

TWO CASE STUDIES FROM ESTONIA:

TARK & Co

**CONCESSION OF TALLINN HEATING CO
AND**

PRIVATIZATION OF ESTONIAN RAILWAY COMPANY

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Brief Overview of Tallinn Heating Company

- The main central heating services provider in Tallinn area. The company owns power plants and networks. The company sells to private consumers, businesses as well as large apartment houses.
- In January 2002, Tallinna Küte took on lease under a concession agreement AS Tallinna Soojus' entire assets for a period of 30 years. Tallinna Küte belongs to the international energy concern Dalkia International, which is the largest operator of the district heating networks and heat producer in Europe and which pursues activities in 38 countries.
- Today the company provides 2/3 of heat for Tallinn. The company also administrates the city 400-kilometer district heating network.

Tallinn Heating CO in 1999/00 vs 2006/07

		<u>1999/00</u>	<u>2006/07</u>
• Heat sales	-	2402Wh	1727GWh
• Heat purchased	-	1364GWh	1121GWh
• Heat production	-	1038GWh	890GWh
• Leakages	-	20,7%	16,7%
• Pipe network	-	445km	390km
• Net Sales	-	693mEEK	849,3mEEK
• Profits*	-	(-49mEEK)	49,8mEEK
• Employees	-	419	262
• Tariffs:			767,8 EEK/MWh
	-	In local networks 359 EEK/MWh	
	-	In central network 349 EEK /MWh	

Choices in 2000

- City remains the operator?
- Privatization?
- Concession?

How the winner was elected?

- Tallinn City used the following evaluation criteria:
 - Concession payments (30% weight);
 - Proposed of heat price changes for customers during 6 years (30% weight);
 - Business plan (30% weight);
 - Experience (10% weight).

Concession agreement in brief

- 30 years term;
- The enterprise of the Tallinn Heating Co (all assets, rights, liabilities, employees and agreements) transferred under the concession, so called “enterprise transfer” concept under Estonian law was used for a first time for such a large transaction;
- Services Levels under the Concession and rights of the Tallinn City to monitor were agreed;
- Safety, Security and Environmental conditions agreed;
- Extensive reporting requirements for the concessionaire;
- Tariff ceilings were agreed;
- Concessionaire gave a performance bond;
- Rules for replacement of assets and reversion of assets as well as sale of new assets acquired to the enterprise were agreed, i.e. reversion of enterprise (all rights, liabilities, employees and agreements);
- Other customary provisions.

Why do a project like this and how does it look so far?

- Need for cash?
 - City did receive 210MEEK initial payment and is receiving annual concession payments;
- Lack of cash for investment?
 - That was definitely an issue for the city and was solved well by the concession.
- State or city are not good managers for businesses?
 - Leakage reduction, profitability, reduction in the number of employees seem to indicate this. Markets have also reduced, but not that much.
- Anti corruption measure?
 - One of the most prominent drivers for Estonian privatizations.
- Better services/prices for consumers?
 - Better services definitely. Better prices – may be. A good portion of money from consumers goes to City budget and can be used for other purposes. I.e. city chose cash over customer tariffs to some extent.

Brief overview of Estonian Railways Ltd.

- The state-owned company Estonian Railways was founded on 1 January 1992, its task was the management of Estonian railways;
- In August 1997 the state-owned company was transformed into the public limited company Estonian Railways Ltd. The company was further transformed pursuant to the privatization scheme approved by the Government.;
- In 23.12.1998 an international competition jointly with the investor selected by way of competition was organized for the foundation of an international public limited company engaged in the transport of passengers – AS Elektriraudtee (Electric Railways Ltd.) Estonian Railways remained active in railway freight transport services and management of railway infrastructure.
- In 25.02.1999 the Government introduced a significant change in the privatization plans of Estonian Railways Ltd., namely, it was decided to surrender the signing of concession and instead sell 66% of majority shares. Resulting from this change, a task was imposed on the Estonian Privatization Agency to sell the shares of Estonian Railways Ltd. by way of international tender with preliminary negotiations;
- In 02.03.2001 the General Director of the Estonian Privatization Agency invited Baltic Railway Service LLC. to sign the agreement on the privatization of 66% of Estonian Railways Ltd. shares and the privatization and shareholder agreement. The privatization was completed in 31.08.2001 according to which Baltic Railway Service LLC became the owner of 66% of the shares of Estonian Railways Ltd.
- In 09.01.2007 Estonian Government bought back 66% of the shares of Estonian Railways Ltd. from Baltic Railway Service LLC.

Estonian Railways Ltd. in 2000, 2002 and 2007

	<u>2000</u>	<u>2002</u>	<u>2007</u>
• Turnover	1579mEEK	1751mEEK	1637mEEK
• Profit	37,9mEEK	209,8mEEK	143,7mEEK
• Transport capacity	39,5m tons	42,1m tons	36,7m tons
• Investments	291,3mEEK	740,8mEEK	325mEEK
• Capital	726,4mEEK	897,6mEEK	1881mEEK
• Employees	4498	3602	2279

Choices in 2001

- Concession?
- Keep it in state ownership?
- Sell of shares?

How the winner was elected?

- The Board of the Privatization Agency used the following evaluation criteria:
 - The price;
 - Technical and financial plan of the bidder which had to contain information about the technology used, the investor and the amount of investments which will be invested in the company;
 - Business plan;
 - Obligation to continue the management of railway infrastructure.

Privatization agreement in brief

- Railway land left to state ownership, lease for that into the company;
- 66% of shares sold, 34% kept, SHA concluded;
- Price paid immediately.

Why do a privatization like this?

- Need for cash?
 - The state did receive 1000mEEK initial payment;
- Lack of cash for investment?
 - That was definitely an issue for the state and was solved well by the privatization – e.g. in 2002, in the amount of 740mEEK of investments were made in the company, compared to 290mEEK in 2000. Later however investments have been less.
- State or city are not good managers for businesses?
 - Growth in turnover, profitability, transport capacity and reduction in the number of employees seem to indicate this.
- Anti corruption measure?
 - One of the most prominent drivers for Estonian privatizations. Intriguingly this case has been in the turmoil of corruption accusations.
- Better services/prices for consumers?
 - Better services definitely, as the company invested a lot into new locomotives, replacing the old ones.

Renationalization!

- Yet Estonian Railways was nationalized at the end of 2007 using the shareholders agreement and regulatory framework as drivers from state side!

Thank you!

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