where they are and help to bring them to where they want to be.

Discuss: 2. Topic Analysis

At this stage of curriculum development you take a careful look at the topic you are going to teach and write down all the steps that are involved.

For example, let's consider the steps involved in checking the oil in a car:
park car on flat surface, have engine cold and turned off; open hood. find the dip stick, pull it out, wipe it clean, put it back, pull it out again. observe the amount of oil on the dip stick, assess whether it is too much. just right, or too little. put the dip stick back.

Ask: Give me another example and we'll go through the logical steps to show (teach) someone how to do it.

(Suggestions):
1. Keep it short and simple e.g - Bake a pie

- Saw a plank

- Climb a ladder

2. Invite a participant to record the suggestion and lesson on the flip chart

3. This exercise should take 10 minutes.

3. Learning Goal

Goal is a broad statement that describes the overall outcome of the course.

Ask: What word or phrase best describes the goal of this course (List suggestions on flip chart and discuss). There should be several similar suggestions.

4. Learning Objectives

Say: Objective is a precise careful statement about exactly what the student will be able to know, do or say after the class. One set of criteria to check your objectives is the SMART criteria.

S - specific

M - measurable

A - attainable

R - realistic

T - time limited

Traditionally, teachers sort their objectives into three categories or domains. The three domains or types of objectives are cognitive, affective, and psychomotor.

Cognitive refers to our understanding or knowledge.
e.g the learner can describe six characteristics of effective teaching.

Ask: For another example

Affective refers to the way we feel about something, or our attitude.
e.g. the learner demonstrates a sense of humor during the lesson.

Ask: For another example

Psychomotor refers to our ability to do something.
e.g. the learner correctly uses the overhead projector.

Ask: For another example

Cognitive Objectives

Do: For your subject area, write 3 objectives, in the cognitive doman (level)

Remember S M A R T criteria.

1.

2.

3.

Note: This exercise applies only when you are training a subject expert trainer.

Say: In the Cognitive Domain there are six levels of thinking. Each level requires a higher level of thought or reasoning:
(List levels on flip chart)

1ST Level	Knowledge	remember or recognize something. without necessarily understanding what it is or how to use it. define, distinguish, label, list, match, name, outline, reproduce, select.
2nd Level	Comprehension	understand the material without necessarily relating it to anything else. convert, defend, distinguish, estimate. explain, extend, generalize, infer. paraphrase, predict, restate, rewrite.
3rd Level	Application	using a general concept to solve a problem. calculate, change, compile. demonstrate. discover, manipulate, modify. predict. relate, show, solve,
4th Level	Analysis	Breaking something down into parts appraise, break down, compare. contrast. discriminate, distinguish, identify. illustrate, infer, relate, select. separate. subdivide.
5th Level	Synthesis	create something new by combining different ideas. arrange, assemble, categorize, combine. compile, compose, construct, create, design, devise, formulate, generate. modify, propose, rearrange, reconstruct. reorganize, revise, rewrite, summarize. tell.
6th Level	Evaluation	judge the value of methods. as applied to a particular situation. appraise, assess, compare. conclude. contrast, discriminate, interpret. judge. justify, rate, summarize

Affective and Psychomotor domains

Affective		
1st Level	Receiving	willing to receive information from others
		asks, chooses, describes, follows, gives, holds. identifies.
2nd Level	Responding	getting familiar with certain rules and regulations
		answers, assists, complies, conforms, greets. helps. performs, practices.
3rd Level	Valuing	willing to hear all sides of an argument: being committed
		completes, describes, explains, follows, initiates. joins, justifies, proposes, reads, reports. selects. shares, studies, works.
Psychomotor		
1st Level	Imitation	repeats what someone has shown
2nd Level	Manipulation	follows directions and practices carries out activity following instructions not just imitating.
3rd Level	Precision	improved coordination and refined performance
		can perform skill without model or directions

Do: Practice writing objectives for affective and psychomotor domans in your subject area (on flip chart)

1.

2.

3.

Learning aids in participant manual

1. Androgogy: The study of how adults learn.

2. Maslow's hierarchy of needs.

Say:

5. Sequence Topics

At this stage you decide what order to present the information. Decide on the logical steps to follow and build on previous knowledge that the learners have.

As you sequence the topics remember that the learners have different learning syles. Some will want to get right into it and start working with the equipment and others will need to know what all the steps are before they can begin.

In this stage you also decide how many lessons you will need and how long each will be.

Do. discuss: Return to example of checking oil in car. Can the steps be reduced. combined, increased?

Ask: How does the instructor assess if the sequence of topics is correct?

Refer student to
Learning aid in participant manual:
1. Establishing training priorities.

Say:

6. Resource Materials

In preparing for your lessons, research what material is available to assist you present the information to the class. This may involve video tapes, text book. articles in magazines, or handouts that have already been prepared.
Review these materials and decide which ones you want to use for your class.

Ask: What resource materials would you use to teach someone how to: (choose one)

- operate an electric drill
- sew on a button
- operate a computer

Say:

7. Learning Activity Plans (lesson Plans)

Learning Activity Plans (LAPs) are an example of lesson plans to guide your teaching. Each time you prepare a presentation for a group you must complete a LAP.

The sections of a Learning Activity Plan include:

Name or Topic, Time, Learning Objectives, Resource Materials, Equipment. Notes & Learning Activities, Evaluation.

The type of information to include in each section is described in the following example.

Name / Topics (topics)
Time (how long the lesson)
Objectives/Learning Outcomes
What the students can expect to know or do by the end of the class.
Resource Materials
List of books, articles, references, slides, OHPs, VCRs, handouts, etc.
Equipment
List tape player, VCR, flip chart, etc.; special equipment required for a demonstration; supplies for use by students.

Notes	Activities
Use this column to keep track of time and clues for activities, references in texts, etc.	In this section you make your "speaking notes." What you are going to say. questions for the class, instructions to the class, etc.

Some codes:

QTC - questions to class	AR - anticipated responses
OHP- overhead projector	FC - flip chart
SP - slide projctor	VCR - video cassette recorder

Note: Advise students they will produce a learning activity plan for their presentations on day 4.

Refer student to
Learning aid in participant manual:

1. Sample learning activity plan.
2. Effective program planning cycle

8. Teaching Techniques

Say: Teaching techniques should vary according to your teaching style, the participants learning style and the subject being taught. Often several techniques are used at the same time for variety and to ensure that all learners are taught.

Do: Ask participants for examples particularly relevant to employee ownership which suit each teaching technique. Record beside each technique on flip chart.

There are many techniques available to help you create an environment in which people can learn. The techniques are listed below:

ICE BREAKERS

LECTURE

GROUP DISCUSSION

ASKING QUESTION

LEARNING CIRCLES

BRAINSTORMING

ROLE PLAYING

DEMONSTRATIONS

CASE STUDIES

GUEST SPEAKERS

FIELD TRIPS

Audio Visual Resources

Say: All learning is done using our five senses: taste, touch, sight, sound and smell. Thus, the use of audio video and printed resources are a necessary part of all instruction programs.

Despite how user-friendly most of these teaching aids are, they are often ignored or used incorrectly. The keys are to know your audience and to plan ahead (nothing is more embarrassing than turning on a projector which has a burnt bulb)

List on flip chart:

Audio - Visual resources include:

- Over-head projectors
- Posters
- Videos
- Cut - Away Models
- Blue-Prints/schematics
- Film/slide projectors
- Wall charts/graphics
- Flip Charts/Black boards
- Displays
- Audio tapes

Ask: Any others?

Say: Tips on using Audio-visual resources

1. Flip Charts:
   - Avoid taping to painted walls (causes paint to peel off)
   - Use colored pens for emphasis.
   - Prepare flip charts in advance.
   - Always stand to side of flip chart while writing

Ask. Any other hints?
-
-
-

2. Over-head Projectors:
   - Stand/sit next to projector and point to transparency to illustrate (Do not stand in light)
   - Use colored pens for emphasis
   - Ensure spare bulb, extension cord and extra transparencies are available
   - Have copies of over heads for participants so they don't have to write while you are speaking.

Ask: Any other hints?
-
-
-

Say: 3. Video-tape (VCR)/Films/slides

- Insure extra bulbs, extension cord and a screen is available
- Try to position unit on an angle to the class (Depending on seating arrangement) for better sight lines.
- Avoid using videos/films after lunch or late in the day (together with a darkened room puts participants to sleep.

Ask: Any other hints?

-
-
-

4. Wall charts/Graphs/schematics Etc.

- Ensure that you have the most recent version
- Sometimes they are hard to see
- Avoid markings, stains etc., for future use

Ask: Any other hints?

-
-
-

Refer students to
Learning aids in participant manual:

1. The flip chart or standing easel
2. The black board
3. Over-head projector
4. Video tape

Reminder:
Do daily evaluation now!
Advise participants to think about a topic for their practice teaching session which begins on day 4.

End of day 2.

Day 3.

This is the Half-way point in the course

DELFRE1\INSTRUCT\DAY3.WP

Topics to Cover	Instruction method(s)	Suggested time table	Notes
Daily Lesson plan			
overview	lecture	10 min	
Introduction			
to evaluation	lecture	30 min	
Outcome	lecture	10 min	
Process	lecture	10 min	
Structure	lecture	10 min	
Evaluation techniques	exercise	90 min	
Student	break	20 min	
Participant topics	discussion	40 min	
Selection			
	Lunch	60 min	
Presentation outline	facilitation	60 min	
Daily Evaluation and			
wrap-up	discussion	20 min	

Say: Introduction to Evaluation

Evaluation should begin long before teaching begins. There are many things to evaluate and many ways evaluations are done. Here are just a few:

1. Evaluation of training needs:
   (ask for input)
   - what is the need or problem?
   - will training solve it?
   - when should training take place?
   - where should training occur?
   - will it be cost-effective?
2. Evaluation of potential trainees
   (ask for input)
   - what do they already know about the subject?
   - do they even want training?
   - how many are there?
   - what jobs do they do now?
   -why are they taking the training?
   - what are their learning styles?

3. Evaluation of your Role
   (ask for input)
   - what is expected of you?
   - are you a subject expert?
   - do you have or need any help?
   - are you prepared?

Evaluation of workplace training (if it even occurs) is usually very informal (sometimes only attendance is taken). This tends to diminish the role that training plays in making companies profitable.

On the other hand, adult learners do not like to be threatened with failure and so evaluation needs to carefully thought through and handled wisely.
Learners and teacher benefit from carefully thought-out evaluation activities.
To the learner they provide ...

- realistic short term goals
- motivation to study notes, texts, and handouts
- increased retention of learned material
- direct feedback on progress
- objective evidence of accomplishment

Teachers and course planners derive ...

- ways to assess the appropriateness of instructional objectives
- evaluation of teaching techniques and materials
- feedback on teaching effectiveness
- support and reward for everyone's efforts

Tests should reflect clearly defined instructional objectives.
The full scale of evaluation is too broad for this course. However, it is helpful to know the variety of evaluation techniques and their uses.

Evaluation has 3 categories:

out come- refers to a specific answer or measurable result.

process - refers to knowing means to the answer as well as the answer

structure -refers to formulating a rational, formula or observation

Say: Evaluation techniques

There are several evaluation techniques just as there are various teaching techniques. The selection of evaluation technique depends on the subject, the learning objective and the time available.
Evaluation varies from truefalse tests to 10 page essay questions. No two instructors would construct the same evaluation for the same topic. This is because learning is subjective and each would emphasize a different aspect of the topic.

Now we are going to constuct a truefalse test for the lesson on checking the oil in a car. You have 15 minutes to produce 5 questions from this lesson refer to day 2.
Record your answers on a separate sheet of flip chart paper (print large).

Do: When all students are complete, review their questions, select the most common questions submitted and construct a class test.
Have students compare the class test to the one they produced.

Say: This execise is meant to demonstrate 3 things:

1. Different instructors emphasize different aspects of the same topic.

2. Even simple topics can be difficult to measure.

3. There is no perfect evaluation technique (would a demonstration have been better than a true-false test in this case?)

It is important to see evaluation as a learning technique instead of just a measurement tool. Evaluation provides a review opportunity of the topic and can spark curiosity and enquiry. For this reason, tests and evaluation must not be threatening or their learning value is lost.

Say: Here is a list of evaluation techniques. Supply 2 topics which suit each technique:

List on flip chart:

1. Tests quizzes -
2. Demonstrations-- Journal Recording.
3. Journal Recording-
4. Questionnaires -
5. Essay exams-
6. Self -Assesment-

Say: Hints about Evaluation

1. Minimize words such as test, exam, pass, fail etc.
2. Provide advance warning of evaluation
3. Evaluate only what has been taught.
4. Vary evaluation techniques (as you vary teaching techniques).
5. Always provide feed back to evaluation.
6. You must be present to learn but learning does not come from merely being present.

Participant topic selection

Say: The remainder of the course consists of participant presentations. Some participants may appear anxious about prepareing and presenting a lesson.

Remind them that:

1. We are all here to learn.
2. They have all the information they need (in the course together with their subject experise.)
3. More learning occurs by doing than any other way.

In order to optimize learning through participant presentations, you will want to avoid 2 or more students presenting the same topic.

have participants note their topic and name on a flip chart. Negotiate to remove any duplication.
advise students that presentations will be done randomly, chosen by you (unless there are volunteers)
review presentation out line with participants and answer questions.

Notes:

1. Presentations are 30-45 minutes long. This includes presentation, peer evaluation and feedback. Consequentnly presentations should be no more than 10-15 minutes.

2. Written evaluation and verbal feedback are both necessary and valuable (along with your own) to participants.

3. Participants are free to choose any topic which can be presented adequately in 10-15 minutes. Props, aids and audio-visual resources are welcome (you should ask if any one needs help with this.)

4. Some presentations tend to exeed the time limit. A timer or alarm clock is useful here.

5. Be prepared to come early to class the next day to help students prepare.

Participant presentation instuctions:

Using what you know about a topic and what you have learned in this course. prepare and present a lesson on a topic of your choice.

Presentations should be 10-15 minutes maximum. You can use props, visual ads. other participants etc. to assist you.

You must present a lesson plan to the instructor before you begin.

All participants are to present lessons. Selection will be random order unless there are volunteers.

Your peers will provide a written evaluation of your presentetion and verbal feedback when you are done. This is constructive critique to help make you an effective presenter

Good Luck!

Participant Presentation Peer Evaluation Form
(To be completed immediately after student presentation)

Readiness to instruct

1. Did the presenter appear ready to instruct? yes ( )no ( )
2. Did the presenter have the materials, notes, aids ready? yes ( ) no ( )
3. Did the presenter make any aecomodations (move chairs etc) to help you learn? yes ( ) no ( )

Comments?

Delivery Style

1. Did the teaching technique suit the topic? yes ( ) no ( )
2. Did the presenter use audio visual aids effectively? yes ( ) no ( )
3. Did the presenter speak clearly? yes ( ) no ( )
4. Did the presenter involve you in the lesson? yes ( ) no ( )

Comments?

Effectiveness

1. What one thing could the presenter do to impove?

Comments?

Reminder : Complete daily evaluation now!

End of day 3.

Day 4.

Note: you may require additional flip charts, paper and pens for participant presentations. You will require sufficient copies of the participant evaluation form for each presenter X no. of Students.

DELFRE\INSTRUCT\DAY4.WP

Daily lesson plan

Topics to cover	Instruction method(s)	Suggested time table	Notes
Participant presentations	observation	1/2-3/4 hour each	

Notes:

1. Review presentation instructions once more.
2. Remind presentors they must give you their lesson plan prior to starting
3. Distribute and review participant evaluation forms.
4. Schedule lunch and breaks as appropriate.

Daily evaluation and wrap up 20 min

Conduct participant evaluations as close to schedule as possible.

Try to limit your feed back to written input on the participant evaluation form.

Review teaching techniques (Day 2.) frequently to re-inforce proper techniques.

The more positive feedback from peers the better.

Reminder: Conduct daily evaluation at end of day.

End of day 4.

Day 5.

This is the final day of the course.
You will require sufficient copies of:

1. Train the Trainer Course evaluation forms (to be completed by participants).
2. Train the Trainer Course instructor evaluation forms (to be completed by participants)

Day 5.

Daily lession plan

Topics to cover	Instruction method(s)	Suggested time table	Notes
Participant presentations continue	observation	1/2-3/4 hour each	
course review	review	60 minutes	
course and instructor evaluations	participation	30 min	

Close

SHARE PARTICIPATION FOUNDATION

EMPLOYEE OWNERSHIP TRAINING PROGRAM

COURSE EVALUATION FORM
(to be completed by participants immediately following course)

NAME OF COURSE/WORKSHOP_____

INSTRUCTOR_____

1. WHAT IS YOUR OVERALL EVALUATION OF THE COURSE/WORKSHOP?

EXCELLENT ( ) GOOD ( ) SATISFACTORY ( ) FAIR) POOR ( )

2. COMMUNICATIONS/PROMOTION:

a)DID YOU HEAR ABOUT THIS COURSE/WORKSHOP BY: PAMPHLET ( ) FRIENDS ( ) NOTICE AT WORK ( ) YOUR SUPERVISOR ( ) OTHER ( )

b)DID THE PAMPHLET PROPERLY DESCRIBE THE COURSE/WORKSHOP? YES ( ) NO ( )

3. COURSE/WORKSHOP

a) WERE YOU PROVIDED WITH A COURSE OVERVIEW? YES ( ) NO ( )

b)WERE YOUR PERSONAL OBJECTIVES MET? YES ( ) NO ( )

c)WAS THE CLASSROOM/FACILITY ADEQUATE? YES ( ) NO ( )

d)WAS THE COURSE/WORKSHOP: too long ( ) just right ( ) too short ( )

4. PROGRAM DEVELOPMENT

a) WHAT OTHER COURSES WOULD YOU LIKE TO TAKE?
1)
2)
3)

b)WHAT OTHER COURSES SHOULD BE DEVELOPPED?
1)
2)
3)

GENERAL COMMENTS

_____

_____

THANK YOU

SHARE PARTICIPATION FOUNDATION

EMPLOYEE OWNERSHIP TRAINING PROGRAM

INSTRUCTOR EVALUATION FORM
(to be completed by participants immediately following course)

NAME OF COURSE_____

INSTRUCTOR_____

1.INSTRUCTOR READINESS

a)DID THE INSTRUCTOR APPEAR READY TO TEACH? YES ( ) NO ( )

b)WERE THE TRAINING MATERIALS AVAILABLE FOR YOU AT THE BEGINNING OF THE COURSE? YES ( ) NO ( )

c)WAS THE CLASSROOM READY ? YES ( ) NO ( )

d)ANY COMMENTS?_____

_____

_____

2. DELIVERY STYLE

a) DID THE INSTRUCTOR INVOLVE YOU IN THE COURSE? YES ( ) NO ( )

b) DID THE INSTRUCTOR DEVELOP AN ENJOYABLE LEARNING ENVIRONMENT? YES ( ) NO ( )

c) WAS THE PACE OF THE COURSE: fast ( ) adequate ( ) slow ()

d) ANY COMMENTS? _____

_____

_____

3. EFFECTIVENESS

a) DID THE INSTRUCTOR HOLD YOUR ATTENTION FOR THE ENTIRE COURSE? YES ( ) NO ( )

b) DID THE INSTRUCTOR KNOW THE SUBJECT MATTER THOROUGHLY? YES ( ) NO ( )

c] DO YOU FEEL YOU HAVE LEARNED? A LITTLE ( ) SOME ( ) A LITTLE ( )

d) ANY COMMENTS?_____

_____

THANK YOU!

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SHARE PARTICIPATION FOUNDATION

EMPLOYEE OWNERSHIP TRAINING PROGRAM

COURSE EVALUATION FORM
(to be completed by instructor immediately following course)

NOTE: THIS EVALUATION FOR IS FOR YOUR USE ONLY. NO ONE ELSE NEEDS TO SEE IT. IT IS DESIGNED FOR YOU TO MEASURE YOUR EFFECTIVENESS AS A WORKPLACE INSTRUCTOR AND TO MAKE IMPROVEMENTS WHERE NEEDED. KEEP THIS SELF-EVALUATION FORM ON FILE ALONG WITH OTHERS YOU COMPLETE AND REVIEW THEM PERIODICALLY TO OBSERVE COMMOM ELEMENTS AND TRENDS WHICH WILL DEVELOP IN YOUR TEACHING STYLE.

COURSE NAME: _____

YOUR NAME: _____

1) CONTENT

a) DID THE CONTENT MATCH THE LEVEL OF THE STUDENTS?
TOO DIFFICULT ( ) ABOUT RIGHT ( ) TOO EASY ( )

b) DID THE AMOUNT OF MATERIAL COVERED SUIT THE LEVEL OF THE STUDENTS?
TOO MUCH ( ) ABOUT RIGHT ( ) TOO LITTLE ( )

c) DID THE EXCERSISES ATTRACT THE STUDENTS PARTICIPATION?
A LOT ( ) SOME ( ) FEW ( )

d)ANY COMMENTS? _____
_____
_____

2)YOUR DELIVERY STYLE

a) DID THE STUDENTS RESPOND TO YOUR DELIVERY STYLE?
A LOT ( ) SOMEWHAT ( ) HARDLY ( )

b) DID THE STUDENTS SEEM TO ENJOY THE COURSE?
A LOT ( ) SOMEWHAT ( ) A LITTLE ( )

c) WERE YOU ABLE TO STAY ON TIME THROUGHOUT THE COURSE?
YES ( ) MOST OF THE TIME ( ) NO ( )

d) WHAT WOULD YOU CHANGE FOR THE NEXT COURSE?

YOUR PACE ( ) THE TYPE OF QUESTIONS ( )
SEATING ARRANGEMENT( ) SCHEDULE)
LENGTH OF COURSE ( ) START TIME ( )
LOCATION ( ) LENGTH OF BREAKS ( )
AMOUNT OF STUDENT PARTICIPATION ( )

c) ANY COMMENTS?_____
_____
_____

3. READINESS

a) DID YOU COMPLETE THE INSTRUCTOR READINESS CHECKLIST IN ADVANCE OF THE COURSE ? YES ( ) NO ( )

b) DID YOU HAVE SUFFICIENT INFORMATION ABOUT THE PARTICIPANTS PRIOR TO THE COURSE? YES ( ) NO ( )

c) WHAT ONE THING WILL YOU DO TO MAKE THIS COURSE BETTER?

_____

_____

d) WHAT ONE THING WILL YOU DO TO MAKE YOU A BETTER INSTRUCTOR?

_____

_____

_____

Notes:

We hope you have enjoyed the train the trainer course from the Share Participation Foundation. This course is part of the employee ownership training program which the foundation offers to employees of ESOP Companies.

As a work place trainer you will face many challenges and obstacles to delivering high quality, effective training for workers. There is no subsitution for being prepared. A well prepared instructor enjoys the teaching experiance because s/he knows adults learn better from a well-organized teacher.

We encourage you to add resources to the instructor and participant manuals and to develop your own style of teaching. If you continue to learn about learning, your lessons will be rich and and rewarding.

We also encourage you to mentor and network with other workplace instructors to share your knowledge and experiance.

Happy teaching!

Participant Learning Aids

PRINCIPLES OF LEARNING

1. PRINCIPLE OF READINESS

We learn best when we are ready to learn. You cannot teach someone something for which he or she does not have the necessary background of knowledge, maturity, or experience. When people are ready and have sound reasons for learning, they profit from teaching and make progress in learning.

2. PRINCIPLE OF ASSOCIATION

It is easier to learn something new if it is built upon something we already know. In training or teaching, it is best to proceed from the known to the new, to start with simple steps (based on what the learner already understands or can do) and gradually build up to the new and more difficult tasks or ideas. Make full use of comparison and contrast, of relationships and association of ideas.

3. PRINCIPLE OF INVOLVEMENT

For significant learning to occur, learners must be actively involved in the learning process. The more senses involved (hearing, seeing, tasting, smelling, feeling), the more effective the learning. The more fully the learners participate in the learning process, the more effectively they learn.

4. PRINCIPLE OF REPETITION

Repetition aids learning, retention, and recall. Conversely, long disuse tends to cause learned responses to weaken and be forgotten. Application and practice are essential. Accuracy should be stressed before speed, to avoid learning a wrong habit that must later be "unlearned."

5. PRINCIPLE OF REINFORCEMENT

The more a response leads to satisfaction, the more likely it is to be learned and repeated. For best results in a teaching/learning situation, accentuate the positive (praise, reward, recognition, success). Also, breaking complex tasks down into simple steps allows the successful learning of one step to help motivate learning the next one. When learning is pleasant and beneficial, people more readily retain what they have learned, and are more likely to want to learn more. Successful learning stimulates more learning.

SELF-ASSESSMENT

GENERAL PRINCIPLES OF LEARNING

	T	F
1. Human beings have a natural potential for learning.	_____	_____
2. We learn most rapidly those things which satisfy our needs, as we perceive them.	_____	_____
3. We tend to learn best by doing.	_____	_____
4. Learing tends to be maximized when the learner participates in the learning process.	_____	_____
5. We learn new things more easily by associating them with the old.	_____	_____
6. The goals of learning must be clear.	_____	_____
7. Effective learning is more likely when feedback is direct and frequent.	_____	_____
8. Error is part of the learning process.	_____	_____
9. The most useful learning in the modern world is the learning process of learning.	_____	_____
10. Learning is life, not preparation for life.	_____	_____

The following space has been provided for you to express your feelings as you step through this exercise.

CHARACTERISTICS OF THE ADULT LEARNER

Learning Characteristics of ADULTS	Adapting Content and Techniques to Meet Their Needs
Uneasiness and possible anxiety resulting from long absence from the classroom.	Create an easy, informal, friendly atmosphere. Ask what they feel they will contribute to class in terms of the content or concepts to be covered.
Resistance to change due to "set" ways of doing things.	Provide for the group to analyze situations which can lead to inner motivation for change rather than outside pressure or "telling". Ask for "I do it this way" contributions.
Unfamiliarity and possible frustration with trappings of education enrollment. registration grading. record keeping.	De-emphasize these aspects in the classroom when possible. Streamline roll taking, record keeping. and other routine tasks unrelated to learning. Avoid Words "homework" or "assignment". Use "bring examples for discussion", "be aware of", etc.
Preoccupation with outside responsibilities - earning a living, caring for a family, running a home, etc.	Relate content to real life problems. Use real-life situations and experiencese in problem-solving. Include content designed to make life a little bit easier and more satisfying for students. Ask participants to choose subjects they need and can use now if possible.
Approach learning with a strong sense of responsibility and come to class voluntarity.	Keep interest alive by making classes challenging and stimulating. Give students an opportunity to evaluate and make suggestions during the course, but be willing to accept negative evaluations and implement change.
Bring a broad background of experience to the classroom.	Use personal experiences of students in planning and teaching. Create an opportunity for students to learn from each other.

Need to feel that time is well spent and that material is relevant and practical.	Keep content and approach down-to-earth, practical rather then theoretical. Organize and prepare material in advance so class time is not wasted. Bring in experts to present certain material and viewpoints.
May want social satisfaction and interaction through informal class organization.	Create a relaxed atmosphere. Give students time to socialize, get acquainted, enjoy each other.

Adapted from:
Consumer Education in An Age of Adaptation,
by Sally R. Campbell. Sears Educator Resource Series.

30. THINGS WE KNOW FOR SURE ABOUT ADULT LEARNING

A variety of sources provides us with a body of fairly reliable knowledge about adult learning. This knowledge might be divided into three basic divisions: things we know about adult learners and their motivation, things we know about designing curriculum for adults, things we know about working with adults in the classroom.

Motivation to Learn

1. Adults seek out learning experiences in order to cope with specific life-change events - e.g., marriage, divorce, a new job, a promotion. being fired, retiring, losing a loved one, moving to a new city.

2. The more life change events an adult encounters. the more likely he or she is to seek out learning opportunities. Just as stress increases as life-change events accumulate, the motivation to cope with change through engagement in a learning experience increases.

3. The learning experiences adults seek out on their own are directly related - at least in their perception - to the life-change events that triggered the seeking.

4. Adults are generally willing to engage in learning experiences before. after. or even during the actual life-change event. Once convinced that the change is a certainty, adults will engage in any learning that promises to help them cope with the transition.

5. Adults who are motivated to seek out a learning experience do so primarily because they have a use for the knowledge or skill being sought. Learning is a means to an end, not an end in itself.

6. Increasing or maintaining one's sense of self-esteem and pleasure are strong secondary motivators for engaging in learning experiences.

Curriculum Design

7. Adult learners tend to be less interested in, and enthralled by. survey courses. They tend to prefer single-concept, single-theory courses that focus heavily on the application of the concept to relevant problems. This tendency increases with age.

8. Adults need to be able to integrate new ideas with what they already know if they are going to keep - and use - the new information.

9. Information that conflicts sharply with what is already held to be true. and thus forces a re-evaluation of the old material, is integrated more slowly.

10. Information that has little "conceptual overlap" with what is already known is acquired slowly.

11. Fast-paced. complex or unusual learning tasks interfere with the learning of the concepts or data they are intended to teach or illustrate.

12. Adults tend to compensate for being slower in some psychomotor learning tasks by being more accurate and making fewer trial-and-error ventures.

13. Adults tend to take errors personally and are more likely to let them affect self-esteem. Therefore, they tend to apply tried-and-true solutions and take fewer risks.

14. The curriculum designer must know whether the concepts or ideas will be in concert or conflict with the learner. Some instruction must be designed to effect a change in belief and value systems.

15. Programs need to be designed to accept viewpoints from people in different life stages and with different value "sets".

16. A concept needs to be "anchored" or explained from more than one value set and appeal to more than one developmental life stage.

17. Adults prefer self-directed and self-designed learning projects over group-learning experiences led by a professional, they select more than one medium for learning, and they desire to control pace and start stop time.

18. Nonhuman media such as books, programmed instruction and television have become popular with adults in recent years.

19. Regardless of media. straightforward how-to is the preferred content orientation. Adults cite a need for application and how-to information as the primary motivation for beginning a learning project.

20. Self-direction does not mean isolation. Studies of self-directed learning indicate that self directed projects involve an average of 10 other people as resources, guides, encouragers and the like. But even for the self-professed, self-directed learner, lectures and short seminars get positive ratings, especially when these events give the learner face-to-face. one-to-one access to an expert.

In the Classroom

21. The learning environment must be physically and psychologically comfortable; long lectures, periods of interminable sitting and the absence of practice opportunities rate high on the irritation scale.

22. Adults have something real to lose in a classroom situation.Self-esteem and ego are on the line when they are asked to risk trying a new behavior in front of peers and cohorts. Bad experiences in traditional education, feelings about, authority and the preoccupation with events outside the classroom affect in-class experience.

23. Adults have expectations, and it is critical to take time early on to clarify and articulate all expectations before getting into content. The instructor can assume responsibility only for his or her own expectations, not for those of students.

24. Adults bring a great deal of life experience into the classroom. an invaluable asset to be acknowledged, tapped and used. Adults can learn well-and-much-from dialogue with respected peers.

25. Instructors who have a tendency to hold forth rather than facilitate can hold that tendency in check - or compensate for it - by concentrating on the use of open-ended questions to draw out relevant student knowledge and experience.

26. New knowledge has to be integrated with previous knowledge. students must actively participate in the learning experience. The learner is dependent on the instructor for confirming feedback on skill practice: the instructor is dependent on the learner for feedback about curriculum and in-class performance.

27. They key to the instruction role is control. The instruction must balance the presentation of new material, debate and discussion, sharing of relevant student experiences, and the clock. Ironically, it seems that instructors are best able to establish control when they risk giving it up. When they shelve egos and stifle the tendency to be threatened by challenge to plans and methods, they gain the kind of facilitative control needed to effect adult learning.

28. The instructor has to protect minority opinion, keep disagreements civil and unheated. make connections between various opinions and ideas, and keep reminding the group of the variety of potential solutions to the problem. The instructor is less advocate than orchestrator.

29. Integration of new knowledge and skill requires transition time and focused effort on application.

30. Learning and teaching theories function better as resources than as a Rosetta stone. A skill-training task can draw much from the behavioral approach. for example, while personal growth-centered subjects seem to draw gainfurry from humanistic concepts. An eclectic, rather than a single theory-based approach to developing strategies and procedures. is recommended for matching instruction to learning tasks.

The next five years will eclipse the last fifty in terms of hard data production on adult learning. For the present, we must recognize that adults want their learning to be problem-oriented, personalized and accepting of their need for self-direction and personal responsibility.

From "30 Things We Know For Sure About Adult Learning". by Ron and Susan Zemke. Abstracted with permission from Training. The Magazine of Human Resources Development. June 1981.

BARRIERS T0 LEARNING
(Typical Barriers)

1. SELF

-lack of time
-inability to concentrate
-lack of motivation
-pre-occipied with other concerns (personal problems)
-personal biases about what is right and what is wrong
-fatigue, too tired !!!
-negative attitude about one's ability to learn
-slow reader, poor writer
-inferiority complex eg. I'm not good enough, I don't want to look stupid
-poor listening skiils
-perfectionist - I must be perfect I can't make any mistakes!
-lack of specific learning goals - goals may be"fuzzy" or unclear

2. TOPIC OR CONTENT

-unable to get my questions answered
-one participant monopized course time
-not getting enough feedback on assignments
-disorganized material or content
-being talked down to or feeling put down by instructor
-not knowing why some material is being taught
-not getting enough time to explore what I want to learn
-not enough written material or "poor" written material
-instructor's attitude is negative eg. learners are lazy. stupid. etc.
-physical climate eg. classroom is too hot, noisy, small, etc.

A. PSYCHOLOGICAL BARRIERS TO LEARNING - (internal)

1. Feeling Self Conscious
2. Fear of Being Ridiculed
3. Feeling Stupid (feel as though can't learn)
4. Guilt or Fear (eg. if one has been out of school for a long time)
5. Fear of Failure
6. Fear of Success
7. Changing one's self image, values, behaviour

B. PSYCHOLOGICAL BARRIERS - (relationships with others)

1. Changing Family Roles
2. Child Care Services
3. Fear of Being Selfish
4. Changing Friendship Patterns
5. Student/Teacher Relationships
6. Changing Work Roles

TYPICAL THINGS THAT HELP LEARNING

LEARNING WITH INSTRUCTOR PRESENT

A. PEOPLE

-enthusiastic instructors; their enthusiasm is transferred to the learner
-interest of others in my needs; me as a person
-desire to help me learn, grow
-having a link to the instructor
-taking away from the course written information that will help me "on the job"
-direct involvement in whatever is being instructed
-feeling comfortable with instructor and fellow learners
-able, willing to discuss topics with others.

B. ENVIRONMENT

-friendy atmosphere in classroom
-change to discuss issues in-depth for greater understanding
-freedom to express ideas, thoughts
-clear instructions
-quiet, peaceful environment

C. AIDS IN LEARNING

-taking notes, visual aids, movies
-handouts on topic
-depth of material, hearing it
-short concise outlines, summaries
-pre-work before session
-some repetition
-need (personal) to know something or learn a skill
-in researching a topic I learn as much while looking as I do when I find it and read it.
-highlighting book material
-knowing what the final outcome or goal is.
-job focused - learning practical aspects first; theory later.

Characteristics of Effective Teacher

1. Explains things simply.
2. Gives explanations everyone understands.
3. Paces teaching - not too fast, not too slow.
4. Stays on topic until we understand.
5. Checks to make sure we understand, before moving ahead.
6. Teaches things step by step.
7. Tells us what we are going to do and how to do it.
8. Asks if we know what to do and how to do it.
9. Repeats things, using different words or examples, if we don't understand.
10. Explains something and gives examples.
11. Stops and lets us ask questions.
12. Tells us what we are going to do next.
13. Gives specific details.
14. Repeats things that are hard to understand or important to know.
15. Shows us how to do the work.
16. Explains the assignments and materials we need.
17. Gives samples or examples of correct work.
18. Gives us enough time to practice.
19. Answers our questions.
20. Has a good sense of humour.

ANDRAGOGY -
THE STUDY OF HOW ADULTS LEARN

Andragogil learning designs involve a number of features which recognize the maturity of the learner.

1. They are problem centered rather than content centered.
2. They encourage the active participation of the learner.
3. They encourage the learner to use past experiences in order to solve new problems.
4. The climate of learning must be co-operative rather than authority oriented.

MASLOW'S HIERARCHY OF NEED

PHYSICAL NEEDS	-Food, Clothing, Accomodation, Adequate Pay, Vacation, Benefits.
SAFETY & SECURITY NEEDS	-Freedom From Workplace Hazards. Disability and Retirement Benefits, Fair Treatment, Proper Supervision.
SOCIAL NEEDS	-Belonging, Love.
ESTEEM	-Recognition, Sense of Growth and Achievement.
SELF-FULFILLMENT	-When You become All That You are Capable of Becoming.

ESTABLISHING TRAINING PRIORITIES

Another step in identifying training needs is to establish priorities. The training needs identified can be ranked according to these criteria:

- What are the consequences if done incorrectly? These may range from minor to catastrophic and the tasks with more serious potential should receive a higher priority.

- How difficult is it to learn? The greater the difficulty, the greater the need for training.

- How often is it done? Tasks done more frequently would rank higher than those seldom done.

- How critical is the response time? Tasks which must be performed immediately when the need arises (i.e., use of a respirator) take precedence over those for which a person will have the time to ask someone for instructions.

- What is the history of deficient performance? Those jobs with a history of "problems" may indicate a high priority for training in how to do them.

Sample Learning Activity Plan

Name / Topic: Job Search Strategies

Time: 60 minutes

Objectives/Learning Outcomes
At the completion of the class the participants will:

1. explain networking as a job search strategy.
2. indentify four individuals as primary contacts for job search network.
3. demonstrate a meeting with a primary contact, through role play.

Teaching Strategies: lecturette, video, role play

Resource Materials
student handouts
Networking Interview video tape
Equipment
Flip Chart, coloured markers, masking tape.
VCR, Television

Notes	Activity	
20 minutes		
QTC	How did you find you last job? In your experience, what techniques worked best? How jobs are found: types of openings - advertised and unadvertised	
FC	Unadvertised	Advertised
	~ Network of personal contacts	~ Search firms & employment agencies
	~ Companies you target	~ Newspaper advertisements
	record percentages	
	Networking	
QTC	How many of you have used a network before? Ex. - finding a doctor, buying a car, etc. Networking - most effective strategy	
FC	Draw network diagram	
QTC	Ask participants to fill in chart, listing four primary contacts for them.	

QTC What's the purpose of a networking meeting?

AR

to find more about company
increase contacts, get referrals
pratice communication skills
to get remembered.

Lecturette

Preparing for the contact

preparing purpose and story
keep it short and upbeat
write out a draft and practice until you are comfortable

Role play Ask for volunteer to be a contact for you

Role play a telephone call

Introduce self
emphasis on information to help job search
stress not asking for a job rather looking for information
ask for an appointment

Ask for two volunteers from class for a face-to-face interview

review procedure with them before demonstration

Ask participants to discuss how they felt about the exercise

QTC Ask others in class for comments.

Evaluation Review key points

Ask questions to class - mini quiz

PARTICIPATION

PATTERNS

PARTICIPATION PATTERNS

Everyone can look at everyone else while speaking and listening. The X is your spot and behind you is a flip chart or chalkboard. Most of the comments will probably flow towards you at the "head of the table". Watch who sits at the other end of the table. because the person(s) there may have a similar power position. This arrangement makes it awkward to use the overhead projector.

The closest thing to a round table using rectangular tables. The more distance between tables the more formal the interactions tend to be at the beginning. Here. almost everyone is in view but it is probably impractical for more than 25 people.

No designated head table for the instructor. This is useful if all the material is in front of the learners (no chalkboard or overhead projections) and an all-group discussion is part of the learning strategy.

Lecture setting for large groups. Ideally each person has a little desk top to write on (lap-held clipboards become cumbersome). The slightly semi-circular arrangement gives more harmony to the large mass of people all facing in your direction. If the seats are movable. leave a centre aisle for better access, and knee space between rows. If there are more chairs than people, encourage people to fill the room starting at the front.

Chairs arranged in this manner provide little sub-groups that you can utilize for buzzing, small group tasks, and generally to eliminate that isolated feeling.

X marks the spot where you either sit or stand to give your demonstration. If imitation or practice by the students follows, this arrangement allows you to move in and out of their work areas. give individual attention and keep an eye on all.

In certain shop or laboratory settings the instructor is provided with either an overhead mirror or a video camera. This allows the students who cannot view the demonstration directly at least to see it "second-hand".

Circular arrangements are preferable in attitudinal learning situations. X is your spot and indicates that all contributions will be given equal value. The traditional "up front" power position would not encourage personal statements and learning.

Several task or discussion groups work simultaneously and the instructor floats. Naturally, your students, will be different every time a course starts. The strategies thet follow are very flexible and must be adapted to suit your situation. You may use them any way you see fit. Feel free to argue with the descriptions and comments. change them, enjoy them, and build on them.

This one is called group-on-group of "fishbowl". The inner group is working on some problem-solving talk or discussing an issue or concern. The outer group is instructed to watch for certain behaviours in the inner group, and will later act as consultant and process-evaluator to it. To avoid one-upmanship, groups should be switched around. The instructor floats to give instructions, observe and keep time.

EFFECTIVE PROGRAM PLANNING CYCLE

HOW DO PEOPLE LEARN

SENSORY STIMULATION

Sight	- 75 %
Hearing	- 13 %
Touch. Smell. Taste	- 12 %

AFTER 72 HOURS

1. People retain about 10 % of what they have heard.
2. People retain about 30 % of what they have seen.
3. People retain about 70 % of what they have heard and seen.
4. People retain about 90 % of what they have heard. seen and participated hands-on.

THE FLIP CHART STANDING EASEL

This is one of the most common and simplest visual aids employed today. Combining both ease of use and trouble-free operation, the flip chart has become one of the most frequently used aids to presenters around the world.

Advantages

- Very portable (paper can be separated from the easel or carried with the folded stand).
- Highly flexible in both ease of operation and where "last minute" changes are required.
- With use of "tabbing" (coding each page with a strip of masking tape to identify a page heading) the presenter is not restricted to page sequencing, but has the ability of random access when required.
- Can be quite effective visually when used in close distances to the audience (generally, this effect is lost when audiences are more than twenty to thirty feet away from the flip chart).

Disadvantages

- Generally, all flip charts should be prepared in advance.
- A definite "stand alone" aid (as compared to combining both visual and auditory effects in a sound/slide presentation).
- Audience must be relatively close to the flip chart for maximum effect.

HINTS ON FLIP CHART PRODUCTION

1. Before you begin work on your charts, analyze the content of your session and prepare an outline.

2. Break your session into steps and for each step select the key points which you wish to have visualized by words or drawings.

3. If you decide to use some sketches - and they add greatly to the visual impact - draft your drawings ahead and choose the simplest and most suitable.

4. Eliminate unnecessary information and avoid clutter. Use an extra sheet if necessary.

5. Use colour for emphasis.

6. When diagrams and statistics are involved - translate into images whenever possible.

7. Ruler, set square and compass are good tools and broad-tipped felt pens are preferable to pencils or regular pens.

THE BLACKBOARD

Like the flip chart, the blackboard is one of the simplest visual aids in use. although not being used as much as in years past.

Advantages

- Quite easy to use.
- Since the area surface of a blackboard is generally larger than a flip chart. it can be seen from a greater distance.
- Trouble-free operation.

Disadvantages

- More cumbersome to work with than a flip chart.
- Using chalk can be messy.
- Generally restricted to using one colour.
- Board must be washed after each use.

SOME CHALKBOARD TECHNIQUES

1. Use firm, bold and clear lines.
2. Letters and figures must be large enough to be seen.
3. Drawings should be large and space should be left around them.
4. The board should not become cluttered with material which competes for attention.
5. Erase unwanted material.
6. Prepare an outline in advance of the things you plan to put on the chalkboard.
7. If you have to do complicated drawings, do them before the class starts.
8. Arrange the room so that the board can be seen easily.

OVERHEAD PROJECTOR

The overhead projector is, perhaps one of the most common types of hardware in use today. due to its wide availability and simplicity of operation. It is used mainly with two types of transparencies:

1. The prepared verion. which is either completed in advance by the presenter, or prepared commercially through an outside source.

2. The "Do-It-Yourself" type which is accomplished through writing on single blank acetate sheets (either before or during the actual presentation) or drawing on a supplied acetate roll attached to the projector.

Advantages

- Usually very reliable to operate - even over extended periods of time.
- In most cases. easy to transport from one location to another.
- Widely available as a rental through audiovisual dealers.
- Very simple to operate.
- Usually. room lights can be quickly prepared for projector use.

Disadvantages

- Some projectors can be bulky to carry.
- Overhead projector transparencies can be difficult to store (due to their r elatively large size as compared to 35 mm slides).
- Care always must be taken not to overheat projector; otherwise damage to the motor or transparencies can easily occur.

VIDEO TAPE

Video taping (while being popular for quite some time) has become increasingly favoured through the accompanying rise of the video cassette recorder used in the home today. Widely available in a range of formats and cassette size, the medium has become a valuable resource in business presentations.

Advantages

- Video tape is easily transportable from one location to the next and can be quickly sent to various worldwide areas for immediate viewing (e.g., a business presentation filmed at the home office).
- Very flexible medium (combining visual and auditory experience).
- Tapes can easily be erased, as required.
- Can be mailed from one location to another with a minimum of difficulty.
- Video can be created "in house".
- Generally, during audience viewing, room does not have to be entirely dark.
- Relatively easy to train an operator to run the equipment.

Disadvantages

- Outside video productions can become expensive in relation to "do-it-yourself" filming.
- Requires hardware support equipment (camera, monitor and cassette deck).
- Video tapes can quickly become outdated.
- Proper video taping usually requires advanced preparation (such as amount of light required during filming and/or effective recording sound levels).
- Like 16 mm film, video tape can easily deteriorate if not properly stored.

EMPLOYEE OWNERSHIP TRAINING PROGRAM

TRAIN THE TRAINERS

PARTICIPANT'S MANUAL

MARCH 1995

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Train the Trainer

A course for those conducting training in the workplace

Sponsored by

Share Participation Foundation

1995

Share Participation Foundation Employee Ownership Training Program

Train the Trainer Course

Goal: This course is designed to provide the participants with an overview of the theory of adult education and practice in the application of the theory. Participants will examine the needs of adult learners and develop curriculum to meet the learner needs. A variety of teaching techniques will be demonstrated and practiced in the course. Measurement and evaluation of student performance and teaching effectiveness are included.

Objectives:

At the completion of the course the participants will:

1. Conduct a needs assessment with a group of learners.

2. Develop a curriculum outline for a topic of their own choice.

3. Complete a Learning Activity Plan for that topic.

4. Demonstrate effective teaching delivery methods.

5. Assess and evaluate their own teaching delivery and those of others in the class.

Time: 30 hours

Evaluation:

Completion of self and peer evaluation of teaching techniques demonstrated during course.

Schedule:

Day 1

Introduction
Adult Educator Role
Adult Learner Assessment

Day 2

Curriculum
Goals, objectives. domains of learning
Teaching Strategies

Day 3

Measurement and Evaluation

Day 4

Student presentations
= 3/4 hour each
Each student in group completes peer evaluation form

Day 5.

Student presentations continue
Wrap up - question and answers
Course evaluation

Teaching Methodology:

Various instructional strategies are employed in this course. The training consists of a blend of instructor-led, self-awareness development exercises. hands-on exercises applying to the workplace, etc. Particular emphasis will be placed on teaching participants the importance of establishing clear and measurable standards and conditions in performance and learning objectives.

Recommended
Class size: 12 maximum

Program Lesson Plans

Day 1

Introduction
Adult Learners - learning styles
Adult Learner assessmenet
Role of Adult Educators
The art of asking questions

Day 2

Curriculum Development

Needs analysis, topic analysis, learning goals, objectives, sequencing topics, resource materials, learning activity plans, teaching.

Teaching Strategies

lecture, group discussions, demonstrations, field trips, learning circles, role plays, brainstorming, guest speakers.

Use of Audio Visual resources

Overhead projectors, video tapes, flip charts and blackboards, slide projectors.

Day 3

Types of Evaluation

Outcome, process and structure

Outcome - student feedback, designing quizzes and tests, demonstrations, questions to class, journal recording.
Process - designing questionnaires, getting feedback
Structure - designing questionnaires, making observations

Day 4

Student presentations - teaching topic of their own choice, using one or more teaching techniques; = 3/4 hour.
each student in group completes peer evaluation form for others in class;

Day 5

Student presentations continue

Course review

Course evaluations

Day 1.

Day one daily lesson plan

Topics to cover	Instruction Method(s)	Suggested timetable	Notes
Introduction	Ice breaker	20 min	
Course overview and daily lesson plan review	Lecture	10 min	
Participant readiness checklist	Checklist	10 min	
Participant expectations	Facilitation	20 min	
Understanding adult learning	Q/A	20 min	
Adult learning styles assessment	Facilitation	60 min	
- Break -		20 min	
Adult learner assesment	Q/A	60 min	
- Lunch -		30 min	
Role of adult educators	Q/A	60 min	
The art of asking questions	Discussion	30 min	
Daily evaluation	Review participant expectation exercise	20 min	

ICE BREAKER EXERCISE - INSTRUCTIONS

PARTICIPANTS NEED TO BE COMFORTABLE IN A LEARNING ENVIRONMENT IF THEY ARE GOING TO LEARN. EVEN IF THEY KNOW EACH OTHER AT WORK. ADULTS HAVE SOMETHING REAL TO LOSE IN A CLASS ROOM SITUATION. SELF-ESTEEM AND EGO ARE ON THE LINE WHEN THEY ARE ASKED TO RISK TRYING A NEW BEHAVIOR IN FRONT OF CO-WORKERS.

THE ICE BREAKER INVOLVES ACTUALLY HAVING TO FIND OUT SOMETHING ABOUT EACH OTHER. IT ENCOURAGES PARTICIPATION AND LESSENS THE FORMALITY.

THE ICE BREAKER SHOULD TAKE NO MORE THAN 10 MINUTES TO COMPLETE. PARTICIPANTS ARE FREE TO WALK AROUND TO COLLECT NAMES. DISCUSSION IS OPTIONAL.

FIND SOMEONE WHO:

	NAME
1. Has a pet bird.	_____
2. Speaks a second language.	_____
3. Has three children.	_____
4 Was born under your astrological sign.	_____
5. Has more than one middle name.	_____
6 Likes to cook.	_____

RULES

a) You can use each person's name only once!
b) You may be asked to prove that you have found people with these characteristics
c) Time to complete - 10 minutes.

TRAINEE READINESS CHECKLIST

STUDENT TO REVIEW BEFORE STARTING EVERY DAY

ARE YOU:		YES	NO
1.	OPEN TO NEW IDEAS?	O	O
2.	WILLING TO LISTEN?	O	O
3.	POSITIVE ATTITUDE?	O	O
4.	NOT TOO TIRED?	O	O
5.	WILLING TO PARTICIPATE?	O	O
6.	OPTIMISTIC ABOUT OUTCOMES?	O	O
7.	KNOW SOMEONE IN THE GROUP	O	O
8.	HAVE MATERIALS NEEDED?	O	O
9.	CAN HEAR INSTRUCTOR?	O	O
10.	CAN SEE (FLIPCHART/CHALKBOARD/T.V.)?	O	O
11.	FAMILIAR WITH SURROUNDINGS?	O	O
12.	HAPPY TO BE HERE TODAY?	O	O

How do you like to learn?

Understanding adult learning

The Old View of Learning?

The New View of Learning

Learning aids in student manual:

1. Principles of learning
2. Characteristics of adult learners
3. General principles of learning - self - assessment
4. 30 things we know for sure about adult learning.

Understanding learning learning styles

Although you may not be aware of it, you have your own style of learning. which is as distinct a part of you as your handwriting. Our academic successes are often influenced by how well our learning styles match the specific demands of different disciplines or teachers.

To help students make the most of their own skills there is a Learning Style Inventory (LSI).

We are going to complete our own learning style inventory. The purpose is to make you aware of the need to know the kind of learners you are teaching so you can adjust your teaching style to be more effective.

Learning-Style Inventory

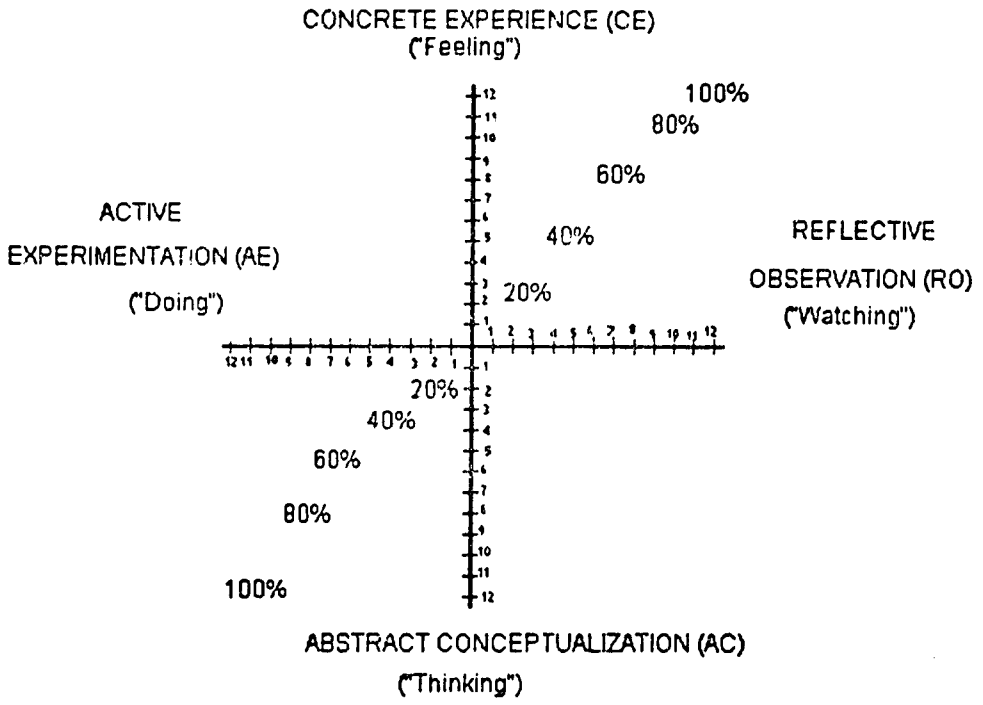
1. When I learn:	___I like to deal with my feelings.	___I like to watch and listen.	___I like to think about ideas.	___I like to be doing things
2. I learn best when:	___I trust my hunches and feelings.	___I listen and watch carefully.	___I rely on logical thinking.	___I work hard to get things done.
3. When I am learning:	___I have strong feelings and reactions.	___I am quiet and reserved.	___I tend to reason things out.	___I am responsible about things
4. I learn by:	___feeling.	___watching.	___thinking.	___doing.
5. When I learn:	___I am open to new experiences.	___I look at all sides of issues.	___I like to analyze things, break them down into their parts.	___I like to try things out.
6. When I am learning:	___I am an intuitive person.	___I am an observing person.	___I am a logical person.	___I am an active person.
7. I learn best from:	___personal relationships	___observation.	___rational theories.	___a chance to try out and practice
8. When I learn:	___I feel personally involved in things.	___I take my time before acting.	___I like ideas and theories.	___I like to see results from my work.
9. I learn best when:	___I rely on my feelings	___I rely on my observations	___I rely on my ideas.	___I can try things out for myself.
10. When I am learning:	___I am an accepting person.	___I am a reserved person.	___I am a rational person.	___I am a responsible person.
11. When I learn:	___I get involved.	___I like to observe.	___I evaluate things.	___I like to be active.
12. I learn best when:	___I am receptive and open-minded.	___I am careful.	___I analyze ideas.	___I am practical.
TOTAL the scores from each column: and transfer to next page.	☐ Column 1	Column 2	Column 3	Column 4

The Cycle of Learning

The four columns that you have just totaled relate to the four stages in the Cycle of Learning from Experience: Concrete Experience (CE), Reflective Observation (RO), Abstract Conceptualization (AC), and Active Experimentation (AE). Enter your total scores from each column:

Column 1 (CE): ☐ Column 2 (RO): ☐ Column 3 (AC): ☐ Column 4 (AE): ☐

In the diagramm below, put a dot on each of the lines to correspond with your CE, RO, AC, and AE scores. Then connect the dots with a line so that you get a "kitelike" shape. The shape and placement of this kite will show you which learning modes you prefer most and which you prefer least.



The Learning-Style Inventory helps you understand your strengths and weaknesses as a learner. It measures how much you rely on four different learning modes that are part of a *four-stage cycle of learning*. Different learners start at different places in this cycle. Effective learning uses each stage. You can see by the shape of your profile (*above*) which of the four learning modes you tend to prefer in a learning situation.

On the next page are explanations of the different learning styles.

The Four Stages of the Learning Cycle and Your Learning Strengths

Concrete experience (CE)

This stage of the learning cycle emphasizes personal involvement by people in every situations. In this stage, you would tend to rely more on your feelings than on a systematic approach to problems and situations. In a learning situation, you would rely more on your ability to be open-minded and adaptable to change.

Learning from feelings

- Learning from specific experiences
- Relating to people
- Sensitivity to feelings and people

Reflective observation (RO)

In this stage of the learning cycle, people understand and situations from different points of view. In a learning situation your would rely on patience, objectivity, and careful judgment but would not necessarily take any action. You would rely on your own thoughts and feelings to form opinions.

Learning by watching and listening

- Careful observation before making a judgment
- Viewing things from different perspectives
- Looking for the meaning of things

Abstract conceptualization (AC)

In this stage, learning involves using logic and ideas, rather than feelings, to understand problems or situations. Typically, you would rely on systematic planning and develop theories and ideas to solve problems

Learning by thinking

- Logical analysis of ideas
- Systematic planning
- Acting on an intellectual understanding of a situation

Active experimentation (AE)

Learning in this stage takes an active form - experimenting with influencing or changing situations. You would have a practical approach and a concern with what really works, as opposed to watching situation. You value getting things done and seeing the results of your influence and ingenuity

Learning by doing

- Ability to get things done
- Risk taking
- Influencing people and events through action

Remember:

1. The LSI gives you a general idea of how you view yourself as a learner.
2. Because learning is a cycle, the four stages occur time after time. Often in a learning experience you may have to go through the cycle several times.
3. The LSI does not measure your learning skills with 100% accuracy. You can find out more about how you learn by gathering information from other sources - your friends, instructors, and co-workers.

What is your dominant learning style?

Thinker

Feeler

Watcher

Doer

How does knowing participant learning styles help the instructor.

Adult Learner Assessment

What do you need to know about the learners in your group, before you start planning the course?

Why do adults learn? What motivates them?

List six reasons why adults enroll in courses.

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____

What are some of the barriers adults have as adult learners?

How can the instructor remove these barriers?

Learning aids in student manual:

1. Barriers to adult learning.
2. Typical things that help learning.

Role of adult educators

Who was your best teacher? Why?

Who was your worst teacher? Why?

Characteristics and Behaviors of Effective Adult Educators.

Learning aid in participant manual:
1. Characteristics of an effective teacher.

ART OF ASKING QUESTIONS

Most effective training sessions promote participation. Trainers encourage participation in various ways such as asking people for their observations. opinions or reactions: giving specific assignments; using buzz groups: asking for volunteers; responding positively to questions and comments; getting responses to scenarios; and reinforcing the good contributions that people make to the session.

The art of asking questions is especially important in promoting participation and keeping a session moving in the right direction.

Six Question Types	Examples
1. Open questions: invite a true expression of opinion and feelings; show the other person that you are interested and want to understand; cannot be answered "yes" or "no".	1.
2. Factual questions: seek data. information. facts: sometimes require only "yes" or "no" answer.	2.
3. Leading questions: suggest the desired answer.	3.

THE ART OF ASKING QUESTIONS (Cont'd)

4. Controversial questions: stimulate new thoughts; challenge traditional concepts. 4.

5. Provocative questions: stimulate new thoughts; challenge traditional concepts. 5.

6. Directive questions: direct the discussion toward positive factors toward perceived areas of agreement. 6.

Day 2.

Day 2. Daily Lesson Plan

Topics to Cover	Instruction Method(s)	Suggested Timetable	Notes
Review daily lesson plan	Lecture	10 min	
Curriculum	Discussion	10 min	
Needs analysis	Lecture	10 min	
Topic analysis	Exercise	20 min	
Learning goal	Lecture	10 min	
Learning objectives	Lecture	60 min	
Break		20 min	
Sequence topics	Discussion	20 min	
Resource materials	Discussion	20 min	
Learning activity plans	Lecture	30 min	
Lunch		30 min	
Teaching techniques	Discussion	70 min	
Audio visual resources	Discussion	30 min	
Daily evaluation and wrap up		20 min	

Curriculum Development

Curriculum

The curriculum is the very heart of learning. The topic must inspire curiosity and questions, challenges and re-thinking previously held beliefs.
Effective curriculum builds on the existing knowledge or skill and is only valuable if it adds new knowledge or skill.
Today we are going to learn about curriculum and how it is developed

Curriculum is a plan which shows **what** the students will be learning, **why** they will be learning it, and **how** the learning will take place.

Steps in Curriculum Development -

Needs Analysis

Topic Analysis

Teaching Goal

Learning Objectives

Sequence Topics

Resource Materials

Learning Activity Plans

Teaching

Evaluation

1. Needs Analysis

Some questions to guide your analysis of learning needs.

a. Who are the learners?

b. What do they already know? How can you find this out before the class begins?

c. What do they need to learn?

d. Why do they need to learn it?

e. What is the best way for them to learn it?

f. Where is the best person to teach them?

g. Who is the best person to teach them?

h. When is the best time to schedule this learning?

Effective training means you have to meet the learners where they are and help to bring them to where they want to be.

2. Topic Analysis

At this stage of curriculum development you take a careful look at the topic you are going to teach and write down all the steps that are involved.

For example, let's consider the steps involved in checking the oil in a car:

park car on flat surface, have engine cold and turned off; open hood. find the dip stick, pull it out, wipe it clean, put it back, pull it out again. observe the amount of oil on the dip stick, assess whether it is too much. just right, or too little, put the dip stick back.

Give me another example and we'll go through the logical steps to show (teach) someone how to do it.

(Suggestions):

1. Keep it short and simple e.g
   - Bake a pie
   - Saw a plank
   - Climb a ladder

3. Learning Goal

Goal is a broad statement that describes the overall outcome of the course.

What word or phrase best describes the goal of this course.

4. Learning Objectives

Objective is a precise careful statement about exactly what the student will be able to know, do or say after the class. One set of criteria to check your objectives is the SMART criteria.

S - specific

M - measurable

A - attainable

R - realistic

T - time limited

Traditionally, teachers sort their objectives into three categories or domains. The three domains or types of objectives are cognitive, affective, and psychomotor.

Cognitive refers to our understanding or knowledge.
e.g the learner can describe six characteristics of effective teaching.

Another example?

Affective refers to the way we feel about something, or our attitude.
e.g. the learner demonstrates a sense of humor during the lesson.

Another example?

Psychomotor refers to our ability to do something.
e.g. the learner correctly uses the overhead projector.

Another example?

Cognitive Objectives

For your subject area, write 3 objectives, in the cognitive doman (level)

Remember S M A R T criteria.

1.

2.

3.

In the Cognitive Domain there are six levels of thinking. Each level requires a higher level of thought or reasoning:

1ST Level	Knowledge	remember or recognize something. without necessarily understanding what it is or how to use it. define, distinguish, label, list. match. name, outline, reproduce, select.
2nd Level	Comprehension	understand the material without necessarily relating it to anything else. convert, defend, distinguish. estimate. explain, extend, generalize. infer. paraphrase, predict, restate, rewrite.
3rd Level	Application	using a general concept to solve a problem. calculate, change, compile, demonstrate. discover, manipulate, modify. predict. relate, show, solve.
4th Level	Analysis	Breaking something down into parts appraise, break down, compare. contrast. discriminate, distinguish. identify. illustrate, infer, relate, select. separate. subdivide.
5th Level	Synthesis	create something new by combining different ideas. arrange, assemble, categorize, combine. compile, compose, construct, create. design, devise, formulate, generate. modify, propose, rearrange. reconstruct. reorganize, revise, rewrite, summarize. tell.
6th Level	Evaluation	judge the value of methods. as applied to a particular situation. appraise, assess, compare, conclude. contrast, discriminate, interpret. judge. justify, rate, summarize

Affective and Psychomotor domains

Affective		
1st Level	Receiving	willing to receive information from others
		asks, chooses, describes, follows, gives. holds. identifies.
2nd Level	Responding	getting familiar with certain rules and regulations
		answers, assists, complies, conforms. greets. helps. performs, practices.
3rd Level	Valuing	willing to hear all sides of an argument; being committed
		completes, describes, explains, follows. initiates. joins. justifies, proposes, reads, reports. selects. shares, studies, works.
Psychomotor		
1st Level	Imitation	repeats what someone has shown
2nd Level	Manipulation	follows directions and practices carries out activity following instructions not just imitating.
3rd Level	Precision	improved coordination and refined performance
		can perform skill without model or directions

Practice writing objectives for affective and psychomotor domans in your subject area.

1.

2.

3.

Learning aids in participant manual

1. Androgogy: The study of how adults learn.

2. Maslow's hierarchy of needs.

5. Sequence Topics

At this stage you decide what order to present the information. Decide on the logical steps to follow and build on previous knowledge that the learners have.

As you sequence the topics remember that the learners have different learning syles. Some will want to get right into it and start working with the equipment and others will need to know what all the steps are before they can begin.

In this stage you also decide how many lessons you will need and how long each will be.

Return to example of checking oil in car. Can the steps be reduced, combined, increased?

How does the instructor assess if the sequence of topics is correct?

Learning aid in participant manual:
1. Establishing training priorities.

6. Resource Materials

In preparing for your lessons, research what material is available to assist you present the information to the class. This may involve video tapes, text book, articles in magazines, or handouts that have already been prepared.
Review these materials and decide which ones you want to use for your class.

What resource materials would you use to teach someone how to: (choose one)

- operate an electric drill
- sew on a button
- operate a computer

7. Learning Activity Plans (lesson Plans)

Learning Activity Plans (LAPs) are an example of lesson plans to guide your teaching. Each time you prepare a presentation for a group you must complete a LAP.

The sections of a Learning Activity Plan include:

Name or Topic, Time, Learning Objectives, Resource Materials, Equipment. Notes & Learning Activities. Evaluation.

The type of information to include in each section is described in the following example.

Name / Topics (topics)
Time (how long the lesson)
Objectives/Learning Outcomes
What the students can expect to know or do by the end of the class.
Resource Materials
List of books, articles, references, slides, OHPs, VCRs, handouts, etc.
Equipment
List tape player, VCR, flip chart, etc.; special equipment required for a demonstration; supplies for use by students.

Notes	Activities
Use this column to keep track of time and clues for activities, references in texts, etc.	In this section you make your "speaking notes." What you are going to say, questions for the class, instructions to the class, etc.

Some codes:

QTC - questions to class	AR - anticipated responses
OHP- overhead projector	FC - flip chart
SP - slide projctor	VCR - video cassette recorder

Note: Advise students they will produce a learning activity plan for their presentations on day 4.

Learning aid in participant manual:
1. Sample learning activity plan.
2. Effective program planning cycle

8. Teaching Techniques

Teaching techniques should vary according to your teaching style, the participants learning style and the subject being taught. Often several techniques are used at the same time for variety and to ensure that all learners are taught.

There are many techniques available to help you create an environment in which people can learn. The techniques are listed below:

ICE BREAKERS

LECTURE

GROUP DISCUSSION

ASKING QUESTION

LEARNING CIRCLES

BRAINSTORMING

ROLE PLAYING

DEMONSTRATIONS

CASE STUDIES

GUEST SPEAKERS

FIELD TRIPS

Audio Visual Resources

All learning is done using our five senses: taste, touch, sight, sound and smell. Thus, the use of audio video and printed resources are a necessary part of all instruction programs.

Despite how user-friendly most of these teaching aids are, they are often ignored or used incorrectly. The keys are to know your audience and to plan ahead (nothing is more embarrassing than turning on a projector which has a burnt bulb)

Audio - Visual resources include:

- Over-head projectors
- Posters
- Videos
- Cut - Away Models
- Blue-Prints/schematics
- Film/slide projectors
- Wall charts/graphics
- Flip Charts/Black boards
- Displays
- Audio tapes

Any others?

Tips on using Audio-visual resources

1. Flip Charts:
   - Avoid taping to painted walls (causes paint to peel off)
   - Use colored pens for emphasis.
   - Prepare flip charts in advance.
   - Always stand to side of flip chart while writing

   Any other hints?

   -
   -
   -

2. Over-head Projectors:
   - Stand/sit next to projector and point to transparency to illustrate (Do not stand in light)
   - Use colored pens for emphasis
   - Ensure spare bulb. extension cord and extra transparencies are available
   - Have copies of over heads for participants so they don't have to write while you are speaking.

   Any other hints?

   -
   -
   -

3. Video-tape (VCR)/Films/slides

- Insure extra bulbs, extension cord and a screen is available
- Try to position unit on an angle to the class (Depending on seating arrangement) for better sight lines.
- Avoid using videos/films after lunch or late in the day (together with a darken d room puts participants to sleep.

Any other hints?

-
-
-

4. Wall charts/Graphs/schematics Etc.

- Ensure that you have the most recent version
- Sometimes they are hard to see
- Avoid markings, stains etc., for future use

Any other hints?

-
-
-

Learning aids in participant manual:

1. The flip chart or standing easel
2. The black board
3. Over-head projector
4. Video tape

Day 3.

This is the Half-way point in the course

Topics to Cover	Instruction method(s)	Suggested time table	Notes
Daily Lesson plan			
overview	lecture	10 min	
Introduction			
to evaluation	lecture	30 min	
Outcome	lecture	10 min	
Process	lecture	10 min	
Structure	lecture	10 min	
Evaluation techniques	exercise	90 min	
Student	break	20 min	
Participant topics	discussion	40 min	
Selection			
	Lunch	60 min	
Presentation outline	facilitation	60 min	
Daily Evaluation and			
wrap-up	discussion	20 min	

Introduction to Evaluation

Evaluation should begin long before teaching begins. There are many things to evaluate and many ways evaluations are done. Here are just a few:

1. Evaluation of training needs:
   - what is the need or problem?
   - will training solve it?
   - when should training take place?
   - where should training occur?
   - will it be cost-effective?

2. Evaluation of potential trainees
   - what do they already know about the subject?
   - do they even want training?
   - how many are there?
   - what jobs do they do now?
   -why are they taking the training?
   - what are their learning styles?

3. Evaluation of your Role
   - what is expected of you?
   - are you a subject expert?
   - do you have or need any help?
   - are you prepared?

Evaluation of workplace training (if it even occurs) is usually very informal (sometimes only attendance is taken). This tends to diminish the role that training plays in making companies profitable.

On the other hand, adult learners do not like to be threatened with failure and so evaluation needs to carefully thought through and handled wisely.
Learners and teacher benefit from carefully thought-out evaluation activities.
To the learner they provide ...

- realistic short term goals
- motivation to study notes, texts, and handouts
- increased retention of learned material
- direct feedback on progress
- objective evidence of accomplishment

Teachers and course planners derive ...

- ways to assess the appropriateness of instructional objectives
- evaluation of teaching techniques and materials
- feedback on teaching effectiveness
- support and reward for everyone's efforts

Tests should reflect clearly defined instructional objectives.
The full scale of evaluation is too broad for this course. However, it is helpful to know the variety of evaluation techniques and their uses.

Evaluation has 3 categories:

out come- refers to a specific answer or measurable result.

process - refers to knowing means to the answer as well as the answer

structure -refers to formulating a rational, formula or observation

Evaluation techniques

There are several evaluation techniques just as there are various teaching techniques. The selection of evaluation technique depends on the subject, the learning objective and the time available.
Evaluation varies from truefalse tests to 10 page essay questions. No two instructors would construct the same evaluation for the same topic. This is because learning is subjective and each would emphasize a different aspect of the topic.

Now we are going to constuct a truefalse test for the lesson on checking the oil in a car. You have 15 minutes to produce 5 questions from this lesson refer to day 2.
Record your answers on a separate sheet of flip chart paper (print large).

Do: When all students are complete. review their questions, select the most common questions submitted and construct a class test.
Have students compare the class test to the one they produced.

This execise is meant to demonstrate 3 things:

1. Different instructors emphasize different aspects of the same topic.

2. Even simple topics can be difficult to measure.

3. There is no perfect evaluation technique (would a demonstration have been better than a true-false test in this case?)

It is important to see evaluation as a learning technique instead of just a measurement tool. Evaluation provides a review opportunity of the topic and can spark curiosity and enquiry. For this reason, tests and evaluation must not be threatening or their learning value is lost.

Here is a list of evaluation techniques. Supply 2 topics which suit each technique:

1. Tests quizzes -
2. Demonstrations-- Journal Recording.
3. Journal Recording-
4. Questionnaires -
5. Essay exams-
6. Self -Assesment-

Hints about Evaluation

1. Minimize words such as test. exam, pass, fail etc.
2. Provide advance warning of evaluation
3. Evaluate only what has been taught.
4. Vary evaluation techniques (as you vary teaching techniques).
5. Always provide feed back to evaluation.
6. You must be present to learn but learning does not come from merely being present.

Notes:

1. Presentations are 30-45 minutes long. This includes presentation, peer evaluation and feedback. Consequentnly presentations should be no more than 10-15 minutes.

2. Written evaluation and verbal feedback are both necessary and valuable to participants.

3. Participants are free to choose any topic which can be presented adequately in 10-15 minutes. Props, aids and audio-visual resources are welcome.

4. Some presentations tend to exeed the time limit. A timer or alarm clock is useful here.

Participant presentation instuctions:

Using what you know about a topic and what you have learned in this course. prepare and present a lesson on a topic of your choice.

Presentations should be 10-15 minutes maximum. You can use props, visual ads. other participants etc. to assist you.

You must present a lesson plan to the instructor before you begin.

All participants are to present lessons. Selection will be random order unless there are volunteers.

Your peers will provide a written evaluation of your presentetion and verbal feedback when you are done. This is constructive critique to help make you an effective presenter

Good Luck!

Participant Presentation Peer Evaluation Form
(To be completed immediately :fter student presentation)

Readiness to instruct

1. Did the presenter appear ready to instruct? yes ( )no ( )
2. Did the presenter have the materials. notes, aids ready? yes ( ) no ( )
3. Did the presenter make any aecomodations (move chairs etc) to help you learn? yes ( ) no ( )

Comments?

Delivery Style

1. Did the teaching technique suit the topic? yes ( ) no ( )
2. Did the presenter use audio visual aids effectively? yes ( ) no ( )
3. Did the presenter speak clearly? yes ( ) no ( )
4. Did the presenter involve you in the lesson? yes ( ) no ( )

Comments?

Effectiveness

1. What one thing could the presenter do to impove?

Comments?

Day 4.

Daily lesson plan

Topics to cover	Instruction method(s)	Suggested time table	Notes
Participant presentations	observation	1/2-3/4 hour each	
Daily evaluation and wrap up		20 min	

Day 5.

This is the final day of the course.

Day 5.

Daily lession plan

Topics to cover	Instruction method(s)	Suggested time table	Notes
Participant presentations continue	observation	1/2-3/4 hour each	
course review	review	60 minutes	
course and instructor evaluations	participation	30 min	

Close

SHARE PARTICIPATION FOUNDATION

EMPLOYEE OWNERSHIP TRAINING PROGRAM

COURSE EVALUATION FORM
(to be completed by participants immediately following course)

NAME OF COURSE/WORKSHOP_____

INSTRUCTOR_____

1. WHAT IS YOUR OVERALL EVALUATION OF THE COURSE/WORKSHOP?

EXCELLENT ( ) GOOD ( ) SATISFACTORY ( ) FAIR) POOR ( )

2. COMMUNICATIONS/PROMOTION:

a)DID YOU HEAR ABOUT THIS COURSE/WORKSHOP BY: PAMPHLET ( ) FRIENDS ( ) NOTICE AT WORK ( ) YOUR SUPERVISOR ( ) OTHER ( )

b)DID THE PAMPHLET PROPERLY DESCRIBE THE COURSE/WORKSHOP? YES ( ) NO ( )

3. COURSE/WORKSHOP

a) WERE YOU PROVIDED WITH A COURSE OVERVIEW? YES ( ) NO ( )

b)WERE YOUR PERSONAL OBJECTIVES MET? YES ( ) NO ( )

c)WAS THE CLASSROOM/FACILITY ADEQUATE? YES ( ) NO ( )

d)WAS THE COURSE/WORKSHOP:
too long ( ) just right ( ) too short ( )

4. PROGRAM DEVELOPMENT

a) WHAT OTHER COURSES WOULD YOU LIKE TO TAKE?
1)
2)
3)

b)WHAT OTHER COURSES SHOULD BE DEVELOPPED?
1)
2)
3)

GENERAL COMMENTS

_____

_____

THANK YOU

SHARE PARTICIPATION FOUNDATION

EMPLOYEE OWNERSHIP TRAINING PROGRAM

INSTRUCTOR EVALUATION FORM
(to be completed by participants immediately following course)

NAME OF COURSE_____

INSTRUCTOR_____

1.INSTRUCTOR READINESS

a)DID THE INSTRUCTOR APPEAR READY TO TEACH? YES ( ) NO ( )

b)WERE THE TRAINING MATERIALS AVAILABLE FOR YOU AT THE BEGINNING OF THE COURSE? YES ( ) NO ( )

c)WAS THE CLASSROOM READY ? YES ( ) NO ( )

d)ANY COMMENTS?_____

_____

_____

2 DELIVERY STYLE

a) DID THE INSTRUCTOR INVOLVE YOU IN THE COURSE? YES ( ) NO ( )

b) DID THE INSTRUCTOR DEVELOP AN ENJOYABLE LEARNING ENVIRONMENT? YES ( ) NO ( )

c) WAS THE PACE OF THE COURSE: fast ( ) adequate ( ) slow ()

d) ANY COMMENTS? _____

_____

_____

3 EFFECTIVENESS

a) DID THE INSTRUCTOR HOLD YOUR ATTENTION FOR THE ENTIRE COURSE? YES ( ) NO ( )

b) DID THE INSTRUCTOR KNOW THE SUBJECT MATTER THOROUGHLY? YES ( ) NO ( )

c] DO YOU FEEL YOU HAVE LEARNED? A LITTLE ( ) SOME ( ) A LITTLE ( )

d) ANY COMMENTS?_____

_____

THANK YOU!

Participant Learning Aids

PRINCIPLES OF LEARNING

1. PRINCIPLE OF READINESS

We learn best when we are ready to learn. You cannot teach someone something for which he or she does not have the necessary background of knowledge, maturity, or experience. When people are ready and have sound reasons for learning, they profit from teaching and make progress in learning.

2. PRINCIPLE OF ASSOCIATION

It is easier to learn something new if it is built upon something we already know. In training or teaching, it is best to proceed from the known to the new, to start with simple steps (based on what the learner already understands or can do) and gradually build up to the new and more difficult tasks or ideas. Make full use of comparison and contrast, of relationships and association of ideas.

3. PRINCIPLE OF INVOLVEMENT

For significant learning to occur, learners must be actively involved in the learning process. The more senses involved (hearing, seeing, tasting, smelling, feeling), the more effective the learning. The more fully the learners participate in the learning process, the more effectively they learn.

4. PRINCIPLE OF REPETITION

Repetition aids learning, retention, and recall. Conversely, long disuse tends to cause learned responses to weaken and be forgotten. Application and practice are essential. Accuracy should be stressed before speed, to avoid learning a wrong habit that must later be "unlearned."

5. PRINCIPLE OF REINFORCEMENT

The more a response leads to satisfaction, the more likely it is to be learned and repeated. For best results in a teaching/learning situation, accentuate the positive (praise, reward, recognition, success). Also, breaking complex tasks down into simple steps allows the successful learning of one step to help motivate learning the next one. When learning is pleasant and beneficial, people more readily retain what they have learned, and are more likely to want to learn more. Successful learning stimulates more learning.

SELF-ASSESSMENT

GENERAL PRINCIPLES OF LEARNING

	T	F
1. Human beings have a natural potential for learning.	____	____
2. We learn most rapidly those things which satisfy our needs, as we perceive them.	____	____
3. We tend to learn best by doing.	____	____
4. Learing tends to be maximized when the learner participates in the learning process.	____	____
5. We learn new things more easily by associating them with the old.	____	____
6. The goals of learning must be clear.	____	____
7. Effective learning is more likely when feedback is direct and frequent.	____	____
8. Error is part of the learning process.	____	____
9. The most useful learning in the modern world is the learning process of learning.	____	____
10. Learning is life, not preparation for life.	____	____

The following space has been provided for you to express your feelings as you step through this exercise.

CHARACTERISTICS OF THE ADULT LEARNER

Learning Characteristics of ADULTS	Adapting Content and Techniques to Meet Their Needs
Uneasiness and possible anxiety resulting from long absence from the classroom.	Create an easy, informál, friendly atmosphere. Ask what they feel they will contribute to class in terms of the content or concepts to be covered.
Resistance to change due to "set" ways of doing things.	Provide for the group to analyze situations which can lead to inner motivation for change rather than outside pressure or "telling". Ask for "I do it this way" contributions.
Unfamiliarity and possible frustration with trappings of education enrollment. registration grading. record keeping.	De-emphasize these aspects in the classroom when possible. Streamline roll taking, record keeping, and other routine tasks unrelated to learning. Avoid Words "homework" or "assignment". Use "bring examples for discussion", "be aware of", etc.
Preoccupation with outside responsibilities - earning a living. caring for a family. running a home. etc.	Relate content to real life problems. Use real-life situations and experiencese in problem-solving. Include content designed to make life a little bit easier and more satisfying for students. Ask participants to choose subjects they need and can use now if possible.
Approach learning with a strong sense of responsibility and come to class voluntarity.	Keep interest alive by making classes challenging and stimulating. Give students an opportunity to evaluate and make suggestions during the course, but be willing to accept negative evaluations and implement change.
Bring a broad background of experience to the classroom.	Use personal experiences of students in planning and teaching. Create an opportunity for students to learn from each other.

Need to feel that time is well spent and that material is relevant and practical.	Keep content and approach down-to-earth, practical rather then theoretical. Organize and prepare material in advance so class time is not wasted. Bring in experts to present certain material and viewpoints.
May want social satisfaction and interaction through informal class organization.	Create a relaxed atmosphere. Give students time to socialize, get acquainted, enjoy each other.

Adapted from:
Consumer Education in An Age of Adaptation,
by Sally R. Campbell. Sears Educator Resource Series.

30. THINGS WE KNOW FOR SURE ABOUT ADULT LEARNING

A variety of sources provides us with a body of fairly reliable knowledge about adult learning. This knowledge might be divided into three basic divisions: things we know about adult learners and their motivation, things we know about designing curriculum for adults, things we know about working with adults in the classroom.

Motivation to Learn

1. Adults seek out learning experiences in order to cope with specific life-change events - e.g., marriage, divorce, a new job, a promotion, being fired, retiring, losing a loved one, moving to a new city.

2. The more life change events an adult encounters, the more likely he or she is to seek out learning opportunities. Just as stress increases as life-change events accumulate, the motivation to cope with change through engagement in a learning experience increases.

3. The learning experiences adults seek out on their own are directly related - at least in their perception - to the life-change events that triggered the seeking.

4. Adults are generally willing to engage in learning experiences before, after, or even during the actual life-change event. Once convinced that the change is a certainty, adults will engage in any learning that promises to help them cope with the transition.

5. Adults who are motivated to seek out a learning experience do so primarily because they have a use for the knowledge or skill being sought. Learning is a means to an end, not an end in itself.

6. Increasing or maintaining one's sense of self-esteem and pleasure are strong secondary motivators for engaging in learning experiences.

Curriculum Design

7. Adult learners tend to be less interested in, and enthralled by, survey courses. They tend to prefer single-concept, single-theory courses that focus heavily on the application of the concept to relevant problems. This tendency increases with age.

8. Adults need to be able to integrate new ideas with what they already know if they are going to keep - and use - the new information.

9. Information that conflicts sharply with what is already held to be true. and thus forces a re-evaluation of the old material, is integrated more slowly.

10. Information that has little "conceptual overlap" with what is already known is acquired slowly.

11. Fast-paced, complex or unusual learning tasks interfere with the learning of the concepts or data they are intended to teach or illustrate.

12. Adults tend to compensate for being slower in some psychomotor learning tasks by being more accurate and making fewer trial-and-error ventures.

13. Adults tend to take errors personally and are more likely to let them affect self-esteem. Therefore, they tend to apply tried-and-true solutions and take fewer risks.

14. The curriculum designer must know whether the concepts or ideas will be in concert or conflict with the learner. Some instruction must be designed to effect a change in belief and value systems.

15. Programs need to be designed to accept viewpoints from people in different life stages and with different value "sets".

16. A concept needs to be "anchored" or explained from more than one value set and appeal to more than one developmental life stage.

17. Adults prefer self-directed and self-designed learning projects over group-learning experiences led by a professional, they select more than one medium for learning, and they desire to control pace and start stop time.

18. Nonhuman media such as books, programmed instruction and television have become popular with adults in recent years.

19. Regardless of media. straightforward how-to is the preferred content orientation. Adults cite a need for application and how-to information as the primary motivation for beginning a learning project.

20. Self-direction does not mean isolation. Studies of self-directed learning indicate that self directed projects involve an average of 10 other people as resources, guides, encouragers and the like. But even for the self-professed, self-directed learner, lectures and short seminars get positive ratings, especially when these events give the learner face-to-face, one-to-one access to an expert.

In the Classroom

21. The learning environment must be physically and psychologically comfortable; long lectures, periods of interminable sitting and the absence of practice opportunities rate high on the irritation scale.

22. Adults have something real to lose in a classroom situation.Self-esteem and ego are on the line when they are asked to risk trying a new behavior in front of peers and cohorts. Bad experiences in traditional education, feelings about, authority and the preoccupation with events outside the classroom affect in-class experience.

23. Adults have expectations, and it is critical to take time early on to clarify and articulate all expectations before getting into content. The instructor can assume responsibility only for his or her own expectations, not for those of students.

24. Adults bring a great deal of life experience into the classroom, an invaluable asset to be acknowledged, tapped and used. Adults can learn well-and-much-from dialogue with respected peers.

25. Instructors who have a tendency to hold forth rather than facilitate can hold that tendency in check - or compensate for it - by concentrating on the use of open-ended questions to draw out relevant student knowledge and experience.

26. New knowledge has to be integrated with previous knowledge. students must actively participate in the learning experience. The learner is dependent on the instructor for confirming feedback on skill practice: the instructor is dependent on the learner for feedback about curriculum and in-class performance.

27. They key to the instruction role is control. The instruction must balance the presentation of new material, debate and discussion, sharing of relevant student experiences, and the clock. Ironically, it seems that instructors are best able to establish control when they risk giving it up. When they shelve egos and stifle the tendency to be threatened by challenge to plans and methods, they gain the kind of facilitative control needed to effect adult learning.

28. The instructor has to protect minority opinion, keep disagreements civil and unheated, make connections between various opinions and ideas, and keep reminding the group of the variety of potential solutions to the problem. The instructor is less advocate than orchestrator.

29. Integration of new knowledge and skill requires transition time and focused effort on application.

30. Learning and teaching theories function better as resources than as a Rosetta stone. A skill-training task can draw much from the behavioral approach, for example, while personal growth-centered subjects seem to draw gainfurry from humanistic concepts. An eclectic, rather than a single theory-based approach to developing strategies and procedures, is recommended for matching instruction to learning tasks.

The next five years will eclipse the last fifty in terms of hard data production on adult learning. For the present, we must recognize that adults want their learning to be problem-oriented, personalized and accepting of their need for self-direction and personal responsibility.

From "30 Things We Know For Sure About Adult Learning", by Ron and Susan Zemke. Abstracted with permission from Training, The Magazine of Human Resources Development, June 1981.

BARRIERS T0 LEARNING
(Typical Barriers)

1. SELF

-lack of time
-inability to concentrate
-lack of motivation
-pre-occipied with other concerns (personal problems)
-personal biases about what is right and what is wrong
-fatigue, too tired !!!
-negative attitude about one's ability to learn
-slow reader. poor writer
-inferiority complex eg. I'm not good enough, I don't want to look stupid
-poor listening skiils
-perfectionist - I must be perfect I can't make any mistakes!
-lack of specific learning goals - goals may be"fuzzy" or unclear

2. TOPIC OR CONTENT

-unable to get my questions answered
-one participant monopized course time
-not getting enough feedback on assignments
-disorganized material or content
-being talked down to or feeling put down by instructor
-not knowing why some material is being taught
-not getting enough time to explore what I want to learn
-not enough written material or "poor" written material
-instructor's attitude is negative eg. learners are lazy, stupid. etc.
-physical climate eg. classroom is too hot, noisy, small, etc.

A. PSYCHOLOGICAL BARRIERS TO LEARNING - (internal)

1. Feeling Self Conscious
2. Fear of Being Ridiculed
3. Feeling Stupid (feel as though can't learn)
4. Guilt or Fear (eg. if one has been out of school for a long time)
5. Fear of Failure
6. Fear of Success
7. Changing one's self image, values, behaviour

B. PSYCHOLOGICAL BARRIERS - (relationships with others)

1. Changing Family Roles
2. Child Care Services
3. Fear of Being Selfish
4. Changing Friendship Patterns
5. Student/Teacher Relationships
6. Changing Work Roles

TYPICAL THINGS THAT HELP LEARNING

LEARNING WITH INSTRUCTOR PRESENT

A. PEOPLE

-enthusiastic instructors: their enthusiasm is transferred to the learner
-interest of others in my needs; me as a person
-desire to help me learn. grow
-having a link to the instructor
-taking away from the course written information that will help me "on the job"
-direct involvement in whatever is being instructed
-feeling comfortable with instructor and fellow learners
-able. willing to discuss topics with others

B. ENVIRONMENT

-friendy atmosphere in classroom
-change to discuss issues in-depth for greater understanding
-freedom to express ideas. thoughts
-clear instructions
-quiet. peaceful environment

C. AIDS IN LEARNING

-taking notes, visual aids. movies
-handouts on topic
-depth of material. hearing it
-short concise outlines. summaries
-pre-work before session
-some repetition
-need (personal) to know something or learn a skill
-in researching a topic I learn as much while looking as I do when I find it and read it.
-highlighting book material
-knowing what the final outcome or goal is.
-job focused - learning practical aspects first; theory later.

Characteristics of Effective Teacher

1. Explains things simply.
2. Gives explanations everyone understands.
3. Paces teaching - not too fast. not too slow.
4. Stays on topic until we understand.
5. Checks to make sure we understand, before moving ahead.
6. Teaches things step by step.
7. Tells us what we are going to do and how to do it.
8. Asks if we know what to do and how to do it.
9. Repeats things, using different words or examples, if we don't understand.
10. Explains something and gives examples.
11. Stops and lets us ask questions.
12. Tells us what we are going to do next.
13. Gives specific details.
14. Repeats things that are hard to understand or important to know.
15. Shows us how to do the work.
16. Explains the assignments and materials we need.
17. Gives samples or examples of correct work.
18. Gives us enough time to practice.
19. Answers our questions.
20. Has a good sense of humour.

ANDRAGOGY -
THE STUDY OF HOW ADULTS LEARN

Andragogil learning designs involve a number of features which recognize the maturity of the learner.

1. They are problem centered rather than content centered.
2. They encourage the active participation of the learner.
3. They encourage the learner to use past experiences in order to solve new problems.
4. The climate of learning must be co-operative rather than authority oriented.

MASLOW'S HIERARCHY OF NEED

PHYSICAL NEEDS	-Food, Clothing, Accomodation, Adequate Pay, Vacation, Benefits.
SAFETY & SECURITY NEEDS	-Freedom From Workplace Hazards. Disability and Retirement Benefits. Fair Treatment, Proper Supervision.
SOCIAL NEEDS	-Belonging, Love.
ESTEEM	-Recognition, Sense of Growth and Achievement.
SELF-FULFILLMENT	-When You become All That You are Capable of Becoming.

ESTABLISHING TRAINING PRIORITIES

Another step in identifying training needs is to establish priorities. The training needs identified can be ranked according to these criteria:

- What are the consequences if done incorrectly? These may range from minor to catastrophic and the tasks with more serious potential should receive a higher priority.

- How difficult is it to learn? The greater the difficulty, the greater the need for training.

- How often is it done? Tasks done more frequently would rank higher than those seldom done.

- How critical is the response time? Tasks which must be performed immediately when the need arises (i.e., use of a respirator) take precedence over those for which a person will have the time to ask someone for instructions.

- What is the history of deficient performance? Those jobs with a history of "problems" may indicate a high priority for training in how to do them.

Sample Learning Activity Plan

Name / Topic: Job Search Strategies

Time: 60 minutes

Objectives/Learning Outcomes
At the completion of the class the participants will:

1. explain networking as a job search strategy.
2. indentify four individuals as primary contacts for job search network.
3. demonstrate a meeting with a primary contact, through role play.

Teaching Strategies: lecturette, video, role play

Resource Materials
- student handouts
- Networking Interview video tape

Equipment
- Flip Chart, coloured markers, masking tape.
- VCR, Television

Notes	Activity
20 minutes	
QTC	How did you find you last job? In your experience, what techniques worked best? How jobs are found: types of openings - advertised and unadvertised
FC	Unadvertised / Advertised ~ Network of personal contacts / ~ Search firms & employment agencies ~ Companies you target / ~ Newspaper advertisements record percentages
	Networking
QTC	How many of you have used a network before? Ex. - finding a doctor, buying a car, etc. Networking - most effective strategy
FC	Draw network diagram
QTC	Ask participants to fill in chart, listing four primary contacts for them.

QTC What's the purpose of a networking meeting?

AR
- to find more about company
- increase contacts, get referrals
- pratice communication skills
- to get remembered.

Lecturette

Preparing for the contact
- preparing purpose and story
- keep it short and upbeat
- write out a draft and practice until you are comfortable

Role play

Ask for volunteer to be a contact for you

Role play a telephone call
- Introduce self
- emphasis on information to help job search
- stress not asking for a job rather looking for information
- ask for an appointment

Ask for two volunteers from class for a face-to-face interview

review procedure with them before demonstration

Ask participants to discuss how they felt about the exercise

QTC Ask others in class for comments.

Evaluation Review key points

Ask questions to class - mini quiz

PARTICIPATION

PATTERNS

PARTICIPATION PATTERNS

Everyone can look at everyone else while speaking and listening. The X is your spot and behind you is a flip chart or chalkboard. Most of the comments will probably flow towards you at the "head of the table". Watch who sits at the other end of the table. because the person(s) there may have a similar power position. This arrangement makes it awkward to use the overhead projector.

The closest thing to a round table using rectangular tables. The more distance between tables the more formal the interactions tend to be at the beginning. Here. almost everyone is in view but it is probably impractical for more than 25 people.

No designated head table for the instructor. This is useful if all the material is in front of the learners (no chalkboard or overhead projections) and an all-group discussion is part of the learning strategy.

Lecture setting for large groups. Ideally each person has a little desk top to write on (lap-held clipboards become cumbersome). The slightly semi-circular arrangement gives more harmony to the large mass of people all facing in your direction. If the seats are movable, leave a centre aisle for better access, and knee space between rows. If there are more chairs than people, encourage people to fill the room starting at the front.

Chairs arranged in this manner provide little sub-groups that you can utilize for buzzing, small group tasks, and generally to eliminate that isolated feeling.

X marks the spot where you either sit or stand to give your demonstration. If imitation or practice by the students follows, this arrangement allows you to move in and out of their work areas, give individual attention and keep an eye on all.

In certain shop or laboratory settings the instructor is provided with either an overhead mirror or a video camera. This allows the students who cannot view the demonstration directly at least to see it "second-hand".

Circular arrangements are preferable in attitudinal learning situations. X is your spot and indicates that all contributions will be given equal value. The traditional "up front" power position would not encourage personal statements and learning.

Several task or discussion groups work simultaneously and the instructor floats. Naturally, your students, will be different every time a course starts. The strategies thet follow are very flexible and must be adapted to suit your situation. You may use them any way you see fit. Feel free to argue with the descriptions and comments. change them, enjoy them, and build on them.

This one is called group-on-group of "fishbowl". The inner group is working on some problem-solving talk or discussing an issue or concern. The outer group is instructed to watch for certain behaviours in the inner group, and will later act as consultant and process-evaluator to it. To avoid one-upmanship, groups should be switched around. The instructor floats to give instructions, observe and keep time.

THE FLIP CHART STANDING EASEL

This is one of the most common and simplest visual aids employed today. Combining both ease of use and trouble-free operation, the flip chart has become one of the most frequently used aids to presenters around the world.

Advantages

- Very portable (paper can be separated from the easel or carried with the folded stand).
- Highly flexible in both ease of operation and where "last minute" changes are required.
- With use of "tabbing" (coding each page with a strip of masking tape to identify a page heading) the presenter is not restricted to page sequencing, but has the ability of random access when required.
- Can be quite effective visually when used in close distances to the audience (generally, this effect is lost when audiences are more than twenty to thirty feet away from the flip chart).

Disadvantages

- Generally, all flip charts should be prepared in advance.
- A definite "stand alone" aid (as compared to combining both visual and auditory effects in a sound/slide presentation).
- Audience must be relatively close to the flip chart for maximum effect.

HOW DO PEOPLE LEARN

SENSORY STIMULATION

Sight	- 75 %
Hearing	- 13 %
Touch, Smell. Taste	- 12 %

AFTER 72 HOURS

1. People retain about 10 % of what they have heard.
2. People retain about 30 % of what they have seen.
3. People retain about 70 % of what they have heard and seen.
4. People retain about 90 % of what they have heard, seen and participated hands-on.

HINTS ON FLIP CHART PRODUCTION

1. Before you begin work on your charts, analyze the content of your session and prepare an outline.

2. Break your session into steps and for each step select the key points which you wish to have visualized by words or drawings.

3. If you decide to use some sketches - and they add greatly to the visual impact - draft your drawings ahead and choose the simplest and most suitable.

4. Eliminate unnecessary information and avoid clutter. Use an extra sheet if necessary.

5. Use colour for emphasis.

6. When diagrams and statistics are involved - translate into images whenever possible.

7. Ruler. set square and compass are good tools and broad-tipped felt pens are preferable to pencils or regular pens.

THE BLACKBOARD

Like the flip chart. the blackboard is one of the simplest visual aids in use. although not being used as much as in years past.

Advantages

- Quite easy to use.
- Since the area surface of a blackboard is generally larger than a flip chart. it can be seen from a greater distance.
- Trouble-free operation.

Disadvantages

- More cumbersome to work with than a flip chart.
- Using chalk can be messy.
- Generally restricted to using one colour.
- Board must be washed after each use.

SOME CHALKBOARD TECHNIQUES

1. Use firm, bold and clear lines.

2. Letters and figures must be large enough to be seen.

3. Drawings should be large and space should be left around them.

4. The board should not become cluttered with material which competes for attention.

5. Erase unwanted material.

6. Prepare an outline in advance of the things you plan to put on the chalkboard.

7. If you have to do complicated drawings, do them before the class starts.

8. Arrange the room so that the board can be seen easily.

OVERHEAD PROJECTOR

The overhead projector is. perhaps one of the most common types of hardware in use today, due to its wide availability and simplicity of operation. It is used mainly with two types of transparencies:

1. The prepared verion. which is either completed in advance by the presenter, or prepared commercially through an outside source.

2. The "Do-It-Yourself" type which is accomplished through writing on single blank acetate sheets (either before or during the actual presentation) or drawing on a supplied acetate roll attached to the projector.

Advantages

- Usually very reliable to operate - even over extended periods of time.
- In most cases. easy to transport from one location to another.
- Widely available as a rental through audiovisual dealers.
- Very simple to operate.
- Usually, room lights can be quickly prepared for projector use.

Disadvantages

- Some projectors can be bulky to carry.
- Overhead projector transparencies can be difficult to store (due to their r elatively large size as compared to 35 mm slides).
- Care always must be taken not to overheat projector; otherwise damage to the motor or transparencies can easily occur.

VIDEO TAPE

Video taping (while being popular for quite some time) has become increasingly favoured through the accompanying rise of the video cassette recorder used in the home today. Widely available in a range of formats and cassette size. the medium has become a valuable resource in business presentations.

Advantages

- Video tape is easily transportable from one location to the next and can be quickly sent to various worldwide areas for immediate viewing (e.g.. a business presentation filmed at the home office).
- Very flexible medium (combining visual and auditory experience).
- Tapes can easily be erased. as required.
- Can be mailed from one location to another with a minimum of difficulty.
- Video can be created "in-house".
- Generally. during audience viewing. room does not have to be entirely dark.
- Relatively easy to train an operator to run the equipment.

Disadvantages

- Outside video productions can become expensive in relation to "do-it-yourself" filming.
- Requires hardware support equipment (camera, monitor and cassette deck).
- Video tapes can quickly become outdated.
- Proper video taping usually requires advanced preparation (such as amount of light required during filming and/or effective recording sound levels).
- Like 16 mm film, video tape can easily deteriorate if not properly stored.

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SECTION C CONTINUED

TRAINING SUPERVISORS TO LEAD EMPLOYEE OWNERS

HUNGARIAN ESOP ASSOCIATION
JUNE 30 AND JULY 1, 1995

WORKSHOP MATERIALS NOT INCLUDED IN MODULE ON MANAGING OWNERS

CONTENTS

- Agenda
- Group Dynamics
- Choosing the Best Team Members
- Worker Owner Steering Committees in the US
- Ownership Education Program

TRAINING SUPERVISORS: LEADING WORKER OWNERS

HUNGARIAN MRP ASSOCIATION

JUNE 30 AND JULY 1, 1995, BUDAPEST

JUNE 30

9:30	Coffee and donuts as participants arrive
10:00	Introduction
10:30	Leadership styles: Exercise
11:30	Break
11:45	Dynamics of leadership
13:00	Lunch
14:00	Dealing with supervisors at Erie Forge and Steel
14:45	Employee involvement: Challenges and opportunities
15:30	Break
15:45	Empowering employee owners
16:15	Practice case 1: EO Mart implements employee involvement
17:30	Adjourn

JULY 1

9:30	Elements of effective groups
10:00	Break
10:15	Dealing with difficult people
12:00	Lunch
13:00	Putting together the MRP Association multicompany training program
15:00	Adjourn

GROUP DYNAMICS

Individuals identify problems, generate solutions and make decisions. The advantage of having these activities completed by individuals is that things get done quickly. Groups, on the other hand, take longer to identify problems, generate solutions and make decisions -- Why? Because when more people are involved, more ideas are expressed which takes more time *and* reaching agreement among more people also takes more time.

Of course, the advantage of more ideas is that there is a greater chance that the real problem will be identified and a better solution will be generated. And the advantage of reaching agreement on decisions is that resistance is reduced or eliminated and a commitment to implement them quickly is shared by all.

Fortunately, there are ways to reduce the biggest disadvantage of groups -- wasting time. We can use our time more efficiently and effectively if we understand group dynamics. Two important aspects of group dynamics are:

* Stages of Group Development
* Roles of Group Members

Stages of Group Development

Groups are not simply collections of individuals, they are a separate entity with a life of their own. Many groups tend to follow a similar pattern in their development. One way to describe this are the following four stages:

(1) Getting to Know Each Other and Understanding the Task of the Group

(2) Attempting to Establish Personal Influence and Power

(3) Working Together and Being Open to Each Others' Differences

(4) Feeling Successful Together

Stage 1 - Getting to Know Each Other and Understanding the Task of the Group	Stage 2 - Attempting to Establish Personal Influence and Power
(1) Anxious members want to feel included and accepted, so they act polite and superficial, identify similarities and check for compatibility; confused members want to know the goals and objectives	(1) Members now feel more secure and are willing to risk being in conflict with other members in order to enhance their own power and influence
(2) Members are willing to follow anyone who can provide clarity and guidance	(2) Members rebel against their earlier feelings of dependency and attack anyone who tries to lead the group
(3) By the end of this stage, members know what is expected of them and the group's goals and objectives; they have decided whether they are willing to meet these expectations and work on the group's task	(3) By the end of this stage, members will have learned to listen to each other and accept a set of ground rules for how the group will proceed and how decisions will be made
Stage 3 - Working Together and Being Open to Each Others' Differences	**Stage 4 - Feeling Successful Together**
(1) Members now feel secure, having established mutual respect, shared leadership and a clear set of guidelines	(1) Members feel affection for each other, unity and competence due to their joint successes as well as having lived through some difficult moments together; there is a high level of trust morale and synergy
(2) Members share leadership using active listening, open mindedness, acceptance of different value systems; they can focus on the task	(2) Effective shared leadership continues smoothly
(3) By the end of this stage, members will have successfully accomplished at least one of their key objectives	(3) At this stage, the group works effectively together; however, the addition of a new member or the loss of an original member can take the group back to previous stages

What Role Do I Play in the Group?

Our meetings will be most effective when each member is aware of all the ways that he or she can contribute constructively. At the same time, each member needs to understand what kinds of behavior damage the effectiveness of the meeting, and what are the emotional issues which tempt us to misbehave.

Meeting participants can help both moving the task forward and maintaining a pleasant working climate characterized by trust and respect.

Members can move the task forward by:

Initiating: Proposing tasks or goals; defining a group problem; suggesting a procedure or ideas for solving a problem.

Seeking Information or Opinions: Requesting facts; seeking relevant information; asking for expressions of value; seeking suggestions and ideas.

Giving Information or Opinions: Offering facts; providing relevant information; stating beliefs; giving suggestions and ideas.

Clarifying: Interpreting ideas or suggestions; clearing up confusions; defining terms; indicating alternatives and issues before the group.

Summarizing: Offering a statement which pulls together the group's discussion in the form of a proposal, decision or conclusion, and asking the group to confirm or reject the accuracy of the statement.

Consensus Testing: Checking to see if all members are willing to support a possible proposal, decision or conclusion despite the legitimate reservations that some members may have.

Members can enhance a climate of trust and respect by:

Peacekeeping: Attempting to reconcile disagreements; reducing tensions with humor.

Allocating Participation: Finding ways to get quieter members to express their ideas while restraining those who tend to monopolize the discussion.

Encouraging: Responding warmly to the input of others; indicating acceptance of their contributions.

Being Flexible: When your idea is in conflict with that of another, looking for alternatives which may give up a part of your position.

Standard Setting and Testing: Testing whether the group is satisfied with its procedures and suggesting alternatives.

Emotional issues like ...

Identity: Not being clear on what my role is in the group.

Goals and Needs: What do I want from the group? Are the groups goals consistent with my own?

Power, Control & Influence: Who will control what we do? How much power and influence do I have?

Intimacy: How personal can we be with each other? How much can we trust each other?

Can produce misbehavior like ...

Rebellion: Opposing or resisting anyone in the group who represents authority.

Fighting and Controlling: Asserting personal dominance, attempting to get one's own way regardless of what others want.

Withdrawing: Refusing to participate actively in the meeting.

Forming Alliances: Seeking out a subgroup of allies within the group who support each other.

CHOOSING THE BEST TEAM MEMBERS

József (25 years old) was a new employee at MRP Manufacturing, Kft. He relocated to Western Hungary to be close to his aging parents. József had worked for Advanced Welders, Kft, a German-owned company in Budapest, where he learned the most modern welding techniques. With his background, he received numerous offers of employment, but chose MRP. He thought he could make a difference at a worker-owned company and wanted to lead a continuous improvement team in the shop. He knew that he could teach the other welders a lot and liked the thought of being a leader. Soon after being hired, József began criticizing the supervisor's welding techniques openly among his co-workers. He was discouraged by their lack of interest in his suggestions for improvement.

Ferenc (58 years old), József's supervisor, was two years away from retirement. He had been the evening shift supervisor in the welding department for thirteen years and a welder for ten years before that. Before he came to the company he had spent ten years as a new recruits' trainer at the military base in Lenti. Ferenc's military experience, he often remarked, had taught him how to run a disciplined operation. His crew won awards year after year for the least defects and the highest output. Ferenc could name fifteen previous employees who had learned to weld from him and then gone on the better jobs with other companies. Ferenc enjoyed teaching new welders his way of doing things.

Miklós (40 years old) was Ferenc's choice to succeed him as supervisor. Miklós was a no-nonsense guy who became a good welder by doing exactly what he was told. He understood the need for a disciplined operation and was quick to tell Ferenc about József's open challenges to Ferenc's authority. Miklós was a hard worker and, since his divorce, was willing to work a lot of overtime on short notice. In fact, one week he set a company record by working 80 hours. Miklós was always satisfied with the company's way of welding and had never seen any other welding techniques. He just assumed that the company was state of the art.

Krisztina (23 years old) had been a welder in Ferenc's department for three years. When she first came to MRP, she had just finished a six-month training program in Germany where she learned about several modern welding techniques. Without any experience, she could not use them very well, but she hoped she could practice them at her new job. Ferenc let her know very quickly that his department was not a laboratory for untried methods. She also suspected that he was unwilling to listen to a woman. She learned Ferenc's methods and became an excellent welder. In fact, she believed she would soon have enough experience to apply for a job with Future Industries, Kft, down the street.

Tamás (45 years old) was the day shift supervisor for the welding department. He became a supervisor soon after MRP was privatized as a worker-owned company. János, the General Director, had ignored his plant manager's recommendation of a more experienced welder and selected Tamás instead.

While Tamás had done some welding, he had spent most of his twenty years with the company in the machining department. Nevertheless, Tamás was very popular among the employees and János believed his good social skills were more important for a participative worker-owned company. With János's support, Tamás began experimenting with worker involvement. Tamás initiated weekly meetings during his shift where the welders could discuss ways of improving their department. When the plant manager complained to János that the time lost to these meetings was having a negative impact on output, János said to give it some time.

At first, none of Tamás's welders took the meetings seriously. They did not believe things were really going to change. But slowly, after a couple of weeks, the group came up with a proposal. This change of heart came about because of István (35 years old). István was an experienced welder who had seen a lot of different techniques (because he had worked at six different companies previously). He had been with MRP for two years. Soon after coming to MRP, István was able to talk ten other employees into forming a soccer team in a local league. This year, they made the playoffs. When István suggested, at one of Tamás's meetings, using a different welding technique, the others went along with his suggestion. Tamás did not know whether it was a good idea of not, but he trusted the wisdom of the group.

After a week, Ferenc noticed an increase in defective welds coming from the day shift. He went to Tamás and asked what was wrong. Tamás explained that his crew had come up with a new technique and the defects were probably just temporary as everyone adjusted to the new technique. After Ferenc watched a demonstration of the technique, he immediately found the flaw which was producing the high rate of defects. When faced with this evidence, Tamás could not deny that practice was not going to solve the problem. Tamás called a crew meeting and explained about the flaw. István listened with a grin on his face. Then Tamás praised the group for trying something new. He asked them whether they wanted to return to the old technique while continuing to look for new ways of improving. Everybody looked at István who seemed surprised. István said he agreed with Tamás that they should abandon the new method.

János heard about the incident and decided to take a new approach. He asked both shifts to create a combined team to improve the welding techniques.

Rank order these potential team members from (1, most) to (6, least) valuable.

___	József	___	Krisztina
___	Ferenc	___	Tamás
___	Miklós	___	István

PROCESSING "CHOOSING THE BEST TEAM MEMBERS"

Step 1: Prepare on a flip chart a grid with names of group members horizontally across the top and names of case characters to be ranked vertically on the left side.

	A	B	C	D	E	F	G	H
József								
Ferenc								
Miklós								
Krisztina								
Tamás								
István								

Step 2: Record rankings from each group member on the grid. Do not ask for justifications yet.

	A	B	C	D	E	F	G	H
József	1	6	2	2	1	5	2	6
Ferenc	4	4	1	1	2	4	1	3
Miklós	3	5	6	3	3	6	3	4
Krisztina	6	3	5	4	4	2	4	5
Tamás	5	1	3	3	2	1	5	2
István	2	2	4	6	6	3	6	1

Step 3: One character at a time, ask each group member to explain why they ranked the character as they did. Do not have the group discuss each other's rationales. The intention is for all to listen to each other and simply become aware that different people perceived the characters in different ways.

Step 4: Ask the group what they learned. Would they change their rankings after hearing the others? Did they notice that they may have missed something about some characters when they were evaluating them? It is less important that the group reach concensus on how to rank a character. It is more important for each member to realize that he or she ranked the characters based on his or her perception through personal filters.

Effective Feedback Is Information Which A Person Receives From Others About What And How To Change

No one likes to change. We would all prefer to hear that what we are doing is wonderful and that we should keep on doing it the way we have always done it. And if this is the *truth*, people *should* give us such positive reinforcement.

However, life is an opportunity to continuously do things better -- and doing things better can be very rewarding.

One tool which can help people recognize ways to improve is ***FEEDBACK.***

Feedback is ineffective when:

... the recipient does not hear it

... it does not include what to change and how to change it

You can help the feedback recipient hear better by:

(1) Meeting with them alone to avoid embarrassing them

(2) Making sure they understand the benefit of changing their behavior

(3) Requesting that they listen to your complete comment and repeat back to you what they have understood, before expressing a defense of their current behavior

When can you give feedback?

(1) Immediately: Although feedback should not be a reaction without time for thought, you can prepare feedback on behavior you want to change and wait for the opportunity. This has the advantage of the recipient understanding the connection between the behavior and your feedback.

(2) By special appointment: Setting up a meeting to provide feedback indicates that it is important and allows the recipient to focus on what you want to say.

(3) Regular intervals (reviews): Knowing that behavior will be reviewed periodically, increases the recipients sense of accountability for following up on the feedback. This may also have the advantage of "institutionalizing" continuous improvement so that receiving feedback becomes more routine and less threatening.

How do you give feedback without lowering self esteem?

(1) The "sandwich" approach: Think of at least two positive things that you can tell the recipient in addition to the feedback. Begin with one positive, provide the feedback, and then end on another positive note.

(2) Be constructive: Never criticize a behavior if you do not have a specific suggestion for how the behavior can be improved. Remember the purpose of feedback is to change behavior, *not* to increase the frustration a person may feel about an unchangeable behavior.

Will they listen to *me*?

You can increase the likelihood that your feedback will be considered more seriously if you:

(1) Make it a daily practice to "catch the recipient doing something right" and praising them for it so that your constructive criticism is not the dominant portion of your communication with the recipient.

(2) Do not try to change everything at once. Provide feedback on no more than three behaviors at a time. When progress is made and the recipient can see the rewards, move to additional behaviors.

WORKER OWNER STEERING COMMITTEES IN THE U.S.

1. U.S. employee-owned companies use employee involvement to achieve their mission and goals. What is the mission of *your* company?

2. Examples of the mission of different U.S. employee-owned companies:

   a. Build a profitable company for the owners

   b. Provide job security for the employees

   c. Provide a valuable service or product to the community

   d. Continuously improve the work process (production efficiency, quality of products, working conditions)

   e. Replace adversarial relations between workers and managers with cooperation and trust

   f. Reduce or eliminate the need for supervision

3. Employee involvement builds on basic principles:

   a. Employee involvement is established and implemented by a steering committee whose members:

      * Represent workers, shop floor supervisors, and upper management

      * Are nominated and elected directly by the people they represent or appointed by leaders who were directly elected by the people they represent

   b. The steering committee decisionmaking power is balanced equally between workers and management (for example, the committee has two co-leaders, one represents management and one represents workers)

   c. The steering committee is accountable to the whole company, not only to the general director

   d. Committee members receive continuous training each year in the attitudes, behaviors, and skills needed to lead the employee involvement effort

4. How many persons serve on a steering committee?

a. Smaller companies may have an 8 to 10 member steering committee

b. Larger companies may have a 15 to 20 member steering committee

c. Since groups larger than 8 work less effectively, larger steering committees typically assign specific tasks to subcommittees who develop recommendations to be approved by the whole group

5. How are steering committee members selected?

a. Members may be appointed by managers and worker representatives

b. Members may be directly elected by different employee groups, such as managers, supervisors, production workers and office workers

c. A specific number of seats are allotted to each employee group; production workers choose production nominees, office workers choose office nominees; all employees together vote to choose the production and office representatives from among these nominees

d. A combination of the above

6. How long do the steering committee members serve?

a. The general director or their designee serves on a continuous basis

b. The elected union president serves during their term of office

c. Other members typically serve for two years

d. Only half of the members are elected during any particular year to maintain continuity in the committee

7. How are steering committee co-leaders chosen?

a. They are selected by the steering committee members

b. Co-leaders serve one, two, or three year terms which do not overlap so that an inexperienced co-leader always serves with an experienced co-leader

8. Where does the steering committee get its authority?

a. The steering committee may be authorized in the by-laws

b. The steering committee may be authorized in the collective bargaining agreement between management and the workers

c. The steering committee may be authorized by the board of directors or at a meeting of the shareholders

d. Some other process to establish legitimacy

9. What type of training is required for a steering committee?

a. Information about the ownership structure and corporate governance, the business, the financial statements and other relevant issues

b. Effective meeting skills, group problemsolving techniques, and other communication skills

10. What are the steering committee's ongoing responsibilities?

a. Meet on a regular basis (weekly, biweekly or monthly)

b. Review the state of the company periodically: financials, sales, capital improvements, new technology, etc.

c. Initiate and continuously promote employee involvement

d. Communicate to employees all information needed for them to participate effectively in employee involvement

e. Plan and organize training

f. Decide or advise on company policies and rules when appropriate

11. How does the steering committee keep employee involvement going?

a. Coordinate the whole employee involvement process

b. Schedule all meetings on company time and notify everyone in advance

c. At least one steering committee member attends each meeting

d. Provide a neutral facilitator for all meetings

e. Make sure problemsolving teams work on possible problems, not impossible ones

f. Include the right people in problemsolving meetings

g. Train people in their roles ahead of time

h. Facilitate two-way communication between problemsolving teams and other parts of the company

i. Communicate to everyone that employee involvement is serious and important

12. Types of structures for employee involvement:

a. Departmental problemsolving committees

b. Departmental information meetings

c. Teams:

* *Problemsolving teams* identify problems, investigate their root causes, propose solutions and develop implementation plans

* *Quality circles* involve representatives from many different work areas to suggest ideas about process improvements

* *Cross functional teams* involve representatives from different departments that work together temporarily to solve a problem or work together on a permanent basis to improve a process

OWNERSHIP EDUCATION PROGRAM

Purpose:

Ownership of stock does not provide an automatic motivation for workers to help a company improve its quality and reduce its costs. If workers are to be motivated to act as responsible owners they need to:

(1) Receive information about what it is they own and how it benefits them

(2) Trust management and the information they are receiving.

An *Ownership Education Program* is designed to meet these two needs.

Program structure:

Program customers. All of the employees of the company, especially the workers, are the customers of the program. The program is designed to meet their needs. All employees:

(1) Attend a one-hour class 6-8 times per year

(2) Suggest topics for the content of the classes.

Peer trainers. The people who teach the classes are selected from among the class participants. If 60% of the employees are production workers, then 60% of the trainers should be production workers. Engineers, office workers and others should be represented proportionally as trainers

Trainers teach in pairs. Typically, each trainer teaches 12 groups of 15 employees. So if a company has 500 employees, it needs 6 trainers; with 5000 employees, 60 trainers would be needed. Trainers:

(1) Attend a one-week trainer skills workshop

(2) Attend a one-day trainer workshop for each new class

(3) Teach 12 one hour classes over two days for each new class

(4) Collect participants' suggestions for class topics and give these to the training coordinator

(5) Provide feedback and input which is used to make the class material clearer for the workers

(6) Spend 90% of their time at their regular job.

Training coordinator. One or more people are responsible for coordinating the ownership education program, organizing the trainer workshops, preparing the class materials, and scheduling the classes. If the company is large enough, this can be a fulltime job; especially, when the company begins to address additional ownership training needs.

The training coordinator gathers answers to the employees' questions from the company experts, and then prepares materials in a language which is less technical than that of the experts. The training coordinator is an interpretor between two different worlds with two different languages.

Content experts. Most of the information employees want can be provided by the company experts; for example, the chief accountant, the sales manager, and the chief engineer. These people probably do not have the time to prepare class materials, nor the ability to communicate their expert knowledge in a less technical language. However, they can provide information to the training coordinator and review class materials for accuracy.

Worker owner steering committee. Providing information to employees is a sensitive issue. There is a lot of information which management would prefer not to share. On the other hand, when information is withheld from employees, they become more distrustful of management.

Sometimes there are legitimate reasons to withhold information. The worker owner steering committee can provide a vehicle for mediating this difference of opinion between management and the workers.

Furthermore, there will be far more questions from the workers, than the program can answer. The committee can prioritize the issues raised.

Why worker trainers?

(1) The information they provide will have more credibility in the eyes of the trainees who work with them on a daily basis

(2) Trainees who do not understand everything during the class will have an ongoing opportunity to get clarification from their trainer with whom they work on a daily basis

(3) Eventually, the group of worker trainers, will provide a core of knowledgable leadership for the increasing participation of workers in improving the quality and efficiency of production.

Training materials:

For each class, there will be:

(1) A written handout for each participant
(2) A set of slides to be shown by the trainer
(3) A trainer's guide with suggestions on how the trainer can teach the class.

Cycle of class development and delivery:

Step 1: Participants suggest class topics

Step 2: Trainers provide class topics to training coordinator

Step 3: Worker owner steering committee prioritizes class topics

Step 4: Training coordinator gets information from the content expert

Step 5: Training coordinator prepares material

Step 6: Each draft is reviewed by the content expert and the committee

Step 7: A final draft is presented to the trainers at the trainer workshop

Step 8: Based on trainer feedback, the materials may be revised again

Step 9: Trainers deliver the class to all employees

Step 10: Questions raised by the class participants which the trainer cannot answer are brought back to the training coordinator

Step 11: The training coordinator prepares a supplemental handout which is reviewed and approved by the content expert and committee

Step 12: The supplemental handout is distributed at the end of the next class

Class topics:

Class topics typically fall under three general categories:

(1) Ownership issues (Stock, dividends, corporate governance)

(2) Financial issues (Profit, assets, cash flow)

(3) Business issues (Capital improvements, customers, work processes)

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NORTHEAST OHIO EMPLOYEE OWNERSHIP CENTER

to

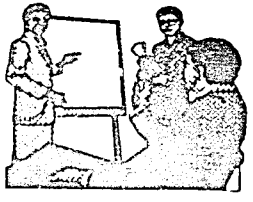
_____

Who has completed the two day seminar:

Training Supervisors: Leading Worker Owners

_____

International Program Director



ÉRTÉKELÉS - BIZOTTSÁGOK KÉPZÉSE: CSOPORTOS PROBLÉMAMEGOLDÁS

Kérjük, segítsen a foglalkozás jövőbeli továbbfejlesztésében azzal, hogy kitölti ezt az értékelőlapot. Benyújthatja név nélkül, vagy aláírva. Kérjük, kiegészítő megjegyzéseit írja a lap hátoldalára.

1. Ön: ☐Az MRP Tanács tagja ☐Üzemi dolgozó ☐Egyéb
☐Vállalatvezető ☐MRP szakértő
☐Felügyelő, művezető ☐Szakszervezeti vezető

_____

2. A helyiség: Túl nagy☐ Túl kicsi☐ Épp megfelelő☐
Túl meleg☐ Túl hideg☐ Épp megfelelő☐

3. Mindent egybevetve, a foglalkozás:
Túl hosszú☐ Túl rövid☐ Épp megfelelő☐
Túl egyszerű☐ Túl bonyolult☐ Épp megfelelő☐

4. Megpróbáltunk egyensúlyt tartani a tréningvezető által tartott előadás, a csoportmegbeszélés és a kisérleti gyakorlatok között. Mi az, amiből több kellene, mi az, amiből kevesebb?

-Előadás	Több☐	Kevesebb☐	Ugyanennyi☐
-Megbeszélés	Több☐	Kevesebb☐	Ugyanennyi☐
-Kisérleti gyakorlatok	Több☐	Kevesebb☐	Ugyanennyi☐

5. Kérjük, értékeljen 5-től 1-ig -- (5)"Sokat tanultam", (1)"Tiszta időpocsékolás volt":

	Sokat tanultam			Időpocsékolás	
1. nap:					
"Esküvői dekoráció" gyakorlat	5☐	4[☐	3☐	2☐	1☐
Az "esküvői dekoráció" megbeszélése	5☐	4☐	3☐	2☐	1☐
Előadás: A vezetés dinamikája	5☐	4☐	3☐	2☐	1☐
Előadás az Erie Forge & Steel cégről	5☐	4☐	3☐	2☐	1☐
A munkavállalói részvétel megbeszélése	5☐	4☐	3☐	2☐	1☐
Előadás: Az emberek felhatalmazása	5☐	4☐	3☐	2☐	1☐
Gyakorlati eset: Az MT Áruház	5☐	4☐	3☐	2☐	1☐
2. nap:					
Előadás: Csoportdinamika	5☐	4☐	3☐	2☐	1☐
Akvárium gyakorlat	5☐	4☐	3☐	2☐	1☐
Értékelési gyakorlat	5☐	4☐	3☐	2☐	1☐
Előadás: Feedback	5☐	4☐	3☐	2☐	1☐
Előadás: Oktatás az USA-ban	5☐	4☐	3☐	2☐	1☐
Előadás: Oktatás Oroszországban	5☐	4☐	3☐	2☐	1☐
Megbeszélés: Oktatás Magyarországon	5☐	4☐	3☐	2☐	1☐

6. Kérjük, válaszoljon arra a kérdésre, hogy érezte magát a foglalkozás előtt és utána:

A foglalkozás előtt úgy éreztem...						A foglalkozás után úgy éreztem...				
felkészült			felkészületlen		vagyok a következő témákban:	felkészült			felkészületlen	
5☐	4☐	3☐	2☐	1☐	Dolgozó részvétel értékének elmagyarázása	5☐	4☐	3☐	2☐	1☐
5☐	4☐	3☐	2☐	1☐	A felhatalmazás elmagyarázása	5☐	4☐	3☐	2☐	1☐
5☐	4☐	3☐	2☐	1☐	A csoportdinamika elmagyarázása	5☐	4☐	3☐	2☐	1☐
5☐	4☐	3☐	2☐	1☐	Nehéz természetű emberekkel való bánás	5☐	4☐	3☐	2☐	1☐
5☐	4☐	3☐	2☐	1☐	Stratégia magyar vállalatok oktatására	5☐	4☐	3☐	2☐	1☐

7. A legfontosabb, amit a mai foglalkozáson megtanultam, a következő:

8. A foglalkozás továbbfejlesztésének egyik lehetséges módja:

9. Ez a foglalkozás megkísérli átadni a piacgazdasággal rendelkező nyugati országokban kidolgozott tapasztalatokat. A foglalkozásnak, ill. e gyakorlatnak mely elemei <u>lényegesek</u> vagy <u>lényegtelenek</u> Magyarországon alkalmazva?

10. Ajánlanám ezt a foglalkozást ismerősömnek is. Igen☐ Nem☐
Miért vagy miért nem: _____

DRAFT

MANAGING OWNERS

DRAFT

TRAINER'S GUIDE AND PARTICIPANTS' HANDOUTS

COOPERS & LYBRAND/CHEMONICS INTERNATIONAL

JUNE 1995

805

This material was prepared by Daniel Bell of the Northeast Ohio Employee Ownership Center of Kent State University for Coopers & Lybrand/Chemonics International and funded by USAID.

MANAGING OWNERS

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SLIDES

OVERVIEW

This module is designed to help frontline supervisors deal with their concerns about the shift from traditional management to the style of management required for effective employee involvement. It covers the differences between democratic, autocratic and laissez-faire styles of leadership; allows participants to express their concerns about the impact of employee involvement on their own work; and encourages participants to explore the advantages they can obtain from employee involvement.

Participants will understand the difference between democratic, autocratic and laissez-faire styles of leadership. They will feel that their legitimate concerns about employee involvement have been recognized. They will exhibit an increased openness to employee involvement.

The workshop leader will:

(1) Introduce the topic of managing owners;

(2) Lead participants through an exercise designed to demonstrate the how employee involvement can increase profits and morale;

(3) Debrief the exercise, facilitating a discussion with participants which helps them to interpret their experience, reach conclusions, and think about how they can apply different leadership styles in their daily work.

(4) Make a presentation on the dynamics of leadership;

(5) Facilitate a discussion of the legitimate concerns which frontline supervisors have about managing workers in an environment of employee involvement; and,

(6) Facilitate a discussion which encourages participants to increase their awareness of the benefits they can gain from employee involvement.

LESSON OBJECTIVES

At the end of this module, participants will:

(1) Understand the difference between democratic, autocratic and laissez-faire styles of leadership;

(2) Feel that their legitimate concerns about employee involvement have been recognized; and,

(3) Express an increased openness to employee involvement at their company.

PREPARING FOR THE MODULE

Number of participants: A minimum of three groups and a maximum of five groups with 4 to 6 members (12 to 30 participants).

Number of trainers: Two.

Room setup: The room should be large enough to accomodate all of the groups together, each at a separate table (preferably round). Leave adequate spacing between tables and do not seat participants between their table and the workshop leader. Number the tables so groups can be easily distinguished. There should be good lighting and adequate ventilation to maintain a comfortable temperature [See *(D1) Room Setup* for an example].

Equipment: For each group, 1 flip chart, 1 roll of tape, 2 markers (1 black, 1 other color), 1 calculator, 1 stapler (with about 30 staples), 2-3 scissors, 2-3 rulers, 4-6 pencils, 10 pages of white A4 paper, 10 pages of colored A4 paper (must be the same size as the white paper -- the pattern in *(H?) Pattern* is based on 21cm x 29.5cm, if the paper is a different size, the pattern and instructions should be adapted); in general, a box of extra staples, 100 pages of white paper, 100 pages of colored paper (giving each group a different color is better, though not required), 1 overhead projector with table, screen and overhead markers, a refreshment table, and materials table.

Refreshments: At a minimum, provide water. Your participants will feel more comfortable if there is coffee, tea and soft drinks available in the back of the room so they can unobtrusively refresh their cup at any time. Cookies or other snacks are nice, too.

Training materials: All handouts and slides listed in the table of contents. If no projector is available, transfer the information from the slides to a flip chart to be used for the presentation.

WHAT TO DO BEFORE DELIVERING THE MODULE

* Obtain training in adult learning principles, presentation skills, and discussion facilitation skills.

* Read and become familiar with all material in this training manual.

* Prepare a flip chart as described in *(D2) Wedding Decorations Results.*

* Become familiar with the training site and equipment.

* Cut long pieces of tape (so pages do not fall from the wall) and leave them ready on the flipcharts.

MODULE AGENDA

This module is designed to last 3.5 hours including coffee breaks. Time, in minutes, is shown both for each section and cumulatively, ie, (segment time, cumulative time). If you know that the participants will arrive late, then you should schedule additional time. Also, if the module is not being delivered as part of a larger workshop, you should schedule time for you and the participants to introduce each other.

(15/15)	Introduction to managing owners
(45/60)	Leadership styles exercise
(45/105)	Debrief of exercise
(15/120)	Break
(30/150)	Presentation on dynamics of leadership
(30/180)	Discussion of concerns about employee involvement
(30/210)	Discussion of advantages of employee involvement & closing summary

INTRODUCTION TO MANAGING OWNERS

Time: (15/15)

Objective: At the end of the introduction, participants will be focused on the fact that in MRP companies upper management and workers have expectations about the supervisor-worker relationship which differ from the traditional model.

Ask participants a series of questions designed to highlight their experience as supervisors and the contrast between the period when they worked for a state enterprise and now that they work for an MRP company.

How long has your company been private?

How many years have you been a supervisor?

Who do you supervise?

Has your relationship with upper management or the people you supervise changed since your company became an MRP company?

Introduce the topic.

The supervisor plays an essential role in MRP companies. It is the supervisor who has a direct relationship with the worker owners and the supervisor who has tremendous potential to affect not only productivity, but also the way that worker owners feel about their jobs and the company.

The people you supervise wear two hats. One is the same hat they have always worn -- that of a worker. But now they have a new hat -- that of an owner. This raises a lot of new expectations.

In some companies, the fact that workers own shares of stock is ignored by upper management. In other companies, this fact leads upper management to expect workers to care more about the company and to work better. They expect ownership to be an incentive and they want you to take advantage of that as a supervisor.

As for workers, some ignore the fact that they own shares and do not expect anything to be different. But others have new expectations. They think they have a greater right to participate in decisions about the company. They may even begin to challenge you as a supervisor.

There are different ways to deal with this new reality. Today we are going to participate in an exercise which gives us a chance to experiment with different ways of supervising worker owners.

LEADERSHIP STYLES EXERCISE: WEDDING DECORATIONS

Time: (45/60)

Handouts: (H1a-d) *Supervising Worker Owners at Wedding Decorations, Inc.*, (H2) *The Company Way to Construct Wedding Chains*, (H3) *Wedding Chains Pattern*, (H4) *Production Worker Owner at Wedding Decorations, Inc.*, (H5a-e) *Bright Ideas*, (H6) *Production Cost Calculation Form.*

Objective: At the end of the exercise, participants will have a variety of different experiences of a production shift including the supervisor-worker relationship, the concrete results of their work, and their feelings about the process.

Setting Up the Game (10 minutes)

Tell the participants that they are now going to role play workers and supervisors in a production department. In each group, there will be one supervisor. Ask each group to select its own supervisor. If there are people from different management levels in the group, it might be more interesting for the higher ranking members to be production workers and the lowest ranking member to be the supervisor.

One trainer leaves the room with the "supervisors" while the other trainer remains in the room with the "production workers".

INSTRUCTIONS TO THE "SUPERVISORS"

(1) Explain: *The purpose of this exercise is to experience how groups of workers respond to different styles of supervision. You are each going to act out a different style. Let me describe the styles and then you can decide which one you want, but no two can choose the same style.*

The first style is that of the "democrat". This supervisor begins the shift by explaining the "company way" of making wedding chains and then asking the workers if they have any ideas on how to improve the production process. Each time a worker suggests something, you should say "thank you". If it is a good idea, tell them this and implement it. If it is an idea which cannot be implemented, explain to them why it cannot be implemented. Give people a lot of positive feedback during the shift.

The second style is that of the "autocrat". This supervisor does not want to accept any ideas from the workers. You will explain the "company way" of making wedding chains and begin assigning tasks to your workers. If anyone attempts to offer a suggestion, tell them that they do not get paid to think, that their idea is stupid, and refuse to implement it (even if it is a good idea). Insist on doing things the "company way".

The third style is that of the "laissez-faire". This supervisor does not lead at all. You simply explain the "company way" of making wedding chains and then tell the workers that since they are the owners, they can do whatever they want. If they ask you for guidance, just tell them to do whatever they want because they are the owners. You do not tell them that their ideas are good or bad. Just sit back and watch.

If you have 4 groups add the following:

The fourth style is that of the "pseudo-democrat". This supervisor is really an autocrat, but pretends to be a democrat. After explaining the "company way", you ask people if they have any ideas for improving production. Respond to each suggestion by telling the person that it is a stupid idea and refuse to implement it. Encourage people to offer suggestions but do not let them implement any of them. Insist that they do things the company way because it is better.

If you have 5 groups, add a second democrat.

(2) Distribute (H1a-d) *Supervising Worker Owners at Wedding Decorations, Inc.* to each according to their preference.

H1a = Democrat
H1b = Autocrat
H1c = Laissez-faire
H1d = Pseudo-democrat

Give them a couple minutes to read this and answer any questions they may have.

(3) Distribute (H2) *The Company Way to Construct Wedding Chains* and (H3) *Wedding Chains Pattern.* Show them an example of the product.

(4) Point out to the autocrat and pseudo-democrat that they should follow the instructions strictly. Especially instruction #1 about drawing the lines on 4 colored pages before beginning to work with the white paper. In fact they can control this by not giving people the white paper until they have completed the 4 colored pages. Also point out that they should insist on the workers following the pattern exactly.

(5) Remind the democrat and the laissez-faire that their workers are allowed to make changes in the production process, so they do <u>not</u> have to follow the instructions so strictly.

(6) Let all the supervisors know that their shift begins as soon as they enter the room and will last for exactly 25 minutes. Point out that they should try to produce as many wedding chains as possible.

INSTRUCTIONS TO THE "PRODUCTION WORKERS"

(1) Explain: *The purpose of this exercise is to learn more about the way workers respond to different leadership styles. In a few minutes, your supervisor will return from a meeting and you will begin a 25 minute shift producing wedding chains. Please take a moment to read about your role.*

(2) Distribute (H4) *Production Worker Owner at Wedding Decorations, Inc.*

(3) After people have had enough time to read the handout, summarize in your own words what they have just read. Tell them:

Now that you are owners, you would like to have an opportunity to make some changes in the way you make the product. Over the years you have discovered a number of things that the company does which are counterproductive.

At the same time, noone at the company has ever wanted to listen to your suggestions in the past, so you may be skeptical about their willingness to listen now. When you meet your supervisor you will have to decide whether it is worthwhile sharing your ideas or not.

(4) Show them an example of the product and explain how it is made.

While you may think of some good ways to improve the production process which your supervisor describes for you, we have prepared a few ideas in advance. I will give each of you a different idea. You can keep it a secret, or you can share it with your supervisor, as you wish.

(5) Distribute (H5a-e) *Bright Ideas.* If there are fewer than 5 production workers, give some people 2 ideas so that all of the ideas are present in each group.

Remember, the ideas on these sheets of paper will help you speed up production allowing you to make more complete wedding chains during your 25 minute shift. Higher productivity can lead to more profit. Your wages, dividends and job security depend on your company being profitable.

Please take a moment to read your idea. If you do not understand it, please ask me to clarify it for you.

If there are questions, try to talk directly with the individual so that the information does not become available to everyone else in the room.

(6) Usually, it takes longer for the supervisors to get ready than it does for you to prepare the production workers. Try and keep people distracted while they wait. You may want to make comments like: "Does production at your company get held up sometimes while workers are waiting for their supervisor to come out of a meeting?"

Running the Shift (25 minutes)

THE SHIFT BEGINS

When the supervisors rejoin their groups, begin timing the 25 minutes. It is helpful if you have a watch or a clock with an alarm that goes off at the end of the shift.

In the beginning, you need to monitor the groups closely to make sure the exercise is running properly. Here are things which have gone wrong in the past:

* A group mistakenly believes it only needs to make one wedding chain -- During the shift, repeat to each group the goal of making as many chains as possible.

* The autocrat or pseudo-democrat does not adequately control the group and allows people to start using the *Bright Ideas* to improve the process -- You can be the autocratic boss of the supervisor and insist that the group do things the "company way".

* The democrat's group runs out of staples and someone orders more staples without mentioning the ones that are immediately available -- Ask the person if anyone in their group knows where they can get some staples sooner.

AS THE SHIFT CONTINUES...

During the shift, groups will make requests for additional materials and equipment. You are the purchasing department.

* When you receive a request for staples or paper, ask the person specifically how much they want and tell them that it will take 2 minutes to deliver.

* If you receive a request for additional scissors or rulers, you can provide them after a 2 minute delay if you have any extra or you can choose not to do so.

* If you receive a request for a stapler, explain that it will take 30 minutes to deliver. While this will be too late for the current shift, explain that it is still a good idea which will help improve future production.

* Groups sometimes come up with other ideas when the stapler is unavailable. They may begin using tape or paper clips or making slits in the paper to interlock them. All of these are creative ideas which should not be discouraged (though during the debrief you may want to raise the issue of quality control).

During the shift, you should also make one feedback intervention which reflects the leadership style of the group.

* For the democrat, say: *I really like the way your people are working together. You are doing a great job. The company really needs more people like you who cooperate together and contribute such creative ideas.*

* For the autocrat and pseudo-democrat, say: *I am really concerned at how slow you are working. You have not been very productive. You need to hurry up and make more chains before the shift is over.*

* Simply ignore the laissez-faire supervisor.

As groups complete their chains, tape them to the wall near their table (check to make sure they have exactly 22 links to make sure the group understands what the final product is supposed to look like).

END OF SHIFT

The shift is over when the alarm goes off after 25 minutes. Do not give the groups any additional time. Be prepared before the alarm goes off so that you can immediately confiscate all of the staplers to prevent any groups from continuing to work.

Tabulating the Results (10 minutes)

Distribute *(H6) Production Cost Calculation Form* to the supervisors in each group. Ask them to fill it out. You may want to double check the way the group is calculating its costs to make sure their is uniformity. Here are some helpful hints:

* Paper: The group received 20 pages of paper originally. How many additional pages did they request. Take this total and subtract the number of untouched pages which they are able to return to you. This gives you the number of pages used. Remember, if they have begun to draw on a page, it is counted as used.

* Staples: Multiply the number of completed chains by 22. Then add the number of additional links completed. Then ask if the group wasted any staples and make sure to add those.

* Be careful that the groups do not try to only count the materials for the completed chains. They need to count all material consumed.

Record the results of each group on a flip chart for all to see. Leave blank space where you can add the labels of the different leadership styles later.

DEBRIEFING LEADERSHIP STYLES EXERCISE

Time: (45/105)

Objective: At the end of the debriefing, participants should (1) understand how requesting and using workers' ideas for improving production can increase profit and employee morale; (2) understand that supervisors do have an active role to play in employee involvement; and (3) begin to think about the possibility of taking an active role in requesting and implementing ideas from the workers they supervise.

Review with the participants the results of their work as recorded on the flip chart. Then ask some questions which help them reflect on their experience. Take one issue at a time and get responses from each group before proceeding to a new issue.

Here are some questions which you might ask during different steps of the debrief:

Step 1: Gathering Data

Ask questions which get people to describe what happened and how they felt.

* *Describe your supervisor.*
* *How did it feel to work for your supervisor?*
* *Did you share your ideas on improving production? Why or why not?*
* *What was it like supervising this group of workers? How did you feel?*
* *What was the style of leadership you were instructed to use?*

Step 2: Interpreting the Data

Ask questions which help the participants put the raw data into meaningful forms by perceiving patterns, sequences, trends, dynamics or groupings.

* *Why did people in the democrat's group feel better?*
* *How do you explain the results of the autocrat's group? The laissez-faire's group?*

Step 3: Generalizing to the Learning Objectives

Ask questions which draw out what participants have learned. Here are some additional lessons which you may want to contribute to the discussion if the participants do not discover them:

* Originally, the shift was only 15 minutes. When the democrat's group was beaten by the autocrat's group, they pointed out that they would have won if they had had more time. They "lost" time in the beginning getting organized; but once they got started they were doing well. We extended the shift to 25 minutes and now the democrats' group almost always wins.

  Employee involvement involves an investment. In the beginning, doing things differently may actually create some problems or additional costs. But once it has been implemented successfully, the long term rewards should make the investment worthwhile. Supervisors are often concerned that they will be penalized for the problems which emerge during the transition to employee involvement.

* Sometimes the laissez-faire group does best, sometimes worst. This really depends on the members. If they are motivated and a leader emerges, they do well without having a supervisor "in the way". On the other hand, if they are looking to the supervisor for guidance, they get frustrated and fall behind.

  This demonstrates that there is a role for supervisors in employee involvement. Simply advocating responsibility to the work team is not appropriate. The workers need someone to organize them to express their ideas and put them into action.

  This also shows the evolution from the traditional style of supervision, to a democratic style, and finally to self-directed workteams.

* None of the groups could have successfully constructed the chains without the initial information provided by the supervisor. No one leadership style is right for all situations. Autocrat's are needed for new employees or at moments when quick action needs to take place. But over the long term, this style should be minimized and workers should be encouraged to use their experience and take more responsibility for organizing their work.

* The pseudo-democrat usually has the worst results of any group. This is because this supervisor raises people's expectations that they can participate and then none of the ideas are implemented. It is better to be an autocrat and not raise such expectations. Do not initiate employee involvement if you are not committed to carry it through because it could make things worse. We have had groups which even went on strike! The autocrat, on the other hand, does not lose any time in discussing ideas and does not confuse the workers.

* Tell the groups that you have a customer who needs to buy 3 chains and would like to buy as many as 10. What price does each group want to offer this customer? This demonstrates the power that the group with the lowest cost has to control the market. If they have produced more, and at a lower cost, they can squeeze the others out of the market.

Step 4: Applying to Real Life

Ask the participants to think about how they can actually use these learnings in their companies.

* *Which leadership style is more common at your company?*

* *How would the workers you supervise respond to a democratic style?*

BREAK

Time: (15/120)

PRESENTATION: DYNAMICS OF LEADERSHIP

Time: (30/150)

Handout: (H7) *Dynamics of Leadership*

Slides: Managing Owners S1 thru S3

Objective: At the end of the presentation, participants will (1) understand that the supervisor has many options for matching a variety of leadership styles to a variety of supervision situations; and (2) possess a vocabulary for discussing these options.

Introduce the topic:

> *As supervisors, you are leaders. As we saw during the exercise, there are different leadership styles. Of course, we also discussed the fact that you do not use the same style all the time -- rather you can choose among different styles depending on the situation.*
>
> *Terms like democrat and autocrat may not be the most useful. We all want to be seen as democrats -- none of us want to be labeled an autocrat. What I would like to do now is suggest some additional terms which allow us to expand out thinking about how to adjust our leadership style to different situations.*
>
> *Remember, earlier we said that there are times when an autocratic style is appropriate. Who remembers some of those situations?*
>
> *What factors in these situations lead us to choose an autocratic style?*

From the participants answers, try to get to the point that it depends, in part, on the level of competence and commitment of the worker.

> *The workers you supervise, have different levels of competence and commitment.*
>
> *Competence means their ability to understand a task and deal with it.*
>
> *Commitment means their own willingness to carry out a task.*
>
> *People can be competent in some situations and not in others. If you asked me to prepare a document with an IBM compatible computer, I could do a nice job, but if you gave me a MacIntosh computer, I would be lost.*
>
> *We also have different levels of commitment. I may be motivated to run training workshops, but if I were told to reorganize the file cabinets where we keep the training material, I might think that was boring or a task for someone else. My commitment might be low.*

So we have four possibilities with any specific person assigned to any particular task. They may be:

(1) Competent and committed;
(2) Competent, but not committed;
(3) Committed, but not competent;
(4) Neither competent, nor committed.

Ask participants to give you examples of each kind.

Slide 1: *(S1) Situational Leadership*

Workers sometimes describe their supervisors as prison guards who simply give orders and spy on them to make sure they do not do anything wrong. I would like to suggest a different description. A supervisor is a helper, a resource, someone who helps the workers succeed at producing a quality product in the most efficient way, increasing the amount of profit which can be used to provide job security and competitive wages. Since your workers are also owners, profit has additional benefits for them as well.

As supervisors, we help the workers in many ways. Right now, I would like to talk about two of these. We provide direction and support. If you have a teenage son or daughter, or if you can remember when you were a teenager, you can understand that people do not always appreciate receiving direction and support. Adults like to be independent.

At the same time, there are times when we recognize we need help and we are happy to get it. If we can give our workers the maximum of autonomy, while providing support when they know they need it, then they will be happier and we will use our own time more effectively. The more autonomy some of your people have, the more time you have to focus on those who really need your help.

So you use two types of behavior: directive and supportive.

Directive behavior is one-way communication. It involves two things:

(1) Telling people what to do and where, when and how to do it; and
(2) Supervising their performance closely.

Supportive behavior, on the other hand, is two-way communication. It also involves two things:

(1) Facilitating interaction so people express opinions about how to do the task; and
(2) Giving people responsibility for defining the task and carrying it out.

Show *(S1)*

Here are four leadership styles you can use to help your workers.

Directing is a leadership style which involves a lot of direction and very little support. You provide specific instructions to your workers and closely watch to see that they carry out your instructions. When might you use this style?

[You know the person does not know how to do the task and (1) you do not expect this person to repeat the task in the future or (2) you do not have time right now to prepare them to carry out the task autonomously.]

Coaching involves a lot of direction and a lot of support. You explain the task and ask for suggestions about how to carry it out. And you still closely supervise the task as it is carried out. When might you use this style?

[You know the person does not know how to do the task but you would like them to be able to carry out the task autonomously in the future.]

Supporting involves a lot of support but very little direction. You talk about the task and come up with a plan together, but do not follow the implementation closely. You are simply available if needed. When might you use this style?

[You know the person has enough experience that they can carry out the task without you and you want them to feel responsible.]

Delegating involves very little direction and very little support. You simply let someone know that they are responsible for a task but let them decide how to carry it out. The only supervision required is expecting the person to inform you if something unexpected prevented the task from being accomplished by the time you expected it to be accomplished. When might you use this style?

[You know the person has the competence and the commitment to carry out the task autonomously.]

Slide 2: *(S2) Continuum of Supervisor Authority and Worker Responsibility*

So let's assume we want to minimize how much we direct.

We decide to use coaching and supporting in order to increase the competence and commitment of the people we supervise.

So in the future we can do more delegating of old tasks, while we go on to new tasks.

There is a wide distance between directing and delegating, leaving people completely out of the decisionmaking or handing the decision over to them.

One way to think about this is to look at the --

Authority of the supervisor, and
The responsibility of the workers.

Show *(S2).*

This diagram illustrates the idea that as a supervisor shares more authority with the workers, the workers respond by taking on more responsibility. When you involve people in decisionmaking, they are more committed to implementing their decisions.

Here are some of the ways we share decisionmaking authority with people.

First, we simply do not. We make a decision and announce it.

Second, we give people a little authority when we explain our decision. We are thinking about them as we think how we are going to explain why we decided what we decided. This may influence us.

Third, we allow them to ask questions about our decision. We want to know their reactions.

Fourth, we present a tentative decision and get people's reactions before we finalize it. So their reactions may influence the decision.

Fifth, we present a problem, and ask for ideas before we make a decision. So people may influence the range of choices considered before the decision is made.

Sixth, we present a problem, and give people boundaries within which they can make their own decision. We might be saying, "Choose among these options," or we might be saying "You cannot spend more than $100."

And finally, we can present a problem, and give people as much freedom to decide as we ourselves possess. Obviously, I cannot give someone the authority to decide something if my boss has not given me that authority.

Summary of presentation:

So we now have expanded our vocabulary beyond democratic and autocratic styles of leadership. We choose styles of directing, coaching, supporting and delegating to match the specific situation and the level of competence and commitment of the people we supervise. We have a wide range of choices about just how much authority and responsibility we want to give people in any particular situation.

DISCUSSION: CHALLENGES OF EMPLOYEE INVOLVEMENT

Time: (50/200)

Objective: At the end of the discussion, participants will (1) feel that their concerns about employee involvement have been listened to and considered legitimate; (2) be aware of ways they personally can benefit from employee involvement; and (3) be open to helping implement employee involvement in their company.

It is often the case that supervisors feel threatened by employee involvement. If we ignore their legitimate concerns, they may resist considering any positive aspects of employee involvement. During this discussion, you want to encourage people to express their concerns and you want to communicate to them that you understand these concerns. Only when this is accomplished, do you move on to the next part of the discussion which is getting them to think about the positive aspects.

Expressing Legitimate Concerns about Employee Involvement

The leadership styles exercise illustrated for us how employee involvement can help make our company more profitable by improving the efficiency of production. Of course, this was in a controlled workshop setting and the rules of the game were set up to produce these results. You and I know that it is not that simple back at your company.

Even if we accept the theory that workers have good ideas, and that if we were to get them to share those ideas we could reduce costs and improve quality --

Even then, people are not ready to support worker involvement. This is because worker involvement has a lot of costs attached to it. While it has the potential of providing benefits, it is also going to create new problems for me that I will have to deal with.

In your groups, please take 10 minutes to list all of the problems that employee involvement would create for you as a supervisor. What are the ways that worker involvement is going to make your life miserable? Please list your ideas on the flip chart.

Give groups 10 to 15 minutes to accomplish this task. Remind them after about 5 minutes, that they should be writing their ideas down because they will be reporting them to the rest of the participants.

Next, ask each group to give you only one of their ideas. List it on a flip chart for all to see and move to the next group. Ask groups not to repeat an idea if it has already been mentioned by another group.

When there are no more ideas, review the list and ask if anyone needs any clarification about what was meant by any of the ideas listed. If any of the ideas seem to be closely related, ask whether it is okay to combine them. Only do so if noone objects.

Next, ask people to write down the three issues listed which are most important to them and to prioritize these as first, second and third. Record their rankings and summarize them.

> *So, while employee involvement may be a good thing, you have some serious concerns about how it is going to affect you at your company. You main concerns are...*
>
> [Mention the ones which are obvious from the rankings done earlier.]

Thinking about the benefits of employee involvement

> *What if it were possible to overcome some of these issues? What if you were satisfied with the way some of these concerns were dealt with?*
>
> *Would there be any benefits for you personally from employee involvement? If your workers were to take on more responsibility for generating and implementing ideas for improving the quality and efficiency of production, would you have anything to gain from this?*
>
> *In your groups, please take 10 minutes to list all of the benefits that employee involvement would create for you as a supervisor. Please list your ideas on the flip chart.*

Give groups 10 to 15 minutes to accomplish this task. Remind them after about 5 minutes, that they should be writing their ideas down because they will be reporting them to the rest of the participants.

Next, ask each group to give you only one of their ideas. List it on a flip chart for all to see and move to the next group. Ask groups not to repeat an idea if it has already been mentioned by another group.

When there are no more ideas, review the list. Discuss each item listed. Ask people to give examples. Expand on the ideas as much as possible.

Finally, summarize the discussion.

> *So employee involvement could have a lot of benefits for you. If your company could overcome some of the concerns you mentioned, like...*
>
> [Repeat the key concerns listed earlier.]
>
> *Then you would be able to obtain these benefits...*
>
> [Repeat the benefits they have identified.]

CLOSING SUMMARY

Time: (10/210)

Objective: At the end of the closing summary, participants will remember that (1) they saw the benefits of employee involvement demonstrated in the exercise; (2) they have a variety of leadership styles to choose from based on the situation and the people involved; and (3) employee involvement can benefit them and their company. Furthermore participants will hear that you can provide them with additional assistance and training to help them implement employee involvement effectively at their company.

Today we have spent a lot of time exploring different styles of leadership which supervisors need to consider when their company chooses to get workers more involved in making decisions which can improve the quality and efficiency of production.

We began with an exercise designed to illustrate how worker involvement can lead to improved economic results as well as employee morale. We saw the advantages of democratic leadership over autocratic leadership.

At the same time, we recognized that it is not a black and white issue. We talked about a variety of supervision styles including directing, coaching, supporting and delegating.

We also emphasised that who you are supervising makes a difference in the style you choose to use. Workers vary on their levels of competence and commitment around different tasks. Sometimes you need to use more authority and sometimes you can give them greater responsibility.

While being able to delegate more of your own responsibility to others may free you up for concentrating on more important issues, worker involvement is not an easy thing to establish. You mentioned several things which concern you, including...

[Repeat the key concerns listed earlier.]

Obviously, you need to develop some strategies for dealing with these important issues if you are going to implement worker involvement. You listed several good reasons why this would be worthwhile...

[Repeat the benefits they have identified.]

While the first step is deciding you want to increase the involvement of your workers, there are a number of other things you can do to help you accomplish this successfully.

Four skills which supervisors often work on improving in the beginning are: (1) Empowering workers; (2) Running effective meetings; (3) Facilitating group problemsolving; and, (3) Dealing with difficult people. Our organization can help you in all of these areas.

SUPERVISING EMPLOYEE OWNERS AT WEDDING DECORATIONS, INC.

Background:

You have been a supervisor at Wedding Decorations, Inc. (WDI), for eight years. Last year, WDI's management decided to use an MBO to privatize the company. Since they did not have enough money to purchase the whole enterprise from the state, they chose to set up an MRP which allowed them to obtain sufficient financing through E-Credits to purchase the company. In addition to using the MRP as a tool of privatization financing, management has heard that MRP-owned companies work better when implemented along with worker participation. So committees have been created which take your people away from production several times a month. You find this frustrating because management still expects you to produce as many wedding decorations as before. Over the past month, you have gotten behind on your production target due to the lost work time.

This week, you and the worker owners you supervise are scheduled to produce wedding chains. You have been supervising the production of this product for the past five years and believe your way of organizing production is the best way. It has always worked for you and you have always met your quota. Now more than ever, you do not want to experiment with this participation "fad" because management has set up a new bonus system which is tied to meeting your quota. As worker owners, the people you supervise have heightened expectations that they have a right to suggest changes in the production process. You do not want to waste time letting the people you supervise make suggestions about changing the production process. You were promoted to supervisor because you have more knowledge and experience than they do. However, you are a survivor and you have to look participative. So you will ask for suggestions (just not implement them).

Your Role:

Your task is to teach the people you supervise the company way of constructing the wedding chains. Ask them for suggestions (because you want to give the appearance of being participative) but when they volunteer suggestions, tell them that their suggestion is stupid (even if it is a bright idea which you might agree with) and refuse to even consider implementing it.

SUPERVISING EMPLOYEE OWNERS AT WEDDING DECORATIONS, INC.

Background:

You have been a supervisor at Wedding Decorations, Inc. (WDI), for eight years. Last year, WDI's management decided to use an MBO to privatize the company. Since they did not have enough money to purchase the whole enterprise from the state, they chose to set up an MRP which allowed them to obtain sufficient financing through E-Credits to purchase the company. In addition to using the MRP as a tool of privatization financing, management has heard that MRP-owned companies work better when implemented along with worker participation. So committees have been created which take your people away from production several times a month. You find this frustrating because management still expects you to produce as many wedding decorations as before. Over the past month, you have gotten behind on your production target due to the lost work time.

This week, you and the worker owners you supervise are scheduled to produce wedding chains. You have been supervising the production of this product for the past five years and believe your way of organizing production is the best way. It has always worked for you and you have always met your quota. Now more than ever, you do not want to experiment with this participation "fad" because management has set up a new bonus system which is tied to meeting your quota. As worker owners, the people you supervise have heightened expectations that they have a right to suggest changes in the production process. You do not want to waste time letting the people you supervise make suggestions about changing the production process. You were promoted to supervisor because you have more knowledge and experience than they do.

Your Role:

Your task is to teach the people you supervise the company way of constructing the wedding chains. Do not ask them for any suggestions about anything and if they volunteer suggestions, tell them that their suggestion is stupid (even if it is a bright idea which you might agree with) and refuse to even consider implementing it.

SUPERVISING EMPLOYEE OWNERS AT WEDDING DECORATIONS, INC.

Background:

You have been a supervisor at Wedding Decorations, Inc. (WDI), for eight years. Last year, WDI's management decided to use an MBO to privatize the company. Since they did not have enough money to purchase the whole enterprise from the state, they chose to set up an MRP which allowed them to obtain sufficient financing through E-Credits to purchase the company. In addition to using the MRP as a tool of privatization financing, management has heard that MRP-owned companies work better when implemented along with worker participation. So committees have been created which take your people away from production several times a month. Management still expects you to produce as many wedding decorations as before. Over the past month, you have gotten behind on your production target due to the lost work time. You think committees are fine, but think participation will be most helpful directly in the production process. You believe that by asking your workers for suggestions and then implementing the good ones, you can actually speed up the production process and make up some of the lost time.

This week, you and the worker owners you supervise are scheduled to produce wedding chains. Even though you have been supervising the production of this product for the past five years, you believe that your workers may have some good ideas on how to organize production in an even better way. Now more than ever, you want their help because management has set up a new bonus system which is tied to meeting your quota. As worker owners, the people you supervise have heightened expectations that they have a right to suggest changes in the production process. You agree and plan to implement every good suggestion. You were promoted to supervisor because you have the ability to help people use all of their skills, knowledge and experience.

Your Role:

Your task is to explain to the people you supervise the company way of constructing the wedding chains. Then you should ask them for suggestions about how to improve upon the process. If the suggestion is reasonable you should tell the employee who made it what a great idea it is and then implement it immediately.

SUPERVISING EMPLOYEE OWNERS AT WEDDING DECORATIONS, INC.

Background:

You have been a supervisor at Wedding Decorations, Inc. (WDI), for eight years. Last year, WDI's management decided to use an MBO to privatize the company. Since they did not have enough money to purchase the whole enterprise from the state, they chose to set up an MRP which allowed them to obtain sufficient financing through E-Credits to purchase the company. In addition to using the MRP as a tool of privatization financing, management has heard that MRP-owned companies work better when implemented along with worker participation. So committees have been created which take your people away from production several times a month. You find this frustrating because management still expects you to produce as many wedding decorations as before. Over the past month, you have gotten behind on your production target due to the lost work time.

This week, you and the worker owners you supervise are scheduled to produce wedding chains. You have been supervising the production of this product for the past five years and believe your way of organizing production is the best way. It has always worked for you and you have always met your quota. Management, on the other hand, is sold on this participation "fad" and wants you to let the people you supervise tinker with the production process. You have accepted the fact that this means you will not get much from the new bonus system set up by management because it is tied to meeting your quota. As worker owners, the people you supervise have heightened expectations that they have a right to suggest changes in the production process. You do not want to waste time dealing with these suggestions about changing the production process but management has given you no choice. You were promoted to supervisor because you have more knowledge and experience than the workers, but now their opinions seem to be more important than yours.

Your Role:

Your task is to teach the people you supervise the company's way of constructing the wedding chains. Then tell them that they can carry out production any way they want. If they ask you for guidance or make a suggestion to you, simply tell them to do whatever they want, they are the owners now. Do not comment on their ideas or how they are working. Just sit back and quietly observe.

THE COMPANY WAY TO CONSTRUCT WEDDING CHAINS

1. Have a couple of people draw the following lines (21cm X 3cm) on four pieces of colored paper. Use a ruler to measure out the lines on each piece of paper individually. Do not let them begin drawing lines on the white paper until they have finished drawing lines on the four pieces of colored paper.

2. While some are drawing lines on the white paper, others should be cutting the strips out of the colored paper and one should be stapling the links.

3. If you run out of paper or staples, you can order them from purchasing (see the workshop trainer). There is a two minute delay from the time you order most supplies to the time you receive them. Additional production equipment may take longer.

4. There should be twenty-two links in each chain and they should alternate between colored and white.

5. Make as many wedding chains as you can during your twenty five minute shift.

PRODUCTION COSTS

Supervisor salary & benefits	HUF 600 / 25 minute shift
Production worker salary & benefits	HUF 400 / 25 minute shift
Paper	HUF 100 / page
Staples	HUF 100 / staple

YOU WILL BE CHARGED FOR ALL MATERIALS CONSUMED!

MARKET CONDITIONS

The customers buy their wedding chains through a centralized buyer. The buyer needs to purchase at least 3 chains today but will need as many as 10 chains in the near future. The buyer can purchase from one or all of the wedding chain suppliers. While the buyer would prefer to purchase as many chains as possible immediately, the buyer would be willing to wait if the price difference were significant.

YOU CAN ONLY SELL COMPLETED CHAINS!

PRODUCTION WORKER OWNER AT WEDDING DECORATIONS, INC.

Background:

You have been a production worker at Wedding Decorations, Inc. (WDI), for ten years. Last year, WDI's management decided to use an MBO to privatize the company. Since they did not have enough money to purchase the whole enterprise from the state, they chose to set up an MRP which allowed them to obtain sufficient financing through E-Credits to purchase the company. In addition to using the MRP as a tool of privatization financing, management has heard that MRP-owned companies work better when implemented along with worker participation. So committees have been created which allow employees like yourself to plan company picnics and discuss smoking policies. You think this is okay but would prefer to give your input on important things like improving the production process.

This week, you are scheduled to produce wedding chains. You have been producing this product for the past five years and believe that there are many ways to improve the production process which would be better than the way the company has you do it. In the past, the company was never interested in your ideas; but now that you are an worker owner, you expect the company to listen to your ideas. In fact, the General Director recently sent a letter to every employee reminding you that you are owners and should think of ways to improve the company. A new bonus system set up by management will be tied to the number of wedding chains the company produces. While you have some good ideas, you do not want to waste time sharing them with the company if, as in the past, noone wants to listen.

Your Role:

Your task is to follow the instructions of your supervisor. If you are asked by your supervisor to make a suggestion you may offer the information which has been given to you (but you do not have to) or come up with your own suggestion if you have not been provided with additional information. If you are not asked, do not share your information. After all you will get paid for your twenty five minute shift regardless of how many wedding chains are produced.

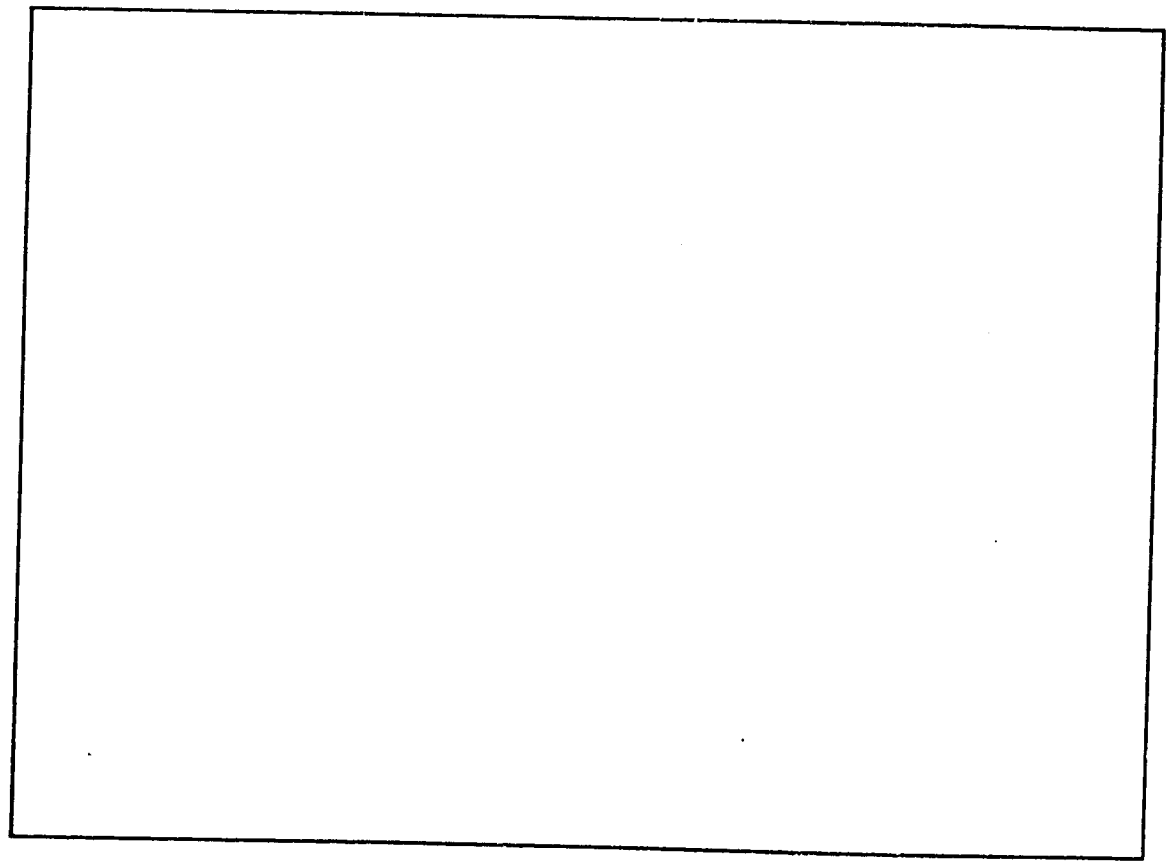
BRIGHT IDEA "A"

ONLY SHARE THIS IDEA IF THE SUPERVISOR ASKS AND YOU FEEL LIKE SHARING IT

The company wastes a lot of paper.

You currently only get 7 strips (21cm X 3cm) from each page of paper.

You could increase this to 9 strips per page if you were to draw the lines as in the diagram below, because the paper is 21cm wide and 29.5cm long.



BRIGHT IDEA "B"

ONLY SHARE THIS IDEA IF THE SUPERVISOR ASKS AND YOU FEEL LIKE SHARING IT

Often times, a lot of production time is lost waiting for supplies to be ordered, purchased and delivered from an outside supplier.

For example, if you run out of staples, your chain production stops until you can obtain more staples.

The company and your supervisor do not know that there are *100 extra staples* in a box in the break room. These staples have been forgotten about.

If you run out of staples, you could avoid a delay in production by telling the supply department to simply go to the break room.

BRIGHT IDEA "C"

ONLY SHARE THIS IDEA IF THE SUPERVISOR ASKS AND YOU FEEL LIKE SHARING IT

It takes a lot of time to measure and draw each line on the paper.

Rather than measuring each piece of paper separately to draw the lines, you could simply draw dark lines on the first page, and then trace the rest from this master copy.

This should save you time.

BRIGHT IDEA "D"

ONLY SHARE THIS IDEA IF THE SUPERVISOR ASKS AND YOU FEEL LIKE SHARING IT

Following the traditional procedures can be inefficient sometimes.

For example, you usually do not start to prepare the white strips for the chains until you have already finished drawing four pages of colored strips. No one remembers why the company does it this way, but it slows down the process.

If you draw the colored strips and the white strips at the same time, then as soon as you begin cutting them out the person stapling can begin producing complete chains.

This should save some time since if you do not begin the white strips until all the blue strips are done, the person stapling cannot begin linking the blue strips with the white strips.

BRIGHT IDEA "E"

ONLY SHARE THIS IDEA IF THE SUPERVISOR ASKS AND YOU FEEL LIKE SHARING IT

Not having enough equipment can slow production down.

Your group only has one stapler.

This may create a bottleneck since many people are cutting out slips of paper.

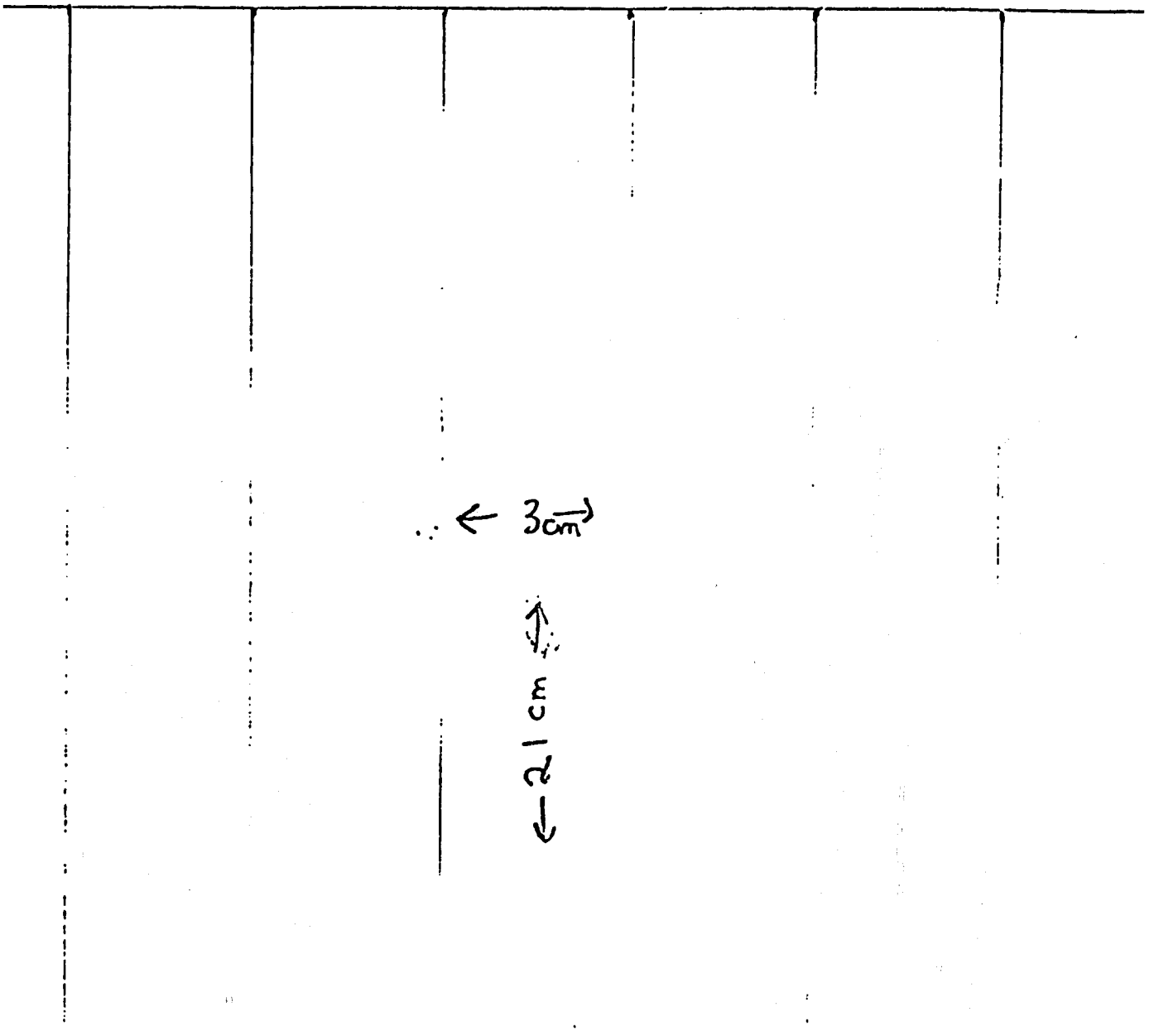
If you had an additional stapler, a second person could be completing chains and the work would get done more efficiently.

PRODUCTION COST CALCULATION FORM

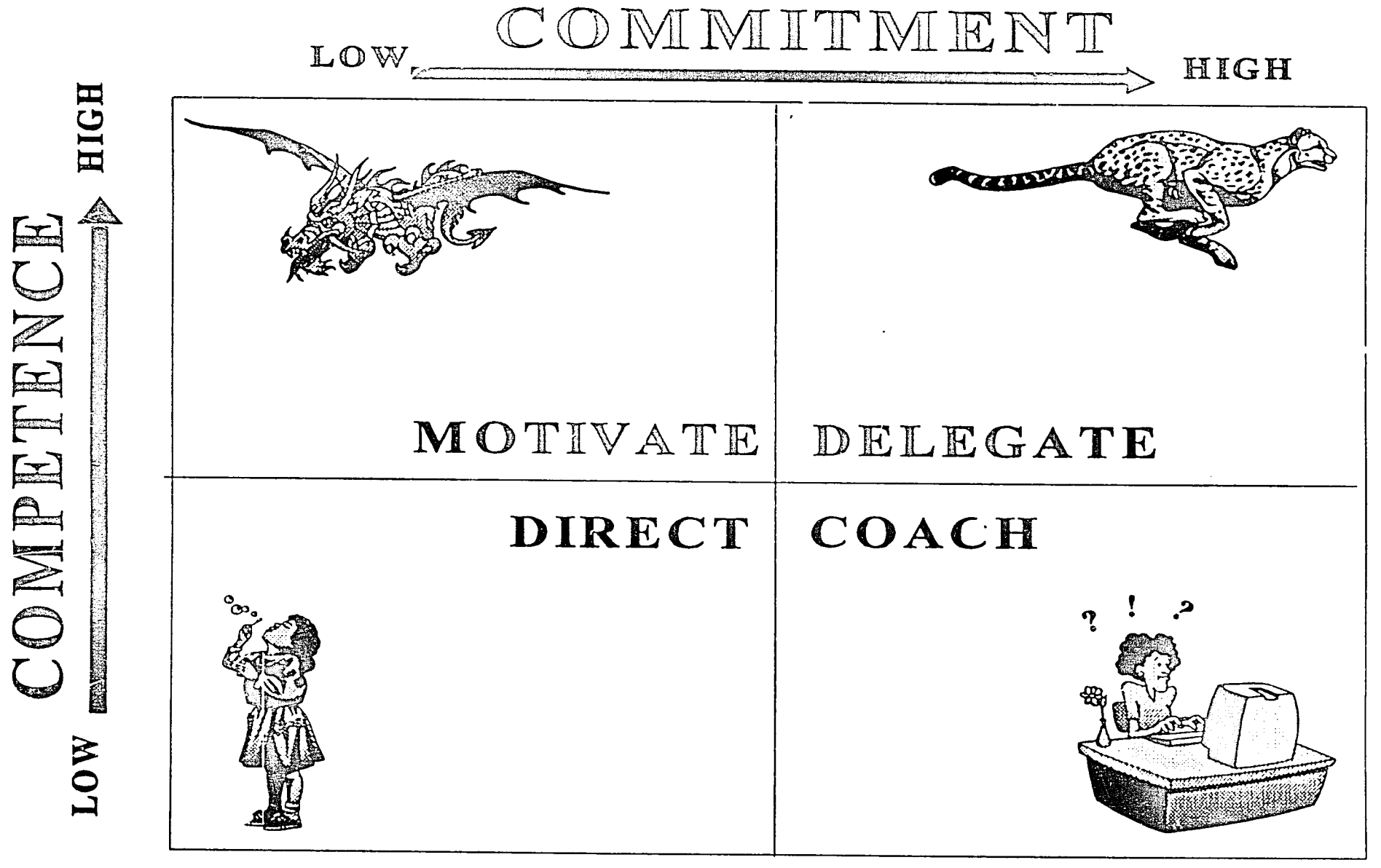
EXPENSE	COST/ITEM	QUANTITY	TOTAL COST	HINT
(1) WAGE OF SUPERVISOR	HUF 600 X	=		You had one supervisor.
(2) WAGE OF WORKER	HUF 400 X	=		How many workers were in your group?
(3) PAGE OF PAPER	HUF 100 X	=		You started with 20 pages. How many additional pages did you receive? How many clean pages could you return?
(4) ONE STAPLE	HUF 100 X	=		Multiply the number of complete chains by 22 and then add the number of additional completed links. Did you waste any staples?
(5) TOTAL COST	**********	**********		Add (1) through (4)
(6) CHAINS COMPLETED	**********	**********		
COST PER CHAIN	**********	**********		Divide (5) by (6)

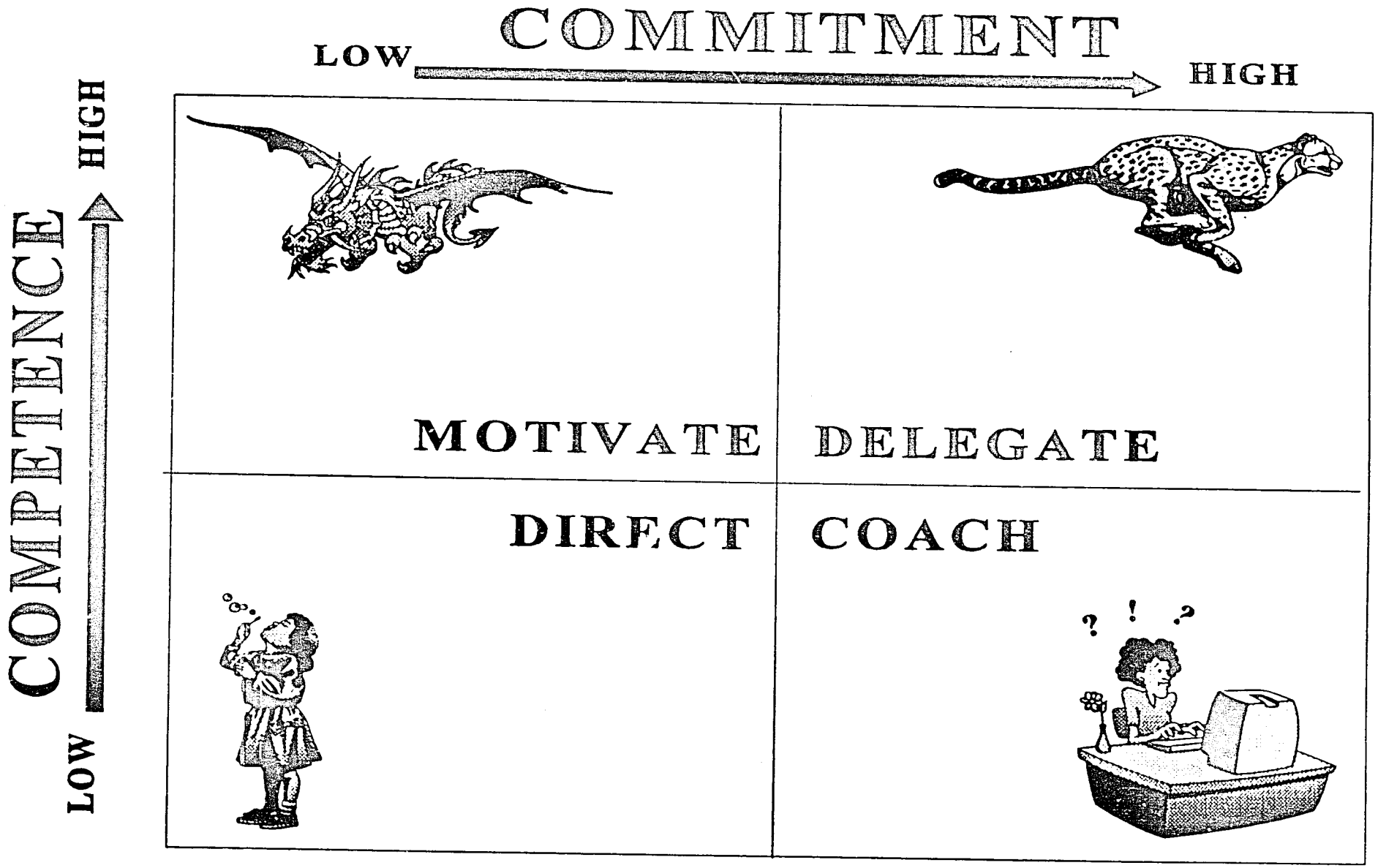
WHAT PRICE CAN YOU OFFER YOUR CUSTOMER? _____

HULLADEK



THE PROPER CHOICE OF MANAGEMENT STYLE, WORKERS' EXPERTISE AND COMMITMENT




COMMITMENT
LOW
HIGH
COMPETENCE
LOW
HIGH
MOTIVATE
DELEGATE
DIRECT
COACH

C.3 PARTICIPATIVE MANAGEMENT

August 31,1994

QUESTIONS RELATED TO THE THIRD NATIONAL ESOP CONFERENCE

I. Which of the following subjects are you especially interested in?

- Consequences of the new privatization strategy and law, affecting ESOPs and in general employee-management ownership.
- Functioning of employee-owned companies abroad (ownership structure after the buyout, organizational restructuring, decision-making mechanism, personnel policy, new work methods, etc.).
- Experience regarding Hungarian ESOP companies.
- Desired directions of the modification of the ESOP Law.
- Expedient regulation regarding the operation of the ESOP organization – Statutes
- Accounting of the ESOP organization and issues concerning ESOP taxation.
- Administrative tasks of the ESOP organization.
- Managing ESOP companies – international and domestic experiences.
- New type of teamwork and communication within the company.
- Possibilities of establishing and developing business contacts between ESOP companies.
- Possible forms of utilizing preferences provided by the Property Policy Guidelines.
- Attitude and behaviour of creditor banks towards ESOPs.

• Other subjects or particular issues suggested by you for discussion:

.....
.....
.....

II. Would you like us to send you the schedule of the ESOP conference and the application form? Yes ___ No ___

For your request we will send the schedule of the conference and the application form to the co-owners.

Name of the co-owner	Address
.....	.....
.....	.....
.....	.....

III. At the conference we intend to provide opportunities to companies to introduce themselves. For companies interested we will give more detailed information via telephone. Would you like to make use of this opportunity?
Yes ___ (tel: .....) No ___

IV. Other suggestions

.....
.....
.....

Names of the management

The top manager of the company.....
The president of the executive body of the ESOP Organization.....
The members of the executive body of the ESOP organization.....
.....
.....
The president of the company council.....
The secretaries of the company trade unions.....
.....

Data sheet
for the data base of the ESOP Organization

- Date of establishment of the ESOP..... organization.....
- Number of the participants of the ESOP Organization at the time of its establishment and at present, and its proportion to the number of employees of the company.....
- Date of the ownership acquisition (sale/purchase) by the ESOP Organization.....
- Proportion of employee-owned property to the registered capital or equity.....
- Price rate of property purchase.....
- Ownership structure

Co-owner	Proportion of ownership shares (%)
State	
Local government	
ESOP Organization	
Individual employees	
Individual Hungarian owner	
Foreign owner	

- Other information that you deem important (eg. how many applicants there were, in which round you won, was is a consortium bid or not, the process: tender invitation, evaluation of bids, decision-making and publication of results, conclusion of credit contract and sales contract, etc.)
.....
.....
.....
.....

Balance Sheet of the Company, 1993
(in thousand HUF)

		Previous Year	Present Year
A)	Long-Term Assets		
I.	Intangible Assets		
II.	Tangible Assets		
III.	Financial Assets		
B)	Current Assets		
I.	Stocks		
II.	Receivables		
III.	Securities		
IV.	Monetary Assets		
C)	Prepaid Expenses and Accrued Income		
	Total Assets		
D)	Owner's Equity		
I.	Registered Capital		

II.	Capital Reserves		
III.	Retained Earnings		
IV.	Loss Carried Forward form Previous Years		
V.	Balance Sheet Profit or Loss		
E)	Target Reserves		
F)	Liabilities		
I.	Long-term Liabilities		
II.	Short-term Liabilities		
G.	Accrued Items		
Total Sources			

Profit and Loss Statement of the Company, 1993
(in thousand HUF)

"A"		Previous Year	Present Year
I.	Net Sales Income		
II.	Other Income		
III.	Capitalized Value of Own Activity		
IV.	Material-Type Expenditure		
V.	Labour Related Costs		
VI.	Depreciation Allowance		
VII.	Other Costs		
VIII.	Other Expenditures		
A)	Profit or Loss from Business Activity		
IX.	Revenue form Financial Transactions		
X.	Expenditure on Financial Transactions		
B)	Profit or Loss from Financial Transactions		
C)	Regular Profit or Loss		
XI.	Extraordinary Revenue		
XII.	Extraordinary Expenditure		
D)	Extraordinary Profit or Loss		
E)	Pre-tax Profit or Loss		
XIII.	Tax Payment Liability		
F)	After-tax Profit or Loss		
G)	Balance Sheet Profit or Loss		

"B"		Previous Year	Present Year
I.	Net Sales Income		
II.	Other Income		
III.	Direct Cost of Sales		

IV.	Indirect Cost of Sales		
V.	Other Expenditure		
A)	Profit or Loss from Business Activity		
VI.	Revenue form Financial Transactions		
VII.	Expenditure on Financial Transactions		
B)	Profit or Loss from Financial Transactions		
C)	Regular Profit or Loss		
VIII.	Extraordinary Revenue		
IX.	Extraordinary Expenditure		
D)	Extraordinary Profit or Loss		
E)	Pre-tax Profit or Loss		
X.	Tax Payment Liability		
F)	After-tax Profit or Loss		
G)	Balance Sheet Profit or Loss		

DRAFT

DEBRIEFING A TRAINING EXERCISE

Training exercises can be enjoyable but sometimes workshop participants leave without knowing why they did the exercise. To effectively use an exercise, the trainer must facilitate a discussion which is called DEBRIEFING or processing the exercise.

For debriefing to be effective:

(1) The trainer must know the learning objectives;

(2) There must be enough time for learners to derive learnings and applications; and,

(3) The trainer must guide the participants through a series of debriefing steps.

STEP ONE: EXPERIENCING

This step is fairly simple. The trainer simply follows the instructions for running the exercise. The learners will experience the learning objectives which the exercise was designed to produce.

STEP TWO: DESCRIBING WHAT HAPPENED

Participants report what happened (thoughts, feelings, what people said and did) while the trainer records on a flip chart what they have said using their own words.

* If comments are all positive (negative), ask "I see a lot of positive reactions here. Were there any negative ones?"
* "What did you observe happening with other persons?"
* To focus learners' attention on particular data, you can begin by labeling the flip chart, ie, "What I thought, What I felt, What I observed of others."

STEP THREE: INTERPRETING THE DATA

Help participants put the raw data into meaningful forms by perceiving patterns, sequences, trends, dynamics or groupings.

* "As you look at this data, what patterns do you see?"
* "What do you make of that?"
* "How can we account for that?"
* "What 'pops' off the page for you?"
* "What matches do you see?"

STEP FOUR: GENERALIZING TO THE LEARNING OBJECTIVES

Draw out what participants have learned. Feel free to help if they seem to be missing something.

* "What learnings are here for you?"
* "What here helps you make sense out of the experiences you've had?"
* "What associations do the data help you make?"

STEP FIVE: APPLYING THE LEARNING OBJECTIVES TO REAL LIFE

Ask the participants to think about how they can actually use these learnings.

* "How can you use this learning back at the company?"
* "If these learnings are important to you, how can you best hold on to them?"
* Perhaps, ask participants to make a contract or write a letter to themselves reminding them of how they intend to use this learning.

"mindennapi kenyerünket
add meg nekünk ma"

MINDENNAPI KENYERÜNKET Kft.
THE MRP GAME

1. YOUR ROLE

You are a member of the board of directors of Mindennapi Kenyerünket Kft., an 80 percent employee-owned bakery located in Tolna, which has just completed its first year of operations. This report, prepared by Mindennapi Kenyerünket's accountant, was done for the Kft.'s first annual board meeting. At this meeting, your and your fellow board members, the employee owners of Mindennapi Kenyerünket Kft., and the representative of Tolna County (which owns the remaining 20% of the bakery), will decide how to spend the company's annual profits. The future of Mindennapi Kenyerünket Kft. is in your hands. This report tells you something of the bakery's history, MRP, product, production process, and the general market conditions.

2. HISTORY OF MINDENNAPI KENYERÜNKET Kft.

The bakery which became Mindennapi Kenyerünket Kft. was established in 1930. In 1948 it was nationalized and became a part of the Tolnai State Farm. Its chief market was to supply the State Farm employees and other inhabitants of Tolna with fresh bread and rolls, while some of the production was marketed to other townships in Tolna County.

When the Tolnai State Farm was broken up in 1993, the bakery was transformed into a Kft. with a book value of 12.5 million Ft. 80 percent of the shares were held by SPA, while Tolna County received 20 percent of the shares in exchange for the grounds of the bakery.

The eight employees of the bakery organized an MRP and obtained an E-credit loan of 10 million Ft., with which they made a successful bid for SPA's 80% of the shares (10,000 shares with a face value of 1000 Ft. each). The MRP signed a note to pay back the loan in 10 years at an interest rate of 7%, without a grace period. The loan was secured by the assets of the bakery. The employees named the new, 80% employee-owned company "Mindennapi Kenyerünket Kft."

3. THE TRANSACTION

849

(1) The MRP organization borrowed 10 million Ft. of E-credit. It gave the bank a note for 10 million Ft. at an interest rate of 7%.

(2) The MRP paid the 10 million to SPA in exchange for 10,000 shares with a face value of 1000 Ft. each.

(3) The shares went into a suspense account in the MRP.

When the MRP purchased the SPA shares, it placed them into a suspense account, which is pledged to the bank as collateral for the loan. As the Kft. pays back every year a part of its loan through the MRP to the bank, a corresponding number of shares are released from pledge and are allocated by the MRP to individual accounts of the employees. The released shares are allocated equally among the eight employee-owners. An employee at Mindennapi Kenyerünket Kft. becomes fully vested at the end of one year of employment.

4. THE Kft. PAYS BACK TO THE BANK

(1) The Kft. makes to the MRP in the first year a contribution of 1,700,000 Ft.

(2) The MRP uses the amount to make the first year payment to the bank - 1,000,000 Ft. of principal and 700,000 Ft. of interest.

5. SHARES ARE ALLOCATED TO INDIVIDUAL ACCOUNTS

Shares, in proportion to the amount of the loan repaid, are allocated to individual account of employee-owners within the MRP.

6. CURRENT SITUATION OF MINDENNAPI KENYERÜNKET Kft.

The MRP

The MRP has a one-year vesting period and immediate distribution of the shares when an employee retires. Once a year, the Kft. has a valuation of its share value done by a professional appraiser. Depending on the valuation, the share value may increase or decrease.

The MRP Loan

Mindennapi Kenyerünket Kft. is a privately owned company that has just completed its first year of operations. The MRP must repay the bank 1,000,000 Ft. of principal per year plus interest for the coming twelve years. Until the loan is fully paid, the Kft. may not distribute dividends. However, the employees as majority owners may eat up the profits by voting themselves increased salaries or bonuses.

The Product

Mindennapi Kenyerünket Kft. produces fresh bread and rolls. The process uses mainly flour, water and spices. The production requires three machines: a mixer to prepare the dough, a roller to cut and shape it into loaves or rolls, and an oven to bake it. The machines are in good working order, but on the average are twenty-five years old.

Company Structure

The Kft. has eight employees, who all participate in the Kft. Each employee has a seat on the Kft.'s board of directors and one vote in the Kft.'s decisions. A simple majority is necessary for board decisions. A representative of Tolna County has two votes on the board. Although he has never come to a meeting, no one knows how the county authorities will behave in the future.

Competition

The major competitor of Mindennapi Kenyerünket Kft. is Szekszárdi Pékség Rt., which supplies the same products throughout Tolna County. It pays each of its employees 750,000 Ft. per year, while Mindennapi Kenyerünket Kft. pays 700,000 Ft. It is rumored that Szekszárdi Pékség is thinking of buying Szuper Magna, a new baking machine which prepares the dough, cuts it, and sends it on a rolling carpet through an oven, all in a single operation, thus doing the work of the three machines which Mindennapi Kenyerünket has. Another rumor is that Szekszárdi Pékség Rt. has been negotiating with the county government to buy its 20% share in Mindennapi Kenyerünket so it could have access to the Kft.'s financial statements.

Market Conditions

With improved transport throughout the region, the market for bakery products has become both stronger and more competitive. Demand is growing as it is possible to

ship products competitively to Pécs and the Lake Balaton area.

7. WHAT YOU MUST DECIDE

Once a year, Mindennapi Kenyerünket Kft.'s board meets to decide what to do with the company's profits or how to cover its losses. As a board member, you have several choices as to where the profits can go. Some decisions will have a long-term effect, others will not. Some can be paid with pre-tax profits, others must be paid for after the Kft. pays taxes.

- PAY ALL EMPLOYEES A ONE-TIME BONUS -- ? Ft. (pre-tax expenditure)

Several employees are upset that annual wages at Mindennapi Kenyerünket are 50,000 Ft. lower than at Szekszárdi Pékség. Paying a bonus will solve some of the problems which this wage difference is creating. The one-time bonus comes out of pre-tax earnings and does not raise the Kft.'s costs for subsequent years. The board decides how large the bonus will be.

- RAISE WAGES -- 400,000 Ft. (pre-tax expenditure)

Another way to stop the complaining about Szekszárdi Pékség is to raise every emloyee's annual wages by 50,000 Ft. This will raise the Kft.'s "Salary Expenses" by 400,000 Ft. for every year after the increase is approved.

- PERFORM OVERHAUL -- 200,000 Ft.

The Kft's three machines, which are twenty-five years old, should have an overhaul every five years. Nobody remembers the last time this was done.

- BUY THE COUNTY'S SHARES (cost depends on share value; post-tax expenditure)

Some employees think that Tolna County will sell its shares to Szekszárdi Pékség Rt. to raise cash. Others do not believe that the Rt. will really make such an offer to the County.

- BUILD A CAFETERIA -- 850,000 Ft. (post-tax expenditure)

Employee owners feel that their workplace should be more than just a place to work. At present they must bring lunch from home as there is no nearby place to buy lunch, and no convenient place in the bakery to eat it. The cafeteria could also serve as a place to hold parties on national holidays for employees and their families.

- BUY THE SZUPER MAGNA MACHINE -- 2,450,000 Ft. (post-tax expenditure)

This machine has the capacity of doubling the Kft.'s production. It will replace the three machines which the Kft. currently has. On the other hand, it will not eliminate any jobs, as it requires the same number of persons to operate and maintain. Of course,

whether the Kft. can sell 100% more products depends on the market. The new technology has been used experimentally by the producer, but has not been purchased by a bakery before.

- SAVE THE PROFITS -- ? Ft. (post-tax savings)

The board may decide to save all or part of the profits. This may be a good idea, since the company must repurchase the shares of retiring employees in both year two and year three.

- ACCELERATE REPAYMENT OF E-CREDIT LOAN -- ? Ft. (post-tax savings)

By law, dividends cannot be distributed until the loan used to acquire the bakery has been completely paid off. From this point of view, it would be advantageous to accelerate repayment of the loan. On the other hand, the loan is at 7% interest, while any profits may be saved in government bonds bearing 27% interest until Our Daily Bread Kft. has accumulated enough to pay the loan completely.

Our Daily Bread Kft. subscribes to the trade journal, *BAKERY NEWS*. In the current issue it found the following article:

SZUPER MAGNA ANNOUNCES A MAJOR TECHNOLOGICAL BREAKTHROUGH
This May Signal a Revolution in the Bakery Industry

By Ildiko Katona
Bakery News reporter

Szuper Magna, a manufacturer of high-technology machinery for the bakery industry, announced today a major technological breakthrough. Szuper Magna's new "continuous baking machine" is said to combine the three processes of kneading the dough, shaping the loaf and baking it into one machine.

"The introduction of the 'continuous baking machine' signals a new day for the baking industry", stated István Szabó, Szuper Magna's director. "This Hungarian invention will replace the traditional three-machine operation and will at the very least double the production of companies which buy it."

If the Szuper Magna machine produces as much as Szabó claims, there could be a major revolution in the bakery industry.

"We are definitely investigating the equipment. If Szabó's claims are true, we will buy enough machines to take over the South Hungary market", stated Zoltán Nagy, director of Szekszárdi Bakery Rt. This machine would give us a tremendous advantage over our competitors".

At the press conference, Mr. Szabó denied that there would be any problems with a conversion from the old three-machine production to the "continuous baking machine". He stated that "our machine is designed to fit customer specifications and to raise productivity and profitability".

"mindennapi kenyerünket
add meg nekünk ma"

MINDENNAPI KENYERÜNK Kft.
AZ MRP SZEREPJÁTÉK

1. AZ ÖN SZEREPE

Ön a Mindennapi Kenyerünk Kft. igazgatói tanácsának tagja, mely Kft. 80 százalékban munkavállalói tulajdonú, Tolna megyében található, s nemrégiben zárta működésének első évét. Ez a jelentés, amelyet a Mindennapi Kenyerünk Kft. könyvelője írt meg,a Kft. első éves igazgató tanácsi ülésére készült. Ezen az ülésen Ön és a tanács más tagjai, akik a Mindennapi Kenyerünk Kft. munkavállaló tulajdonosai, valamint Tolna megye képviselője (mely megye tulajdonában van a pékség fennmaradó 20%-a), döntenek arról, hogy a vállalat éves nyereségétét mire fordítsák. A Mindennapi Kenyerünk Kft. jövője az Önök kezében van. Ebből a jelentésből megtudhat néhány dolgot a pékség történetéről, az MRP-ről, a termékről, a termelési folyamatról, és az általános piaci feltételekről.

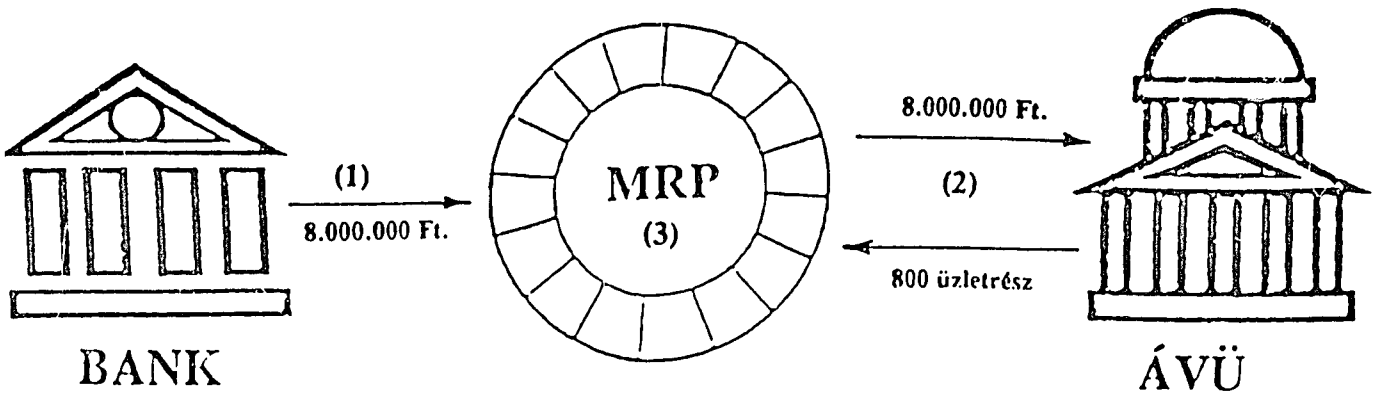
2. A MINDENNAPI KENYERÜNK Kft. TÖRTÉNETE

A pékséget, amelyből a Mindennapi Kenyerünk Kft. létrejött, 1930-ban alapították. 1948-ban államosították és a Tolnai Állami Gazdasághoz csatolták. Fő piacát az Állami Gazdaság dolgozóinak és Tolna más lakóinak friss kenyérrel és zöldséggel való ellátása jelentette, míg a termelés más része Tolna megye egyéb járásai felé irányult.

Amikor a Tolnai Állami Gazdaság 1993-ban felbomlott, a pékség Kft.-vé alakult át, 10 millió Ft könyv szerinti értékkel. Az üzletrészek 80%-a az ÁVÜ kezében volt, Tolna megye ugyanakkor megkapta az üzletrészek 20 százalékát a pékségnek nyújtott telekért cserébe.

A pékség nyolc dolgozója megszervezett egy MRP-t és 8 millió Ft értékű E-hitelhez jutott, amellyel megvásárolták az ÁVÜ birtokában lévő 80% üzletrészt (800 üzletrészt egyenként 10.000 Ft névértékkel). Az MRP aláírt egy nyilatkozatot, mely alapján a kölcsönt 10 éven belül visszafizeti 7%-os kamattal, türelmi idő nélkül. A kölcsönt a pékség vagyona biztosította. A dolgozók az új, 80%-ban dolgozói tulajdonú vállalatot elnevezték "Mindennapi Kenyerünk Kft.-nek. A Kft. megszerezte a kölcsönt és 1994. január 1-én megkezdte működését.

3. A TRANZAKCIÓ



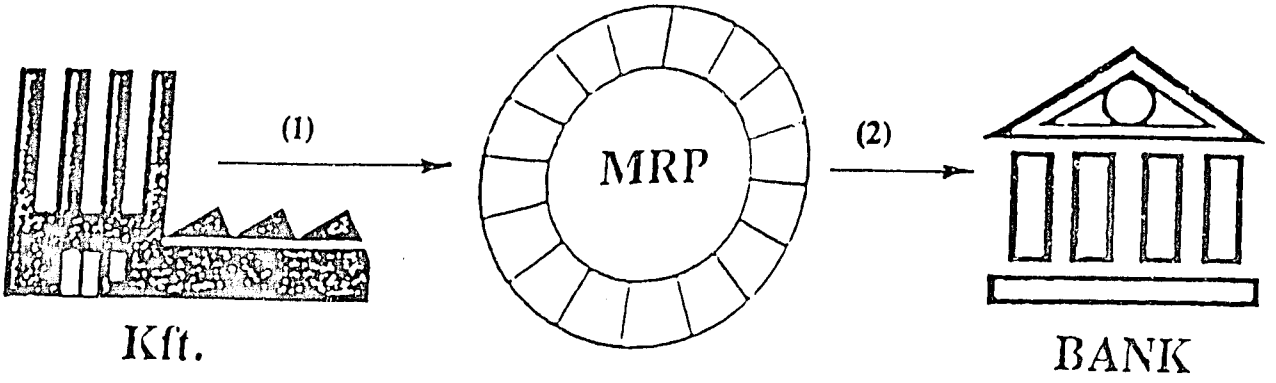
(1) Az MRP szervezet 8 millió Ft értékű E-hitelt vett kölcsön. A banknak átadott egy 8 millió Ft-ról szóló kötelezvényt, 7%-os kamattal.

(2) Az MRP a 8 milliót kifizette az ÁVÜ-nek 800 darab, egyenként 10.000 Ft névértékű üzletrészért cserébe.

(3) Az üzletrészekek az MRP-ben ideiglenes számlára kerültek.

Amikor az MRP felvásárolta az ÁVÜ üzletrészeket,olyan ideiglenes számlán helyezte el azokat, amelyet a kölcsön biztosítékául ajánlott fel a banknak. Ahogy a Kft. minden évben visszafizeti kölcsönének egy részét az MRP-n keresztül a banknak, megfelelő számú üzletrész szabadul fel a jelzálog alól, melyeket az MRP a dolgozók egyéni számláira utal át. A felszabadított üzletrészeket egyenlően osztják el a nyolc munkavállaló-tulajdonos között. A Mindennapi Kenyerünk Kft. munkavállalója azonnal teljes jogú tag lesz. (Így minden jelenlegi munkavállalónak joga van a számlájára átutalt összes üzletrész értékéhez, amikor nyugdíjba vonul. Nyugdíjba vonulásukkor új munkavállalók lépnek a helyükre, akiket ugyanolyan üzletrészhez jutási jog illet meg.)

4. A Kft. TÖRLESZT A BANK FELÉ

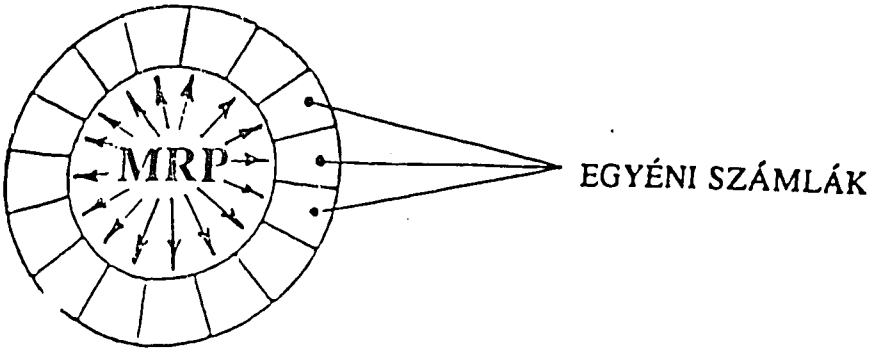


(1) A Kft. 1.360.000 Ft-tal járul hozzá az MRP vagyonához az első évben.

(2) Az MRP az összeget az első éves banki tartozás visszafizetésére használja fel- 800.000 Ft tőke és (8.000.000* 7% =) 560.000 Ft kamat formájában.

5. AZ ÜZLETRÉSZEKET EGYÉNI SZÁMLÁKON OSZTJÁK EL

A üzletrészeket, a visszafizetett kölcsön összegének arányában, a munkavállaló-tulajdonosok egyéni számlájára utalják át az MRP-n belül.



6. A MINDENNAPI KENYERÜNK Kft. JELENLEGI HELYZETE

Az MRP

Az MRP alapszabálya szerint azok a dolgozók, akik több mint egy éve dolgoznak a pékségben, jogosultak arra, hogy nyugdíjba vonulásukkor az összes számlájukra átutalt üzletrészt megkapják. A Kft. politikája az, hogy minden nyugdíjba vonuló üzletrészét megvásárolja, ha a munkavállaló rögtön nyugdíjba vonulása után el akarja adni őket. Az ilyen üzletrészeket költség felszámítása nélkül osztják szét a jelenlegi munkavállalók között tulajdonrészük százalékának arányában.

Évente egyszer a Kft. hivatásos vagyonértékelővel elvégezteti az üzletrész értékének felbecsülését. Az értékeléstől függően az üzletrész értéke csökkenhet vagy növekedhet. A Kft. a nyugdíjba vonuló munkavállalók üzletrészét a legutóbbi értékelés által meghatározott áron vásárolja meg.

Az MRP kölcsön

A Mindennapi Kenyerünk Kft. magántulajdonban lévő vállalat, amely nemrégiben zárta működésének első évét. Az MRP köteles visszafizetni 800.000 Ft tőkét a banknak évente, valamint kamatot az elkövetkező tíz évre. Amíg a kölcsönt teljesen vissza nem fizetik, addig a Kft. nem adhat osztalékot. A dolgozók ugyanakkor, többségi tulajdonosként, felélhetik a profitot azáltal, hogy saját maguknak magasabb fizetést vagy juttatásokat szavaznak meg.

A termék

A Mindennapi Kenyerünk Kft. friss kenyeret és zsömlét gyárt. A folyamat során főleg lisztre, vízre és fűszerekre van szükség. A gyártáshoz három gép nélkülözhetetlen: egy keverő, amely elkészíti a tésztát, egy formázó, amely a kenyeret és a zsömlét kivágja és megformázza, s egy sütő, amelyben mindez kisül. A gépek jó működési állapotban vannak, de átlagosan huszonöt évesek.

A Mindennapi Kenyerünk Kft. aláírt egy szerződést a Kocsis Kft-vel, melynek alapján a Kocsis Kft. szállítja a termékeket a vevőkhöz, a Mindennapi Kenyerünk Kft-nek így tehát csak a termelnie kell.

A vállalat szerkezete

A Kft-nek nyolc dolgozója van, akik mind tagjai a Kft-nek. Minden dolgozónak jut egy hely a Kft. igazgatói tanácsában és egy szavazati jog a Kft. döntéseiben. Egyszerű többségre van szükség ahhoz, hogy a tanács döntést tudjon hozni. Tolna megye képviselőjének két szavazata van a tanácsülésen. Bár e képviselő még sosem járt egy ülésen sem, senki sem tudja, hogy a megyei hatóságok hogyan viselkednek majd a jövőben.

Verseny

A Mindennapi Kenyerünk Kft. legfőbb versenytársa a Szekszárdi Pékség Rt., amely ugyanolyan termékeket kínál Tolna megye területén. Minden dolgozójának 750.000 Ft-ot fizet évente, míg a Mindennapi Kenyerünk Kft. 700.000 Ft-ot fizet (ezekbe a fizetési költségekbe beletartozik a társadalom biztosítási díj is). Az a hír járja, hogy a Szekszárdi Pékség tervezi a Szuper Magna megvásárlását. Ez egy olyan új sütőgép, amely elkészíti a tésztát, felvágja, futószalag segítségével átküldi egy sütőn, mindezt egyetlen egyszerű folyamatban. Ezáltal elvégzi három olyan gép munkáját, amilyennel a Mindennapi Kenyerünk Kft. rendelkezik. A másik hír az, hogy a Szekszárdi Pékség Rt. tárgyal a megyei önkormányzattal arról, hogy annak 20 %-os részesedését a Mindennapi Kenyerünk Kft-ben megvegye, s ezáltal a Kft. pénzügyi kimutatásaihoz hozzáférjen.

Piaci feltételek

Mivel a térségben a szállítás fejlődött, a sütőipari termékek piaca erősebbé vált, a verseny pedig fokozódott. Nő a kereslet, hiszen lehet a versenyképes termékeket Pécsre és a Balaton vidékére szállítani.

Készpénz-helyzet

A Mindennapi Kenyerünk Kft. működését 1994. január 1-én kezdte meg 400.000 forint értékű készpénzzel, zsebből vagy a bankból, amely körülbelül két hét működési költségeinek fedezéséhez elég. Ez megfelelőnek számít, mivel a vállalat készlete (kenyér) naponta forog, és a vevők (főleg élelmiszer kiskereskedések) hetente fizetnek.

7. A MUNKAVÁLLALÓ-TULAJDONOSOK FOGLALKOZÁSA

Pékmester	-49 éves
Pékinas	-43 éves
Kenyérformázó mester	-58 éves (a 2. év végén nyugdíjba megy)
Kenyérformázó inas	-28 éves
Tésztakeverő	-34 éves
Anyagbeszerző	-57 éves (a 3. év végén nyugdíjba megy)
Könyvelő	-53 éves
Raktáros	-26 éves

8. AMIT ÖNNEK KELL ELDÖNTENIE

Évente egyszer a Mindennapi Kenyerünk Kft. igazgatói tanácsa összeül, hogy döntést hozzon a vállalati profit felhasználásáról, illetve a veszteségek fedezéséről. A tanács tagjaként Önnek több választási lehetősége is van azzal kapcsolatban, hogy hová menjen a profit. Egyes döntések hosszú távon éreztetik majd hatásukat, mások nem. Van, amit az adózás előtti profittal ki lehet fizetni, mást akkor kell kifizetni, ha a Kft. már adózott. Az Ön

alternatívái a következők:

* AZ E-HITEL UTÁN KÖTELEZŐ TŐKE- ÉS KAMAT TÖRLESZTÉSE:

Kamat - az el nem helyezett kölcsönkötvény 7%-a (adózáselőtti kiadás)
Tőke - 800.000 évente (az adózás előtti profit 20%-át fel lehet használni a tőke visszafizetésére; a fennmaradó részt az adózás utáni profitból kell törleszteni)

A kamatot és a tőkét idejében kell fizetni, hogy a bank ne indítson végrehajtási eljárást a pékség ellen, és hogy az üzletrészeket el lehessen osztani a munkavállaló-tulajdonosok között.

* MINDEN DOLGOZÓ KAPJON EGYSZERI --? Ft. ÉRTÉKŰ JUTALMAT (adózás előtti kiadás)

Több dolgozót aggaszt, hogy az éves bér a Mindennapi Kenyerünk Kft-nél 50.000 Ft-tal alacsonyabb, mint a Szekszárdi Pékségnél. A jutalom fizetése megold majd néhány problémát, amely e bérkülönbségből adódik. Az egyszeri jutalom az adózás előtti jövedelemből származik, s nem növeli a Kft. költségeit az elkövetkező években. A tanács dönti el, mekkora legyen a jutalom.

* BÉREMELÉS -- 400.000 Ft. (adózás előtti kiadás)

A másik mód arra, hogy a Szekszárdi Pékséggel kapcsolatos panaszokat megszüntessük az, hogy minden dolgozó éves bérét megemeljük 50 000 Ft-tal. Ez 400 000 FT-tal növeli majd a Kft. "Fizetési költségeit" évente azután, hogy az emelést elfogadták.

* GENERÁLJAVÍTÁS -- 500.000 Ft. (adózás előtti kiadás)

A Kft. három gépe, melyek huszonöt évesek, öt évenként generáljavításra szorulna. Senki sem emlékszik, mikor végezték ezt el utoljára.

* A MEGYE ÜZLETRÉSZEINEK MEGVÁSÁRLÁSA (a költség az üzletrész értékétől függ; adózás utáni kiadás)

Néhány dolgozó úgy gondolja, hogy Tolna megye el fogja adni üzletrészeit a Szekszárdi Pékségnek, hogy így készpénzre tegyen szert. Mások nem hiszik, hogy az Rt. valóban tesz ilyen ajánlatot a megyének.

* A NYUGDÍJBA VONULÓ MUNKAVÁLLALÓK ÜZLETRÉSZÉNEK MEGVÁSÁRLÁSA (adózás utáni kiadás)

Az egyik munkavállaló a 2. évben, egy másik munkavállaló a 3. évben megy nyugdíjba. A Kft. politikája az, hogy a nyugdíjba vonuló munkavállalók üzletrészét

megvásárolja, amennyiben azokat eladásra kínálják rögtön nyugdíjba vonulásukat követően, a legutóbbi értékelés által meghatározott áron, s ezeket az üzletrészeket ingyen szétosztja a jelenlegi munkavállalók között tulajdonrészük százalékos arányában. Ez annak érdekében történik így, hogy a Kft. mindig többségi munkavállalói tulajdonban maradjon.

* KÁVÉZÓ ÉPÍTÉSE -- 850.000 Ft. (adózás utáni költség)

A dolgozó tulajdonosok úgy érzik, hogy a munkahelyük több kellene, hogy legyen, mint egyszerű munkahely. Jelenleg otthonról kell ebédet hozniuk, mivel mivel nincs hely a közelben, ahol ebédelni tudnának, s nincs kényelmes étkezősarok a pékségben sem. A kávézóban lehetne ünnepnapokon összejöveteleket szervezni a dolgozók és családtagjaik részére.

* A SZUPER MAGNA GÉP MEGVÁSÁRLÁSA -- 2.450.000 Ft.(adózás utáni kiadás)

Ez a gép képes megduplázni a Kft. termelését. Felváltja majd azt a három gépet, amely jelenleg a Kft. birtokában van. Nem szüntet meg ugyanakkor egyetlen munkahelyet sem, mivel ugyanannyi emberre lesz szükség működtetéséhez és karbantartásához.Természetesen az, hogy a Kft. képes-e eladni 100%-kal többet, a piactól függ. Az új technológiát a gyártó eddig kisérleti jelleggel használta, pékség még nem vásárolta meg.

* MEGTAKARÍTSUK-E A NYERESÉGET -- ? Ft (adózás után)

Az igazgatótanács elhatározhatja a teljes nyereség illetve a teljes nyereség egy részének megtakarítását, például azért, hogy megvásárolja a Szuper Magna gépet vagy azért, hogy a következő évben megvásárolja az egyik nyugdíjba vonuló munkavállaló üzletrészét.

* AZ E-HITEL VISSZAFIZETÉSÉNEK FELGYORSÍTÁSA -- ? Ft (az E-hitel visszafizetésére az adózás előtti nyereségnek akár a 20%-át is föl lehet használni)

A törvény alapján sem az üzletrészeket, sem az osztalékot nem lehet szétosztani addig, amíg a pékség megszerzéséhez felhasznált hitelt teljesen vissza nem fizetik. Az E-hitel visszafizetésére az adózás előtti nyereségnek akár a 20%-át is föl lehet használni - sőt a 800.000 Ft-ot meghaladó részt is, amit évente kell fizetni. Amennyiben az éves profit 20%-a meghaladná a 800.000 Ft-ot, előnyös megoldás lehet a különbséget felhasználni a hitel gyors visszafizetésére (máskülönben ez a nyereség 40% társasági adóra köteles), hogy a munkavállaló-tulajdonosok korábban megkaphassák az osztalékot.

A Mindennapi Kenyerünk Kft. előjegyezte a SÜTŐIPARI HÍREK c. kereskedelmi folyóiratot. A legutóbbi számban a következő cikk olvasható:

A SZUPER MAGNA RENDKÍVÜLI TECHNOLÓGIAI FEJLŐDÉSRŐL SZÁMOL BE

Forradalom a Sütőiparban?

Katona Ildikó
Sütőipari Hírek

A Szuper Magna, a sütőiparban használatos magas technológiai színvonalú gépek egyik gyártója jelentős technológiai fejlődésről számolt be. A Szuper Magna által gyártott "folyamatosan sütő gép" a három folyamatot -- a dagasztást, formálást és a sütést -- egy géppel végezteti.

"A folyamatosan sütő gép" bevezetése a sütőiparban új időszak kezdetét jelzi" -- jegyezte meg Szabó István, a Szuper Magna igazgatója. "Ez a magyar találmány elfoglalja majd a helyét a hagyományos három gépes műveletnek és az ezt a gépet megvásárló vállalatok termelését legalább kétszeresére növeli."

Amennyiben a Szuper Magna gépezet a Szabó által állított termelést hozza, a sütőiparban jelentős forradalom játszódhat le.

"Mi mindenképpen megvizsgáljuk a gépet. Ha a Szabó Úr állításai igaznak bizonyulnak, elegendő gépet fogunk vásárolni a dél-magyarországi piac birtokbavételéhez" -- közölte Nagy Zoltán, a Szekszárdi Pékség Rt. igazgatója. Ennek a gépnek a segítségével jelentős előnyre tehetünk szert a versenytársainkkal szemben".

A sajtókonferencián Szabó Úr elmondta, hogy a hagyományos három gépes termelésről a "folyamatosan sütő gépre" történő átállás semmiféle problémába nem ütközik. Megerősítette, hogy termékük kielégíti a vásárlói kívánalmakat, s ezzel együtt kifejlesztésének célja a termelékenység és nyereségesség növelése volt.

A PROFIT LEHETSÉGES FELHASZNÁLÁSI MÓDJAI

Adózás előtt			Kölcsön törlesztése- az adózás előtti profit 20%-a felhasználható		Adózás után				
Juttatás	Fizetése melés	Javítás	Adott évben	Jövő évek során	Megyei üzletrész kivásárlá-sa	Nyugdíjasok üzletrészének kivásárlása	Kávézó	Szuper Magna	Meg-taka-rítás

MEGJEGYZÉS: A SZÁMÍTÁSOK EGYSZERŰBBÉ TÉTELE ÉRDEKÉBEN A GYAKORLAT SORÁN ÁLLANDÓ ÁRAKKAL KALKULÁLUNK - A KENYÉR, AZ ANYAGOK, A SZUPER MAGNA, STB. ÁRA NEM EMELKEDIK NÉGY ÉV ALATT.

AZ IGAZGATÓTANÁCS ÁLTAL MEGSZAVAZOTT BÁRMELY JUTTATÁS VAGY FIZETÉSEMELÉS A MUNKAVÁLLALÓK VALÓDI VÁSÁRLÓEREJÉT FOGJA NÖVELNI.

AZ ÉVRŐL ÉVRE MEGTAKARÍTOTT PROFIT NEM HOZ KAMATOT.

MINDENNAPI KENYERÜNK Kft - KÖLCSÖN KISZÁMÍTÁSI LAP

Év	Éves adósságszolgálat			Kinnlevő tőke
	Kamat	Tőke	Összesen	
1. év	0.07 * 8,000,000 = 560,000	800,000	1,360,000	7,200,000
2. év	0.07 * 7,200,000 = 504,000	800,000	1,304,000	6,400,000
3. év	0.07 * 6,400,000 = 448,000	800,000	1,248,000	5,600,000
4. év	0.07 * 5,600,000 = 392,000	800,000	1,192,000	4,800,000
5. év	0.07 * 4,800,000 = 336,000	800,000	1,136,000	4,000,000
6. év	0.07 * 4,000,000 = 280,000	800,000	1,080,000	3,200,000
7. év	0.07 * 3,200,000 = 224,000	800,000	1,024,000	2,400,000
8. év	0.07 * 2,400,000 = 168,000	800,000	968,000	1,600,000
9. év	0.07 * 1,600,000 = 112,000	800,000	912,000	800,000
10. év	0.07 * 800,000 = 56,000	800,000	856,000	0

MINDENNAPI KENYERÜNKET Kft. - EREDMÉNYKIMUTATÁS ('000 Ft-ban)

Tétel	1994	1995	1996	1997
Árbevétel	14.000			
Mínusz: Működési költségek-				
Fizetési jegyzék(8 munkavállaló, kezdés 700 000/év/fő)	5.600			
Anyagok	4.000			
Szolgáltatások (telefon, energia, stb.)	1.000			
Működési összköltség				
Működési eredmény	[illegible]			
Mínusz: Kamatköltségek -				
Egyenlő: Kereskedelmi és pénzügyi tevékenységből származó eredmény				
Mínusz: Adózás előtti költségek -	[illegible]			
Juttatás				
Emelt fizetés				
Javítás				
A hiteltörlesztés és adózás előtti profit				
Mínusz: Adózás előtti hiteltörlesztés - "a hiteltörlesztés és adózás előtti profit" 20%-áig	[illegible]			
Adóköteles nyereség				
Mínusz: Adó (36%)				
Adózás utáni profit				
Mínusz: Adózás utáni költségek: -				
Hiteltörlesztés, hogy a teljes 800 000 Ft meglegyen.				
A megye üzletrészeinek kivásárlása				
A nyugdíjasok üzletrészeinek kivásárlása				
Kávézó építése				
Szuper Magna megvásárlása				
Hiteltörlesztés felgyorsítása				
Egyenlő: Megtakarított profit				

MINDENNAPI KENYERÜNK Kft. - KÉSZPÉNZSZÁMLA ('000 Ft-ban)

Tétel	1. év	2. év	3. év	4. év
Nyitó készpénz	400			
Plusz: Működési eredmény (az eredménykimutatásból)				
Egyenlő: Rendelkezésre álló készpénz				
Mínusz: Kamatköltségek: - az MRP kölcsönre - a Szuper Magna megvásárlásához felvett kölcsönre, ha volt ilyen				
Mínusz: Adózás előtti költségek -				
Juttatás				
Emelt fizetés				
Javítás				
Mínusz: Az MRP kölcsön adózás előtti törlesztése				
Mínusz: Adó				
Mínusz: Adózás utáni költségek				
Az MRP kölcsön törlesztése, hogy a teljes 800.000 Ft. meglegyen				
A megye üzletrészeinek kivásárlása				
A nyugdíjasok üzletrészeinek kivásárlása				
Kávézó építése				
Szuper Magna megvásárlása				
Plusz: Kiegészítő kölcsön a Szuper Magna megvásárlására (ha van ilyen)				
Mínusz: A Szuper Magna megvásárlására felvett kölcsön utáni tőke törlesztése (ha van ilyen)				
Eredmény: Az év végén megmaradó készpénz - át kell vinni a következő évre				

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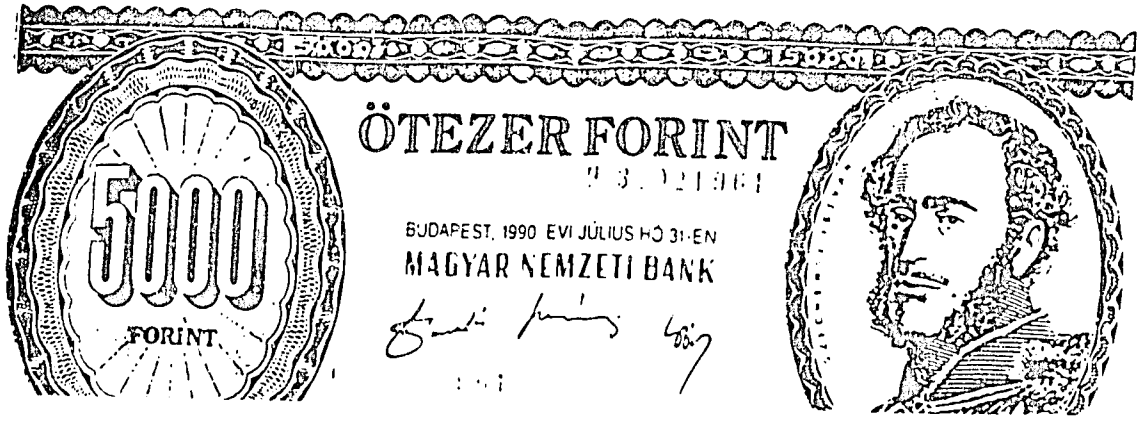
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FORINT
ÖTEZER FORINT
BUDAPEST, 1990 ÉVI JÚLIUS HÓ 31-ÉN
MAGYAR NEMZETI BANK

MINDENNAPI KENYERÜNK Kft.

EGY ÜZLETRÉSZ

NÉVÉRTÉK

10.000 Ft.

MINDENNAPI KENYERÜNK Kft.

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NÉVÉRTÉK

10.000 Ft.

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NÉVÉRTÉK

10.000 Ft.

MINDENNAPI KENYERÜNK Kft.

EGY ÜZLETRÉSZ

NÉVÉRTÉK

10.000 Ft.

56

"mindennapi kenyerünket
add meg nekünk ma"

MINDENNAPI KENYERÜNK Kft.
AZ MRP SZEREPJÁTÉK

1. AZ ÖN SZEREPE

Ön a Mindennapi Kenyerünk Kft. igazgatói tanácsának tagja, mely Kft. 80 százalékban munkavállalói tulajdonú, Tolna megyében található, s nemrégiben zárta működésének első évét. Ez a jelentés, amelyet a Mindennapi Kenyerünk Kft. könyvelője írt meg,a Kft. első éves igazgató tanácsi ülésére készült. Ezen az ülésen Ön és a tanács más tagjai, akik a Mindennapi Kenyerünk Kft. munkavállaló tulajdonosai, valamint Tolna megye képviselője (mely megye tulajdonában van a pékség fennmaradó 20%-a), döntenek arról, hogy a vállalat éves nyereségétét mire fordítsák. A Mindennapi Kenyerünk Kft. jövője az Önök kezében van. Ebből a jelentésből megtudhat néhány dolgot a pékség történetéről, az MRP-ről, a termékről, a termelési folyamatról, és az általános piaci feltételekről.

2. A MINDENNAPI KENYERÜNK Kft. TÖRTÉNETE

A pékséget, amelyből a Mindennapi Kenyerünk Kft. létrejött, 1930-ban alapították. 1948-ban államosították és a Tolnai Állami Gazdasághoz csatolták. Fő piacát az Állami Gazdaság dolgozóinak és Tolna más lakóinak friss kenyérrel és zöldséggel való ellátása jelentette, míg a termelés más része Tolna megye egyéb járásai felé irányult.

Amikor a Tolnai Állami Gazdaság 1993-ban felbomlott, a pékség Kft.-vé alakult át, 10 millió Ft könyv szerinti értékkel. Az üzletrészek 80%-a az ÁVÜ kezében volt, Tolna megye ugyanakkor megkapta az üzletrészek 20 százalékát a pékségnek nyújtott telekért cserébe.

A pékség nyolc dolgozója megszervezett egy MRP-t és 8 millió Ft értékű E-hitelhez jutott, amellyel megvásárolták az ÁVÜ birtokában lévő 80% üzletrészt (800 üzletrészt egyenként 10.000 Ft névértékkel). Az MRP aláírt egy nyilatkozatot, mely alapján a kölcsönt 10 éven belül visszafizeti 7%-os kamattal, türelmi idő nélkül. A kölcsönt a pékség vagyona biztosította. A dolgozók az új, 80%-ban dolgozói tulajdonú vállalatot elnevezték "Mindennapi Kenyerünk Kft.-nek. A Kft. megszerezte a kölcsönt és 1994. január 1-én megkezdte működését.

3. A TRANZAKCIÓ

(1) Az MRP szervezet 8 millió Ft értékű E-hitelt vett kölcsön. A banknak átadott egy 8 millió Ft-ról szóló kötelezvényt, 7%-os kamattal.

(2) Az MRP a 8 milliót kifizette az ÁVÜ-nek 800 darab, egyenként 10.000 Ft névértékű üzletrészért cserébe.

(3) Az üzletrészekek az MRP-ben ideiglenes számlára kerültek.

Amikor az MRP felvásárolta az ÁVÜ üzletrészeket,olyan ideiglenes számlán helyezte el azokat, amelyet a kölcsön biztosítékául ajánlott fel a banknak. Ahogy a Kft. minden évben visszafizeti kölcsönének egy részét az MRP-n keresztül a banknak, megfelelő számú üzletrész szabadul fel a jelzálog alól, melyeket az MRP a dolgozók egyéni számláira utal át. A felszabadított üzletrészeket egyenlően osztják el a nyolc munkavállaló-tulajdonos között. A Mindennapi Kenyerünk Kft. munkavállalója azonnal teljes jogú tag lesz. (Így minden jelenlegi munkavállalónak joga van a számlájára átutalt összes üzletrész értékéhez, amikor nyugdíjba vonul. Nyugdíjba vonulásukkor új munkavállalók lépnek a helyükre, akiket ugyanolyan üzletrészhez jutási jog illet meg.)

4. A Kft. TÖRLESZT A BANK FELÉ

(1) A Kft. 1.360.000 Ft-tal járul hozzá az MRP vagyonához az első évben.

(2) Az MRP az összeget az első éves banki tartozás visszafizetésére használja fel- 800.000 Ft tőke és (8.000.000* 7% =) 560.000 Ft kamat formájában.

5. AZ ÜZLETRÉSZEKET EGYÉNI SZÁMLÁKON OSZTJÁK EL

A üzletrészeket, a visszafizetett kölcsön összegének arányában, a munkavállaló-tulajdonosok egyéni számlájára utalják át az MRP-n belül.

6. A MINDENNAPI KENYERÜNK Kft. JELENLEGI HELYZETE

Az MRP

Az MRP alapszabálya szerint azok a dolgozók, akik több mint egy éve dolgoznak a pékségben, jogosultak arra, hogy nyugdíjba vonulásukkor az összes számlájukra átutalt üzletrészt megkapják. A Kft. politikája az, hogy minden nyugdíjba vonuló üzletrészét megvásárolja, ha a munkavállaló rögtön nyugdíjba vonulása után el akarja adni őket. Az ilyen üzletrészeket költség felszámítása nélkül osztják szét a jelenlegi munkavállalók között tulajdonrészük százalékának arányában.

Évente egyszer a Kft. hivatásos vagyonértékelővel elvégezteti az üzletrész értékének felbecsülését. Az értékeléstől függően az üzletrész értéke csökkenhet vagy növekedhet. A Kft. a nyugdíjba vonuló munkavállalók üzletrészét a legutóbbi értékelés által meghatározott áron vásárolja meg.

Az MRP kölcsön

A Mindennapi Kenyerünk Kft. magántulajdonban lévő vállalat, amely nemrégiben zárta működésének első évét. Az MRP köteles visszafizetni 800.000 Ft tőkét a banknak évente, valamint kamatot az elkövetkező tíz évre. Amíg a kölcsönt teljesen vissza nem fizetik, addig a Kft. nem adhat osztalékot. A dolgozók ugyanakkor, többségi tulajdonosként, felélhetik a profitot azáltal, hogy saját maguknak magasabb fizetést vagy juttatásokat szavaznak meg.

A termék

A Mindennapi Kenyerünk Kft. friss kenyeret és zsömlét gyárt. A folyamat során főleg lisztre, vízre és fűszerekre van szükség. A gyártáshoz három gép nélkülözhetetlen: egy keverő, amely elkészíti a tésztát, egy formázó, amely a kenyeret és a zsömlét kivágja és megformázza, s egy sütő, amelyben mindez kisül. A gépek jó működési állapotban vannak, de átlagosan huszonöt évesek.

A Mindennapi Kenyerünk Kft. aláírt egy szerződést a Kocsis Kft-vel, melynek alapján a Kocsis Kft. szállítja a termékeket a vevőkhöz, a Mindennapi Kenyerünk Kft-nek így tehát csak a termelnie kell.

A vállalat szerkezete

A Kft-nek nyolc dolgozója van, akik mind tagjai a Kft-nek. Minden dolgozónak jut egy hely a Kft. igazgatói tanácsában és egy szavazati jog a Kft. döntéseiben. Egyszerű többségre van szükség ahhoz, hogy a tanács döntést tudjon hozni. Tolna megye képviselőjének két szavazata van a tanácsülésen. Bár e képviselő még sosem járt egy ülésen sem, senki sem tudja, hogy a megyei hatóságok hogyan viselkednek majd a jövőben.

Verseny

A Mindennapi Kenyerünk Kft. legfőbb versenytársa a Szekszárdi Pékség Rt., amely ugyanolyan termékeket kínál Tolna megye területén. Minden dolgozójának 750.000 Ft-ot fizet évente, míg a Mindennapi Kenyerünk Kft. 700.000 Ft-ot fizet (ezekbe a fizetési költségekbe beletartozik a társadalom biztosítási díj is). Az a hír járja, hogy a Szekszárdi Pékség tervezi a Szuper Magna megvásárlását. Ez egy olyan új sütőgép, amely elkészíti a tésztát, felvágja, futószalag segítségével átküldi egy sütőn, mindezt egyetlen egyszerű folyamatban. Ezáltal elvégzi három olyan gép munkáját, amilyennel a Mindennapi Kenyerünk Kft. rendelkezik. A másik hír az, hogy a Szekszárdi Pékség Rt. tárgyal a megyei önkormányzattal arról, hogy annak 20 %-os részesedését a Mindennapi Kenyerünk Kft-ben megvegye, s ezáltal a Kft. pénzügyi kimutatásaihoz hozzáférjen.

Piaci feltételek

Mivel a térségben a szállítás fejlődött, a sütőipari termékek piaca erősebbé vált, a verseny pedig fokozódott. Nő a kereslet, hiszen lehet a versenyképes termékeket Pécsre és a Balaton vidékére szállítani.

Készpénz-helyzet

A Mindennapi Kenyerünk Kft. működését 1994. január 1-én kezdte meg 400.000 forint értékű készpénzzel, zsebből vagy a bankból, amely körülbelül két hét működési költségeinek fedezéséhez elég. Ez megfelelőnek számít, mivel a vállalat készlete (kenyér) naponta forog, és a vevők (főleg élelmiszer kiskereskedések) hetente fizetnek.

7. A MUNKAVÁLLALÓ-TULAJDONOSOK FOGLALKOZÁSA

Pékmester	-49 éves
Pékinas	-43 éves
Kenyérformázó mester	-58 éves (a 2. év végén nyugdíjba megy)
Kenyérformázó inas	-28 éves
Tésztakeverő	-34 éves
Anyagbeszerző	-57 éves (a 3. év végén nyugdíjba megy)
Könyvelő	-53 éves
Raktáros	-26 éves

8. AMIT ÖNNEK KELL ELDÖNTENIE

Évente egyszer a Mindennapi Kenyerünk Kft. igazgatói tanácsa összeül, hogy döntést hozzon a vállalati profit felhasználásáról, illetve a veszteségek fedezéséről. A tanács tagjaként Önnek több választási lehetősége is van azzal kapcsolatban, hogy hová menjen a profit. Egyes döntések hosszú távon éreztetik majd hatásukat, mások nem. Van, amit az adózás előtti profittal ki lehet fizetni, mást akkor kell kifizetni, ha a Kft. már adózott. Az Ön

alternatívái a következők:

* AZ E-HITEL UTÁN KÖTELEZŐ TŐKE- ÉS KAMAT TÖRLESZTÉSE:

Kamat - az el nem helyezett kölcsönkötvény 7%-a (adózáselőtti kiadás)
Tőke - 800.000 évente (az adózás előtti profit 20%-át fel lehet használni a tőke visszafizetésére; a fennmaradó részt az adózás utáni profitból kell törleszteni)

A kamatot és a tőkét idejében kell fizetni, hogy a bank ne indítson végrehajtási eljárást a pékség ellen, és hogy az üzletrészeket el lehessen osztani a munkavállaló-tulajdonosok között.

* MINDEN DOLGOZÓ KAPJON EGYSZERI --? Ft. ÉRTÉKŰ JUTALMAT (adózás előtti kiadás)

Több dolgozót aggaszt, hogy az éves bér a Mindennapi Kenyerünk Kft-nél 50.000 Ft-tal alacsonyabb, mint a Szekszárdi Pékségnél. A jutalom fizetése megold majd néhány problémát, amely e bérkülönbségből adódik. Az egyszeri jutalom az adózás előtti jövedelemből származik, s nem növeli a Kft. költségeit az elkövetkező években. A tanács dönti el, mekkora legyen a jutalom.

* BÉREMELÉS -- 400.000 Ft. (adózás előtti kiadás)

A másik mód arra, hogy a Szekszárdi Pékséggel kapcsolatos panaszokat megszüntessük az, hogy minden dolgozó éves bérét megemeljük 50 000 Ft-tal. Ez 400 000 FT-tal növeli majd a Kft. "Fizetési költségeit" évente azután, hogy az emelést elfogadták.

* GENERÁLJAVÍTÁS -- 500.000 Ft. (adózás előtti kiadás)

A Kft. három gépe, melyek huszonöt évesek, öt évenként generáljavításra szorulna. Senki sem emlékszik, mikor végezték ezt el utoljára.

* A MEGYE ÜZLETRÉSZEINEK MEGVÁSÁRLÁSA (a költség az üzletrész értékétől függ; adózás utáni kiadás)

Néhány dolgozó úgy gondolja, hogy Tolna megye el fogja adni üzletrészeit a Szekszárdi Pékségnek, hogy így készpénzre tegyen szert. Mások nem hiszik, hogy az Rt. valóban tesz ilyen ajánlatot a megyének.

* A NYUGDÍJBA VONULÓ MUNKAVÁLLALÓK ÜZLETRÉSZÉNEK MEGVÁSÁRLÁSA (adózás utáni kiadás)

Az egyik munkavállaló a 2. évben, egy másik munkavállaló a 3. évben megy nyugdíjba. A Kft. politikája az, hogy a nyugdíjba vonuló munkavállalók üzletrészét

megvásárolja, amennyiben azokat eladásra kínálják rögtön nyugdíjba vonulásukat követően, a legutóbbi értékelés által meghatározott áron, s ezeket az üzletrészeket ingyen szétosztja a jelenlegi munkavállalók között tulajdonrészük százalékos arányában. Ez annak érdekében történik így, hogy a Kft. mindig többségi munkavállalói tulajdonban maradjon.

* KÁVÉZÓ ÉPÍTÉSE -- 850.000 Ft. (adózás utáni költség)

A dolgozó tulajdonosok úgy érzik, hogy a munkahelyük több kellene, hogy legyen, mint egyszerű munkahely. Jelenleg otthonról kell ebédet hozniuk, mivel mivel nincs hely a közelben, ahol ebédelni tudnának, s nincs kényelmes étkezősarok a pékségben sem. A kávézóban lehetne ünnepnapokon összejöveteleket szervezni a dolgozók és családtagjaik részére.

* A SZUPER MAGNA GÉP MEGVÁSÁRLÁSA -- 2.450.000 Ft.(adózás utáni kiadás)

Ez a gép képes megduplázni a Kft. termelését. Felváltja majd azt a három gépet, amely jelenleg a Kft. birtokában van. Nem szüntet meg ugyanakkor egyetlen munkahelyet sem, mivel ugyanannyi emberre lesz szükség működtetéséhez és karbantartásához.Természetesen az, hogy a Kft. képes-e eladni 100%-kal többet, a piactól függ. Az új technológiát a gyártó eddig kisérleti jelleggel használta, pékség még nem vásárolta meg.

* MEGTAKARÍTSUK-E A NYERESÉGET -- ? Ft (adózás után)

Az igazgatótanács elhatározhatja a teljes nyereség illetve a teljes nyereség egy részének megtakarítását, például azért, hogy megvásárolja a Szuper Magna gépet vagy azért, hogy a következő évben megvásárolja az egyik nyugdíjba vonuló munkavállaló üzletrészét.

* AZ E-HITEL VISSZAFIZETÉSÉNEK FELGYORSÍTÁSA -- ? Ft (az E-hitel visszafizetésére az adózás előtti nyereségnek akár a 20%-át is föl lehet használni)

A törvény alapján sem az üzletrészeket, sem az osztalékot nem lehet szétosztani addig, amíg a pékség megszerzéséhez felhasznált hitelt teljesen vissza nem fizetik. Az E-hitel visszafizetésére az adózás előtti nyereségnek akár a 20%-át is föl lehet használni - sőt a 800.000 Ft-ot meghaladó részt is, amit évente kell fizetni. Amennyiben az éves profit 20%-a meghaladná a 800.000 Ft-ot, előnyös megoldás lehet a különbséget felhasználni a hitel gyors visszafizetésére (máskülönben ez a nyereség 40% társasági adóra köteles), hogy a munkavállaló-tulajdonosok korábban megkaphassák az osztalékot.

A Mindennapi Kenyerünk Kft. előjegyezte a SÜTŐIPARI HÍREK c. kereskedelmi folyóiratot. A legutóbbi számban a következő cikk olvasható:

A SZUPER MAGNA RENDKÍVÜLI TECHNOLÓGIAI FEJLŐDÉSRŐL SZÁMOL BE
Forradalom a Sütőiparban?

Katona Ildikó
Sütőipari Hírek

A Szuper Magna, a sütőiparban használatos magas technológiai színvonalú gépek egyik gyártója jelentős technológiai fejlődésről számolt be. A Szuper Magna által gyártott "folyamatosan sütő gép" a három folyamatot -- a dagasztást, formálást és a sütést -- egy geppel végezteti.

"A folyamatosan sütő gép" bevezetése a sütőiparban új időszak kezdetét jelzi" -- jegyezte meg Szabó István, a Szuper Magna igazgatója. "Ez a magyar találmány elfoglalja majd a helyét a hagyományos három gépes műveletnek és az ezt a gépet megvásárló vállalatok termelését legalább kétszeresére növeli."

Amennyiben a Szuper Magna gépezet a Szabó által állított termelést hozza, a sütőiparban jelentős forradalom játszódhat le.

"Mi mindenképpen megvizsgáljuk a gépet. Ha a Szabó Úr állításai igaznak bizonyulnak, elegendő gépet fogunk vásárolni a dél-magyarországi piac birtokbavételéhez" -- közölte Nagy Zoltán, a Szekszárdi Pékség Rt. igazgatója. Ennek a gépnek a segítségével jelentős előnyre tehetünk szert a versenytársainkkal szemben".

A sajtókonferencián Szabó Úr elmondta, hogy a hagyományos három gépes termelésről a "folyamatosan sütő gépre" történő átállás semmiféle problémába nem ütközik. Megerősítette, hogy termékük kielégíti a vásárlói kívánalmakat, s ezzel együtt kifejlesztésének célja a termelékenység és nyereségesség növelése volt.

A PROFIT LEHETSÉGES FELHASZNÁLÁSI MÓDJAI

Adózás előtt			Kölcsön törlesztése- az adózás előtti profit 20%-a felhasználható		Adózás után				
Juttatás	Fizetése melés	Javítás	Adott évben	Jövő évek során	Megyei üzletrész kivásárlása	Nyugdíjasok üzletrészének kivásárlása	Kávézó	Szuper Magna	Megtakarítás

MEGJEGYZÉS: A SZÁMÍTÁSOK EGYSZERŰBBÉ TÉTELE ÉRDEKÉBEN A GYAKORLAT SORÁN ÁLLANDÓ ÁRAKKAL KALKULÁLUNK - A KENYÉR, AZ ANYAGOK, A SZUPER MAGNA, STB. ÁRA NEM EMELKEDIK NÉGY ÉV ALATT.

AZ IGAZGATÓTANÁCS ÁLTAL MEGSZAVAZOTT BÁRMELY JUTTATÁS VAGY FIZETÉSEMELÉS A MUNKAVÁLLALÓK VALÓDI VÁSÁRLÓEREJÉT FOGJA NÖVELNI.

AZ ÉVRŐL ÉVRE MEGTAKARÍTOTT PROFIT NEM HOZ KAMATOT.

MINDENNAPI KENYERÜNK Kft - KÖLCSÖN KISZÁMÍTÁSI LAP

Év	Éves adósságszolgálat			Kinnlevő tőke
	Kamat	Tőke	Összesen	
1. év	0.07 * 8,000,000 = 560,000	800,000	1,360,000	7,200,000
2. év	0.07 * 7,200,000 = 504,000	800,000	1,304,000	6,400,000
3. év	0.07 * 6,400,000 = 448,000	800,000	1,248,000	5,600,000
4. év	0.07 * 5,600,000 = 392,000	800,000	1,192,000	4,800,000
5. év	0.07 * 4,800,000 = 336,000	800,000	1,136,000	4,000,000
6. év	0.07 * 4,000,000 = 280,000	800,000	1,080,000	3,200,000
7. év	0.07 * 3,200,000 = 224,000	800,000	1,024,000	2,400,000
8. év	0.07 * 2,400,000 = 168,000	800,000	968,000	1,600,000
9. év	0.07 * 1,600,000 = 112,000	800,000	912,000	800,000
10. év	0.07 * 800,000 = 56,000	800,000	856,000	0

MINDENNAPI KENYERÜNKET Kft. - EREDMÉNYKIMUTATÁS ('000 Ft-ban)

Tétel	1994	1995	1996	1997
Árbevétel	14.000			
Mínusz: Működési költségek-				
Fizetési jegyzék(8 munkavállaló, kezdés 700 000/év/fő)	5.600			
Anyagok	4.000			
Szolgáltatások (telefon, energia, stb.)	1.000			
Működési összköltség				
Működési eredmény				
Mínusz: Kamatköltségek -				
Egyenlő: Kereskedelmi és pénzügyi tevékenységből származó eredmény				
Mínusz: Adózás előtti költségek -				
Juttatás				
Emelt fizetés				
Javítás				
A hiteltörlesztés és adózás előtti profit				
Mínusz:Adózás előtti hiteltörlesztés - "a hiteltörlesztés és adózás előtti profit" 20%-áig				
Adóköteles nyereség				
Mínusz: Adó (36%)				
Adózás utáni profit				
Mínusz: Adózás utáni költségek: -				
Hiteltörlesztés, hogy a teljes 800 000 Ft meglegyen.				
A megye üzletrészeinek kivásárlása				
A nyugdíjasok üzletrészeinek kivásárlása				
Kávézó építése				
Szuper Magna megvásárlása				
Hiteltörlesztés felgyorsítása				
Egyenlő: Megtakarított profit				

MINDENNAPI KENYERÜNK Kft. - KÉSZPÉNZSZÁMLA ('000 Ft-ban)

Tétel	1. év	2. év	3. év	4. év
Nyitó készpénz	400			
Plusz: Működési eredmény (az eredménykimutatásból)				
Egyenlő: Rendelkezésre álló készpénz				
Mínusz: Kamatköltségek: - az MRP kölcsönre - a Szuper Magna megvásárlásához felvett kölcsönre, ha volt ilyen				
Mínusz: Adózás előtti költségek -				
Juttatás				
Emelt fizetés				
Javítás				
Mínusz: Az MRP kölcsön adózás előtti törlesztése				
Mínusz: Adó				
Mínusz: Adózás utáni költségek				
Az MRP kölcsön törlesztése, hogy a teljes 800.000 Ft. meglegyen				
A megye üzletrészeinek kivásárlása				
A nyugdíjasok üzletrészeinek kivásárlása				
Kávézó építése				
Szuper Magna megvásárlása				
Plusz: Kiegészítő kölcsön a Szuper Magna megvásárlására (ha van ilyen)				
Mínusz: A Szuper Magna megvásárlására felvett kölcsön utáni tőke törlesztése (ha van ilyen)				
Eredmény: Az év végén megmaradó készpénz - át kell vinni a következő évre				

MINDENNAPI KENYERÜNK KFT.

AZ IGAZGATÓTANÁCS ELNÖKE

Az Igazgatótanács elnökeként az Ön feladatkörébe a következők tartoznak:

Az Igazgatótanács éves üléseinek összehívása

Az ülések menetének pozitív eredmények és időben levont következtetések felé történő terelése

Lényeges kérdésekről, ötletekről és témákról folyó viták vezetése

Szavaztatás az igazgatótanácsi döntések meghozatala érdekében a megfelelő és szükséges időben

Az igazgatótanácsi üléseken hozott döntések nyomon követése, hogy a Mindennapi Kenyerünk Kft. Igazgatótanácsa által hozott üzleti döntésekről rendelkezésre álljanak feljegyzések

Egy titkár esetleges kinevezése abból a célból, hogy az Igazgatótanács által évente meghozott döntésekről feljegyzéseket készítsen

Elnökként soha ne feledkezzék meg arról, hogy:

Az igazgatótanácsi döntéseket egyszerű többséggel hozzák

Minden ülés időtartama korlátozott

A pénzügyi szaktanácsadó az Ön kérésére kapcsolatba léphet a bankkal, a megyei hatóságokkal és a Szuper-Magnával

Amikor a munkavállalók nyugdíjba vonulnak, új munkavállalókat kell a helyükre felvenni; az új munkavállalók belépnek az MRP-be, részt vesznek a vállalati tanács ülésein, munkába állásuk első évétől kezdve átutalva megkapják üzletrészeiket

MINDENNAPI KENYERÜNK KFT.

PÉNZÜGYI IGAZGATÓ

Pénzügyi igazgatóként az Ön feladatkörébe a következők tartoznak:

A vállalat pénzügyeinek nyomon követése

A döntések vagy az Igazgatótanács által átgondolt ötletek pénzügyi kihatásának kiszámítása

A vállalat pénzügyi nyilvántartásának vezetése, beleértve a kifizetetlen követeléseket és a szükséges törlesztési ütemtervet (fel lehet használni az "eredménykimutatás" és a "készpénzszámla" által felkínált formákat)

Pénzügyi igazgatóként soha ne feledkezzék meg arról, hogy:

A készpénzt és a profitot különválassza, mivel a profit után kell majd adózni, a készpénz után azonban nem

A vállalatnak pár éven belül készpénzzel kell fizetnie a nyugdíjba vonulóknak; erre a célra készpénzt kell fölvenni a banki "készpénzszámláról", minden egyéb fizetés csekkel történik banki "készpénzszámláról"

A vállalat esetleg többlet készpénzt szándékozik félretenni, hogy az szükség esetén rendelkezésre álljon

MINDENNAPI KENYERÜNK KFT.

MRP ADMINISZTRÁTOR

A Mindennapi Kenyerünk Kft. adminisztrátoraként az Ön feladatkörébe a következők tartoznak:

Részvények megfelelő időben történő átutalása a Függő számláról az egyéni számlákra

Annak biztosítása, hogy minden átutalás az MRP tervszabályzatnak megfelelően történjék

A Mindennapi Kenyerünk Kft. nyugdíjasainak alkalmas időben történő kifizetése

MRP Adminisztrátorként soha ne feledkezzék meg arról, hogy:

A számlákra történő minden átutalás akkor történik meg, amikor az MRP kölcsönt kifizetik

Az átutalási formula minden MRP résztvevő számára egyenlő

A nyugdíjasok rögtön nyugdíjba vonulásukkor megkapják a vagyonrészüket

A nyugdíjba vonulók eladhatják üzletrészeiket a vállalatnak, kizárólag nyugdíjba vonulásuk időpontjában, a legutóbbi értékeléskor meghatározott értékben

MINDENNAPI KENYERÜNKET Kft. - MRP SZEREPJÁTÉK
ELSŐ ÉVES TERV: A PÉNZÜGYI IGAZGATÓ ÁLTAL TETT LÉPÉSEK

1. OSSZUK SZÉT A SZEREPKÁRTYÁKAT - MINDEN MUNKAVÁLLALÓ TAGJA A MINDENNAPI KENYERÜNK Kft. IGAZGATÓTANÁCSÁNAK

- Magyarázzuk el a segítők szerepét - pénzügyi tanácsadó (aki az értékelő szerepét is játssza), bankár
- Az igazgatótanácsban 2 helyet Tolna megye képviselője foglal el, de ő nem szokott megjelenni az igazgatótanács ülésein
- Magyarázzuk el, hogy a nyugdíjkorhatár 60 év - egy munkavállaló a 2. év végén megy nyugdíjba, egy másik a 3. év végén

2. A TRANZAKCIÓ ÁTTEKINTÉSE

- Az MRP 8.000.000 Ft értékű E-hitelhez jutott
- Az MRP 800 üzletrészt vásárolt, üzletrészenként 10.000 Ft névértékben
- Az üzletrészeket függő számlán tartják

MINDENNAPI KENYERÜNK Kft. - MRP SZEREPJÁTÉK
MINDEN ÉVBEN: A PÉNZÜGYI IGAZGATÓ ÁLTAL TETT LÉPÉSEK

1. HÚZZUNK EGY "PIACI KÁRTYÁT"

2. SZÁMÍTSUK KI A PROFITOT ÉS A VESZTESÉGET - HATÁROZZUK MEG AZ ADÓZÁS ELŐTTI BEVÉTELT

3. ADJUK MEG AZ IGAZGATÓTANÁCSNAK AZT AZ ÖSSZEGET, AMELYNEK A FELHASZNÁLÁSÁRÓL DÖNTENIE KELL

4. MAGYARÁZZUK EL, MIK A VÁLASZTÁSI LEHETŐSÉGEK:

-	Törlesszük az adott évi 800 ezer Ft. tőkét		Az adózás előtti profit 20%-a felhasználható - a fennmaradó rész az adózás utáni profitból törleszthető
-	Juttatás	?	
-	8 munkavállaló bérének emelése, egyénenként 50 000 Ft értékben	400.000 Ft	A Szekszárdi Pékség fizetési szintjével egyenlő
-	Gépek javítása	500.000 Ft	
-	Az E-hitel törlesztésének felgyorsítása	?	Az adózás előtti profit 20%-a felhasználható minden törlesztéshez
-	Adóbefizetés	?	A megmaradó profit 40%-a
-	A megye 200 üzletrészének megvásárlása	?	A legutóbbi értékelés szerinti üzletrész értéke 200 x
-	Kávézó építése	850.000 Ft	
-	Szuper Magna megvásárlása	2.450.000 Ft	
-	A vállalati profit	?	

5. MEGBESZÉLÉS ÉS DÖNTÉSHOZATAL (20 perc)

közbeszólások: - "eldöntötték, mit tegyenek?"
- "... percük van hátra az igazgatótanácsi ülésből"

6. EGYSZERRE KÉRDEZZÜNK RÁ AZ ÖSSZES VÁLASZTÁSI LEHETŐSÉGRE

7. ELŐSZÖR A KÖLCSÖN TÖRLESZTÉSÉRE SZÁNT ÖSSZEGET VONJUK EL

- Ha az idei profit 800.000 Ft-nál kevesebb volt, jegyezzük le a fennmaradó részt, amelyet az adózás utáni profitból kell fizetni
- Ha csak az idei évi törlesztés történt meg, osszunk ki 10 üzletrészt minden munkavállalónak
- Magyarázzuk el, hogy 800.000 Ft-ot fizetünk ki, tehát 8 munkavállaló 80 üzletrészt kap
- X ezer Ft értékű gyorsított törlesztés esetén osszunk ki további X/80 üzletrészt minden munkavállalónak
- Tegyünk fel kérdéseket annak érdekében, hogy meggyőződjünk róla, hogy minden világos

8. VONJUNK EL MÁS ADÓZÁS ELŐTTI KIADÁSOKAT

9. VONJUK EL A MEGMARADÓ PROFITRA ESŐ ADÓÖSSZEGET

10. VONJUK EL A MEGMARADÓ HITELTÖRLESZTÉS ÖSSZEGÉT, HA VAN ILYEN

11. VONJUK EL AZ ÖSSZES ADÓZÁS UTÁNI KIADÁST

- Ha eldöntötték, hogy megvásárolják a megye üzletrészeit - a vállalat megvásárolta. Az MRP-hez kerülnek, és egyenlő arányban szétosztva az akkori munkavállalók számláira utalják őket.

12. A NYUGDÍJBA VONULÓ MUNKAVÁLLALÓKNAK KI KELL ADNI ÜZLETRÉSZEIKET
- Ha a nyugdíjba vonuló munkavállaló el akarja adni az üzletrészeit, a Kft. megvásárolja őket a legutóbbi értékeléskor meghatározott áron - 20%-ot a megyének ad (amennyiben az még a Kft. 20%-ának tulajdosa), 10%-ot pedig kioszt minden egyes munkavállaló MRP számlájára.

13. A MEGMARADÓ KÉSZPÉNZT A "KÉSZPÉNZSZÁMLÁRA" VEZETJÜK

14. AZ ÜZLETRÉSZEK ÉRTÉKELTETÉSE

Összes üzletrész = 1000

Az MRP birtokában: 800 üzletrész (minden évben 80-at osztanak szét - minden munkavállalónak 10-et)

4 évre vonatkozó játék esetén, 320 darab egyenként 1 üzletrészt érő bizonylattal kellene indítanunk

MINDENNAPI KENYERÜNK Kft.

EGY ÜZLETRÉSZ

NÉVÉRTÉK

10.000 Ft.

MINDENNAPI KENYERÜNK Kft.

EGY ÜZLETRÉSZ

NÉVÉRTÉK

10.000 Ft.

MINDENNAPI KENYERÜNK Kft.

EGY ÜZLETRÉSZ

NÉVÉRTÉK

10.000 Ft.

MINDENNAPI KENYERÜNK Kft.

EGY ÜZLETRÉSZ

NÉVÉRTÉK

10.000 Ft.

MINDENNAPI KENYERÜNK Kft.

EGY ÜZLETRÉSZ

NÉVÉRTÉK

10.000 Ft.

MINDENNAPI KENYERÜNK Kft.

EGY ÜZLETRÉSZ

NÉVÉRTÉK

10.000 Ft.

MINDENNAPI KENYERÜNK Kft.

EGY ÜZLETRÉSZ

NÉVÉRTÉK

10.000 Ft.

MINDENNAPI KENYERÜNK Kft.

EGY ÜZLETRÉSZ

NÉVÉRTÉK

10.000 Ft.

PIACI KÁRTYA - 1. ÉV

Árbevétel = 14.000.000 Ft

Anyagköltség = 4.000.000 Ft

Szolgáltatások = 1.000.000 Ft

PIACI KÁRTYA - 2. ÉV

Árbevétel nő 2%-kal

Ha karbantartás volt - anyagköltség 2%-kal nő

Ha karbantartás nem volt - anyagköltség 7%-kal nő

PIACI KÁRTYA - 3. ÉV

Árbevétel 5%-kal nő

Ha karb. volt az 1. és 2. évben - anyagkölts. 5%-kal nő

Ha karbantartás nem volt - anyagkölts. 10%-kal nő

A Szuper Magna megvásárlásakor - árbevétel, anyagkölts. 20%-kal nő

Szolgáltatások 10%-kal nő

PIACI KÁRTYA - 4. ÉV

A megye fenyeget, hogy részvényeit eladja a Szekszárdi Sütőüzemnek

Sz Magnát nem veszik meg - árbev., anyagk. 5%-kal nő

Sz.Magnát megveszik 2. vagy 3.évben - árbev., anyagk. 20%-kal nő

Szolgáltatások 10%-kal nő

ANNEX A: NATIONAL ASSOCIATION OF ESOP ORGANIZATIONS AND EMPLOYEE-OWNERS
(1149. Budapest, Angol u. 24/b.)

TRAINING AND TECHNICAL ASSISTANCE PROGRAM FOR 1995

Permanent programs:

From February till June, 1995 the Association will conduct training sessions and hold club meetings in the banqueting hall of Hotel Platanus at 44 Könyves Kálmán krt, Budapest, district VIII.
400 metres away from Fradi football field,
opposite Népliget (People's Park)

The subjects are the following **from 10 am. to 5 pm. every month:**

- On the first Thursday:

Preparation for the privatization tender. Lecturers: Károly Lovász, deputy head of department, Hungarian National Bank, and members of the Committee of Science and Law, and the Committee of Accounting and Management.

- On the second Thursday, except in May:

ESOP IN PRACTICE on club meeting days: consulting and passing on the experience of an ESOP organization already operating. Lecturers: the Association and the leaders of the ESOP organization. For one occasion we will invite Mr. Endre Mérő, public prosecutor (Metropolitan Attorney's Office). Consulting will be done by the lecturers; János Lukács (engineer, sociologist, president of the International Committee of the Association); and Mr. János Szántai and Ms. Katalin Szántai, lawyers.

In May the club meeting will be held together with the annual general assembly of the Association in Győr. Our host will be Győri Agroker Rt.

- On the third Thursday:

A lecture on problems of accounting, taxation and finance in ESOP organizations and on the accounting software SZÁM-ADÓ. Lecturers: Mrs Zoltán Lucz, head of department at the Ministery of Finance; members of the Committee of Accounting and Management; and software experts of Rész-Vétel Foundation.

- On the fourth Thursday

- In the morning: operation and management control in ESOP organizations, information on RÉSZVÉNYES (=SHAREHOLDER) management software. Lecturers: members of the Committee of Science and Law and the Committee of Accounting and Management, and software experts of Rész-Vétel Foundation.

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- **<u>in the afternoon</u>: training for ESOP organizations and leaders of ESOP groups - in the framework of "IMPACT II", a technical assistance program managed by COOPERS & LYBRAND and CHEMONICS INTERNATIONAL (both of them are international firms of management consulting and accounting) and financed by USAID - United States Agency for International Development. <u>Lecturers</u>: American and Hungarian experts of the program.**

The autumn training program will also be announced through the Training Center of the Hungarian Chamber of Commerce at the end of August or in the first few days of September.

Special lectures in case of interest:

- <u>On the first and second Thursday of January</u>: preparation for application,

- <u>On the second and third Wednesday of February</u>: consulting about preparation of the 1994 balance sheet. <u>Lecturers</u>: a competent employee from the Ministery of Finance and members of the Committee of Accounting and Management who are responsible for the accounting of an ESOP organization operating for several years.

- <u>on the fifth Thursday of March and June</u>: *"IMPACT II" training for ESOP organizations and leaders of ESOP groups.*

The participation fee: For members who pay a membership fee: 5000 Ft/person/day (cost price), for others: 6500 Ft/person/day, which includes breakfast, warm lunch and a sandwich in the afternoon. It must be payed on the spot or transferred in advance to the cheque account of the Association (Budapest, XIV. ker. OTP fiók 218-98141/536-29680-7). You can <u>join the Association on the spot.</u>

Membership fees for 1995:

- *For organizations: 100 Ft/person for less than 500 persons, but at least 10 000 Ft, from 501 to 1000 persons: 50 Ft/person, more than 1001 persons: 25 Ft/person, not more than 100 000 Ft. You can pay the membership fee in a quarter of a year as well.*
- *For ESOP Organizing Committees: 10 000 Ft.,*
- *For private persons: 6000 Ft/person.*

Free legal consulting and technical assistance for members of the Association who pay a membership fee throughout the year on every Tuesday without making an appointment and every Wednesday with appointment from 8 am. till 1 pm. in the center of the Association.

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The Association will be ready to do the complex (legal, management, etc.,) jobs of privatization consulting, property valuation and accounting in the future, too. For members we grant price discounts.

Information, application for training, receiving mandates for the Association:

-Albert Barányi, chairman of the Education Committee, O.B.S.manager, graduate engineer (address: 2400, Dunaújváros, Weiner Tibor krt. 1. sz. II. e. 1. ajtó, tel. és fax: 06 - 25 - 311-287) and

-János Szántai, general secretary at the center of the Association (address: 1149. Budapest, Angol u. 24/b., tel.: 1636-698, fax: 1832-229).

Budapest, 27 December 1994.

Mr János Szántai, general secretary
(signed)

József Kelemen, president
(signed)

Albert Barányi
chairman of the Education Committee

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MAKING MEETINGS MORE EFFECTIVE

COOPERS & LYBRAND/CHEMONICS INTERNATIONAL

March 1995

This material was prepared by Daniel Bell of the Northeast Ohio Employee Ownership Center of Kent State University for Coopers & Lybrand/Chemonics International and funded by USAID.

The following materials were based closely on materials found in a manual on Committee Effectiveness Training prepared by the US Department of Labor Bureau of Labor-Management Relations and Cooperative Programs: "Farmers" Exercise, Debriefing Farmers, and Handouts 1A, 1B, 1C, 2, 3, 4, 5, and 6. The USDOL adapted that material from "Farmers: Information Sharing," by Aharon Kuperman, in *The 1981 Annual Handbook for Group Facilitators*, John E. Jones and J. William Pfeiffer, editors. San Diego, California: University Associates, Inc., 1981.

MAKING MEETINGS MORE EFFECTIVE

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OVERVIEW

This workshop covers several key elements which make meetings more effective. It also gets workshop participants to explore an important corporate governance issue common in Hungarian MRP (employee-owned) companies.

Participants will learn ways to reduce the time required to have an effective meeting. This includes taking key actions before a meeting, using a structured process during the meeting, and assigning the roles of facilitator, recorder and timekeeper to meeting participants. Participants will also become familiar with different viewpoints on the topic: "How closely should MRP committees control management decisionmaking?"

During the lesson, the workshop leader will (1) introduce the topic; (2) lead participants through an exercise designed to make them experience a bad meeting due to the absence of planning and structure; (3) facilitate a discussion/lecture about elements which make meetings more effective; (4) lead participants through a meeting making use of a facilitator, recorder and structured process; (5) facilitate a discussion giving participants the opportunity to evaluate whether the structured meeting was helpful and soliciting a commitment by participants to incorporate the helpful components into their own meetings.

LESSON OBJECTIVES

At the end of this lesson, participants will be able to list several components which make meetings more effective. They will also be able to describe the pros and cons of MRP committees having direct control over a number of key management decisions.

WORKSHOP AGENDA (4 hour version)

This workshop is designed to last 4 hours (220 minutes plus 20 minutes for slippage). As part of a full day workshop, it would go well with segments on topics such as group dynamics, decisionmaking, or problemsolving. Time, in minutes, is shown both for each section and cumulatively, ie, (segment time, cumulative time).

(15/15)	Introduction to making meetings more effective (more time needed for introductions of participants if the workshop is run by itself)
(45/60)	Farmers exercise: Experiencing a bad meeting
(15/75)	Debrief of exercise
(10/85)	Break
(20/105)	Lecture: Making meetings more effective
(15/120)	Setting up the practice meeting. Explanation of purpose, process and roles
(5/125)	Selection of facilitator and recorder & silent generation of ideas
(10/135)	Ideas are recorded on the flip chart
(10/145)	Questions and answers for clarification only
(10/155)	Clustering of ideas
(5/160)	Ranking of ideas
(10/170)	Break
(10/180)	Recording pro and con arguments
(10/190)	Reviewing facilitator report
(10/200)	Group reports
(15/215)	Debrief of practice meeting
(5/220)	Concluding summary of workshop

Allowing 20 additional minutes for slippage rounds this workshop off at 4 hours. If the workshop falls behind, one can save from 5 to 25 minutes by cutting out "Clustering", "Ranking", and/or "Pro and con arguments."

WORKSHOP AGENDA (3 hour version)

This abbreviated version of the workshop is designed to last 3 hours (180 minutes with no extra time for slippage). Time is saved by (1) using professional facilitators with each group which reduces the need to explain the process; (2) eliminating one break; (3) eliminating the step of clustering ideas; (4) counting on the professional facilitators to make briefer reports.

(15/15)	Introduction to making meetings more effective (more time needed for introductions of participants if the workshop is run by itself)
(45/60)	Farmers exercise: Experiencing a bad meeting
(15/75)	Debrief of exercise
(20/95)	Lecture: Making meetings more effective
(10/105)	Break
(5/110)	Setting up the practice meeting; explanation of purpose. (Professional facilitator also records and keeps time)
(5/115)	Silent generation of ideas
(10/125)	Ideas are recorded on the flip chart
(10/135)	Questions and answers for clarification only
(10/145)	Ranking of ideas
(10/155)	Recording pro and con arguments
(5/160)	Reviewing facilitator report
(5/165)	Group reports
(10/175)	Debrief of practice meeting
(5/180)	Concluding summary of workshop

If the workshop falls behind, it is always an option to cut out the steps "Ranking of ideas" and "Recording pro and con arguments". This saves 15 minutes.

MATERIALS NEEDED FOR THE WORKSHOP

This workshop can be run for as few as 5 participants or as many as 40 (5 groups of 8). The ideal size would be 18 (3 groups of 6). The list of materials here suggests arrangements which will make your workshop climate more comfortable for the participants, improving their attitude and, consequently, their learning. Choosing the minimum arrangements will work, but not as effectively.

* Overhead projector (table and screen or wall) or prepared flip chart

* Flip charts (minimum 1 per group / ideally 2 more for the trainer) -- if necessary, flip charts can be hung from nails or with tape on the wall.

* Black markers for each group (additional colors are helpful)

* Tape -- cut several strips and leave them on the flip chart stands so that people do not waste time later; make long strips to avoid the distraction of pages dropping from the wall

* Table for workshop materials

* One table (preferably round) per group arranged so all participants can see the speaker (no chair between the table and the speaker); leave space between tables so that group discussions do not interfere with each other (see diagram on page D1)

* Number the tables so the trainer can easily distinguish between groups; assign participants from the same organization to different groups (the purpose is to spread the experience around the room)

* A table with coffee, tea, water and soft drinks is placed in the back of the room so that participants can unobtrusively refresh their cup at any time

* All handouts listed in the table of contents on page 1

* All slides listed on page S1

* Prepare flipchart tally sheets (see diagram on page D2)

* Prepare flipchart pros and cons sheets (see diagram on page D3)

* Read *Handout 7: Using a Tally to Guide the Group*

INTRODUCTION TO MAKING MEETINGS MORE EFFECTIVE

Objective: At the end of your introduction, you want your participants to (1) be open to experiential learning; (2) be open to the possibility that their meetings could be improved.

Opening statement:

Personal story in order to get the participants' attention.

> *Have you ever seen a Wrigleys Chewing Gum commercial? If you only chew Wrigleys Chewing Gum, you will be happy and full of energy. Of course, I have chewed Wrigleys. It tasted good, but it did not give me energy. You have probably heard the saying "Don't believe anything you read and only half of what you see." Whether or not we want to be, we are all skeptics.*
>
> *This is why I hate to give lectures. People are not going to believe me anyway. But if I can get them to experience something for themselves, then, just maybe, it will be believable.*
>
> *The goal of today's (this afternoon's) workshop is to give you some new ideas on ways that your meetings can be made more effective. I could tell you that you should introduce more structure to your meetings, assign someone to be a facilitator and someone to record the discussion on a flip chart; however, I would have a difficult time getting you to follow my recommendations. Instead, I want to have you go through a couple of practice meetings today in order to see what is helpful and what is not.*

Build a bridge between participant experience and this workshop.

> *I understand that at MRP companies, you have a lot of meetings, Some might even say too many meetings. Who are the different groups that hold meetings in your company?* [They should volunteer a list such as: MRP board, management board, union committee, shareholders' assembly. Write these on a flip chart as they are mentioned.] *What are some of the things which reduce the effectiveness of these meetings? What makes them last longer than they should?* [Write these on the flip chart as well]

"FARMERS" EXERCISE: EXPERIENCING A BAD MEETING

Objective: At the end of the exercise, you want your participants to agree that they had a bad meeting and be interested in discussing why.

Running the exercise:

Before the workshop, select small group facilitators to help at each table. If your groups have seven or eight people and you do not have others available to help, you may even select someone from each table to be the small group facilitator. In that case, you need to explain to them, in private, what their role is and what is suppose to happen. Give the small group facilitators the handout "Instruction Sheet for Small Group Facilitators" and the previously cut handout "Farmers Bits of Information for Groups."

> *I am now going to ask you to have a 35 minute meeting with the other people at your table. Try and avoid doing some of these negative things* [point to their list] *which you have listed.*

Ask small group facilitators to distribute "Bits of Information."

> *Each of you is receiving a small piece of paper with some information. Pretend this information is only in your head as it would be in a real meeting. You can tell others about the information you have, but please do not show them your piece of paper directly. Your small group facilitator will interrupt you every five minutes with some suggestions for improving your meeting. You now have all of the information you need. You will have 35 minutes to complete your work.*

As the groups begin their work, avoid the temptation to use this time to do something else or leave the room (this would be a statement to the participants that what they are doing is not important to you). Observe the groups as they do their work. Check with the small group facilitators to make sure they stick to the schedule.

At the end of the 35 minutes, some groups may have gotten both answers, others only one, and still others none. If you are on a tight schedule, it is not important that they complete the task (this is evidence that the meeting was not effective). If you have some time, you might give the groups an additional 10 minutes so that someone solves the puzzle as evidence that it is possible. In either case, when you decide the meeting is formally over, have the small group facilitators distribute the handout "Solution to Farmers Exercise."

DEBRIEFING FARMERS

Objective: At the end of the debriefing, you want your participants to discover for themselves or hear you recommend that meetings work better when the group (1) knows the purpose in advance, (2) agrees to follow a structured process, (3) empowers someone to enforce the process, (4) uses a recorder to display the common information before everyone, and (5) summarizes the meeting results for everyone's review at the end of the meeting.

Discussing the experience:

> *Please take 5 minutes to discuss with your group what things made this meeting difficult for you, and what things helped you make progress toward completing your task.*

Label two flip charts, "Moved meeting forward" and "Slowed meeting down."

Ask participants to tell you some of the things they observed which slowed the meeting down or moved it forward, or some of the things which were absent which could have helped move the meeting forward. Take one comment from each table and go around the tables a couple of times before openning up the discussion to spontaneous remarks. This will help avoid a dialog between you and one group while the other groups lose interest.

Record all comments under the appropriate heading, and put a checkmark by any comment which is repeated, rather than rewriting it. If any of the items listed in the debrief objectives is missing, try using the following questions to solicit them.

> *What was it like beginning a discussion without knowing what you were here to do?*
>
> *How many times did the group change its procedure for organizing the information and accomplishing the task?*
>
> *Did a group leader emerge and did it make a difference in how the information was shared and targeted toward task accomplishment?*
>
> *Did your group use the flip chart and did this make a difference?*
>
> *What happened when you summarized your answers? Did each member agree? How did each of you feel about the results of your efforts.*

At this point, give participants a 10 minute break if you are running a 4 hour session.

LECTURE: MAKING MEETINGS MORE EFFECTIVE

Objective: At the end of the lecture, you want your participants to to be able to explain (1) the purpose of an agenda and minutes, (2) the roles of a facilitator and recorder, and (3) the rationale behind agreeing upon and adhering to a process.

Summing up recommendations for making meetings more effective:

Slide 1: Clarifying what you mean by a "meeting".

There are several kinds of meetings. All meetings have as a primary purpose communication of information. At some meetings, information is communicated from a leader to the participants. For example, when a supervisor assigns work assignments for the day. Only the supervisor has the information.

The meetings that I want to talk about today (this afternoon) are meetings where all of the participants have relevant but different bits of information which, when gathered together, can produce a better decision based on a more comprehensive understanding of the circumstances. For example, in the Farmers exercise, no group could have completed the task if any one individual had withheld information. Each member of your management board, MRP board, board of directors and union committee brings important and different perspectives which are relevant to the decisions which these groups make.

Slide 2: What is an effective meeting?

What I mean by an effective meeting is one which does not waste time, which gets each participant to express all information relevant to the task, where all participants leave the meeting with the same understanding of what information was shared or of what decisions were made, and where all participants will support the groups decisions because they feel that their concerns were listened to and they understand that there was no other decision which could have gained greater support from the group.

Slide 3: Agendas, written reports and minutes.

One way we waste time at meetings is by confusing people orally when we could inform them clearly in writing prior to the meeting. Agendas, brief written reports and meeting minutes save time and hold people accountable. Making greater use of written information is easier if people have ready access to a photocopier and a word processor or typewriter.

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Slide 4: Agendas.

Agendas can include the items to be discussed, the location, beginning and ending time of the meeting, who will attend, and information about the process to be used. When people receive agendas in advance, they have time to prepare appropriately before the meeting, they do not use up valuable meeting time seeking clarification, and they have fewer excuses for showing up late or leaving early.

Slide 5: Written reports.

Written reports, if brief and distributed early enough, give participants complex information in a clearer format reducing the likelihood that (a) people will misunderstand the oral report or (b) will not attempt to take full notes. If something is worth saying, it is worth being understood. After reading reports, participants can come prepared with questions seeking clarification as well as comments which have been thought out in advance. Handouts during the meeting, while not as effective, can increase the odds that the recipients will take accurate information away which they can review later.

Slide 6A: Meeting minutes.

Minutes are a brief summary of a meeting as remembered by the entire group. If tasks were assigned, the minutes will show who is responsible for implementing what steps by which dates. This increases accountability.

Minutes should be brief, they are not trial transcripts. They should not include embarrassing statements made by individuals which would inhibit free discussion; on the other hand, the rationale upon which the group as a whole has based a decision can be included.

Slide 6B: Meeting minutes.

Minutes should include who was present at a meeting, what items were discussed, any decisions which were made and the reasons for them. Finally, they should mention any unfinished agenda items left to discuss as well as the time and location of the next meeting.

Slide 7: Using a structured process.

During the meeting, there should be a structured process which all have agreed to use. Different purposes require different processes. One format may be appropriate for hearing and ruling on proposals. Another process is better for tackling a problem together in search of a solution. [One such problemsolving process will be presented at the next workshop

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on March 30.] Today we are going to practice a process designed to get everyone to express their opinions and listen to the opinions of others around a controversial topic. I will explain the details in a few minutes.

When people have agreed to use and be governed by a process, other members of the group can feel that it is appropriate to let others know when they have broken a rule. For example, when the group is evaluating the pros and cons of a proposed Solution A, it would be inappropriate for someone to introduce an alternative Solution B. The group's response would be, "that may be a fine possibility; however, we have agreed to discuss all of the pros and cons of Solution A today. Let's make a note to explore Solution B at a later time."

Slide 8: The role of a facilitator.

Sometimes the issues under discussion are so important or controversial that the participants forget to pay attention to the process. Or members may feel that someone is manipulating the process in order to turn the discussion in a direction which supports his or her view. Empowering a member of the group, or even better, a neutral outsider to be a facilitator, can help the group keep on track. The role of the facilitator has nothing to do with the content of the meeting. Facilitators only pay attention to the process. While not all companies can afford to hire an outside facilitator, sometimes people from different parts of the company can serve as facilitators for meetings which are unrelated to their own area of responsibility.

Slide 9: The roles of the recorder and timekeeper.

Two other roles which can be handled by separate people or the facilitator are those of the recorder and timekeeper. The timekeeper does just that -- keep track of the time. Groups often agree to discuss an item for a limited amount of time in order to deal with several different items at the same meeting. The timekeeper simply reminds the group when they have exhausted the time which they agreed to spend on an item. The group can then make a decision whether to continue the discussion at a later time, or move some other agenda item to a later meeting.

The recorder also plays an important role. A recorder is a person designated by the group to write down in full view of all group members their key ideas and decisions, using their own words. This information on the flip chart serves as a group memory of the important details. Since everything is written in front of the members, who are responsible for ensuring that their ideas are accurately recorded, we can assume that this represents agreement on what has taken place.

Slide 10: Summary of the recommendations for making meetings more effective.

So, to sum up, we can make our meetings more effective -- that is to say -- we can reduce wasted time, get participants to share more ideas, have all participants leave the meeting remembering the same thing, and supporting the decisions made.

To accomplish this, we use written tools like agendas, brief written reports, and meeting minutes. We agree to submit ourselves to a structured process and we delegate the role of facilitator to someone who will enforce this process. We also delegate the roles of timekeeper and recorder to help us finish on time and all leave the meeting in agreement of what transpired.

Of course there are many other things which affect the effectiveness of our meetings. I hope to see you at future workshops where we can discuss them.

Distribute *Handout4: Making Meetings More Effective*, *Handout 5: Facilitator Role in Effective Meetings*, and *Handout 6: Recorder Role in Effective Meetings.*

PRACTICE MEETING

Objective: At the end of this practice meeting, you want your participants to have succeeded at carrying on a structured discussion about a relevant topic. Success means that (1) the group kept on track and completed all of the process steps on time; (2) each member feels that he or she has been heard by the rest of the group; (3) each member has heard new ideas (they do not have to agree with every idea); and (4) most importantly, the participants understand how a consciously structured process can move a meeting along quicker.

Running the practice meeting:

Step 1: Introducing the practice meeting and selecting role players (15 minutes).

If you are running a 3 hour workshop you will take a 10 minute break here. Introduce the "Practice Meeting" before the break.

> *We are now going to take a break. At 3:45 (or whatever time is 15 minutes later). .*

Otherwise just proceed with this text.

> *I would like to ask you to begin another meeting. Only, this time we will use some of the tools we discussed for making meetings more effective. The purpose of the meeting is to share as many ideas as possible on the following topic: "Several important management decisions require approval from the MRP board in companies where MRPs own a majority of the shares. Which of those management decisions should require MRP board approval and which should not?"*
>
> *[Before you take your break], please select a facilitator, a recorder and a timekeeper. The recorder and timekeeper can participate in the discussion. However the facilitator will not be allowed to express any opinions. The facilitator's role is to:*
>
> *- help the rest of the group express their opinions;*
> *- stop anyone from criticizing anyone else's idea; and*
> *- keep the group from getting off track.*
>
> *[Remember, one important element of effective meetings is starting on time. I'll see you at 2:45.]*

During the break, tape three pages to the wall based on *Slide 11: Meeting Topic*, *Slide 12: Meeting Ground Rule* and *Slide 13: Facilitator Role.*

After the break, call people's attention to the pages on the wall.

[*Welcome back.* (if they are on time, add: *Thanks, for being so prompt!*)]

Remember, the purpose of the meeting is to share the greatest number of opinions possible about what important management decisions, which are subject to MRP board approval, should be subject to approval and what decisions should not be subject to MRP board approval.

One important ground rule to remember, is that at no time this are you to criticize what someone else says. The purpose of the meeting is only to share opinions, not to change anyone's position.

Of course it is difficult to hold back judgment of what others say when it contradicts our own beliefs. To help us achieve this, I am going to guide you through a structured process.

At each step of the process, I will explain what you are to do and how much time you have to do it. Your timekeeper will remind you when your time is running out and I will let you know when it has expired because I will begin explaining the next step. Your recorder will write your ideas on the flip chart. Your facilitator will let you know if you are breaking the ground rule or getting off track. Remember, the facilitator does not participate in the content of the discussion.

The facilitator should stop you if you begin to criticize someone else's idea or if you begin to do something other than what you have been asked to do.

Step 2: Silent generation of ideas (5 minutes).

First, please take three minutes in silence to write down two examples of each type of management decision -- two which should and two which should not be subject to MRP approval, even though they currently are.

Step 3: Recording of ideas (10 minutes).

Now, please take turns sharing your ideas, but only give one example at a time. Your recorder will write your examples on the flip chart. If someone else has already given one of your examples, simply pass when it is your turn again. The reason I do not want you to give all of your examples at once, is that by the time the group gets to the last participant, there may not be any unspoken ideas left.

Remember, do not criticize or praise the ideas or ask any questions at this time. Only speak to present your ideas and then listen to the others. You have 10 minutes.

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Step 4: Clarification of ideas (10 minutes).

I hope that the recorder has written all of the group's ideas on the flip chart. If you ran out of time before everyone had expressed all of their ideas, please move forward anyway. Remember, we want to finish the meeting on time. Now, review the list quickly one item at a time checking to see if everyone understands what is meant by each item. Again, you should not criticize any ideas, only ask a question if you do not understand what is meant by the idea. You have 10 minutes.

Step 5: Clustering of ideas (10 minutes).

Now look at the list and decide if there are any ideas which are so closely related that they can be combined as one idea. If you see such an opportunity, propose that they be combined. The facilitator should ask if anyone disagrees with combining them. If no one disagrees, then your recorder should go ahead and combine them. If even one person disagrees, simply leave them as separate items. Do not argue about this. Label each cluster, A, B, C, etc. You have 10 minutes.

Step 6: Ranking of ideas (5 minutes plus a 10 minute break while you tabulate the results and prepare your recommendation, or 10 minutes if there is no break). You should have the tally sheet already prepared on the flip chart. If you are unfamiliar with using this technique, read "Handout 7: Using a Tally to Guide the Group."

Now, take a moment to write down the letters of the clusters on a piece of paper. Next to each letter indicate whether you strongly agree (SA), agree a little (A), have no opinion (N), disagree a little (D), or strongly disagree (SD). When everyone is ready, tell your recorder what you have written so it can be recorded on the tally sheet. You have 5 minutes.

Step 7: Interpreting the results (5 minutes).

Since we are on a tight schedule, we cannot discuss all of these issues. In fact, today we will only look at one of these issues in greater detail. The purpose of today's meeting is to gather information which will help us understand how and why people differ about which management decisions should be subject to the approval of the MRP board. The more opinions we hear on both sides of the issue the better. Analyzing the results of our tally, may reveal which issues are more likely to generate a greater number of opinions from the group. Let's use the following criteria in choosing which issue to discuss.

Point to "Slide 14: Criteria for selecting a discussion issue."

1) All or as many members of the group as possible should have an opinion about the issue. Otherwise several members may not actively participate in the discussion.

2) The opinions should be on opposing sides of the issue if we are to gain a greater understanding of why people differ.

3) The stronger the opinions are the better, because people will be motivated to go deeper into the subject.

4) The more people there are on both sides of the issue, the better, it is easier to generate additional ideas when feeding off those of others. Hearing what another has to say often reminds me of something else. If I am alone, I am less likely to recall all of my arguments.

Based on this set of criteria, I suggest that the group discuss...

If you have sufficient time, it would certainly be useful for the group itself to select their own criteria, review the tally against their criteria, and propose the issue they will discuss. Then it is certain to be their issue. However, the purpose of this exercise is only to demonstrate that using any process in their meeting is effective, not to teach them how to use this particular process.

Step 8: Recording pro and con ideas (15 minutes). Once the group has accepted the issue for discussion ask them to come up with pro and con arguments. The recorder should use the flip chart page prepared for pro and con ideas (see page D3).

Now please take three minutes in silence to write down any ideas you can think of in favor of or against including this issue as one of the management decisions which should be subject to MRP board approval.

After three minutes, you will give your ideas to your recorder, one per turn, as you did earlier. At the end of your meeting, your facilitator will report to the rest of us:

The issue which you explored in detail and all of the pro and con arguments which you generated.

When you complete your pro and con lists, have your facilitator practice his or her report and make sure that each of you agrees that the facilitator is accurately reporting the group's ideas.

Step 9: Reviewing facilitator report (5 minutes). Inform the groups that their discussion time is up and now they should review their facilitator's report.

Step 10: Ask facilitators to give their reports 10 minutes).

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DEBRIEF OF PRACTICE MEETING

Objective: At the end of the debriefing, you want your participants to (1) agree that the meeting was effective; (2) be able to explain why the meeting was effective (they understood the purpose, used a structured process, were kept on task by a facilitator, recorder and timekeeper, and summarized the results); and (3) express a commitment to try these techniques in their own meetings.

Discussing the experience:

> *Now you have had an opportunity to participate in a meeting using some of the ideas which we discused earlier for making meetings more effective. Remember, we defined an effective meeting as one where (1) time is not wasted, (2) where each participant expresses all of the information they have relevant to the task, (3) where all leave the meeting with the same understanding of what was said, and (4) where all members support the group's decision.*

The first set of questions are intended to get the group to express their agreement that their meeting was effective (assuming they agree). If they disagree, they may explain that it was not effective because the techniques did not work or they may report that they simply did not do a good job using the techniques.

> *What was the purpose of the meeting? How do you know this?* [The trainer and facilitator repeated it several times]
>
> *Did your group waste time at your meeting? Did you spend a lot of time on anything other than your task?*
>
> *Did you share all of the information you had relevant to the issue? Who withheld their opinion? Why?*
>
> *When you heard your facilitator summarize your meeting for the rest of us, did anyone hear him or her say something which you remembered differently?*
>
> *While you may have a position in favor of or against the issue which your group discussed, do you feel that the discussion was helpful to you? Did you learn anything new? What?*
>
> *Was your meeting an effective meeting?*

The following question is intended to get the group to summarize the elements of an effective meeting which they have discussed today: understanding the purpose, using a structured process, being kept on task by a facilitator, recorder and timekeeper, and summarizing the results.

What are the techniques we discussed today which made your meeting effective?

The next set of questions is intended to get participants to express a commitment to using some of these techniques in their own meetings.

What did you not like about using a structured process?

Do these disadvantages outweigh the advantages?

Who is going to use any of the things we discussed today in your own meetings?

What specific thing are you going to do differently?

How do you think the other participants at your meeting will react to this?

CONCLUDING SUMMARY OF WORKSHOP

Objective: At the end of this concluding summary, you want your participants to (1) know what they were supposed to have gotten out of the workshop (in the Lesson Objectives on page 2, we said that participants should be able to list several components which make meetings more effective and to describe some of the pros and cons of MRP committees having direct control over a number of key management decisions); and (2) inform you of what they would like to get out of a future workshop.

Closing statement:

What they should have learned about effective meetings.

> *Today we did a number of things. In the beginning, I told you that people do not believe what they are told; rather they believe what they experience for themselves. At this workshop, I made you go through a meeting which was intended to be ineffective. Then we talked about what made it ineffective and I spoke about some things which can help make meetings more effective. Next we practiced using these recommendations in a second meeting. Most of you seem to agree that the second meeting went much better. I hope you will try some of these techniques out at your own meetings.*

What they should have gotten out of the content of the discussion.

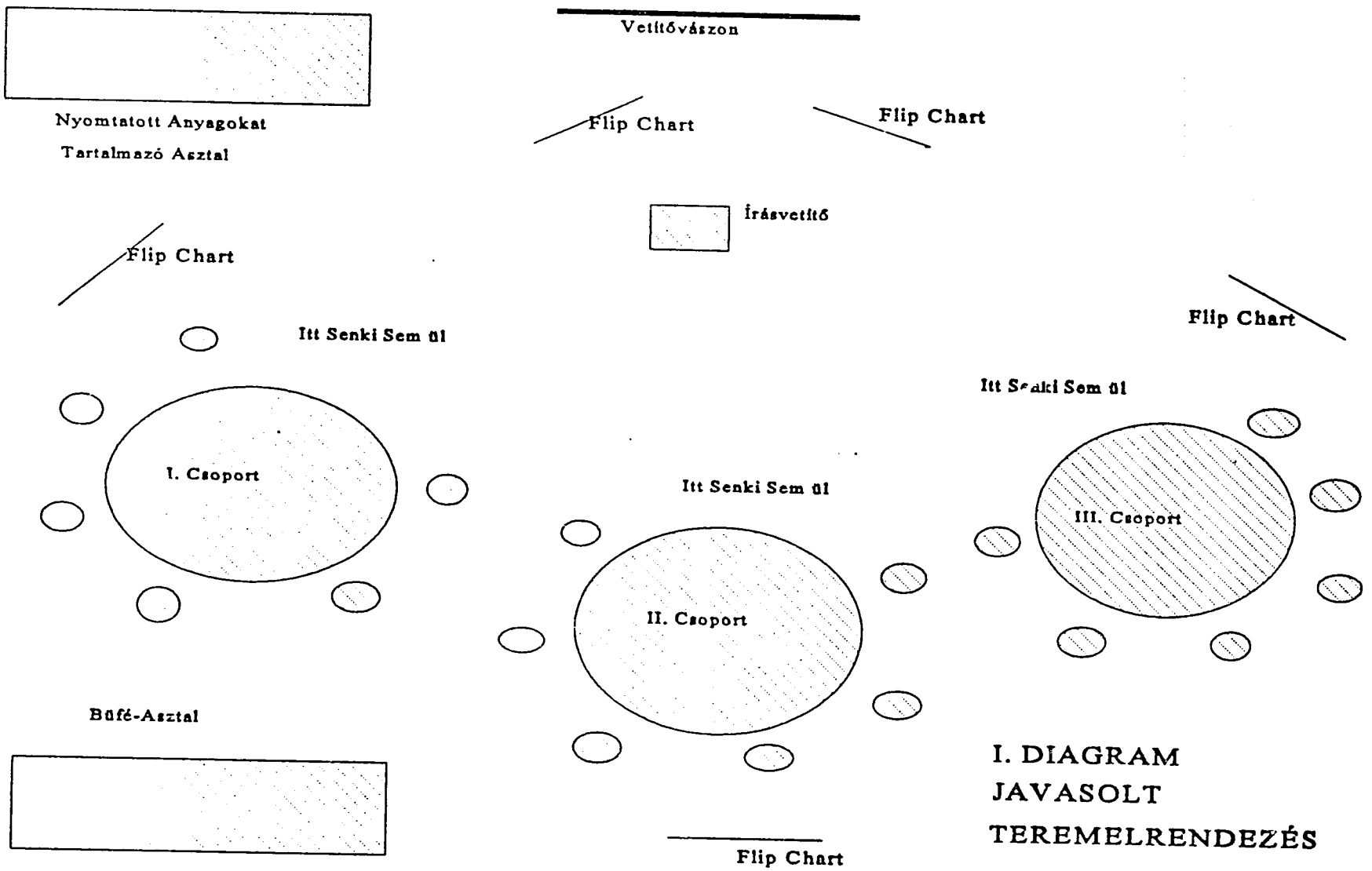
> *We also had an interesting discussion about some of the pros and cons of MRP committees having direct control over a number of key management decisions.*
>
> *In most countries where companies work under the competitive conditions of a market economy, corporate governance is set up a little differently. There are times when making quick strategic decisions allows a company to take advantage of a window of opportunity before a competitor beats them to it. The owners of these companies concentrate their efforts on hiring competent managers upon whom they can rely to make good decisions. By giving their managers the freedom to make important decisions, their companies are able to take advantage of market opportunities and the value of their companies is increased.*
>
> *In the Hungarian circumstances, increasing the value of your companies may be more difficult because your owners may have other objectives which are competing with the goal of increasing their stock value. I hope that the brief discussion you had today has generated some interest in spending more time discussing this subject. Clarifying the real objectives of your owners, and prioritizing them, can help you reduce some of the frustration of a company where people are pulling in different directions.*

Getting guidance on what the participants would like to work on at a future workshop.

> *We at* [name your organization] *enjoy working with you and hope you found today's workshop useful. What kind of workshop would you like to see us organize for you in the future?*
>
> *Thanks for coming. Please take a minute before you leave to fill out the evaluation forms. We read these with great interest because they help us continuously improve what we do. Thanks. Have a safe trip home.*

Distribute the "Handout 8: Workshop Evaluation - Making Meetings More Effective."

Leave a box near the door where participants can hand in the evaluations on their way out. Stand near the door and shake hands with people as they leave. Tell them you enjoyed meeting them and, if you can remember a specific thing they said during the day which was useful, tell them you appreciated what they said (don't make something up).



I. DIAGRAM
JAVASOLT
TEREMELRENDEZÉS

D1

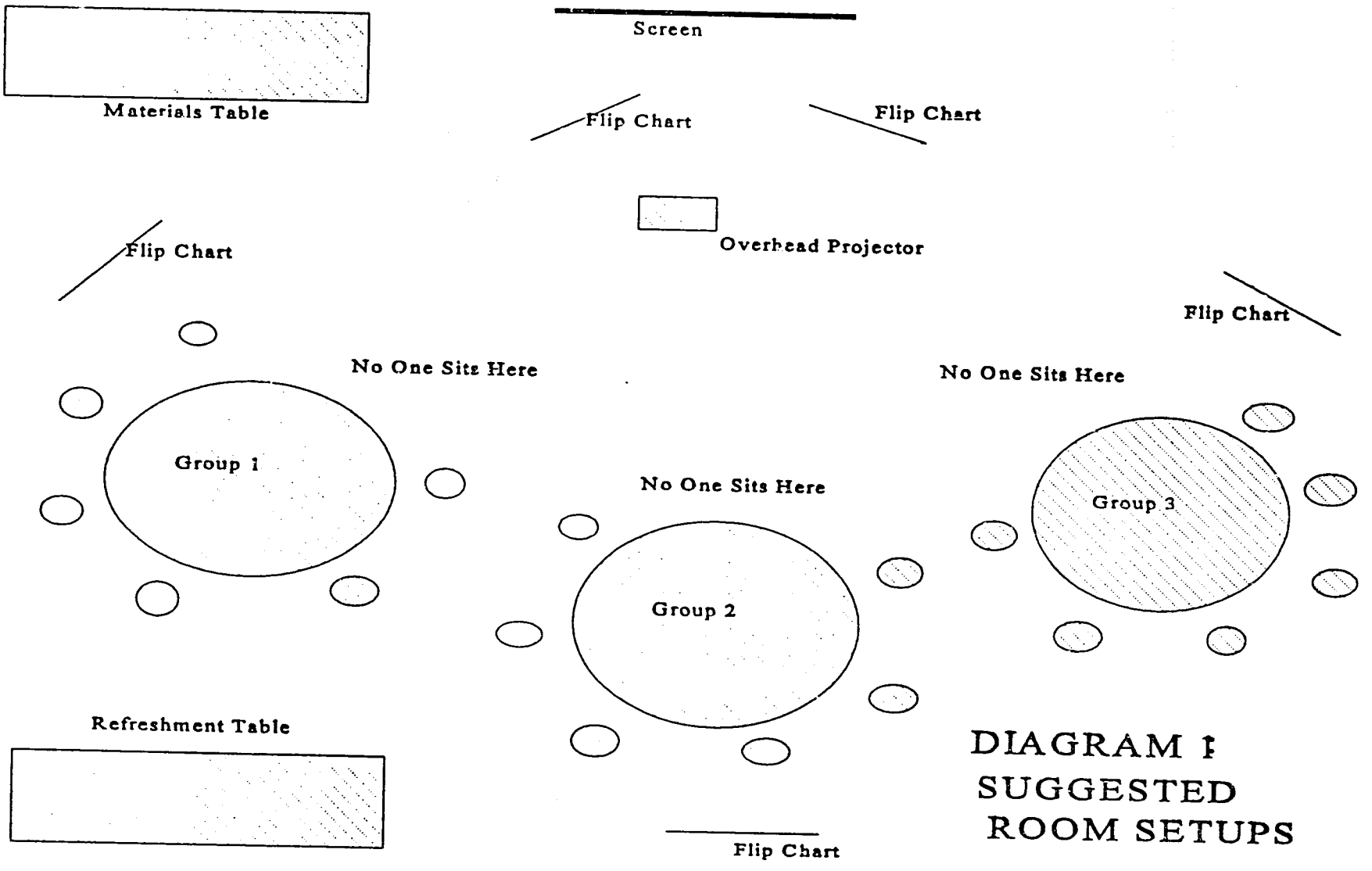


DIAGRAM 1
SUGGESTED
ROOM SETUPS

DIAGRAM 2:
TALLY SHEET FOR FLIP CHART

Issue	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
A					
B					
C					
D					
E					
F					
G					

DIAGRAM 3:
PROS AND CONS SHEET FOR FLIP CHART

Issue:

PROS	CONS

HANDOUT 1A: FARMERS INFORMATION BITS (GROUPS OF FIVE)

Directions: Cut along lines before distributing one information bit to each group member. This set is for groups with five participants -- use the sets on Handouts 1B and 1C for groups with six or seven participants.

FARMERS INFORMATION BIT #5.1

* The goats' owner lives next door to the house with a plum orchard.
* Kis raises chickens.
* The farmer who lives in the bungalow raises cows.
* Only one of the village houses is located on the east side.
* The farmer who lives next to Kovács drives a station wagon (kombi).
* Each farmer lives in a different type of house.

FARMERS INFORMATION BIT #5.2

* Kovács's neighbour raises sheep.
* The farmer who raises goats also grows cherries.
* Nagy lives next to the red brick house.
* One of your group's tasks is to decide who drives the truck.
* The houses of the village are standing in a semicircle, beside each other.
* There are chickens in the yard of the concrete house.

FARMERS INFORMATION BIT #5.3

* Molnár grows pears.
* There is a four-seater in the garage of the concrete house.
* Each farmer raises a different kind of animal.
* Farmer Szabólives next to Farmer Nagy.
* A motorcycle stands in the back yard of the log cabin.
* One of your group's task is to decide who grows apples.

FARMERS INFORMATION BIT #5.4

* The person who raises pigs lives next door and to the east of the house with the almond tree.
* Your group has fewer than three tasks.
* Every week, boxes of goat food are placed at the gate of the log cabin.
* Only one of the village houses is located on the west side.
* Each of the five farmers living in the village drives a different kind of vehicle.
* Kovács lives in a log cabin.

FARMERS INFORMATION BIT #5.5

* The log cabin is in the most northern position of the village.
* Each farmer grows a different kind of fruit.
* The concrete house stands next to the stone house.
* Farmer Szabó drives a sports car.
* Farmer Nagy raises cows.
* Only farmer Nagy lives at the west end of the village.

HANDOUT 1B: FARMERS INFORMATION BITS (GROUPS OF SIX)

Directions: Cut along lines before distributing one information bit to each group member. This set is for groups with six participants -- use the sets on Handouts 1A and 1C for groups with five or seven participants.

FARMERS INFORMATION BIT #6.1

* The goats' owner lives next door to the house with a plum orchard.
* Kis raises chickens.
* The farmer who lives in the bungalow raises cows.
* Only one of the village houses is located on the east side.
* The farmer who lives next to Kovács drives a station wagon (kombi).

FARMERS INFORMATION BIT #6.2

* Kovács's neighbour raises sheep.
* The farmer who raises goats also grows cherries.
* Nagy lives next to the red brick house.
* One of your group's tasks is to decide who drives the truck.
* The houses of the village are stahding in a semicircle, beside each other.

FARMERS INFORMATION BIT #6.3

* Molnár grows pears.
* There is a four-seater in the garage of the concrete house.
* Each farmer raises a different kind of animal.
* Farmer Szabólives next to Farmer Nagy.
* A motorcycle stands in the back yard of the log cabin.

FARMERS INFORMATION BIT #6.4

* The person who raises pigs lives next door and to the east of the house with the almond tree.
* Your group has fewer than three tasks.
* Every week, boxes of goat food are placed at the gate of the log cabin.
* Only one of the village houses is located on the west side.
* Each of the five farmers living in the village drives a different kind of vehicle.

FARMERS INFORMATION BIT #6.5

* The log cabin is in the most northern position of the village.
* Each farmer grows a different kind of fruit.
* The concrete house stands next to the stone house.
* Farmer Szabó drives a sports car.
* Farmer Nagy raises cows.

FARMERS INFORMATION BIT #6.6

* Only farmer Nagy lives at the west end of the village.
* There are chickens in the yard of the concrete house.
* One of your group's tasks is to decide who grows apples.
* Kovács lives in the log cabin.
* Each farmer lives in a different type of house.

HANDOUT 1C: FARMERS INFORMATION BITS (GROUPS OF SEVEN)

Directions: Cut along lines before distributing one information bit to each group member. This set is for groups with seven participants -- use the sets on Handouts 1A and 1B for groups with five or six participants.

FARMERS INFORMATION BIT #7.1

* The goats' owner lives next door to the house with a plum orchard.
* Kis raises chickens.
* The farmer who lives in the bungalow raises cows.
* Only one of the village houses is located on the east side.

FARMERS INFORMATION BIT #7.2

* Kovács's neighbour raises sheep.
* The farmer who raises goats also grows cherries.
* Nagy lives next to the red brick house.
* One of your group's tasks is to decide who drives the truck.

FARMERS INFORMATION BIT #7.3

* There is a four-seater in the garage of the concrete house.
* Each farmer raises a different kind of animal.
* Farmer Szabólives next to Farmer Nagy.
* A motorcycle stands in the back yard of the log cabin.

FARMERS INFORMATION BIT #7.4

* Your group has fewer than three tasks.
* Every week, boxes of goat food are placed at the gate of the log cabin.
* Only one of the village houses is located on the west side.
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* The log cabin is in the most northern position of the village.
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* The concrete house stands next to the stone house.
* Farmer Szabó drives a sports car.
* Farmer Nagy raises cows.

FARMERS INFORMATION BIT #7.6

* Only farmer Nagy lives at the west end of the village.
* There are chickens in the yard of the concrete house.
* One of your group's tasks is to decide who grows apples.
* Kovács lives in the log cabin.
* Each farmer lives in a different type of house.

FARMERS INFORMATION BIT #7.7

* The houses of the village are standing in a semicircle, beside each other.
* The farmer who lives next to Kovács drives a station wagon (kombi).
* Molnár grows pears.
* The person who raises pigs lives next door and to the east of the house with the almond tree.

HANDOUT 2: INSTRUCTIONS FOR SMALL GROUP FACILITATORS

Description: The "Farmers" exercise is recommended as the core experience by which committee persons will recognize the importance of clear objectives, processes and roles in planning and conducting effective meetings.

Instructions for small group facilitators: The workshop leader will introduce the exercise and inform the groups that the facilitators will intervene at five-minute intervals with suggestions to assist the groups in accomplishing their work. When the groups begin their work, monitor the time carefully so that the six interventions will occur promptly. DO NOT EXPAND UPON OR IN ANY WAY CLARIFY THESE STATEMENTS DURING THE INTERVENTION.

Five minutes after the groups have begun, make your first intervention; five minutes later, make your second, etc.

Intervention #1: "Is the purpose of the meeting clear? Do you know what the tasks are that you are here to accomplish?"

Intervention #2: "Have you agreed on how you are going to accomplish the tasks?"

Intervention #3: "Since you have to keep track of such a large amount of data, have you agreed on a format for organizing it?"

Intervention #4: "Would it be helpful to ask one of the group members to function as a group leader to ensure that all the information gets shared and targeted toward accomplishing the task?"

Intervention #5: "Would it be helpful to ask one of the group to volunteer to record the data on flip chart paper for all to see?"

Intervention #6: "When you have completed your tasks, would it be helpful to summarize the decisions you have made in order to ensure that everyone agrees?"

Conclusion: The workshop leader will lead a discussion with participants after the exercise. Feel free to add to the discussion at this time, based on your observations. THANKS!

HANDOUT 3: SOLUTION TO FARMERS EXERCISE

* The table below summarizes the data contained on the Information Bits.
* The group has two tasks described on the Information Bits. Those two tasks are:

  (1) to determine who drives a truck, and
  (2) to determine who grows apples.

* The answers to these two questions are Nagy and Kis, respectively.

Farmer:	Nagy	Szabó	Kovács	Molnár	Kis
Animals:	cows	pigs	goats	sheep	chickens
Fruit:	almonds	plums	cherries	pears	<u>apples</u>
House:	bungalow	brick	log cabin	stone	concrete
Location:	west	northwest	north	northeast	east
Vehicle:	<u>truck</u>	sports car	motorcycle	station wagon	four-seater

HANDOUT 4: MAKING MEETINGS MORE EFFECTIVE

Plan the meeting, being clear about:

* Why the meeting is needed,
* What outcomes the the group wants,
* Who should attend,
* What arrangements need to be made,
* What agenda items need to be discussed,
* How items will be addressed (what processes will be used - brainstorming, diagnosing the problem, developing solutions, selecting a solution, reaching consensus, and so on), and
* How much time will be needed to achieve the desired outcomes.

Inform meeting participants in writing of:

* The purpose of the meeting,
* The desired outcomes,
* The agenda items (the "what"),
* The processes to be used (the "how" of addressing agenda items),
* The date, time, and location,
* Any premeeting assignments, and
* Participants should also be provided with any relevant brief written reports before the meeting.

Organize a productive discussion by:

* Reviewing the agenda,
  - Stating and clarifying the purpose of the meeting,
  - Getting agreement on the desired outcomes,
  - Allowing for modification of the agenda (adding or deleting items, changing the order, or adjusting the times allocated),
* Reviewing the process to be used,
  - Allowing for modification of the process, and
  - Getting agreement on the process to be used.

Keep the discussion focused on the agreed-upon agenda by:

* Designating a facilitator who helps the group:
  - Adhere to the agenda unless the group explicitly agrees to alter it,
  - Adhere to an agreed-upon process unless there is common agreement that it is no longer useful,
  - Confront behaviour that diverts the group from attaining the desired outcomes,
  - Encourage each group member to bring all his or her information to bear on the issue at hand, and
  - Get agreement on action steps, responsibilities, and target dates,
* Designating a recorder who writes key ideas on a flip chart which:
  - Avoids different participants understanding the same information differently,
  - Are subject to review by all members.

Hasten the completion of agreed-upon action steps by:

* Summarizing the meeting,
* Recording the decisions that were made,
* Recording the names of persons responsible for implementing action steps and the target dates,
* Agreeing on a date for the next meeting,
* Evaluating every meeting and agreeing on ways to "pitch" a better meeting,
* Editing and distributing minutes,
* Putting unfinished business on the agenda for the next meeting,
* Following up and encouraging task completion, and
* Monitoring and evaluating the results achieved by the group.

REMEMBER...

A MEETING IS EFFECTIVE WHEN:

* TIME IS USED EFFICIENTLY!
* INFORMATION IS SHARED COMPLETELY!
* DECISIONS ARE SUPPORTED BY ALL!

HANDOUT 5: FACILITATOR ROLE IN EFFECTIVE MEETINGS

Getting a Meeting Off to a Good Start

Here are some things facilitators do to get a meeting started:

- Clarify that the facilitator assists with process, not as a content expert.
- Establish who will be the recorder and timekeeper.
- Ask if the group wants to review its ground rules.
- Remind the group of any commitments or agreements they made for this meeting.
- Remind the group of any new behaviors they will try out in this meeting.
- Summarize where the group left off in the last meeting.
- Clarify the agreed-upon purpose of this meeting.
- Help the group to build an agenda for this meeting:
  - Determine which tasks to do first.
  - Establish specific outcomes expected from the meeting.
  - Establish criteria for determining when expected outcomes are achieved.
  - Clarify the tasks (what) and determine the processes (how) that will be used to complete the tasks.
  - Establish time limits for each part of the meeting.
  - Identify which group members have special skills or information which will help the group complete the tasks.
- Check for agreement of all group members on all of the above before proceeding to the first agenda item.

Keeping a Meeting Going

While the group is working on a task, the facilitator *and all of the group members* can assist the group by intervening whenever necessary to:

- Keep the group clear on what the task is.
- Question how relevant a current discussion is to reaching the outcomes chosen by the group.
- Guard the integrity of the process the group has chosen to complete its task.
- Check for agreement or disagreement.
- Summarize where the group is in terms of its agenda, tasks, or process.
- Identify when the group varies from the agreed agenda, tasks, or process.
- Protect the group from domination by a few individuals.
- Call on silent members to participate.
- Protect individuals and the group from personal attacks.
- Suggest alternatives or options.
- Bring hidden conflicts out in the open.
- Ask members how they feel about what is going on at a given moment.
- Call for time-outs or breaks.
- Assist the recorder and timekeeper.
- Identify when a suggestion has been made that the group has ignored.
- Identify when a decision needs to be made.
- Identify when a decision has been made.
- Provide ongoing feedback to the group.

HANDOUT 6: RECORDER ROLE IN EFFECTIVE MEETINGS

Group recorders can do some of the following things to help them in creating a group memory from what group members say to one another:

Preparation

- Tell the group that you expect them to review what you write down for accuracy.
- Make sure you have sufficient flip chart pads, markers and masking tape.
- Use two easels allowing you to begin a new page without stopping.
- Cut pieces of tape in advance to speed the posting of completed pages.
- Ask for a volunteer to post the completed pages.

Accuracy and Completeness

- Record key ideas and phrases using the speaker's words, not your own.
- Do not record names so that the ideas are "owned" by the entire group.
- Write legibly, but quickly; writing is usually faster than printing.
- If you cannot hear an idea or hear several ideas at once, ask the group for help.

Remaining Unobtrusive

- Try not to call attention to yourself. Look at the flipchart rather than the person who is trying to express an idea.
- Speak only when you need clarification or more time to record the ideas.
- Help the group if you see a useful way of working with the data or you see that the group is off track.

Format of the Record

- Do not worry about spelling. The substance is what you need to capture.
- Use different colors to organize information. You can hold uncapped markers in one hand while you write with the other. Use arrows, stars, numbers and other tools to organize the data.
- "UOCUA" - Use only commonly understood abbreviations.
- When you summarize a long idea in key phrases, ask the contributor if you have accurately recorded the idea.
- Do not be defensive if a group member challenges your accuracy in recording an idea. Cross it out and rewrite it. It is the member's idea, not yours!

Completing the Task

- Number each page to help order completed sheets.
- At the end of a meeting, compile and label the completed flipchart pages, and make sure they are safely stored and made available for the next meeting.
- Make sure that the group has come to agreement on what will be done with the group record. Will it be transcribed? Summarized? Summarized and distributed to constituents? Saved in its initial form?

HANDOUT 7: USING A TALLY TO GUIDE THE GROUP

A problemsolving group has met to address a conflict situation. The conflict is over the appropriate division of decisionmaking authority between management and the MRP board. The members of the group include both managers and MRP board members. The group has generated a list of management decisions which currently must be approved by the MRP board. The group members want to look at the pros and cons of requiring MRP board approval on each issue. In order to focus on the most relevant issues, and specifically to select which issue will be discussed at today's meeting, the group has generated the following tally:

"I _____ that this management decision should require MRP board approval."

Strongly Agree	Slightly Agree	Neutral	Slightly Disagree	Strongly Disagree	Issue
///	///				A
/////				/	B
///				///	C
	//	/	///		D
		/	/	////	E
/		////		/	F
///	/		//		G

What does the tally tell us?

We can use this tally to help us decide how to move forward. Note: The group did not vote on which issue to discuss. If they had, some would have won the vote and others would have lost. The losers might not have participated as willingly in the discussion.

The tally simply shows us how the members as a whole feel about the issues. The lack of names on the tally have already depersonalized the current decision about which issue to discuss first. To decide how to proceed, the facilitator asks the group:

1. What is the purpose of discussing an issue?

2. What criteria can we use to determine which issue best serves this purpose?

The purpose of discussing the issue:

The group is currently gathering information in order to better understand the problem before looking at solutions. At this stage, the group needs to hear the greatest number of pro and con arguments for including or excluding any particular issue from the list of management decisions which must be approved by the MRP Board. By examining these arguments, the group expects to identify some of the values, priorities and objectives of the conflicting parties.

Criteria based on the stated purpose:

1. All or as many as possible should have an opinion about the issue.
2. Opinions should differ.
3. The stronger the difference of opinion the better.
4. The greater number of differing opinions the better.

Analysis of the tally based on the stated criteria:

1. There are four issues on which all six have opinions (issues A, B, C & G). There are also two issues on which at least five people have opinions (issues D & E).

2. There is disagreement on five issues (issues B, C, D, F and G).

3. There are strong opinions about six issues (issues A, B, C, E, F and G).

4. The issues where the most people on both sides of the issue have opinions are C (3 for, 3 against), D (2 for, 3 against), and G (4 for, 2 against).

5. The only two issues which meet all four criteria are issues C and G.

Conclusion:

Upon closer examination of issues C and G, the group opted to discuss issue C because issue C:

1. Has greater balance between those for and those against; and

2. Has strong opinions on both sides of the issue.

HANDOUT 8: EVALUATION - MAKING MEETINGS MORE EFFECTIVE

Please help us improve future workshops by filling out this evaluation. You may return it anonymously or signed. Please write additional comments on the back.

1. Are you: [] MRP Board member [] Shop floor worker [] Other
[] Manager [] MRP consultant
[] Supervisor [] Union leader _____

2. The room was: Too large [] Too small [] Just right []
Too hot [] Too cold [] Just right []

3. As a whole, the workshop was: Too long [] Too short [] Just right []
Too simple [] Too complex [] Just right []

4. We tried to maintain a balance between lectures by the trainer, discussions by the group, and experiential exercises. What should we do more or less of?

- Lecture	More []	Less []	No change []
- Discussion	More []	Less []	No change []
- Experiential exercises	More []	Less []	No change []

5. Please rate from (5) "I learned a lot", to (1) "Was a complete waste of time":

	Learned a lot				Waste of time
"Farmers" exercise	5 []	4[]	3[]	2[]	1[]
Discussion of "Farmers"	5 []	4[]	3[]	2[]	1[]
Lecture: Effective meetings	5 []	4[]	3[]	2[]	1[]
Practice meeting	5 []	4[]	3[]	2[]	1[]
Discussion of practice meeting	5 []	4[]	3[]	2[]	1[]

6. The most important thing I learned at today's workshop was:

7. One way that the workshop could be improved is:

8. This workshop attempts to transfer experience developed in Western countries with market economies. What aspects of this workshop or this experience are relevant or irrelevant to Hungary?

9. I would recommend this workshop to a friend. Yes [] No []
Why or why not: _____

SLIDES

Slide 1: Clarifying what you mean by a "meeting".

Slide 2: What is an effective meeting?

Slide 3: Agendas, written reports and minutes.

Slide 4: Agendas.

Slide 5: Written reports.

Slide 6A: Meeting minutes: Advantages and what not to report.

Slide 6B: Meeting minutes: What to report.

Slide 7: Using a structured process.

Slide 8: The role of a facilitator.

Slide 9: The roles of the recorder and timekeeper.

Slide 10: Summary of recommendations for making meetings more effective.

Slide 11: Meeting topic.

Slide 12: Meeting ground rule.

Slide 13: Facilitator role.

Slide 14: Criteria for selecting a discussion issue.

* Different meetings

- Top down / one informing others

- Group work among peers

* Group work

- Each member has information

- Peers make decisions together

Slide 1: Clarifying what you mean by a "meeting".

EFFECTIVE MEETINGS

* No time wasted

* All information gets shared

* All have same understanding

* All support group decisions

Slide 2: What is an effective meeting?

PUT IT IN WRITING

* ORAL INFORMATION

- Confuses people
- Reduces accountability

* WRITTEN INFORMATION

- Informs with clarity
- Increases accountability

Slide 3: Agendas, written reports and minutes.

AGENDAS

* ADVANTAGES

- People have time to prepare
- Time saved in the meeting
- Accountability -- no excuses

* WHAT'S ON THE AGENDA?

- Date, time & location
- Issues to be discussed
- Process to be used

Slide 4: Agendas.

WRITTEN REPORTS

* ADVANTAGES

- Reduces misunderstandings
- Allows people to prepare
- Saves time

* MORE LIKELY TO BE READ IF...

- Brief
- Distributed early

Slide 5: Written reports.

MEETING MINUTES

* ADVANTAGES

- Group memory
- Accountability -- no excuses

* WHAT NOT TO REPORT

- Embarrassing statements
- Details

Slide 6A: Meeting minutes.

WHAT TO REPORT

* Date & attendance
* Issues discussed
* Decisions made
* Group rationale for decisions
* Who will take what action when
* Unfinished agenda items
* Next meeting time & place

Slide 6B: Meeting minutes.

STRUCTURING MEETINGS

* Agreed to by all

* All can be held accountable

* Keeps the group focused on task

* Match process to task
  - Problemsolving
  - Proposal review
  - Team building

Slide 7: Using a structured process.

GROUP FACILITATORS

* Responsible for the process

* Neutral about the content

* Empowered by the group

Slide 8: The role of a facilitator.

RECORDERS...

- Write down group ideas
- Use speaker's own words
- Group memory of discussion

TIMEKEEPERS...

- Warn when time is expiring
- Safeguard time for other issues
- Group priorities manage time

Slide 9. The roles of the recorder and timekeeper.

Agendas, reports, minutes

Structured processes

Facilitators, recorders, timekeepers...

RESULT IN...

...Efficient use of time

Maximum sharing of information

Better decisions supported by all

Slide 10: Summary of recommendations for making meetings more effective.

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MEETING TOPIC

WHAT KEY MANAGEMENT DECISIONS ARE SUBJECT TO APPROVAL BY THE MRP BOARD?

WHICH SHOULD BE AND WHICH SHOULD NOT BE?

Slide 11. Meeting topic.

GROUND RULE

DO NOT CRITICIZE

ANYONE'S OPINION!

Slide 12: Meeting Ground Rule

FACILITATOR ROLE

- Help Group Express Opinions
- Stop Criticism
- Keep Group on Track

Slide 13: Facilitator role.

CRITERIA

1. All have an opinion

2. Opinions differ

3. Strong differences

4. Many differing opinions

Slide 14: Criteria for selecting a discussion issue.

DRAFT

DEBRIEFING A TRAINING EXERCISE

Training exercises can be enjoyable but sometimes workshop participants leave without knowing why they did the exercise. To effectively use an exercise, the trainer must facilitate a discussion which is called **DEBRIEFING** or processing the exercise.

For debriefing to be effective:

(1) The trainer must know the learning objectives;

(2) There must be enough time for learners to derive learnings and applications; and,

(3) The trainer must guide the participants through a series of debriefing steps.

STEP ONE: EXPERIENCING

This step is fairly simple. The trainer simply follows the instructions for running the exercise. The learners will experience the learning objectives which the exercise was designed to produce.

STEP TWO: DESCRIBING WHAT HAPPENED

Participants report what happened (thoughts, feelings, what people said and did) while the trainer records on a flip chart what they have said using their own words.

* If comments are all positive (negative), ask "I see a lot of positive reactions here. Were there any negative ones?"

* "What did you observe happening with other persons?"

* To focus learners' attention on particular data, you can begin by labeling the flip chart, ie, "What I thought, What I felt, What I observed of others."

STEP THREE: INTERPRETING THE DATA

Help participants put the raw data into meaningful forms by perceiving patterns, sequences, trends, dynamics or groupings.

* "As you look at this data, what patterns do you see?"
* "What do you make of that?"
* "How can we account for that?"
* "What 'pops' off the page for you?"
* "What matches do you see?"

STEP FOUR: GENERALIZING TO THE LEARNING OBJECTIVES

Draw out what participants have learned. Feel free to help if they seem to be missing something.

* "What learnings are here for you?"
* "What here helps you make sense out of the experiences you've had?"
* "What associations do the data help you make?"

STEP FIVE: APPLYING THE LEARNING OBJECTIVES TO REAL LIFE

Ask the participants to think about how they can actually use these learnings.

* "How can you use this learning back at the company?"
* "If these learnings are important to you, how can you best hold on to them?"
* Perhaps, ask participants to make a contract or write a letter to themselves reminding them of how they intend to use this learning.

DRAFT

GROUP PROBLEMSOLVING

TRAINER'S GUIDE AND PARTICIPANTS' HANDOUTS

COOPERS & LYBRAND/CHEMONICS INTERNATIONAL

MAY 1995

This material was prepared by Daniel Bell of the Northeast Ohio Employee Ownership Center of Kent State University for Coopers & Lybrand/Chemonics International and funded by USAID.

The following materials were based closely on materials found in a manual on Committee Effectiveness Training prepared by the US Department of Labor Bureau of Labor-Management Relations and Cooperative Programs:

Text sections *Introduction to Group Problemsolving, Brainstorming, Step 1: Problem Identification, Step 2: Problem Analysis, Step 3:Solution Development,* and *Step 4: Implementation Planning.*

Handouts *H1, H2, H4* and *H5.*

GROUP PROBLEMSOLVING

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OVERVIEW

This module is designed to help committees become more effective at identifying and solving problems as a group. It covers a problemsolving model and several problemsolving techniques.

Participants will learn how to use a structured process and techniques for identifying problems and selecting and implementing solutions. This includes brainstorming, cause and effect analysis, force field analysis and a four part problemsolving process: problem identification, problem analysis, solution development, and implementation planning.

The workshop leader will:

(1) Introduce the group problemsolving process;

(2) Present the technique of brainstorming;

(3) Lead participants through the four step group problemsolving process; and,

(4) Facilitate a discussion giving participants the opportunity to evaluate whether the group problemsolving process was useful; and, soliciting a commitment by participants to incorporate these techniques into their future meetings.

LESSON OBJECTIVES

At the end of this module, participants will:

(1) Understand several advantages of using a group problemsolving process;

(2) Be able to use a structured group problemsolving process, and techniques like brainstorming, cause and effect analysis, and force field analysis, and,

(3) Know of at least one way they can use a group problemsolving process at their workplace.

PREPARING FOR THE MODULE

Number of participants: One to five groups of 5 to 8 participants (there must be at least 1 trainer for each group).

Room setup: The room should be large enough to accomodate all of the groups together, each at a separate table (preferably round). Leave adequate spacing between tables and do not seat participants between their table and the workshop leader. Number the tables so groups can be easily distinguished. There should be plenty of wall space where information can be posted and easily seen by the participants. There should be good lighting and adequate ventilation to maintain a comfortable temperature [See the *(D1) Room Setup* for an example].

Equipment: For each group, 1 flip chart, 1 roll of tape, 4 markers (2 black, 2 other colors), 1 calculator; in general, 1 overhead projector with table, screen and overhead markers, a refreshment table, and materials table.

Refreshments: At a minimum, provide water. Your participants will feel more comfortable if there is coffee, tea and soft drinks available in the back of the room so they can unobtrusively refresh their cup at any time. Cookies or other snacks are nice too.

Training materials: All handouts and slides listed in the table of contents. If no projector is available, transfer the information from the slides to a flip chart to be used for the presentation.

WHAT TO DO BEFORE DELIVERING THE MODULE

* Obtain training in adult learning principles, presentation skills, and discussion facilitation skills.

* Read and become familiar with all material in this training manual.

* Review *(H3) Using a Tally to Guide the Group.*

* Become familiar with the training site and equipment.

* Cut long pieces of tape (so pages do not fall from the wall) and leave them ready on the flipcharts.

MODULE AGENDA

This module is designed to last 8 hours including coffee and lunch breaks. Time, in minutes, is shown both for each section and cumulatively, ie, (segment time, cumulative time). If you know that the participants will arrive late or lunch will take longer than one hour, then you should schedule additional time. Also, if the module is not being delivered as part of a larger workshop, you should schedule time for you and the participants to introduce each other.

(45/45)	Introduction to group problemsolving
(25/70)	Brainstorming
(15/85)	Break
(60/145)	Step 1: Problem identification
(15/160)	Break
(50/210)	Step 2: Problem analysis
(60/270)	Lunch
(90/360)	Step 3: Solution development
(15/375)	Break
(60/435)	Step 4: Implementation planning
(15/450)	Group reports
(30/480)	Debrief of group problemsolving process & closing summary

INTRODUCTION TO GROUP PROBLEMSOLVING

Time: (45/45)

Handout: (H1) *Four Step Group Problemsolving Process*

Slides: Problemsolving S1 thru S6

Objective: At the end of the introduction, participants will (1) know the learning objectives of the module; (2) be able to describe the four steps in the problemsolving process; and (3) select a leader, recorder and timekeeper. The learning objectives of the module are:

* Become familiar with and practice a four step problemsolving model;
* Be able to use brainstorming, cause and effect analysis, and force field analysis;
* Develop the first step for implementing a solution to a problem they begin working on during the workshop.

Have you ever heard the saying, "Many heads are better than one"? In other words, a group of people may have a larger quantity of ideas for solving a problem than one person by themself.

At the same time, simply bringing a group of people together does not always produce better results. While more ideas may be present in the room, those ideas do not always get shared effectively.

Some things which help make problemsolving meetings more effective are assigning roles such as leader, recorder and timekeeper; and agreeing to follow a structured process.

Who can tell me what the roles of a leader, a recorder and a timekeeper are for making a meeting more effective?

A leader keeps the group on track, making sure that everyone has an opportunity to express their opinions. The recorder writes down the information which people share on a flipchart so that everyone has the same information. The timekeeper reminds the group when they are running out of time for a task so that the group can bring the current topic to conclusion and still have enough time to complete the other agenda items.

Today each of you will have the opportunity to practice some of these roles.

During today's meeting, we are also going to make our decisions by consensus. Can anyone tell me what that means?

A group reaches consensus when every member supports the decision (even if it is not their first choice), because all were listened to and feel that their points of view have been understood by the rest of the group, and all believe that the decision is adequate for meeting the concerns expressed.

Why is it important to agree upon a structured process to follow in accomplishing the task of the meeting?

Less time is wasted. People focus on the task. When someone gets off track, the group has a legitimate way of stopping them.

Today we are going to learn to use a four-step problemsolving model as one option for structuring a meeting.

As our meeting proceeds, we will learn a few new techniques which are useful for group problemsolving. These include brainstorming, cause and effect analysis, and force field analysis.

Prepare two flipcharts. Draw a horizontal line across the center of each and then number each box 1 thru 4. Do not label the boxes however you know that each box represents a different step in the problemsolving process:

(1) Problem identification
(2) Problem analysis
(3) Solution development
(4) Implementation planning

We all solve problems. What are some of the things you do when you are problemsolving?

Write the participants' responses in the boxes where they best fit.

Then label each box as you say:

There is no magic to a problemsolving process. You have all named the steps involved. For example, the first step is identifying the problem [read their responses from box 1]. *The second step is trying to find out what is behind the problem, what is causing it* [read box 2]. *The third step is coming up with a solution* [read box 3]. *And the final step is implementing your solution* [read box 4].

The magic to group problemsolving is being aware of which step you are on and making sure you take the steps in order, completing each one fully. This helps the group:

- *Express everyone's concerns and ideas;*
- *Go beyond symptoms to causes and the root problem;*
- *Explore the full range of solutions, selecting from that range a technically sound solution that is acceptable to all concerned;*
- *Anticipate possible negative consequences; and*
- *Implement the solution.*

Slide 1: Identifying the problem.

How do we know when one of our children has the flu? [Participants may name some flu symptoms] *So the first step in identifying a problem is listing all of the symptoms. Symptoms are things that seem out of place, or make us uncomfortable, or seem to be associated with results that we do not want.*

Once we have listed all of the symptoms, then we need to prioritize them, that is, decide which ones are the most serious. At this point, we can begin to distinguish between symptoms of the problem and the problem itself.

We have successfully identified a group problem when we can write a statement which all group members agree is the problem statement.

Slide 2: Analyzing the problem.

Once you have identified the problem, you will need to look at it in more detail in order to develop an appropriate solution. During this step, you will consider possible causes of the problem and gather information to confirm or discard your theories. After looking at the problem's root causes, you will probably want to revise your problem statement.

Slide 3: Developing a solution.

While there is always a temptation to jump immediately to an obvious solution, effective problemsolving requires you to explore a full range of viable solutions. To do this, you:

* *Generate as many potential solutions as possible;*
* *Relate each to the causes of the problem to eliminate possibilities which do not address root causes; and*
* *Merge similar or related solutions in order to reduce redundancy.*

At this point you can analyse the strengths and weaknesses of the viable alternatives.

Before selecting your solution, the group should consider two things: the technical quality and the acceptability of the solution.

A solution is technically qualified if it can be implemented within a reasonable time, at an affordable cost, and will be reliable.

A solution is acceptable if the people required to implement it support it and it benefits the organization.

Slide 4: Implementing the solution.

Too often groups become frustrated when they spend hours or days coming up with a solution and then it never gets implemented. Without an implementation plan your group's solution will be kind of like the orders sent down from the ministries under central state planning. Those making the plans were not in touch with those implementing the plans, and those implementing the plans did not feel responsible since these were someone else's plans.

To get your solutions implemented, you need to work out a concrete implementation plan, and you have to take on responsibility for following up and evaluating each step of implementation.

An implementation plan is a series of action steps. For each step, you must answer the questions:

* *What must be done?*

* *Who will do it?*

* *When will it be started and when will key milestones be completed?*

* *Where will the necessary actions take place?*

* *How will the necessary actions be carried out?*

* *Why are these actions a solution?*

Slide 5: Evaluation.

When your group has a concrete plan, people can be held accountable for specific actions and your group has a series of deadlines which provide opportunities to follow-up, monitor progress, and make changes when made necessary by unanticipated situations.

An evaluation of the results allows your group to establish its credibility by informing others of your success, and it allows your group to continually improve your working together.

Slide 6: Summary of the group problemsolving process.

So the structure of today's meeting will follow these four problemsolving steps: problem identification, problem analysis, solution development, and implementation planning.

BRAINSTORMING

Time: (25/70)

Handouts: (H2) *Group Problemsolving Technique: Brainstorming*

Slides: S7

Objective: At the end of this presentation, participants will be able to (1) describe the benefits of brainstorming and (2) state several guidelines for brainstorming.

Ask the participants to write down the first word which comes to mind when you name:

* a color * a fruit * a flower

Next ask how many chose red, apple, rose?

Write these on the flipchart with the number of participants who selected them.

Then record the responses of the remaining participants.

Tell them you expected to hear red, apple and rose a disproportionate number of times. Ask them why they think so many people choose these when there are so many other colors, fruits and flowers.

We all tend to choose something familiar. Brainstorming is a technique which helps our group go beyond the familiar boundaries so that we can develop new and creative ideas.

Slide 7: Brainstorming rules.

If everyone agrees to follow a set of brainstorming rules, then we can all feel comfortable suggesting new and creative ideas. I would like to suggest six rules.

First, no criticism. Do not take time now to evaluate ideas. This slows the group down and discourages contributions. When people hear things like --

* *That is ridiculous!*
* *We have already tried that!*
* *Who ever heard of that?*

-- then people feel threatened. It is better to listen to five unrealistic ideas with the hope that the sixth idea will be brilliant, than to never hear the sixth idea because you criticized the first.

Remember there will be an opportunity later to evaluate and eliminate poor ideas.

Second, use freewheeling imagination. Make mental leaps and connections freely. Share images, fantasies, synonyms, plays-on-words, free associations, farfetched ideas. Do not prevent ideas from emerging by adhering rigidly to logical thinking. While brainstorming, you should ignore constraints like budget, time and staff.

Three, build on others' ideas. Combine ideas, expand on them.

Four, aim for quantity. More is better. Do not worry about duplication or quality. You are simply trying to develop the widest possible range of possibilities right now. Late we can narrow down the choices.

Fifth, record each idea on the flipchart as it is presented. Keep it brief but accurate.

And finally, make sure that all group members participate. The more brains, the greater the number of ideas. The more ideas, the better chance of finding the best one.

Have the group practice brainstorming every kind of bird they can think of. Record their responses and keep going until they have provide several examples that go beyond the conventional. For example, jailbird, Big Bird, Baltimore Orioles, two-under-par birdie. HERE WE NEED A HUNGARIAN EQUIVALENT**********

Praise the group for such a good list and ask at what point their responses departed from the conventional.

We can use brainstorming in many different situations. Today you will use it when you identify the group problem, when you look at the causes of the problem, when you generate possible solutions, and when you develop the steps of your implementation plan.

Before you take your break, please select a leader, a recorder and a timekeeper. You will change these roles during each of the four steps. The leader's role is to:

- *help the rest of the group express their opinions;*
- *stop anyone from criticizing anyone else's idea; and*
- *keep the group from getting off track.*

BREAK

Time: (15/85)

During the break, tape to the wall the following schedule (adjust the times to fit your schedule):

* 10:25	(60 minutes)	Problem identification
* 11:40	(50 minutes)	Problem analysis
* 13:30	(90 minutes)	Solution development
* 15:15	(60 minutes)	Implementation plan

STEP 1: PROBLEM IDENTIFICATION

Time: (60/145)

Handout: (H3) *Using a Tally to Guide the Group*

Objective: At the end of this step, participants will (1) have a prioritized list of symptoms, and (2) have a problem statement.

Step 1.1 (5/5).

After the break, call people's attention to the information on the wall. Then quickly review the issue with them in 5 minutes.

> *Welcome back.* (if they are on time, add: *Thanks, for being so prompt!*)

Depending on who your workshop participants are, you can do a number of things at this point. If you have a group of people who work together or have some common problems, you can ask them to brainstorm problems that they would like to work on together. Otherwise you can give them an artificial problem.

> *We are now going to practice using the problemsolving model discussed earlier and will follow this schedule* [point to the schedule on the wall].
>
> *At each step of the process, I will explain what you are to do and how much time you have to do it. Your timekeeper will remind you when your time is running out and I will let you know when it has expired because I will begin explaining the next step. Your recorder will write your ideas on the flip chart. Your leader will help you stay focused on the task.*

Step 1.2 Silent generation of ideas (5/10).

If they are going to work on a common problem, ask each group to brainstorm a list of things that they dislike about the current situation; for example, things that make their work uncomfortable, unproductive; or you can ask people to identify obstacles to achieving some objective which they have in common.

Ask the participants not to talk to each other; rather in silence to write down all of the symptoms which they believe point to the fact that there is a problem. Tell them they have 5 minutes. You may have to encourage individuals to write and discourage the temptation to begin discussing the issue with their neighbor.

When you see that most people have stopped writing, tell those still writing that they have 1 more minute.

Note: Using silent generation of ideas rather than spontaneous brainstorming makes more sense in the beginning to encourage quiet people to participate. It is also useful for controlling a participant who would otherwise dominate the discussion. Once you feel the participation of group members is sufficiently balanced, you might skip the silent generation and go straight to brainstorming.

Step 1.3 Recording of ideas (10/20).

Now, please take turns sharing your ideas, but only give one example at a time. Your recorder will write your examples on the flip chart. If someone else has already given one of your examples, try not to repeat it. On the other hand, if you think of some new ideas once the process gets started, do not feel limited by what you wrote down in the beginning. Remember, the goal of brainstorming is to get as many ideas as possible, and to build on the ideas of others.

Remember, do not criticize or praise the ideas or ask any questions at this time. Only speak to present your ideas briefly and then listen to the others. Timekeeper, please let us know when 10 minutes have passed.

Step 1.4 Clarification of ideas (10/30).

Now, review the list quickly one item at a time checking to see if everyone understands what is meant by each item. Again, you should not criticize any ideas, only ask a question if you do not understand what is meant by the idea. Timekeeper, please let us know when 10 minutes have passed.

Step 1.5 Clustering of ideas (10/40).

Now look at the list and decide if there are any ideas which are so closely related that they can be combined as one idea. If you see such an opportunity, propose that they be combined. If no one disagrees, then your recorder should go ahead and combine them. If even one person disagrees, we will leave them as separate items. Do not argue about this. Timekeeper, please let us know when 10 minutes have passed.

Label the clusters A, B, C, etc.

Step 1.6 Ranking of ideas (10/50).

Now we are going to check how the group views these obstacles. Which ones need to be addressed first? Timekeeper, please let us know when 15 minutes have passed

Now, take a moment to write down the letters of the three obstacles you consider to be the most serious. Number each of the letters your first, second and third choice.

Distribute (H3) *Using a Tally to Guide the Group*. Give participants a minute to read it and then ask participants what they think of the results of their tally.

Which items had no support? Should these be eliminated or will the group want to come back to them in the future?

Which items were supported by all, whether first, second or third choice?

Were any items the first choice of many group members? How do the other members feel about this item?

Which of these symptoms can we do something about and which are beyond our control?

Step 1.7 Selecting a problem statement (10/60).

You now have a lot of information. You have a list of symptoms. You know how other members of the group feel about the seriousness of each symptom. You know what is within your control and what is not. Based on the information you now have, we need to decide what problem we will work on for the rest of the day. By choosing one problem, we are not eliminating the others. We can come back to other important issues at a future meeting. Timekeeper, please let us know when 10 minutes have passed

Who would like to propose a statement of the problem which we will work on for the rest of the day and explain why the problem should be stated that way.

Write the statement on the flipchart. Then ask if everyone can support this statement of the problem or if anyone would like to propose modifying it. After each modification check for consensus until all express support.

If many people express strong disagreement with the statement, ask for a new proposal.

After the break, we are going to look at the problem you selected in more detail. We will use a technique called "Cause and effect analysis".

BREAK

Time: (15/160)

Prepare a fishbone diagram on two flipcharts. See *(D2) Fishbone Diagram.*

STEP 2: PROBLEM ANALYSIS

Time: (50/210)

Diagram: (D2) *Fishbone Diagram*

Objectives: Participants should be able to use a "fishbone" diagram to brainstorm causes and identify root causes.

> *Before we continue, let's have three new people take on the roles of leader, timekeeper and recorder.*
>
> *Cause and effect analysis is a systematic way of looking at effects and the causes that create or contribute to those effects.*
>
> *Effects are statements about the way things are, for example* [state the problem which the group has decided to work on].
>
> *Cause and effect analysis is usually shown in a diagram known as a fishbone diagram, because of its shape. The effect to be analyzed is written to the right on the diagram, in the "fish head."*

Write the problem selected by the group.

> *Along each of the "bones", the group records the specific factors which participants consider to be possible causes of the effect. We can label different sections "equipment", "materials", "process", "people" or some other relevant category to help organize our thinking.*

If people do not understand these categories, try asking for or giving examples.

> *Let's brainstorm the causes or factors contributing to our problem. Remember the more the better.*

For each cause suggested, ask the participant under which category to classify it. When suggestions seem to have been exhausted, begin reviewing the causes listed and asking "Why?" What is the cause behind the cause?

Once the diagram is filled with potential causes, have participants scan the diagram for causes that *appear repeatedly* or *contribute to other contributing factors.* Circle these -- they could prove to be root causes.

Ask the group what methods they could use to gather more data about the suspected root causes which would verify that they are the cause. Mention that sometimes the data reveals that these are not the cause. Then the group needs to go back and examine some of the less likely causes which were listed.

Ask the group for proposals to modify the problem statement based on the analysis of root causes. Often the understanding of the problem has changed significantly after such an analysis. Get consensus on the new problem statement.

Ask the group to think about the problem and its root causes while they are at lunch and tell them that when they return, they will begin proposing possible solutions.

LUNCH

Time: (60/270)

STEP 3: SOLUTION DEVELOPMENT

Time: (90/360)

Handouts: (H4) *Group Problemsolving Technique: Force Field Analysis*

Diagrams: (D3) *Force Field Chart*

Objective: At the end of this step, participants will have (1) brainstormed a list of possible solutions; (2) used force field analysis to analyze the strengths and weaknesses of between one and three options; and (3) selected a solution to implement.

Before we continue, let's have three new people take on the roles of leader, timekeeper and recorder.

Step 3.1 Generating solutions (10/20).

Post the problem statement before the group.

Remind participants of the rules of brainstorming. Draw the following:

GENERATE IDEAS REDUCE TO ONE IDEA

When we are trying to find a solution to a problem, we want to generate as many possibilities as we can. So we go from very few ideas to many ideas. At this point, we ignore logic and criteria and simply let our imagination go wild.

Once we have listed all of the possible solutions, then we become logical and critical and selective. We quickly eliminate the ideas that do not make sense and we take time to analyze in detail those ideas which appear to be realistic. Eventually we decide on which idea is the best for our group at this time.

Ask participants to begin proposing solutions. Have the recorder write these down quickly and briefly. Keep pushing the group to come up with more and more ideas each time they seem to have run out. Ask the timekeeper to let you know when 10 minutes have passed.

Step 3.2 Clarification of ideas (10/20).

Now, review the list quickly one item at a time checking to see if everyone understands what is meant by each item. Again, you should not criticize any ideas, only ask a question if you do not understand what is meant by the idea. Timekeeper, please let us know when 10 minutes have passed.

Step 3.3 Clustering of ideas (10/30).

Now look at the list and decide if there are any ideas which are so closely related that they can be combined as one idea. If you see such an opportunity, propose that they be combined. If no one disagrees, then your recorder should go ahead and combine them. If even one person disagrees, we will leave them as separate items. Do not argue about this. Timekeeper, please let us know when 10 minutes have passed.

Label the clusters A, B, C, etc.

Step 3.4 Ranking of ideas (10/40).

You should have the tally sheet already prepared on the flip chart.

Now we are going to check which solutions the group would like to review first. Remember to consider the technical quality and the acceptability of the solution; that is, can it be implemented within a reasonable time, at an affordable cost, will it be reliable, and will people support it? Does it address the root causes? Timekeeper, please let us know when 10 minutes have passed

Take a moment to write down the letters of the three solutions you consider to be the most promising. Number each of the letters your first, second and third choice.

After all have had a chance to examine the results of the tally, ask participants to propose the order in which solutions will be examined. If there is agreement proceed.

Step 3.5 Using force field analysis to identify strengths and weaknesses (40/80).

Review as many of the solutions as is possible within the next 40 minutes, being careful to leave the last 10 of your 90 minutes available for selecting a solution.

> *We are now going to identify strengths and weaknesses of at least one, but hopefully three solutions.*

Have at least 3 force field diagrams ready on the flip chart [see (D3)].

> *We are going to use a technique called force field analysis.*
> *Solving problems involves changing the status quo, closing the gap between the present state with the problem and the future state with the solution.*
> *Force field analysis is used to identify the forces in our organization which can either help or resist the change we want to make. We call these driving and restraining forces.*

Point to the vertical line.

> *The vertical line in the center of the force field represents the status quo -- the situation as it is now. The box on the right contains the solution statement -- the change we want. The arrows on both sides represent the driving and restraining forces. We can move the status quo line closer to the change box by:*
>
> - *Strengthening existing or adding new driving forces*
> - *Reducing or removing some restraining forces*
> - *Changing the direction of some restraining forces.*

Ask everyone to place the palm of their hand against that of their neighbor. Then ask only one to push. Ask what happened. People will say that the other person pushed back.

> *When we increase a driving force, we may also increase the resistance to it. It is often more effective to work on removing restraining forces which, once gone, cannot push for a return to the old ways of doing things.*
>
> *Even more effective is turning a restraining force into a driving force. For example, an employee who is an opposition leader can be a strong positive influence if he or she can be convinced to support your desired change.*
>
> *We are now going to use this technique to examine the driving and restraining forces for making our first solution work.*
>
> *Timekeeper, please let us know when 10 minutes have gone by and we will decide whether to move on to the next solution.*

Ask people to brainstorm driving and restraining forces and record these on the diagram. Ask participants to assess the strength of the forces on a scale of 5 (very strong) to 1 (weak). You can draw the length of the arrows accordingly.

> *When we develop an implementation plan for our solution, this information will be useful. But for now, let's go on to the next solution we want to analyze.*

Continue examining as many solutions as possible until you have only 10 minutes remaining.

Step 3.6 Selecting a solution (10/90).

Ask the participants once again to rank the solutions. This time, each will select a first and second choice. Once the rankings are posted. Help the group recognize the solution which appears to have the greatest consensus. For example:

* Which solutions were either the first or second choice of everyone?

* Of these, which was the first choice more frequently?

If you are proposing a solution which was not selected by all, ask for those who did not select it, to express their opinion. Will they be able to support this solution? If not, check to see whether the second choice solution can be supported by everyone. Remind the group that the solution does not have to be everyone's first choice, but it should enjoy at least some support from everyone.

BREAK

Time: (15/375)

STEP 4: IMPLEMENTATION PLANNING

Time: (60/435)

Handouts: (H5) *Implementation Planning*

Objective: At the end of this step, participants will have (1) brainstormed a list of action steps; (2) organized the action steps in a logical sequence; (3) developed as many action steps as possible to explain who, will do what, when, where, why and how; (4) discussed how and when they will evaluate the results of their work.

> *Before we continue, let's have three new people take on the roles of leader, timekeeper and recorder.*

Introduction (10/10).

The best solutions bring no change if there is not an organized plan of concrete steps to be taken to implement them.

Implementation requires:

* *People*
* *Performing certain actions*
* *At particular times*
* *In particular places*
* *For a particular purpose*
* *In a specific way.*

As you develop your implementation plan, keep in mind the following things:

* *Involve those expected to implement the plan in the process of developing it. People make their plans work.*
* *Plan to communicate often with others about the purpose and the status of the action so everyone knows what changes are taking place.*
* *Plan to report the outcome of the action promptly.*

Step 4.1 Brainstorming action steps (10/20).

Ask the participants to think of all the things which must be done in order to move from the current status quo to the changed situation proposed by their goal. Remind them to look at the driving and restraining forces they identified earlier. Have them brainstorm action steps. without paying attention to which steps should come first. Ask the timekeeper to let you know when 10 minutes have passed.

Step 4.2 Putting the action steps in order (5/25).

Now ask participants to look at their list and to propose a logical sequence for the action steps. After each proposal, check to make sure all agree. Ask the timekeeper to let you know when 5 minutes have passed.

Step 4.3 Developing action steps (30/55).

Post the following questions on the wall. For each action step, answer the questions:

* Who? (Is this person involved in making the plan?)
* Will do what?
* When?
* Where?
* Why? (Others need to understand.)
* How?

Develop as many action steps as possible within the time available. Ask the timekeeper to let you know when your 30 minutes are done. Be sure to leave 5 minutes to discuss evaluation.

Step 4.4 Developing an evaluation plan (5/60).

Remind the group that people perform better when they know they are going to be held accountable. Ask them how they are going to hold each other accountable for implementing their plan. When will they review the progress of the action steps? Will they report their progress to anyone else in the company?

GROUP REPORTS

Time: (15/450)

Objective: At the end of the group reports, you want your participants to (1) recognize how much work they have accomplished during the workshop; (2) see that other groups were just as successful.

Have a volunteer from each group give a brief summary of their group's work. They should not go into great detail; simply state:

(1) The problem selected by the group;
(2) The solution chosen;
(3) The implementation plan; and,
(4) The details of the first action step (who, what, when...).

Ask for comments from the other groups, and encourage everyone to give them a round of applause.

DEBRIEF OF GROUP PROBLEMSOLVING & CLOSING SUMMARY

Time: (30/480)

Objective: At the end of the debriefing, you want your participants to (1) agree that the problemsolving meeting was effective; (2) be able to explain why the meeting was effective (they understood the purpose, used a structured process, were kept on task by a leader, recorder and timekeeper); and (3) express a commitment to continue to use these techniques.

Discussing the experience:

Now you have had an opportunity to use a group problemsolving process and participate in a meeting using some of the ideas which we discussed earlier for making meetings more effective. Remember, an effective meeting is one where (1) time is not wasted, (2) where each participant expresses all of the information they have relevant to the task, (3) where all leave the meeting with the same understanding of what was said, and (4) where all members support the group's decision.

The first set of questions are intended to get the group to express their agreement that their meeting was effective (assuming they agree). If they disagree, they may explain that it was not effective because the techniques did not work or they may report that they simply did not do a good job using the techniques.

Did your group waste time at your meeting? Did you spend a lot of time on anything other than your task?

Did you share all of the information you had relevant to the issue? Who withheld their opinion? Why?

While you may have preferred discussing a different problem or selecting a different solution, do you feel the problem discussed was important and do you support the solution selected by the group?

Will your solution be implemented? Why or why not?

Was this problemsolving process effective?

The following question is intended to get the group to summarize the elements of an effective meeting which they have discussed today: understanding the purpose, using a structured process, being kept on task by a leader, recorder and timekeeper, and summarizing the results.

What are the things which made today's problemsolving meeting effective?

The next set of questions is intended to get participants to express a commitment to using some of these techniques in their own meetings.

What did you not like about using a structured process?

Do these disadvantages outweigh the advantages?

Which of these things specifically will you use?

Would others at your company benefit from learning to use this problemsolving process?

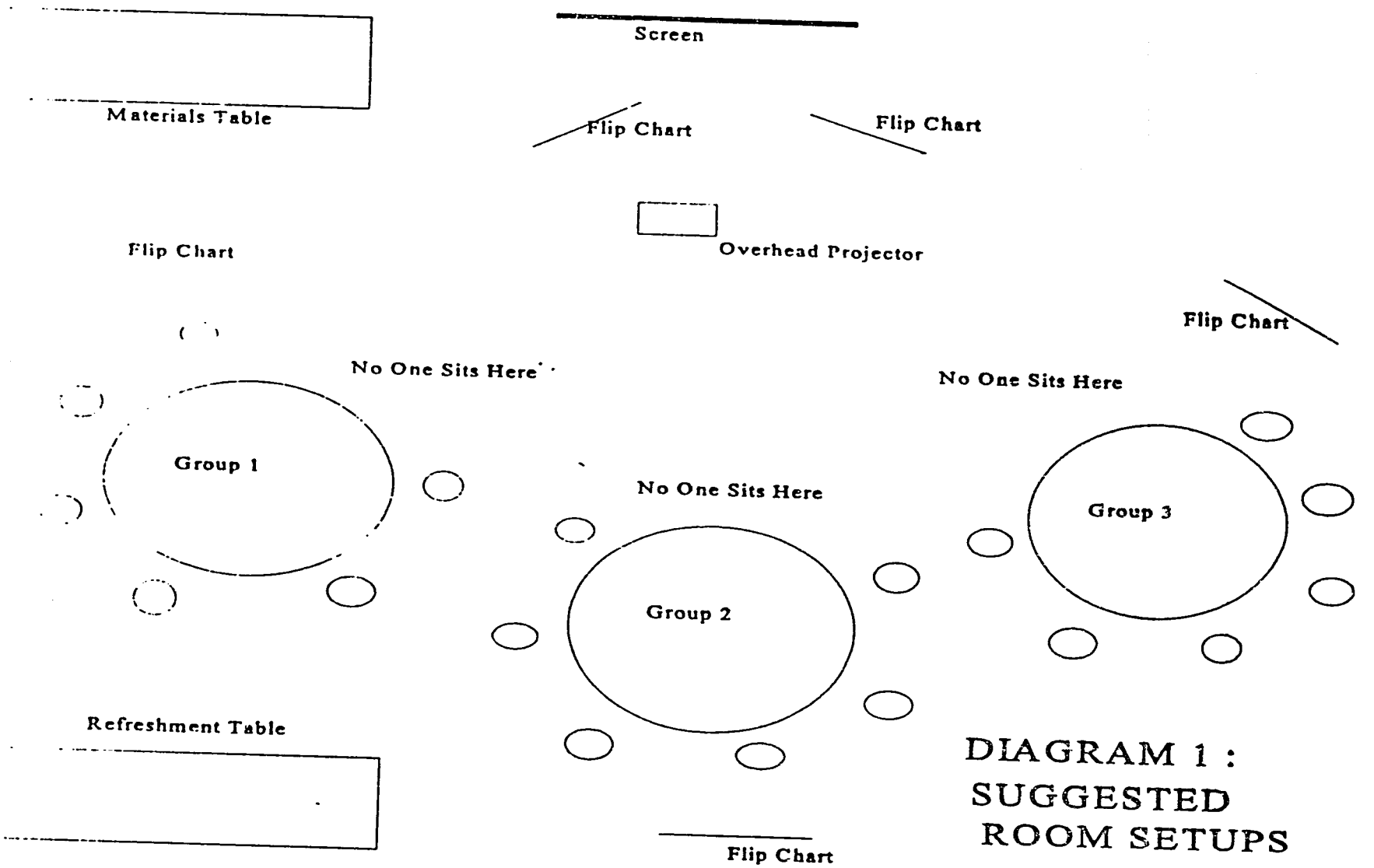
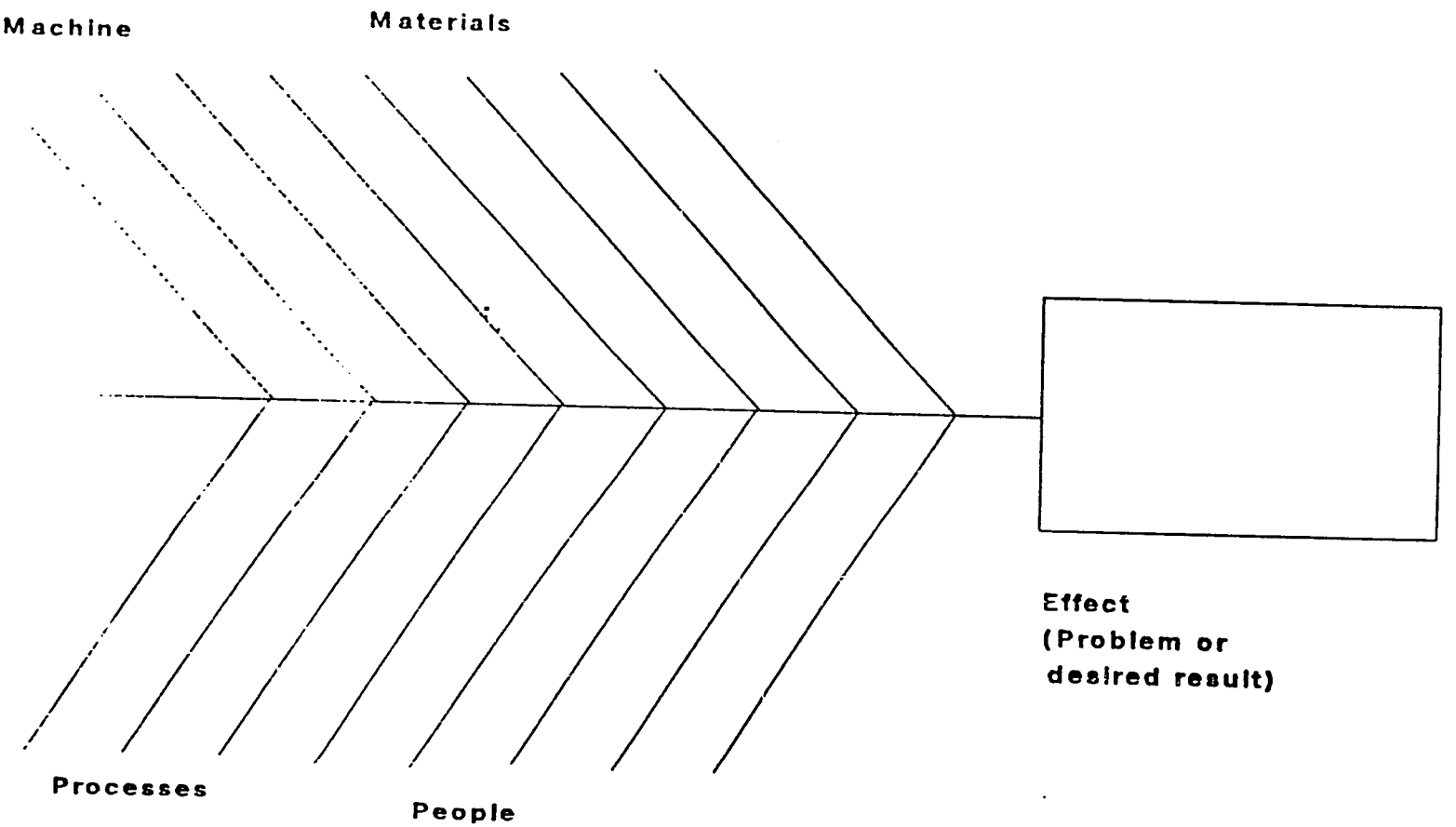
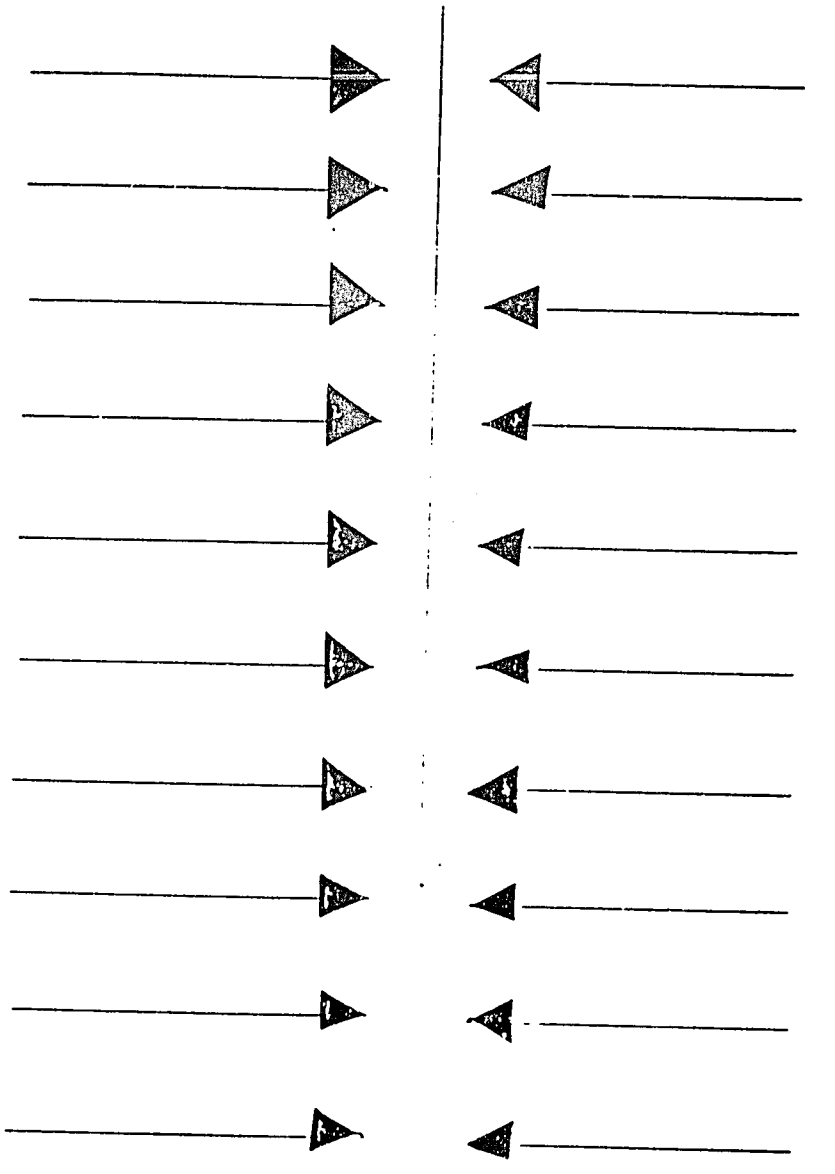


DIAGRAM 1 : SUGGESTED ROOM SETUPS

FISHBONE DIAGRAM



FORCE FIELD CHART



"As is" situation
Present state
Status quo

Solution statement
(desired future state)

FOUR STEP GROUP PROBLEMSOLVING PROCESS

A problemsolving model helps a group focus on fully understanding a problem and developing a solution which is realistic and will be supported by those who must implement it. Without a problemsolving structure, the group may fail to:

* Express everyone's concerns
* Look beyond symptoms to root causes of the problem
* Explore the full range of possible solutions
* Anticipate additional problems created by the solution
* Follow through on the steps needed to implement the solution
* Work together effectively

Four step problemsolving process

(1) Problem identification
(2) Problem analysis
(3) Solution development
(4) Implementation planning

* The group completes each step before proceeding to the next step
* The group may choose to return to an earlier step
* The process is continuous; while implementing a solution, the group may discover additional aspects of the problem which need to addressed

Step 1: Problem identification

* First the group identifies and discusses symptoms which indicate that there is a problem
* The group uses techniques like brainstorming, interviewing and questionnaires to gather this information
* This step has been completed when the group has a statement of the problem which is supported by all of the group members

Step 2: Problem analysis

* Once the problem is stated, the group collects information about the nature of the problem

* The group uses tools like cause and effect analysis and Pareto analysis to discover the root causes of the problem

* This step has been completed when the group can revise the problem statement to reflect the causes.

Step 3: Solution development

* Creative problemsolving requires the group to explore a full range of viable solutions

* The group assembles a full range of viable solutions by:

  (1) Generating as many potential solutions as possible
  (2) Relating each to the causes of the problem, and
  (3) Merging similar or related solutions

* This allows the group to narrow the choices, reduce repetition, and eliminate any possibilities which do not address the root causes

* Force field analysis is a useful technique for exploring the strengths and weaknesses of possible solutions

* Selecting an effective solution requires the application of two general criteria. An effective solution:

  (1) Has sufficient technical quality to resolve the problem, and
  (2) Is acceptable to those who will have to implement it

* *Technical quality* means the solution:

  (1) Can be implemented in a reasonable time
  (2) Can be done within cost limits
  (3) Will work reliably

* *Acceptable* means the solution:

  (1) Is supported by the implementers
  (2) Will benefit those affected by the problem

* This step has been completed when the group has reached consensus around a solution which is both technically qualified and acceptable.

Step 4: Implementation planning

* Choosing a solution does not immediately solve a problem. Putting a solution into action may prove as difficult as deciding on one.

* Implementation planning requires answering the following questions:

  (1) *What* must be done?

  (2) *Who* will do it?

  (3) *When* will key actions be completed?

  (4) *Where* will the necessary actions take place?

  (5) *How* will the necessary actions be carried out?

  (6) *Why* are these actions a solution?

* Evaluation is the monitoring of the project which increases the probability that key actions will be completed and costs kept within the project budget.

* Collecting data and reporting on what has been accomplished increases the credibility of the problemsolving group.

GROUP PROBLEMSOLVING TECHNIQUE: BRAINSTORMING

GUIDELINES FOR BRAINSTORMING

1. Do not critique ideas

   Do not take time to evaluate ideas; it interrupts the flow of ideas. Evaluating ideas is another, later step in the process. Do not discourage contributions with judgmental remarks such as:

   "That is ridiculous!"
   "We have already tried that!"
   "Who ever heard of that?!"

2. Use unlimited imagination

   Let your mind work freely. Do not prevent ideas from emerging by rigidly adhering to logical thinking. Do not feel limited by budget, time, staff or other resource constraints. Share mental images, synonyms, plays-on-words, free associations, farfetched ideas.

3. Build on the ideas of others

   Combine and expand on the ideas of others.

4. Aim for quantity

   The more ideas you can bring out, the better. Do not worry about duplication. You are not aiming for quality at this point, only quantity.

5. Record each idea

   Record each idea on flipchart paper exactly as it is presented. Try to keep it brief but faithful to the wording of the presenter.

USING A TALLY TO GUIDE THE GROUP

A problemsolving group has brainstormed a list of possible solutions to a production problem. They took time to clarify any items which needed further clarification and they combined solutions which appeared to be closely related; this produced seven groups of possible solutions. The group members want to look at the strengths and weaknesses of those solutions which appear most promising. After looking at the problem statement once again and considering the limitations of time and money available for solving the problem, each member chose three solutions from the list and prioritized them as first, second and third. The results are shown here:

First	Second	Third	Issue
///	/		A
///		/	B
			C
		/	D
			E
		////	F
	/////		G

What does the tally tell us?

We can use this tally to help us decide how to move forward. Note: The group did not vote on which solution to examine. If they had, some would have won the vote and others would have lost. The losers might not have participated as willingly in the discussion and might not feel that their proposals were given adequate consideration.

The tally simply shows us how the members as a whole feel about the proposals. The lack of names on the tally have already depersonalized the current decision about which proposal to examine first. To decide how to proceed, the facilitator draws the groups attention to the following facts:

1. Proposals C and E apparently are not considered high priorities by anyone in the group. Does anyone object if we eliminate them?

2. The group seems to be divided between proposals A and B as people's first choices while almost everyone supports proposal G as an alternative. If we examine these three proposals closer, we may be able to find a solution that everyone can support. Then we would not need to spend time looking at proposals D and F. Does anyone object to proceeding in this way?

GROUP PROBLEMSOLVING TECHNIQUE: FORCEFIELD ANALYSIS

PURPOSE. Force field analysis is a group problemsolving technique used to:

(1) *Evaluate strengths and weaknesses, pros and cons;*

(2) *Identify resources and obstacles for implementing a plan;*

(3) *Identify things which lessen or contribute to a problem.*

HOW TO USE IT. Use the force field chart on page D3.

(1) *Write in the box on the bottom of the chart what the current situation is.*

(2) *Write in the box on the right of the chart the desired situation, the goal.*

(3) *Imagine that the vertical line is located above the current situation and we want to move it closer to the desired situation. What things already exist in the current situation which will help move us toward the goal (drivers), and what things currently exist which will be obstacles (restrainers)?*

(4) *Write the drivers on the left arrows and the restrainers on the right arrows.*

(5) *Rank how strong each force is on a scale of 1 (weak) to 5 (strong).*

STRATEGIES. This information will not only help you select between different solutions, it will also help focus your attention on a strategy for implementing your solution. Remember the following principles:

(1) *Strengthening a driving force often results in the increasing resistance of a restrainer.*

(2) *Removing a restraining force clears away resistance.*

(3) *Converting a restraining force into a driving force has the greatest impact.*

Therefore, it is most effective to focus on changing the resistance.

IMPLEMENTATION PLANNING

The best solutions bring no change if there is not an organized plan of concrete steps to be taken to implement them. Implementation requires:

* *People*
  * *Performing certain actions*
    * *At particular times*
      * *In particular places*
        * *For a particular purpose*
          * *In a specific way.*

[1] BRAINSTORM ACTION STEPS

Action steps are the series of actions which must take place in order to move from the current situation to the desired situation. Brainstorm these actions without concern for the order in which they should be implemented.

[2] PUT THE ACTION STEPS IN ORDER

Now that you know what action steps need to be completed, think about the logical sequence in which they should be taken. As you put them in order, you may discover other intermediary steps you had forgotten.

[3] DEVELOP THE ACTION STEPS

For each action step you will want to be able to answer each of the following questions:

Who will take the step? (Is that person involved in making this plan?)

What will that person do?

When will it be done?

Where will it be done?

Why will it be done? (Others may ask.)

How will it be done?

[4] EVALUATION

When and how will you review the process in order to hold people accountable for implementing the action steps and making necessary adjustments along the way?

WHAT IS THE PROBLEM?

* Brainstorm symptoms
* Prioritize symptoms
* Write problem statement

What Is Behind The Problem?

* Hypothesize root causes
* Check hypotheses
* Restate the problem

FINDING A SOLUTION

* Brainstorm possibilities
* Analyze strengths & weaknesses
* Technical quality & acceptibility
* Reach consensus

IMPLEMENT YOUR SOLUTION

Who

What

When

Where

How

Why

EVALUTION

* Did the solution work?
* Hold people accountable
* Publicize your success!

GROUP PROBLEMSOLVING:

1. PROBLEM IDENTIFICATION
2. PROBLEM ANALYSIS
3. SOLUTION DEVELOPMENT
4. IMPLEMENTATION PLANNING

BRAINSTORMING RULES

1. No Criticism
2. Free Imagination
3. Expand on Ideas
4. Aim for Quantity
5. Record All Ideas
6. Full Participation

CSOPORTOS PROBLÉMAMEGOLDÁS

COOPERS & LYBRAND/CHEMONICS
INTERNATIONAL

1995. MÁJUS

Ezt az anyagot Daniel Bell készítette a Coopers & Lybrand/Chemonics International részére, a USAID támogatásával. Daniel Bell a Kent Állami Egyetem (Kent State University) Északkelet-Ohio Munkavallalói Tulajdonosi Központjában (Northeast Ohio Employee Ownership Center) dolgozik.

Az alábbi anyagok nagymértékben az Egyesült Államok Munkaügyi Minésztériumának Munakvállalói és vezetői kapcsolatokkal és kooperativ programokkal foglalkozó hivatal által készített Csoport Hatékonysági Oktatási kézikönyvben található anyagokon alapulnak:

Szöveges részek: *Bevezetés a csoportos problémamegoldásba, Brainstorming, 1. lépés: Probléma meghatározás, 2. lépés: Probléma elemzés, 3. lépés: Megoldás kidolgozása, 4. lépés: A megvalósítás megtervezése.*

Handout-ok: *H1, H2, H4 és H5*

ÁTTEKINTÉS

Ez a modul azért készült, hogy segítsen a bizottságoknak, munkacsoportoknak a problémák hatékonyabb azonosításában és megoldásában a csoporton belül. A modul tartalmaz továbbá egy problémamegoldó modellt és több problémamegoldó technikát.

A résztvevők megtanulják, hogyan szerkesszék meg a folyamatot, s milyen technikákat alkalmazzanak a problémák azonosítására, valamint a megoldások kiválasztására és végrehajtására. E technikák közé sorolható a brainstorming, az ok-okozati elemzés, az erőtér-elemzés és a négy részből álló problémamegoldó folyamat: a probléma azonosítása, a probléma elemzése, a megoldás kidolgozása, valamint a végrehajtás megtervezése.

A foglalkozás vezetője:

(1) Bevezeti a csoportos problémamegoldó eljárást;

(2) Bemutatja a brainstorming technikáját;

(3) Végigvezeti a résztvevőket egy négy lépésből álló problémamegoldó folyamaton; továbbá

(4) Eszmecserét kezdeményez, melynek során a résztvevőknek lehetőségük nyílik arra, hogy értékeljék, a csoportos problémamegoldó folyamat hasznos volt-e; ösztönzi a résztvevőket, kötelezzék el magukat amellett, hogy ezeket a technikákat a jövőben saját megbeszéléseiken alkalmazni is fogják.

A FOGLALKOZÁS CÉLJA

Ennek a modulnak a végére a résztvevők:

(1) Megértik a csoportos problémamegoldó folyamat alkalmazásának számos előnyét;

(2) Képesek lesznek alkalmazni a strukturált, csoportos problémamegoldó folyamatot, valamint az olyan technikákat, mint például a brainstorming, az ok-okozati elemzés és az erőtér-elemzés; és,

(3) Legalább egy módját ismerik annak, hogyan lehet a csoportos problémamegoldó folyamatot saját munkahelyükön alkalmazni.

A MODULRA VALÓ FELKÉSZÜLÉS

A résztvevők száma: Egy vagy öt 5-8 főből álló csoport (minden csoportnak legyen legalább egy oktatója).

A helyiség elrendezése: A helyiség legyen elég nagy ahhoz, hogy az összes csoport egyszerre elférjen benne, minden egyes csoportnak legyen külön asztala (legjobb, ha kerek). Az asztalok között legyen elegendő hely, s ne ültessünk egyetlen résztvevőt sem csoportjának asztala és a foglalkozás vezetője közé. Számozzuk meg az asztalokat, hogy a csoportokat könnyű legyen elkülöníteni egymástól. Legyen elegendő üres falfelület, ahová az információkat tartalmazó flipchart-papírok kitehetők, hogy azokat minden résztvevő jól láthassa. Legyen megfelelő világítás, s legyen légkondicinálás, vagy olyan szellőztetési lehetőség, hogy a hőmérséklet végig kellemes maradjon [*A helyiség elrendezésére* az 1. diagram ad példát].

Eszközök: Minden egyes csoportnak szüksége van 1 flipchart-ra, 1 tekercs ragasztószalagra, 4 íróeszközre (2 fekete, 2 színes), 1 számológépre; az egész foglalkozás számára kell ezenkívül 1 írásvetítő asztallal, vászonnal és fóliára használható tollakkal, és kell még egy asztal az üdítőknek és szendvicseknek, és egy külön a kellékeknek.

Üdítők: Legalább tiszta víz álljon rendelkezésre. A résztvevők jobban érzik magukat, ha van kávé, tea vagy üdítő a helyiségben, amivel bármikor nyugodtan újratölthetik poharaikat. Az is jó, ha van néhány szendvics vagy egy kis aprósütemény.

Oktatási anyagok: Az összes handout és fólia szerepel a tartalomjegyzékben. Ha nem áll rendelkezésre írásvetítő, akkor a fóliák helyett írjuk az információt a foglalkozáson használt flipchart-ra.

TEENDŐK A MODUL VÉGIGVITELE ELŐTT

* Szerezzünk ismereteket a felnőttkori tanulás alapeleveiről, az előadói készségekről, s az eszmecserék irányításának készségéről.

* Olvassuk végig és ismerjük meg ennek az oktatási kézikönyvnek a teljes anyagát.

* Nézzük át az 3-as számú Handout-ot: *Felmérőlap használata a csoport irányításához.*

* Ismerkedjünk meg az oktatás helyszínével és eszközeivel.

* Vágjunk le hosszú ragasztócsíkokat (hogy a lapok ne essenek le a falról), s tegyük őket a flipchart tetejére, hogy mindig kéznél legyenek.

A MODUL NAPIRENDJE

Ennek a modulnak az időtartama 8 óra, a kávészünetet és az ebédidőt is beleszámítva. Percre pontosan megadjuk a szakaszok hosszát és az összes rendelkezésre álló időből eltelt részt (a részidőt és az összidőt). Ha tudjuk, hogy a résztvevők későn érkeznek, akkor kalkuláljunk be ezt ellensúlyozandó plusz perceket. Amennyiben ez a modul nem egy nagyobb foglalkozássorozat része, számítsuk be azt is, hogy be kell mutatkoznunk egymásnak.

(45/45)	A csoportos problémamegoldás bevezetése
(25/70)	Brainstorming
(15/85)	Szünet
(60/145)	1. lépés: A probléma azonosítása
(15/160)	Szünet
(50/210)	2. lépés: A probléma elemzése
(60/270)	Ebéd
(90/360)	3. lépés: A megoldás kidolgozása
(15/375)	Szünet
(60/435)	4. lépés: A végrehajtás megtervezése
(15/450)	Csoportok beszámolói
(30/480)	A csoportos problémamegoldó folyamat áttekintése, megbeszélése és zárásképpeni összefoglalása

BEVEZETÉS A CSOPORTOS PROBLÉMAMEGOLDÁSBA

Idő: (45/45)

Handout: (H1) *Négy lépésből álló problémamegoldó folyamat*

Fóliák: Problémamegoldás F1-től F6-ig

Célkitűzés: A bevezetés végére a résztvevők (1) tudni fogják, melyek a modul tanulási célkitűzései; (2) képesek lesznek leírni a problémamegoldó folyamat négy lépését; és (3) kiválasztanak egy irányítót, egy jegyzőkönyvvezetőt és egy időfelelőst. A modul tanulási célkitűzései:

- A négy lépésből álló problémamegoldó modell megismerése és gyakorlása;
- A brainstorming, az ok-okozati elemzés, valamint az erőtér-elemzés alkalmazásának képessége;
- A megoldás végrehajtása érdekében tett első lépés kigondolása arra a problémára, amellyel a foglalkozás alatt kezdenek el foglalkozni.

Hallották már valaha azt a mondást, hogy "Több szem többet lát"? Más szavakkal ez annyit jelent, hogy egy embercsoport valószínűleg sokkal több ötlettel képes előállni, amikor egy probléma megoldásáról van szó, mint egyetlen ember önmagában.

Az is igaz ugyanakkor, hogy ha egyszerűen létrehozunk egy különböző emberekből álló csoportot, az nem mindig vezet kedvezőbb eredményre. Lehetséges, hogy számos ötlet felmerül, ezek az ötletek azonban nem fogalmazódnak meg hatékonyan, mindenki számára.

Az olyan szerepek kiosztása, mint pl. az irányító, a jegyzőkönyvvezető és az időfelelős, valamint az elfogadott eljárás szerkezetének követése segít a problémamegoldó gyűlések hatékonyabbá tételében.

Ki tudná nekem megmondani, mi az irányító, a jegyzőkönyvvezető és az időfelelős szerepe a megbeszélések hatékonyabbá tételében?

Az irányító tartja mederben a csoport munkáját, megbizonyosodva arról, hogy mindenkinek lehetősége nyílik arra, hogy véleményét kifejthesse. A jegyzőkönyvvezető a közkinccsé tett információkat felírja a flipchart-ra, hogy mindenkihez ugyanaz az információ jusson el. Az időfelelős figyelmezteti a csoportot, ha kezdene kifutni az adott feladatra fordítható időből, hogy az aktuális téma lezárható legyen, s maradjon elég idő a többi napirendi pont teljesítésére is.

Ma mindenkinek lesz lehetősége arra, hogy ezeket a szerepeket gyakorolhassa.

A mai foglalkozáson egyébként konszenzuson alapuló döntéseket fogunk hozni. Meg tudná mondani nekem valaki, hogy ez mit jelent?

Egy csoport akkor jut konszenzusra, amikor a döntést minden tag támogatja (még akkor is, ha nem ezt választották volna elsőre), mert mindenki meghallgatást nyert és érzi, hogy nézőpontját megértette a csoport többi tagja, s mindenkinek meggyőződése, hogy a döntés a felvetett problémák megoldására alkalmas döntés született.

Miért olyan fontos egy közösen elfogadott struktúrájú eljárást követni, amikor a megbeszélés feladatát teljesítjük?

Kevesebb az elvesztegetett idő. Az emberek a feladatra összpontosítanak. Ha valaki el akarna térni a tárgytól, a csoport képes ezt törvényes módon megakadályozni.

Ma meg fogjuk tanulni egy négy lépésből álló problémamegoldó modell használatát, a megbeszélés struktúrájának egyik kialakítási módjaként.

Mai foglalkozásunk során meg fogunk ismerkedni néhány olyan új technikával, amelyek a csoportos problémamegoldásban hasznosak lehetnek. Ezek közé tartozik a brainstorming, az ok-okozati elemzés és az erőtér-elemzés.

Készítsünk elő két flipchart-ot. Húzzunk végig egy vízszintes vonalat mindkettő közepén, azután az így létrejött kereteket számozzuk be 1-től 4-ig. Ne írjunk semmit egyik keretbe sem, még ha tisztában is vagyunk azzal, hogy minden egyes keret a problémamegoldó folyamat egy-egy különböző lépését reprezentálja:

(1) A probléma azonosítása
(2) A probléma elemzése
(3) A megoldás kidolgozása
(4) A végrehajtás megtervezése

Mi mindannyian szoktunk problémákat megoldani. Mit teszünk általában a problémamegoldás során?

Írjuk a résztvevők válaszait abba a keretbe, ahová legjobban illenek?

Azután mindegyik keretet lássuk el valamilyen címmel:

A problémamegoldó folyamat nem varázslat. Önök mindannyian megfogalmazták a szükséges lépéseket. Az első lépés, például, a probléma azonosítása [olvassuk el az első keretben szereplő válaszokat]. *A második lépés a probléma okának, hátterének feltárása* [olvassuk el a 2. keretben szereplő ötleteket]. *A harmadik lépés a megoldás kiötlése* [olvassuk el a 3. keretben szereplő ötleteket]. *Az utolsó lépés pedig a megoldás végrehajtása* [olvassuk el a 4. keretben szereplő ötleteket].

A csoportos problémamegoldás titka az, hogy tudatában legyünk, melyik lépésnél is járunk éppen, s hogy megbizonyosodjunk arról, hogy a lépéseket a megfelelő sorrendben tesszük meg, és egyiket sem hagyjuk befejezetlenül. Ez segít a csoportnak abban, hogy:

* *Mindenki hangot adhasson gondjainak és ötleteinek;*
* *A tüneteken túl az okokat és az alapvető problémát is sikerüljön megtalálni;*
* *A megoldások teljes skáláját fel tudják tárni, s azután a számos megoldás közül a gyakorlati szempontból legjobbat kiválasztani, amely minden érintett számára elfogadható;*
* *A lehetséges negatív következményeket előre tudják jelezni; és*
* *A megoldást könnyebben tudják kivitelezni.*

1. fólia: A probléma azonosítása.

Miből vesszük észre, ha egyik gyerekünk influenzás? [A résztvevők megnevezik az influenza néhány tünetét] *A probléma azonosításának első lépése tehát a tünetek számbavétele. A tünetek olyan dolgok, amelyek nem illenek a képbe, kényelmetlen érzést keltenek bennünk, vagy olyan eredményekkel hozhatók összefüggésbe, amelyeket nem szándékozunk elérni.*

Amikor már az összes tünetet sikerült számbavennünk, akkor válik szükségessé rangsorolásuk, ami azt jelenti, hogy el kell döntenünk, mely tünetek a legkomolyabbak. Ezen a ponton már elkezdünk különbséget tenni a probléma tünetei és maga a probléma között.

A csoport egy problémáját akkor azonosítottuk sikeresen, ha írásba tudunk foglalni egy olyan meghatározást, amelyet a csoport minden egyes tagja elfogad a probléma meghatározásaként.

2. fólia: A probléma elemzése.

Amennyiben már azonosítottuk a problémát, részletesebben is meg kell vizsgálnunk annak érdekében, hogy a megfelelő megoldást ki tudjuk dolgozni. Ezen lépés során fontolóra vesszük a probléma lehetséges okait, és információkat gyűjtünk ahhoz, hogy elméleteinket meg tudjuk erősíteni vagy el tudjuk vetni. A probléma alapvető okainak, gyökerének vizsgálata után, valószínűleg újrafogalmazzuk majd a probléma meghatározását.

3. fólia: A megoldás kidolgozása.

Mindig nagyon csábító az a lehetőség, hogy rögtön rávessük magunkat a legkézenfekvőbb megoldásra, a hatékony problémamegoldás azonban megköveteli tőlünk, hogy az életképes megoldások teljes skáláját feltárjuk. Ehhez az szükséges a következőkre van szükség:

* *Gyűjtsük össze a lehető legtöbb elképzelhető megoldást;*
* *Mindegyiket kapcsoljuk a probléma okaihoz, hogy kiszűrjük azokat a lehetőségeket, amelyek nem az alapvető okokat veszik célba; és*
* *Vonjuk össze a hasonló vagy egymással összefüggő megoldásokat, hogy az ismétlődések számát csökkentsük.*

Ezen a ponton elemezhetjük az életképes alternatívák erős és gyenge pontjait.

A megoldás kiválasztása előtt a csoportnak két dolgot kell figyelembe vennie: a megoldás technikai minőséget és elfogadhatóságát.

Egy megoldás technikai szempontból akkor minősíthető jónak, ha belátható időn belül, megfizethető áron végrehajtható és megbízható.

Egy megoldás akkor tekinthető elfogadhatónak, ha élvezi azoknak az embereknek a támogatását, akiknek azt végre kell hajtani, s a vállalat számára is előnyökkel jár.

4. fólia: A megoldás végrehajtása.

Elég gyakran előfordul, hogy csoportok elkedvetlenednek, amikor több óra, illetve több nap munka után végre megtalálják a megoldást, s azután azt soha senki nem hajtja végre. Végrehajtási terv nélkül a csoport megoldása azokra a rendelkezésekre fog emlékeztetni, amelyeket a minisztériumok adtak ki a központi állami tervgazdálkodás idején. A tervek készítői akkoriban nem álltak kapcsolatban a tervek végrehajtóival, akik éppen emiatt nem is érezték magukat felelősnek, hiszen a tervek valaki más tervei voltak.

Ha az akarjuk, hogy a megoldásainkat végre is hajtsák, akkor ki kell dolgoznunk egy konkrét végrehajtási tervet, s vállalnunk kell a felelősséget azért, hogy a végrehajtás minden egyes lépését figyelemmel kísérjük és értékeljük.

Egy végrehajtási terv konkrét lépések sorozatából áll. Minden egyes lépésnél válaszolnunk kell a következő kérdésekre:

* *Mit kell tenni?*

* *Ki fogja azt megtenni?*

* *Mikor kezdődik és mikorra jutunk túl a főbb mérföldköveken?*

* *Hol kerül majd sor a szükséges lépésekre?*

* *Hogyan fogjuk megtenni a szükséges lépéseket?*

* *Miért jelentenek megoldást ezek a lépések?*

5. fólia: Értékelés.

Amikor a csoport konkrét tervvel rendelkezik, akkor az emberektől számon lehet kérni a különböző lépések végrehajtását, s az, hogy a csoportnak több határidőt is teljesítenie kell, lehetőséget nyújt arra, hogy figyelemmel kísérjük a folyamatot és megtegyük az előre nem látott helyzetek nyomán szükségessé váló változtatásokat.

Az eredmények értékelése megalapozhatja a csoport hitelét azáltal, hogy informálja a többieket a csoport sikereiről, s lehetővé teszi, hogy a csoport együttes munkájára a folyamatos fejlődés legyen jellemző.

6. fólia: A csoportos probléma megoldó folyamat összefoglalása.

A mai foglalkozás tehát felépítésében követni fogja a négy problémamegoldó lépést: a probléma azonosítását, a probléma elemzését, a megoldás kidolgozását, valamint a végrehajtás megtervezését.

BRAINSTORMING

Idő: (25/70)

Handout: (H2) *Csoportos problémamegoldó technika: Brainstorming*

Fólia: F7

Célkitűzés: Ennek az előadásnak a végére a résztvevők képesek lesznek (1) leírni a brainstorming előnyeit, és (2) felsorolni a brainstorming néhány alapelvét.

Kérjük meg a résztvevőket, írják le az első szót, ami a következők hallatán eszükbe jut:

* szín * gyümölcs * virág

Azután kérdezzük meg, mennyien választották a piros színt, az almát és a rózsát.

Írjuk is fel ezeket a szavakat a flipchart-ra az őket választó résztvevők számával együtt.

Azután írjuk fel a többi résztvevő válaszait.

Mondjuk el a résztvevőknek, hogy számítottunk rá, hogy a piros szín, az alma és a rózsa többször is elhangzik majd. Kérdezzük meg tőlük, mit gondolnak, miért választják olyan sokan ezeket, amikor annyi más szín, gyümölcs és virág közül lehetne választani.

Mindannyian hajlamosak vagyunk az ismerőset, a megszokottat választani. A brainstorming egy olyan technika, amely segít a csoportnak abban, hogy túl tudjon lépni az ismerős határokon, valamint hogy új és kreatív ötleteket dolgozzon ki.

7. fólia: A brainstorming szabályai.

Ha mindenki egyetért azzal, hogy kövessük a brainstorming bizonyos szabályait, akkor mindannyian sokkal könnyebben állunk elő új és kreatív ötletekkel. Szeretnék hat szabályt javasolni.

Először is azt, hogy ne kritizáljunk. Ne vesztegessük az időt az ötletek kiértékelésével. Ez lelassítja a csoport munkáját, elbátortalanítja a hozzászólni vágyókat. Amikor az emberek például azt hallják, hogy --

* *Ez nevetséges!*
* *Ezt már próbáltuk!*
* *Ki hallott már ilyet?*

-- akkor általában fenyegetve érzik magukat. Jobb meghallgatnunk őt irreális elképzelést annak reményében, hogy a hatodik ötlet zseniális lesz, mint soha nem hallani a hatodik ötletet, mert az elsőt már annyira megkritizáltuk.

Ne felejtsük el, hogy később lesz arra lehetőségünk, hogy kiértékeljük és kiszűrjük

a gyengébb ötleteket.

A második szabály az, hogy hagyjuk szabadon szárnyalni a képzeletünket. Végezzünk nagy gondolati ugrásokat, szabadon kapcsoljuk össze egymással felmerülő ötleteinket. Mondjuk el egymásnak, milyen képek idéződnek fel bennünk, mit sugall a fantáziánk, milyen szinonímák, szójátékok, szabad asszociációk, merész ötletek jutnak az eszünkbe. Ne nyomjuk el magunkban a felmerülő ötleteket azzal, hogy szigorúan ragaszkodunk a logikus gondolkodás törvényeihez. Brainstorming közben feledkezzünk meg a költségvetés, az idő vagy a létszám kötöttségeiről.

A harmadik szabály az, hogy építsünk mások ötleteire. Kombináljuk egymással a különféle ötleteket, bővítsük ki őket.

A negyedik szabály szerint a mennyiség legyen a cél. Minél több ötletet sikerül összegyűjteni, annál jobb. Ne törődjünk az ismétlődésekkel vagy a minőséggel. Hiszen most a lehetőségek elképzelhető legszélesebb skáláját próbáljuk kialakítani. Később majd szűkíthetjük a választások körét.

Az ötödik szabály alapján minden ötletet rögzítenünk kell a flipchart-on úgy, ahogyan az elhangzott. Legyünk tömörek, de pontosak.

Végül pedig győződjünk meg arról, hogy a csoport minden tagja részt vesz a munkában. Minél többen gondolkodunk együtt, annál nagyobb számban merülnek fel jó ötletek is. Minél több a rendelkezésre álló jó ötlet, annál nagyobb az esélyünk arra, hogy megtaláljuk a legjobbat.

Kérjük meg a csoportot arra, hogy próbáljanak annyi madárfajtát összeszedni, amennyit csak tudnak. Jegyezzük le a válaszaikat, s ezt folytassuk egészen addig, amíg több olyan példa el nem hangzik, amely túllép a megszokott, elsődleges jelentéseken. Például "palimadár", "jómadár", "jobb ma egy veréb, mint holnap egy túzok", stb.

Dicsérjük meg a csoportot a szenzációs példákért, s kérdezzük meg a résztvevőket, mely ponton kezdtek a válaszaik eltérni a szabványtól.

A brainstorming technikát sok különféle helyzetben tudjuk használni. Ma például abból a célból alkalmazzuk, hogy azonosítsuk a csoportproblémát, megvizsgáljuk a probléma okait, kitaláljuk a lehetséges megoldásokat, s kidolgozzuk a végrehajtási terv lépéseit.

A szünet előtt válasszunk irányítót, jegyzőkönyvvezetőt és időfelelőst. Ezeket a szerepeket a négy lépés során váltogatni fogjuk. Az irányító szerepe az, hogy:

- *segítsen a csoport többi tagját abban, hogy hangot tudjon adni véleményének;*
- *megakadályozza, hogy bárki bárkit kritizálni kezdjen,*
- *meggátolja, hogy a csoport eltérjen a tárgytól.*

SZÜNET

Idő: (15/85)

A szünetben ragasszuk fel a falra a következő időbeosztást (az időpontokat saját igényeinkhez igazíthatjuk):

* 10:25	(60 perc)	A probléma azonosítása
* 11:40	(50 perc)	A probléma elemzése
* 13:30	(90 perc)	A megoldás kidolgozása
* 15:15	(60 perc)	Végrehajtás megtervezése

1. LÉPÉS: A PROBLÉMA AZONOSÍTÁSA

Idő: (60/145)

Handout: (H3) *Felmérőlap használata a csoport irányításában*

Célkitűzés: Ennek a lépésnek a végére a résztvevők (1) rangsorolni fogják a tüneteket, és (2) megfogalmazzák a problémát.

1.1. lépés (5/5)

A szünet után hívjuk fel az emberek figyelmét a falon látható információra. Azután gyorsan tekintsük át velük a témát 5 percben.

> *Üdvözlöm Önöket.* (Ha időben jönnek, tegyük hozzá: *Köszönöm, hogy ilyen pontosak voltak!)*

Attól függően, hogy kik a foglalkozás résztvevői, ezen a ponton több tennivaló közül is választhatunk. Ha a csoport tagjai munkatársak, vagy valamilyen közös probléma foglalkoztatja őket, brainstorming segítségével kiválaszthatják, milyen problémán szeretnének közösen dolgozni. Máskülönben adhatunk a csoportnak egy kitalált problémát.

> *Most gyakorolni fogjuk az előzőekben megbeszélt problémamegoldó modell használatát, s ehhez az időbeosztáshoz fogjuk tartani magunkat* [mutassunk a falon lévő napirendre].

> *A folyamat minden egyes lépésénél el fogom Önöknek magyarázni, hogy mi a feladatuk, és mennyi idő áll rendelkezésükre ennek elvégzéséhez. Az időfelelős felhívja majd rá a figyelemet, ha esetleg kifutnának az időből, én pedig szólok, ha végleg lejárt az idő, mert akkor rátérek a következő lépés magyarázatára. A jegyzőkönyvvezető feljegyzi majd az ötleteiket a flipchart-ra. Az irányító segít a feladatra összpontosítani.*

1.2. lépés: Ötletgyűjtés csendben (5/10)

Amennyiben a csoportok egy közös problémán kezdenek el dolgozni, kérjük meg őket arra, hogy brainstorming segítségével sorolják fel azokat a dolgokat, amelyek a jelenlegi körülmények között zavarják őket; például említsenek meg olyan tényezőket, amelyek a munkájukat kényelmetlenné teszik, illetve eredményességét csökkentik; megkérhetjük őket arra is, hogy azonosítsák a közös célkitűzéseik útjában álló akadályokat.

Kérjük meg a résztvevőket arra, hogy ne beszélgessenek egymással; inkább csendben írják le, mik azok a tünetek, amelyekről úgy hiszik, hogy jelzik a probléma létezését. Mondjuk meg, hogy mindenre 5 percük van. Elképzelhető, hogy bátorítani kell az egyéneket arra, hogy leírják gondolataikat, s rájuk kell szólni, hogy álljanak ellen a kísértésnek, s ne kezdjék el a szomszédjukkal megvitatni a kérdést.

Amikor látjuk, hogy a legtöbben befejezték az írást, mondjuk meg azoknak, akik még írnak, hogy 1 perc van hátra.

Megjegyzés: A spontán brainstorming helyetti csendes ötletgyűjtés kezdetben célszerűbbnek bizonyul, mert a visszahúzódóbb embereket is részvételre buzdítja. Azért lehet még hasznos, mert visszafogja azokat a résztvevőket, akik egy megbeszélés során egyébként domináns szerepet játszanának. Amikor úgy érezzük, hogy a csoporttagok nagyjából egyformán vesznek részt a munkában, akkor kihagyhatjuk a csendes ötletgyűjtő szakaszt, s egyenesen elkezdhetjük a brainstorming-ot.

1.3. lépés: Az ötletek feljegyzése (10/20)

Most kérem, sorban mindenki mondja el ötleteit, de egyszerre mindenki csak egy példát említsen. A jegyzőkönyvvezető felírja a példákat a táblára. Ha valaki már elmondta a saját példánkat, igyekezzünk nem megismételni. Ha ugyanakkor eszünkbe jut egy új ötlet a folyamat beindulása után, ne korlátozzon bennünket az, amit az elején leírtunk. Ne felejtsük el, hogy a brainstorming célja, hogy a lehető legtöbb ötletet összegyűjtsük, s hogy egymás ötleteire építsünk.

Ezen a ponton ne kritizáljuk, ne is dicsérjük az ötleteket, ne tegyünk fel kérdéseket. Mondjuk csak el tömören saját ötleteinket, azután hallgassuk meg a többieket. Az időfelelős legyen szíves szólni, amikor a 10 perc letelt.

1.4. lépés: Az ötletek tisztázása (10/40)

Most nézzük át gyorsan a listát tételenként, hogy lássuk, mindenki egyformán értelmezi-e az összeírtakat. Még itt sem kritizálhatunk, csak akkor tehetünk fel kérdést, ha nem világos egy-egy gondolat jelentése. Az időfelelős legyen szíves szólni, amikor a 10 perc letelt.

1.5. lépés: Az ötletek csoportosítása (10/40)

Most pedig nézzük meg a listát, és döntsük el, hogy szerepelnek-e rajta olyan ötletek, amelyek annyira szorosan kapcsolódnak egymáshoz, hogy egyetlen ötletté összevonhatók. Ha látunk erre lehetőséget, tegyünk ilyen javaslatot. Ha senki nem utasítja ezt el, akkor a jegyzőkönyvvezető dolga, hogy nyomban összekapcsolja az ötleteket. Amennyiben akár csak egyetlen résztvevőnek is ellenvetése lenne, akkor hagyjuk meg a felvetett ötleteket különálló tételként. Ne vitatkozzunk emiatt. Az időfelelős legyen szíves szólni, amikor a 10 perc letelt.

Az összevont csoportokat jelöljük A, B, C, stb. betűvel.

1.6. lépés: Az ötletek rangsorolása (10/50)

Most meg fogjuk vizsgálni, hogyan látja a csoport ezeket az akadályokat. Melyekkel kell először foglalkozni? Az időfelelős legyen szíves szólni, amikor a 15 perc letelt.

Most szánjunk egy percet arra, hogy leírjuk annak a három akadálynak a betűjelét, amelyet a legsúlyosabbnak tartunk. Számozzuk meg a betűjeleket aszerint, hogy melyiket tennénk az első, második és a harmadik helyre.

Osszuk ki a 3. számú Handout-ot (H3), *Felmérőlap használata a csoport irányításában* címmel. Adjunk a résztvevőknek egy percet arra, hogy átolvassák, azután kérdezzük meg, mit gondolnak saját felmérőlapjuk eredményeiről.

Melyik tételt nem támogatta senki? Töröljük-e ezeket a témákat, vagy a csoport még vissza akar rájuk térni a jövőben?

Melyik tételt támogatta mindenki, akár első, akár második, akár harmadik helyen?

Volt olyan tétel, amit többen az első helyre soroltak? A többi csoporttag hogyan vélekedett erről a tételről?

Mely tüneteken tudunk valamit változtatni, s melyek azok, amelyeket nem tudunk befolyásolni?

1.7. lépés: A probléma meghatározásának kiválasztása (10/60)

Most már rengeteg információ áll a rendelkezésünkre. Előttünk van a tünetek listája. Tudjuk, hogy a többi csoporttag mennyire tartja súlyosnak a tüneteket. Tudjuk, mi az, amin képesek vagyunk változtatni, mi az, amin nem. A jelenleg rendelkezésünkre álló információk alapján el kell döntenünk, melyik problémával kívánunk részletesen foglalkozni a mai nap hátralévő részében. Azzal, hogy kiválasztunk egy problémát, még nem iktatjuk ki végérvényesen a többit. Egy későbbi találkozón még visszatérhetünk egyéb fontos kérdésekre is. Az időfelelős legyen szíves szólni, amikor a 10 perc letelt.

Ki szeretne javaslatot tenni annak a problémának a meghatározására, amellyel a nap hátralévő részében foglalkozni fogunk, s elmagyarázni, miért éppen így kell megfogalmazni a problémát?

Írjuk fel a meghatározást a flipchart-ra. Azután kérdezzük meg, mindenki támogatja -e a probléma ilyen formában történő meghatározását, illetve szeretne-e valaki azon módosítani. Minden egyes módosítás során törekedjünk konszenzusra, a felvetett javaslatot mindegyik résztvevő támogassa.

Ha sokan erősen ellenzik a meghatározást, kérjünk új javaslatot.

A szünet után a kiválasztott problémát fogjuk tüzetesebben szemügyre venni. Ehhez az "ok-okozati elemzés" elnevezésű technikát fogjuk felhasználni.

SZÜNET

Idő: (15/160)

Készítsünk egy halcsont-diagramot a két flipchart-ra. Lásd: 2. számú diagram (D2) *Halcsont-diagram.*

2. LÉPÉS: A PROBLÉMA ELEMZÉSE

Idő: (50/210)

Diagram: (D2) *Halcsont-diagram*

Célkitűzés: A résztvevők legyenek képesek használni a "halcsont"-diagramot az okok brainstorming útján történő összegyűjtésére, valamint az alapvető okok azonosítására.

Mielőtt folytatnánk a munkát, osszuk ki az irányító, az időfelelős és a jegyzőkönyvvezető szerepét három új embernek.

Az ok-okozati elemzés a különböző következmények, valamint az azokat kiváltó vagy erősítő okok vizsgálatának szisztematikus módja.

Az okozatok a dolgok állását tükrözik, határozzák meg, például [határozzuk meg azt a problémát, amelyen a csoport úgy döntött, hogy dolgozni fog].

Az ok-okozati elemzést rendszerint diagrammal jelöljük, amelyet formája után halcsont-diagramnak neveznek. Az elemzésre váró okozatot a diagram jobb oldalára írjuk, a "halfejbe".

Írjuk le a csoport által kiválasztott problémát.

A "csontok" mentén a csoport leírja azokat a sajátos tényezőket, amelyeket a

résztvevők lehetséges okokként tartanak számon. A különböző szakaszokat elláthatjuk a következő cimkékkel: "berendezések", "gépek", "folyamat", "emberek", illetve írhatunk más meghatározó kategóriákat is, hogy gondolataink irányítását segítsék.

Ha az emberek nem értik ezeket a kategóriákat, próbáljunk meg példákat kérni vagy adni.

Gyűjtsük össze brainstorming segítségével azokat az okokat vagy tényezőket, amelyek hozzájárulnak a problémánkhoz. Ne feledkezzünk meg arról, hogy minél több okot szedünkn össze, annál jobb.

Minden egyes felvetett oknál kérdezzük meg a résztvevőtől, hogy azt melyik kategóriába sorolná. Amikor látszólag mindenki kifogyott már az ötletekből, kezdjük el átnézni a felsorolt okokat, s tegyük fel mindegyiknél a "Miért?" kérdést, azt, hogy mi az ok mögött meghúzódó ok?

Ha a diagram már megtelt lehetséges okokkal, ellenőriztessük a résztvevőkkel azt, hogy mely okok *fordulnak elő ismételten*, vagy *támogatnak egyéb támogató tényezőket.* Ezeket karikázzuk be -- könnyen bebizonyosodhat, hogy ezejk a probléma gyökerei, alapvető okai.

Kérdezzük meg a csoportot, milyen módszert tudnának felhasználni arra, hogy a gyanítottan alapvető okokról több olyan adatot gyűjtsenek össze, amely igazolná, hogy azok valódi okok. Említsük meg, hogy az adatok néha azt bizonyítják, hogy a valódi ok valami más. Ilyen esetben a csoportnak vissza kell mennie megvizsgálni néhány kevésbé valószínűnek tűnő okot a listán.

Kérjük meg a csoportot, hogy az alapvető okok elemzése alapján tegyenek javaslatot a probléma meghatározásának módosítására. Egy ilyen jellegű elemzést követően a probléma értelmezése gyakran jelentősen átalakul. A probléma új meghatározása legyen konszenzus eredménye.

Kérjük meg a csoportot arra, hogy ebéd közben gondolja tovább a problémát és annak alapvető okait, s mondjuk el azt is, hogy amikor visszatérnek, el kezdenek majd javaslatokat tenni a lehetséges megoldásokkal kapcsolatban.

EBÉD

Idő: (60/270)

3. LÉPÉS: A MEGOLDÁS KIDOLGOZÁSA

Idő: (90/360)

Handout: (H4) *Csoportos problémamegoldó technika: Erőtér-elemzés*

Diagram: (D3) *Erőtér-diagram*

Célkitűzés: Ennek a lépésnek a végére a résztvevők (1) brainstorming segítségével összegyűjtik a lehetséges megoldások listáját; (2) alkalmazzák az erőtér-analízist egy, kettő vagy három lehetőség erős és gyenge pontjainak elemzésekor; (3) kiválasztják a végrehajtandó megoldást.

Mielőtt folytatnánk a munkát, osszuk ki az irányító, az időfelelős és a jegyzőkönyvvezető szerepét három új embernek.

3.1. lépés: Megoldási lehetőségek gyűjtése (10/20)

Tegyük a csoport elé a probléma meghatározását.

Emlékeztessük a résztvevőket a brainstorming szabályaira. Rajzoljuk le a következőt:

< >

ÖTLETEK ÖSSZEGYŰJTÉSE EGYETLEN ÖTLET KIVÁLASZTÁSA

Amikor szeretnénk megoldást találni egy problémára, megpróbálunk minél több lehetőséget összegyűjteni. Nagyon kevés ötlettől igyekszünk eljutni sok ötletig. Ezen a ponton engedjük szabadjára a képzeletünket, hagyjuk figyelmen kívül a logika törvényeit és a kritériumokat.

Ha már az összes elképzelhető megoldást összegyűjtöttük, akkor elkezdhetünk logikusan, kritikusan és szelektíven gondolkodni. Gyorsan szűrjük ki az értelmetlen ötleteket, s szánjunk több időt a legreálisabbnak tűnő ötletek részletes elemzésére. Végül pedig döntünk arról, hogy melyik ötlet a legjobb a csoport számára.

Kérjük meg a résztvevőket arra, hogy kezdjenek el megoldásokat javasolni. A jegyzőkönyvvezető írja le ezeket gyorsan és tömören. Ösztönözzük a csoport tagjait arra, hogy egyre több ötlettel álljanak elő, különösen ha úgy látjuk, hogy kezdenek kifogyni az új gondolatokból.

3.2 Lépés: Az ötletek egyértelműsítése (10/20)

*Fussunk gyorsan át a lista minden egyes pontján, és győződjünk meg róla, hogy mindenki érti őket. Újra megismétlem, ne kritizáljunk egyetlen egy pontot sem, ha nem értjük, hanem tegyünk fel kérdéseket. Időfelelős, kérem a 10 perc eltelte*vel szóljon.

3.3 Lépés: Az ötletek csoportosítása (10/30)

Nézzük meg újra a listát, vannak-e egymáshoz közel álló ötletek, amelyeket összefoghatunk egy átfogó megfogalmazással. Ha látunk ilyenre lehetőséget, tegyünk javaslatot. Ha mindenki egyetért, akkor a jegyzőnek össze kell ezeket fognia. Ha csak egyetlen embernek is ellenvetése van, akkor nem szabad őket összevonni. Ne vitatkozzunk ezzel kapcsolatban. Kérem az időfelelőst, szóljon, ha

lejárt a 10 perc.

Az alkotott csoportokat illessük A, B, C stb. névvel.

3.4 Lépés: Az ötletek rangsorolása (10/40)

Erre az alkalomra készítsük elő az értékelő lapot a flipchart-on.

Most pedig azt fogjuk megnézni, hogy a csoport melyik megoldást akarja először megvitatni. Tarsuk szem előtt a technikai minőséget és a megoldás elfogadhatóságát; azaz megvalósítható elfogadható időn belül, elfogadható költségekkel, megbízható lesz-e és az emberek támogatni fogjákűe? Valóban az alapproblémára válaszol-e? Időfelelős, kérem szóljon, amikor lejár a 10 perc.

Írják le a három, legígéretesebb megoldás betűjelét. Ezután számozzák meg a betűjeleket a preferencia sorrendjében.

Miután mindenkinek volt alkalma megnézni az értékelő lap eredményét, kérjük meg a résztvevőket, hogy tegyenek javaslatot a megoldások megvizsgálásának sorrendjére. Amennyiben egyetértenek, menjjünk tovább.

3.5 Lépés: Az erőtér elemzés alkalmazása a gyenge pontok és erősségek meghatározásában (40/80)

A következő 40 percben tekintsünk át a lehető legtöbb megoldást, de mindenképpen hagyjuk meg a 90 perc utolsó 10 percét a megoldás kiválasztására.

A mostani feladatunk az lesz, hogy legalább egy, de inkább három megoldásnak elemezzük a gyenge pontjait és az erős oldalait.

Készítsünk elő legalább 3 erőtér elemzéses diagramot a flipcharton. [(D3)].

Most pedig az ú.n. erőtér-elemzés módszerét fogjuk alkalmazni. A problémák megoldásába beletartozik az alaphelyzet (status quo) megváltoztatása, az adott pillanatbeli állapot és a jövőbeni, megoldáat tartalmazó helyzet között fennálló hézag betöltése. Az erőtér-elemzés arra szolgál, hogy meghatározzuk a szervezetben működő erőket, amelyek pozitívan vagy negatívan befolyásolhatják a tervezett változásokat. Ezeket az erőket <u>előre és hátra mozgató erőknek</u> fogjuk nevezni.

Mutassunk rá a függőleges vonalra.

Az erőtér közepén elhelyezkedő függőleges vonal jelenti a staus quo-t - ez a jelenlegi helyzet. A jobb oldalon található kockában a megoldás található - ez a változás, amelyet szeretnénk megvalósítani. A két oldalon látható nyilak az előre és hátra mozdító erőket képviselik. A status quo-t jelentő vonalat közlebb hozhatjuk a megoldást tartalmazó kockához a következő módokon:

* *Az előremozdító erők megerősítése vagy újabbak felsorakoztatása.*

* *A hátramozdító erők hatásának csökkentése vagy forgalomból történő kivonása.*

* *Egyes hátramozdító erők irányának megváltoztatása.*

Kérjük meg a résztvevőket, hogy tegyék össze tenyerüket a mellettük ülőjével, majd hogy egyikőjük feszítse tenyerét a másiknak. Kérdezzük meg, hogy mi történt. Az emberek azt fogják mondani, hogy a másik fél visszanyomta a tenyerét.

Amikor megnöveljük az előremozdító erőt, könnyen előfordulhat, hogy az ellenállás is megnő. Gyakran hatékonyabb megoldás a hátramozdító erők kivonásán munkálkodni, mivel ha egyszer siekrül tőlük megszabadulni, akkor ezek már semmiféle erőt nem fognak képviselni,a melyek a dolgok állását visszafelé kívánnák mozdítani.

Még ennél is hatékonyabb, ha egy hátramozdító erőt előremozdító erővé alakítunk át. Pl. egy ellenzéki munkás komoly pozitív hatóerőt képviselhet, ha sikerül meggyőznünk, hogy az óhajtott változás mellé álljon.

Most pedig ezt a tecnikát fogjuk alkalmazni az előre- és hátramozdító erők vizsgálatánál, amelyektől az első megoldásunk siekre függ.

Időfelelős, kérem 10 perc múlva jelezzen, és akkor a csoport majd eldönti, hogy kíván-e tovább lépni a következő megoldásra.

Kérjük meg az embereket, hogy alkalmazzanak brainstorm technikát az előre- és hátramozdító erőkre, és jegyezzék fel az eredményt a diagramra. Kérjük meg a résztvevőket, hogy saccolják meg az erők nagyságát egy 5-ös skálán (5 a legerősebbet jelenti). A nyilak hosszát ennek megfelelően lehet megrajzolni.

Amikor majd a kivitelezési tervet készítjük a megoldásunk számára, akkor ez az információ nagyon hasznos lesz. Most viszont lépjünk tovább a következő megoldás elemzésére.

Folytassuk a megoldások elemzését, amíg csak 10 perc marad az időnkből.

3.6 Lépés: A megoldás kiválasztása (10/90)

Kérjük meg a résztvevőket még egyszer, hogy rangsorolják a megoldásokat. Ez alkalommal mindenkinek ki kell választania egy első és egy második megoldást. Miután a rangsorolás megtörtént, segítsünk a csoportoknak a legnagyobb egyetértésnek örvendő megoldás felismerését. Például:

* Melyik megoldás volt vagy az első vagy a második választás mindenki számára?

* Ezek közül, melyik megoldás szerepelt leggyakrabban az első helyen?

Ha olyan megoldást kell választanunk, amelyet nem javasolt mindenki, akkor kérdezzük meg azokat, akik nem javasolták, hogy mi a véleményük. Tudják-e támogatni ezt a megoldást? Ha nem, akkor próbáljuk ki a második megoldást, ezt vajon tudja-e mindenki támogatni. Emlékeztessük a csoportot, hogy az elfogadott megoldás nem kell, hogy mindenkinek az első választása legyen, de azért szükséges, hogy mindenki támogassa valamilyen mértékben.

SZÜNET

Idő: (15/375)

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4. LÉPÉS: AZ ALKALMAZÁS MEGTERVEZÉSE

Time: (60/435)

Handout-ok: (H5) Az alkalmazás megtervezése

Cél: Ennek a lépésnek a végére a résztvevők (1) végigcsináltak egy akciós lépéssorozatot (brainstorming); (2) logikai sorrende szedték a lépéseket; (3) és a lehető legtöbb lépést fejlesztették ki, amelyek megmagyarázzák, ki mit fog csinálni, mikor, miért és hogyan; (4) eldöntötték, hogyan és mikor fogják a munkájuk eredményét értékelni.

Mielőtt folytatjuk, válasszunk ki három új embert a vezető, az időfelelős és jegyző szerepére.

Bevezetés (10/10)

A legjobb megoldások sem hoznak eredményt, ha nem szervezett módon próbálják megvalósítani a léléseket.

A megvalósításhoz a következőkre van szükség:

* *Emberek*
* *Bizonyos tevékenységek végrehajtanak*
* *Bizonyos időben*
* *Bizonyos helyeken*
* *Bizonyos céllal*
* *Egy speciális módon.*

A megvalósítási terv kialakítása közben a következőket kell észben tartani:

* *Vonjuk be azokat a terv kialakításába, akik végre fogják hajtani. Az emberek a saját terveiket megvalósítják.*

* *Legyen tervbe véve, hogy gyakran megbeszéljük a többiekkel a terv célját, állapotát, hogy mindenki tudja, hogyan haladnak a dolgok.*

* *Pontosan adjunk információt a program eredményességéről.*

4.1 Lépés: A "brainstorm" lépései (10/20)

Kérjük meg a résztvevőket, hogy szedjék össze azokat a dolgokat, amelyeket a célban meghatározott megváltoztatott állapot eléréséhez el kell végezniük. Emlékeztessük őket, hogy alaposan vizsgálják meg az összes előmozdító és hátráltató tényezőket. Brainstorm módszerrel vitassuk meg az akciós lépéseket. A sorrend ebben a pillanatban nem számít. Kérjük meg az időfelelőst, hogy jelezzen, ha a 10 perc letelt.

4.2 Lépés: A lépések sorrendbe állítása (5/25)

Kérjük meg a résztvevőket, hogy nézzék meg a lépések listáját, és állítsák fel a logikai sorrendet számukra. Miután mindenki elmondta javaslatát, egyezzenek meg a valódi sorrendről. Kérjük meg az időfelelőst, hogy szóljon az 5 perc leteltével.

4.3 Lépés: Az akciós lépések kidolgozása (30/55)

Tegyük ki a következő kérdéseket a falra. Minden egyes akciós lépésre vonatkozóan válaszoljuk meg ezeket a kérdéseket:

* Ki (Részt vesz-e ez a személy a terv készítésében?)
* fogja csinálni, és mit
* mikor
* hol
* miért (a többi résztvevőnek is értenie kell)
* hogyan?

Dolgozzuk ki a lehető legtöbb akciós lépést a rendelkezésre álló időn belül. Kérjük meg az időflelőst, hogy jelezzen a 30 perc lejártakor. Mindenképpen hagyjunk 5 percet az értékelésre.

4.4 Lépés: Az értékelési terv kidolgozása (5/60)

Emlékeztessük a csoportot arra, hogy az emberek jobban dolgoznak, ha tudják, hogy a végén számon fogják tőlük kérni. Kérdezzük meg őket, hogyan gondolják a számonkérést a jelen esetben. Mikor akarják áttekinteni az akciós lépések előrehaladását? Akarnak-e beszámolni a fejlődésről valaki másnak a vállalatnál?

CSOPORTJELENTÉSEK

Idő: (15/450)

Cél: A jelentések végén az a célunk, hogy a résztvevők (1) felmérjék, mekkora munkát végeztek el a foglalkozáson; (2) lássák, hogy a többi csoport is sikeres volt.

Kérjünk fel egy önkéntjelentkezőt minden csoportból, hogy foglalja össze a csoport munkáját. Nem kell nagyon részletekbe menően, egyszerűen csak mondják el, hogy:

(1) a csoport milyen problémákat választott ki;
(2) milyen megoldásokat találtak;
(3) a végrehajtási tervet;
(4) az első akciós lépés részleteit (ki, mit, mikor, stb.)

Kérjük meg a többi csoportot, hogy mondják el észrevételeiket. Biztassuk őket arra, hogy tapsolják meg a felszólalót.

A CSOPORTOS PROBLÉMAMEGOLDÁS KIÉRTÉKELÉSE ÉS ZÁRÓ ÖSSZEFOGLALÁS

Idő: (30/480)

Cél: A kiértékelés végén a cél az, hogy a résztvevők (1) egyetértsenek abban, hogy a problémamegoldó összejövetel hatékony volt, (2) el tudják magyarázni, hogy miért volt hatékony az értekezlet (megértették a célt, strukturált folyamatot alkalmaztak, egy irányító figyelt arra, hogy ne térjenek el a feladattól, jegyzőkönyvvezető, időfelelős), és (3) elkötelezettséget mutassanak ezeknek a technikáknak a további alkalmazása iránt.

A tapasztalat megvitatása:

Önöknek most alkalmuk volt alkalmazni a csoportos problémamegoldási folyamatot és résztvenni egy megbeszélésen, ahol alkalmazásra kerül néhány, a megbeszélések hatékonyabbá tétele téma megbeszélésekor előkerült elgondolás. Ne felejtsük el, hogy egy hatékony megbeszélés jellemzői (1) nincs időpocsékolás, (2) minden résztvevő elmondja a kérdéshez kapcsolódó összes információját, (3) a résztvevők úgy távoznak a megbeszélésről, hogy mindenki egyformán értelmezi az elhangzottakat és (4) a csoport által hozott döntést az összes csoporttag támogatja.

Az első kérdéssor célja az, hogy a csoport kifejezze egyetértését az iránt, hogy a megbeszélés hatékony volt (feltételezve, hogy ebben egyetértenek). Ha nincs egyetértés, akkor elmagyarázhatják, hogy azért nem volt hatékony, mert a technikák nem váltak be, vagy azt is mondhatják, hogy egyszerűen ők nem jól használták a technikákat.

Volt időpocsékolás a megbeszélésen? A feladattól eltérő dolgokkal is töltöttek sok időt?

A témához kapcsolódó valamennyi információt megosztották egymással? Ki nem mondta el a véleményét? Miért?

Lehet, hogy Ön egy másik problémát szeretett volna megbeszélni, vagy más megoldást választott volna, de azért úgy gondolja, hogy a megbeszélt téma fontos és támogatja a csoprt által hozott döntést?

A kiválasztott megoldást megvalósítják? Miért vagy miért nem?

Hatékony volt ez a problémamegoldó folyamat?

A következő kérdés célja, hogy a csoport összefoglalja a hatékony megbeszélés ma említett elemeit: a cél megértése, a strukturált folyamat alkalmazása, egy irányító, aki nem engedi, hogy eltérjenek a témától, a jegyzőkönyvvezető és az időfelelős és az eredmények összefoglalása.

Mik azok az elemek, amik a mai problémamegoldó összejövetelt hatékonnyá tették?

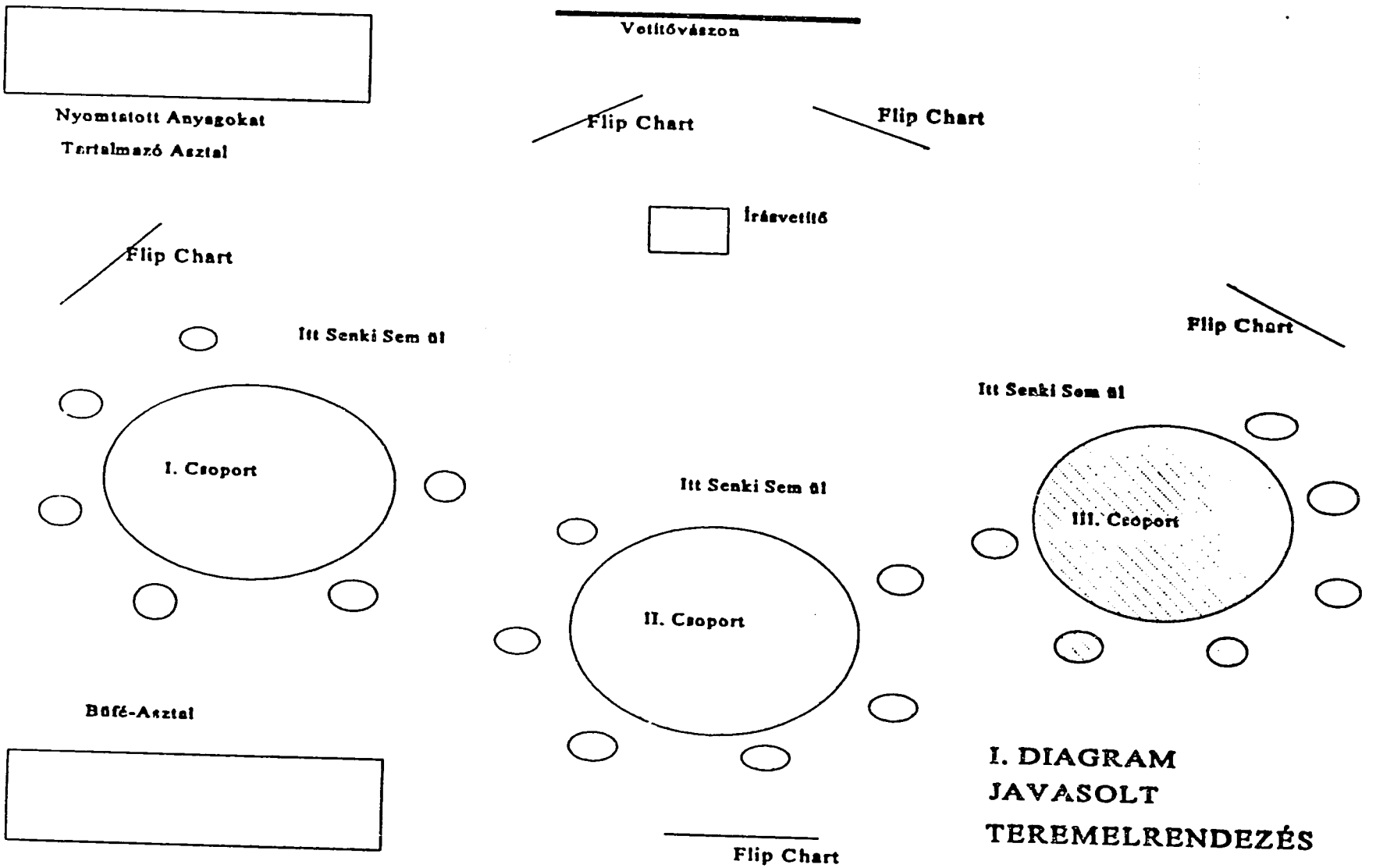
A következő kérdéssor célja az, hogy a résztvevők kifejezzék elkötelezettségüket az iránt, hogy a saját megbeszéléseiken is alkalmazzanak néhányat ezek közül a technikák közül.

Mi nem tetszett a strukturált folyamat alkalmazásával kapcsolatban?

Ezek a hátrányok fontosabbak mint az előnyök?

Ezek közül Ön konkrétan melyikeket fogja alkalmazni?

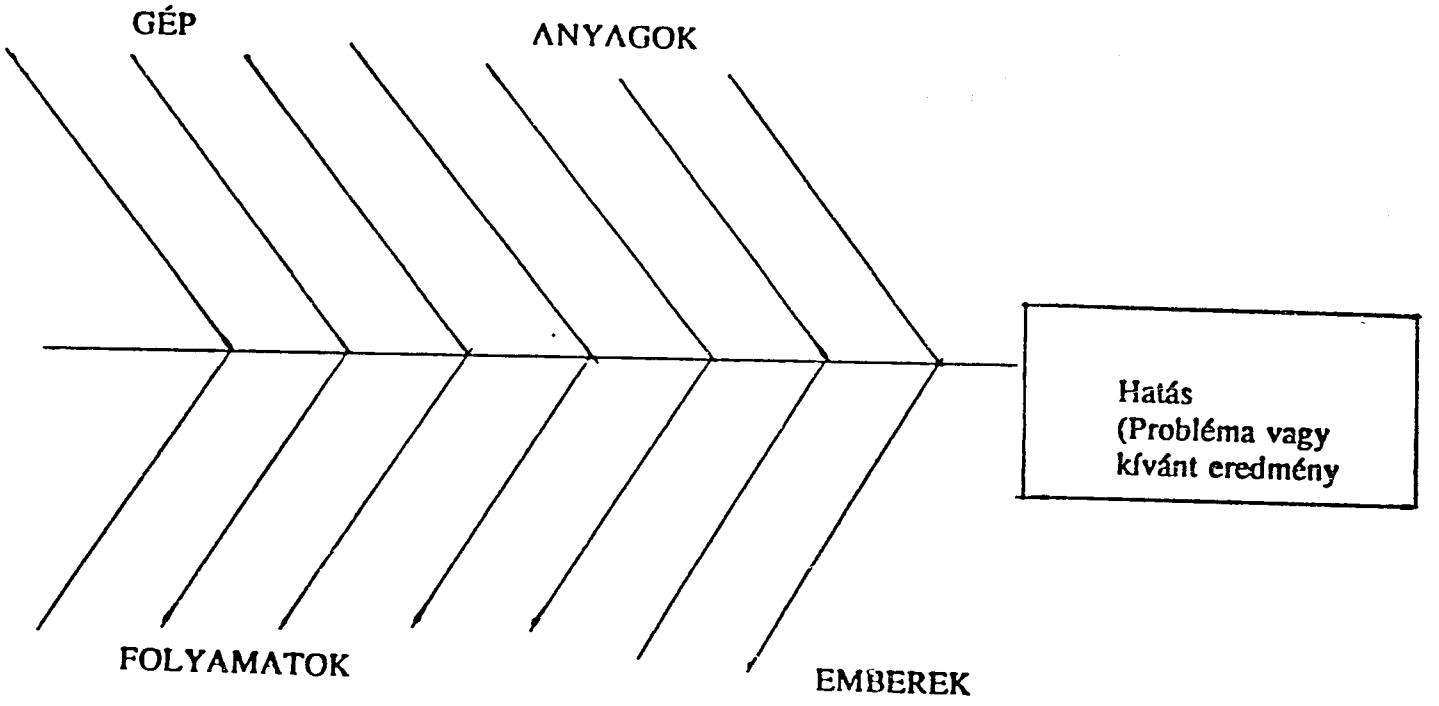
A vállalatuknál másuknak is hasznára válna, ha megtanulná ennek a problémamegoldó folyamatnak az alkalmazását?



I. DIAGRAM
JAVASOLT
TEREMELRENDEZÉS

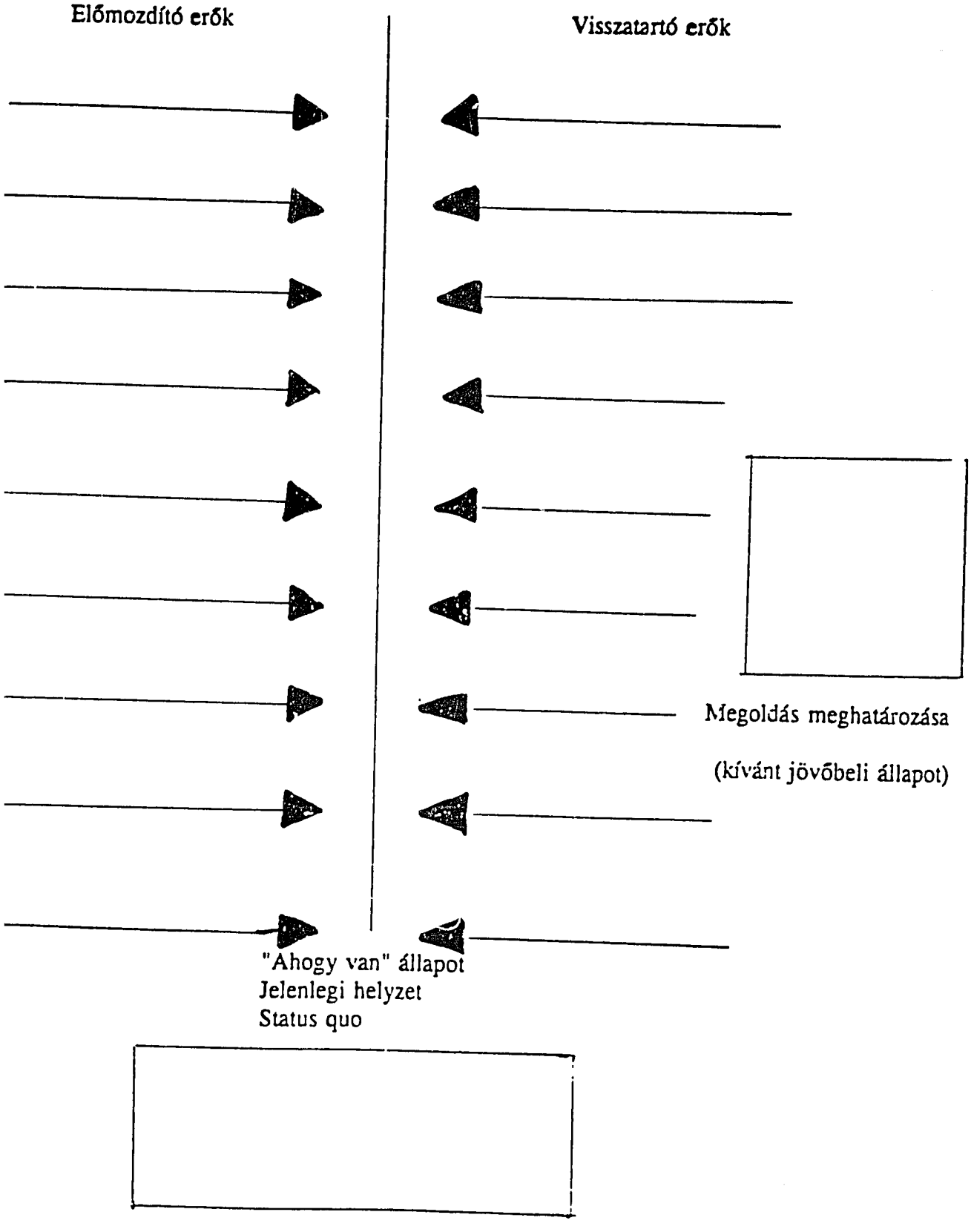
D1

"HALSZÁLKA" DIAGRAM



D2

ERŐTÉR-TÁBLÁZAT



NÉGY LÉPÉSBŐL ÁLLÓ PROBLÉMAMEGOLDÓ FOLYAMAT

A problémamegoldó modell segíti a csoportot abban, hogy a probléma teljes megértésére tudjon összpontosítani, s ki tudjon dolgozni egy olyan reális megoldást, amelyet támogatnak azok is, akiknek az adott megoldást végre kell hajtani. Problémamegoldó struktúra nélkül a csoport esetleg nem tud:

* Mindenkinek teret adni, hogy gondjait elmondhassa
* A tünetek mögé látni, a problémák okát és gyökerét megvizsgálni
* A megoldások teljes skálájára rátalálni
* A megoldás jellegéből adódó problémákat előrejelezni
* A feladat végrehajtásához szükséges minden lépést figyelemmel kísérni
* Hatékonyan együtt dolgozni

Négy lépésből álló problémamegoldó folyamat

(1) A probléma azonosítása
(2) A probléma elemzése
(3) A megoldás kidolgozása
(4) A végrehajtás megtervezése

* A csoport minden lépést befejez, mielőtt megteszi a következőt
* A csoport dönthet úgy, hogy visszatér egy korábbi lépéshez
* Minden folyamatosan zajlik; a megoldás végrehajtása közben a csoport esetleg a probléma olyan további vetületeit tárja fel, amelyekkel foglalkozni kell

1. lépés: A probléma azonosítása

* A csoport először is azonosítja és megvitatja a tüneteket, amelyek a probléma jelenlétét jelzik
* A csoport az információk összegyűjtéséhez felhasznál olyan technikákat, amilyen például a brainstorming (ötletroham), az interjú és a kérdőívek kitöltése
* Ezt a lépést akkor tekinthetjük befejezettnek, amikor a csoport rendelkezik egy olyan probléma-meghatározással, amelyet az összes tag támogat

2.lépés: A probléma elemzése

* Ha a problémát már meghatároztuk, a csoport információt gyűjt a probléma természetével kapcsolatban

* A csoport olyan eszközöket használ, mint az ok-okozati elemzés és a Pareto-elemzés, amelyek segítenek a probléma alapvető okainak feltárásában

* Ez a lépés akkor tekinthető befejezettnek, amikor a csoport újra megvizsgálta a probléma meghatározását, amely az okokat tükrözi.

3. lépés: A megoldás kidolgozása

* A kreatív problémamegoldás megköveteli, hogy a csoport az életképes megoldások teljes skáláját fedezze fel

* A csoport úgy gyűjti össze az életképes megoldások teljes skáláját, hogy :

  (1) Annyi elfogadható megoldást gondol ki, amennyit csak lehetséges
  (2) Mindegyiket a probléma okaihoz kapcsolja, és
  (3) A hasonló vagy egymással összefüggő megoldásokat összeolvasztja

* Ez lehetővé teszi a csoport számára, hogy leszűkítse a választási lehetőségek körét, csökkentse a fölöslegesen ismétlődő elemek számát, s kiiktassa azokat a lehetőségeket, amelyek nem a korábban meghatározott célokat veszik célba

* Az erőtér-elemzés olyan hasznos technika, amelynek segítségével a lehetséges megoldások erős és gyenge pontjai feltárhatók

* A hatékony megoldás kiválasztásához két általános kritérium alkalmazására van szükség. A hatékony megoldás:

  (1) megfelelő technikai minőséggel rendelkezik ahhoz, hogy általa a probléma megoldható legyen, és
  (2) elfogadható azok számára, akiknek ezt majd végre kell hajtani

* *A technikai minőség* azt jelenti, hogy a megoldást:

  (1) Belátható időn belül végre lehet hajtani
  (2) A költségkereteken belül meg lehet valósítani
  (3) Megbízhatónak lehet tekinteni

* *Az elfogadhatóság* azt jelenti, hogy a megoldást:

  (1) A végrehajtók támogatják
  (2) Kedvező hatású lesz a probléma által érintettekre nézve

* Ez a lépés akkor tekinthető befejezettnek, amikor a csoportnak sikerül konszenzusra jutni egy olyan megoldást illetően, amelynek technikai minősége megfelelő, s amely mindenki számára elfogadható is egyben.

4. lépés: A végrehajtás megtervezése

* A megoldás kiválasztása nem oldja meg rögtön a problémát. A megoldás gyakorlati megvalósítása esetleg ugyanolyan nehéznek bizonyul, mint maga a döntéshozatal.

* A végrehajtás megtervezése során a következő kérdésekre kell válaszolni:

  (1) *Mit* kell tenni?

  (2) *Ki* fogja azt megtenni?

  (3) *Mikor* jutunk túl a főbb mérföldköveken?

  (4) *Hol* kerül majd sor a szükséges lépésekre?

  (5) *Hogyan* fogjuk megtenni a szükséges lépéseket?

  (6) *Miért* jelentenek megoldást ezek a lépések?

* Az értékelés a projekt megfigyelését jelenti, melynek során nő a valószínűsége annak, hogy a kulcslépések megvalósulnak, s a költségeket a keret túllépése nélkül lehet fedezni.

* Az adatgyűjtés és a beszámoló arról, hogy mit sikerült már teljesíteni, növeli a problémamegoldó csoport hitelét.

CSOPORTOS PROBLÉMAMEGOLDÓ TECHNIKA: BRAINSTORMING

A BRAINSTORMING ALAPJAI

1. **Ne kritizáljuk az ötleteket!**

   Ne töltsük az időt az ötletek kiértékelésével; ez megszakítja az ötletek áramlását. Az ötletek értékelése egy másik, későbbi lépés a folyamatban. Ne bátortalanítsuk el a hozzászólni vágyókat olyan ítéletekkel, mint például:

   "Ez nevetséges!"
   "Ezt már kipróbáltuk!"
   "Ki hallott már ilyet?!"

2. **Szárnyaljon a képzeletünk!**

   Hagyjuk elménket szabadon működni. Ne nyomjuk el magunkban a felmerülő ötleteket azzal, hogy szigorúan ragaszkodunk a logikus gondolkodás szabályaihoz. Feledkezzünk meg a költségvetés, az idő vagy a létszám kötöttségeiről. Mondjuk el egymásnak, milyen képek idéződnek fel bennünk, milyen szinonímák, szójátékok, szabad asszociációk, merész ötletek jutnak az eszünkbe.

3. **Építsünk mások ötleteire!**

   Kombináljuk egymással és bővítsük ki egymás ötleteit.

4. **A mennyiség legyen a cél!**

   Minél több ötletet sikerül összegyűjtenünk, annál jobb. Ne törődjünk az ismétlődésekkel. Ezen a ponton a célunk nem a minőség, csak a mennyiség.

5. **Jegyezzünk le minden ötletet!**

   Jegyezzünk le minden egyes ötletet a flipchart-ra úgy, ahogyan az elhangzott. Próbáljunk meg tömören fogalmazni, de maradjunk közben hűek az elhangzottakhoz.

FELMÉRŐLAP HASZNÁLATA A CSOPORT IRÁNYÍTÁSÁBAN

Egy problémamegoldó csoport brainstorming segítségével összeállította egy termelési probléma lehetséges megoldásainak listáját. Rászánták az időt, hogy tisztázzák, mely tételeknél van szükség további tisztázásra, s összevontak egymással olyan megoldásokat, amelyek egymáshoz közelállónak tűntek; így hét lehetséges megoldás-csoport jött létre. A csoport tagjai meg akarják vizsgálni a legígéretesebbnek tűnő megoldások erős és gyenge pontjait. Miután újból megnézték a probléma meghatározását, s számbavették a probléma megoldásának idő- és pénzszabta korlátait, minden tag kiválasztott három megoldást a listáról, majd rangsorolta őket. Az eredmény a következő:

Első	Második	Harmadik	Téma
///	/		A
///		/	B
			C
		/	D
			E
		////	F
	/////		G

Mit árul el számunkra ez a felmérőlap?

Ezt a felmérőlapot felhasználhatjuk arra, hogy eldöntsük, hogyan lépjünk tovább. Jegyezzük meg: A csoport nem szavazott arról, melyik megoldást kellene megvizsgálni. Ha így tettek volna, egyesek megnyerték volna a szavazást, mások pedig veszítettek volna. A vesztesek nem vettek volna részt olyan lelkesen az eszmecserében, s nem érezték volna, hogy a javaslataikat megfelelő figyelemben részesítették.

A felmérőlap egyszerűen azt mutatja meg a számunkra, hogy a tagok együttesen hogyan vélekednek a javaslatokról. A nevek hiánya már személytelenné tette a jelen döntést arról, hogy melyik javaslatot vizsgálja meg a csoport először. A könnyebb döntéshozatal érdekében az irányító a következő tényekre hívja fel a csoport figyelmét:

1. A C és az E javaslatot senki sem hozta előre a rangsorolásban. Ellenzi-e valaki, hogy töröljük őket?

2. A csoport megosztottan tette első helyre az A és a B javaslatot, ugyanakkor majdnem mindenki egyetért G-vel, mint alternatívával. Ha ezt a három javaslatot közelebbről szemügyre vesszük, találhatunk olyan megoldást, amit mindenki támogatni tud. Akkor nem kellene időt töltenünk azzal, hogy a D és az F javaslatokat vizsgáljuk. Van valakinek kifogása ez ellen a megközelítés ellen?

CSOPORTOS PROBLÉMAMEGOLDÓ TECHNIKA: ERŐTÉR-ELEMZÉS

CÉLKITŰZÉS: Az erőtér-elemzés olyan csoportos problémamegoldó technika, amelyet arra használunk, hogy:

(1) *Értékeljük az erős és gyenge pontokat, az érveket és ellenérveket;*

(2) *Azonosítsuk egy terv végrehajtásának forrásait és akadályait;*

(3) *Azonosítsuk azokat a tényezőket, amelyek csökkentik vagy fokozzák a problémát.*

HASZNÁLATI MÓD: Használjuk az erőtér-diagramot (D3).

(1) *Írjuk be az ábra alján található keretbe, milyen a jelenlegi helyzet.*

(2) *Írjuk be a jobb oldalon található keretbe, mi a vágyott állapot, mi a cél.*

(3) *Képzeljük el, hogy a függőleges vonal a jelenlegi helyzet fölött helyezkedik el, s közelebb szeretnénk jutni a vágyott állapothoz. Mely jelenleg is létező tényezők segíthetnek bennünket a cél elérésében (hajtóerők), s mely jelenleg is létező tényezők akadályozhatják azt (fékező erők)?*

(4) *Írjuk a hajtóerőket a bal oldalon lévő nyilakra, a fékező erőket pedig a jobb oldalra.*

(5) *Rangsoroljuk az erőket intenzitásuk alapján egy 1-től (gyenge) 5-ig (erős) terjedő skálán.*

STRATÉGIÁK: Ez az információ nem pusztán a különböző megoldások közti szelekcióban segít bennünket, hanem a megoldás végrehajtását szolgáló stratégiára való összpontosításban is. Jegyezzük meg a következő alapelveket:

(1) *A hajtóerő fokozása gyakran a fékező erő megnövekedett ellenállásához vezet.*

(2) *A fékező erő kiiktatása megszünteti az ellenállást.*

(3) *A legnagyobb hatást a fékező erő hajtóerővé való alakításával lehet elérni.*

A leghatékonyabb megoldás tehát az, ha az ellenállás megváltoztatására összpontosítunk.

A VÉGREHAJTÁS MEGTERVEZÉSE

A legjobb megoldások sem hoznak változást, ha nem áll rendelkezésünkre egy kidolgozott terv, amely a végrehajtásukhoz szükséges konkrét lépéseket tartalmazza.
A végrehajtáshoz nélkülözhetetlen tényezők:

* *Emberek, akik*
  * *Megtesznek bizonyos lépéseket*
    * *Bizonyos időben*
      * *Bizonyos helyen*
        * *Bizonyos célból*
          * *Sajátos módon.*

[1] A SZÜKSÉGES LÉPÉSEK BRAINSTORMING-JA

A szükséges lépések olyan tennivalók sorozatát jelentik, amelyek végrehajtása elengedhetetlen feltétele annak, hogy a jelenlegi helyzetből a vágyott helyzetbe kerülhessünk. Gyűjtsük össze, melyek ezek a lépések, ne törődjünk végrehajtási sorrendjükkel.

[2] ÁLLÍTSUK SORRENDBE A SZÜKSÉGES LÉPÉSEKET

Most, hogy már tudjuk, milyen lépéseket kell megtennünk, gondoljuk végig azt is, milyen logika szerint kövessék egymást ezek a lépések. Sorrendbe állítás közben esetleg felfedezhetünk más közbülső lépéseket is, amelyekről korábban megfeledkeztünk.

[3] A SZÜKSÉGES LÉPÉSEK KIDOLGOZÁSA

Minden egyes lépés esetében tudnunk kell a választ a következő kérdésekre:

KI teszi meg az adott lépést? (Részt vesz-e az a személy ennek a tervnek a kidolgozásában?)

MIT fog tenni ez a személy?

MIKOR fogja az adott lépést megtenni?

HOL kerül sor a lépésre?

MIÉRT kerül sor rá? (A többiek esetleg megkérdezhetik.)

HOGYAN kerül sor rá?

[4] ÉRTÉKELÉS

Mikor és hogyan vizsgáljuk felül a folyamatot annak érdekében, hogy az emberektől számon tudjuk kérni egy-egy adott lépés végrehajtását, s menet közben el tudjuk végezni a szükséges változtatásokat?

MI A PROBLÉMA?

* Brainstorm tünetek
* A tünetek sorrendbe állítása
* A probléma meghatározása

MI A PROBLÉMA FORRÁSA?

* Az alapvető okok feltételezése

* A feltételezés ellenőrzése

* A probléma újrafogalmazása

A MEGOLDÁS KERESÉSE

* Brainstorm lehetőségek

* Az erős és gyenge oldalak elemzése

* Technikai minőség és elfogadhatóság

* Egyetértés elérése

A MEGOLDÁS ALKALMAZÁSA

Ki

Mikor

Hogyan

Mit

Hol

Miért

É R T É K E L É S

* Működött-e a megoldás a gyakorlatban?

* Legyenek az emberek számonkérhetőek

* Tegyük nyilvánossá az elért sikereket!

CSOPORTOS PROBLÉMA-MEGOLDÁS:

1. A PROBLÉMA AZONOSÍTÁSA

2. A PROBLÉMA ELEMZÉSE

3. A MEGOLDÁS KIFEJLESZTÉSE

4. AZ ALKALMAZÁS MEGTERVEZÉSE

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BRAINSTORM SZABÁLYOK

1. Ne kritizáljunk.

2. Alkalmazzunk szabad asszociációt.

3. Vigyük tovább az ötleteket.

4. Legyen cél a mennyiség.

5. Jegyezzünk föl minden ötletet.

6. Vegyen mindenki aktívan részt.

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DRAFT

GROUP CONSENSUS DECISIONMAKING

TRAINER'S GUIDE AND PARTICIPANTS' HANDOUTS

COOPERS & LYBRAND/CHEMONICS INTERNATIONAL

MAY 1995

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This material was prepared by Daniel Bell of the Northeast Ohio Employee Ownership Center of Kent State University for Coopers & Lybrand/Chemonics International and funded by USAID.

The following materials were based closely on materials found in a manual on Committee Effectiveness Training prepared by the US Department of Labor Bureau of Labor-Management Relations and Cooperative Programs:

> Introduction to Consensus Decisionmaking, "Lost at Sea" Exercise, and all handouts. The USDOL adapted that material from "What to Observe," by Edgar H. Schein, in the *NTL Reading Book for Human Relations Training*, 7th ed., Lawrence Porter and Bernard Mohr, editors, Alexandria, Virginia, NTL Institute for Applied Behavioral Sciences, 1982, pp. 72-74; and from "Lost at Sea," by Paul M. Nemiroff and William A. Pasmore, in *The 1975 Annual Handbook for Group Facilitators*, John E. Jones and J. William Pfeiffer, editors, San Diego, California, University Associates, Inc., 1975.

GROUP CONSENSUS DECISIONMAKING

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OVERVIEW

This module is designed to help committees understand both the actual process and the value of making decisions by group consensus. It covers the definition of consensus, key behaviors helpful for achieving consensus, and techniques for reaching consensus quicker.

Participants will understand what is meant by group consensus decisionmaking and learn how to use a structured process for reaching consensus quicker.

The workshop leader will:

(1) Facilitate a discussion of the advantages of consensus decisionmaking;

(2) Make a presentation defining consensus and the behaviors required for a group to reach consensus;

(3) Lead participants through an exercise designed to demonstrate the superiority of group over individual decisionmaking;

(4) Debrief the exercise, facilitating a discussion with the participants which helps them to interpret their experience, reach conclusions, and think about how they can apply consensus decisionmaking in their workplace.

LESSON OBJECTIVES

At the end of this workshop, participants will:

(1) Understand at least two advantages of group over individual decisionmaking:

* Making full use of the expertise in the group;
* Gaining full support from group members for implementing the decision;

(2) Be able to use a structured process for reaching consensus quicker; and,

(3) Know of at least one way they can use group consensus decisionmaking at their workplace.

PREPARING FOR THE MODULE

Number of participants: One to five groups of 5 to 8 participants (there must be at least 1 trainer for each group).

Room setup: The room should be large enough to accomodate all of the groups together, each at a separate table (preferably round). Leave adequate spacing between tables and do not seat participants between their table and the workshop leader. Number the tables so groups can be easily distinguished. There should be plenty of wall space where information can be posted and easily seen by the participants. There should be good lighting and adequate ventilation to maintain a comfortable temperature [See the *(D1) Room Setup* for an example].

Equipment: For each group, 1 flip chart, 1 roll of tape, 4 markers (2 black, 2 other colors), 1 calculator; in general, 1 overhead projector with table, screen and overhead markers, a refreshment table, and materials table.

Refreshments: At a minimum, provide water. Your participants will feel more comfortable if there is coffee, tea and soft drinks available in the back of the room so they can unobtrusively refresh their cup at any time. Cookies or other snacks are nice too.

Training materials: All handouts and slides llisted in the table of contents. If no projector is available, transfer the information from the slides to a flip chart to be used for the presentation.

WHAT TO DO BEFORE DELIVERING THE MODULE

* Obtain training in adult learning principles, presentation skills, and discussion facilitation skills.

* Read and become familiar with all material in this training manual.

* Prepare a flip chart as described in *(D2) Lost at Sea rankings.*

* Become familiar with the training site and equipment.

* Cut long pieces of tape (so pages do not fall from the wall) and leave them ready on the flipcharts.

MODULE AGENDA

This module is designed to last 3 hours including coffee breaks. Time, in minutes, is shown both for each section and cumulatively, ie, (segment time, cumulative time). If you know that the participants will arrive late, then you should schedule additional time. Also, if the module is not being delivered as part of a larger workshop, you should schedule time for you and the participants to introduce each other.

(45/45)	Introduction to consensus decisionmaking
(15/60)	Break
(60/120)	Lost at Sea exercise
(15/135)	Break
(45/180)	Debrief of exercise & closing summary of module

INTRODUCTION TO CONSENSUS DECISIONMAKING

Time: (45/45)

Handouts: (H1) *Consensus Decisionmaking*

Slides: Consensus S1-S9

Objective: At the end of this introduction, you want your participants (1) to know the definition of a decision made by consensus and (2) to recognize behaviors that will encourage consensus.

As an individual, it is easier to make a decision than when you have to reach agreement with other people. On the other hand, what are some of the advantages of having more people involved in making a decision?

People may say more information and experience, more people own the decision and are willing to implement it, or other responses.

What are some ways groups make decisions?

As participants respond, ask them to give illustrations. Record their responses on the flipchart.

Slide 1: Ways groups make decisions?

After listening to their responses, show Slide 1 and give illustrations of any of the following which they missed.

* Group decision by omission: "I think we should introduce ourselves..." Silence. Noone objects. So agreement is assumed (but this remains ambiguous).

* Decision by one: "I think we should introduce ourselves. My name is Kovacs Istvan..."

* Decision by two: Istvan: "I wonder if it would be helpful if we introduced ourselves?" Ildiko: "I think it would, my name is Kiss Ildiko..."

* Decision by a minority -- one or more: "Does anyone object?" or "We all agree."

* Decision by a majority: "How many in favor? Against? Neutral?"

* Polling: "Let's see where everyone stands; what do you think?"

* Consensus testing: Exploration to test for opposition and to determine whether opposition feels strongly enough to be unwilling to implement decision; not necessarily unanimity but essential agreement by all.

Slide 2: Full definition of consensus.

Learning to reach consensus decisions is vital to effective committee work. By definition, a consensus decision is one that all group members can understand and support without feeling they are compromising anything important.

The consensus decision may not be everyone's first choice, but

- *everyone feels they have been heard, and*
- *everyone can live with the decision.*

Lets review the components of the definition of consensus.

Slide 3: All members agree on single alternative.

A group reaches a consensus when, after a full discussion, all group members finally come to agreement on a single alternative course of action. In other words, if asked separately what the group decided, each member would give the same response.

Slide 4: All points of view understood.

Each group member can honestly say to the other group members, "I believe that you understand my point of view. You may not agree with my point of view but I feel you have heard my concerns." And each can honestly say, "I also believe that I understand your point of view. I have listened to you and I have considered what you have said, whether or not I agree with you."

Slide 5: All support the decision.

Whether or not I prefer this decision, I support it, because it was reached in an open and fair manner. Everyone expressed their concerns and fully discussed the alternatives. We are all satisfied that this solution is the best response to this problem at this time. It answers the concerns we have raised and we all support it.

Repeat Slide 2.

Though I may personally prefer a different alternative, this one is acceptable to me and appears to have support from all of the group members, while my preferred choice does not have as much support from the group as a whole. The important word here is "acceptable." I am not being asked to support a decision which I cannot accept, only because the majority voted for it.

Slide 6: Listen, encourage participation, share information.

In order for group members to be able to say this about a decision, we need to follow certain guidelines during the discussion which produces the decision.

Listening is the secret of most successful committees. You cannot learn anything while you are talking. On the other hand, people are more willing to consider your ideas if they feel that you have listened to theirs.

But it is not easy for all people to share their ideas. Some of us do not talk because we feel emabarrassed or we do not think our ideas are important. So the group needs to encourage people to participate. At the same time we should not force someone to speak when they do not want to.

Nevertheless, we all have a responsibility to share information, otherwise the resulting decision will be less effective. The purpose of making a group decision is to benefit from all of the experience and knowledge of every member.

Slide 7: Don't agree too quickly, don't bargain, don't vote.

Do not change your mind simply to reach agreement or maintain harmony. When agreement comes too quickly and easily, be suspicious. Only change your opinion when you have heard convincing reasons. Ask questions and test the reasoning. If you give in only to maintain harmony, you will not believe in the group's decision and therefore will not really support it.

Similarly, do not support someone else's idea only so that they will support one of your ideas on a different issue. This only increases the number of decisions which lack real support from all members.

Do not vote or flip a coin. This does not generate agreement about the decision, this simply divides the group into winners and losers. Your objective is to create the best solution by recognizing and integrating important features of alternative solutions, not by voting whole solutions away. While sometimes we cannot accept something as a whole, there may be parts of it which we can support.

Slide 8: Treat differences as a strength, but avoid arguing blindly for your own views.

Differences of opinion are natural. Such disagreements can improve the quality of the group decision. There is a greater chance that the group will produce better solutions when members are forced to provide convincing reasons which can overcome the skepticism of others. It is better to identify disagreements during the discussion, then to wait until the group is trying to implement the decision.

While you should express your disagreement, do not be stubborn. Present your point of view as clearly and logically as possible. Listen to others' reactions and consider those reactions carefully before you continue arguing.

Slide 9: Seek a win-win solution that can be supported by all.

Finally, do not assume that someone must win and someone must lose when the discussion reaches a stalemate. Instead, look for the next most acceptable alternative for the group. Taking everyone's second choice may produce better results for implementing a decision, than taking the first choice of the majority and facing the resistance of the minority.

BREAK

Time: (15/60)

LOST AT SEA EXERCISE: ADVANTAGES OF GROUP DECISIONMAKING

Time: (60/120)

Handouts: (H2) *Lost at Sea: Individual Worksheet*, (H3) *Lost at Sea: Team Worksheet*, (H4) *Lost at Sea: Answer and Rationale*, (H5) *Lost at Sea: Scoring Grid*, (H6) *Lost at Sea: Scoring Instructions*

Objective: At the end of the exercise, you want your participants to (1) feel that they have successfully reached a consensus; and (2) have successfully used techniques for speeding up consensus.

Now we are going to practice making decisions as individuals and by group consensus.

Distribute (H2) *Lost at Sea: Individual Worksheet.* Review the directions with the group and tell them they have 15 minutes to complete their individual rankings. *Do not collect* the individual rankings.

Next ask the group to work as a team using consensus decisionmaking to rank the survival items. Refer the participants to the guidelines in (H1) *Consensus Decisionmaking* in order to reduce behaviors that hinder consensus.

Next distribute (H3) *Lost at Sea: Team Worksheet* to each participant. Tell them they have 35 minutes to reach a consensus on the ranking of survival items. Tell them that you are going to help them by using a structured process. You should have the flip chart already prepared in advance.

We now have 35 minutes to reach a consensus about the ranking of these survival items. That is not very much time to deal with such a large amount of data. With so many items and so many people, there may be many different opinions. Please allow me to organize your discussion in a structured way.

First, let me ask you the following question: Does anyone have any particular experience or training, which the group should know about, that makes your opinions more likely to be correct?

Do not allow the group to get side-tracked on a long discussion about this, just allow people to briefly report such experience or training. Then move on.

Now, each person should read their individual rankings and we will record them on the flip chart. Then we will add the total rankings for each item and place the items in the order of the lowest score to the highest score. This is only to give us information which will allow us to continue the process of coming up with a group consensus, we are not bound by the results of this simple mathematical process, because noone has yet had the opportunity to explain why some items should be ranked higher than others.

See *(D2) Lost at Sea rankings* for an example. After recording and tabulating, write the items on a fresh flip chart page in order of the group's collective ranking. Draw horizontal lines dividing the list into three groups: high, medium and low priorities.

While the difference between ranking an item a high or low priority is important, it may not be very significant whether an item is third or fourth. I would like to focus your attention on the three groups. Think about whether there are any items which you feel strongly should be placed in a different group.

You may make a proposal to move an item and explain your rationale; however, at this point I would like to ask group members not to argue about these proposals. We will simply record them, listen to the rationale, and go to the next proposal.

Record people's proposals on the flip chart, ask for the rationale, and stop others from providing counterarguments. When all of the proposals have been listed, check for consensus on each one. Ask:

Does anyone disagree with this proposal?

If no one disagrees, implement the proposal. If anyone disagrees, move on to the next proposal. When you have implemented all of the non-controversial proposals, then ask for participants to discuss their differing views about the remaining proposals for a brief period.

After the discussion, check with the group to see how many support the proposal and how many are against it. Then ask the minority to try and come up with an alternative proposal which they believe the majority can support. Remind both sides that in order to reach a consensus, sometimes both sides have to support something which is not either side's first choice. We want to achieve a win-win solution.

If the group is unable to come to a consensus, then ask someone from the majority to demonstrate that they understand the minority's reasons for opposing the majority position and then bring the exercise to a close, pointing out that their is strong opposition which will produce resistance that must be dealt with.

After 35 minutes, distribute (H4) *Lost at Sea: Answer and Rationale.* Mention that these answers were produced by experts. Also distribute (H5) *Lost at Sea: Scoring Grid* and *(H6) Lost at Sea: Scoring Instructions.* Give participants a break and ask them to be ready to share their results when they come back in fifteen minutes.

BREAK

Time: (15/135)

DEBRIEFING LOST AT SEA & CLOSING SUMMARY

Time: (45/180)

Slide: S10

Objective: At the end of the debrief, you want your participants to be able to:

(1) Tell you the definition of a decision made by consensus;

(2) Tell you behaviors that will encourage consensus;

(3) Tell you the two synergistic benefits of consensus: greater expertise and support; and,

(4) Tell you that a structured process helped them reach consensus quicker.

(5) Tell you situations in their workplace where they can use consensus decisionmaking.

Step 1: Describing what happened

Ask participants to tell you their scores and record these on the flipchart. Ask people to describe what happened during the exercise. At this point you are not looking for conclusions, simply descriptions like:

"The group's score was better than the average of the individual scores."
"Some individuals did better than the group."
"We all agreed on the group's ranking."
"We did not listen to the expert in the group."

Record participants' responses.

Step 2: Interpreting what happened

Ask questions like:

> *What do you think about the differences between the individual and team scores?*
>
> *What do you think about the difference between the average individual score and the team's score?*
>
> *You had experts in your group who scored better than the team. Did you make full use of their expertise? Why or why not?*
>
> *How well did your group do in reaching consensus? Which guidelines did you follow? Which did you disregard?*

Again, record participants' responses.

Step 3: Reaching conclusions about what happened

Ask the group to tell you what they can conclude from this exercise. What did they learn from the experience? Answers might include:

> "Group decisions are better than individual decisions."
>
> "While some experts may do better than the group, the group will support it's own decision making it more effective." (Here you can give example of the company which had a problem with a high percentage of items falling off the conveyor belt and breaking. The assembly workers developed a proposed solution which was technically inferior to that of the company engineer. The engineer's solution was implemented but the defect rate did not improve significantly. Then the workers' proposal was implemented and the results were significant. The workers made <u>their</u> solution work.)
>
> "There are times when group decisions take too long to make and an individual has to decide quickly."

Record the participants' responses.

Slide 10: Synergy.

> *Synergy is combined or cooperative action, especially where that action has a greater total effect than the sum of the individual efforts.*
>
> *Synergy is evident when two or more people achieve an effect that each one alone could not achieve, when a group working together scores even better than its most knowledgeable member.*

The rankings in Lost at Sea provide numbers that allow you to easily see the advantages of group over individual decisionmaking.

You can expect two synergistic results from group consensus decisionmaking. First, you draw out the expertise of all the members more fully because of the exchange of opinions. Second, you gain greater support for implementing the decision by dealing with the resistance during the discussion and finding alternatives which are acceptable to all.

Step 4: Applying the learning to the learner's real world

Today we did a number of things. In the beginning, we talked about different ways groups make decisions. This included decisions made by the chair person and decisions made by voting. What did we say were the disadvantages of voting?

People should say that it creates losers who are potential resistors to the implementation of a decision.

What is a decision made by consensus?

People should be able to repeat the definition.

Did you feel that the group listened to your ideas?
Do you feel you understood the ideas of the other group members?
Did you support the group's ranking of the items even though it differed from your original individual ranking?

What are the advantages of consensus decisionmaking?

People should say that it produces better decisions which (1) use the expertise of the group and (2) are supported by all members of the group so that they can be implemented quicker and easier.

What helped us reach a consensus so quickly; we only had 35 minutes.

"Using a structured process."
"Following the guidelines and avoiding unnecessary arguing (though we did exchange differences of opinion when it was relevant to the task)."

We saw during the exercise "Lost at Sea" that making decisions by consensus yielded better results. Of course, this was only a workshop exercise. Can you think of occasions in your workplace where decisions could be made by consensus?

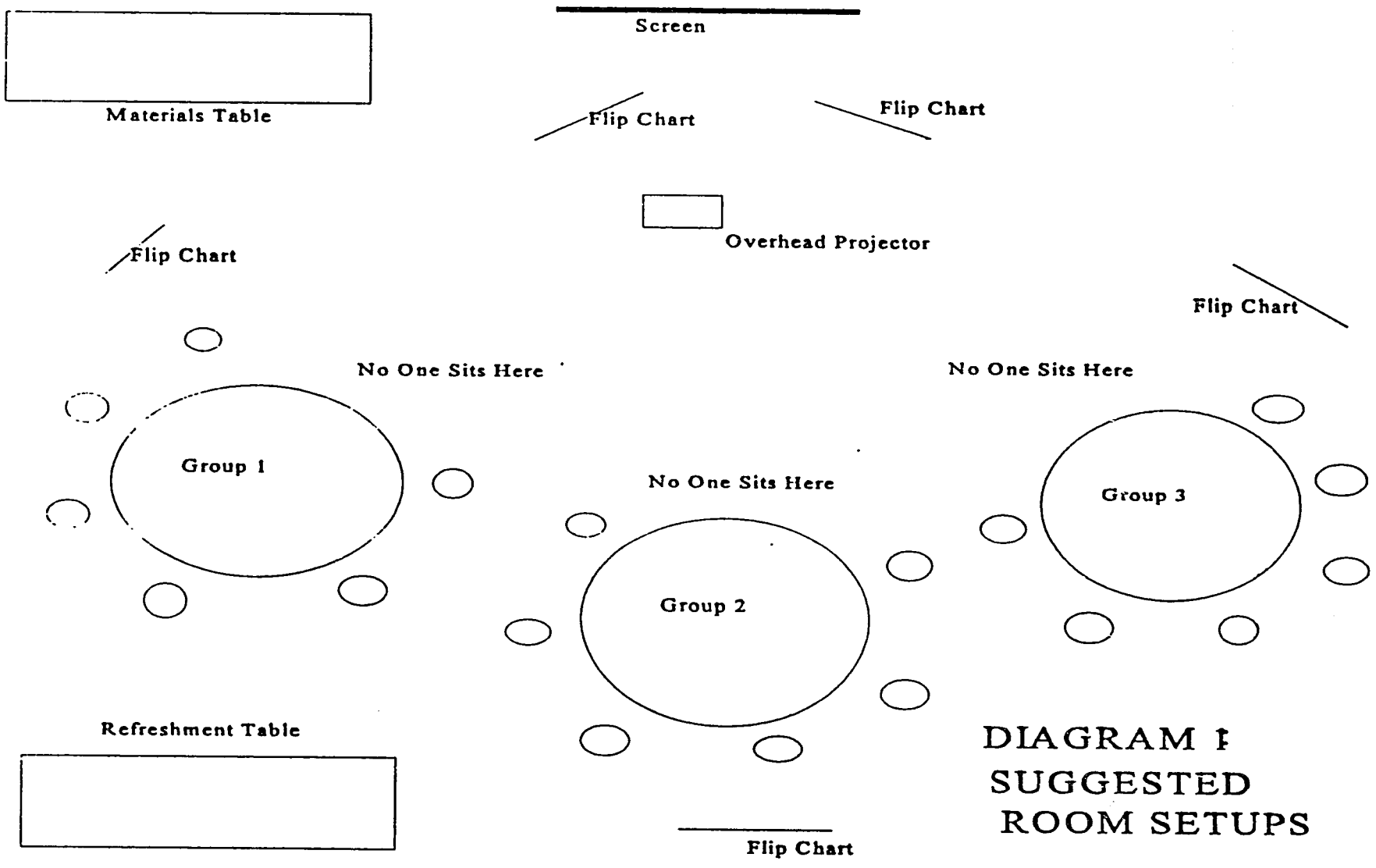

DIAGRAM 1
SUGGESTED
ROOM SETUPS

DIAGRAM 2: LOST AT SEA RANKINGS

STEP 1:

ITEM	Janos	Miklos	Istvan	Ilona	Eva	Total
Sextant	3	15	4	1	12	35
Mirror	14	3	10	15	11	53
Water	1	4	3	2	1	11
Netting	15	8	9	14	7	53
Army C rations	2	9	14	3	14	42
Maps	7	2	13	13	13	48
Cushion	10	7	5	4	4	30
Oil-gas	13	13	12	12	15	65
Radio	12	1	8	5	2	28
Repellant	6	14	6	11	3	40
Plastic	4	10	15	6	6	41
Rum	11	11	1	10	9	42
Rope	9	5	2	7	5	28
Chocolate	5	12	11	9	10	47
Fishing kit	8	6	7	8	8	37

STEP 2:

HIGH	1	Water
	2	Radio
	3	Rope
	4	Cushion
	5	Sextant
MIDDLE	6	Fishing kit
	7	Repellant
	8	Plastic
	9	Army C rations
	10	Rum
LOW	11	Chocolate
	12	Maps
	13	Mirror
	14	Netting
	15	Oil-gas

CONSENSUS DECISIONMAKING

DEFINITION OF CONSENSUS

A group reaches consensus when:

* All members agree upon a single alternative
* Each member believes the group understands his or her point of view
* Each member understands the others' points of view
* Whether or not the decision is each member's first choice, they support it because:
    - The decision was reached fairly and openly
    - It is the best solution for the group at this time

GUIDELINES ON REACHING CONSENSUS

1. Listen: Pay attention to others
2. Encourage participation
3. Share information
4. Do not agree too quickly
5. Do not bargain or trade support
6. Do not vote
7. Treat differences of opinion as a strength
8. Create a solution that can be supported by all
9. Avoid arguing blindly for your own views
10. Seek a win-win solution

LOST AT SEA: INDIVIDUAL WORKSHEET

Instructions:

You are adrift on a private yacht in the South Pacific which is now slowly sinking due to an accidental explosion. Your location is unclear because of the destruction of critical navigational equipment. Your best estimate is that you are approximately one thousand miles away from the nearest land.

You expect friends and family to notify the appropriate international authorities when you do not show up as scheduled today; so you hope that an air-sea rescue team will be looking for you.

Below is a list of fifteen items that are intact and undamaged after the fire. In addition to these articles, you have a serviceable, rubber life raft with oars large enough to carry yourself, the crew, and all the items listed below. The total contents of all survivors' pockets are a package of cigarettes, several books of matches, and five one-dollar bills.

Your task is to rank the fifteen items below in terms of their importance to your survival. Place the number *1* by the most important item, the number *2* by the second most important, and so on through number *15*, the least important.

_____ Sextant

_____ Shaving mirror

_____ Twenty-liter can of water

_____ Mosquito netting

_____ One case of U.S. Armcy C rations

_____ Maps of the Pacific Ocean

_____ Seat cushion (flotation device approved by the Coast Guard)

_____ Eight-liter can of oil-gas mixture

_____ Small transistor radio

_____ Shark repellant

_____ Two square meters of opaque plastic

_____ One liter of 80 percent Puerto Rican rum

_____ Five meters of nylon rope

_____ Two boxes of chocolate bars

_____ Fishing kit

LOST AT SEA: TEAM WORKSHEET

Instructions:

This is an exercise in group decisionmaking. Your group is to employ the group consensus method in reaching its decision. This means that the prediction for each of the fifteen survival items *must* be agreed upon by each group member before it becomes part of the group decision. Consensus is difficult to reach. Therefore, not every ranking will meet with everyone's complete approval. As a group, try to make each ranking one with which *all* group members can at least *partially* agree. Here are some guides to use in reaching consensus.

1. Avoid arguing for your own individual judgments. Approach the task on the basis of logic.

2. Avoid changing your mind if it is only to reach agreement and avoid conflict. Only support solutions if you are able to agree at least somewhat.

3. Avoid "conflict-reducing" techniques such as majority vote, averaging, or trading in reaching your decision.

4. View differences of opinion as a help rather than a hindrance in decisionmaking.

_____ Sextant

_____ Shaving mirror

_____ Twenty-liter can of water

_____ Mosquito netting

_____ One case of U.S. Armcy C rations

_____ Maps of the Pacific Ocean

_____ Seat cushion (flotation device approved by the Coast Guard)

_____ Eight-liter can of oil-gas mixture

_____ Small transistor radio

_____ Shark repellant

_____ Two square meters of opaque plastic

_____ One liter of 80 percent Puerto Rican rum

_____ Five meters of nylon rope

_____ Two boxes of chocolate bars

_____ Fishing kit

LOST AT SEA: ANSWER AND RATIONALE

According to the "experts", the basic supplies needed when a person is stranded in mid ocean are articles to attract attention and articles to aid survival *until rescuers arrive*. Articles for navigation are of little importance: Even if a small life raft were capable of reaching land, it would be impossible to store enough food and water to subsist during that period of time. Therefore, of primary importance are the shaving mirror and the eight-liter can of oil-gas mixture. These items could be used for signaling air-sea rescue. Of secondary importance are items such as water and food, e.g., the case of Army C rations.

A brief rationale is provided for the ranking of each item. These brief explanations obviously do not represent all of the potential uses for the specified items but, rather, the primary importance of each.

1- Shaving mirror
Critical for signaling air-sea rescue.

2- Eight-liter can of oil-gas mixture
Critical for signaling -- the oil-gas mixture will float on the water and could be ignited with a dollar bill and a match (obviously, outside the raft).

3- Twenty-liter can of water
Necessary to replenish loss by perspiring, etc.

4- One case of U.S. Army C rations
Provides basic food intake.

5- Two square meters of opaque plastic
Utilized to collect rain water, provide shelter from the elements.

6- Two boxes of chocolate bars
A reserve food supply.

7- Fishing kit
Ranked lower than the candy bars because "one bird in the hand is worth two in the bush." There is no assurance that you will catch any fish.

8- Five meters of nylon rope
May be used to lash equipment together to prevent it from falling overboard.

9- Floating seat cushion
If someone fell overboard, it could function as a life preserver.

10- Shark repellent
Obvious.

11- One liter of 80 percent Puerto Rican rum
Contains 80 percent alcohol -- enough to use as a potential antiseptic for any injuries incurred; of little value otherwise; will cause dehydration if ingested.

12- Small transistor radio
Of little value since there is no transmitter (unfortunately, you are out of range of your favorite AM radio stations).

13- Maps of the Pacific Ocean
Worthless without additional navigational equipment -- it does not really matter where you are but where the rescuers are.

14- Mosquito netting
There are no mosquitoes in the mid Pacific.

15- Sextant
Without tables and a chronometer, relatively useless.

The basic rationale for ranking signaling devices above life-sustaining items (food and water) is that without signaling devices there is almost no chance of being spotted and rescued. Furthermore, most rescues occur during the first thirty-six hours, and one can survive without food and water during this period.

LOST AT SEA: SCORING GRID

Item	Step 3 Individual Difference	Step 1 Individual Ranking	Key	Step 2 Team Ranking	Step 4 Team Difference
Sextant			15		
Shaving Mirror			1		
20-Liter Can of Water			3		
Mosquito Netting			14		
1 Case Army C Rations			4		
Map of the Pacific Ocean			13		
Seat Cushion (Flotation)			9		
8-Liter Can Oil-Gas Mix			2		
Small Transistor Radio			12		
Shark Repellent			10		
2 Sq. Meters Plastic			5		
1 Liter of 80 % Rum			11		
5 Meters Nylon Rope			8		
2 Boxes of Chocolate			6		
Fishing Kit			7		
Step 5 Total Scores =>		******	**	*****	

Team Number		1	2	3	4
Step 6	Average individual score				
Step 7	Team score				
Step 8	Gain score (average individual score less team score)				
Step 9	Lowest individual score				
Step 10	Number of individual scores lower than team score				

LOST AT SEA: SCORING INSTRUCTIONS

1. Record your individual ranking under **Step 1**.

2. Record the team's ranking under **Step 2**.

3. The experts' ranking is already recorded on the grid under **Key**. Record under **Step 3** the differences between your individual ranking of each item and that of the experts. For example, if the experts rank a particular item 9 and your answer is e, record a 6 under "individual differences" for that item. (*Don't* record a minus sign if your ranking happens to be higher than the experts'.)

4. Similarly, recorde under **Step 4** the differences between the team's and the experts' ranking for each item.

5. Total the numbers in the first column to get your individual score (**Step 5**). Total the numbers in the last column to get the team score.

6. Record the average individual score for each team on the line labeled **Step 6**. (Ask for individual scores for each team, total them on the calculator, and divide by the number of members on the team.)

7. Copy each team's score (from Step 5) on the **Step 7** line under the team's number.

8. Record in **Step 8** the difference between each team's average individual score and the team score. If the team score is lower (lower equals better) than the average individual score, there was a gain (+) as a result of teamwork. If the team's score is higher than the average individual score, there was no gain (-).

9. Record in **Step 9** the lowest (best) individual score from each team.

10. Record in **Step 10** the number of individual scores from each team that were lower (better) than the team score.

Ways Groups Make Decisions?

By omission

By one

By two

By a minority

By a majority

Polling

Consensus testing

DEFINITION OF CONSENSUS

All understand and support without compromising;

May not be everyone's first choice, but

* Everyone has been heard, and
* Everyone can live with the decision.

1059

All agree on single alternative

* After a full discussion
* Uniform understanding of decision

All points of view understood

* We may disagree, but...

* *You understand my point of view*

* *I understand your point of view*

ALL SUPPORT THE DECISION

* May not be 1st choice, but I support it

* Alternatives fully & openly discussed

* All agree...
    - Best response at this time
    - Answers our concerns

GUIDELINES FOR CONSENSUS

* Listen
* Encourage participation
* Share information

MORE GUIDELINES...

Don't:

- Agree too quickly
- Bargain
- Vote

DIFFERENCES OF OPINION

* Treat as a strength

* But avoid arguing blindly

SEEK A WIN-WIN SOLUTION

* Do not accept losers
* Find acceptable alternatives
* Avoid minority resistance

Synergy

* Total greater than sum of parts
* Consensus produces...
  - Synergy of expertise
  - Synergy of support for the solution

KONSZENZUSON ALAPULÓ CSOPORTOS DÖNTÉSHOZATAL

COOPERS & LYBRAND/CHEMONICS INTERNATIONAL

1995 MÁJUS

Ezt az anyagot a USAID finanszírozásával Daniel Bell (Kent State University, Northeast Ohio Employee Ownership Center) készítette a Coopers & Lybrand/Chemonics International számára.

A következő anyagok a "Csoportos hatékonyság oktatásának" kézikönyvében található anyagokon alapulnak, amelyet az Egyesült Államok Munkaügyi Minisztériumának "Munkavállaló-munkaadó kapcsolatokkal és együttműködéssel foglalkozó programjának" keretén belül készítettek:

Bevezetés...

ÁTTEKINTÉS

Ez a modul azért készült, hogy segítsen a bizottságoknak, munkacsoportoknak megérteni egyrészt magát a folyamatot, másrészt a csoportos konszenzuson alapuló döntéshozatal értékét. Tartalmazza a modul továbbá a konszenzus definícióját, a konszenzus elérését elősegítő fő viselkedési formákat, valamint a konszenzus gyorsabb elérését elősegítő technikákat.

A résztvevők megértik, mit jelent a konszenzuson alapuló csoportos döntéshozatal, és megtanulják, hogyan szerkesszék meg a folyamatot, ha azt szeretnék, hogy hamarabb létrejöjjön a konszenzus.

A foglalkozás vezetője:

(1) Eszmecserét kezdeményez a konszenzuson alapuló döntéshozatal előnyeiről;

(2) Előadást tart, melynek során meghatározza a konszenzus fogalmát, valamint azokat a viselkedési formákat, amelyekre a csoportnak szüksége van ahhoz, hogy konszenzusra tudjon jutni;

(3) Végigvezeti a résztvevőket egy olyan gyakorlaton, amelynek célja a csoportos döntéshozatal elsőbbségének demonstrálása az egyéni döntéshozatallal szemben;

(4) Összegzi a gyakorlatot, eszmecserét kezdeményez a résztvevőkkel, amely segíti őket abban, hogy tapasztalataikat tolmácsolni tudják, következtetéseket vonjanak le, és elgondolkodjanak azon, hogyan tudnák a konszenzuson alapuló döntéshozatalt a saját munkahelyükön alkalmazni.

A FOGLALKOZÁS CÉLJA

A foglalkozás végére a résztvevők:

(1) Megértik a csoportos döntéshozatal legalább két előnyét az egyénivel szemben:

* A csoport teljes szakértelme hasznosul;
* A döntés végrehajtását a csoport tagjai egyöntetűen támogatják;

(2) Képesek lesznek a folyamat szerkezetét úgy alakítani, hogy hamarabb konszenzusra lehessen jutni; és

(3) Legalább egy módját ismerik annak, hogyan lehet a konszenzuson alapuló csoportos döntéshozatali módszert saját munkahelyükön alkalmazni.

A MODULRA VALÓ FELKÉSZÜLÉS

A résztvevők száma: Egy vagy öt 5-8 főből álló csoport (minden csoportnak legyen legalább egy oktatója).

A helyiség elrendezése: A helyiség legyen elég nagy ahhoz, hogy az összes csoport egyszerre elférjen benne, minden egyes csoportnak legyen külön asztala (legjobb, ha kerek). Az asztalok között legyen elegendő hely, s ne ültessünk egyetlen résztvevőt sem csoportjának asztala és a foglalkozás vezetője közé. Számozzuk meg az asztalokat, hogy a csoportokat könnyű legyen elkülöníteni egymástól. Legyen elegendő üres falfelület, ahová az információkat tartalmazó flipchart-papírok kitehetők, hogy azokat minden résztvevő jól láthassa. Legyen megfelelő világítás, s legyen légkondicinálás, vagy olyan szellőztetési lehetőség, hogy a hőmérséklet végig kellemes maradjon [*A helyiség elrendezésére* az 1. diagram ad példát].

Eszközök: Minden egyes csoportnak szüksége van 1 flipchart-ra, 1 tekercs ragasztószalagra, 4 íróeszközre (2 fekete, 2 színes), 1 számológépre; az egész foglalkozás számára kell ezenkívül 1 írásvetítő asztallal, vászonnal és fóliára használható tollakkal, és kell még egy asztal az üdítőknek és szendvicseknek, és egy külön a kellékeknek.

Üdítők: Legalább tiszta víz álljon rendelkezésre. A résztvevők jobban érzik magukat, ha van kávé, tea vagy üdítő a helyiségben, amivel bármikor nyugodtan újratölthetik poharaikat. Az is jó, ha van néhány szendvics vagy egy kis aprósütemény.

Oktatási anyagok: Az összes handout és fólia szerepel a tartalomjegyzékben. Ha nem áll rendelkezésre írásvetítő, akkor a fóliák helyett írjuk az információt a foglalkozáson használt flipchart-ra.

TEENDŐK A MODUL VÉGIGVITELE ELŐTT

* Szerezzünk ismereteket a felnőttkori tanulás alapeleveiről, az előadói készségekről, s az eszmecserék irányításának készségéről.

* Olvassuk végig és ismerjük meg ennek az oktatási kézikönyvnek a teljes anyagát.

* Készítsük elő a flipchart-ot a *Hajótöröttek rangsorolásának* megfelelően (2. diagram).

* Ismerkedjünk meg az oktatás helyszínével és eszközeivel.

* Vágjunk le hosszú ragasztócsíkokat (hogy a lapok ne essenek le a falról), s tegyük őket a flipchart tetejére, hogy mindig kéznél legyenek.

A MODUL NAPIRENDJE

Ennek a modulnak az időtartama 3 óra, a kávészünetet is beleszámítva. Percre pontosan megadjuk a szakaszok hosszát és az összes rendelkezésre álló időből eltelt részt (a részidőt és az összidőt). Ha tudjuk, hogy a résztvevők későn érkeznek, akkor kalkuláljunk be ezt ellensúlyozandó plusz perceket. Amennyiben ez a modul nem egy nagyobb foglalkozássorozat része, számítsuk be azt is, hogy be kell mutatkoznunk egymásnak.

(45/45)	A konszenzuson alapuló döntéshozatal bevezetése
(15/60)	Szünet
(60/120)	"Hajótöröttek" gyakorlat
(15/135)	Szünet
(45/180)	A gyakorlat összegzése és a modul zárásképpeni összefoglalása

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BEVEZETÉS A KONSZENZUSON ALAPULÓ DÖNTÉSHOZATALBA

Idő: (45/45)

Handout-ok: (H1) Konszenzuson alapuló döntéshozatal

Fóliák: F1-től F9-ig

Cél: A bevezetés végén a cél annak elérése, hogy a résztvevők (1) ismerjék a konszenzuson alapuló döntés definícióját és (2) felismerjék azokat a viselkedésmódokat, amelyek elősegítik a konszenzust.

Egyénként könnyebb döntést hozni, mint amikor meg kell egyezni más emberekkel. Másrészről, milyen előnyökkel jár ha több embert is bevonunk a döntéshozatalba?

Az emberek esetleg a több információt és tapasztalatot említhetik, vagy hogy a döntés több ember döntése és azt többen hajlandók megvalósítani, vagy egyéb.

Milyen módjai vannak a csoportos döntéshozatalnak?

Amikor a résztvevők válaszolnak, kérjük meg őket, hogy hozzanak példákat is. A válaszokat írjuk fel a flipchartra.

1. fólia: Csoportos döntéshozatali módok

A válaszok meghallgatása után tegyük fel az 1. fóliát és az alábbiak közül hozzunk példát azokra, amelyek kimaradtak:

- Csoportdöntés figyelmen kívül hagyással: "Talán be kéne mutatkoznunk..." Csend. Senki sem ellenkezik. Tehát úgy veszik, hogy egyetértés van (ez azonban nem egyertélmű).
- Egyéni döntés: "Úgy vélem be kéne mutatkoznunk. A nevem Kovács István.
- Két ember döntése: István: "Vajon nem segítene ha bemutatkoznánk?" Ildikó: "De, szerintem igen. Az én nevem Kiss Ildikó..."
- Kisebbségi döntés - egy vagy több: "Van valakinek ellenvetése?" vagy "Valamennyien egytértünk".
- Többségi döntés: "Hányan értenek egyet?" "Hányan ellenzik?" "Hányan semlegesek?".
- Véleménykutatás: "Lássuk kinek mi az álláspontja; Ön mit gondol?"
- A konszenzus tesztelése: Az ellenérzések felmérése és annak kiderítése, hogy ez elég erős-e ahhoz, hogy a résztvevők ne akarják alávetni magukat a döntésnek.

Nem feltétlen a teljes, hanem a minimálisan szükséges egyetértést keressük ilyenkor.

2. fólia: A konszenzus meghatározása

A hatékony csoportmunkához elengedhetetlen a konszenzuson alapuló döntéshozatal megtanulása. A definíció szerint a konszenzuson alapuló döntés olyan döntés, amit a csoport valamennyi tagja ért és támogat, anélkül, hogy úgy érezné, valami fontos területen kompromisszumot köt.

A konszenzuson alapuló döntés nem feltétlenül mindenkinek az <u>első</u> választása, de

- *mindenki úgy érzi, hogy meghallgatták,*
- *a döntést mindenki el tudja fogadni.*

Tekintsük át a konszenzus definíciójának alkotórészeit.

3. fólia: Mindenki egyetért egy adott alternatívával

Egy csoport akkor ér el konszenzust, ha teljeskörű vita után a csoport összes tagja végül egyetértésre jut egy bizonyos cselekvési alternatíva mellett. Másszóval ha az egyes tagokat külön-külön megkérdezzük, hogy a csoport milyen döntést hozott, mindegyikük ugyanazt a választ adja.

4. fólia: Minden nézőpont érthető

A csoport minden egyes tagja őszintén azt mondhatja a többi tagnak, hogy "Úgy gondolom, érti az álláspontomat. Lehet, hogy nem ért vele egyet, de úgy érzem, hallotta a problémáimat." Továbbá mindenki őszintén azt mondhatja, hogy "Én is úgy gondolom, hogy értem az Ön álláspontját. Meghallgattam Önt, átgondoltam amit mondott, függetlenül attól, hogy egyetértek-e vagy sem."

5. fólia: A döntést mindenki támogatja

Attól függetlenül, hogy ezt a döntést <u>részesítem-e előnyben</u>, ezt <u>támogatom</u>, mivel ezt nyílt és tisztességes úton hoztuk. Mindenki elmondta a problémáját, és teljes egészében áttekintettük az alternatívákat. Mindannyiunk megelégedettségére szolgál, hogy erre a problémára jelenleg ez a megoldás a legjobb. Ez válaszként szolgál a felvetett aggodalmainkra és ezt mindegyikünk támogatja.

A 2. fólia megismétlése.

Lehet, hogy én személyesen egy másik megoldást részesítek előnyben, de ez a megoldás elfogadható a számomra, és úgy tűnik, hogy a csoport összes tagjának a támogatását élvezi, míg az általam előnyben részesített megoldást nem támogatják annyian a csoportból. Jelenleg a kulcsszó: "elfogadható". Nem arra kérnek, hogy egy számomra el nem fogadható megoldást támogassak, csak azért, mert a többség erre szavazott.

6. fólia: Egymás meghallgatása, a részvétel bátorítása, az információ megosztása.

Ahhoz, hogy a csoporttagok ezt elmondhassák egy döntésről, az adott döntést eredményező megbeszélés folyamán bizonyos irányelveket kell követnünk.

Az odafigyelés a titka a legsikeresebb bizottsági üléseknek. Miközben beszélünk, semmit sem hallunk. Ugyanakkor az emberek több hajlandóságot mutatnak az Ön ötleteinek meghallgatására, ha úgy érzik hogy Ön is meghallgatta az ő ötleteiket.

Azonban nem minden embernek könnyű elmondani a gondolatait. Van aki azért nem beszél szívesen, mert zavarban érzi magát vagy mert úgy gondolja, hogy a gondolatai nem fontosak. Tehát a csoportnak bátorítania kell az embereket a részvételre. Azonban ha valaki nem akar beszélni, akkor ne erőltessük.

Ugyanakkor mindannyiunk felelőssége az információ megosztása, máskülönben a hozandó döntés nem lesz olyan hatékony. Egy csoportos döntéshozatal célja az, hogy profitáljunk valamennyi tag összes tapasztalatából és ismereteiből.

7. fólia: Ne értsünk egyet túl gyorsan, ne alkudozzunk és ne szavazzunk.

Ne gondoljuk meg magunkat csak azért, hogy egyetértés legyen vagy fennmaradjon a harmónia. Legyünk gyanakvóak ha túl gyorsan vagy túl könnyen megszületik a megegyezés. Csak akkor változtassunk véleményt, ha meggyőző okokat hallottunk. Tegyünk fel kérdéseket és figyeljük az érvelést. Ha csak azért "adjuk meg magunkat", hogy a harmónia fennmaradjon, akkor nem fogunk hinni a csoportdöntésben, éppen ezért valójában nem fogjuk azt támogatni.

Hasonlóképpen, ne támogassuk valaki más ötletét csak azért, hogy azután az illető egy másik kérdésben mellettünk legyen. Ez csak növeli azoknak a döntéseknek a számát, amelyek mögött nem áll az összes tag valós támogatása.

Ne szavazzunk és ne dobjunk fel pénzérmét. Ennek eredményeként nem lesz egyetértés a döntést illetően, csupán megosztja a csoportot a győztesek és a vesztesek táborára. A mi célunk az, hogy a lehető legjobb döntést hozzuk a lehetséges megoldások lényeges elemeinek bevonásával, nem pedig teljes döntési lehetőségek leszavazásával. Néha valóban nem lehet elfogadni valamit teljes egészében, de lehetnek olyan részei, amiket támogatni tudunk.

8. fólia: A különbséget kezeljük erősségként, de kerüljük az öncélú vitát

A nézetkülönbség természetes dolog. Az ilyen egyet nem értések csak emelik a csoportdöntés minőségét. Ha a csoporttagokat rávesszük arra, hogy olyan meggyőző okokat hozzanak fel, amelyek legyőzik a többiek kételkedését, akkor nagyobb az esély arra, hogy a csoport jobb megoldásokat talál. A nézeteltéréseket jobb meghatározni a vita során, nem pedig várni addig, amíg a csoport megpróbálja a döntést megvalósítani.

A nézeteltérést ki kell fejezni, de ne legyünk önfejűek. Az álláspontunkat a lehető

legvilágosabban és leglogikusabban fejezzük ki. Halgassuk meg és gondoljuk át alaposan a többiek reakcióját mielőtt folytatnánk az érvelést.

9. Keressük a mindenki által támogatható, nyerő megoldásokat

Végül pedig, amikor a vita elér egy holtpontot, ne az legyen a cél, hogy valaki feltétlen nyerjen illetve feltétlen veszítsen. Ehelyett inkább keressük a következő alternatívát, ami a csoport számára a legelfogadhatóbb. Egy döntés megvalósításakor jobb eredményhez vezethet, ha az összes ember második választását vesszük, és nem a többség első választását, aminek következtében szembe találjuk magunkat a kisebbség ellenállásával.

SZÜNET

Idő: (15/60)

HAJÓTÖRÖTTEK GYAKORLAT: A CSOPORTOS DÖNTÉSHOZATAL ELŐNYEI
Idő: (60/120)

Handout-ok: *(H2) Hajótöröttek: Egyéni munkalap, (H3) Hajótöröttek: Munkalap csoportok számára, (H4) Hajótöröttek: Megoldás és magyarázat, (H5) Hajótöröttek: Pontszámtáblázat, (H6) Hajótöröttek: Az eredmény kiszámítása*

Cél: A kívánt eredmény az, hogy a gyakorlat végén a résztvevők (1) érezzék, hogy sikerült konszenzust elérniük, és (2) sikeresen alkalmazták a konszenzust felgyorsító technikákat.

A következőkben gyakorolni fogjuk az egyéni illetve a konszenzuson alapuló csoportos döntéshozatalt.

Osszuk szét a (H2) *Hajótöröttek: Egyéni munkalap*-ot. A csoporttal tekintsük át az instrukciókat és mondjuk el, hogy az egyéni rangsorolás elkészítésére 15 perc áll a rendelkezésükre. *Ne szedjük össze* az egyéni rangsorolásokat.

Következő lépésként kérjük meg a csoportot, hogy a konszenzuson alapuló döntéshozatalt alkalmazva egy csoportként rangsorolja a tárgyakat. A konszenzust akadályozó magatartások visszaszorítása érdekében kérjük meg a résztvevőket, hogy nézzék át a *(H1) Döntéshozatal konszenzussal* irányelveit.

Ezután osszuk szét a résztvevők között a *(H3) Hajótöröttek: Munkalap csoportok számára* anyagot. Mondjuk el, hogy 35 perc áll a rendelkezésükre ahhoz, hogy konszenzust érjenek el a tárgyak fontossági sorrendjét illetően. Mondjuk el azt is, hogy segíteni fogunk azzal, hogy egy előre megtervezett folyamatot követünk. A flipchart-ot már előre el kell készíteni.

Jelenleg 35 perc áll rendelkezésre ahhoz, hogy konszenzust érjünk el a tárgyak fontossági sorrendjét illetően. Ez nem sok idő ilyen sok adathoz képest. Ennyi tétel és ennyi ember esetében sok különböző vélemény lehet. Kérem engedjék meg, hogy a vitát egy strukturált folyamaton keresztül vezessem le.

Először is hadd tegyem fel a kérdést: Van valaki, aki rendelkezik olyan tapasztalattal, vagy részesült olyan oktatásban, amiről a csoportnak tudnia kellene és aminek a segítségével az adott illető véleménye nagyobb valószínűséggel helyes lesz?

Ne engedjük meg, hogy a csoport mellékvágányra futva hosszú eszmecserét folytasson erről, csak azt tegyük lehetővé, hogy az emberek röviden elmondják, ha van ilyen irányú tapasztalatuk vagy részt vettek ilyen oktatásban. Ezután lépjünk tovább.

Ezután minden személy olvassa fel a saját sorrendjét, és ezeket írjuk fel a flipchart-ra. Ezután összesítjük az egyes tárgyak pontszámait, és sorrendbe állítjuk őket, a legalacsonyabb pontszámtól a legmagasabb felé haladva. Ez csak információnak számít, ami lehetővé teszi, hogy folytassuk a csoport-konszenzus kialakításának folyamatát, és egy egyszerű matematikai számítás eredményei nem köteleznek minket, mivel még senkinek sem volt alkalma elmagyarázni, hogy egy adott tétel miért került előrébb mint egy másik.

Példaként nézzük meg a *(D2) Hajótöröttek rangsorolását.* Az összeírás és a táblázatba rendezés után a csoport által felállított fontossági sorrendben írjuk fel a tárgyakat egy tiszta flipchart papírra. A tételeket vízszintes vonalakkal osszuk három csoportba: magas, közepes és alacsony fontosságú csoport.

Nagy jelentősége van annak, hogy egy tárgyat a magas vagy az alacsony fontosságú csoportba helyezünk, ugyanakkor az nem igazán jelentős, hogy egy tárgy a harmadik vagy a negyedik. A figyelmet magára a három csoportra szeretném irányítani. Gondoljuk át azt, hogy van-e olyan tárgy, amiről úgy érezzük, hogy azt feltétlenül másik csoportba kellene tenni.

Javasolhatjuk, hogy egy tárgyat tegyenek máshova, a javaslat mögötti elgondolást elmagyarázva. Szeretném azonban megkérni a csoportot, hogy most erről még ne vitatkozzanak. A javaslatokat egyszerűen felírjuk, az elgondolást meghallgatjuk, és következő javaslattal folytatjuk.

Írjuk fel a flipchart-ra a javaslatokat, kérdezzük meg az indoklást, és ne engedjük meg, hogy a többiek ellenérveket hozzanak fel. Miután az összes javaslatot felírtuk, ellenőrizzük, hogy mindegyik tekintetében egyetértés van-e. Tegyük fel a kérdést:

Van valaki aki nem ért egyet a javaslattal?

Ha mindenki egyetért, akkor fogadjuk el a javaslatot. Ha valaki nem ért egyet, akkor lépjünk tovább a következő javaslatra. Amikor elfogadtuk az összes, egymásnak ellent nem mondó javaslatot, kérjük meg a résztvevőket, hogy szánjanak egy rövid időt a fennmaradó javaslatokkal kapcsolatos eltérő véleményeik megvitatására.

A vita után nézzük meg, hogy a csoportból hányan támogatják illetve hányan ellenzik a javaslatot. Utána kérjük meg a csoport kisebb részét, hogy próbáljanak olyan alternatív javaslatot tenni, amit elgondolásuk szerint a többség támogatni tud. Mindkét felet emlékeztessük arra, hogy a konszenzus elérése érdekében néha mindkét félnek egy olyan megoldást kell támogatni, ami egyiknek sem jelenti a legjobb megoldást. Mindkét fél számára nyerő megoldást szeretnénk találni.

Ha a csoport nem tud konszenzust elérni, akkor kérjünk meg valakit a többségből, hogy mondja el, hogy ők megértik hogy a kisebbség miért ellenzi a többségi álláspontot, majd ezután zárjuk le a gyakorlatot annak megállapításával, hogy erős az ellenérzés, ami ellenállást fog eredményezni, ezzel pedig foglalkozni kell.

35 perc elteltével osszuk szét a *(H4) Hajótörötteк: Megoldás és magyarázat* anyagot. Modjuk el, hogy ezeket a válaszokat szakértők adták. Szintén osszuk szét a *(H5) Hajótörötteк: Pontszámtáblázat és a (H6) Hajótörötteк: Az eredmény kiszámítása* anyagokat. Ezután tartsunk szünetet, és kérjük meg a résztvevőket, hogy a 15 perces szünet után legyenek készek a saját eredményeik ismertetésére.

SZÜNET

Idő: (15/135)

A HAJÓTÖRÖTTEK GYAKORLAT KIÉRTÉKELÉSE ÉS ZÁRÓ ÖSSZEFOGLALÁS

Idő: (45/180)

Fólia: F10

Cél: A kiértékelés végén a cél az, hogy a résztvevők el tudják mondani:

(1) a konszenzuson alapuló döntés definícióját,

(2) a konszenzust elősegítő viselkedési formákat

(3) a konszenzus együttműködésre gyakorolt jótékony hatását: a nagyobb tapsztalatot és támogatást,

(4) egy strukturált folyamat segítette őket a konszenzus gyorsabb elérésében, és

(5) a munkahelyükön milyen szituációkban tudják alkalmazni a konszenzuson alapuló döntéshozatalt.

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1. lépés: A történtek leírása

Kérjük meg a résztvevőket, hogy mondják el a saját eredményeiket, és ezeket írjuk fel egy flipchart papírra. Most még nem várunk semmilyen következtetést, csak egyszerű leírásokat, mint pl.:

"A csoport erdményei jobbak voltak, mint az egyéni pontszámok átlaga."
"Volt aki jobb eredményt ért el mint a csoport."
"A csoport által felállított rangsorral mindenki egyetértett."
"Nem figyeltünk oda a csoportban lévő szakértő véleményére."

Írjuk fel a résztvevők válaszait.

2. lépés: A történtek értelmezése

Tegyünk fel az alábbiakhoz hasonló kérdéseket:

Mi a véleményük az egyéni- és a csoporteredmény közötti különbségről?

Mi a véleményük az átlagos egyéni- és a csoport által elért eredmény közötti különbségről?

A csoportban voltak szakemberek, akik a csoportnál jobb pontszámokat adtak. Maximálisan kihasználták az ő tapasztalataikat? Miért, vagy miért nem?

Mennyire volt sikeres a csoport a konszenzus elérésében? Milyen irányelveket követtek? Melyikeket hagyták figyelmen kívül?

A résztvevők válaszait most is jegyezzük fel.

3. lépés: Konszenzus elérése a történtekkel kapcsolatban

Kérdezzük meg a csoporttól, hogy milyen következtetéseket tud levonni a gyakorlatból. A válaszok között lehetnek az alábbiak:

"A csoportos döntés jobb, mint az egyéni."

"Lehet, hogy a szakértők jobban értik a dolgokat mint a csoport, de a csoport támogatja a saját döntését, ami a döntést hatékonyabbá teszi. (Itt példaként fel lehet hozni azt a vállalatot, ahol nagy százalékban előfordult az, hogy a tárgyak leestek a szállítószalagról és eltörtek. A munkások javasoltak egy megoldást, ami technikailag gyengébb volt, mint a vállalati mérnök javaslata. A mérnök megoldása lett elfogadva, de a hibaarány nem nagyon javult. Ezek után a munkások javaslatát valósították meg, ami jelentős eredményeket hozott. A munkások a saját megoldásukat segítették elő.)

"Van olyan helyzet, amikor a csoportdöntés túl sok időt venne igénybe és az egyénnek gyorsan kell döntenie."

Írjuk fel a résztvevők válaszait.

10. fólia: Szinergia (együttműködés)

A szinergia egy kombinált vagy együttes cselekedet, különösen ott, ahol egy ilyen cselekedetnek nagyobb az összhatása, mint az egyéni erőfeszítések összességének.

A szinergia akkor egyértelmű, amikor kettő vagy több ember olyan eredményt ér el, amit egyenként nem tudtak vona, továbbá amikor egy csoport együtt dolgozva még a legtapasztaltabb tagnál is jobb eredményt ér el.

A Hajótörötteк gyakorlat rangsorolása olyan számokat eredményez, amiknek a segítségével könnyen látható, hogy milyen előnyei vannak a csoportos döntéshozatalnak az egyéni döntéshozatallal szemben.

A konszenzuson alapuló döntéshozatalról két eredményt várhatunk az együttműködés területén. Először is az eszmecsere következménye az, hogy a tagok tapasztalatait így nagyobb mértékben felhasználjuk. Másodszor, a döntés megvalósításához nagyobb támogatást nyerhetünk azáltal, hogy a vita alatt foglalkozunk az ellenállással és olyan alternatívákat keresünk, amik mindenki számára elfogadhatóak.

4. lépés: A tanultak alkalmazása a tanulók valós világában

Ma nagyon sok dolgot csináltunk. Először is a csoportos döntéshozatal különféle módjairól beszéltünk, többek között a vitavezető által hozott és a szavazás útján elért döntésekről. Mik is voltak a szavazás hátrányai?

A résztvevőknek itt meg kellene említeni, hogy a szavazás veszteseket teremt, akik a döntés megvalósításának potenciális ellenzői.

Mit jelent a konszenzuson alapuló döntéshozatal?

A résztvevőknek meg kell tudni ismételni a definíciót.

Érezte, hogy a csoport odafigyelt az ötleteire?
Úgy érzi, hogy megértette a csoport többi tagjának a nézeteit?
Támogatja a csoport rangsorolását akkor is ha az eltér az Ön eredeti egyéni rangsorolásától?

Mik a konszenzuson alapuló döntéshozatal előnyei?

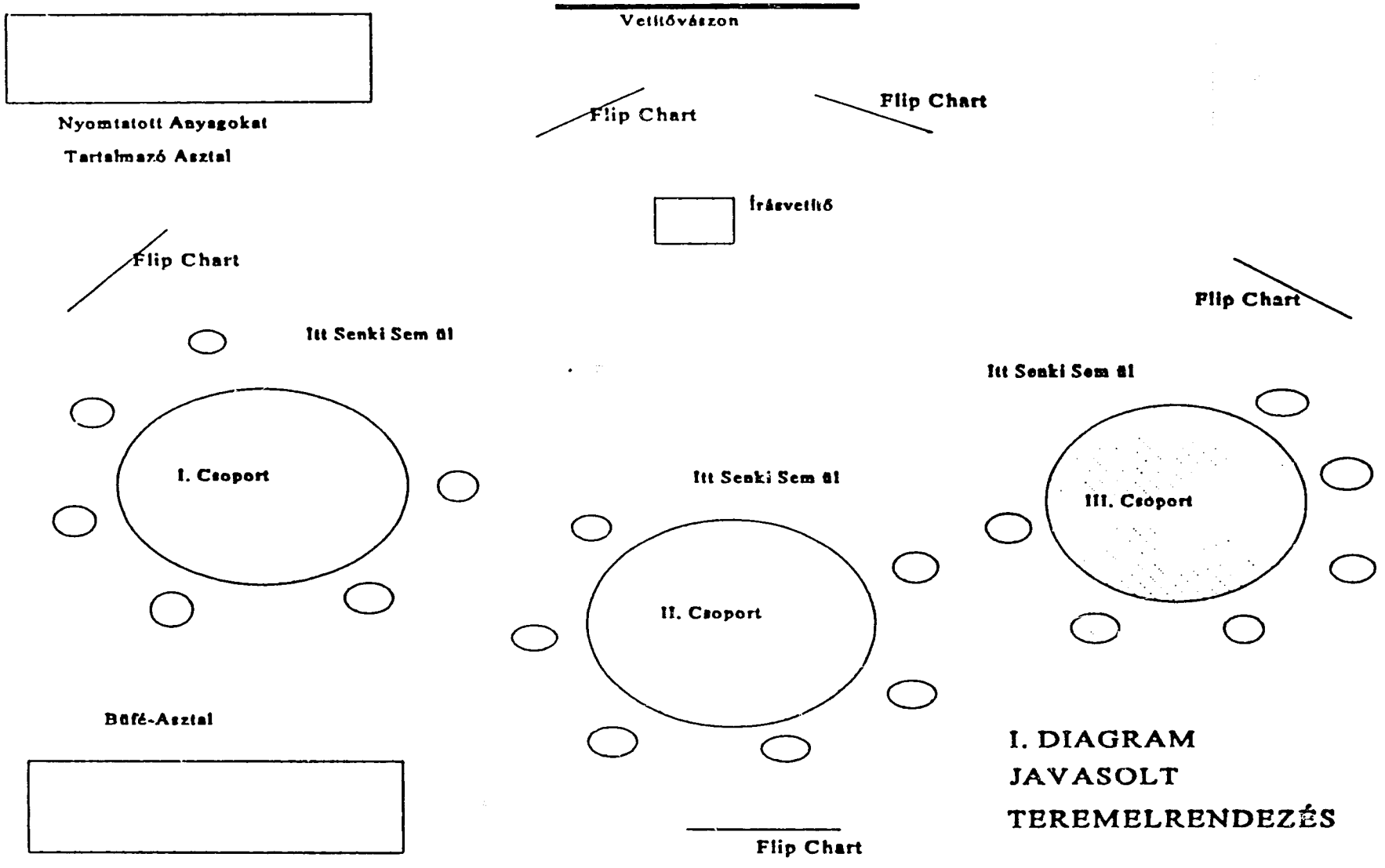
A résztvevőknek itt azt kell elmondani, hogy ez jobb eredményekhez vezet, amelyek (1) felhasználják a csoport tapasztalatait és (2) amelyeket minden csoporttag támogat, így ezeket könnyebben és gyorsabban meg lehet valósítani.

Mitől sikerült ilyen gyorsan elérni a konszenzust, hiszen csak 35 perc állt rendelkezésre?

"Strukturált folyamat alkalmazása."

"Az irányelvek követése és a szükségtelen viták elkerülése (ugyanakkor helyt adtunk az eltérő véleményeknek, amikor az releváns volt)."

A Hajótörött gyakorlat során láthattuk, hogy a konszenzuson alapuló döntéshozatal jobb eredményekhez vezet. Ez természetesen csak egy műhelygyakorlat volt. Tudnának olyan munkahelyi helyzeteket említeni, ahol a döntéseket konszenzus alapján lehetne meghozni?



I. DIAGRAM
JAVASOLT
TEREMELRENDEZÉS

D1

1052

2. DIAGRAM: A "HAJÓTÖRÖTTEK" RANGSOROLÁSA

1. LÉPÉS:

TÉTEL	János	Miklós	István	Ilona	Éva	Összesen
Szekesztáns	3	15	4	1	12	35
Tükör	14	3	10	15	11	53
Víz	1	4	3	2	1	11
Háló	15	8	9	14	7	53
Hidegélelem	2	9	14	3	14	42
Térképek	7	2	13	13	13	48
Felfújható párna	10	7	5	4	4	30
Gázolaj	13	13	12	12	15	65
Rádió	12	1	8	5	2	28
Cápariasztó	6	14	6	11	3	40
Műanyag	4	10	15	6	6	41
Rum	11	11	1	10	9	42
Kötél	9	5	2	7	5	28
Csokoládé	5	12	11	9	10	47
Horgászfelszerelés	8	6	7	8	8	37

2. LÉPÉS:

MAGAS	1	Víz
	2	Rádió
	3	Kötél
	4	Párna
	5	Szekesztáns
KÖZEPES	6	Horgászfelszerelés
	7	Cápariasztó
	8	Műanyag
	9	Hidegélelem
	10	Rum
ALACSONY	11	Csokoládé
	12	Térképek
	13	Tükör
	14	Háló
	15	Gázolaj

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DÖNTÉSHOZATAL KONSZENZUSSAL

A KONSZENZUS FOGALMÁNAK DEFINÍCIÓJA

Egy csoport akkor jut konszenzusra, amikor:

* Minden tagja elfogad egyetlen alternatívát
* Minden egyes tag úgy érzi, hogy a csoport megérti az ő álláspontját
* Minden egyes tag megérti a többiek álláspontját
* Akár első helyen szerepel a döntés egy-egy tag rangsorában, akár nem, azt mégis mindenki támogatja, mert:
    - A döntés tisztességes és nyílt légkörben született
    - Az adott időpontban ez a legkedvezőbb megoldás a csoport számára

A KONSZENZUS ELÉRÉSÉNEK ALAPELVEI

1. Hallgassunk: figyeljünk oda a többiekre
2. Bátorítsuk a részvételt
3. Osszuk meg egymással az információkat
4. Ne értsünk egyet túl hamar
5. Ne alkudozzunk és ne kereskedjünk a támogatásért
6. Ne szavazzunk
7. A véleménykülönbségeket kezeljük erősségként
8. Olyan megoldást dolgozzunk ki, amelyet mindenki képes támogatni
9. Kerüljük a saját véleményünk megvédésére irányuló meddő vitákat
10. Olyan megoldást keressünk, amelyen keresztül mindenki nyer

HAJÓTÖRÖTTEK

EGYÉNI MUNKALAP

Instrukciók: Képzelje el, hogy egy magánjachton sodródik éppen a Csendes-óceán déli részén. Ismeretlen eredetű tűz következtében a jacht legnagyob része, annak tartalmával együtt megsemmisült. A jacht most lassan süllyed. Helyzetét nem lehet pontosan meghatározni, mert a fontos navigációs eszközök tönkrementek, és mert Ön és a legénység figyelmét a tűz megfékezése kötötte le. Legvalószínűbb becslése alapján megközelítőleg ezer mérföldnyire lehetnek déli, dél-keleti irányban a legközelebbi szárazföldtől.

Az alábbiakban tizenöt olyan tárgy listáját láthatja, amelyek egészben és sértetlenül átvészelték a tüzet. Ezeken kívül rendelkezésére áll még egy használható, gumiból készült mentőcsónak evezőkkel, amely elég nagy ahhoz, hogy elférjen benne Ön, a legénység, és az alább felsorolt összes tárgy. A túlélők zsebének össztartalma egy doboz cigaretta, több doboz gyufa és öt darab egydolláros bankjegy.

Az Ön feladata az, hogy fontossági sorrendbe állítsa a tizenöt tárgyat saját megmenekülését szem előtt tartva. A legfontosabb tárgy neve mellé írjon 1-es számot, a második legfontosabb tárgy neve mellé írjon 2-est, és így tovább egészen tizenötig, a legkevésbé fontos tárgyig.

___ Szekesztáns
___ Borotválkozótükör
___ Húsz liter víz kannában
___ Szúnyogháló
___ Egy láda hidegélelem
___ Térképek a Csendes-óceánról
___ Mentőpárna (olyan felfújható eszköz, amelyet a Parti Őrség is elfogad)
___ Nyolc liter gázolaj keverék
___ Kisméretű tranzisztoros rádió
___ Cápariasztó
___ Két négyzetméter nem átlátszó műanyag
___ Egy liter 80 százalékos Puerto Rico rum
___ Öt méter hosszú műanyagkötél
___ Két karton csokoládé
___ Horgászfelszerelés

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HAJÓTÖRÖTTEK

MUNKALAP CSOPORTOK SZÁMÁRA

Instrukciók:

Ez egy csoportos döntéshozatali gyakorlat. A csoportnak a döntéshozatal során alkalmaznia kell a csoportos konszenzus módszerét. Ez azt jelenti, hogy mind a tizenöt túléléshez szükséges tétel rangsorolásakor minden egyes tag egyetértésére *szükség van*, hogy az adott tétel a csoportos döntés része lehessen. Konszenzusra jutni nem könnyű. Éppen ezért nem minden rangsorolást fog mindenki teljesen elfogadni. Csoportként törekedjenek arra, hogy minden egyes rangsorolással *minden* csoporttag legalább *részben* értsen egyet. A következőkben felsorolunk néhány olyan irányelvet, amely a konszenzus elérése érdekében felhasználható.

1. Kerüljük a saját egyéni értékítéletünk védelmében folytatott vitákat. A feladatot logikai alapon közelítsük meg.

2. Pusztán a gyorsabb megegyezés vagy a konfliktusok elkerülése kedvéért ne változtassuk meg a véleményünket. Csak olyan megoldásokat támogassunk, amelyekkel legalább bizonyos mértékig képesek vagyunk egyetérteni.

3. Kerüljük a "konfliktus-csökkentő" technikákat, amilyen például a többségi szavazás, az átlagolás vagy éppen a megalkuvás a döntéshozatal során.

4. Tekintsük a véleménykülönbségeket inkább segítségnek, ne pedig bennünket gátló tényezőnek.

___ Szekesztáns
___ Borotválkozótükör
___ Húsz liter víz kannában
___ Szúnyogháló
___ Egy láda hidegélelem
___ Térképek a Csendes-óceánról
___ Mentőpárna (olyan felfújható eszköz, amelyet a Parti Őrség is elfogad)
___ Nyolc liter gázolaj keverék
___ Kisméretű tranzisztoros rádió
___ Cápariasztó
___ Két négyzetméter nem átlátszó műanyag
___ Egy liter 80 százalékos Puerto Rico rum
___ Öt méter hosszú műanyagkötél
___ Két karton csokoládé
___ Horgászfelszerelés

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HAJÓTÖRÖTTEK

MEGOLDÁS ÉS MAGYARÁZAT

A "szakértők" véleménye szerint egy óceán közepén rekedt embernek olyan eszközökre van szüksége, amelyek egyrészt alkalmasak a figyelem felkeltésére, másrészt olyanokra, amelyek segítik a túlélésben, *amíg az élelmentők meg nem érkeznek.* A navigációs eszközöknek nincs igazán jelentőségük: ha egy parányi mentőcsónak képes is lenne eljutni a szárazföldet elérni, képtelenség lenne annyi élelmet és vizet tárolni rajta, amennyi a túléléshez elegendő. Éppen ezért elsődleges jelentőségű a borotválkozótükör és a nyolc liter gázolaj keverék. Ezeket az eszközöket lehetne ugyanis felhasználni a légi- és vízimentőknek szóló jelzésekhez. Másodlagos jelentőségű mondjuk a víz és az élelmiszer, pl. a ládányi hidegélelem.

Rövid magyarázatot minden egyes tétel rangsorolásához fűztünk. Ezek a tömör indoklások nyilván nem tartalmazzák egy-egy sajátos eszköz minden lehetséges felhasználási módját, inkább csak azt, amelyik elsődlegesen fontos.

1- **Borotválkozótükör**
Elengedhetetlen segélykérő jelzések leadásához.

2- **Nyolc liter gázolaj keverék**
Elengedhetetlen segélykérő jelzések leadásához - a gázolaj keverék a víz felszínén lebeg, s meg lehet gyújtani egy bankjegy és egy gyufa segítségével (nyilvánvaló, hogy csakis a mentőcsónakon kívül).

3- **Húsz liter víz kannában**
Az elveszített folyadékmennyiség pótlásához szükséges.

4- **Egy láda hidegélelem**
Az evési szükséglet minimális kielégítéséhez szükséges.

5- **Két négyzetméter nem átlátszó műanyag**
Fel lehet használni esővíz összegyűjtésére, szélsőséges időjárási viszonyok között pedig menedékül is szolgál.

6- **Két karton csokoládé**
Élelmiszertartalékként szolgál.

7- **Horgászfelszerelés**
Azért került a csokoládénál hátrább a sorban, mert "jobb ma egy veréb, mint holnap egy túzok". Semmi garancia sincs arra, hogy sikerül akár egyetlen halat is kifogni.

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8- **Öt méter hosszú műanyagkötél**
Fel lehet használni az eszközök rögzítésére, nehogy valami kisodródjon a csónakból.

9- **Felfújható mentőpárna**
Ha valaki kiesne a csónakból, életmentő eszközként is funkcionálhatna.

10- **Cápariasztó**
Egyértelmű, hogy mire való.

11- **Egy liter 80 százalékos Puerto Rico rum**
80 százalék alkoholt tartalmaz - ez elég ahhoz, hogy bármilyen sérülés előfordulása esetén fertőtlenítőszerként szolgálhasson; máskülönben nincs igazán értéke; elfogyasztva dehidratáló hatású.

12- **Kisméretű tranzisztoros rádió**
Nem igazán értékes, mivel nincs adó a környéken (sajnos a kedvenc AM rádióállomásainkat nem tudjuk fogni rajta).

13- **Térképek a Csendes-óceánról**
Egyéb navigációs eszközök nélkül értéktelen - nem az számít igazán, hogy mi hol vagyunk, az számít, hogy a megmentőink hol vannak.

14- **Szúnyogháló**
A Csendes-óceán közepén nincsenek szúnyogok.

15- **Szekesztáns**
Asztal és kronométer nélkül relatíve értéktelen.

A segélykérő jelzések leadására alkalmas eszközök előtérbe helyezése az életben maradáshoz szükséges tételekkel (élelem és víz) szemben azzal indokolható alapvetően, hogy az előbbiek nélkül jóformán semmi esély sincs arra, hogy az embert észrevegyék és megmentsék. A mentések többsége ráadásul az első harminchat órában történik, ennyi időt pedig ki lehet bírni élelem és víz nélkül.

HAJÓTÖRÖTTEK

PONTSZÁMTÁBLÁZAT

Tétel	3. lépés Egyéni eltérés	1. lépés Egyéni rangsor	Kulcs	2. lépés Csoport rangsor	4.lépés Csoport eltérés
Szekszáns			15		
Borotválkozótükör			1		
20 liter víz kannában			3		
Szúnyogháló			14		
1 láda hidegélelem			4		
A Csendes-óceán térképe			13		
Párna (felfújható)			9		
8 liter gázolaj keverék			2		
Kisméretű tranzisztoros rádió			12		
Cápariasztó			10		
2 négyzetméter műanyag			5		
1 liter 80 százalékos rum			11		
5 méteres műanyagkötél			8		
2 doboz csokoládé			6		
Horgászfelszerelés			7		
5. lépés: Összeredmény		✡✡✡✡✡✡	✡✡	✡✡✡✡✡	

A csoport száma		1	2	3	4
6. lépés	Átlagos egyéni eredmény				
7. lépés	Csoportos eredmény				
8. lépés	Szerzett eredmény (átlagos egyéni eredmény mínusz csoporteredmény)				
9. lépés	Legalacsonyabb egyéni eredmény				
10. lépés	A csoporteredménynél alacsonyabb egyéni eredmények száma				

HAJÓTÖRÖTTEK: AZ EREDMÉNYEK KISZÁMÍTÁSA

1. Az egyéni rangsorolást írjuk az **1. lépés** alá.

2. A csoport rangsorolását írjuk a **2. lépés** alá.

3. A szakértői rangsorolás a **Kulcs** feliratú oszlopban már látható. **A 3. lépés alá** írjuk be minden egyes tétel esetében egyéni rangsorolásunk és a szakértői rangsorolás közti különbséget. Ha például a szakértők egy bizonyos tételt a 9. helyre tesznek, egyéni válaszunk pedig 3, írjunk egy 6-ost az "egyéni különbségek" alá annál a tételnél. (*Ne* tegyünk mínusz jelet, ha saját rangsorolásunkban történetesen nagyobb szám szerepel, mint a szakértőkében.)

4. Hasonlóképpen rögzítsük a **4. lépés** alatt a csoport és a szakértők rangsorolása közti különbségeket minden egyes tételnél.

5. Adjuk össze az első oszlop számait, hogy megkapjuk egyéni eredményünket (**5. lépés**). Adjuk össze az utolsó oszlop számait, hogy a csoporteredményt megkapjuk.

6. Írjuk be minden egyes csoport átlagos egyéni eredményét a **6. lépés** sorába. (Kérdezzük meg mindegyik csoport egyéni eredményeit, adjuk össze őket zsebszámológépen, s osszuk el a kapott számot a csoporttagok számával.)

7. Írjuk a csoport eredményét (az 5. lépésből) a **7. lépés** sorába a csoport **száma alá.**

8. Írjuk be a **8. lépés** sorába a csoportok átlagos egyéni eredménye és a csoporteredmény közti különbséget. Ha a csoport eredménye alacsonyabb (az alacsonyabb jobbat jelent), mint az átlagos egyéni eredmény, akkor a csoportmunka mindenképpen nyereséget hozott (+). Ha a csoport pontszáma magasabb az átlagos egyéni pontszámnál, akkor a csoport nem szerzett semmit (-).

9. **A 9. lépés** sorába írjuk be minden csoport legalacsonyabb (legjobb) egyéni pontszámát.

10. **A 10. lépés** sorába írjuk be minden csoport esetében azoknak az egyéni eredményeknek a számát, amelyek alacsonyabbak (jobbak), mint a csoport eredménye.

CSOPORTOS DÖNTÉSHOZATALI MÓDOK

Hallgatólagos

A kisebbség dönt

Egy ember dönt

A többség dönt

Két ember dönt

Szavazásos

Konszenzus keresése

Konszenzus F1

A KONSZENZUS MEGHATÁROZÁSA

Mindenki megérti és támogatja a döntést kompromisszum nélkül;

Esetleg nem mindenki teszi ezt az <u>első</u> helyre, de

* **Mindenki hangot adhatott a véleményének, és**
* **Mindenki képes elfogadni a döntést.**

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Mindenki egyetért egy adott alternatívával

* Egy alapos megbeszélést követően

* A döntés egyhangú értelmezése esetén

Konszenzus F3

Minden nézőpont érthető

* **Lehet, hogy nem értünk egyet, de...**

* ***Te megérted az én nézőpontomat***

* ***Én megértem a Te nézőpontodat***

Konszenzus F4

A DÖNTÉST MINDENKI TÁMOGATJA

* Lehet, hogy nem ezt a változatot tenném az első helyre, de <u>támogatom</u>

* Az alternatívákat teljesen és nyíltan megvitattuk

* Azzal mindenki egyetért, hogy...

  - Jelenleg ez a legjobb megoldás

  - Választ ad a problémáinkra

Konszenzus F5

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A KONSZENZUS ALAPJAI

* Hallgassuk meg egymást

* Bátorítsuk a részvételt

* Osszuk meg egymással az információt

Konszenzus F6

EGYÉB ALAPELVEK...

Ne:

- **Értsünk egyet túl gyorsan**
- **Alkudozzunk**
- **Szavazzunk**

Konszenzus F7

KÜLÖNBÖZŐ VÉLEMÉNYEK

* Kezeljük erősségként

* Kerüljük ugyanakkor az öncélú vitát

Konszenzus F8

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KERESSÜK A NYERŐ MEGOLDÁSOKAT

* Ne fogadjunk el veszteseket

* Találjunk elfogadható alternatívákat

* Kerüljük a kisebbségi ellenállást

Konszenzus F9

1977

SZINERGIA (Együttműködés)

* Többet tesz ki a részek összegénél

* A konszenzus eredményeképpen jön létre...

  - A szakértelem szinergiája

  - A megoldás támogatásának szinergiája

TRAINING COMMITTEES: GROUP PROBLEMSOLVING
HUNGARIAN MRP ASSOCIATION
JUNE 2-3, 1995, BUDAPEST

JUNE 2

10:00	Introduction
10:45	Introduction to consensus decisionmaking
11:15	Break
11:30	Consensus decisionmaking: Exercise
13:00	Lunch
14:00	Debriefing learning activities
14:45	Introduction to group problemsolving
15:30	Break
15:45	Step 1: Problem identification
17:00	Adjourn

JUNE 3

8:30	Introduction to day 2
9:00	Step 2: Problem analysis
10:00	Break
10:15	Step 3: Solution development
12:00	Lunch
13:00	Step 4: Implementation planning
14:00	Break
14:15	Group presentations
14:45	Strengths and weaknesses of using a problemsolving model
15:00	Adjourn

CONSENSUS DECISIONMAKING

DEFINITION OF CONSENSUS

A group reaches consensus when:

* All members agree upon a single alternative
* Each member believes the group understands his or her point of view
* Each member understands the others' points of view
* Whether or not the decision is each member's first choice, they support it because:
    - The decision was reached fairly and openly
    - It is the best solution for the group at this time

GUIDELINES ON REACHING CONSENSUS

1. Listen: Pay attention to others
2. Encourage participation
3. Share information
4. Do not agree too quickly
5. Do not bargain or trade support
6. Do not vote
7. Treat differences of opinion as a strength
8. Create a solution that can be supported by all
9. Avoid arguing blindly for your own views
10. Seek a win-win solution

EVALUATION - TRAINING COMMITTEES: GROUP PROBLEMSOLVING

14 total responses from June 2-3, 1995 workshop

14 participants both Friday and Saturday
2 only Friday
2 only Saturday

1. Are you: [2] MRP Board member [] Shop floor worker [6] Other
[1] Manager [5] MRP consultant
[] Supervisor [] Union leader _____

2. The room was: Too large [] Too small [4] Just right [10] = 71%
Too hot [1] Too cold [] Just right [10]= 91%

3. As a whole, the workshop was: Too long [] Too short [1] Just right [12] = 92%
Too simple [] Too complex [] Just right [9] = 100%

4. We tried to maintain a balance between lectures by the trainer, discussions by the group, and experiential exercises. What should we do more or less of?

- Lecture More [1]=9% Less [4]=36% No change [6]=55%
- Discussion More [3]=27% Less []=0% No change [8]=73%
- Experiential exercises More [8]=67% Less [1]=8% No change [3]=25%

5. Please rate from (5) "I learned a lot", to (1) "Was a complete waste of time":

	Learned a lot			Waste of time		Average
Day 1:						
Introductions (3 things about me)	5 [3]	4[3]	3[4]	2[3]	1[]	3.5
Lecture: Definition of consensus	5 [2]	4[7]	3[3]	2[1]	1[]	3.8
"Lost at Sea" exercise	5 [4]	4[4]	3[4]	2[1]	1[]	3.8
Discussion of "Lost at Sea"	5 [6]	4[4]	3[2]	2[1]	1[]	4.2
Lecture: Debriefing	5 [4]	4[5]	3[3]	2[1]	1[]	3.9
Lecture: Group problemsolving	5 [1]	4[6]	3[4]	2[]	1[]	3.7
Brainstorming	5 [6]	4[3]	3[3]	2[1]	1[]	4.1
Step 1: Problem identification	5 [6]	4[3]	3[4]	2[]	1[]	4.2
Day 2:						
Step 2: Problem analysis	5 [4]	4[6]	3[3]	2[1]	1[]	3.9
Step 3: Solution development	5 [5]	4[5]	3[4]	2[]	1[]	4.1
Step 4: Implementation planning	5 [5]	4[5]	3[3]	2[1]	1[]	4.0
Group reports	5 [5]	4[7]	3[1]	2[1]	1[]	4.1
Discussion of the problemsolving process	5 [3]	4[7]	3[2]	2[]	1[]	4.1

6. Please answer both how you felt before and after this workshop:

Before the workshop I felt...							After the workshop I feel...						
Prepared		Unprepared			Average			Prepared		Unprepared			Ave.
5[]	4[3]	3[5]	2[3]	1[2]	2.7		Making consensus decisions	5[3]	4[6]	3[2]	2[1]	1[]	3.9
5[1]	4[]	3[3]	2[5]	1[4]	2.2		Training others for consensus	5[2]	4[3]	3[5]	2[2]	1[]	3.4
5[]	4[2]	3[7]	2[2]	1[2]	2.7		Using a problemsolving process	5[1]	4[10]	3[1]	2[]	1[]	4.0
5[]	4[2]	3[3]	2[4]	1[4]	2.2		Training others to problemsolve	5[]	4[7]	3[2]	2[3]	1[]	3.3
5[]	4[2]	3[6]	2[3]	1[1]	2.8		Debriefing learning exercises	5[2]	4[7]	3[2]	2[1]	1[]	3.8

7. The most important thing I learned at today's workshop was:

(Answers on following page)

8. One way that the workshop could be improved is:

(Answers on following page)

9. This workshop attempts to transfer experience developed in Western countries with market economies. What aspects of this workshop or this experience are relevant or irrelevant to Hungary?

(Answers on following page)

10. I would recommend this workshop to a friend. Yes [14] No []

Why or why not: _____

(Answers on following page)

7. Enough time must be (should have been) given to the experiential exercises.

The importance of consensus.

There is a lot of knowledge stored in human communities, which must be brought to the surface. I have learnt how it is possible to choose the most optimal from among several ideas, which can be accepted by everybody, and then the participants are able to act together in order to achieve the targeted solution.

Summary of the experiential exercises.

"the good trainer learns all his life"

The decision based on consensus is more valuable than a voting because it will not exclude anybody, what's more it involves the participants and makes them more active in the process of execution. Better results can be expected. A collective decision is better than decisions by individuals.

More intense analytical thinking. Tolerance, listening to others. Practical things: using flip charts, timing.

It is important to identify and solve a specific problem but it would also be important to practice the procedure on a simple, abstract problem.

The loudest person is not always right. (He/she should not have been agreed to.)

The opposition to the decisions on the basis of consensus. Identifying causes and effects.

8. There should be a better example to brainstorming. I did not understand the "two facts (truth) - one lie" idea.

The more experiential exercises the participants do the more successful they would feel.

Stronger dynamics between theory and practice, if possible. Though it is more difficult to create long lasting interest in a group of employees. Is it possible to break it down into smaller units?

More life like example should be used.

Joint venture: one foreign trainer + one Hungarian trainer ("in consensus")

The examples used should be more related to Hungary.

Participation at general assemblies of companies and ESOP members' meetings.

I would like to see more experiential exercises. (Repeats again).

Create a kind of check-list of the microsteps standing between the larger steps.

More time.

9. All are important but it is not enough to use the solution in practice.

It would be important to disseminate the method of decision making on the basis of consensus in Hungary.

Training like this are not well-known in Hungary yet. I think it would be more useful to use problem-examples drawn directly from working environment.

Training that teaches how to teach problem solving.

They are all important but in an adapted way.

I think it is important to get to know the American inwardness.

All part are important - there could be more experiential (practical) examples. (Repeats again.)

10. See 9.

He could learn from it.

The more widespread the more useful.

He can acquire new knowledge.

He should not miss something good.

The workshop conveyed new, useful knowledge and even tried to change the way of behavior.

In addition to the autocratic management style it is wise for him to learn something different.

EMPOWERMENT

TRAINER'S GUIDE AND PARTICIPANTS' HANDOUTS

COOPERS & LYBRAND/CHEMONICS INTERNATIONAL

JUNE 1995

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EMPOWERMENT

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Note: time limitations did not allow completion of the text section of this module.

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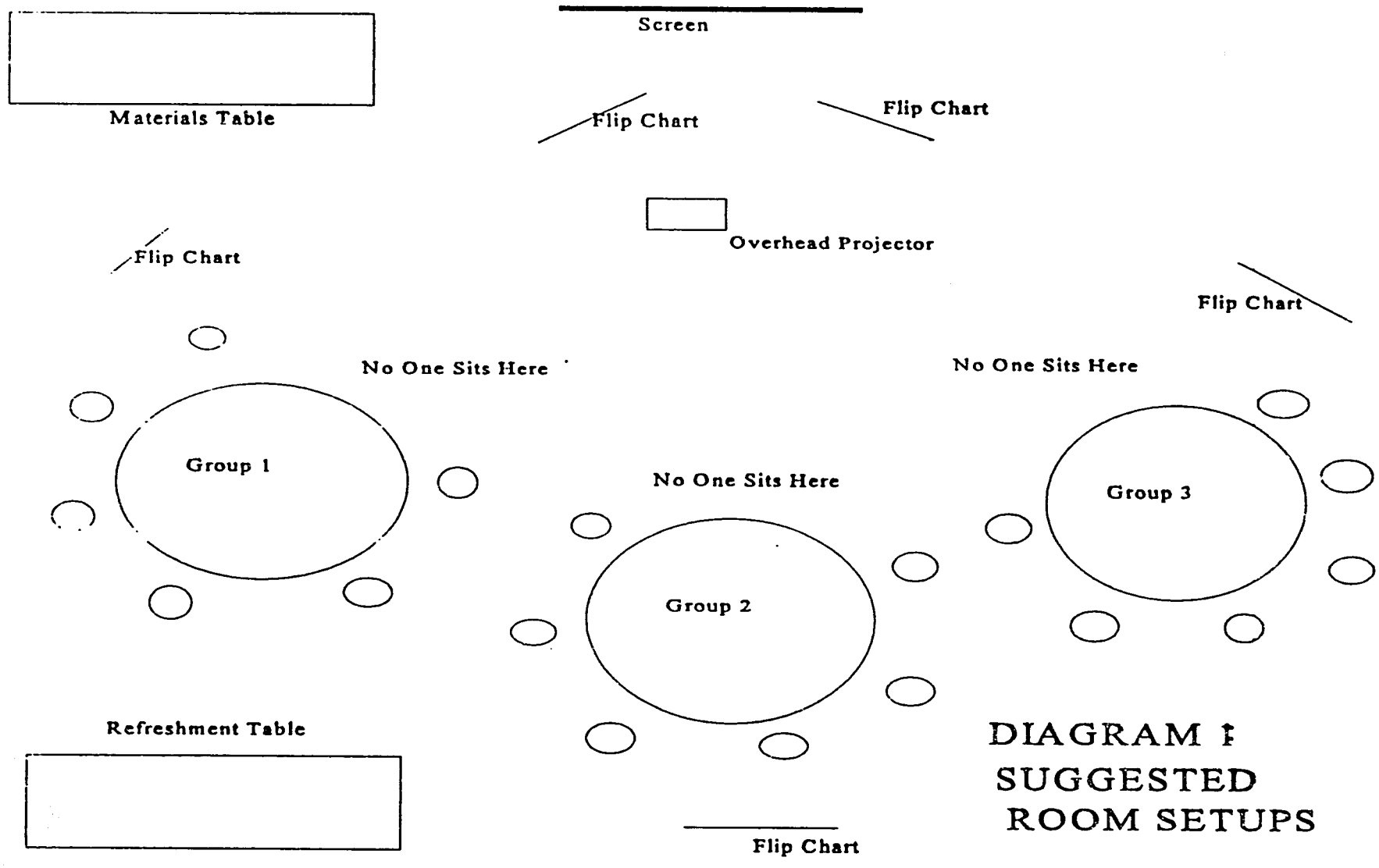


DIAGRAM 1
SUGGESTED
ROOM SETUPS

ARE THE PEOPLE YOU LEAD EMPOWERED?

WHAT DOES YOUR BOSS WANT FROM YOU?

- Get more and better production.
- Satisfy the customers.
- Improve employee morale.
- Beat the competition.

DO MOST OF THE PEOPLE YOU SUPERVISE CARE ABOUT THESE THINGS?
DO THEY REALLY GET EXCITED ABOUT THEIR WORK?
WHAT THINGS IN THEIR LIVES REALLY EXCITE THEM?

- Things outside of work: family, soccer, going out for a beer...
- Paychecks, vacations, health insurance, pension...
- Jobs are a necessary evil to gain income to pay for the *important* things in life.

DO MOST OF THE PEOPLE YOU LEAD:

... move in slow motion or energetically?
... respond eagerly to your requests for doing a better job or just give you blank looks?
... take on responsibility for their work or are all problems *your* problems?
... just do enough to get by without getting yelled at or fired or do they eagerly go the extra mile?
... resist improvements and change?
... become motivated or demoralized when you criticize their performance?

IF THE ANSWERS TO THESE QUESTIONS LOOK BAD, CAN THINGS GET BETTER?
WHO IS RESPONSIBLE FOR IMPROVING THE SITUATION?
ARE YOU GOING TO:

... wait for management to come up with a solution?
... start looking for a new job in case they do not have a solution?
... just live with things the way they are (and hope the company survives)?

WHAT WOULD YOUR JOB BE LIKE IF THE ANSWERS TO THESE QUESTIONS WERE ALL POSITIVE?

- Performance would improve.
- Your boss would be pleased with your performance.
- You could focus on things you have never had time to focus on before.
- Work would be more fun.

HOW DO YOU FEEL WHEN YOU ARE...

...DEFLATED?	...EMPOWERED?
• Your job belongs to the company.	• Your job belongs to you.
• You are just doing whatever you are told.	• You are responsible.
• Your job does not really matter.	• Your job is important.
• You do not know how well you are doing.	• You know where you stand.
• You always have to keep your mouth shut.	• You have some say in how things are done.
• Your job is something different from who you are.	• Your job is part of who you are.
• You have little or no control over your work.	• You have some control over your work.

WHAT DEFLATES PEOPLE?	WHAT EMPOWERS PEOPLE?
• Confusion	• Direction (clear key result areas, measurements, goals)
• Lack of trust	• Trust
• Not being listened to	• Being listened to
• Bureaucratic office politics	• Upward and downward communications
• Someone solving problems for you	• Solving problems as a team
• No time to work on bigger issues	• Knowledge (skills, training, information, goals)
• Not knowing whether you are succeeding	• Support (approval, coaching, feedback, encouragement)
• "No exception" rules and regulations	• Flexible controls
• A boss taking credit for your ideas	• Recognition for ideas
• Not enough resources to do the job well	• Resources readily available
• Believing that you cannot make a difference	• Teams
• A job simplified to the point that it has no meaning	• Praise
• People treated exactly the same, like interchangeable parts	• Knowing why you are important to the organization

THE FIRST STEPS TO *EMPOWERING* PEOPLE

1 BUILD UP AND MAINTAIN THEIR SELF ESTEEM

Catch people doing something right. Then tell them so.
But, make sure you are giving them positive reinforcement about something specific related to their professional role, not about a non-work related issue like the way they look.

> "You really did a great job helping that new guy learn how to set up the lathe. Your experience makes a difference."

2 LISTEN TO THEM AND RESPOND WITH EMPATHY

Take time to listen to people without judging them or giving advice. Simply try to hear *what* they are saying and *how* they feel about it. Then paraphrase back to them what you heard.

> "You are disappointed because that new machine did not arrive today."

3 ASK THEM TO HELP SOLVE PROBLEMS

People want to feel needed and useful. We like to help. It makes us feel important. It also can reduce the distance between you and them.

4 OFFER THEM HELP WITHOUT TAKING RESPONSIBILITY

Be available as a resource when people need your help, but do not displace them by taking over the task. Sometimes letting people learn from their mistakes is a worthwhile investment for the longterm (though there are *some* mistakes you obviously cannot afford!).

EO-MART IMPLEMENTS EMPLOYEE INVOLVEMENT

You are the afternoon floor crew supervisor at EO-Mart, an employee owned retail department store. While your MRP owns 77% of the stock, your company is still repaying its E-Credit and so only 33% has actually been allocated into individual MRP participant accounts.

Employees know that in two more years they will be voting 76% of the stock directly and they are eagerly looking forward to running the store. Your company president, Kip M. Happy (Kedvcsináló Károly), has been consulting employees on what color to paint the break room and has formed a committee to plan a company picnic. Kip has told you to manage "participatively", too. He says employee involvement is going to make EO-Mart win the competitive battle with the larger national chain department stores nearby.

Your job traditionally has been to make sure that during the afternoon your seven-person crew restocks and straightens out all of the merchandise on the shelves, responds to requests by the cashiers to check prices, sets up new displays, and provides directions to customers looking for particular items.

Last week, for the first time, Kip had a letter distributed to everyone, along with their pay, reminding them that they are the owners and that they need to keep their customers happy. One of your crew, Noah Lot (Mindentudó Márton), mentioned to you, soon after, that customers would be happier if people would take more time to help them out. You told him he was right but did not give it another thought.

Noah has always been hard to manage. While he has always gotten his work done, you rarely see him take to time to give a customer clear directions to an item. In fact, he often appears irritated that the customer even asked. You also suspect him of being responsible for spreading a lot of rumors about management plots against employees. He continually predicts that the MRP will never really be allowed to reach a controlling share of the stock and that management will eventually own the store. Noah has been around for twenty years and other employees seem to look up to him.

The last couple of days, you have received complaints from the evening supervisor that your crew is not getting all of the merchandise restocked and that he has had to keep some people late in order to get things ready for the morning.

After observing your crew for a couple of hours, you notice that they are behind on their work. In fact, they seem to be spending a lot of time talking with customers; even Noah. You ask Al Telya (Arulkodó Áron) why the shelves are not getting restocked on time and he reports that the crew was responding to Kip's letter.

Al says that Noah came up with the idea that customers never have anyone to help them decide which item is best. According to Al, Noah told his co-workers that when he goes to the Big Spender (Luxus) store down the street, there is always a sales person around to answer questions, so he thought we should try it here.

Al claims customers have been very appreciative of his helpfulness. You check with the assistant manager to see if sales have been increasing during the afternoon. She tells you that there has not been a measurable increase.

WHAT STRATEGY WILL YOU USE TO STRAIGHTEN THINGS OUT?

Effective Feedback Is Information Which A Person Receives From Others About What And How To Change

No one likes to change. We would all prefer to hear that what we are doing is wonderful and that we should keep on doing it the way we have always done it. And if this is the *truth*, people *should* give us such positive reinforcement.

However, life is an opportunity to continuously do things better -- and doing things better can be very rewarding.

One tool which can help people recognize ways to improve is ***FEEDBACK***.

Feedback is ineffective when:

... the recipient does not hear it

... it does not include what to change and how to change it

You can help the feedback recipient hear better by:

(1) Meeting with them alone to avoid embarrassing them

(2) Making sure they understand the benefit of changing their behavior

(3) Requesting that they listen to your complete comment and repeat back to you what they have understood, before expressing a defense of their current behavior

When can you give feedback?

(1) **Immediately:** Although feedback should not be a reaction without time for thought, you can prepare feedback on behavior you want to change and wait for the opportunity. This has the advantage of the recipient understanding the connection between the behavior and your feedback.

(2) **By special appointment:** Setting up a meeting to provide feedback indicates that it is important and allows the recipient to focus on what you want to say.

(3) **Regular intervals (reviews):** Knowing that behavior will be reviewed periodically, increases the recipients sense of accountability for following up on the feedback. This may also have the advantage of "institutionalizing" continuous improvement so that receiving feedback becomes more routine and less threatening.

How do you give feedback without lowering self esteem?

(1) **The "sandwich" approach:** Think of at least two positive things that you can tell the recipient in addition to the feedback. Begin with one positive, provide the feedback, and then end on another positive note.

(2) **Be constructive:** Never criticize a behavior if you do not have a specific suggestion for how the behavior can be improved. Remember the purpose of feedback is to change behavior, *not* to increase the frustration a person may feel about an unchangeable behavior.

Will they listen to *me*?

You can increase the likelihood that your feedback will be considered more seriously if you:

(1) Make it a daily practice to "catch the recipient doing something right" and praising them for it so that your constructive criticism is not the dominant portion of your communication with the recipient.

(2) Do not try to change everything at once. Provide feedback on no more than three behaviors at a time. When progress is made and the recipient can see the rewards, move to additional behaviors.

EO MANUFACTURING STARTS A TEAM

You supervise Ken Krisp (Pedáns Péter), a five year veteran in the welding department. All of the welders are stationed at different parts of the shop and Ken is used to working alone most of the day. Ken is very meticulous and efficient; he is extraordinarily safety conscious. His work station is always neat and orderly and he always wears his safety equipment. Two years ago, Ken won a company-wide award for the highest volume of welds with the lowest rate of defects. Ken is particularly skilled in difficult welding jobs. Over the past few years, he has gained a reputation in the shop as the welding wizard.

Three months ago, your general director, Bill I. Nobest (Nagyokos Norbert), attended a workshop at the MRP Association about self-directed work teams and decided to change things immediately. When Bill returned, he called all of the welders together from all over the shop and told them to work together. While the other four welders have been with the company for fifteen to twenty years, Ken came to the company with two years of specialized training from Modern Welders, Kft.

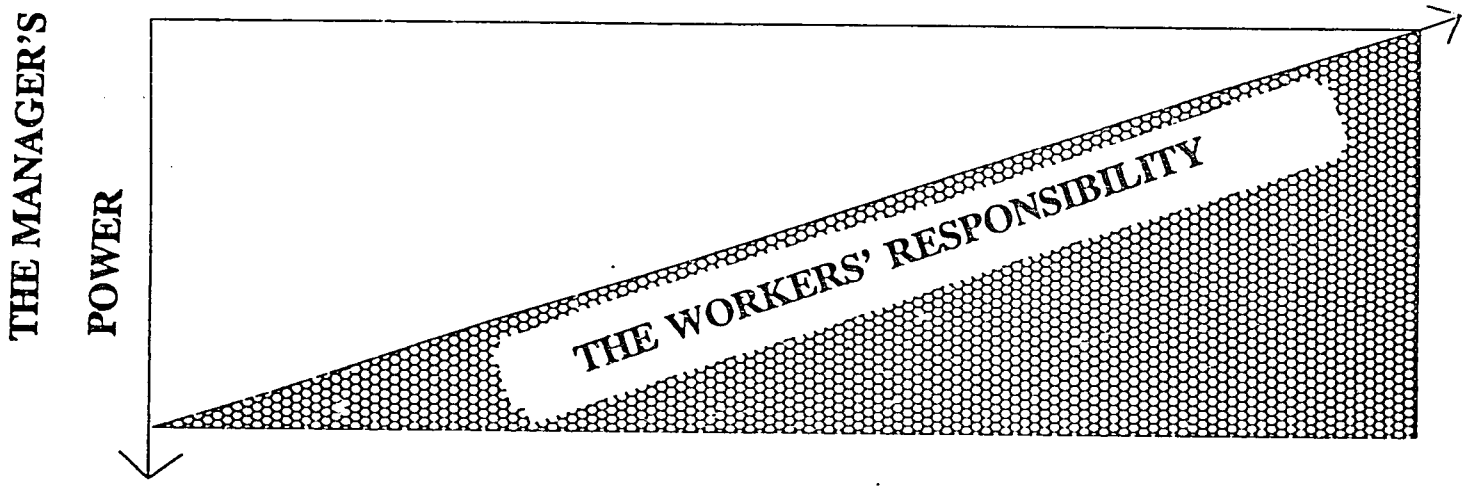
The workplace was redesigned so that the welders could talk to and help each other when necessary. Recognizing Ken's special skills, you asked him last month to help the other welders since they are all in the same location.

Ken has taken the responsibility very seriously (the way he takes everything). He has been nagging his co-workers to use their safety equipment, pointing out the defects in their welds, asking them to clean up their work stations before each break, etc.... Two of the other welders have taken to calling him names, the only one of which can be shared in polite company is "Ken the Mother Hen (Péter a főstréber)."

You look at this month's performance report and find that Ken is performing at his normal level, but that the volume and the quality of the other welders has dipped dramatically. You walk through the shop and find three of the five welders failing to use safety equipment.

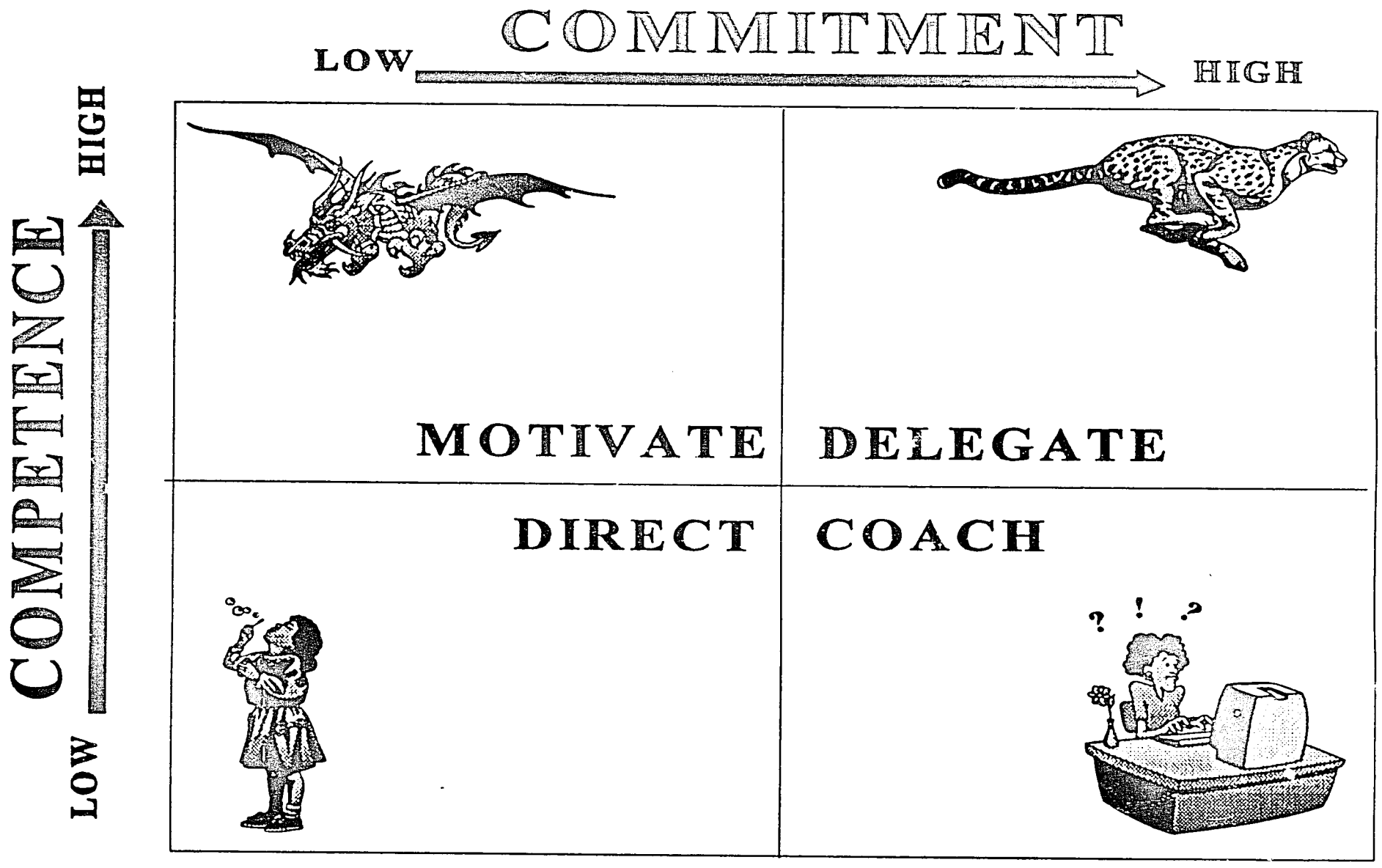
WHAT STRATEGY WILL YOU USE TO ADDRESS THIS SITUATION?

THE MANAGER'S POWER AND THE WORKERS' RESPONSIBILITY



ANNOUNCEMENT -> EXPLANATION -> DISCUSSION -> **DELEGATION**

THE PROPER CHOICE OF MANAGEMENT STYLE, WORKERS' EXPERTISE AND COMMITMENT



GROUP DYNAMICS

Individuals identify problems, generate solutions and make decisions. The advantage of having these activities completed by individuals is that things get done quickly. Groups, on the other hand, take longer to identify problems, generate solutions and make decisions -- Why? Because when more people are involved, more ideas are expressed which takes more time *and* reaching agreement among more people also takes more time.

Of course, the advantage of more ideas is that there is a greater chance that the real problem will be identified and a better solution will be generated. And the advantage of reaching agreement on decisions is that resistance is reduced or eliminated and a commitment to implement them quickly is shared by all.

Fortunately, there are ways to reduce the biggest disadvantage of groups -- wasting time. We can use our time more efficiently and effectively if we understand group dynamics. Two important aspects of group dynamics are:

* Stages of Group Development
* Roles of Group Members

Stages of Group Development

Groups are not simply collections of individuals, they are a separate entity with a life of their own. Many groups tend to follow a similar pattern in their development. One way to describe this are the following four stages:

(1) Getting to Know Each Other and Understanding the Task of the Group

(2) Attempting to Establish Personal Influence and Power

(3) Working Together and Being Open to Each Others' Differences

(4) Feeling Successful Together

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Stage 1 - Getting to Know Each Other and Understanding the Task of the Group	Stage 2 - Attempting to Establish Personal Influence and Power
(1) Anxious members want to feel included and accepted, so they act polite and superficial, identify similarities and check for compatibility; confused members want to know the goals and objectives	(1) Members now feel more secure and are willing to risk being in conflict with other members in order to enhance their own power and influence
(2) Members are willing to follow anyone who can provide clarity and guidance	(2) Members rebel against their earlier feelings of dependency and attack anyone who tries to lead the group
(3) By the end of this stage, members know what is expected of them and the group's goals and objectives; they have decided whether they are willing to meet these expectations and work on the group's task	(3) By the end of this stage, members will have learned to listen to each other and accept a set of ground rules for how the group will proceed and how decisions will be made
Stage 3 - Working Together and Being Open to Each Others' Differences	**Stage 4 - Feeling Successful Together**
(1) Members now feel secure, having established mutual respect, shared leadership and a clear set of guidelines	(1) Members feel affection for each other, unity and competence due to their joint successes as well as having lived through some difficult moments together; there is a high level of trust morale and synergy
(2) Members share leadership using active listening, open mindedness, acceptance of different value systems; they can focus on the task	(2) Effective shared leadership continues smoothly
(3) By the end of this stage, members will have successfully accomplished at least one of their key objectives	(3) At this stage, the group works effectively together; however, the addition of a new member or the loss of an original member can take the group back to previous stages

Roles of Group Members

What Role Do I Play in the Group?

Our meetings will be most effective when each member is aware of all the ways that he or she can contribute constructively. At the same time, each member needs to understand what kinds of behavior damage the effectiveness of the meeting, and what are the emotional issues which tempt us to misbehave.

Meeting participants can help both moving the task forward and maintaining a pleasant working climate characterized by trust and respect.

Members can move the task forward by:

Initiating: Proposing tasks or goals; defining a group problem; suggesting a procedure or ideas for solving a problem.

Seeking Information or Opinions: Requesting facts; seeking relevant information; asking for expressions of value; seeking suggestions and ideas.

Giving Information or Opinions: Offering facts; providing relevant information; stating beliefs; giving suggestions and ideas.

Clarifying: Interpreting ideas or suggestions; clearing up confusions; defining terms; indicating alternatives and issues before the group.

Summarizing: Offering a statement which pulls together the group's discussion in the form of a proposal, decision or conclusion, and asking the group to confirm or reject the accuracy of the statement.

Consensus Testing: Checking to see if all members are willing to support a possible proposal, decision or conclusion despite the legitimate reservations that some members may have.

Members can enhance a climate of trust and respect by:

Peacekeeping: Attempting to reconcile disagreements; reducing tensions with humor.

Allocating Participation: Finding ways to get quieter members to express their ideas while restraining those who tend to monopolize the discussion.

Encouraging: Responding warmly to the input of others; indicating acceptance of their contributions.

Being Flexible: When your idea is in conflict with that of another, looking for alternatives which may give up a part of your position.

Standard Setting and Testing: Testing whether the group is satisfied with its procedures and suggesting alternatives.

Emotional issues like ...

Identity: Not being clear on what my role is in the group.

Goals and Needs: What do I want from the group? Are the groups goals consistent with my own?

Power, Control & Influence: Who will control what we do? How much power and influence do I have?

Intimacy: How personal can we be with each other? How much can we trust each other?

Can produce misbehavior like ...

Rebellion: Opposing or resisting anyone in the group who represents authority.

Fighting and Controlling: Asserting personal dominance, attempting to get one's own way regardless of what others want.

Withdrawing: Refusing to participate actively in the meeting.

Forming Alliances: Seeking out a subgroup of allies within the group who support each other.

CEO RETREAT CASE STUDY

KESZTHELY, HOTEL HELIKON
JUNE 21–24, 1995

Instructions

This case study is a description of a fictional company in Hungary, but you may recognize many of the same conditions you face in the real world. There are two primary objectives for this exercise.

- You will begin to use and experiment with new meeting and problem solving techniques that will help ensure that time is not wasted and that your meetings are productive.
- You will begin to identify some of the primary challenges and some solutions related to creating and changing corporate culture.

To accomplish these goals you should:

1. Read the following case study.
2. Make your own notes and suggestions in response to the following questions.
3. Conduct a group meeting to agree on answers to the following questions that are acceptable for the group. Use the problem solving techniques (i.e., brainstorming, problem identification, and planning) to which you have been introduced.
4. Select a spokesperson to communicate your group's answers to the other participants in a short, 10-minute presentation.

Try to remember all of the positive and negative things that occur related to both conducting meetings and to creating a plan for organizational change.

Your Assignment

You have been selected to be a member of a senior management team who must create a strategy that uses the knowledge and skills of employees to create a better, more efficient company. Because everyone is so busy trying to keep the company going (remember *Zapp*?), you only have **one** 90-minute meeting to put together a strategy and an action plan for turning around the company. The board of directors has no other ideas on what to do to save the company, so they almost have to accept your recommendations. Your job and the future of the company depends on the decisions you reach in the next 90-minutes.

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The Story So Far....

Background History

The Egyesült Herkentyû Mûvek Rt. (EHM Rt.) manufacturing company currently employs about 800 people. Their principle products are parts and control devices for major household appliances. Last year the company was bought out by the ESOP-management consortium, with only a 10% separate minority stake of the management and a 41% ownership stake of the ESOP.

The company has been successful for many years through domestic business in Hungary and regular trade with the other COMECON countries. Following the changes in 1990, the company continued to su. vive during a crisis situation, but the number of parts and products sold has been decreasing steadily. The competition is becoming more fierce, and the quality standards (in both domestic and foreign markets) are getting higher and higher.

The CEO feels trapped. S/he has to increase production and sales to keep up with operating costs, inflation, and the payment of the ESOP loan. The loan grace period will end in nine months, and then payments on the principle will become due. The company is slightly profitable now, but, if things continue the way they are now, they will not be able to make payments on the loan principle. The supervisors have tried everything they know to get people to produce more and raise the level of quality, but nothing has had much effect, as far as anyone can tell.

Information

At EHM Rt., information is power. Upper management has difficulties finding out what products make profits because there is little reliable information about production costs. Six months ago, the CEO of the company issued a letter to all plant managers to report about costs, but to find the real costs on a product basis seems to be impossible because of the internal information and cost accounting system. More than that, front line employees in key positions hide the real data because if efficiency improves, they won't get their highly paid overtime hours at night and during weekends. The most experienced and productive employees are not interested in sharing their skills and knowledge, because they are the ones getting the most overtime pay.

For over two years now, the CEO and some upper managers have felt that they may be producing several products that don't make a profit, but they aren't sure which ones. The employees are also frustrated because they feel management doesn't provide them with the information they need to make good decisions as owners, such as sales figures, market information, pricing information, and internal budget information.

Throughout the past year, some supervisors have expressed an interest in gathering product information from current and potential customers on what products and services they feel that they need, but so far no money has been budgeted for that. Customer complaints and suggestions usually don't get beyond the sales representatives and the repair personnel.

Quality and Human Resources

Quality is now the No. 1 issue for management. Customers are beginning to require that products and production procedures meet the ISO 9000 standards, and managers realize that low-quality products cause losses in several ways (i.e., rework, return of products to the manufacturer, and loss of customer). Four months ago, the CEO initiated a survey of quality, waste, and customer satisfaction. S/he found high levels of waste, product defect rates, and customer complaints.

Since the company became an ESOP in 1993, management has expected more effort, enthusiasm and dedication from the employee owners; e.g. they are expected to do some maintenance work and overtime for free. Front line employees would like to see the company to be managed in a different way, but they have no clear ideas on what should be done. At ESOP meetings, many employees have complained that they have good ideas on how to make their jobs easier and more productive, but they don't know what to do to make changes in the company.

Quality control at the manufacturing plant is done by setting a part-rejection rate of not more than 10%. These standards are enforced by firing or penalizing employees who work on shifts that don't meet the 90% rate of acceptance. Training at EHM Rt. has not changed since the early 1980s. Employees are not usually sent to training to improve skills or to help build a culture for success. There are very few training courses offered, and many managers feel that it would be a waste to put more money into training.

Problems

The CEO has continued to try to find solutions to the efficiency problems, but has been unable to move things forward. Two months ago, s/he appointed a task force (which YOU are now on) to come up with a plan to save the company.

Right now the company does not have liquidity problem, but its liabilities are dangerously high. To attract a sympathetic investor to raise the capital on fair terms seems to be extremely difficult if not impossible. The CEO and other upper managers have made it clear that problems related to information, production efficiency, quality, and the ESOP decision making process should all be addressed in the plan. If the company production and efficiency are not transformed, it will have to borrow money or find institutional investors who will provide capital to be able to support the ESOP payment obligations. Because institutional investors will not invest in an unhealthy company, if this transformation plan is not successful, there is a strong possibility that the ESOP will not be able to make the next payment of the loan principle and lose control of the company to strategic investors.

Tasks for the Committee

You will have **90 minutes** to formulate an action plan for saving the company. Remember that your only hope may (or may not) be to increase the performance and efficiency of your employees. They could be your best and most valuable resource. The goal is to increase productivity and profitability by using your human resources and avoid losing control of the company to strategic investors.

At the end of your meeting, you should be ready to make a short 10-minute presentation of your group's plan on a flipchart. You don't *have* to use the following pages to structure your plan, but they may help you organize and communicate your thoughts.

Problems and Solutions

You should agree on at least three primary problems that are threatening EHM Rt.. Your group should then (after brainstorming and discussion) agree on a single solution to the problem. (In real life, of course, there will be more.) How will you know that you solved the problem? Put these ideas in the Evaluation column.

Symptoms (What makes you think there is a problem?)	Problems	Solutions (How will you treat the symptoms and solve the problem?)	Evaluation (How will you know that you've solved the problem?)

Timeline for Change

This kind of chart can be useful to help you plan activities. You can sequence the activities and draw lines to show how long a particular activity will take. The ◆ symbol can be used for meetings or other important dates. Sometimes these are called *milestones*. Here is an example of one task and one milestone on the chart.

Task	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	Week 11	Week 12
Conduct an organizational assessment												
Meeting with CEO, supervisors, union representatives to plan information sharing strategies				◆								

The following chart will give your group a way to plan your actions. This doesn't have to be precise, just estimates of how long certain things will take. Your plan should be in place in three months. Your group should try to plan at least 6-10 steps. You should look at the solutions you decided on before and think of the activities and decisions you want to make to make your solutions a reality.

Task	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	Week 11	Week 12

Instructional Design Brief

for an

ESOP Employee Orientation Training Course

July 17, 1995

Instructional Design Brief

for an

ESOP Employee Orientation
Training Course

by

Paul Roehrig

Submitted to the Share Participation Foundation
(Rész-Vétel Alapítvány)

July 17, 1995

Introduction

The purpose of this Instructional Design Brief is to clarify the Instructional Goals, Objectives, and Management Plan related to the ESOP Employee Orientation Training Course. This document provides a detailed description of the course content, sequence, and skills associated with the training intervention.

This document will provide guidelines for instruction, indicating what skills and attitudes employees will have after receiving the training. Assessment of training, both during and after the training sessions will be conducted.

Scope

The Share Participation Foundation has expressed a commitment to providing training interventions that facilitate the operation of employee-owned companies in Hungary. One of the first steps in diffusing the knowledge and attitudes related to employee ownership is an orientation to how companies function when employee owned and the strengths, weaknesses, rights and responsibilities, and worker role related to employee ownership.

Purpose

The purpose of the training is to ensure that all employees in ESOP organizations have the proper skills and attitudes to begin to participate in the operation of the company as both an owner and a job-holder.

Educational Goal

All ESOP employees will have a basic understanding of the operation of ESOP companies and have an awareness of their roles and a willingness to participate in the management of the company as both an owner and a job-holder.

Instructional Goals

Upon the completion of the instruction, learners will be able to perform the following:

1. Employees will demonstrate their knowledge of basic ESOP terms, concepts, and rights.
2. Employees will demonstrate their knowledge of their roles and participation in an ESOP company.
3. Employees will demonstrate an understanding of the value of participation in the ESOP governance process.

Learner and Trainer Characteristics

Recipients of this training are presumed to be all employees of Hungarian ESOPs. The assumption is that they have basic literacy skills. The training is not specific to any industry or company, but is designed to be offered to all Hungarian ESOP employees.

It should be noted that the trainers who will offer the training will be less experienced, so the materials will carefully guide trainers through the process and include extensive content descriptions.

PERFORMANCE OBJECTIVES

Instructional Goal #1

Employees will demonstrate their knowledge of basic ESOP terms, concepts, and rights.

Performance Objectives

1a. Given a series of multiple choice questions, employees will select the correct ESOP term definitions.

1b. Given an open-ended question, employees will be able to roughly describe that an ESOP company is "a financial, financing and structural technique that makes it possible for the employees of a company to become individual share owners in an organized way in the employer company."

1c. Given a series of multiple choice questions, employees will be able to correctly identify the definitions of their general rights as employee owners. These include: right to information; right to participate in the decision process; right to buy and sell shares; rights connected to owning a share of stock.

Instructional Goal #2

Employees will demonstrate their knowledge of their roles and how to participate in an ESOP company.

Performance Objectives

2a. Given a list of work environment categories, employees will be able to briefly define each of the items.

2b. Given an open-ended question, employees will be able to correctly describe some of the ways management can use new techniques to create a good work environment.

2c. Given a "balance beam" diagram between high and low impact participation, employees will be able to indicate their own work environment and justify their answer.

2d. Given an open-ended question, employees will be able to correctly list several types of job-related, shop floor decisions they could be responsible for in a participative environment.

2e. Given an unlabeled diagram of the "ideal" ESOP representation structure and the list of correct answers, employees will be able to correctly label all of the steps of representation as an employee-owner.

2f. Given an open-ended question, employees will be able to correctly identify several possible communication channels that can be used to participate in management and operations (job related and employee-owner related).

2g. Given a "balance beam" between democratic and non-democratic ownership participation, employees will be able to indicate their own work environment and justify their answer.

Instructional Goal #3

Employees will demonstrate an understanding of the value of participation in the ESOP governance process.

Performance Objectives

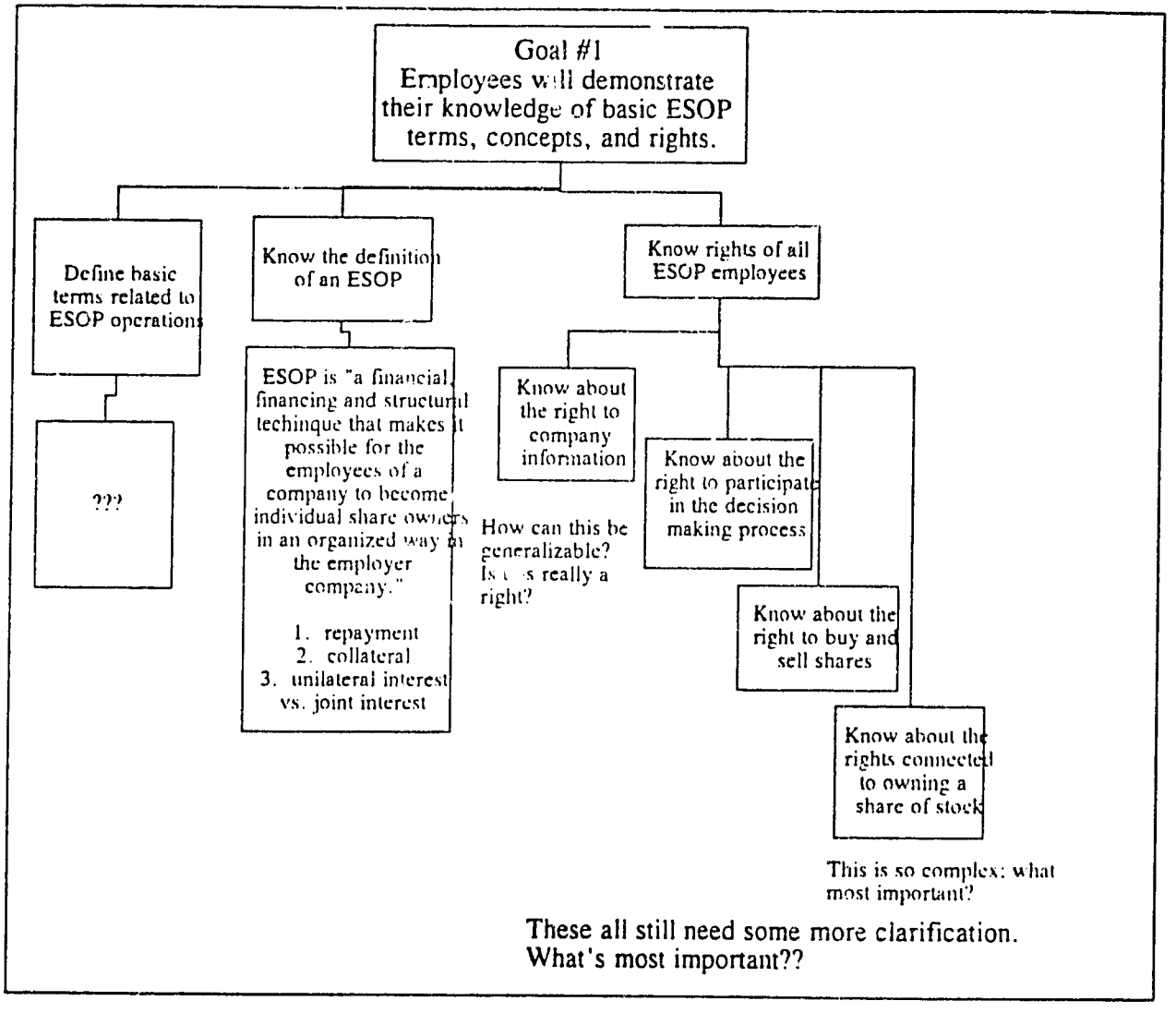
3a. Given an open-ended question, employees will be able to list at least two potential company costs of non-participation in ESOP management.

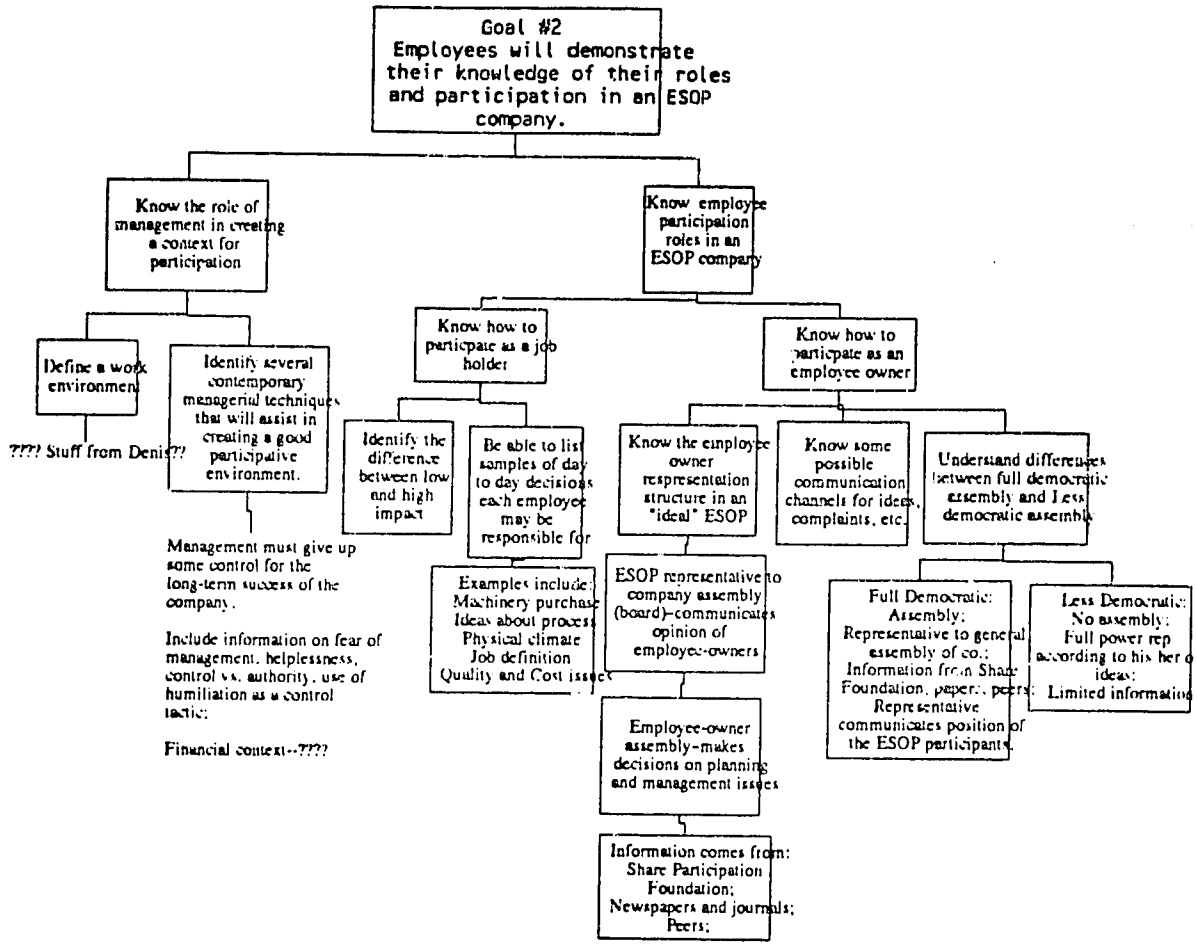
3b. Given an open-ended question, employees will be able to list at least two personal costs of non-participation in ESOP management.

3c. Given an open-ended question, employees will be able to list at least two potential company benefits of participation in ESOP management.

3d. Given an open-ended question, employees will be able to list at least two personal benefits of participation in ESOP management.

INSTRUCTIONAL ANALYSIS DIAGRAMS




Goal #2
Employees will demonstrate their knowledge of their roles and participation in an ESOP company.
Know the role of management in creating a context for participation
Know employee participation roles in an ESOP company
Define a work environment
Identify several contemporary managerial techniques that will assist in creating a good participative environment.
???? Stuff from Denis??
Management must give up some control for the long-term success of the company.
Include information on fear of management, helplessness, control vs. authority, use of humiliation as a control tactic;
Financial context--????
Know how to participate as a job holder
Know how to participate as an employee owner
Identify the difference between low and high impact
Be able to list samples of day to day decisions each employee may be responsible for
Examples include: Machinery purchase Ideas about process Physical climate Job definition Quality and Cost issues
Know the employee owner respresentation structure in an "ideal" ESOP
Know some possible communication channels for ideas, complaints, etc.
Understand differences between full democratic assembly and Less democratic assembly
ESOP representative to company assembly (board)--communicates opinion of employee-owners
Employee-owner assembly--makes decisions on planning and management issues
Information comes from: Share Participation Foundation; Newspapers and journals; Peers;
Full Democratic: Assembly: Representative to general assembly of co.; Information from Share Foundation, papers, peers; Representative communicates position of the ESOP participants.
Less Democratic: No assembly: Full power rep according to his/her o ideas: Limited information

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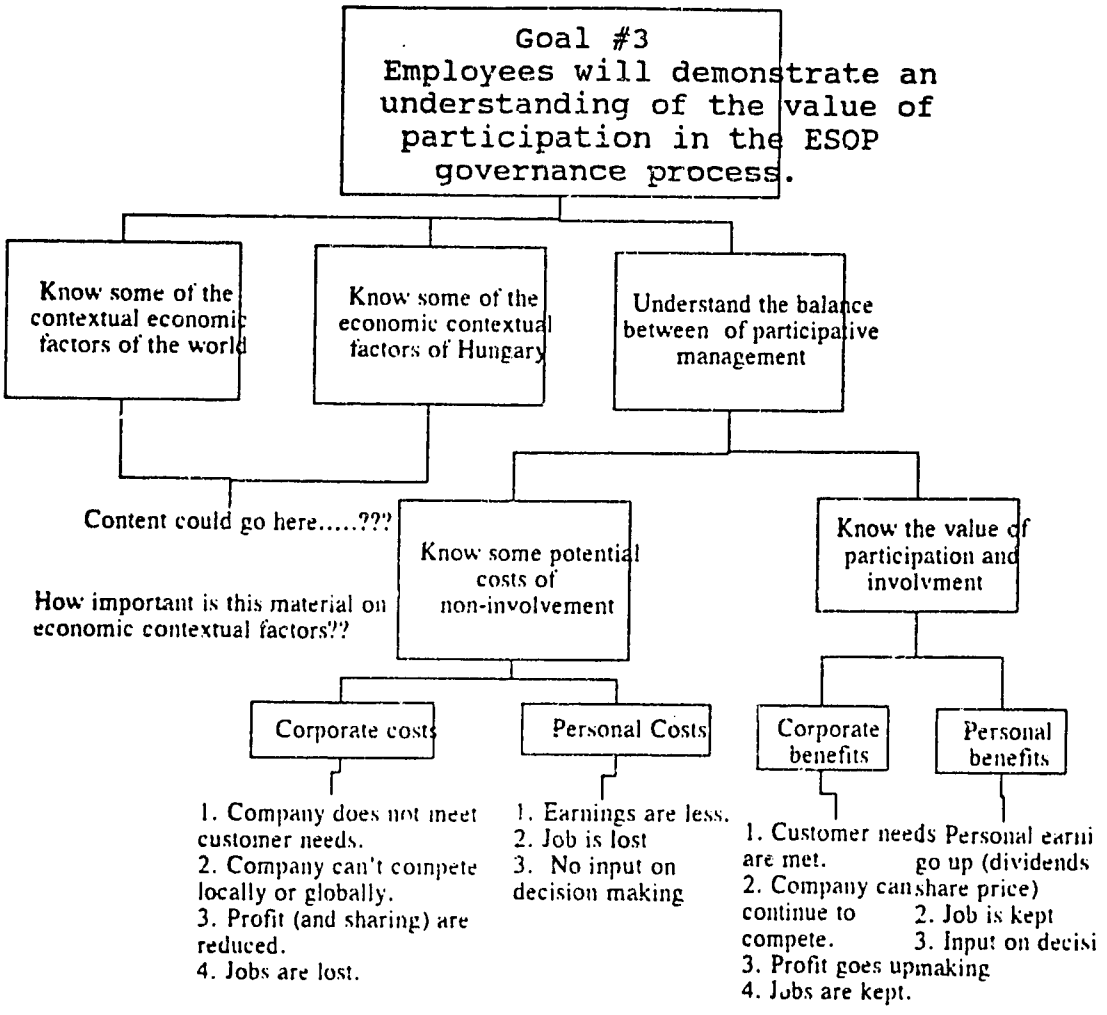
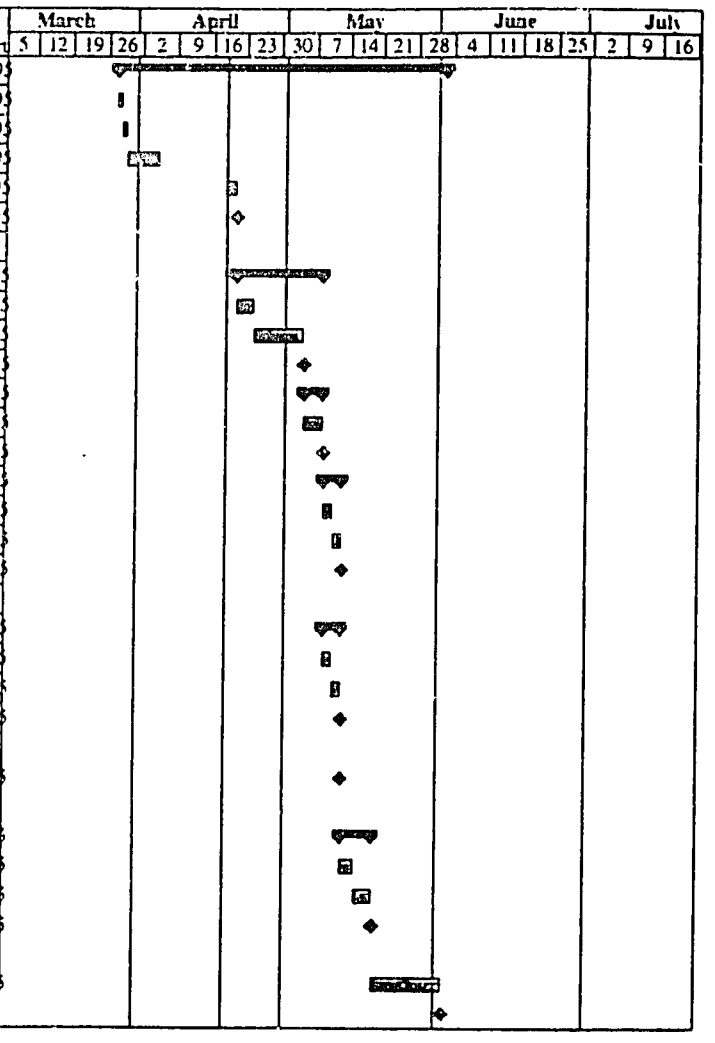

Goal #3
Employees will demonstrate an understanding of the value of participation in the ESOP governance process.
Know some of the contextual economic factors of the world
Know some of the economic contextual factors of Hungary
Understand the balance between of participative management
Content could go here.....???
How important is this material on economic contextual factors??
Know some potential costs of non-involvement
Know the value of participation and involvment
Corporate costs
Personal Costs
Corporate benefits
Personal benefits
1. Company does not meet customer needs.
2. Company can't compete locally or globally.
3. Profit (and sharing) are reduced.
4. Jobs are lost.
1. Earnings are less.
2. Job is lost
3. No input on decision making
1. Customer needs are met.
2. Company can continue to compete.
3. Profit goes up
4. Jobs are kept.
Personal earni go up (dividends share price)
2. Job is kept
3. Input on decisi making

MANAGEMENT PLAN

ID	Name	Duration	Sched. Start
1	ESOP Orientation Training	49d	Mar 27 '95
2	Create Project Man. Plan	1d	Mar 27 '95
3	Creat Inst. Design Brief	1d	Mar 28 '95
4	Inst analysis diag.	5d	Mar 29 '95
5	Course Objectives	2d	Apr 18 '95
6	Janos & Ilona Sign-off on Brief	0d	Apr 20 '95
7			
8	Instructor Guide	12d	Apr 20 '95
9	Design Inst. Guide	2d	Apr 20 '95
10	Lesson Plan	8d	Apr 24 '95
11	Share sign off on lesson plans	0d	May 4 '95
12	Test Items	2d	May 4 '95
13	Develop CRT Items	2d	May 4 '95
14	Test Items Complete	0d	May 8 '95
15	Develop Student Course Eval.	4d	May 8 '95
16	Develop Instructor Course Eval	2d	May 8 '95
17	Final Instructor Guide Revisions	2d	May 10 '95
18	Share Sign off	0d	May 12 '95
19			
20	Student Guide Development	4d	May 8 '95
21	Design Student guide job aids	2d	May 8 '95
22	Develop student guide	2d	May 10 '95
23	Share Sign off	0d	May 12 '95
24			
25	Share Sign off on all materials	0d	May 12 '95
26			
27	Field Trial	5d	May 12 '95
28	Conduct field trial (Michael)	1d	May 12 '95
29	Generate field trial eval. report	4d	May 15 '95
30	Field Trial Complete	0d	May 19 '95
31			
32	Conduct Materials Revisions	10d	May 19 '95
33	Share Sign off on Orientation	0d	Jun 2 '95



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PD-ABL-996

Enterprise Restructuring and Privatization for Central and Eastern Europe: Hungary

Accelerating Privatization in Hungary and Enhancing Post-Privatization Viability (IMPACT II)

U.S.Agency for International Development
Delivery Order #17

Contract No. EUR-0014-C-00-1058-00

Prepared by: Coopers & Lybrand, L.L.P.
and Chemonics International

September 29, 1995

Volume 4 of 4

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Coopers & Lybrand Consulting

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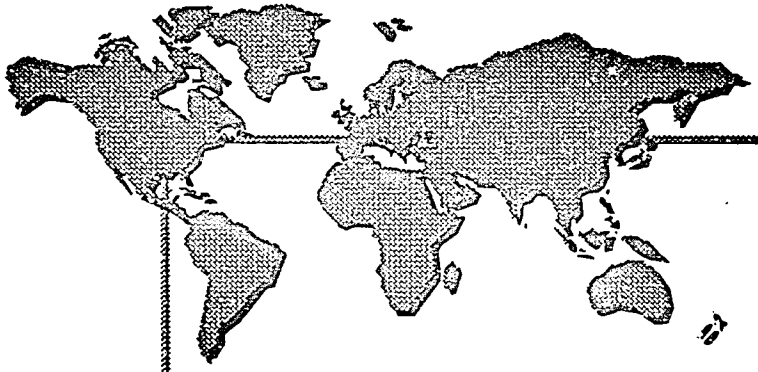
C.4 ESOP COMPUTER SYSTEMS

NOT REQUESTED BY THE AVRT OR ITS SUCCESSOR AGENCY AS DISCUSSED IN THE APPROVED WORKPLAN

A.4 ADDITIONAL METHODOLOGIES



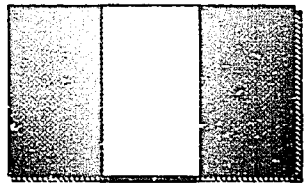
HUNGARIAN INVESTMENT FUND
Pre-feasibility Analysis

Draft

Privileged and Confidential

IMPACT II TECHNICAL ASSISTANCE PROGRAM

SPONSORED BY THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT



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Hungarian Investment Fund
Impact II Technical Assistance Program

Summary of Analysis 1

Assumptions and Analysis 2

Projections for Portfolio Companies 3

4

5

6

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MEMORANDUM

To: Dr. Kazár Péter, Director, Portfolio Management Directorate, SPA
Dr. Gál Csaba, Managing Director, Property Transfer Directorate, AVRt

From: James E. Shields

Project: Impact II Technical Assistance Program
Sponsored by the U.S. Agency for International Development

Date: December 13, 1994

Subject: **PROPOSED HUNGARIAN INVESTMENT FUND**

Attached is a revised draft of the Hungarian Investment Fund Model. This model is part of a pre-feasibility study, conducted by the Impact II project team, which focuses on the merits of using an investment fund as a vehicle for privatizing state-owned enterprises and raising foreign currency. The revised model differs from the previous version in two material aspects; 1) company financial information was updated using expected 1994 financial data (the previous draft used actual 1993 financial information) and 2) a sensitivity analysis is included.

As in the previous draft, the model estimates 1) the amount of foreign currency which the Government of Hungary ("GOH") could raise by selling shares in a fund with minority interest in a diversified group of state-owned enterprises and 2) the discount, relative to book value, which would result from the sale of these shares.

The following methodologies and assumptions were used in the model:

- Each state-owned company included in the fund is a "going concern" and will continue to operate as a "going concern" in future. This implies that each company will have a higher "going concern value (or discounted cash flow value)" than "liquidation value".

- Because each company is a "going concern", the Discounted Cash Flow ("DCF") valuation method was used to estimate each company's value. Cash flow projections for each company for years 1995-2002 were estimated by making adjustments to expected 1994 financial information (provided by the AV Rt.) based on assumptions about sales growth, gross profit margin, capital expenditures, depreciation and other operating and financial assumptions.

- At the end of year five, it is assumed that each company included in the fund will offer shares to the public through an initial public offering ("IPO"). At the time of the IPO, the investment fund will divest of its interest in the companies with the proceeds from the divesture going to the fund's investors. The proceeds from the divestiture is included in the DCF valuation.

- To determine the company's discount, the DCF valuation for each company was compared to the company's equity book value. A weighted average discount was then calculated for the fund using each company's book value as the weight.

- Interest rate parity was used to estimate the devaluation of the forint for each period. Because there is a risk premium associated with investing in Hungary versus the US or Germany, this method results in a devaluation rate of the forint which is greater than the relative difference between Hungary's inflation rate and the inflation rate in either the U.S. or Germany. As a consequence, in the model, the relative value for those companies which sell their products for foreign currency will be higher than those which are purely domestic companies or purchase their raw material in foreign currency.

  We are waiting to receive additional information from the Av Rt. concerning foreign currency sales and purchases for each company. Presently, in the model we have estimated this data for each company based on our knowledge of each company's industry. Obtaining accurate information about foreign currency sales and purchase is critical to presenting an accurate account of the investment fund.

Other observations:

- The companies included in this investment fund analysis may not be the optimum company's which should be included in a fund to be marketed to western investors. To identify the optimum companies, research and analysis of the Av Rt. and SPA portfolio's will be required. In addition, the model assumes that the fund holds a 15% interest in each company. In reality, the percent interest which the fund could hold in each company may be varied to optimize the portfolio for western investors.

- Since significant legal, accounting, financial, and structural issues need to be resolved before an investment fund could be established, it is advisable that the GOH retain a reputable investment banker to assist the Government if it decides to proceed with the investment fund. The entire success and creditability of the fund may depend on retaining the appropriate investment bank to assist it in marketing the fund. The Impact II project team stands ready to assist you in this endeavor if you desire.

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- Because the fund will be marketed to financial investors, the shares of the companies to be included in the fund will be sold at a greater discount to book value than if the GOH sold each of the company's shares individually to a strategic investor. If after establishing the investment fund, the GOH wants to sell its remaining shares to a strategic investor, that option will still be available. The discount which the GOH would receive from selling its remaining shares to a strategic investor would not be adversely effected by the previous sale (at a higher discount) to a minority financial investor. This primarily due to two reasons:

    1) Since a variety of companies will be included in the fund, it would be impossible for a strategic investor to discern the discount assigned to one particular company.

    2) Strategic investors look at a wide range of issues and investment parameters which financial investors do not include in their analysis. As a consequence, it is generally accepted in western capital markets that strategic investors with a large stake in a company will demand less of a return on their capital than a minority financial investor.

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Macroeconomic Assumptions

		Projected Year Ending							
		1	2	3	4	5	6	7	8
	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Hungarian inflation rate	20.0%	18.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
US inflation rate	3.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
End of period exchange rate (HUF/$US)	107	125	142	161	183	208	237	269	306
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
$US interest rate	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
German inflation rate	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
End of period exchange rate (HUF/DM)	70	83	96	112	129	150	174	201	233
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
DM interest rate	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Country risk premium ($US interest rate)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Local investing rate	26.0%	23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Local borrowing rate	31.0%	28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Hungarian inflation factor	1.000	1.190	1.386	1.594	1.833	2.108	2.424	2.788	3.206
US inflation factor	1.000	1.032	1.069	1.106	1.145	1.185	1.226	1.269	1.314
German inflation factor	1.000	1.025	1.051	1.077	1.104	1.131	1.160	1.189	1.218
Net income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding taxes		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%

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Comparison of Investment Fund Alternatives

Equity Fund:

Assumptions:

Discount rate used to determine the expected proceeds to be received from issuance of shares in the Hungary investment fund:

Estimated return of S&P 500 over 40 years	18%
Private company sub-debt/preferred stock	25%
Equity venture capital expected returns	30%-40%
Estimate of return required for Hungary Inv. Fund	40.0%

Other assumptions:

Estimated year of IPO	5
P/E Ratio	12
% Ownership in State Companies	15.0%
Discount for Private Company/minority	20.0%
Cost of Fund Admin. ($ millions)	1.5

Results:

All companies	
Net funds raised	286
Weight average premium/(discount) to book value	-77.7%
Excluding MOL, Matav	
Net funds raised	110
Weight average premium/(discount) to book value	-83.4%

Debt: – backed by equity shares **Sovem Debt**

Assumptions:

Debt service coverage ratio	1.25	
Cost of Fund Admin. ($ millions)	1.5	
Estimate – LIBOR	6.0%	6.0%
Country risk premium ($US interest rate)	3.0%	3.0%
Estimated interest rate on bonds	9.0%	9.0%

Results:

All companies		
Proceeds from bond offering	--	300
Excluding MOL, Matav		
Proceeds from bond offering	--	

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Equity Fund

Company –Portfolio (1)	Amort. Schedule of Long–Term Debt (years)	P/E Ratio at Public Offering	IPO (year)	Discount Rate	Percent Owner–ship	Private Company/ Minority Ownership Discount	Total Net Present Value of Company (HUF mm)	Net Present Value of Ownership Interest (HUF mm)	Net Present Value of Ownership Interest ($ mm)	Book Value of Ownership Interest (HUF mm)	Value as % of Total Portfolio	Market Value (Discounted) Premium to Book Value
MOL Rt. – Energy	30	12	5	40.0%	15.0%	20.0%	36,095	4,331	40	39,559	14.1%	–89.1%
MVM Rt. – Energy	30	12	5	40.0%	15.0%	20.0%	1,899	228	2	45,738	0.7%	–99.5%
Tiszantuli Gazszolgaltato Rt. – Energy	30	12	5	40.0%	15.0%	20.0%	502	60	1	3,771	0.2%	–98.4%
Eszakdunantuli Gazszolgaltato Rt. – Energy	30	12	5	40.0%	15.0%	20.0%	(251)	(30)	(0)	1,232	–0.1%	–102.4%
Matav Rt. – Infrastructure (2)	30	12	5	40.0%	15.0%	20.0%	120,934	14,512	136	26,944	47.2%	–46.1%
Malev Rt. – Infrastructure (2)	30	12	5	40.0%	15.0%	20.0%	23,546	2,826	26	2,393	9.2%	18.1%
Antenna Hungaria Rt.. – Infrastructure	30	12	5	40.0%	15.0%	20.0%	9,355	1,123	10	1,678	3.7%	–33.1%
Richter Gedeon Rt. – Industry	30	12	5	40.0%	15.0%	20.0%	39,779	4,774	45	4,048	15.5%	17.9%
Biogal Rt. – Industry	30	12	5	40.0%	15.0%	20.0%	7,087	850	8	930	2.8%	–8.6%
Ikarus Rt. – Industry	30	12	5	40.0%	15.0%	20.0%	(1,418)	(170)	(2)	1,230	–0.6%	–113.8%
Borsodchem ig. – Industry	30	12	5	40.0%	15.0%	20.0%	4,173	501	5	1,513	1.6%	–66.9%
Raba Rt. – Industry	30	12	5	40.0%	15.0%	20.0%	8,307	997	9	2,748	3.2%	–63.7%
Hungarpharma Rt. – Pharmaceutical	30	12	5	40.0%	15.0%	20.0%	316	38	0	1,503	0.1%	–97.5%
Babolna Rt. – Agriculture (3)	30	12	5	40.0%	15.0%	20.0%	1,293	155	1	1,894	0.5%	–91.8%
Penzjegynyomda Rt. – Trademark	30	12	5	40.0%	15.0%	20.0%	1,532	184	2	691	0.6%	–73.4%
Szikra Ladnyomda Rt. – Culture	30	12	5	40.0%	15.0%	20.0%	1,098	132	1	500	0.4%	–73.7%
Kalocsakornyeki Agraripari Rt. – Trademark	30	12	5	40.0%	15.0%	20.0%	918	110	1	154	0.4%	–28.3%
Erdert Rt. – Forest Products	30	12	5	40.0%	15.0%	20.0%	(586)	(70)	(1)	860	–0.2%	–108.2%
Zsolnay Porcelangyar Rt. – Trademark	30	12	5	40.0%	15.0%	20.0%	170	20	0	109	0.1%	–81.2%
Vadex Rt. – Forest Products	30	12	5	40.0%	15.0%	20.0%	361	43	0	165	0.1%	–73.7%
Balatonfelvideki Erdo es F. Rt. – Forest Prod.	30	12	5	40.0%	15.0%	20.0%	1,142	137	1	516	0.4%	–73.4%
						Total	256,252	30,750	287	138,176	100.0%	–77.7%
						Total excluding MOL Rt. and Matav Rt.	99,223	11,907	111	71,673		–83.4%

(1) Except as otherwise noted, projected cash flows for years 1995 to 2002 were derived using estimated 1994 financial statements as a base.
(2) Projected cash flows for years 1995 to 2002 were derived using budgeted 1994 financial statements as a base.
(3) Projected cash flows for years 1995 to 2002 were derived using actual 1993 financial statements as a base.
Note: The discounted cash flow valuation method was used to estimate each company's value.

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Equity Fund – Sensitivity Analysis

		P/E Ratio					
		10		12		14	
		Value	Discount	Value	Discount	Value	Discount
Base Case		253	–80.4%	276	–78.6%	300	–76.8%
Sales Growth (% over base case)	1.0%	263	–79.7%	287	–77.7%	312	–75.8%
Discount Rate	30.0%						
Country Risk Premium	--	410	–68.3%	454	–64.8%	498	–61.4%
	3.0%	320	–75.2%	354	–72.6%	387	–70.0%
	6.0%	259	–79.9%	288	–77.7%	318	–75.4%
Discount Rate	40.0%						
Country Risk Premium	--	319	–75.3%	349	–72.9%	380	–70.6%
	3.0%	253	–80.4%	276	–78.6%	300	–76.8%
	6.0%	207	–83.9%	227	–82.4%	248	–80.8%
Discount Rate	50.0%						
Country Risk Premium	--	258	–80.0%	279	–78.4%	301	–76.7%
	3.0%	208	–83.9%	225	–82.6%	241	–81.3%
	6.0%	173	–86.6%	187	–85.5%	201	–84.4%

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Debt fund -- backed by equity shares

	Company -Portfolio	Ownership Interest	Projected Dividends – Year Ending 1 Dec-95	2 Dec-96	3 Dec-97	4 Dec-98	5 Dec-99	6 Dec-2000	7 Dec-2001	8 Dec-2002
1	MOL Rt. – Energy	15.0%	--	--	--	--	--	--	--	--
2	MVM Rt. – Energy	15.0%	--	--	--	--	--	--	--	--
3	Tiszantuli Gazszolgaltato Rt. – Energy	15.0%	--	--	--	--	--	--	--	--
4	Eszakdunantuli Gazszolgaltato Rt. – Energy	15.0%	--	--	--	--	--	--	--	--
5	Matav Rt. – Infrastructure	15.0%	--	--	--	--	--	--	--	--
6	Malev Rt. – Infrastructure	15.0%	--	--	--	--	--	--	--	--
7	Antenna Hungaria Rt.. -- Infrastructure	15.0%	--	--	--	--	--	--	--	--
8	Richter Gedeon Rt. – Industry	15.0%	--	--	--	--	--	--	--	--
9	Biogal Rt. – Industry	15.0%	--	--	--	--	--	--	--	--
10	Ikarus Rt. – Industry	15.0%	--	--	--	--	--	--	--	--
11	Borsodchem Ig. – Industry	15.0%	--	--	--	--	--	--	--	--
12	Raba Rt. – Industry	15.0%	--	--	--	--	--	--	--	--
13	Hungarpharma Rt. – Pharmaceutical	15.0%	--	--	--	--	--	--	--	--
14	Babolna Rt. – Agriculture	15.0%	--	--	--	--	--	--	--	--
15	Penzjegynyomda Rt. – Trademark	15.0%	--	--	--	--	--	--	--	--
16	Szikra Ladnyomda Rt. – Culture	15.0%	--	--	--	--	--	--	--	--
17	Kalocsakornyeki Agraripari Rt. – Trademark	15.0%	--	--	--	--	--	--	--	--
18	Erdert Rt. – Forest Products	15.0%	--	--	--	--	--	--	--	--
19	Zsolnay Porcelangyar Rt. – Trademark	15.0%	--	--	--	--	--	--	--	--
20	Vadex Rt. – Forest Products	15.0%	--	--	--	--	--	--	--	--
21	Balatonfelvideki Erdo es Fafeldolgozo Rt. – Forest Products	15.0%	--	--	--	--	--	--	--	--
22	OTP Bank Rt. – Banking		--	--	--	--	--	--	--	--
	Total Dividends (HUF – millions)		--	--	--	--	--	--	--	--

FOR INTERNAL USE ONLY: Not compiled or examined by an independent CPA. Projected results cannot be assured.

Debt fund – backed by equity shares

	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
All Companies								
Total Dividends (HUF – millions)	--	--	--	--	--	--	--	--
Average exchange rate (HUF/$US)	116	133	151	172	196	222	253	287
Total Dividends ($US – millions)	--	--	--	--	--	--	--	--
Debt service coverage ratio	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Maximum debt service capacity for each year	--	--	--	--	--	--	--	--
Maximum debt service	--							
Estimate – LIBOR	6.0%							
Country risk premium ($US interest rate)	3.0%							
Estimated interest rate on bonds	9.0%							
Cash flow to bondholders:								
Coupon	--	--	--	--	--	--	--	--
Principal	--	--	--	--	--	--	--	--
Total	--	--	--	--	--	--	--	--
Proceeds from bond offering and discount	--							
Excluding MOL and Matav								
Total Dividends (HUF – millions)	--	--	--	--	--	--	--	--
Average exchange rate (HUF/$US)	116	133	151	172	196	222	253	287
Total Dividends ($US – millions)	--	--	--	--	--	--	--	--
Debt service coverage ratio	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Maximum debt service capacity for each year	--	--	--	--	--	--	--	--
Maximum debt service	--							
Estimated interest rate on bonds	9.0%							
Cash flow to bondholders:								
Coupon	--	--	--	--	--	--	--	--
Principal	--	--	--	--	--	--	--	--
Total	--	--	--	--	--	--	--	--
Proceeds from bond offering and discount	--							

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Sovern Debt

Estimate – LIBOR	6.0%
Country risk premium ($US interest rate)	3.0%
Estimated interest rate on bonds	9.0%
Proceeds from bond offering at par	300

	Year Ending							
	1	2	3	4	5	6	7	8
	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Interest payments	27	27	27	27	27	--	--	--
Principal payments	--	--	--	--	300	--	--	--
	27	27	27	27	327	--	--	--

Estimated Investor return	40.0%
Cash flow discount yield the estimated return	111

Estimated cost of Hungary Investment fund:

Proceeds from bond offering	300
Cash flow discount yield the estimated return	111
Estimated cost	189

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MOL Rt. – Energy

Operating Assumptions:	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF – millions)	214,290	214,290	214,290	216,433	220,762	225,177	229,680	234,274	238,959
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF – millions)	214,290	254,996	297,046	345,019	404,707	474,721	556,848	653,183	766,163
Foreign sales:									
Real growth of $US sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US – millions)	444	444	444	448	457	467	476	485	495
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US – millions)	444	458	474	496	524	553	584	616	650
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF – millions)	43,264	53,098	63,193	75,095	90,122	108,157	129,800	155,775	186,947
Real growth of DM sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF – millions)	0	0	0	0	0	0	0	0	0
Total nominal sales (HUF – millions)	257,554	308,094	360,239	420,114	494,829	582,878	686,648	808,957	953,130
Estimated cost of goods sold									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF – millions)	60,304	60,304	60,304	60,907	62,125	63,368	64,635	65,928	67,246
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF – millions)	60,304	71,759	83,593	97,093	113,890	133,593	156,704	183,814	215,614
Foreign purchases									
Real cost of $US goods & services ($US – millions)	1,209	1,209	1,209	1,221	1,245	1,270	1,293	1,322	1,348
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US – millions)	1,209	1,248	1,292	1,350	1,426	1,505	1,589	1,677	1,771
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF – millions)	117,797	144,573	172,058	204,464	245,380	294,484	353,413	424,135	509,010
Real cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF – millions)	0	0	0	0	0	0	0	0	0
Total nominal cost of goods & services (HUF – millions)	178,101	216,332	255,650	301,557	359,270	428,076	510,117	607,949	724,624

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IMPACT II PROJECT
USAID TECHNICAL ASSISTANCE
HUNGARIAN INVESTMENT FUND MODEL

Operating Assumptions (continued):	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF – millions)	46,280	46,280	46,280	46,743	47,678	48,631	49,604	50,596	51,608
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF – millions)	46,280	55,071	64,153	74,513	87,404	102,525	120,262	141,067	165,472
Real capital expenditures ($US – millions)		100	100	100	100	100	100	100	100
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US – millions)		103	107	111	114	118	123	127	131
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF – millions)		11,960	14,233	16,747	19,704	23,183	27,277	32,093	37,760
Tangible long–term assets, beg. of period (HUF – millions)		222,800	204,771	189,015	175,773	165,437	158,681	155,969	158,074
Nominal depreciation (HUF – millions)	(29,989)	(29,989)	(29,989)	(29,989)	(29,989)	(29,989)	(29,989)	(29,989)	(29,989)
Nominal capital expenditures (HUF – millions)		11,960	14,233	16,747	19,704	23,183	27,277	32,093	37,760
Tangible long–term assets, end of period	222,800	204,771	189,015	175,773	165,487	158,681	155,969	158,074	165,845
Net income before taxes paid out as dividends		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding taxes		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		75	75	75	75	75	75	75	75
Inventory Turns		6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Prepaid expenses as a % of cost of goods sold		3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Payable Turns		15	15	15	15	15	15	15	15
Accruals as % of SG&A		50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long–term credits and liabilities (HUF – millions)	27,900	27,900	26,970	26,040	25,110	24,180	23,250	22,320	21,390
Amortization of principal – (years)	(30)	(930)	(930)	(930)	(930)	(930)	(930)	(930)	(930)
Ending principal balance		26,970	26,040	25,110	24,180	23,250	22,320	21,390	20,460
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		7,819	6,759	6,522	6,284	6,047	5,810	5,573	5,336
Issuance of common equity (nominal – HUF millions)		0	0	0	0	0	0	0	0

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MOL Rt. – Energy

INCOME STATEMENT (HUF in millions)	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
SALES	257,554	308,094	360,239	420,114	494,829	582,878	686,648	808,957	953,130
(Cost of Goods Sold)	(178,101)	(216,332)	(255,650)	(301,557)	(359,270)	(428,076)	(510,117)	(607,949)	(724,624)
GROSS PROFIT	79,453	91,762	104,588	118,556	135,559	154,802	176,531	201,008	228,507
Gross Profit Margin	*30.8%*	*29.8%*	*29.0%*	*28.2%*	*27.4%*	*26.6%*	*25.7%*	*24.8%*	*24.0%*
(Selling, General, & Admin. Expense)	(46,280)	(55,071)	(64,153)	(74,513)	(87,404)	(102,525)	(120,262)	(141,067)	(165,472)
OPERATING INCOME (EBITDA)	33,173	36,691	40,435	44,043	48,155	52,277	56,269	59,941	63,035
(Depreciation & Amortization)	(29,989)	(29,989)	(29,989)	(29,989)	(29,989)	(29,989)	(29,989)	(29,989)	(29,989)
EBIT	3,184	6,702	10,446	14,054	18,166	22,288	26,280	29,952	33,046
Interest and other financial income	3,631	494	1,654	3,151	4,847	6,287	7,370	7,773	7,041
(Interest Expense)	(8,314)	(7,819)	(6,759)	(6,522)	(6,284)	(6,047)	(5,810)	(5,573)	(5,338)
EARNINGS BEFORE TAXES	(1,499)	(624)	5,342	10,684	16,729	22,52[illegible]	27,839	32,152	34,751
Extraordinary gain/(loss)	(76)	0	0	0	0	0	0	0	0
(Taxes)	0	0	(962)	(1,923)	(3,011)	(4,055)	(5,011)	(5,787)	(6,255)
NET INCOME	(1,575)	(624)	4,381	8,761	13,718	18,472	22,828	26,364	28,496

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MOL Rt. – Energy

BALANCE SHEET (HUF in millions)

	Year Ending	Projected Year Ending							
ASSETS	Dec–94	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Intangible and Invested Financial Assets	18,200	18,200	18,200	18,200	18,200	18,200	18,200	18,200	18,200
Net Tangible Long–term Assets	222,800	204,771	189,015	175,773	165,487	158,681	155,969	158,074	165,845
Cash & Marketable Securities	2,100	8,071	15,372	23,645	30,666	35,950	37,917	34,349	22,186
Accounts Receivable	51,200	63,307	75,050	87,524	103,089	121,433	143,052	168,533	198,569
Inventories	35,300	36,055	42,608	50,260	59,878	71,346	85,020	101,325	120,771
Prepaid expenses	5,200	7,572	8,948	10,554	12,574	14,983	17,854	21,278	25,362
Total Current Assets	93,800	115,005	141,978	171,983	206,208	243,712	283,842	325,484	366,887
TOTAL ASSETS	334,800	337,975	349,193	365,955	389,895	420,593	458,012	501,758	550,932
EQUITY, RESERVES & LIABILITIES									
Common Stock	260,300	260,300	260,300	260,300	260,300	260,300	260,300	260,300	260,300
Retained Earnings:									
Beginning	2,600	1,025	401	4,782	13,542	27,260	45,732	68,560	94,925
Dividends	0	0	0	0	0	0	0	0	0
Current year earnings	(1,575)	(624)	4,381	8,761	13,718	18,472	22,828	26,364	28,496
Ending	1,025	401	4,782	13,542	27,260	45,732	68,560	94,925	123,421
Shareholders' Equity	261,325	260,701	265,082	273,842	287,560	306,032	328,860	355,225	383,721
Target Reserves	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400
Long–term Credits and Liabilities	26,970	26,040	25,110	24,180	23,250	22,320	21,390	20,460	20,460
Trade credits	13,663	18,094	21,320	25,071	29,778	35,373	42,025	49,934	59,340
Other Accrued Liabilities	27,237	27,536	32,076	37,257	43,702	51,263	60,131	70,534	82,736
Current Portion: Long–term debt	930	930	930	930	930	930	930	930	0
Total Current Liabilities	41,830	46,559	54,327	63,258	74,410	87,566	103,086	121,398	142,076
Total Liabilities	68,800	72,599	79,437	87,438	97,660	109,886	124,476	141,858	162,536
Other	2,275	2,275	2,275	2,275	2,275	2,275	2,275	2,275	2,275
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	334,800	337,975	349,193	365,955	389,895	420,593	458,012	501,758	550,932
	0	0	0	0	0	0	0	0	0

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MOL Rt. – Energy

CASH FLOW STATEMENT (HUF – millions)

		Projected Year Ending							
	Dec–94	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Cash Flows from Operating Activities:									
Net Income		(624)	4,381	8,761	13,718	18,472	22,828	26,364	28,496
Depreciation & Amortization		29,989	29,989	29,989	29,989	29,989	29,989	29,989	29,989
Changes in Working Capital		(10,505)	(11,904)	(12,800)	(16,052)	(19,064)	(22,643)	(26,899)	(31,958)
Cash provided by operating activities		18,860	22,465	25,949	27,655	29,397	30,174	29,455	26,527
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(11,960)	(14,233)	(16,747)	(19,704)	(23,183)	(27,277)	(32,093)	(37,760)
Repayment of principal of Long–term Debt		(930)	(930)	(930)	(930)	(930)	(930)	(930)	(930)
Issuance of Common Stock		0	0	0	0	0	0	0	0
Cash used in investing/investing activities		(12,890)	(15,163)	(17,677)	(20,634)	(24,113)	(28,207)	(33,023)	(38,690)
Increase (decrease) in cash		5,971	7,302	8,273	7,021	5,284	1,967	(3,569)	(12,163)
Cash, beginning of the period		2,100	8,071	15,372	23,645	30,666	35,950	37,917	34,349
Increase (decrease) in cash		5,971	7,302	8,273	7,021	5,284	1,967	(3,569)	(12,163)
Dividends		0	0	0	0	0	0	0	0
Cash, end of period		8,071	15,372	23,645	30,666	35,950	37,917	34,349	22,186
Increase (decrease) in cash		5,971	7,302	8,273	7,021	5,284	1,967	(3,569)	(12,163)
Dividends		0	0	0	0	0	0	0	0
Dividend withholding tax		0	0	0	0	0	0	0	0
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		5,971	7,302	8,273	7,021	5,284	1,967	(3,569)	(12,163)
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		52	55	55	41	27	9	(14)	(42)
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF – millions)	Ratio	(624)	4,381	8,761	13,718	18,472	22,828	26,364	28,496
Terminal value ($US – millions)	12	(60)	371	653	899	1,065	1,157	1,176	1,118
	IPO								
Total cash flow to shareholders ($US – millions)	(Year)								
Cash flow available to shareholders prior to IPO	5	52	55	55	41	27	0	0	0
Cash flow to shareholders from public offering		0	0	0	0	1,065	0	0	0
Total cashflow to shareholders		52	55	55	41	1,092	0	0	0
Discount rate	40.0%								
Net present value ($US in millions)	***318***	37	28	20	11	203	0	0	0
Net present value (HUF in millions)	***34,018***								

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MVM Rt. – Energy

Operating Assumptions:	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF – millions)	97,536	97,536	97,536	98,511	100,482	102,491	104,541	106,632	108,765
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF – millions)	97,536	116,064	135,203	157,038	184,206	216,074	253,454	297,302	348,735
Foreign sales:									
Real growth of $US sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US – millions)	0	0	0	0	0	0	0	0	0
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3138
Nominal $US sales ($US – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF – millions)	0	0	0	0	0	0	0	0	0
Real growth of DM sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM – millions)	29	29	29	29	30	30	31	32	32
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM – millions)	29	30	30	31	33	34	36	38	39
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF – millions)	1,890	2,268	2,724	3,268	3,958	4,795	5,809	7,036	8,524
Total nominal sales (HUF – millions)	99,426	118,332	137,927	160,306	188,164	220,869	259,263	304,338	357,259
Estimated cost of goods sold									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF – millions)	48,096	48,096	48,096	48,577	49,548	50,539	51,550	52,581	53,633
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF – millions)	48,096	57,232	66,670	77,437	90,834	106,548	124,981	146,603	171,965
Foreign purchases									
Real cost of $US goods & services ($US – millions)	484	484	484	489	499	509	519	530	540
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3138
Nominal cost of $US goods & services ($US – millions)	484	500	518	541	571	603	637	672	710
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF – millions)	47,207	57,938	68,952	81,939	98,336	118,014	141,630	169,972	203,985
Real cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF – millions)	0	0	0	0	0	0	0	0	0
Total nominal cost of goods & services (HUF – millions)	95,303	115,170	135,622	159,376	189,170	224,562	266,611	316,574	375,950

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF – millions)	1,280	1,280	1,280	1,293	1,319	1,345	1,372	1,399	1,427
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF – millions)	1,280	1,523	1,774	2,061	2,417	2,836	3,326	3,902	4,577
Real capital expenditures ($US – millions)		10	10	10	10	10	10	10	10
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US – millions)		10	11	11	11	12	12	13	13
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF – millions)		1,196	1,423	1,675	1,970	2,318	2,728	3,209	3,776
Tangible long-term assets, beg. of period (HUF – millions)		34,282	33,078	32,101	31,376	30,946	30,865	31,192	32,002
Nominal depreciation (HUF – millions)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)
Nominal capital expenditures (HUF – millions)		1,196	1,423	1,675	1,970	2,318	2,728	3,209	3,776
Tangible long-term assets, end of period	34,282	33,078	32,101	31,376	30,946	30,865	31,192	32,002	33,378
Net income before taxes paid out as dividends		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income tax		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding tax		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		60	60	60	60	60	60	60	60
Inventory Turns		1000.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0
Prepaid expenses as a % of cost of goods sold		0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Payable Turns		8	8	8	8	8	8	8	8
Accruals as % of SG&A		25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF – millions)	8,769	8,769	8,477	8,184	7,892	7,600	7,308	7,015	6,723
Amortization of principal – (years)	30	(292)	(292)	(292)	(292)	(292)	(292)	(292)	(292)
Ending principal balance		8,477	8,184	7,892	7,600	7,308	7,015	6,723	6,431
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		2,458	2,124	2,050	1,975	1,901	1,826	1,752	1,677
Issuance of common equity (nominal – HUF millions)		0	0	0	0	0	0	0	0

FOR INTERNAL USE ONLY: Not compiled or examined by an independent CPA. Projected results cannot be assured.

MVM Rt. – Energy

INCOME STATEMENT (HUF in millions)	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
SALES	99,426	118,332	137,927	160,306	188,164	220,869	259,263	304,338	357,259
(Cost of Goods Sold)	(95,303)	(115,170)	(135,622)	(159,376)	(189,170)	(224,562)	(266,611)	(316,574)	(375,950)
GROSS PROFIT	4,123	3,162	2,305	930	(1,005)	(3,693)	(7,348)	(12,236)	(18,691)
Gross Profit Margin	*4.1%*	*2.7%*	*1.7%*	*0.6%*	*–0.5%*	*–1.7%*	*–2.8%*	*–4.0%*	*–5.2%*
(Selling, General, & Admin. Expense)	(1,280)	(1,523)	(1,774)	(2,061)	(2,417)	(2,836)	(3,326)	(3,902)	(4,577)
OPERATING INCOME (EBITDA)	2,843	1,639	531	(1,131)	(3,423)	(6,529)	(10,674)	(16,138)	(23,268)
(Depreciation & Amortization)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)
EBIT	443	(761)	(1,869)	(3,531)	(5,823)	(8,929)	(13,074)	(18,538)	(25,668)
Interest and other financial income	5,200	940	1,756	1,242	290	(1,403)	(4,158)	(8,419)	(14,781)
(Interest Expense)	(4,600)	(2,458)	(2,124)	(2,050)	(1,975)	(1,901)	(1,826)	(1,752)	(1,677)
EARNINGS BEFORE TAXES	1,043	(2,279)	(2,237)	(4,339)	(7,508)	(12,233)	(19,058)	(28,708)	(42,126)
Extraordinary gain/(loss)	40	0	0	0	0	0	0	0	0
(Taxes)	0	0	0	0	0	0	0	0	0
NET INCOME	1,083	(2,279)	(2,237)	(4,339)	(7,508)	(12,233)	(19,058)	(28,708)	(42,126)

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MVM Rt. – Energy

BALANCE SHEET (HUF in millions)

	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
ASSETS									
Intangible and Invested Financial Assets	265,288	265,288	265,288	265,288	265,288	265,288	265,288	265,288	265,288
Net Tangible Long–term Assets	34,282	33,078	32,101	31,376	30,946	30,865	31,192	32,002	33,378
Cash & Marketable Securities	4,000	8,567	6,057	1,415	(6,845)	(20,283)	(41,067)	(72,103)	(117,250)
Accounts Receivable	29,717	19,452	22,988	26,718	31,361	36,811	43,210	50,723	59,543
Inventories	100	115	136	159	189	225	267	317	376
Prepaid expenses	250	288	339	398	473	561	667	791	940
Total Current Assets	34,067	28,421	29,519	28,690	25,177	17,315	3,077	(20,272)	(56,391)
TOTAL ASSETS	333,637	326,787	326,909	325,354	321,412	313,467	299,557	277,018	242,275
EQUITY, RESERVES & LIABILITIES									
Common Stock	302,218	302,218	302,218	302,218	302,218	302,218	302,218	302,218	302,218
Retained Earnings:									
Beginning	1,621	2,704	425	(1,812)	(6,151)	(13,659)	(25,892)	(44,950)	(73,658)
Dividends	0	0	0	0	0	0	0	0	0
Current year earnings	1,083	(2,279)	(2,237)	(4,339)	(7,508)	(12,233)	(19,058)	(28,708)	(42,126)
Ending	2,704	425	(1,812)	(6,151)	(13,659)	(25,892)	(44,950)	(73,658)	(115,784)
Shareholders' Equity	304,922	302,643	300,406	296,067	288,559	276,326	257,268	228,560	186,434
Target Reserves	0	0	0	0	0	0	0	0	0
Long–term Credits and Liabilities	8,477	8,184	7,892	7,600	7,308	7,015	6,723	6,431	6,431
Trade credits	12,681	14,567	17,175	20,180	23,948	28,425	33,742	40,059	47,568
Other Accrued Liabilities	6,565	381	444	515	604	709	832	975	1,144
Current Portion: Long–term debt	292	292	292	292	292	292	292	292	0
Total Current Liabilities	19,538	15,260	17,910	20,987	24,845	29,426	34,866	41,327	48,710
Total Liabilities	28,015	23,444	25,803	28,587	32,153	36,441	41,589	47,758	55,141
Other	700	700	700	700	700	700	700	700	700
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	333,637	326,787	326,909	325,354	321,412	313,467	299,557	277,018	242,275
	0	0	0	0	0	0	0	0	0

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MVM Rt. – Energy

CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec–94	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Cash Flows from Operating Activities:									
Net Income		(2,279)	(2,237)	(4,339)	(7,508)	(12,233)	(19,058)	(28,708)	(42,126)
Depreciation & Amortization		2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400
Changes in Working Capital		5,934	(957)	(736)	(889)	(994)	(1,106)	(1,226)	(1,353)
Cash provided by operating activities		6,055	(794)	(2,675)	(5,997)	(10,827)	(17,764)	(27,534)	(41,079)
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(1,196)	(1,423)	(1,675)	(1,970)	(2,318)	(2,728)	(3,209)	(3,776)
Repayment of principal of Long–term Debt		(292)	(292)	(292)	(292)	(292)	(292)	(292)	(292)
Issuance of Common Stock		0	0	0	0	0	0	0	0
Cash used in investing/investing activities		(1,488)	(1,716)	(1,967)	(2,263)	(2,611)	(3,020)	(3,502)	(4,068)
Increase (decrease) in cash		4,567	(2,510)	(4,642)	(8,260)	(13,437)	(20,784)	(31,036)	(45,147)
Cash, beginning of the period		4,000	8,567	6,057	1,415	(6,845)	(20,283)	(41,067)	(72,103)
Increase (decrease) in cash		4,567	(2,510)	(4,642)	(8,260)	(13,437)	(20,784)	(31,036)	(45,147)
Dividends		0	0	0	0	0	0	0	0
Cash, end of period		8,567	6,057	1,415	(6,845)	(20,283)	(41,067)	(72,103)	(117,250)
Increase (decrease) in cash		4,567	(2,510)	(4,642)	(8,260)	(13,437)	(20,784)	(31,036)	(45,147)
Dividends		0	0	0	0	0	0	0	0
Dividend withholding tax		0	0	0	0	0	0	0	0
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		4,567	(2,510)	(4,642)	(8,260)	(13,437)	(20,784)	(31,036)	(45,147)
Average exchange rate (HUF/$US)		116	133	151	172	198	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		39	(19)	(31)	(48)	(69)	(93)	(123)	(157)
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF – millions)	Ratio	(2,279)	(2,237)	(4,339)	(7,508)	(12,233)	(19,058)	(28,708)	(42,126)
Terminal value ($US – millions)	12	(219)	(189)	(323)	(492)	(705)	(966)	(1,280)	(1,653)
	IPO								
Total cash flow to shareholders ($US – millions)	(Year)								
Cash flow available to shareholders prior to IPO	5	39	(19)	(31)	(48)	(69)	0	0	0
Cash flow to shareholders from public offering		0	0	0	0	0	0	0	0
Total cashflow to shareholders		39	(19)	(31)	(48)	(69)	0	0	0
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	***19***	28	(10)	(11)	(12)	(13)	0	0	0
Net present value (HUF in millions)	***2,086***								

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Tiszantuli Gazszolgaltato Rt. – Energy

Operating Assumptions:	Year Ending Dec-93	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF – millions)	23,741	23,741	23,741	23,978	24,458	24,947	25,446	25,955	26,474
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF – millions)	23,741	28,251	32,909	38,224	44,837	52,594	61,693	72,366	84,885
Foreign sales:									
Real growth of $US sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US – millions)	0	0	0	0	0	0	0	0	0
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3138
Nominal $US sales ($US – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF – millions)	0	0	0	0	0	0	0	0	0
Real growth of DM sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF – millions)	0	0	0	0	0	0	0	0	0
Total nominal sales (HUF – millions)	23,741	28,251	32,909	38,224	44,837	52,594	61,693	72,366	84,885
Estimated cost of goods sold									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF – millions)	17,674	17,674	17,674	17,851	18,208	18,572	18,943	19,322	19,709
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF – millions)	17,674	21,031	24,499	28,456	33,379	39,154	45,927	53,873	63,193
Foreign purchases									
Real cost of $US goods & services ($US – millions)	39	39	39	40	40	41	42	43	44
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3138
Nominal cost of $US goods & services ($US – millions)	39	41	42	44	46	49	52	55	58
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF – millions)	3,828	4,698	5,591	6,644	7,974	9,570	11,485	13,783	16,541
Real cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF – millions)	0	0	0	0	0	0	0	0	0
Total nominal cost of goods & services (HUF – millions)	21,502	25,729	30,091	35,101	41,353	48,723	57,412	67,656	79,734

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Operating Assumptions (continued):	Year Ending Dec-93	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF – millions)	927	927	927	936	955	974	994	1,013	1,034
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7861	3.2063
Nominal SG&A expense (HUF – millions)	927	1,103	1,285	1,493	1,751	2,054	2,409	2,826	3,314
Real capital expenditures ($US – millions)		10	10	10	10	10	10	10	10
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US – millions)		10	11	11	11	12	12	13	13
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF – millions)		1,196	1,423	1,675	1,970	2,318	2,728	3,209	3,776
Tangible long-term assets, beg. of period (HUF – millions)		24,300	23,793	23,513	23,485	23,752	24,368	25,392	26,899
Nominal depreciation (HUF – millions)	(1,703)	(1,703)	(1,703)	(1,703)	(1,703)	(1,703)	(1,703)	(1,703)	(1,703)
Nominal capital expenditures (HUF – millions)		1,196	1,423	1,675	1,970	2,318	2,728	3,209	3,776
Tangible long-term assets, end of period	24,300	23,793	23,513	23,485	23,752	24,368	25,392	26,899	28,972
Net income before taxes paid out as dividends		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income tax		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		45	45	45	45	45	45	45	45
Inventory Turns		50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Prepaid expenses as a % of cost of goods sold		3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Payable Turns		12	12	12	12	12	12	12	12
Accruals as % of SG&A		200.0%	200.0%	200.0%	200.0%	200.0%	200.0%	200.0%	200.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF – millions)	213	213	206	199	192	185	177	170	163
Amortization of principal – (years)	30	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Ending principal balance		206	199	192	185	177	170	163	156
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		60	52	50	48	46	44	43	41
Issuance of common equity (nominal – HUF millions)		0	0	0	0	0	0	0	0

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Tiszantuli Gazszolgaltato Rt. – Energy

INCOME STATEMENT (HUF in millions)	Year Ending Dec–93	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
SALES	23,741	28,251	32,909	38,224	44,837	52,594	61,693	72,366	84,885
(Cost of Goods Sold)	(21,502)	(25,729)	(30,091)	(35,101)	(41,353)	(48,723)	(57,412)	(67,656)	(79,734)
GROSS PROFIT	2,239	2,521	2,819	3,124	3,484	3,871	4,281	4,710	5,151
Gross Profit Margin	*9.4%*	*8.9%*	*8.6%*	*8.2%*	*7.8%*	*7.4%*	*6.9%*	*6.5%*	*6.1%*
(Selling, General, & Admin. Expense)	(927)	(1,103)	(1,285)	(1,493)	(1,751)	(2,054)	(2,409)	(2,826)	(3,314)
OPERATING INCOME (EBITDA)	1,312	1,418	1,534	1,631	1,733	1,817	1,872	1,884	1,837
(Depreciation & Amortization)	(1,703)	(1,703)	(1,703)	(1,703)	(1,703)	(1,703)	(1,703)	(1,703)	(1,703)
EBIT	(391)	(285)	(169)	(72)	30	114	169	181	134
Interest and other financial income	69	16	109	116	100	35	(102)	(340)	(728)
(Interest Expense)	(99)	(60)	(52)	(50)	(48)	(46)	(44)	(43)	(41)
EARNINGS BEFORE TAXES	(421)	(328)	(112)	(6)	83	103	23	(202)	(635)
Extraordinary gain/(loss)	(61)	0	0	0	0	0	0	0	0
(Taxes)	0	0	0	0	(15)	(19)	(4)	0	0
NET INCOME	(482)	(328)	(112)	(6)	68	84	19	(202)	(635)

FOR INTERNAL USE ONLY: Not compiled or examined by an independent CPA. Projected results cannot be assured.

Tiszantuli Gazszolgaltato Rt. – Energy

BALANCE SHEET (HUF in millions)

	Year Ending Dec-93	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
ASSETS									
Intangible and Invested Financial Assets	285	285	285	285	285	285	285	285	285
Net Tangible Long-term Assets	24,300	23,793	23,513	23,485	23,752	24,368	25,392	26,899	28,972
Cash & Marketable Securities	68	532	564	489	171	(497)	(1,661)	(3,551)	(6,471)
Accounts Receivable	3,180	3,483	4,114	4,778	5,605	6,574	7,712	9,046	10,611
Inventories	307	515	602	702	827	974	1,148	1,353	1,595
Prepaid expenses	1,185	901	1,053	1,229	1,447	1,705	2,009	2,368	2,791
Total Current Assets	4,740	5,430	6,333	7,198	8,050	8,757	9,209	9,215	8,525
TOTAL ASSETS	29,325	29,508	30,131	30,968	32,088	33,410	34,886	36,399	37,782
EQUITY, RESERVES & LIABILITIES									
Common Stock	25,321	25,321	25,321	25,321	25,321	25,321	25,321	25,321	25,321
Retained Earnings:									
Beginning	154	(328)	(656)	(768)	(774)	(706)	(622)	(603)	(805)
Dividends	0	0	0	0	0	0	0	0	0
Current year earnings	(482)	(328)	(112)	(6)	68	84	19	(202)	(635)
Ending	(328)	(656)	(768)	(774)	(706)	(622)	(603)	(805)	(1,440)
Shareholders' Equity	24,993	24,665	24,553	24,547	24,615	24,699	24,718	24,516	23,881
Target Reserves	150	150	150	150	150	150	150	150	150
Long-term Credits and Liabilities	206	199	192	185	177	170	163	156	156
Trade credits	1,625	2,236	2,615	3,049	3,592	4,231	4,985	5,873	6,921
Other Accrued Liabilities	2,299	2,206	2,570	2,985	3,501	4,107	4,818	5,651	6,629
Current Portion: Long-term debt	7	7	7	7	7	7	7	7	0
Total Current Liabilities	3,931	4,449	5,192	6,042	7,101	8,346	9,810	11,532	13,550
Total Liabilities	4,137	4,648	5,383	6,226	7,278	8,516	9,973	11,688	13,706
Other	45	45	45	45	45	45	45	45	45
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	29,325	29,508	30,131	30,968	32,088	33,410	34,886	36,399	37,782
	0	0	0	0	0	0	0	0	0

FOR INTERNAL USE ONLY: Not compiled or examined by an independent CPA. Projected results cannot be assured.

Tiszantuli Gazszolgaltato Rt. – Energy

CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec–93	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Cash Flows from Operating Activities:									
Net Income		(328)	(112)	(6)	68	84	19	(202)	(635)
Depreciation & Amortization		1,703	1,703	1,703	1,703	1,703	1,703	1,703	1,703
Changes in Working Capital		292	(128)	(90)	(112)	(130)	(151)	(176)	(204)
Cash provided by operating activities		1,667	1,463	1,607	1,659	1,658	1,571	1,326	864
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(1,196)	(1,423)	(1,675)	(1,970)	(2,318)	(2,728)	(3,209)	(3,776)
Repayment of principal of Long–term Debt		(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Issuance of Common Stock		0	0	0	0	0	0	0	0
Cash used in investing/investing activities		(1,203)	(1,430)	(1,682)	(1,977)	(2,325)	(2,735)	(3,216)	(3,783)
Increase (decrease) in cash		464	32	(75)	(318)	(668)	(1,164)	(1,891)	(2,919)
Cash, beginning of the period		68	532	564	489	171	(497)	(1,661)	(3,551)
Increase (decrease) in cash		464	32	(75)	(318)	(668)	(1,164)	(1,891)	(2,919)
Dividends		0	0	0	0	0	0	0	0
Cash, end of period		532	564	489	171	(497)	(1,661)	(3,551)	(6,471)
Increase (decrease) in cash		464	32	(75)	(318)	(668)	(1,164)	(1,891)	(2,919)
Dividends		0	0	0	0	0	0	0	0
Dividend withholding tax		0	0	0	0	0	0	0	0
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		464	32	(75)	(318)	(668)	(1,164)	(1,891)	(2,919)
Average exchange rate (HUF/$US)		116	133	151	172	198	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		4	0	(0)	(2)	(3)	(5)	(7)	(10)
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF – millions)	Ratio	(328)	(112)	(6)	68	84	19	(202)	(635)
Terminal value ($US – millions)	12	(32)	(9)	(0)	4	5	1	(9)	(25)
	IPO								
Total cash flow to shareholders ($US – millions)	(Year)								
Cash flow available to shareholders prior to IPO	5	4	0	(0)	(2)	(3)	0	0	0
Cash flow to shareholders from public offering		0	0	0	0	5	0	0	0
Total cashflow to shareholders		4	0	(0)	(2)	1	0	0	0
Discount cash flow $US in millions)	40.0%								
Net present value ($US in millions)	***3***	3	0	(0)	(0)	0	0	0	0
Net present value (HUF in millions)	***345***								

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Eszakdunantuli Gazszolgaltato Rt. – Energy

Operating Assumptions:	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF – millions)	6,574	6,574	6,574	6,640	6,773	6,908	7,046	7,187	7,331
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF – millions)	6,574	7,823	9,113	10,585	12,416	14,564	17,083	20,038	23,505
Foreign sales:									
Real growth of $US sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US – millions)	0	0	0	0	0	0	0	0	0
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF – millions)	0	0	0	0	0	0	0	0	0
Real growth of DM sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF – millions)	0	0	0	0	0	0	0	0	0
Total nominal sales (HUF – millions)	6,574	7,823	9,113	10,585	12,416	14,564	17,083	20,038	23,505
Estimated cost of goods sold									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF – millions)	354	354	354	358	365	372	379	387	395
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF – millions)	354	421	491	570	669	784	920	1,079	1,266
Foreign purchases									
Real cost of $US goods & services ($US – millions)	58	58	58	58	60	61	62	63	65
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US – millions)	58	60	62	65	68	72	76	80	85
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF – millions)	5,640	6,922	8,238	9,790	11,749	14,100	16,921	20,307	24,371
Real cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF – millions)	0	0	0	0	0	0	0	0	0
Total nominal cost of goods & services (HUF – millions)	5,994	7,343	8,729	10,360	12,417	14,884	17,841	21,386	25,637

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF – millions)	131	131	131	132	135	138	140	143	146
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF – millions)	131	156	182	211	247	290	340	399	468
Real capital expenditures ($US – millions)		2	2	2	2	2	2	2	2
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US – millions)		2	2	2	2	2	2	3	3
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF – millions)		239	285	335	394	464	546	642	755
Tangible long-term assets, beg. of period (HUF – millions)		7,810	7,474	7,184	6,944	6,763	6,652	6,622	6,689
Nominal depreciation (HUF – millions)	(575)	(575)	(575)	(575)	(575)	(575)	(575)	(575)	(575)
Nominal capital expenditures (HUF – millions)		239	285	335	394	464	546	642	755
Tangible long-term assets, end of period	7,810	7,474	7,184	6,944	6,763	6,652	6,622	6,689	6,869
Net income before taxes paid out as dividends		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding tax		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		25	25	25	25	25	25	25	25
Inventory Turns		120.0	120.0	120.0	120.0	120.0	120.0	120.0	120.0
Prepaid expenses as a % of cost of goods sold		2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Payable Turns		18	18	18	18	18	18	18	18
Accruals as % of SG&A		80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF – millions)	106	106	102	99	95	92	88	85	81
Amortization of principal – (years)	30	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Ending principal balance		102	99	95	92	88	85	81	78
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		30	26	25	24	23	22	21	20
Issuance of common equity (nominal – HUF millions)		0	0	0	0	0	0	0	0

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Eszakdunantuli Gazszolgaltato Rt. – Energy

INCOME STATEMENT (HUF in millions)	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
SALES	6,574	7,823	9,113	10,585	12,416	14,564	17,083	20,038	23,505
(Cost of Goods Sold)	(5,994)	(7,343)	(8,729)	(10,360)	(12,417)	(14,884)	(17,841)	(21,386)	(25,637)
GROSS PROFIT	580	480	384	225	(1)	(320)	(758)	(1,348)	(2,132)
Gross Profit Margin	*8.8%*	*6.1%*	*4.2%*	*2.1%*	*–0.0%*	*–2.2%*	*–4.4%*	*–6.7%*	*–9.1%*
(Selling, General, & Admin. Expense)	(131)	(156)	(182)	(211)	(247)	(290)	(340)	(399)	(468)
OPERATING INCOME (EBITDA)	449	324	203	14	(249)	(610)	(1,098)	(1,747)	(2,600)
(Depreciation & Amortization)	(575)	(575)	(575)	(575)	(575)	(575)	(575)	(575)	(575)
EBIT	(126)	(251)	(372)	(561)	(824)	(1,185)	(1,673)	(2,322)	(3,175)
Interest and other financial income	15	15	41	19	(55)	(212)	(491)	(944)	(1,644)
(Interest Expense)	(27)	(30)	(26)	(25)	(24)	(23)	(22)	(21)	(20)
EARNINGS BEFORE TAXES	(138)	(266)	(357)	(567)	(903)	(1,421)	(2,186)	(3,287)	(4,840)
Extraordinary gain/(loss)	(31)	0	0	0	0	0	0	0	0
(Taxes)	0	0	0	0	0	0	0	0	0
NET INCOME	(169)	(266)	(357)	(567)	(903)	(1,421)	(2,186)	(3,287)	(4,840)

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Eszakdunantuli Gazszolgaltato Rt. – Energy

BALANCE SHEET (HUF in millions)

	Year Ending	Projected Year Ending							
ASSETS	Dec–94	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Intangible and Invested Financial Assets	227	227	227	227	227	227	227	227	227
Net Tangible Long–term Assets	7,810	7,474	7,164	6,944	6,763	6,652	6,622	6,689	6,869
Cash & Marketable Securities	63	200	93	(270)	(1,036)	(2,394)	(4,606)	(6,022)	(13,111)
Accounts Receivable	513	536	633	735	862	1,011	1,188	1,392	1,632
Inventories	65	61	73	86	103	124	149	178	214
Prepaid expenses	128	147	175	207	248	298	357	428	513
Total Current Assets	769	944	973	759	178	(961)	(2,914)	(6,024)	(10,753)
TOTAL ASSETS	8,806	8,646	8,384	7,929	7,168	5,918	3,935	892	(3,656)
EQUITY, RESERVES & LIABILITIES									
Common Stock	8,369	8,369	8,369	8,369	8,369	8,369	8,369	8,369	8,369
Retained Earnings:									
Beginning	12	(157)	(423)	(780)	(1,347)	(2,250)	(3,671)	(5,857)	(9,144)
Dividends	0	0	0	0	0	0	0	0	0
Current year earnings	(169)	(266)	(357)	(567)	(903)	(1,421)	(2,186)	(3,287)	(4,840)
Ending	(157)	(423)	(780)	(1,347)	(2,250)	(3,671)	(5,857)	(9,144)	(13,984)
Shareholders' Equity	8,212	7,946	7,589	7,022	6,119	4,698	2,512	(775)	(5,615)
Target Reserves	0	0	0	0	0	0	0	0	0
Long–term Credits and Liabilities	102	99	95	92	88	85	81	78	78
Trade credits	339	417	495	587	704	843	1,010	1,210	1,450
Other Accrued Liabilities	93	125	145	169	198	232	272	319	375
Current Portion: Long–term debt	4	4	4	4	4	4	4	4	0
Total Current Liabilities	436	545	644	760	905	1,079	1,286	1,533	1,825
Total Liabilities	538	644	739	851	993	1,163	1,367	1,611	1,903
Other	56	56	56	56	56	56	56	56	56
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	8,806	8,646	8,384	7,929	7,168	5,918	3,935	892	(3,656)
	0	0	0	0	(0)	0	0	(0)	(0)

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Eszakdunantuli Gazszolgaltato Rt. – Energy

CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec–94	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Cash Flows from Operating Activities:									
Net Income		(266)	(357)	(567)	(903)	(1,421)	(2,186)	(3,287)	(4,840)
Depreciation & Amortization		575	575	575	575	575	575	575	575
Changes in Working Capital		71	(37)	(33)	(40)	(45)	(52)	(58)	(66)
Cash provided by operating activities		380	181	(24)	(368)	(891)	(1,663)	(2,771)	(4,331)
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(239)	(285)	(335)	(394)	(464)	(546)	(642)	(755)
Repayment of principal of Long–term Debt		(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Issuance of Common Stock		0	0	0	0	0	0	0	0
Cash used in investing/investing activities		(243)	(288)	(338)	(398)	(467)	(549)	(645)	(759)
Increase (decrease) in cash		137	(108)	(363)	(766)	(1,358)	(2,212)	(3,416)	(5,089)
Cash, beginning of the period		63	200	93	(270)	(1,036)	(2,394)	(4,606)	(8,022)
Increase (decrease) in cash		137	(108)	(363)	(766)	(1,358)	(2,212)	(3,416)	(5,089)
Dividends		0	0	0	0	0	0	0	0
Cash, end of period		200	93	(270)	(1,036)	(2,394)	(4,606)	(8,022)	(13,111)
Increase (decrease) in cash		137	(108)	(363)	(766)	(1,358)	(2,212)	(3,416)	(5,089)
Dividends		0	0	0	0	0	0	0	0
Dividend withholding tax		0	0	0	0	0	0	0	0
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		137	(108)	(363)	(766)	(1,358)	(2,212)	(3,416)	(5,089)
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		1	(1)	(2)	(4)	(7)	(10)	(14)	(18)
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF – millions)	Ratio	(266)	(357)	(567)	(903)	(1,421)	(2,186)	(3,287)	(4,840)
Terminal value ($US – millions)	12	(26)	(30)	(42)	(59)	(82)	(111)	(147)	(190)
Total cash flow to shareholders ($US – millions)	IPO (Year)								
Cash flow available to shareholders prior to IPO	5	1	(1)	(2)	(4)	(7)	0	0	0
Cash flow to shareholders from public offering		0	0	0	0	0	0	0	0
Total cashflow to shareholders		1	(1)	(2)	(4)	(7)	0	0	0
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	*(2)*	1	(0)	(1)	(1)	(1)	0	0	0
Net present value (HUF in millions)	*(246)*								

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Matav Rt. – Infrastructure (2)

Operating Assumptions:	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF – millions)	76,696	76,696	76,696	77,463	79,012	80,592	82,204	83,848	85,525
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF – millions)	76,696	91,265	106,315	123,485	144,848	169,906	199,300	233,779	274,223
Foreign sales:									
Real growth of $US sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US – millions)	0	0	0	0	0	0	0	0	0
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF – millions)	0	0	0	0	0	0	0	0	0
Real growth of DM sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM – millions)	117	117	117	118	120	123	125	128	130
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM – millions)	117	120	123	127	133	139	145	152	159
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF – millions)	7,637	9,165	11,008	13,204	15,995	19,376	23,472	28,433	34,443
Total nominal sales (HUF – millions)	84,333	100,430	117,323	136,689	160,843	189,283	222,772	262,212	308,666
Estimated cost of goods sold									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF – millions)	23,559	23,559	23,559	23,794	24,270	24,756	25,251	25,756	26,271
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF – millions)	23,559	28,034	32,657	37,931	44,493	52,190	61,219	71,810	84,233
Foreign purchases									
Real cost of $US goods & services ($US – millions)	0	0	0	0	0	0	0	0	0
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF – millions)	0	0	0	0	0	0	0	0	0
Real cost of DM goods & services (DM – millions)	59	59	59	60	61	62	63	65	66
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM – millions)	59	60	62	64	67	70	73	77	80
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF – millions)	3,860	4,632	5,564	6,674	8,084	9,793	11,863	14,370	17,408
Total nominal cost of goods & services (HUF – millions)	27,419	32,666	38,220	44,604	52,577	61,983	73,082	86,180	101,641

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IMPACT II PROJECT
USAID TECHNICAL ASSISTANCE
HUNGARIAN INVESTMENT FUND MODEL

Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF – millions)	32,461	32,461	32,461	32,786	33,442	34,110	34,793	35,489	36,198
Hungarian inflation factor	1.0000	1.1900	1.3662	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF – millions)	32,461	38,628	44,997	52,265	61,306	71,912	84,353	98,946	116,064
Real capital expenditures ($US – millions)		60	60	60	60	60	60	60	60
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US – millions)		62	64	66	69	71	74	76	79
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF – millions)		7,176	8,540	10,048	11,822	13,910	16,366	19,256	22,656
Tangible long-term assets, beg. of period (HUF – millions)		201,336	192,968	185,964	180,468	176,746	175,112	175,934	179,646
Nominal depreciation (HUF – millions)	(15,544)	(15,544)	(15,544)	(15,544)	(15,544)	(15,544)	(15,544)	(15,544)	(15,544)
Nominal capital expenditures (HUF – millions)		7,176	8,540	10,048	11,822	13,910	16,366	19,256	22,656
Tangible long-term assets, end of period	201,336	192,968	185,964	180,468	176,746	175,112	175,934	179,646	186,758
Net income before taxes paid out as dividends		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding taxes		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		60	60	60	60	60	60	60	60
Inventory Turns		7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Prepaid expenses as a % of cost of goods sold		15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Payable Turns		6	6	6	6	6	6	6	6
Accruals as % of SG&A		50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF – millions)	59,138	59,138	57,167	55,195	53,224	51,253	49,282	47,310	45,339
Amortization of principal – (years)	30	(1,971)	(1,971)	(1,971)	(1,971)	(1,971)	(1,971)	(1,971)	(1,971)
Ending principal balance		57,167	55,195	53,224	51,253	49,282	47,310	45,339	43,368
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		16,573	14,326	13,824	13,321	12,818	12,315	11,813	11,310
Issuance of common equity (nominal – HUF millions)		0	0	0	0	0	0	0	0

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Matav Rt. – Infrastructure (2)

INCOME STATEMENT (HUF in millions)	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
SALES	84,333	100,430	117,323	136,689	160,843	189,283	222,772	262,212	308,666
(Cost of Goods Sold)	(27,419)	(32,666)	(38,220)	(44,604)	(52,577)	(61,983)	(73,082)	(86,180)	(101,641)
GROSS PROFIT	56,915	67,764	79,103	92,085	108,266	127,300	149,690	176,032	207,025
Gross Profit Margin	*67.5%*	*67.5%*	*67.4%*	*67.4%*	*67.3%*	*67.3%*	*67.2%*	*67.1%*	*67.1%*
(Selling, General, & Admin. Expense)	(32,461)	(38,628)	(44,997)	(52,265)	(61,306)	(71,912)	(84,353)	(98,946)	(116,064)
OPERATING INCOME (EBITDA)	24,453	29,136	34,105	39,820	46,960	55,387	65,337	77,086	90,961
(Depreciation & Amortization)	(15,544)	(15,544)	(15,544)	(15,544)	(15,544)	(15,544)	(15,544)	(15,544)	(15,544)
EBIT	8,909	13,592	18,561	24,276	31,416	39,843	49,793	61,542	75,417
Interest and other financial income	2,916	8,266	9,980	13,504	18,420	25,121	34,052	45,772	60,969
(Interest Expense)	(10,947)	(16,573)	(14,326)	(13,824)	(13,321)	(12,818)	(12,315)	(11,813)	(11,310)
EARNINGS BEFORE TAXES	879	5,285	14,215	23,956	36,515	52,146	71,529	95,501	125,076
Extraordinary gain/(loss)	88	0	0	0	0	0	0	0	0
(Taxes)	(174)	(951)	(2,559)	(4,312)	(6,573)	(9,386)	(12,875)	(17,190)	(22,514)
NET INCOME	793	4,333	11,656	19,644	29,942	42,760	58,654	78,311	102,562

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Matav Rt. – Infrastructure (2)

BALANCE SHEET (HUF in millions)

	Year Ending	Projected Year Ending							
ASSETS	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Intangible and Invested Financial Assets	17,081	17,081	17,081	17,081	17,081	17,081	17,081	17,081	17,081
Net Tangible Long-term Assets	201,336	192,968	185,964	180,468	176,746	175,112	175,934	179,646	186,758
Cash & Marketable Securities	35,173	48,682	65,872	89,852	122,541	166,107	223,279	297,410	392,607
Accounts Receivable	14,830	16,509	19,554	22,782	26,607	31,547	37,129	43,702	51,444
Inventories	4,229	4,667	5,460	6,372	7,511	8,855	10,440	12,311	14,520
Prepaid expenses	5,635	4,900	5,733	6,691	7,887	9,297	10,962	12,927	15,246
Total Current Assets	59,867	74,757	96,619	125,696	164,745	215,806	281,811	366,350	473,818
TOTAL ASSETS	278,284	284,806	299,663	323,245	358,572	407,999	474,826	563,077	677,657
EQUITY, RESERVES & LIABILITIES									
Common Stock	143,592	143,592	143,592	143,592	143,592	143,592	143,592	143,592	143,592
Retained Earnings:									
Beginning	34,897	35,690	40,023	51,679	71,323	101,265	144,025	202,679	280,990
Dividends	0	0	0	0	0	0	0	0	0
Current year earnings	793	4,333	11,656	19,644	29,942	42,760	58,654	78,311	102,562
Ending	35,690	40,023	51,679	71,323	101,265	144,025	202,679	280,990	383,552
Shareholders' Equity	179,282	183,615	195,271	214,915	244,857	287,617	346,271	424,582	527,144
Target Reserves	347	347	347	347	347	347	347	347	347
Long-term Credits and Liabilities	57,167	55,195	53,224	51,253	49,282	47,310	45,339	43,368	43,368
Trade credits	9,340	11,882	13,870	16,145	18,981	22,316	26,239	30,854	36,284
Other Accrued Liabilities	17,696	19,314	22,499	26,132	30,653	35,956	42,177	49,473	58,032
Current Portion: Long-term debt	1,971	1,971	1,971	1,971	1,971	1,971	1,971	1,971	0
Total Current Liabilities	29,007	33,167	38,340	44,248	51,605	60,243	70,387	82,299	94,316
Total Liabilities	86,174	88,363	91,564	95,501	100,887	107,554	115,726	125,667	137,684
Other	12,481	12,481	12,481	12,481	12,481	12,481	12,481	12,481	12,481
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	278,284	284,806	299,663	323,245	358,572	407,999	474,825	563,077	677,656
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)

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Matav Rt. – Infrastructure (2)

CASH FLOW STATEMENT (HUF – millions)

		Projected Year Ending							
	Dec–94	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Cash Flows from Operating Activities:									
Net Income		4,333	11,656	19,644	29,942	42,760	58,654	78,311	102,562
Depreciation & Amortization		15,544	15,544	15,544	15,544	15,544	15,544	15,544	15,544
Changes in Working Capital		2,779	501	811	996	1,144	1,312	1,502	1,719
Cash provided by operating activities		22,656	27,701	36,000	46,482	59,447	75,510	95,357	119,825
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(7,176)	(8,540)	(10,048)	(11,822)	(13,910)	(16,366)	(19,256)	(22,656)
Repayment of principal of Long–term Debt		(1,971)	(1,971)	(1,971)	(1,971)	(1,971)	(1,971)	(1,971)	(1,971)
Issuance of Common Stock		0	0	0	0	0	0	0	0
Cash used in investing/investing activities		(9,147)	(10,511)	(12,019)	(13,794)	(15,881)	(18,337)	(21,227)	(24,627)
Increase (decrease) in cash		13,509	17,190	23,980	32,688	43,566	57,173	74,130	95,197
Cash, beginning of the period		35,173	48,682	65,872	89,852	122,541	166,107	223,279	297,410
Increase (decrease) in cash		13,509	17,190	23,980	32,688	43,566	57,173	74,130	95,197
Dividends		0	0	0	0	0	0	0	0
Cash, end of period		48,682	65,872	89,852	122,541	166,107	223,279	297,410	392,607
Increase (decrease) in cash		13,509	17,190	23,980	32,688	43,566	57,173	74,130	95,197
Dividends		0	0	0	0	0	0	0	0
Dividend withholding tax		0	0	0	0	0	0	0	0
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		13,509	17,190	23,980	32,688	43,566	57,173	74,130	95,197
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		117	129	158	190	223	257	293	331
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF – millions)	Ratio	4,333	11,656	19,644	29,942	42,760	58,654	78,311	102,562
Terminal value ($US – millions)	12	417	987	1,463	1,962	2,465	2,974	3,493	4,024
Total cash flow to shareholders ($US – millions)	IPO Year								
Cash flow available to shareholders prior to IPO	5	117	129	158	190	223	0	0	0
Cash flow to shareholders from public offering		0	0	0	0	2,465	0	0	0
Total cashflow to shareholders		117	129	158	190	2,687	0	0	0
Discount rate	40.0%								
Net present value ($US in millions)	1,085	83	66	58	49	500	0	0	0
Net present value (HUF in millions)	116,060								

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Malev Rt. -- Infrastructure (2)

Operating Assumptions:	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF – millions)	2,893	2,893	2,893	2,922	2,981	3,040	3,101	3,163	3,226
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF – millions)	2,893	3,443	4,011	4,658	5,464	6,410	7,519	8,819	10,345
Foreign sales:									
Real growth of $US sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US – millions)	200	200	200	202	206	210	215	219	223
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US – millions)	200	207	214	224	236	249	263	278	293
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF – millions)	19,504	23,937	28,488	33,854	40,628	48,759	58,516	70,225	84,278
Real growth of DM sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM – millions)	199	199	199	201	205	209	213	217	222
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM – millions)	199	204	209	216	226	236	247	258	270
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF – millions)	13,003	15,603	18,742	22,480	27,232	32,988	39,961	48,408	58,640
Total nominal sales (HUF – millions)	35,400	42,984	51,240	60,993	73,325	88,157	105,995	127,452	153,263
Estimated cost of goods sold									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF – millions)	16,407	16,407	16,407	16,571	16,902	17,240	17,585	17,937	18,295
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF – millions)	16,407	19,523	22,743	26,416	30,986	36,346	42,634	50,010	58,661
Foreign purchases									
Real cost of $US goods & services ($US – millions)	29	29	29	29	30	31	31	32	32
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US – millions)	29	30	31	32	34	36	38	40	43
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF – millions)	2,831	3,474	4,135	4,913	5,896	7,076	8,493	10,192	12,232
Real cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF – millions)	0	0	0	0	0	0	0	0	0
Total nominal cost of goods & services (HUF – millions)	19,237	22,997	26,877	31,329	36,882	43,422	51,126	60,202	70,893

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF – millions)	15,716	15,716	15,716	15,873	16,191	16,514	16,845	17,182	17,525
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF – millions)	15,716	18,701	21,785	25,304	29,681	34,816	40,839	47,904	56,192
Real capital expenditures ($US – millions)		5	5	5	5	5	5	5	5
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US – millions)		5	5	6	6	6	6	6	7
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF – millions)		598	712	837	985	1,159	1,364	1,605	1,888
Tangible long-term assets, beg. of period (HUF – millions)		5,983	5,738	5,607	5,602	5,745	6,061	6,582	7,344
Nominal depreciation (HUF – millions)	(843)	(843)	(843)	(843)	(843)	(843)	(843)	(843)	(843)
Nominal capital expenditures (HUF – millions)		598	712	837	985	1,159	1,364	1,605	1,888
Tangible long-term assets, end of period	5,983	5,738	5,607	5,602	5,745	6,061	6,582	7,344	8,390
Net income before taxes paid out as dividends		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income tax		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding tax		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		60	60	60	60	60	60	60	60
Inventory Turns		6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Prepaid expenses as a % of cost of goods sold		1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Payable Turns		6	6	6	6	6	6	6	6
Accruals as % of SG&A		15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF – millions)	772	772	746	721	695	669	643	618	592
Amortization of principal – (years)	30	(26)	(26)	(26)	(26)	(26)	(26)	(26)	(26)
Ending principal balance		746	721	695	669	643	618	592	566
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		216	187	180	174	167	161	154	148
Issuance of common equity (nominal – HUF millions)		0	0	0	0	0	0	0	0

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Malev Rt. – Infrastructure (2)

INCOME STATEMENT (HUF in millions)	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
SALES	35,400	42,984	51,240	60,993	73,325	88,157	105,995	127,452	153,263
(Cost of Goods Sold)	(19,237)	(22,997)	(26,877)	(31,329)	(36,882)	(43,422)	(51,126)	(60,202)	(70,893)
GROSS PROFIT	16,163	19,986	24,363	29,664	36,443	44,734	54,869	67,251	82,370
Gross Profit Margin	*45.7%*	*46.5%*	*47.5%*	*48.6%*	*49.7%*	*50.7%*	*51.8%*	*52.8%*	*53.7%*
(Selling, General, & Admin. Expense)	(15,716)	(18,701)	(21,785)	(25,304)	(29,681)	(34,816)	(40,839)	(47,904)	(56,192)
OPERATING INCOME (EBITDA)	447	1,285	2,578	4,360	6,762	9,918	14,030	19,347	26,179
(Depreciation & Amortization)	(843)	(843)	(843)	(843)	(843)	(843)	(843)	(843)	(843)
EBIT	(396)	442	1,735	3,517	5,919	9,075	13,187	18,504	25,336
Interest and other financial income	1,445	1,333	1,575	2,008	2,784	4,029	5,940	8,774	12,870
(Interest Expense)	(760)	(216)	(187)	(180)	(174)	(167)	(161)	(154)	(148)
EARNINGS BEFORE TAXES	289	1,558	3,124	5,345	8,529	12,937	18,966	27,124	38,058
Extraordinary gain/(loss)	(768)	0	0	0	0	0	0	0	0
(Taxes)	0	(281)	(562)	(962)	(1,535)	(2,329)	(3,414)	(4,882)	(6,850)
NET INCOME	(479)	1,278	2,561	4,383	6,994	10,608	15,552	22,241	31,208

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Malev Rt. – Infrastructure (2)

BALANCE SHEET (HUF in millions)

ASSETS	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Intangible and Invested Financial Assets	5,449	5,449	5,449	5,449	5,449	5,449	5,449	5,449	5,449
Net Tangible Long-term Assets	5,983	5,738	5,607	5,602	5,745	6,061	6,582	7,344	8,390
Cash & Marketable Securities	5,671	7,685	9,796	13,581	19,654	28,976	42,800	62,779	91,078
Accounts Receivable	6,722	7,066	8,540	10,165	12,221	14,693	17,666	21,242	25,544
Inventories	3,343	3,833	4,480	5,221	6,147	7,237	8,521	10,034	11,815
Prepaid expenses	381	345	403	470	553	651	767	903	1,063
Total Current Assets	16,117	18,929	23,219	29,438	38,575	51,557	69,754	94,958	129,500
TOTAL ASSETS	27,549	30,116	34,275	40,489	49,768	63,067	81,785	107,751	143,339
EQUITY, RESERVES & LIABILITIES									
Common Stock	14,784	14,7[illegible]	14,784	14,784	14,784	14,784	14,784	14,784	14,784
Retained Earnings:									
Beginning	1,449	970	2,248	4,810	9,193	16,187	26,795	42,347	64,589
Dividends	0	0	0	0	0	0	0	0	0
Current year earnings	(479)	1,278	2,561	4,383	6,994	10,608	15,552	22,241	31,208
Ending	970	2,248	4,810	9,193	16,187	26,795	42,347	64,589	95,797
Shareholders' Equity	15,754	17,032	19,594	23,977	30,971	41,579	57,131	79,373	110,581
Target Reserves	199	199	199	199	199	199	199	199	199
Long-term Credits and Liabilities	746	721	695	669	643	618	592	566	566
Trade credits	5,686	6,950	8,110	9,439	11,094	13,040	15,328	18,018	21,181
Other Accrued Liabilities	2,754	2,805	3,268	3,796	4,452	5,222	6,126	7,186	8,429
Current Portion: Long-term debt	26	26	26	26	26	26	26	26	0
Total Current Liabilities	8,466	9,781	11,404	13,260	15,572	18,288	21,479	25,229	29,610
Total Liabilities	9,212	10,501	12,099	13,929	16,215	18,905	22,071	25,795	30,176
Other	2,384	2,384	2,384	2,384	2,384	2,384	2,384	2,384	2,384
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	27,549	30,117	34,275	40,489	49,769	63,067	81,786	107,751	143,339
	0	0	0	0	0	0	0	0	0

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Malev Rt. – Infrastructure (2)

CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec–94	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Cash Flows from Operating Activities:									
Net Income		1,278	2,561	4,383	6,994	10,608	15,552	22,241	31,208
Depreciation & Amortization		843	843	843	843	843	843	843	843
Changes in Working Capital		517	(556)	(578)	(752)	(944)	(1,181)	(1,475)	(1,838)
Cash provided by operating activities		2,638	2,848	4,648	7,084	10,507	15,214	21,609	30,212
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(598)	(712)	(837)	(985)	(1,159)	(1,364)	(1,605)	(1,888)
Repayment of principal of Long–term Debt		(26)	(26)	(26)	(26)	(26)	(26)	(26)	(26)
Issuance of Common Stock		0	0	0	0	0	0	0	0
Cash used in investing/investing activities		(624)	(737)	(863)	(1,011)	(1,185)	(1,390)	(1,630)	(1,914)
Increase (decrease) in cash		2,014	2,111	3,785	6,073	9,322	13,824	19,979	28,299
Cash, beginning of the period		5,671	7,685	9,796	13,581	19,654	28,976	42,800	62,779
Increase (decrease) in cash		2,014	2,111	3,785	6,073	9,322	13,824	19,979	28,299
Dividends		0	0	0	0	0	0	0	0
Cash, end of period		7,685	9,796	13,581	19,654	28,976	42,800	62,779	91,078
Increase (decrease) in cash		2,014	2,111	3,785	6,073	9,322	13,824	19,979	28,299
Dividends		0	0	0	0	0	0	0	0
Dividend withholding tax		0	0	0	0	0	0	0	0
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		2,014	2,111	3,785	6,073	9,322	13,824	19,979	28,299
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		17	16	25	35	48	62	79	98
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF – millions)	Ratio	1,278	2,561	4,383	6,994	10,608	15,552	22,241	31,208
Terminal value ($US – millions)	12	123	217	326	458	611	789	992	1,224
Total cash flow to shareholders ($US – millions)	IPO Year								
Cash flow available to shareholders prior to IPO	5	17	16	25	35	48	0	0	0
Cash flow to shareholders from public offering		0	0	0	0	611	0	0	0
Total cashflow to shareholders		17	16	25	35	659	0	0	0
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	214	12	8	9	9	123	0	0	0
Net present value (HUF in millions)	22,935								

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Antenna Hungaria Rt.. – Infrastructure

Operating Assumptions:	Year Ending Dec-93	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF – millions)	5,925	5,925	5,925	5,984	6,104	6,226	6,351	6,478	6,607
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF – millions)	5,925	7,051	8,213	9,540	11,190	13,126	15,397	18,060	21,185
Foreign sales:									
Real growth of $US sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US – millions)	1	1	1	1	1	1	1	1	1
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US – millions)	1	1	1	1	1	1	1	1	2
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF – millions)	100	123	146	174	208	250	300	360	432
Real growth of DM sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF – millions)	0	0	0	0	0	0	0	0	0
Total nominal sales (HUF – millions)	6,025	7,173	8,359	9,713	11,398	13,376	15,697	18,420	21,617
Estimated cost of goods sold									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF – millions)	2,819	2,819	2,819	2,847	2,904	2,962	3,021	3,082	3,144
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF – millions)	2,819	3,354	3,908	4,539	5,324	6,245	7,325	8,593	10,079
Foreign purchases									
Real cost of $US goods & services ($US – millions)	2	2	2	2	2	2	2	2	2
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US – millions)	2	2	2	2	2	2	2	3	3
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF – millions)	176	216	257	305	367	440	528	634	761
Real cost of DM goods & services (DM – millions)	3	3	3	3	3	3	3	3	3
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM – millions)	3	3	3	3	3	3	3	3	4
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF – millions)	176	211	254	304	369	447	541	655	794
Total nominal cost of goods & services (HUF – millions)	3,171	3,782	4,418	5,149	6,0[illegible]	7,131	8,394	9,882	11,633

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Operating Assumptions (continued):	Year Ending Dec-93	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF – millions)	763	763	763	771	786	802	818	834	851
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF – millions)	763	908	1,058	1,228	1,441	1,690	1,983	2,326	2,728
Real capital expenditures ($US – millions)		4	4	4	4	4	4	4	4
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US – millions)		4	4	4	5	5	5	5	5
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF – millions)		478	569	670	788	927	1,091	1,284	1,510
Tangible long-term assets, beg. of period (HUF – millions)		12,460	12,004	11,640	11,376	11,230	11,223	11,380	11,730
Nominal depreciation (HUF – millions)	(934)	(934)	(934)	(934)	(934)	(934)	(934)	(934)	(934)
Nominal capital expenditures (HUF – millions)		478	569	670	788	927	1,091	1,284	1,510
Tangible long-term assets, end of period	12,460	12,004	11,640	11,376	11,230	11,223	11,380	11,730	12,306
Net income before taxes paid out as dividends		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income tax		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		45	45	45	45	45	45	45	45
Inventory Turns		8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Prepaid expenses as a % of cost of goods sold		1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Payable Turns		8	8	8	8	8	8	8	8
Accruals as % of SG&A		200.0%	200.0%	200.0%	200.0%	200.0%	200.0%	200.0%	200.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF – millions)	1,605	1,605	1,552	1,498	1,445	1,391	1,338	1,284	1,231
Amortization of principal – (years)	30	(54)	(54)	(54)	(54)	(54)	(54)	(54)	(54)
Ending principal balance		1,552	1,498	1,445	1,391	1,338	1,284	1,231	1,177
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		450	389	375	362	348	334	321	307
Issuance of common equity (nominal – HUF millions)		0	0	0	0	0	0	0	0

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Antenna Hungaria Rt.. – Infrastructure

INCOME STATEMENT (HUF in millions)	Year Ending Dec-93	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	6,025	7,173	8,359	9,713	11,398	13,376	15,697	18,420	21,617
(Cost of Goods Sold)	(3,171)	(3,782)	(4,418)	(5,149)	(6,059)	(7,131)	(8,394)	(9,882)	(11,633)
GROSS PROFIT	2,854	3,392	3,941	4,565	5,339	6,244	7,302	8,539	9,983
Gross Profit Margin	*47.4%*	*47.3%*	*47.1%*	*47.0%*	*46.8%*	*46.7%*	*46.5%*	*46.4%*	*46.2%*
(Selling, General, & Admin. Expense)	(763)	(908)	(1,058)	(1,228)	(1,441)	(1,690)	(1,983)	(2,326)	(2,728)
OPERATING INCOME (EBITDA)	2,091	2,484	2,883	3,336	3,898	4,554	5,320	6,213	7,255
(Depreciation & Amortization)	(934)	(934)	(934)	(934)	(934)	(934)	(934)	(934)	(934)
EBIT	1,157	1,550	1,949	2,402	2,964	3,620	4,386	5,279	6,321
Interest and other financial income	20	119	363	781	1,333	2,061	3,002	4,209	5,742
(Interest Expense)	(600)	(450)	(389)	(375)	(362)	(348)	(334)	(321)	(307)
EARNINGS BEFORE TAXES	577	1,219	1,924	2,808	3,936	5,333	7,053	9,167	11,756
Extraordinary gain/(loss)	53	0	0	0	0	0	0	0	0
(Taxes)	(113)	(219)	(346)	(505)	(708)	(960)	(1,270)	(1,650)	(2,116)
NET INCOME	517	1,000	1,577	2,302	3,227	4,373	5,784	7,517	9,640

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Antenna Hungaria Rt.. – Infrastructure

BALANCE SHEET (HUF in millions)

ASSETS	Year Ending Dec–93	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Intangible and Invested Financial Assets	1,052	1,052	1,052	1,052	1,052	1,052	1,052	1,052	1,052
Net Tangible Long–term Assets	12,460	12,004	11,640	11,376	11,230	11,223	11,380	11,730	12,306
Cash & Marketable Securities	508	1,772	3,809	6,505	10,052	14,644	20,530	28,009	37,449
Accounts Receivable	775	884	1,045	1,214	1,425	1,672	1,962	2,303	2,702
Inventories	396	473	552	644	757	891	1,049	1,235	1,454
Prepaid expenses	41	57	66	77	91	107	126	148	175
Total Current Assets	1,720	3,186	5,472	8,439	12,325	17,314	23,667	31,695	41,779
TOTAL ASSETS	15,232	16,242	18,164	20,867	24,606	29,590	36,099	44,477	55,138
EQUITY, RESERVES & LIABILITIES									
Common Stock	10,289	10,289	10,289	10,289	10,289	10,289	10,289	10,289	10,289
Retained Earnings:									
Beginning	382	899	1,898	3,476	5,778	9,006	13,378	19,162	26,679
Dividends	0	0	0	0	0	0	0	0	0
Current year earnings	517	1,000	1,577	2,302	3,227	4,373	5,784	7,517	9,640
Ending	899	1,898	3,476	5,778	9,006	13,378	19,162	26,679	36,319
Shareholders' Equity	11,188	12,187	13,765	16,067	19,295	23,667	29,451	36,968	46,608
Target Reserves	1	1	1	1	1	1	1	1	1
Long–term Credits and Liabilities	1,552	1,498	1,445	1,391	1,338	1,284	1,231	1,177	1,177
Trade credits	454	586	685	797	938	1,103	1,297	1,526	1,795
Other Accrued Liabilities	1,884	1,816	2,115	2,457	2,882	3,381	3,965	4,651	5,456
Current Portion: Long–term debt	54	54	54	54	54	54	54	54	0
Total Current Liabilities	2,392	2,456	2,853	3,308	3,873	4,537	5,316	6,231	7,251
Total Liabilities	3,943	3,954	4,298	4,699	5,211	5,821	6,547	7,408	8,428
Other	100	100	100	100	100	100	100	100	100
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	15,232	16,242	18,164	20,867	24,606	29,589	36,099	44,477	55,137
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)

FOR INTERNAL USE ONLY: Not compiled or examined by an independent CPA. Projected results cannot be assured.

Antenna Hungaria Rt.. – Infrastructure

CASH FLOW STATEMENT (HUF in millions)

		Dec–93	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
			Projected Year Ending							
Cash Flows from Operating Activities:										
Net Income			1,000	1,577	2,302	3,227	4,373	5,784	7,517	9,640
Depreciation & Amortization			934	934	934	934	934	934	934	934
Changes in Working Capital			(138)	148	183	227	266	312	366	429
Cash provided by operating activities			1,796	2,659	3,419	4,389	5,573	7,030	8,817	11,003
Cash Flows from Investing and Financing Activities:										
Purchase of Property and Equipment			(478)	(569)	(670)	(788)	(927)	(1,091)	(1,284)	(1,510)
Repayment of principal of Long–term Debt			(54)	(54)	(54)	(54)	(54)	(54)	(54)	(54)
Issuance of Common Stock			0	0	0	0	0	0	0	0
Cash used in investing/investing activities			(532)	(623)	(723)	(842)	(981)	(1,145)	(1,337)	(1,564)
Increase (decrease) in cash			1,264	2,037	2,696	3,547	4,592	5,886	7,480	9,439
Cash, beginning of the period			508	1,772	3,809	6,505	10,052	14,644	20,530	28,009
Increase (decrease) in cash			1,264	2,037	2,696	3,547	4,592	5,886	7,480	9,439
Dividends			0	0	0	0	0	0	0	0
Cash, end of period			1,772	3,809	6,505	10,052	14,644	20,530	28,009	37,449
Increase (decrease) in cash			1,264	2,037	2,696	3,547	4,592	5,886	7,480	9,439
Dividends			0	0	0	0	0	0	0	0
Dividend withholding tax			0	0	0	0	0	0	0	0
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)			1,264	2,037	2,696	3,547	4,592	5,886	7,480	9,439
Average exchange rate (HUF/$US)			116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)			11	15	18	21	23	26	30	33
End of period exchange rate (HUF/$US)	P/E		125	142	161	183	208	237	269	306
Net Income (HUF – millions)	Ratio		1,000	1,577	2,302	3,227	4,373	5,784	7,517	9,640
Terminal value ($US – millions)		12	96	134	171	211	252	293	335	378
Total cash flow to shareholders ($US – millions)	IPO Year									
Cash flow available to shareholders prior to IPO		5	11	15	18	21	23	0	0	0
Cash flow to shareholders from public offering			0	0	0	0	252	0	0	0
Total cashflow to shareholders			11	15	18	21	276	0	0	0
Discount cash flow ($US in millions)		40.0%								
Net present value ($US in millions)		83	8	8	6	5	51	0	0	0
Net present value (HUF in millions)		8,926								

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Richter Gedeon Rt. – Industry

Operating Assumptions:	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF – millions)	8,321	8,321	8,321	8,404	8,572	8,744	8,919	9,097	9,279
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF – millions)	8,321	9,902	11,534	13,397	15,715	18,434	21,623	25,363	29,751
Foreign sales:									
Real growth of $US sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US – millions)	148	148	148	149	152	155	158	162	165
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US – millions)	148	153	158	165	174	184	194	205	216
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF – millions)	14,396	17,668	21,027	24,988	29,988	35,989	43,191	51,834	62,206
Real growth of DM sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF – millions)	0	0	0	0	0	0	0	0	0
Total nominal sales (HUF – millions)	22,717	27,570	32,562	38,385	45,703	54,423	64,813	77,197	91,958
Estimated cost of goods sold									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF – millions)	8,810	8,810	8,810	8,898	9,076	9,258	9,443	9,632	9,824
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF – millions)	8,810	10,484	12,212	14,185	16,639	19,517	22,893	26,854	31,500
Foreign purchases									
Real cost of $US goods & services ($US – millions)	14	14	14	14	14	14	15	15	15
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US – millions)	14	14	15	15	16	17	18	19	20
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF – millions)	1,330	1,632	1,943	2,309	2,770	3,325	3,990	4,789	5,747
Real cost of DM goods & services (DM – millions)	41	41	41	41	42	43	44	44	45
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM – millions)	41	42	43	44	46	48	51	53	55
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF – millions)	2,660	3,192	3,834	4,599	5,571	6,749	8,175	9,903	11,996
Total nominal cost of goods & services (HUF – millions)	12,800	15,308	17,989	21,092	24,980	29,590	35,059	41,546	49,243

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Operating Assumptions (continued):	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF – millions)	4,171	4,171	4,171	4,213	4,297	4,383	4,471	4,560	4,651
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF – millions)	4,171	4,963	5,782	6,716	7,877	9,240	10,839	12,714	14,913
Real capital expenditures ($US – millions)		7	7	7	7	7	7	7	7
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US – millions)		7	7	8	8	8	9	9	9
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF – millions)		837	996	1,172	1,379	1,623	1,909	2,247	2,643
Tangible long–term assets, beg. of period (HUF – millions)		16,523	16,135	15,907	15,854	16,008	16,406	17,090	18,112
Nominal depreciation (HUF – millions)	(1,225)	(1,225)	(1,225)	(1,225)	(1,225)	(1,225)	(1,225)	(1,225)	(1,225)
Nominal capital expenditures (HUF – millions)		837	996	1,172	1,379	1,623	1,909	2,247	2,643
Tangible long–term assets, end of period	16,523	16,135	15,907	15,854	16,008	16,406	17,090	18,112	19,530
Net income before taxes paid out as dividends		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding tax		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		75	75	75	75	75	75	75	75
Inventory Turns		3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Prepaid expenses as a % of cost of goods sold		0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Payable Turns		24	24	24	24	24	24	24	24
Accruals as % of SG&A		90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long–term credits and liabilities (HUF – millions)	261	261	252	244	235	226	218	209	200
Amortization of principal – (years)	30	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
Ending principal balance		252	244	235	226	218	209	200	191
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		73	63	61	59	57	54	52	50
Issuance of common equity (nominal – HUF millions)		0	0	0	0	0	0	0	0

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Richter Gedeon Rt. – Industry

INCOME STATEMENT (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	22,717	27,570	32,562	38,385	45,703	54,423	64,813	77,197	91,958
(Cost of Goods Sold)	(12,800)	(15,308)	(17,989)	(21,092)	(24,980)	(29,590)	(35,059)	(41,546)	(49,243)
GROSS PROFIT	9,917	12,262	14,573	17,293	20,723	24,832	29,755	35,651	42,715
Gross Profit Margin	*43.7%*	*44.5%*	*44.8%*	*45.1%*	*45.3%*	*45.6%*	*45.9%*	*46.2%*	*46.5%*
(Selling, General, & Admin. Expense)	(4,171)	(4,963)	(5,782)	(6,716)	(7,877)	(9,240)	(10,839)	(12,714)	(14,913)
OPERATING INCOME (EBITDA)	5,746	7,299	8,791	10,577	12,846	15,592	18,916	22,938	27,801
(Depreciation & Amortization)	(1,225)	(1,225)	(1,225)	(1,225)	(1,225)	(1,225)	(1,225)	(1,225)	(1,225)
EBIT	4,521	6,074	7,566	9,352	11,621	14,367	17,691	21,713	26,576
Interest and other financial income	117	1,257	2,174	3,612	5,533	8,050	11,337	15,600	21,093
(Interest Expense)	(970)	(73)	(63)	(61)	(59)	(57)	(54)	(52)	(50)
EARNINGS BEFORE TAXES	3,668	7,258	9,676	12,903	17,095	22,361	28,974	37,260	47,619
Extraordinary gain/(loss)	(193)	0	0	0	0	0	0	0	0
(Taxes)	(626)	(1,306)	(1,742)	(2,323)	(3,077)	(4,025)	(5,215)	(6,707)	(8,571)
NET INCOME	2,850	5,952	7,935	10,580	14,018	18,336	23,759	30,554	39,048

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Richter Gedeon Rt. – Industry

BALANCE SHEET (HUF in millions)	Year Ending	Projected Year Ending							
ASSETS	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Intangible and Invested Financial Assets	1,393	1,393	1,393	1,393	1,393	1,393	1,393	1,393	1,393
Net Tangible Long-term Assets	16,523	16,135	15,907	15,854	16,008	16,406	17,090	18,112	19,530
Cash & Marketable Securities	5,351	10,603	17,618	26,992	39,269	55,305	76,097	102,891	137,236
Accounts Receivable	4,028	5,665	6,784	7,997	9,521	11,338	13,503	16,083	19,158
Inventories	4,846	5,103	5,996	7,031	8,327	9,863	11,686	13,849	16,414
Prepaid expenses	56	54	63	74	87	104	123	145	172
Total Current Assets	14,281	21,424	30,461	42,094	57,205	76,610	101,409	132,968	172,981
TOTAL ASSETS	32,197	38,952	47,760	59,341	74,606	94,409	119,892	152,473	193,904
EQUITY, RESERVES & LIABILITIES									
Common Stock	22,365	22,365	22,365	22,365	22,365	22,365	22,365	22,365	22,365
Retained Earnings:									
Beginning	1,602	4,452	10,403	18,338	28,918	42,936	61,272	85,031	115,584
Dividends	0	0	0	0	0	0	0	0	0
Current year earnings	2,850	5,952	7,935	10,580	14,018	18,336	23,759	30,554	39,048
Ending	4,452	10,403	18,338	28,918	42,936	61,272	85,031	115,584	154,632
Shareholders' Equity	26,817	32,768	40,703	51,283	65,301	83,637	107,396	137,949	176,997
Target Reserves	170	170	170	170	170	170	170	170	170
Long-term Credits and Liabilities	252	244	235	226	218	209	200	191	191
Trade credits	700	845	990	1,159	1,369	1,618	1,912	2,261	2,673
Other Accrued Liabilities	3,799	4,467	5,204	6,044	7,090	8,316	9,755	11,442	13,422
Current Portion: Long-term debt	9	9	9	9	9	9	9	9	0
Total Current Liabilities	4,508	5,320	6,203	7,211	8,467	9,943	11,676	13,712	16,095
Total Liabilities	4,760	5,564	6,438	7,438	8,685	10,152	11,876	13,903	16,286
Other	450	450	450	450	450	450	450	450	450
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	32,197	38,952	47,760	59,341	74,606	94,409	119,892	152,473	193,904
	0	0	0	(0)	(0)	(0)	0	(0)	0

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Richter Gedeon Rt. – Industry

CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec–94	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Cash Flows from Operating Activities:									
Net Income		5,952	7,935	10,580	14,018	18,336	23,759	30,554	39,048
Depreciation & Amortization		1,225	1,225	1,225	1,225	1,225	1,225	1,225	1,225
Changes in Working Capital		(1,079)	(1,139)	(1,250)	(1,578)	(1,894)	(2,274)	(2,729)	(3,276)
Cash provided by operating activities		6,098	8,020	10,556	13,665	17,667	22,710	29,030	36,997
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(837)	(996)	(1,172)	(1,379)	(1,623)	(1,909)	(2,247)	(2,643)
Repayment of principal of Long–term Debt		(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
Issuance of Common Stock		0	0	0	0	0	0	0	0
Cash used in investing/investing activities		(846)	(1,005)	(1,181)	(1,388)	(1,632)	(1,918)	(2,255)	(2,652)
Increase (decrease) in cash		5,252	7,015	9,375	12,277	16,035	20,792	26,794	34,345
Cash, beginning of the period		5,351	10,603	17,618	26,992	39,269	55,305	76,097	102,891
Increase (decrease) in cash		5,252	7,015	9,375	12,277	16,035	20,792	26,794	34,345
Dividends		0	0	0	0	0	0	0	0
Cash, end of period		10,603	17,618	26,992	39,269	55,305	76,097	102,891	137,236
Increase (decrease) in cash		5,252	7,015	9,375	12,277	16,035	20,792	26,794	34,345
Dividends		0	0	0	0	0	0	0	0
Dividend withholding tax		0	0	0	0	0	0	0	0
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		5,252	7,015	9,375	12,277	16,035	20,792	26,794	34,345
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		45	53	62	71	82	93	106	119
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF – millions)	Ratio	5,952	7,935	10,580	14,018	18,336	23,759	30,554	39,048
Terminal value ($US – millions)	12	573	672	788	919	1,057	1,205	1,363	1,532
Total cash flow to shareholders ($US – millions)	IPO Year								
Cash flow available to shareholders prior to IPO	5	45	53	62	71	82	0	0	0
Cash flow to shareholders from public offering		0	0	0	0	1,057	0	0	0
Total cashflow to shareholders		45	53	62	71	1,139	0	0	0
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	362	32	27	23	19	212	0	0	0
Net present value (HUF in millions)	38,749								

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Biogal Rt. – Industry

Operating Assumptions:	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF – millions)	7,913	7,913	7,913	7,992	8,152	8,315	8,481	8,651	8,824
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF – millions)	7,913	9,416	10,969	12,740	14,944	17,530	20,563	24,120	28,293
Foreign sales:									
Real growth of $US sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US – millions)	25	25	25	25	26	26	27	27	28
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US – millions)	25	26	27	28	30	31	33	35	37
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF – millions)	2,441	2,996	3,565	4,237	5,085	6,102	7,323	8,789	10,548
Real growth of DM sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF – millions)	0	0	0	0	0	0	0	0	0
Total nominal sales (HUF – millions)	10,354	12,412	14,534	16,977	20,029	23,632	27,886	32,909	38,840
Estimated cost of goods sold									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF – millions)	4,029	4,029	4,029	4,069	4,151	4,234	4,318	4,405	4,493
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF – millions)	4,029	4,794	5,585	6,487	7,609	8,926	10,470	12,281	14,405
Foreign purchases									
Real cost of $US goods & services ($US – millions)	19	19	19	19	19	20	20	20	21
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US – millions)	19	19	20	21	22	23	24	26	27
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF – millions)	1,811	2,223	2,645	3,143	3,772	4,527	5,433	6,521	7,825
Real cost of DM goods & services (DM – millions)	28	28	28	28	29	29	30	30	31
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM – millions)	28	28	29	30	31	33	34	36	38
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF – millions)	1,811	2,173	2,610	3,131	3,793	4,595	5,566	6,742	8,167
Total nominal cost of goods & services (HUF – millions)	7,651	9,190	10,840	12,761	15,174	18,047	21,469	25,544	30,398

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF – millions)	964	964	964	974	993	1,013	1,033	1,054	1,075
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF – millions)	964	1,147	1,336	1,552	1,821	2,136	2,505	2,938	3,447
Real capital expenditures ($US – millions)		3	3	3	3	3	3	3	3
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US – millions)		3	3	3	3	4	4	4	4
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF – millions)		359	427	502	591	695	818	963	1,133
Tangible long-term assets, beg. of period (HUF – millions)		5,834	5,685	5,604	5,598	5,681	5,869	6,179	6,634
Nominal depreciation (HUF – millions)	(508)	(508)	(508)	(508)	(508)	(508)	(508)	(508)	(508)
Nominal capital expenditures (HUF – millions)		359	427	502	591	695	818	963	1,133
Tangible long-term assets, end of period	5,834	5,685	5,604	5,598	5,681	5,869	6,179	6,634	7,259
Net income before taxes paid out as dividends		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding taxes		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		45	45	45	45	45	45	45	45
Inventory Turns		3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Prepaid expenses as a % of cost of goods sold		3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Payable Turns		5	5	5	5	5	5	5	5
Accruals as % of SG&A		150.0%	150.0%	150.0%	150.0%	150.0%	150.0%	150.0%	150.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF – millions)	566	566	547	528	509	491	472	453	434
Amortization of principal – (years)	30	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)
Ending principal balance		547	528	509	491	472	453	434	415
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		159	137	132	127	123	118	113	108
Issuance of common equity (nominal – HUF millions)		0	0	0	0	0	0	0	0

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Biogal Rt. – Industry

INCOME STATEMENT (HUF in millions)	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
SALES	10,354	12,412	14,534	16,977	20,029	23,632	27,886	32,909	38,840
(Cost of Goods Sold)	(7,651)	(9,190)	(10,840)	(12,761)	(15,174)	(18,047)	(21,469)	(25,544)	(30,398)
GROSS PROFIT	2,703	3,222	3,694	4,216	4,855	5,585	6,417	7,365	8,442
Gross Profit Margin	*26.1%*	*26.0%*	*25.4%*	*24.8%*	*24.2%*	*23.6%*	*23.0%*	*22.4%*	*21.7%*
(Selling, General, & Admin. Expense)	(964)	(1,147)	(1,336)	(1,552)	(1,821)	(2,136)	(2,505)	(2,938)	(3,447)
OPERATING INCOME (EBITDA)	1,739	2,075	2,358	2,664	3,034	3,449	3,912	4,427	4,995
(Depreciation & Amortization)	(508)	(508)	(508)	(508)	(508)	(508)	(508)	(508)	(508)
EBIT	1,231	1,567	1,850	2,156	2,526	2,941	3,404	3,919	4,487
Interest and other financial income	18	80	261	572	971	1,472	2,097	2,870	3,816
(Interest Expense)	(565)	(159)	(137)	(132)	(127)	(123)	(118)	(113)	(108)
EARNINGS BEFORE TAXES	684	1,488	1,974	2,596	3,369	4,290	5,383	6,675	8,195
Extraordinary gain/(loss)	(55)	0	0	0	0	0	0	0	0
(Taxes)	(113)	(268)	(355)	(467)	(606)	(772)	(969)	(1,202)	(1,475)
NET INCOME	516	1,221	1,618	2,128	2,763	3,518	4,414	5,474	6,720

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Biogal Rt. – Industry

BALANCE SHEET (HUF in millions)

	Year Ending	Projected Year Ending							
ASSETS	Dec–94	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Intangible and Invested Financial Assets	528	528	528	528	528	528	528	528	528
Net Tangible Long–term Assets	5,834	5,685	5,604	5,598	5,681	5,869	6,179	6,634	7,259
Cash & Marketable Securities	342	1,274	2,791	4,735	7,180	10,230	13,999	18,616	24,229
Accounts Receivable	1,399	1,530	1,817	2,122	2,504	2,954	3,486	4,114	4,855
Inventories	2,080	2,626	3,097	3,646	4,336	5,156	6,134	7,298	8,685
Prepaid expenses	29	322	379	447	531	632	751	894	1,064
Total Current Assets	3,850	5,752	8,084	10,950	14,550	18,972	24,370	30,922	38,833
TOTAL ASSETS	10,212	11,965	14,216	17,077	20,760	25,369	31,077	38,084	46,620
EQUITY, RESERVES & LIABILITIES									
Common Stock	4,399	4,399	4,399	4,399	4,399	4,399	4,399	4,399	4,399
Retained Earnings:									
Beginning	1,233	1,749	2,969	4,588	6,716	9,479	12,997	17,412	22,885
Dividends	0	0	0	0	0	0	0	0	0
Current year earnings	516	1,221	1,618	2,128	2,763	3,518	4,414	5,474	6,720
Ending	1,749	2,969	4,588	6,716	9,479	12,997	17,412	22,885	29,605
Shareholders' Equity	6,148	7,368	8,987	11,115	13,878	17,396	21,811	27,284	34,004
Target Reserves	55	55	55	55	55	55	55	55	55
Long–term Credits and Liabilities	547	528	509	491	472	453	434	415	415
Trade credits	1,777	2,067	2,435	2,863	3,399	4,037	4,795	5,696	6,769
Other Accrued Liabilities	1,460	1,721	2,004	2,328	2,731	3,203	3,758	4,408	5,170
Current Portion: Long–term debt	19	19	19	19	19	19	19	19	0
Total Current Liabilities	3,256	3,807	4,459	5,210	6,149	7,259	8,571	10,123	11,939
Total Liabilities	3,803	4,335	4,968	5,700	6,620	7,712	9,005	10,538	12,354
Other	206	206	206	206	206	206	206	206	206
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	10,212	11,965	14,216	17,076	20,759	25,369	31,077	38,083	46,620
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)

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Biogal Rt. – Industry

CASH FLOW STATEMENT (HUF – millions)

		Projected Year Ending							
	Dec–94	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Cash Flows from Operating Activities:									
Net Income		1,221	1,618	2,128	2,763	3,518	4,414	5,474	6,720
Depreciation & Amortization		508	508	508	508	508	508	508	508
Changes in Working Capital		(419)	(164)	(170)	(216)	(262)	(317)	(383)	(463)
Cash provided by operating activities		1,310	1,962	2,466	3,055	3,764	4,606	5,599	6,765
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(359)	(427)	(502)	(591)	(695)	(818)	(963)	(1,133)
Repayment of principal of Long–term Debt		(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)
Issuance of Common Stock		0	0	0	0	0	0	0	0
Cash used in investing/investing activities		(378)	(446)	(521)	(610)	(714)	(837)	(982)	(1,152)
Increase (decrease) in cash		932	1,516	1,945	2,445	3,050	3,769	4,617	5,613
Cash, beginning of the period		342	1,274	2,791	4,735	7,180	10,230	13,999	18,616
Increase (decrease) in cash		932	1,516	1,945	2,445	3,050	3,769	4,617	5,613
Dividends		0	0	0	0	0	0	0	0
Cash, end of period		1,274	2,791	4,735	7,180	10,230	13,999	18,616	24,229
Increase (decrease) in cash		932	1,516	1,945	2,445	3,050	3,769	4,617	5,613
Dividends		0	0	0	0	0	0	0	0
Dividend withholding tax		0	0	0	0	0	0	0	0
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		932	1,516	1,945	2,445	3,050	3,769	4,617	5,613
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		8	11	13	14	16	17	18	20
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF – millions)	Ratio	1,221	1,618	2,128	2,763	3,518	4,414	5,474	6,720
Terminal value ($US – millions)	12	117	137	159	181	203	224	244	264
	IPO								
Total cash flow to shareholders ($US – millions)	Year								
Cash flow available to shareholders prior to IPO	5	8	11	13	14	16	0	0	0
Cash flow to shareholders from public offering		0	0	0	0	203	0	0	0
Total cashflow to shareholders		8	11	13	14	218	0	0	0
Discount rate	40.0%								
Net present value ($US in millions)	64	6	6	5	4	41	0	0	0
Net present value (HUF in millions)	6,819								

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Ikarus Rt. – Industry

Operating Assumptions:	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF – millions)	656	656	656	663	676	689	703	717	732
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF – millions)	656	781	909	1,056	1,239	1,453	1,705	2,000	2,345
Foreign sales:									
Real growth of $US sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US – millions)	11	11	11	12	12	12	12	12	13
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US – millions)	11	12	12	13	13	14	15	16	17
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF – millions)	1,111	1,364	1,623	1,928	2,314	2,777	3,333	4,000	4,801
Real growth of DM sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF – millions)	0	0	0	0	0	0	0	0	0
Total nominal sales (HUF – millions)	1,767	2,144	2,532	2,985	3,553	4,231	5,038	6,000	7,146
Estimated cost of goods sold									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF – millions)	1,023	1,023	1,023	1,033	1,054	1,075	1,096	1,118	1,141
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF – millions)	1,023	1,217	1,418	1,647	1,932	2,266	2,658	3,118	3,658
Foreign purchases									
Real cost of $US goods & services ($US – millions)	0	0	0	0	0	0	0	0	0
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF – millions)	0	0	0	0	0	0	0	0	0
Real cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF – millions)	0	0	0	0	0	0	0	0	0
Total nominal cost of goods & services (HUF – millions)	1,023	1,217	1,418	1,647	1,932	2,266	2,658	3,118	3,658

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF – millions)	816	816	816	824	841	857	875	892	910
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF – millions)	816	971	1,131	1,314	1,541	1,808	2,120	2,487	2,918
Real capital expenditures ($US – millions)		0	0	0	0	0	0	0	0
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US – millions)		0	0	0	0	0	0	0	0
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF – millions)		0	0	0	0	0	0	0	0
Tangible long-term assets, beg. of period (HUF – millions)		5,973	5,973	5,973	5,973	5,973	5,973	5,973	5,973
Nominal depreciation (HUF – millions)	0	0	0	0	0	0	0	0	0
Nominal capital expenditures (HUF – millions)		0	0	0	0	0	0	0	0
Tangible long-term assets, end of period	5,973	5,973	5,973	5,973	5,973	5,973	5,973	5,973	5,973
Net income before taxes paid out as dividends		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income tax		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding tax		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		60	60	60	60	60	60	60	60
Inventory Turns		4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Prepaid expenses as a % of cost of goods sold		1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Payable Turns		8	8	8	8	8	8	8	8
Accruals as % of SG&A		25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF – millions)	5,427	5,427	5,246	5,065	4,884	4,703	4,523	1,342	4,161
Amortization of principal – (years)	30	(181)	(181)	(181)	(181)	(181)	(181)	(181)	(181)
Ending principal balance		5,246	5,065	4,884	4,703	4,523	4,342	4,161	3,980
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		1,521	1,315	1,269	1,222	1,176	1,130	1,084	1,038
Issuance of common equity (nominal – HUF millions)		0	0	0	0	0	0	0	0

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Ikarus Rt. – Industry

INCOME STATEMENT (HUF in millions)	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
SALES	1,767	2,144	2,532	2,985	3,553	4,231	5,038	6,000	7,146
(Cost of Goods Sold)	(1,023)	(1,217)	(1,418)	(1,647)	(1,932)	(2,266)	(2,658)	(3,118)	(3,658)
GROSS PROFIT	744	927	1,114	1,338	1,621	1,964	2,380	2,882	3,489
Gross Profit Margin	*42.1%*	*43.2%*	*44.0%*	*44.8%*	*45.6%*	*46.4%*	*47.2%*	*48.0%*	*48.8%*
(Selling, General, & Admin. Expense)	(816)	(971)	(1,131)	(1,314)	(1,541)	(1,808)	(2,120)	(2,487)	(2,918)
OPERATING INCOME (EBITDA)	(72)	(44)	(17)	24	80	157	259	394	571
(Depreciation & Amortization)	0	0	0	0	0	0	0	0	0
EBIT	(72)	(44)	(17)	24	80	157	259	394	571
Interest and other financial income	20	94	27	(286)	(644)	(1,058)	(1,533)	(2,078)	(2,700)
(Interest Expense)	(112)	(1,521)	(1,315)	(1,269)	(1,222)	(1,176)	(1,130)	(1,084)	(1,038)
EARNINGS BEFORE TAXES	(164)	(1,471)	(1,305)	(1,530)	(1,787)	(2,077)	(2,404)	(2,767)	(3,167)
Extraordinary gain/(loss)	51	0	0	0	0	0	0	0	0
(Taxes)	0	0	0	0	0	0	0	0	0
NET INCOME	(113)	(1,471)	(1,305)	(1,530)	(1,787)	(2,077)	(2,404)	(2,767)	(3,167)

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Ikarus Rt. – Industry

BALANCE SHEET (HUF in millions)

ASSETS	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Intangible and Invested Financial Assets	6,499	6,499	6,499	6,499	6,499	6,499	6,499	6,499	6,499
Net Tangible Long-term Assets	5,973	5,973	5,973	5,973	5,973	5,973	5,973	5,973	5,973
Cash & Marketable Securities	402	131	(1,393)	(3,143)	(5,160)	(7,478)	(10,135)	(13,171)	(16,624)
Accounts Receivable	4,174	352	422	497	592	705	840	1,000	1,191
Inventories	4,369	304	355	412	483	567	665	780	914
Prepaid expenses	185	18	21	25	29	34	40	47	55
Total Current Assets	9,130	806	(595)	(2,209)	(4,056)	(6,172)	(8,591)	(11,344)	(14,464)
TOTAL ASSETS	21,602	13,278	11,877	10,263	8,416	6,300	3,881	1,128	(1,992)
EQUITY, RESERVES & LIABILITIES									
Common Stock	11,578	11,578	11,578	11,578	11,578	11,578	11,578	11,578	11,578
Retained Earnings:									
Beginning	(4,053)	(4,166)	(5,637)	(6,942)	(8,472)	(10,259)	(12,336)	(14,740)	(17,508)
Dividends	0	0	0	0	0	0	0	0	0
Current year earnings	(113)	(1,471)	(1,305)	(1,530)	(1,787)	(2,077)	(2,404)	(2,767)	(3,167)
Ending	(4,166)	(5,637)	(6,942)	(8,472)	(10,259)	(12,336)	(14,740)	(17,508)	(20,675)
Shareholders' Equity	7,412	5,941	4,636	3,106	1,319	(758)	(3,162)	(5,930)	(9,097)
Target Reserves	787	787	787	787	787	787	787	787	787
Long-term Credits and Liabilities	5,246	5,065	4,884	4,703	4,523	4,342	4,161	3,980	3,980
Trade credits	3,452	274	319	370	434	509	597	701	822
Other Accrued Liabilities	3,737	243	283	328	385	452	530	622	729
Current Portion: Long-term debt	181	181	181	181	181	181	181	181	0
Total Current Liabilities	7,370	697	782	879	1,000	1,142	1,308	1,503	1,551
Total Liabilities	12,616	5,762	5,667	5,583	5,523	5,484	5,469	5,483	5,531
Other	787	787	787	787	787	787	787	787	787
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	21,602	13,278	11,877	10,263	8,416	6,300	3,881	1,128	(1,992)
	0	0	0	0	0	(0)	(0)	(0)	0

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Ikarus Rt. – Industry

CASH FLOW STATEMENT (HUF in millions)

	Dec–94	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
		Projected Year Ending							
Cash Flows from Operating Activities:									
Net Income		(1,471)	(1,305)	(1,530)	(1,787)	(2,077)	(2,404)	(2,767)	(3,167)
Depreciation & Amortization		0	0	0	0	0	0	0	0
Changes in Working Capital		1,380	(38)	(39)	(49)	(60)	(72)	(87)	(105)
Cash provided by operating activities		(90)	(1,343)	(1,569)	(1,836)	(2,137)	(2,476)	(2,855)	(3,272)
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		0	0	0	0	0	0	0	0
Repayment of principal of Long–term Debt		(181)	(181)	(181)	(181)	(181)	(181)	(181)	(181)
Issuance of Common Stock		0	0	0	0	0	0	0	0
Cash used in investing/investing activities		(181)	(181)	(181)	(181)	(181)	(181)	(181)	(181)
Increase (decrease) in cash		(271)	(1,524)	(1,750)	(2,017)	(2,318)	(2,657)	(3,036)	(3,453)
Cash, beginning of the period		402	131	(1,393)	(3,143)	(5,160)	(7,478)	(10,135)	(13,171)
Increase (decrease) in cash		(271)	(1,524)	(1,750)	(2,017)	(2,318)	(2,657)	(3,036)	(3,453)
Dividends		0	0	0	0	0	0	0	0
Cash, end of period		131	(1,393)	(3,143)	(5,160)	(7,478)	(10,135)	(13,171)	(16,624)
Increase (decrease) in cash		(271)	(1,524)	(1,750)	(2,017)	(2,318)	(2,657)	(3,036)	(3,453)
Dividends		0	0	0	0	0	0	0	0
Dividend withholding tax		0	0	0	0	0	0	0	0
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		(271)	(1,524)	(1,750)	(2,017)	(2,318)	(2,657)	(3,036)	(3,453)
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		(2)	(11)	(12)	(12)	(12)	(12)	(12)	(12)
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF – millions)	Ratio	(1,471)	(1,305)	(1,530)	(1,787)	(2,077)	(2,404)	(2,767)	(3,167)
Terminal value ($US – millions)	12	(142)	(111)	(114)	(117)	(120)	(122)	(123)	(124)
Total cash flow to shareholders ($US – millions)	IPO Year								
Cash flow available to shareholders prior to IPO	5	(2)	(11)	(12)	(12)	(12)	0	0	0
Cash flow to shareholders from public offering		0	0	0	0	0	0	0	0
Total cashflow to shareholders		(2)	(11)	(12)	(12)	(12)	0	0	0
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	(13)	(2)	(6)	(4)	(3)	(2)	0	0	0
Net present value (HUF in millions)	(1,414)								

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Borsodchem ig. – Industry

Operating Assumptions:	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF – millions)	8,884	8,884	8,884	8,973	9,152	9,335	9,522	9,712	9,907
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF – millions)	8,884	10,572	12,315	14,304	16,778	19,681	23,086	27,080	31,764
Foreign sales:									
Real growth of $US sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US – millions)	74	74	74	75	77	78	80	81	83
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US – millions)	74	77	80	83	88	93	98	103	109
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF – millions)	7,256	8,905	10,598	12,594	15,115	18,139	21,769	26,126	31,354
Real growth of DM sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM – millions)	74	74	74	75	76	78	79	81	82
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM – millions)	74	76	78	80	84	88	92	96	101
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF – millions)	4,838	5,806	6,973	8,364	10,132	12,274	14,869	18,011	21,819
Total nominal sales (HUF – millions)	20,978	25,283	29,887	35,263	42,026	50,095	59,724	71,217	84,937
Estimated cost of goods sold									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF – millions)	2,477	2,477	2,477	2,502	2,552	2,603	2,655	2,708	2,762
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF – millions)	2,477	2,948	3,434	3,988	4,678	5,487	6,437	7,550	8,856
Foreign purchases									
Real cost of $US goods & services ($US – millions)	145	145	145	146	149	152	155	158	162
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US – millions)	145	150	155	162	171	180	190	201	212
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF – millions)	14,117	17,326	20,620	24,503	29,407	35,291	42,354	50,829	61,001
Real cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF – millions)	0	0	0	0	0	0	0	0	0
Total nominal cost of goods & services (HUF – millions)	16,594	20,273	24,053	28,491	34,085	40,779	48,790	58,379	69,857

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Operating Assumptions (continued):	Year Ending Dec-93	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF – millions)	1,875	1,875	1,875	1,894	1,932	1,970	2,010	2,050	2,091
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3 2063
Nominal SG&A expense (HUF – millions)	1,875	2,231	2,599	3,019	3,541	4,154	4,872	5,715	6,704
Real capital expenditures ($US – millions)		5	5	5	5	5	5	5	5
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US – millions)		5	5	6	6	6	6	6	7
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF – millions)		598	712	837	985	1,159	1,364	1,605	1,888
Tangible long-term assets, beg. of period (HUF – millions)		9,335	8,955	8,689	8,548	8,555	8,736	9,122	9,749
Nominal depreciation (HUF – millions)	(978)	(978)	(978)	(978)	(978)	(978)	(978)	(978)	(978)
Nominal capital expenditures (HUF – millions)		598	712	837	985	1,159	1,364	1,605	1,888
Tangible long-term assets, end of period	9,335	8,955	8,689	8,548	8,555	8,736	9,122	9,749	10,659
Net income before taxes paid out as dividends		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income tax		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		90	90	90	90	90	90	90	90
Inventory Turns		6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Prepaid expenses as a % of cost of goods sold		3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Payable Turns		12	12	12	12	12	12	12	12
Accruals as % of SG&A		175.0%	175.0%	175.0%	175.0%	175.0%	175.0%	175.0%	175.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF – millions)	4,429	4,429	4,281	4,134	3,986	3,838	3,691	3,543	3,396
Amortization of principal – (years)	30	(148)	(148)	(148)	(148)	(148)	(148)	(148)	(148)
Ending principal balance		4,281	4,134	3,986	3,838	3,691	3,543	3,396	3,248
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		1,241	1,073	1,035	998	960	922	885	847
Issuance of common equity (nominal – HUF millions)		0	0	0	0	0	0	0	0

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Borsodchem ig. – Industry

INCOME STATEMENT (HUF in millions)	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
SALES	20,978	25,283	29,887	35,263	42,026	50,095	59,724	71,217	84,937
(Cost of Goods Sold)	(16,594)	(20,273)	(24,053)	(28,491)	(34,085)	(40,779)	(48,790)	(58,379)	(69,857)
GROSS PROFIT	4,384	5,009	5,833	6,771	7,941	9,316	10,933	12,837	15,080
Gross Profit Margin	*20.9%*	*19.8%*	*19.5%*	*19.2%*	*18.9%*	*18.6%*	*18.3%*	*18.0%*	*17.8%*
(Selling, General, & Admin. Expense)	(1,875)	(2,231)	(2,599)	(3,019)	(3,541)	(4,154)	(4,872)	(5,715)	(6,704)
OPERATING INCOME (EBITDA)	2,509	2,778	3,234	3,752	4,400	5,162	6,061	7,122	8,376
(Depreciation & Amortization)	(978)	(978)	(978)	(978)	(978)	(978)	(978)	(978)	(978)
EBIT	1,531	1,800	2,256	2,774	3,422	4,184	5,083	6,144	7,398
Interest and other financial income	213	143	45	69	146	260	433	678	1,013
(Interest Expense)	(863)	(1,241)	(1,073)	(1,035)	(998)	(960)	(922)	(885)	(847)
EARNINGS BEFORE TAXES	881	701	1,228	1,808	2,570	3,484	4,594	5,938	7,563
Extraordinary gain/(loss)	(130)	0	0	0	0	0	0	0	0
(Taxes)	(135)	(126)	(221)	(325)	(463)	(627)	(827)	(1,069)	(1,361)
NET INCOME	616	575	1,007	1,483	2,107	2,857	3,767	4,869	6,202

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Borsodchem ig. – Industry

BALANCE SHEET (HUF in millions)

	Year Ending	Projected Year Ending							
ASSETS	Dec–94	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Intangible and Invested Financial Assets	1,519	1,519	1,519	1,519	1,519	1,519	1,519	1,519	1,519
Net Tangible Long–term Assets	9,335	8,955	8,689	8,548	8,555	8,736	9,122	9,749	10,659
Cash & Marketable Securities	607	221	337	713	1,270	2,112	3,308	4,940	7,109
Accounts Receivable	4,571	6,234	7,472	8,816	10,506	12,524	14,931	17,804	21,234
Inventories	2,000	3,379	4,009	4,749	5,681	6,796	8,132	9,730	11,643
Prepaid expenses	21	710	842	997	1,193	1,427	1,708	2,043	2,445
Total Current Assets	7,199	10,543	12,659	15,274	18,650	22,860	28,078	34,517	42,431
TOTAL ASSETS	18,053	21,017	22,867	25,341	28,724	33,115	38,719	45,785	54,608
EQUITY, RESERVES & LIABILITIES									
Common Stock	7,369	7,369	7,369	7,369	7,369	7,369	7,369	7,369	7,369
Retained Earnings:									
Beginning	1,650	2,266	2,841	3,848	5,331	7,438	10,296	14,063	18,931
Dividends	0	0	0	0	0	0	0	0	0
Current year earnings	616	575	1,007	1,483	2,107	2,857	3,767	4,869	6,202
Ending	2,266	2,841	3,848	5,331	7,438	10,296	14,063	18,931	25,133
Shareholders' Equity	9,635	10,210	11,217	12,700	14,807	17,665	21,432	26,300	32,502
Target Reserves	450	450	450	450	450	450	450	450	450
Long–term Credits and Liabilities	4,281	4,134	3,986	3,838	3,691	3,543	3,396	3,248	3,248
Trade credits	1,296	1,875	2,221	2,626	3,135	3,744	4,472	5,341	6,380
Other Accrued Liabilities	1,947	3,905	4,548	5,283	6,197	7,269	8,527	10,002	11,732
Current Portion: Long–term debt	148	148	148	148	148	148	148	148	0
Total Current Liabilities	3,391	5,928	6,917	8,056	9,480	11,161	13,146	15,491	18,112
Total Liabilities	7,672	10,061	10,903	11,895	13,171	14,704	16,542	18,738	21,360
Other	296	296	296	296	296	296	296	296	296
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	18,053	21,017	22,866	25,341	28,724	33,115	38,719	45,785	54,608
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)

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Borsodchem ig. – Industry

CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec–94	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Cash Flows from Operating Activities:									
Net Income		575	1,007	1,483	2,107	2,857	3,767	4,869	6,202
Depreciation & Amortization		978	978	978	978	978	978	978	978
Changes in Working Capital		(1,194)	(1,010)	(1,100)	(1,395)	(1,686)	(2,038)	(2,463)	(2,975)
Cash provided by operating activities		360	975	1,361	1,690	2,149	2,707	3,384	4,204
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(598)	(712)	(837)	(985)	(1,159)	(1,364)	(1,605)	(1,888)
Repayment of principal of Long–term Debt		(148)	(148)	(148)	(148)	(148)	(148)	(148)	(148)
Issuance of Common Stock		0	0	0	0	0	0	0	0
Cash used in investing/investing activities		(746)	(859)	(985)	(1,133)	(1,307)	(1,511)	(1,752)	(2,036)
Increase (decrease) in cash		(386)	116	376	558	842	1,196	1,632	2,169
Cash, beginning of the period		607	221	337	713	1,270	2,112	3,308	4,940
Increase (decrease) in cash		(386)	116	376	558	842	1,196	1,632	2,169
Dividends		0	0	0	0	0	0	0	0
Cash, end of period		221	337	713	1,270	2,112	3,308	4,940	7,109
Increase (decrease) in cash		(386)	116	376	558	842	1,196	1,632	2,169
Dividends		0	0	0	0	0	0	0	0
Dividend withholding tax		0	0	0	0	0	0	0	0
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		(386)	116	376	558	842	1,196	1,632	2,169
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		(3)	1	2	3	4	5	6	8
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF – millions)	Ratio	575	1,007	1,483	2,107	2,857	3,767	4,869	6,202
Terminal value ($US – millions)	12	55	85	110	138	165	191	217	243
Total cash flow to shareholders ($US – millions)	IPO Year								
Cash flow available to shareholders prior to IPO	5	(3)	1	2	3	4	0	0	0
Cash flow to shareholders from public offering		0	0	0	0	165	0	0	0
Total cashflow to shareholders		(3)	1	2	3	169	0	0	0
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	37	(2)	0	1	1	31	0	0	0
Net present value (HUF in millions)	3,949								

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Raba Rt. – Industry

Operating Assumptions:	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF – millions)	8,068	8,068	8,068	8,149	8,312	8,478	8,647	8,820	8,997
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF – millions)	8,068	9,601	11,184	12,990	15,237	17,873	20,965	24,592	28,847
Foreign sales:									
Real growth of $US sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US – millions)	61	61	61	61	62	64	65	66	68
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US – millions)	61	63	65	68	71	75	80	84	89
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF – millions)	5,904	7,246	8,624	10,248	12,298	14,760	17,713	21,258	25,512
Real growth of DM sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM – millions)	90	90	90	91	93	95	97	99	101
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM – millions)	90	93	95	98	103	107	112	117	123
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF – millions)	5,904	7,085	8,510	10,207	12,365	14,979	18,145	21,980	26,626
Total nominal sales (HUF – millions)	19,876	23,931	28,317	33,445	39,901	47,611	56,823	67,830	80,984
Estimated cost of goods sold									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF – millions)	6,630	6,630	6,630	6,696	6,830	6,967	7,106	7,248	7,393
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF – millions)	6,630	7,889	9,190	10,675	12,521	14,688	17,229	20,209	23,705
Foreign purchases									
Real cost of $US goods & services ($US – millions)	57	57	57	58	59	60	62	63	64
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US – millions)	57	59	61	64	68	71	75	80	84
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF – millions)	5,593	6,864	8,169	9,708	11,651	13,982	16,780	20,138	24,168
Real cost of DM goods & services (DM – millions)	57	57	57	58	59	60	61	62	64
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM – millions)	57	58	60	62	65	68	71	74	77
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF – millions)	3,728	4,474	5,373	6,445	7,808	9,458	11,457	13,879	16,813
Total nominal cost of goods & services (HUF – millions)	15,951	19,227	22,733	26,828	31,980	38,128	45,466	54,226	64,688

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF – millions)	1,745	1,745	1,745	1,762	1,798	1,834	1,870	1,908	1,946
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF – millions)	1,745	2,076	2,419	2,810	3,296	3,866	4,535	5,319	6,239
Real capital expenditures ($US – millions)		5	5	5	5	5	5	5	5
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US – millions)		5	5	6	6	6	6	6	7
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF – millions)		598	712	837	985	1,159	1,364	1,605	1,888
Tangible long-term assets, beg. of period (HUF – millions)		17,175	16,882	16,703	16,649	16,743	17,011	17,484	18,198
Nominal depreciation (HUF – millions)	(891)	(891)	(891)	(891)	(891)	(891)	(891)	(891)	(891)
Nominal capital expenditures (HUF – millions)		598	712	837	985	1,159	1,364	1,605	1,888
Tangible long-term assets, end of period	17,175	16,882	16,703	16,649	16,743	17,011	17,484	18,198	19,195
Net income before taxes paid out as dividends		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding tax		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		75	75	75	75	75	75	75	75
Inventory Turns		6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Prepaid expenses as a % of cost of goods sold		0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Payable Turns		12	12	12	12	12	12	12	12
Accruals as % of SG&A		240.0%	240.0%	240.0%	240.0%	240.0%	240.0%	240.0%	240.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF – millions)	2,272	2,272	2,196	2,121	2,045	1,969	1,893	1,818	1,742
Amortization of principal – (years)	30	(76)	(76)	(76)	(76)	(76)	(76)	(76)	(76)
Ending principal balance		2,196	2,121	2,045	1,969	1,893	1,818	1,742	1,666
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		637	550	531	512	492	473	454	435
Issuance of common equity (nominal – HUF millions)		0	0	0	0	0	0	0	0

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Raba Rt. – Industry

INCOME STATEMENT (HUF in millions)	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
SALES	19,876	23,931	28,317	33,445	39,901	47,611	56,823	67,830	80,984
(Cost of Goods Sold)	(15,951)	(19,227)	(22,733)	(26,828)	(31,980)	(38,128)	(45,466)	(54,226)	(64,686)
GROSS PROFIT	3,925	4,704	5,584	6,617	7,921	9,484	11,357	13,604	16,299
Gross Profit Margin	*19.7%*	*19.7%*	*19.7%*	*19.8%*	*19.9%*	*19.9%*	*20.0%*	*20.1%*	*20.1%*
(Selling, General, & Admin. Expense)	(1,745)	(2,076)	(2,419)	(2,810)	(3,296)	(3,866)	(4,535)	(5,319)	(6,239)
OPERATING INCOME (EBITDA)	2,180	2,628	3,165	3,808	4,625	5,618	6,823	8,285	10,060
(Depreciation & Amortization)	(891)	(891)	(891)	(891)	(891)	(891)	(891)	(891)	(891)
EBIT	1,289	1,737	2,274	2,917	3,734	4,727	5,932	7,394	9,169
Interest and other financial income	154	154	207	463	843	1,370	2,091	3,062	4,352
(Interest Expense)	(785)	(637)	(550)	(531)	(512)	(492)	(473)	(454)	(435)
EARNINGS BEFORE TAXES	658	1,254	1,931	2,848	4,065	5,604	7,549	10,002	13,086
Extraordinary gain/(loss)	(68)	0	0	0	0	0	0	0	0
(Taxes)	(106)	(226)	(348)	(513)	(732)	(1,009)	(1,359)	(1,800)	(2,355)
NET INCOME	484	1,028	1,583	2,336	3,334	4,595	6,191	8,202	10,730

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Raba Rt. – Industry

BALANCE SHEET (HUF in millions)

	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
ASSETS									
Intangible and Invested Financial Assets	2,461	2,461	2,461	2,461	2,461	2,461	2,461	2,461	2,461
Net Tangible Long–term Assets	17,175	16,882	16,703	16,649	16,743	17,011	17,484	18,198	19,195
Cash & Marketable Securities	656	1,011	2,257	4,111	6,681	10,199	14,935	21,228	29,506
Accounts Receivable	4,055	4,917	5,899	6,968	8,313	9,919	11,838	14,131	16,872
Inventories	2,439	3,205	3,789	4,471	5,330	6,355	7,578	9,038	10,781
Prepaid expenses	85	96	114	134	160	191	227	271	323
Total Current Assets	7,235	9,229	12,059	15,684	20,484	26,663	34,578	44,668	57,482
TOTAL ASSETS	26,871	28,572	31,223	34,794	39,688	46,136	54,523	65,327	79,138
EQUITY, RESERVES & LIABILITIES									
Common Stock	17,434	17,434	17,434	17,434	17,434	17,434	17,434	17,434	17,434
Retained Earnings:									
Beginning	310	794	1,822	3,406	5,741	9,075	13,670	19,861	28,062
Dividends	0	0	0	0	0	0	0	0	0
Current year earnings	484	1,028	1,583	2,336	3,334	4,595	6,191	8,202	10,730
Ending	794	1,822	3,406	5,741	9,075	13,670	19,861	28,062	38,793
Shareholders' Equity	18,228	19,256	20,840	23,175	26,509	31,104	37,295	45,496	56,227
Target Reserves	91	91	91	91	91	91	91	91	91
Long–term Credits and Liabilities	2,196	2,121	2,045	1,969	1,893	1,818	1,742	1,666	1,666
Trade credits	1,699	1,775	2,096	2,470	2,940	3,499	4,167	4,962	5,910
Other Accrued Liabilities	4,311	4,984	5,805	6,743	7,909	9,278	10,883	12,766	14,974
Current Portion: Long–term debt	76	76	76	76	76	76	76	76	0
Total Current Liabilities	6,086	6,835	7,977	9,288	10,925	12,853	15,125	17,803	20,884
Total Liabilities	8,282	8,955	10,022	11,258	12,818	14,671	16,867	19,470	22,551
Other	270	270	270	270	270	270	270	270	270
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	26,871	28,572	31,222	34,794	39,688	46,136	54,523	65,327	79,138
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)

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Raba Rt. – Industry

CASH FLOW STATEMENT (HUF in millions)

	Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Cash Flows from Operating Activities:									
Net Income		1,028	1,583	2,336	3,334	4,595	6,191	8,202	10,730
Depreciation & Amortization		891	891	891	891	891	891	891	891
Changes in Working Capital		(890)	(441)	(460)	(593)	(734)	(907)	(1,119)	(1,379)
Cash provided by operating activities		1,029	2,033	2,767	3,632	4,753	6,175	7,974	10,242
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(598)	(712)	(837)	(985)	(1,159)	(1,364)	(1,605)	(1,888)
Repayment of principal of Long–term Debt		(76)	(76)	(76)	(76)	(76)	(76)	(76)	(76)
Issuance of Common Stock		0	0	0	0	0	0	0	0
Cash used in investing/investing activities		(674)	(787)	(913)	(1,061)	(1,235)	(1,440)	(1,680)	(1,964)
Increase (decrease) in cash		355	1,246	1,854	2,571	3,518	4,735	6,293	8,278
Cash, beginning of the period		656	1,011	2,257	4,111	6,681	10,199	14,935	21,228
Increase (decrease) in cash		355	1,246	1,854	2,571	3,518	4,735	6,293	8,278
Dividends		0	0	0	0	0	0	0	0
Cash, end of period		1,011	2,257	4,111	6,681	10,199	14,935	21,228	29,506
Increase (decrease) in cash		355	1,246	1,854	2,571	3,518	4,735	6,293	8,278
Dividends		0	0	0	0	0	0	0	0
Dividend withholding tax		0	0	0	0	0	0	0	0
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		355	1,246	1,854	2,571	3,518	4,735	6,293	8,278
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		3	9	12	15	18	21	25	29
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF – millions)	Ratio	1,028	1,583	2,336	3,334	4,595	6,191	8,202	10,730
Terminal value ($US – millions)	12	99	134	174	218	265	314	366	421
Total cash flow to shareholders ($US – millions)	IPO Year								
Cash flow available to shareholders prior to IPO	5	3	9	12	15	18	0	0	0
Cash flow to shareholders from public offering		0	0	0	0	265	0	0	0
Total cashflow to shareholders		3	9	12	15	283	0	0	0
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	74	2	5	4	4	53	0	0	0
Net present value (HUF in millions)	7,922								

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Hungarpharma Rt. – Pharmaceutical

Operating Assumptions:	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF – millions)	35,720	35,720	35,720	36,077	36,799	37,535	38,285	39,051	39,832
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF – millions)	35,720	42,505	49,515	57,511	67,461	79,131	92,821	108,879	127,715
Foreign sales:									
Real growth of $US sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US – millions)	0	0	0	0	0	0	0	0	0
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF – millions)	0	0	0	0	0	0	0	0	0
Real growth of DM sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF – millions)	0	0	0	0	0	0	0	0	0
Total nominal sales (HUF – millions)	35,720	42,505	49,515	57,511	67,461	79,131	92,821	108,879	127,715
Estimated cost of goods sold									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF – millions)	23,611	23,611	23,611	23,847	24,324	24,811	25,307	25,813	26,329
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF – millions)	23,611	28,096	32,729	38,015	44,592	52,306	61,355	71,969	84,420
Foreign purchases									
Real cost of $US goods & services ($US – millions)	100	100	100	101	103	105	108	110	112
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US – millions)	100	104	107	112	118	125	132	139	147
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF – millions)	9,777	11,999	14,281	16,970	20,366	24,442	29,333	35,203	42,247
Real cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF – millions)	0	0	0	0	0	0	0	0	0
Total nominal cost of goods & services (HUF – millions)	33,388	40,095	47,010	54,985	64,958	76,748	90,688	107,172	126,667

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF – millions)	1,172	1,172	1,172	1,184	1,207	1,232	1,256	1,281	1,307
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF – millions)	1,172	1,395	1,625	1,887	2,213	2,596	3,046	3,572	4,190
Real capital expenditures ($US – millions)		1	1	1	1	1	1	1	1
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US – millions)		1	1	1	1	1	1	1	1
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF – millions)		60	71	84	99	116	136	160	189
Tangible long-term assets, beg. of period (HUF – millions)		3,500	3,410	3,331	3,265	3,213	3,179	3,166	3,176
Nominal depreciation (HUF – millions)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)
Nominal capital expenditures (HUF – millions)		60	71	84	99	116	136	160	189
Tangible long-term assets, end of period	3,500	3,410	3,331	3,265	3,213	3,179	3,166	3,176	3,215
Net income before taxes paid out as dividends		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding taxes		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		45	45	45	45	45	45	45	45
Inventory Turns		7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Prepaid expenses as a % of cost of goods sold		0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Payable Turns		12	12	12	12	12	12	12	12
Accruals as % of SG&A		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF – millions)	0	0	0	0	0	0	0	0	0
Amortization of principal – (years)	30	0	0	0	0	0	0	0	0
Ending principal balance		0	0	0	0	0	0	0	0
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		0	0	0	0	0	0	0	0
Issuance of common equity (nominal – HUF millions)		0	0	0	0	0	0	0	0

FOR INTERNAL USE ONLY: Not compiled or examined by an independent CPA. Projected results cannot be assured.

Hungarpharma Rt. – Pharmaceutical

INCOME STATEMENT (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	35,720	42,505	49,515	57,511	67,461	79,131	92,821	108,879	127,715
(Cost of Goods Sold)	(33,388)	(40,095)	(47,010)	(54,985)	(64,958)	(76,748)	(90,688)	(107,172)	(126,667)
GROSS PROFIT	2,332	2,410	2,505	2,526	2,503	2,384	2,133	1,707	1,048
Gross Profit Margin	*6.5%*	*5.7%*	*5.1%*	*4.4%*	*3.7%*	*3.0%*	*2.3%*	*1.6%*	*0.8%*
(Selling, General, & Admin. Expense)	(1,172)	(1,395)	(1,625)	(1,887)	(2,213)	(2,596)	(3,046)	(3,572)	(4,190)
OPERATING INCOME (EBITDA)	1,160	1,015	880	639	289	(213)	(912)	(1,865)	(3,142)
(Depreciation & Amortization)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)
EBIT	1,010	865	730	489	139	(363)	(1,062)	(2,015)	(3,292)
Interest and other financial income	120	205	261	214	101	(155)	(614)	(1,379)	(2,576)
(Interest Expense)	(170)	0	0	0	0	0	0	0	0
EARNINGS BEFORE TAXES	960	1,071	991	703	240	(517)	(1,676)	(3,394)	(5,868)
Extraordinary gain/(loss)	(150)	0	0	0	0	0	0	0	0
(Taxes)	(146)	(193)	(178)	(127)	(43)	0	0	0	0
NET INCOME	664	878	813	577	197	(517)	(1,676)	(3,394)	(5,868)

FOR INTERNAL USE ONLY: Not compiled or examined by an independent CPA. Projected results cannot be assured.

Hungarpharma Rt. – Pharmaceutical

BALANCE SHEET (HUF in millions)

ASSETS	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Intangible and Invested Financial Assets	70	70	70	70	70	70	70	70	70
Net Tangible Long–term Assets	3,500	3,410	3,331	3,265	3,213	3,179	3,166	3,176	3,215
Cash & Marketable Securities	874	1,273	1,046	491	(754)	(2,995)	(6,726)	(12,565)	(21,337)
Accounts Receivable	3,900	5,240	6,189	7,189	8,433	9,891	11,603	13,610	15,964
Inventories	5,300	5,728	6,716	7,855	9,280	10,964	12,955	15,310	18,095
Prepaid expenses	14	40	47	55	65	77	91	107	127
Total Current Assets	10,088	12,281	13,998	15,590	17,023	17,937	17,922	16,462	12,849
TOTAL ASSETS	13,658	15,761	17,399	18,925	20,306	21,186	21,158	19,708	16,134
EQUITY, RESERVES & LIABILITIES									
Common Stock	9,016	9,016	9,016	9,016	9,016	9,016	9,016	9,016	9,016
Retained Earnings:									
Beginning	337	1,001	1,879	2,692	3,268	3,465	2,948	1,272	(2,123)
Dividends	0	0	0	0	0	0	0	0	0
Current year earnings	664	878	813	577	197	(517)	(1,676)	(3,394)	(5,868)
Ending	1,001	1,879	2,692	3,268	3,465	2,948	1,272	(2,123)	(7,991)
Shareholders' Equity	10,017	10,895	11,708	12,284	12,481	11,964	10,288	6,893	1,025
Target Reserves	4	4	4	4	4	4	4	4	4
Long–term Credits and Liabilities	0	0	0	0	0	0	0	0	0
Trade credits	2,447	3,458	4,053	4,739	5,598	6,612	7,811	9,229	10,905
Other Accrued Liabilities	1,180	1,395	1,625	1,887	2,213	2,596	3,046	3,572	4,190
Current Portion: Long–term debt	0	0	0	0	0	0	0	0	0
Total Current Liabilities	3,627	4,852	5,677	6,626	7,811	9,208	10,857	12,801	15,095
Total Liabilities	3,627	4,852	5,677	6,626	7,811	9,208	10,857	12,801	15,095
Other	10	10	10	10	10	10	10	10	10
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	13,658	15,761	17,399	18,925	20,306	21,186	21,158	19,708	16,134
	0	0	0	0	0	0	0	0	0

FOR INTERNAL USE ONLY: Not compiled or examined by an independent CPA. Projected results cannot be assured.

Hungarpharma Rt. – Pharmaceutical

CASH FLOW STATEMENT (HUF – millions)

	Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Cash Flows from Operating Activities:									
Net Income		878	813	577	197	(517)	(1,676)	(3,394)	(5,868)
Depreciation & Amortization		150	150	150	150	150	150	150	150
Changes in Working Capital		(569)	(1,118)	(1,198)	(1,494)	(1,758)	(2,068)	(2,434)	(2,865)
Cash provided by operating activities		459	(156)	(471)	(1,147)	(2,125)	(3,595)	(5,678)	(8,583)
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(60)	(71)	(84)	(99)	(116)	(136)	(160)	(189)
Repayment of principal of Long–term Debt		0	0	0	0	0	0	0	0
Issuance of Common Stock		0	0	0	0	0	0	0	0
Cash used in investing/investing activities		(60)	(71)	(84)	(99)	(116)	(136)	(160)	(189)
Increase (decrease) in cash		399	(227)	(555)	(1,245)	(2,241)	(3,731)	(5,839)	(8,772)
Cash, beginning of the period		874	1,273	1,046	491	(754)	(2,995)	(6,726)	(12,565)
Increase (decrease) in cash		399	(227)	(555)	(1,245)	(2,241)	(3,731)	(5,839)	(8,772)
Dividends		0	0	0	0	0	0	0	0
Cash, end of period		1,273	1,046	491	(754)	(2,995)	(6,726)	(12,565)	(21,337)
Increase (decrease) in cash		399	(227)	(555)	(1,245)	(2,241)	(3,731)	(5,839)	(8,772)
Dividends		0	0	0	0	0	0	0	0
Dividend withholding tax		0	0	0	0	0	0	0	0
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		399	(227)	(555)	(1,245)	(2,241)	(3,731)	(5,839)	(8,772)
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		3	(2)	(4)	(7)	(11)	(17)	(23)	(31)
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF – millions)	Ratio	878	813	577	197	(517)	(1,676)	(3,394)	(5,868)
Terminal value ($US – millions)	12	85	69	43	13	(30)	(85)	(151)	(230)
Total cash flow to shareholders ($US – millions)	IPO Year								
Cash flow available to shareholders prior to IPO	5	3	(2)	(4)	(7)	(11)	0	0	0
Cash flow to shareholders from public offering		0	0	0	0	0	0	0	0
Total cashflow to shareholders		3	(2)	(4)	(7)	(11)	0	0	0
Discount rate	40.0%								
Net present value ($US in millions)	4	2	(1)	(1)	(2)	(2)	0	0	0
Net present value (HUF in millions)	472								

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Babolna Rt. – Agriculture (3)

Operating Assumptions:	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF – millions)	3,586	3,586	3,586	3,622	3,694	3,768	3,844	3,920	3,999
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF – millions)	3,586	4,267	4,971	5,774	6,773	7,944	9,318	10,931	12,822
Foreign sales:									
Real growth of $US sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US – millions)	11	11	11	11	12	12	12	12	13
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US – millions)	11	12	12	13	13	14	15	16	17
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF – millions)	1,108	1,360	1,618	1,923	2,308	2,770	3,324	3,989	4,788
Real growth of DM sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF – millions)	0	0	0	0	0	0	0	0	0
Total nominal sales (HUF – millions)	4,694	5,627	6,589	7,697	9,081	10,714	12,643	14,920	17,609
Estimated cost of goods sold									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF – millions)	1,485	1,485	1,485	1,500	1,530	1,560	1,592	1,623	1,656
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF – millions)	1,485	1,767	2,058	2,391	2,805	3,290	3,859	4,526	5,310
Foreign purchases									
Real cost of $US goods & services ($US – millions)	9	9	9	9	9	9	9	10	10
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US – millions)	9	9	9	10	10	11	11	12	13
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF – millions)	853	1,046	1,245	1,480	1,776	2,131	2,558	3,069	3,684
Real cost of DM goods & services (DM – millions)	11	11	11	12	12	12	12	13	13
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM – millions)	11	12	12	12	13	14	14	15	16
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF – millions)	748	898	1,078	1,293	1,567	1,898	2,299	2,785	3,373
Total nominal cost of goods & services (HUF – millions)	3,086	3,711	4,382	5,164	6,147	7,319	8,715	10,381	12,367

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF – millions)	1,244	1,244	1,244	1,256	1,282	1,307	1,333	1,360	1,387
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF – millions)	1,244	1,480	1,724	2,003	2,349	2,756	3,233	3,792	4,448
Real capital expenditures ($US – millions)		1	1	1	1	1	1	1	1
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US – millions)		1	1	1	1	1	1	1	1
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF – millions)		120	142	167	197	232	273	321	378
Tangible long-term assets, beg. of period (HUF – millions)		8,077	7,980	7,905	7,855	7,835	7,850	7,906	8,010
Nominal depreciation (HUF – millions)	(217)	(217)	(217)	(217)	(217)	(217)	(217)	(217)	(217)
Nominal capital expenditures (HUF – millions)		120	142	167	197	232	273	321	378
Tangible long-term assets, end of period	8,077	7,980	7,905	7,855	7,835	7,850	7,906	8,010	8,171
Net income before taxes paid out as dividends		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income tax		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding tax		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		250	250	250	250	250	250	250	250
Inventory Turns		2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Prepaid expenses as a % of cost of goods sold		1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Payable Turns		18	18	18	18	18	18	18	18
Accruals as % of SG&A		350.0%	350.0%	350.0%	350.0%	350.0%	350.0%	350.0%	350.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF – millions)	141	141	136	132	127	122	118	113	108
Amortization of principal – (years)	30	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Ending principal balance		136	132	127	122	118	113	108	103
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	[illegible]
Interest expense		40	34	33	32	31	29	28	27
Issuance of common equity (nominal – HUF millions)		0	0	0	0	0	0	0	0

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Babolna Rt. – Agriculture (3)

INCOME STATEMENT (HUF in millions)	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
SALES	4,694	5,627	6,589	7,697	9,081	10,714	12,645	14,920	17,609
(Cost of Goods Sold)	(3,085)	(3,711)	(4,382)	(5,164)	(6,147)	(7,319)	(8,715)	(10,381)	(12,367)
GROSS PROFIT	1,609	1,916	2,207	2,533	2,934	3,395	3,927	4,539	5,243
Gross Profit Margin	*34.3%*	*34.1%*	*33.5%*	*32.9%*	*32.3%*	*31.7%*	*31.1%*	*30.4%*	*29.8%*
(Selling, General, & Admin. Expense)	(1,244)	(1,480)	(1,724)	(2,003)	(2,349)	(2,756)	(3,233)	(3,792)	(4,448)
OPERATING INCOME (EBITDA)	365	436	483	530	584	640	695	747	795
(Depreciation & Amortization)	(217)	(217)	(217)	(217)	(217)	(217)	(217)	(217)	(217)
EBIT	148	219	266	313	367	423	478	530	578
Interest and other financial income	1,195	17	119	159	213	272	333	393	448
(Interest Expense)	(968)	(40)	(34)	(33)	(32)	(31)	(29)	(28)	(27)
EARNINGS BEFORE TAXES	375	196	351	439	549	664	781	895	998
Extraordinary gain/(loss)	72	0	0	0	0	0	0	0	0
(Taxes)	(378)	(35)	(63)	(79)	(99)	(119)	(141)	(161)	(180)
NET INCOME	69	161	287	360	450	544	640	734	819

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Babolna Rt. – Agriculture (3)

BALANCE SHEET (HUF in millions)

ASSETS	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Intangible and Invested Financial Assets	4,483	4,483	4,483	4,483	4,483	4,483	4,483	4,483	4,483
Net Tangible Long–term Assets	8,077	7,980	7,905	7,855	7,835	7,850	7,906	8,010	8,171
Cash & Marketable Securities	72	579	774	1,041	1,325	1,622	1,916	2,183	2,389
Accounts Receivable	3,695	3,854	4,576	5,345	6,306	7,440	8,780	10,361	12,229
Inventories	1,660	1,855	2,191	2,582	3,073	3,659	4,358	5,190	6,183
Prepaid expenses	39	56	66	77	92	110	131	156	185
Total Current Assets	5,466	6,344	7,607	9,045	10,797	12,832	15,184	17,891	20,987
TOTAL ASSETS	18,026	18,807	19,995	21,383	23,115	25,165	27,573	30,384	33,640
EQUITY, RESERVES & LIABILITIES									
Common Stock	10,849	10,849	10,849	10,849	10,849	10,849	10,849	10,849	10,849
Retained Earnings:									
Beginning	1,650	1,716	1,876	2,164	2,524	2,974	3,518	4,158	4,892
Dividends	(3)	0	0	0	0	0	0	0	0
Current year earnings	69	161	287	360	450	544	640	734	819
Ending	1,716	1,876	2,164	2,524	2,974	3,518	4,158	4,892	5,711
Shareholders' Equity	12,565	12,725	13,013	13,373	13,823	14,367	15,007	15,741	16,560
Target Reserves	59	59	59	59	59	59	59	59	59
Long–term Credits and Liabilities	136	132	127	122	118	113	108	103	103
Trade credits	245	288	339	398	472	560	664	787	934
Other Accrued Liabilities	4,600	5,181	6,035	7,010	8,223	9,646	11,314	13,272	15,568
Current Portion: Long–term debt	5	5	5	5	5	5	5	5	0
Total Current Liabilities	4,850	5,474	6,379	7,413	8,700	10,210	11,983	14,064	16,502
Total Liabilities	4,986	5,606	6,506	7,535	8,817	10,323	12,091	14,167	16,605
Other	96	96	96	96	96	96	96	96	96
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	17,705	18,486	19,674	21,062	22,794	24,844	27,252	30,063	33,319
	(321)	(321)	(321)	(321)	(321)	(321)	(321)	(321)	(321)

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Babolna Rt. – Agriculture (3)

CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec–94	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Cash Flows from Operating Activities:									
Net Income		161	287	360	450	544	640	734	819
Depreciation & Amortization		217	217	217	217	217	217	217	217
Changes in Working Capital		253	(162)	(138)	(181)	(228)	(286)	(358)	(448)
Cash provided by operating activities		631	342	439	486	534	571	593	588
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(120)	(142)	(167)	(197)	(232)	(273)	(321)	(378)
Repayment of principal of Long–term Debt		(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Issuance of Common Stock		0	0	0	0	0	0	0	0
Cash used in investing/investing activities		(124)	(147)	(172)	(202)	(237)	(277)	(326)	(382)
Increase (decrease) in cash		507	195	266	285	297	294	267	206
Cash, beginning of the period		72	579	774	1,041	1,325	1,622	1,916	2,183
Increase (decrease) in cash		507	195	266	285	297	294	267	206
Dividends		0	0	0	0	0	0	0	0
Cash, end of period		579	774	1,041	1,325	1,622	1,916	2,183	2,389
Increase (decrease) in cash		507	195	266	285	297	294	267	206
Dividends		0	0	0	0	0	0	0	0
Dividend withholding tax		0	0	0	0	0	0	0	0
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		507	195	266	285	297	294	267	206
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		4	1	2	2	2	1	1	1
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF – millions)	Ratio	161	287	360	450	544	640	734	819
Terminal value ($US – millions)	12	15	24	27	29	31	32	33	32
Total cash flow to shareholders ($US – millions)	IPO Year								
Cash flow available to shareholders prior to IPO	5	4	1	2	2	2	0	0	0
Cash flow to shareholders from public offering		0	0	0	0	31	0	0	0
Total cashflow to shareholders		4	1	2	2	33	0	0	0
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	12	3	1	1	0	6	0	0	0
Net present value (HUF in millions)	1,255								

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Penzjegynyomda Rt. – Trademark

Operating Assumptions:	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF – millions)	1,742	1,742	1,742	1,759	1,795	1,831	1,867	1,904	1,943
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF – millions)	1,742	2,073	2,415	2,805	3,290	3,859	4,527	5,310	6,228
Foreign sales:									
Real growth of $US sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US – millions)	0	0	0	0	0	0	0	0	0
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF – millions)	25	30	36	43	52	62	74	89	107
Real growth of DM sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF – millions)	8	10	12	14	17	21	25	31	37
Total nominal sales (HUF – millions)	1,775	2,113	2,463	2,862	3,359	3,942	4,626	5,430	6,373
Estimated cost of goods sold									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF – millions)	1,114	1,114	1,114	1,125	1,148	1,171	1,194	1,218	1,242
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF – millions)	1,114	1,326	1,544	1,794	2,104	2,468	2,895	3,396	3,983
Foreign purchases									
Real cost of $US goods & services ($US – millions)	2	2	2	2	2	2	2	2	2
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US – millions)	2	2	2	2	2	2	3	3	3
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF – millions)	191	234	279	332	398	477	573	688	825
Real cost of DM goods & services (DM – millions)	3	3	3	3	3	3	3	3	3
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM – millions)	3	3	3	3	3	3	4	4	4
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF – millions)	191	229	275	330	400	485	587	711	861
Total nominal cost of goods & services (HUF – millions)	1,496	1,789	2,093	2,455	2,902	3,430	4,055	4,794	5,670

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Operating Assumptions (continued):	Year Ending Dec-93	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF – millions)	137	137	137	138	141	144	147	150	153
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF – millions)	137	163	190	221	259	303	356	418	490
Real capital expenditures ($US – millions)		0	0	0	0	0	0	0	0
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US – millions)		0	0	0	0	0	0	0	0
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF – millions)		24	28	33	39	46	55	64	76
Tangible long-term assets, beg. of period (HUF – millions)		1,974	1,947	1,924	1,907	1,895	1,891	1,894	1,907
Nominal depreciation (HUF – millions)	(51)	(51)	(51)	(51)	(51)	(51)	(51)	(51)	(51)
Nominal capital expenditures (HUF – millions)		24	28	33	39	46	55	64	76
Tangible long-term assets, end of period	1,974	1,947	1,924	1,907	1,895	1,891	1,894	1,907	1,932
Net income before taxes paid out as dividends		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income tax		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		45	45	45	45	45	45	45	45
Inventory Turns		1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Prepaid expenses as a % of cost of goods sold		3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Payable Turns		18	18	18	18	18	18	18	18
Accruals as % of SG&A		40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF – millions)	0	0	0	0	0	0	0	0	0
Amortization of principal – (years)	30	0	0	0	0	0	0	0	0
Ending principal balance		0	0	0	0	0	0	0	0
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		0	0	0	0	0	0	0	0
Issuance of common equity (nominal – HUF millions)		0	0	0	0	0	0	0	0

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Penzjegynyomda Rt. – Trademark

INCOME STATEMENT (HUF in millions)	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
SALES	1,775	2,113	2,463	2,862	3,359	3,942	4,626	5,430	6,373
(Cost of Goods Sold)	(1,496)	(1,789)	(2,098)	(2,455)	(2,902)	(3,430)	(4,055)	(4,794)	(5,670)
GROSS PROFIT	279	324	364	407	457	512	571	635	703
Gross Profit Margin	*15.7%*	*15.3%*	*14.8%*	*14.2%*	*13.6%*	*13.0%*	*12.4%*	*11.7%*	*11.0%*
(Selling, General, & Admin. Expense)	(137)	(163)	(190)	(221)	(259)	(303)	(356)	(418)	(490)
OPERATING INCOME (EBITDA)	142	161	174	186	198	208	215	218	213
(Depreciation & Amortization)	(51)	(51)	(51)	(51)	(51)	(51)	(51)	(51)	(51)
EBIT	91	110	123	135	147	157	164	167	162
Interest and other financial income	429	354	209	221	230	227	212	179	122
(Interest Expense)	0	0	0	0	0	0	0	0	0
EARNINGS BEFORE TAXES	520	464	332	356	377	384	376	346	284
Extraordinary gain/(loss)	(60)	0	0	0	0	0	0	0	0
(Taxes)	(83)	(84)	(60)	(64)	(68)	(69)	(68)	(62)	(51)
NET INCOME	377	381	272	292	309	315	309	283	233

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Penzjegynyomda Rt. – Trademark

BALANCE SHEET (HUF in millions)

	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
ASSETS									
Intangible and Invested Financial Assets	683	683	683	683	683	683	683	683	683
Net Tangible Long–term Assets	1,974	1,947	1,924	1,907	1,895	1,891	1,894	1,907	1,932
Cash & Marketable Securities	1,507	1,017	1,077	1,120	1,107	1,034	873	593	151
Accounts Receivable	160	261	308	358	420	493	578	679	797
Inventories	360	1,193	1,399	1,637	1,935	2,287	2,703	3,196	3,780
Prepaid expenses	20	63	73	86	102	120	142	168	198
Total Current Assets	2,047	2,533	2,857	3,201	3,563	3,933	4,297	4,636	4,926
TOTAL ASSETS	4,704	5,163	5,465	5,790	6,142	6,507	6,874	7,226	7,541
EQUITY, RESERVES & LIABILITIES									
Common Stock	4,131	4,131	4,131	4,131	4,131	4,131	4,131	4,131	4,131
Retained Earnings:									
Beginning	82	459	840	1,112	1,404	1,713	2,028	2,337	2,620
Dividends	0	0	0	0	0	0	0	0	0
Current year earnings	377	381	272	292	309	315	309	283	233
Ending	459	840	1,112	1,404	1,713	2,028	2,337	2,620	2,853
Shareholders' Equity	4,590	4,971	5,243	5,535	5,844	6,159	6,468	6,751	6,984
Target Reserves	19	19	19	19	19	19	19	19	19
Long–term Credits and Liabilities	0	0	0	0	0	0	0	0	0
Trade credits	50	108	127	149	176	207	245	290	342
Other Accrued Liabilities	45	65	76	88	103	121	142	167	196
Current Portion: Long–term debt	0	0	0	0	0	0	0	0	0
Total Current Liabilities	95	174	203	237	279	329	387	457	538
Total Liabilities	95	174	203	237	279	329	387	457	538
Other	0	0	0	0	0	0	0	0	0
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	4,704	5,163	5,465	5,791	6,142	6,507	6,874	7,227	7,541
	0	0	0	0	0	0	0	0	0

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Penzjegynyomda Rt. – Trademark

CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec–94	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Cash Flows from Operating Activities:									
Net Income		381	272	292	309	315	309	283	233
Depreciation & Amortization		51	51	51	51	51	51	51	51
Changes in Working Capital		(897)	(235)	(266)	(333)	(394)	(465)	(550)	(651)
Cash provided by operating activities		(466)	88	76	27	(27)	(106)	(216)	(367)
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(24)	(28)	(33)	(39)	(46)	(55)	(64)	(76)
Repayment of principal of Long–term Debt		0	0	0	0	0	0	0	0
Issuance of Common Stock		0	0	0	0	0	0	0	0
Cash used in investing/investing activities		(24)	(28)	(33)	(39)	(46)	(55)	(64)	(76)
Increase (decrease) in cash		(490)	60	43	(13)	(74)	(160)	(280)	(442)
Cash, beginning of the period		1,507	1,017	1,077	1,120	1,107	1,034	873	593
Increase (decrease) in cash		(490)	60	43	(13)	(74)	(160)	(280)	(442)
Dividends		0	0	0	0	0	0	0	0
Cash, end of period		1,017	1,077	1,120	1,107	1,034	873	593	151
Increase (decrease) in cash		(490)	60	43	(13)	(74)	(160)	(280)	(442)
Dividends		0	0	0	0	0	0	0	0
Dividend withholding tax		0	0	0	0	0	0	0	0
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		(490)	60	43	(13)	(74)	(160)	(280)	(442)
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		(4)	0	0	(0)	(0)	(1)	(1)	(2)
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF – millions)	Ratio	381	272	292	309	315	309	283	233
Terminal value ($US – millions)	12	37	23	22	20	18	16	13	9
Total cash flow to shareholders ($US – millions)	IPO Year								
Cash flow available to shareholders prior to IPO	5	(4)	0	0	(0)	(0)	0	0	0
Cash flow to shareholders from public offering		0	0	0	0	18	0	0	0
Total cashflow to shareholders		(4)	0	0	(0)	18	0	0	0
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	15	(3)	0	0	(0)	3	0	0	0
Net present value (HUF in millions)	1,571								

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Szikra Ladnyomda Rt. – Culture

Operating Assumptions:	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF – millions)	4,158	4,158	4,158	4,200	4,284	4,369	4,457	4,546	4,637
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF – millions)	4,158	4,948	5,764	6,695	7,853	9,211	10,805	12,674	14,867
Foreign sales:									
Real growth of $US sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US – millions)	2	2	2	2	2	2	2	2	3
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US – millions)	2	2	2	3	3	3	3	3	3
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF – millions)	221	271	323	383	460	552	662	795	954
Real growth of DM sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM – millions)	2	2	2	2	2	2	2	2	3
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM – millions)	2	2	2	2	3	3	3	3	3
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF – millions)	147	177	212	254	308	373	452	548	684
Total nominal sales (HUF – millions)	4,526	5,395	6,298	7,332	8,621	10,137	11,920	14,017	16,485
Estimated cost of goods sold									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF – millions)	2,990	2,990	2,990	3,020	3,080	3,142	3,205	3,269	3,334
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF – millions)	2,990	3,558	4,145	4,814	5,647	6,624	7,770	9,114	10,691
Foreign purchases									
Real cost of $US goods & services ($US – millions)	3	3	3	3	3	3	3	3	3
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US – millions)	3	3	3	3	3	3	4	4	4
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF – millions)	271	333	396	470	565	677	813	976	1,171
Real cost of DM goods & services (DM – millions)	8	8	8	8	9	9	9	9	9
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM – millions)	8	8	9	9	9	10	10	11	11
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF – millions)	542	650	781	937	1,135	1,375	1,666	2,018	2,444
Total nominal cost of goods & services (HUF – millions)	3,803	4,541	5,322	6,222	7,347	8,676	10,249	12,107	14,306

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IMPACT II PROJECT
USAID TECHNICAL ASSISTANCE
HUNGARIAN INVESTMENT FUND MODEL

Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF – millions)	319	319	319	322	329	335	342	349	356
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF – millions)	319	380	442	514	602	707	829	972	1,141
Real capital expenditures ($US – millions)									
US inflation factor		1	1	1	1	1	1	1	1
Nominal capital expenditures ($US – millions)		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Average exchange rate (HUF/$US)		1	1	1	1	1	1	1	1
Nominal capital expenditures (HUF – millions)		116	133	151	172	196	222	253	287
		120	142	167	197	232	273	321	378
Tangible long-term assets, beg. of period (HUF – millions)		3,342	3,225	3,130	3,060	3,020	3,015	3,051	3,135
Nominal depreciation (HUF – millions)	(237)	(237)	(237)	(237)	(237)	(237)	(237)	(237)	(237)
Nominal capital expenditures (HUF – millions)		120	142	167	197	232	273	321	378
Tangible long-term assets, end of period	3,342	3,225	3,130	3,060	3,020	3,015	3,051	3,135	3,276
Net income before taxes paid out as dividends		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding tax		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		60	60	60	60	60	60	60	60
Inventory Turns		15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Prepaid expenses as a % of cost of goods sold		0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Payable Turns		12	12	12	12	12	12	12	12
Accruals as % of SG&A		160.0%	160.0%	160.0%	160.0%	160.0%	160.0%	160.0%	160.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF – millions)	260	260	251	243	234	225	217	208	199
Amortization of principal – (years)	30	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
Ending principal balance		251	243	234	225	217	208	199	191
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		73	63	61	59	56	54	52	50
Issuance of common equity (nominal – HUF millions)		0	0	0	0	0	0	0	0

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Szikra Ladnyomda Rt. – Culture

INCOME STATEMENT (HUF in millions)	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
SALES	4,526	5,395	6,298	7,332	8,621	10,137	11,920	14,017	16,485
(Cost of Goods Sold)	(3,803)	(4,541)	(5,322)	(6,222)	(7,347)	(8,676)	(10,249)	(12,107)	(14,306)
GROSS PROFIT	723	855	977	1,111	1,274	1,460	1,671	1,910	2,179
Gross Profit Margin	*16.0%*	*15.8%*	*15.5%*	*15.1%*	*14.8%*	*14.4%*	*14.0%*	*13.6%*	*13.2%*
(Selling, General, & Admin. Expense)	(319)	(380)	(442)	(514)	(602)	(707)	(829)	(972)	(1,141)
OPERATING INCOME (EBITDA)	404	475	534	597	672	754	842	937	1,038
(Depreciation & Amortization)	(237)	(237)	(237)	(237)	(237)	(237)	(237)	(237)	(237)
EBIT	167	238	297	360	435	517	605	700	801
Interest and other financial income	4	2	26	78	145	229	331	456	604
(Interest Expense)	(67)	(73)	(63)	(61)	(59)	(56)	(54)	(52)	(50)
EARNINGS BEFORE TAXES	104	167	261	377	522	689	882	1,104	1,356
Extraordinary gain/(loss)	(1)	0	0	0	0	0	0	0	0
(Taxes)	(19)	(30)	(47)	(68)	(94)	(124)	(159)	(199)	(244)
NET INCOME	84	137	214	310	428	565	724	905	1,112

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Szikra Ladnyomda Rt. – Culture

BALANCE SHEET (HUF in millions)

ASSETS	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Intangible and Invested Financial Assets	176	176	176	176	176	176	176	176	176
Net Tangible Long–term Assets	3,342	3,225	3,130	3,060	3,020	3,015	3,051	3,135	3,276
Cash & Marketable Securities	9	129	380	709	1,116	1,616	2,222	2,949	3,809
Accounts Receivable	769	887	1,050	1,222	1,437	1,689	1,987	2,336	2,747
Inventories	292	303	355	415	490	578	683	807	954
Prepaid expenses	20	23	27	31	37	43	51	61	72
Total Current Assets	1,090	1,341	1,812	2,377	3,080	3,928	4,944	6,153	7,581
TOTAL ASSETS	4,608	4,742	5,118	5,614	6,276	7,119	8,171	9,463	11,033
EQUITY, RESERVES & LIABILITIES									
Common Stock	3,072	3,072	3,072	3,072	3,072	3,072	3,072	3,072	3,072
Retained Earnings:									
Beginning	68	152	290	503	813	1,241	1,806	2,530	3,435
Dividends	0	0	0	0	0	0	0	0	0
Current year earnings	84	137	214	310	428	565	724	905	1,112
Ending	152	290	503	813	1,241	1,806	2,530	3,435	4,547
Shareholders' Equity	3,224	3,362	3,575	3,885	4,313	4,878	5,602	6,507	7,619
Target Reserves	111	111	111	111	111	111	111	111	111
Long–term Credits and Liabilities	251	243	234	225	217	208	199	191	191
Trade credits	360	410	480	561	662	782	923	1,090	1,287
Other Accrued Liabilities	652	607	708	822	964	1,131	1,326	1,556	1,825
Current Portion: Long–term debt	9	9	9	9	9	9	9	9	0
Total Current Liabilities	1,021	1,026	1,197	1,392	1,635	1,921	2,258	2,654	3,112
Total Liabilities	1,272	1,269	1,431	1,617	1,852	2,129	2,457	2,845	3,303
Other	1	1	1	1	1	1	1	1	1
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	4,608	4,742	5,118	5,614	6,277	7,119	8,171	9,464	11,033
	0	0	0	0	0	0	0	0	0

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CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec–94	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Cash Flows from Operating Activities:									
Net Income		137	214	310	428	565	724	905	1,112
Depreciation & Amortization		237	237	237	237	237	237	237	237
Changes in Working Capital		(126)	(48)	(42)	(52)	(62)	(73)	(86)	(102)
Cash provided by operating activities		248	403	505	613	740	888	1,056	1,246
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(120)	(142)	(167)	(197)	(232)	(273)	(321)	(378)
Repayment of principal of Long–term Debt		(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
Issuance of Common Stock		0	0	0	0	0	0	0	0
Cash used in Investing/Investing activities		(128)	(151)	(176)	(206)	(240)	(281)	(330)	(388)
Increase (decrease) in cash		120	252	329	407	500	606	726	860
Cash, beginning of the period		9	129	380	709	1,116	1,616	2,222	2,949
Increase (decrease) in cash		120	252	329	407	500	606	726	860
Dividends		0	0	0	0	0	0	0	0
Cash, end of period		129	380	709	1,116	1,616	2,222	2,949	3,809
Increase (decrease) in cash		120	252	329	407	500	606	726	860
Dividends		0	0	0	0	0	0	0	0
Dividend withholding tax		0	0	0	0	0	0	0	0
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		120	252	329	407	500	606	726	860
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		1	2	2	2	3	3	3	3
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF – millions)	Ratio	137	214	310	428	565	724	905	1,112
Terminal value ($US – millions)	12	13	18	23	28	33	37	40	44
Total cash flow to shareholders ($US – millions)	IPO Year								
Cash flow available to shareholders prior to IPO	5	1	2	2	2	3	0	0	0
Cash flow to shareholders from public offering		0	0	0	0	33	0	0	0
Total cashflow to shareholders		1	2	2	2	35	0	0	0
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	10	1	1	1	1	7	0	0	0
Net present value (HUF in millions)	1,041								

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Kalocsakornyeki Agraripari Rt. – Trademark

Operating Assumptions:	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF – millions)	1,605	1,605	1,605	1,621	1,653	1,687	1,720	1,755	1,790
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF – millions)	1,605	1,910	2,225	2,584	3,031	3,556	4,171	4,892	5,739
Foreign sales:									
Real growth of $US sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US – millions)	4	4	4	4	4	4	4	4	4
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US – millions)	4	4	4	4	4	4	5	5	5
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF – millions)	350	430	511	608	729	875	1,050	1,260	1,512
Real growth of DM sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM – millions)	5	5	5	5	6	6	6	6	6
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM – millions)	5	5	6	6	6	6	7	7	7
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF – millions)	350	420	504	605	733	888	1,076	1,303	1,578
Total nominal sales (HUF – millions)	2,305	2,759	3,241	3,797	4,493	5,319	6,296	7,455	8,829
Estimated cost of goods sold									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF – millions)	1,440	1,440	1,440	1,454	1,483	1,513	1,543	1,574	1,606
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF – millions)	1,440	1,714	1,996	2,318	2,720	3,190	3,742	4,389	5,149
Foreign purchases									
Real cost of $US goods & services ($US – millions)	0	0	0	0	0	0	0	0	0
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF – millions)	0	0	0	0	0	0	0	0	0
Real cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF – millions)	0	0	0	0	0	0	0	0	0
Total nominal cost of goods & services (HUF – millions)	1,440	1,714	1,996	2,318	2,720	3,190	3,742	4,389	5,149

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF – millions)	661	661	661	668	681	695	708	723	737
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF – millions)	661	787	916	1,064	1,248	1,464	1,718	2,015	2,363
Real capital expenditures ($US – millions)		0	0	0	0	0	0	0	0
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US – millions)		0	0	0	0	0	0	0	0
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF – millions)		12	14	17	20	23	27	32	38
Tangible long-term assets, beg. of period (HUF – millions)		480	459	440	424	411	401	395	394
Nominal depreciation (HUF – millions)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)
Nominal capital expenditures (HUF – millions)		12	14	17	20	23	27	32	38
Tangible long-term assets, end of period	480	459	440	424	411	401	395	394	399
Net income before taxes paid out as dividends		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding taxes		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		40	40	40	40	40	40	40	40
Inventory Turns		1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Prepaid expenses as a % of cost of goods sold		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Payable Turns		24	24	24	24	24	24	24	24
Accruals as % of SG&A		60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF – millions)	96	96	93	90	86	83	80	77	74
Amortization of principal – (years)	30	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Ending principal balance		93	90	86	83	80	77	74	70
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		27	23	22	22	21	20	19	18
Issuance of common equity (nominal – HUF millions)		0	0	0	0	0	0	0	0

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Kalocsakornyeki Agraripari Rt. – Trademark

INCOME STATEMENT (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	2,305	2,759	3,241	3,797	4,493	5,319	6,296	7,455	8,829
(Cost of Goods Sold)	(1,440)	(1,714)	(1,996)	(2,318)	(2,720)	(3,190)	(3,742)	(4,389)	(5,149)
GROSS PROFIT	865	1,046	1,244	1,478	1,774	2,128	2,554	3,066	3,681
Gross Profit Margin	*37.5%*	*37.9%*	*38.4%*	*38.9%*	*39.5%*	*40.0%*	*40.6%*	*41.1%*	*41.7%*
(Selling, General, & Admin. Expense)	(661)	(787)	(916)	(1,064)	(1,248)	(1,464)	(1,718)	(2,015)	(2,363)
OPERATING INCOME (EBITDA)	204	259	328	414	525	664	837	1,051	1,317
(Depreciation & Amortization)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)
EBIT	171	226	295	381	492	631	804	1,018	1,284
Interest and other financial income	7	2	10	33	70	124	202	314	471
(Interest Expense)	(75)	(27)	(23)	(22)	(22)	(21)	(20)	(19)	(18)
EARNINGS BEFORE TAXES	103	202	282	391	540	734	986	1,314	1,737
Extraordinary gain/(loss)	(3)	0	0	0	0	0	0	0	0
(Taxes)	(18)	(36)	(51)	(70)	(97)	(132)	(178)	(236)	(313)
NET INCOME	82	165	231	321	443	602	809	1,077	1,424

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Kalocsakornyeki Agraripari Rt. – Trademark

BALANCE SHEET (HUF in millions)

ASSETS	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Intangible and Invested Financial Assets	18	18	18	18	18	18	18	18	18
Net Tangible Long–term Assets	480	459	440	424	411	401	395	394	399
Cash & Marketable Securities	9	49	159	340	603	987	1,534	2,297	3,347
Accounts Receivable	255	302	360	422	499	591	700	828	981
Inventories	800	1,008	1,174	1,364	1,600	1,877	2,201	2,582	3,029
Prepaid expenses	35	51	60	70	82	96	112	132	154
Total Current Assets	1,099	1,411	1,753	2,195	2,783	3,550	4,547	5,839	7,511
TOTAL ASSETS	1,597	1,888	2,211	2,637	3,212	3,969	4,960	6,251	7,928
EQUITY, RESERVES & LIABILITIES									
Common Stock	844	844	844	844	844	844	844	844	844
Retained Earnings:									
Beginning	92	174	339	571	891	1,334	1,936	2,745	3,822
Dividends	0	0	0	0	0	0	0	0	0
Current year earnings	82	165	231	321	443	602	809	1,077	1,424
Ending	174	339	571	891	1,334	1,936	2,745	3,822	5,246
Shareholders' Equity	1,018	1,183	1,415	1,735	2,178	2,780	3,589	4,666	6,090
Target Reserves	6	6	6	6	6	6	6	6	6
Long–term Credits and Liabilities	93	90	86	83	80	77	74	70	70
Trade credits	52	104	121	141	165	194	227	267	313
Other Accrued Liabilities	395	472	550	639	749	879	1,031	1,209	1,418
Current Portion: Long–term debt	3	3	3	3	3	3	3	3	0
Total Current Liabilities	450	579	674	783	918	1,076	1,261	1,479	1,731
Total Liabilities	543	669	761	866	998	1,153	1,335	1,549	1,801
Other	30	30	30	30	30	30	30	30	30
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	1,597	1,888	2,211	2,637	3,212	3,969	4,960	6,251	7,928
	0	0	0	0	(0)	0	0	(0)	0

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Kalocsakornyeki Agraripari Rt. – Trademark

CASH FLOW STATEMENT (HUF – millions)

		Projected Year Ending							
	Dec–94	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Cash Flows from Operating Activities:									
Net Income		165	231	321	443	602	809	1,077	1,424
Depreciation & Amortization		33	33	33	33	33	33	33	33
Changes in Working Capital		(143)	(137)	(153)	(191)	(224)	(264)	(311)	(367)
Cash provided by operating activities		56	127	201	286	410	577	799	1,090
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(12)	(14)	(17)	(20)	(23)	(27)	(32)	(38)
Repayment of principal of Long–term Debt		(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Issuance of Common Stock		0	0	0	0	0	0	0	0
Cash used in investing/investing activities		(15)	(17)	(20)	(23)	(26)	(30)	(35)	(41)
Increase (decrease) in cash		40	109	181	263	384	547	763	1,050
Cash, beginning of the period		9	49	159	340	603	987	1,534	2,297
Increase (decrease) in cash		40	109	181	263	384	547	763	1,050
Dividends		0	0	0	0	0	0	0	0
Cash, end of period		49	159	340	603	987	1,534	2,297	3,347
Increase (decrease) in cash		40	109	181	263	384	547	763	1,050
Dividends		0	0	0	0	0	0	0	0
Dividend withholding tax		0	0	0	0	0	0	0	0
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		40	109	181	263	384	547	763	1,050
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		0	1	1	2	2	2	3	4
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF – millions)	Ratio	165	231	321	443	602	809	1,077	1,424
Terminal value ($US – millions)	12	16	20	24	29	35	41	48	58
	IPO								
Total cash flow to shareholders ($US – millions)	Year								
Cash flow available to shareholders prior to IPO	5	0	1	1	2	2	0	0	0
Cash flow to shareholders from public offering		0	0	0	0	35	0	0	0
Total cashflow to shareholders		0	1	1	2	37	0	0	0
Discount rate	40.0%								
Net present value ($US in millions)	8	0	0	0	0	7	0	0	0
Net present value (HUF in millions)	899								

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Erdert Rt. – Forest Products

Operating Assumptions:	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF – millions)	3,982	3,982	3,982	4,022	4,102	4,184	4,268	4,353	4,440
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF – millions)	3,982	4,738	5,520	6,411	7,520	8,821	10,348	12,138	14,237
Foreign sales:									
Real growth of $US sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US – millions)	2	2	2	2	2	2	2	3	3
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US – millions)	2	2	2	3	3	3	3	3	3
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF – millions)	224	275	327	389	467	560	672	807	968
Real growth of DM sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM – millions)	3	3	3	3	4	4	4	4	4
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM – millions)	3	4	4	4	4	4	4	4	5
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF – millions)	224	269	323	387	469	563	688	834	1,010
Total nominal sales (HUF – millions)	4,430	5,282	6,170	7,187	8,456	9,950	11,708	13,778	16,216
Estimated cost of goods sold									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF – millions)	2,311	2,311	2,311	2,334	2,381	2,428	2,477	2,527	2,577
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF – millions)	2,311	2,750	3,203	3,721	4,365	5,120	6,005	7,044	8,263
Foreign purchases									
Real cost of $US goods & services ($US – millions)	16	16	16	16	17	17	17	18	18
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US – millions)	16	17	17	18	19	20	21	23	24
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF – millions)	1,581	1,940	2,309	2,744	3,293	3,952	4,743	5,692	6,832
Real cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF – millions)	0	0	0	0	0	0	0	0	0
Total nominal cost of goods & services (HUF – millions)	3,892	4,690	5,513	6,465	7,658	9,072	10,749	12,737	15,094

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF – millions)	582	582	582	588	600	612	624	636	649
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF – millions)	582	693	807	937	1,099	1,289	1,512	1,774	2,081
Real capital expenditures ($US – millions)		1	1	1	1	1	1	1	1
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US – millions)		1	1	1	1	1	1	1	1
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF – millions)		120	142	167	197	232	273	321	378
Tangible long-term assets, beg. of period (HUF – millions)		4,561	4,489	4,439	4,414	4,419	4,459	4,540	4,669
Nominal depreciation (HUF – millions)	(192)	(192)	(192)	(192)	(192)	(192)	(192)	(192)	(192)
Nominal capital expenditures (HUF – millions)		120	142	167	197	232	273	321	378
Tangible long-term assets, end of period	4,561	4,489	4,439	4,414	4,419	4,459	4,540	4,669	4,855
Net income before taxes paid out as dividends		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income tax		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding tax		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		30	30	30	30	30	30	30	30
Inventory Turns		6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Prepaid expenses as a % of cost of goods sold		0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Payable Turns		24	24	24	24	24	24	24	24
Accruals as % of SG&A		120.0%	120.0%	120.0%	120.0%	120.0%	120.0%	120.0%	120.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF – millions)	48	48	46	45	43	42	40	38	37
Amortization of principal – (years)	30	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Ending principal balance		46	45	43	42	40	38	37	35
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
interest expense		13	12	11	11	10	10	10	9
Issuance of common equity (nominal – HUF millions)		0	0	0	0	0	0	0	0

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Erdert Rt. – Forest Products

BALANCE SHEET (HUF in millions)

ASSETS	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Intangible and Invested Financial Assets	929	929	929	929	929	929	929	929	929
Net Tangible Long–term Assets	4,561	4,489	4,439	4,414	4,419	4,459	4,540	4,669	4,855
Cash & Marketable Securities	31	(91)	(458)	(990)	(1,760)	(2,844)	(4,347)	(6,403)	(9,185)
Accounts Receivable	448	434	514	599	705	829	976	1,148	1,351
Inventories	710	782	919	1,078	1,276	1,512	1,791	2,123	2,516
Prepaid expenses	3	9	11	13	15	18	21	25	30
Total Current Assets	1,192	1,134	986	699	237	(485)	(1,558)	(3,106)	(5,288)
TOTAL ASSETS	6,682	6,552	6,354	6,042	5,585	4,904	3,911	2,492	496
EQUITY, RESERVES & LIABILITIES									
Common Stock	6,276	6,276	6,276	6,276	6,276	6,276	6,276	6,276	6,276
Retained Earnings:									
Beginning	(342)	(699)	(998)	(1,370)	(1,882)	(2,588)	(3,563)	(4,901)	(6,726)
Dividends	0	0	0	0	0	0	0	0	0
Current year earnings	(357)	(299)	(372)	(512)	(707)	(975)	(1,338)	(1,825)	(2,474)
Ending	(699)	(998)	(1,370)	(1,882)	(2,588)	(3,563)	(4,901)	(6,726)	(9,200)
Shareholders' Equity	5,577	5,278	4,906	4,394	3,688	2,713	1,375	(450)	(2,924)
Target Reserves	156	156	156	156	156	156	156	156	156
Long–term Credits and Liabilities	46	45	43	42	40	38	37	35	35
Trade credits	112	224	263	308	365	432	511	605	716
Other Accrued Liabilities	773	831	968	1,124	1,319	1,547	1,815	2,129	2,497
Current Portion: Long–term debt	2	2	2	2	2	2	2	2	0
Total Current Liabilities	887	1,057	1,233	1,434	1,685	1,981	2,327	2,735	3,213
Total Liabilities	933	1,102	1,276	1,476	1,725	2,019	2,364	2,770	3,248
Other	16	16	16	16	16	16	16	16	16
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	6,682	6,552	6,354	6,042	5,585	4,904	3,911	2,492	496
	0	0	(0)	0	0	0	0	(0)	(0)

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Erdert Rt. – Forest Products

INCOME STATEMENT (HUF in millions)	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
SALES	4,430	5,282	6,170	7,187	8,456	9,950	11,708	13,778	16,216
(Cost of Goods Sold)	(3,892)	(4,690)	(5,513)	(6,465)	(7,658)	(9,072)	(10,749)	(12,737)	(15,094)
GROSS PROFIT	538	592	657	722	798	878	959	1,041	1,121
Gross Profit Margin	*12.1%*	*11.2%*	*10.7%*	*10.0%*	*9.4%*	*8.8%*	*8.2%*	*7.6%*	*6.9%*
(Selling, General, & Admin. Expense)	(582)	(693)	(807)	(937)	(1,099)	(1,289)	(1,512)	(1,774)	(2,081)
OPERATING INCOME (EBITDA)	(44)	(101)	(150)	(215)	(301)	(412)	(553)	(733)	(960)
(Depreciation & Amortization)	(192)	(192)	(192)	(192)	(192)	(192)	(192)	(192)	(192)
EBIT	(236)	(293)	(342)	(407)	(493)	(604)	(745)	(925)	(1,152)
Interest and other financial income	122	7	(19)	(94)	(203)	(361)	(583)	(891)	(1,313)
(Interest Expense)	(290)	(13)	(12)	(11)	(11)	(10)	(10)	(10)	(9)
EARNINGS BEFORE TAXES	(404)	(299)	(372)	(512)	(707)	(975)	(1,338)	(1,825)	(2,474)
Extraordinary gain/(loss)	47	0	0	0	0	0	0	0	0
(Taxes)	0	0	0	0	0	0	0	0	0
NET INCOME	(357)	(299)	(372)	(512)	(707)	(975)	(1,338)	(1,825)	(2,474)

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Erdert Rt. – Forest Products

CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec–94	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Cash Flows from Operating Activities:									
Net Income		(299)	(372)	(512)	(707)	(975)	(1,338)	(1,825)	(2,474)
Depreciation & Amortization		192	192	192	192	192	192	192	192
Changes in Working Capital		106	(43)	(44)	(56)	(68)	(82)	(100)	(121)
Cash provided by operating activities		(1)	(223)	(364)	(571)	(851)	(1,228)	(1,733)	(2,403)
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(120)	(142)	(167)	(197)	(232)	(273)	(321)	(378)
Repayment of principal of Long–term Debt		(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Issuance of Common Stock		0	0	0	0	0	0	0	0
Cash used in investing/investing activities		(121)	(144)	(169)	(199)	(233)	(274)	(323)	(379)
Increase (decrease) in cash		(122)	(367)	(533)	(769)	(1,084)	(1,503)	(2,056)	(2,782)
Cash, beginning of the period		31	(91)	(458)	(990)	(1,760)	(2,844)	(4,347)	(6,403)
Increase (decrease) in cash		(122)	(367)	(533)	(769)	(1,084)	(1,503)	(2,056)	(2,782)
Dividends		0	0	0	0	0	0	0	0
Cash, end of period		(91)	(458)	(990)	(1,760)	(2,844)	(4,347)	(6,403)	(9,185)
Increase (decrease) in cash		(122)	(367)	(533)	(769)	(1,084)	(1,503)	(2,056)	(2,782)
Dividends		0	0	0	0	0	0	0	0
Dividend withholding tax		0	0	0	0	0	0	0	0
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		(122)	(367)	(533)	(769)	(1,084)	(1,503)	(2,056)	(2,782)
Average exchange rate (HUF/$US)		116	133	151	172	198	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		(1)	(3)	(4)	(4)	(6)	(7)	(8)	(10)
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF – millions)	Ratio	(299)	(372)	(512)	(707)	(975)	(1,338)	(1,825)	(2,474)
Terminal value ($US – millions)	12	(29)	(31)	(38)	(46)	(56)	(68)	(81)	(97)
	IPO								
Total cash flow to shareholders ($US – millions)	Year								
Cash flow available to shareholders prior to IPO	5	(1)	(3)	(4)	(4)	(6)	0	0	0
Cash flow to shareholders from public offering		0	0	0	0	0	0	0	0
Total cashflow to shareholders		(1)	(3)	(4)	(4)	(6)	0	0	0
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	(5)	(1)	(1)	(1)	(1)	(1)	0	0	0
Net present value (HUF in millions)	(572)								

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Zsolnay Porcelangyar Rt. – Trademark

Operating Assumptions:	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF – millions)	832	832	83[illegible]	840	857	874	892	910	928
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF – millions)	832	990	1,153	1,340	1,571	1,843	2,162	2,536	2,975
Foreign sales:									
Real growth of $US sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US – millions)	1	1	1	1	1	1	1	1	1
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US – millions)	1	1	1	1	1	1	2	2	2
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF – millions)	115	141	167	199	239	286	344	412	495
Real growth of DM sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM – millions)	2	2	2	2	2	2	2	2	2
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM – millions)	2	2	2	2	2	2	2	2	2
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF – millions)	115	137	165	198	240	290	352	426	516
Total nominal sales (HUF – millions)	1,061	1,268	1,486	1,736	2,050	2,420	2,857	3,375	3,988
Estimated cost of goods sold									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF – millions)	871	871	871	880	897	915	934	952	971
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF – millions)	871	1,036	1,207	1,402	1,645	1,930	2,263	2,655	3,114
Foreign purchases									
Real cost of $US goods & services ($US – millions)	1	1	1	1	1	1	1	1	1
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US – millions)	1	1	1	1	1	1	1	1	1
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF – millions)	97	119	142	168	202	242	291	349	419
Real cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF – millions)	0	0	0	0	0	0	0	0	0
Total nominal cost of goods & services (HUF – millions)	968	1,156	1,349	1,571	1,847	2,172	2,554	3,004	3,533

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Operating Assumptions (continued):	Year Ending Dec-93	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF – millions)	85	85	85	86	88	89	91	93	95
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF – millions)	85	101	118	137	161	188	221	259	304
Real capital expenditures ($US – millions)		0	0	0	0	0	0	0	0
US inflation factor		1.0325	1.0636	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US – millions)		0	0	0	0	0	0	0	0
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF – millions)		12	14	17	20	23	27	32	38
Tangible long-term assets, beg. of period (HUF – millions)		614	593	574	558	545	535	529	528
Nominal depreciation (HUF – millions)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)
Nominal capital expenditures (HUF – millions)		12	14	17	20	23	27	32	38
Tangible long-term assets, end of period	614	593	574	558	545	535	529	528	533
Net income before taxes paid out as dividends		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income tax		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		45	45	45	45	45	45	45	45
Inventory Turns		6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Prepaid expenses as a % of cost of goods sold		0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Payable Turns		18	18	18	18	18	18	18	18
Accruals as % of SG&A		300.0%	300.0%	300.0%	300.0%	300.0%	300.0%	300.0%	300.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF – millions)	0	0	0	0	0	0	0	0	0
Amortization of principal – (years)	30	0	0	0	0	0	0	0	0
Ending principal balance		0	0	0	0	0	0	0	0
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		0	0	0	0	0	0	0	0
Issuance of common equity (nominal – HUF millions)		0	0	0	0	0	0	0	0

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Zsolnay Porcelangyar Rt. – Trademark

INCOME STATEMENT (HUF in millions)	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
SALES	1,061	1,268	1,486	1,736	2,050	2,420	2,857	3,375	3,986
(Cost of Goods Sold)	(968)	(1,156)	(1,349)	(1,571)	(1,847)	(2,172)	(2,554)	(3,004)	(3,533)
GROSS PROFIT	93	112	137	166	203	248	303	370	453
Gross Profit Margin	*8.8%*	*8.9%*	*9.2%*	*9.5%*	*9.9%*	*10.2%*	*10.6%*	*11.0%*	*11.4%*
(Selling, General, & Admin. Expense)	(85)	(101)	(118)	(137)	(161)	(188)	(221)	(259)	(304)
OPERATING INCOME (EBITDA)	8	11	19	29	42	60	82	111	149
(Depreciation & Amortization)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)
EBIT	(25)	(22)	(14)	(4)	9	27	49	78	116
Interest and other financial income	1	6	19	24	30	40	53	72	97
(Interest Expense)	(48)	0	0	0	0	0	0	0	0
EARNINGS BEFORE TAXES	(72)	(15)	5	19	39	67	103	150	213
Extraordinary gain/(loss)	(3)	0	0	0	0	0	0	0	0
(Taxes)	0	0	(1)	(3)	(7)	(12)	(18)	(27)	(38)
NET INCOME	(75)	(15)	4	16	32	55	84	123	175

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Zsolnay Porcelangyar Rt. – Trademark

BALANCE SHEET (HUF in millions)

ASSETS	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Intangible and Invested Financial Assets	41	41	41	41	41	41	41	41	41
Net Tangible Long–term Assets	614	593	574	558	545	535	529	528	533
Cash & Marketable Securities	27	93	115	148	195	260	350	474	643
Accounts Receivable	149	156	186	217	256	302	357	422	498
Inventories	211	193	225	262	308	362	426	501	589
Prepaid expenses	0	6	7	8	9	11	13	15	18
Total Current Assets	387	448	532	635	768	936	1,146	1,412	1,748
TOTAL ASSETS	1,042	1,082	1,148	1,234	1,354	1,511	1,716	1,981	2,322
EQUITY, RESERVES & LIABILITIES									
Common Stock	786	786	786	786	786	786	786	786	786
Retained Earnings:									
Beginning	(3)	(78)	(93)	(89)	(74)	(41)	13	97	221
Dividends	0	0	0	0	0	0	0	0	0
Current year earnings	(75)	(15)	4	16	32	55	84	123	175
Ending	(78)	(93)	(89)	(74)	(41)	13	97	221	395
Shareholders' Equity	708	693	697	712	745	799	883	1,007	1,181
Target Reserves	16	16	16	16	16	16	16	16	16
Long–term Credits and Liabilities	0	0	0	0	0	0	0	0	0
Trade credits	36	70	81	95	112	131	154	181	213
Other Accrued Liabilities	282	303	353	411	482	565	663	777	912
Current Portion: Long–term debt	0	0	0	0	0	0	0	0	0
Total Current Liabilities	318	373	435	505	593	696	817	959	1,125
Total Liabilities	318	373	435	505	593	696	817	959	1,125
Other	0	0	0	0	0	0	0	0	0
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	1,042	1,082	1,148	1,234	1,354	1,511	1,716	1,981	2,322
	0	0	0	0	0	0	0	0	0

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Zsolnay Porcelangyar Rt. – Trademark

CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec–94	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Cash Flows from Operating Activities:									
Net Income		(15)	4	16	32	55	84	123	175
Depreciation & Amortization		33	33	33	33	33	33	33	33
Changes in Working Capital		61	(1)	1	1	1	0	(0)	(1)
Cash provided by operating activities		78	36	50	66	88	118	156	207
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(12)	(14)	(17)	(20)	(23)	(27)	(32)	(38)
Repayment of principal of Long–term Debt		0	0	0	0	0	0	0	0
Issuance of Common Stock		0	0	0	0	0	0	0	0
Cash used in investing/investing activities		(12)	(14)	(17)	(20)	(23)	(27)	(32)	(38)
Increase (decrease) in cash		66	22	33	47	65	90	124	169
Cash, beginning of the period		27	93	115	148	195	260	350	474
Increase (decrease) in cash		66	22	33	47	65	90	124	169
Dividends		0	0	0	0	0	0	0	0
Cash, end of period		93	115	148	195	260	350	474	643
Increase (decrease) in cash		66	22	33	47	65	90	124	169
Dividends		0	0	0	0	0	0	0	0
Dividend withholding tax		0	0	0	0	0	0	0	0
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		66	22	33	47	65	90	124	169
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		1	0	0	0	0	0	0	1
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF – millions)	Ratio	(15)	4	16	32	55	84	123	175
Terminal value ($US – millions)	12	(1)	0	1	2	3	4	5	7
	IPO								
Total cash flow to shareholders ($US – millions)	Year								
Cash flow available to shareholders prior to IPO	5	1	0	0	0	0	0	0	0
Cash flow to shareholders from public offering		0	0	0	0	3	0	0	0
Total cashflow to shareholders		1	0	0	0	3	0	0	0
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	2	0	0	0	0	1	0	0	0
Net present value (HUF in millions)	165								

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Vadex Rt. – Forest Products

Operating Assumptions:	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF – millions)	527	527	527	532	543	554	565	576	588
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF – millions)	527	627	731	848	995	1,167	1,369	1,606	1,884
Foreign sales:									
Real growth of $US sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US – millions)	2	2	2	2	2	2	2	2	2
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US – millions)	2	2	2	2	2	2	2	3	3
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF – millions)	185	227	270	321	385	462	554	665	799
Real growth of DM sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM – millions)	7	7	7	7	7	7	7	7	7
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM – millions)	7	7	7	7	8	8	8	9	9
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF – millions)	432	518	623	747	905	1,096	1,327	1,608	1,948
Total nominal sales (HUF – millions)	1,144	1,372	1,623	1,916	2,285	2,725	3,251	3,880	4,631
Estimated cost of goods sold									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF – millions)	1,002	1,002	1,002	1,012	1,032	1,053	1,074	1,095	1,117
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF – millions)	1,002	1,192	1,389	1,613	1,892	2,220	2,604	3,054	3,583
Foreign purchases									
Real cost of $US goods & services ($US – millions)	0	0	0	0	0	0	0	0	0
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF – millions)	0	0	0	0	0	0	0	0	0
Real cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF – millions)	0	0	0	0	0	0	0	0	0
Total nominal cost of goods & services (HUF – millions)	1,002	1,192	1,389	1,613	1,892	2,220	2,604	3,054	3,583

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF – millions)	89	89	89	90	92	94	95	97	99
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF – millions)	89	106	123	143	168	197	231	271	318
Real capital expenditures ($US – millions)		0	0	0	0	0	0	0	0
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3135
Nominal capital expenditures ($US – millions)		0	0	0	0	0	0	0	0
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF – millions)		12	14	17	20	23	27	32	38
Tangible long-term assets, beg. of period (HUF – millions)		898	864	832	803	777	754	735	721
Nominal depreciation (HUF – millions)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)
Nominal capital expenditures (HUF – millions)		12	14	17	20	23	27	32	38
Tangible long-term assets, end of period	898	864	832	803	777	754	735	721	713
Net income before taxes paid out as dividends		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding tax		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		45	45	45	45	45	45	45	45
Inventory Turns		4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Prepaid expenses as a % of cost of goods sold		0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Payable Turns		15	15	15	15	15	15	15	15
Accruals as % of SG&A		60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF – millions)	0	0	0	0	0	0	0	0	0
Amortization of principal – (years)	30	0	0	0	0	0	0	0	0
Ending principal balance		0	0	0	0	0	0	0	0
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		0	0	0	0	0	0	0	0
Issuance of common equity (nominal – HUF millions)		0	0	0	0	0	0	0	0

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Vadex Rt. – Forest Products

INCOME STATEMENT (HUF in millions)	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
SALES	1,144	1,372	1,623	1,916	2,285	2,725	3,251	3,880	4,631
(Cost of Goods Sold)	(1,002)	(1,192)	(1,389)	(1,613)	(1,892)	(2,220)	(2,604)	(3,054)	(3,583)
GROSS PROFIT	142	180	234	303	392	505	647	825	1,048
Gross Profit Margin	*12.4%*	*13.1%*	*14.4%*	*15.8%*	*17.2%*	*18.5%*	*19.9%*	*21.3%*	*22.6%*
(Selling, General, & Admin. Expense)	(89)	(106)	(123)	(143)	(168)	(197)	(231)	(271)	(318)
OPERATING INCOME (EBITDA)	53	74	111	159	224	308	416	554	730
(Depreciation & Amortization)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)
EBIT	7	28	65	113	178	262	370	508	684
Interest and other financial income	18	14	(5)	1	14	37	73	130	215
(Interest Expense)	(15)	0	0	0	0	0	0	0	0
EARNINGS BEFORE TAXES	10	42	60	114	192	299	444	639	899
Extraordinary gain/(loss)	3	0	0	0	0	0	0	0	0
(Taxes)	(2)	(8)	(11)	(21)	(35)	(54)	(80)	(115)	(162)
NET INCOME	10	35	49	94	158	245	364	524	737

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Vadex Rt. – Forest Products

BALANCE SHEET (HUF in millions)

ASSETS	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Intangible and Invested Financial Assets	1	1	1	1	1	1	1	1	1
Net Tangible Long-term Assets	898	864	832	803	777	754	735	721	713
Cash & Marketable Securities	61	(22)	5	69	179	358	636	1,049	1,647
Accounts Receivable	140	169	203	239	286	341	406	485	579
Inventories	220	265	309	359	421	493	579	679	796
Prepaid expenses	0	6	7	8	9	11	13	15	18
Total Current Assets	421	418	524	675	894	1,203	1,634	2,228	3,040
TOTAL ASSETS	1,320	1,283	1,357	1,479	1,672	1,958	2,370	2,951	3,754
EQUITY, RESERVES & LIABILITIES									
Common Stock	1,065	1,065	1,065	1,065	1,065	1,065	1,065	1,065	1,065
Retained Earnings:									
Beginning	22	32	67	116	210	368	613	977	1,501
Dividends	0	0	0	0	0	0	0	0	0
Current year earnings	10	35	49	94	158	245	364	524	737
Ending	32	67	116	210	368	613	977	1,501	2,238
Shareholders' Equity	1,097	1,132	1,181	1,275	1,433	1,678	2,042	2,566	3,303
Target Reserves	0	0	0	0	0	0	0	0	0
Long-term Credits and Liabilities	0	0	0	0	0	0	0	0	0
Trade credits	159	87	101	117	137	161	189	222	260
Other Accrued Liabilities	63	64	74	86	101	118	139	163	191
Current Portion: Long-term debt	0	0	0	0	0	0	0	0	0
Total Current Liabilities	222	150	175	203	238	279	328	384	451
Total Liabilities	222	150	175	203	238	279	328	384	451
Other	1	1	1	1	1	1	1	1	1
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	1,320	1,283	1,357	1,479	1,672	1,959	2,371	2,951	3,755
	0	0	0	0	0	0	0	0	0

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Vadex Rt. – Forest Products

CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec–94	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Cash Flows from Operating Activities:									
Net Income		35	49	94	158	245	364	524	737
Depreciation & Amortization		46	46	46	46	46	46	46	46
Changes in Working Capital		(152)	(54)	(59)	(74)	(88)	(105)	(124)	(147)
Cash provided by operating activities		(71)	42	80	129	203	305	445	636
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(12)	(14)	(17)	(20)	(23)	(27)	(32)	(38)
Repayment of principal of Long–term Debt		0	0	0	0	0	0	0	0
Issuance of Common Stock		0	0	0	0	0	0	0	0
Cash used in investing/investing activities		(12)	(14)	(17)	(20)	(23)	(27)	(32)	(38)
Increase (decrease) in cash		(83)	27	64	110	180	278	413	598
Cash, beginning of the period		61	(22)	5	69	179	358	636	1,049
Increase (decrease) in cash		(83)	27	64	110	180	278	413	598
Dividends		0	0	0	0	0	0	0	0
Cash, end of period		(22)	5	69	179	358	636	1,049	1,647
Increase (decrease) in cash		(83)	27	64	110	180	278	413	598
Dividends		0	0	0	0	0	0	0	0
Dividend withholding tax		0	0	0	0	0	0	0	0
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		(83)	27	64	110	180	278	413	598
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		(1)	0	0	1	1	1	2	2
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF – millions)	Ratio	35	49	94	158	245	364	524	737
Terminal value ($US – millions)	12	3	4	7	10	14	18	23	29
	IPO								
Total cash flow to shareholders ($US – millions)	Year								
Cash flow available to shareholders prior to IPO	5	(1)	0	0	1	1	0	0	0
Cash flow to shareholders from public offering		0	0	0	0	14	0	0	0
Total cashflow to shareholders		(1)	0	0	1	15	0	0	0
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	3	(1)	0	0	0	3	0	0	0
Net present value (HUF in millions)	351								

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Balatonfelvideki Erdo es F. Rt. – Forest Prod.

Operating Assumptions:	Year Ending	Projected Year Ending							
Estimated net sales	Dec–94	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Domestic sales:									
Real domestic sales growth rate		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF – millions)	1,126	1,126	1,126	1,137	1,160	1,183	1,207	1,231	1,256
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF – millions)	1,126	1,340	1,561	1,813	2,127	2,494	2,926	3,432	4,026
Foreign sales:									
Real growth of $US sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US – millions)	3	3	3	3	3	3	3	3	3
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US – millions)	3	3	3	3	3	4	4	4	4
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF – millions)	288	353	420	499	599	719	863	1,035	1,242
Real growth of DM sales		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM – millions)	13	13	13	13	14	14	14	14	15
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM – millions)	13	14	14	14	15	16	16	17	18
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF – millions)	863	1,035	1,243	1,491	1,806	2,188	2,651	3,211	3,890
Total nominal sales (HUF – millions)	2,276	2,728	3,224	3,803	4,532	5,401	6,439	7,678	9,158
Estimated cost of goods sold									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF – millions)	1,397	1,397	1,397	1,411	1,439	1,468	1,497	1,527	1,558
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF – millions)	1,397	1,662	1,937	2,249	2,638	3,095	3,630	4,258	4,995
Foreign purchases									
Real cost of $US goods & services ($US – millions)	2	2	2	2	2	2	2	2	2
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US – millions)	2	2	2	2	2	2	2	2	2
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF – millions)	151	185	221	262	315	377	453	544	652
Real cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM – millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF – millions)	0	0	0	0	0	0	0	0	0
Total nominal cost of goods & services (HUF – millions)	1,548	1,848	2,157	2,511	2,953	3,472	4,083	4,802	5,647

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		0.0%	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF – millions)	423	423	423	427	436	444	453	462	472
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF – millions)	423	503	586	681	799	937	1,099	1,289	1,512
Real capital expenditures ($US – millions)		1	1	1	1	1	1	1	1
US inflation factor		1.0325	1.0685	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US – millions)		1	1	1	1	1	1	1	1
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF – millions)		120	142	167	197	232	273	321	378
Tangible long-term assets, beg. of period (HUF – millions)		2,840	2,751	2,684	2,642	2,630	2,653	2,717	2,829
Nominal depreciation (HUF – millions)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)
Nominal capital expenditures (HUF – millions)		120	142	167	197	232	273	321	378
Tangible long-term assets, end of period	2,840	2,751	2,684	2,642	2,630	2,653	2,717	2,829	2,998
Net income before taxes paid out as dividends		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding taxes		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		60	60	60	60	60	60	60	60
Inventory Turns		2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Prepaid expenses as a % of cost of goods sold		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Payable Turns		24	24	24	24	24	24	24	24
Accruals as % of SG&A		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF – millions)	184	184	178	172	166	159	153	147	141
Amortization of principal – (years)	30	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
Ending principal balance		178	172	166	159	153	147	141	135
Local borrowing rate		23.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		52	45	43	41	40	38	37	35
Issuance of common equity (nominal – HUF millions)		0	0	0	0	0	0	0	0

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INCOME STATEMENT (HUF in millions)	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
SALES	2,276	2,728	3,224	3,803	4,532	5,401	6,439	7,678	9,158
(Cost of Goods Sold)	(1,548)	(1,848)	(2,157)	(2,511)	(2,953)	(3,472)	(4,083)	(4,802)	(5,647)
GROSS PROFIT	728	880	1,067	1,292	1,579	1,929	2,356	2,876	3,511
Gross Profit Margin	*32.0%*	*32.3%*	*33.1%*	*34.0%*	*34.8%*	*35.7%*	*36.6%*	*37.5%*	*38.3%*
(Selling, General, & Admin. Expense)	(423)	(503)	(586)	(681)	(799)	(937)	(1,099)	(1,289)	(1,512)
OPERATING INCOME (EBITDA)	305	377	481	611	780	992	1,257	1,587	1,998
(Depreciation & Amortization)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)
EBIT	96	168	272	402	571	783	1,048	1,378	1,789
Interest and other financial income	13	9	20	43	83	143	234	366	356
(Interest Expense)	(7)	(52)	(45)	(43)	(41)	(40)	(38)	(37)	(35)
EARNINGS BEFORE TAXES	102	126	247	402	612	886	1,243	1,708	2,310
Extraordinary gain/(loss)	(57)	0	0	0	0	0	0	0	0
(Taxes)	(8)	(23)	(45)	(72)	(110)	(159)	(224)	(307)	(416)
NET INCOME	37	103	203	329	502	727	1,019	1,400	1,894

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BALANCE SHEET (HUF in millions)

ASSETS	Year Ending Dec–94	Projected Year Ending Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
Intangible and Invested Financial Assets	64	64	64	64	64	64	64	64	64
Net Tangible Long–term Assets	2,840	2,751	2,684	2,642	2,630	2,653	2,717	2,829	2,998
Cash & Marketable Securities	40	100	210	404	697	1,140	1,787	2,710	4,002
Accounts Receivable	290	448	537	634	755	900	1,073	1,280	1,526
Inventories	700	924	1,079	1,256	1,476	1,736	2,042	2,401	2,824
Prepaid expenses	10	55	65	75	89	104	122	144	169
Total Current Assets	1,040	1,528	1,890	2,369	3,018	3,881	5,025	6,535	8,522
TOTAL ASSETS	3,944	4,342	4,638	5,075	5,712	6,598	7,806	9,428	11,583
EQUITY, RESERVES & LIABILITIES									
Common Stock	3,365	3,365	3,365	3,365	3,365	3,365	3,365	3,365	3,365
Retained Earnings:									
Beginning	21	58	161	364	693	1,195	1,922	2,941	4,342
Dividends	0	0	0	0	0	0	0	0	0
Current year earnings	37	103	203	329	502	727	1,019	1,400	1,894
Ending	58	161	364	693	1,195	1,922	2,941	4,342	6,236
Shareholders' Equity	3,423	3,526	3,729	4,058	4,560	5,287	6,306	7,707	9,601
Target Reserves	17	17	17	17	17	17	17	17	17
Long–term Credits and Liabilities	178	172	166	159	153	147	141	135	135
Trade credits	48	98	114	133	156	184	216	254	298
Other Accrued Liabilities	252	503	586	681	799	937	1,099	1,289	1,512
Current Portion: Long–term debt	6	6	6	6	6	6	6	6	0
Total Current Liabilities	306	607	707	820	961	1,127	1,321	1,549	1,811
Total Liabilities	484	779	872	980	1,115	1,274	1,462	1,684	1,946
Other	20	20	20	20	20	20	20	20	20
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	3,944	4,342	4,638	5,075	5,712	6,598	7,806	9,428	11,583
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)

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CASH FLOW STATEMENT (HUF – millions)

	Dec–94	Dec–95	Dec–96	Dec–97	Dec–98	Dec–99	Dec–2000	Dec–2001	Dec–2002
		Projected Year Ending							
Cash Flows from Operating Activities:									
Net Income		103	203	329	502	727	1,019	1,400	1,894
Depreciation & Amortization		209	209	209	209	209	209	209	209
Changes in Working Capital		(126)	(154)	(171)	(214)	(255)	(302)	(359)	(427)
Cash provided by operating activities		185	258	368	497	681	926	1,250	1,676
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(120)	(142)	(167)	(197)	(232)	(273)	(321)	(378)
Repayment of principal of Long–term Debt		(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
Issuance of Common Stock		0	0	0	0	0	0	0	0
Cash used in investing/investing activities		(126)	(148)	(174)	(203)	(238)	(279)	(327)	(384)
Increase (decrease) in cash		60	110	194	294	443	647	923	1,292
Cash, beginning of the period		40	100	210	404	697	1,140	1,787	2,710
Increase (decrease) in cash		60	110	194	294	443	647	923	1,292
Dividends		0	0	0	0	0	0	0	0
Cash, end of period		100	210	404	697	1,140	1,787	2,710	4,002
Increase (decrease) in cash		60	110	194	294	443	647	923	1,292
Dividends		0	0	0	0	0	0	0	0
Dividend withholding tax		0	0	0	0	0	0	0	0
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		60	110	194	294	443	647	923	1,292
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		1	1	1	2	2	3	4	4
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF – millions)	Ratio	103	203	329	502	727	1,019	1,400	1,894
Terminal value ($US – millions)	12	10	17	25	33	42	52	62	74
	IPO								
Total cash flow to shareholders ($US – millions)	Year								
Cash flow available to shareholders prior to IPO	5	1	1	1	2	2	0	0	0
Cash flow to shareholders from public offering		0	0	0	0	42	0	0	0
Total cashflow to shareholders		1	1	1	2	44	0	0	0
Discount rate	40.0%								
Net present value ($US in millions)	10	0	0	0	0	8	0	0	0
Net present value (HUF in millions)	1,100								

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MEMORANDUM

To: Dr. Kazar Peter, Director, Portfolio Management Directorate, SPA

From: James E. Shields, Stuart A. Smith III

Project: Impact II Technical Assistance Program
Sponsored by the U.S. Agency for International Development

Date: January 10, 1995

Subject: PROPOSED HUNGARIAN INVESTMENT FUND

We have reviewed the proposal presented by John Govett & Co., Ltd. for the formation and management of an investment privatization fund. When the proposal is considered in conjunction with the revised financial model and our knowledge of the portfolio companies, a number of significant issues emerge regarding the viability of this privatization method. Our views on specific points raised in the Govett proposal are presented in Section I. For your convenience, this section has been structured to correspond to the specific sections of the Govett proposal. In Section II, we provide a discussion of potential drawbacks for the Government of Hungary (GOH).

SECTION I

IPF Concept

In this section, Govett indicates that the IPF fund would be an exclusive portfolio of "large, high quality companies" that would attract investors. Govett goes on to state that "these companies would not be expected to require time consuming restructuring prior to their public flotation." Additionally, Govett suggests that all legislation is in place for this privatization concept.

Based on our experience in: (1) developing the financial model (2) reviewing the companies and (3) working with the GOH, we have the following observations regarding the proposed fund and its attractiveness to western investors:

- Poor Financial Condition: Many of the companies in the contemplated IPF portfolio are very deep in debt and/or exhibit consistent operating losses. Given the poor financial condition of the companies, it is highly unlikely that an investment fund comprised of these companies would be attractive to western investors.

- Poor Financial Information: The companies in the fund have not presented financial records in the format required by western accounting standards. Furthermore, western auditing standards have not been used in the

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preparation of the financial records. Consequently, investors will question the usefulness, validity, and reliability of any company provided information.

- Poor Management: The managers of the companies do not possess the necessary management skills sought by western investors. Given the present condition of the companies, western investors would expect to see definite changes in company management in exchange for their investments. If management cannot be changed, western investors will be discouraged from investing.

- Structural Issues within Hungary: Before investing in these companies, western investors must be assured that the GOH is committed to market reforms. Such reforms would include the elimination of government subsidies, adequate debt restructuring and the introduction of competitive pricing. Until acceptable market reform takes place, western investors will not find the companies attractive.

- Country Risk: When investing internationally, investors carefully review a country's political climate, business atmosphere and general economic conditions relative to their home country before committing their funds. If investors identify additional risk associated with these factors, they will require a higher rate of return. Given Hungary's relative economic condition and its uncertain commitment to privatization and market reforms, western investors will be extremely careful about investing in Hungary and will expect outstanding returns for that level of risk.

We believe that Govett may be underestimating the financial condition of the portfolio companies, the state of their financial records and the strength of their management. Additionally, as reflected in our comments on structural issues and country risk, we believe that Govett may be overly optimistic about the view that western investors will take of the GOH's commitment to privatization and market reform.

IPF Structure

Govett provides a basic schedule for the initial sale of IPF shares, the eventual listing of the shares, and a possible exit from the fund. Additionally, Govett states that the fund would be exempt from capital gains tax and have the ability to borrow -- two characteristics which should magnify investor returns.

In our review of the proposed fund structure, the following issues emerged:

- No Interim Cash Flows: Western investors expect investment returns in two forms: dividends and capital gains. Based on the analysis associated with the financial model, it seems unlikely that the subject companies will generate enough profit to pay dividends. Consequently, western investors will be forced to depend on capital gains for their investment return. The total dependence

on capital gains will probably be unpalatable for most investors.

- Luck of Liquidity: Initially, IPF shares will be sold through private placement and may therefore have limited marketability. As such, investors could have to wait for a public offering on a recognized exchange to enjoy any liquidity.

- No Exit Strategy: Western investors will not commit their capital unless the fund has a clear exit strategy. Once the fund has purchased the minority interests in the companies, it will be dependent on the GOH to take the companies public. Consequently, western investors will want to be virtually guaranteed that the companies in the fund will be privatized. Without that guarantee, investors will be reluctant to invest in the fund since it could be saddled with minority interests in illiquid investments.

While the Govett proposal gives cursory attention to the exit strategy and liquidity issues, western investors will want more definitive information on the GOH's privatization schedule. Additionally, in exchange for the limited liquidity under the proposed structure, investors will probably seek interim cash flows. Since this structure does not allow for interim cash flows, investors may find it unattractive.

IPF Portfolio

Govett states that the fund will hold 10% equity stakes in the portfolio companies and will allow investors to exit the fund if IPF shares are not listed on a recognized stock exchange within three years. Additionally, Govett discusses the transfer value of the company shares when they are brought into the fund.

Given our experience with the companies, we believe that the Govett proposal does not adequately address the following issues:

- Minority Stake: The proposal states that IPF holdings will be limited to 10% of the equity capital of the individual companies. Given the high level of risk and financial commitment involved with this project, western investors would expect a much greater degree of control over the operations of the companies.

- Transfer Value of Shares: Under the proposal, the IPF will be created by accepting portfolio company shares at their net book value or at an adjusted book value derived from a multiple of a company's net profit. Since virtually none of the companies are profitable, there would be no adjustment to book value for profitability. Indeed, our model suggests that the book values should be discounted approximately 80% before transfer to the fund. This discount means that western investors will offer the GOH much less than the current book value for these companies.

- Failure to Receive a Public Listing: In additional to limiting liquidity and exit possibilities, IPF's failure to receive a public listing presents significant additional risk. Should IPF fail to obtain a listing, it is doubtful that IPF could call all company shares and sell them as the proposal suggests. Similarly, investors could not put their shares back to the GOH because it would not have sufficient funds to repay the principal and accrued interest as suggested in the proposal. Clearly, either of these scenarios will not provide investors with an appropriate rate of return.

While Govett has acknowledged that the fund has inherent risks, it seems clear that those risks may have been underestimated. In particular, the proposed transfer value of the shares suggests that Govett is not fully aware of the poor state of the SPA companies and has therefore failed to recognize the high level of risk associated with this investment.

SECTION II

In addition to specific issues related to the Govett proposal, there are a number of general issues which the GOH should consider before proceeding with the proposed investment fund. Those issues include:

- Private Company vs. Public Company Multiples: When a public company is for sale, the management often examines the characteristics of similar public companies. One tool that managers use is multiple analysis. In multiple analysis, managers determine the relationship between a similar company's stock price and, for example, its net profit or operating earnings. Typically, the manager will review several comparable companies to estimate the average multiples that the market is granting in the particular industry. Once the applicable multiples are determined, the manager can multiply his net profit or operating earnings by the multiples to arrive at a range of values for his company. A private company would focus on the same multiples, but would have to discount them by 30%-75% due to the private company's relative size and lack of marketability.

  Under the proposed fund structure, the GOH would sell its ownership interests at substantially reduced multiples. By taking the companies public and then selling them, the GOH could probably realize much higher multiples.

- Cost to the Government: Since the cost of equity exceeds the cost of debt, the GOH will incur higher costs by raising money through the fund rather than raising debt. Additionally, if a private company sells only a minority interest, its cost of equity will be higher than if a controlling interest were offered. The cost of equity varies because investors receiving a minority interest demand higher rates of return to compensate them for their minority status. Consequently, the proposed structure of the fund means that the GOH will incur much higher costs than if they were to sell the companies outright.

- Ownership Limitations: Our model assumed that an investment fund would purchase 15% of the equity in each portfolio company. Under those circumstances, the GOH could have expected to raise approximately US $262 million. If MOL Rt. and Matav Rt. were removed from that portfolio, the expected return would fall to US $107 million. Since the proposed fund will only acquire 10% equity interests in the companies, the GOH should expect much less than US $262 million for all the companies. Furthermore, if MOL Rt. and Matav Rt. are excluded, the GOH will realize less than US $100 million. Consequently, the proposed fund will not raise an adequate amount of capital for the GOH.

- Proposed Fund Structure: Given the poor health of many of the companies contemplated for the portfolio, it is unlikely that sufficient funds could be raised by selling minority interests in each of the companies. Western investors will not invest in these companies unless they are given controlling interests which allow them to change management and to implement other necessary changes that can lead the companies to profitability. Clearly, minority interests will not give western investors sufficient control to manage their investments actively. Until the GOH sells controlling interests in these companies, western investors will not consider investing.

cc: Nicholas A. Morriss

FOR VINCE MORABITO'S EYES ONLY

About John Govett & Co., Ltd.

We have read the firm's 1993 annual report and believe the company to be in good shape. That view is also held by Dun & Bradstreet. As of January 6, the firm was listed in "good" financial condition. D&B goes on to state that, when compared to similar companies with comparable tangible net worth, the firm is rated as a "low risk" company. In fact, the only negative on the company is that it tends to pay its bills late. Nevertheless, there have been no collection claims filed within the last 36 months.

We found 24 different Govett funds listed in the Financial Times. Overall, the firm appears to have a good reputation. The Firm's Chairman is Arthur Irwin Trueger, a US citizen who resides in San Francisco, California. The remaining members of senior management are British citizens.

Hungarian Investment Fund Model

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EXECUTIVE SUMMARY
Hungarian Investment Fund Financial Model

The attached Hungarian Investment Fund Financial Model analyzes the feasibility of using an investment fund as a vehicle for privatizing state-owned enterprises and raising foreign currency. The primary objectives of the model is to estimate 1) the amount of foreign currency which the Government of Hungary ("GOH") could raise by selling shares in a fund with minority interest in a diversified group of state-owned enterprises and 2) the discount, relative to book value, which would result from the sale of these shares.

The following assumptions were used in the model:

- Companies identified by members of the AV Rt. and SPA as the most viable candidates were chosen to be included in the Fund. Of the 21 companies chosen to be included, a 15% equity interest of each was contributed to the Fund.

- Company projections were estimated using 1994 financial data (estimated) as the base year. (all financial data was provided by the AV Rt.).

- Each state-owned company included in the fund was considered a "going concern" and was assumed to continue to operate as a "going concern" in future. As such, each company was considered to have a higher "going concern value (or discounted cash flow value)" than "liquidation value".

- Because each company was considered a "going concern", the Discounted Cash Flow ("DCF") valuation method was used to estimate each company's value. Cash flow projections for each company for years 1995-2002 were estimated by making adjustments to expected 1994 financial information (provided by the AV Rt.) based on assumptions about sales growth, gross profit margin, capital expenditures, depreciation and other operating and financial assumptions.

- At the end of year five, it was assumed that each company included in the fund would offer shares to the public through an initial public offering ("IPO"). At the time of the IPO, the investment fund would divest of its interest in the companies with the proceeds from the divesture going to the fund's investors. The proceeds from the divestiture was included in the DCF valuation.

- To determine the company's discount, the DCF valuation for each company was compared to the company's equity book value. A weighted average discount was then calculated for the fund using each company's book value as the weight.

- Interest rate parity was used to estimate the devaluation of the forint for each period. Because there is a risk premium associated with investing in Hungary versus the US or Germany, this method results in a devaluation rate of the forint which is greater than the relative difference between Hungary's inflation rate and the inflation rate in either the U.S. or Germany. This tends to increase the relative value of export companies as compared to domestic companies and companies which import raw material.

Observations and conclusions:

- According to the analysis, the range of estimates of the amount of foreign currency which could be raised by a country fund with minority interest in state-owned companies would be between US$ 173 million and US$ 498 million, with the base case estimate of US$ 276 million. (See sensitivity analysis).

- The cost to the Hungarian Government of raising foreign currency through a country fund would be considerable. Under the base case scenario highlighted in the sensitivity analysis, the Government of Hungary would realize a net loss of over US$ 1 billion. Under all scenarios, the country fund resulted in a net loss for the Government of Hungary, with the losses ranging from US$ 1.1 billion to US$ 793 million.

- The weighted average discount to book value under the base case was 78.6%. The weighted average discount to book value under each of the scenarios ranged from 61.4% to 86.6%.

- Under the base case scenario, only two companies could be sold for a profit (premium to book value). Proceeds attributed to these two companies, Richter Gedeon Rt. and Malev Rt., would result in only an estimated US$ 43.5 million and US$ 25.7 million.

- Three companies comprise 76.6% of the fund's total value or approximately US$ 212 of the US$ 279 million (base case scenario). Two of these three companies, Matav Rt. and MOL Rt., would be sold at a considerable discount to book value resulting in a net loss to the Government of Hungary of US$ 121 million and US$ 331, respectively.

- 12 of the 21 companies included in the analysis had a value of under $2 million in the base case scenario. Three of the companies had a negative value.

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Other matters which should be taken into consideration when reviewing the attached analysis include the following:

- The companies included in this investment fund analysis may not be the optimum company's which should be included in a fund to be marketed to western investors. To identify the optimum companies, research and analysis of the Av Rt. and SPA portfolio's will be required. In addition, the model assumes that the fund holds a 15% interest in each company. In reality, the percent interest which the fund could hold in each company may be varied to optimize the portfolio for western investors.

- Since significant legal, accounting, financial, and structural issues need to be resolved before an investment fund could be established, it is advisable that the GOH retain a reputable investment banker to assist the Government if it decides to proceed with the investment fund. The entire success and creditability of the fund may depend on retaining the appropriate investment bank to assist it in marketing the fund.

- Because the fund will be marketed to financial investors, the shares of the companies to be included in the fund will be sold at a greater discount to book value than if the GOH sold each of the company's shares individually to a strategic investor.

- The information used to conduct the analysis was based on simplified assumptions. Additional analysis is required with regard to each specific company to accurately value each enterprise and evaluate the merits of including the companies in an investment fund.

Macroeconomic Assumptions

		Projected Year Ending							
		1	2	3	4	5	6	7	8
	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Hungarian inflation rate	20.0%	18.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
US inflation rate	3.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
End of period exchange rate (HUF/$US)	107	125	142	161	183	208	237	269	306
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
$US interest rate	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
German inflation rate	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
End of period exchange rate (HUF/DM)	70	83	96	112	129	150	174	201	233
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
DM interest rate	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Country risk premium ($US interest rate)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Local investing rate	26.0%	23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Local borrowing rate	31.0%	28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Hungarian inflation factor	1.000	1.190	1.386	1.594	1.833	2.108	2.424	2.788	3.206
US inflation factor	1.000	1.032	1.069	1.106	1.145	1.185	1.226	1.269	1.314
German inflation factor	1.000	1.025	1.051	1.077	1.104	1.131	1.160	1.189	1.218
Net income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding taxes		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%

Analysis of Hungarian Investment Fund

Assumptions:

Discount rate used to determine the expected proceeds to be received from issuance of shares in the Hungary investment fund:

Estimated return of S&P 500 over 40 years	18%
Private company sub-debt/preferred stock	25%
Equity venture capital expected returns	30%-40%
Estimate of return required for Hungary Inv. Fund	40.0%

Other assumptions;

Estimated year of IPO	5
P/E Ratio	12
% Ownership in State Companies	15.0%
Discount for Private Company/minority	20.0%
Cost of Fund Admin. ($ millions)	1.5

Results:

All companies

Net funds raised	275
Weight average premium/(discount) to book value	*-78.6%*

Excluding MOL, Matav

Net funds raised	135
Weight average premium/(discount) to book value	*-86.7%*

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Equity Fund - Base Case Scenario

Ranked By Net Market Vaue

Company -Portfolio (1)	Total Net Present Value of Company (HUF mm)	Net Present Value of Equity Interest (HUF mm)	Net Present Value of Equity Interest ($ mm)	Book Value of Equity Interest (HUF mm)	Value as % of Total Portfolio	Market Value (Dis.) Premium to Book Value	Net Gain/ Loss) ($ mm)	Cumm. Net Proceeds From Fund ($ mm)	Cumm. Net Gain/ Loss) ($ mm)
Matav Rt. - Infrastructure (2)	116,060	13,927	130.2	26,944	47.1%	-48.3%	-121.7	130.2	-121.7
Richter Gedeon Rt. - Industry	38,749	4,650	43.5	4,048	15.7%	14.9%	5.6	173.6	-116.0
MOL Rt. - Energy	34,018	4,082	38.2	39,559	13.8%	-89.7%	-331.6	211.8	-447.6
Malev Rt. - Infrastructure (2)	22,935	2,752	25.7	2,393	9.3%	15.0%	3.4	237.5	-444.2
Antenna Hungaria Rt.. - Infrastructure	8,926	1,071	10.0	1,678	3.6%	-36.2%	-5.7	247.5	-449.9
Raba Rt. - Industry	7,922	951	8.9	2,748	3.2%	-65.4%	-16.8	256.4	-466.7
Biogal Rt. - Industry	6,819	818	7.6	930	2.8%	-12.0%	-1.0	264.0	-467.7
Borsodchem ig. - Industry	3,949	474	4.4	1,513	1.6%	-68.7%	-9.7	268.5	-477.5
MVM Rt. - Energy	2,086	250	2.3	45,738	0.8%	-99.5%	-425.1	270.8	-902.6
Penzjegynyomda Rt. - Trademark	1,571	189	1.8	691	0.6%	-72.7%	-4.7	272.6	-907.3
Babolna Rt. - Agriculture (3)	1,255	151	1.4	1,894	0.5%	-92.0%	-16.3	274.0	-923.6
Balatonfelvideki Erdo es F. Rt. - Forest Prod.	1,100	132	1.2	516	0.4%	-74.4%	-3.6	275.2	-927.2
Szikra Ladnyomda Rt. - Culture	1,041	125	1.2	500	0.4%	-75.0%	-3.5	276.4	-930.7
Kalocsakornyeki Agraripari Rt. - Trademark	899	108	1.0	154	0.4%	-29.8%	-0.4	277.4	-931.1
Hungarpharma Rt. - Pharmaceutical	472	57	0.5	1,503	0.2%	-96.2%	-13.5	277.9	-944.6
Vadex Rt. - Forest Products	351	42	0.4	165	0.1%	-74.4%	-1.1	278.3	-945.8
Tiszantuli Gazszolgaltato Rt. - Energy	345	41	0.4	3,771	0.1%	-98.9%	-34.9	278.7	-980.6
Zsolnay Porcelangyar Rt. - Trademark	165	20	0.2	109	0.1%	-81.8%	-0.8	278.9	-981.4
Eszakdunantuli Gazszolgaltato Rt. - Energy	(240)	(30)	(0.3)	1,232	-0.1%	-102.4%	-11.8	278.6	-993.2
Erdert Rt. - Forest Products	(572)	(69)	(0.6)	860	-0.2%	-108.0%	-8.7	278.0	-1001.9
Ikarus Rt. - Industry	(1,414)	(170)	(1.6)	1,230	-0.6%	-113.8%	-13.1	276.4	-1015.0
	246,433	29,572	276	138,176	100.0%	-78.6%			
	121,446	14,574	136	109,553		-86.7%			

(1) Estimated 1994 financial statements were used as the basis for developing projections, except where noted.
(2) Budgeted 1994 financial statements were used to develop projections
(3) Actual 1993 financial statements were used to develop projections
Note: The discount ed cash flow valuation method was used to estimate each company's value.

Sensitivity Analysis

			P/E Ratio 10			12			14		
			Market Value	Discount	Gain /(Loss)	Market Value	Discount	Gain /(Loss)	Market Value	Discount	Gain /(Loss)
Base Case			**253**	**-80.4%**	(1,038)	**276**	**-78.6%**	(1,015)	**300**	**-76.8%**	(991)
Sales Growth (% over base case)		0.0%	263	-79.7%	(1,028)	287	-77.7%	(1,004)	312	-75.8%	(979)
Discount Rate	30.0%										
Country Risk Premium	0.0%		410	-68.3%	(881)	454	-64.8%	(837)	498	-61.4%	(793)
	3.0%		320	-75.2%	(971)	354	-72.6%	(937)	387	-70.0%	(904)
	6.0%		259	-79.9%	(1,032)	288	-77.7%	(1,003)	318	-75.4%	(973)
Discount Rate	40.0%										
Country Risk Premium	0.0%		319	-75.3%	(972)	349	-72.9%	(942)	380	-70.6%	(911)
	3.0%		**253**	**-80.4%**	(1,038)	**276**	**-78.6%**	(1,015)	**300**	**-76.8%**	(991)
	6.0%		207	-83.9%	(1,084)	227	-82.4%	(1,064)	248	-80.8%	(1,043)
Discount Rate	50.0%										
Country Risk Premium	0.0%		258	-80.0%	(1,033)	279	-78.4%	(1,012)	301	-76.7%	(990)
	3.0%		208	-83.9%	(1,083)	225	-82.6%	(1,066)	241	-81.3%	(1,050)
	6.0%		173	-86.6%	(1,118)	187	-85.5%	(1,104)	201	-84.4%	(1,090)

Note:
Calculation to determine discount is -(Book Value - Market Value)/(Book Value).
Book value for 15 % ownership interest in all the companies included in the portfolio totals HUF 138,176,000,000 (US$ 1,291,364,490).

Matav Rt. - Infrastructure (2)

Operating Assumptions:	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		–	–	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF - millions)	214,290	214,290	214,290	216,433	220,762	225,177	229,680	234,274	238,959
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF - millions)	214,290	254,996	297,046	345,019	404,707	474,721	556,848	653,183	766,183
Foreign sales:									
Real growth of $US sales		–	–	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US - millions)	444	444	444	448	457	467	476	485	495
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US - millions)	444	458	474	496	524	553	584	616	650
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF - millions)	43,264	53,098	63,193	75,095	90,122	108,157	129,800	155,775	186,947
Real growth of DM sales		–	–	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM - millions)	–	–	–	–	–	–	–	–	–
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM - millions)	–	–	–	–	–	–	–	–	–
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF - millions)	–	–	–	–	–	–	–	–	–
Total nominal sales (HUF - millions)	257,554	308,094	360,239	420,114	494,829	582,878	686,648	808,957	953,130
Estimated cost of goods sold									
Weighted average real sales growth		–	–	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF - millions)	60,304	60,304	60,304	60,907	62,125	63,368	64,635	65,928	67,246
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF - millions)	60,304	71,759	83,593	97,093	113,890	133,593	156,704	183,814	215,614
Foreign purchases									
Real cost of $US goods & services ($US - millions)	1,209	1,209	1,209	1,221	1,245	1,270	1,296	1,322	1,348
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US - millions)	1,209	1,248	1,292	1,350	1,426	1,505	1,589	1,677	1,771
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF - millions)	117,797	144,573	172,058	204,464	245,380	294,484	353,413	424,135	509,010
Real cost of DM goods & services (DM - millions)	–	–	–	–	–	–	–	–	–
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM - millions)	–	–	–	–	–	–	–	–	–
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF - millions)	–	–	–	–	–	–	–	–	–
Total nominal cost of goods & services (HUF - millions)	178,101	216,332	255,650	301,557	359,270	428,076	510,117	607,949	724,624

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF - millions)	46,280	46,280	46,280	46,743	47,678	48,631	49,604	50,596	51,608
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF - millions)	46,280	55,071	64,153	74,513	87,404	102,525	120,262	141,067	165,472
Real capital expenditures ($US - millions)		100	100	100	100	100	100	100	100
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US - millions)		103	107	111	114	118	123	127	131
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF - millions)		11,960	14,233	16,747	19,704	23,183	27,277	32,093	37,760
Tangible long-term assets, beg. of period (HUF - millions)		222,800	204,771	189,015	175,773	165,487	158,681	155,969	158,074
Nominal depreciation (HUF - millions)	(29,989)	(29,989)	(29,989)	(29,989)	(29,989)	(29,989)	(29,989)	(29,989)	(29,989)
Nominal capital expenditures (HUF - millions)		11,960	14,233	16,747	19,704	23,183	27,277	32,093	37,760
Tangible long-term assets, end of period	222,800	204,771	189,015	175,773	165,487	158,681	155,969	158,074	165,845
Net income before taxes paid out as dividends		--	--	--	--	--	--	--	--
Net Income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding taxes		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		75	75	75	75	75	75	75	75
Inventory Turns		6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Prepaid expenses as a % of cost of goods sold		3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Payable Turns		15	15	15	15	15	15	15	15
Accruals as % of SG&A		50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF - millions)	27,900	27,900	26,970	26,040	25,110	24,180	23,250	22,320	21,390
Amortization of principal - (years)	(30)	(930)	(930)	(930)	(930)	(930)	(930)	(930)	(930)
Ending principal balance		26,970	26,040	25,110	24,180	23,250	22,320	21,390	20,460
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		7,819	6,759	6,522	6,284	6,047	5,810	5,573	5,336
Issuance of common equity (nominal - HUF millions)		--	--	--	--	--	--	--	--

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Matav Rt. - Infrastructure (2)

INCOME STATEMENT (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	257,554	308,094	360,239	420,114	494,829	582,878	686,648	808,957	953,130
(Cost of Goods Sold)	(178,101)	(216,332)	(255,650)	(301,557)	(359,270)	(428,076)	(510,117)	(607,949)	(724,624)
GROSS PROFIT	79,453	91,762	104,588	118,556	135,559	154,802	176,531	201,008	228,507
Gross Profit Margin	*30.8%*	*29.8%*	*29.0%*	*28.2%*	*27.4%*	*26.6%*	*25.7%*	*24.8%*	*24.0%*
(Selling, General, & Admin. Expense)	(46,280)	(55,071)	(64,153)	(74,513)	(87,404)	(102,525)	(120,262)	(141,067)	(165,472)
OPERATING INCOME (EBITDA)	33,173	36,691	40,435	44,043	48,155	52,277	56,269	59,941	63,035
(Depreciation & Amortization)	(29,989)	(29,989)	(29,989)	(29,989)	(29,989)	(29,989)	(29,989)	(29,989)	(29,989)
EBIT	3,184	6,702	10,446	14,054	18,166	22,288	26,280	29,952	33,046
Interest and other financial income	3,631	494	1,654	3,151	4,847	6,287	7,370	7,773	7,041
(Interest Expense)	(8,314)	(7,819)	(6,759)	(6,522)	(6,284)	(6,047)	(5,810)	(5,573)	(5,336)
EARNINGS BEFORE TAXES	(1,499)	(624)	5,342	10,684	16,729	22,527	27,839	32,152	34,751
Extraordinary gain/(loss)	(76)	--	--	--	--	--	--	--	--
(Taxes)	--	--	(962)	(1,923)	(3,011)	(4,055)	(5,011)	(5,787)	(6,255)
NET INCOME	(1,575)	(624)	4,381	8,761	13,718	18,472	22,828	26,364	28,496

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Matav Rt. - Infrastructure (2)

BALANCE SHEET (HUF in millions)	Year Ending	Projected Year Ending							
ASSETS	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Intangible and Invested Financial Assets	18,200	18,200	18,200	18,200	18,200	18,200	18,200	18,200	18,200
Net Tangible Long-term Assets	222,800	204,771	189,015	175,773	165,487	158,681	155,969	158,074	165,845
Cash & Marketable Securities	2,100	8,071	15,372	23,645	30,666	35,950	37,917	34,349	22,186
Accounts Receivable	51,200	63,307	75,050	87,524	103,089	121,433	143,052	168,533	198,569
Inventories	35,300	36,055	42,606	50,260	59,878	71,346	85,020	101,325	120,771
Prepaid expenses	5,200	7,572	8,948	10,554	12,574	14,983	17,854	21,278	25,362
Total Current Assets	93,800	115,005	141,978	171,983	206,208	243,712	283,842	325,484	366,887
TOTAL ASSETS	334,800	337,975	349,193	365,955	389,895	420,593	458,012	501,758	550,932
EQUITY, RESERVES & LIABILITIES									
Common Stock	260,300	260,300	260,300	260,300	260,300	260,300	260,300	260,300	260,300
Retained Earnings:									
Beginning	2,600	1,025	401	4,782	13,542	27,260	45,732	68,560	94,925
Dividends	--	--	--	--	--	--	--	--	--
Current year earnings	(1,575)	(624)	4,381	8,761	13,718	18,472	22,828	26,364	28,496
Ending	1,025	401	4,782	13,542	27,260	45,732	68,560	94,925	123,421
Shareholders' Equity	261,325	260,701	265,082	273,842	287,560	306,032	328,860	355,225	383,721
Target Reserves	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400
Long-term Credits and Liabilities	26,970	26,040	25,110	24,180	23,250	22,320	21,390	20,460	20,460
Trade credits	13,663	18,094	21,320	25,071	29,778	35,373	42,025	49,934	59,340
Other Accrued Liabilities	27,237	27,536	32,076	37,257	43,702	51,263	60,131	70,534	82,736
Current Portion: Long-term debt	930	930	930	930	930	930	930	930	--
Total Current Liabilities	41,830	46,559	54,327	63,258	74,410	87,566	103,086	121,398	142,076
Total Liabilities	68,800	72,599	79,437	87,438	97,660	109,886	124,476	141,858	162,536
Other	2,275	2,275	2,275	2,275	2,275	2,275	2,275	2,275	2,275
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	334,800	337,975	349,193	365,955	389,895	420,593	458,012	501,758	550,932
	--	--	--	--	--	--	0	--	--

Matav Rt. - Infrastructure (2)

CASH FLOW STATEMENT (HUF - millions)

		Projected Year Ending							
	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Cash Flows from Operating Activities:									
Net Income		(624)	4,381	8,761	13,718	18,472	22,828	26,364	28,496
Depreciation & Amortization		29,989	29,989	29,989	29,989	29,989	29,989	29,989	29,989
Changes in Working Capital		(10,505)	(11,904)	(12,800)	(16,052)	(19,064)	(22,643)	(26,899)	(31,958)
Cash provided by operating activities		18,860	22,465	25,949	27,655	29,397	30,174	29,455	26,527
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(11,960)	(14,233)	(16,747)	(19,704)	(23,183)	(27,277)	(32,093)	(37,760)
Repayment of principal of Long-term Debt		(930)	(930)	(930)	(930)	(930)	(930)	(930)	(930)
Issuance of Common Stock		--	--	--	--	--	--	--	--
Cash used in investing/investing activities		(12,890)	(15,163)	(17,677)	(20,634)	(24,113)	(28,207)	(33,023)	(38,690)
Increase (decrease) in cash		5,971	7,302	8,273	7,021	5,284	1,967	(3,569)	(12,163)
Cash, beginning of the period		2,100	8,071	15,372	23,645	30,666	35,950	37,917	34,349
Increase (decrease) in cash		5,971	7,302	8,273	7,021	5,284	1,967	(3,569)	(12,163)
Dividends		--	--	--	--	--	--	--	--
Cash, end of period		8,071	15,372	23,645	30,666	35,950	37,917	34,349	22,186
Increase (decrease) in cash		5,971	7,302	8,273	7,021	5,284	1,967	(3,569)	(12,163)
Dividends		--	--	--	--	--	--	--	--
Dividend withholding tax		--	--	--	--	--	--	--	--
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		5,971	7,302	8,273	7,021	5,284	1,967	(3,569)	(12,163)
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		52	55	55	41	27	9	(14)	(42)
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF - millions)	Ratio	(624)	4,381	8,761	13,718	18,472	22,828	26,364	28,496
Terminal value ($US - millions)	12	(60)	371	653	899	1,065	1,157	1,176	1,118
Total cash flow to shareholders ($US - millions)	IPO (Year)								
Cash flow available to shareholders prior to IPO	5	52	55	55	41	27	--	--	--
Cash flow to shareholders from public offering		--	--	--	--	1,065	--	--	--
Total cashflow to shareholders		52	55	55	41	1,092	--	--	--
Discount rate	40.0%								
Net present value ($US in millions)	***318***	37	28	20	11	203	--	--	--
Net present value (HUF in millions)	***34,018***								

Richter Gedeon Rt. - Industry

Operating Assumptions:	Year Ending	Projected Year Ending							
Estimated net sales	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Domestic sales:									
Real domestic sales growth rate		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF - millions)	97,536	97,536	97,536	98,511	100,482	102,491	104,541	106,632	108,765
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF - millions)	97,536	116,064	135,203	157,038	184,206	216,074	253,454	297,302	348,735
Foreign sales:									
Real growth of $US sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US - millions)	--	--	--	--	--	--	--	--	--
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF - millions)	--	--	--	--	--	--	--	--	--
Real growth of DM sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM - millions)	29	29	29	29	30	30	31	32	32
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM - millions)	29	30	30	31	33	34	36	38	39
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF - millions)	1,890	2,268	2,724	3,268	3,958	4,795	5,809	7,036	8,524
Total nominal sales (HUF - millions)	99,426	118,332	137,927	160,306	188,164	220,869	259,263	304,338	357,259
Estimated cost of goods sold									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF - millions)	48,096	48,096	48,096	48,577	49,548	50,539	51,550	52,581	53,633
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF - millions)	48,096	57,232	66,670	77,437	90,834	106,548	124,961	146,603	171,965
Foreign purchases									
Real cost of $US goods & services ($US - millions)	484	484	484	489	499	509	519	530	540
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US - millions)	484	500	518	541	571	603	637	672	710
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF - millions)	47,207	57,938	68,952	81,939	98,336	118,014	141,630	169,972	203,985
Real cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF - millions)	--	--	--	--	--	--	--	--	--
Total nominal cost of goods & services (HUF - millions)	95,303	115,170	135,622	159,376	189,170	224,562	266,611	316,574	375,950

Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF - millions)	1,280	1,280	1,280	1,293	1,319	1,345	1,372	1,399	1,427
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF - millions)	1,280	1,523	1,774	2,061	2,417	2,836	3,326	3,902	4,577
Real capital expenditures ($US - millions)		10	10	10	10	10	10	10	10
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US - millions)		10	11	11	11	12	12	13	13
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF - millions)		1,196	1,423	1,675	1,970	2,318	2,728	3,209	3,776
Tangible long-term assets, beg. of period (HUF - millions)		34,282	33,078	32,101	31,376	30,946	30,865	31,192	32,002
Nominal depreciation (HUF - millions)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)
Nominal capital expenditures (HUF - millions)		1,196	1,423	1,675	1,970	2,318	2,728	3,209	3,776
Tangible long-term assets, end of period	34,282	33,078	32,101	31,376	30,946	30,865	31,192	32,002	33,378
Net income before taxes paid out as dividends		--	--	--	--	--	--	--	--
Net income tax		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding tax		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		60	60	60	60	60	60	60	60
Inventory Turns		1000.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0	1000.0
Prepaid expenses as a % of cost of goods sold		0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Payable Turns		8	8	8	8	8	8	8	8
Accruals as % of SG&A		25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF - millions)	8,769	8,769	8,477	8,184	7,892	7,600	7,308	7,015	6,723
Amortization of principal - (years)	30	(292)	(292)	(292)	(292)	(292)	(292)	(292)	(292)
Ending principal balance		8,477	8,184	7,892	7,600	7,308	7,015	6,723	6,431
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		2,458	2,124	2,050	1,975	1,901	1,826	1,752	1,677
Issuance of common equity (nominal - HUF millions)		--	--	--	--	--	--	--	--

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Richter Gedeon Rt. - Industry

INCOME STATEMENT (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	99,426	118,332	137,927	160,306	188,164	220,869	259,263	304,338	357,259
(Cost of Goods Sold)	(95,303)	(115,170)	(135,622)	(159,376)	(189,170)	(224,562)	(266,611)	(316,574)	(375,950)
GROSS PROFIT	4,123	3,162	2,305	930	(1,005)	(3,693)	(7,348)	(12,236)	(18,691)
Gross Profit Margin	*4.1%*	*2.7%*	*1.7%*	*0.6%*	*-0.5%*	*-1.7%*	*-2.8%*	*-4.0%*	*-5.2%*
(Selling, General, & Admin. Expense)	(1,280)	(1,523)	(1,774)	(2,061)	(2,417)	(2,836)	(3,326)	(3,902)	(4,577)
OPERATING INCOME (EBITDA)	2,843	1,639	531	(1,131)	(3,423)	(6,529)	(10,674)	(16,138)	(23,268)
(Depreciation & Amortization)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)
EBIT	443	(761)	(1,869)	(3,531)	(5,823)	(8,929)	(13,074)	(18,538)	(25,668)
Interest and other financial income	5,200	940	1,756	1,242	290	(1,403)	(4,158)	(8,419)	(14,781)
(Interest Expense)	(4,600)	(2,458)	(2,124)	(2,050)	(1,975)	(1,901)	(1,826)	(1,752)	(1,677)
EARNINGS BEFORE TAXES	1,043	(2,279)	(2,237)	(4,339)	(7,508)	(12,233)	(19,058)	(28,708)	(42,126)
Extraordinary gain/(loss)	40	--	--	--	--	--	--	--	--
(Taxes)	--	--	--	--	--	--	--	--	--
NET INCOME	1,083	(2,279)	(2,237)	(4,339)	(7,508)	(12,233)	(19,058)	(28,708)	(42,126)

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Richter Gedeon Rt. - Industry

BALANCE SHEET (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
ASSETS									
Intangible and Invested Financial Assets	265,288	265,288	265,288	265,288	265,288	265,288	265,288	265,288	265,288
Net Tangible Long-term Assets	34,282	33,078	32,101	31,376	30,946	30,865	31,192	32,002	33,378
Cash & Marketable Securities	4,000	8,567	6,057	1,415	(6,845)	(20,283)	(41,067)	(72,103)	(117,250)
Accounts Receivable	29,717	19,452	22,988	26,718	31,361	36,811	43,210	50,723	59,543
Inventories	100	115	136	159	189	225	267	317	376
Prepaid expenses	250	288	339	398	473	561	667	791	940
Total Current Assets	34,067	28,421	29,519	28,690	25,177	17,315	3,077	(20,272)	(56,391)
TOTAL ASSETS	333,637	326,787	326,909	325,354	321,412	313,467	299,557	277,018	242,275
EQUITY, RESERVES & LIABILITIES									
Common Stock	302,218	302,218	302,218	302,218	302,218	302,218	302,218	302,218	302,218
Retained Earnings:									
Beginning	1,621	2,704	425	(1,812)	(6,151)	(13,659)	(25,892)	(44,950)	(73,658)
Dividends	--	--	--	--	--	--	--	--	--
Current year earnings	1,083	(2,279)	(2,237)	(4,339)	(7,508)	(12,233)	(19,058)	(28,708)	(42,126)
Ending	2,704	425	(1,812)	(6,151)	(13,659)	(25,892)	(44,950)	(73,658)	(115,784)
Shareholders' Equity	304,922	302,643	300,406	296,067	288,559	276,326	257,268	228,560	186,434
Target Reserves	--	--	--	--	--	--	--	--	--
Long-term Credits and Liabilities	8,477	8,184	7,892	7,600	7,308	7,015	6,723	6,431	6,431
Trade credits	12,681	14,587	17,175	20,180	23,948	28,425	33,742	40,059	47,566
Other Accrued Liabilities	6,565	381	444	515	604	709	832	975	1,144
Current Portion: Long-term debt	292	292	292	292	292	292	292	292	--
Total Current Liabilities	19,538	15,260	17,910	20,987	24,845	29,426	34,866	41,327	48,710
Total Liabilities	28,015	23,444	25,803	28,587	32,153	36,441	41,589	47,758	55,141
Other	700	700	700	700	700	700	700	700	700
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	333,637	326,787	326,909	325,354	321,412	313,467	299,557	277,018	242,275
	--	--	--	--	--	--	--	0	--

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Richter Gedeon Rt. - Industry

CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Cash Flows from Operating Activities:									
Net Income		(2,279)	(2,237)	(4,339)	(7,508)	(12,233)	(19,058)	(28,708)	(42,126)
Depreciation & Amortization		2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400
Changes in Working Capital		5,934	(957)	(736)	(889)	(994)	(1,106)	(1,226)	(1,353)
Cash provided by operating activities		6,055	(794)	(2,675)	(5,997)	(10,827)	(17,764)	(27,534)	(41,079)
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(1,196)	(1,423)	(1,675)	(1,970)	(2,318)	(2,728)	(3,209)	(3,776)
Repayment of principal of Long-term Debt		(292)	(292)	(292)	(292)	(292)	(292)	(292)	(292)
Issuance of Common Stock		--	--	--	--	--	--	--	--
Cash used in investing/investing activities		(1,488)	(1,716)	(1,967)	(2,263)	(2,611)	(3,020)	(3,502)	(4,068)
Increase (decrease) in cash		4,567	(2,510)	(4,642)	(8,260)	(13,437)	(20,784)	(31,036)	(45,147)
Cash, beginning of the period		4,000	8,567	6,057	1,415	(6,845)	(20,283)	(41,067)	(72,103)
Increase (decrease) in cash		4,567	(2,510)	(4,642)	(8,260)	(13,437)	(20,784)	(31,036)	(45,147)
Dividends		--	--	--	--	--	--	--	--
Cash, end of period		8,567	6,057	1,415	(6,845)	(20,283)	(41,067)	(72,103)	(117,250)
Increase (decrease) in cash		4,567	(2,510)	(4,642)	(8,260)	(13,437)	(20,784)	(31,036)	(45,147)
Dividends		--	--	--	--	--	--	--	--
Dividend withholding tax		--	--	--	--	--	--	--	--
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		4,567	(2,510)	(4,642)	(8,260)	(13,437)	(20,784)	(31,036)	(45,147)
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		39	(19)	(31)	(48)	(69)	(93)	(123)	(157)
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF - millions)	Ratio	(2,279)	(2,237)	(4,339)	(7,508)	(12,233)	(19,058)	(28,708)	(42,126)
Terminal value ($US - millions)	12	(219)	(189)	(323)	(492)	(705)	(966)	(1,280)	(1,653)
Total cash flow to shareholders ($US - millions)	IPO (Year)								
Cash flow available to shareholders prior to IPO	5	39	(19)	(31)	(48)	(69)	--	--	--
Cash flow to shareholders from public offering		--	--	--	--	--	--	--	--
Total cashflow to shareholders		39	(19)	(31)	(48)	(69)	--	--	--
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	***19***	28	(10)	(11)	(12)	(13)	--	--	--
Net present value (HUF in millions)	***2,086***								

MOL Rt. - Energy

Operating Assumptions:	Year Ending Dec-93	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF - millions)	23,741	23,741	23,741	23,978	24,458	24,947	25,446	25,955	26,474
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF - millions)	23,741	28,251	32,909	38,224	44,837	52,594	61,693	72,366	84,885
Foreign sales:									
Real growth of $US sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US - millions)	--	--	--	--	--	--	--	--	--
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF - millions)	--	--	--	--	--	--	--	--	--
Real growth of DM sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM - millions)	--	--	--	--	--	--	--	--	--
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF - millions)	--	--	--	--	--	--	--	--	--
Total nominal sales (HUF - millions)	23,741	28,251	32,909	38,224	44,837	52,594	61,693	72,366	84,885
Estimated cost of goods sold									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF - millions)	17,674	17,674	17,674	17,851	18,208	18,572	18,943	19,322	19,709
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF - millions)	17,674	21,031	24,499	28,456	33,379	39,154	45,927	53,873	63,193
Foreign purchases									
Real cost of $US goods & services ($US - millions)	39	39	39	40	40	41	42	43	44
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US - millions)	39	41	42	44	46	49	52	55	58
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF - millions)	3,828	4,698	5,591	6,644	7,974	9,570	11,485	13,783	16,541
Real cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF - millions)	--	--	--	--	--	--	--	--	--
Total nominal cost of goods & services (HUF - millions)	21,502	25,729	30,091	35,101	41,353	48,723	57,412	67,656	79,734

Operating Assumptions (continued):	Year Ending Dec-93	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF - millions)	927	927	927	936	955	974	994	1,013	1,034
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF - millions)	927	1,103	1,285	1,493	1,751	2,054	2,409	2,826	3,314
Real capital expenditures ($US - millions)		10	10	10	10	10	10	10	10
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US - millions)		10	11	11	11	12	12	13	13
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF - millions)		1,196	1,423	1,675	1,970	2,318	2,728	3,209	3,776
Tangible long-term assets, beg. of period (HUF - millions)		24,300	23,793	23,513	23,485	23,752	24,368	25,392	26,899
Nominal depreciation (HUF - millions)	(1,703)	(1,703)	(1,703)	(1,703)	(1,703)	(1,703)	(1,703)	(1,703)	(1,703)
Nominal capital expenditures (HUF - millions)		1,196	1,423	1,675	1,970	2,318	2,728	3,209	3,776
Tangible long-term assets, end of period	24,300	23,793	23,513	23,485	23,752	24,368	25,392	26,899	28,972
Net income before taxes paid out as dividends		--	--	--	--	--	--	--	--
Net income tax		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		45	45	45	45	45	45	45	45
Inventory Turns		50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Prepaid expenses as a % of cost of goods sold		3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Payable Turns		12	12	12	12	12	12	12	12
Accruals as % of SG&A		200.0%	200.0%	200.0%	200.0%	200.0%	200.0%	200.0%	200.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF - millions)	213	213	206	199	192	185	177	170	163
Amortization of principal - (years)	30	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Ending principal balance		206	199	192	185	177	170	163	156
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		60	52	50	48	46	44	43	41
Issuance of common equity (nominal - HUF millions)		--	--	--	--	--	--	--	--

MOL Rt. - Energy

INCOME STATEMENT (HUF in millions)	Year Ending Dec-93	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	23,741	28,251	32,909	38,224	44,837	52,594	61,693	72,366	84,885
(Cost of Goods Sold)	(21,502)	(25,729)	(30,091)	(35,101)	(41,353)	(48,723)	(57,412)	(67,656)	(79,734)
GROSS PROFIT	2,239	2,521	2,819	3,124	3,484	3,871	4,281	4,710	5,151
Gross Profit Margin	*9.4%*	*8.9%*	*8.6%*	*8.2%*	*7.8%*	*7.4%*	*6.9%*	*6.5%*	*6.1%*
(Selling, General & Admin. Expense)	(927)	(1,103)	(1,285)	(1,493)	(1,751)	(2,054)	(2,409)	(2,826)	(3,314)
OPERATING INCOME (EBITDA)	1,312	1,418	1,534	1,631	1,733	1,817	1,872	1,884	1,837
(Depreciation & Amortization)	(1,703)	(1,703)	(1,703)	(1,703)	(1,703)	(1,703)	(1,703)	(1,703)	(1,703)
EBIT	(391)	(285)	(169)	(12)	30	114	169	181	134
Interest and other financial income	69	16	109	116	100	35	(102)	(340)	(728)
(Interest Expense)	(99)	(60)	(52)	(50)	(48)	(46)	(44)	(43)	(41)
EARNINGS BEFORE TAXES	(421)	(328)	(112)	(6)	83	103	23	(202)	(635)
Extraordinary gain/(loss)	(61)	--	--	--	--	--	--	--	--
(Taxes)	--	--	--	--	(15)	(19)	(4)	--	--
NET INCOME	(482)	(328)	(112)	(6)	68	84	19	(202)	(635)

MOL Rt. - Energy

BALANCE SHEET (HUF in millions)

ASSETS	Year Ending Dec-93	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Intangible and Invested Financial Assets	285	285	285	285	285	285	285	285	285
Net Tangible Long-term Assets	24,300	23,793	23,513	23,485	23,752	24,368	25,392	26,899	28,972
Cash & Marketable Securities	68	532	564	489	171	(497)	(1,661)	(3,551)	(6,471)
Accounts Receivable	3,180	3,483	4,114	4,778	5,605	6,574	7,712	9,046	10,611
Inventories	307	515	602	702	827	974	1,148	1,353	1,595
Prepaid expenses	1,185	901	1,053	1,229	1,447	1,705	2,009	2,368	2,791
Total Current Assets	4,740	5,430	6,333	7,198	8,050	8,757	9,209	9,215	8,525
TOTAL ASSETS	29,325	29,508	30,131	30,968	32,088	33,410	34,886	36,399	37,782
EQUITY, RESERVES & LIABILITIES									
Common Stock	25,321	25,321	25,321	25,321	25,321	25,321	25,321	25,321	25,321
Retained Earnings:									
Beginning	154	(328)	(656)	(768)	(774)	(706)	(622)	(603)	(805)
Dividends	--	--	--	--	--	--	--	--	--
Current year earnings	(482)	(328)	(112)	(6)	68	84	19	(202)	(635)
Ending	(328)	(656)	(768)	(774)	(706)	(622)	(603)	(805)	(1,440)
Shareholders' Equity	24,993	24,665	24,553	24,547	24,615	24,699	24,718	24,516	23,881
Target Reserves	150	150	150	150	150	150	150	150	150
Long-term Credits and Liabilities	206	199	192	185	177	170	163	156	156
Trade credits	1,625	2,236	2,615	3,049	3,592	4,231	4,985	5,873	6,921
Other Accrued Liabilities	2,299	2,206	2,570	2,985	3,501	4,107	4,818	5,651	6,629
Current Portion: Long-term debt	7	7	7	7	7	7	7	7	--
Total Current Liabilities	3,931	4,449	5,192	6,042	7,101	8,346	9,810	11,532	13,550
Total Liabilities	4,137	4,648	5,383	6,226	7,278	8,516	9,973	11,688	13,706
Other	45	45	45	45	45	45	45	45	45
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	29,325	29,508	30,131	30,968	32,088	33,410	34,886	36,399	37,782
	--	0	--	--	0	--	--	--	--

MOL Rt. - Energy

CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec-93	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Cash Flows from Operating Activities:									
Net Income		(328)	(112)	(6)	68	84	19	(202)	(635)
Depreciation & Amortization		1,703	1,703	1,703	1,703	1,703	1,703	1,703	1,703
Changes in Working Capital		292	(128)	(90)	(112)	(130)	(151)	(176)	(204)
Cash provided by operating activities		1,667	1,463	1,607	1,659	1,658	1,571	1,326	864
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(1,196)	(1,423)	(1,675)	(1,970)	(2,318)	(2,728)	(3,209)	(3,776)
Repayment of principal of Long-term Debt		(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Issuance of Common Stock		--	--	--	--	--	--	--	--
Cash used in investing/investing activities		(1,203)	(1,430)	(1,682)	(1,977)	(2,325)	(2,735)	(3,216)	(3,783)
Increase (decrease) in cash		464	32	(75)	(318)	(668)	(1,164)	(1,891)	(2,919)
Cash, beginning of the period		68	532	564	489	171	(497)	(1,661)	(3,551)
Increase (decrease) in cash		464	32	(75)	(318)	(668)	(1,164)	(1,891)	(2,919)
Dividends		--	--	--	--	--	--	--	--
Cash, end of period		532	564	489	171	(497)	(1,661)	(3,551)	(6,471)
Increase (decrease) in cash		464	32	(75)	(318)	(668)	(1,164)	(1,891)	(2,919)
Dividends		--	--	--	--	--	--	--	--
Dividend withholding tax		--	--	--	--	--	--	--	--
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		464	32	(75)	(318)	(668)	(1,164)	(1,891)	(2,919)
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		4	0	(0)	(2)	(3)	(5)	(7)	(10)
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF - millions)	Ratio	(328)	(112)	(6)	68	84	19	(202)	(635)
Terminal value ($US - millions)	12	(32)	(9)	(0)	4	5	1	(9)	(25)
Total cash flow to shareholders ($US - millions)	IPO (Year)								
Cash flow available to shareholders prior to IPO	5	4	0	(0)	(2)	(3)	--	--	--
Cash flow to shareholders from public offering		--	--	--	--	5	--	--	--
Total cashflow to shareholders		4	0	(0)	(2)	1	--	--	--
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	***3***	3	0	(0)	(0)	0	--	--	--
Net present value (HUF in millions)	***345***								

Malev Rt. - Infrastructure (2)

Operating Assumptions:	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF - millions)	6,574	6,574	6,574	6,640	6,773	6,908	7,046	7,187	7,331
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF - millions)	6,574	7,823	9,113	10,585	12,416	14,564	17,083	20,038	23,505
Foreign sales:									
Real growth of $US sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US - millions)	--	--	--	--	--	--	--	--	--
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF - millions)	--	--	--	--	--	--	--	--	--
Real growth of DM sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM - millions)	--	--	--	--	--	--	--	--	--
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF - millions)	--	--	--	--	--	--	--	--	--
Total nominal sales (HUF - millions)	6,574	7,823	9,113	10,585	12,416	14,564	17,083	20,038	23,505
Estimated cost of goods sold									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF - millions)	354	354	354	358	365	372	379	387	395
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF - millions)	354	421	491	570	669	784	920	1,079	1,266
Foreign purchases									
Real cost of $US goods & services ($US - millions)	58	58	58	58	60	61	62	63	65
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US - millions)	58	60	62	65	68	72	76	80	85
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF - millions)	5,640	6,922	8,238	9,790	11,749	14,100	16,921	20,307	24,371
Real cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF - millions)	--	--	--	--	--	--	--	--	--
Total nominal cost of goods & services (HUF - millions)	5,994	7,343	8,729	10,360	12,417	14,884	17,841	21,386	25,637

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF - millions)	131	131	131	132	135	138	140	143	146
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF - millions)	131	156	182	211	247	290	340	399	468
Real capital expenditures ($US - millions)		2	2	2	2	2	2	2	2
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US - millions)		2	2	2	2	2	2	3	3
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF - millions)		239	285	335	394	464	546	642	755
Tangible long-term assets, beg. of period (HUF - millions)		7,810	7,474	7,184	6,944	6,763	6,652	6,622	6,689
Nominal depreciation (HUF - millions)	(575)	(575)	(575)	(575)	(575)	(575)	(575)	(575)	(575)
Nominal capital expenditures (HUF - millions)		239	285	335	394	464	546	642	755
Tangible long-term assets, end of period	7,810	7,474	7,184	6,944	6,763	6,652	6,622	6,689	6,869
Net income before taxes paid out as dividends		--	--	--	--	--	--	--	--
Net income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding tax		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		25	25	25	25	25	25	25	25
Inventory Turns		120.0	120.0	120.0	120.0	120.0	120.0	120.0	120.0
Prepaid expenses as a % of cost of goods sold		2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Payable Turns		18	18	18	18	18	18	18	18
Accruals as % of SG&A		80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF - millions)	106	106	102	99	95	92	88	85	81
Amortization of principal - (years)	30	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Ending principal balance		102	99	95	92	88	85	81	78
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		30	26	25	24	23	22	21	20
Issuance of common equity (nominal - HUF millions)		--	--	--	--	--	--	--	--

Malev Rt. - Infrastructure (2)

INCOME STATEMENT (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	6,574	7,823	9,113	10,585	12,416	14,564	17,083	20,038	23,505
(Cost of Goods Sold)	(5,994)	(7,343)	(8,729)	(10,360)	(12,417)	(14,884)	(17,841)	(21,386)	(25,637)
GROSS PROFIT	580	480	384	225	(1)	(320)	(758)	(1,348)	(2,132)
Gross Profit Margin	*8.8%*	*6.1%*	*4.2%*	*2.1%*	*-0.0%*	*-2.2%*	*-4.4%*	*-6.7%*	*-9.1%*
(Selling, General, & Admin. Expense)	(131)	(156)	(182)	(211)	(247)	(290)	(340)	(399)	(468)
OPERATING INCOME (EBITDA)	449	324	203	14	(249)	(610)	(1,098)	(1,747)	(2,600)
(Depreciation & Amortization)	(575)	(575)	(575)	(575)	(575)	(575)	(575)	(575)	(575)
EBIT	(126)	(251)	(372)	(561)	(824)	(1,185)	(1,673)	(2,322)	(3,175)
Interest and other financial income	15	15	41	19	(55)	(212)	(491)	(944)	(1,644)
(Interest Expense)	(27)	(30)	(26)	(25)	(24)	(23)	(22)	(21)	(20)
EARNINGS BEFORE TAXES	(138)	(266)	(357)	(567)	(903)	(1,421)	(2,186)	(3,287)	(4,840)
Extraordinary gain/(loss)	(31)	--	--	--	--	--	--	--	--
(Taxes)	--	--	--	--	--	--	--	--	--
NET INCOME	(169)	(266)	(357)	(567)	(903)	(1,421)	(2,186)	(3,287)	(4,840)

Malev Rt. - Infrastructure (2)

BALANCE SHEET (HUF in millions)

ASSETS	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Intangible and Invested Financial Assets	227	227	227	227	227	227	227	227	227
Net Tangible Long-term Assets	7,810	7,474	7,184	6,944	6,763	6,652	6,622	6,689	6,869
Cash & Marketable Securities	63	200	93	(270)	(1,036)	(2,394)	(4,606)	(7,022)	(13,111)
Accounts Receivable	513	536	633	735	862	1,011	1,186	1,392	1,632
Inventories	65	61	73	86	103	124	149	178	214
Prepaid expenses	128	147	175	207	248	298	357	428	513
Total Current Assets	769	944	973	759	178	(961)	(2,914)	(6,024)	(10,753)
TOTAL ASSETS	8,806	8,646	6,384	7,929	7,168	5,918	3,935	892	(3,656)
EQUITY, RESERVES & LIABILITIES									
Common Stock	8,369	8,369	8,369	8,369	8,369	8,369	8,369	8,369	8,369
Retained Earnings:									
Beginning	12	(157)	(423)	(780)	(1,347)	(2,250)	(3,671)	(5,857)	(9,144)
Dividends	--	--	--	--	--	--	--	--	--
Current year earnings	(169)	(266)	(357)	(567)	(903)	(1,421)	(2,186)	(3,287)	(4,840)
Ending	(157)	(423)	(780)	(1,347)	(2,250)	(3,671)	(5,857)	(9,144)	(13,984)
Shareholders' Equity	8,212	7,946	7,589	7,022	6,119	4,698	2,512	(775)	(5,615)
Target Reserves	--	--	--	--	--	--	--	--	--
Long-term Credits and Liabilities	102	99	95	92	88	85	81	78	78
Trade credits	339	417	495	587	704	843	1,010	1,210	1,450
Other Accrued Liabilities	93	125	145	169	198	232	272	319	375
Current Portion: Long-term debt	4	4	4	4	4	4	4	4	--
Total Current Liabilities	436	545	644	760	905	1,079	1,286	1,533	1,825
Total Liabilities	538	644	739	851	993	1,163	1,367	1,611	1,903
Other	56	56	56	56	56	56	56	56	56
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	8,806	8,646	8,384	7,929	7,168	5,918	3,935	892	(3,656)
	--	0	--	0	(0)	--	0	(0)	(0)

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Malev Rt. - Infrastructure (2)

CASH FLOW STATEMENT (HUF in millions)

	Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Cash Flows from Operating Activities:									
Net Income		(266)	(357)	(567)	(903)	(1,421)	(2,186)	(3,287)	(4,840)
Depreciation & Amortization		575	575	575	575	575	575	575	575
Changes in Working Capital		71	(37)	(33)	(40)	(45)	(52)	(58)	(66)
Cash provided by operating activities		380	181	(24)	(368)	(891)	(1,663)	(2,771)	(4,331)
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(239)	(285)	(335)	(394)	(464)	(546)	(642)	(755)
Repayment of principal of Long-term Debt		(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Issuance of Common Stock		--	--	--	--	--	--	--	--
Cash used in investing/investing activities		(243)	(288)	(338)	(398)	(467)	(549)	(645)	(759)
Increase (decrease) in cash		137	(108)	(363)	(766)	(1,358)	(2,212)	(3,416)	(5,089)
Cash, beginning of the period		63	200	93	(270)	(1,036)	(2,394)	(4,606)	(8,022)
Increase (decrease) in cash		137	(108)	(363)	(766)	(1,358)	(2,212)	(3,416)	(5,089)
Dividends		--	--	--	--	--	--	--	--
Cash, end of period		200	93	(270)	(1,036)	(2,394)	(4,606)	(8,022)	(13,111)
Increase (decrease) in cash		137	(108)	(363)	(766)	(1,358)	(2,212)	(3,416)	(5,089)
Dividends		--	--	--	--	--	--	--	--
Dividend withholding tax		--	--	--	--	--	--	--	--
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		137	(108)	(363)	(766)	(1,358)	(2,212)	(3,416)	(5,089)
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		1	(1)	(2)	(4)	(7)	(10)	(14)	(18)
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF - millions)	Ratio	(266)	(357)	(567)	(903)	(1,421)	(2,186)	(3,287)	(4,840)
Terminal value ($US - millions)	12	(26)	(30)	(42)	(59)	(82)	(111)	(147)	(190)
	IPO								
Total cash flow to shareholders ($US - millions)	(Year)								
Cash flow available to shareholders prior to IPO	5	1	(1)	(2)	(4)	(7)	--	--	--
Cash flow to shareholders from public offering		--	--	--	--	--	--	--	--
Total cashflow to shareholders		1	(1)	(2)	(4)	(7)	--	--	--
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	***(2)***	1	(0)	(1)	(1)	(1)	--	--	--
Net present value (HUF in millions)	***(246)***								

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Operating Assumptions:	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF - millions)	76,696	76,696	76,696	77,463	79,012	80,592	82,204	83,848	85,525
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF - millions)	76,696	91,265	106,315	123,485	144,848	169,906	199,300	233,779	274,223
Foreign sales:									
Real growth of $US sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US - millions)	--	--	--	--	--	--	--	--	--
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF - millions)	--	--	--	--	--	--	--	--	--
Real growth of DM sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM - millions)	117	117	117	118	120	123	125	128	130
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM - millions)	117	120	123	127	133	139	145	152	159
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF - millions)	7,637	9,165	11,008	13,204	15,995	19,376	23,472	28,433	34,443
Total nominal sales (HUF - millions)	84,333	100,430	117,323	136,689	160,843	189,283	222,772	262,212	308,666
Estimated cost of goods sold									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF - millions)	23,559	23,559	23,559	23,794	24,270	24,756	25,251	25,756	26,271
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF - millions)	23,559	28,034	32,657	37,931	44,493	52,190	61,219	71,810	84,233
Foreign purchases									
Real cost of $US goods & services ($US - millions)	--	--	--	--	--	--	--	--	--
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF - millions)	--	--	--	--	--	--	--	--	--
Real cost of DM goods & services (DM - millions)	59	59	59	60	61	62	63	65	66
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM - millions)	59	60	62	64	67	70	73	77	80
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF - millions)	3,860	4,632	5,564	6,674	8,084	9,793	11,863	14,370	17,408
Total nominal cost of goods & services (HUF - millions)	27,419	32,666	38,220	44,604	52,577	61,983	73,082	86,180	101,641

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF - millions)	32,461	32,461	32,461	32,786	33,442	34,110	34,793	35,489	36,198
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF - millions)	32,461	38,628	44,997	52,265	61,306	71,912	84,353	98,946	116,064
Real capital expenditures ($US - million		60	60	60	60	60	60	60	60
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US - millions)		62	64	66	69	71	74	76	79
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF - millions)		7,176	8,540	10,048	11,822	13,910	16,366	19,256	22,656
Tangible long-term assets, beg. of period (HUF - millions)		201,336	192,968	185,964	180,468	176,746	175,112	175,934	179,646
Nominal depreciation (HUF - millions)	(15,544)	(15,544)	(15,544)	(15,544)	(15,544)	(15,544)	(15,544)	(15,544)	(15,544)
Nominal capital expenditures (HUF - millions)		7,176	8,540	10,048	11,822	13,910	16,366	19,256	22,656
Tangible long-term assets, end of period	201,336	192,968	185,964	180,468	176,746	175,112	175,934	179,646	186,758
Net income before taxes paid out as dividends		--	--	--	--	--	--	--	--
Net Income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding taxes		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		60	60	60	60	60	60	60	60
Inventory Turns		7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Prepaid expenses as a % of cost of goods sold		15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Payable Turns		6	6	6	6	6	6	6	6
Accruals as % of SG&A		50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF - millions)	59,138	59,138	57,167	55,195	53,224	51,253	49,282	47,310	45,339
Amortization of principal - (years)	30	(1,971)	(1,971)	(1,971)	(1,971)	(1,971)	(1,971)	(1,971)	(1,971)
Ending principal balance		57,167	55,195	53,224	51,253	49,282	47,310	45,339	43,368
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		16,573	14,326	13,824	13,321	12,818	12,315	11,813	11,310
Issuance of common equity (nominal - HUF millions)		--	--	--	--	--	--	--	--

Antenna Hungaria Rt.. - Infrastructure

INCOME STATEMENT (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	84,333	100,430	117,323	136,689	160,843	189,283	222,772	262,212	308,666
(Cost of Goods Sold)	(27,419)	(32,666)	(38,220)	(44,604)	(52,577)	(61,983)	(73,082)	(86,180)	(101,641)
GROSS PROFIT	56,915	67,764	79,103	92,085	108,266	127,300	149,690	176,032	207,025
Gross Profit Margin	*67.5%*	*67.5%*	*67.4%*	*67.4%*	*67.3%*	*67.3%*	*67.2%*	*67.1%*	*67.1%*
(Selling, General, & Admin. Expense)	(32,461)	(38,628)	(44,997)	(52,265)	(61,306)	(71,912)	(84,353)	(98,946)	(116,064)
OPERATING INCOME (EBITDA)	24,453	29,136	34,105	39,820	46,960	55,387	65,337	77,086	90,961
(Depreciation & Amortization)	(15,544)	(15,544)	(15,544)	(15,544)	(15,544)	(15,544)	(15,544)	(15,544)	(15,544)
EBIT	8,909	13,592	18,561	24,276	31,416	39,843	49,793	61,542	75,417
Interest and other financial income	2,916	8,266	9,980	13,504	18,420	25,121	34,052	45,772	60,969
(Interest Expense)	(10,947)	(16,573)	(14,326)	(13,824)	(13,321)	(12,818)	(12,315)	(11,813)	(11,310)
EARNINGS BEFORE TAXES	879	5,285	14,215	23,956	36,515	52,146	71,529	95,501	125,076
Extraordinary gain/(loss)	88	--	--	--	--	--	--	--	--
(Taxes)	(174)	(951)	(2,559)	(4,312)	(6,573)	(9,386)	(12,875)	(17,190)	(22,514)
NET INCOME	793	4,333	11,656	19,644	29,942	42,760	58,654	78,311	102,562

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Antenna Hungaria Rt. - Infrastructure

BALANCE SHEET (HUF in millions)

	Year Ending	Projected Year Ending							
ASSETS	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Intangible and Invested Financial Assets	17,081	17,081	17,081	17,081	17,081	17,081	17,081	17,081	17,081
Net Tangible Long-term Assets	201,336	192,968	185,964	180,468	176,746	175,112	175,934	179,646	186,758
Cash & Marketable Securities	35,173	48,682	65,872	89,852	122,541	166,107	223,279	297,410	392,607
Accounts Receivable	14,830	16,509	19,554	22,782	26,807	31,547	37,129	43,702	51,444
Inventories	4,229	4,667	5,460	6,372	7,511	8,855	10,440	12,311	14,520
Prepaid expenses	5,635	4,900	5,733	6,691	7,887	9,297	10,962	12,927	15,246
Total Current Assets	59,867	74,757	96,619	12[illegible],696	164,745	215,806	281,811	366,350	473,818
TOTAL ASSETS	278,284	284,806	299,663	323,245	358,572	407,999	474,826	563,077	677,657
EQUITY, RESERVES & LIABILITIES									
Common Stock	143,592	143,592	143,592	143,592	143,592	143,592	143,592	143,592	143,592
Retained Earnings:									
Beginning	34,897	35,690	40,023	51,679	71,323	101,265	144,025	202,679	280,990
Dividends	--	--	--	--	--	--	--	--	--
Current year earnings	793	4,333	11,656	19,644	29,942	42,760	58,654	78,311	102,562
Ending	35,690	40,023	51,679	71,323	101,265	144,025	202,679	280,990	383,552
Shareholders' Equity	179,282	183,615	195,271	214,915	244,857	287,617	346,271	424,582	527,144
Target Reserves	347	347	347	347	347	347	347	347	347
Long-term Credits and Liabilities	57,167	55,195	53,224	51,253	49,282	47,310	45,339	43,368	43,368
Trade credits	9,340	11,882	13,870	16,145	18,981	22,316	26,239	30,854	36,284
Other Accrued Liabilities	17,696	19,314	22,499	26,132	30,65[illegible]	35,956	42,177	49,473	58,032
Current Portion: Long term debt	1,971	1,971	1,971	1,971	1,971	1,971	1,971	1,971	--
Total Current Liabilities	29,007	33,167	38,340	44,248	51,605	60,243	70,387	82,299	94,316
Total Liabilities	86,174	88,363	91,564	95,501	100,887	107,554	115,726	125,667	137,684
Other	12,481	12,481	12,481	12,481	12,481	12,481	12,481	12,481	12,481
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	278,284	284,806	299,663	323,245	358,572	407,999	474,825	563,077	677,656
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)

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CASH FLOW STATEMENT (HUF - millions)

		Projected Year Ending							
	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Cash Flows from Operating Activities:									
Net Income		4,333	11,656	19,644	29,942	42,760	58,654	78,311	102,562
Depreciation & Amortization		15,544	15,544	15,544	15,544	15,544	15,544	15,544	15,544
Changes in Working Capital		2,779	501	811	996	1,144	1,312	1,502	1,719
Cash provided by operating activities		22,656	27,701	36,000	46,482	59,447	75,510	95,357	119,825
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(7,176)	(8,540)	(10,048)	(11,822)	(13,910)	(16,366)	(19,256)	(22,656)
Repayment of principal of Long-term Debt		(1,971)	(1,971)	(1,971)	(1,971)	(1,971)	(1,971)	(1,971)	(1,971)
Issuance of Common Stock		--	--	--	--	--	--	--	--
Cash used in Investing/Investing activities		(9,147)	(10,511)	(12,019)	(13,794)	(15,881)	(18,337)	(21,227)	(24,627)
Increase (decrease) in cash		13,509	17,190	23,980	32,688	43,566	57,173	74,130	95,197
Cash, beginning of the period		35,173	48,682	65,872	89,852	122,541	166,107	223,279	297,410
Increase (decrease) in cash		13,509	17,190	23,980	32,688	43,566	57,173	74,130	95,197
Dividends		--	--	--	--	--	--	--	--
Cash, end of period		48,682	65,872	89,852	122,541	166,107	223,279	297,410	392,607
Increase (decrease) in cash		13,509	17,190	23,980	32,688	43,566	57,173	74,130	95,197
Dividends		--	--	--	--	--	--	--	--
Dividend withholding tax		-	--	--	--	--	--	--	--
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		13,509	17,190	23,980	32,688	43,566	57,173	74,130	95,197
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		117	129	158	190	223	257	293	331
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF - millions)	Ratio	4,333	11,656	19,644	29,942	42,760	58,654	78,311	102,562
Terminal value ($US - millions)	12	417	987	1,463	1,962	2,465	2,974	3,493	4,024
	IPO								
Total cash flow to shareholders ($US - millions)	Year								
Cash flow available to shareholders prior to IPO	5	117	129	158	190	223	--	--	--
Cash flow to shareholders from public offering		--	--	--	--	2,465	--	--	--
Total cashflow to shareholders		117	129	158	190	2,687	--	--	--
Discount rate	40.0%								
Net present value ($US in millions)	1,085	83	66	58	49	500	--	--	--
Net present value (HUF in millions)	116,060								

Raba Rt. - Industry

Operating Assumptions:	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF - millions)	2,893	2,893	2,893	2,922	2,981	3,040	3,101	3,163	3,226
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF - millions)	2,893	3,443	4,011	4,653	5,464	6,410	7,519	8,819	10,345
Foreign sales:									
Real growth of $US sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US - millions)	200	200	200	202	206	210	215	219	223
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US - millions)	200	207	214	224	236	249	263	278	293
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF - millions)	19,504	23,937	28,488	33,854	40,628	48,759	58,516	70,225	84,278
Real growth of DM sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM - millions)	199	199	199	201	205	209	213	217	222
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM - millions)	.99	204	209	216	226	236	247	258	270
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF - millions)	13,003	15,603	18,742	22,480	27,232	32,988	39,961	48,408	58,640
Total nominal sales (HUF - millions)	35,400	42,984	51,240	60,993	73,325	88,157	105,995	127,452	153,263
Estimated cost of goods sold									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF - millions)	16,407	16,407	16,407	16,571	16,902	17,240	17,585	17,937	18,295
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF - millions)	16,407	19,523	22,743	26,416	30,986	36,346	42,634	50,010	58,661
Foreign purchases									
Real cost of $US goods & services ($US - millions)	29	29	29	29	30	31	31	32	32
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US - millions)	29	30	31	32	34	36	38	40	43
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF - millions)	2,831	3,474	4,135	4,913	5,896	7,076	8,493	10,192	12,232
Real cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF - millions)	--	--	--	--	--	--	--	--	--
Total nominal cost of goods & services (HUF - millions)	19,237	22,997	26,877	31,329	36,882	43,422	51,126	60,202	70,893

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF - millions)	15,716	15,716	15,716	15,873	16,191	16,514	16,845	17,182	17,525
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF - millions)	15,716	18,701	21,785	25,304	29,681	34,816	40,839	47,904	56,192
Real capital expenditures ($US - millions)		5	5	5	5	5	5	5	5
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US - millions)		5	5	6	6	6	6	6	7
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF - millions)		598	712	837	985	1,159	1,364	1,605	1,888
Tangible long-term assets, beg. of period (HUF - millions)		5,983	5,738	5,607	5,602	5,745	6,061	6,582	7,344
Nominal depreciation (HUF - millions)	(843)	(843)	(843)	(843)	(843)	(843)	(843)	(843)	(843)
Nominal capital expenditures (HUF - millions)		598	712	837	985	1,159	1,364	1,605	1,888
Tangible long-term assets, end of period	5,983	5,738	5,607	5,602	5,745	6,061	6,582	7,344	8,390
Net income before taxes paid out as dividends		--	--	--	--	--	--	--	--
Net income tax		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding tax		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		60	60	60	60	60	60	60	60
Inventory Turns		6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Prepaid expenses as a % of cost of goods sold		1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Payable Turns		6	6	6	6	6	6	6	6
Accruals as % of SG&A		15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF - millions)	772	772	746	721	695	669	643	618	592
Amortization of principal - (years)	30	(26)	(26)	(26)	(26)	(26)	(26)	(26)	(26)
Ending principal balance		746	721	695	669	643	618	592	566
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		216	187	180	174	167	161	154	148
Issuance of common equity (nominal - HUF millions)		--	--	--	--	--	--	--	--

Raba Rt. - Industry

INCOME STATEMENT (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	35,400	42,984	51,240	60,993	73,325	88,157	105,995	127,452	153,263
(Cost of Goods Sold)	(19,237)	(22,997)	(26,877)	(31,329)	(36,882)	(43,422)	(51,126)	(60,202)	(70,893)
GROSS PROFIT	16,163	19,986	24,363	29,664	36,443	44,734	54,869	67,251	82,370
Gross Profit Margin	*45.7%*	*46.5%*	*47.5%*	*48.6%*	*49.7%*	*50.7%*	*51.8%*	*52.8%*	*53.7%*
(Selling, General, & Admin. Expense)	(15,716)	(18,701)	(21,785)	(25,304)	(29,681)	(34,816)	(40,839)	(47,904)	(56,192)
OPERATING INCOME (EBITDA)	447	1,285	2,578	4,360	6,762	9,918	14,030	19,347	26,179
(Depreciation & Amortization)	(843)	(843)	(843)	(843)	(843)	(843)	(843)	(843)	(843)
EBIT	(396)	442	1,735	3,517	5,919	9,075	13,187	18,504	25,336
Interest and other financial income	1,445	1,333	1,575	2,008	2,784	4,029	5,940	8,774	12,870
(Interest Expense)	(760)	(216)	(187)	(180)	(174)	(167)	(161)	(154)	(148)
EARNINGS BEFORE TAXES	289	1,558	3,124	5,345	8,529	12,937	18,966	27,124	38,058
Extraordinary gain/(loss)	(700)	--	--	--	--	--	--	--	--
(Taxes)	--	(281)	(562)	(962)	(1,535)	(2,329)	(3,414)	(4,882)	(6,850)
NET INCOME	(479)	1,278	2,561	4,383	6,994	10,608	15,552	22,241	31,208

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Raba Rt. - Industry

BALANCE SHEET (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
ASSETS									
Intangible and Invested Financial Assets	5,449	5,449	5,449	5,449	5,449	5,449	5,449	5,449	5,449
Net Tangible Long-term Assets	5,983	5,738	5,607	5,602	5,745	6,061	6,582	7,344	8,390
Cash & Marketable Securities	5,671	7,685	9,796	13,581	19,654	28,976	42,800	62,779	91,078
Accounts Receivable	6,722	7,066	8,540	10,165	12,221	14,693	17,666	21,242	25,544
Inventories	3,343	3,833	4,480	5,221	6,147	7,237	8,521	10,034	11,815
Prepaid expenses	381	345	403	470	553	651	767	903	1,063
Total Current Assets	16,117	18,929	23,219	29,438	38,575	51,557	69,754	94,958	129,500
TOTAL ASSETS	27,549	30,116	34,275	40,489	49,768	63,067	81,785	107,751	143,339
EQUITY, RESERVES & LIABILITIES									
Common Stock	14,784	14,784	14,784	14,784	14,784	14,784	14,784	14,784	14,784
Retained Earnings:									
Beginning	1,449	970	2,248	4,810	9,193	16,187	26,795	42,347	64,589
Dividends	--	--	--	--	--	--	--	--	--
Current year earnings	(479)	1,278	2,561	4,383	6,994	10,608	15,552	22,241	31,208
Ending	970	2,248	4,810	9,193	16,187	26,795	42,347	64,589	95,797
Shareholders' Equity	15,754	17,032	19,594	23,977	30,971	41,579	57,131	79,373	110,581
Target Reserves	199	199	199	199	199	199	199	199	199
Long-term Credits and Liabilities	746	721	695	669	643	618	592	566	566
Trade credits	5,686	6,950	8,110	9,439	11,094	13,040	15,328	18,018	21,181
Other Accrued Liabilities	2,754	2,805	3,268	3,796	4,452	5,222	6,126	7,186	8,429
Current Portion: Long-term debt	26	26	26	26	26	26	26	26	--
Total Current Liabilities	8,466	9,781	11,404	13,260	15,572	18,288	21,479	25,229	29,610
Total Liabilities	9,212	10,501	12,099	13,929	16,215	18,905	22,071	25,795	30,176
Other	2,384	2,384	2,384	2,384	2,384	2,384	2,384	2,384	2,384
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	27,549	30,117	34,275	40,489	49,769	63,067	81,786	107,751	143,339
	0	0	0	0	0	0	0	0	0

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Raba Rt. - Industry

CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Cash Flows from Operating Activities:									
Net Income		1,278	2,561	4,383	6,994	10,608	15,552	22,241	31,208
Depreciation & Amortization		843	843	843	843	843	843	843	843
Changes in Working Capital		517	(556)	(578)	(752)	(944)	(1,181)	(1,475)	(1,838)
Cash provided by operating activities		2,638	2,848	4,648	7,084	10,507	15,214	21,609	30,212
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(598)	(712)	(837)	(985)	(1,159)	(1,364)	(1,605)	(1,888)
Repayment of principal of Long-term Debt		(26)	(26)	(26)	(26)	(26)	(26)	(26)	(26)
Issuance of Common Stock		--	--	--	--	--	--	--	--
Cash used in Investing/Investing activities		(624)	(737)	(863)	(1,011)	(1,185)	(1,390)	(1,630)	(1,914)
Increase (decrease) in cash		2,014	2,111	3,785	6,073	9,322	13,824	19,979	28,299
Cash, beginning of the period		5,671	7,685	9,796	13,581	19,654	28,976	42,800	62,779
Increase (decrease) in cash		2,014	2,111	3,785	6,073	9,322	13,824	19,979	28,299
Dividends		--	--	--	--	--	--	--	--
Cash, end of period		7,685	9,796	13,581	19,654	28,976	42,800	62,779	91,078
Increase (decrease) in cash		2,014	2,111	3,785	6,073	9,322	13,824	19,979	28,299
Dividends		--	--	--	--	--	--	--	--
Dividend withholding tax		--	--	--	--	--	--	--	--
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		2,014	2,111	3,785	6,073	9,322	13,824	19,979	28,299
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		17	16	25	35	48	62	79	98
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF - millions)	Ratio	1,278	2,561	4,383	6,994	10,608	15,552	22,241	31,208
Terminal value ($US - millions)	12	123	217	326	458	611	789	992	1,224
	IPO								
Total cash flow to shareholders ($US - millions)	Year								
Cash flow available to shareholders prior to IPO	5	17	16	25	35	48	--	--	--
Cash flow to shareholders from public offering		--	--	--	--	611	--	--	--
Total cashflow to shareholders		17	16	25	35	659	--	--	--
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	214	12	8	9	9	123	--	--	--
Net present value (HUF in millions)	22,935								

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Biogal Rt. - Industry

Operating Assumptions:	Year Ending	Projected Year Ending							
Estimated net sales	Dec-93	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Domestic sales:									
Real domestic sales growth rate		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF - millions)	5,925	5,925	5,925	5,984	6,104	6,226	6,351	6,478	6,607
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF - millions)	5,925	7,051	8,213	9,540	11,190	13,126	15,397	18,060	21,185
Foreign sales:									
Real growth of $US sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US - millions)	1	1	1	1	1	1	1	1	1
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US - millions)	1	1	1	1	1	1	1	1	2
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF - millions)	100	123	146	174	208	250	300	360	432
Real growth of DM sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM - millions)	--	--	--	--	--	--	--	--	--
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF - millions)	--	--	--	--	--	--	--	--	--
Total nominal sales (HUF - millions)	6,025	7,173	8,359	9,713	11,398	13,376	15,697	18,420	21,617
Estimated cost of goods sold									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF - millions)	2,819	2,819	2,819	2,847	2,904	2,962	3,021	3,082	3,144
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF - millions)	2,819	3,354	3,908	4,539	5,324	6,245	7,325	8,593	10,079
Foreign purchases									
Real cost of $US goods & services ($US - millions)	2	2	2	2	2	2	2	2	2
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US - millions)	2	2	2	2	2	2	2	3	3
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF - millions)	176	216	257	305	367	440	528	634	761
Real cost of DM goods & services (DM - millions)	3	3	3	3	3	3	3	3	3
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM - millions)	3	3	3	3	3	3	3	3	4
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF - millions)	176	211	254	304	369	447	541	655	794
Total nominal cost of goods & services (HUF - millions)	3,171	3,782	4,418	5,149	6,059	7,131	8,394	9,882	11,633

Operating Assumptions (continued):	Year Ending Dec-93	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF - millions)	763	763	763	771	786	802	818	834	851
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF - millions)	763	908	1,058	1,228	1,441	1,690	1,983	2,326	2,728
Real capital expenditures ($US - millions)		4	4	4	4	4	4	4	4
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US - millions)		4	4	4	5	5	5	5	5
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF - millions)		478	569	670	788	927	1,091	1,284	1,510
Tangible long-term assets, beg. of period (HUF - millions)		12,460	12,004	11,640	11,376	11,230	11,223	11,380	11,730
Nominal depreciation (HUF - millions)	(934)	(934)	(934)	(934)	(934)	(934)	(934)	(934)	(934)
Nominal capital expenditures (HUF - millions)		478	569	670	788	927	1,091	1,284	1,510
Tangible long-term assets, end of period	12,460	12,004	11,640	11,376	11,230	11,223	11,380	11,730	12,306
Net income before taxes paid out as dividends		--	--	--	--	--	--	--	--
Net income tax		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		45	45	45	45	45	45	45	45
Inventory Turns		8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Prepaid expenses as a % of cost of goods sold		1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Payable Turns		8	8	8	8	8	8	8	8
Accruals as % of SG&A		200.0%	200.0%	200.0%	200.0%	200.0%	200.0%	200.0%	200.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF - millions)	1,605	1,605	1,552	1,498	1,445	1,391	1,338	1,284	1,231
Amortization of principal - (years)	30	(54)	(54)	(54)	(54)	(54)	(54)	(54)	(54)
Ending principal balance		1,552	1,498	1,445	1,391	1,338	1,284	1,231	1,177
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		450	389	375	362	348	334	321	307
Issuance of common equity (nominal - HUF millions)		--	--	--	--	--	--	--	--

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Biogal Rt. - Industry

INCOME STATEMENT (HUF in millions)	Year Ending Dec-93	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	6,025	7,173	8,359	9,713	11,398	13,376	15,697	18,420	21,617
(Cost of Goods Sold)	(3,171)	(3,782)	(4,418)	(5,149)	(6,059)	(7,131)	(8,394)	(9,882)	(11,633)
GROSS PROFIT	2,854	3,392	3,941	4,565	5,339	6,244	7,302	8,539	9,983
Gross Profit Margin	*47.4%*	*47.3%*	*47.1%*	*47.0%*	*46.8%*	*46.7%*	*46.5%*	*46.4%*	*46.2%*
(Selling, General, & Admin. Expense)	(763)	(908)	(1,058)	(1,228)	(1,441)	(1,690)	(1,983)	(2,326)	(2,728)
OPERATING INCOME (EBITDA)	2,091	2,484	2,883	3,336	3,898	4,554	5,320	6,213	7,255
(Depreciation & Amortization)	(934)	(934)	(934)	(934)	(934)	(934)	(934)	(934)	(934)
EBIT	1,157	1,550	1,949	2,402	2,964	3,620	4,386	5,279	6,321
Interest and other financial income	20	119	363	781	1,333	2,061	3,002	4,209	5,742
(Interest Expense)	(600)	(450)	(389)	(375)	(362)	(348)	(334)	(321)	(307)
EARNINGS BEFORE TAXES	577	1,219	1,924	2,808	3,936	5,333	7,053	9,167	11,756
Extraordinary gain/(loss)	53	--	--	--	--	--	--	--	--
(Taxes)	(113)	(219)	(346)	(505)	(708)	(960)	(1,270)	(1,650)	(2,116)
NET INCOME	517	1,000	1,577	2,302	3,227	4,373	5,784	7,517	9,640

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Blogal Rt. - Industry

BALANCE SHEET (HUF in millions)	Year Ending	Projected Year Ending							
ASSETS	Dec-93	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Intangible and Invested Financial Assets	1,052	1,052	1,052	1,052	1,052	1,052	1,052	1,052	1,052
Net Tangible Long-term Assets	12,460	12,004	11,640	11,376	11,230	11,223	11,380	11,730	12,306
Cash & Marketable Securities	508	1,772	3,809	6,505	10,052	14,644	20,530	28,009	37,449
Accounts Receivable	775	884	1,045	1,214	1,425	1,672	1,962	2,303	2,702
Inventories	396	473	552	644	757	891	1,049	1,235	1,454
Prepaid expenses	41	57	66	77	91	107	126	148	175
Total Current Assets	1,720	3,186	5,472	8,439	12,325	17,314	23,667	31,695	41,779
TOTAL ASSETS	15,232	16,242	18,164	20,867	24,606	29,590	36,099	44,477	55,138
EQUITY, RESERVES & LIABILITIES									
Common Stock	10,289	10,289	10,289	10,289	10,289	10,289	10,289	10,289	10,289
Retained Earnings:									
Beginning	382	899	1,898	3,476	5,778	9,006	13,378	19,162	26,679
Dividends	--	--	--	--	--	--	--	--	--
Current year earnings	517	1,000	1,577	2,302	3,227	4,373	5,784	7,517	9,640
Ending	899	1,898	3,476	5,778	9,006	13,378	19,162	26,679	36,319
Shareholders' Equity	11,188	12,187	13,765	16,067	19,295	23,667	29,451	36,968	46,608
Target Reserves	1	1	1	1	1	1	1	1	1
Long-term Credits and Liabilities	1,552	1,498	1,445	1,391	1,338	1,284	1,231	1,177	1,177
Trade credits	454	586	685	797	938	1,103	1,297	1,526	1,795
Other Accrued Liabilities	1,884	1,816	2,115	2,457	2,882	3,381	3,965	4,651	5,456
Current Portion: Long-term debt	54	54	54	54	54	54	54	54	--
Total Current Liabilities	2,392	2,456	2,853	3,308	3,873	4,537	5,316	6,231	7,251
Total Liabilities	3,943	3,954	4,298	4,699	5,211	5,821	6,547	7,408	8,428
Other	100	100	100	100	100	100	100	100	100
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	15,232	16,242	18,164	20,867	24,606	29,589	36,099	44,477	55,137
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)

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Blogal Rt. - Industry

CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec-93	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Cash Flows from Operating Activities:									
Net Income		1,000	1,577	2,302	3,227	4,373	5,784	7,517	9,640
Depreciation & Amortization		934	934	934	934	934	934	934	934
Changes in Working Capital		(138)	148	183	227	266	312	366	429
Cash provided by operating activities		1,796	2,659	3,419	4,369	5,573	7,030	8,817	11,003
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(478)	(569)	(670)	(788)	(927)	(1,091)	(1,284)	(1,510)
Repayment of principal of Long-term Debt		(54)	(54)	(54)	(54)	(54)	(54)	(54)	(54)
Issuance of Common Stock		--	--	--	--	--	--	--	--
Cash used in Investing/Investing activities		(532)	(623)	(723)	(842)	(981)	(1,145)	(1,337)	(1,564)
Increase (decrease) in cash		1,264	2,037	2,696	3,547	4,592	5,886	7,480	9,439
Cash, beginning of the period		508	1,772	3,809	6,505	10,052	14,644	20,530	28,009
Increase (decrease) in cash		1,264	2,037	2,696	3,547	4,592	5,886	7,480	9,439
Dividends		--	--	--	--	--	--	--	--
Cash, end of period		1,772	3,809	6,505	10,052	14,644	20,530	28,009	37,449
Increase (decrease) in cash		1,264	2,037	2,696	3,547	4,592	5,886	7,480	9,439
Dividends		--	--	--	--	--	--	--	--
Dividend withholding tax		--	--	--	--	--	--	--	--
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		1,264	2,037	2,696	3,547	4,592	5,886	7,480	9,439
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		11	15	18	21	23	26	30	33
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF - millions)	Ratio	1,000	1,577	2,302	3,227	4,373	5,784	7,517	9,640
Terminal value ($US - millions)	12	96	134	171	211	252	293	335	378
Total cash flow to shareholders ($US - millions)	IPO Year								
Cash flow available to shareholders prior to IPO	5	11	15	18	21	23	--	--	--
Cash flow to shareholders from public offering		--	--	--	--	252	--	--	--
Total cashflow to shareholders		11	15	18	21	276	--	--	--
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	83	8	8	6	5	51	--	--	--
Net present value (HUF in millions)	8,926								

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Borsodchem Ig. - Industry

Operating Assumptions:	Year Ending	Projected Year Ending							
Estimated net sales	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Domestic sales:									
Real domestic sales growth rate		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF - millions)	8,321	8,321	8,321	8,404	8,572	8,744	8,919	9,097	9,279
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF - millions)	8,321	9,902	11,534	13,397	15,715	18,434	21,623	25,363	29,751
Foreign sales:									
Real growth of $US sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US - millions)	148	148	148	149	152	155	158	162	165
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US - millions)	148	153	158	165	174	184	194	205	216
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF - millions)	14,396	17,668	21,027	24,988	29,988	35,989	43,191	51,834	62,206
Real growth of DM sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM - millions)	--	--	--	--	--	--	--	--	--
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF - millions)	--	--	--	--	--	--	--	--	--
Total nominal sales (HUF - millions)	22,717	27,570	32,562	38,385	45,703	54,423	64,813	77,197	91,958
Estimated cost of goods sold									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF - millions)	8,810	8,810	8,810	8,898	9,076	9,258	9,443	9,632	9,824
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF - millions)	8,810	10,484	12,212	14,185	16,639	19,517	22,893	26,854	31,500
Foreign purchases									
Real cost of $US goods & services ($US - millions)	14	14	14	14	14	14	15	15	15
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US - millions)	14	14	15	15	16	17	18	19	20
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF - millions)	1,330	1,632	1,943	2,309	2,770	3,325	3,990	4,789	5,747
Real cost of DM goods & services (DM - millions)	41	41	41	41	42	43	44	44	45
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM - millions)	41	42	43	44	46	48	51	53	55
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF - millions)	2,660	3,192	3,834	4,599	5,571	6,749	8,175	9,903	11,996
Total nominal cost of goods & services (HUF - millions)	12,800	15,308	17,989	21,092	24,980	29,590	35,059	41,546	49,243

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF - millions)	4,171	4,171	4,171	4,213	4,297	4,383	4,471	4,560	4,651
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF - millions)	4,171	4,963	5,782	6,716	7,877	9,240	10,839	12,714	14,913
Real capital expenditures ($US - millions)		7	7	7	7	7	7	7	7
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US - millions)		7	7	8	8	8	9	9	9
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF - millions)		837	996	1,172	1,379	1,623	1,909	2,247	2,643
Tangible long-term assets, beg. of period (HUF - millions)		16,523	16,135	15,907	15,854	16,008	16,406	17,090	18,112
Nominal depreciation (HUF - millions)	(1,225)	(1,225)	(1,225)	(1,225)	(1,225)	(1,225)	(1,225)	(1,225)	(1,225)
Nominal capital expenditures (HUF - millions)		837	996	1,172	1,379	1,623	1,909	2,247	2,643
Tangible long-term assets, end of period	16,523	16,135	15,907	15,854	16,008	16,406	17,090	18,112	19,530
Net income before taxes paid out as dividends		--	--	--	--	--	--	--	--
Net income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding tax		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		75	75	75	75	75	75	75	75
Inventory Turns		3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Prepaid expenses as a % of cost of goods sold		0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Payable Turns		24	24	24	24	24	24	24	24
Accruals as % of SG&A		90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF - millions)	261	261	252	244	235	226	218	209	200
Amortization of principal - (years)	30	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
Ending principal balance		252	244	235	226	218	209	200	191
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		73	63	61	59	57	54	52	50
Issuance of common equity (nominal - HUF millions)		--	--	--	--	--	--	--	--

Borsodchem Ig. - Industry

INCOME STATEMENT (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	22,717	27,570	32,562	38,385	45,703	54,423	64,813	77,197	91,958
(Cost of Goods Sold)	(12,800)	(15,308)	(17,989)	(21,092)	(24,980)	(29,590)	(35,059)	(41,546)	(49,243)
GROSS PROFIT	9,917	12,262	14,573	17,293	20,723	24,832	29,755	35,651	42,715
Gross Profit Margin	*43.7%*	*44.5%*	*44.8%*	*45.1%*	*45.3%*	*45.6%*	*45.9%*	*46.2%*	*46.5%*
(Selling, General, & Admin. Expense)	(4,171)	(4,963)	(5,782)	(6,716)	(7,877)	(9,240)	(10,839)	(12,714)	(14,913)
OPERATING INCOME (EBITDA)	5,746	7,299	8,791	10,577	12,846	15,592	18,916	22,938	27,801
(Depreciation & Amortization)	(1,225)	(1,225)	(1,225)	(1,225)	(1,225)	(1,225)	(1,225)	(1,225)	(1,225)
EBIT	4,521	6,074	7,566	9,352	11,621	14,367	17,691	21,713	26,576
Interest and other financial income	117	1,257	2,174	3,612	5,533	8,050	11,337	15,600	21,093
(Interest Expense)	(970)	(73)	(63)	(61)	(59)	(57)	(54)	(52)	(50)
EARNINGS BEFORE TAXES	3,668	7,258	9,676	12,903	17,095	22,361	28,974	37,260	47,619
Extraordinary gain/(loss)	(193)	--	--	--	--	--	--	--	--
(Taxes)	(626)	(1,306)	(1,742)	(2,323)	(3,077)	(4,025)	(5,215)	(6,707)	(8,571)
NET INCOME	2,850	5,952	7,935	10,580	14,018	18,336	23,759	30,554	39,048

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Borsodchem Ig. - Industry

BALANCE SHEET (HUF in millions)	Year Ending	Projected Year Ending							
ASSETS	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Intangible and Invested Financial Assets	1,393	1,393	1,393	1,393	1,393	1,393	1,393	1,393	1,393
Net Tangible Long-term Assets	16,523	16,135	15,907	15,854	16,008	16,406	17,090	18,112	19,530
Cash & Marketable Securities	5,351	10,603	17,618	26,992	39,269	55,305	76,097	102,891	137,236
Accounts Receivable	4,028	5,665	6,784	7,997	9,521	11,338	13,503	16,083	19,158
Inventories	4,846	5,103	5,996	7,031	8,327	9,863	11,686	13,849	16,414
Prepaid expenses	56	54	63	74	87	104	123	145	172
Total Current Assets	14,281	21,424	30,461	42,094	57,205	76,610	101,409	132,968	172,981
TOTAL ASSETS	32,197	38,952	47,760	59,341	74,606	94,409	119,892	152,473	193,904
EQUITY, RESERVES & LIABILITIES									
Common Stock	22,365	22,365	22,365	22,365	22,365	22,365	22,365	22,365	22,365
Retained Earnings:									
Beginning	1,602	4,452	10,403	18,338	28,918	42,936	61,272	85,031	115,584
Dividends	--	--	--	--	--	--	--	--	--
Current year earnings	2,850	5,952	7,935	10,580	14,018	18,336	23,759	30,554	39,048
Ending	4,452	10,403	18,338	28,918	42,936	61,272	85,031	115,584	154,632
Shareholders' Equity	26,817	32,768	40,703	51,283	65,301	83,637	107,396	137,949	176,997
Target Reserves	170	170	170	170	170	170	170	170	170
Long-term Credits and Liabilities	252	244	235	226	218	209	200	191	191
Trade credits	700	845	990	1,159	1,369	1,618	1,912	2,261	2,673
Other Accrued Liabilities	3,799	4,467	5,204	6,044	7,090	8,316	9,755	11,442	13,422
Current Portion: Long-term debt	9	9	9	9	9	9	9	9	--
Total Current Liabilities	4,508	5,320	6,203	7,211	8,467	9,943	11,676	13,712	16,095
Total Liabilities	4,760	5,564	6,438	7,438	8,685	10,152	11,876	13,903	16,286
Other	450	450	450	450	450	450	450	450	450
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	32,197	38,952	47,760	59,341	74,606	94,409	119,892	152,473	193,904
	--	--	--	(0)	(0)	(0)	--	(0)	--

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Borsodchem Ig. - Industry

CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Cash Flows from Operating Activities:									
Net Income		5,952	7,935	10,580	14,018	18,336	23,759	30,554	39,048
Depreciation & Amortization		1,225	1,225	1,225	1,225	1,225	1,225	1,225	1,225
Changes in Working Capital		(1,079)	(1,139)	(1,250)	(1,578)	(1,894)	(2,274)	(2,729)	(3,276)
Cash provided by operating activities		6,098	8,020	10,556	13,665	17,667	22,710	29,050	36,997
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(837)	(996)	(1,172)	(1,379)	(1,623)	(1,909)	(2,247)	(2,643)
Repayment of principal of Long-term Debt		(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
Issuance of Common Stock		--	--	--	--	--	--	--	--
Cash used in investing/investing activities		(846)	(1,005)	(1,181)	(1,388)	(1,632)	(1,918)	(2,255)	(2,652)
Increase (decrease) in cash		5,252	7,015	9,375	12,277	16,035	20,792	26,794	34,345
Cash, beginning of the period		5,351	10,603	17,618	26,992	39,269	55,305	76,097	102,891
Increase (decrease) in cash		5,252	7,015	9,375	12,277	16,035	20,792	26,794	34,345
Dividends		--	--	--	--	--	--	--	--
Cash, end of period		10,603	17,618	26,992	39,269	55,305	76,097	102,891	137,236
Increase (decrease) in cash		5,252	7,015	9,375	12,277	16,035	20,792	26,794	34,345
Dividends		--	--	--	--	--	--	--	--
Dividend withholding tax		--	--	--	--	--	--	--	--
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		5,252	7,015	9,375	12,277	16,035	20,792	26,794	34,345
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		45	53	62	71	82	93	106	119
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF - millions)	Ratio	5,952	7,935	10,580	14,018	18,336	23,759	30,554	39,048
Terminal value ($US - millions)	12	573	672	788	919	1,057	1,205	1,363	1,532
	IPO								
Total cash flow to shareholders ($US - millions)	Year								
Cash flow available to shareholders prior to IPO	5	45	53	62	71	82	--	--	--
Cash flow to shareholders from public offering		--	--	--	--	1,057	--	--	--
Total cashflow to shareholders		45	53	62	71	1,139	--	--	--
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	362	32	27	23	19	212	--	--	--
Net present value (HUF in millions)	38,749								

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MVM Rt. - Energy

Operating Assumptions:	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF - millions)	7,913	7,913	7,913	7,992	8,152	8,315	8,481	8,651	8,824
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF - millions)	7,913	9,416	10,969	12,740	14,944	17,530	20,563	24,120	28,293
Foreign sales:									
Real growth of $US sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US - millions)	25	25	25	25	26	26	27	27	28
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US - millions)	25	26	27	28	30	31	33	35	37
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF - millions)	2,441	2,996	3,565	4,237	5,085	6,102	7,323	8,789	10,548
Real growth of DM sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM - millions)	--	--	--	--	--	--	--	--	--
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF - millions)	--	--	--	--	--	--	--	--	--
Total nominal sales (HUF - millions)	10,354	12,412	14,534	16,977	20,029	23,632	27,886	32,909	38,840
Estimated cost of goods sold									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF - millions)	4,029	4,029	4,029	4,069	4,151	4,234	4,318	4,405	4,493
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF - millions)	4,029	4,794	5,585	6,487	7,609	8,926	10,470	12,281	14,405
Foreign purchases									
Real cost of $US goods & services ($US - millions)	19	19	19	19	19	20	20	20	21
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US - millions)	19	19	20	21	22	23	24	26	27
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF - millions)	1,811	2,223	2,645	3,143	3,772	4,527	5,433	6,521	7,825
Real cost of DM goods & services (DM - millions)	28	28	28	28	29	29	30	30	31
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM - millions)	28	28	29	30	31	33	34	36	38
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF - millions)	1,811	2,173	2,610	3,131	3,793	4,595	5,566	6,742	8,167
Total nominal cost of goods & services (HUF - millions)	7,651	9,190	10,840	12,761	15,174	18,047	21,469	25,544	30,398

Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF - millions)	964	964	964	974	993	1,013	1,033	1,054	1,075
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF - millions)	964	1,147	1,336	1,552	1,821	2,136	2,505	2,938	3,447
Real capital expenditures ($US - millions)		3	3	3	3	3	3	3	3
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US - millions)		3	3	3	3	4	4	4	4
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF - millions)		359	427	502	591	695	818	963	1,133
Tangible long-term assets, beg. of period (HUF - millions)		5,834	5,685	5,604	5,598	5,681	5,869	6,179	6,634
Nominal depreciation (HUF - millions)	(508)	(508)	(508)	(508)	(508)	(508)	(508)	(508)	(508)
Nominal capital expenditures (HUF - millions)		359	427	502	591	695	818	963	1,133
Tangible long-term assets, end of period	5,834	5,685	5,604	5,598	5,681	5,869	6,179	6,634	7,259
Net income before taxes paid out as dividends		--	--	--	--	--	--	--	--
Net Income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding taxes		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		45	45	45	45	45	45	45	45
Inventory Turns		3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Prepaid expenses as a % of cost of goods sold		3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Payable Turns		5	5	5	5	5	5	5	5
Accruals as % of SG&A		150.0%	150.0%	150.0%	150.0%	150.0%	150.0%	150.0%	150.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF - millions)	566	566	547	528	509	491	472	453	434
Amortization of principal - (years)	30	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)
Ending principal balance		547	528	509	491	472	453	434	415
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		159	137	132	127	123	118	113	108
Issuance of common equity (nominal - HUF millions)		--	--	--	--	--	--	--	--

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MVM Rt. - Energy

INCOME STATEMENT (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	10,354	12,412	14,534	16,977	20,029	23,032	27,836	32,909	38,840
(Cost of Goods Sold)	(7,651)	(9,190)	(10,840)	(12,761)	(15,174)	(18,047)	(21,469)	(25,544)	(30,398)
GROSS PROFIT	2,703	3,222	3,694	4,216	4,855	5,585	6,417	7,365	8,442
Gross Profit Margin	*26.1%*	*26.0%*	*25.4%*	*24.8%*	*24.2%*	*23.6%*	*23.0%*	*22.4%*	*21.7%*
(Selling, General, & Admin. Expense)	(964)	(1,147)	(1,336)	(1,552)	(1,821)	(2,136)	(2,505)	(2,938)	(3,447)
OPERATING INCOME (EBITDA)	1,739	2,075	2,358	2,634	3,034	3,449	3,912	4,427	4,995
(Depreciation & Amortization)	(508)	(508)	(508)	(508)	(508)	(508)	(508)	(508)	(508)
EBIT	1,231	1,567	1,850	2,156	2,526	2,941	3,404	3,919	4,487
Interest and other financial income	18	80	261	572	971	1,472	2,097	2,870	3,816
(Interest Expense)	(565)	(159)	(137)	(132)	(127)	(123)	(118)	(113)	(108)
EARNINGS BEFORE TAXES	684	1,488	1,974	2,596	3,369	4,290	5,383	6,675	8,195
Extraordinary gain/(loss)	(55)	–	–	–	–	–	–	–	–
(Taxes)	(113)	(268)	(355)	(467)	(606)	(772)	(969)	(1,202)	(1,475)
NET INCOME	516	1,221	1,618	2,128	2,763	3,518	4,414	5,474	6,720

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MVM Rt. - Energy

BALANCE SHEET (HUF in millions)

ASSETS	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Intangible and Invested Financial Assets	528	528	528	528	528	528	528	528	528
Net Tangible Long-term Assets	5,834	5,685	5,604	5,598	5,681	5,869	6,179	6,634	7,259
Cash & Marketable Securities	342	1,274	2,791	4,735	7,180	10,230	13,999	18,616	24,229
Accounts Receivable	1,399	1,530	1,817	2,122	2,504	2,954	3,486	4,114	4,855
Inventories	2,080	2,626	3,097	3,646	4,336	5,156	6,134	7,298	8,685
Prepaid expenses	29	322	379	447	531	632	751	894	1,064
Total Current Assets	3,850	5,752	8,084	10,950	14,550	18,972	24,370	30,922	38,833
TOTAL ASSETS	10,212	11,965	14,216	17,077	20,760	25,369	31,077	38,084	46,620
EQUITY, RESERVES & LIABILITIES									
Common Stock	4,399	4,399	4,399	4,399	4,399	4,399	4,399	4,399	4,399
Retained Earnings:									
Beginning	1,233	1,749	2,969	4,588	6,716	9,479	12,997	17,412	22,885
Dividends	--	--	--	--	--	--	--	--	--
Current year earnings	516	1,221	1,618	2,128	2,763	3,518	4,414	5,474	6,720
Ending	1,749	2,969	4,588	6,716	9,479	12,997	17,412	22,885	29,605
Shareholders' Equity	6,148	7,368	8,987	11,115	13,878	17,396	21,811	27,284	34,004
Target Reserves	55	55	55	55	55	55	55	55	55
Long-term Credits and Liabilities	547	528	509	491	472	453	434	415	415
Trade credits	1,777	2,067	2,435	2,863	3,399	4,037	4,795	5,696	6,769
Other Accrued Liabilities	1,460	1,721	2,004	2,328	2,731	3,203	3,758	4,408	5,170
Current Portion: Long-term debt	19	19	19	19	19	19	19	19	--
Total Current Liabilities	3,256	3,807	4,459	5,210	6,149	7,259	8,571	10,123	11,939
Total Liabilities	3,803	4,335	4,968	5,700	6,620	7,712	9,005	10,538	12,354
Other	206	206	206	206	206	206	206	206	206
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	10,212	11,965	14,216	17,076	20,759	25,369	31,077	38,083	46,620
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)

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MVM Rt. - Energy

CASH FLOW STATEMENT (HUF - millions)

		Projected Year Ending							
	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Cash Flows from Operating Activities:									
Net Income		1,221	1,618	2,128	2,763	3,518	4,414	5,474	6,720
Depreciation & Amortization		508	508	508	508	508	508	508	508
Changes in Working Capital		(419)	(164)	(170)	(216)	(262)	(317)	(383)	(463)
Cash provided by operating activities		1,310	1,962	2,466	3,055	3,764	4,606	5,599	6,765
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(359)	(427)	(502)	(591)	(695)	(818)	(963)	(1,133)
Repayment of principal of Long-term Debt		(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)
Issuance of Common Stock		--	--	--	--	--	--	--	--
Cash used in investing/investing activities		(378)	(446)	(521)	(610)	(714)	(837)	(982)	(1,152)
Increase (decrease) in cash		932	1,516	1,945	2,445	3,050	3,769	4,617	5,613
Cash, beginning of the period		342	1,274	2,791	4,735	7,180	10,230	13,999	18,616
Increase (decrease) in cash		932	1,516	1,945	2,445	3,050	3,769	4,617	5,613
Dividends		--	--	--	--	--	--	--	--
Cash, end of period		1,274	2,791	4,735	7,180	10,230	13,999	18,616	24,229
Increase (decrease) in cash		932	1,516	1,945	2,445	3,050	3,769	4,617	5,613
Dividends		--	--	--	--	--	--	--	--
Dividend withholding tax		--	--	--	--	--	--	--	--
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		932	1,516	1,945	2,445	3,050	3,769	4,617	5,613
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		8	11	13	14	16	17	18	20
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF - millions)	Ratio	1,221	1,618	2,128	2,763	3,518	4,414	5,474	6,720
Terminal value ($US - millions)	12	117	137	159	181	203	224	244	264
	IPO								
Total cash flow to shareholders ($US - millions)	Year								
Cash flow available to shareholders prior to IPO	5	8	11	13	14	16	--	--	--
Cash flow to shareholders from public offering		--	--	--	--	203	--	--	--
Total cashflow to shareholders		8	11	13	14	218	--	--	--
Discount rate	40.0%								
Net present value ($US in millions)	64	6	6	5	4	41	--	--	--
Net present value (HUF in millions)	6,819								

Penzjegynyomda Rt. - Trademark

Operating Assumptions:	Year Ending	Projected Year Ending							
Estimated net sales	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Domestic sales:									
Real domestic sales growth rate		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF - millions)	656	656	656	663	676	689	703	717	732
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF - millions)	656	781	909	1,056	1,239	1,453	1,705	2,000	2,345
Foreign sales:									
Real growth of $US sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US - millions)	11	11	11	12	12	12	12	12	13
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US - millions)	11	12	12	13	13	14	15	16	17
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF - millions)	1,111	1,364	1,623	1,928	2,314	2,777	3,333	4,000	4,801
Real growth of DM sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM - millions)	--	--	--	--	--	--	--	--	--
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF - millions)	--	--	--	--	--	--	--	--	--
Total nominal sales (HUF - millions)	1,767	2,144	2,532	2,985	3,553	4,231	5,038	6,000	7,146
Estimated cost of goods sold									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF - millions)	1,023	1,023	1,023	1,033	1,054	1,075	1,096	1,118	1,141
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF - millions)	1,023	1,217	1,418	1,647	1,932	2,266	2,658	3,118	3,658
Foreign purchases									
Real cost of $US goods & services ($US - millions)	--	--	--	--	--	--	--	--	--
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF - millions)	--	--	--	--	--	--	--	--	--
Real cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF - millions)	--	--	--	--	--	--	--	--	--
Total nominal cost of goods & services (HUF - millions)	1,023	1,217	1,418	1,647	1,932	2,266	2,658	3,118	3,658

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF - millions)	816	816	816	824	841	857	875	892	910
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF - millions)	816	971	1,131	1,314	1,541	1,808	2,120	2,487	2,918
Real capital expenditures ($US - millions)		--	--	--	--	--	--	--	--
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US - millions)		--	--	--	--	--	--	--	--
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF - millions)		--	--	--	--	--	--	--	--
Tangible long-term assets, beg. of period (HUF - millions)		5,973	5,973	5,973	5,973	5,973	5,973	5,973	5,973
Nominal depreciation (HUF - millions)	--	--	--	--	--	--	--	--	--
Nominal capital expenditures (HUF - millions)		--	--	--	--	--	--	--	--
Tangible long-term assets, end of period	5,973	5,973	5,973	5,973	5,973	5,973	5,973	5,973	5,973
Net income before taxes paid out as dividends		--	--	--	--	--	--	--	--
Net income tax		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding tax		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		60	60	60	60	60	60	60	60
Inventory Turns		4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Prepaid expenses as a % of cost of goods sold		1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Payable Turns		8	8	8	8	8	8	8	8
Accruals as % of SG&A		25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF - millions)	5,427	5,427	5,246	5,065	4,884	4,703	4,523	4,342	4,161
Amortization of principal - (years)	30	(181)	(181)	(181)	(181)	(181)	(181)	(181)	(181)
Ending principal balance		5,246	5,065	4,884	4,703	4,523	4,342	4,161	3,980
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		1,521	1,315	1,269	1,222	1,176	1,130	1,084	1,038
Issuance of common equity (nominal - HUF millions)		--	--	--	--	--	--	--	--

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Penzjegynyomda Rt. - Trademark

INCOME STATEMENT (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	1,767	2,144	2,532	2,985	3,553	4,231	5,038	6,000	7,146
(Cost of Goods Sold)	(1,023)	(1,217)	(1,418)	(1,647)	(1,932)	(2,206)	(2,658)	(3,118)	(3,658)
GROSS PROFIT	744	927	1,114	1,338	1,621	1,964	2,380	2,882	3,489
Gross Profit Margin	*42.1%*	*43.2%*	*44.0%*	*44.8%*	*45.6%*	*46.4%*	*47.2%*	*48.0%*	*48.8%*
(Selling, General, & Admin. Expense)	(816)	(971)	(1,131)	(1,314)	(1,541)	(1,808)	(2,120)	(2,487)	(2,918)
OPERATING INCOME (EBITDA)	(72)	(44)	(17)	24	80	157	259	394	571
(Depreciation & Amortization)	--	--	--	--	--	--	--	--	--
EBIT	(72)	(44)	(17)	24	80	157	259	394	571
Interest and other financial income	20	94	27	(286)	(644)	(1,058)	(1,533)	(2,078)	(2,700)
(Interest Expense)	(112)	(1,521)	(1,315)	(1,269)	(1,222)	(1,176)	(1,130)	(1,084)	(1,038)
EARNINGS BEFORE TAXES	(164)	(1,471)	(1,305)	(1,530)	(1,787)	(2,077)	(2,404)	(2,767)	(3,167)
Extraordinary gain/(loss)	51	--	--	--	--	--	--	--	--
(Taxes)	--	--	--	--	--	--	--	--	--
NET INCOME	(113)	(1,471)	(1,305)	(1,530)	(1,787)	(2,077)	(2,404)	(2,767)	(3,167)

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Penzjegynyomda Rt. - Trademark

BALANCE SHEET (HUF in millions)	Year Ending	Projected Year Ending							
ASSETS	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Intangible and Invested Financial Assets	6,499	6,499	6,499	6,499	6,499	6,499	6,499	6,499	6,499
Net Tangible Long-term Assets	5,973	5,973	5,973	5,973	5,973	5,973	5,973	5,973	5,973
Cash & Marketable Securities	402	131	(1,393)	(3,143)	(5,160)	(7,478)	(10,135)	(13,171)	(16,624)
Accounts Receivable	4,174	352	422	497	592	705	840	1,000	1,191
Inventories	4,369	304	355	412	483	567	665	780	914
Prepaid expenses	185	18	21	25	29	34	40	47	55
Total Current Assets	9,130	806	(595)	(2,209)	(4,056)	(6,172)	(8,591)	(11,344)	(14,464)
TOTAL ASSETS	21,602	13,278	11,877	10,263	8,416	6,300	3,881	1,128	(1,992)
EQUITY, RESERVES & LIABILITIES									
Common Stock	11,578	11,578	11,578	11,578	11,578	11,578	11,578	11,578	11,578
Retained Earnings:									
Beginning	(4,053)	(4,166)	(5,637)	(6,942)	(8,472)	(10,259)	(12,336)	(14,740)	(17,508)
Dividends	--	--	--	--	--	--	--	--	--
Current year earnings	(113)	(1,471)	(1,305)	(1,530)	(1,787)	(2,077)	(2,404)	(2,767)	(3,167)
Ending	(4,166)	(5,637)	(6,942)	(8,472)	(10,259)	(12,336)	(14,740)	(17,508)	(20,675)
Shareholders' Equity	7,412	5,941	4,636	3,106	1,319	(758)	(3,162)	(5,930)	(9,097)
Target Reserves	787	787	787	787	787	787	787	787	787
Long-term Credits and Liabilities	5,246	5,065	4,884	4,703	4,523	4,342	4,161	3,980	3,980
Trade credits	3,452	274	319	370	434	509	597	701	822
Other Accrued Liabilities	3,737	243	283	328	385	452	530	622	729
Current Portion: Long-term debt	181	181	181	181	181	181	181	181	--
Total Current Liabilities	7,370	697	782	879	1,000	1,142	1,308	1,503	1,551
Total Liabilities	12,616	5,762	5,667	5,583	5,523	5,484	5,469	5,483	5,531
Other	787	787	787	787	787	787	787	787	787
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	21,602	13,278	11,877	10,263	8,416	6,300	3,881	1,128	(1,992)
	--	0	--	--	--	(0)	(0)	(0)	0

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Penzjegynyomda Rt. - Trademark

CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Cash Flows from Operating Activities:									
Net Income		(1,471)	(1,305)	(1,530)	(1,787)	(2,077)	(2,404)	(2,767)	(3,167)
Depreciation & Amortization		--	--	--	--	--	--	--	--
Changes in Working Capital		1,380	(38)	(39)	(49)	(60)	(72)	(87)	(105)
Cash provided by operating activities		(90)	(1,343)	(1,569)	(1,836)	(2,137)	(2,476)	(2,855)	(3,272)
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		--	--	--	--	--	--	--	--
Repayment of principal of Long-term Debt		(181)	(181)	(181)	(181)	(181)	(181)	(181)	(181)
Issuance of Common Stock		--	--	--	--	--	--	--	--
Cash used in investing/investing activities		(181)	(181)	(181)	(181)	(181)	(181)	(181)	(181)
Increase (decrease) in cash		(271)	(1,524)	(1,750)	(2,017)	(2,318)	(2,657)	(3,036)	(3,453)
Cash, beginning of the period		402	131	(1,393)	(3,143)	(5,160)	(7,478)	(10,135)	(13,171)
Increase (decrease) in cash		(271)	(1,524)	(1,750)	(2,017)	(2,318)	(2,657)	(3,036)	(3,453)
Dividends		--	--	--	--	--	--	--	--
Cash, end of period		131	(1,393)	(3,143)	(5,160)	(7,478)	(10,135)	(13,171)	(16,624)
Increase (decrease) in cash		(271)	(1,524)	(1,750)	(2,017)	(2,318)	(2,657)	(3,036)	(3,453)
Dividends		--	--	--	--	--	--	--	--
Dividend withholding tax		--	--	--	--	--	--	--	--
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		(271)	(1,524)	(1,750)	(2,017)	(2,318)	(2,657)	(3,036)	(3,453)
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		(2)	(11)	(12)	(12)	(12)	(12)	(12)	(12)
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF - millions)	Ratio	(1,471)	(1,305)	(1,530)	(1,787)	(2,077)	(2,404)	(2,767)	(3,167)
Terminal value ($US - millions)	12	(142)	(111)	(114)	(117)	(120)	(122)	(123)	(124)
	IPO								
Total cash flow to shareholders ($US - millions)	Year								
Cash flow available to shareholders prior to IPO	5	(2)	(11)	(12)	(12)	(12)	--	--	--
Cash flow to shareholders from public offering		--	--	--	--	--	--	--	--
Total cashflow to shareholders		(2)	(11)	(12)	(12)	(12)	--	--	--
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	(13)	(2)	(6)	(4)	(3)	(2)	--	--	--
Net present value (HUF in millions)	(1,414)								

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Babolna Rt. - Agriculture (3)

Operating Assumptions:	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF - millions)	8,884	8,884	8,884	8,973	9,152	9,335	9,522	9,712	9,907
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF - millions)	8,884	10,572	12,315	14,304	16,778	19,681	23,086	27,080	31,764
Foreign sales:									
Real growth of $US sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US - millions)	74	74	74	75	77	78	80	81	83
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US - millions)	74	77	80	83	88	93	98	103	109
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF - millions)	7,256	8,905	10,598	12,594	15,115	18,139	21,769	26,126	31,354
Real growth of DM sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM - millions)	74	74	74	75	76	78	79	81	82
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM - millions)	74	76	78	80	84	88	92	96	101
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF - millions)	4,838	5,806	6,973	8,364	10,132	12,274	14,869	18,011	21,819
Total nominal sales (HUF - millions)	20,978	25,283	29,887	35,263	42,026	50,095	59,724	71,217	84,937
Estimated cost of goods sold									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF - millions)	2,477	2,477	2,477	2,502	2,552	2,603	2,655	2,708	2,762
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF - millions)	2,477	2,948	3,434	3,988	4,678	5,487	6,437	7,550	8,856
Foreign purchases									
Real cost of $US goods & services ($US - millions)	145	145	145	146	149	152	155	158	162
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US - millions)	145	150	155	162	171	180	190	201	212
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF - millions)	14,117	17,326	20,620	24,503	29,407	35,291	42,354	50,829	61,001
Real cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF - millions)	--	--	--	--	--	--	--	--	--
Total nominal cost of goods & services (HUF - millions)	16,594	20,273	24,053	28,491	34,085	40,779	48,790	58,379	69,857

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Operating Assumptions (continued):	Year Ending Dec-93	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF - millions)	1,875	1,875	1,875	1,894	1,932	1,970	2,010	2,050	2,091
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF - millions)	1,875	2,231	2,599	3,019	3,541	4,154	4,872	5,715	6,704
Real capital expenditures ($US - millions)		5	5	5	5	5	5	5	5
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US - millions)		5	5	6	6	6	6	6	7
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF - millions)		598	712	837	985	1,159	1,364	1,605	1,888
Tangible long-term assets, beg. of period (HUF - millions)		9,335	8,955	8,689	8,548	8,555	8,736	9,122	9,749
Nominal depreciation (HUF - millions)	(978)	(978)	(978)	(978)	(978)	(978)	(978)	(978)	(978)
Nominal capital expenditures (HUF - millions)		598	712	837	985	1,159	1,364	1,605	1,888
Tangible long-term assets, end of period	9,335	8,955	8,689	8,548	8,555	8,736	9,122	9,749	10,659
Net income before taxes paid out as dividends		--	--	--	--	--	--	--	--
Net income tax		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		90	90	90	90	90	90	90	90
Inventory Turns		6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Prepaid expenses as a % of cost of goods sold		3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Payable Turns		12	12	12	12	12	12	12	12
Accruals as % of SG&A		175.0%	175.0%	175.0%	175.0%	175.0%	175.0%	175.0%	175.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF - millions)	4,429	4,429	4,281	4,134	3,986	3,838	3,691	3,543	3,396
Amortization of principal - (years)	30	(148)	(148)	(148)	(148)	(148)	(148)	(148)	(148)
Ending principal balance		4,281	4,134	3,986	3,838	3,691	3,543	3,396	3,248
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		1,241	1,073	1,035	998	960	922	885	847
Issuance of common equity (nominal - HUF millions)		--	--	--	--	--	--	--	--

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Babolna Rt. - Agriculture (3)

INCOME STATEMENT (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	20,978	25,283	29,887	35,263	42,026	50,095	59,724	71,217	84,937
(Cost of Goods Sold)	(16,594)	(20,273)	(24,053)	(28,491)	(34,085)	(40,779)	(48,790)	(58,379)	(69,857)
GROSS PROFIT	4,384	5,009	5,833	6,771	7,941	9,316	10,933	12,837	15,080
Gross Profit Margin	*20.9%*	*19.8%*	*19.5%*	*19.2%*	*18.9%*	*18.6%*	*18.3%*	*18.0%*	*17.8%*
(Selling, General, & Admin. Expense)	(1,875)	(2,231)	(2,599)	(3,019)	(3,541)	(4,154)	(4,872)	(5,715)	(6,704)
OPERATING INCOME (EBITDA)	2,509	2,778	3,234	3,752	4,400	5,162	6,061	7,122	8,376
(Depreciation & Amortization)	(978)	(978)	(978)	(978)	(978)	(978)	(978)	(978)	(978)
EBIT	1,531	1,800	2,256	2,774	3,422	4,184	5,083	6,144	7,398
Interest and other financial income	213	143	45	69	146	260	433	678	1,013
(Interest Expense)	(863)	(1,241)	(1,073)	(1,035)	(998)	(960)	(922)	(885)	(847)
EARNINGS BEFORE TAXES	881	701	1,228	1,808	2,570	3,484	4,594	5,938	7,563
Extraordinary gain/(loss)	(130)	–	–	–	–	–	–	–	–
(Taxes)	(135)	(126)	(221)	(325)	(463)	(627)	(827)	(1,069)	(1,361)
NET INCOME	616	575	1,007	1,483	2,107	2,857	3,767	4,869	6,202

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Babolna Rt. - Agriculture (3)

BALANCE SHEET (HUF in millions)	Year Ending	Projected Year Ending							
ASSETS	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Intangible and Invested Financial Assets	1,519	1,519	1,519	1,519	1,519	1,519	1,519	1,519	1,519
Net Tangible Long-term Assets	9,335	8,955	8,689	8,548	8,555	8,736	9,122	9,749	10,659
Cash & Marketable Securities	607	221	337	713	1,270	2,112	3,308	4,940	7,109
Accounts Receivable	4,571	6,234	7,472	8,816	10,506	12,524	14,931	17,804	21,234
Inventories	2,000	3,379	4,009	4,749	5,681	6,796	8,132	9,730	11,643
Prepaid expenses	21	710	842	997	1,193	1,427	1,708	2,043	2,445
Total Current Assets	7,199	10,543	12,659	15,274	18,650	22,860	28,078	34,517	42,431
TOTAL ASSETS	18,053	21,017	22,867	25,341	28,724	33,115	38,719	45,785	54,608
EQUITY, RESERVES & LIABILITIES									
Common Stock	7,369	7,369	7,369	7,369	7,369	7,369	7,369	7,369	7,369
Retained Earnings:									
Beginning	1,650	2,266	2,841	3,848	5,331	7,438	10,296	14,063	18,931
Dividends	–	–	–	–	–	–	–	–	–
Current year earnings	616	575	1,007	1,483	2,107	2,857	3,767	4,869	6,202
Ending	2,266	2,841	3,848	5,331	7,438	10,296	14,063	18,931	25,133
Shareholders' Equity	9,635	10,210	11,217	12,700	14,807	17,665	21,432	26,300	32,502
Target Reserves	450	450	450	450	450	450	450	450	450
Long-term Credits and Liabilities	4,281	4,134	3,986	3,838	3,691	3,543	3,396	3,248	3,248
Trade credits	1,296	1,875	2,221	2,626	3,135	3,744	4,472	5,341	6,380
Other Accrued Liabilities	1,947	3,905	4,548	5,283	6,197	7,269	8,527	10,002	11,732
Current Portion: Long-term debt	148	148	148	148	148	148	148	148	–
Total Current Liabilities	3,391	5,928	6,917	8,056	9,480	11,161	13,146	15,491	18,112
Total Liabilities	7,672	10,061	10,903	11,895	13,171	14,704	16,542	18,738	21,360
Other	296	296	296	296	296	296	296	296	296
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	18,053	21,017	22,866	25,341	28,724	33,115	38,719	45,785	54,608
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)

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Babolna Rt. - Agriculture (3)

CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Cash Flows from Operating Activities:									
Net Income		575	1,007	1,483	2,107	2,857	3,767	4,869	6,202
Depreciation & Amortization		978	978	978	978	978	978	978	978
Changes in Working Capital		(1,194)	(1,010)	(1,100)	(1,395)	(1,686)	(2,038)	(2,463)	(2,975)
Cash provided by operating activities		360	975	1,361	1,690	2,149	2,707	3,384	4,204
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(598)	(712)	(837)	(985)	(1,159)	(1,364)	(1,605)	(1,888)
Repayment of principal of Long-term Debt		(148)	(148)	(148)	(148)	(148)	(148)	(148)	(148)
Issuance of Common Stock		--	--	--	--	--	--	--	--
Cash used in Investing/Investing activities		(746)	(859)	(985)	(1,133)	(1,307)	(1,511)	(1,752)	(2,036)
Increase (decrease) in cash		(386)	116	376	558	842	1,196	1,632	2,169
Cash, beginning of the period		607	221	337	713	1,270	2,112	3,308	4,940
Increase (decrease) in cash		(386)	116	376	558	842	1,196	1,632	2,169
Dividends		--	--	--	--	--	--	--	--
Cash, end of period		221	337	713	1,270	2,112	3,308	4,940	7,109
Increase (decrease) in cash		(386)	116	376	558	842	1,196	1,632	2,169
Dividends		--	--	--	--	--	--	--	--
Dividend withholding tax		--	--	--	--	--	--	--	--
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		(386)	116	376	558	842	1,196	1,632	2,169
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		(3)	1	2	3	4	5	6	8
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	205	237	269	306
Net Income (HUF - millions)	Ratio	575	1,007	1,483	2,107	2,857	3,767	4,869	6,202
Terminal value ($US - millions)	12	55	85	110	138	165	191	217	243
Total cash flow to shareholders ($US - millions)	IPO Year								
Cash flow available to shareholders prior to IPO	5	(3)	1	2	3	4	--	--	--
Cash flow to shareholders from public offering		--	--	--	--	165	--	--	--
Total cashflow to shareholders		(3)	1	2	3	169	--	--	--
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	37	(2)	0	1	1	31	--	--	--
Net present value (HUF in millions)	3,949								

Balatonfelvideki Erdo es F. Rt. - Forest Prod.

Operating Assumptions:	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF - millions)	8,068	8,068	8,068	8,149	8,312	8,478	8,647	8,820	8,997
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF - millions)	8,068	9,601	11,184	12,990	15,237	17,873	20,965	24,592	28,847
Foreign sales:									
Real growth of $US sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US - millions)	61	61	61	61	62	64	65	66	68
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US - millions)	61	63	65	68	71	75	80	84	89
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF - millions)	5,904	7,246	8,624	10,248	12,298	14,760	17,713	21,258	25,512
Real growth of DM sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM - millions)	90	90	90	91	93	95	97	99	101
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM - millions)	90	93	95	98	103	107	112	117	123
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF - millions)	5,904	7,085	8,510	10,207	12,365	14,979	18,145	21,980	26,626
Total nominal sales (HUF - millions)	19,876	23,931	28,317	33,445	39,901	47,611	56,823	67,830	80,984
Estimated cost of goods sold									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF - millions)	6,630	6,630	6,630	6,696	6,830	6,967	7,106	7,248	7,393
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF - millions)	6,630	7,889	9,190	10,675	12,521	14,688	17,229	20,209	23,705
Foreign purchases									
Real cost of $US goods & services ($US - millions)	57	57	57	58	59	60	62	63	64
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US - millions)	57	59	61	64	68	71	75	80	84
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF - millions)	5,593	6,864	8,169	9,708	11,651	13,982	16,780	20,138	24,168
Real cost of DM goods & services (DM - millions)	57	57	57	58	59	60	61	62	64
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM - millions)	57	58	60	62	65	68	71	74	77
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF - millions)	3,728	4,474	5,373	6,445	7,808	9,458	11,457	13,879	16,813
Total nominal cost of goods & services (HUF - millions)	15,951	19,227	22,733	26,828	31,980	38,128	45,466	54,226	64,686

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF - millions)	1,745	1,745	1,745	1,762	1,798	1,834	1,870	1,908	1,946
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF - millions)	1,745	2,076	2,419	2,810	3,296	3,866	4,535	5,319	6,239
Real capital expenditures ($US - millions)		5	5	5	5	5	5	5	5
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US - millions)		5	5	6	6	6	6	6	7
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF - millions)		598	712	837	985	1,159	1,364	1,605	1,888
Tangible long-term assets, beg. of period (HUF - millions)		17,175	16,882	16,703	16,649	16,743	17,011	17,484	18,198
Nominal depreciation (HUF - millions)	(891)	(891)	(891)	(891)	(891)	(891)	(891)	(891)	(891)
Nominal capital expenditures (HUF - millions)		598	712	837	985	1,159	1,364	1,605	1,888
Tangible long-term assets, end of period	17,175	16,882	16,703	16,649	16,743	17,011	17,484	18,198	19,195
Net income before taxes paid out as dividends		--	--	--	--	--	--	--	--
Net income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding tax		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		75	75	75	75	75	75	75	75
Inventory Turns		6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Prepaid expenses as a % of cost of goods sold		0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Payable Turns		12	12	12	12	12	12	12	12
Accruals as % of SG&A		240.0%	240.0%	240.0%	240.0%	240.0%	240.0%	240.0%	240.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF - millions)	2,272	2,272	2,196	2,121	2,045	1,969	1,893	1,818	1,742
Amortization of principal - (years)	30	(76)	(76)	(76)	(76)	(76)	(76)	(76)	(76)
Ending principal balance		2,196	2,121	2,045	1,969	1,893	1,818	1,742	1,666
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		637	550	531	512	492	473	454	435
Issuance of common equity (nominal - HUF millions)		--	--	--	--	--	--	--	--

Balatonfelvideki Erdo es F. Rt. - Forest Prod.

INCOME STATEMENT (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	19,876	23,931	28,317	33,445	39,901	47,611	56,823	67,830	80,984
(Cost of Goods Sold)	(15,951)	(19,227)	(22,733)	(26,828)	(31,980)	(38,128)	(45,466)	(54,226)	(64,686)
GROSS PROFIT	3,925	4,704	5,584	6,617	7,921	9,484	11,357	13,604	16,299
Gross Profit Margin	*19.7%*	*19.7%*	*19.7%*	*19.8%*	*19.9%*	*19.9%*	*20.0%*	*20.1%*	*20.1%*
(Selling, General, & Admin. Expense)	(1,745)	(2,076)	(2,419)	(2,810)	(3,296)	(3,866)	(4,535)	(5,319)	(6,239)
OPERATING INCOME (EBITDA)	2,180	2,628	3,165	3,808	4,625	5,618	6,823	8,285	10,060
(Depreciation & Amortization)	(891)	(891)	(891)	(891)	(891)	(891)	(891)	(891)	(891)
EBIT	1,289	1,737	2,274	2,917	3,734	4,727	5,932	7,394	9,169
Interest and other financial income	154	154	207	463	843	1,370	2,091	3,062	4,352
(Interest Expense)	(785)	(637)	(550)	(531)	(512)	(492)	(473)	(454)	(435)
EARNINGS BEFORE TAXES	658	1,254	1,931	2,848	4,065	5,604	7,549	10,002	13,086
Extraordinary gain/(loss)	(68)	--	--	--	--	--	--	--	--
(Taxes)	(106)	(226)	(348)	(513)	(732)	(1,009)	(1,359)	(1,800)	(2,355)
NET INCOME	484	1,028	1,583	2,336	3,334	4,595	6,191	8,202	10,730

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Balatonfelvideki Erdo es F. Rt. - Forest Prod.

BALANCE SHEET (HUF in millions)

	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
ASSETS									
Intangible and Invested Financial Assets	2,461	2,461	2,461	2,461	2,461	2,461	2,461	2,461	2,461
Net Tangible Long-term Assets	17,175	16,882	16,703	16,649	16,743	17,011	17,484	18,198	19,195
Cash & Marketable Securities	656	1,011	2,257	4,111	6,681	10,199	14,935	21,228	29,506
Accounts Receivable	4,055	4,917	5,899	6,968	8,313	9,919	11,838	14,131	16,872
Inventories	2,439	3,205	3,789	4,471	5,330	6,355	7,578	9,038	10,781
Prepaid expenses	85	96	114	134	160	191	227	271	323
Total Current Assets	7,235	9,229	12,059	15,684	20,484	26,663	34,578	44,668	57,482
TOTAL ASSETS	26,871	28,572	31,223	34,794	39,688	46,136	54,523	65,327	79,138
EQUITY, RESERVES & LIABILITIES									
Common Stock	17,434	17,434	17,434	17,434	17,434	17,434	17,434	17,434	17,434
Retained Earnings:									
Beginning	310	794	1,822	3,406	5,741	9,075	13,670	19,861	28,062
Dividends	--	--	--	--	--	--	--	--	--
Current year earnings	484	1,028	1,583	2,336	3,334	4,595	6,191	8,202	10,730
Ending	794	1,822	3,406	5,741	9,075	13,670	19,861	28,062	38,793
Shareholders' Equity	18,228	19,256	20,840	23,175	26,509	31,104	37,295	45,496	56,227
Target Reserves	91	91	91	91	91	91	91	91	91
Long-term Credits and Liabilities	2,196	2,121	2,045	1,969	1,893	1,818	1,742	1,666	1,666
Trade credits	1,699	1,775	2,096	2,470	2,940	3,499	4,167	4,962	5,910
Other Accrued Liabilities	4,311	4,984	5,805	6,743	7,909	9,278	10,883	12,766	14,974
Current Portion: Long-term debt	76	76	76	76	76	76	76	76	--
Total Current Liabilities	6,086	6,835	7,977	9,288	10,925	12,853	15,125	17,803	20,884
Total Liabilities	8,282	8,955	10,022	11,258	12,818	14,671	16,867	19,470	22,551
Other	270	270	270	270	270	270	270	270	270
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	26,871	28,572	31,222	34,794	39,688	46,136	54,523	65,327	79,138
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)

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Balatonfelvideki Erdo es F. Rt. - Forest Prod.

CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Cash Flows from Operating Activities:									
Net Income		1,028	1,583	2,336	3,334	4,595	6,191	8,202	10,730
Depreciation & Amortization		891	891	891	891	891	891	891	891
Changes in Working Capital		(890)	(441)	(460)	(593)	(734)	(907)	(1,119)	(1,379)
Cash provided by operating activities		1,029	2,033	2,767	3,632	4,753	6,175	7,974	10,242
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(598)	(712)	(837)	(985)	(1,159)	(1,364)	(1,605)	(1,888)
Repayment of principal of Long-term Debt		(76)	(76)	(76)	(76)	(76)	(76)	(76)	(76)
Issuance of Common Stock		--	--	--	--	--	--	--	--
Cash used in Investing/Investing activities		(674)	(787)	(913)	(1,061)	(1,235)	(1,440)	(1,680)	(1,964)
Increase (decrease) in cash		355	1,246	1,854	2,571	3,518	4,735	6,293	8,278
Cash, beginning of the period		656	1,011	2,257	4,111	6,681	10,199	14,935	21,228
Increase (decrease) in cash		355	1,246	1,854	2,571	3,518	4,735	6,293	8,278
Dividends		--	--	--	--	--	--	--	--
Cash, end of period		1,011	2,257	4,111	6,681	10,199	14,935	21,228	29,506
Increase (decrease) in cash		355	1,246	1,854	2,571	3,518	4,735	6,293	8,278
Dividends		--	--	--	--	--	--	--	--
Dividend withholding tax		--	--	--	--	--	--	--	--
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		355	1,246	1,854	2,571	3,518	4,735	6,293	8,278
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		3	9	12	15	18	21	25	29
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF - millions)	Ratio	1,028	1,583	2,336	3,334	4,595	6,191	8,202	10,730
Terminal value ($US - millions)	12	99	134	174	218	265	314	366	421
	IPO								
Total cash flow to shareholders ($US - millions)	Year								
Cash flow available to shareholders prior to IPO	5	3	9	12	15	18	--	--	--
Cash flow to shareholders from public offering		--	--	--	--	265	--	--	--
Total cashflow to sharenolders		3	9	12	15	283	--	--	--
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	74	2	5	4	4	53	--	--	--
Net present value (HUF in millions)	7,922								

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Szikra Ladnyomda Rt. - Culture

Operating Assumptions:	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF - millions)	35,720	35,720	35,720	36,077	36,799	37,535	38,285	39,051	39,832
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF - millions)	35,720	42,505	49,515	57,511	67,461	79,131	92,821	108,879	127,715
Foreign sales:									
Real growth of $US sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US - millions)	--	--	--	--	--	--	--	--	--
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF - millions)	--	--	--	--	--	--	--	--	--
Real growth of DM sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM - millions)	--	--	--	--	--	--	--	--	--
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF - millions)	--	--	--	--	--	--	--	--	--
Total nominal sales (HUF - millions)	35,720	42,505	49,515	57,511	67,461	79,131	92,821	108,879	127,715
Estimated cost of goods sold									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF - millions)	23,611	23,611	23,611	23,847	24,324	24,811	25,307	25,813	26,329
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF - millions)	23,611	28,096	32,729	38,015	44,592	52,306	61,355	71,969	84,420
Foreign purchases									
Real cost of $US goods & services ($US - millions)	100	100	100	101	103	105	108	110	112
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US - millions)	100	104	107	112	118	125	132	139	147
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF - millions)	9,777	11,999	14,281	16,970	20,366	24,442	29,333	35,203	42,247
Real cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF - millions)	--	--	--	--	--	--	--	--	--
Total nominal cost of goods & services (HUF - millions)	33,388	40,095	47,010	54,985	64,958	76,748	90,688	107,172	126,667

Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF - millions)	1,172	1,172	1,172	1,184	1,207	1,232	1,256	1,281	1,307
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF - millions)	1,172	1,395	1,625	1,887	2,213	2,596	3,046	3,572	4,190
Real capital expenditures ($US - millions)		1	1	1	1	1	1	1	1
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US - millions)		1	1	1	1	1	1	1	1
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF - millions)		60	71	84	99	116	136	160	189
Tangible long-term assets, beg. of period (HUF - millions)		3,500	3,410	3,331	3,265	3,213	3,179	3,166	3,176
Nominal depreciation (HUF - millions)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)
Nominal capital expenditures (HUF - millions)		60	71	84	99	116	136	160	189
Tangible long-term assets, end of period	3,500	3,410	3,331	3,265	3,213	3,179	3,166	3,176	3,215
Net income before taxes paid out as dividends		--	--	--	--	--	--	--	--
Net Income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding taxes		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		45	45	45	45	45	45	45	45
Inventory Turns		7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Prepaid expenses as a % of cost of goods sold		0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Payable Turns		12	12	12	12	12	12	12	12
Accruals as % of SG&A		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF - millions)	--	--	--	--	--	--	--	--	--
Amortization of principal - (years)	30	--	--	--	--	--	--	--	--
Ending principal balance		--	--	--	--	--	--	--	--
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		--	--	--	--	--	--	--	--
Issuance of common equity (nominal - HUF millions)		--	--	--	--	--	--	--	--

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INCOME STATEMENT (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	35,720	42,505	49,515	57,511	67,461	79,131	92,821	108,879	127,715
(Cost of Goods Sold)	(33,388)	(40,095)	(47,010)	(54,985)	(64,958)	(76,748)	(90,688)	(107,172)	(126,667)
GROSS PROFIT	2,332	2,410	2,505	2,526	2,503	2,384	2,133	1,707	1,048
Gross Profit Margin	*6.5%*	*5.7%*	*5.1%*	*4.4%*	*3.7%*	*3.0%*	*2.3%*	*1.6%*	*0.8%*
(Selling, General, & Admin. Expense)	(1,172)	(1,395)	(1,625)	(1,887)	(2,213)	(2,596)	(3,046)	(3,572)	(4,190)
OPERATING INCOME (EBITDA)	1,160	1,015	880	639	289	(213)	(912)	(1,865)	(3,142)
(Depreciation & Amortization)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)
EBIT	1,010	865	730	489	139	(363)	(1,062)	(2,015)	(3,292)
Interest and other financial income	120	205	261	214	101	(155)	(614)	(1,379)	(2,576)
(Interest Expense)	(170)	--	--	--	--	--	--	--	--
EARNINGS BEFORE TAXES	960	1,071	991	703	240	(517)	(1,676)	(3,394)	(5,868)
Extraordinary gain/(loss)	(150)	--	--	--	--	--	--	--	--
(Taxes)	(146)	(193)	(178)	(127)	(43)	--	--	--	--
NET INCOME	664	878	813	577	197	(517)	(1,676)	(3,394)	(5,868)

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BALANCE SHEET (HUF in millions)

ASSETS	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Intangible and Invested Financial Assets	70	70	70	70	70	70	70	70	70
Net Tangible Long-term Assets	3,500	3,410	3,331	3,265	3,213	3,179	3,166	3,176	3,215
Cash & Marketable Securities	874	1,273	1,046	491	(754)	(2,995)	(6,726)	(12,565)	(21,337)
Accounts Receivable	3,900	5,240	6,189	7,189	8,433	9,891	11,603	13,610	15,964
Inventories	5,300	5,728	6,716	7,855	9,280	10,964	12,955	15,310	18,095
Prepaid expenses	14	40	47	55	65	77	91	107	127
Total Current Assets	10,088	12,281	13,998	15,590	17,023	17,937	17,922	16,462	12,849
TOTAL ASSETS	13,658	15,761	17,399	18,925	20,306	21,186	21,158	19,708	16,134
EQUITY, RESERVES & LIABILITIES									
Common Stock	9,016	9,016	9,016	9,016	9,016	9,016	9,016	9,016	9,016
Retained Earnings:									
Beginning	337	1,001	1,879	2,692	3,268	3,465	2,948	1,272	(2,123)
Dividends	--	--	--	--	--	--	--	--	--
Current year earnings	664	878	813	577	197	(517)	(1,676)	(3,394)	(5,868)
Ending	1,001	1,879	2,692	3,268	3,465	2,948	1,272	(2,123)	(7,991)
Shareholders' Equity	10,017	10,895	11,708	12,284	12,481	11,964	10,288	6,893	1,025
Target Reserves	4	4	4	4	4	4	4	4	4
Long-term Credits and Liabilities	--	--	--	--	--	--	--	--	--
Trade credits	2,447	3,458	4,053	4,739	5,598	6,612	7,811	9,229	10,905
Other Accrued Liabilities	1,180	1,395	1,625	1,887	2,213	2,596	3,046	3,572	4,190
Current Portion: Long-term debt	--	--	--	--	--	--	--	--	--
Total Current Liabilities	3,627	4,852	5,677	6,626	7,811	9,208	10,857	12,801	15,095
Total Liabilities	3,627	4,852	5,677	6,626	7,811	9,208	10,857	12,801	15,095
Other	10	10	10	10	10	10	10	10	10
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	13,658	15,761	17,399	18,925	20,306	21,186	21,158	19,708	16,134
	0	0	0	0	0	0	0	0	0

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CASH FLOW STATEMENT (HUF - millions)

		Projected Year Ending							
	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Cash Flows from Operating Activities:									
Net Income		878	813	577	197	(517)	(1,676)	(3,394)	(5,868)
Depreciation & Amortization		150	150	150	150	150	150	150	150
Changes in Working Capital		(569)	(1,118)	(1,198)	(1,494)	(1,758)	(2,068)	(2,434)	(2,865)
Cash provided by operating activities		459	(156)	(471)	(1,147)	(2,125)	(3,595)	(5,678)	(8,583)
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(60)	(71)	(84)	(99)	(116)	(136)	(160)	(189)
Repayment of principal of Long-term Debt		--	--	--	--	--	--	--	--
Issuance of Common Stock		--	--	--	--	--	--	--	--
Cash used in investing/investing activities		(60)	(71)	(84)	(99)	(116)	(136)	(160)	(189)
Increase (decrease) in cash		399	(227)	(555)	(1,245)	(2,241)	(3,731)	(5,839)	(8,772)
Cash, beginning of the period		874	1,273	1,046	491	(754)	(2,995)	(6,726)	(12,565)
Increase (decrease) in cash		399	(227)	(555)	(1,245)	(2,241)	(3,731)	(5,839)	(8,772)
Dividends		--	--	--	--	--	--	--	--
Cash, end of period		1,273	1,046	491	(754)	(2,995)	(6,726)	(12,565)	(21,337)
Increase (decrease) in cash		399	(227)	(555)	(1,245)	(2,241)	(3,731)	(5,839)	(8,772)
Dividends		--	--	--	--	--	--	--	--
Dividend withholding tax		--	--	--	--	--	--	--	--
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		399	(227)	(555)	(1,245)	(2,241)	(3,731)	(5,839)	(8,772)
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		3	(2)	(4)	(7)	(11)	(17)	(23)	(31)
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF - millions)	Ratio	878	813	577	197	(517)	(1,676)	(3,394)	(5,868)
Terminal value ($US - millions)	12	85	69	43	13	(30)	(85)	(151)	(230)
	IPO								
Total cash flow to shareholders ($US - millions)	Year								
Cash flow available to shareholders prior to IPO	5	3	(2)	(4)	(7)	(11)	--	--	--
Cash flow to shareholders from public offering		--	--	--	--	--	--	--	--
Total cashflow to shareholders		3	(2)	(4)	(7)	(11)	--	--	--
Discount rate	40.0%								
Net present value ($US in millions)	4	2	(1)	(1)	(2)	(2)	--	--	--
Net present value (HUF in millions)	472								

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Kalocsakornyeki Agraripari Rt. - Trademark

Operating Assumptions:	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF - millions)	3,586	3,586	3,586	3,622	3,694	3,768	3,844	3,920	3,999
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF - millions)	3,586	4,267	4,971	5,774	6,773	7,944	9,318	10,931	12,822
Foreign sales:									
Real growth of $US sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US - millions)	11	11	11	11	12	12	12	12	13
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US - millions)	11	12	12	13	13	14	15	16	17
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF - millions)	1,108	1,360	1,618	1,923	2,308	2,770	3,324	3,989	4,788
Real growth of DM sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM - millions)	--	--	--	--	--	--	--	--	--
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF - millions)	--	--	--	--	--	--	--	--	--
Total nominal sales (HUF - millions)	4,694	5,627	6,589	7,697	9,081	10,714	12,643	14,920	17,609
Estimated cost of goods sold									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF - millions)	1,485	1,485	1,485	1,500	1,530	1,560	1,592	1,623	1,656
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF - millions)	1,485	1,767	2,058	2,391	2,805	3,290	3,859	4,526	5,310
Foreign purchases									
Real cost of $US goods & services ($US - millions)	9	9	9	9	9	9	9	10	10
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US - millions)	9	9	9	10	10	11	11	12	13
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF - millions)	853	1,046	1,245	1,480	1,776	2,131	2,558	3,069	3,684
Real cost of DM goods & services (DM - millions)	11	11	11	12	12	12	12	13	13
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM - millions)	11	12	12	12	13	14	14	15	16
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF - millions)	748	898	1,078	1,293	1,567	1,898	2,299	2,785	3,373
Total nominal cost of goods & services (HUF - millions)	3,086	3,711	4,382	5,164	6,147	7,319	8,715	10,381	12,367

Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF - millions)	1,244	1,244	1,244	1,256	1,282	1,307	1,333	1,360	1,387
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7861	3.2063
Nominal SG&A expense (HUF - millions)	1,244	1,480	1,724	2,003	2,349	2,756	3,233	3,792	4,448
Real capital expenditures ($US - millions)		1	1	1	1	1	1	1	1
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US - millions)		1	1	1	1	1	1	1	1
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF - millions)		120	142	167	197	232	273	321	378
Tangible long-term assets, beg. of period (HUF - millions)		8,077	7,980	7,905	7,855	7,835	7,850	7,906	8,010
Nominal depreciation (HUF - millions)	(217)	(217)	(217)	(217)	(217)	(217)	(217)	(217)	(217)
Nominal capital expenditures (HUF - millions)		120	142	167	197	232	273	321	378
Tangible long-term assets, end of period	8,077	7,980	7,905	7,855	7,835	7,850	7,906	8,010	8,171
Net income before taxes paid out as dividends		--	--	--	--	--	--	--	--
Net income tax		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding tax		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		250	250	250	250	250	250	250	250
Inventory Turns		2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Prepaid expenses as a % of cost of goods sold		1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Payable Turns		18	18	18	18	18	18	18	18
Accruals as % of SG&A		350.0%	350.0%	350.0%	350.0%	350.0%	350.0%	350.0%	350.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF - millions)	141	141	136	132	127	122	118	113	108
Amortization of principal - (years)	30	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Ending principal balance		136	132	127	122	118	113	108	103
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		40	34	33	32	31	29	28	27
Issuance of common equity (nominal - HUF millions)		--	--	--	--	--	--	--	--

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Kalocsakornyeki Agraripari Rt. - Trademark

INCOME STATEMENT (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	4,694	5,627	6,589	7,697	9,081	10,714	12,643	14,920	17,609
(Cost of Goods Sold)	(3,086)	(3,711)	(4,382)	(5,164)	(6,147)	(7,319)	(8,715)	(10,381)	(12,367)
GROSS PROFIT	1,609	1,916	2,207	2,533	2,934	3,395	3,927	4,539	5,243
Gross Profit Margin	*34.3%*	*34.1%*	*33.5%*	*32.9%*	*32.3%*	*31.7%*	*31.1%*	*30.4%*	*29.8%*
(Selling, General, & Admin. Expense)	(1,244)	(1,480)	(1,724)	(2,003)	(2,349)	(2,756)	(3,233)	(3,792)	(4,448)
OPERATING INCOME (EBITDA)	365	436	483	530	584	640	695	747	795
(Depreciation & Amortization)	(217)	(217)	(217)	(217)	(217)	(217)	(217)	(217)	(217)
EBIT	148	219	266	313	367	423	478	530	578
Interest and other financial income	1,195	17	119	159	213	272	333	393	448
(Interest Expense)	(968)	(40)	(34)	(33)	(32)	(31)	(29)	(28)	(27)
EARNINGS BEFORE TAXES	375	196	351	439	549	664	781	895	998
Extraordinary gain/(loss)	72	--	--	--	--	--	--	--	--
(Taxes)	(378)	(35)	(63)	(79)	(99)	(119)	(141)	(161)	(180)
NET INCOME	69	161	287	360	450	544	640	734	819

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Kalocsakornyeki Agraripari Rt. - Trademark

BALANCE SHEET (HUF in millions)

ASSETS	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Intangible and Invested Financial Assets	4,483	4,483	4,483	4,483	4,483	4,483	4,483	4,483	4,483
Net Tangible Long-term Assets	8,077	7,980	7,905	7,855	7,835	7,850	7,906	8,010	8,171
Cash & Marketable Securities	72	579	774	1,041	1,325	1,622	1,916	2,183	2,389
Accounts Receivable	3,695	3,854	4,576	5,345	6,306	7,440	8,780	10,361	12,229
Inventories	1,660	1,855	2,191	2,582	3,073	3,659	4,358	5,190	6,183
Prepaid expenses	39	56	66	77	92	110	131	156	185
Total Current Assets	5,466	6,344	7,607	9,045	10,797	12,832	15,184	17,891	20,987
TOTAL ASSETS	18,026	18,807	19,995	21,383	23,115	25,165	27,573	30,384	33,640
EQUITY, RESERVES & LIABILITIES									
Common Stock	10,849	10,849	10,849	10,849	10,849	10,849	10,849	10,849	10,849
Retained Earnings:									
Beginning	1,650	1,716	1,876	2,164	2,524	2,974	3,518	4,158	4,892
Dividends	(3)	--	--	--	--	--	--	--	--
Current year earnings	69	161	287	360	450	544	640	734	819
Ending	1,716	1,876	2,164	2,524	2,974	3,518	4,158	4,892	5,711
Shareholders' Equity	12,565	12,725	13,013	13,373	13,823	14,367	15,007	15,741	16,560
Target Reserves	59	59	59	59	59	59	59	59	59
Long-term Credits and Liabilities	136	132	127	122	118	113	108	103	103
Trade credits	245	288	339	398	472	560	664	787	934
Other Accrued Liabilities	4,600	5,181	6,035	7,010	8,223	9,646	11,314	13,272	15,568
Current Portion: Long-term debt	5	5	5	5	5	5	5	5	--
Total Current Liabilities	4,850	5,474	6,379	7,413	8,700	10,210	11,983	14,064	16,502
Total Liabilities	4,986	5,606	6,506	7,535	8,817	10,323	12,091	14,167	16,605
Other	96	96	96	96	96	96	96	96	96
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	17,705	18,486	19,674	21,062	22,794	24,844	27,252	30,063	33,319
	(321)	(321)	(321)	(321)	(321)	(321)	(321)	(321)	(321)

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CASH FLOW STATEMENT (HUF in millions)

Kalocsakornyeki Agraripari Rt. - Trademark

	Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Cash Flows from Operating Activities:									
Net Income		161	287	360	450	544	640	734	819
Depreciation & Amortization		217	217	217	217	217	217	217	217
Changes in Working Capital		253	(162)	(138)	(181)	(228)	(286)	(358)	(448)
Cash provided by operating activities		631	342	439	486	534	571	593	588
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(120)	(142)	(167)	(197)	(232)	(273)	(321)	(378)
Repayment of principal of Long-term Debt		(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Issuance of Common Stock		–	–	–	–	–	–	–	–
Cash used in Investing/Investing activities		(124)	(147)	(172)	(202)	(237)	(277)	(326)	(382)
Increase (decrease) in cash		507	195	266	285	297	294	267	206
Cash, beginning of the period		72	579	774	1,041	1,325	1,622	1,916	2,183
Increase (decrease) in cash		507	195	266	285	297	294	267	206
Dividends		–	–	–	–	–	–	–	–
Cash, end of period		579	774	1,041	1,325	1,622	1,916	2,183	2,389
Increase (decrease) in cash		507	195	266	285	297	294	267	206
Dividends		–	–	–	–	–	–	–	–
Dividend withholding tax		–	–	–	–	–	–	–	–
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		507	195	266	285	297	294	267	206
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		4	1	2	2	2	1	1	1
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF - millions)	Ratio	161	287	360	450	544	640	734	819
Terminal value ($US - millions)	12	15	24	27	29	31	32	33	32
Total cash flow to shareholders ($US - millions)	IPO Year								
Cash flow available to shareholders prior to IPO	5	4	1	2	2	2	–	–	–
Cash flow to shareholders from public offering		–	–	–	–	31	–	–	–
Total cashflow to shareholders		4	1	2	2	33	–	–	–
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	12	3	1	1	0	6	–	–	–
Net present value (HUF in millions)	1,255								

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Hungarpharma Rt. - Pharmaceutical

Operating Assumptions:	Year Ending	Projected Year Ending							
Estimated net sales	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Domestic sales:									
Real domestic sales growth rate		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF - millions)	1,742	1,742	1,742	1,759	1,795	1,831	1,867	1,904	1,943
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF - millions)	1,742	2,073	2,415	2,805	3,290	3,859	4,527	5,310	6,228
Foreign sales:									
Real growth of $US sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US - millions)	0	0	0	0	0	0	0	0	0
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US - millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF - millions)	25	30	36	43	52	62	74	89	107
Real growth of DM sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM - millions)	0	0	0	0	0	0	0	0	0
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM - millions)	0	0	0	0	0	0	0	0	0
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF - millions)	8	10	12	14	17	21	25	31	37
Total nominal sales (HUF - millions)	1,775	2,113	2,463	2,862	3,359	3,942	4,626	5,430	6,373
Estimated cost of goods sold									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF - millions)	1,114	1,114	1,114	1,125	1,148	1,171	1,194	1,218	1,242
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF - millions)	1,114	1,326	1,544	1,794	2,104	2,468	2,895	3,396	3,983
Foreign purchases									
Real cost of $US goods & services ($US - millions)	2	2	2	2	2	2	2	2	2
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US - millions)	2	2	2	2	2	2	3	3	3
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF - millions)	191	234	279	332	398	477	573	688	825
Real cost of DM goods & services (DM - millions)	3	3	3	3	3	3	3	3	3
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM - millions)	3	3	3	3	3	3	4	4	4
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF - millions)	191	229	275	330	400	485	587	711	861
Total nominal cost of goods & services (HUF - millions)	1,496	1,789	2,098	2,455	2,902	3,430	4,055	4,794	5,670

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Operating Assumptions (continued):	Year Ending Dec-92	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF - millions)	137	137	137	138	141	144	147	150	153
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF - millions)	137	163	190	221	259	303	356	418	490
Real capital expenditures ($US - millions)		0	0	0	0	0	0	0	0
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US - millions)		0	0	0	0	0	0	0	0
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF - millions)		24	28	33	39	46	55	64	76
Tangible long-term assets, beg. of period (HUF - millions)		1,974	1,947	1,924	1,907	1,895	1,891	1,894	1,907
Nominal depreciation (HUF - millions)	(51)	(51)	(51)	(51)	(51)	(51)	(51)	(51)	(51)
Nominal capital expenditures (HUF - millions)		24	28	33	39	46	55	64	76
Tangible long-term assets, end of period	1,974	1,947	1,924	1,907	1,895	1,891	1,894	1,907	1,932
Net income before taxes paid out as dividends		--	--	--	--	--	--	--	--
Net income tax		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		45	45	45	45	45	45	45	45
Inventory Turns		1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Prepaid expenses as a % of cost of goods sold		3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Payable Turns		18	18	18	18	18	18	18	18
Accruals as % of SG&A		40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF - millions)	--	--	--	--	--	--	--	--	--
Amortization of principal - (years)	30	--	--	--	--	--	--	--	--
Ending principal balance		--	--	--	--	--	--	--	--
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		--	--	--	--	--	--	--	--
Issuance of common equity (nominal - HUF millions)		--	--	--	--	--	--	--	--

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Hungarpharma Rt. - Pharmaceutical

INCOME STATEMENT (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	1,775	2,113	2,463	2,862	3,359	3,942	4,626	5,430	6,373
(Cost of Goods Sold)	(1,496)	(1,789)	(2,098)	(2,455)	(2,902)	(3,430)	(4,055)	(4,794)	(5,670)
GROSS PROFIT	279	324	364	407	457	512	571	635	703
Gross Profit Margin	*15.7%*	*15.3%*	*14.8%*	*14.2%*	*13.6%*	*13.0%*	*12.4%*	*11.7%*	*11.0%*
(Selling, General, & Admin. Expense)	(137)	(163)	(190)	(221)	(259)	(303)	(356)	(418)	(490)
OPERATING INCOME (EBITDA)	142	161	174	186	198	208	215	218	213
(Depreciation & Amortization)	(51)	(51)	(51)	(51)	(51)	(51)	(51)	(51)	(51)
EBIT	91	110	123	135	147	157	164	167	162
Interest and other financial income	429	354	209	221	230	227	212	179	122
(Interest Expense)	–	–	–	–	–	–	–	–	–
EARNINGS BEFORE TAXES	520	464	332	356	377	384	376	346	284
Extraordinary gain/(loss)	(60)	–	–	–	–	–	–	–	–
(Taxes)	(83)	(84)	(60)	(64)	(68)	(69)	(68)	(62)	(51)
NET INCOME	377	381	272	292	309	315	309	283	233

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Hungarpharma Rt. - Pharmaceutical

BALANCE SHEET (HUF in millions)	Year Ending	Projected Year Ending							
ASSETS	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Intangible and Invested Financial Assets	683	683	683	683	683	683	683	683	683
Net Tangible Long-term Assets	1,974	1,947	1,924	1,907	1,895	1,891	1,894	1,907	1,932
Cash & Marketable Securities	1,507	1,017	1,077	1,120	1,107	1,034	873	593	151
Accounts Receivable	160	261	308	358	420	493	578	679	797
Inventories	360	1,193	1,399	1,637	1,935	2,287	2,703	3,196	3,780
Prepaid expenses	20	63	73	86	102	120	142	168	198
Total Current Assets	2,047	2,533	2,857	3,201	3,563	3,933	4,297	4,636	4,926
TOTAL ASSETS	4,704	5,163	5,465	5,790	6,142	6,507	6,874	7,226	7,541
EQUITY, RESERVES & LIABILITIES									
Common Stock	4,131	4,131	4,131	4,131	4,131	4,131	4,131	4,131	4,131
Retained Earnings:									
Beginning	82	459	840	1,112	1,404	1,713	2,028	2,337	2,620
Dividends	--	--	--	--	--	--	--	--	--
Current year earnings	377	381	272	292	309	315	309	283	233
Ending	459	840	1,112	1,404	1,713	2,028	2,337	2,620	2,853
Shareholders' Equity	4,590	4,971	5,243	5,535	5,844	6,159	6,468	6,751	6,984
Target Reserves	19	19	19	19	19	19	19	19	19
Long-term Credits and Liabilities	--	--	--	--	--	--	--	--	--
Trade credits	50	108	127	149	176	207	245	290	342
Other Accrued Liabilities	45	65	76	88	103	121	142	167	196
Current Portion: Long-term debt	--	--	--	--	--	--	--	--	--
Total Current Liabilities	95	174	203	237	279	329	387	457	538
Total Liabilities	95	174	203	237	279	329	387	457	538
Other	--	--	--	--	--	--	--	--	--
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	4,704	5,163	5,465	5,791	6,142	6,507	6,874	7,227	7,541
	0	0	0	0	0	0	0	0	0

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Hungarpharma Rt. - Pharmaceutical

CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Cash Flows from Operating Activities:									
Net Income		381	272	292	309	315	309	283	233
Depreciation & Amortization		51	51	51	51	51	51	51	51
Changes in Working Capital		(897)	(235)	(266)	(333)	(394)	(465)	(550)	(651)
Cash provided by operating activities		(466)	88	76	27	(27)	(106)	(216)	(367)
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(24)	(28)	(33)	(39)	(46)	(55)	(64)	(76)
Repayment of principal of Long-term Debt		--	--	--	--	--	--	--	--
Issuance of Common Stock		--	--	--	--	--	--	--	--
Cash used in investing/investing activities		(24)	(28)	(33)	(39)	(46)	(55)	(64)	(76)
Increase (decrease) in cash		(490)	60	43	(13)	(74)	(160)	(280)	(442)
Cash, beginning of the period		1,507	1,017	1,077	1,120	1,107	1,034	873	593
Increase (decrease) in cash		(490)	60	43	(13)	(74)	(160)	(280)	(442)
Dividends		--	--	--	--	--	--	--	--
Cash, end of period		1,017	1,077	1,120	1,107	1,034	873	593	151
Increase (decrease) in cash		(490)	60	43	(13)	(74)	(160)	(280)	(442)
Dividends		--	--	--	--	--	--	--	--
Dividend withholding tax		--	--	--	--	--	--	--	--
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		(490)	60	43	(13)	(74)	(160)	(280)	(442)
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		(4)	0	0	(0)	(0)	(1)	(1)	(2)
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF - millions)	Ratio	381	272	292	309	315	309	283	233
Terminal value ($US - millions)	12	37	23	22	20	18	16	13	9
	IPO								
Total cash flow to shareholders ($US - millions)	Year								
Cash flow available to shareholders prior to IPO	5	(4)	0	0	(0)	(0)	--	--	--
Cash flow to shareholders from public offering		--	--	--	--	18	--	--	--
Total cashflow to shareholders		(4)	0	0	(0)	18	--	--	--
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	15	(3)	0	0	(0)	3	--	--	--
Net present value (HUF in millions)	1,571								

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Vadex Rt. - Forest Products

Operating Assumptions:	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF - millions)	4,158	4,158	4,158	4,200	4,284	4,369	4,457	4,546	4,637
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF - millions)	4,158	4,948	5,764	6,695	7,853	9,211	10,805	12,674	14,867
Foreign sales:									
Real growth of $US sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US - millions)	2	2	2	2	2	2	2	2	3
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US - millions)	2	2	2	3	3	3	3	3	3
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF - millions)	221	271	323	383	460	552	662	795	954
Real growth of DM sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM - millions)	2	2	2	2	2	2	2	2	3
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM - millions)	2	2	2	2	3	3	3	3	3
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF - millions)	147	177	212	254	308	373	452	548	664
Total nominal sales (HUF - millions)	4,526	5,395	6,298	7,332	8,621	10,137	11,920	14,017	16,485
Estimated cost of goods sold									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF - millions)	2,990	2,990	2,990	3,020	3,080	3,142	3,205	3,269	3,334
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF - millions)	2,990	3,558	4,145	4,814	5,647	6,624	7,770	9,114	10,691
Foreign purchases									
Real cost of $US goods & services ($US - millions)	3	3	3	3	3	3	3	3	3
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US - millions)	3	3	3	3	3	3	4	4	4
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF - millions)	271	333	396	470	565	677	813	976	1,171
Real cost of DM goods & services (DM - millions)	8	8	8	8	9	9	9	9	9
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM - millions)	8	8	9	9	9	10	10	11	11
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF - millions)	542	650	781	937	1,135	1,375	1,666	2,018	2,444
Total nominal cost of goods & services (HUF - millions)	3,803	4,541	5,322	6,222	7,347	8,676	10,249	12,107	14,306

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF - millions)	319	319	319	322	329	335	342	349	356
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF - millions)	319	380	442	514	602	707	829	972	1,141
Real capital expenditures ($US - millions)		1	1	1	1	1	1	1	1
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US - millions)		1	1	1	1	1	1	1	1
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF - millions)		120	142	167	197	232	273	321	378
Tangible long-term assets, beg. of period (HUF - millions)		3,342	3,225	3,130	3,060	3,020	3,015	3,051	3,135
Nominal depreciation (HUF - millions)	(237)	(237)	(237)	(237)	(237)	(237)	(237)	(237)	(237)
Nominal capital expenditures (HUF - millions)		120	142	167	197	232	273	321	378
Tangible long-term assets, end of period	3,342	3,225	3,130	3,060	3,020	3,015	3,051	3,135	3,276
Net income before taxes paid out as dividends		--	--	--	--	--	--	--	--
Net income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding tax		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		60	60	60	60	60	60	60	60
Inventory Turns		15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Prepaid expenses as a % of cost of goods sold		0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Payable Turns		12	12	12	12	12	12	12	12
Accruals as % of SG&A		160.0%	160.0%	160.0%	160.0%	160.0%	160.0%	160.0%	160.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF - millions)	260	260	251	243	234	225	217	208	199
Amortization of principal - (years)	30	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
Ending principal balance		251	243	234	225	217	208	199	191
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		73	63	61	59	56	54	52	50
Issuance of common equity (nominal - HUF millions)		--	--	--	--	--	--	--	--

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Vadex Rt. - Forest Products

INCOME STATEMENT (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	4,526	5,395	6,298	7,332	8,621	10,137	11,920	14,017	16,485
(Cost of Goods Sold)	(3,803)	(4,541)	(5,322)	(6,222)	(7,347)	(8,676)	(10,249)	(12,107)	(14,306)
GROSS PROFIT	723	855	977	1,111	1,274	1,460	1,671	1,910	2,179
Gross Profit Margin	*16.0%*	*15.8%*	*15.5%*	*15.1%*	*14.8%*	*14.4%*	*14.0%*	*13.6%*	*13.2%*
(Selling, General, & Admin. Expense)	(319)	(380)	(442)	(514)	(602)	(707)	(829)	(972)	(1,141)
OPERATING INCOME (EBITDA)	404	475	534	597	672	754	842	937	1,038
(Depreciation & Amortization)	(237)	(237)	(237)	(237)	(237)	(237)	(237)	(237)	(237)
EBIT	167	238	297	360	435	517	605	700	801
Interest and other financial income	4	2	26	78	145	229	331	456	604
(Interest Expense)	(67)	(73)	(63)	(61)	(59)	(56)	(54)	(52)	(50)
EARNINGS BEFORE TAXES	104	167	261	377	522	689	882	1,104	1,356
Extraordinary gain/(loss)	(1)	–	–	–	–	–	–	–	–
(Taxes)	(19)	(30)	(47)	(68)	(94)	(124)	(159)	(199)	(244)
NET INCOME	84	137	214	310	428	565	724	905	1,112

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Vadex Rt. - Forest Products

BALANCE SHEET (HUF in millions)

ASSETS	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Intangible and Invested Financial Assets	176	176	176	176	176	176	176	176	176
Net Tangible Long-term Assets	3,342	3,225	3,130	3,060	3,020	3,015	3,051	3,135	3,276
Cash & Marketable Securities	9	129	380	709	1,116	1,616	2,222	2,949	3,809
Accounts Receivable	769	887	1,050	1,222	1,437	1,689	1,987	2,336	2,747
Inventories	292	303	355	415	490	578	683	807	954
Prepaid expenses	20	23	27	31	37	43	51	61	72
Total Current Assets	1,090	1,341	1,812	2,377	3,080	3,928	4,944	6,153	7,581
TOTAL ASSETS	4,608	4,742	5,118	5,614	6,276	7,119	8,171	9,463	11,033
EQUITY, RESERVES & LIABILITIES									
Common Stock	3,072	3,072	3,072	3,072	3,072	3,072	3,072	3,072	3,072
Retained Earnings:									
Beginning	68	152	290	503	813	1,241	1,806	2,530	3,435
Dividends	–	–	–	–	–	–	–	–	–
Current year earnings	84	137	214	310	428	565	724	905	1,112
Ending	152	290	503	813	1,241	1,806	2,530	3,435	4,547
Shareholders' Equity	3,224	3,362	3,575	3,885	4,313	4,878	5,602	6,507	7,619
Target Reserves	111	111	111	111	111	111	111	111	111
Long-term Credits and Liabilities	251	243	234	225	217	208	199	191	191
Trade credits	360	410	480	561	662	782	923	1,090	1,287
Other Accrued Liabilities	652	607	708	822	964	1,131	1,326	1,556	1,825
Current Portion: Long-term debt	9	9	9	9	9	9	9	9	–
Total Current Liabilities	1,021	1,026	1,197	1,392	1,635	1,921	2,258	2,654	3,112
Total Liabilities	1,272	1,269	1,431	1,617	1,852	2,129	2,457	2,845	3,303
Other	1	1	1	1	1	1	1	1	1
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	4,608	4,742	5,118	5,614	6,277	7,119	8,171	9,464	11,033
	0	0	0	0	0	0	0	0	0

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Vadex Rt. - Forest Products

CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Cash Flows from Operating Activities:									
Net Income		137	214	310	428	565	724	905	1,112
Depreciation & Amortization		237	237	237	237	237	237	237	237
Changes in Working Capital		(126)	(48)	(42)	(52)	(62)	(73)	(86)	(102)
Cash provided by operating activities		248	403	505	613	740	888	1,056	1,246
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(120)	(142)	(167)	(197)	(232)	(273)	(321)	(378)
Repayment of principal of Long-term Debt		(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
Issuance of Common Stock		--	--	--	--	--	--	--	--
Cash used in Investing/Investing activities		(128)	(151)	(176)	(206)	(240)	(281)	(330)	(386)
Increase (decrease) in cash		120	252	329	407	500	606	726	860
Cash, beginning of the period		9	129	380	709	1,116	1,616	2,222	2,949
Increase (decrease) in cash		120	252	329	407	500	606	726	860
Dividends		--	--	--	--	--	--	--	--
Cash, end of period		129	380	709	1,116	1,616	2,222	2,949	3,809
Increase (decrease) in cash		120	252	329	407	500	606	726	860
Dividends		--	--	--	--	--	--	--	--
Dividend withholding tax		--	--	--	--	--	--	--	--
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		120	252	329	407	500	606	726	860
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		1	2	2	2	3	3	3	3
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF - millions)	Ratio	137	214	310	428	565	724	905	1,112
Terminal value ($US - millions)	12	13	18	23	28	33	37	40	44
	IPO								
Total cash flow to shareholders ($US - millions)	Year								
Cash flow available to shareholders prior to IPO	5	1	2	2	2	3	--	--	--
Cash flow to shareholders from public offering		--	--	--	--	33	--	--	--
Total cashflow to shareholders		1	2	2	2	35	--	--	--
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	10	1	1	1	1	7	--	--	--
Net present value (HUF in millions)	1,041								

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Tiszantuli Gazszolgaltato Rt. - Energy

Operating Assumptions:	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF - millions)	1,605	1,605	1,605	1,621	1,653	1,687	1,720	1,755	1,790
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF - millions)	1,605	1,910	2,225	2,584	3,031	3,556	4,171	4,892	5,739
Foreign sales:									
Real growth of $US sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US - millions)	4	4	4	4	4	4	4	4	4
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US - millions)	4	4	4	4	4	4	5	5	5
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF - millions)	350	430	511	608	729	875	1,050	1,260	1,512
Real growth of DM sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM - millions)	5	5	5	5	6	6	6	6	6
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM - millions)	5	5	6	6	6	6	7	7	7
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF - millions)	350	420	504	605	733	888	1,076	1,303	1,578
Total nominal sales (HUF - millions)	2,305	2,759	3,241	3,797	4,493	5,319	6,296	7,455	8,829
Estimated cost of goods sold									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF - millions)	1,440	1,440	1,440	1,454	1,483	1,513	1,543	1,574	1,606
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF - millions)	1,440	1,714	1,996	2,318	2,720	3,190	3,742	4,389	5,149
Foreign purchases									
Real cost of $US goods & services ($US - millions)	--	--	--	--	--	--	--	--	--
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF - millions)	--	--	--	--	--	--	--	--	--
Real cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF - millions)	--	--	--	--	--	--	--	--	--
Total nominal cost of goods & services (HUF - millions)	1,440	1,714	1,996	2,318	2,720	3,190	3,742	4,389	5,149

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF - millions)	661	661	661	668	681	695	708	723	737
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF - millions)	661	787	916	1,064	1,248	1,464	1,718	2,015	2,363
Real capital expenditures ($US - millions)		0	0	0	0	0	0	0	0
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US - millions)		0	0	0	0	0	0	0	0
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF - millions)		12	14	17	20	23	27	32	38
Tangible long-term assets, beg. of period (HUF - millions)		480	459	440	424	411	401	395	394
Nominal depreciation (HUF - millions)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)
Nominal capital expenditures (HUF - millions)		12	14	17	20	23	27	32	38
Tangible long-term assets, end of period	480	459	440	424	411	401	395	394	399
Net income before taxes paid out as dividends		--	--	--	--	--	--	--	--
Net Income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding taxes		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		40	40	40	40	40	40	40	40
Inventory Turns		1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Prepaid expenses as a % of cost of goods sold		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Payable Turns		24	24	24	24	24	24	24	24
Accruals as % of SG&A		60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF - millions)	96	96	93	90	86	83	80	77	74
Amortization of principal - (years)	30	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Ending principal balance		93	90	86	83	80	77	74	70
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		27	23	22	22	21	20	19	18
Issuance of common equity (nominal - HUF millions)		--	--	--	--	--	--	--	--

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Tiszantuli Gazszolgaltato Rt. - Energy

INCOME STATEMENT (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	2,305	2,759	3,241	3,797	4,493	5,319	6,296	7,455	8,829
(Cost of Goods Sold)	(1,440)	(1,714)	(1,996)	(2,318)	(2,720)	(3,190)	(3,742)	(4,389)	(5,149)
GROSS PROFIT	865	1,046	1,244	1,478	1,774	2,128	2,554	3,066	3,681
Gross Profit Margin	*37.5%*	*37.9%*	*38.4%*	*38.9%*	*39.5%*	*40.0%*	*40.6%*	*41.1%*	*41.7%*
(Selling, General, & Admin. Expense)	(661)	(787)	(916)	(1,064)	(1,248)	(1,464)	(1,718)	(2,015)	(2,363)
OPERATING INCOME (EBITDA)	204	259	328	414	525	664	837	1,051	1,317
(Depreciation & Amortization)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)
EBIT	171	226	295	381	492	631	804	1,018	1,284
Interest and other financial income	7	2	10	33	70	124	202	314	471
(Interest Expense)	(75)	(27)	(23)	(22)	(22)	(21)	(20)	(19)	(18)
EARNINGS BEFORE TAXES	103	202	282	391	540	734	986	1,314	1,737
Extraordinary gain/(loss)	(3)	–	–	–	–	–	–	–	–
(Taxes)	(18)	(36)	(51)	(70)	(97)	(132)	(178)	(236)	(313)
NET INCOME	82	165	231	321	443	602	809	1,077	1,424

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Tiszantuli Gazszolgaltato Rt. - Energy

BALANCE SHEET (HUF in millions)	Year Ending	Projected Year Ending							
ASSETS	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Intangible and Invested Financial Assets	18	18	18	18	18	18	18	18	18
Net Tangible Long-term Assets	480	459	440	424	411	401	395	394	399
Cash & Marketable Securities	9	49	159	340	603	987	1,534	2,297	3,347
Accounts Receivable	255	302	360	422	499	591	700	828	981
Inventories	800	1,008	1,174	1,364	1,600	1,877	2,201	2,582	3,029
Prepaid expenses	35	51	60	70	82	96	112	132	154
Total Current Assets	1,099	1,411	1,753	2,195	2,783	3,550	4,547	5,839	7,511
TOTAL ASSETS	1,597	1,888	2,211	2,637	3,212	3,969	4,960	6,251	7,928
EQUITY, RESERVES & LIABILITIES									
Common Stock	844	844	844	844	844	844	844	844	844
Retained Earnings:									
Beginning	92	174	339	571	891	1,334	1,936	2,745	3,822
Dividends	--	--	--	--	--	--	--	--	--
Current year earnings	82	165	231	321	443	602	809	1,077	1,424
Ending	174	339	571	891	1,334	1,936	2,745	3,822	5,246
Shareholders' Equity	1,018	1,183	1,415	1,735	2,178	2,780	3,589	4,666	6,090
Target Reserves	6	6	6	6	6	6	6	6	6
Long-term Credits and Liabilities	93	90	86	83	80	77	74	70	70
Trade credits	52	104	121	141	165	194	227	267	313
Other Accrued Liabilities	395	472	550	639	749	879	1,031	1,209	1,418
Current Portion: Long-term debt	3	3	3	3	3	3	3	3	--
Total Current Liabilities	450	579	674	783	918	1,076	1,261	1,479	1,731
Total Liabilities	543	669	761	866	998	1,153	1,335	1,549	1,801
Other	30	30	30	30	30	30	30	30	30
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	1,597	1,888	2,211	2,637	3,212	3,969	4,960	6,251	7,928
	--	0	0	--	(0)	--	--	(0)	--

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Tiszantuli Gazszolgaltato Rt. - Energy

CASH FLOW STATEMENT (HUF - millions)

		Projected Year Ending							
	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Cash Flows from Operating Activities:									
Net Income		165	231	321	443	602	809	1,077	1,424
Depreciation & Amortization		33	33	33	33	33	33	33	33
Changes in Working Capital		(143)	(137)	(153)	(191)	(224)	(264)	(311)	(367)
Cash provided by operating activities		56	127	201	286	410	577	799	1,090
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(12)	(14)	(17)	(20)	(23)	(27)	(32)	(38)
Repayment of principal of Long-term Debt		(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Issuance of Common Stock		--	--	--	--	--	--	--	--
Cash used in Investing/Investing activities		(15)	(17)	(20)	(23)	(26)	(30)	(35)	(41)
Increase (decrease) in cash		40	109	181	263	384	547	763	1,050
Cash, beginning of the period		9	49	159	340	603	987	1,534	2,297
Increase (decrease) in cash		40	109	181	263	384	547	763	1,050
Dividends		--	--	--	--	--	--	--	--
Cash, end of period		49	159	340	603	987	1,534	2,297	3,347
Increase (decrease) in cash		40	109	181	263	384	547	763	1,050
Dividends		--	--	--	--	--	--	--	--
Dividend withholding tax		--	--	--	--	--	--	--	--
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		40	109	181	263	384	547	763	1,050
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		0	1	1	2	2	2	3	4
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF - millions)	Ratio	165	231	321	443	602	809	1,077	1,424
Terminal value ($US - millions)	12	16	20	24	29	35	41	48	56
	IPO								
Total cash flow to shareholders ($US - millions)	Year								
Cash flow available to shareholders prior to IPO	5	0	1	1	2	2	--	--	--
Cash flow to shareholders from public offering		--	--	--	--	35	--	--	--
Total cashflow to shareholders		0	1	1	2	37	--	--	--
Discount rate	40.0%								
Net present value ($US in millions)	8	0	0	0	0	7	--	--	--
Net present value (HUF in millions)	899								

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Zsolnay Porcelangyar Rt. - Trademark

Operating Assumptions:	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF - millions)	3,982	3,982	3,982	4,022	4,102	4,184	4,268	4,353	4,440
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF - millions)	3,982	4,738	5,520	6,411	7,520	8,821	10,348	12,138	14,237
Foreign sales:									
Real growth of $US sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US - millions)	2	2	2	2	2	2	2	3	3
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US - millions)	2	2	2	3	3	3	3	3	3
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF - millions)	224	275	327	389	467	560	672	807	968
Real growth of DM sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM - millions)	3	3	3	3	4	4	4	4	4
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM - millions)	3	4	4	4	4	4	4	4	5
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF - millions)	224	269	323	387	469	568	688	834	1,010
Total nominal sales (HUF - millions)	4,430	5,282	6,170	7,187	8,456	9,950	11,708	13,778	16,216
Estimated cost of goods sold									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF - millions)	2,311	2,311	2,311	2,334	2,381	2,428	2,477	2,527	2,577
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF - millions)	2,311	2,750	3,203	3,721	4,365	5,120	6,005	7,044	8,263
Foreign purchases									
Real cost of $US goods & services ($US - millions)	16	16	16	16	17	17	17	18	18
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US - millions)	16	17	17	18	19	20	21	23	24
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF - millions)	1,581	1,940	2,309	2,744	3,293	3,952	4,743	5,692	6,832
Real cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF - millions)	--	--	--	--	--	--	--	--	--
Total nominal cost of goods & services (HUF - millions)	3,892	4,690	5,513	6,465	7,658	9,072	10,749	12,737	15,094

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF - millions)	582	582	582	588	600	612	624	636	649
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF - millions)	582	693	807	937	1,099	1,289	1,512	1,774	2,081
Real capital expenditures ($US - millions)		1	1	1	1	1	1	1	1
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US - millions)		1	1	1	1	1	1	1	1
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF - millions)		120	142	167	197	232	273	321	378
Tangible long-term assets, beg. of period (HUF - millions)		4,561	4,489	4,439	4,414	4,419	4,459	4,540	4,669
Nominal depreciation (HUF - millions)	(192)	(192)	(192)	(192)	(192)	(192)	(192)	(192)	(192)
Nominal capital expenditures (HUF - millions)		120	142	167	197	232	273	321	378
Tangible long-term assets, end of period	4,561	4,489	4,439	4,414	4,419	4,459	4,540	4,669	4,855
Net income before taxes paid out as dividends		--	--	--	--	--	--	--	--
Net income tax		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding tax		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		30	30	30	30	30	30	30	30
Inventory Turns		6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Prepaid expenses as a % of cost of goods sold		0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Payable Turns		24	24	24	24	24	24	24	24
Accruals as % of SG&A		120.0%	120.0%	120.0%	120.0%	120.0%	120.0%	120.0%	120.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF - millions)	48	48	46	45	43	42	40	38	37
Amortization of principal - (years)	30	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Ending principal balance		46	45	43	42	40	38	37	35
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		13	12	11	11	10	10	10	9
Issuance of common equity (nominal - HUF millions)		--	--	--	--	--	--	--	--

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INCOME STATEMENT (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	4,430	5,282	6,170	7,187	8,456	9,950	11,708	13,778	16,216
(Cost of Goods Sold)	(3,892)	(4,690)	(5,513)	(6,465)	(7,658)	(9,072)	(10,749)	(12,737)	(15,094)
GROSS PROFIT	538	592	657	722	798	878	959	1,041	1,121
Gross Profit Margin	*12.1%*	*11.2%*	*10.7%*	*10.0%*	*9.4%*	*8.8%*	*8.2%*	*7.6%*	*6.9%*
(Selling, General, & Admin. Expense)	(582)	(693)	(807)	(937)	(1,099)	(1,289)	(1,512)	(1,774)	(2,081)
OPERATING INCOME (EBITDA)	(44)	(101)	(150)	(215)	(301)	(412)	(553)	(733)	(960)
(Depreciation & Amortization)	(192)	(192)	(192)	(192)	(192)	(192)	(192)	(192)	(192)
EBIT	(236)	(293)	(342)	(407)	(493)	(604)	(745)	(925)	(1,152)
Interest and other financial income	122	7	(19)	(94)	(203)	(361)	(583)	(891)	(1,313)
(Interest Expense)	(290)	(13)	(12)	(11)	(11)	(10)	(10)	(10)	(9)
EARNINGS BEFORE TAXES	(404)	(299)	(372)	(512)	(707)	(975)	(1,338)	(1,825)	(2,474)
Extraordinary gain/(loss)	47	--	--	--	--	--	--	--	--
(Taxes)	--	--	--	--	--	--	--	--	--
NET INCOME	(357)	(299)	(372)	(512)	(707)	(975)	(1,338)	(1,825)	(2,474)

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Zsolnay Porcelangyar Rt. - Trademark

BALANCE SHEET (HUF in millions)	Year Ending	Projected Year Ending							
ASSETS	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Intangible and Invested Financial Assets	929	929	929	929	929	929	929	929	929
Net Tangible Long-term Assets	4,561	4,489	4,439	4,414	4,419	4,459	4,540	4,669	4,855
Cash & Marketable Securities	31	(91)	(458)	(990)	(1,760)	(2,844)	(4,347)	(6,403)	(9,185)
Accounts Receivable	448	434	514	599	705	829	976	1,148	1,351
Inventories	710	782	919	1,078	1,276	1,512	1,791	2,123	2,516
Prepaid expenses	3	9	11	13	15	18	21	25	30
Total Current Assets	1,192	1,134	986	699	237	(485)	(1,558)	(3,106)	(5,288)
TOTAL ASSETS	6,682	6,552	6,354	6,042	5,585	4,904	3,911	2,492	496
EQUITY, RESERVES & LIABILITIES									
Common Stock	6,276	6,276	6,276	6,276	6,276	6,276	6,276	6,276	6,276
Retained Earnings:									
Beginning	(342)	(699)	(998)	(1,370)	(1,882)	(2,588)	(3,563)	(4,901)	(6,726)
Dividends	--	--	--	--	--	--	--	--	--
Current year earnings	(357)	(299)	(372)	(512)	(707)	(975)	(1,338)	(1,825)	(2,474)
Ending	(699)	(998)	(1,370)	(1,882)	(2,588)	(3,563)	(4,901)	(6,726)	(9,200)
Shareholders' Equity	5,577	5,278	4,906	4,394	3,688	2,713	1,375	(450)	(2,924)
Target Reserves	156	156	156	156	156	156	156	156	156
Long-term Credits and Liabilities	46	45	43	42	40	38	37	35	35
Trade credits	112	224	263	308	365	432	511	605	716
Other Accrued Liabilities	773	831	968	1,124	1,319	1,547	1,815	2,129	2,497
Current Portion: Long-term debt	2	2	2	2	2	2	2	2	--
Total Current Liabilities	887	1,057	1,233	1,434	1,685	1,981	2,327	2,735	3,213
Total Liabilities	933	1,102	1,276	1,476	1,725	2,019	2,364	2,770	3,248
Other	16	16	16	16	16	16	16	16	16
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	6,682	6,552	6,354	6,042	5,585	4,904	3,911	2,492	496
	--	--	(0)	--	0	0	0	(0)	(0)

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CASH FLOW STATEMENT (HUF in millions)

	Dec-94	Projected Year Ending							
		Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Cash Flows from Operating Activities:									
Net Income		(299)	(372)	(512)	(707)	(975)	(1,338)	(1,825)	(2,474)
Depreciation & Amortization		192	192	192	192	192	192	192	192
Changes in Working Capital		106	(43)	(44)	(56)	(68)	(82)	(100)	(121)
Cash provided by operating activities		(1)	(223)	(364)	(571)	(851)	(1,228)	(1,733)	(2,403)
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(120)	(142)	(167)	(197)	(232)	(273)	(321)	(378)
Repayment of principal of Long-term Debt		(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Issuance of Common Stock		--	--	--	--	--	--	--	--
Cash used in investing/investing activities		(121)	(144)	(169)	(199)	(233)	(274)	(323)	(379)
Increase (decrease) in cash		(122)	(367)	(533)	(769)	(1,084)	(1,503)	(2,056)	(2,782)
Cash, beginning of the period		31	(91)	(458)	(990)	(1,760)	(2,844)	(4,347)	(6,403)
Increase (decrease) in cash		(122)	(367)	(533)	(769)	(1,084)	(1,503)	(2,056)	(2,782)
Dividends		--	--	--	--	--	--	--	--
Cash, end of period		(91)	(458)	(990)	(1,760)	(2,844)	(4,347)	(6,403)	(9,185)
Increase (decrease) in cash		(122)	(367)	(533)	(769)	(1,084)	(1,503)	(2,056)	(2,782)
Dividends		--	--	--	--	--	--	--	--
Dividend withholding tax		--	--	--	--	--	--	--	--
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		(122)	(367)	(533)	(769)	(1,084)	(1,503)	(2,056)	(2,782)
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		(1)	(3)	(4)	(4)	(6)	(7)	(8)	(10)
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF - millions)	Ratio	(299)	(372)	(512)	(707)	(975)	(1,338)	(1,825)	(2,474)
Terminal value ($US - millions)	12	(29)	(31)	(38)	(46)	(56)	(68)	(81)	(97)
	IPO								
Total cash flow to shareholders ($US - millions)	Year								
Cash flow available to shareholders prior to IPO	5	(1)	(3)	(4)	(4)	(6)	--	--	--
Cash flow to shareholders from public offering		--	--	--	--	--	--	--	--
Total cashflow to shareholders		(1)	(3)	(4)	(4)	(6)	--	--	--
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	(5)	(1)	(1)	(1)	(1)	(1)	--	--	--
Net present value (HUF in millions)	(572)								

Eszakdunantuli Gazszolgaltato Rt. - Energy

Operating Assumptions:	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF - millions)	832	832	832	840	857	874	892	910	928
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF - millions)	832	990	1,153	1,340	1,571	1,843	2,162	2,536	2,975
Foreign sales:									
Real growth of $US sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US - millions)	1	1	1	1	1	1	1	1	1
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US - millions)	1	1	1	1	1	1	2	2	2
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF - millions)	115	141	167	199	239	286	344	412	495
Real growth of DM sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM - millions)	2	2	2	2	2	2	2	2	2
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM - millions)	2	2	2	2	2	2	2	2	2
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF - millions)	115	137	165	198	240	290	352	426	516
Total nominal sales (HUF - millions)	1,061	1,268	1,486	1,736	2,050	2,420	2,857	3,375	3,986
Estimated cost of goods sold									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF - millions)	871	871	871	880	897	915	934	952	971
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF - millions)	871	1,036	1,207	1,402	1,645	1,930	2,263	2,655	3,114
Foreign purchases									
Real cost of $US goods & services ($US - millions)	1	1	1	1	1	1	1	1	1
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US - millions)	1	1	1	1	1	1	1	1	1
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF - millions)	97	119	142	168	202	242	291	349	419
Real cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF - millions)	--	--	--	--	--	--	--	--	--
Total nominal cost of goods & services (HUF - millions)	968	1,156	1,349	1,571	1,847	2,172	2,554	3,004	3,533

Operating Assumptions (continued):	Year Ending Dec-93	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF - millions)	85	85	85	86	88	89	91	93	95
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7861	3.2063
Nominal SG&A expense (HUF - millions)	85	101	118	137	161	188	221	259	304
Real capital expenditures ($US - millions)		0	0	0	0	0	0	0	0
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US - millions)		0	0	0	0	0	0	0	0
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF - millions)		12	14	17	20	23	27	32	38
Tangible long-term assets, beg. of period (HUF - millions)		614	593	574	558	545	535	529	528
Nominal depreciation (HUF - millions)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)
Nominal capital expenditures (HUF - millions)		12	14	17	20	23	27	32	38
Tangible long-term assets, end of period	614	593	574	553	545	535	529	528	533
Net income before taxes paid out as dividends		--	--	--	--	--	--	--	--
Net income tax		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		45	45	45	45	45	45	45	45
Inventory Turns		6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Prepaid expenses as a % of cost of goods sold		0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Payable Turns		18	18	18	18	18	18	18	18
Accruals as % of SG&A		300.0%	300.0%	300.0%	300.0%	300.0%	300.0%	300.0%	300.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF - millions)	--	--	--	--	--	--	--	--	--
Amortization of principal - (years)	30	--	--	--	--	--	--	--	--
Ending principal balance		--	--	--	--	--	--	--	--
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		--	--	--	--	--	--	--	--
Issuance of common equity (nominal - HUF millions)		--	--	--	--	--	--	--	--

Eszakdunantuli Gazszolgaltato Rt. - Energy

INCOME STATEMENT (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	1,061	1,268	1,486	1,736	2,050	2,420	2,857	3,375	3,986
(Cost of Goods Sold)	(968)	(1,156)	(1,349)	(1,571)	(1,847)	(2,172)	(2,554)	(3,004)	(3,533)
GROSS PROFIT	93	112	137	166	203	248	303	370	453
Gross Profit Margin	*8.8%*	*8.9%*	*9.2%*	*9.5%*	*9.9%*	*10.2%*	*10.6%*	*11.0%*	*11.4%*
(Selling, General, & Admin. Expense)	(85)	(101)	(118)	(137)	(161)	(188)	(221)	(259)	(304)
OPERATING INCOME (EBITDA)	8	11	19	29	42	60	82	111	149
(Depreciation & Amortization)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)
EBIT	(25)	(22)	(14)	(4)	9	27	49	78	116
Interest and other financial income	1	6	19	24	30	40	53	72	97
(Interest Expense)	(48)	--	--	--	--	--	--	--	--
EARNINGS BEFORE TAXES	(72)	(15)	5	19	39	67	103	150	213
Extraordinary gain/(loss)	(3)	--	--	--	--	--	--	--	--
(Taxes)	--	--	(1)	(3)	(7)	(12)	(18)	(27)	(38)
NET INCOME	(75)	(15)	4	16	32	55	84	123	175

Eszakdunantuli Gazszolgaltato Rt. - Energy

BALANCE SHEET (HUF in millions)	Year Ending	Projected Year Ending							
ASSETS	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Intangible and Invested Financial Assets	41	41	41	41	41	41	41	41	41
Net Tangible Long-term Assets	614	593	574	558	545	535	529	528	533
Cash & Marketable Securities	27	93	115	148	195	260	350	474	643
Accounts Receivable	149	156	186	217	256	302	357	422	498
Inventories	211	193	225	262	308	362	426	501	589
Prepaid expenses	--	6	7	8	9	11	13	15	18
Total Current Assets	387	448	532	635	768	936	1,146	1,412	1,748
TOTAL ASSETS	1,042	1,082	1,148	1,234	1,354	1,511	1,716	1,981	2,322
EQUITY, RESERVES & LIABILITIES									
Common Stock	786	786	786	786	786	786	786	786	786
Retained Earnings:									
Beginning	(3)	(78)	(93)	(89)	(74)	(41)	13	97	221
Dividends	--	--	--	--	--	--	--	--	--
Current year earnings	(75)	(15)	4	16	32	55	84	123	175
Ending	(78)	(93)	(89)	(74)	(41)	13	97	221	395
Shareholders' Equity	708	693	697	712	745	799	883	1,007	1,181
Target Reserves	16	16	16	16	16	16	16	16	16
Long-term Credits and Liabilities	--	--	--	--	--	--	--	--	--
Trade credits	36	70	81	95	112	13[illegible]	154	181	213
Other Accrued Liabilities	282	303	353	411	482	565	663	777	912
Current Portion: Long-term debt	--	--	--	--	--	--	--	--	--
Total Current Liabilities	318	373	435	505	593	696	817	959	1,125
Total Liabilities	318	373	435	505	593	696	817	959	1,125
Other	--	--	--	--	--	--	--	--	--
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	1,042	1,082	1,148	1,234	1,354	1,511	1,716	1,981	2,322
	--	--	--	0	--	0	--	--	--

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Eszakdunantuli Gazszolgaltato Rt. - Energy

CASH FLOW STATEMENT (HUF in millions)

		Projected Year Ending							
	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Cash Flows from Operating Activities:									
Net income		(15)	4	16	32	55	84	123	175
Depreciation & Amortization		33	33	33	33	33	33	33	33
Changes in Working Capital		61	(1)	1	1	1	0	(0)	(1)
Cash provided by operating activities		78	36	50	66	88	118	156	207
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(12)	(14)	(17)	(20)	(23)	(27)	(32)	(38)
Repayment of principal of Long-term Debt		--	--	--	--	--	--	--	--
Issuance of Common Stock		--	--	--	--	--	--	--	--
Cash used in investing/investing activities		(12)	(14)	(17)	(20)	(23)	(27)	(32)	(38)
Increase (decrease) in cash		66	22	33	47	65	90	124	169
Cash, beginning of the period		27	93	115	148	195	260	350	474
Increase (decrease) in cash		66	22	33	47	65	90	124	169
Dividends		--	--	--	--	--	--	--	--
Cash, end of period		93	115	148	195	260	350	474	643
Increase (decrease) in cash		66	22	33	47	65	90	124	169
Dividends		--	--	--	--	--	--	--	--
Dividend withholding tax		--	--	--	--	--	--	--	--
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		66	22	33	47	65	90	124	169
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		1	0	0	0	0	0	0	1
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF - millions)	Ratio	(15)	4	16	32	55	84	123	175
Terminal value ($US - millions)	12	(1)	0	1	2	3	4	5	7
Total cash flow to shareholders ($US - millions)	IPO Year								
Cash flow available to shareholders prior to IPO	5	1	0	0	0	0	--	--	--
Cash flow to shareholders from public offering		--	--	--	--	3	--	--	--
Total cashflow to shareholders		1	0	0	0	3	--	--	--
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	2	0	0	0	0	1	--	--	--
Net present value (HUF in millions)	165								

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Erdert Rt. - Forest Products

Operating Assumptions:	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF - millions)	527	527	527	532	543	554	565	576	588
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF - millions)	527	627	731	848	995	1,167	1,369	1,606	1,884
Foreign sales:									
Real growth of $US sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US - millions)	2	2	2	2	2	2	2	2	2
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US - millions)	2	2	2	2	2	2	2	3	3
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF - millions)	185	227	270	321	385	462	554	665	799
Real growth of DM sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM - millions)	7	7	7	7	7	7	7	7	7
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM - millions)	7	7	7	7	8	8	8	9	9
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF - millions)	432	518	623	747	905	1,096	1,327	1,608	1,948
Total nominal sales (HUF - millions)	1,144	1,372	1,623	1,916	2,285	2,725	3,251	3,880	4,631
Estimated cost of goods sold									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF - millions)	1,002	1,002	1,002	1,012	1,032	1,053	1,074	1,095	1,117
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF - millions)	1,002	1,192	1,389	1,613	1,892	2,220	2,604	3,054	3,583
Foreign purchases									
Real cost of $US goods & services ($US - millions)	--	--	--	--	--	--	--	--	--
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF - millions)	--	--	--	--	--	--	--	--	--
Real cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF - millions)	--	--	--	--	--	--	--	--	--
Total nominal cost of goods & services (HUF - millions)	1,002	1,192	1,389	1,613	1,892	2,220	2,604	3,054	3,583

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF - millions)	89	89	89	90	92	94	95	97	99
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF - millions)	89	106	123	143	168	197	231	271	318
Real capital expenditures ($US - millions)		0	0	0	0	0	0	0	0
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US - millions)		0	0	0	0	0	0	0	0
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF - millions)		12	14	17	20	23	27	32	38
Tangible long-term assets, beg. of period (HUF - millions)		898	864	832	803	777	754	735	721
Nominal depreciation (HUF - millions)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)
Nominal capital expenditures (HUF - millions)	-	12	14	17	20	23	27	32	38
Tangible long-term assets, end of period	898	864	832	803	777	754	735	721	713
Net income before taxes paid out as dividends		--	--	--	--	--	--	--	--
Net income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding tax		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		45	45	45	45	45	45	45	45
Inventory Turns		4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Prepaid expenses as a % of cost of goods sold		0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Payable Turns		15	15	15	15	15	15	15	15
Accruals as % of SG&A		60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF - millions)	--	--	--	--	--	--	--	--	--
Amortization of principal - (years)	30	--	--	--	--	--	--	--	--
Ending principal balance		--	--	--	--	--	--	--	--
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		--	--	--	--	--	--	--	--
Issuance of common equity (nominal - HUF millions)		--	--	--	--	--	--	--	--

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Erdert Rt. - Forest Products

INCOME STATEMENT (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
SALES	1,144	1,372	1,623	1,916	2,285	2,725	3,251	3,880	4,631
(Cost of Goods Sold)	(1,002)	(1,192)	(1,389)	(1,613)	(1,892)	(2,220)	(2,604)	(3,054)	(3,583)
GROSS PROFIT	142	180	234	303	392	505	647	825	1,048
Gross Profit Margin	*12.4%*	*13.1%*	*14.4%*	*15.8%*	*17.2%*	*18.5%*	*19.9%*	*21.3%*	*22.6%*
(Selling, General, & Admin. Expense)	(89)	(106)	(123)	(143)	(168)	(197)	(231)	(271)	(318)
OPERATING INCOME (EBITDA)	53	74	111	159	224	308	416	554	730
(Depreciation & Amortization)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)
EBIT	7	28	65	113	178	262	370	508	684
Interest and other financial income	18	14	(5)	1	14	37	73	130	215
(Interest Expense)	(15)	--	--	--	--	--	--	--	--
EARNINGS BEFORE TAXES	10	42	60	114	192	299	444	639	899
Extraordinary gain/(loss)	3	--	--	--	--	--	--	--	--
(Taxes)	(2)	(8)	(11)	(21)	(35)	(54)	(80)	(115)	(162)
NET INCOME	10	35	49	94	158	245	364	524	737

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Erdert Rt. - Forest Products

BALANCE SHEET (HUF in millions)	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
ASSETS									
Intangible and Invested Financial Assets	1	1	1	1	1	1	1	1	1
Net Tangible Long-term Assets	898	864	832	803	777	754	735	721	713
Cash & Marketable Securities	61	(22)	5	69	179	358	636	1,049	1,647
Accounts Receivable	140	169	203	239	286	341	406	485	579
Inventories	220	265	309	359	421	493	579	679	796
Prepaid expenses	--	6	7	8	9	11	13	15	18
Total Current Assets	421	418	524	675	894	1,203	1,634	2,228	3,040
TOTAL ASSETS	1,320	1,283	1,357	1,479	1,672	1,958	2,370	2,951	3,754
EQUITY, RESERVES & LIABILITIES									
Common Stock	1,065	1,065	1,065	1,065	1,065	1,065	1,065	1,065	1,065
Retained Earnings:									
Beginning	22	32	67	116	210	368	613	977	1,501
Dividends	--	--	--	--	--	--	--	--	--
Current year earnings	10	35	49	94	158	245	364	524	737
Ending	32	67	116	210	368	613	977	1,501	2,238
Shareholders' Equity	1,097	1,132	1,181	1,275	1,433	1,678	2,042	2,566	3,303
Target Reserves	--	--	--	--	--	--	--	--	--
Long-term Credits and Liabilities	--	--	--	--	--	--	--	--	--
Trade credits	159	87	101	117	137	161	189	222	260
Other Accrued Liabilities	63	64	74	86	101	118	139	163	191
Current Portion: Long-term debt	--	--	--	--	--	--	--	--	--
Total Current Liabilities	222	150	175	203	238	279	328	384	451
Total Liabilities	222	150	175	203	238	279	328	384	451
Other	1	1	1	1	1	1	1	1	1
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	1,320	1,283	1,357	1,479	1,672	1,959	2,371	2,951	3,755
	0	0	0	0	0	0	0	0	0

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Erdert Rt. - Forest Products

CASH FLOW STATEMENT (HUF in millions)

	Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Cash Flows from Operating Activities:									
Net Income		35	49	94	158	245	364	524	737
Depreciation & Amortization		46	46	46	46	46	46	46	46
Changes in Working Capital		(152)	(54)	(59)	(74)	(88)	(105)	(124)	(147)
Cash provided by operating activities		(71)	42	80	129	203	305	445	636
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(12)	(14)	(17)	(20)	(23)	(27)	(32)	(38)
Repayment of principal of Long-term Debt		--	--	--	--	--	--	--	--
Issuance of Common Stock		--	--	--	--	--	--	--	--
Cash used in investing/investing activities		(12)	(14)	(17)	(20)	(23)	(27)	(32)	(38)
Increase (decrease) in cash		(83)	27	64	110	180	278	413	598
Cash, beginning of the period		61	(22)	5	69	179	358	636	1,049
Increase (decrease) in cash		(83)	27	64	110	180	278	413	598
Dividends		--	--	--	--	--	--	--	--
Cash, end of period		(22)	5	69	179	358	636	1,049	1,647
Increase (decrease) in cash		(83)	27	64	110	180	278	413	598
Dividends		--	--	--	--	--	--	--	--
Dividend withholding tax		--	--	--	--	--	--	--	--
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		(83)	27	64	110	180	278	413	598
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		(1)	0	0	1	1	1	2	2
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF - millions)	Ratio	35	49	94	158	245	364	524	737
Terminal value ($US - millions)	12	3	4	7	10	14	18	23	29
Total cash flow to shareholders ($US - millions)	IPO Year								
Cash flow available to shareholders prior to IPO	5	(1)	0	0	1	1	--	--	--
Cash flow to shareholders from public offering		--	--	--	--	14	--	--	--
Total cashflow to shareholders		(1)	0	0	1	15	--	--	--
Discount cash flow ($US in millions)	40.0%								
Net present value ($US in millions)	3	(1)	0	0	0	3	--	--	--
Net present value (HUF in millions)	351								

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Ikarus Rt. - Industry

Operating Assumptions:	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Estimated net sales									
Domestic sales:									
Real domestic sales growth rate		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real domestic sales (HUF - millions)	1,126	1,126	1,126	1,137	1,160	1,183	1,207	1,231	1,256
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal domestic sales (HUF - millions)	1,126	1,340	1,561	1,813	2,127	2,494	2,926	3,432	4,026
Foreign sales:									
Real growth of $US sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real $US sales ($US - millions)	3	3	3	3	3	3	3	3	3
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal $US sales ($US - millions)	3	3	3	3	3	4	4	4	4
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal $US sales (HUF - millions)	288	353	420	499	599	719	863	1,035	1,242
Real growth of DM sales		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real DM sales (DM - millions)	13	13	13	13	14	14	14	14	15
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal DM sales (DM - millions)	13	14	14	14	15	16	16	17	18
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal DM sales (HUF - millions)	863	1,035	1,243	1,491	1,806	2,168	2,651	3,211	3,890
Total nominal sales (HUF - millions)	2,276	2,728	3,224	3,803	4,532	5,401	6,439	7,678	9,158
Estimated cost of goods sold									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Domestic purchases									
Real cost of HUF goods & services (HUF - millions)	1,397	1,397	1,397	1,411	1,439	1,468	1,497	1,527	1,558
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal cost of HUF goods & services (HUF - millions)	1,397	1,662	1,937	2,249	2,638	3,095	3,630	4,258	4,995
Foreign purchases									
Real cost of $US goods & services ($US - millions)	2	2	2	2	2	2	2	2	2
US inflation factor	1.0000	1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal cost of $US goods & services ($US - millions)	2	2	2	2	2	2	2	2	2
Average exchange rate (HUF/$US)	97	116	133	151	172	196	222	253	287
Nominal cost of $US goods & services (HUF - millions)	151	185	221	262	315	377	453	544	652
Real cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
German inflation factor	1.0000	1.0250	1.0506	1.0769	1.1038	1.1314	1.1597	1.1887	1.2184
Nominal cost of DM goods & services (DM - millions)	--	--	--	--	--	--	--	--	--
Average exchange rate (HUF/DM)	65	77	90	104	120	140	162	187	217
Nominal cost of DM goods & services (HUF - millions)	--	--	--	--	--	--	--	--	--
Total nominal cost of goods & services (HUF - millions)	1,548	1,848	2,157	2,511	2,953	3,472	4,083	4,802	5,647

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Operating Assumptions (continued):	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Selling, general & administrative expense (SG&A)									
Weighted average real sales growth		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real growth of SG&A expenses		--	--	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Real SG&A expense (HUF - millions)	423	423	423	427	436	444	453	462	472
Hungarian inflation factor	1.0000	1.1900	1.3862	1.5941	1.8332	2.1082	2.4244	2.7881	3.2063
Nominal SG&A expense (HUF - millions)	423	503	586	681	799	937	1,099	1,289	1,512
Real capital expenditures ($US - millions)		1	1	1	1	1	1	1	1
US inflation factor		1.0325	1.0686	1.1060	1.1447	1.1848	1.2263	1.2692	1.3136
Nominal capital expenditures ($US - millions)		1	1	1	1	1	1	1	1
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
Nominal capital expenditures (HUF - millions)		120	142	167	197	232	273	321	378
Tangible long-term assets, beg. of period (HUF - millions)		2,840	2,751	2,684	2,642	2,630	2,653	2,717	2,829
Nominal depreciation (HUF - millions)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)
Nominal capital expenditures (HUF - millions)		120	142	167	197	232	273	321	378
Tangible long-term assets, end of period	2,840	2,751	2,684	2,642	2,630	2,653	2,717	2,829	2,998
Net income before taxes paid out as dividends		--	--	--	--	--	--	--	--
Net Income taxes		18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Dividend withholding taxes		23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Receivable Days		60	60	60	60	60	60	60	60
Inventory Turns		2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Prepaid expenses as a % of cost of goods sold		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Payable Turns		24	24	24	24	24	24	24	24
Accruals as % of SG&A		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Minimum cash balance as a % of sales		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Local investing rate		23.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%
Long-term credits and liabilities (HUF - millions)	184	184	178	172	166	159	153	147	141
Amortization of principal - (years)	30	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
Ending principal balance		178	172	166	159	153	147	141	135
Local borrowing rate		28.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Interest expense		52	45	43	41	40	38	37	35
Issuance of common equity (nominal - HUF millions)		--	--	--	--	--	--	--	--

Ikarus Rt. - Industry

INCOME STATEMENT (HUF in millions)	Year Ending Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
		Projected Year Ending							
SALES	2,276	2,728	3,224	3,803	4,532	5,401	6,439	7,678	9,158
(Cost of Goods Sold)	(1,548)	(1,848)	(2,157)	(2,511)	(2,953)	(3,472)	(4,083)	(4,802)	(5,647)
GROSS PROFIT	728	880	1,067	1,292	1,579	1,929	2,356	2,876	3,511
Gross Profit Margin	*32.0%*	*32.3%*	*33.1%*	*34.0%*	*34.8%*	*35.7%*	*36.6%*	*37.5%*	*38.3%*
(Selling, General, & Admin. Expense)	(423)	(503)	(586)	(681)	(799)	(937)	(1,099)	(1,289)	(1,512)
OPERATING INCOME (EBITDA)	305	377	481	611	780	992	1,257	1,587	1,998
(Depreciation & Amortization)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)	(209)
EBIT	96	168	272	402	571	783	1,048	1,378	1,789
Interest and other financial income	13	9	20	43	83	143	234	366	556
(Interest Expense)	(7)	(52)	(45)	(43)	(41)	(40)	(38)	(37)	(35)
EARNINGS BEFORE TAXES	102	126	247	402	612	886	1,243	1,708	2,310
Extraordinary gain/(loss)	(57)	--	--	--	--	--	--	--	--
(Taxes)	(8)	(23)	(45)	(72)	(110)	(159)	(224)	(307)	(416)
NET INCOME	37	103	203	329	502	727	1,019	1,400	1,894

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Ikarus Rt. - Industry

BALANCE SHEET (HUF in millions)

ASSETS	Year Ending Dec-94	Projected Year Ending Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Intangible and Invested Financial Assets	64	64	64	64	64	64	64	64	64
Net Tangible Long-term Assets	2,840	2,751	2,684	2,642	2,630	2,653	2,717	2,829	2,998
Cash & Marketable Securities	40	100	210	404	697	1,140	1,787	2,710	4,002
Accounts Receivable	290	448	537	634	755	900	1,073	1,280	1,526
Inventories	700	924	1,079	1,256	1,476	1,736	2,042	2,401	2,824
Prepaid expenses	10	55	65	75	89	104	122	144	169
Total Current Assets	1,040	1,528	1,890	2,369	3,018	3,881	5,025	6,535	8,522
TOTAL ASSETS	3,944	4,342	4,638	5,075	5,712	6,598	7,806	9,428	11,583
EQUITY, RESERVES & LIABILITIES									
Common Stock	3,365	3,365	3,365	3,365	3,365	3,365	3,365	3,365	3,365
Retained Earnings:									
Beginning	21	58	161	364	693	1,195	1,922	2,941	4,342
Dividends	--	--	--	--	--	--	--	--	--
Current year earnings	37	103	203	329	502	727	1,019	1,400	1,894
Ending	58	161	364	693	1,195	1,922	2,941	4,342	6,236
Shareholders' Equity	3,423	3,526	3,729	4,058	4,560	5,287	6,306	7,707	9,601
Target Reserves	17	17	17	17	17	17	17	17	17
Long-term Credits and Liabilities	178	172	166	159	153	147	141	135	135
Trade credits	48	98	114	133	156	184	216	254	298
Other Accrued Liabilities	252	503	586	681	799	937	1,099	1,289	1,512
Current Portion: Long-term debt	6	6	6	6	6	6	6	6	--
Total Current Liabilities	306	607	707	820	961	1,127	1,321	1,549	1,811
Total Liabilities	484	779	872	980	1,115	1,274	1,462	1,684	1,946
Other	20	20	20	20	20	20	20	20	20
TOTAL EQUITY, RESERVES, LIABILITIES & OTHER	3,944	4,342	4,638	5,075	5,712	6,598	7,806	9,428	11,583
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)

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Ikarus Rt. - Industry

CASH FLOW STATEMENT (HUF - millions)

		Projected Year Ending							
	Dec-94	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-2000	Dec-2001	Dec-2002
Cash Flows from Operating Activities:									
Net Income		103	203	329	502	727	1,019	1,400	1,894
Depreciation & Amortization		209	209	209	209	209	209	209	209
Changes in Working Capital		(126)	(154)	(171)	(214)	(255)	(302)	(359)	(427)
Cash provided by operating activities		186	258	368	497	681	926	1,250	1,676
Cash Flows from Investing and Financing Activities:									
Purchase of Property and Equipment		(120)	(142)	(167)	(197)	(232)	(273)	(321)	(378)
Repayment of principal of Long-term Debt		(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
Issuance of Common Stock		--	--	--	--	--	--	--	--
Cash used in Investing/Investing activities		(126)	(148)	(174)	(203)	(238)	(279)	(327)	(384)
Increase (decrease) in cash		60	110	194	294	443	647	923	1,292
Cash, beginning of the period		40	100	210	404	697	1,140	1,787	2,710
Increase (decrease) in cash		60	110	194	294	443	647	923	1,292
Dividends		--	--	--	--	--	--	--	--
Cash, end of period		100	210	404	697	1,140	1,787	2,710	4,002
Increase (decrease) in cash		60	110	194	294	443	647	923	1,292
Dividends		--	--	--	--	--	--	--	--
Dividend withholding tax		--	--	--	--	--	--	--	--
CASH AVAILABLE TO SHAREHOLDERS (HUF in millions)		60	110	194	294	443	647	923	1,292
Average exchange rate (HUF/$US)		116	133	151	172	196	222	253	287
CASH AVAILABLE TO SHAREHOLDERS ($US in millions)		1	1	1	2	2	3	4	4
End of period exchange rate (HUF/$US)	P/E	125	142	161	183	208	237	269	306
Net Income (HUF - millions)	Ratio	103	203	329	502	727	1,019	1,400	1,894
Terminal value ($US - millions)	12	10	17	25	33	42	52	62	74
Total cash flow to shareholders ($US - millions)	IPO Year								
Cash flow available to shareholders prior to IPO	5	1	1	1	2	2	--	--	--
Cash flow to shareholders from public offering		--	--	--	--	42	--	--	--
Total cashflow to shareholders		1	1	1	2	44	--	--	--
Discount rate	40.0%								
Net present value ($US in millions)	10	0	0	0	0	8	--	--	--
Net present value (HUF in millions)	1,100								

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