CENTRAL EUROPE AUTOMOTIVE REPORT

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FEATURE COUNTRY

SLOVAK REPUBLIC

Market Highlights

- *Toyota considering Slovak or Czech car assembly plant*
- *Yazaki Debnar completes construction of new factory*
- *VW Bratislava to invest into paint shop, and gearbox factory*
- *Skoda to increase purchases from Slovak Suppliers*
- *Daewoo Motor Slovakia expands product range*

Toyota is considering both Slovakia and the Czech Republic as potential sites for a new car assembly factory. According to industry sources, giant Slovak steel-maker **VSZ** is involved in talks with Toyota about possibly cooperating as a partner in the assembly operation. Slovak Prime Minister Vladimir Meciar submitted a proposal to Toyota during a trip to Japan in April. If Toyota chooses Slovakia, the assembly plant is likely to be built in the eastern part of the country.

Inside

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In February 1997, automobile wire harness maker **Yazaki Debnar Slovakia** completed construction of its new factory in Slovakia. Yazaki Debnar is a joint venture between **Yazaki Corp.**, Japan's leading producer of wire harnesses, and the **Slovak & Electronic Corp.** (SEC). The new plant will allow Yazaki Debnar to expand its production of wire harnesses, eventually creating some 1,400 new jobs.

According to a company spokesman, construction of the 13,000 sq.m. factory cost approximately SK 250 million (USD 7.5 million). By 1999, the company expects yearly production of wire harnesses to hit 133,333 units. In 1996, turnover at the Slovakia factory was approximately SK 100 million.

Prior to completion of the new factory, 100% of Yazaki Debnar's production at its test factory was shipped to Ford in Europe for the Mondeo model. With the new factory, the company will continue to focus on supplying companies in Western Europe.

The company's early plans for Slovakia envisaged a 5-6,000 worker factory. This plan, however, was scaled back because of local market conditions. "I feared some difficulty [in] recruiting people here," Yazaki Debnar Chairman Matsuzo Daigo told the **CEAR** back in November 1996. [see CEAR, vol. I, Issue 7, December 1996]

*

Volkswagen Bratislava is investing additional capital into the paint shop at its factory in Devinska Nova Ves. VW's Technical Managing Director Karl Wilhelm told the CEAR that they are expanding the paint shop's capacity and improving quality. VW's Slovak factory produces 130, custom-

Continued on page 2

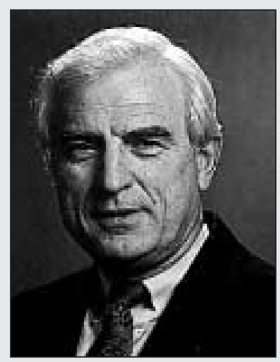
TM

Austria

PROFILE

Chrysler's Eurostar Going Strong in Austria

Established in February 1990, Chrysler's Eurostar Automobilwerk in Graz, Austria produces the Voyager minivan. Eurostar is a joint venture between Chrysler Austria (50%) and Steyr-Daimler-Puch Fahrzeugtechnik AG (50%). In 1992, Eurostar manufactured 15,325 minivans, and by 1996, that figure was increased to over 53,000 units. Using two shifts, the plant's capacity is 55,000.



Gary W. Cash

Eurostar is a full assembly operation and its facilities include an assembly line, body shop, and paint shop. As of April 1, 1997, the plant employed over 1600 workers. The company exports its minivans to Europe, the Middle East, South America, Africa, Japan, Great Britain, and Australia.

Gary Cash has been Managing Director of Eurostar and Jeep Grand Cherokee production in Graz since December 1996. For two years prior to that, he was Project Director for the Grand Cherokee production that is located in the SFT complex next to the Eurostar factory. Mr. Cash began his career with Chrysler in 1967 and has held numerous positions with the company, including Manager of Industrial Engineering for all Chrysler vehicle assembly operations and Manager of Business Planning/Advanced Methods and Technology Powertrain Operations.

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Feature Country *Continued From page 1*

designed Golf Syncros a day. Estimated production for 1997 is 30,000 units.

In 1997, VW also plans to make an additional investment into its gearbox assembly operation. In 1996, the company produced 259,646 gearboxes and 5,803,525 gearbox parts. "We expect 1997 to be a good business year," said Wilhelm.

*

In late May 1997, **Sommer Allibert Systemtechnik Bratislava**, a daughter company of the German company **Sommer Allibert Industrie Peine**, will complete construction of its new 500 sq. m. storage facility. The Bratislava company supplies car door parts to **Volkswagen Bratislava**. [for more on Sommer Allibert, see Opportunity Spotlight on page 10]

*

According to **Skoda Auto Slovensko** Director Stefan Chudoba, **Skoda, Mlada Boleslav** plans in 1997 to increase the amount of parts purchased from Slovak suppliers by SK 800 million (USD 24 million). In 1996, Skoda purchased parts worth some SK 3 billion from suppliers in Slovakia.

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In January 1997, steel-maker **VSZ** received USD 50 million from an international syndicated loan. According to a company spokesman, the loan money is targeted for investment into the manufacture of sheets for vehicle bodies and sheet metal packaging. The revolving loan was arranged by **Chase Investment Bank Ltd**. [for more on VSZ, see The Analyst on page 8]

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Tire-maker **Matador Puchov**, expects 1997 investments to amount to SK 590 million (USD 17.8 million), with SK 200 million going to technical development. Matador produces over 4 million auto and truck tires each year.

Matador is 50% partner in the Russian joint venture **Matador Omsina**, formed in 1996. Over the next three years, the joint venture is expected to manufacture 3 million car tires and 300,000 truck tires. Over 80% of the joint venture's production is exported.

*

Danube Mold & Die, a Bratislava-based designer and builder of injection molds and manufacturer and assembler of automotive components, has entered into an agreement with **Texas Instruments** for the manufacture of automotive terminal plugs. Danube is a subsidiary of U.S.-based **Plastic Molding Technology, Inc.**

*

From January through April 1997, **Daewoo Motor Slovakia, s.r.o.** sold 2,122 cars in Slovakia. The company currently has 21 dealers and 27 showrooms and service shops in Slovakia. At the end of 1997, Daewoo plans to open service training centers in Piestany and Bratislava to support its activities in the Slovak market, Marketing Manager Peter Halgas told the **CEAR**.

Daewoo Motor Slovakia is extending its product range to include products manufactured by Daewoo factories in Poland. The company will begin selling light-weight utility trucks produced at Daewoo's FSL-Lublin plant and cars made at the FSO factory in Warsaw. Daewoo Motor Slovakia also plans to begin sales of **Daewoo-Avia** trucks manufactured in the Czech Republic.

*

According to the **Association of Leasing Corporations**, the total value in 1996 of auto lease contracts in Slovakia was SK 4,231 million (USD 128 million) and SK 1,413 million for trucks. During 1996, **Skofin Bratislava**, a financing company specializing in Skodas, Volkswagens, Audis, and Seats, contracted for SK 3,539 million in leases. ■

Car Sales in Slovakia
January - March 1997 (all classes)

BRAND	UNITS
Audi	113
BMW	23
Chrysler	7
Citroen	401
Daewoo	1,532
Daihatsu	2
Fiat	1,024
Ford	215
Honda	211
Hyundai	325
Jaguar	0
Jeep	4
Kia	98
Lada	101
Lancia	3
Mazda	378
Mercedes	64
Mitsubishi	48
Nissan	199
Opel	577
Peugeot	356
Proton	0
Renault	443
Rover	19
Saab	10
Seat	494
Suzuki	19
Ssang Yong	2
Subaru	5
Skoda	5,297
Tatra	1
Toyota	174
Volvo	42
VW	1,148
TOTAL	13,331

Source: Daewoo Motor Slovakia

CENTRAL
EUROPE
AUTOMOTIVE
REPORT

CEAR SPONSORS

Supporting the Development of the Automotive Industry in Central Europe

Road Vehicle Production & Allocation in Slovakia 1995 & 1996

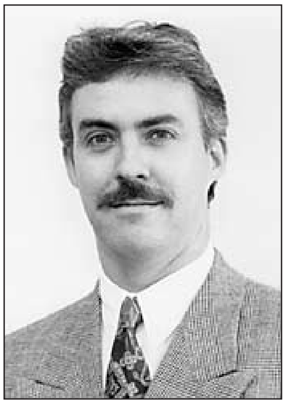
Manufacturer	1996 Production	Local Sales	Export	1995 Production	Local Sales	Export
CARS						
VW Bratislava	30,147	1,216	28,931	19,688	994	18,694
LIGHT COMMERCIAL VEHICLES						
TAZ-Sipox	1,354	679	745	2,211	799	1,341
VAB-Sipox	99	107	8	185	97	93
TOTAL	1,453	786	753	2,396	896	1,434
COMMERCIAL VEHICLES						
Skoda Liaz Zvolen	172	79	93	231	61	102
Slov-Avia	230	264	0	149	129	0
VAB-Sipox	30	14	11	42	6	23
VSS	82	30	69	98	5	97
TOTAL	514	387	173	520	201	227
MOTORCYCLES						
Mopedy (Babetta)	12,800	1,250	11,550	7,374	1,080	6,494
Moto Yuropa	0	10	20	246	27	203
Pelas	n/a	n/a	n/a	100	10	90
Penta	600	20	580	1,012	12	1,000
PS Manet	10,763	836	9,988	7,004	1,560	5,488
TOTAL	24,163	2,116	22,138	15,736	2,681	13,275
TRAILERS & SEMITRAILERS (not including car trailers)						
Asko	245	198	47	165	71	94
Slov-Avia	10	13	0	0	0	0
Skoda Liaz Zvolen	79	55	24	48	39	9
VSS	5	5	0	7	3	0
TOTAL	339	271	71	220	113	103
AGRICULTURAL TRACTORS						
Agrostroj	95	35	60	40	36	15
ZTS-Tees	887	184	703	774	139	635
PS-Poinotech	3,162	2,691	471	5,000	4,000	1,000
TOTAL	4,144	2,910	1,234	5,814	4,175	1,650

Source: ZAP

Slovak Republic

LEGAL ADVISOR

PARTICIPATING IN DIRECT SALE PRIVATIZATION IN SLOVAKIA



Kevin T. Connor

Considerable debate has surrounded direct sale privatization in the Slovak Republic. Some argue that the country's shift from Czech voucher privatization to direct sales to domestic investors was nothing more than a gigantic giveaway to friends of the ruling coalition. Proponents counter that Slovakia had to create a domestic entrepreneurial class capable of moving the country forward in the next century, and that direct sales were an efficient and effective method of transferring assets into private hands.

Regardless of the various arguments and viewpoints, the reality is that direct sale privatization has created opportunities for investors to directly invest as equity owners in newly privatized Slovak companies. This article sets out some areas to be considered in making such an investment.

Letter of Intent. Typically the first step in any proposed acquisition is to somehow formalize the parties' desire to work together and the fundamental terms of the proposed transaction. While the interests of the parties will undoubtedly differ, both usually would like an agreement that, for a certain period of time, neither party will talk to another interested party. Such an agreement is frequently formalized in a "letter of intent," i.e. a letter that spells out the intent and objectives of each of the parties. Letters of intent are not normally legally binding.

While foreign investors will offer to formalize preliminary discussions with a letter of intent, their Slovak counterpart may suggest what is called an "agreement on a future contract"; effectively an agreement that the parties will agree later. *While this instrument may be appropriate in certain cases, any potential investor should carefully review its obligations thereunder, as an agreement on future contract is a binding and enforceable agreement under Slovak law.*

> "While an 'agreement on a future contract' may be appropriate in certain cases, any potential investor should carefully review its obligations thereunder, as such agreements are binding and enforceable under Slovak law."

Due Diligence. Once the letter of intent or similar instrument is signed, the foreign investor should begin its due diligence - the process of gathering information to identify potential risks so that an informed investment decision can be made, and an appropriate purchase price reached. A careful investor will use the services of accountants and lawyers. The nature and scope of the due diligence process will vary depending on the target company. The following is a basic list of the main areas to focus on when reviewing a Slovak company:

1. Matters relating to establishment, organization, and capitalization (Articles of Association, excerpt from Commercial Register, Trade Licenses, etc.).

2. Personnel (number of employees, collective bargaining agreements, employee benefits, confidentiality, etc.).

3. Financial statements/accounts/indebtedness.

4. Taxes and accounting (tax position, tax holidays, special relief, tax liabilities, VAT refunds, audits, reserve liabilities, pricing methods, social security and health contributions, list of bank accounts and average balances, etc.).

5. Operational aspects (marketing, sales, and distribution arrangements)/All information relating to intellectual property.

6. Insurance policies (property, liability, business interruption, accident, indemnity, casualty, life and indemnification of directors and officers).

7. Real property (list of all property owned, leased, used or occupied by the company, copies of all documents relating to real property, extracts from Cadastral Office, etc.).

8. Claims and litigation (information on any current, pending or threatened litigation or arbitration, investigations, inquiries or reports by Slovak or foreign governmental agencies, including tax and environmental issues).

9. Environmental matters (waste management, environmental, health and safety policies, environmental permits, annual expenses, etc.).

In a cross-border Slovak investment, the foreign investor must be well informed about government-imposed restrictions against disclosure of sensitive information to a foreign subject, such as information relating to national security or defense, bank secrecy laws, and company trade secrets. It is also extremely important to identify legal and contractual impediments to the completion of the proposed acquisition, including required Slovak governmental (for example antimonopoly approval) and other third-party authorizations, approvals, and consents.

Direct sale privatization has created a special area for potential investors to review. Since the terms of direct sale privatizations in Slovakia are not public, an investor must be sure to review all documents and arrangements relating to the privatization. In particular, the agreements between the National Property Fund and the owner must be carefully reviewed.

Of special interest are the payment terms of these agreements and provisions granting the NPF or any other third party a security interest in the shares of the privatized company or any other interest such as a right of first refusal. Waivers or other approvals may have to be obtained before the deal can go forward. An investor should identify these potential "show stoppers" early on, before investing too much money and time into the transaction.

Documentation. Various documentation will be needed to complete the acquisition. The most important document is the share purchase agreement, subscription agreement, or similar instrument. This contract will set out the purchase price, payment terms, and other rights and obligations of the parties.

Continued on page 18

Slovak Republic Facts & Figures

Form of Government: Parliamentary Democracy

Prime Minister: Vladimir Meciar

Capital: Bratislava

Population: 5.4 million

Labor Force: 2.4 million

Land Area: 49,030 sq. km.

Borders: Austria, Czech Republic, Poland, Ukraine, Hungary

Ports: Bratislava, Komarno

Highways: 17,650 km.

Railways: 3,660 km.

Major Industrial Branches: Chemicals, food processing, metallurgy, engineering, energy, paper/wood processing, textiles, mining

Main Imports: Machinery & transport equipment, fuels & lubricants, manufactured goods, raw materials, chemicals, agricultural products

Main Exports: Machinery & transport equipment, fuels & lubricants, manufactured goods, raw materials, chemicals, agricultural products

Currency: Koruna (USD 1 = SK 33)

Predictions for 1997:

GDP Growth Rate:	5.0-6.0%
Avg. Unemployment Rate:	12%
Net Export of Goods & Services (SK billion)	-75

Source: Institute of Economics, Slovak Academy of Sciences

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CENTRAL EUROPE AUTOMOTIVE REPORT

To Our Readers:

At press time, the breaking news is that Toyota is considering Slovakia or the Czech Republic as possible sites for a new car assembly plant. Slovak Prime Minister Vladimir Meciar traveled to Japan in April and submitted a proposal to Toyota. If Slovakia is chosen as the site, the plant is likely to be built in the eastern part of the country.

Certain to be a major concern of Toyota is the possibility that Slovakia will not be included in the first wave of Central European countries to enter the EU. What makes the Central European countries so attractive to foreign auto producers is the prospect of a low-cost manufacturing base from which to reach the EU markets. When these countries become full members of the EU, local exporters can take advantage of the lower trade tariffs with EU countries. If Toyota sets up a factory in Slovakia and Slovakia is left behind when its neighbors become EU members, Toyota's investment suddenly sours considerably.

According to industry insiders, Slovak steel-making giant VSZ is talking with Toyota about taking part in the car assembly operation as a joint venture partner. As noted in this month's The Analyst, VSZ considers the automotive industry to be an important source of new business and is investing into its capacity accordingly.

Toyota's presence in the Slovak market could be a boon for the local supplier industry. As discussed in this month's Focus on Investment, the Slovak American Enterprise Fund is targeting its efforts on the supplier industry.

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As always, if you have any comments, suggestions, or requests, please contact us. We value your input. The Central Europe Automotive Report is designed to give you the information you need to succeed in this exciting market

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The mission of the **Central Europe Automotive Report** is to provide market, investment, and business information that can lead to joint venture, greenfield investment, and product distribution opportunities in the automotive sectors of Slovenia, Hungary, Czech Republic, Slovak Republic, Poland, Bulgaria, and Romania. The **Central Europe Automotive Report** intends for its information to be used to increase foreign investment in the Central European auto sector; improve the availability, quality, and competitiveness of products and raw materials available to Central European auto manufacturers and suppliers; strengthen existing Central European companies by introducing foreign capital, technology, and expertise; and provide opportunities for auto manufacturers and suppliers to expand their markets.

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VW BRATISLAVA COMMERCIAL DIRECTOR SPEAKS AT WARSAW CONFERENCE

STATE OF THE SLOVAK VEHICLE INDUSTRY

Jozef Uhrik, Commercial Director of Volkswagen Bratislava, s.r.o., gave the following speech at the EuroForum "Central European Automotive Industry" conference held in Warsaw on March 18-19. Mr. Uhrik is also President of the Automotive Industry Association of the Slovak Republic. His speech was delivered in German and has been edited.

The extent of the potential market [in Slovakia] for passengers cars is shown by the relatively low degree of motorization - 5 inhabitants to 1 passenger car - and the low degree of vehicle [turnover], where 42% of the vehicle park is older than 15 years. The market for passenger cars is estimated at 75-80 thousand new vehicles per year.

This expansion of the vehicle market was considerably stimulated by the government's temporary [suspension of customs duties on] passenger cars with engine capacities up to 1500 cc. Other factors also positively influenced the conditions for vehicle sales, especially in the passenger vehicle category, [such as] the advantageous credit policies of some banks and financial institutions.

Economic growth and the successful stabilization of the entrepreneurs sphere [played an important role] in the expansion of the vehicle park. [Also important was the import and sale of] 33,000 used vehicles, [bringing] the number of new registrations up to 108,583 units.

In total, 33 official importers and representatives of 37 car makes take part in the marketing of new vehicles in Slovakia. In the new vehicles market, Skoda takes the dominant position. **Skoda** is still considered a domestic make, in spite of the division of the former CSFR.

The van and light utility vehicle market in Slovakia is gradually developing. The estimate for this market segment's potential is 6-8 thousand units per year. In 1996, 7,591 vans and light utility vehicles were sold and of this amount 5,091 were new vehicles from official importers and domestic producers, and 2,500 were imported used vehicles.

Despite Slovakia being a small country, its vehicle market belongs among the significant markets of middle Europe. With the exception of Volkswagen Bratislava, Slovakia does not have a domestic producer of passenger cars. [And since VW Bratislava exports most of its production], official imports must [satisfy] domestic market demand.

The import conditions for 1997 are characterized by a zero import charge for all vehicle types, and a customs duty regime as follows:

- ❍ vehicles from the Czech Republic - no duty, within the tariff union;
- ❍ vehicles from the EC and from associated countries - uniform custom duty of 7.6% for all vehicle types; and
- ❍ other countries - 19% custom duty for all vehicle types

The first months of 1997 have confirmed the positive progressive trend of the Slovak automotive market. Since we are [focusing] our attention on Slovakia as a locale for vehicle production, we can state that the Slovak automotive industry is a specific part of a well developed engineering industry. The engineering industry, metallurgy industry, and chemical industry offer a good base for the production of vehicles and their parts.

In the past, final vehicle production in Slovakia was focused on the production of utility vehicles and special superstructures. This field of production was especially affected by the world-wide recession and by the disintegration of the East European market.

In their effort to survive, enterprises must undergo complicated changes in the field of vehicle production. Some of these enterprises have succeeded in this endeavor, and others are getting through this process. In addition, completely new companies are penetrating into automotive production in Slovakia.

The most conspicuous change was the **VW Group's** entrance and establishment of VW Bratislava, s.r.o., which brought final vehicle production to Slovakia.

During the rebuilding of the production program in Slovakia, **Asko, a.s., Kosice** started producing semi-trailers with high dynamics and continuously develops this business with a high quality level. The company **Slov-Avia, a.s.**, also has found a position for itself in the vehicle market and has started to develop its production.

Supplier Base Development

Considerable movement is visible in the Slovak supply industry. This industrial branch [primarily] supplies final producers in the Czech Republic. Good conditions exist in this branch based on a well qualified work force, domestic supply of semi-finished products, processing material, and sufficient capacities for tooling production.

At present, companies in the supply industry are concentrating their efforts on entering the supply networks of the big European automotive producers. Accordingly, quality control systems are being developed in accordance with ISO standards and audited by independent auditing companies.

Considerable advantages have been gained by the companies for whom foreign capital has brought with it know-how, quality control, and in some cases a sales network. This group includes **Miba Slovakia, s.r.o.**, **Kuster-automotive technology, s.r.o.**, **Pal-Inalfa, a.s.**, and **Sachs Trnava, s.r.o.** Entirely domestic companies, however, have also established themselves in the automotive industry, including **Matador, a.s.**, **Sluzba Vidi Nitra**, and **Mireal, s.r.o.** **Presskam, s.r.o.**, the first Slovak company to supply steel sheet pressings and welded parts, is also improving its position.

The base of a supply industry which is able to fulfill all requirements of demanding customers is continuously created in this way. **Skoda Auto Slovensko** and VW Bratislava, s.r.o., play important roles in [providing a way for domestic suppliers to] penetrate the supply network of the VW Group.

The Automotive Industry Association of the Slovak Republic understood from its beginning that the biggest chance for the survival and development of our enterprises lies in the supply industry. The Association provides assistance to the Slovak automotive industry in the form of information, activities in special areas of quality control and in the field of personnel, and by influencing the authorities and organizations who create the legal conditions for international cooperation and labor division.

The aim is to achieve the necessary reliability, integrity, and stability of mutual relations which form the basis of a good partnership between supplier and customer. ■

Slovak Republic

THE ANALYST

VSZ PREPARES TO EXPLOIT INCREASING CAR SALES

VSZ, the Slovak metallurgical giant, is focusing on the automotive industry as an area of business with huge growth potential and, thus, profits for suppliers. Auto body sheets manufactured by VSZ and sold to car producers are products with higher added value than other VSZ output. Therefore, sales of plates designed for car makers have quickly become an important part of VSZ's income statement.

> "Until the year 2003, the company should be able to manufacture 380 thousand tons of heat-galvanized plates, thus meeting the demands of the car industry."

Furthermore, diversification of activities and output became VSZ's target as the world steel market entered a turbulent period. Last year, the company was even considering starting car assembling on its own. Ultimately, VSZ decided to benefit from the dynamic car sales in the region by increasing quality and quantity of products sold to the car producers as well as to cooperate with other steelworks.

In 1996, VSZ invested SK 3.5 billion into modernization of the production line and technology purchases. Another SK 2 billion was invested by **VSZ Oce¾,** the steelworks in the holding company, into finishing projects already in progress.

Yet, only a fraction was used by the company to prepare for major production of specially-galvanised sheets used in the auto industry. From October until the end of last year, VSZ paid SK 393 million for upgrading one branch of the production line which is making electrolytically-galvanised plates. This investment enabled the steel giant to increase capacity from 110 thousand tons of plates to 130-140 thousand tons.

Late last year, VSZ signed a contract for the supply of 50 - 60 thousand tons of sheets for five **Daewoo** car factories based in Central and Eastern Europe. The contract is to be fulfilled by the end of this year. Some of the Daewoo factories have become regular clients, while others are first testing VSZ's quality before concluding a regular contract.

VSZ also has held talks with the Russian company **VAZ Togliatti** about increasing supplies from 60 to 100 thousand tons of rolled material per year. VAZ demands more electrolytically- and heat-galvanized products intended for a new model still under development.

After VSZ's penetration into the German steel market by acquiring **Finow** mills in 1993, there should be a team of VSZ experts pushing steel supplies for the local **Opel** plant. VSZ has also contacted **Mercedes-Benz** and **Fiat** for testing steel supplies.

Yet, even if VSZ is successful in obtaining new clients, its capacity increases are insufficient. Škoda, the Czech car maker and one of VSZ's prime clients, announced that after 1998 it will buy only heat-galvanized plates, which are of a higher quality than VSZ's electrolytically-galvanized products. Other car makers will probably follow Skoda's lead. VSZ responded by a SK 3.2 billion investment plan for 1997, part of which will include a ratified new zinc treatment line. Until the year 2003, the company should be able to manufacture 380 thousand tons of heat-galvanized plates per year, thus meeting the demands of the car industry. Total costs for this project are roughly estimated at SK 5 billion.

Before VSZ can meet the demands of the auto industry itself, however, it is looking for already existing capacities and ways to better use them. VSZ teamed up with the Czech **Tøinecké elezárny** and there are signs that another Czech team - **Nová Hu** and **Vítkovice** - wants to cooperate with VSZ in modernization. The VSZ - Tøinecké duo should save SK 1 billion in operating costs and also reap other benefits in combined sale of production.

Financials

A recession which started at the end of 1995 and lasted to the third quarter of 1996 caused a decrease in VSZ sales volume by 300 kilo tons. Even though financial data on a consolidated basis are not yet available, a drop in estimated sales in 1996 for the group is expected to be only 1.5%. This decrease was compensated for by sales of a higher amount of cold products.

An estimated 15% decrease in net profit is caused mainly by the 16% increase in financial expenses and an 11% increase in personnel expenses, which correlates with a national increase in nominal wages in 1996.

The completion of the iron ore facility in Ukraine, as well as long-term relationships with raw material suppliers should help VSZ in the future to avoid increased raw material prices. Therefore, a further slight increase in costs in the coming periods should give VSZ a comparative advantage over its competitors in the region.

VSZ on the Stock Exchange

VSZ is a benchmark blue-chip issue on the Slovak stock market. Constant "buy" ratings propelled the price from SK 560 in January to SK 750 in April. Such a rally in trading consequently pushed the official SAX index up 19% compared to the beginning of 1997. The stock's increase was also supported by a higher than expected dividend yield on the back of a better net profit recorded for 1996.

According to various fundamental analyses, the company's share price should stand around SK 900 compared to similar companies in the region. The market, however, charges SK 150 per share for outside factors such as currency devaluation, political, and other corporate risks.

This report was prepared by Martin Kabat, an analyst, and Andrej Èop, a market research assistant, who are both with the investment firm Slávia Capital in Bratislava. ■

CENTRAL EUROPE AUTOMOTIVE REPORT

VSZ's Income Statement & Balance Sheet

INCOME STATEMENT				SK mn.
Year	**1993**	**1994**	**1995**	**1996E**
Sales	**25,519**	**39,782**	**49,792**	**49,079**
Mat. & Energy	(16,206)	(25,196)	(31,226)	(30,329)
Services	na	(2,717)	(2,833)	(2,945)
Personnel Costs	(3,530)	(4,055)	(5,366)	(5,990)
EBITDA	**5,783**	**7,814**	**10,367**	**9,815**
Depreciation	(2,482)	(2,536)	(2,816)	(3,032)
Income/(Loss) from Associates	50	30	(8)	10
Operating Income	**3,351**	**5,308**	**7,543**	**6,793**
Financial Income	39	157	234	280
Financial Expense	(1,485)	(1,624)	(1,509)	(1,749)
Extraordinary Income/(Costs)	0	0	0	0
Pre-tax profit	**1,905**	**3,841**	**6,268**	**5,324**
Taxes	(1,406)	(2,436)	(3,720)	(3,160)
Net Income	**491**	**1,393**	**2,549**	**2,169**

BALANCE SHEET				SK mn.
Year	**1993**	**1994**	**1995**	**1996E**
TOTAL ASSETS	**43,210**	**47,952**	**53,015**	**57,045**
Fixed Assets	**29,756**	**29,186**	**30,452**	**34,093**
PPE	29,170	28,225	29,325	30,293
Financial Invest.	447	821	907	3,500
Intangible and Other	139	140	220	300
Current Assets	**13,454**	**18,766**	**22,563**	**22,952**
Inventories	3,865	4,872	6,052	5,782
Receivables	8,314	10,643	11,433	10,085
Financial Assets	1,275	3,251	5,078	7,086
LIABILITIES + EQUITY	**43,210**	**47,952**	**53,015**	**56,384**
Total Liabilities	**19,813**	**23,413**	**26,588**	**28,282**
S/T Payables	6,906	8,161	8,272	8,068
L/T Payables	1,865	2,795	2,746	2,555
S/T Bank Loans	3,841	3,521	5,461	4,800
L/T Bank Loans	4,564	3,387	3,481	6,159
Certified Debt	0	0	700	700
Other Liabilities	**2,637**	**5,549**	**5,928**	**6,000**
Total Equity	**23,397**	**24,539**	**26,427**	**28,103**
Share Capital	16,448	16,448	16,448	16,448

Source: Slavia Capital

Slovak Republic

OPPORTUNITY SPOTLIGHT

This month's Opportunity Spotlight features two Slovak companies involved in component manufacturing. Opportunities may exist for cooperation with these entities in the form of supply and purchase agreements.

Company: **Sommer Allibert Systemtechnik Bratislava s.r.o.**
Contact: **Tatiana Vavrovicova, Director**
Business: **Car door parts**

Located just inside the **Volkswagen Bratislava** factory gates, **Sommer Allibert Systemtechnik Bratislava** (SASB) assembles door parts and delivers the completed door unit directly to the VW assembly line. The 1000 sq. m. factory was built in August of 1995 and 100% of current production goes to VW. SASB is a daughter company of the Germany-based **Sommer Allibert Industrie Peine**. The mother company's German factory supplies parts to, among others, VW in Germany and Skoda in the Czech Republic. Other factories are located in the U.S., Asia, and Belgium.

SASB receives all door parts from Germany in four truck-loads per week. The parts are unloaded and then assembled by SASB employees on the VW premises. The parts include plastic door handle units, stereo speakers, leather or fabric padding, and safety Styrofoam pieces. SASB owns all of the pieces except the stereo speakers, which are owned by VW. Parts shipments are received only one to two weeks before they must be delivered to the VW line.

SASB builds the door unit per VW specifications, and can make some 380 different door variations. An order system was developed by the two companies whereby VW sends order requests electronically to the SASB factory floor. "Timing is very important," said Tatiana Vavrovicova, Director of SASB. "[Once the orders are received,] we have only 1 1/2 hours to make parts for 14 cars." In one week, SASB produces parts for 830 cars.

When the door units are completed, they are transported by a SASB employee by mini-truck to the VW assembly line. All of SASB's production is delivered just-in-time. "Problems must be solved quickly," said Ms. Vavrovicova. In April 1997, SASB received VW's quality certification.

SASB currently employs six workers on its first shift and five on the second shift. Over the next year, SASB plans to expand its work force by 50-100%. SASB is also constructing a new 500 sq. meter building next to its existing factory to accommodate future new business. The building will be used for storage and is scheduled to be completed in late May 1997.

Since all parts are currently shipped to SASB directly from Germany, SASB does not purchase any supplies from local suppliers. According to Ms. Vavrovicova, SASB has no immediate plans to buy parts made by Slovak suppliers. "This decision will be made in Germany," she said.

Company: **Heiland Slovakia s.r.o.**
Contact: **Heribert Ohla, Managing Director**
Business: **Seat covers**

Manufacturing in Slovakia since 1993, Heiland Slovakia produces fabric car seat covers for **Johnson Controls** factories in Germany, Portugal, Slovenia, the Czech Republic, and Poland. Heiland produces 700 complete car seat covers per day, with 100% of this production going to Johnson Controls, a supplier to **GM** and **Ford**. Heiland currently ships product from Slovakia to Germany via trucks.

Heiland Slovakia's plant is located on land within the **Volkswagen Bratislava** factory premises. Other than renting production rooms from VW, there is no other formal cooperation between the two companies. "At this time, we don't produce for VW Bratislava, but we hope in the future to produce whole seats for VW, not just fabric," said Heribert Ohla, Managing Director of Heiland Slovakia. "This is just in the offer stage."

Heiland chose Slovakia as a site for its factory because of the lower personnel costs compared with Germany, said Mr. Ohla. By locating on the VW premises, the company benefits from the VW security service and can communicate easily with the German-speaking VW management.

Raw materials are purchased by Heiland from Germany, Great Britain, Belgium, France, and the Netherlands. According to Mr. Ohla, Ford determines what fabric will be used and who will supply the material. "We depend on Ford's decision."

Mr. Ohla said that they have no major problems with their operations in Slovakia. "We checked the situation in Slovakia before we set up production here." He noted, however, that on average, employees in Slovakia take more sick days than in other countries, and employee turnover is high in Slovakia.

If a company want to do business in Slovakia and be successful, Mr. Ohla suggested that they learn everything possible about duties, taxes, and finance.

Heiland Slovakia is 100% owned by its parent company, **Heinrich Heiland GmbH**. The parent company produces parts for **Audi**, **Porsche**, and **Mercedes**. Heiland Slovakia also produces plastic cartridges and would like to expand its product range. "We want to produce in Slovakia products other than car seats covers," said Mr. Ohla. ■

Passenger Car Sales in Slovakia by Segment (January - March 1997)

PASSENGER CARS (SEGMENT)	Jan.-March 1997
MINI CLASS	681
SMALL CLASS	7400
MIDDLE LOWER CLASS	3162
MIDDLE CLASS	1632
MIDDLE HIGHER CLASS	202
LUXURY CLASS	48
SPORT CLASS	28
SPECIAL 4X4	146
MINIVANS	31
TOTAL	**13,331**

Source: Daewoo Motor Slovakia/ZAP

Vehicle Sales in Slovakia 1995 & 1996
Passenger Cars (PC) and Light Commercial Vehicles (LCVs)

OFFICIAL	1995				1996			
IMPORTER	PC	LCV	Total	%	PC	LCV	Total	%
Alfa Romeo/Lancia	0	0	0	0.00	0	0	0	0.00
Audi	336	0	336	0.67	439	0	439	0.38
BMW	35	0	35	0.07	210	0	210	0.18
Chrysler	23	0	23	0.05	27	0	27	0.02
Citroen	129	380	509	1.01	1,371	664	2,035	1.75
Daewoo	1,055	0	1,055	2.10	11,362	0	11,362	9.78
Fiat	326	34	360	0.71	6,683	131	6,814	5.87
Ford	417	229	646	1.28	1,351	404	1,755	1.51
Honda	605	0	605	1.20	1,351	0	1,351	1.16
Hyundai	493	120	613	1.22	2,261	290	2,551	2.20
Jaguar	1	0	1	0.00	3	0	3	0.00
Jeep	12	0	12	0.02	15	0	15	0.01
Kia	432	40	472	0.94	1,037	103	1,140	0.98
Lada	875	0	875	1.74	1,856	0	1,856	1,60
Mazda	844	73	917	1.82	1,987	140	2,127	1.83
Mercedes	102	119	221	0.44	181	276	457	0.39
Mitsubishi	83	73	156	0.31	322	92	414	0.36
Nissan	260	42	302	0.60	1,364	139	1,503	1.29
Opel	1,436	106	1,542	3.06	4,012	197	4,209	3.62
Peugeot	272	169	441	0.88	862	449	1,311	1.13
Proton	0	0	0	0.00	22	0	22	0.02
Renault	1,227	74	1,301	2.58	3,672	83	3,755	3.23
Rover	0	0	0	0.00	16	0	16	0.01
Saab	4	0	4	0.01	12	0	12	0.01
Seat	1,710	0	1,710	3.40	3,446	235	3,681	3.17
Suzuki	n/a	n/a	n/a	0.00	235	0	235	0.20
Ssang Yong	0	0	0	0.00	19	0	19	0.02
Subaru	21	0	21	0.04	46	0	46	0.04
Skoda	11,254	874	12,128	24.08	22,020	1,015	23,035	19.83
Tatra	4	0	4	0.01	1	0	1	0.00
Tavria	0	0	0	0.00	0	0	0	0.00
Toyota	452	41	493	0.98	1,467	55	1,522	1,31
Volvo	31	0	31	0.06	89	0	89	0.08
VW	2,210	186	2,396	4.76	6,966	258	7,224	6.22
TOTAL	24,649	2,560	27,209	54.03	74,705	4,531	79,236	68.20
OTHER IMPORTER	20,149	2,100	22,249	44.18	33,664	2,500	36,134	31.13
LOCAL PRODUCERS								
TAZ-Sipox	156	644	800	1.59	214	461	675	0.58
VAB-Sipox	0	98	98	0.19	0	99	99	0.09
TOTAL	156	742	898	1.78	214	560	774	0.67
TOTAL SALES	**44,954**	**5,402**	**50,356**	**100.00**	**108,583**	**7,591**	**116,174**	**100.0**

Source: Daewoo Motor Slovakia/ZAP

Top-Ten Selling B-Class Cars in Slovakia: January - March 1997

MODEL	UNITS
Skoda Felicia	5,135
Fiat Punto	700
VW Polo	542
Citroen AX	303
Opel Corsa	280
Seat Ibiza	176
Peugeot P106	128
Citroen Saxo	38
Mazda M121	32
Renualt Clio	21

Source: Daewoo Motor Slovakia

Top-Ten Selling C-Class Cars in Slovakia: January - March 1997

MODEL	UNITS
Daewoo Nexia	538
Renault Megane	364
Hyundai Accent	247
VW Golf	243
Seat Cordoba	223
Mazda M323	180
Fiat Bravora	178
Opel Astra	174
Ford Escort	146
Honda Civic	139

Source: Daewoo Motor Slovakia

Top-Ten Selling CD-Class Cars in Slovakia: January - March 1997

MODEL	UNITS
Daewoo Espero	408
VW Passat	348
Skoda Octavia	182
Mazda M626	130
Opel Vectra	77
Fiat Marea	72
Hyundai Lantra	67
Honda Accord	54
Nissan Primera	44
Renault Laguna	42

Source: Daewoo Motor Slovakia

Profile *Continued From Page 1*

Mr. Cash is married, has two children, and enjoys traveling with his wife, especially throughout Austria. The Central Europe Automotive Report spoke with him in his Graz office.

"We receive no parts packed in kits, so we are not a CKD plant. We are a full assembly production plant. Between the two operations, Grand Cherokee next door and here, Chrysler brings in approximately 100 sea containers every day to support our just-in-time delivery system. At this rate, we are the number two importer of sea containers from the United States into Europe."

CEAR: What's unique about the Eurostar operation?

Cash: Eurostar blends both North American and Austrian management techniques in a highly demanding business environment. Our production system accommodates the complexity for right-hand and well as left-hand drive, diesel engines, and gasoline engines. The diesel engine version that we produce here is not built in the U.S.

CEAR: What's different about Austrian and North American management techniques?

Cash: Number one, you've got the union supervisory board that is common throughout Europe and that doesn't exist in the U.S. We have unions in the U.S., but they don't sit on our board at the present time.

The auto industry throughout the U.S. and North America has been so demanding and has progressed to a very strong and lean management system. When it was brought over here, the normal Austrian management system was structured in the same way. So it's a matter of adaptation, rather than two [completely] different systems. They must adapt to the pressures and speed at which the automotive system has to function, because we build at such a high volume.

CEAR: How did you succeed in bringing these two systems together?

Cash: Just patience and a cooperative effort on both sides. Just common sense, really.

CEAR: The factory in Graz has been in operation for five years now. What's been the biggest challenge for the joint venture partners during this time.

Cash: Our initial challenge was, of course, to get the plant built, select the new employees and train them, and to launch the project within a relative short time of 18 months, and doing that at a distance of 5000 miles from our major support system back in North America. This was accomplished in large part due to the skills and attitudes of our work force, plus the existing infrastructure that was here in Graz, and support from our partner SFT who was already in this area building products of their own.

Another big challenge was to set up our free-flow material system, and we wanted to do this in a very efficient manner. Free- flow means that all production parts are released to our suppliers through Chrysler Central Releasing Systems in North America on a part number basis. We receive no parts packed in kits, so we are not a CKD plant. We are a full assembly production plant. Between the two operations, Grand Cherokee next door and here, Chrysler brings in approximately 100 sea containers every day to support our just-in-time delivery system. At this rate, we are the number two importer of sea containers from the United States into Europe.

CEAR: What ports are you using for all of these sea containers?

Cash: We bring the automobile parts in through Rotterdam and Antwerp and then we ship finished vehicles out through Hamburg, Bremerhaven, and ports in Italy.

CEAR: What's the key to making a joint venture like this work?

Cash: To me, the underlying foundation of mutual trust between the workers and management, and the support from Chrysler and SFT management are what have made Eurostar a success. Eurostar manufacturing operations are managed by Chrysler in a manner that blends both North American and Austrian management systems. Here, Chrysler is the management team on site. Whereas next door at SFT, the Grand Cherokee production is strictly a purchase service - we have a few liaison people, but SFT manages that production.

"At this time we have no components coming from any Eastern European countries. We are open to do local sourcing but only on a competitive basis. If there are companies that can guarantee us the quality level that we need, and [offer] a resulting cost benefit to us, then we will consider them."

Both parties know that this is a good business relationship for each of us and we just keep working until things come together.

CEAR: What have been some of the biggest surprises encountered by Eurostar, and how were those surprises handled?

Cash: Our biggest surprise was a good one. It's been the acceptance of our minivan in the European and the other worldwide markets. We started with just a short-wheel base model, and we've been able to introduce a diesel engine, long-wheel base, right-hand drive, and through all that we've been able to constantly increase volume. When the plant started, we were building seven units per hour on one shift. Today, we're up to 16 units per hour on two shifts.

CEAR: Why was the Voyager so well received on the European market?

Cash: It's a combination [of factors]. The customer base in Europe is developing a market for the minivan, much like what happened in the U.S. in the mid 1980's. We were one of the first to get here with the minivan so we were able to start selling to the customers right when the market opened up. As you probably well know, the [Renault] Espace is one of our biggest competitors in that market.

CEAR: How would you characterize competition in the European minivan market?

Cash: Fierce. The competition is very fierce. There are over 20 competitors in Europe in the minivan segment.

CEAR: From where does Eurostar purchase its supplies for the Voyager?

Cash: The majority of our components are purchased from North America. However, we do have quite a few parts that are sourced and purchased in Europe, such as seats from Lear in Austria, glass from Donnelly in France, tires from Goodyear in Germany, diesel engines from VM Motori in Italy, front axle shafts from GKN in Spain, and instrument panels from Textron in the Netherlands.

At this time we have no components coming from any Eastern European countries. We are open to do local sourcing but only on a com-

***Profile** Continued From Page 12*

petitive basis. As opportunities come up, we investigate them one by one and evaluate them on an economic basis. If there are companies that can guarantee us the quality level that we need, and [offer] a resulting cost benefit to us, then we will consider them.

CEAR: Austria is not a low-cost manufacturing base. How are you keeping your costs down?

Cash: Number one, we started with a lean manufacturing system when we launched the plant and we've continued to improve with strong support and participation from our work force. As a matter of fact, Eurostar was the first Chrysler plant to initiate formal continuous improvement workshops to identify and reduce costs.

Chrysler is the low cost producer of automobiles in North America and we at Eurostar are trying to do as much as we can along those same lines. We are a strong advocate of the Chrysler Operating System with the goal to improve manufacturing operations to world class levels for both quality and cost.

Our employees are highly skilled and highly motivated which helps us keep the costs down in our plant. This helps us to achieve the high percentage of up time we have, a low scrap rate, low plant maintenance costs, and continuous improvement in total operating costs.

Of course, we're able to utilize the existing infrastructure in Austria - the railways and highways - and throughout Europe - the harbors and railways - and that supports our manufacturing in a competitive manner.

And then we have SFT next door. So between the two plants we have synergies that help to keep costs down, such as inbound transportation, purchase of manufacturing supplies, outbound transportation of vehicles, and local support services.

We have one central logistics department that works between the two plants, and that's very effective. Basically, we have one staff, plus a few incremental people, supporting two manufacturing operations. That helps us to be efficient.

And we constantly review operations in our North American sister plants and identify good ideas from them that we can bring over and help reduce our costs. It's a continuous effort.

CEAR: How does employee productivity in your Graz plant compare to productivity in Chrysler plants in North America?

Cash: On a year by year basis, our percentage of improvement is about the same, but we are a much more manual plant than the ones back in North America. For instance, we have only five robots next door at Grand Cherokee, whereas the Jefferson, [Michigan] plant has hundreds of robots.

CEAR: What are the major trends in your industry and how are you reacting to those trends?

Cash: In this time of demanding customers, the trend is that we have to provide a vehicle that meets their expectations from a total value standpoint. [This] includes world-class quality and a choice of vehicles that meet their particular needs. The minivan has been so successful because it does fit one of those growing market segments.

We must understand our market requirements and be flexible and adaptable to provide them with proper vehicle models, high quality, and service in a timely manner. The Voyager minivans are the correct product for our market segment and we continue to add features like right and left sliding rear doors to meet customer expectations.

CEAR: What growth prospects do you see for your industry segment over the next 5 years?

Cash: Chrysler has established a target for 20% annual growth for international sales. It's anticipated that the minivan market segment will grow in Europe and the rest of the world markets as it did in North America. I've heard that within the next five years it's estimated that the minivan market segment could be as high as 425,000 units in Europe. Today, it's about 70% of that.

The Voyager minivan is an important element of Chrysler's plan to achieve the 20% growth. As a matter of fact, our 1996 calendar year sales for Voyagers were 17% higher than in 1995. As you are aware, Chrysler created the minivan segment in North America and still retains 45-50% of this segment. Although there are many more competitors in Europe than before in this segment, we believe that Chrysler will continue to be a key player. Introduction of our new right hand drive models will help expand our sales in countries like the United Kingdom, Japan, and Australia.

CEAR: What is the key to survival in this market?

Cash: The main objective is to provide value to the customer for styling, quality, reliability, and after sales service. And Eurostar, being the assembler of vehicles, has a responsibility to produce high quality vehicles for delivery to our distributors and dealers. We are very fortunate to have the good work force that we do which enables us to deliver a vehicle with such high levels of quality.

Keep in mind, we're basically competing for people that have the choice of buying our product or a BMW or Mercedes. We're in the low end of the price range. You have to have the quality there.

CEAR: What is your biggest personal challenge?

Cash: Communicating [with] and motivating our work force. As competitive as the automobile industry is, there is always a need for us to keep improving and that drives change. In fact, just today we increased our production rate from 15 to 16 jobs per hour in order to meet the sales demand. The plant staff had to plan for several weeks to implement all the things that it takes to achieve this higher volume and maintain their high standards of quality.

CEAR: How do you motivate your employees to perform at their highest level?

Cash: At Eurostar, we're very lucky to have a well educated, well trained, and highly motivated work force to start with. Basically, my role as a motivator is to keep them informed as to what changes are needed, what the reason is behind those changes, and what benefits there will be for Chrysler and them as workers so that they get a mutual understanding. As we like to say in the Chrysler operating system, I help explain the what to them and then give them the support so that they can develop the how to get that done. That becomes a self perpetuating, self motivating force within the plant.

[Our employees] are extremely dedicated and extremely intelligent and oriented to do both advance planning and problem solving, be it correcting [a problem], or [determining] how we advance, or how do we get to the next level of quality, [or] how do we get to the next level of production. They have that ability and it's

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Slovak Republic

FOCUS ON INVESTMENT

SLOVAK AMERICAN ENTERPRISE FUND LOOKS AT AUTOMOTIVE INDUSTRY

The Fund The Slovak American Enterprise Fund has invested over USD 15 million in the form of debt and equity into 30 private Slovak enterprises, and has committed USD 3 million in loans to 27 private Slovak enterprises through a joint lending program. The Fund has over USD 25 million in funds to invest in Slovakia and the automotive industry is one of the target industries.

Denis M. Brown

The Fund was established in 1991 as the Czech and Slovak American Enterprise Fund to assist in the transition of Czechoslovakia to a free-market economy. After 1993, the activities of the Fund were continued in Slovakia by the Slovak American Enterprise Fund. As the first significant foreign investor in Slovakia, the Fund has made more direct investments in Slovakia than any other foreign investment fund.

Investing in Slovakia As one would expect when investing in the early stages of the transition to a free-market economy, not all of our investments have performed to our expectations. During the early stages of the fund there were several issues which increased our investment risk considerably. Initial investments were primarily start-ups or early-stage investments (privatizations were not available as investments) which, by definition, are higher risk. This risk was compounded by a number of factors, including the lack of an entrepreneurial culture, inexperienced management, deficiencies in marketing and accounting skills, and incomplete development of commercial law.

There has been much progress in the Slovak business environment over the past several years. An entrepreneurial culture is growing, legal problems are being improved, and management is gaining necessary skills. Although this process is far from complete, the transitions made, enhanced by stable macroeconomic development, have dramatically enhanced the business environment in Slovakia.

One must expect that investment in Slovakia is not going to be without its problems. As in all of Central Europe, bureaucracy, legal, cultural, and economic issues are present in all ventures. With proper due diligence and good partnering, many of these problems can be avoided or minimized.

The Fund, by partnering with local experts and seasoned companies, has seen several of its investments successfully developed into quality organizations in the past several years. Choosing a partner with long-term strategic objectives that match the core skills and advantages of the company is critical for success, as many companies over diversify into unrelated or uncomplimentary fields. The Fund invests into companies that have a reason for being - be it cost efficiency, technological acumen, or market share - and that have the ability to sustain these competitive advantages over time. The presence of a strategic partner can assist companies in achieving this sustainability.

> "Part of our long-term targeted strategy is to build up the second tier supplier base that currently exists to make Slovakia a key player in the automotive components industry in Europe."

Forms of Fund Investment The Fund offers debt, convertible debt, or debt with warrants to private companies which offer unique products and services with a sustainable competitive advantage. We welcome potential co-investments with either joint-venture and/or strategic partners.

The Fund has approximately USD 25 million to invest into projects in Slovakia. Advisory assistance funding can also be provided for training, quality improvement, and other areas of need to strengthen an investee's ability to improve its competitiveness. The Fund endeavors to arrange the terms of our exit from an investment at the onset of investing.

The Slovak Automotive Components Industry The Slovak automotive components industry offers many competitive advantages to automobile manufacturers looking to cultivate second tier suppliers. Labor content of automotive components can reach 30-40% of the total part cost. Slovakia offers one-tenth the labor cost of Germany, the lowest labor cost in comparison to Hungary, Poland, and the Czech Republic, combined with a highly skilled work force. A common element in several of our successful investments is a high labor content in the manufacturing process. One such investment is a specialized gasket manufacturer who is utilizing this advantage to penetrate the world market more cost efficiently.

Given these factors, plus low energy costs and strategic location to serve all of Europe (via two ports on the Danube and an extensive international road and rail system), it is easy to see the attractiveness of the Slovak automotive components sector.

Slovak automotive component suppliers have particular expertise in metal working, machining, pressing, and casting. Additionally, there is a very strong and developed machine tool and tooling industry in Slovakia which complements automobile component manufacturing. Brake components, shock absorbers, tires, elements of hydraulic systems, ball bearings, engine assembly, clutches, transmission shafts, axles, crankshaft and gearbox manufacture, and even electronics subassemblies are among the many products that Slovak automotive suppliers provide to the marketplace.

Investment in the Automotive Sector Investing in Slovakia presents certain challenges for Western investors. Investors should be aware that applying Western time expectations regarding contracts and other legal issues is unrealistic in most cases. Patience is a prerequisite for doing business in Central Europe. The investor should have proper legal representation to advise the investor and provide an understanding of all applicable laws, regulations, and other requirements prior to investing. Taking these steps should help avoid future legal problems.

Continued on page 18

Slovak Republic

ACCOUNTING & FINANCE

CHANGES TO STATE BUDGET IMPACT VEHICLE INDUSTRY

The 1997 State Budget in Slovakia introduced several amendments and new provisions which directly and indirectly impact vehicle manufacturers, parts and component makers, and distributors intending to do business in Slovakia. Some of these changes are briefly summarized below.

Heather Steinwedel

Customs duty. The 1997 Customs Duty Code did not amend the 38% general customs duty on the import of cars. However, Slovakia was granted full membership in the General Agreement on Tariffs and Trade (GATT) in 1993 and, accordingly, it reduced customs duty on goods imported from GATT member states to 19%. Further reductions are granted on cars imported from the EU in accordance with the Association Agreement with the EU.

Similarly, reductions in the rates on imports to the Slovak Republic are scheduled for the next ten years under an agreement signed by Czechoslovakia with the European Free Trade Association (EFTA) in March 1992. The reductions apply to EFTA member states which have ratified the agreements (e.g. Austria, Norway, Sweden, and Switzerland).

A free trade agreement (the CEFTA agreement) has been signed by the Czech Republic, Hungary, Poland, and Slovakia. The agreement is intended to develop trade among these countries by removing customs barriers. Under the CEFTA, customs duties between the member states are gradually being reduced and will ultimately be eliminated.

The exemption from customs duties for small cars introduced in 1996 no longer applies from 1 January 1997. This exemption resulted in unusually high car sales in December, January, and February as car dealers sold stock brought into the country at the lower price before 1 January.

Import surcharge. From 1 January 1997, the import surcharge on imported goods has finally been eliminated to accord with GATT. The rate was 10% in 1995 and 7.5% in 1996.

Value Added Tax. VAT is payable on the import of goods into Slovakia by the importer of the goods. The general rate of 23% is applied to the customs value of the goods to determine the VAT payable. If the importer is a registered VAT payer in Slovakia, it can offset the VAT paid against VAT payable in relation to its sales. Any excess of VAT paid over VAT payable will be refunded.

Fund for Foreign Trade Support. The Fund for Foreign Trade Support was established on 1 January 1997 as a special fund for the collection of finances to support foreign trade development.

A major source of funding for the Fund will be the obligatory contributions of local exporters and local importers in the amount of 0.1% of the value of export sales when releasing goods for export, or 0.1% of the value of import sales when releasing goods for free circulation.

The reasons for establishing the Fund include:

a) participation in fairs and exhibitions both inland and abroad including the lease of an exhibition area, preparation of promotional materials, and expenses related to transportation and presentation of goods;
b) the promotion of goods abroad;
c) the granting of loans for the settlement of a customs debt when importing progressive technology; and
d) gifts and grants for representation activities and business missions of Slovak entrepreneurs abroad

There is no legal entitlement to receive grants from the Fund. The administrative board provides the grants on the basis of a written application from an applicant. Persons entitled to make an application are local exporters, local importers, or any other legal entity or physical person to whom finances of the Fund can be granted for the purposes specified in the Act.

A local exporter or a local importer not fulfilling their contribution obligation timely and properly (within 30 days from the day the merchandise was released for the proposed regime) is obliged to pay penalties to the Fund for each day of delay. Further, a local exporter or a local importer illegally using or retaining finances of the Fund is obliged to transfer the illegally used or retained amount and pay penalties at double the rate which applies to late payment for each day of unauthorized use of funds.

Road Tax. In 1996, the road tax payable in Slovakia for vehicles used for business purposes was reduced by 50% for environmentally friendly cars. The purpose of the tax benefit was to create indirect pressure for the modernization of motor vehicles with regard to the environment.

In the 1997 State Budget, the Government canceled the benefit. The reasoning behind this change was that the tax benefit did not fall within the purpose of the Act on Road Taxes which was to provide for the taxation of road use. The benefit will continue to be valid until the expiration of the period the taxpayer was originally entitled to.

Another amendment which came into effect on 1 January 1997 relates to the unification of tax penalties for all taxpayers (road tax, income tax, etc.). There is a considerable decrease in the penalty for delay in payment of road taxes from 0.3% to 0.1% per day.

The annual road tax rate for personal vehicles with an engine capacity over 1200 cc has been increased by 10% to 17%, depending on the engine capacity.

Depreciation of personal motor vehicles. Another amendment contained in the 1997 State Budget was the elimination of the depreciation limit on personal vehicles. Vehicles purchased prior to 1 January 1997 can be depreciated from 1 January as if the limit was never in place. However, there may still be some lost depreciation if the limit was reached in an earlier year as prior year returns can only be amended in limited circumstances.

Heather Steinwedel is Manager of Deloitte & Touche's tax department in Bratislava. ■

Slovak Republic

STRONG 1ST QUARTER CAR SALES IN SLOVAKIA

HANG-OVER FROM SUSPENSION OF IMPORT DUTY

Car sales in Slovakia showed continued strength in March 1997 mainly, because many models slipped through customs before the government reinstated its import duty on certain makes on January 1.

Dealers sold 4,634 units in March, compared to 4,105 units sold in March 1996, according to statistics released by the Slovak Automotive Industry Association (ZAP). Czech car-maker Skoda was the top seller in March, with 2,055 cars sold. Daewoo's March sales totaled 620, making it the second best selling brand.

According to local car dealers, the first quarter of the year is usually a slow sales period in Slovakia.

The continued strong sales were partly due to the hang-over effect of the January 1, 1997 reinstatement of the import duty on cars under 1500cc. Many cars still on dealers' lots passed through customs in 1996 and escaped payment of the duty. "We have some volume of cars in our stock which were cleared [through customs] in December so we can sell them at [the lower price]," said Peter Halgas of Daewoo Motor Slovakia told the CEAR.

"We can sell old stock cars until the end of March or early April," said Kia Slovakia Managing Director Alexander Bachorec. "Then we must start on new cars." To lessen the impact of the reinstated import duty, the company has been negotiating with Kia in South Korea to get a better price on cars. "We want to wait until the last minute to present our new prices."

The strongest sales, however, were registered in the last few months of 1996. "In October, clients came to our showroom and wanted to order cars for December but we were able to arrange [delivery] in 2-3 days," said Halgas at Daewoo. Daewoo sold 1300 cars in October, compared with only 373 in January of this year. Sales of passenger cars in the last three months of 1996 amount to 27,666, 37% of the year's total.

According to Kia's Bachorec, three-quarters of sales in 1996 were to private people, whereas two years ago 90% of sales were to companies. "My opinion is that this year [sales] will be mainly to companies," he said. "We expect movement in the luxury and middle-class segment, and in light commercial vehicles." ■

Slovak Automotive Parts and Components Suppliers

Company	Product	Contact	Phone/Fax
VAB-Sipox	truck axles, tools	Anton Skorupa	tel: 421-805-536-097 fax: 421-805-279-10
Technicka Guma	rubber products, tire valves	Erika Hruskova	tel: 421-865-2593 fax: 421-865-3506
Sandrik	oil and air filters	Jan Garaj	tel: 421-858-494-430 fax: 421-858-494-637
OP Krasplast	small plastic parts	Ivan Visnovsky	tel: 421-89-692-409 fax: 421-89-623-314
Skoplast	glass fibers, glass	Emanuel Polesensky	tel: 421-805-258-416 fax: 421-805-244-98
Osram	lamps	Lars Johnson	tel: 421-817-277-21 fax: 421-817-241-88
Plastika Nitra	plastic processing by injection molding press	Lubomir Jahnatek	tel: 421-87-516-251 fax: 421-87-513-818
Vural	research and development	Slavoj Mirek	tel: 421-89-467-92 fax: 421-89-467-92
Diop	HV diodes	Jozef Fedora	tel: 421-838-522-303 fax: 421-838-522-306
Makyta	airbag sewing	Frantisek Brehovsky	tel: 421-825-33-19 fax: 421-825-416-46
Elektrokarbon	carbon products for electric motors	Peter Ondro	tel: 421-815-354-111 fax: 421-815-326-270
Pohronske strojarne	small connecting parts	Jan Trnka	tel: 421-857-761-221 fax: 421-857-761-229
Magna Slovteca	reflecting mirrors & wiring	Jan Bahula	tel: 421-834-718-475 fax: 421-834-718-477
Elektro Ludib VDI	small metal sheets	Jan Szekely	tel: 421-704-932-92 fax: 421-704-933-36
Sluzba VDI	Lockings panel	Jan Fulop	tel: 421-87-524-245 fax: 421-87-265-08
Skoda Liaz	steering shafts, spherical journals	Maria Novakova	tel: 421-854-222-82 fax: 421-854-220-29
Topolcianske Strojarne	Exhaust systems, drive shafts	Ivan Kroslak	tel: 421-815-243-06 fax: 421-815-323-363
Slovenska armaturka	forgings	Ladislav Pavlicek	tel: 421-80290-2565 fax: 421-2890-2553
ZVL	bearings, jacks	Jan Jancik	tel: 421-801-943-710 fax: 421-801-945-919
AVC	gearboxes	Jiri Hedenec	tel: 421-824-210-05 fax: 421-824-215-74
Miba Slovakia	powder metallurgy	Vladimir Toman	tel: 421-845-864-730 fax: 421-845-864-732
KLF-ZVL	forgings, rolling bearings	Anton Jezik	tel: 421-826-212-620 fax: 421-826-212-818

The information contained in the above list was obtained from the best available sources. Omissions, typographical errors, and number changes, however, may occur. Please send any corrections to CEAR at the address listed on page 2.

INVESTMENT OPPORTUNITIES

To submit opportunities for publication write to Trade Leads, CEAR at:
4800 Baseline Road, Suite E104-340
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or **E-Mail** to cetmllc@ibm.net

Opportunity	Investment Sought	Contact	Phone/Fax
Manufacturer of hydraulic cylinders, up to 32 bars pressure, 25-160 piston diameter, up to 4,000 mm length, seeks commercial cooperation, offers production to order	n/a	Viktor Tegelhof re: STR 1258	tel: 421-7-5335-175 fax: 421-7-5335-022 Slovak Republic
Manufacturer of exhaust flanges, light welded steel constructions, agricultural machines, and hydraulic components under Sauer Co. license seeks joint venture partner	n/a	Viktor Tegelhof re: STR 0224	tel: 421-7-5335-175 fax: 421-7-5335-022 Slovak Republic
Manufacturer of car & truck air and oil filters seeks joint venture partner for production, financial, and distribution cooperation. Monthly air filter capacity for cars of 60,000, and 6,000 for trucks	n/a	Viktor Tegelhof re: Sandrik a.s.	tel: 421-7-5335-175 fax: 421-7-5335-022 Slovak Republic
Manufacturer of pressed parts for cars, press units, electric carriages, and machine tools seeks commercial or production cooperation	n/a	Viktor Tegelhof re: STR 1263	tel: 421-7-5335-175 fax: 421-7-5335-022 Slovak Republic
U.S. partner sought for Czech producer of crankshafts (various sizes up to 2500 mm lengths) for purpose of contract manufacturing. Company is supplier to producers of engines for trucks, tractors, ships, & stationary aggregates. 1996 turnover expected to be USD 20 million.	n/a	Jan Vesely IESC	tel: 420-2-2499-3170 fax: 420-2-2499-3176 Czech Republic
Partner sought for producer of diesel injection equipment for development, production, & sale of single and multi-cylinder in-line injection pumps for all types of diesel engines, as well as for injection systems, testing, measuring, & adjustment equipment. 1995 turnover was USD 40 million.	n/a	Jan Vesely IESC	tel: 420-2-2499-3170 fax: 420-2-2499-3176 Czech Republic
Producer of shock absorbers under Showa license seeks foreign partner to co-finance expansion program involving increase of annual capacity from 180,000 units to 400,000 units by 1999.	USD .5 million	Csaba Kilian re: Berva	tel: 36-1-118-0051 fax: 36-1-118-3732 Hungary
Manufacturer of plastic parts for Opel, Mercedes, VW, & Suzuki seeks equity partner who is engaged in plastic processing business	USD 5 million	Csaba Kilian re: Pemu	tel: 36-1-118-0051 fax: 36-1-118-3732 Hungary
Supplier of seats for Suzuki cars & spare parts for Ikarus seeks joint venture partner, technology transfer, joint manufacturing	USD 1.5 million	Csaba Kilian re: 02/Aut/96	tel: 36-1-118-0051 fax: 36-1-118-3732 Hungary
Battery manufacturer seeks joint venture partner for processing used vehicle starter batteries	USD 2.1 million	Csaba Kilian re: Perion	tel: 36-1-118-0051 fax: 36 1-118-3732 Hungary

Central & Western Europe In 1997

1997	
June 5-8	**Madrid, Spain** Motortec
June 7-12	**Brno, Poland** Autotec Autosalon
June 23-24	**Vienna, Austria** Adam Smith Institute's Conference on Auto Industry in Central & E. Europe
August 1	**Hellerudsletta, Norway** Autofair
Sept. 1	**Milan, Italy** Autopromotec
Sept. 1	**Lyon, France** Salon Int'l de l'Auto
Sept. 3-7	**Nitra, Slovakia** Int'l Exhib. of Passenger Cars, Trucks, Utility Cars, & Accessories
Sept. 11-21	**Frankfurt, Germany** Autotechnica
Sept. 23-27	**Sarajevo, Bosnia** Auto Show
Oct. 1	**Katowice, Poland** Autosalon
Oct. 1-5	**Budapest, Hungary** Budapest Motor Show
Oct. 2-3	**Warsaw, Poland** IBC Eastern European Automotive Components Industry Conference
Oct. 3-12	**Bucharest, Romania** Int'l Exhib. for Motor Vehicles, Spare Parts, & Accessories
Oct. 14-19	**Bucharest, Romania** Int'l Technical Fair (incl. automotive companies)
Oct. 17-22	**Kortrijk, Belgium** Car & Bus Show
Nov.	**Moscow, Russia** EuroForum Automotive Conference
Nov. 1	**Valencia, Spain** Salon del Automovil
Nov. 15-23	**Athens, Greece** Auto Show
Nov. 26-30	**Madrid, Spain** Industrial Vehicle Trade Fair
Dec. 6-14	**Bologna, Italy** Motorshow

For more information, please contact the Central Europe Automotive Report.

Legal Advisor *Continued From Page 4*

Particularly important for the foreign investor will be the representations (i.e. promises) made by the seller as to certain matters such as ownership, liabilities, and the like. Prior to executing this agreement, the general meeting of shareholders will decide a number of points such as an increase in the registered capital and adoption of the new statutes of the acquired entity. The statutes should thoroughly deal with all issues relating to the governance of the company as they are legally binding under Slovak law. *If the foreign investor obtains a minority position, the statutes should specify what protections the minority owner will have since Slovak law does not protect minority shareholders.*

One issue that frequently pops up in Slovak acquisitions concerns the timing of the payment of the purchase price. Since it takes a long time to get shares registered or for information to be registered with the Commercial Court, an investor should not agree to pay any monies until proof of ownership is provided. The most common solution is for the investor to deposit the purchase monies into an interest bearing escrow account. The monies are released to the seller when satisfactory evidence is provided showing that the investor owns the appropriate number of shares and the Statutes of the company have been registered.

Kevin Connor is Senior Resident Counsel with the law firm Squire, Sanders & Dempsey in Bratislava. ■

Profile *Continued From Page 13*

> "When you can give people a challenge and see the creativity that comes up and how they solve problems and how they respond to you, that's the reward of being a manager."

very enjoyable to be working with such a work force. When you can give people a challenge and see the creativity that comes up and how they solve problems and how they respond to you, that's the reward of being a manager. ■

Focus on Invest. *Continued From Page 14*

The Western investor should also understand the differences in financial reporting compared to Western Europe or the United States. As with legal issues, these differences can be accounted for with just a little more effort and time.

The Fund is very positive about the potential for the Slovak automotive components sector. Not only are there an abundance of low cost suppliers, but there is a great tradition of metal working and mechanical engineering. These capabilities are enhanced by the numerous programs provided by the regional automotive manufacturers.

Investment in the automotive components industry fits in with our overall investment strategy. Part of our long-term targeted strategy is to build up the second tier supplier base that currently exists to make Slovakia a key player in the automotive components industry in Europe. Slovakia has over 55 potential automobile component suppliers with the ability to supply everything from sheet metal to connectors.

Slovakia has seen a great deal of inward investment in the automotive components sector, as evidenced by the establishment and commitment by Volkswagen to locate its plant in Bratislava. There is also a strong utilization of Slovak suppliers by Volkswagen, Škoda, and other regional automobile manufacturers. This desire to increase the local content of vehicles creates an ideal opportunity to invest in the further development of the Slovak automotive parts sector.

The Future The Fund is positive about the business environment in the Slovak Republic. The country's geographic location, engineering capabilities, natural resources, cost advantages, and stable economy reconfirm our commitment to invest in the future of the Slovak Republic. The Fund is actively seeking investment opportunities throughout Slovakia. We have targeted industries which have significant competitive advantages and offer high growth potential.

The automotive components industry is one of the most promising of these target industries. There is great potential for joint-venture creation, as well as expanding existing business relationships. We hope to take part in this growth and development through financing, co-investing, technical assistance, and utilizing our own resources to make all of our future investments successful.

Denis Brown is President of the Bratislava-based Slovak American Enterprise Fund. ■

FUTURE ISSUES

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Romania Sales & Production Stats

Raw Material Suppliers in Central Europe

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