

Investment in Macedonia

An opportunity to invest in the Automotive Components Industry in
Macedonia



RUEN

A.D., Kocani



Ruen

The Privatisation Agency of the Republic of Macedonia has approved the sale of a majority stake in excess of 52% in the shares of Ruen AD, Kocani ("Ruen" or the "Company"). The majority of the remaining shares are owned by Ruen employees.

Business activities

Ruen is principally a manufacturer of spare parts for motor vehicles. Its current production is geared towards supplying heavy commercial vehicles and to a lesser extent, passenger vehicles. It produces and markets three broad product groups:

1. clutches and clutch components;
2. gear components and other gear parts; and
3. springs and special fastenings.

The Company's annual production capacity is set out in the table below.

Production capacity

Product group	Units ('000)
Clutch covers	500
Clutch discs	860
Facings	1,200
Gear components	382
Springs	12,800

Source: Ruen Management

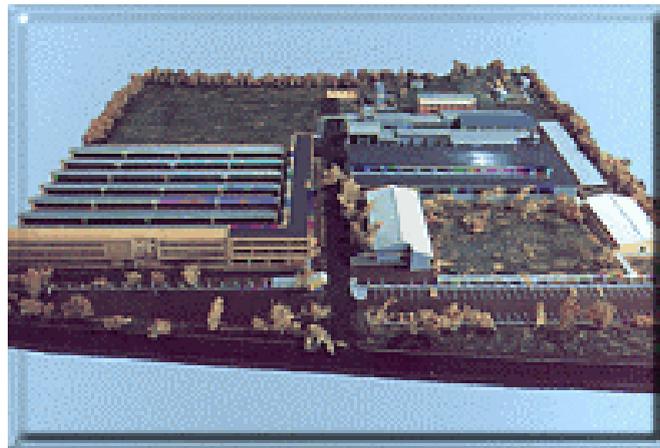
Location and facilities

Ruen operates from six sites in and around the city of Kocani in Eastern Macedonia, occupying a total area of approximately 163,000 square metres.

Location of Ruen



Ruen's main complex



Ruen has a significant amount of plant and machinery on its site, most of which has not been upgraded in recent years due to the Company's financial and operational constraints. However, Ruen has maintained its plant and machinery in good working order.

Products and markets

Ruen's commercial strength lies in its wide product list of parts for heavy commercial and agricultural vehicles. It offers a more modest range for passenger vehicles. Historically, its product range and expertise have been developed through commercial co-operation agreements with other major manufacturers, such as Fichtel & Sachs of Germany and Valeo of France.

Its products are sold to numerous countries in the Balkans and elsewhere in Europe, the Middle East, Africa and India. Within the region, there is a strong brand loyalty to Ruen's products and it has been able to command higher prices here relative to other regions.

The Company has both the capability and facilities to expand its product range, particularly by vehicle type. However, due to past difficulties product development has been limited.

For more information on Ruen's products visit www.ruen.com.mk

Summary financial information

Set out below is a summary of Ruen's historical results for years 1999 through to 2002

Summary historic results

	1999 EUR'000	2000 EUR'000	2001 EUR'000	2002 EUR'000 unaudited
Total revenue	10,442	10,214	7,009	6,119
Operating loss	(668)	(459)	(1,924)	(2,204)
Loss before taxation	(976)	(914)	(2,375)	(2,559)

Source: Ruen accounts

The Company has been making losses over these last three years, due to a number of factors. Most significantly, the Company lacks the commercial management skills to operate in a highly competitive market and the business is over-resourced (employing over 1,149 people) and is in need of rationalisation. Historically, the Company operated an unsustainable and damaging pricing policy; and consequently lacks sufficient financial resources to keep up with the developments in the motor industry (particularly on the passenger vehicle side).

Summary balance sheets

	1999 EUR'000	2000 EUR'000	2001 EUR'000	2002 EUR'000 unaudited
Fixed assets	4,794	4,655	4,384	4,265
Current assets	11,679	12,347	11,484	10,430
Total assets	16,473	17,002	15,868	14,695
Share capital and reserves	9,656	9,068	6,664	4,427
Long term liabilities	688	478	451	454
Current liabilities	6,129	7,456	8,753	9,814
Total liabilities	16,473	17,002	15,868	14,695

Source: Ruen accounts

A large proportion of the current liabilities (approximately 36%) are bank loans that have passed their maturity.

Key investment considerations

Although Ruen has experienced considerable difficulties over the last few years, it has a number of positive attributes which potential investors should consider.

- ?? A management team eager to turn the Company around.
- ?? Potential for a complete rationalisation of the Company and its operations to suit a new investor's strategic requirements.
- ?? Low cost production facilities compared to direct competition.
- ?? A strong brand name within the Balkan region.
- ?? Well trained and highly skilled workforce able to develop the product range if provided with sufficient resources.
- ?? If the right marketing strategy and supply infrastructure is implemented the company has the potential for good sales growth, particularly in other developing countries.
- ?? Easy access to export markets in both the EU and other Balkan states.

The Republic of Macedonia (“Macedonia”)

Since gaining independence in 1991, in spite of the difficulties posed by political and social unrest in the region, Macedonia has implemented a reform programme designed to develop a free market economy and achieve closer integration with international trading partners. Priority has been placed on economic reform and, in this, the Government has worked closely with both the World Bank and the IMF. Macedonia has started working towards membership of the EU and has recently been granted full membership to the WTO.

The achievements of the ongoing programme of economic reform include:

- ?? Widespread privatisation of state and socially-owned enterprises
- ?? Regional, European and worldwide trade liberalisation
- ?? Promotion of foreign direct investment (including major foreign capital backing in the banking and insurance industries).

Macedonia took major steps towards integration with the EU with the signing of the Stabilization and Association Agreement in April 2001 and a Free Trade Agreement with EFTA whose implementation starts this year. Goods exported from Macedonia to the EU are now free of any customs duties or quantity limitations. Duties on goods imported from the EU into Macedonia will be progressively reduced to zero duty by the end of 2010.

The Country also has some very important trading partners in the Balkan region. Trade with Slovenia, Yugoslavia, Croatia, Bulgaria, Turkey, Ukraine and Albania accounted for approximately 35% of total imports and exports in 2000. The State has now signed free trade agreements with all of these countries and has begun negotiations with Romania and the Russian Federation.

Macedonia's recent entry into the WTO will help the Country's further integration into the world trading system. It will help facilitate foreign trade and investment and expand the market for Macedonian goods and services.

In order to attract foreign direct investment, the Government of Macedonia has implemented various reforms to encourage investment. Incentives for overseas investors include:

- ?? A relatively low rate of corporate income tax (15%).
- ?? Corporate income tax relief investors are allowed a tax break of up to 3 years, after which, if the investor decides to invest profit back into the company then an additional 3 years tax break may be granted.
- ?? Customs duty exemptions on imports of equipment and other capital assets.
- ?? Creation of Free Economic Zones with offering various exemptions from customs duties and income, sales and property taxes.

Macedonia offers excellent logistical advantages to investors. The country is crossed by two major transport corridors: the E65 which runs east to west from Durrës to Varna, and the E75 running north to south from Munich to Thessaloniki.

Sale process

Ruen will be privatised through the sale of the State's stake in the Company, in excess of 52%, to a strategic investor. There will be no contractual conditions of sale concerning retention of a minimum number of workers.

Full details of the sales process will be set out in the tender documentation. This will include an Information Memorandum about the Company and instructions and conditions for the sale process. The tender documentation will be available to all interested parties on payment of EUR 500 to Privatization Agency of the Republic of Macedonia and signing of a confidentiality agreement. To receive an Information Memorandum, please contact either the Privatisation Agency of the Republic of Macedonia or the Privatization Advisor¹.

In order to participate in the sale process, bidders must comply with the terms set out in the tender documents. A timetable for the sale process is set out in the instructions and conditions for the sale.

Contact details

To obtain an Information Memorandum, please contact either:

Privatisation Agency of the Republic of Macedonia	Liquidation Advisor
Ms Beti Popova Senior Associate Investment Promotion Department Privatisation Agency of the Republic of Macedonia 7, Nikola Vapcrov Street 1000, Skopje, Macedonia Tel: +389 32 397 627 Fax: +389 2 126 022 Email: betip@mpa.org.mk	Salman Nissan Lion's Bridge C/o MBC Excel Dame Gruev, 14a 1000 Skopje, Macedonia Tel: +389 2 214 700 Fax: +389 2 214 710 Email: salman.nissan@lionsbridge.com

¹ Lion's Bridge and the Adam Smith Institute (together, the "Privatization Advisor") have been retained as the exclusive privatization adviser during the sale process by the Ministry of Finance of Republic of Macedonia.

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