

Stet, OTE to Acquire 49% of Telekom Srbija

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Continuing an aggressive international expansion, Italy's Societa Finanziaria Telefonica per Azioni linked up with Greece's OTE to acquire 49% of Serbian telephone monopoly Telekom Srbija for \$908.8 million.

Stet agreed to purchase a 29% stake in the state-owned phone company for \$517.6 million, while Hellas Telecommunications Organization, known as OTE, agreed to buy 20% for \$381.2 million. Under the deal, the government will maintain a controlling interest in the company through its 51% stake.

The agreement, which was signed Monday in Belgrade, fits in well with a policy begun by Stet's former management — and accelerated this year — to take stakes in telecommunications operators in developing markets, notably Eastern Europe and Latin America.

Analysts say such a strategy can pay off, and point out that Stet International, Stet's international deal-making arm, is profitable. Stet has businesses in 40 nations around the world, mostly developing countries. It is currently awaiting decisions on large bids in telecom operators in Spain and Brazil.

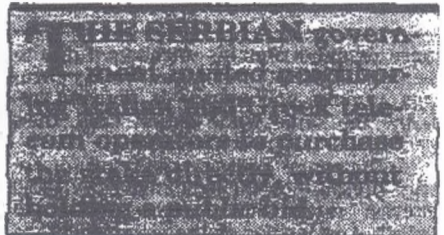
Russian Deal

Stet has had difficulty breaking into Eastern European markets, in some cases bidding higher than rivals and still losing. The company won a bid in Russia in late 1995, but the deal fell apart during discussions of financial terms. The Italian company eventually won a place in Eastern Europe as part of the winning consortium in a mobile phone bid in the Czech Republic.

In this case, the Serbian government of President Slobodan Milosevic invited neighboring Italian and Greek telecom operators to purchase the stake directly, without holding a public bid. Stet said in a statement that the Serbian market offers good growth prospects, since its economy

is beginning to pick up after being "artificially compressed for five years due to the recent war."

Telekom Srbija currently has only about two million subscribers — about a 20% penetration rate, compared with a Eu-



ropean average of about 47%. Over a 10-year period, Stet expects Telekom Srbija to double its number of subscribers and triple its sales, from 600 billion lire (\$353.1 million) in 1995. Sales are expected to grow to 900 billion lire this year.

'Significant Role'

Stet said that under the terms of the acquisition agreement, Stet and Telecom Italia SpA will play a "significant role in management of the company" as well as provide technical assistance in exchange for an unspecified percentage of sales.

Stet said Telekom Srbija will invest about 5.2 billion marks (\$3.4 billion) over the next 10 years to upgrade its network "to European standards" and expand its mobile phone operations, still in an experimental phase. Telekom Srbija has a 20-year license as a fixed-line operator, the first eight years as a monopoly. It also has a nonexclusive license to operate a mobile phone network.

Stet and OTE — which is still state-owned — compete in Greece as that nation's second and third mobile phone operators, respectively. Stet, the world's sixth-largest telecommunications group by sales, is a holding company 61% owned by the Italian Treasury, which plans to merge Stet with its main operating unit Telecom Italia next month and privatize it in the fall.