

THE GOVERNMENT OF MONTENEGRO
AGENCY FOR ECONOMIC RESTRUCTURING AND FOREIGN INVESTMENT

Request for Expressions of Interest

For participation in a Public Tender
for the divestment of 62,7123% of the total capital of the Share Company

ADRIATIC SHIPYARD JOINT STOCK COMPANY BIJELA

The Government of Montenegro Agency for Economic Restructuring and Foreign Investment hereby announces its intention in the near future to invite by public notice all interested international and domestic strategic investors to submit bids for the purchase of 62,7123% of the Company's capital, that is 1.008.094 shares, composed of the following capital structure and shares:

32,2517% of the share capital of the Development Fund of the Republic of Montenegro (518.443 shares);
22,8455% of the share capital of the Republic Fund for Pensions and Disability Insurance of the Republic of Montenegro (367.239 shares); and
7,6151% of the share capital of the Employment Bureau of the Republic of Montenegro (122.412 shares).

The holders of the remaining share capital of 37,2877% (599. 397 shares) are employees and citizens and legal entities, as follows:

Employees and private citizens, 36,4408% (585.782 shares)
Legal entity, 0,8470% (13.615 shares)

Background:

The Republic of Montenegro is a constituent part of the newly established community of states of Serbia and Montenegro, formerly part of the Socialist Republic of Yugoslavia. The Government of Montenegro has recently implemented a structural reform programme that has achieved macro-economic stabilisation and the establishment of a legal framework for private sector development which has resulted in an improved business climate. This initiative has included a comprehensive public enterprise restructuring programme of which the forthcoming tender forms a part.

Description of the Company:

The main activity of the Company, is ship repair and reconstruction for all types of vessels. It is the biggest ship repair yard in the Southern Adriatic and is located in Bijela, in Boka Kotorska bay, one of the safest natural harbours in the world. Its favourable geographical position is complemented by the Port of Bar, as well as by Italian, Greece and Croatian ports. Three international airports are located nearby Tivat (20 km), Dubrovnik (30 km) and Podgorica (70 km) which facilitate urgent delivery of spare parts and materials, as well as quick communications for clients. Climatic conditions are also favourable as mild winter temperatures permit year-round operations, and humidity levels are low.

The Shipyard offers its services on the international shipping market, ship-owners from Europe representing the main client base, with the most prevalent being Germany, Italy, Cyprus and Greece. Its competitive advantage is provided by its location and availability of cheap labour.

The Shipyard is equipped for high-quality repairs to ships of various types and sizes. The surface area of the shipyard is in excess of 120.000 m², and facilities include workshop halls (14.900 m²), shipbuilding halls (3.150 m²), warehouses (15.000 m²), offices and ancillary facilities. The aquatic surface area is approximately 350.000 m².

Company assets include two floating docks; one with a lifting capacity of 33.000 tons, equipped with two cranes, each with a lifting capacity of 12 tons; and the second with a lifting capacity of 10.000 tons with two cranes of lifting capacity (each) 7,5 tons. Installed capacities provide ship repairs with lifting capacities of up to 120.000 tons. The total length of operational coast is 1.200 m. There are two 25 tons cranes used for the east gate, while two 25 tons cranes and one 10 tons crane are used for the south gate. Energy supply is provided through a mains transformer substation of 35/10 KW and 9 minor transformer substations of 10/04 KW.

The Shipyard's facilities and its skilled labour force enable it to undertake the following types of repair work:

- Dock operations (propeller, propeller shaft, helm, etc);
- Cleaning and painting;
- Armature piping;
- Ship piping replacement;
- Steel works (straightening plating, hull steel etc);
- Engine, boilers, and equipment works;
- Deck installations and equipment (cargo handling, winches, etc);
- Electrical works (motor and generator repairs, armature replacement, etc);
- Carpentry (bottom coverings, puddle lids, hull covers, cargo hold bulkheads, furniture and floors, etc).

However, much of the plant and machinery is old and in need of repair or replacement, which due to a shortage of investment capital the Company has been unable to do.

Objectives of Privatisation:

The purpose of the privatisation of 62,7123% of the total capital of the Share Company is to provide the Company with a strategic partner who will invest in the Company and provide efficient management in order to ensure its long-term development in the international market place.

The Government of Montenegro recognises that the Company's workforce levels are not consistent with the requirements of a modern ship repair operation of this size and that its past environmental practices have not always been sound. However, the Government is prepared to address these issues in a realistic manner as part of the divestiture programme.

To this end, the future investor should have both the technical and financial capacity and proven corporate experience and integrity to ensure the long-term viability of the ship-repair yard.

Tender Process:

In accordance with article 16 of the Decree on the sale of shares and property through the public tender (Official Gazette no. 65/03) the tender notice will be published in at

least one (leading) daily newspaper, and for large and public companies in the international press (Financial Times, International Herald Tribune, Wall Street Journal) as well as on Internet. The date of publication is likely to be in December, 2005. Interested investors will then be expected to purchase the Tender Documents and to sign a Confidentiality Agreement. In return, prospective bidders will be provided with detailed information regarding the financial, management and operational activities of the Company and the privatisation procedures. Each potential bidder will be provided with the opportunity to visit the shipyard and to assess the accuracy of the information provided by examining documents which will be made available in a data room in order to facilitate buyers' due diligence.

As part of the tender process, every bidder will be expected to provide proof of at least 5 years' experience in operating sizeable ship repair and reconstruction facilities, or a proof of annual profit of approximately 300 million EURO, as well as evidence of adequate profitability and annual turnover. In addition to providing such supporting documentation, the tender process will require bidders to submit technical and financial proposals which will include a detailed five-year Business Plan showing planned investments for the development of the Company, and a bid price for purchasing the Company shares. Bidders will also be required to deposit a Bid Bond, details of which will be provided in the Invitation to Tender. Potential participants may form a consortium in order to fulfil the conditions defined in the Public Invitation.

Bids will be subject to evaluation by committee in accordance with the Law on Privatization and the Decree on Sale of Shares and Property through the Public Tender of the Republic of Montenegro. Details of the evaluation criteria will be provided in the Tender Documentation.

Expression of Interest

Enquiries regarding this request for Expressions of Interest should be addressed to: Martin Saarikangas tel.+358 400 403 290 email: martin.saarikangas@eduskunta.fi and

Andrew Hilton tel.+44 777 550 1250 email: andrew_j_hilton@hotmail.com

Expressions of Interest should be sent to the address provided below. There is no prescribed format, though they are expected to contain a statement of interest from the interested investor and details regarding its activities (such as a company prospectus). The purpose of the Expression of Interest is to ensure that interested investors are registered with the seller in order to be advised in a timely manner of any future public announcements, including the Invitation to Tender. For the avoidance of doubt, Expressions of Interest do not form part of the Tender Process and the submission of an Expression of Interest is not a prequalification or prerequisite to the submission of a formal bid.

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