ESM

Workshop for Best Practices for Restructuring and Privatisation in the Energy Sector

Restructuring and Privatisation of ESM

Key Points

- ***ESM today,***
- ***Concept for Restructuring ESM,***
- ***Preparation of the Privatisation***

ESM Today

Industry:

Electricity generation and distribution

Ownership:

State owned (100 %)

Registered capital EURO:

711.801.371 EUR (as of December 31, 2002)

Registered capital USD:

602.596.804 (as of December 31, 2002)

Main Assets:

- 3 Thermal Generation Plants (1,010 MW)
- 4 Hydro Generation Plants (434 MW)
  One new to be commissioned 2004 (80 MW)
- 10 Small Hydro Generation Plants (35.8 MW)
- Distribution System (28 units)

Electricity Balance (2004)

Generation Capacity.................	1,443.8 MW	
Total Generation ………………	6,041	GWh
Imports ………………………..	1,718	GWh
Total Demand …………………	7,789	GWh
Exports (of Total Demand)……	0	GWh

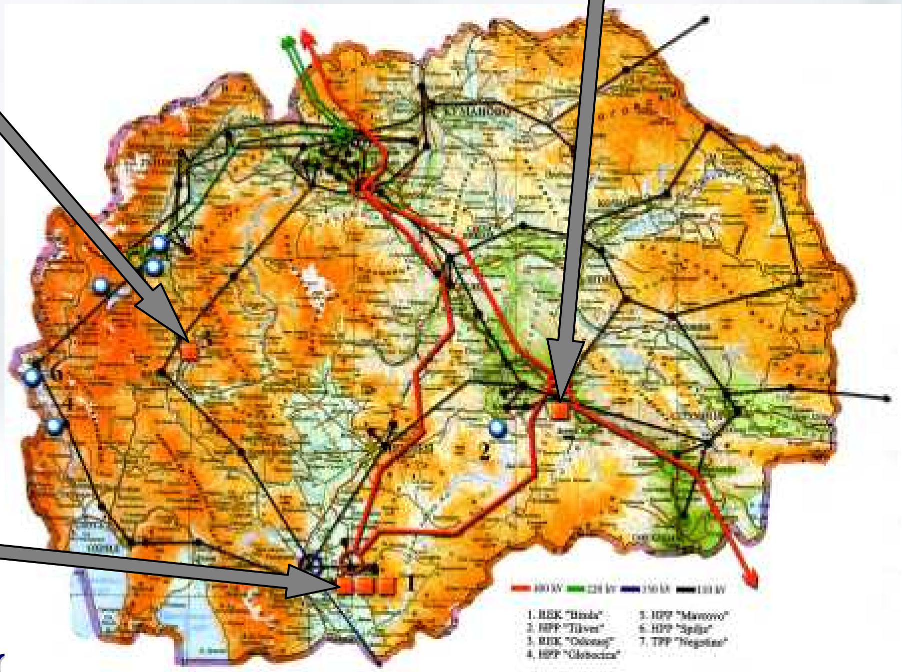
Financials (December 31, 2003)

Total assets …………………..	869,550 (‘000 EUR)
Sales……...………………….	222,236 (‘000 EUR)
No. employees…… ………...	8,286
Technical losses ……………..	2.82 % (transmission)
	18.85 % (distribution)

Restructuring and Privatization of
“Elektrostopanstvo na Makedonija”

ESM Today

PRODUCTION



Restructuring and Privatization of "Elektrostopanstvo na Makedonija"

ESM Today

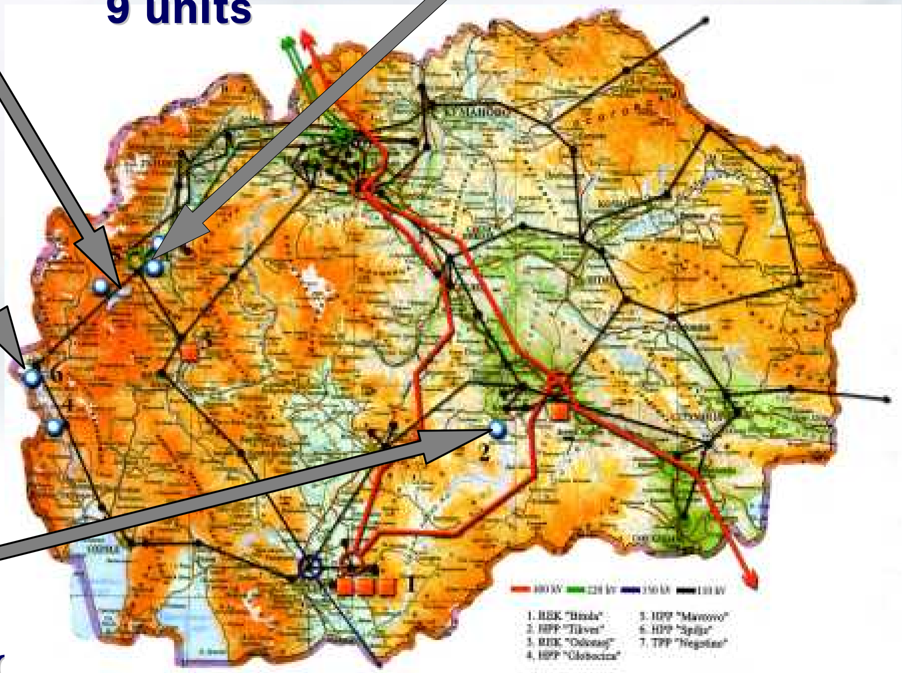
PRODUCTION

HPP Kozjak
82 MW
2 units

HPP Mavrovo
Cascade
Vrutok, Vrben
Raven
172 MW
9 units

HPP Spilje
84 MW
3 units

HPP Tikvesh
92 MW
4 units



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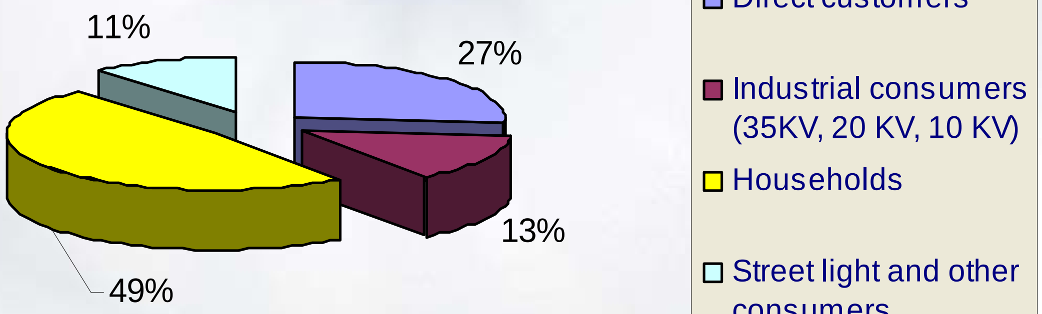
ESM Today

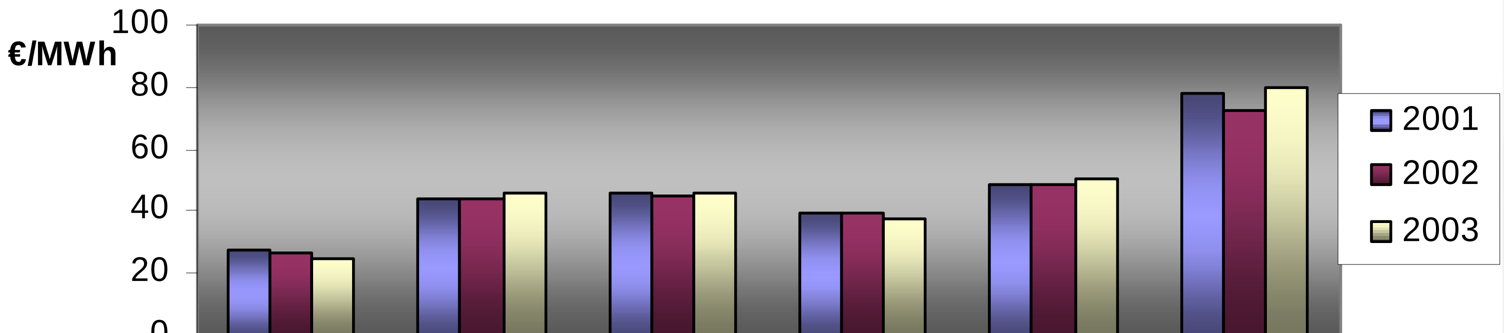
Distribution map of Macedonia

Consumption by category of consumers (GWh) - 2003



ESM Today

Average price Euro/MWh



	Direct (110KV)	Industry 35 KV	Industry 10 KV	Households	Street light	Other 0.4Kva Consumers
2001	27,4	43,8	46,3	39,4	49,0	77,6
2002	26,4	44,4	45,4	39,4	48,9	72,9
2003	24,4	46,3	46,0	37,3	50,5	79,5

ESM Today

Energy Balance

ESM	2001	2002	2003
Energy produced (GWh)	5,863	5,619	6,272
Energy imported (GWh)	591	1,028	1,067
Energy losses (GWh)	1,071	1,236	1,306
Energy exported (GWh)	159	237	114
Energy transit (GWh)	691	1,917	1,975
Energy billed (Gwh)	5,213	5,163	5,909

Concept for restructuring of ESM

Key Objectives

- ***Protect National Interests,***
- ***Strong Player in Regional Electricity Market,***
- ***Continue supply of reliable and good quality utility service,***
- ***Comply with EU Directives and Athens MoU,***
- ***Develop generation market in Macedonia,***
- ***Regulated electricity market in Macedonia,***

Concept for restructuring of ESM

Key elements

Mid-Late 2004:

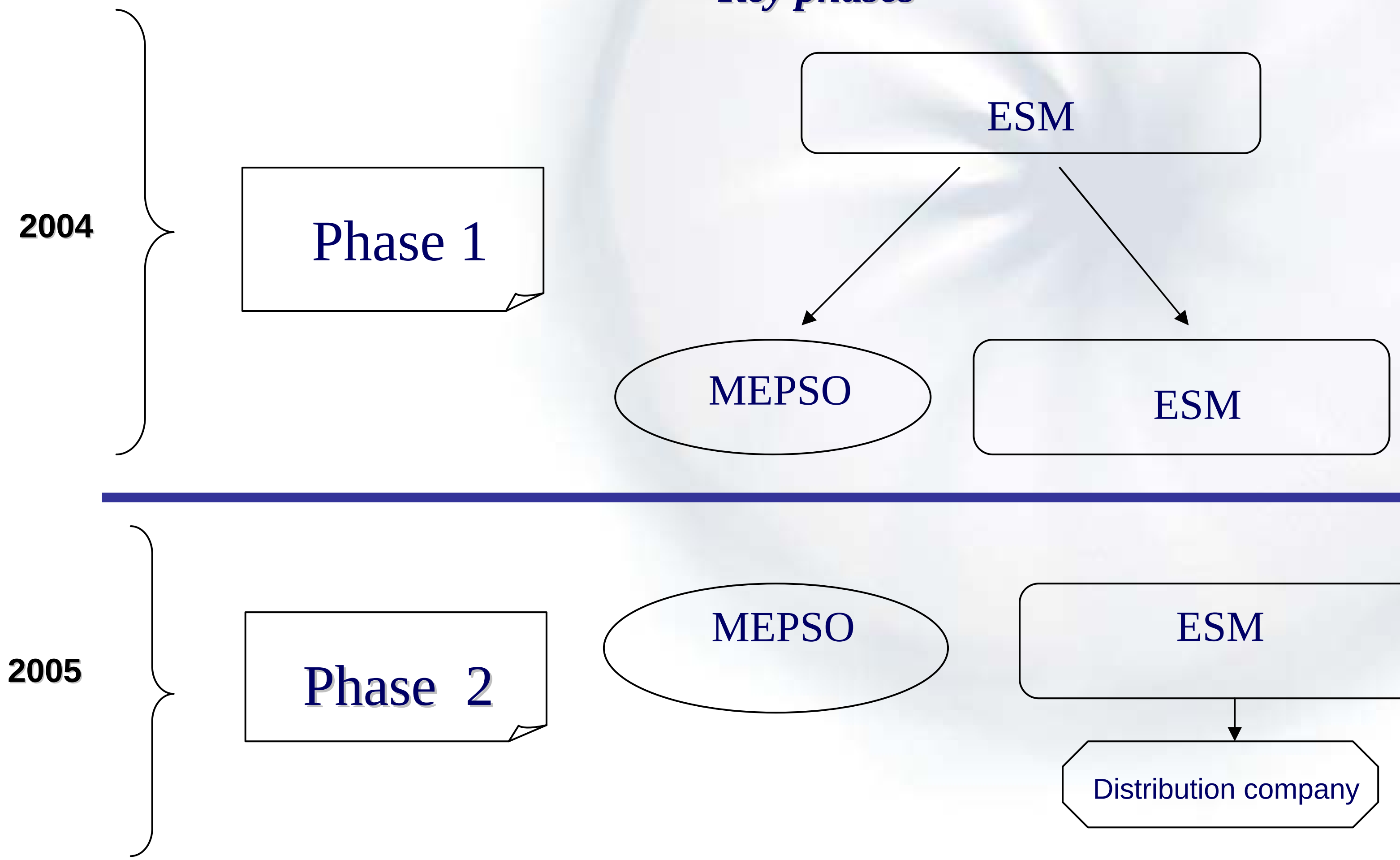
- *Legal & accounting unbundling of TSO/MEPSO: dispatch Center and 110, 220 & 400 KV substations (13) and power lines*
- *Accounting Unbundling (within ESM) between:*
  - *GENERATION: 3 TPP, 5 HPP, ROT + SHPP, and*
  - *DISTRIBUTION: 28 BU, 43 s/s, power lines and cables*

At the end of 2004 (proposed):

- *Legal unbundling of Distribution Company: 28 BU, 43 s/s, power lines and cables as a 100% of subsidiary of ESM*

Concept for restructuring of ESM

Key phases



Concept for restructuring of ESM

Rationale 1/3

ESM retains ownership of:

GENERATION:

- *2 Tpps with lignite mining*
- *Negotino power plant, but aimed to be divested as soon as the market allows that (generation market opening) after 2006.*
- *5 Hpps*
- *10 Small HPPS (including those under ROT concession)*

Rationale for this is:

- ***1440 MW**, one of the smallest in the REM, with **75% demand coverage by Bitola** only (not a market friendly feature), **430 MW** of hydro capacity helps for balancing but **not for frequency regulation***
- *ESM’s generation base to enable **economy of scale** and investment to **maintain** and **renew** electricity production base*
- ***Therefore generation and distribution assets are to be kept together***

Concept for restructuring of ESM

Rationale 2/3

ESM retains ownership of:

DISTRIBUTION Company :

- *MBC proposed only one Distribution Company in Macedonia as a 100% percent subsidiary of ESM,*

Rationale for this is:

- *Athens MoU and EU Directives,*
- *Current customer base is 720,000 customers,*
- *Market size of 6100 GWh for 2003 does not justify splitting into smaller companies,*
- *Provision of Economy of Scale is a must for financing of network infrastructure modernization as well as decreasing losses.*

Concept for restructuring of ESM

Rationale 3/3

TRANSMISSION System Operator – MEPSO:

- *Created mid-2004 as a new state owned company,*
- *Assets: high voltage substations and lines operated at 110, 220 and 400 KV, plus the Dispatch centre with its logistic units.*

Rationale for this is:

- *Compliance with Athens MoU and EU Directives,*
- *Ensuring the required level of independence in the day to day operations,*
- *Enabling free and unfettered third party access to the grid for new IPPs,*
- *Sufficient cash flow and asset base to finance existing and future HV interconnections with neighboring countries.*

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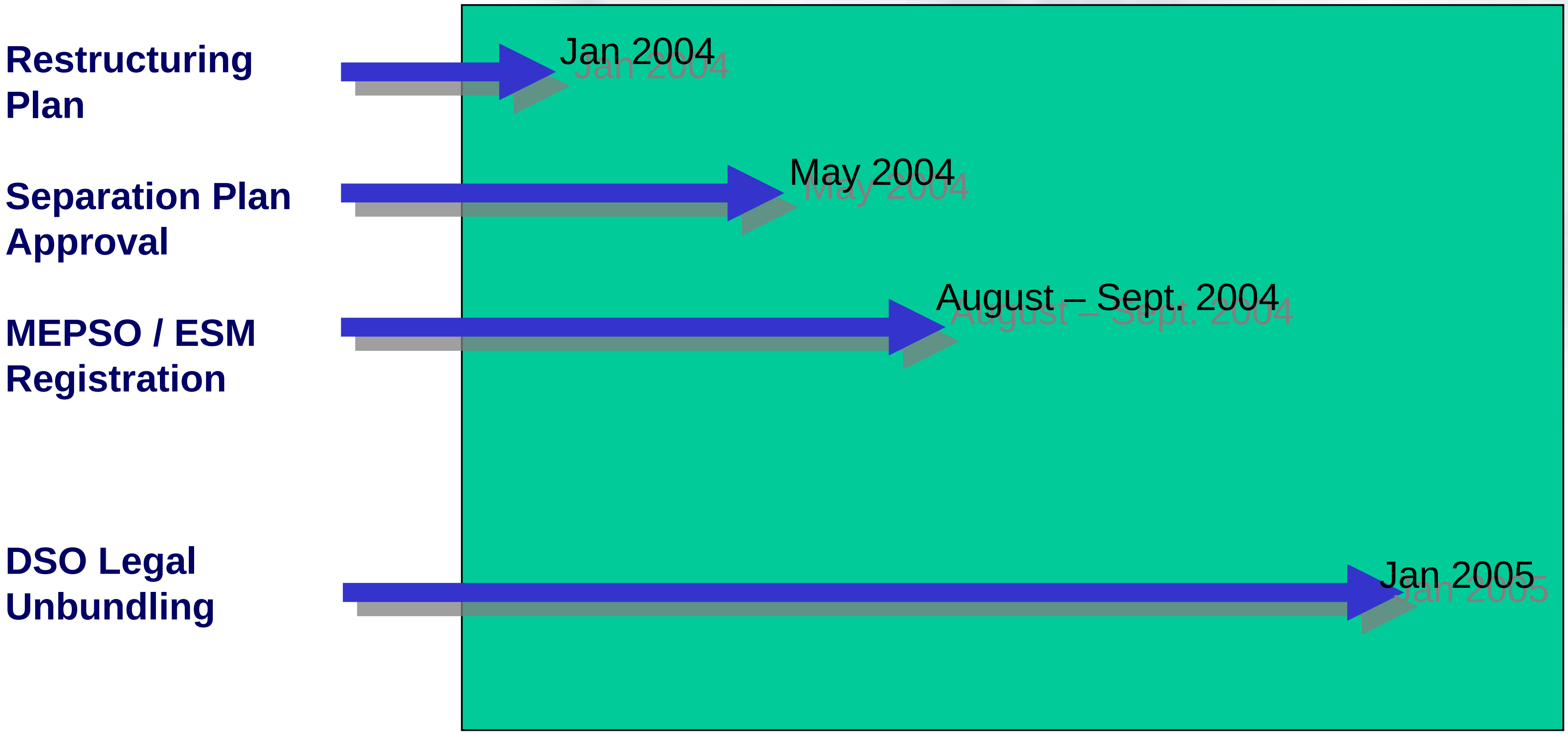
Concept for restructuring of ESM

Timetable



Privatisation Preparation
1/3

Key Preparatory Points :

• **Implement the Restructuring Plan:**	*Separation of ESM into MEPSO and ESM*
	Legal unbundling of distribution
• **Strategy**:	*Generation and Distribution in private hands*
	Transmission (TSO) in State hands
• **Definition of Market Rules/Design:**	*Licences/Grid code/Eligible Customers/ PPAs*
• **Tariffs**	*Tariff System & structure and level*
• **Operation improvement:**	*Collection (90%) & Total Losses (10%)*

Privatisation Preparation 2/3

EBRD Conditional and Deferred Share Purchase Agreement Key Points :

- **Objective:** *Improve awarness, transparency, provide impetus to process meeting international investment standards for regulatory and environement framework in Macedonia.*
- **Size**: *45 Million €*
- **Disbursment:** *6 milestones according to progress*
- **Conditionality:** *Investors &EBRD agreement at privatization*

Privatisation Preparation 3/3

Timetable: Key Points

• **Seller Due Diligence:**	*Q3 2004*
	Enviromental Audit and EAP
• **Privatisation Strategy & Valuation:**	*Q4 of 2004*
• **Investors Marketing / Prequalification:**	*End of 2004 / Early 2005*
• **Prequalified Bidders Due Diligence:**	*After indicative offers /mid 2005*
• **Negoatiation and Closing:**	*Q3 2005*