Support / Opposition to Reforms

STOEN S.A.

Andrzej Modzelewski
CASE Seminar

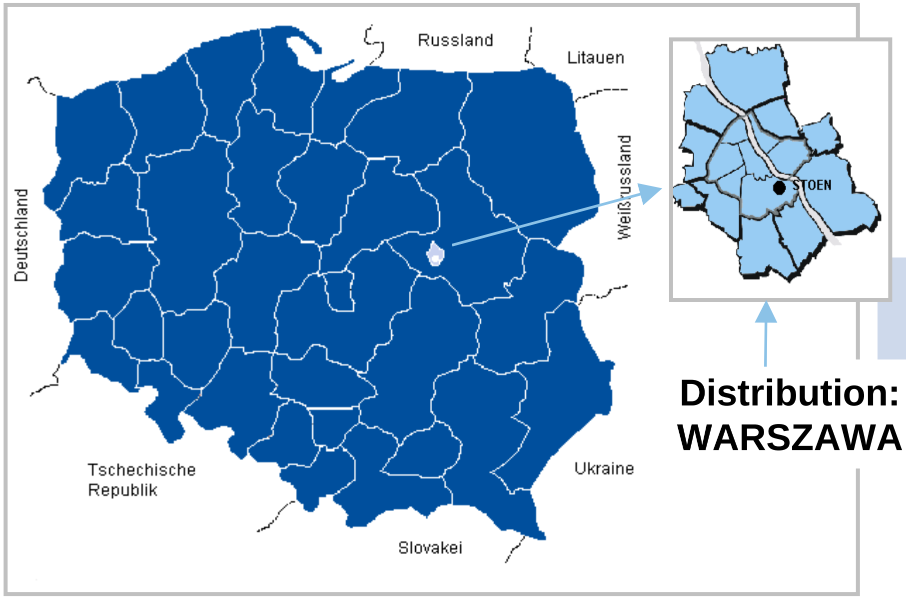
Warsaw, 02.06.2005

Key Facts on STOEN S.A.

STOEN

- Approx. 5.5% market share
- Warsaw – the city with the most dynamic economic development in Poland
- The smallest distribution area and the highest density of customers
- The fourth biggest distribution company in Poland serving over 800 thous. customers

POLAND



Distribution: WARSZAWA

		2004	2003	2002
No of Customers	tys.	821	809	795
Employment	31.12	1 476	1 573	1 702
Electricity Sales	GWh	5 685	5 685	5 518
Revenues	PLN m	1 629	1 646	1 612
Net Result	PLN m	133	37	-7

Since 23.12.2002 STOEN S.A. belongs to RWE Group (after privatisation)

RWE Group

Institutional Reforms I

Energy procurement

- Renewable energy
  - Increasing obligation
  - Social accepted
  - Price cap imposed by regulator (price increases max. 3% + inflation)
  - Until 2005 no financial incentives for investors
  - Amendment to the energy act – better investment conditions
- Long term contracts (LTC)
  - Signed to secure loans for producers (efficiency improvement, emissions reduction)
  - Seen as major obstacle for market development
  - Termination: no acceptance by the power producer
  - No social acceptance by employees : by unsecured sales – no job guarantees
  - Social acceptance by energy consumers – increased competition by producers
  - No incentives for cost reductions due to fixed prices in the LTC's
- Emissions trading
  - High uncertainty on the market
  - Rather social acceptance

Institutional Reforms II

Consolidation

- Horizontal
  - Acceptance by the customers
  - Internal problems with labour unions
- Vertical
  - No acceptance by the Ministry of Economy and Regulator
  - Acceptance by the Ministry of Treasury
  - High acceptance by employees and state owned companies

Liberalisation (TPA)

- So far no impact for the consumers due to:
  - Price regulation
  - State owned companies

Unbundling

- So far no impact for the consumers

Institutional Reforms III

STOEN

Privatisation

Generation	Transmission	Distribution
18% of capacities privatised – PAK / Elektrim – Polaniec / Electrabel – Rybnik / EdF – Skawina / PSEG **-> 82% state**	**100% state** Monopolised activities within cross border business	**15% market share privatised** – GZE / Vattenfall – STOEN / RWE **-> 85% state**

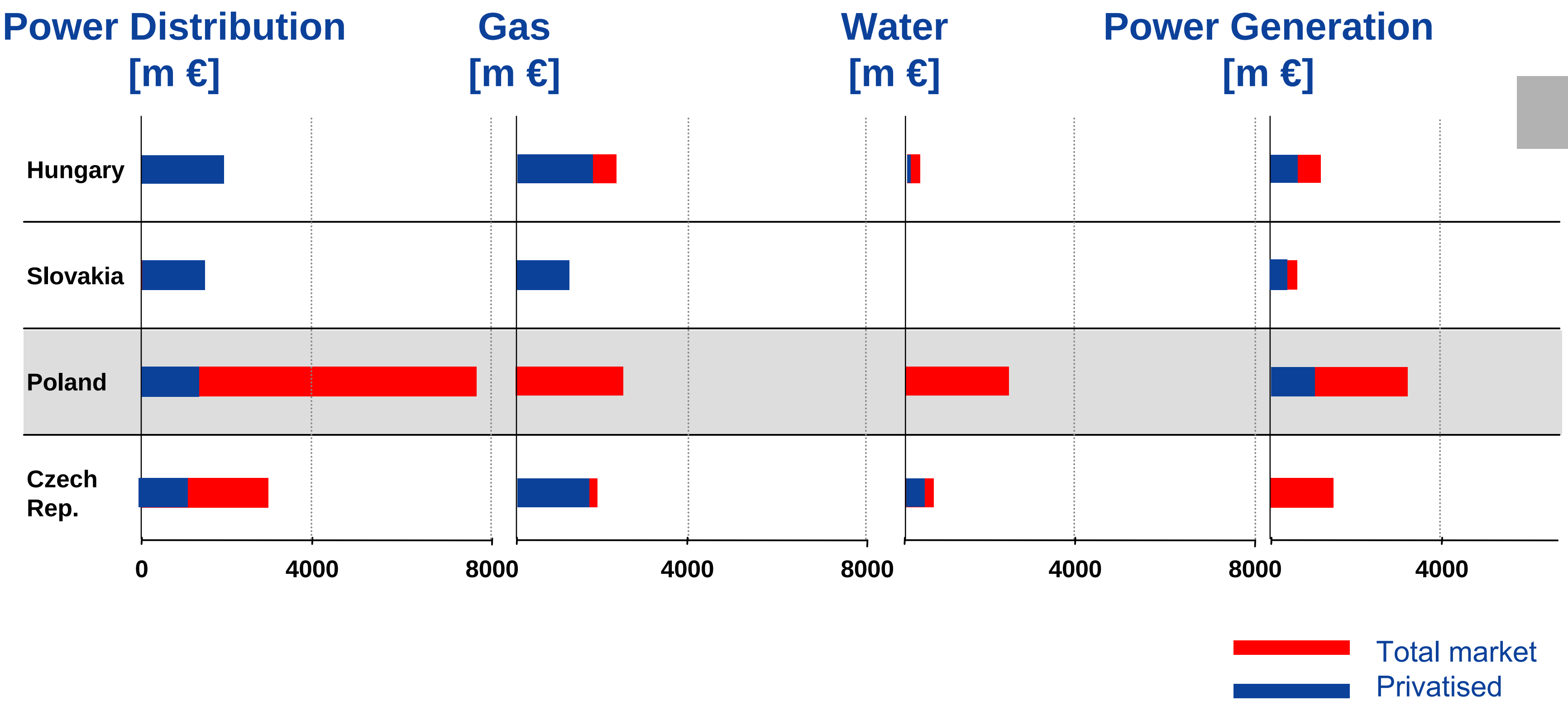
No profit orientation

Oligopoly tendency

- Limited political acceptance for privatization
- Job guarantees for 10 years – reduction of company value
- Privatization mainly via IPO

RWE Group

Privatisation status in CEE utility markets



Poland: High potential for privatisation

Conclusion

Need for reforms

- Low energy prices attract foreign direct investments
- Approach for privatisation
  - Less emotional
  - Use it as a chance to improve living standards
  - Privatisation to an institutional investor:
    - Partner for negotiations of social package
    - Know – how transfer
    - Higher privatisation revenue

CASE Report (Case Book 70/2004) “Costs of slowing down privatisation”:

- Low efficiency of state owned companies cause unrealised CIT revenues
- Losses for polish budget caused by slow privatization: 50 -100 billion PLN

(Mr. Gadmowski, Gazeta Wyborcza)

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