



Effective Management of the Privatisation Process

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GILD Investment Banking

MERGERS & ACQUISITIONS

CAPITAL RAISING

PRIVATISATION



- ◆ Highly skilled and motivated team
- ◆ Personal experience from major Central Eastern European and Baltic transactions
- ◆ Extensive contacts among investor base
- ◆ Team completed transactions with a combined value over EUR 5 bn
- ◆ Providing a wide range of tailor-made solutions
- ◆ Member of M&A International

Experience of GILD Bankers



Transaction experience

- ◆ Privatisation
- ◆ M&A
- ◆ IPO
- ◆ Bonds
- ◆ Securitization
- ◆ Mezzanine
- ◆ Private equity
- ◆ Structure Equity
- ◆ Bank loans
- ◆ Syndicated loans

+

Sector knowledge

- ◆ Information technology
- ◆ Food and drinks
- ◆ Transport
- ◆ Utilities
- ◆ Real Estate and Construction
- ◆ Retail and wholesale
- ◆ Health care
- ◆ Media
- ◆ Telecom



Additional value to our customers and partners





Why privatisation?

Attract private investment

- Private interest is always more direct and efficient
- FDI / Capital investment

Budgetary objectives

- Privatisation proceeds to the state treasury
- Enhance tax revenue

Enhance Competitiveness

- Know-how, efficient corporate governance
- Competition and transparency
- Profitability and efficiency

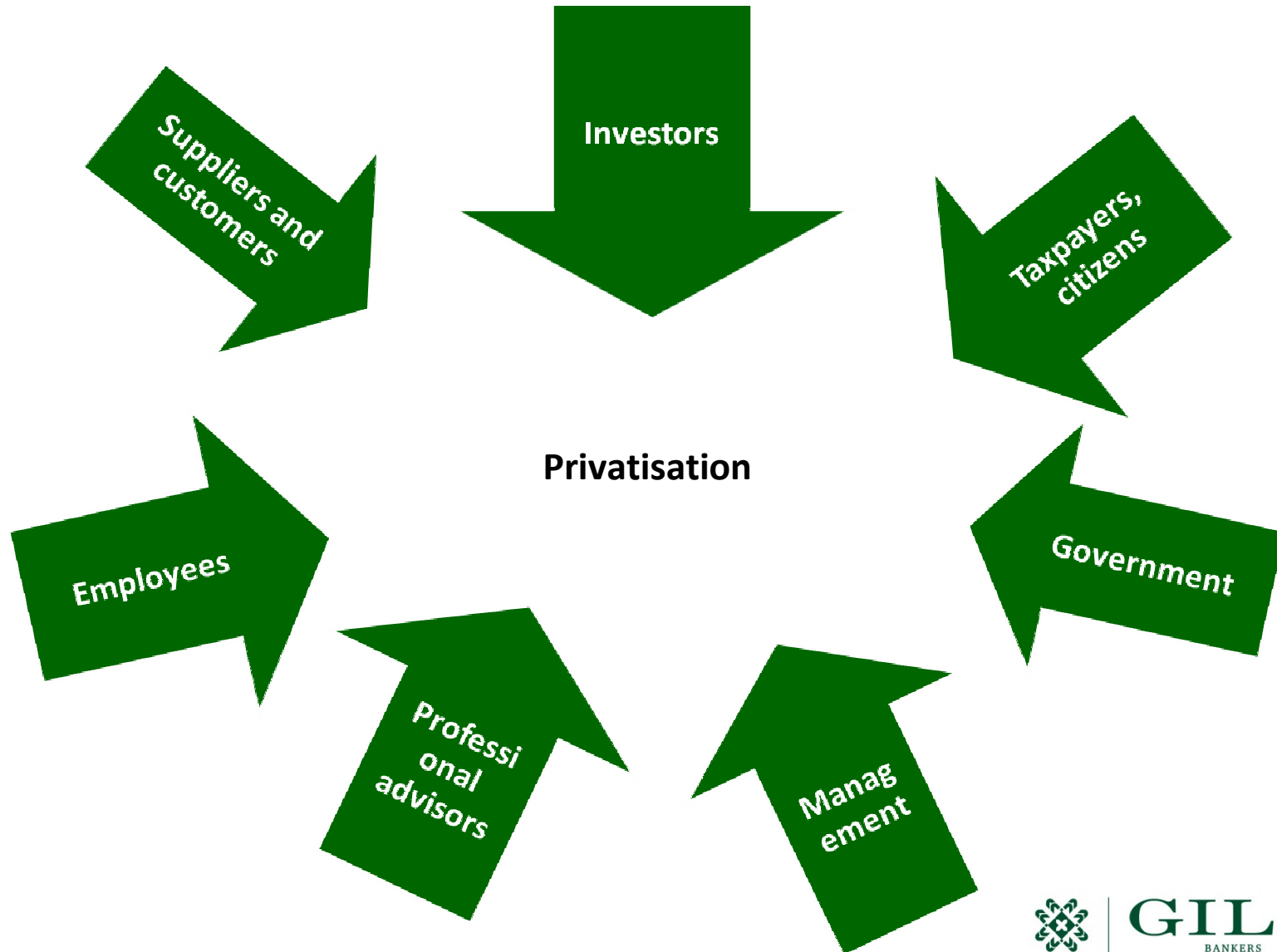
Capital markets objectives

- Development of local capital markets





It concerns many parties....



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... Hence frequently other objectives (or rather limitations)

“Social” objectives

- Preservation / creation of jobs
- Preservation of “legacy” industries

Retaining control of “strategic industries”

- What are those “strategic” industries?
- Makes sense in very few areas

“Investment programme” requirements

- Requirements to investors to commit to certain CAPEX programme

Will be seen by investors as
cost;
Will make achievement of economic
objectives more difficult



Have other means of being
secured, such as:

- Labour laws and social insurance
system
- Regulatory environment

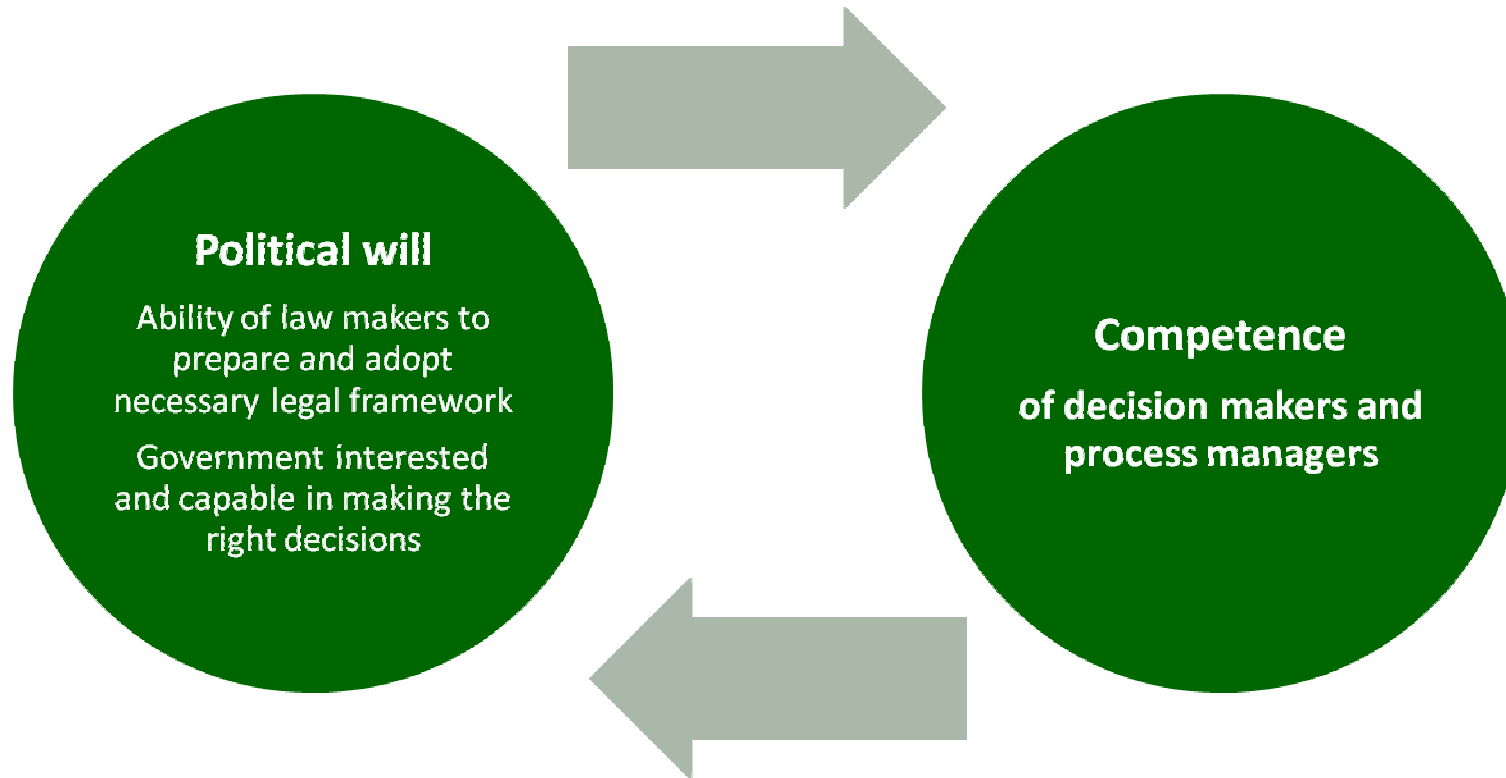


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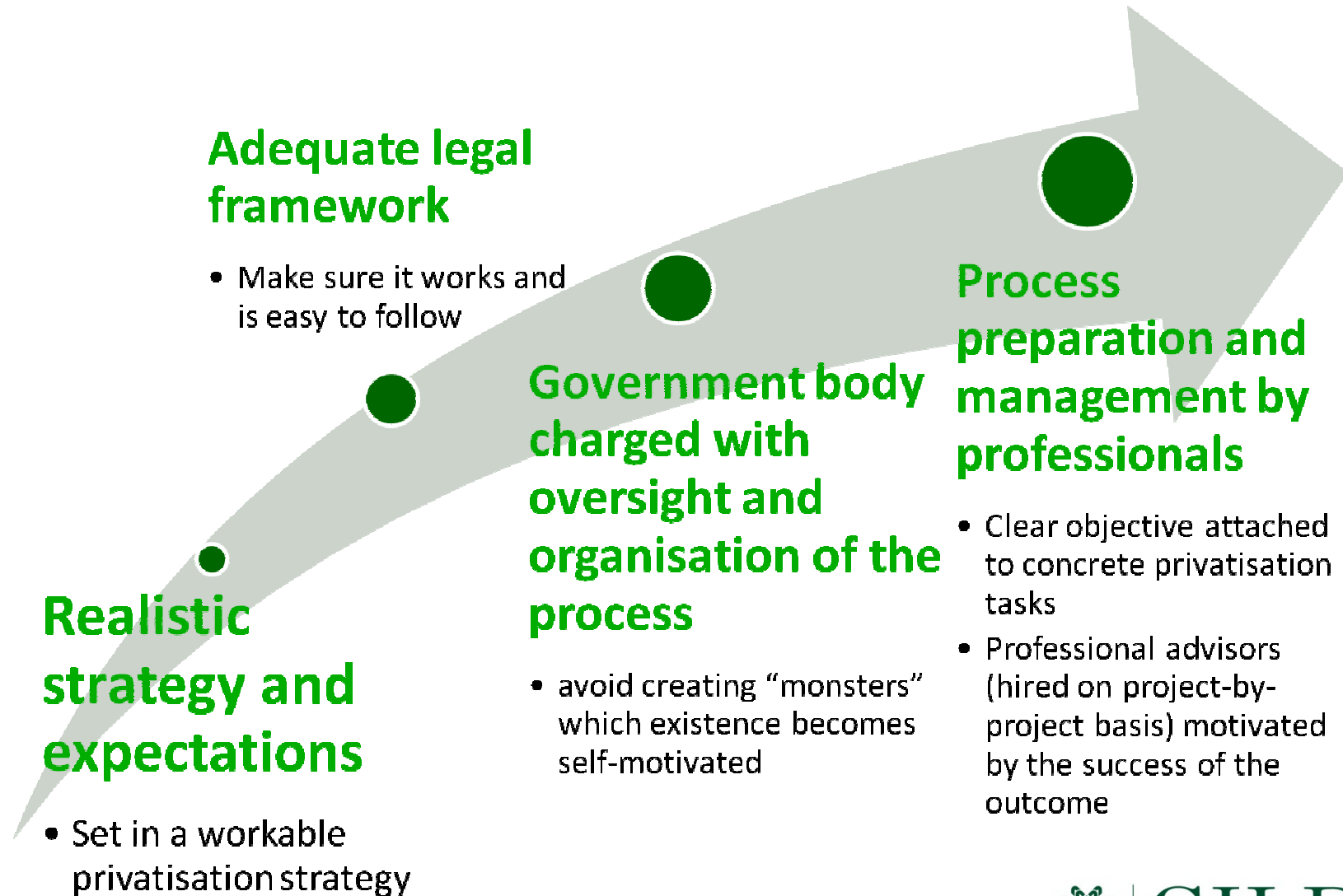
What makes privatisation a success?

- ❖ Two main underlying factors:





Competence, competence, competence...





Privatisation strategy dilemmas

Which companies first: small or large?

- Private SMEs are backbone of economy
- Most significant single impact achieved from selling a large company

Cash or voucher privatisation?

- “Voucher privatisation” as a “fair way” of distributing private ownership? It’s a self-deception.
- Cash sale makes immediate difference

Trade sale or stock exchange transaction (IPO/SPO)?

- Trade sale is the best method attracting strategic investors
- A successful IPO (SPO) requires permanent access to deep capital markets

Minority or control sale?

- Strategic investors like control and pay control premia
- Minority sale good for capital market transactions only

Dilution or sale of existing shares by the State?

- Investors like to see funds flowing into the company they buy
- Sale of existing shares helps proceeds reaching State Treasury
- Combination thereof?





How did other countries do?

Success stories:

- Hungary
- Estonia

“Mixed” success:

- Czech Republic
- Slovakia
- Poland
- Lithuania



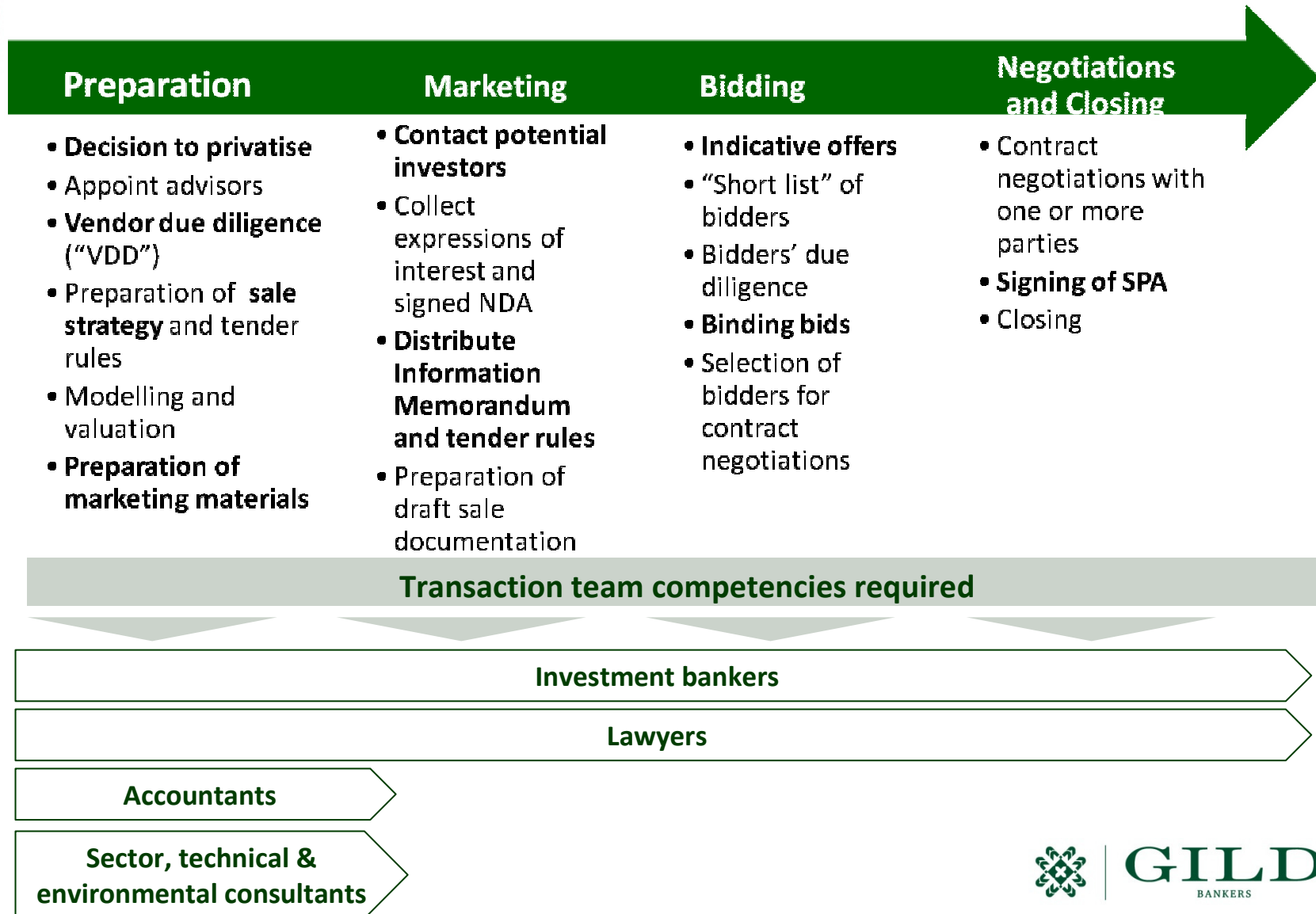


Privatisation is a sale process...

- ❖ It is an **M&A sale process** (but **constrained by** privatisation **legal framework** and **political factors**)
- ❖ Main principles to maximise success:
 - ❖ Trade buyers need control!
 - ❖ Equal treatment of potential investors
 - **All** potential **investors** on your list are **“favoured”** buyers!
 - ❖ Create and maintain **competitive pressures** among the investors
 - ❖ Maintain transparency and stick to the rules



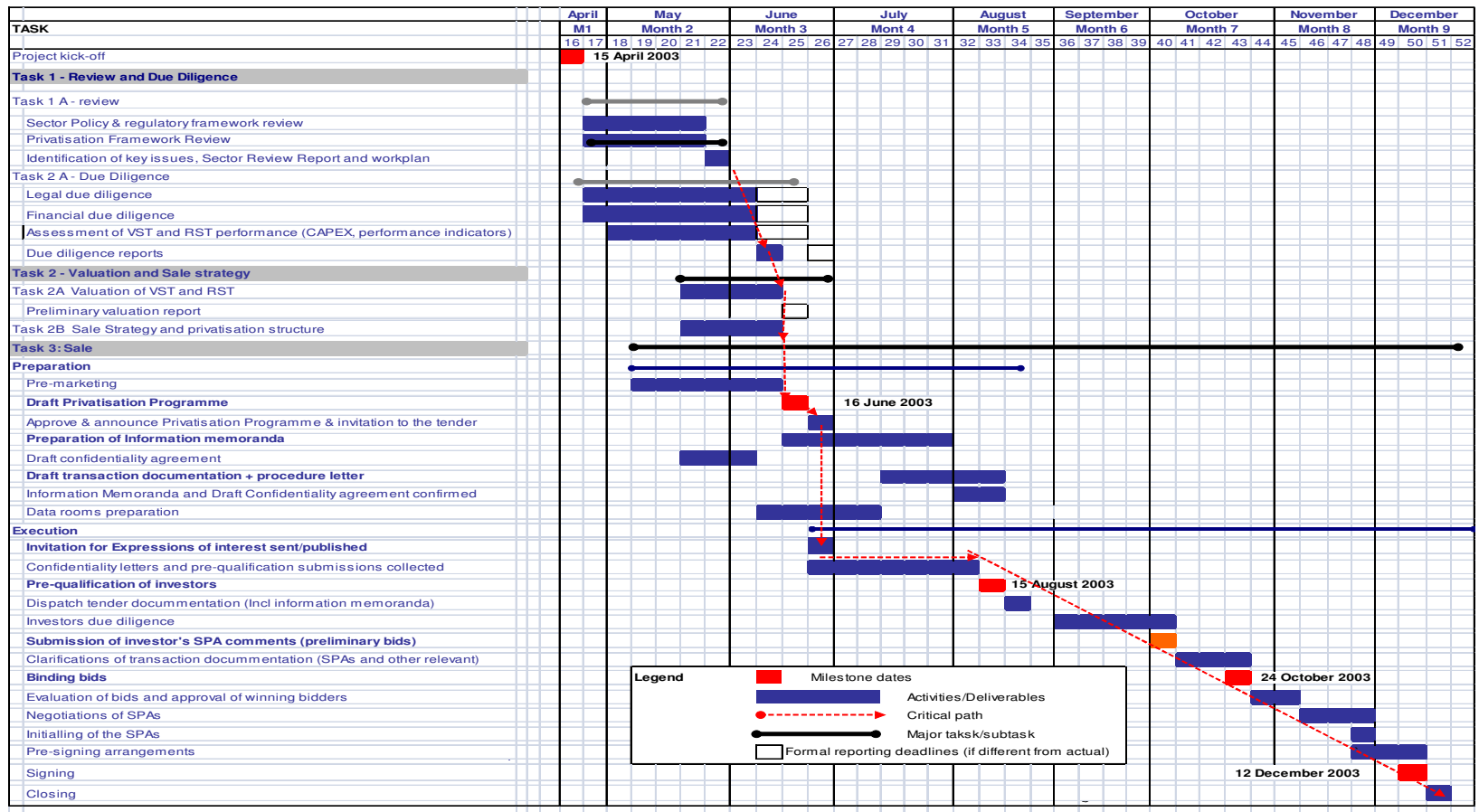
...so should be conducted as a sale process





Transaction timetables are somewhat more complicated....

Privatisation of Lithuanian power distribution networks: Initial timetable





Case study: Slovak power privatisations (1/3)

Instant success

- ❖ sale of all three country's power distribution companies IN 2001.
- ❖ The 49% sale including strategic control
- ❖ Completed within one year from the beginning of the project



ZSE



- Western distribution company, the largest one in Slovakia, serving the wealthiest part of the country
- 824 912 customers;
- 6.8 TWh annual sales
- 49% sold to: E.ON
- Purchase price: EUR 340 m
- Implied EV per customer: EUR 722

SSE



- Middle-Slovakia distribution company
- 686 009 customers;
- 6.6 TWh annual sales
- 49% sold to: EdF
- Purchase price: EUR 130 m
- Implied EV per customer: EUR 477

VSE



- Eastern distribution company
- 600 867 customers;
- 4.6 TWh annual sales
- 49% sold to: RWE
- Purchase price: EUR 340 m
- Implied EV per customer: EUR 448





Case study: Slovak power privatisations (2/3)

Success factors

- ❖ The sale all three companies executed in a very coordinated way;
- ❖ Strong commitment of the government for the implementation of the privatisations, swift decision making;
- ❖ Transparent and efficient sales process
- ❖ Efficient preparation of regulatory framework by Government regulatory and investment banking advisors;
- ❖ Significant interest from major power utilities, including E.ON, EdF , RWE, EnBW, Enel, EVN, Union Fenosa





Case study: Slovak power privatisations (3/3)

Sale of ZSE

Transaction



- ❖ **Sale of a 49% stake plus management rights** of ZSE, the largest and best performing Slovak electricity distribution company
- ❖ **Difficult environment:** no regulatory framework / track record prior to privatisation
- ❖ **Parallel sale structure:** close co-ordination of the ZSE sale with the privatisation of two other Slovak electricity distributors, competing for the same investors' attention

Results

- ❖ **Record timing:** The Advisors prepared the Company for sale in a short period of time and brought it to market in December 2001
- ❖ **Strong investor competition** achieved resulting in high degree of price tension
- ❖ **Highest enterprise value per customer** achieved historically in CEE

Competing Investors



CEE League Table EV/ Customer, EUR

ZSE	722
Stoen	648
South Moravian REC	640
ELMŮ	638
South Bohemian REC	599
GZE	599
ÉMÁSZ	520
ÉDÁSZ	512
Western Bohemian REC	512
North Bohemian REC	510
DÉMÁSZ	485
SSE	477
VSE	465
North Moravian REC	448
TITÁSZ	411
DÉDÁSZ	366





Summary conclusions

- ❖ Political will is key to success
- ❖ If you need investments into economy – focus on price and investment, and try to limit social and other constrains as much as possible
- ❖ Set realistic expectations
- ❖ Make the process transparent
- ❖ **Use professionals wherever possible!**



Thank you!