THE VALUATION OF COMPANIES

IN

PRIVATISATION PROCESSES

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1.- INTRODUCTION

Privatisation is a common process all around the world[1]. The most important reasons that have motivated the privatisation of companies are, among others: the requirements of the World Bank and the International Monetary Fund for the developing countries to privatise state-owned companies if they want to receive grants to finance their economic adjustment programs; the liberalisation of international trade (GATT agreement of 1993); and the emerging economies that have increased competition in a framework of world economy globalisation.

These processes are being guided by a paradigm change based on the belief that the public sector is *per se* inefficient. With privatisations, we reach the end of a stage in which nationalisations were considered an economic growth stimulus in strategic sectors, and a tool for achieving independence in the face of foreign investments and multinational companies.

In the European Union: the increase of competition resulting from advances in the integration of markets, the European community legislation that regulates competition in traditional public services -railways, air lines, telecommunications,...-, the elimination of subsidies to state owned companies and the need to reduce public deficits, are questioning the role of the State in the economy.

Though it is said that privatisation's main goal is to increase efficiency in the public sector, in fact, the income obtained by the sale of state owned companies is permitting the reduction of deficits, in order to reach the objectives of Maastrich. However, in the long term, the sale of profitable companies will not permit us to compensate for the losses of non-profitable companies, with the consequent negative impact on the public deficit.

The privatisation process of state owned companies includes the measures adopted for the restructuring and preparation of the company for the sale, the methods of sale, the valuation of the company, the selection of the best moment to sell and the fulfilment of the objectives of the sale. The studies of the INTOSAI working group on the Audit of

[1]In a questionnaire sent in 1994 by INTOSAI (International Organisation of Supreme Audit Institutions) to 125 countries, 81 countries from South America, Asia, Africa Eastern Europe and the European Union, answered that they had carried out privatisations of state-owned companies.

Privatisation[2] show that the control of the privatisation process, by the Supreme Audit Institutions, is a pending issue in all countries.

Recent studies carried out by the UNO (1993) and other international organisations have shown that the valuation of the companies is one of the aspects that has created the most difficulties in privatisation processes because of the limitations of accounting information based on historical cost.

There are various proposals that try to provide a guide for carrying out company valuation. However, there is no clear empirical evidence on the degree of professional utilisation of these models. We have obtained very important experience in privatizations and company valuation in very different economic sectors and sociopolitical conditions. The objective of this paper is to study the methods of company valuation, used by 45 countries in these two decades of privatizations. To do that we analyse the information provided by the countries studied in various international seminars and meetings such as: the *European Organisation of Supreme Audit Institutions (EUROSAI) Seminar on The Audit of Privatizations* held in Prague in 1992, the V General Meeting of the *Latin-American and Caribbean Organisation of Supreme Audit Institutions* (OLACEF), the *International Organisation of Supreme Audit Institutions* (INTOSAI) working group on the Audit of Privatisations meeting organised by the *National Audit Office* (NAO) held in London in 1994, the study carried out by the INTOSAI about the Audit of Privatisations, presented in Ankara in 1995, the study carried out by the UNO (1993) and the study on financial management aspects of privatisations (1996).

2.-PRIVATISATION AND COMPANY VALUATION

The privatisation process of a company or a public service, is a complex issue. In the privatisation plans three phases can be distinguished: the sale decision, preparation for the sale and the process of the sale itself. In each phase an important number of issues should be analysed, might be different for each economic sector. In the countries studied companies have been privatised in all economic sectors -industry, agriculture, infrastructures, services, banks, etc.-.

The methods of privatisation have been various: auction, free transfer to employees, sale on the market, sale to another company, sale to the employees, sale of assets, etc. Various methods of company valuation have also been applied. Among the most

[2] Ankara 1995

common, we can quote: the value of the assets of the company, the discounted cash flows and the discounted future profits, each of them giving different values. If we consider, that there are also different ways fixing the price of the sale -competitive offers, direct assignment, or negotiation without concurrence, among others-, we have a range of combinations that could lead to a good or not so good privatisation for the taxpayer.

Table no. 1: Principal objectives of privatisation processes

	Improve business efficiency	Reduce State Activity	Reduce State Debt/cut Deficit	Obtain Funds	Enlarge stock exchange capacity	Build share-owning democracy
GLOBAL AVERAGE	**74%**	**54%**	**48%**	**21%**	**19%**	**18%**
AUSTRIA	3	4	2	1	5	
AUSTRALIA	3	1	2			
CANADA	1					
DENMARK	2	1	4	3		5
FINLAND	6	8	7	1	2	3
FRANCE	2	1	3	4		2
GREECE	1	4	2	5	3	6
GERMANY	2	1				3
ICELAND	3	1	2		3	
IRELAND	3		1	2		
ITALY	1		2	1		
JAPAN			3	2		
NETHERLANDS	1	3				
N. ZEALAND	1	2	3			
NORWAY						
PORTUGAL	2	1	3	4		
SWEDEN	1		2			
SWITZERLAND		1	2			
UNITED KINGDOM	1		4	2		3
TOTAL=19	**79%**	**47%**	**63%**	**37%**	**16%**	**21%**
ALBANIA	1	2	6	3	5	4
BIELORUSIA	1	1	4	2		2
CHECK REP.	1	2		3	5	4
ESTONIA	2			3	4	5
HUNGRÍA	2	1	5	4		3
LETONIA	1	1		2		2
LITHUANIA	3	1	4	5		4
POLAND	1	2	6	3	4	5
YUGOSLAVIA	1	1	4	2		3
TOTAL=9	**100%**	**90%**	**0%**	**80%**	**0%**	**40%**
ALGERIA	1	1	1	1	1	1
BAHAMAS	1	1	2	2		4
BAHRAIN	3	1	2			
BARBADOS	2	4	1			3
BRASIL	1	1	1		1	1
CHILE	1	2	6	5	3	4
COSTA RICA	2	1	5	3		4
INDIA	4	3	1	2	6	5
INDONESIA	1	6	2	4	3	5
ISRAEL	1	3	2			2
KOREA	1	2	5	6	3	4
MALDIVES	3	2	1			
MEXICO	2	4	3			
MORROCCO	1				4	
NIGERIA	6	1	5	2	7	8
ST.KITTS&NEVIS	2	1	3			
TURKEY	2	1	4	3	5	6
TOTAL=17	**88%**	**76%**	**61%**	**33%**	**28%**	**22%**

The valuation of the company is one of the most important phases of the process of sale; it can be conditioned by and, at the same time, can condition the whole privatisation process, especially if the result of the valuation determines the sale price. The sale of a company, after the definition of the objectives of the privatisation, supposes the taking of decisions about the method to be used, the assets to sell, the valuation method and whether any after-sale conditions should be established. Because of this, the analysis of the methods of company valuation applied in privatizations must be analysed together with the objectives and the method of sale.

2.1.-Objectives of privatizations.

In spite of the heterogeneity of the countries studied, in their political and economic situation and degrees of development, the reasons that have motivated company privatizations all around the world are quite similar, even though we observe some disparity in the objectives of the countries of Eastern Europe.

Table no. 1 shows the six objectives of company privatisation that the countries studied have considered more important[3]. In all the countries studied the three most important objectives of privatisations, out of the six shown in table 1 have been chosen. Some of these objectives are related. The third and fourth objectives, can respond in some countries to the same goal: to obtain funds to reduce debts or the deficit, though the funds could also be devoted to other needs such as financing investment projects. The sixth objective represents a way of strengthening the stock markets through the sale of shares among a greater number of citizens. Thus, the basic objectives of the privatizations can be summarised as follows: 1) to increase efficiency and to reduce the size of the public sector, 2) to reduce public debt/deficit and to obtain funds, and 3) to strengthen the stock markets

The interpretation of the information shown in Table n 1 could be the following:

1.- In the framework of the paradigm change represented by disinvestment programs, privatisation and deregulation, privatisation as a way of increasing efficiency in emerging economies is based on the works of Stigler (1971, 1988), Postren (1974, 1975), Peltzman (1976) and Becker (1983, 1985). They consider the government as a bad manager that is influenced by lobbies and companies operating in regulated sectors.

However, the privatizations, though they could facilitate the introduction of private sector management techniques, do not solve, by themselves, an aspect essential for improving the efficiency of the services delivered: the introduction of competition in the market.

[3]Each objective shown in Table 1 was scored from 1 to 10 for the countries studied in accordance with its own privatisation programme, giving the score 1 to the most important objective and 10 to the least important.

Because of this, while privatisations of services and public monopolies have been carried out, a need has emerged to establish new regulations to prevent possible abuses from privatised companies, as well as to create regulatory bodies to monitor their activities. As Bel and Queralt (1996, 23-24) indicates, competition has been the missing link in privatizations.

On the other hand, it seems logical that all the countries studied consider as first priority, a very attractive response - “to increase efficiency”. Therefore the analysis should be focused on the importance that they have given to the other five possibilities.

As has been pointed out, in Table n 1 we can see that the objective of increasing efficiency dominates over all the others, both in average values and in the partial values observed in the area of the most advanced OECD countries, countries of Eastern Europe and in developing countries. Nevertheless the first group considers the reduction of deficit more important than the reduction of the activity of the State, which is a very important objective in Eastern Europe countries. The developing countries also show a preference for reducing state activity, though, probably, the size of the Public Sector may not be very considerable in many of them.

2.-If we add together the values of the objectives of reducing the debt/deficit and of obtaining funds, which pursue a similar effect on the finances of the State, they are situated in second position in the group of most advanced countries and in first position in the group of developing countries. Through privatisation programs governments expect to improve their budgetary situation by means of locating the funds to reducing the public debt or eliminating a source of expenditures, if the sold company receives subsidies from the State. If the funds from privatisations are applied to finance budgetary expenditure, they will contribute to palliate the budget deficit temporally, but the budgetary imbalance will persist and it will be reproduced in following exercises.

Finally, the Eastern Europe countries do not give attention to public debt and deficit, since in none of them this objective is found in the top positions.

3.-In many of the countries studied the method used to finance companies is by means of banks. Because of this, one of the objectives pursued by the privatizations in a great many countries has been to strengthen the stock markets through the public offer of the shares of companies to be privatised, even though this objective is not so important as the other objectives mentioned above, except in the Eastern European countries.

The government desire that all segments of the population participate in the privatizations obliges them to make a low valuation of the offers that reduces the inflow of funds from privatisations. Even though this practice follows a policy of social equity, it is only one part of society that is benefited, and experience has shown -as in the case of the electrical companies privatised in the United Kingdom- that thereinafter a concentration process is produced in favour of the large corporations.

2.2.-Methods of sale

Table n 2 shows the most common methods of sale used in the course of privatizations. The values 1, 2 and 3 are assigned to each method in each country, and represent the most common methods used in privatisations in first, second and third positions.

<u>Offer on the Stock Market</u>.-The public offer of shares is the most common method when large quantities of capital are needed and a policy of wide diffusion of the shares in society is pursued. To implement this a well developed stock market is necessary. Even though some technical difficulties can be compensated by a sufficiently attractive offer, this method is technically the most complex, since is not applicable to all kinds of companies and in any case, the evolution of the price subsequent to the public offer should be carefully forecasted. To avoid the market punishing the company when it fixes the prices, a financial restructuration of the company should be carried out prior to the privatisation. This could be an important cost to take into account when the operation is designed. This procedure can have more guarantee of success if the companies to be privatised are quoted in the stock market, as has been the case of the most important privatisations in Spain.

In the most advanced OECD countries, this method is the most common in Australia, Denmark, Ireland and Japan. On the other hand, Iceland and the United Kingdom are the countries, in this group, that use it least. As can be seen in Table 2 offers on the stock market together with direct sale are the methods most often used by this group of countries.

By contrast, as was foreseeable, sale on the stock market occupies a secondary place in the methods of sale used in the Eastern European countries, no doubt because of the weakness of their stock markets and the lack of historical information and experience in negotiation bidding and stock flotation.

The behaviour of developing countries is very similar to the rest of the OECD: in first place sale on the stock market, together with direct sale.

Table no. 2: Methods of Sale

	Stock Market	Direct Sale	MBO	Gift	Auction	Combination	Other
AUSTRIA	2	1					
AUSTRALIA	1	2					
CANADA	2			1			
DENMARK	1	3			3	2	
FINLAND	2	1	2		2		
FRANCE						1	
GREECE					2	1	
GERMANY		1	2				3
ICELAND	3	2	1				
IRELAND	1						
JAPAN	1						
N. ZELAND		1					
NETHERLAND		2					1
NORWAY	2	1	2	2			
PORTUGAL					1		
SWEDEN						1	
UNITED KINGDOM	3	2	1				
TOTAL=17	**4**	**4**	**2**	**1**	**1**	**3**	
ALBANIA	2	1			3		
BIELORRUSIA		3	1				2
CHECK REP.		2		1			3
ESTONIA			1		3	2	
HUNGRIA	3				2	1	
LITHUANIA		2		3	1		
POLAND	3	2			1		
TOTAL=7	**0**	**1**	**2**	**1**	**2**	**1**	
ALGERIA		1	1		1		
BAHRAIN	1	2					
BARBADOS		1					
BRASIL					2	1	
CHILE		1					
KOREA					1		
COSTA RICA	2	3			1		
INDONESIA	1	1	1	1			
ISRAEL	1				2	2	
MALDIVES	1	1					
MEXICO			2		1		
MORROCCO		1			3		2
NIGERIA	1		1			2	3
ST.KITTS& NEVIS	1	2					
TURKEY						1	2
TOTAL=15	**6**	**6**	**3**	**1**	**4**	**2**	**0**

Direct sale.-This is one of the most common methods in all the countries, and is, furthermore, a component of the combined methods. Direct sale and auction are the methods chosen when small or medium-sized companies, or public services are privatised. To apply this method, it is necessary to have buyers with sufficient financial capacity. Since the negotiation of sale is carried out with individual buyers, it is necessary to give transparency to the selection process of the buyer. This transparency will be guaranteed by the Audit Institutions of each country or by an *ad hoc* commission created for this purpose.

Often, the choice between direct sale or sale on the stock market depends on the characteristics of the business to be privatised, the size of the company and the political objectives of the privatisation. Direct sale has been the most common method in

Germany, Austria, Finland, Norway and New Zealand. By contrast, Denmark is the country of this group that uses it least.

In the Eastern European countries it has been used more often than sale on the stock market.

The Management Buy-out (MBO) is a method of sale that permits workers to take over the company and its control. The procedure of purchase consists of the creation of a holding company by the workers, which will buy the company to be privatised. The funds to finance the operation are often obtained through loans supported by the assets of the privatised company. The advantage of this method is that it minimises the social cost and it can produce important increases in productivity. The disadvantage is that the workers have to borrow to buy the shares. Sometimes, this method does not constitute the most profitable bid.

To apply this method, a high degree of co-operation between the seller and the buyer groups that will take over the management of the company is required. The agreements very often include the maintenance of advantages in the goods or services markets, privileged access to credit and/or subsidies and financial support in subsequent years.

This method is the most common in Europe in the United Kingdom and Iceland, and, the second most common, after direct sale, in Finland, Norway and Germany, -mainly in the privatizations from the former East Germany -. The rest of EU countries do not apply this method. Neither is it the most common method in the Eastern European and the developing countries.

The MBO, even though it is a method compatible with the objectives of reduction of size and the increase of efficiency of the public sector, it might not be the most suitable for maximising income from the sale and, because of this, to reduce deficit and public debt.

The next most common method, in most developed OECD countries, as can be seen in Table 2, is the combined method; the gifts and auctions have a token representation. By contrast, in the Eastern European and developing countries, auction is more frequent than the combined and MBO methods, maybe because it has been the best way of selling state owned companies or services provided by the State to international companies.

3.-THE VALUATION OF PRIVATISED COMPANIES.

The process of company valuation, before privatisation, has some differences with respect to traditional company valuation, because the seller -the government- knows less about the features of the company to be sold, and less about potential buyers, than a typical parent company would. The lack of detailed knowledge about the company, the business and the potential buyers, puts the government in a disadvantageous position, which obliges them to look for the support of external advisors.

Although the above factors are among the most important, there are others that condition the valuation of the company in privatisation processes. These factors cause a greater difference between valuation and price than in similar operations carried out in the private sector. The most frequent, are the following:

- The hurried selling at a moment in which privatizations have been generalised all over Europe and the European governments need to reduce their public deficit to fulfil the convergence criteria fixed in Maastrich. This has provoked offers at low prices to assure the success of the sale operation, and therefore, conservative valuations to justify the final price fixed for the sale.

- Sales to workers, since they know the company better than the seller -the government- because buyers will always try to minimise the value of the company.

- The conditions agreed for the provision of privatised services and the determination of prices. In a privatised public service it is necessary to establish regulatory systems to control the prices and the conditions of provision, as well as to guarantee the interests of the citizens, since they can not choose an alternative provider. One way of control is the limitation of profits according to the capital invested. This alternative has the drawback of not giving incentives to increase efficiency, the profit level having already been agreed. Another way, used successfully in United Kingdom, is to fix only the prices, so that to increase profit they need to improve efficiency. In this case problems could arise if actual profits are superior to expected profits, since the citizen could suppose that either the prices of the service are too high, or that the quality of the service has decreased. It is a difficult problem to solve, and one which conditions the valuation of the business, because it is very complex to establish *a priori* how profitable a privatised public service might be.

- The limited usefulness of historical cost accounting information[4]. As C.J. Farrow (1992)[5] indicates, company valuation is an imprecise art, in which accounting is not very useful. It shows the value of the assets and liabilities -equity- of the company submitted to a formal audit process. However, the value, at historical cost, of the plant and equipment assets that appear on the balance sheet do not reflect the value they would have in a sale, because in the absence of secondary markets their value can not be established with reliability.

3.1. Methods of company valuation

Company valuation has been a well known activity in the private sector for decades, because it is used by business men for a multitude of purposes, from the determination of the guarantee that an entity offers against a loan to the valuation of what belongs to dissenting shareholders and entities in the case of separation. Nevertheless, the main application, in the private sector, is the valuation of the entity for selling or buying purposes, through the sale of shares, public offer, fusion, scission, absorption, etc.

Even though there is no single method accepted as unquestionable for valuation purposes, various organisations have established standards to carry out valuations. The attempts best known in Europe are those of the former *Union Européen des Experts Comptables* (UEC), currently the *Federation des Experts Comptables Européennes* (FEE), that includes accountants and auditors from most European countries. In an official statement issued in the sixties (UEC, 1961) this organisation recommended the use of a valuation formula that consisted of adding to the reposition assets value, a goodwill calculated as the present value of the superprofits expected for the company discounted at the present time. Afterwards, a Technical Committee of this organisation (UEC, 1980), changed the proposal to another consisting of estimating the future profits and to discount them applying an interest rate that reflected the economic risk of belonging to a particular activity sector.

In Spain, the AECA maintains a Commission that is devoted to establishing Principles of Company Valuation, whose Documents express a high preference to consider the going concern as an investment project (AECA, 1981), which is valued estimating the discounted future cash flows, at the present time.

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[4] *Working group of experts on International Standards of Accounting and Reporting* (ISAR). ONU 1993 p. 156

[5] Director of Kleinwort Benson LTD (British Investment Bank), EUROSAI (1992) "*Seminar on The Audit of Privatizations*" held in Prague

Table no. 3 : A Classification of Valuation Methods

BASIS OF VALUATION	NAME	DESCRIPTION
VALUE OF ASSETS (historic value)	**Book Value**	Identifiable assets at historical cost minus the present liabilities of the company.
	Restated Accounting Value	Accounting value of the assets adjusted according to inflation indexes, minus the present liabilities of the company.
VALUE OF ASSETS (replacement)	**Replacement value of assets**	Cost of replacing, in current circumstances, the assets that the company uses in its operations.
	Net realisable value of the assets of company	Financial surplus obtained from the ordered sale of all the company's assets, once all its debts have been paid off.
	N Times Profits	Amount obtained by multiplying the average profit from recent years by a number (N - an estimation of the *Price Earnings Ratio or PER).*
YIELD VALUE	**Discounted Profits**	Discounted value of the net future profits of the company, obtained from simulation models of the future activities to be carried out, using suitable hypotheses and interest rates that reflect the risk of the company(e.g : the 1980 UEC method)
	Discounted free cash flows	Discounted value of cash flows, simulated by behaviour hypotheses, using suitable hypotheses and interest rates that reflect the cost of capital
VALUE OF ASSETS PLUS GOODWILL	**1961 UEC Method**	Replacement value of assets plus discounted value of future superprofits, above those obtained by the sector, which the company expects to obtain.
	Average assets value plus yield	Estimated goodwill will be equal to the semidifference between the two averaged values.
	Independent expert value of goodwill	Value of assets plus the estimate obtained, through suitable studies, of goodwill

International practice in recent years, in the private sector of the economy, has also established a high preference for the valuation of the company through the discounted free cash flows, applying an interest rate equal to the capital cost of the entity or another equivalent rate if this datum is not available.

To determine the amount of the free cash flows we start from the cash produced by current activities (cash from sales and other current revenues minus current goods and services payments) and the cash amount that the company has to invest in plant and equipment assets to maintain its productive capacity is deducted. This method of valuation is already common even in finance handbooks, for example in Weston and Copeland (1992, chap. 17).

For the purpose of following the rest of the paper, it might be useful to give a short classification and description of the methods of company valuation most frequently applied in practice, as are shown in Table 3. A detailed study of the methods can be found in AECA (1983).

The valuation methods that estimate the value of the company according to its assets are closer to traditional accounting techniques than other methods, maybe because they are often the most objective, but they also present important deficiencies such as forgetting that the value of companies is greater that the sum of their components and that the company only has a value for its owners, fundamentally, depending on its future behaviour.

The methods based on future yield (profits or fund/cash flows), are better adapted to entrepreneurial logic, because they evaluate the company in accordance with its capability to distribute dividends in the future. Theoretically, the maximum price to be paid by a buyer will be the discounted company capability to distribute dividends in the future, applying a rate that represents the value of money at the time. Indeed, the results depend on the calculation hypothesis, and this circumstance introduces an important degree of subjectivity, that could create conflicts or disagreements in the negotiation process.

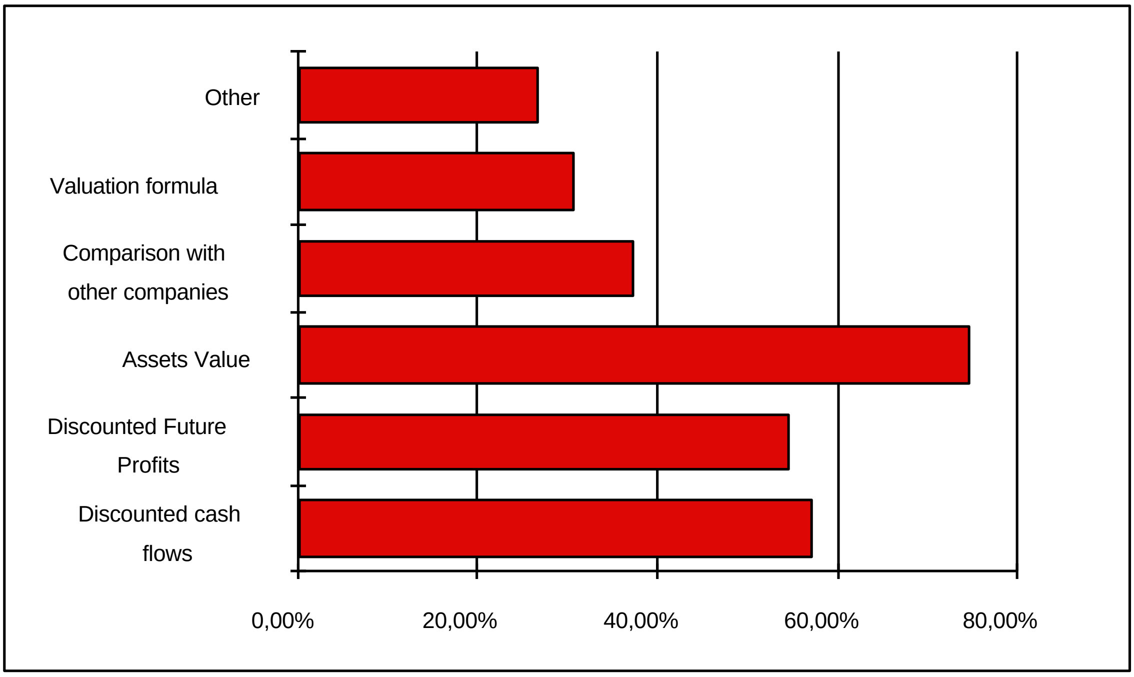
Finally, practice has also developed mixed methods, combining the present situation (value of assets) with estimations about the future evolution of the company.(estimate of the goodwill). Though these methods are applied less and less, they provide alternatives that, sometimes, can conciliate opposed interests. Table 3 shows three possibilities, among others.

3.2. Valuation methods applied in international practice

Exhibit 1 shows the methods of company valuation most frequency applied in the international framework. We can see that in spite of its limitations the net value of the assets of the company to be sold, is the most frequent by far.

One reason that explains this acceptance is the objectivity of the assets net value method. In the absence of a market, because it is privatising a public service or a monopoly or because the sale will be carried out by direct negotiation with one or various buyers, the net value of the assets of the company constitutes an adequate departure point to fix the minimum value of the company or service to be privatised. In this respect, accounting information constitutes the basic element for the valuation of the company, even though the experts emphasise the usefulness of the current cost information to determine the book value of the shares and the future yields of the organisation.

One of the main problems of the assets net value method, it is that a company in a going concern situation has, by definition, a greater value that the sum of its assets. Another, previously mentioned, is that the historical cost, is not necessarily representative of the value of the sale.



In second position are the valuation methods based on discounted cash flows and on expected profits (see AECA ,1981 y 1996, and Ansón, 1996). Theoretical research in company valuation finds these methods of company valuation more suitable. However, the uncertainties and estimations necessary to forecast profits as well as future cash flows cause a lack of reliability in these methods. For this reason they are applied less frequently than the net value of assets as a sole point of reference.

On the other hand, the methods that estimate the value of yields (profits or cash flows) requires a forecast of the future activity of the company (sales, costs, productivity of labour, ways of financing, cost of capital, distribution of dividends, etc.) about which there is no significant evidence because the company has never operated in a free market. Because of this, analysts avoid establishing hypotheses that could be considered unlikely by buyers or sellers, as well as the difficulty of justifying them and of their being accepted.

Comparison, as a method of valuation, can only be applied in cases where similar experiences exist that provide a total or partial point of reference for fixing the value of the company. Finally, the combined methods (of the same group as the methods that estimate the goodwill to be added to the assets net value of the company, in order to determine the total value) seek to attenuate the disadvantages of the previous methods, providing different values to give a minimum and reasonable estimation of the value of company. In France, for example, experts elaborate a very useful range of values, and finally, the government fixes the price of the sale. As can be seen in Exhibit 1 the combined methods have not been excessively applied.

3.3. The determination of the price of sale

The valuation of the company to be privatised constitutes a necessary step prior to determining the price of the sale, which could be influenced, furthermore, by the method of sale and the objectives of the privatisation.

In Table 4 it can be observed that, at a global level, the most common method for fixing the price is the competitive offer, followed by the assets net value and negotiation, with future or past profits relegated to bottom position, even though it is possible that in the valuation procedures applied by independent experts, located in fourth place in Table 4, future and past profits could be elements considered by experts to propose the price of the sale of the company.

If we compare these results with the percentages of the most developed OECD countries, we see that competitive bids and negotiation continue to be the most frequently applied procedures, and the profits expected and the assets net value are located at the same level. The less frequent use of independent valuation by experts, also stands out, perhaps because they have taken part in the preliminary phase of the valuation of the company, while other socio-economic and political considerations become more important in the final phase of the fixing of the sale price .

In the other two blocks, the Eastern European and developing countries, the assets net value method is given even more importance because of the frequent absence of other references such as generally accepted accounting standards, a minimum level of stock market activity and historical or expected profit trends.

Table no. 4:Methods of determining the sale price

	Assets Value	Past profits	Expected profits	Competitive offer	Negotiation	Independent expert valuation
GLOBAL AVERAGE	**61.5%**	**33,3%**	**50%**	**65,4%**	**61,5%**	**56,4%**
AUSTRIA	X	X	X	X	X	X
AUSTRALIA	X	X	X	X		
CANADA				X	X	X
DENMARK	X			X		
FINLAND	X	X	X	X	X	X
FRANCE	X	X	X	X	X	
GREECE						
GERMANY			X		X	
ICELAND	X		X		X	
IRELAND	X	X	X			
ITALY	X			X	X	
JAPAN						
N. ZEALAND			X	X	X	
NETHERLAND	X			X	X	
NORWAY	X	X	X		X	
PORTUGAL				X		
SPAIN				X	X	
SWEDEN	X	X	X	X	X	
SWITZERLAND						
UNITED KINGDOM			X	X	X	
TOTAL=20	**55%**	**35%**	**55%**	**65%**	**65%**	**15%**
ALBANIA	X			X		
BIELORUSIA	X			X		
CHECK REP.	X	X	X	X	X	X
ESTONIA	X		X	X	X	X
HUNGRIA	X	X	X	X	X	X
LITHUANIA	X	X	X	X	X	X
POLAND	X		X	X	X	X
YUGOSLAVIA	X	X	X			
TOTAL=8	**100%**	**50%**	**75%**	**87,5%**	**62,5%**	**62,5%**
ALGERIA				X	X	
BAHAMAS				X	X	
BAHRAIN	X			X	X	
BARBADOS	X			X	X	X
BRASIL			X			X
CHILE			X	X	X	
KOREA				X	X	
COSTA RICA	X					
INDIA	X	X	X	X	X	X
INDONESIA			X	X		X
ISRAEL	X		X		X	
MALDIVES	X			X	X	
MEXICO	X					
MORROCCO	X	X	X			
NIGERIA	X	X	X			X
ST.KITTS& NEVIS	X				X	
TURKEY	X			X	X	X
TOTAL=19	**61,1%**	**16,7%**	**38,9%**	**55,6%**	**61,1%**	**33,3%**

On the other hand, the price of sale also depends on the method of sale, since, even when the market is taken as a reference, the price of shares is not the same if the number offered is sufficient to give control of the company to the buyer as when they are offered to citizens with a fixed maximum limit. Therefore, large share packages are offered at higher prices.

4. CONCLUSIONS.

For different reasons, but always related to the main goal of increasing the efficiency of economic systems, most countries are carrying out privatisation processes. Company valuation is an important component of the privatisation processes, being very often the basis for fixing the prices of sales. In this paper, the issue of valuation of companies has been studied through the answers given to a survey about privatisation processes in three groups of countries: the developed (OECD), the Eastern European (ex-socialistic) and a group of developing countries.

Elegant political pronouncements that identify privatisation with increasing the efficiency of the economic system aside, it seems that the group of developed countries privatise mainly as a way of reducing the public deficit or public debt; the Eastern Europe countries to reduce the activity of the State and to obtain income; and the developing countries because of a combination of the above reasons, but fundamentally to reduce State activity in the economy.

The three groups of countries do not apply the same methods to sell the companies to be privatised. Thus, the group of developed countries uses the sale of the companies on the stock market or direct sale, while the Eastern Europe countries use MBO and auction as preferred methods. The developing countries mainly apply the same procedures as the developed countries and , to a lesser extent, the methods of the Eastern European countries.

Before selling the companies, the valuation of the company should be carried out, in order to establish the price of sale. In the private sector, the most common methods are based on the value of yield, evaluating the company through the discounted future profit or through the discounted free cash flows. For well-known reasons, related to the uncertainty of the future performance of the privatised entity, as well as the difficulty of fixing valuation hypotheses on expected behaviours, in the privatisation processes valuation methods based on the assets net value of the company are applied, yield having a secondary but important role.

Valuation and determination of the price of sale are related very closely. In this sense, the developed countries usually negotiate with the buyers or hold auctions, where the parties present bids in competition; within the framework of these methods of sale the valuation method chosen is only a point of reference. The Eastern European countries prefer to apply the value of assets as a point of reference to fix the price of sale, also frequently using offers in competition and valuation in accordance with the value of yield. The developing countries also use the value of assets to determine the price of sale, as well as applying direct negotiation.

The different answers given by the three groups of countries to privatisation problems concerning the valuation of companies and the fixing of the prices of sale, have economic causes related to the problems that the countries studied have to solve to carry out their privatisation processes.

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