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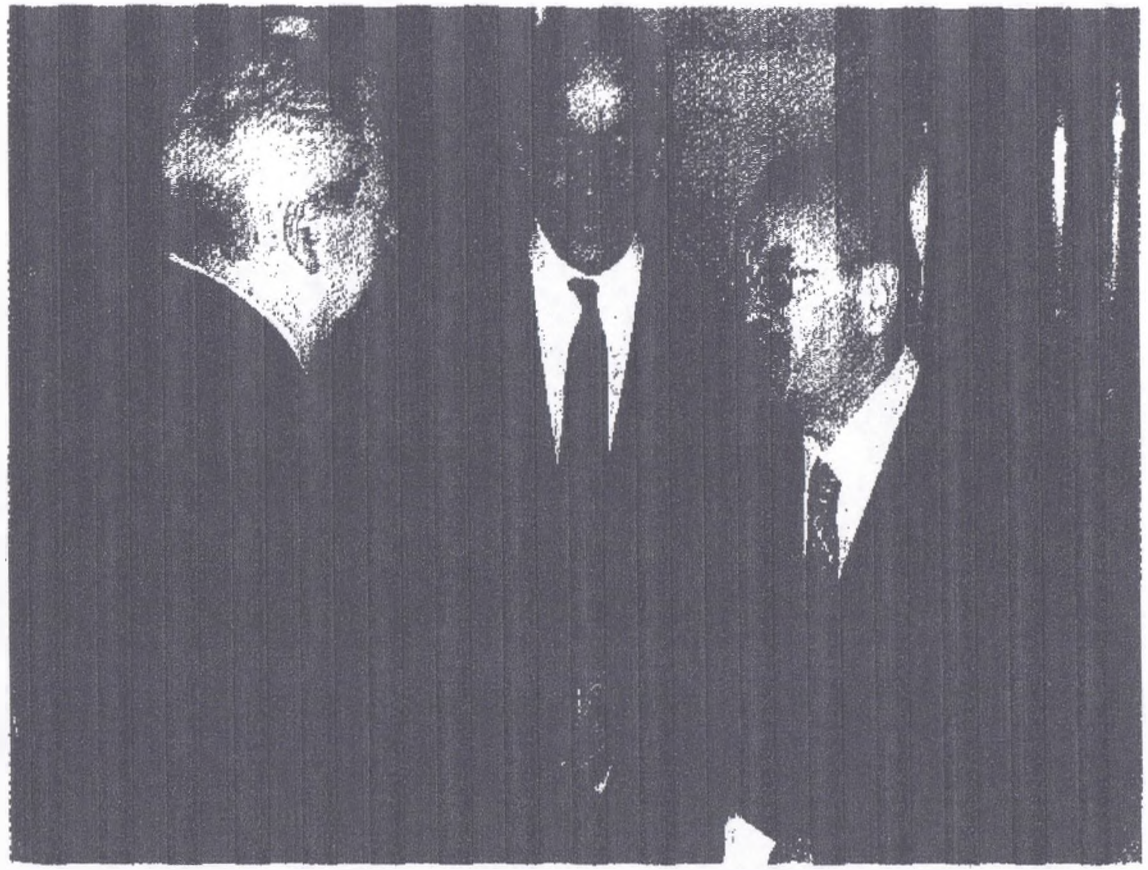
Stet and OTE secure Serbian deal

By Guy Dinmore in Belgrade and Kerin Hope in Athens



AP

President Milosevic with Stet's Tomaso Tomassi di Vignano (centre) and OTE's Demetrios Papulias (right) yesterday

Serbia yesterday clinched its biggest foreign investment deal by selling 49 per cent of state-owned Telecom Serbia to Stet, the Italian telecoms group, and OTE, the Greek telecoms group, for DM1.568bn ($907m).

Officials said Stet would take 29 per cent and OTE 20 per cent, with an option for the Greek state-controlled operator to buy a further 4 per cent from Stet.

The Serbian government will hand over day-to-day management of Telecom Serbia but retain a "golden share", giving it a veto over important decisions. Stet said it would hold what it called a "sub-golden share", giving it the casting vote on the board of governors.

For the socialist government of Serbia's President Slobodan Milosevic, the deal provides much-needed cash for the debt-laden economy. Local analysts said part of the money would be used to meet several months of unpaid wages owed to public sector workers. They said Serbia faced parliamentary and presidential elections this year and needed an injection of money to avert industrial unrest.

Stet and OTE are to pay 80 per cent of the DM1.568bn immediately after signing the contract and the rest by early next year.

As part of the deal, Stet and OTE will have an eight-year monopoly on fixed telephone systems and a 20-year GSM mobile telephony licence, valued at DM125m, in what would be Serbia's second cellular network.

Serbia's BK group, which was granted a 20-year exclusive right over mobile telephones in an earlier deal with the Serbian PTT, has threatened court action over what it sees as a breach of contract.

Yesterday's signing represents a breakthrough for Stet in eastern Europe after its failure in open tenders to buy into Czech and Hungarian telecoms operators.

The deal marks OTE's first strategic alliance outside Greece and reflects close political and economic ties between Greece and Serbia. The Greek operator is keen to expand into south-eastern Europe, but acknowledges it lacks the management experience to enter foreign markets without a western European partner.

A senior OTE official said the Serbian telecoms market offered "tremendous potential for growth as the economy recovers, because only 5 per cent of the network has been digitalised so far".

Stet plans to double the number of lines to more than 4m and replace 1m existing lines by 2006. By that time revenues are forecast to have tripled and profits to have doubled.

According to official figures, Serbia's PTT, which includes Telecom Serbia and the loss-making postal division, achieved a profit of $25.2m in 1995. Independent economists warned that the figures were unaudited.

The Serbian side was advised by NatWest Markets; Stet by UBS; and OTE by BZW and Ionian Finance.