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The future management of state assets  
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I am very pleased to have the privilege of presenting, before such a distinguished forum, an outline of privatisation in Hungary, a process now reaching its conclusion, our accomplishments to date, and how we intend to manage state assets from now on.

The subject is important and timely, not only for those of us involved in carrying it out, but also, I think, for the state's supreme monitoring bodies, the National Audit Offices.

The subject is broad and complex, and so I will deal here with just a few of the issues. These are:

1. firstly – as an introduction, the **main, general outcome** of privatisation
2. then I will present our main **tasks for 2001**
3. the third subject will be **experience of operating state assets**
4. and the fourth the **objectives and functions of the new National Holding Company**

## 1. Introduction – principal outcomes

The last ten years of the decade, and of the millennium, saw a series of extraordinary events in Hungary. A political and economic change of system took place in the country at a staggering velocity, as the result of which Hungary – after a 45-year forced detour – returned to democratic constitutional statehood, to the market economy, and to the community of advanced European countries.

The progression through the stages of privatisation is an achievement which has brought the country widespread international acclaim, and although the details of this are not our concern today, I think it is worth illustrating the events with a few facts and observations.

- In 10 brief years following the change of political system, Hungary has developed a stable, progressive market economy based on private ownership, *and a key part of this has been the privatisation of state assets.*
- Regulated mass privatisation, one of the means of setting up the market economy, is now practically complete, and *we have come to the end of a highly important, if strenuous, period of economic history.*
- The proportion of state ownership, 85-90% at the start of the period, has now been turned round. The private sector of the economy is of equivalent size to the average in countries with advanced market economies. So, at least in this respect, we do not differ from these countries.
- The structures fundamental to a market economy based on private ownership have now been put in place. Economic progress is now “self-propelled” and sustainable. As a result, the country is very well placed to make further advances, to raise its living standards, and to enter the European Union.

- The figures for privatisation are well known and impressive: at the beginning (in 1990) there were 1,857 state enterprises and 11,000 trade outlets (shops and restaurants etc.) awaiting privatisation. Of these, nearly every small shop and store has been sold, and the number of operating state companies has contracted to one-tenth (175) by 1,230 companies being completely privatised and 740 wound up (because of their poor trading and financial prospects). The book value of the state-owned companies was 1,700 billion forints at that time, a figure that has now reduced to about 800 billion forints.<sup>1</sup> About 9,000 privatisation contracts have been signed, some 2/3 for shops and catering outlets, and the rest privatisation contracts in the “classical” sense.
- The *financial balance of Hungary’s privatisation is very positive*. The main reason for this is that privatisation proceeded on a commercial basis throughout; there was no reprivatisation and no free (voucher) asset distribution. Even compensation vouchers only purchased 10-11% of state assets. Privatisation revenue has totalled 1,746 billion HUF over ten years (approx. 13 billion USD), of which nearly 60% has come from foreign investors. The latter makes up some 40% of foreign direct investment in Hungary (totalling approximately 21 billion USD). *Privatisation has thus considerably contributed to the improvement of the country’s solvency*. The total value of assets sold was around 1,000 billion HUF, so that the average selling price was 170% of book value. The *direct* costs of preparation for privatisation came to about 95 billion HUF, equivalent to some 5-6% of income. (Set against this, however, is the state asset loss from the bankrupt and wound-up companies.)
- *Privatisation is also a success in terms other than the financial*. It has been instrumental in the introduction of advanced technologies and management and organisational skills, and substantial rises in the productivity, efficiency and profit-generating capability of labour. New branches of industry and working cultures have been established (e.g. the motor industry, electronics, telecommunication), and work discipline and organisation has improved. Recognition is now firmly centred on work performance and skill in the job. Whereas all this is natural and self-apparent in advanced Western countries, things were for a long time much different in this country (e.g. there was a preoccupation with full employment, that resulted in unemployment within the gates, levelling of wages, lack of innovation, trade of mediocre goods within Comecon, etc.). Privatisation was the turning point in all of these matters.
- In the wake of the most ambitious privatisation in the region, it is now the private sector which is fully or very largely running the public and business banking system, the insurance sector, pharmaceuticals, pharmaceutical trade, chemicals, construction, most of the engineering industry, tobacco, brewing, food, leisure and hotels, printing, paper, packaging, and the food and general retailing system. In addition, a large part of public service companies have also been privatised, such as the national telephone company (MATÁV), the national oil and gas company (MOL), the electricity supply companies and a large part of the generating companies. And what I think is an outstanding achievement, throughout all this *there were no unmanageable mass redundancies*.

I hope I have conveyed to you the *historic significance of the process which has ended with the completion of mass privatisation*. It is something that I and my colleagues are pleased to have been associated with.

*We are now approaching a new era, however.*

*In future, the emphasis as regards state commercial assets will shift from sales to efficient, market-based operation and management, with a view to preserving and augmenting value.*

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<sup>1</sup> 31 December 2000 figures

*From now on, the state will only make sales of its assets, and only at a pace, for which there are good social-policy and economic reasons, and only at a time when it is commercially advantageous.*

Fortunately, there is no budget constraint hastening sales at any price, and so any further sales (what was formerly referred to as privatisation) can be better prepared for and more profitably implemented.

This existing legal regulation and institutions, and the current structure of ÁPV Rt., having all been set up to meet privatisation requirements, are not well suited to serve these new functions.

The Privatisation Act has now effectively accomplished its mission. There is no further need for the established privatisation organisation (ÁPV Rt.) in its present form. However, the specialist knowledge that has accumulated in this apparatus remains valuable.

There is therefore good reason for bringing privatisation to an end and for closing down the privatisation organisation (ÁPV Rt.), by means of legislation.

The function must be underpinned by appropriate legal regulation and served by new institutions that operate state assets in harmony with economic policy, usefully and profitably, institutions that are capable of taking an active part in the economy in terms of trading and operation.

*The legal and institutional changes aimed at more efficient operation of state assets are thus essential and timely.* The Government's principal intention is to create the legislative framework for bringing privatisation to a close and starting up asset management based on new principles before the end of this year. Work to this end is being pursued intensively, with completion planned for autumn.

## **2. Main tasks in 2001**

Completion of mass privatisation does not, of course, mean that no more state assets will be sold to the private sector. Management of state assets does not mean simply operation and preservation of assets. Assessment and investigation must determine the best way of performing special (public) tasks by regulation and the operation of state-owned companies.

If it is experienced that the private sector is not providing certain (basic) services at an adequate standard, then regulation to improve this, or the possibility of bringing this area of service back into state control, must be considered. This means that rather than just selling assets, the state's asset management activity could actually involve purchase, or "renationalisation"

The same is occurring in market-based countries. Neither the scope nor the extent of state ownership are fixed, unchanging quantities. The state, depending on the economic philosophy of the party currently in power, occasionally sells off some of its assets, or adds to them (renationalises).

Despite the accomplishments of privatisation, ÁPV Rt. is still responsible (as of 31 December 2000) for 175 working companies, in which the state has a total stake of 802 billion forints. The Privatisation Act provides that 93 of these will to some extent remain in permanent state ownership, and the rest may be sold off. Of the 802 billion forints, the book value of the assets that may be sold is 435 billion HUF (and under the latest amendment to the Act, after the withdrawal of 20 agricultural companies, only 73 companies will remain in permanent ownership).

To this must be added the sale of several hundred items of real estate and movable property, indicating that there is work still to be done in privatisation. However, these sales do not imply changes at the level of the national economy, because the fundamental market economy structures are now in place.

Administration of these privatisations, in my view, requires neither a campaign-like approach, nor undue haste nor, indeed, a separate privatisation organisation. As is general in the West, remaining privatisation can be handled by the state asset management organisation.

2001 is set to be a special year for privatisation. The majority of privatisation functions will be started up and seen through by ÁPV Rt., but when the organisation is closed down, certain transactions will probably be finished off by its successor asset management organisation.

This may involve some hitches, but since the new asset management staff will largely be drawn from ÁPV Rt., it is to be hoped that this year's privatisation activities will not be seriously held up. In addition, ÁPV Rt. prepared for the change in 2000 by dividing its organisation according to privatisation and asset management functions, so as to facilitate the conversion.

The Government regards (mass) privatisation as practically finished, and feels not pressure to sell its remaining assets in a hurry or at disadvantageous terms. A sale will be made if it is a good transaction in market terms and does not result in the reduction in the security of services and supply.

Alongside this, the Government retains its belief in extending the market economy on a private-ownership basis. In this, it will assign a prominent role to well thought-out, unhurried sales and to the consistent implementation of remaining transactions. However, it attaches similar significance to ensuring the that assets which remain permanently in state ownership are operated efficiently, for the benefit of the public.

Permanent state assets are more than a source of income for the state. They are a means of influencing the market and serve considerations of supply, service and employment.

ÁPV Rt's *2001 business plan* is now complete and has been passed by the Board of Directors. I do not wish to go into the details of the plan, but I will highlight a few issues.

ÁPV Rt's revenue allocations and privatisation programme are drawn up to comply with expenditure and payment requirements and limits defined in the Budget Act. The Budget Act does not state what must be sold, but prescribes the amounts (payments) expected by the (proprietor) state for each purpose and under each heading, and sets the cost limits for each area of operation.

In 2001, the Budget Act sets an expenditure limit of 180 billion HUF for ÁPV Rt. This includes prescriptions of 36 billion HUF in dividend payment to the state budget, 10 billion HUF for withdrawal of compensation vouchers, and expenditure of 50 billion HUF for some priority (designated) state projects.

Considering that ÁPV Rt's saleable portfolio has greatly reduced; that most of the remaining companies carry problems making them difficult to sell; and that the state does not consider it timely to sell some larger, more attractive, companies this year, ÁPV Rt. has had to produce its business plan under restricted conditions. Consequently, the plan, as for 2000, has been drawn up and passed in two versions, the optimistic and the pessimistic. There are therefore two corresponding sets of planned expenditure figures.

Planned income and expenditure (billion forints)

	optimistic plan	pessimistic plan
- total income	77.6	59.0
- total expenditure	75.9	57.6

A feature common to both plans is that they envisage expenditure falling short of what is permitted by the Budget Act. As can be seen, income even in the optimistic case is at most 77.6 billion HUF, which sets the limit on expenditure.

Some 3/4 of income is expected to come from privatisation, and the remainder from the exploitation and operation of managed assets (rent, dividend, interest, etc.).

Sales in 2001 will lead to a reduction of state assets assigned to ÁPV Rt. from the 802 billion forints mentioned to 684 billion forints, and the number of companies from 175 to 159.

Planned expenditures, owing to insufficient income, do not include the compulsory payments to the state budget. This means that the 36 billion forints dividend payment and the 10 billion compensation voucher redemption are not covered. Expenditure on development projects prescribed in the Budget Act has been planned at some 25 billion HUF as against the 50 billion HUF allocation.

Lack of income will also prevent the reserve fund from being replenished to an adequate extent.

Now let us look briefly at the companies whose privatisation has been envisaged in this year's plan.

*Planned transactions subject to Government decision:*

- Antenna Hungária Rt.
- Bábolna Rt.
- Hungaropharma Rt.
- Mahart

These transactions will yield 21.3 billion HUF in the optimistic, and 16.6 billion HUF in the pessimistic version.

*Planned transactions for this year subject to decision by the Board of Directors of ÁPV Rt.:*

- CD Hungary Rt.
- Budapest Bank Rt.
- Hajógyári Sziget Vagyonkezelő Kft.
- Váltó-4 Rt.
- Defence airports, MTV and other real estate
- Nitrokémia Rt.
- Fégarmy Kft
- Tesco Kft
- Pannóniafilm Kft.
- Balaton Fűszért Rt.
- Shareholding in Dél Békési Sütő-és Édesipari Kft.
- other industrial and trade companies

These transactions will yield 40.9 billion forints in the optimistic, and 28.6 billion forints in the pessimistic version.

A few words on the use of *privatisation reserves*.

Firstly, I must point out that the amount and use of the reserves are regulated by law.

Privatisation reserves primarily serve to cover commitments undertaken in former privatisation contracts and, in lesser measure, to finance specific state projects.

These commitments are typically:

- commitments related to guarantees, warranties and pledges in security

- payment of allowances to local authorities under various headings (urban land, gas supplies, founder's rights, etc.)
- reimbursement (PEH) to privatised companies (in specific cases)
- allowances to electricity industry workers
- commitments under "letters of reversion"
- obligations related to redemption of compensation vouchers for annuities
- E-credit guarantee notice obligations
- crisis management in supervised companies

The business plan envisages the level of privatisation reserves as 152 billion forints in 2001, of which 107-133 billion forints is expected to be used.

Now a few words on some large or attractive companies whose sale would be permitted by the Privatisation Act but is not intended by the Government for 2001.

- Dunaferri Rt. is a major element of the Hungarian steel industry. Since the company responsible for corporate governance over the company, Acél XXI Kft, has defaulted on two points of the corporate governance contract, ÁPV Rt. cancelled the contract at the end of last year. By a decision of the general meeting, the company is being run by new management. The task is now to devise a strategy for the company, institute profitable operation, retain employees, and work out a privatisation plan. This is likely to take considerable time, and so privatisation of the company has for the moment been removed from the agenda.
- The state's stake in MOL is 25%. The amendment of the Privatisation Act reduced the proportion of permanent state holding to one golden share. In principle, then, the state holding be sold off. This will certainly not take place this year, partly owing to the unfavourable trends on the oil market and partly because of MOL's domestic strategic significance. The company's losses in its gas division could lead to a loss in value and give scope to hostile buyers. The Government wishes to avoid this, and to prevent its shares passing into such possession. In addition, the company pays substantial dividends to its state shareholder, and it is important that in the midst of current tensions the state is able to control the company's situation and decisions.
- Magyar Villamos Művek (Hungarian Electrical Works) is a key player in the country's electricity supply. MVM is the largest generator and the largest electricity distributor (supplier). It has exclusive export-import rights and also carries out, via a subsidiary, national load distribution (integrated power control). Under the Privatisation Act, the company is due to remain in state control to the extent of 50% + 1 vote. The company's future is strongly dependent on a new electricity law and the new operating model, which will be not likely to be ready before the end of the year, and so privatisation will have to wait until these developments can be prepared for.
- Vértes Power Station is owned 30% by ÁPV Rt. and 43% by MVM. The company could be completely privatised, with state control limited to one golden share. Attempts at privatisation have so far been unsuccessful. The main impediment to privatisation has been lack of senior-level decisions regarding the development options (retrofit) which will determine the fate of the company's Oroszlány Power Station. The conditions for the power station's operation up to 2003 are currently being drawn up. If a suitable offer is received in the meantime, then the company could be privatised this year.
- The state river navigation company, Mahart, will remain in state ownership to the extent of 50%+1 vote. However, the company is not presently in a condition that it could be sold in a way fitting to its status and its potential. A Government decision has been taken in respect of the company's Balaton navigation division to pass control to lakeshore local authorities, in the hope that shared interests will lead to greater development resources being provided for Balaton navigation.

- The Volán (bus) companies constitute a large proportion of the assets assigned to ÁPV Rt. In principle, they could be privatised up to 50%-1 vote, but this is unlikely either this year or the next. Privatisation will be conditional on the drawing up of a suitable transport policy and regulation, including tariff policy (price regulation), cover for operating losses, and finance for development. The matter goes beyond of operating economics, and involves issues of social policy, employment and welfare. These are all outside the scope of ÁPV Rt's competence, and require government and legislative regulation.
- The Malév privatisation, and its ultimate failure, attracted much attention from the press in 2000. The private international tender, tied to capital expansion, excited considerable interest from the invited trade investors, but no real bid was made. It seems that the big airlines and global alliances were too occupied with each other (mutual elimination and winning territory) to be interested in purchasing a small airline in need of investment. It is true that Malév's severely lossmaking operation did not make for success in privatisation. Malév is a national company, and as such, 50%+1 vote will remain in national ownership (of which 25% will be the state). Large foreign airlines are mostly interested in majority control, or special management rights if they have a minority share. At present, the company's strategy is being drawn up, and its operation and capital position are being reorganised. Only when these have been successfully completed can privatisation be attempted. This will not be possible in 2001. In parallel, however, talks are being pursued with the purpose of joining a strong international global air alliance and strengthening Malév's position within it.

### **3. Experience of operating state assets**

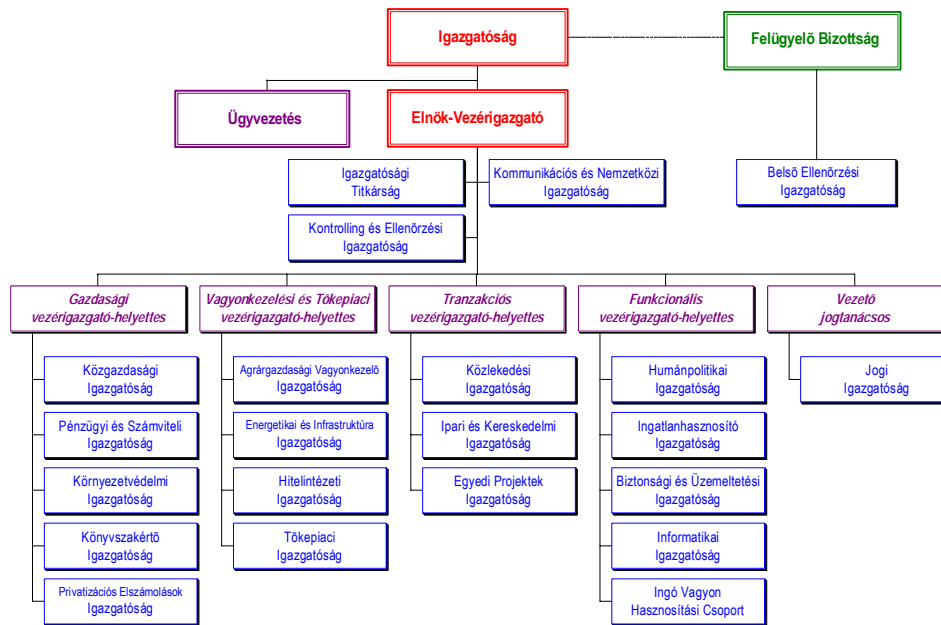
Over the last decade, the operation, organisation and decision-making system of ÁPV Rt. (and its predecessors) have principally been dictated by the needs of privatisation (multi-level decision-making system, time-consuming consultations with ministries, observance of tender and assessment regulations, provision of transparency, observance of public procurement procedures, etc.). This was necessarily carefully-considered, slow and awkward, but conformed to the law. The large number of privatisations also led to a large number of staff being employed (700-800 at the beginning, 280 at the end of last year). Staff also came and went according to the industries involved (e.g. after the privatisation of shops, the department managing it was closed down and its staff were released).

*It was important that the passage of the nation's assets into private ownership be transparent and open to public scrutiny.*

By contrast, asset management is an activity that demands rapid decisions from ÁPV Rt., and the ability to meet the rapidly-changing requirements of the market. Even now, some 2/3 of the decisions made by the Board of Directors of ÁPV Rt. are related to asset management.

In recognition of this, ÁPV Rt., with Government approval, reorganised and improved its organisation, management and decision-making system in 2000.

## Organisational structure of ÁPV Rt. (December 2000)



ÁPV Rt's operations have been restructured around the following well-defined sets of functions:

- financial and economic
- functional
- transaction (privatisation)
- asset management and capital markets
- legal

This division of work opens the way to flexible implementation of any further organisational measures (restructuring) as may be decided by Government and Parliament.

The main organisational measures taken in preparation for asset management include:

As the first and most important change, *privatisation and asset management activities have been separated* and will be controlled by different deputy CEOs. Since asset management is required for every one of our companies and, with the exception of 25 companies remaining in 100% state ownership (forest management companies), every company will be subject to some degree of sale (privatisation), this separation was not easy.

Another problem was the virtual impossibility in practice of separating privatisation-preparation actions from asset management actions.

Staff responsible for a particular company are the custodians of both asset management and privatisation knowledge and skills, and separation must not lead to staff increases, rather the reverse.

The expansion of the banking portfolio and the increasing proportion of capital market transactions led to these functions, too, being assigned to the control of the asset management deputy CEO.

The *controlling activities* essential to profitable asset management have been put on completely new foundations. This means much more than improvements in staffing and organisation. It is an important requirement of market-based property management that companies' performance be assessed and measured in a uniform system.

A new uniform and structured (Oracle based) controlling system appropriate to our portfolio, enables the performance of companies remaining in permanent state ownership to be monitored and compared with the performance of private companies in the same sector.

A controlling report – of uniform form and expanded content – is now produced monthly on the activities of the 175 operating companies in the portfolio. A new early warning service automatically indicates when a company's financial indicators point to a serious situation. This is all provided by an advanced information technology system.

A fundamental aim is that the controlling system should not be a closed knowledge base accessible only to the initiated. It must be an "open shelf library" that supports the work of asset managers and ÁPV Rt. management (via suitable access rights).

An important new department is the *privatisation settlements* section. Its main functions are the uniform management of debts owed and receivable, management of bankruptcy and winding up procedures, handling local authority allowances, management of privatisation contracts, administration of compensation voucher redemptions, handling "letters of reversion" and many other labour-intensive functions "left over" from past privatisations. These functions put a considerable burden on the organisation, but will lessen with time. ÁPV Rt. will strive to ensure that such tasks or state obligations will not remain after matters that are closed now.

Another major important source of information for ÁPV Rt. for state asset management is the "owner's audit" over financial processes and real processes. Such audits are made on average every two years at each company. The accountancy department that performs these has also been reinforced.

The audit generally covers the following issues:

- shareholding structure,
- capitalisation, finance, liquidity,
- market (customer-supplier relations),
- indebtedness,
- loan (returns) repayments,
- competitors and product structure,
- stock management,
- conformity of technology to current standards,
- capital requirement, capital projects in progress,
- incentive system,
- commercial performance,

In view of the large number of privatisation "leftovers" (legal actions, cases, tasks), the asset manager has reinforced its legal organisation and staff. In consequence, ÁPV Rt. increasingly pursues disputes and court cases itself instead of via external representatives, and has recently won several legal actions.

An important aspect of privatisation contracts is environmental protection, including the management and elimination of environmental damage. It is also important in state asset management. Addressing environmental issues is in our own best interests and is a key issue in accession to the EU; we have

consequently reinforced this department, and as well as dealing with the elimination of damage, its opinion is sought on every transaction proposal made to the Board. Preventing environmental damage is therefore one of our functions.

New staff have been brought in to strengthen ÁPV Rt's *marketing, communication and international* activities. Our objective is to improve the transparency of ÁPV Rt's activities and provide authentic information about our work for state and political bodies, and for the media.

By Government resolution, ÁPV Rt. has been assigned and will sell inactive properties and movables that have become surplus to requirements at the Ministry of Defence as the result of military reforms. The transfer to ÁPV Rt. is now complete and sales will be made in 2001. This function will be performed by the property management department. A separate group has been set up within ÁPV Rt. to take possession of the movables and coordinate their sale, which will also begin in 2001.

The work of the "traditional" *internal auditing* organisation is now completely under the control of the Supervisory Board. As before, the State Audit Office and the Supervisory Board will receive every proposal, and the chairman of the Supervisory Board and the internal auditing manager will be present at every Board meeting.

Essential to the performance of our functions is an up-to-date integrated information technology system and executive information system. In order to correct ÁPV Rt's deficiencies in this respect, the information technology section has been reinforced and the following major information technology projects started up:

- financial and accounting system,
- controlling information system,
- archiving system,
- basic software infrastructure system,
- document handling system,
- transaction system,
- debts and receivables handling system,
- property registration system,
- human policy system.

The first four systems are now working live, and the other five are under live test. All communicate with each other, and are integrated by the asset management system. This is also currently under live test.

### **Decision-making system**

In preparation for the requirements of asset management, the decision-making system was radically altered and decentralized in 2000. The levels of decision are:

- the Board,
- the Management (a new decision-making body),
- the CEO,
- the deputy CEOs,
- the Managing Directors (where powers are assigned).

The decision-making levels are largely determined by transaction-related financial limits, and conform to statutory provisions. The Managing Directors only exercise decision-making powers as delegated to them by the CEO and the deputy CEOs.

The new decision-making body, the Management, whose members are carefully selected and kept well informed, is capable of making rapid operative decisions and thus takes a considerable burden from the shoulders of the Board. The Board can now deal with matters of greater moment in greater depth.

The changes have made the organisational system simpler, more transparent, and more precise. Decentralisation has considerably accelerated the process of decision-making, since decisions are made where the most information is available for them. This also greatly increases the responsibility of decision-makers.

### ÁPV Rt's asset management decisions fall into the following types

#### *Asset management decisions:*

- issuing general meeting mandates (definition of constitution, annual report, business plan, use of dividend, worker share issue, etc.),
- asset protection transactions, (e.g. withdrawal and assignation of assets),
- proprietary decisions on reorganisation and crisis management,
- bankruptcy proceedings, winding-up, dissolution,
- raising or reducing capital,
- sale or purchase of stakes in companies,
- shareholders' loans and subsidies,
- issuing guarantees and pledging securities,
- founding new companies and converting existing companies,
- senior personnel decisions (appointment, recall, remuneration, premiums, etc. of Board and Supervisory Board members, CEO and Managing Directors),
- controlling system, special investigations, auditing,
- asset valuation, company valuation, record-keeping,
- exercising shareholders' rights (via office-bearers representing ÁPV Rt.),

#### *Privatisation decisions (if privatisation occurs by amendment of the law on permanent state assets):*

- setting major plans and strategy,
- putting out tenders,
- assessing tenders,
- privatisation decisions.

The next major issue is asserting the intentions and decisions of the asset manager (ÁPV Rt.) in the operations of companies it supervises (owns).

*All asset management measures, and any assertion of intentions are **subject to the relevant acts of Parliament and other statutes**.* ÁPV Rt. does not and may not intervene directly in the day-to-day work or commercial policy of the companies under its supervision.

This is true even for companies under ÁPV Rt's majority control. The rules and statutes must be observed, but some circumstances, such as 100% ownership, can make the rules simpler.

Asset management is an activity that demands complex legal, financial, economic, market, technical, etc. consideration. It takes place within the framework of many statutes, including, to mention only the most important: the Companies Act, the Privatisation Act, the Budget Act, the Hungarian Civil Code, the Bankruptcy, Winding-up and Dissolution Act, The Unfair Competition Act, the taxation acts, the Concessions Act, the Banking Act, employee share purchase programme, etc.

The possibilities for “interfering” in the affairs of a normally-operating company are fundamentally defined by the Companies Act. This also determines the movements of the asset manager, ÁPV Rt., depending on its percentage stake and its voting rights in the company, these not always being equivalent concepts.

Where state ownership is **100%**, the asset manager can make founder’s resolutions over the company, and these are binding. Even here, however, it must take due heed of the Board of Directors’ right to decide in normal operative affairs relating to financial management, production and services. The asset manager appoints the members of both the Board of Directors and the Supervisory Board. The asset manager can effectively obtain full information on the company’s affairs and financial management.

The asset management is still in a comfortable position where the state ownership is **75%, or higher**, because it can make decisions by itself at general meetings/members’ meetings and in fundamental strategic issues. It cannot prevent the calling of a general meeting if a 10% minority shareholder so requests, but it can implement its intentions by vote. ÁPV Rt. usually appoints the majority of Board of Directors and Supervisory Board members, and can in practice obtain full information on the company’s affairs and management. The asset manager does not intervene in daily operational issues, which fall under the scope of the Board of Directors and the management.

Where the stake confers votes of over **50% but under 75%**, the majority state shareholder can no longer always implement its intentions without restriction, because it can be impeded by shareholder(s) with 25%+1 vote. In addition, these shareholders must be present for the general meeting to decide in these matters. In non-fundamental issues (where a 75% vote is not required) there is no such minority veto. The asset manager, ÁPV Rt., still usually appoints majority of Board of Directors and Supervisory Board members, and can in practice obtain full information on the company’s affairs and management.

It should be pointed out here that ÁPV Rt. can usually only carry out *reorganisation and crisis management* on its own. With a smaller stake, it can still invest money, but the benefit of this will chiefly be enjoyed by the main shareholder, and so must be carefully considered.

Where the state stake is **50% or less**, the asset manager can only implement its intentions and ideas with difficulty, if at all. Asset management is made easier if there is a co-shareholder willing to combine its votes so as to deliver a majority, but this is something that occurs only rarely.

Where its stake is over **25%+1 vote, but under 50%**, the asset manager, ÁPV Rt., still bears a major responsibility, because under the Companies Act, its presence and supporting vote is still required for decisions in fundamental strategic issues. Thus even with 25%+1 vote, it can prevent decisions in these issues that are unacceptable to it. It is therefore important that with a minority stake, the state’s voting share be at least 25%+1 vote.

The state asset manager is usually able to delegate members of the Board of Directors and the Supervisory Board proportional to its stake unless the articles of association, the constitution or the syndication contract provide otherwise. It is usually difficult for the asset manager to obtain continuous information on the company’s affairs and management (e.g. controlling). The articles of association, the constitution or the syndication contract should therefore provide in advance for controlling information and reports to be supplied to ÁPV Rt. for as long as it is a shareholder. Failing this, it will probably be left without information.

The **25%+1 vote** state stake is the limit case, the “blocking minority” position. The asset manager’s options are similar to the above and confer an influence sufficient to prevent the majority shareholder from expanding capital with the effect or the purpose of excluding ÁPV Rt. from the company’s management. This can also have a negative effect on the company, such as when the majority shareholder intentions to expand capital for the purpose of development and ÁPV Rt. insists on maintaining its stake without shouldering a proportional capital contribution.

With **25% or less** votes, it is nearly impossible to implement the asset manager's intentions. Where 10% or more votes are held, there is the interesting option in certain cases of calling a general meeting on a specific issue. However, the decision at the meeting largely depends on the intention of the majority shareholder. The asset manager's ability to delegate members to the Board of Directors and the Supervisory Board is similar to the above. Obtaining information on the company – despite being prescribed by the Companies Act – is very difficult. The articles of association, the constitution or the syndication contract should therefore provide in advance for controlling information and reports to be supplied to ÁPV Rt. for as long as it is a shareholder.

### ***Golden share***

The Companies Act provides the option of a permanent state holding in the form of a single, special "voting priority" share. The voting priority share can only be a registered share. The Privatisation Act takes this option as provided by the Companies Act and applies it to the exercise and provision of state's proprietary rights. This form of share is a practice widespread in the legal systems of countries with advanced market economies.

The specific rights attaching to what is generally referred to as the "*golden share*" are set out in the company's deed of foundation and/or syndication contract. These rights, which vary from company to company, are designed to protect the state's fundamental interests and rights in the course of the company's operations.

This means that the golden shareholder must be present to establish a quorum at the company's general meeting, and the golden shareholder's agreement is (usually) required for the following decisions:

- expansion and contraction of capital
- changing rights attaching to certain kinds of share
- merger with or takeover by another company, hiving off from the company, conversion into another form of company, or cessation without legal successor
- decision for the use of rights representing assets enabling the conduct of specific activities of the company
- transfer, making over, leasing or other permanent relinquishment to another business association of intangible assets enabling the conduct of certain of the company's activities; encumbering such assets; or pledging them in security
- election or recall of a Board of Directors or the Supervisory Board member representing the holder of the voting priority share.

Under the Act, the state, via ÁPV Rt. supervision, maintains such a share in the following nine companies:

MOL Rt., OTP Rt., Hungaropharma Rt., Zsolnay Porcelángyár Rt., HUNGEXPO Rt., KAGE Rt., PICK Szeged Rt., HERZ Szalámigyár Rt., CD Hungary Rt.

In other cases, the sale of a minority stake should be considered (or perhaps the re-acquisition of a majority stake). It should be examined whether the same right to intervene in the company's affairs can be achieved with a single voting preference *golden share* as with the stake. Naturally the rights attaching to the golden share (e.g. scope of activities, profile, brand protection, appointment of senior office-bearers, change of capital) must be clearly and specifically set into the articles of association or the syndication contract wherever possible. In every case, it is necessary to gain the agreement of the co-shareholders.

**ÁPV Rt's main options and means** of asserting its intentions and decisions are:

- via the general meeting or members' meeting

- via representatives delegated to the boards of directors,
- via representatives delegated to the supervisory boards,
- by evaluating regular controlling reports
- by means of owner's audits
- in the form of investigations of specific matters
- via the auditor

In the companies under supervision, fundamental strategic matters are decided at **general meetings** and members' meetings. The extent to which the asset manager's intentions can be implemented here depend on the voting share, as has already been mentioned.

An important means of pursuing asset management interests is via "ÁPV Rt. representatives" delegated to companies' **management bodies**. These representatives participate in the work of BDs and SBs as private individuals, arriving at their opinions and positions independently, in accordance with their professional skills. They are, however, expected to weigh the asset manager's interests alongside those of the company when they cast their votes, and to report in writing to the organisation that delegated them, ÁPV Rt. It is also useful if they consult with ÁPV Rt. prior to the boards' discussion of critical issues. It is also important for the asset manager to be in regular contact with these people and to inform them of ÁPV Rt's intentions for the area that affects them and of their desirable options in the matter.

I will now turn to our ideas for the future operation and management of state assets, and the developments in organisation and changes to institutions proposed for carrying out the related functions.

I must say at the outset that it is up to Parliament, via legislation, to make the final decision in this matter, and this is still pending. However, it is the Government's resolute intention to reach a conclusion in the process this year. What I present here is an impression of the model and the expected measures, based on Government intentions and ideas.

#### **4. The purpose and functions of the National Holding Company**

We have seen that the bulk of privatisation in Hungary has now come to an end, and state assets and their size are similar to those in countries with advanced market economies. From now on, the main task will be to operate and manage these assets profitably.

Having served their purpose, all legal constructions, institutions and organisational arrangements that served the transition to the private ownership-based market economy (e.g. privatisation) are to be closed down.

The new situation, involving operation and management of assets, calls for regulation based on new principles and a new system of organisations and institutions.

To decide what form this should take and what principles it should follow, the staff of MEH and ÁPV Rt. who are drafting the legislation have *thoroughly studied practices in market-based countries*.

It has been found that there are several contrasting approaches to managing state assets in different countries. Each arrangement is chiefly determined by the country's traditions, features and market-economic attitudes. There are countries where asset management is carried out by ministries or through the services of private companies or banks, but a form that is very common is management by a large state holding company.

It must be mentioned that advanced market-based countries do not make judgements of other countries' asset management practices or their structures of ownership, because they regard these as internal matters. The European Union also holds a neutral position on the issue. The constitution of the EU treats the variable forms of ownership (state, private, community, mixed) as of equal rank. It therefore has no prescriptions on management of assets or on the institutional arrangements for carrying it out.

However, although the Community's directives do not deal with specific issues of ownership, there have been continuous debates ever since the foundation of the EEC/EU over whether the existence and activity of state companies is compatible with the fundamental principles of the Community, which are aimed at the implementation of an efficiently-operating and free market economy via the free flow of labour, capital, services and goods.

The debates are most heated around the practice of open or hidden *state subsidies, preferences or support* given to state companies in violation of competition neutrality. Such state intervention is usually deeply frowned upon in civil democracies, but there is also a demand for the national character to be upheld and for domestic markets and domestic labour to be protected. These two poles of interest cannot both be completely fulfilled, and each country decides independently the relative weight of the two expectations. The EU imposes reporting obligations on member states to ensure transparency of state support and preferences, and these obligations are also assumed by candidate countries, including Hungary.

The OECD, however, does concern itself directly with asset management ("corporate governance"), and provides its member states and other enquirers with ongoing assistance in the matter. In 1999, after several years of preparation by international experts, it produced a comprehensive set of principles and methods for corporate governance. Every year, the OECD appraises the standing and the management of state assets in the member states. The last international conference (autumn 2000) was held in Budapest, and was hosted by ÁPV Rt.

The drafters of the new legislation, after appraising many approaches and considering Hungary's special attributes, found the *"state asset management holding company"* the most appropriate arrangement for managing state enterprise assets in future.

This arrangement has many advantages over, for instance, ministerial asset management:

- it requires the least deviation (exceptions) from existing regulation under the existing acts and other legislation
- the holding company is itself a "real" company, subject to the same statutes as other private companies (chiefly the Companies Act, the Accounting Act, the taxation statutes, etc.)
- the holding company manages its assets on its own account, covering its liabilities from its income, and thus (in contrast to the ministries) is directly exposed to the profitability of its activities, which must therefore be profit-oriented. It operates among real market and competition conditions, and does not take its decisions based on "desk knowledge".
- ministerial asset management leads to unacceptable and incompatible intermixing of the state's control (regulation) and shareholding (interest) relationships, which is particularly undesirable as regards Hungary's EU accession. The holding company approach eliminates this, and the ministries can concentrate their full energies on their specific and regulatory activities. There also remains the unfavourable memory of how ministries supervised enterprises during the "socialist" period. It was to improve on this form of "asset management" that the whole range of economic reforms was instituted.
- the holding company can employ staff most appropriate to the function (and may also be able to pay them). Ministry staff tend to be of a different kind, and can only devote part of their time to dealing with companies; in addition, their pay is currently somewhat less attractive.
- as a specialist in asset management, the holding company can follow mutually consistent principles in carrying out its work. Where asset management is the responsibility of ministries, functions are divided among portfolios, and this prevents uniform principles, practices or beneficial synergies from developing.
- the holding company can perform functions and orders granted directly from the Government rapidly and effectively, with proper knowledge of the market.
- the organisation that has been running state asset management, and privatisation, to date (ÁPV Rt.) has already, in practice, been operating like a holding company, and has gained considerable experience in this work. This knowledge must not be lost, and must be used to the fullest extent possible in setting up the new asset management organisation.

It may be perceived as a disadvantage of the holding company arrangement that the direct nature of state ownership ceases when assets pass to the holding company. This, however, is only an apparent disadvantage, because the holding company is itself wholly owned by the state, which can thus assert its intentions directly.

In changing over to asset management, the following major tasks must be addressed by government and legislators:

- The Privatisation Act must be repealed, and ÁPV Rt., which was founded by means of that Act, must be closed down. The effects of these must then be worked into other statutes (codified).
- When the Act is repealed, those of its measures that are to be kept under regulation must be provided by another act.
  - such is the issue of succession when ÁPV Rt. ceases,
  - continuing management of special statutory provisions related to privatisation (redemption of compensation vouchers, allowances for local authorities, privatisation reimbursement to corporations, etc.),
  - continuing supervision of state companies whose ownership rights are assigned to ministries.
- ÁPV Rt's activities can be broken down into at least four main areas: management of permanent assets, privatisation of companies still awaiting sale, management of contracts signed and/or expired (debts owed and receivable, legal actions, etc.) and management of state-owned agricultural land. When ÁPV Rt. is closed down, provision must be made for the performance of its functions, for which new organisations must be created.
- The issue of how ÁPV Rt's own assets and its assigned assets are to be divided among legal successors must be settled. For this, a balance sheet passed by an auditor must be drawn up.
- The provisions of the Budget Act relating to ÁPV Rt. must be amended or deleted, or adapted to the legal successor organisation(s).

As all these are going on, continuity must, of course, be assured in asset management, sales, implementation of the business plan, administration of legal actions, etc. This will require that the old and new organisations operate side by side for a few months, thus ensuring a smooth transition.

### ***The new model of state asset management organisations and institutions***

With the cessation of ÁPV Rt., the Government is planning the creation of two organisations as its legal successors.

- One is the ***National Holding Company*** (NH Rt.) which will manage state assets. It will be wholly owned by the state and its share will not be tradable.
- The other is the ***Debt Management Company*** (KK Rt.), a company that will also remain in 100% state ownership. The companies will be supervised by a Government-designated minister.
- The state-owned agricultural land that has hitherto been under ÁPV Rt. management will pass to the ***National Land Fund*** under a future act of Parliament.

#### ***Timetable:***

- The Government will found the ***National Holding Company*** and the ***Debt Management Company*** with effect of 1 July 2001 (with capital of 20 M Ft each). These companies will be the legal successors to ÁPV Rt.
- ÁPV Rt. will produce a balance sheet and closing report on the status of its own assets and its assigned assets as of 30 June, and have them endorsed by an auditor.
- ÁPV Rt. will be closed down by legal succession without dissolution with effect from 31 October 2001, and will be deleted from the register of companies.

***The assets and portfolio of the National Holding Company:***

The assets managed by NH Rt. could take the form of either “assigned assets” or its own property.

After careful consideration, the arrangement that appears best advised is for the holding company to manage state commercial assets as its own assets. Under the proposed scheme, ÁPV Rt’s own present assets will be passed into the holding company’s subscribed capital and the present “assigned assets” into the capital reserve. Although this will entail the valuation of every asset at current market prices before being brought into NH Rt., it will remove the necessity for registered capital to be reduced and the deed of foundation to be amended every time assets are sold, because sales will be made from the capital reserve. Such valuation is not necessary for assigned assets, but since this asset category is unknown to the Companies Act (and does not conform to EU regulation either), it is probably best avoided.

*Under the plan, the following assets will pass to NH Rt. on 1 November 2001:*

- ÁPV Rt’s own assets will be incorporated into registered capital as of 30 June
- the following will pass into the capital reserve at 30 June values
  - with the exception of agricultural land, the state holdings in the assets assigned to ÁPV Rt. and the companies in the privatisation reserve that are not being wound up, other assets (movables, real estate, intangible assets) and cash in ÁPV Rt’s bank accounts
  - certain items (defined by Government) of state holdings in companies under the ministerial supervision
  - state-owned forests
  - debts owed and debts receivable that have arisen in connection with the companies owned, except where NH Rt. has a stake of .....% or less (these will pass into the possession of KK Rt.)

*The following assets will pass to the Debt Management Company (KK Rt.) on 1 November 2001, at the market value of 30 June:*

- the debts owed and debts receivable that have arisen on ÁPV Rt’s assigned assets, with the restrictions already mentioned
  - the stakes, debts owed and debts receivable in companies in receivership which affect ÁPV Rt’s assigned assets
  - debts owed and debts receivable, and suspended and future debts, related to the sales of shares over and above the permanent state holding in companies over which ministers exercise shareholders’ rights
- KK Rt. will trade independently, it will cover its expenses from its income, and where there is a deficit, the state shall guarantee its debts.

The state’s commercial assets and related functions will thus be divided between two new organisations. The asset management of agricultural land will be settled by an act of Parliament on the National Land Fund. Until then, asset management of agricultural land will pass to the Hungarian State Treasury.

It shall be the function of the ***National Holding Company*** to manage and develop the assets in its possession with full responsibility, giving due heed to employment policy, competition policy and environmental policy, and seeking the opinion of relevant ministers. It will be required in particular

- to ensure the proper operation of company shares and other assets that are not to be sold, exploit them profitably, and preserve and raise their value
- to sell profitably those assets that are to be sold
- to ensure the implementation of government economic policy objectives by creating new state assets.

The operation of the ***National Holding Company***.

The holding company will manage its assets independently, and cover its expenses from its income. The holding company shall be controlled by the Board of Directors under the terms of the deed of foundation, the founder's resolutions, and the law. Proprietary supervision of the holding company shall be exercised on behalf of the Government by the appointed supervising minister (exerciser of shareholder's rights).

The National Holding Company's Organisation and Management Rules and the Tendering Rules, regulating the course of sale transactions will be subject to approval by the founder (supervising minister).

The holding company will not make direct payments to the central budget, but the founder may prescribe *withdrawal of dividend* from profit made on operating state assets. The operation of the holding company will be subject to VAT and excise duty.

The founder will exercise control of NH Rt. primarily by means of resolutions. The founder will also hold the right of instruction, but this will also result in the assumption of responsibility, The Government may request the holding company's involvement in specific priority functions and projects. In this case, the Government shall provide the requisite funds by raising the holding company's capital reserve.

NH Rt. will be obliged to produce an annual *business plan* which will be subject to approval by the Government (the exerciser of shareholder's rights). In defining which assets are to be sold, the holding company will be obliged to heed the founder's decisions as to which companies' shares, and to what extent, are warranted for inclusion in state commercial assets by the interests of the economy, by concession activity considerations, and by the need to fulfil defence or other special state functions.

Assets may be retained under a *voting priority share* (golden share) where the interests of public order, public security, public health or defence so require, and the arrangement is in harmony with EU prescriptions. The founder will decide on the creation and dissolution of such shares.

It will be compulsory to accept *compensation vouchers* for the sale of assets in NH Rt's ownership if the relevant statutes so require, and under the terms given in these statutes.

Subsidies granted to enterprises under the control of NH Rt. will be subject to the statutory obligations for reporting subsidies in advance and establishing their consistency with the European Agreement. The Minister of Finance must also be supplied with the relevant information.

NH Rt. may found a sole company.

The National Holding Company will be supervised by the Supervisory Board, an independent auditor, and the State Audit Office, in accordance with the relevant laws.

In conducting its affairs, the holding company will largely rely (after suitable review) on the asset management and privatisation experience that has accumulated in ÁPV Rt. These should not be allowed to dissipate.

NH Rt. will naturally draw up its own asset management and sales principles in due course, but some outlines can be given in advance.

***Principles of asset management and sale:***

- For strategic assets, it is intended to promote the state's service obligations, and to implement the programmes defined by the Government.

- The state's commercial assets will be operated and managed on a commercial basis, under uniform principles harmonised with economic policy.
- It is important that managed assets produce the highest profit possible and that the funds accumulating thereby are used primarily for the development of well-running companies and for payment of dividend to the state. Naturally, assistance will be received by state companies with good prospects if they only need temporary support.
- It is a fundamental principle that state companies stand their ground in market competition. It is intended to operate them using the same up-to-date market management techniques as are used in private companies. The state will not intervene in every detail of the companies in its possession, but will govern them by setting an operational framework composed of expectations, criteria and proprietary decisions aligned to the hard conditions of the market.
- Privatisation sales will be continued and completed expeditiously but unhurriedly, and will not be forced through. This means that the state's direct economic involvement, the scope of assets remaining in its ownership, and the best way, timetable and strategy for sale of assets awaiting privatisation, will all have to be rethought. When all these have been done, sales will be made under a uniform plan harmonised with economic policy, leaving sufficient time for techniques to be devised, the company to be prepared for privatisation, and the commercially best date to be selected.
- Some state assets that might be sold are not currently in saleable condition or could only be sold on disadvantageous terms, although there is otherwise no good reason for retaining them in state ownership. These must be prepared for sale by reorganising the companies, hiving off asset elements that are superfluous or could be better sold separately, reinforcing the management, etc.
- It is intended to sell assets awaiting sale on the best terms that can be attained, by competitive tender, with as little state involvement as possible. "Best terms" here means the highest price obtainable, targets set by the Government (employment, regional policy, strategic interest, preservation of professional culture), demands of society at large (widening shareholding, achieving stable and reliable of stock exchange share prices, promoting market competition, finishing off the compensation process, etc.).
- Within the legal and commercial limits, it is aimed to increase the openness and transparency of asset management and future asset sales. This could be well served by the annual publication of a White Book reporting on the operation of state assets (as is customary in Western countries).

I would like to make a special mention of collaboration between the state and private sectors. The advanced market-economy countries have realised that it is not always bare-knuckle competition that brings the best results. A task fulfilled by partnership between state and private companies is often more effective, more profitable, than when pursued individually. *Public Private Partnerships* (PPP) have many advantages and benefits. I would like to highlight the following:

#### In implementing joint projects

- a balance is created between state and private interests
- it is no longer a question of which is more effective, because the best result is achieved by relying on each other
- the collaboration brings a businesslike attitude into state projects, raising their efficiency. Experience in Britain is that average cost savings of 17% can be achieved over purely state projects.
- private funds are used for community purposes, or to supplement restricted community funds which can thus be used more efficiently, enabling more state projects to be implemented
- implementation involves application of advanced technological and control methods, so that quality improves
- collaboration brings new market opportunities for the private sector, and for the state, better results and final products are achieved at lower cost
- further advantages are that value is created for taxpayers, and the government is given the chance to concentrate on its main activity
- it is in keeping with European Union policy, since it brings deregulation and the involvement of a third partner, and raises competition.

Demands for collaboration, and the forms it takes, are determined by life. In the beginning, collaborations were initiated by the state, but private sector initiatives are now numerous.

The development of the substance and organisation of collaboration is now served in these countries by know-how centres and advisory organisations which give comprehensive proposals for addressing specific problems. They are thus engaged in seeking the most effective way that the state and the private sector can fulfil a task together. In the Netherlands, for example, the PPP know-how centre was set up in the Ministry of Finance.

The motto of collaboration in other countries is: don't *privatise* everything (and at all costs), but *domesticate* it (efficiently, to find a solution).

Specific forms of collaboration are extremely diverse. The main ones are:

- traditional collaboration by contract,
- setting up a joint venture for the project,
- collaboration by concession,
- franchise contract.

I think that this form of collaboration has lessons for us, and will be useful in future.

### ***Organisational development, and the decision-making system***

The National Holding Company could be set up as a completely “greenfield” organisation, but could also be designed as a development of the existing asset manager (ÁPV Rt.) so as to comply with proposed holding company functions and requirements.

After appropriate consideration, it has been decided to recommend the latter method. Not only will it be faster, it will ensure preservation of accumulated know-how, the parallel operation of the new and winding-down asset managers, and consequently the least hold-ups and hitches in operations.

By this means, ÁPV Rt. will “grow into” the new organisation, in the process of which its professional composition and organisation will be refreshed and modernised. In addition, the handling of debts owed and debts receivable will become further separated and more independent immediately after the parliamentary decision to set up KK Rt. has been made.

***ÁPV Rt. is already being restructured***, and its organisation modernised, in preparation for conversion. This is being accompanied by radical staff reductions and the modernisation of the decision-making system.

I have already dealt in some detail with ÁPV Rt's actions over the last two years taken in preparation for asset management. Although all of these were undoubtedly steps in the right direction, they were not sufficient in themselves, and so, in March and April this year, the ÁPV Rt. management took further strong measures in pursuit of further improvement in the organisation. I would like to highlight just a few of these:

- the number of deputy CEOs has been reduced
- the number of departments (and their senior staff) has also been greatly reduced by closures and mergers
- the company's organisational structure has been simplified and made more transparent
- staffing of certain areas (departments) has been reinforced (e.g. strategic planning and analysis)
- sales and asset management functions have been further separated, and are now the responsibility of separate deputy CEOs
- no fundamental changes have been made to the *decision-making system*, because it already complies with the requirements of asset management. However, the consistency between powers and responsibilities in this area have been further clarified. The forums of the decentralised decision-making system therefore continue to be: Board of Directors, Management Body, Chairman-CEO, Deputy CEOs, Managing Directors (only delegated powers).

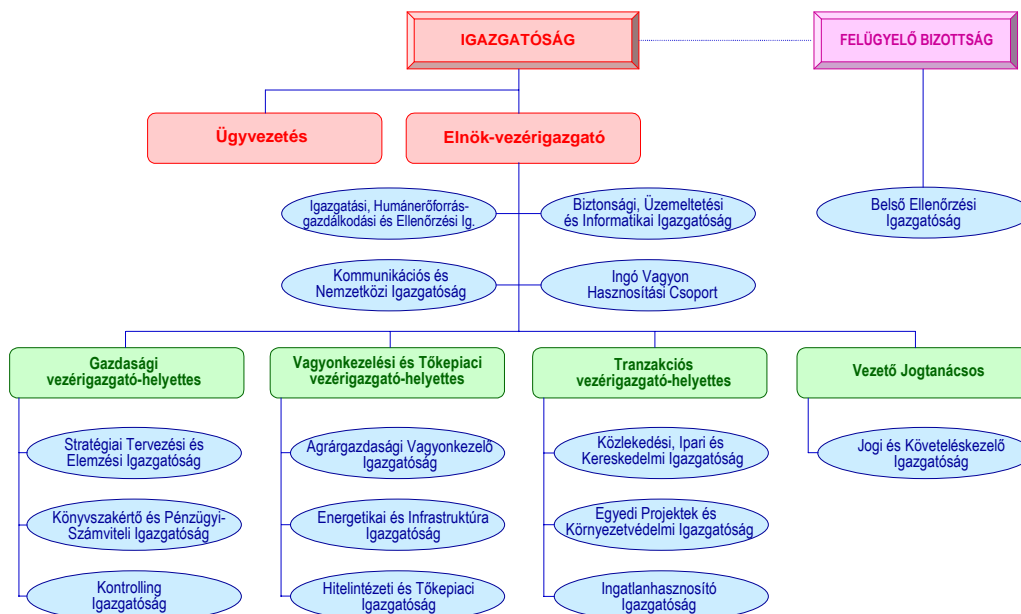
In my own judgement, as the result of the changes, the organisation of ÁPV Rt.:

- is sufficiently transparent, and relatively simple, with information reaching every level satisfactorily
- the decision-making system is sufficiently decentralised, with balanced powers and responsibilities
- provision has been made for straightforward and smooth transition into the new legal successor organisation(s)
- the organisation primarily follows the considerations of asset management, but without ignoring the continued existence of sales functions.

*We are now confident that this organisational structure will not change in its essentials before the closure of ÁPV Rt.*

### Az ÁPV Rt. szervezeti felépítése

2001. április 1.



*What needs to be done in the area of work organisation in the coming six months?*

- existing functions must be analysed, and where they are found to be unrealistic or unnecessary they must be closed down. A review must also be made as to what new functions we are or will be faced with, and how they will be dealt with.
- in the interest of efficient working, subordinate employees' workloads and levels of qualification must be examined, and ways of improving these explored. It is probable that the intensity of work and professional standards will have to be raised. This will lead to further staff reductions, but in certain jobs there may also be exchanges of staff.

It will be vital to apply modern management techniques in corporate governance, in order to stand up to market competition. We must keep in mind that both ÁPV Rt. and the holding company are and will be "normal" economic players, working to rules that are no different and no more beneficial than those applying to other companies. EU principles do not permit otherwise.

Whereas privatisation demanded openness and transparency, commercial information related to the operation of assets in permanent state ownership will not be public, and particularly not the affair of

competitors. A different type of communication is thus called for, naturally ensuring that the state proprietor (Government, Parliament) receives all of the information it requests. Information that can be made public will be information prescribed as such by law, as for other companies. It may also be worth publishing an annual presentation of the operation of state assets, a "White Book", along Western lines.

### *Human resources*

When the new asset management organisation is set up, some staff reductions will unfortunately be inevitable. There will also be a need for changes in the professional qualifications of staff, because asset management in general requires different skills from privatisation.

*The assets that are to remain permanently in state ownership are confined to a few sectors, and so requirement for professional skills among the staff is correspondingly limited. In addition, the skills required for asset management are mainly in the areas of economics, business, management, marketing, law and finance, together with good analytic skills and rapid decision-making ability.*

We would like our staff to be qualified in these areas and to have the relevant capabilities. We plan to help staff in their professional development via internal training courses and publications (on the use of the controlling system, the Asset Management Pamphlets series, a specialist library, central specialist conferences, etc.)

The number of employees, which was on average nearly 300 in 2000, has now fallen by 50, and the total staff reduction is planned to be 80-100.

*Everybody who leaves receives the severance pay and bonus due by law and under his or her contract of employment.*

This is not an easy, and not a popular task, but we must face the fact that an important period in Hungary's economic history is now coming to an end, and we are pleased to have been able to play our part in it.