PRIVATISATION – WHAT'S NEXT

conference on the future of the public sector

13 May 2013

CASE

Ministry of Treasury
of the Republic
of Poland

OECD

The aim of PRIVATISATION – WHAT'S NEXT conference is to share insights on the privatisation and management of state-owned assets. We hope to provide an exchange of hands-on experience and views on the current challenges faced by the state as owner and shareholder, based on the national experiences and best practices of the countries represented at the conference – those where privatisation is still at an early stage and those where the process is nearing completion.

During today's panel discussions and talks, experts will consider issues including the various factors impacting decisions on privatisation and whether privatisation is always the optimal solution, actions taken by governments to encourage global investors to participate in privatisation processes, and the ways in which prior experience impacts current privatisation programmes. Debates will also cover corporate governance – the state's role as owner and shareholder in strategic sectors and the associated challenges.

We believe that the conference also provides a unique opportunity to meet with the architects of privatisation programmes in Croatia, Finland, Greece, Hungary, Israel, Norway, Poland, Russia, Serbia, Sweden, Turkey and the United Kingdom and to learn from their practical experiences. Representatives of the OECD Secretariat, CASE (the Center for Social and Economic Research) and Ernst & Young will also provide expert insights on privatisation.

Because the aim of today's meeting is to exchange views and experience, we would like to encourage all meeting participants to take part in an open discussion.

We hope you will find the meeting interesting.

Conference organisers

The conference is organised by the Polish Ministry of Treasury in cooperation with the OECD Secretariat and CASE - Center for Social and Economic Research.

Ministry of Treasury of the Republic of Poland

The principal task of the Minister of Treasury is to manage state property, which is achieved through strategies including commercialisation (transforming state-owned enterprises into commercial companies) and both direct and indirect privatisation. The term "privatisation" is understood as the disposal of shares held by the State Treasury through one of the methods specified by law. The Minister of Treasury is also responsible for decisions relating to the municipalisation of state property. When specific conditions have been met, the minister may transfer blocks of shares in a company free-of-charge to a local government authority or group of local government authorities. The minister also oversees the activities of the State Treasury Solicitors' Office, the government authority appointed to ensure protection of the State Treasury's rights and interests.

In March 2012 the Polish cabinet adopted the "Privatisation Plan 2012-2013", which details the privatisation of companies from various sectors. It covers 300 companies which are supervised not just by the treasury minister but also by other ministers. Aside from companies, the plan also covers state enterprises overseen by provincial governors.

The Treasury Minister also has powers relating to corporate governance, resulting from the State Treasury's role within the ownership structure of state entities and companies where it is a shareholder. The minister ensures that state property is used in a rational manner to guarantee the smooth functioning of the Polish economy. Specific emphasis is placed on improving operational efficiency, developing effective management and building the value of these companies, together with overseeing preparations for specific entities to be transformed and privatised. In many instances the Treasury Minister provides companies with public assistance, a key tool in supporting the completion of restructuring and privatisation at public enterprises.

Since 24 April 2013 Włodzimierz Karpiński has been Treasury Minister in the government of Prime Minister Donald Tusk.

The mission of the Organisation for Economic Co-operation and Development (OECD) is to promote policies that will improve the economic and social well-being of people around the world. OECD provides a forum in which governments can work together to share experiences and seek solutions to common problems.

OECD works with governments to understand what drives economic, social and environmental change. It measures productivity and global flows of trade and investment, analyses and compares data to predict future trends and set international standards on a wide range of things, from agriculture and tax to the safety of chemicals.

Drawing on facts and real-life experience, OECD recommends policies designed to make the lives of ordinary people better. It works with business, through the Business and Industry Advisory Committee to the OECD, and with labour, through the Trade Union Advisory Committee. OECD has active contacts as well with other civil society organisations. The common thread of OECD's work is a shared commitment to market economies backed by democratic institutions and focused on the wellbeing of all citizens. Along the way, OECD also sets out to make life harder for the terrorists, tax dodgers, crooked businessmen and others whose actions undermine a fair and open society.

CASE is an independent, non-profit foundation based in Warsaw. CASE's mission is to provide objective economic analysis and to foster the quality of policy-making to improve the lives of Europeans and their neighbours.

Established in Warsaw in 1991 by a group of economists to help guide the transition process in post-communist countries, today CASE is an internationally-renowned think-tank drawing on the talents of prominent economists from the entire world, with an ambition to work on the key challenges facing the global and European economies and societies. In addition, CASE strives to promote and support a network of partner institutions in countries in Eastern Europe, Central Asia and the Caucuses.

Conference agenda

10:00 - 10:30	Registration and coffee (Main Trading Floor, level 2)
10:30- 11:00	Introductory remarks Paweł Tamborski, Undersecretary of State, Ministry of Treasury Prof. Barbara Błaszczyk, Vice Chairwoman of the CASE Supervisory Council, CASE– Center for Social and Economic Research

SESSION 1: THE STATE AS OWNER: WHY AND HOW?

11:00-12:00	Panel 1: The state as a stakeholder in strategic sectors – is privatisation always the most effective solution? The session will be opened with presentations by: Morten Strømgren, ***Norway*** Yaacov Gazit, ***Israel*** Mladen Pejnović, ***Croatia*** Presentations will be followed by an open discussion led by Paweł Tamborski, Undersecretary of State, Ministry of Treasury
12:00 - 13:15	Panel 2: The state as owner – appointment of boards in state-owned enterprises The session will be opened with presentations by: Selim Yesilbas, ***Turkey*** Arto Honkaniemi, ***Finland*** Therese Reinfeldt, ***Sweden*** Tomasz Zganiacz, ***Poland*** Presentations will be followed by an open discussion led by Jacek Socha, Chairman of PricewaterhouseCoopers Securities and the Vice Chairman of PwC Polska. Minister of Treasury in the years 2004 – 2005
13:15 - 14:15	Lunch (Main Hall, level 0)

SESSION 2: DECIDING ON PRIVATISATION AND CARRYING IT OUT

14:15 - 14:30	Privatisation in Central and Eastern Europe Presentation by Łukasz Zalicki, Partner at Ernst & Young
14:30- 15:45	Panel 3: What motivates governments to privatise? The session will be opened with presentations by: Ali Güner Tekin, ***Turkey*** Declan Burke, ***United Kindgom*** George Kyriakos, ***Greece*** Presentations will be followed by an open discussion led by Prof. Barbara Błaszczyk, Vice Chairwoman of the CASE Supervisory Council, CASE – Center for Social and Economic Research
15:45 - 16:00	Coffee break
16:00 - 17:30	Panel 4: Lessons learned and dangers to avoid The session will be opened with presentations by: Vitaly Sergeychuk, ***Russia*** Vladislav Cvetković, ***Serbia*** Csaba Polacsek, ***Hungary*** Hans Christiansen, ***OECD Secretariat*** Presentations will be followed by an open discussion led by Krzysztof Walenczak, Chief Country Officer at Société Générale Corporate and Investment Banking in Poland, former Undersecretary of State at the Ministry of Treasury (2010 – 2011)
17:30 - 17:45	Closing address Paweł Tamborski, Undersecretary of State, Ministry of Treasury

Panel: 1

The state as a stakeholder in strategic sectors – is privatisation always the most effective solution?

CASE
Ministry of Treasury of the Republic of Poland
OECD

Panel 1: The state as a stakeholder in strategic sectors – is privatisation always the most effective solution?

Panelists:

- Morten Strømgren, Director, Ownership Department Ministry of Trade and Industry, Norway
- Yaacov Gazit, Director of Privatization, Government Company Authority, Finance Ministry, Israel
- Mladen Pejnović, Head of the Office, State Property Management Administration, Croatia

Moderator:

Paweł Tamborski

Undersecretary of State, Ministry of Treasury, Poland

Born 17 January 1966 in Piła. An economist by profession. A graduate of the Academy of Economics in Poznań and holder of a stock broker license.

In 1991-1993, broker at Brokerage House of Bank Staropolski S.A. In 1993 and 1994, he worked at the Central Brokerage Office of WBK S.A. acting as the Head of Stock Exchange Transactions, as well as the Deputy Director. In 1994-1999, he was employed at CA IB Securities S.A. as the Director, Head of New Issues Department, and in 1999-2007, he was Member of the Board, Director General, responsible for investment banking at UniCredit CAIB Poland S.A. (formerly CAIB Financial Advisers). In 2008-2010, he worked as the Managing Director at UniCredit CAIB Securities UK Ltd in London, where he co-headed capital markets team and was responsible for bank operations in the region of Central and Eastern Europe. From November 2010 to January 2012, he served as the Head of Investment Banking at Wood & Company.

PRIVATISATION IN NORWAY – EXAMPLES AND EXPERIENCES

Morten Strømgren

Director, Ownership Department Ministry of Trade and Industry, Norway

Morten Strømgren manages a portfolio of eight state-owned enterprises – where the state's share ranges from 34% to 100%. The portfolio includes Statkraft, Norsk Hydro, Kongsberg Gruppen, Cermaq and four other companies. The work is performed with support from internal investment managers, analysts and other experts, and from external resources. Central elements of this work are board composition, transactions and investment decisions, corporate strategy, and evaluation of results – combined with supporting/advising the Minister and regular follow-up of the portfolio.

Morten Strømgren has a MSc in Industrial economics (1998) and an executive MBA in Finance (2011). He was for five years (1999-2004) in the European consulting firm Arkwright, working on corporate-development projects concerning M&A, corporate and business strategy. Later, he worked for three years (2004-2007) as a project manager for the central government, mainly with state-agency reforms and performance transparency. He has been a Director at the Ministry of Trade and Industry since 2007.

NORWEGIAN MINISTRY
OF TRADE AND INDUSTRY

The Ministry of Trade and Industry designates, creates a framework for and administers policy regarding Norwegian business activities, with the objective to maximise value creation in the Norwegian economy. The Ministry promotes trade, research, innovation, entrepreneurship, and access to qualified capital, and it manages a portfolio of approximately 24 state-owned enterprises. It also aids in coordinating the efforts of the various ministries in order to ensure a sensible and future-oriented industrial policy.

The Ministry serves as secretariat for the Minister of Trade and Industry, a task which involves providing expert advice to the cabinet minister and Government in the sphere of industrial policy, as well as aiding in the drawing up of documents to the Norwegian parliament. The Ministry has approximately 200 employees.

NÆRINGS- OG HANDELSDEPARTEMENTET

Privatisation in Norway – examples and experiences

Morten Strømgren,
Director, Ownership Department
Ministry of Trade and Industry, Norway

Warsaw, 13 May 2013

1

Direct state ownership in Norway

- "Direct ownership": shares held by Ministries, for strategic reasons
- Ministries have direct holdings in ~70 companies
- Aggregate market value ~80 billion Euro
- Norwegian state holds more than 30 % of the shares listed on Oslo Stock Exchange
- Important to separate the state's roles:
  - regulator/ sector policy
  - supervision/control
  - shareholder

Largest SOEs, industry, state share

Statoil	• Oil & gas • 67 %
Statkraft	• Energy production • 100 %
telenor	• Telecom • 54 %
DNB	• Financial institution • 34 %
HYDRO	• Aluminium • 34%
YARA	• Mineral fertilizers • 36%

2

Main reasons for state ownership

- State control over key natural resources
- Maintain national ownership of large ”national champions”
- Achieving sector-political goals

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Example

Statkraft

- Europe's larges producer of renewable energy
- Mainly hydropower electricity
- Market cap: EUR 15-20 billion?
- A company since 1992
- State ownership: **100 %**

Observations

- International expansion with backing from owner
- Profitable and high-growth
- Privatisation of up to 1/3 of the shares has been debated
- The lack of stock-market exposure could limit incentives and financing flexibility

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Example

telenor

- One of the 10 largest telecom operators globally
- Market cap: EUR 28 billion
- Formerly the state telephone monopoly
- State ownership: **54 %**

Observations

- Large staff lay-offs (thousands) in the nineties
- Listed in 2000, further sale of state shares in 2003 and 2004
- State ownership ensures one large Norwegian based telecom company… and it performs well
- Profitable international success. Mobile subscriptions:
  - Norway: 3,8 million
  - abroad: 148 million

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Example

SECORA

- Maritime construction firm
- Market cap: EUR 1 million?
- Formerly the production unit of the national costal autorities
- Fully owned SOE 2005-2012
- State ownership: **0 %**

Observations

- State owned in a ”transition phase” after corporatisation
- No good reasons for state ownership, no advantage for the company
- Needed more flexibilty and an industrial partner
- Low sales price
- Should we have acted earlier?

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Some reflections

- There are some reasonable justifications for state ownership, e.g. key natural resources, keep national champions ”home based”, sector-political goals
- For SOEs these reasons may exist to a variable extent
- Listed companies where the state is one of many shareholders can be succesful and generate good returns – especially when the state acts professionally and disciplined [1]

[1] See background slide with 10 principles

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For more information…

The Government's Ownership Policy
- **www.ownershippolicy.net**

The State's Ownership Report
- **www.ownershipreport.net**

Ministry of Trade and Industry
- **www.regjeringen.no/en/dep/nhd**

My email
- **morten.stromgren@nhd.dep.no**

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Background: The Norwegian state s 10 principles for good ownership

1. All shareholders shall receive equal treatment.
2. There shall be transparency in State ownership of companies.
3. Ownership decisions/ resolutions shall be taken/ adopted at the annual general meeting.
4. The State, in cooperation with other owners when relevant, shall set performance targets for the companies; the boards shall be responsible for achieving these targets.
5. The capital structure of the company shall be consistent with the objective of ownership and circumstances of the company.
6. The composition of the board shall be characterised by competence, capacity and diversity, and reflect the distinctive characteristics of the company.
7. Wage and incentive schemes shall be formulated so that they promote value creation in the companies and are perceived as reasonable.
8. On behalf of the owners, the board shall exercise independent control of the company management.
9. The board shall adopt a plan for its own activities and work actively to develop its own competencies.
10. The company shall be aware of its responsibilities to society at large.

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PRIVATIZATION – WHAT'S NEXT? THE ISRAELI EXPERIENCE

Yaacov Gazit

Director of Privatization, Government Company Authority, Finance Ministry, Israel

Yaacov Gazit is reposnsible for the privatisation of large scale companies owned by the Israeli Government, ongoing supervision and monitoring. He is also the government's representative on boards of directors.

Previously (2005-2007), he was the manager of the income producing real estate unit at a public company and a Jewish Agency emissary to Pittsburgh, USA.

He holds an MBA from the interdisciplinary center in Herzliya (2012) and a bachelors degree in Economics from the Hebrew University of Jerusalem (2003).

Government Companies Authority

The Government Companies Authority (GCA) is the government body charged with exercising ownership functions at SOEs. It was created in 1975 as a unit of the Ministry of Finance responsible for exercising the state's ownership functions regarding all state-owned enterprises, mixed companies and government subsidiaries. The GCA acts on behalf of, and as an advisor to, the ministers with whom the actual ownership function as holders of the shares in the SOEs is vested.

The GCA is a unit of the Ministry of Finance, employing 50 professional staff, mostly with backgrounds in law, economics, accountancy and business. The authority reports to the government through the Minister of Finance, and to the Israeli parliament's Finance Committee at least once a year.

The responsibilities of the Authority are varied, including advising ministers on matters concerning SOEs; advising/assisting SOEs in the management of their activities; advising and assisting government companies in the conduct of their business; examining the reports submitted by government companies; dealing with formation, liquidation, and other reorganisation of government companies, and advising the Ministerial Committee on matters connected to privatisation.

The authority also has a range of powers with respect to the privatisation of SOEs. The GCA's Privatisation Unit is responsible for advising the Ministerial Privatisation Committee and has the power to initiate the privatisation of any company, subject to a hearing process conducted by the relevant Minster and the relevant SOE. It has the authority to issue directives outlining the actions an SOE should take in preparation for a privatisation resolution. The GCA does not have any decision-making power with respect to the privatisation of SOEs - such decisions are taken by the Ministerial Committee.

In practical terms, the powers and scope of authority of the GCA vis-à-vis government and mixed companies are also rather broad. The authority has the right to convene board meetings. Though the GCA cannot issue regulations to SOEs or otherwise legally oblige them to accept its recommendations, it has the ability to dispute some decisions of SOEs where the interests of the state are seen to be at stake, as for example when it disagrees with a board's decision regarding profit distribution. In addition, certain decisions by government companies, such as the appointment of an external auditor or legal counsel, require the authority's approval.

Government Companies Authority

PRIVATIZATION – WHAT'S NEXT?

THE ISRAELI EXPERIENCE

WARSAW MAY 13 2013

Yaacov Gazit
Israel Government Companies Authority
yaacovg@gca.gov.il

Israel Government Companies Authority

Government Companies Authority

Social Protest in Israel, 2011

Israel Government Companies Authority

Government Companies Authority

Main Data Regarding the Israeli Economy

	2009	2010	2011	2012
Total government debt (in percentage of GDP):	77.8 %	74.8 %	72.7 %	71.8 %
Unemployment rate:	9.07 %	8.13 %	6.84 %	6.86 %
Annual GDP growth rates in percentage:	1.1 %	5 %	4.6 %	3.2 %

Israel Government Companies Authority

Government Companies Authority

An Overview of Israeli SOE Sector

- Total of 94 SOEs:
  65 government companies
  11 government subsidiaries
  16 mixed private-public ownership companies.
- 2.8% of GDP.
- 1.8% of total employees (59,000 employees).
- 6.9% of total export.

* Banks and Statutory corporations not included.

* Data based on GCA annual report 2012.

Israel Government Companies Authority

Government Companies Authority

Development of the SOEs Sector in Israel

- Starting point – historical involvement in most sectors of the economy, particularly in monopolistic infrastructures, utilities and defense.

Israel Government Companies Authority

Government Companies Authority

Importance of SOEs in the Economy

- The remaining government companies are still a dominant or a sole player -

  - **Electricity sector**
    Israel Electric Corporation
  - **Water supply**
    Mekorot Water Group
  - **Natural gas transmission**
    Israel Natural Gas Lines
  - **Post and Postal Bank**
    Israel Postal Company (and Postal Bank)
  - **The major ports**
    Haifa and Ashdod

Israel Government Companies Authority

Government Companies Authority

A Broad Structural Reform

- Corporatization of commercially oriented government activities.
- Separation of regulatory, ownership and SOEs functions.
- Enabling competition in various sectors.
- Implementation of broad privatization plan.

Israel Government Companies Authority

Government Companies Authority

The Privatization Policy

- During 2003-2007 the Government of Israel executed a vast privatization policy as part of a comprehensive economic plan
- Over NIS20 Billion in privatization proceeds
- The companies privatized were strong business oriented companies that are the core of the economic activity in Israel

Israel Government Companies Authority

2000's Privatization - Main Companies

2003	2004	2005	2006	2007	2008	2009	2012
El Al Airlines 134.3 Million $ 610.8 Million NIS	Zim Shipping Services 112.5 million $ 504.225 Million NIS	Sale of the Controlling Stake Bezeq Telecom. Corp 919 million $ 4.124 Billion NIS	Split and Sale of Oil Refineries 2.3 billion $ (2006-2007) 9.68 Billion NIS	Pi–Gliloth Petroleum Terminals 197 million $ 800 Million NIS	Exercising of options (10.66%) by controlling shareholder Bezeq Telecom. Corp. 317 million $ 1.08 Billion NIS	Industrial Developm ent Bank. 151 million $ 575 Million NIS	Eilat Port Company 28 million $ 105 Million NIS

Israel Government Companies Authority

In the Pipeline – Future Privatization Plans

- ***The Israel Post***
  - A reform of converting the Postal Authority into a State owned Company parallel to opening the postal market to competition was completed
  - Expected to be Privatized by IPO in the TASE (phase I)
- ***Israeli Military Industries LTD. (IMI)***
  - 1 of 3 Government owned defense industries in Israel
  - A highly competitive market, including private companies, all competing for clients abroad
- ***Israeli Aircraft industries LTD. (IAI)***
  - 20%-30% of the company shares will be IPO'ed in the stock exchange
- ***The Israeli Ports***

Israel Government Companies Authority

Government Companies Authority

Main Issues and Principles

- I. Company level
  - Preparation of the company: labor issues, assets, obligations, etc.
  - Relationship between government and the company
- II. Regulatory level
  - Performance of structural changes and regulatory reforms prior to privatization (ex. - clarifying the terms of competition)
- III. Market structure
  - Assuring a competitive market, the day after the privatization

Israel Government Companies Authority

Government Companies Authority

Oil Refineries

- ORL was the sole refining company in Israel, owning two refining plants (Haifa, Ashdod).
- The Government decided to split the Company into two competing refineries and fully privatize them.
- Parallel to liberalization of the fuel market by allowing vertical integration and relaxing price controls.
- In September 2006, the Ashdod plant was privatized by private sale to Paz oil, the largest fuel distribution company in Israel.
- By February 2007 ORL (the Haifa plant and its "petchem" subsidiaries) was 100% privatized by IPO on the TASE – the biggest ever privatization in Israel.

Israel Government Companies Authority

Government Companies Authority

Telecommunication Sector

- – transfer of the telecommunication activities from the Ministry of Communication to 100% state owned government company (Bezeq).
- Bezeq turned into a full service telecom group, a monopoly of the fixed line sector.
- 1989-2005 - Gradual opening of the market to competition parallel to gradual privatization steps on the stock exchange, making Bezeq a listed company.
- 2005 – Sale of controlling stake to a private party.
- 2008 – Execution of options for acquisition of remaining state holdings.

Israel Government Companies Authority

Government Companies Authority

Ports and railways

- Ports & Railways Authority have undergone major re-structuring in recent years -
  - 1998 - separation of the railways activity to a 100% state owned government company.
  - 2004 - The Port Authority was dissolved and divided into 100% state owned –
    * Israel Ports Development and Assets Company
    * three separate companies for each port (Eilat, Ashdod and Haifa).
- 2010 - Initiation of privatization of the port companies; various stages of privatization in the companies.

Israel Government Companies Authority

Government Companies Authority

Is Privatization Always the Most Effective Solution?

YES

but

Israel Government Companies Authority

Government Companies Authority

Competitiveness & Regulation

- FTTH- Joint venture of private investors and the Israeli Electricity Company.
- Ports- Private operators of new ports platforms.
- Introducing and enhancing competition.
- Regulation of market failure.

Israel Government Companies Authority

Government
Companies
Authority

Avoiding Centralization

- Diverse purchasers.
- IPO- with no controlling share holder.
- Concession.

Israel Government Companies Authority

THE STATE AS AN OWNER: CROATIA

Mladen Pejnović

Head of the Office, State Property Management Administration, Croatia

Mladen Pejnović is a highly educated leading international corporate executive with comprehensive experience at international corporations in the fields of IT and telecommunications in general. He has dealt with international trade, financing and project management.

Since 2012, Mladen Pjenović has been Head of the Office at Croatia's State Property Management Administration. He is also a member of the governmental task force charged creating a better business climate and attracting investments, and is the chief EU coordinator within the intergovernmental EU policy coordinating body, representing the State Property Management Administration. Mr Pejnović is the government's representative on the General (Shareholders') Assembly of the national oil company – INA, and is a member of the privatisation board at the Croatian Postal Bank and United Insurance Company.

He graduated from the Faculty of Economics, University of Zagreb in Croatia. Mr Pejnović is an Associate Member of the Ukraine Telecommunications Academy.

DUUDI. DRŽAVNI URED ZA UPRAVLJANJE DRŽAVNOM IMOVINOM

State Property Management Administration - the main coordinating and supervising organization for state property management in Croatia was founded in December 2012. Directly responsible to the Prime minister, its main activities are: coordination and harmonization of the state property management criteria, planning and implementation of the strategies, annual plans and management reports. In cooperation with other ministries, State Property Management Administration defines management guidelines in state owned companies, composes the list of strategically important companies, appoints members of Executive and Management Boards in those companies and gives final approval of restructuring plans for the state owned companies.

THE STATE AS AN OWNER: CROATIA

CROATIA IN NUMBERS

GENERAL

- Population: 4.407 million (2011)
- Total area: 56,594 km^2 (5,835 km^2 of costal area)
- GDP$_{\text{nominal (per capita)}}$ $14,457
- EU accession: 1st July 2013

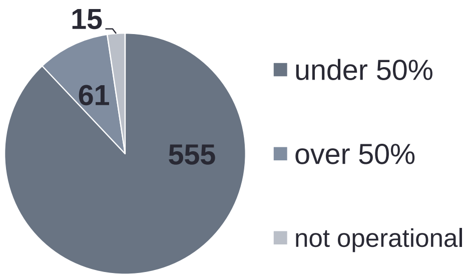
STATE OWNED PROPERTY

- There is no complete, revised and final Register of State Property
- Value (estimated): 31,4 billion euros $\Rightarrow$ 5th in the EU
- Revenue (estimated): 300 million euros (0,7% of GDP) $\Rightarrow$ EU average is 2 – 4% of GDP

STATE OWNED PROPERTY

State Owned Companies

- 631 companies,103 on the national stock exchange
  (15/3/2013)



State Owned Real Estate

- 1.533 million land registry particles
- 3 200 office spaces
- 4 600 apartments
- 200 former military real estates
- 5 residential buildings

Other State Owned Property

- Maritime domain
- Mineral resources
- Water, forestland...
- Concessions
- Frequencies....

PRIVATISATION

- Before 90' ⇨ socialist order
- After 1991 ⇨ capitalism

- Results of the transformation process were not satisfactory and the reform of the Croatian economic system stagnated.

- Transformation was only of the declarative nature, socialist practice and mentality still prevailed.

STATE AS AN OWNER

ADVANTAGES

- Important instrument for regional development policies (traffic, culture, health)
- State owned companies contribute in the large amount to the GDP
- Companies that provide public services (electricity, energy, traffic, rail and road infrastructure...) will remain state owned

FUTURE TASKS

- Implementation of the new public management - practice where citizens are considered as stakeholders in the state owned companies
- Efficient practice of ownership rights – their protection and value maximization
- Transparent, resonsible, concise and professional ownership policy

PANEL 2

Panel: 2

The state as an owner – appointment of boards in state-owned enterprises

Ministry of Treasury of the Republic of Poland

Panel 2: The state as an owner – appointment of boards in state-owned enterprises

Panelists:

- Selim Yesilbas, Director General of State-Owned Enterprises, Turkey
- Arto Honkaniemi, Senior Financial Counsellor, Prime Minister's Office, Ownership Steering Department, Finland
- Therese Reinfeldt, Special Advisor - board recruitment, Division for corporate governance and analysis, Ministry of Finance, Sweden
- Tomasz Zganiacz, Director of Capital Markets Department, Ministry of Treasury, Poland

Moderator:

Jacek Socha

Chairman of PricewaterhouseCoopers Securities and the Vice Chairman of PwC Polska. Minister of Treasury in the years 2004 – 2005

Jacek Socha joined PwC in December 2005. Since joining the company he has advised a number of Polish enterprises as well as foreign companies.

As Minister of State Treasury, in the years 2004-2005, he successfully completed a number of privatization transactions through the Warsaw Stock Exchange, including the biggest IPO in Poland – PKO BP.

As Chairman of the Securities and Exchange Commission of Poland, in the years 1994-2004, he participated in the process of creating regulations for the Polish capital market, as well as regulations which adjusted Polish law to the European Union's regulations. He also participated in the admission process of a large number of companies currently listed on the WSE.

He is the Honorary Member of: the Warsaw Stock Exchange, the Chamber of Brokerage Houses and the Association of Securities Brokers and Investment Advisors.

He executed essential functions in the International Organisation of Securities Commissions (IOSCO), where, in the years 1998-2000 he chaired the European Regional Committee. He was the Deputy Chairman of the Emerging Market Committee in the years 1996-1998 and Member of the Executive Committee in the years 1994-2000.

Jacek Socha was engaged, from the very beginning, in the creation of Corporate Governance rules in Poland, he is the co-writer of the first rules approved by the Warsaw Stock Exchange in 2002. He is the Member of the Corporate Governance Committee. Jacek Socha is an Arbitrator of the Arbitrary Court acting by the Polish Financial Supervision Authority.

CORPORATE GOVERNANCE REFORM IN STATE OWNED BANKS IN TURKEY

Selim Yesilbas

Director General of State-Owned Enterprises, Turkey

Mr. Selim YEŞİLBAŞ was born in 1970 in Çorum. He completed his studies in Department of Finance at the Faculty of Political Sciences in Ankara University in 1993. During the period 1998-2000, he studied at the University of Illinois at Urbana Champaign in USA and earned his master of science degree in Economics Policy (MSPE).

He started his professional life in 1994 as an associate expert at the Directorate General of Public Finance at The Undersecretariat of Treasury and Foreign Trade. After 1995, he worked at Directorate General of State-Owned Enterprises (SOE's) as an associate expert, expert and head of division. He worked especially on investment and financing programs, financial monitoring and debt management of SOE's.

Between 2004-2008, he worked as an Advisor to the Executive Director at the World Bank. In October 2008, he was appointed as head of the International Capital Markets Department at Directorate General of Foreign Economic Relations. He carried out tasks such as conducting relations with credit rating agencies and investors and issuing Eurobonds. Since February 2010, he is working as the Director General of State-Owned Enterprises.

T.C. BAŞBAKANLIK HAZİNE MÜSTEŞARLIĞI

The Undersecretariat of Treasury of the Republic of Turkey is an institution accepted as a pioneer in ensuring economic development and as a model in institutional governance.

Its mission is to manage public financial assets and liabilities, to regulate, implement and supervise economic, financial and sectoral policies, and to ensure the coordination of international economic relations in cooperation with all economic actors in a transparent, accountable and efficient way in order to contribute to the development of Turkey.

T.R. PRIME MINISTRY Undersecretariat of Treasury

General Directorate of SOEs

CORPORATE GOVERNANCE REFORM IN STATE OWNED BANKS IN TURKEY

Selim YEŞİLBAŞ

Director General

May 13, 2013 Warsaw

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T.R. PRIME MINISTRY Undersecretariat of Treasury

General Directorate of SOEs

STATE OWNED BANKS IN TURKEY

ZİRAAT BANK → AGRICULTURAL LOANS

HALK BANK → SME LOANS

EMLAK BANK → HOUSING LOANS

2

T.R. PRIME MINISTRY Undersecretariat of Treasury
General Directorate of SOEs

RESTRUCTURING TURKISH BANKING SECTOR

OBJECTIVES OF THE PROGRAM

- Restructuring State Owned Banks
- Sale and/or liquidation of banks in SDIF portfolio
- Rehabilitation of private banking
- Strengthen regulation and supervision framework
- Enhancing competition and efficiency

3

T.R. PRIME MINISTRY Undersecretariat of Treasury
General Directorate of SOEs

NEW LEGISLATION FOR STATE OWNED BANKS

LAW No: 4603

November 2000

RESTRUCTURING !

FINANCIAL

OPERATIONAL

4

T.R. PRIME MINISTRY Undersecretariat of Treasury
General Directorate of SOEs

IMPLEMENTATION OF OECD CORPORATE GOVERNANCE PRINCIPLES I

Ensuring an Effective Legal and Regulatory Framework for State Owned Enterprises:

Legal and regulatory framework is established with new Banking Law and State Owned Banks Law (4603).

The State Acting as an Owner:

Role and boundry of ownership for State is defined. Neccessary qualifications for board of directors and managerial levels are elevated.

Equitable Treatment of Shareholders:

49 % of Halk Bank is floating in İstanbul Stock Exchange and investors can easily access financial and other information about the bank.

5

T.R. PRIME MINISTRY Undersecretariat of Treasury
General Directorate of SOEs

IMPLEMENTATION OF OECD CORPORATE GOVERNANCE PRINCIPLES II

Relations with Stakeholders:

Financial relations with Treasury is redefined, subsidized credits to target groups are provided without putting any financial burden on the banks.

Transparency and Disclosure:

Independent external audit is required by the law and financial information is available to public.

The Responsibilities of the Board of State Owned Enterprises:

Profitability and efficieny become top priorities for managements, autonomy is ensured for board of directors.

6

T.R. PRIME MINISTRY Undersecretariat of Treasury
General Directorate of SOEs

LEGAL FRAMEWORK

Before

- Subject to diverse legislations

After

- ✓ Same legal environment with private banks

  (Banking Law and Commercial Law)

7

T.R. PRIME MINISTRY Undersecretariat of Treasury
General Directorate of SOEs

BOARD OF DIRECTORS AND SUPERVISORS

Before

- Appointed by the Government with the Decree
- Limited accountability
- General director was the chairman of the board
- Vague criteria for appointment

After

- ✓ Appointed by the General Assembly
- ✓ Full accountability
- ✓ Chairman and general director positions are separated
- ✓ Eligibility criteria are more clearly defined

8

T.R. PRIME MINISTRY Undersecretariat of Treasury
General Directorate of SOEs

AUDIT

Before

- Limited internal audit
- No independent external audit

After

- ✓ Compulsory independent external audit
- ✓ Subject to monitoring by Banking Regulation and Supervison Agency

9

T.R. PRIME MINISTRY Undersecretariat of Treasury
General Directorate of SOEs

PERSONNEL

Before

- Civil servant, life time employment guarantee, flat salary, no incentive for performance
- Hiring and lay off were subject to Government Regulations

After

- ✓ Worker, subject to Labor Law, flexible salary based on performance
- ✓ Management is authorized for hiring and lay off

10

COMPOSITION OF SOE BOARDS IN FINLAND

Arto Honkaniemi

Senior Financial Counsellor at the Ownership Steering Department of the Prime Minister's Office of the Government of Finland

Arto Honkaniemi has been working on State shareholdings since 1998, first at the Ministry of Trade and Industry and since the reorganization of this function in 2007 at the Prime Minister's Office. He is presently a Member of the Board in Alko Inc. and Patria plc. and he has been Chairman or a Member of the Board in several listed and non-listed state-owned companies in Finland. Moreover he is a member of the OECD Working Party for State Ownership and Privatization Practices.

Before joining the Government service Mr. Honkaniemi pursued a lawyer's career in private industry and banking. Mr. Honkaniemi holds university degrees in law and economics.

OWNERSHIP STEERING
PRIME MINISTER'S OFFICE

The Ownership Steering Department of the Prime Minister's Office is the central shareholding unit of the Government of Finland. The Department bears the shareholder's responsibility over three majority-owned stock listed companies and 24 non-listed companies as well as, through a special holding company, 11 minority-owned stock listed companies.

COMPOSITION OF SOE BOARDS IN FINLAND

"Privatisation and what's next?"

Warsaw
13th May 2013

Mr. Arto Honkaniemi
Senior Financial Counsellor
Ownership Steering Department
Prime Minister's Office
Government of Finland

OWNERSHIP STEERING
PRIME MINISTER'S OFFICE

WHY IS THE STATE OF FINLAND OWNER IN COMPANIES ?

- **No** nationalized industries
- **No** "investor portfolio"

1. The state has made investments to support industrialization of the country or specific regions
   - heavy industry
2. Parts of the state organization have been turned into state enterprises, then incorporated, then listed
   - utilities
3. The state has organized certain specific tasks in corporate form
   - often 100 % owned, sometimes state monopolies
4. State ownership as a consequence of the banking crisis in late -90´s
   - financing, real estate

OWNERSHIP STEERING
PRIME MINISTER'S OFFICE

STATE CORPORATE OWNERSHIP IN FINLAND TODAY

- The State of Finland is a significant Shareholder in **58 Companies**
- All of the same corporate form under the Companies' Act

OWNERSHIP STEERING
PRIME MINISTER'S OFFICE

STATE CORPORATE OWNERSHIP IN FINLAND TODAY

- **35 Companies** operate under market terms in a competitive business environment
  - under the administration of the Ownership Steering Department at the Prime Minister's Office
  - **14 Companies** of these 35 are stocklisted
    - 11 of these 14 are delegated to a Holding Company
  - value of the listed portfolio appr. 15 500 million Euros
  - this corresponds to appr. 10 % of the market value of all Companies listed at the Helsinki Exchanges

OWNERSHIP STEERING
PRIME MINISTER'S OFFICE

STATE CORPORATE OWNERSHIP IN FINLAND TODAY

- **23 Companies** perform special tasks of the State, often with a monopoly position
- Under the administration of several Ministries

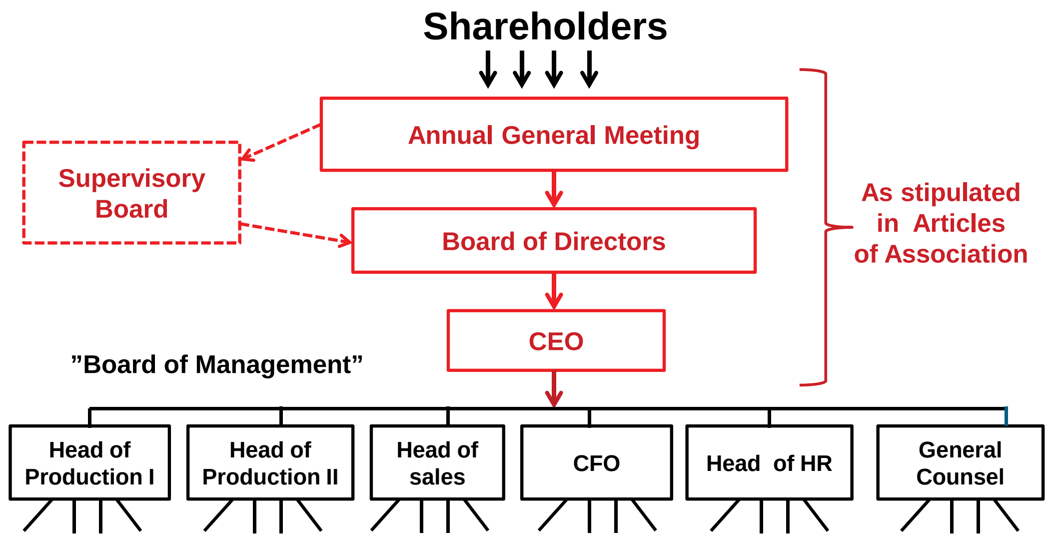
OWNERSHIP STEERING
PRIME MINISTER'S OFFICE

WHY PRIME MINISTER'S OFFICE?

- Primary concern: separation of ownership steering and regulation
  - OECD Guidelines I.A!
- The Prime Minister's office is a "neutral" Ministry, with no regulatory tasks
- The Prime Minister is not, himself, responsible for Ownership Steering
- Another Minister, with no conflicting regulatory tasks, is to be appointed to the Prime Minister's Office with responsibility for Ownership Steering
- The first Minister "with two hats" was the Minister of Defence, now it is the Minister for International Development

OWNERSHIP STEERING
PRIME MINISTER'S OFFICE

BASIC STRUCTURE IN COMPANIES' ACT



OWNERSHIP STEERING
PRIME MINISTER'S OFFICE

STATE OWNERSHIP AND COMPANY BOARDS (1/5)

- State exercises its shareholder rights at the AGM in the appointment of Board Members and Auditors. Does not interfere in the Board's decision making
- The Board is responsible for
  - strategic guidance of the Company
  - monitoring the management
  - appointment and dismissal of the CEO
- Board Members shall have the necessary authority and competences
  - experience
  - expertise
  - diversified skills
  - ability to work as a team

OWNERSHIP STEERING
PRIME MINISTER'S OFFICE

STATE OWNERSHIP AND COMPANY BOARDS (2/5)

- In Companies with many Shareholders (particularly listed Companies) Nomination Committees of Shareholders make proposals to the AGM
- For Companies with few Shareholders the Ownership Steering Department prepares the proposals in cooperation with other Shareholders
  - approval by the Minister
  - final decision at the AGM
- The Board shall be
  - accountable to the Shareholders
  - act in the best interest of the Company
  - treat all Shareholders equally

OWNERSHIP STEERING
PRIME MINISTER'S OFFICE

STATE OWNERSHIP AND COMPANY BOARDS (3/5)

- Remuneration of Board Members must be sufficient to attract good candidates
- Members of the Board are appointed for one year, from AGM to the next AGM
- Members of the Board may be dismissed with immediate effect anytime by an extraordinary Shareholders' Meeting
- As a rule 6–10 Members (including Chair)
- Preferably no employee representation
- Target: at least 40 % both genders

OWNERSHIP STEERING
PRIME MINISTER'S OFFICE

STATE OWNERSHIP AND COMPANY BOARDS (4/5)

- No executive directors
  - As a rule the CEO is not Member of the Board
  - independence from the Company
  - independence from Shareholders
- No political appointments
  - No ministers, members of the Parliament or other active politicians
  - A political past is not necessarily an obstacle
  - A few companies have Supervisory Boards with very limited powers
    - Members of Supervisory Boards often Members of the Parliament
- No high-ranking State officials
  - State Secretaries – no
  - Directors General – maybe
  - lower ranks - okay

OWNERSHIP STEERING
PRIME MINISTER'S OFFICE

STATE OWNERSHIP AND COMPANY BOARDS (5/5)

- Normally <u>one</u> State official representing
  - the Ownership Steering Department or
  - the Ministry being the custodian of the "strategic interest" or
  - the responsible Ministry in Companies with special societal tasks
- State official as Member of the Board
  - In all respects in a similar position as the other Members
    - duty of care
    - duty of loyalty
    - personal responsibility
  - Must have skills and expertise that bring added value to the work of the Board
  - Only exceptionally appointed Chairman
  - Should maintain a "Chinese Wall" between him/herself and the State-owner

OWNERSHIP STEERING
PRIME MINISTER'S OFFICE

For further information please visit our website

www.stateownership.fi

OWNERSHIP STEERING
PRIME MINISTER'S OFFICE

THE STATE AS THE OWNER – APPOINTMENT OF BOARDS IN SWEDISH STATE OWNED COMPANIES

Therese Reinfeld

Special Advisor – board recruitment, Division for corporate governance and analysis, Ministry of Finance, Sweden

Since 2009 Therese Reinfeld is responsible for board recruitments to the 54 wholly and partly-owned state-owned companies in Sweden, representing a value of approx. 600 billion SEK (€ 70.5 billion).

Previously Therese Reinfeld worked at Heidrick & Struggles, one of the leading global executive search and leadership advisory firms. She was a Head of Talent Acquisition EMEA Region based in London (2007-2009) and an Executive Search Consultant in the Stockholm office (2000-2007). Previously (1997-2000) she worked for Skandia Asset Management as a Client Relationship Manager for Institutional Clients.

Therese Reinfeld graduated from Stockholm University, Economics & Political Science.

REGERINGSKANSLIET

Government Offices of Sweden

The Ministry of Finance is responsible for handling government business regarding the central government budget and fiscal policy, taxes, international cooperation, local authorities and state-owned companies.

The Swedish Government Offices administer 55 companies which are large employers and represent substantial values.

The State as the owner – appointment of Boards in Swedish state owned companies

Warsaw 13 May 2013

Therese Reinfeldt
Ministry of Finance, Division for corporate governance and analysis

Ministry of Finance Sweden

REGERINGSKANSLIET
Government Offices of Sweden

One of Sweden's largest corporate portfolios

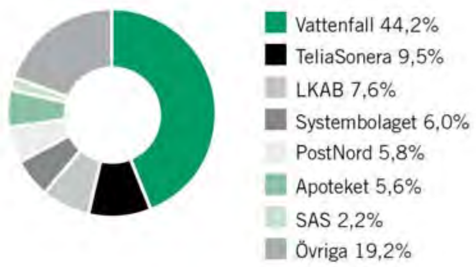
54 companies – 41 fully owned and 13 jointly owned

Approximately 132,000 employees

Turnover ~ SEK 350 billion (€ 41)

Profit ~ SEK 49 billion (€ 5.7)

Market value ~ SEK 580 billion (€ 67.5)



Ministry of Finance Sweden

REGERINGSKANSLIET
Government Offices of Sweden

State-owned companies must create value

”The overall objective is to create long-term value for the tax-payers taking into consideration risk and public service assignments”

Ministry of Finance Sweden

REGERINGSKANSLIET
Government Offices of Sweden

Organisation at the Ministry of Finance

Political management

Management organisation

36 companies

Chairman

Board of Directors

CEO

30 specialists:
- investment managers
- company analysts
- corporate lawyers
- communication experts
- board recruitment
- sustainability experts

Ministry of Finance Sweden

REGERINGSKANSLIET
Government Offices of Sweden

Board nomination – a key process for building value

- Two search professionals working fulltime with board nomination
- Well-proven and structured process
- Build public confidence in government's ability to recruit professional boards
- Independent of political majority – changes in Government
- Virtual nomination committee for every SOE involving input from chairman, board assessments and investment manager
- Approx. 60-70 search processes every year

Ministry of Finance Sweden

REGERINGSKANSLIET
Government Offices of Sweden

Board nomination – principles

- Chairman – independent from the owner – no political link
- The Chairman is a key function
- Relevant competences to fulfill the company's strategy
- Independent from the management
- One investment manager sits on the board
- Employee representation follow the same law as companies in general

Ministry of Finance Sweden

REGERINGSKANSLIET
Government Offices of Sweden

Requirements on the Board Composition

- Industry knowledge or other skills relevant to the company
- Balance of competence, experience, background, age and gender (>40% of each gender)
- Increased diversification of board members in terms of geographic, ethnic, educational and business background
- 6-8 members
- Continuous renewal of the board

Ministry of Finance Sweden

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Requirements on the Chairman of the Board

- Previous experience of board work and ability to lead the work of the board
- Extensive knowledge of corporate governance
- Ability to monitor and act as coach and sounding board to the CEO
- Effectively act as a link between the board and management
- Effective dialogue between the board and the owner
- Ability to represent the company in different contexts
- Time and commitment for the appointed position
- Proactive person with high integrity

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Requirements on the members of a board

- High level of general expertise in the company's operations, business development, industry, finance or other relevant areas
- Integrity and sound judgment
- Ability to make independent assessments of the company's operation
- Preferably prior experience of board work

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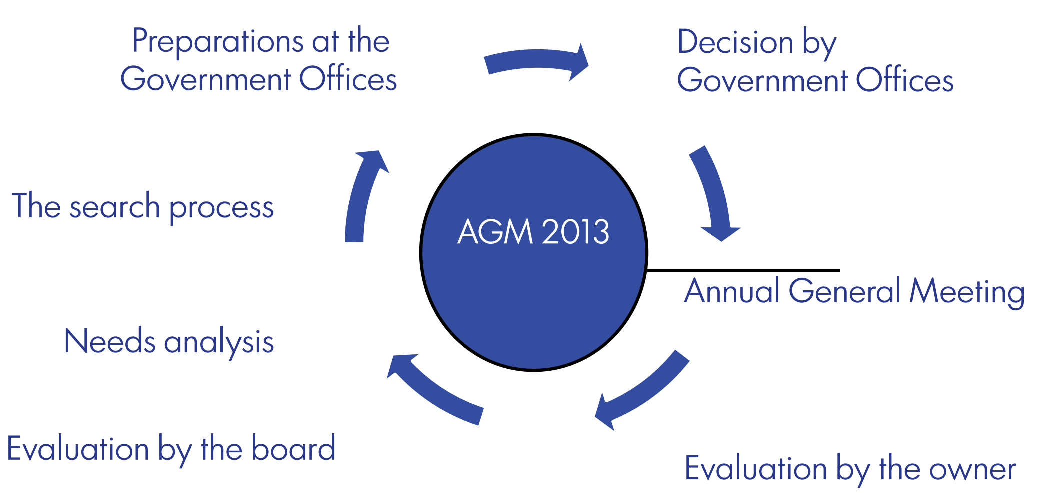
The Board Nomination Process



Ministry of Finance Sweden

REGERINGSKANSLIET Government Offices of Sweden

Current board composition

- 390 board members in 54 companies
- Average annual turnover 60-70 members
- Average size of board: 6.8 members

- Board members gender balance: 46 percent women, 54 percent men in all state-owned companies (listed Swedish companies: 24% women)
- Board members in fully owned companies: 49 percent women, 51 percent men
- Chairman of the board in fully owned companies: 42 percent women (listed companies: 4% women)

Ministry of Finance Sweden

REGERINGSKANSLIET
Government Offices of Sweden

Thanks for your attention!

Contact details:
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Ministry of Finance Sweden

REGERINGSKANSLIET
Government Offices of Sweden

THE STATE AS OWNER – APPOINTMENT OF BOARDS IN STATE-OWNED ENTITIES

Tomasz Zganiacz

Director of Capital Markets Department, Ministry of Treasury, Poland

An experienced manager, until June 2009, President of TRITON DEVELOPMENT SA., a development company listed on the stock exchange. Before that, his positions included that of Vice-President and Financial Director of ARKSTEEL SA (also listed), credit department manager at SOCIETE GENERALE, and member of the academic and teaching staff of the Institute of Production Systems Organisation of the Warsaw University of Technology. He took part in the National Investment Funds programme.

Mr. Zganiacz has taken part in numerous projects implemented by business entities operating in various sectors by cooperating with commercial and investment banks, brokerage houses and other players on the capital markets.

He has been responsible for managing finances and preparing and implementing investment projects, and has co-created development strategies. He has a wealth of experience in supervising commercial law companies, and was a member of the Supervisory Board of the Warsaw Stock Exchange. He is a Member of the supervisory board PZU SA.

He graduated as an engineer, and also completed MBA postgraduate studies.

Ministry of Treasury of the Republic of Poland

The State as Owner – Appointment of Boards in State-Owned Entities

Tomasz Zganiacz – Director, Capital Markets Department

13 May 2013

Ministry of Treasury of the Republic of Poland

Principles of Corporate Governance

Main principles of corporate governance are provided in the following regulations and non-binding codes

- **Commercial Companies Code**
  provides regulation of companies in general, their corporate bodies, rights of shareholders, rules applicable to mergers and acquisitions
- **Commercialisation and Privatisation Act**
  applies to companies designed for privatisation
- **Public Trading of Securities Act**
  governing public trading in securities, including the requirements to be met in cases of planned acquisitions of substantial blocks of shares and the principles for establishing, organising and supervising entities conducting activities associated with public trading in securities
- **Code of Best Practice for WSE Listed Companies**
- **OECD Principles of Corporate Governance**
  assist governments in their efforts to evaluate and improve the legal, institutional and regulatory framework for corporate governance, and provide guidance and suggestions for stock exchanges, investors,corporations, and other parties that have a role in the process of developing good corporate governance
- ***Principles of Corporate Supervision over Companies with State Treasury Shareholding*** –
  a set of principles, not a normative Act

2

Governing Bodies

Ministry of Treasury of the Republic of Poland

- The Commercial Code provides for a **two tier board structure**, consisting of the Management Board and Supervisory Board
- The **Supervisory Board** is appointed by the General Meeting
  - ➢ The State Treasury as a shareholder has the right to appoint representatives to Supervisory Boards
- The **Management Board** is appointed by the Supervisory Board

General Meeting

Shareholders

↓

Supervisory Board

- Supervision over the performance of the company in all areas of the company's activities
- Company articles may extend the Boards powers

↓

Management Board

Management conducts day-to-day business

3

State Ownership

Ministry of Treasury of the Republic of Poland

- 495 companies in which the State is a shareholder
- 14 of these are listed companies with a market value of ca. EUR 100bn
- 47 companies are considered of strategic importance, of which 8 are listed
- Corporate supervision in companys in which the State is a shareholder is fulfilled by the Ministry of Treasury (with some exceptions like mining or rail companies)

Number of companies with State %	495
Total number of supervisory board members	2,052
Number of Ministry of Treasury representatives	737
of which Ministry of Treasury employees	410
Ministry of Treasury employees as % of Supervisory Board members	20%

Source: As at 23 January 2013, MoT

Listed Companies with State %

Company	Sector	Market cap. (€m)[b]	State's stake
Ciech	Chemicals	265	39%
Grupa Azoty	Chemicals	1,348	33%
ENEA	Energy	1,608	52%
PGE[a]	Energy	7,536	62%
Tauron[a]	Energy	1,950	30%
PKO BP[a]	Financial	10,394	31%
PZU[a]	Financial	8,456	35%
WSE	Financial	426	35%
PGNiG[a]	Oil & Gas	8,103	72%
PKN Orlen[a]	Oil & Gas	5,606	28%
Grupa Lotos[a]	Oil & Gas	1,292	53%
PHN S.A.	Real Estate	249	75%
KGHM	Metals & Mining	8,230	32%
JSW	Mining - Coal	2,745	56%

(a) Strategic companies; (b) as at 31 March 2013

4

Appointment of Supervisory Board Members

Ministry of Treasury of the Republic of Poland

- The State Treasury as a shareholder has the right to appoint representatives to Supervisory Boards
  - External experts
  - Treasury employees
- Persons with appropriate qualifications and experience, including civil servants may be appointed as members of Supervisory Boards
- Selection criteria and principles
  - All supervisory board members are required to pass an exam for candidates for supervisory board members
  - Minimum 3 years experience in economics, law, management or public administration
  - Ministers nor deputy Ministers are not allowed to sit on supervisory boards
  - Supervisory Board members cannot be part of company management – ensures independence
- Selection to Supervisory Boards is conducted through a public qualification process (does not apply to civil servants)

5

Ownership Supervision

Ministry of Treasury of the Republic of Poland

Main Goals:

- Improve the performance, effectiveness of management and value of companies
- Prepare entities for privatisation
- Ensure transparency

These objectives can be achieved by:

- Implementing extended corporate supervision procedures over and above requirements
- Appointing competent supervisory board members
- Improving board selection criteria
- Developing and implementing new standards and methods of monitoring economic and financial performance to ensure quick response to negative developments

6

Role of Supervisory Boards

Ministry of Treasury of the Republic of Poland

State-owned companies / Majority stake

- Appointment, dismissal and suspension of management board members
- Recommendation of compensation and remuneration criteria of management board members
- Assessment of financial statements' compliance with company accounts
- Approval of annual financial plans and long-term strategic plans
- Monitor and control decisions material to the company
- Evaluate company's economic and financial standing, and the work of the management board
- Approval of investment and disinvestment decisions above certain limits
- Selection of company auditor and monitoring of the audit process

7

Role of Supervisory Boards

Ministry of Treasury of the Republic of Poland

Companies in which the State is a minority holder

- Inform appropriate supervision units of any violation of the law committed by company management
- Apply appropriately statutory provisions to secure the Treasury's interests
- Inform the relevant supervision units on an ongoing basis on the company's situation and any actions that may threaten the Treasury's interests
- Initiate execution by the company management of its reporting and disclosure obligations

8

Company Articles may extend Board powers

Ministry of Treasury of the Republic of Poland

Company	State %	Articles
PKN ORLEN	27.5%	The State has the power to appoint/dismiss one member of the Supervisory Board
PGE	61.9%	The State has the power to appoint/dismiss half of the supervisory Board + one member
PKO BP	33.4%	The State determines the number of Supervisory Board members, indicates potential candidates, selects the Chairman and Deputy Chairman

9

Contact us

Ministry of Treasury of the Republic of Poland

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PRIVATISATION IN CENTRAL AND EASTERN EUROPE

Łukasz Zalicki

Partner, Performance Improvement Business Advisory,
Ernst & Young Warsaw

Graduated with honours from the Warsaw University of Technology; studied also economics at Warsaw University; Polish Statutory Auditor; participated in Executive Training course at Kellogg School of Business and Harvard Business School in the US.

Łukasz Zalicki has broad experience in advisory projects related to capital transactions, including privatizations and IPO's, organisation strategy and structuring, supporting start-up activities, processes reorganizations and regulatory advice. Among others, participated in privatizations of Tobacco Sector, KGHM, Telekomunikacja Polska, PKN ORLEN, Ruch, as well as in very many private transactions.

ERNST & YOUNG
Quality In Everything We Do

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Panel: 3

What motivates governments to privatise?

PANEL 3

Ministry of Treasury of the Republic of Poland

Panel 3: What motivates governments to privatise?

Panelists:

- Ali Güner Tekin, Head of Department for consultancy services, Privatization Administration, Turkey
- Declan Burke, Executive Director, Shareholder Executive, United Kingdom
- George Kyriakos, Project Director, Octane Management Consultants, Greece

Moderator:

Prof. Barbara Błaszczyk

Vice Chairwoman of the CASE Supervisory Council,
CASE – Center for Social and Economic Research

Prof. Barbara Błaszczyk since 1983 has worked for the Institute of Economy of the Polish Academy of Sciences (PAN) in different positions, now as professor and member of the Scientific Board of the Institute.

She was co-founder of CASE - Center for Social and Economic Research in Warsaw (1991), a think tank devoted to support the transition process. President of the CASE Foundation in 1991 – 2004, since 2006 Deputy Chairwoman of the Council of the Foundation.

In 2004 – 2012 she worked as professor at the Nowy Sącz School of Business - National Louis University (WSBNLU).

She graduated from the Warsaw University in 1970 (MA in Economics). In 1975 she received her PhD at the Institute of Organization and Management of the Polish Academy of Sciences (PAN). She was qualified as an assistant professor in 1989 at the Department of Sociology and Economy of the Łódź University. In 1996 she received the title of Professor.

Between 1989-1996 she was an advisor to the Polish government and the Parliament. Between 1991-1996 she was the deputy Chairman of the Council of Ownership Changes at the Prime Minister. She has participated in and co-ordinated numerous domestic and international research projects, including comparative studies on privatization and restructuring processes of enterprises in Central and Eastern European Countries. Her main fields of research interest are privatization, corporate governance, deregulation of the state sector and generally systemic changes in countries in transition and in the past also employee share ownership and industrial democracy. Her additional field of interest in the last years was the process of enlargement of the European Union and the economic and social reforms in the countries of E.U., especially the implementation of the Lisbon Strategy in old and new accession countries. She is an author, co-author and editor of about 150 publications.

PRIVATIZATION IN TURKEY – AND WHAT NEXT?

Ali Güner Tekin

Head of Department for consultancy services, Privatization Administration, Turkey

Mr. Ali Güner Tekin has graduated from Technical University Berlin and holds a MBA degree in industrial engineering. He also holds LLB in law from Istanbul University. Mr. Tekin joined to Turkish Privatization Administration (PA) in 1985. As project group head he was responsible for the large scale privatization projects like Erdemir- Eregli Iron and Steel Works, Turkey' sole flat steel producer, Petkim – the petrochemical complex, Turkish Airlines etc. Since 2003, he is working as head of department for consultancy services in PA.

Mr. Tekin was also member of the board of directors or auditor of various companies, among others Erdemir, Petkim, Turkish Airlines, Turkish Maritime Corporation, Hamitabat and Kemerköy Electricity Generation Companies. Currently he acts as chairman of the board of Vangölü Electricity Distribution Company.

Mr. Tekin has written several articles about globalization, corporate governance, SOE's and Public Private Partnerships (PPP). He was one of the founders of the International PPP Platform of Turkey and is currently member of its supervisory board.

REPUBLIC OF TURKEY
PRIME MINISTRY
PRIVATIZATION ADMINISTRATION

In early 1980's, parallel to the first efforts for liberalization of the economy the privatization was initiated in Turkey. In 1984, the first legal framework was established which has regulated the privatization procedure and established responsible body for privatization. In 1994, upon formation of a political and social consensus on the needs for privatization, a special law for privatization regulating almost all the aspects of privatization has been enacted. The Privatization Administration (PA) established by this law is currently the only responsible agency for privatizations in Turkey.

Republic of Turkey
Prime Ministry
Privatization Administration

Privatization in Turkey - *And what next?*

Ali Güner TEKIN
Head of Department

Warsaw, May 13 2013

TURKEY AS AN INVESTMENT OPPORTUNITY

- **Pro business climate - strong international investment record**
- **Excellent infrastructure - advanced telecom and transport network**
- **Strong ties wıth Central Asia, Middle East and the Balkans**
- **Dynamic domestic market**
- **Impressive GDP growth**
- **International business standards & laws**
- **Stable business and political environment**
- **Unique geographical location**
- **Strong demographics**
- **Gateway to energy resources**

***With its macroeconomic fundementals, Turkey stands in a much better place compared to many countries in the Eurozone*.**

WHY TO PRIVATIZE?
- GENERAL ASPECTS -

T.C. BAŞBAKANLIK
ÖZELLEŞTİRME
İDARESİ
BAŞKANLIĞI

3

WHY TO PRIVATIZE?
SOCIAL & ECONOMICAL ASPECTS

- SOCIAL ASPECTS
  - MAIN OBJECTIVE OF ALL SOCIAL SYSTEMS → HAPPINESS OF THE PEOPLE
  - FREEDOM → FREEDOM TO CHOOSE
    - HOMOGENIZING THE POWER DISTRIBUTION IN THE SOCIETY
      - **IN THE POLITICS:** THE THREE PILLAR OF THE DEMOCRACY
      - **IN THE ECONOMY:** MONOPOLIES VERSUS COMPETITION POLICY
- ECONOMICAL ASPECTS
  - ECONOMY → OPTIMAL ALLOCATION OF SCARCE RESOURCES
    - MARKET ECONOMY: FAIR COMPETITION - HIGHER PRODUCTIVITY / EFFICIENCY
    - ANONYMITY versus PERSONAL MOTIVATIONS: MATRIX FROM FRIEDMAN

WHOSE MONEY	ON WHOM SPENT	IMPORTANCE OF THE PRICE	IMPORTANCE OF THE QUALITY
YOUR MONEY	YOU	HIGH	HIGH
	SOME ONE ELSE	HIGH	LOW
SOME ONE ELSE'S MONEY	YOU	LOW	HIGH
	SOME ONE ELSE	LOW	LOW

STATE OWNED ENTERPRISES

REASONS FOR ESTABLISHING SOE'S

- LACK OF INFRASTRUCTURE
- LACK OF FUNDS
- LACK OF ENTREPRENEURSHIP
- LACK OF KNOW-HOW
- STRATEGICAL REASONS

SOE SYSTEM - MAJOR PROBLEMS

- **CONTRADICTION IN THE AIM OF THE COMPANY; SOCIAL AIM - PROFIT AIM**
- **NO MARKETING RISKS**
- **ESTABLISHMENT AND PLACE SELECTION MADE BY POLITICAL INFLUENCES**
- **POLITICAL INTERFERENCE IN THE COMPANY'S POLICY**
- **NO NEED OF PIONEERSHIP OF SOE's ANY MORE**

WHY PRIVATIZATION ?

"PRIVATIZATION IS NOT AN EASY TASK BUT IS A VITAL ONE"

The major targets of the privatization program are primarily :

- to minimize state involvement in the industrial and commercial activities in the economy,
- to provide legal and structural environment for free enterprise to operate,
- to decrease the financial burden of State Economic Enterprises on the national budget,
- to transfer privatization revenues to the major infrastructure projects,
- to expand and deepen the existing capital market by promoting wider share ownership,
- to provide efficient allocation of resources.

T.C. BAŞBAKANLIK ÖZELLEŞTİRME İDARESİ BAŞKANLIĞI

OUR MISSION

TO UNDERTAKE PRIVATIZATION

PROMPTLY,

IN A TRANSPARENT MANNER,

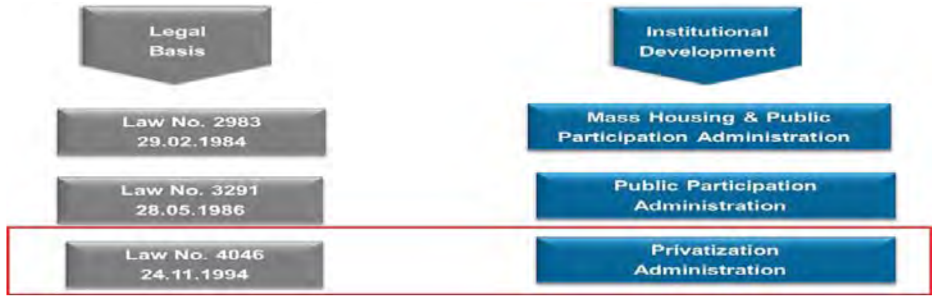
PARALLEL TO MARKET DYNAMICS

AND

IN COOPERATION
WITH REGULATORY AGENCIES AND PUBLIC INSTITUTIONS

MILESTONES IN TURKISH PRIVATIZATION

- 1984 PRIVATIZATION PROGRAM LAUNCHED. *[MASTERPLAN]*
- 1986 FIRST PRIVATIZATION IMPLEMENTATION
- 1990 IPO OF THE SHARES OF BIG SEE'S.
- 1994 AFTER SEVERAL CANCELLATIONS BY CONSTITUTIONAL COURT AND SEVERAL ROUNDS OF AMENDEMENTS, A COMPREHENSIVE **PRIVATIZATION LAW** (LAW NO.4046) WAS ENACTED IN 1994.
- 1999 AMENDMENT IN THE CONSTITUTION IN 1999.



T.C. BAŞBAKANLIK ÖZELLEŞTİRME İDARESİ BAŞKANLIĞI

8

The success attained by PA has been praised and awarded by various international organizations

World Bank: Turkey accords with the best international privatization practices.

- PA pursued a broadly transparent process, which was consistent with acceptable competitive practices
- PA's use of financial advisors has resulted in an open, transparent and competitive privatization process
- Tender processes were open, transparent and competitive and tender pre-conditions appropriate
- PA showed professionalism and good practices in all of the 20 transactions

▪ World Bank, CEPDL REPORT

Turkey ranked number 5 in the top 10 list with its total privatization implementation figure for years 2004-2008 among OECD member countries

ACQUISITIONS MONTHLY awards 2006

TÜRK TELEKOM BLOCK SALE AWARD-2005
ACQUISITIONS MONTHLY

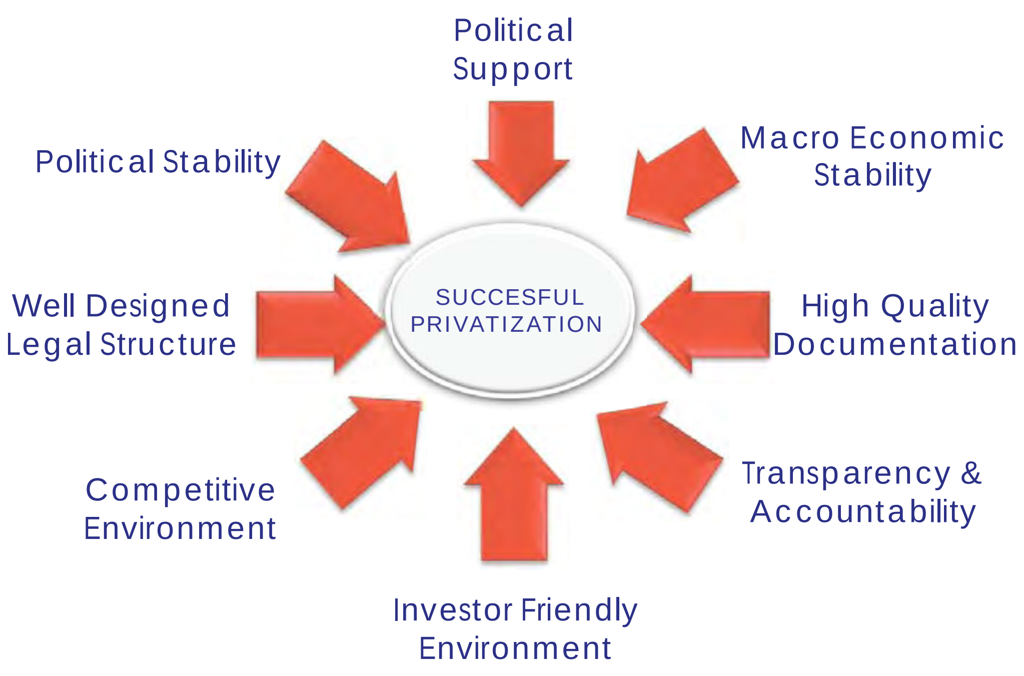
emeafinance
Europe • Middle East • Africa

HALKBANK IPO AWARD - 2007
EAST CAPITAL INVESTMENT FUND
"BEST IPO AWARD"

EAST CAPITAL

TÜRK TELEKOM IPO AWARD - 2008
EMEA FINANCE
"BEST PRIVATISATION IN CENTRAL AND EASTERN EUROPE -2008"

SUCCESS IS NOT A COINCIDENCE !



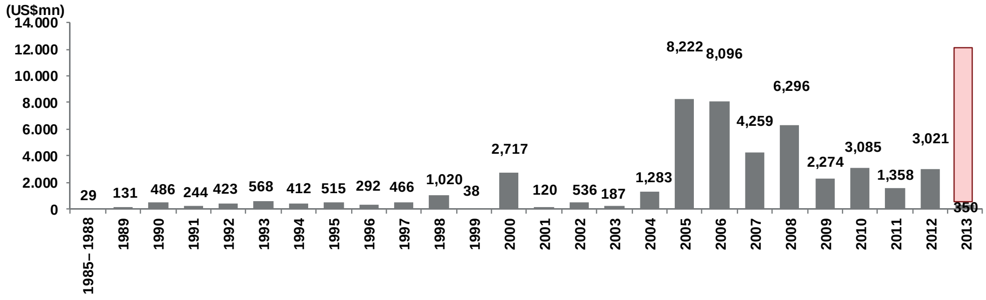
PRIVATIZATION IMPLEMENTATIONS
By NUMBERS

- BETWEEN 1985-2011 **270** COMPANIES TAKEN INTO THE PRIVATIZATION PORTFOLIO.
- **201** OUT OF THEM HAVE ALREADY BEEN PROCESSED
- **191** OUT THEM HAVE BEEN FULLY PRIVATIZED.
- CURRENTLY **11** COMPANIES WITH MORE THEN 50% GVMT SHARE IN THE PRIVATIZATION PROGRAM.
- TOTAL REVENUE ACCRUED TILL DATE IS **$ 46.2 BILLION**.

T.C. BAŞBAKANLIK ÖZELLEŞTİRME İDARESİ BAŞKANLIĞI

Privatization Revenues

Total privatization revenue 46.2 bn $



17% $8.2 bn

83% $38.0 bn

Amount of due recievables : 12.3 bn $

Source: PA

MAJOR PRIVATIZATION PROJECTS IN THE PIPELINE

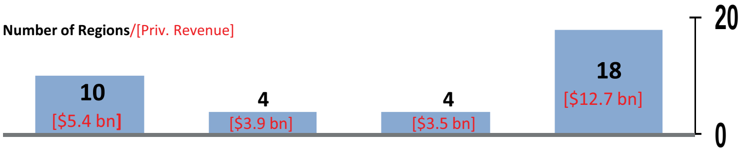
www.oib.gov.tr

Major Privatization Projects in the Pipeline

- ELECTRICITY DISTRIBUTION COMPANIES
- ELECTRICITY GENERATION FACILITIES
- BAŞKENTGAZ *(NATURAL GAS DISTRIBUTION IN ANKARA)*
- CRUISE PORTS
  - SALIPAZARI
  - İZMİR
- CONTAINER PORTS
  - DERİNCE
  - İZMİR
- MARINAS
  - MERSİN- TAŞUCU
  - İSTANBUL- FENERBAHÇE KALAMIŞ
- MOTORWAYS & BRIDGES
- SHARES IN HOTELS
- TÜRKŞEKER (*SUGAR PROCESSING)*
- LISTED COMPANIES
  - TÜRK TELEKOM
  - HALKBANK
  - THY – TURKISH AIRLINES
- IMMOVABLES
  - VARIOUS REAL ESTATES THROUGHOUT TURKEY
  - [HAYDARPAŞA LAND DEVELOPMENT PROJECT]

Privatization of Electricity Distribution Companies

Overview



Already Privatized	At the Closing Stage	WaitingApproval	Total Tedaş-DisCO's
Başkent	*Gediz*	Anadolu Yakası	
Sakarya	*Akdeniz*	Toroslar	
Meram	*Boğaziçi*	Dicle	
Osmangazi	*Aras*	Vangölü	
Çamlıbel			
Uludağ			
Çoruh			
Yeşilırmak			
Fırat			
Trakya			

Transaction Overview

- TEDAS- The Holding Company for state owned regional electricity distribution companies
- Block sale of 100% of shares of the regional companies which have operational rights of the electricity distribution network
- Regulated tariffs with targets for distribution loss and operational costs
- Future network investments to be earned back through tariffs

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TEDAŞ

Electricity Distribution Companies (DisCo's)

2008

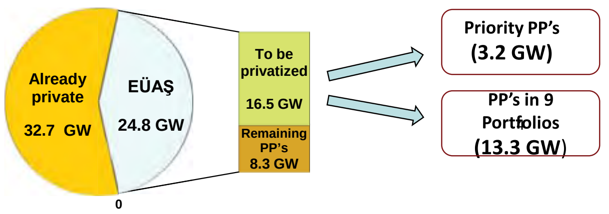
2012

[1] Privatized by the Ministry of Energy & Natural Resources

Privatization of Power Plants :
More than 16 GW of the current installed capacity in power generation will be privatized

Overview

Installed Capacity in Turkey (2012) c. **57.1 GW**



- **9 Portfolios were formed ranging from 459 MW to 2,795 MW in size.** *[3 thermal-only portfolios, 2 mixed thermal and hydro portfolios, 4 hydro-only portfolios.]*
- **The thermal PP's Seyitömer, Soma, Hamitabat and Kangal will be privatized separately.**
- **For hydro plants, Transfer of Operational Rights (TOR) for** 49 years**, for thermal plants asset sale method are used.**

Transaction Overview

2008 ⇨ **9 small scaled power plants tendered (140 MW)**

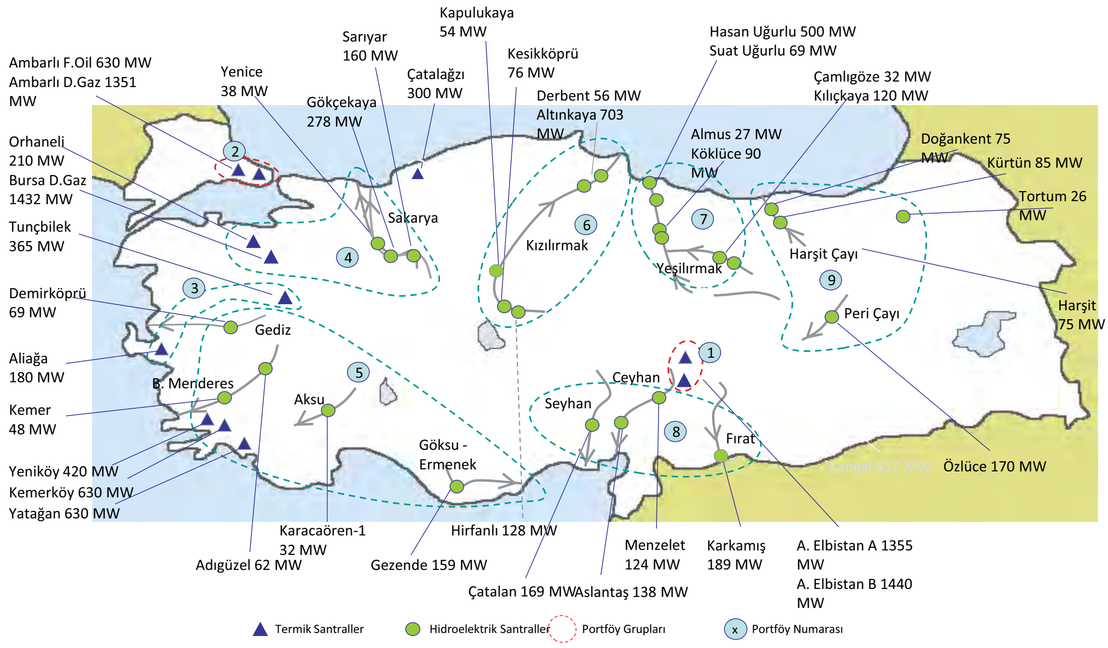
2010 ⇨ **50 small run on the river plants tendered (141 MW)**

2012 ⇨ **17 small run on the river plants (63 MW) and Seyitömer thermal power (600 MW) plant tendered.**

2013 ⇨ **Kangal ve Hamitabat thermal power plants (1,613 MW) tendered.**

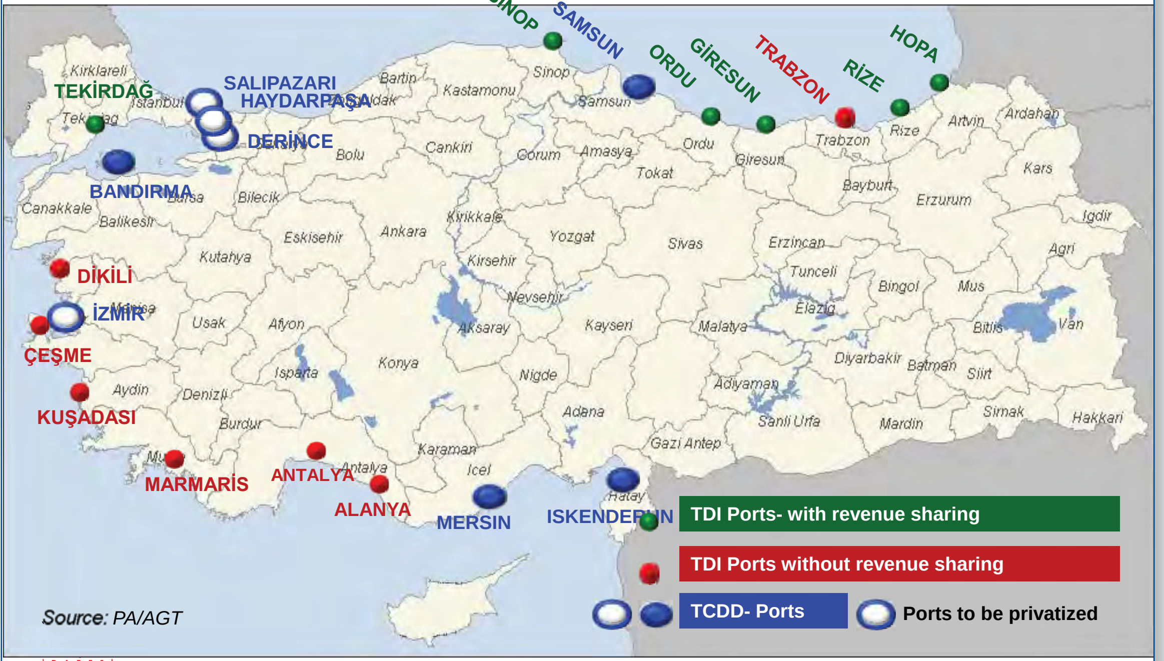
Total privatized:	**263 MW for $844 mn**
Total waiting for closing:	**2,261 MW for 3,474 mn**

Geographical distribution of 9 portfolio groups



SOURCE: EÜAŞ.

Privatizations of Ports



Marinas & Cruise Ports

İstanbul Kalamış Fenerbahçe Marina

- Largest marina of Turkey
- To be privatized by T.O.R. method.
- Land registry studies to extend the mooring and commercial area capacity are ongoing.

Mersin Taşucu Marina

- 6 piers (total length 610 m2)
- Total project area is c. 140,000 m2
- To be privatized by T.O.R. for *[up to]* 49 years.
- Land registry studies are ongoing.

Salıpazarı Cruise Port

- Largest cruise port of Turkey
- Total project area is c. 112,000 m2
- To be privatized by TOR & BOT models
- The project area should be developed by building a cruise terminal, hotels, shopping malls, cultural and recreational areas etc.

•Bidding Deadline was 30.04.2013.
5 bids received

İzmir Cruise Port

- The cruise port of the most important tourism center and the third largest city of Turkey
- 159,007.80 m²
- To be privatized by TOR .
- Preparatory studies are ongoing.

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Container Ports- Derince and İzmir

Derince Port

- An important port in the Marmara, Turkey's industrial region.
- To be privatized by TOR for 36 years.
- Preparatory studies are ongoing.

İzmir Port

- The biggest container port in Turkey
- To be privatized by TOR for 36 years.
- Preparatory studies are ongoing..

Haydarpaşa Land Development *[Transformation]* Project

- It is one of the biggest and most important land development projects of Turkey.
- The whole complex including train station, port and the land behind of both will be redesigned.

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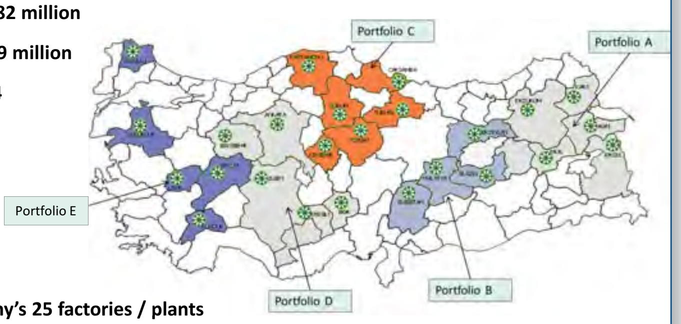
Sugar Factories

TÜRKİYE ŞEKER FABRİKALARI A.Ş.

Company Overview

- The holding company has 56 % of market share in Turkey
  - Total sugar production capacity per year: c. 2.36 million tonnes
  - Total ethyl alcohol production capacity per year: c. 58 million litres
  - Total seed production capacity per year for sugar beet: 3,000 tonnes
- Paid-in Capital [2012]* : $ 1,182 million
- Sales [2012]* : $ 1,499 million
- Number of Employees : 12.684



Planned Transaction Overview

- PA aims to privatize the Company's 25 factories / plants in [6] regional packages via 'Asset Sale'

T.C. BAŞBAKANLIK ÖZELLEŞTİRME İDARESİ BAŞKANLIĞI

National Lottery Games

Company Overview

- **The privatization of national lottery operation will only include the license that transfers the rights to plan, organize the games of chance and execute draws and install systems of games of chance and operation activities.**
- **Any asset and liability of National Lottery Administration will not be subject to privatization.**
- **The license will be granted to the bidder with highest upfront fee proposal for 25% of gross sale proceeds (total sales proceeds less VAT) and 28% of all kinds of other proceeds.**

Planned Transaction Overview

- **The license period will be 10 years.**
- **The license is including passive drawing game** (piyango), **instant scratch card game** (hemen kazan)**, lotto** (sayısal loto and süper loto) **and numeric games** (on numara and şans topu) **and new games to be introduced.**
- **Upon the adoption of PHC Decision on this issue, the preperations regarding the new tender will be initiated.**

MİLLİ PİYANGO

T.C. BAŞBAKANLIK ÖZELLEŞTİRME İDARESİ BAŞKANLIĞI

Motorways and Bosphorus Bridges

- The whole network of motorways as well as two Bosphorus Bridges will be privatized.
- **Total lenght of motorways in Turkey is 2.036 km's.**
- **The routes to be privatized (1.975 km.)**

  1. **Edirne-Istanbul-Ankara**
  2. **Pozantı-Tarsus-Mersin**
  3. **Tarsus-Adana-Gaziantep**
  4. **Toprakkale-Iskenderun**
  5. **İzmir-Çeşme**
  6. **İzmir-Aydın**
  7. **İzmir-Ankara**
  8. **Gaziantep-Şanlıurfa**

  Sales [2012] : **$ 445 mn** *(TL800mn)*
  Number of vehicles [2012] : **350 mn**

- The tender in 2012 with an amount of $ 5.7 has been cancelled by PHC. New strategy will be designed

T.C. BAŞBAKANLIK ÖZELLEŞTİRME İDARESİ BAŞKANLIĞI

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Türk Telekom

Company Overview

- Current shareholders of Türk Telekom:
  - Treasury : 31,68 %
  - Ojer Telecom : 55%
  - Free Float : 13,32%
- Total revenue [2012] : $ 12.7 Billion
- Net Profit [2012] : $ 2.6 Billion
- Fixed line [2012] : 14,3 million
- Mobile (AVEA) [2012] : 13,5 million
- ADSL (TTnet) [2012] : 7 million

Planned Transaction Overview

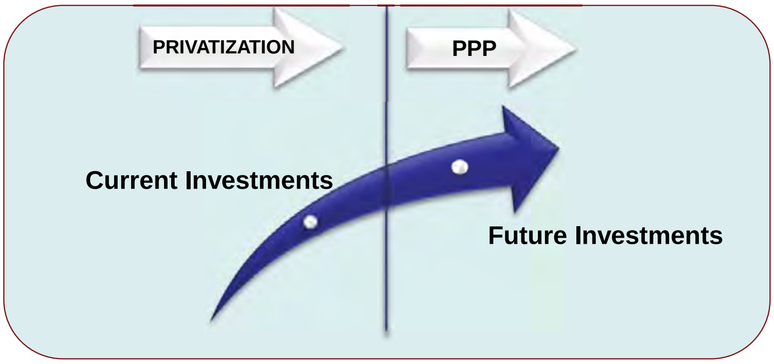
- 55 % of the shares were sold through block sale in 2005 for $ 6,550 mn
- 15 % of the shares were sold through initial public offering in 2008 forrr $ 1,911 mn.
- Council of Ministers Decree dated 14.1.2013 numbered 4230, stipulates that %6,68 shares belonging to Treasury shall be offreed to public till the end of 2013.

T.C. BAŞBAKANLIK ÖZELLEŞTİRME İDARESİ BAŞKANLIĞI

Privatization – What Next:

PPP

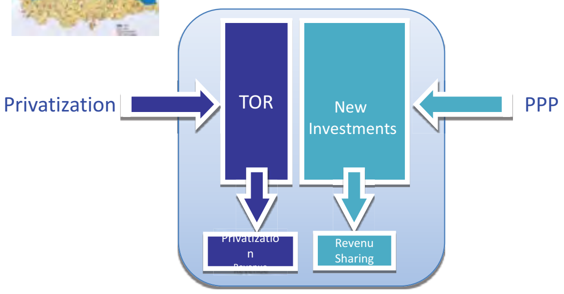
Privatization ⇨ PPP

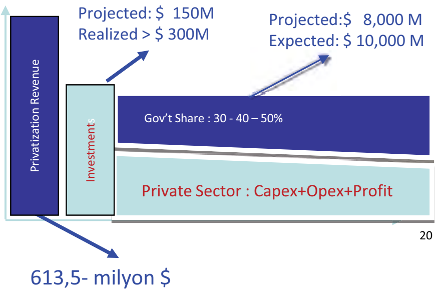


- In a broad sense the PPP projects can be considered as **in-advance-privatizations of the future investments.**
- In many cases PPP models are emerging as an **integrated part of privatization projects.**
- In connection of the privatization implementations **Privatization Law No 4046 allows the application of almost all of PPP Models**.

Source: H. Boyacı / AGT

Privatization of Vehicle Inspection Stations with Revenue Sharing Model





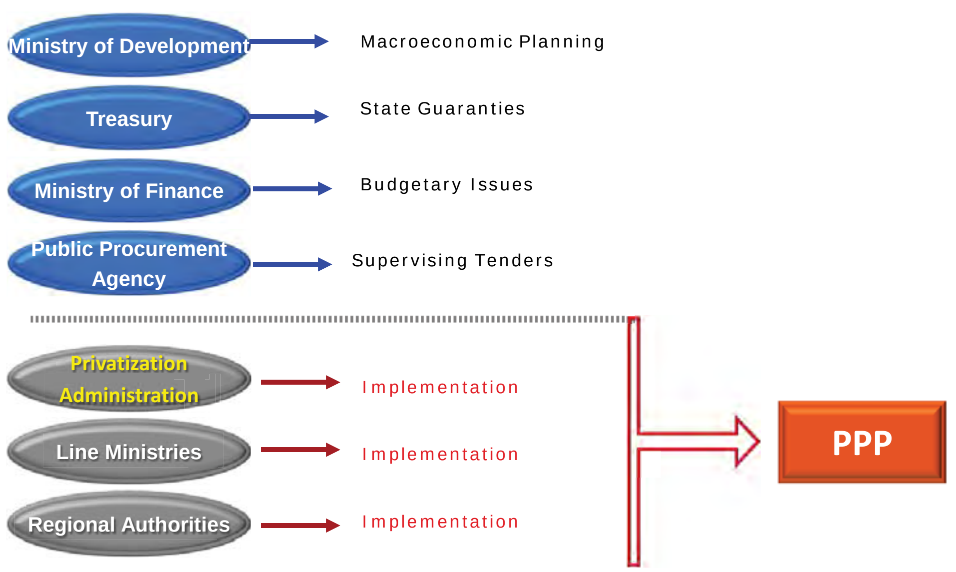
- During preparation phase two concession zones for whole Turkey have been established.
- The JV Group (Akfen-Dogus-TÜV) has won tenders for both zones for $ 613.5M in 2005.
- The contract has been signed in 2007.
- Concession period is 20 years.
- The obligation due to contract to establish 189 stationary and 38 mobile stations in 18 months has been satisfactorily fulfilled by the investor. (Currently 193 stationery and 71 mobile stations are in operation and 3.000 people are employed.)

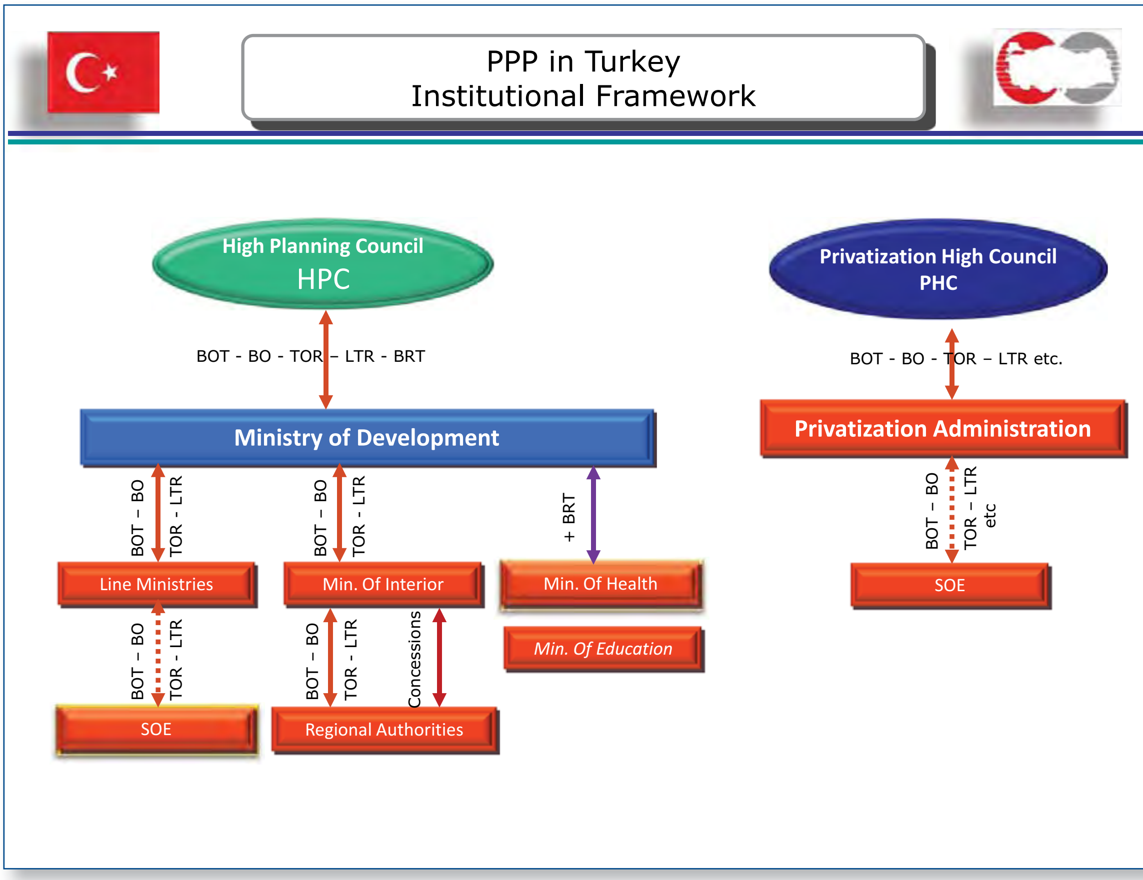
Source: Privatization Administration

PPP – Areas in Turkey

- **ENERGY**
  - Electricity generation, transmission, distribution and trade, hydro PP's
- **TRANSPORT**
  - Motorways, Highways Bridges, Tunnels, Parking Lots, Motorway service stations
  - Vehicle Inspection Stations
  - Railways / Railway stations/ Logistic Centers
  - Ports /Airports
- **AGRICULTURE**
  - Dams, Irrigation
- **DRINKING WATER & SEWERAGE**
  - Drinking & Raw Water Facilities
  - Sewerage Systems
  - Solid Waste Treatment
- **HEALTH**
  - Hospitals
- **TOURISM**
  - Marinas
- **ADMINISTRATION**
  - Port of Entries (Border Gates)
- **MINING**
  - Mining & processing
- **ENVIRONMENT**
  - Investments Against Pollution
- **EDUCATION**
  - Schools, Dormitories
- **COMMUNICATION**
  - Telecom
- **OTHERS**
  - Wholesale marketplaces
  - Facilities in natural/wildlife protection areas.

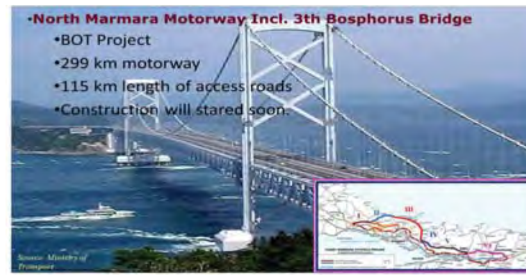
PPP in Turkey
Functions of the Stakeholders




PPP in Turkey
Institutional Framework
High Planning Council
HPC
Privatization High Council
PHC
BOT - BO - TOR – LTR - BRT
BOT - BO - TOR – LTR etc.
Ministry of Development
Privatization Administration
BOT – BO
TOR - LTR
BOT – BO
TOR - LTR
+ BRT
BOT – BO
TOR – LTR
etc
Line Ministries
Min. Of Interior
Min. Of Health
SOE
Min. Of Education
BOT – BO
TOR - LTR
BOT – BO
TOR - LTR
Concessions
SOE
Regional Authorities

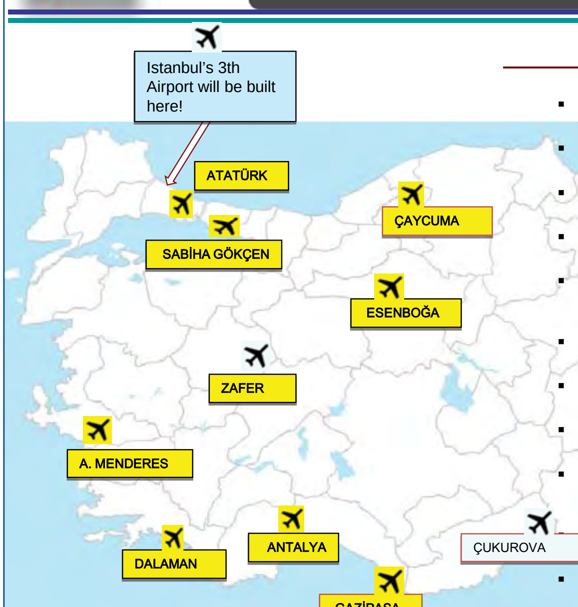

PPP Implementations in Turkey
TCDD MERSİN PORT
2007 – Law No. 4046 – TOR/Concession - 36 Years – 755 m. $
BİRECİK HEPP
1995 – Law. No. 3096 BOT - 15 Years - 672 MW – 1.2 billion $
Source: Türker Yöndem
(İTİC-UNESCWA-UNDP PPP EVENT 26.01.2012-İstanbul)

PPP Implementations in Turkey



Source: Türker Yöndem
(ITIC-UNESCWA-UNDP PPP EVENT 26.01.2012-İstanbul)

PPP Implementations in Turkey -Airports-



Airports built / operated with PPP Model

- Antalya Airport Int. Terminal Buildings I. & II. (BOT)
- Atatürk Airport Int. Terminal Building (BOT)
- Dalaman Airport Int. Terminal Building (BOT)
- Izmir Adnan Menderes Airport Int. Terminal Building (BOT)
- Ankara Esenboğa Airport Domestic & Int. Terminal Building (BOT)
- Sabiha Gökçen Airport Int. Terminal Building & (BOT)
- Atatürk Airport Domestic & Int. Terminal Building (LTR)
- Antalya Airport Domestic & Int. Terminal Buildings (LTR)
- Zafer Regional Airport Project (BOT)
- Zonguldak Çaycuma Airports (LTR)
- Antalya Gazipaşa Airports (LTR)
- Çukurova Regional Airport Project (BOT) (Contract signed in January 2012)
- 3th Airport of Istanbul (BOT) (tendered on May 3, 2013)

Source: Ministry of Transport / AGT

THANK YOU FOR YOUR ATTENTION

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PRIME MINISTRY OF TURKEY
PRIVATIZATION ADMINISTRATION

WHAT MOTIVATES GOVERNMENTS TO PRIVATISE?

Declan Burke

Executive Director, Shareholder Executive, United Kingdom

Declan joined the Shareholder Executive in 2008 from Deutsche Bank where he had worked for eight years in the Mergers and Acquisitions team. During his time at the Shareholder Executive he has worked with a number of portfolio companies in the Transport, Gaming and Postal sectors. He worked on the sale of the Tote (a UK Government owned gaming business) to Betfred and led the project for the UK Government to assume responsibility for the c£10bn Royal Mail pension deficit. The project involved the creation of a large new public sector pension scheme and also the realisation of a significant quantum of related financial assets.

Declan is currently working on the introduction of private sector capital to Royal Mail.

Shareholder Executive
HM Government

The Shareholder Executive (ShEx) manages the government's shareholder relationships with businesses owned or part-owned by the government. It also offers a wide range of corporate finance expertise and advice to government departments in order to ensure the taxpayer gets good value for money and plays a key role in delivering the Government's cyber security and digital strategies.

The Shareholder Executive is responsible for looking after a group of 20 state-owned businesses (from organisations as large as the Royal Mail to smaller businesses like the UK Hydrographic Office), advising on the sale of Government assets, offering corporate finance expertise across government , supporting the digital sector in the UK, forming strategy within Department of Business Innovation & Skills (BIS) on cyber security, telecoms and resilience leading the move to digital by default information and services across BIS and its partner organisations, working with other departments to ensure the release of the electromagnetic spectrum held by the public sector.

Shareholder Executive
HM Government

What motivates Governments to privatise?

Declan Burke
Executive Director
Shareholder Executive

May 2013

Background to the Shareholder Executive

Specialist corporate finance 'shared service' across Whitehall

A unique combination of private sector specialists and civil servants

ShEx's role in Government

- Ensuring that Government is an **effective and intelligent shareholder** in state owned businesses
- Managing Government's interventions to secure **best value for money** for the taxpayer
- Manage privatisation activity eg the sale of the tote, upcoming sale of Royal Mail

A brief history of ShEx

- Established in the **Cabinet Office** in September 2003
- Quasi-autonomous directorate within Dept for Business**,** with significant involvement with **HMT**, **Cabinet Office** and **other Government departments**
- Current remit covers a portfolio of over **20 businesses** spanning a number of departments across Whitehall
- Major provider of **specialist corporate finance advice** across Government and leader of **corporate finance profession**

Shareholder Executive
HM Government

2

Why privatise?

Privatisation transactions are typically characterised by a high degree of complexity

The reason for specific deals can often be different – having clear objectives for a sale is key

There are a number of different reasons – some (or all) may be relevant depending on individual circumstances:

- Introduce commercial disciplines / expertise
- Provide access to capital
- Promote competition in a sector
- Raise proceeds
- Create a more 'nimble' market orientated business

UK experience

- UK has fewer State Owned Enterprises (SOEs) than many other countries
- Many large SOEs sold in the 1980s and 1990s (eg telecoms, electricity, gas, airports, airlines, manufacturers etc)
- SOEs that remain are characterised (typically) by their complexity and close involvement in delivering public policy

Shareholder Executive
HM Government

3

The Shareholder Executive's portfolio of SOEs

- **Business Innovation & Skills:** Royal Mail, Post Office Ltd, UK Export Finance, Land Registry, Ordnance Survey, Met Office, Companies House
- **HM Treasury**: Royal Mint
- **Defence**: UK Hydrographic Office, DSTL, Defence Support Group
- **International Development**: CDC
- **Transport**: NATS Holdings, LCR/Eurostar
- **Home Office**: Forensic Science Service
- **Culture**: Channel 4
- **Work & Pensions**: Working Links
- **Scottish Executive**: Scottish Water
- **Energy & Climate Change:** Nuclear Decommissioning Authority, Urenco, National Nuclear Laboratories, BNFL

In addition, over twenty other assets overseen where we have no formal shareholder role

Shareholder Executive
HM Government

4

Considering the right privatisation model...

There are a number of alternative structures to consider in privatising a business – the right one depending on the specific objectives of a sale and status of the relevant business

- **There are a number of different transaction structures to consider in privatising a business**
  - **IPO** –
    - Allows public to participate in sale of state assets
    - But typically 'higher bar' in terms of company readiness
  - **Private sale** –
    - Examples include sale to a trade buyer or private equity firm
    - Can augment technical and management expertise
    - Could be a step towards an IPO in due course (eg Qinetiq in the UK)
  - **Mutuals** –
    - Business is ultimately owned by its stakeholders (eg employees, customers, local community etc)
  - **Other..?**

Shareholder Executive
HM Government

5

Challenges to meeting objectives

Privatisations often encounter significantly more complex challenges than private sector deals of a comparable nature

- **Policy** – can be conflict between policy and value objectives
- **Residual risks to Govt** – what risks stay with Govt post sale?
- **Regulation** – if the business being privatised is a monopoly is regulation fit for purpose?
- **Stakeholder concerns** – eg terms and conditions for employees; Employee shareholding post IPO?
- Weak **macro**-economic backdrop
- **Complexity** of privatisation processes vs private sales
- Political implications – need for legislation?

Shareholder Executive
HM Government

6

DECIDING ON PRIVATISATION AND DOING IT

George Kyriakos
Project Director, Octane Management Consultants, Greece

Mr.Kyriakos has over 24 years of experience in senior level managerial positions, in the private and public sector. His latest position, reporting to the Greek Minister of Finance, was Special Secretary for Greek State Owned Companies and for privatization, where he was responsible for the restructuring of 170 publicly owned corporations and the implementation of the privatization plan. He managed to reduce the operating cost of SOES by more than €1 billion during the 2010-12 periods.

Mr. Kyriakos has also served as Executive Board Member of OPAP S.A. and Vice President for OPAP Cyprus. Before OPAP, he was CEO of Superleague in Greece, and has worked for 18 years in Heineken both in Greece and France, as Marketing Director and Sales Director always reporting to the CEO of the Company.Mr. Kyriakos has broad experience in cost cutting, privatization, formulating and implementing commercial strategies, brand management and turning around non profitable companies. He was an elected member of ECR Greece from 2001-6 and represented Greece in ECR Europe. He has also been a Chair member of OECD working Group for State Owned Enterprises and Privatization from 2010 to 2012.Mr. Kyriakos holds a Bachelor Degree of Denver University in Business Administration, a Master Degree in Management from Boston University, and has attended executive management courses In Marketing and Management at INSEAD.

octane MANAGEMENT CONSULTANTS

OCTANE is a strategy and restructuring consultancy founded in Athens in 2007 by experienced consultants with over 70 years combined track record in Greece and abroad. Since is foundation, OCTANE has completed more than 200 market analysis, strategy, acquisition support and restructuring projects, providing high level advice to CEOs and top management of major international investors, government agencies and state-owned companies, top-tier banking institutions and several of the largest Greek companies. OCTANE relies on a very experienced senior-level staff, a deep and intimate knowledge of the Greek market and its major institutional and corporate players and a capability to support investors and companies across the whole stage of their activities – from inception to implementation.

DECIDING ON PRIVATISATION AND DOING IT
GEORGE KYRIAKOS
WARSAW MAY 13TH 2013

Greece is under enormous financial pressure

	2009	2012
GDP (€ billion)	231	194
DEFICIT (€ billion)	-36	-19
DEFICIT (% of GDP)	15.6%	10.0%
REVENUES (% of GDP)	38.3%	44.7%
EXPENDITURES (% of GDP)	54.0%	54.8%
DEBT (€ billion)	300	304
DEBT (% of GDP)	129.7%	156.9%
UNEMPLOYMENT (%)	10	27.2
INFLATION (%)	3	-0.2

Page 2

The strategic role of Privatization

To boost efficiency in the Economy

To reduce public debt

To bring in foreign investment
(estimated at 3-5€ for each 1€ of privatized assets)

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It has not been easy

EXTERNAL FACTORS	INTERNAL FACTORS
• Deteriorating macroeconomic environment in 2012	• 2 Elections (APRIL-JULY 2012)
• Fear of GREXIT downside	• Changes in Hellenic Fund management
• Relative attractiveness of Greek bonds with the same amount of risk	• Significant legal issues blocking several assets (e.g. Cassiope)
• Reduced investor appetite	• Political pressure causing delays

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The Privatization Plan – Key Objectives

- Restructure the Economy
- Foster Economic Development
- Contribute to fiscal consolidation
- Provide better services to the citizens
- Fight unemployment
- Improve efficiencies
- Reduce consumer prices
- Cover budget financing needs
- Reduce public debt
- Improve market sentiment

Page 5

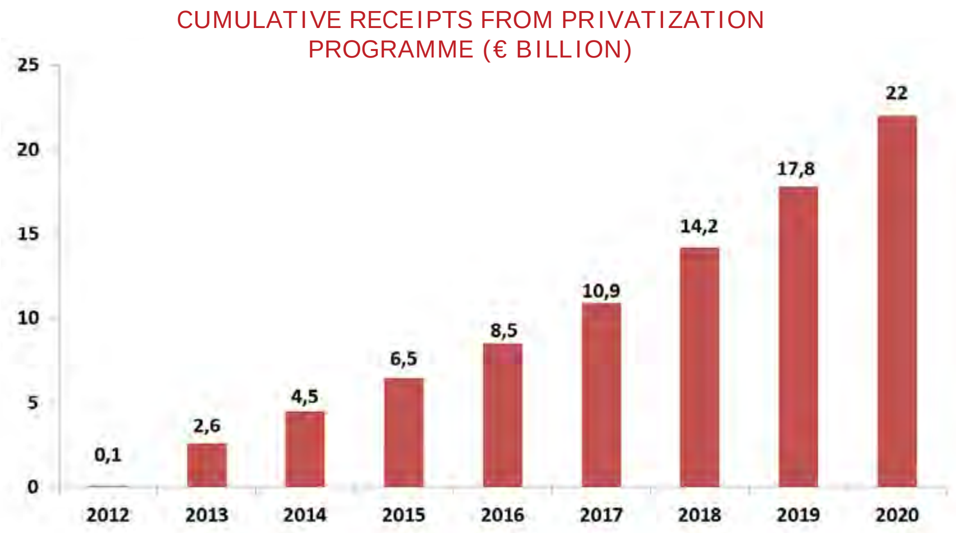
The Privatization Plan – Key Objectives

"Privatization is a key element towards a decisive break with Greece's previous failed Model of Public Sector led growth"

IMF review

Page 6

The Scope of the Program: 22 BILLION BY 2020



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The Privatization Plan: The HRAF

HELLENIC REPUBLIC ASSET DEVELOPMENT FUND

- Established in August 2011, with a 6-year initial lifetime
- Board of Directors:
  - 5 Board Members
  - 2 Representatives of Eurozone
- Council of Experts
- 30 Staff members (project managers, financial analysts)

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The Privatization Plan: The HRAF Mission

HELLENIC REPUBLIC ASSET DEVELOPMENT FUND

"To maximize the proceeds of the Hellenic Republic from the development and/or sale of assets"

The proceeds are defined as the sum of the proceeds from the transfer of assets to the private sector and the benefits from direct investments in these assets and the opening up of the respective market sectors

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Key HRAF Principles

- ✓ Clarity of Purpose
- ✓ Transparency of Process
- ✓ Speed of Implementation

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The HRAF Value Maximization Path

- All proceeds go to HR for the explicit purpose of reducing public debt
- The HRAF is focused towards maximizing the long-term benefit of the privatization concept
- HRAF is focused and structured so it can handle the implementation complexity of large-scale privatizations
- The economic scheme to bridge the price/value gap

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Key HRAF Asset Categories

HELLENIC REPUBLIC ASSET DEVELOPMENT FUND

LAND ASSETS	INFRASTRUCTURE	CORPORATE ASSETS
		

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HRAF Privatization Action Plan

PRIVATIZATION PRIOR ACTIONS

- Transfer of all assets to HRAF
- Removal of key legal impediments (state aid clearance, restriction on how much of some assets can be sold)
- Appointment of state advisors and independent valuators
- Acceleration of tender and licensing process for new investments

HRAF KEY ACTIVITIES

- Preparatory work for the assets
- Appointment of legal, technical, financial advisors
- Interaction with management of companies and line Ministers
- Restructuring of corporate assets
- State aid notification and clearance
- Unbundling of utilities
- Proposal of rights clearance and regulatory changes
- Sectoral development plans
- Attraction of investors

Page 13

If the Targets are not Met ?

In the event of delay – measured by objectives of privatizations and proceeds:

- more state assets will be earmarked for sale
- new austerity measures will be implemented
- the management of the fund could be changed

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HRAF: Key Success Factors

EXTERNAL KEY SUCCESS FACTORS

- Independence from political pressures
- Legislation to deal with major regulatory / licensing obstacles
- Stable economic environment with minimized risk

INTERNAL KEY SUCCESS FACTORS

- Composition of the Board
- Robust project management and tendering procedures
- Clear guidelines about value maximization

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HRAF AND TRANSPARENCY

- HRAF publishes semi annual update of the Asset Development Plan
- Quarterly reports on its steps to facilitate privatization
- P+L, Cash flow statement, Balance sheet every 3 months

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PRIVATISATION PLAN: Core Assets

STATE OWNED ENTERPRISES / CORPORATE SHARE SALES

- Public Gas Corporation SA (DEPA)
- Hellenic Football Prognostication Organisation SA (OPAP)
- Hellenic Horse Racing Company SA (ODIE)
- Hellenic Defence Systems SA (EAS)
- Hellenic Petroleum SA (HELPE)
- Hellenic Post (ELTA)
- Hellenic Casino of Parnitha (HCP)
- Hellenic Vehicle Industry SA (ELVO)
- Mining Company (LARCO)

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PRIVATISATION PLAN: Core Assets

REAL ESTATE ASSETS

The HRAF has access to over 70,000 state-owned real estate assets, including major projects such as:

- Hellinikon airport
- The International Broadcasting Center (IBC)
- The Kassiopi property at Corfu
- The Afantou property at Rhodes
- The Astir Vouliagmenis Resort (jointly with NBG)
- Several real estate properties abroad
- Several smaller tourist properties (Ermioni, Xenia Hotels, St. Ioannis – Sithonia etc.)

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PRIVATISATION PLAN: Core Assets

INFRASTRUCTURE / CONCESSIONS

- 4 Major Motorways
- 12 Ports
- More than 20 Marinas
- 22 Regional airports
- Mobile licenses
- Liquid Gas Terminal (LNG)

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Recent privatization public research

In a recent (April 2012) independent public research conducted on behalf of TAIPED, the results were promising:

76% are in favor of the privatization plan

81% believe the privatization plan will help economic growth

74% believe that private investors will manage the assets better than the state

81% believe that privatization will bring more jobs and investments

50-77% Agree with privatization according to specific assets (highest: National train company / lowest: water & sewage cos.)

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Privatization Benefits to the Economy

Based on reasonable estimates, the Hellenic privatization plan is expected to have the following benefits to the Greek economy:

- Investments > 25 billion by 2020
- 3%+ growth of GDP
- creation of 150.000 new jobs

These benefits are much more significant than the immediate proceeds of the plan

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Panel: 4

Lessons learned and dangers to avoid

PANEL 4

Ministry of Treasury
of the Republic
of Poland

Panel 4: Lessons learned and dangers to avoid

Panelists:

- Vitaly Sergeychuk, Deputy Head of the Department, Federal Property Management Agency, Russia
- Vladislav Cvetković, Director, Privatization Agency, Republic of Serbia
- Csaba Polacsek, Deputy CEO, Corporate Portfolio of the Hungarian National Asset Management Inc.
- Hans Christiansen, Senior Economist in the Corporate Affairs Division, OECD

Moderator:

Krzysztof Walenczak

Chief Country Officer, Societe Generale Corporate & Investment Banking in Poland, former Undersecretary of State at the Ministry of Treasury (2010 – 2011)

Krzysztof Walenczak was appointed to the position of CCO of the Polish branch of Societe Generale Corporate & Investment Banking in May 2012. Krzysztof has extensive experience in international banking and finance. He also has long-standing ties with the world of global capital markets.

From August 2010 to December 2011, he served as an Undersecretary of State in the Polish Ministry of Treasury. As Deputy Minister, he was in charge of the national policy regarding the development of capital markets, with the objective to create in Warsaw a regional financial center for Central and Eastern Europe (CEE). He was also responsible for all privatisation transactions on the Warsaw Stock Exchange (WSE), including the IPO of WSE itself. In such a capacity, he executed most of the 20 largest privatisations in Poland, with total proceeds of over USD 10 billion. He was also responsible for government's relationships with global investors community, which included, among others, the annual World Economic Forum in Davos and the annual CEE IPO Summit held in Warsaw.

He began his cooperation with the Ministry of Treasury as the Treasury's investment banker, advising the Treasury in the dispute with Eureko over shareholding in PZU (the largest insurer in CEE). Following the resolution of this dispute, he was then appointed as Chief Economic Advisor to the Minister of Treasury. At that time, Krzysztof Walenczak had already been an experienced investment banker. He started his career in the banking sector with Lehman Brothers, first in New York (2002 to 2007) and then in London (2008). He specialised in mergers and acquisitions, capital issues and restructuring of companies from the banking, insurance and specialty finance sectors. In early 2008, he transferred from New York to London with the task to expand Lehman Brothers' focus on Central and Eastern Europe, Russia and Kazakhstan. He was responsible for investment banking projects implemented with regional banks, insurance companies and a stock exchange. In 2008, he joined Nomura International.Before his career in banking, he worked in the Financial Institutions Department at Arthur Andersen, New York, from 1996. Krzysztof Walenczak graduated from Harvard University, Harvard Business School, with Master's Degree in Business and Administration (MBA). He also graduated "summa cum laude" from the City University of New York, where he received Bachelor's Degree in Business Administration (BBA).

PRIVATISATION OF FEDERAL PROPERTY

Vitaly Sergeychuk

Deputy Head of the Department, Federal Property Management Agency, Russia

Vitaly Sergeychuk joined Federal Property Management Agency in August 2012 from VTB Capital, the leading Russian investment bank, where he was part of the Investment Banking team.

He has 8 years of experience in investment banking (work in UFG, Deutsche Bank and VTB Capital) where he was responsible for a number of transactions including M&A, corporate restructurings and capital raisings for leading international and Russian companies from Energy, Utilities, Metals&Mining and Infrastructure sectors with total value more than US$15 bn.

Earlier in his career Vitaly Sergeychuk worked also in A.T. Kearney. He has earned a degree in Economics from Moscow State University named by Lomonosov.

The Federal Agency for State Property Management (Rosimushchestvo) is a federal executive body managing federal property (excluding cases when, in accordance with the Russian legislation, these powers are exercised by other federal executive bodies), organising the sale of federal property to be privatised and property seized in accordance with a court decision or the directives of other agencies that have the right to foreclose on a property, selling confiscated, movable and derelict, abandoned and any other property turned over into state ownership in accordance with the Russian legislation, as well as providing government services and law-enforcement functions in the field of property and land relations.

Privatisation of Federal Property

New approach: Basic principles and first results

Sections

2

Section 1

Privatisation History and Plans

Privatisation History and Plans in Russia vs. World

Deals on International Markets since 1995[1]

	Country													
	Total volume of privatisation deals ($bn)	144	216	154	92	301	209	105	22	172	205	109	46	57
	Total volume of deals ($bn)	25.395	2.689	7.722	3.145	3.650	3.538	2.059	2.849	2.024	1.101	1.113	198	186
	% of privatisations deals in total deal volume	1%	8%	2%	3%	8%	6%	5%	1%	8%	19%	10%	23%	31%
ECM market	Volume of privatisation deals ($bn)	78	43	19	77	82	53	44	6	100	86	41	21	9
	Total volume of deals ($bn)	3.778	981	817	679	505	471	427	424	320	249	121	52	25
	% of privatisations in total deal volume	2%	4%	2%	11%	16%	11%	10%	1%	31%	35%	34%	40%	36%
M&A Market	Volume of privatisation deals ($bn)	66	173	135	15	219	156	61	16	72	119	68	25	48
	Total volume of deals ($bn)	21.617	1.708	6.905	2.466	3.145	3.067	1.632	2.425	1.704	852	992	146	161
	% of privatisations in total deal volume	0.3%	10%	2%	1%	7%	5%	4%	1%	4%	14%	7%	17%	30%

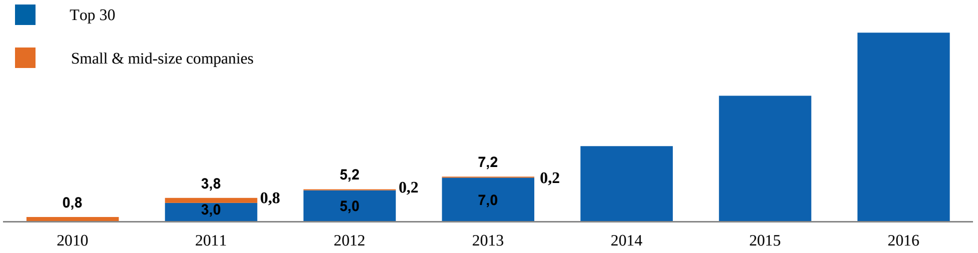
The Privatisation Plan Is Unprecedented in Terms of Scale in Russian Stock Market History

(1) Information presented by Dealogic
(2) Privatisation plan (programme) approved by decree No. 2102 as of 27 November 2010 of the Government of the Russian Federation

Privatization Highlights

The privatization programme includes a broad range of assets from various industries: from multi-billion flagships of Russian economy ("Top 30") to niche markets small & mid-size players

The Privatization Plan
($ billions)



ALL INVESTORS ARE WELCOME

Current limitations:

✓ No Russian state-owned or state-controlled companies allowed to participate in the privatization (according to the law)

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Privatization Targets
Select Assets Overview

	Company	Deal Parameters	Key Investment Highlights
Completed	SBERBANK	■ Sale of 7.58% stake in Sberbank (equivalent to $5.2bn) in the form of GDR's and shares in September 2012 ■ Order book was 2x oversubscribed at RUB 93 per share, representing 1.9% discount to market price)	■ The largest bank in Russia, 2nd largest bank in Europe, #6 largest bank in BRICs by market cap ($72bn as of 11-Apr-2013) ■ High profitability and attractive margins with 2012 ROA of 2.7%, ROE of 24.2% and a stable net interest margin of c.6%
Ongoing	VTB	■ The state successfully placed a 10% stake in VTB (equivalent to $3.3bn) in the course of a secondary public offering in February 2011 ■ An additional 10-18% stake to be privatized in 2013 through a secondary offering	■ 2nd largest bank in Russia by market cap ($16bn as of 11-Apr-2013) ■ Risk-averse profile with corporate loans comprising 79% of loan portfolio and an NPL ratio of 4.8% (down from 6.3% in 2009)
Ongoing	ALROSA	■ Privatization of a 7%+7% stake on the Moscow Exchange (expected in 2013)	■ World's largest diamond miner with a 27% share of global diamond production as of 2012 ■ Record performance on the back of strong demand and a favourable pricing environment with 9M 2012/FY 2011 revenue of $3.4/4.7bn and EBITDA of $1.6/2.1bn
Ongoing	SCF Sovcomflot	■ 25% incl. new share issue as a I stage with the following deals to come	■ One of the youngest and largest fleets in the world (158 vessels with total DWT - 12mt) ■ One of the most profitable players in the sector with a 9M 2012/FY 2011 EBITDA of $385/474m on revenue of $720/927m
Ongoing	RZD Russian Railways	■ Privatization to be conducted in 2 phases: private placement with and IPO to follow	■ The 3rd largest railway company in the world, operating c.86,000 km of railway network, controlling c.100% of locomotive fleet, 25% of railcar fleet and 100% rail passenger traffic in Russia ■ Strong financial profile with 1H 2012/FY 2011 revenue of c. $24/50bn and EBITDA of $7/12bn

Source: Company information, Bloomberg

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Privatization Targets:
Flagships of the Russian Economy (Top-30)

Transaction Status	Companies
Completed	SBERBANK; СГ-ТРАНС SG-Trans; ПОРТ ВАНИНО Vanino Port; АПАТИТ Apatit
Execution	RUSNANO; S7 AIRLINES; МОСЭНЕРГОСТРОЙ Mosenergostroy; SCF; JSC "TGC-5"; ROSNEFT; ATF
Preparation	VTB; РЖД Russian Railways; АЛРОСА ALROSA; United Grain Co
Discussion	UAC; ОСК United Shipbuilding Company; Rosagroleasing; Transneft; INTER RAO UES; AEROFLOT; RusHydro; URALVAGONZAVOD; INTERNATIONAL AIRPORT SHEREMETYEVO

7

Section 2

Principles of and Approaches to the Privatisation Process

8

Key Privatization Principles

Principle	Comments
Agent	■ To privatize large companies (Top 30) the government hires global investment banks to execute transactions on its behalf ■ Leading global banks bring a high quality expertise and help implement best market practices
Publicity	■ Mandatory broad coverage of the privatization process on the Agent's website and in the media ■ Distribution of materials on the process to a broad list of potential investors
Competition	■ Broadest possible investor base (incl. foreign) to be covered: any investor qualifying the criteria is eligible to participate
Criteria	■ A set of criteria is agreed for each transaction in order to attract only high quality investor base ■ Compliance with criteria is supervised by Agents, incl. basic criteria: no government affiliation, no debts/taxes are due to the government, all appropriate regulatory permits are granted, proof of sufficient funds
Transparency	■ Equal access to information on the process and the issuer will be granted to all interested parties complying with the selection criteria

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Key Stages in the Privatisation Process of a "Top 30" Asset

	Preparation for Privatisation	Expert Discussions	Selection of Agent	Transaction Execution	Closing the Transaction
Key Participants	Strategic consultant to the company Global consultant to the Government of the Russian Federation	Experts	Agent (investment bank)	Market, Government, Agent	Government, Agent
Results	Road Map for company privatisation Selection of key criteria for the potential investor	Drafting of the transaction structure	Selection of the most qualified investment bank for the Agent role	Flow of funds to the Company and/or Federal Budget	Settlement of the transaction
2-3 years	30-60 days	60-90 days	30 days	180-365 days	30 days

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Section 3

Privatisation Experience and Lessons Learned

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Sberbank Case Study

SBERBANK

- Offer type – SPO
- Share stock – 7.58%
- Offer size – RUB 159.309bn
- Number of shares – 1,712,994,999
- **Price per share – RUB 91**
- **Discount to market price – 1.9%**

- Largest privatisation deal out of Russia in the last 5 years
- **One of the largest global public offerings in 2012**
- Bids were received from over 300 institutional investors
- For the first time an exchange-traded tranche was used (3% on MICEX)
- Post transaction free float: 50% - 1 share
- Breakdown by instruments: GDR – 69%, USD-denominated shares – 21%, RUB-denominated shares – 10%

Successful Solution to Existing Privatisation Problems

1)	**Conflict between beneficial shareholder and management**	■ Consideration of interests of both sides as part of the development of the Company's long-term strategy ■ Tactical transaction – there was no conflict between the owner (Central Bank) and the management (Sberbank) ■ The issuer itself (Sberbank) had played the agent role
2)	**Selection of optimal window and deal structure**	■ Preparation process lasted for 15 months
3)	**Balance of privatisation goals and investor selection criteria**	■ Offering marketed to broadest possible investor base ■ For the first ever time, direct access was provided to investors via the stock exchange tranche (MICEX) ■ Freedom to make a decision on selection of the bookrunners for the deal
4)	**Privatisation process framework and limited selection of instruments**	■ Pre-delivery of shares ■ Transaction under English Law ■ Underwriter agreement under English Law ■ London court ■ Deferral of payment
5)	**Seller's communication policy**	■ Coordinated actions on the part of the seller and acquirers regarding public announcements regarding the transaction

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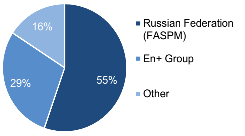
Vanino Commercial Sea Port Case Study

Target		▪ 55% equity stake in OJSC Vanino Commercial Sea Port
Agent of the government		▪ VTB Capital
OJSC Vanino Port overview		▪ 5th largest port in Far East (by turnover) ▪ Turnover for 2011 г. – 5,909 th.t ▪ Revenue for 2011 г. – RUB1,563m ▪ EBITDA for 2011 г. – RUB550m
Minimum price		▪ RUB 1,500,000,000
Sale price		▪ RUB 15,500,151,645 (Mechel)
Transaction multiples[1]	EV / EBITDA 2011A	▪ 51x
	EV / EBITDA 2012F	▪ 70x
	EV / norm. EBITDA[2]	▪ 11x
	EV / capacity (RUB./t)	▪ 3,489
Tender participants		MECHEL, En+, UCL, SUEK

OJSC Vanino Port shareholders
(before the transaction)



Importance of the deal for the Russian market

5 — 5th largest transaction in Russian infrastructure and transportation sector in 2012

2 — 2nd largest transaction in Russian ports sector in 2012

3 — 3rd largest privatization transaction in 2012 after privatization of SG-Trans and 7.6% of Sberbank

Key factors of successful M&A offer type

- Offer type - highly competitive selection of buyers for the sale of shares in a single block with the opportunity of improving the bid prices
- Multi-stage competitive negotiations, instead conventional auction process
- Special qualification criteria have been set in order to guarantee presence of only high quality, motivated candidates in the final round
- Full process transparency with regular publicity of important transaction stages was one of the priorities for the Seller/Agent
- Appointment of an independent appraiser along with an opinion of a self-regulated company

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SG-Trans Case Study

СГ-ТРАНС

- **Target** – 100%
- **Agent of the government** – Renaissance Capital
- **Start price**– 10.096bn
- **Sale price** – RUB 22.77 bn
- **Buyer** – JSFC Sistema
- **Tender participants** – JSFC Sistema, RusTransKom, Spetsenergotrans, TransEvroGaz (of 15 interested parties)
- **Price/2012 EBITDA multiple** – 12,8x
- **Upside to starting price** – 126%
- **Non-binding (first stage) offers** – 17 companies

SG-Trans overview

- No.1 LPG rail transporter in Russia
- **Revenue for 2010 г.** – RUB7,564m
- **EBITDA for 2010 г.** – RUB1,266m
- **Net income for 2010 г.** – RUB314m

Deal summary

- The deal is one of few examples of the successful sale of a large, state-owned company conducted via multi-stage competitive negotiations
- SG-trans' appropriate and advantageous positioning, and the motivation of the participants invited into the process by Renaissance Capital, were key to the success of the deal
- The acquisition of SG-trans gives JSFC Sistema a stable foothold in the attractive rail transportation market

Key factors of successful M&A offer type

- Offer type - highly competitive selection of buyers for the sale of shares in a single block with the opportunity of improving the bid prices
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- Appointment of an independent appraiser along with an opinion of a self-regulated company

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SERBIA: PRIVATIZATION EXPERIENCE

Vladislav Cvetković

Director, Privatization Agency, Republic of Serbia

Mr. Cvetković was born in 1969 in Leskovac, Serbia. He is director of the Privatization Agency Republic of Serbia and he is holding this position since 2009. From 2007 until 2009 he was deputy director in the same institution. Before this, he was the lead bank privatization adviser with the Deposit Insurance Agency, the institution responsible for privatizations of financial sector institutions in Serbia. He has made a significant contribution to the development of financial reform projects of the Serbian transition governments since 2001. The agenda included successful initial restructuring of the Serbian banking sector, followed by regulatory improvements in financial legislation, privatization strategy development and numerous banking and insurance companies privatization and restructurings, with the National Bank of Serbia, Ministry of Finance and Bank Rehabilitation Agency. Mr. Cvetković was the chairman of the supervisory board of the largest Serbian bank, Komercijalna, and a member of the National Accounting Commission.

He is also responsible for a number of complex ongoing privatization transactions within the framework of the Ministry of Finance and Economy and other relevant Serbian institutions. Mr. Cvetković is a graduate of finance and accounting from Belgrade University and holds an MA in Auditing. His professional experience includes auditing and financial advisory services with Deloitte CEE and EKI Investment, private equity advisory companies based in Belgrade. He also maintains an academic career with the department of accounting and finance of the Belgrade University School of Economics, lecturing in auditing and international accounting.

PRIVATIZATION AGENCY
Republic of Serbia

Privatization Agency was founded in 2001 and operates in accordance with the Law on Privatization and the Law on Privatization Agency. In accordance with the law, the Agency mediates in the sale of state and socially-owned capital and assets in the privatization process, and performs duties relating to promotion, initiation, implementation and control of privatization. In addition, the Agency undertakes activities in the name and for the account of the Shareholders Fund, and acts as bankruptcy administrator and business liquidator in accordance with applicable laws.

To this point, under the authority of the Privatization Agency, over 2,000 companies were sold through auctions and tenders, generating total revenues of over EUR 3 billion. Among our buyers were Philip Morris, Lafarge, British American Tobacco, Henkel, Lukoil and many others.

In recent years, the focus has shifted from standard auction and tender sales to strategic partnerships. Many international companies, such as FIAT, Benetton, Falke, Gorenje, Yura, have recognized the benefits of experienced workforce and incentives for investors provided by the Serbian government.

Nowadays, Privatization Agency is practically "one-stop shop". With the 12-year experience, strong legal framework and a variety of methods of sale, Privatization Agency is a starting point for all potential investors in Serbia.

SERBIA:

Privatization experience

Vladislav Cvetkovic, Privatization Agency, Republic of Serbia

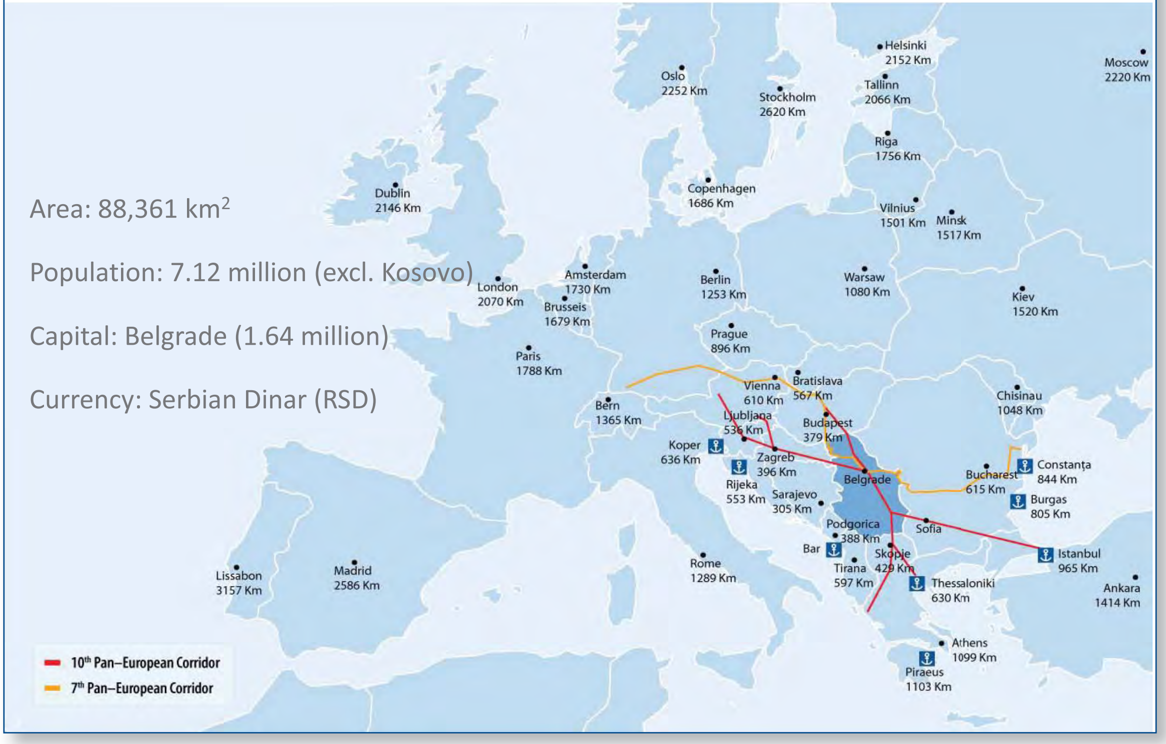
Serbia is a EU candidate country

Area: 88,361 km^2

Population: 7.12 million (excl. Kosovo)

Capital: Belgrade (1.64 million)

Currency: Serbian Dinar (RSD)



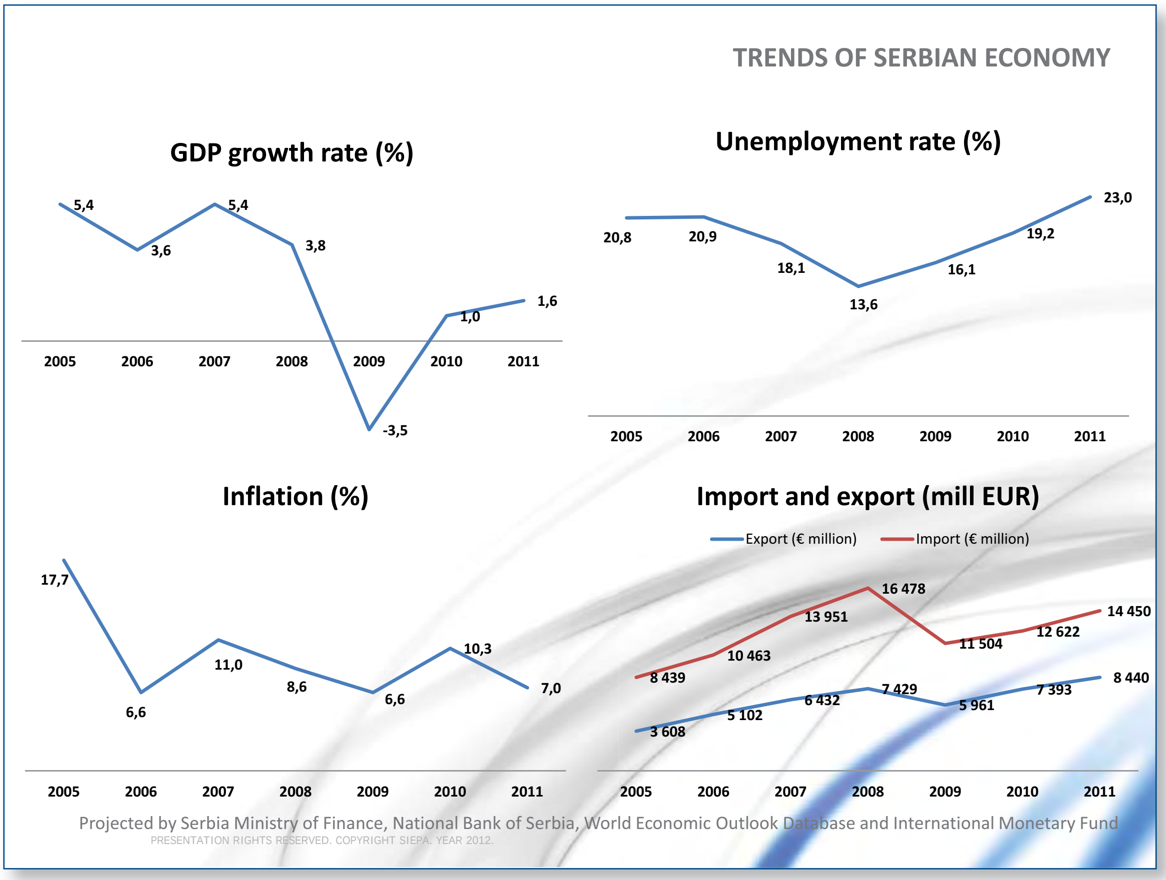
SERBIA ECONOMY AND POLITICS

- The Stabilization and Association Agreement (SAA) with EU signed in April 2008;
- SAA ratified by EU parliament in January 2011;
- EU candidate status in March 2012;
- Trade interim agreement with EU since 2009;
- Visa liberalization for Serbian citizens since December 2009;
- In process of WTO accession;
- Law on Foreign Investments adopted in 2002 – equalizing all rights of domestic and foreign investors

TRENDS OF SERBIAN ECONOMY

	2005	2006	2007	2008	2009	2010	2011	2012
GDP growth rate (%)	5.4	3.6	5.4	3.8	-3.5	1.0	1.6	-2.0
Unemployment rate (%)	20.8	20.9	18.1	14.0	16.6	19.2	23.7	I-X 25.5
FDI (€ million)	1,303	4,234	2,848	2,434	1,810	1,139	2,236	I-IX 1,556
Inflation (%)	17.7	6.6	11.0	8.6	6.6	10.3	7.0	I-X 12.7
Export (€ million)	3,608	5,102	6,432	7,429	5,961	7,393	8,441	I-XI 8,080
Import (€ million)	8,439	10,463	13,951	16,478	11,504	12,622	14,250	I-XI 13,385

Projected by Serbia Ministry of Finance, National Bank of Serbia, World Economic Outlook Database and International Monetary Fund


TRENDS OF SERBIAN ECONOMY
GDP growth rate (%)
5,4 3,6 5,4 3,8 -3,5 1,0 1,6
2005 2006 2007 2008 2009 2010 2011
Unemployment rate (%)
20,8 20,9 18,1 13,6 16,1 19,2 23,0
2005 2006 2007 2008 2009 2010 2011
Inflation (%)
17,7 6,6 11,0 8,6 6,6 10,3 7,0
2005 2006 2007 2008 2009 2010 2011
Import and export (mill EUR)
Export (€ million)
Import (€ million)
8 439 10 463 13 951 16 478 11 504 12 622 14 450
3 608 5 102 6 432 7 429 5 961 7 393 8 440
2005 2006 2007 2008 2009 2010 2011
Projected by Serbia Ministry of Finance, National Bank of Serbia, World Economic Outlook Database and International Monetary Fund
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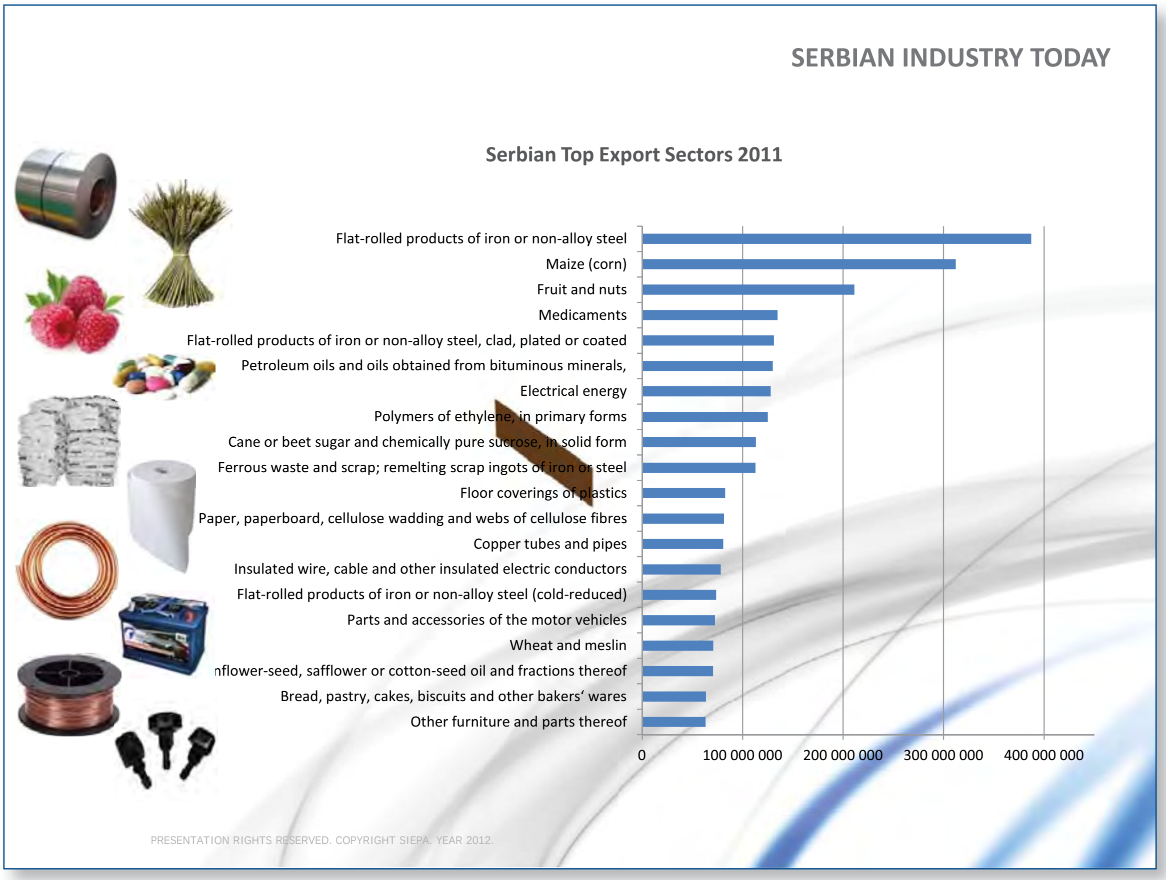

SERBIAN INDUSTRY TODAY
Serbian Top Export Sectors 2011
Flat-rolled products of iron or non-alloy steel
Maize (corn)
Fruit and nuts
Medicaments
Flat-rolled products of iron or non-alloy steel, clad, plated or coated
Petroleum oils and oils obtained from bituminous minerals,
Electrical energy
Polymers of ethylene, in primary forms
Cane or beet sugar and chemically pure sucrose, in solid form
Ferrous waste and scrap; remelting scrap ingots of iron or steel
Floor coverings of plastics
Paper, paperboard, cellulose wadding and webs of cellulose fibres
Copper tubes and pipes
Insulated wire, cable and other insulated electric conductors
Flat-rolled products of iron or non-alloy steel (cold-reduced)
Parts and accessories of the motor vehicles
Wheat and meslin
nflower-seed, safflower or cotton-seed oil and fractions thereof
Bread, pastry, cakes, biscuits and other bakers' wares
Other furniture and parts thereof
0 100 000 000 200 000 000 300 000 000 400 000 000
PRESENTATION RIGHTS RESERVED. COPYRIGHT SIEPA. YEAR 2012.

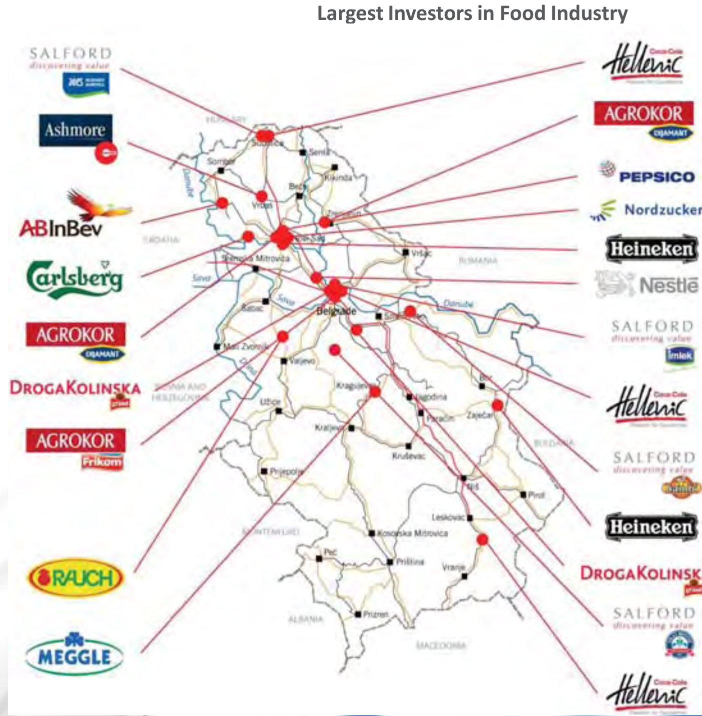
TOP INVESTMENT SECTORS - AUTOMOTIVE

Largest Investors in Automotive Industry

- More then 1.4 billion euros of FDI,
- In two years automotive products will become Serbia's top export item,
- More than 70 years of tradition,
- Experienced, educated and inexpensive labor,
- Available labor,
- Well developed infrastructure.

TOP INVESTMENT SECTORS - FOOD

Largest Investors in Food Industry

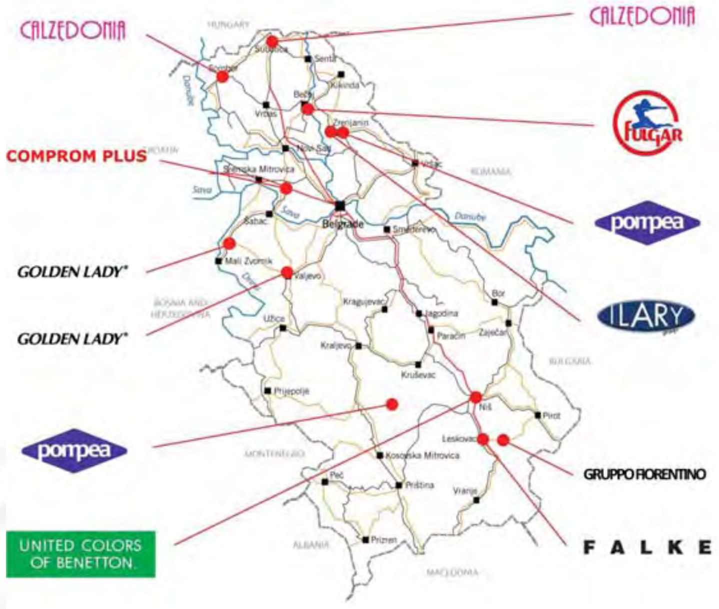


- Second largest FDI sector in Serbia (after Financial),
- More than 2.6 billion of euros of FDI,
- Excellent agricultural land – also opportunity for investments in primary production,
- Over one third of world's raspberries are grown in Serbia,
- Excellent position to cover SEE market,
- Excellent conditions to serve Russian market.

TOP INVESTMENT SECTORS - CLOTHING

Largest Investors in Clothing Industry

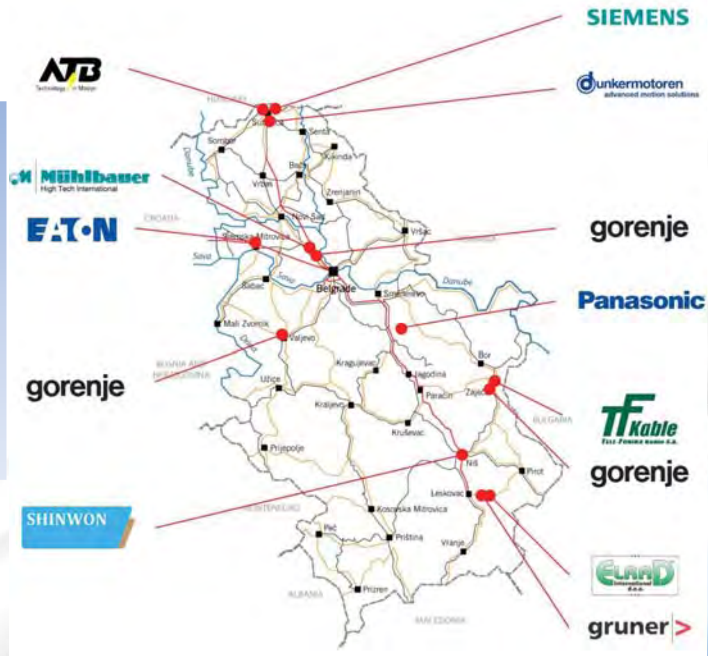
- One of Serbia's top exporting sectors,
- Abundant supply of experienced labor,
- Salaries in Serbia provide for cost effective production,
- Available brownfield locations.



TOP INVESTMENT SECTORS - ELECTRONICS

Largest Investors in Electronics Industry

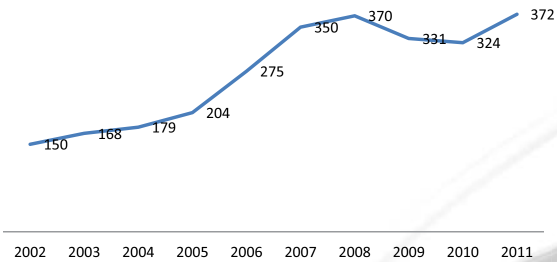
- One of sectors of strategic importance for Serbia,
- A sector with long tradition but only recently re-developed by entry of brands as Siemens, Eaton, Panasonic and Gorenje,
- State is investing in development of innovation technical parks,
- Strong university centers in Belgrade, Nis and Novi Sad.



TECHNICAL EDUCATION CENTERS IN SERBIA

SERBIA COST TABLE

Average net salary (EUR)



Typical monthly salaries:	Net:	Total:
Minimal salary:	184 €	303 €
Average blue collar salary	250 €	412.5 €
Average white collar salary	550 €	907.5 €
Working week:	40h	
Overtime:	8h/week 4h/day	
No. of shifts:	max 3	
Utilities:		
Electricity cost:	0.05 €/kWh	
Gas cost:	0.42 €/m3	
Water cost:	0.2 €/m3	
Building:		
Average rent cost:	5 €/sqm	
Average building cost:	400 €/sqm	

INFRASTRUCTURE

SERBIA FREE TRADE AGREEMENTS


European Union


EFTA


Russia


Kazakhstan


CEFTA

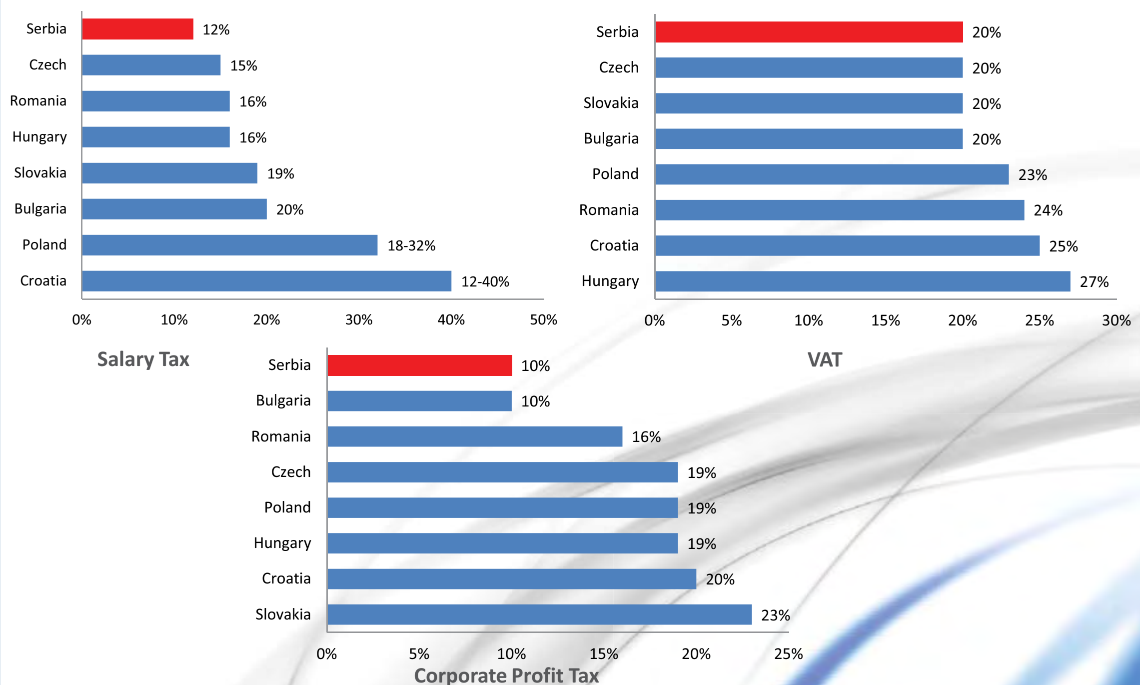

Turkey


Belorussia


USA – preferential trade

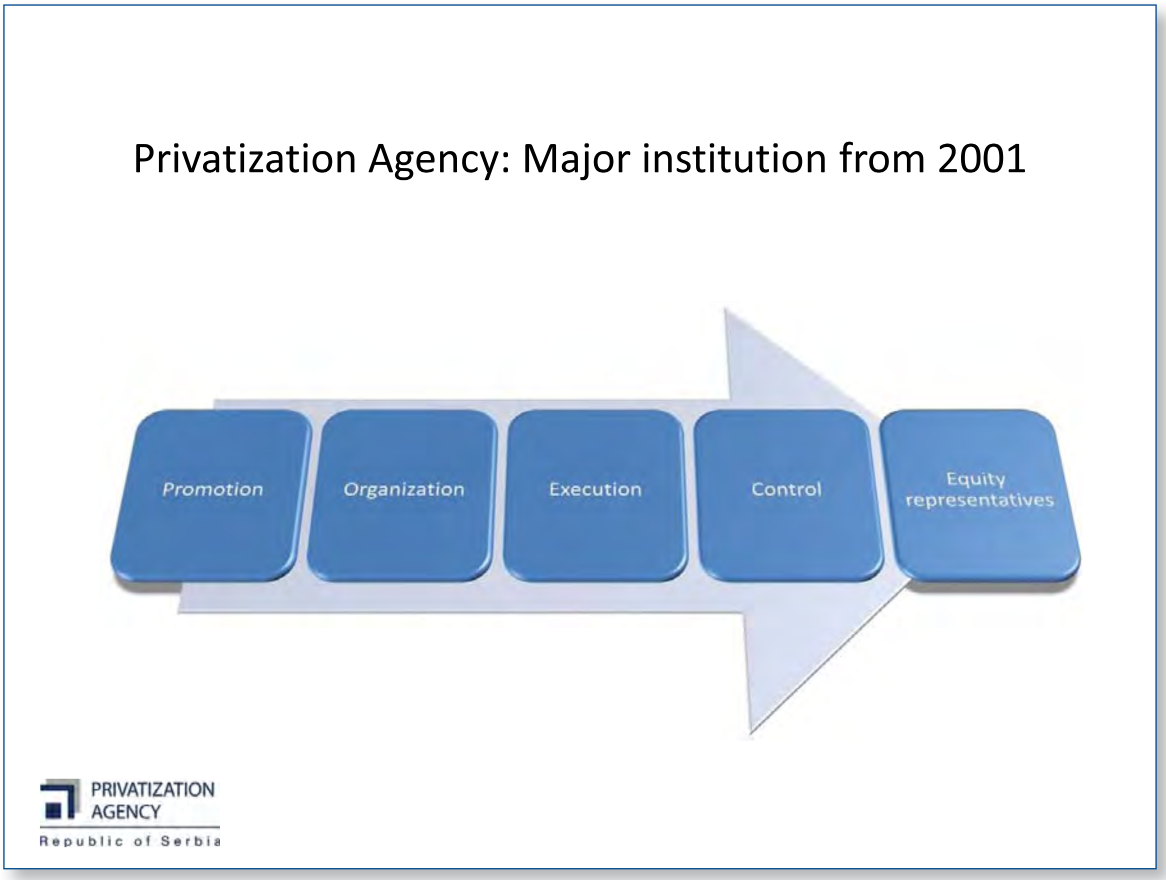
0% - import duties; 0% - export duties

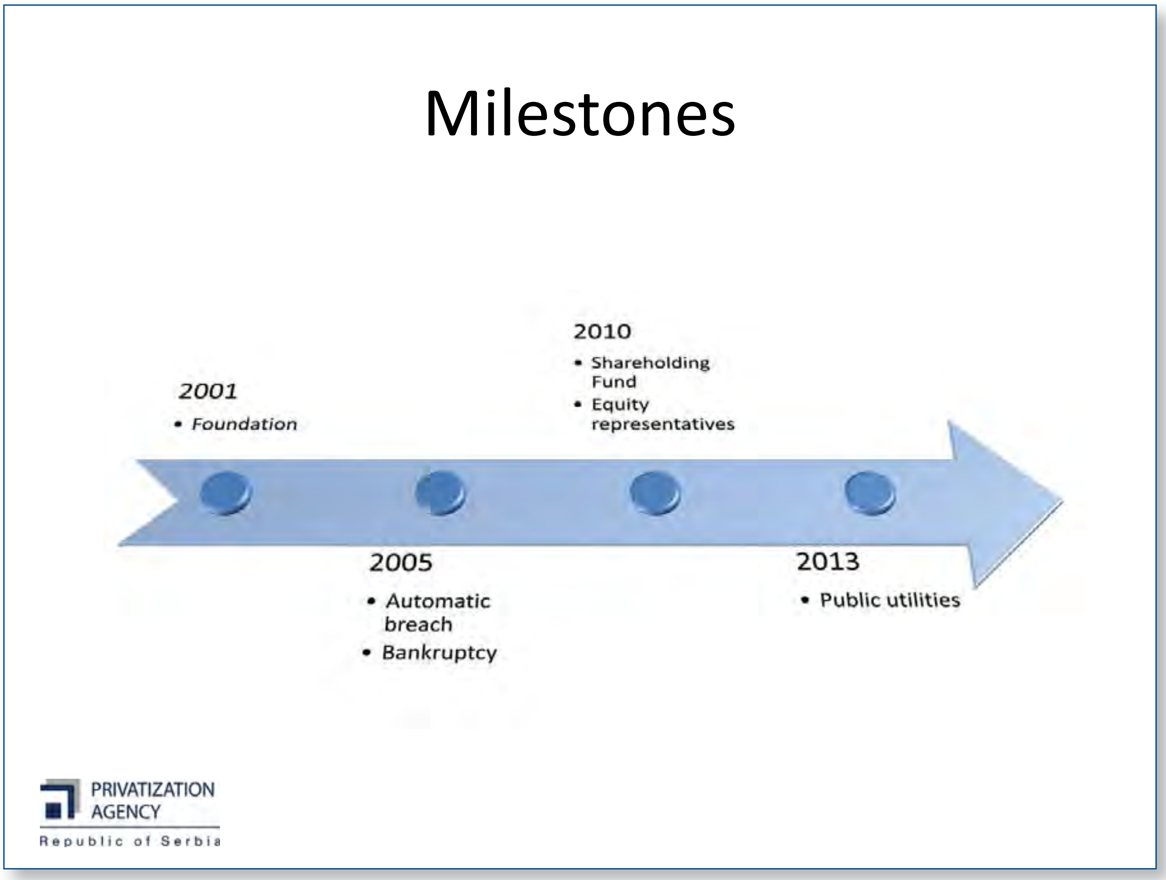
MOST ATTRACTIVE TAX SYSTEM IN EUROPE



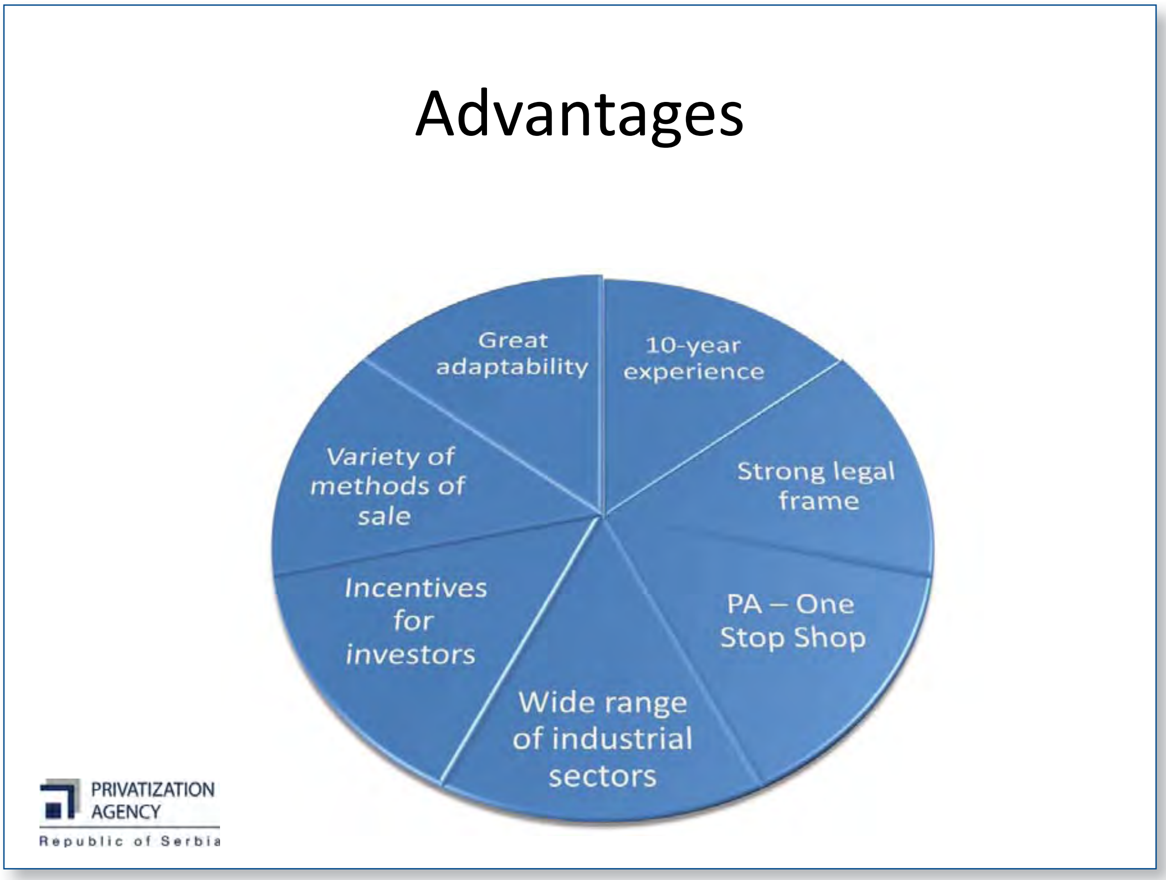
MOST ATTRACTIVE TAX SYSTEM IN EUROPE

Tax:	Rate:	Recurrence:	Possible incentive:
Corporate Profit Tax	10%	yearly	10 year holiday (investments over 7.7 million euro and 100 new jobs) or 20%, 40% or 80% of investment value as tax credit
Withholding Tax (for dividend, shares in profits, royalties, interest income, capital gains, lease payments for real estate and other assets)	20%	yearly	lower rate of 10% or 5% according to double taxation agreement
VAT	20% - standard 8% - lower rate	monthly	import VAT return import VAT exempt in free trade zones
Property Tax	up to 0.4%	yearly	varies by municipality
Absolute Rights Transfer Tax	2.5% - other property except stocks and bonds	at purchase of property	
Salary Tax	12%	monthly	3 - year holiday for hiring apprentices 2 - year holiday for hiring unemployed workers
Annual Income Tax	10% - for annual salaries between 3 and 6 x average 15% - over 6 x average salary	yearly	
Pension and disability insurance	11%	monthly	3 - year holiday for hiring apprentices 2 - year holiday for hiring unemployed workers
Health insurance	6.15%	monthly	3 - year holiday for hiring apprentices 2 - year holiday for hiring unemployed workers
Unemployment insurance	0.75%	monthly	3 - year holiday for hiring apprentices 2 - year holiday for hiring unemployed workers


Privatization Agency: Major institution from 2001
Promotion
Organization
Execution
Control
Equity representatives
PRIVATIZATION AGENCY
Republic of Serbia


Milestones
2001
• Foundation
2005
• Automatic breach
• Bankruptcy
2010
• Shareholding Fund
• Equity representatives
2013
• Public utilities
PRIVATIZATION AGENCY
Republic of Serbia


Methods of sale
Tender
Capital Market
Asset sale
Bankruptcy
Strategic partnership
PRIVATIZATION AGENCY
Republic of Serbia


Advantages
Great adaptability
10-year experience
Strong legal frame
PA – One Stop Shop
Wide range of industrial sectors
Incentives for investors
Variety of methods of sale
PRIVATIZATION AGENCY
Republic of Serbia

Results

TENDERS AND AUCTIONS

- 2.289 enterprises sold since 2001
- Total sale income € 3 billion
- Total investment commitment € 1,4 billion
- Obligatory social program € 280 million
- 668 contracts breached since 2003

BANKRUPTCY – ASSETS SALE

- Total asset sold in 354, partly sold in 249 companies since 2005
- Total sale income € 600 million

PRIVATIZATION AGENCY
Republic of Serbia

Strategic partnerships

INVESTOR	SUBJECT	Nr. employ.	INVESTMENT million €	PRICE million €
FIAT	Zastava	10.000	700	
YURA	Zastava Elektro	1.000	8	3
BENETTON	Nitex	2.700	43	3
GORENJE	Porcelan	300	8	1,1
LEONI	FIAZ	600	8	3,7
FALKE	Inkol	2.000	15	6,2
Total		**16.600**	**782**	**17**

PRIVATIZATION AGENCY
Republic of Serbia

Overall plan for 2013

- Adoption and implementation of the Action Plan for ending the restructuring procedure
- Tailor made transaction for potential investors interested in investing in individual business units of companies in restructuring
- Privatization of large publicly owned companies
- Special projects for investors in real estate (hotels and spas)

PRIVATIZATION AGENCY
Republic of Serbia

ANALYSIS OF PRIVATIZATION EFFECTS IN SERBIA

PRIVATIZATION AGENCY
Republic of Serbia

PRIVATIZATION COMLETED BY 2005

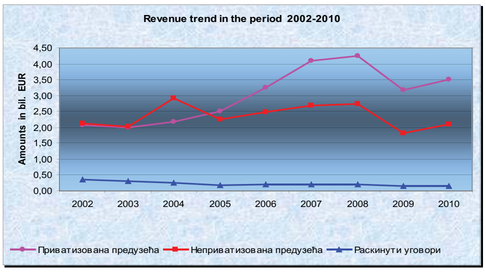
- 1,054 of privatized companies
- 537 of non-privatized companies and companies undergoing restructuring
- 346 of terminated agreements
- The effects observed in the period 2002 – 2010

PRIVATIZATION AGENCY
Republic of Serbia
09/05/2013

Revenues and operating results

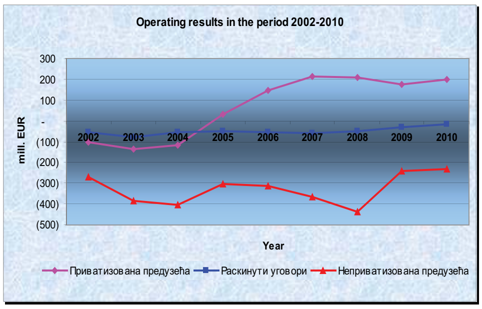
REVENUE TREND

- Privatized companies have increased revenues by 75%
- Non-privatized companies remained at the same level
- The companies with terminated agreements reduced the revenues by 45%



OPERATING RESULTS

- In 2002 all companies had operating loss, whereas in 2010 only privatized companies had operating profit
- Privatized companies generated operating loss in the amount of EUR 102 mil. in 2002, whereas they ended year 2010 with operating profit of EUR 200 mil.
- Non-privatized companies continued making operating loss



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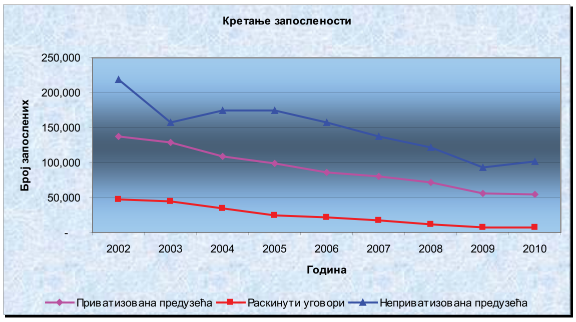
Republic of Serbia
09/05/2013

Employment issue



- All three groups of companies show visible downward trend of employment over the past decade
- This denies the frequently used thesis that privatization is the major cause of rising unemployment
- Decrease in the number of employees is an obvious indicator that all socially owned companies in Serbia had overemployment issues

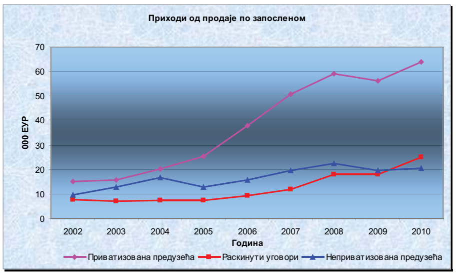
PRIVATIZATION AGENCY Republic of Serbia

09/05/2013

Productivity and Net worth

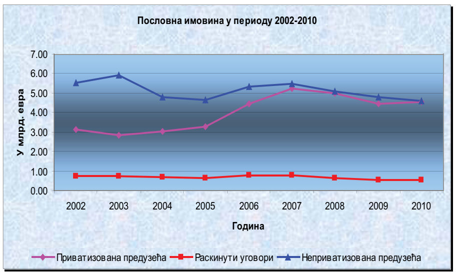
PRODUCTIVITY

- Productivity raised in all three groups of companies
- Revenues per employee in privatized companies increased by 4.3 times
- Companies with terminated agreements and unsold companies showed the increase of productivity, but mainly due to downsizing of employees



PROPERTY VALUE

- Only privatized companies increased the value of operating assets, for almost 60%
- Non-privatized companies have decreased their net worth 14% respectively, but still have the greatest value of assets



PRIVATIZATION AGENCY Republic of Serbia

09/05/2013

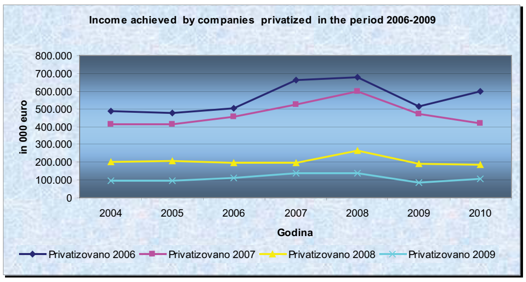
ENTERPRISES PRIVATIZED IN THE PERIOD 2006 – 2010

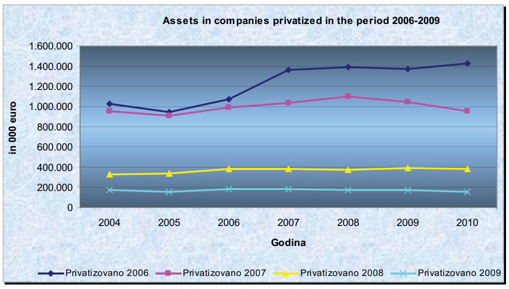
- 852 privatized companies
- Observed effects in the period 2002 – 2010

PRIVATIZATION AGENCY
Republic of Serbia
09/05/2013

Companies privatized in the period 2006-2009

- The largest number of companies were privatized in 2007 (35%), while the lowest number of privatizations was recorded in 2009 (9%)
- It is evident that the companies privatized in 2006 were of greater importance and in better condition than the companies privatized in the following years





PRIVATIZATION AGENCY
Republic of Serbia
09/05/2013

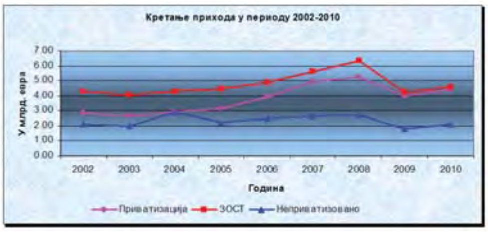
COMPARISON OF THE EFFECTS OF THE PRIVATIZATION LAW (PL) AND THE OWNERSHIP TRANSFORMATION LAW (OTL)

- 777 companies privatized in line with the OTL
- 1,638 companies privatized in line with the PL
- 537 non-privatized companies and comp. in restructuring
- Observed effects in the period 2002 – 2010.

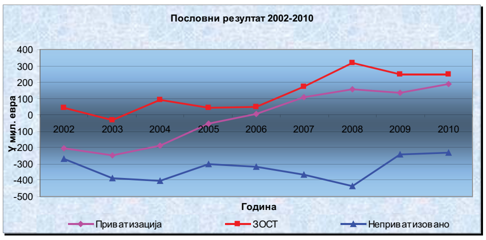
PRIVATIZATION AGENCY
Republic of Serbia
09/05/2013

Revenues and business result

REVENUES
- Companies privatized in line with the OTL recorded a revenue growth of 7%
- Companies privatized in line with the PL recorded a revenue growth of 55%
- Non-privatized companies are stagnating



BUSINESS RESULT
- Only non-privatized companies are making constant losses
- Only companies privatized according to the PL have started making profit after loss

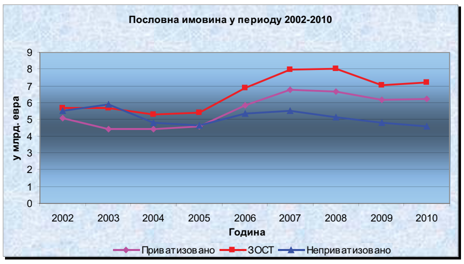


PRIVATIZATION AGENCY
Republic of Serbia
09/05/2013

Property value and leverage

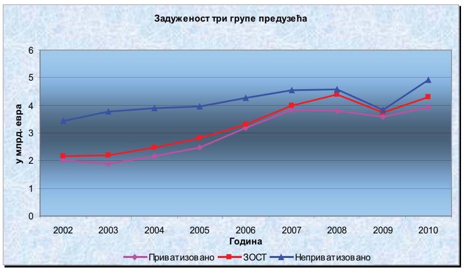
PROPERTY VALUE

- Most significant property was in the hands of non-privatized companies in 2003, and 7 years later, these were solely privatized companies
- Non-privatized companies have lost 20% of the property
- Companies privatized according to PL have increased property value by 20%
- Companies privatized according to OTL have increased property value by 30%



LEVERAGE

- New investments were financed mainly by borrowing, and thus all three groups of companies have increased their debts
- Non-privatized companies remain the most indebted group of companies due to old debts



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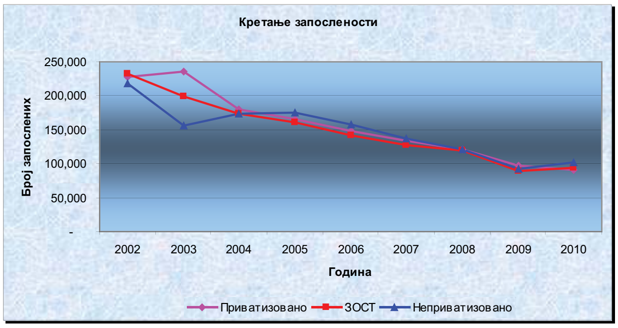
Republic of Serbia
09/05/2013

Employment



- Employment has plummeted in all groups of companies
  - –OTL – 139.000
  - –PL – 137.000
  - –Non-privatized – 117.000
- Privatization model is not crucial for the employment trend

PRIVATIZATION AGENCY
Republic of Serbia
09/05/2013

Conclusion

Visible positive effects of privatization

Revenues

- Privatized companies increased their revenues by 75%
- Non-privatized companies remained at the same level

Business result

- After making loss of EUR 102 million, privatized companies started quickly to make profit, which amounted to EUR 200 million by the end of 2010
- Non-privatized companies constantly make loss, without a single year as an exception

Productivity

- Largest revenue increase per employee was in privatized companies, while the productivity growth in non-privatized companies was more an outcome of a sharp decrease in the number of employees, than of the revenue increase

Property value

- In privatized companies, property value increased by 60%
- In non-privatized companies, property value decreased by 14%
- Non-privatized companies still have higher property value than privatized companies

Privatization model is not crucial for the employment trend

PRIVATIZATION AGENCY
Republic of Serbia
09/05/2013

PRIVATIZATION – LESSONS LEARNED

Csaba Polacsek

Deputy CEO, Corporate Portfolio of the Hungarian National Asset Management Inc.

Dr. Polacsek has been Deputy Chief Executive, Corporate Portfolio of the Hungarian National Asset Management Inc. since June 2010. Mr. Polacsek has over 20 years of experience in the financial services sector, he spent seven years with Deloitte and Touche in Hungary and the United States, 10 years with Creditanstalt-Bank Austria-UniCredit group, heading the investment banking and later the structured finance activities. Mr. Polacsek used to be the regional director of a major Hungarian construction and real estate development company for two years, in charge of the former Yugoslavia.

Mr. Polacsek graduated from and later earned his doctorate at the Budapest University of Economic Sciences and also studied at the Groningen Business School in the Netherlands. He is a CPA registered in Hungary and in the United States.

Mr. Polacsek is the Chairman of the Hungarian Post (Magyar Posta) and the Chairman of the Supervisory Board of Rába Automotive Holding Plc.

MNV | HUNGARIAN NATIONAL ASSET MANAGEMENT INC.

The Hungarian National Asset Management Inc. (HNAM) plays a leading role in the state co-ordination system of state-owned assets (real estates, movable assets, land, companies, special property elements) and property managers (Hungarian National Asset Management Inc. - HNAM Zrt., Hungarian Development Bank, National Land Fund, central budgetary organisations, municipalities).

The work of the Hungarian National Asset Management Inc., as a primary asset manager, allows a uniform framework for the records on the assets to be developed and also a professional, economic-efficiency-focused property management to be performed.

The principles of the work of the Hungarian National Asset Management Inc. are consciousness, sense of purpose, integrity, inventiveness. Its method of work is rationalisation; creativity instead of bureaucratic approach. HNAM is adapting to market requirements, accepts the logic of the market and performs the management of state assets along a clear framework of rules and regulations, according to uniform principles, predictably on a long term and respecting the community interests.

HNAM exercises the proprietary rights of state-owned companies, provides location for the organisations exercising public responsibilities, and manages the real estates and movable assets, nationally-known monuments as well as the ornaments, antiques possessed due to inheritance, which are under its control.

Privatization – Lessons Learned

MNV | Hungarian National Asset Management Inc.

OECD

Ministerstwo Skarbu Państwa

Dr. Csaba Polacsek
Deputy CEO, Corporate Portfolio
Hungarian National Asset Management Inc.

Warsaw, May 13, 2013

State ownership structure in Hungary

MNV | Hungarian National Asset Management Inc.

MNV | Hungarian National Asset Management Inc.

MFB
Hungarian Development Bank
Private Limited Company

NFA Nemzeti Földalapkezelő Szervezet

companies

real estates

intangibles and smaller physical assets, etc.

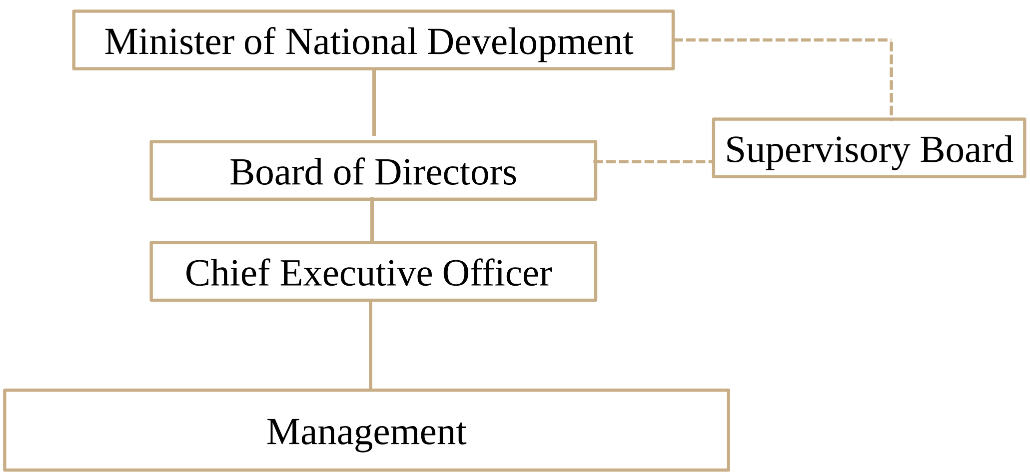
indirect asset management via asset management contracts

direct asset management

2

ORGANIZATIONAL CHART

MNV | HUNGARIAN NATIONAL ASSET MANAGEMENT INC.



3

STATE OWNERSHIP TODAY

MNV | HUNGARIAN NATIONAL ASSET MANAGEMENT INC.

- State ownership plays **an important role in the Hungarian economy**. The state-owned companies have a significant effect on GDP (12%).
- Privatisation phase is practically over, the attention is on **good governance and implementing public equity practices**.
- Applying **business-oriented thinking** and building up management structures in line with market standard is a must when it comes to state-owned asset management.
- **Centralized asset management system** is in the competence of the Ministry of National Development.
- Assets managed by the Hungarian National Asset Management Inc. amount to **€ 43,4 billion (including real estates),** making it one of the largest asset management agency in the region.

4

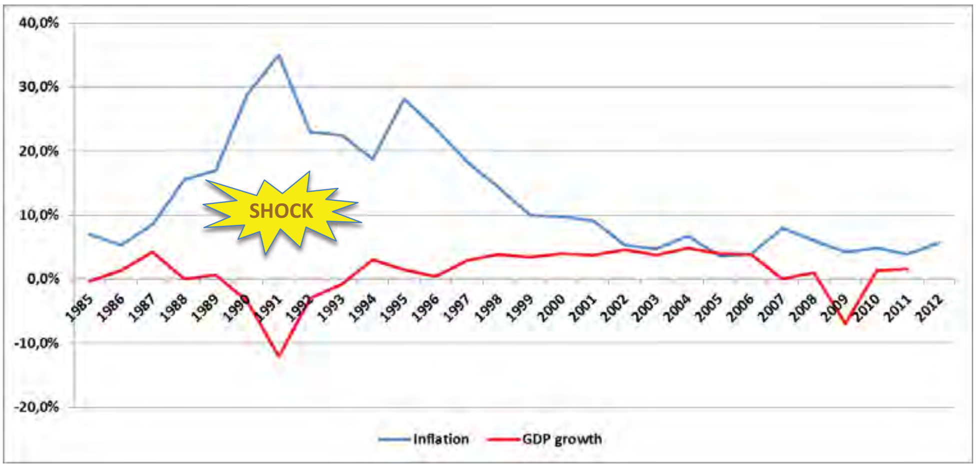
Composition of the Corporate Portfolio

MNV | Hungarian National Asset Management Inc.

5

The Historical Context

MNV | Hungarian National Asset Management Inc.



Source: Hungarian Central Statistical Office

- Collapsing economy
- Lack of domestic funds
- International and national lobby groups
- Ideology

} **Fast privatization process, mainly for cash**

6

TECHNIQUES

MNV | HUNGARIAN NATIONAL ASSET MANAGEMENT INC.

Distribution based (coupons)	Market based (cash)
• Prefers domestic retail shareholders • Excludes foreign investors	• Does not prefer domestic retail shareholders • Prefers foreign investors: capital, debt capacity
• No budget income • Does not improve balance of payment	• Budget income • Improves balance of payment
• Sustains government control over companies • Does not provide funds for companies lacking financing • Sustains old governance structures	• Lack of government control over privatized companies • No room for: market protection, export incentives • Modern corporate governance

7

TECHNIQUES (CONT.)

MNV | HUNGARIAN NATIONAL ASSET MANAGEMENT INC.

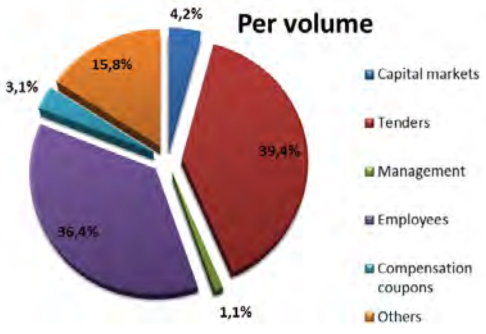
Market conform techniques were applied

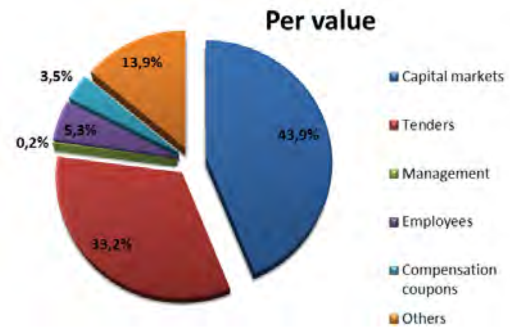
- Macro environment
  - Collapsing economy (indebtedness, deficit, loss of traditional markets)
  - Lack of domestic funds
- Relatively liberal economy
  - Decentralized governance
  - Relative independence of companies
  - Exposure to markets
  - Entrepreneurial approach
- Openness to foreign capital well before the 90-ies
- Internal initiatives
  - Spontaneous / management initiated (started before 1990, based on **1891** Corporate Act)
  - Need for reorganizations
  - Need for modern management techniques
- Ideology
- International and national lobby groups

8

PRIVATIZATIONS 1990-2007

MNV | Hungarian National Asset Management Inc.



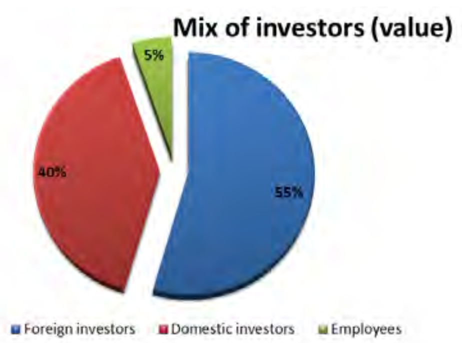


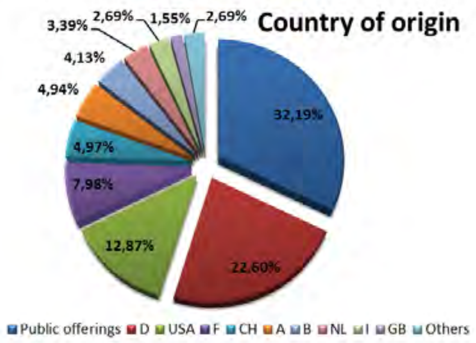
87% of proceeds: cash

9

INVESTORS 1990-2007

MNV | Hungarian National Asset Management Inc.





Foreign investors: multiplicator effect

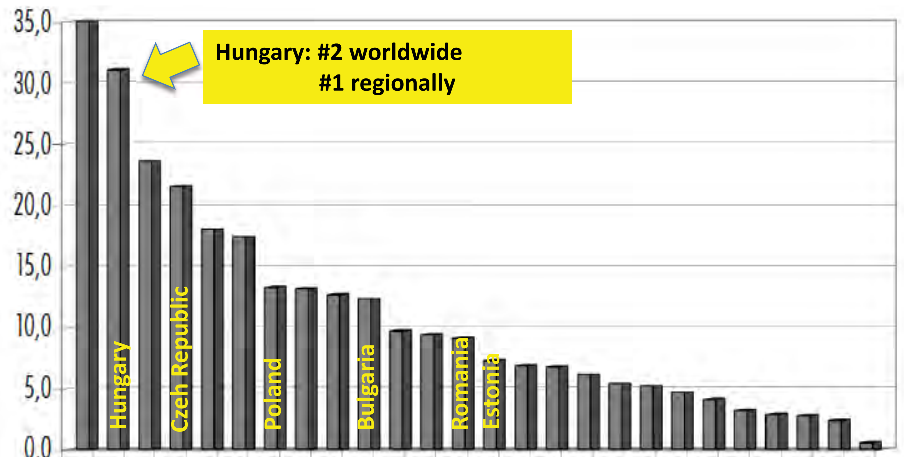
- Home contacts: bank, suppliers, advisors, etc.
- High volume of privatizations: draw attention of other investors as well
- Foreign investors: influence legal, financial, customs, trading regulation => positive factors for greenfield investors
- Informal contacts of foreign managers and investors draw additional investments

10

MAGNITUDE OF PRIVATIZATION

MNV | HUNGARIAN NATIONAL ASSET MANAGEMENT INC.

Total privatization revenues '89-'03 in percent of GDP, globally

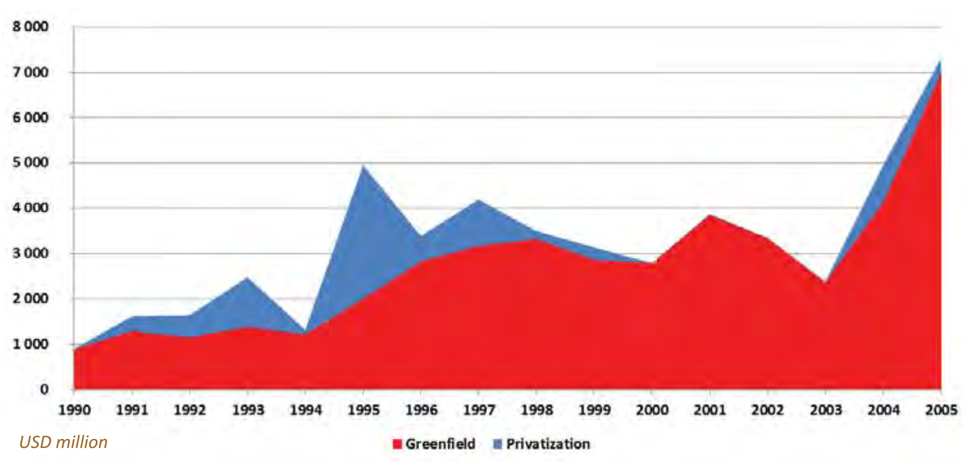


Source: EBRD

11

PRIVATIZATION VS. GREENFIELD

MNV | HUNGARIAN NATIONAL ASSET MANAGEMENT INC.



USD million

FDI from greenfield investments has significantly exceeded privatization proceeds

12

ACHIEVEMENTS

MNV | Hungarian National Asset Management Inc.

- Managed to avoid bankruptcy: Hungary has never defaulted, not even in the hardest times
- High volume of FDI => fueling growth (vs. today: EU funds)
- Rapid improvement and convergence of financial, accounting regulations, corporate and banking legislation
- Managerial know-how inflow
- Technology import (esp. in machinery)
- Integrated into the European economy

13

MISTAKES

MNV | Hungarian National Asset Management Inc.

Too fast, too much cash oriented, lack of long-term strategic vision

- Assets sold at an early time, at too low price and under suboptimal conditions
  - Entire industries were sold to foreign investors => creating monopolistic or oligopolistic situations (sunflower oil, sugar, dairy)
  - Investors buying markets: closing down factories (chocolate, sunflower oil, sugar)
  - Too early sale of retails chains: loss of market for agricultural producers => causing also social issues in the countryside
  - Energy sector was privatized
  - Due to lack of local capital, local entrepreneurs only had limited role
  - Lack of modern management knowledge
- Bad structures:
  - Sale of minority package with management rights => devalue majority package
  - Retain minority packages to monitor post-privatization activities
    - inefficient
    - devalued packages, difficult to sell
  - Predators: asset stripping => close down operations, utilize real estate

14

MISTAKES (CONT.)

MNV | HUNGARIAN NATIONAL ASSET MANAGEMENT INC.

- Compensation coupons:
  - Not a real solution for the recipients
  - Accumulation of devalued coupons by financial investors => realize gains on special deals
- Ineffective and inefficient asset management of remaining portfolio
- Lack of proper follow-up of obligations assumed by buyers (e.g. environmental, employment)
- Structural implications:
  - Entire industries missing or in agony (sugar, dairy, chocolate)
  - Agriculture and food industry collapsed <=> excellent natural conditions
  - Low number of medium-sized enterprises
    - Stability
    - Employment
    - Real decision making => future for the young generation

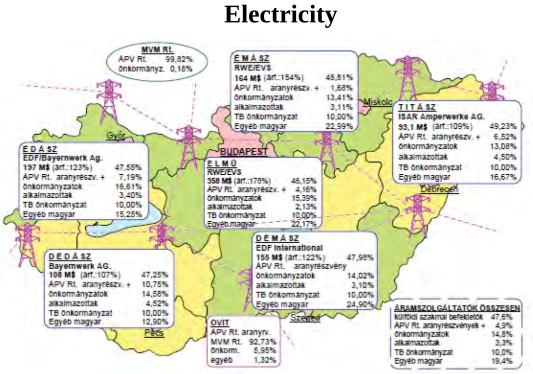
15

MISTAKES (CONT.)

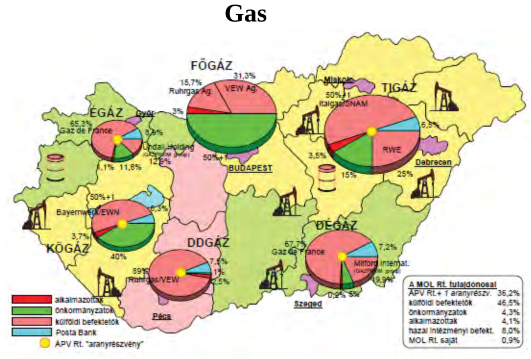
MNV | HUNGARIAN NATIONAL ASSET MANAGEMENT INC.

- Strategic industries and natural monopolies were privatized with contractually guaranteed profits:
  - Electricity retail distribution
  - Gas retail distribution (80% of the country on natural gas)
  - Water and sewage in certain key cities
- Energy sector was privatized when prices were regulated => prices could have been significantly better after the liberalization

Electricity

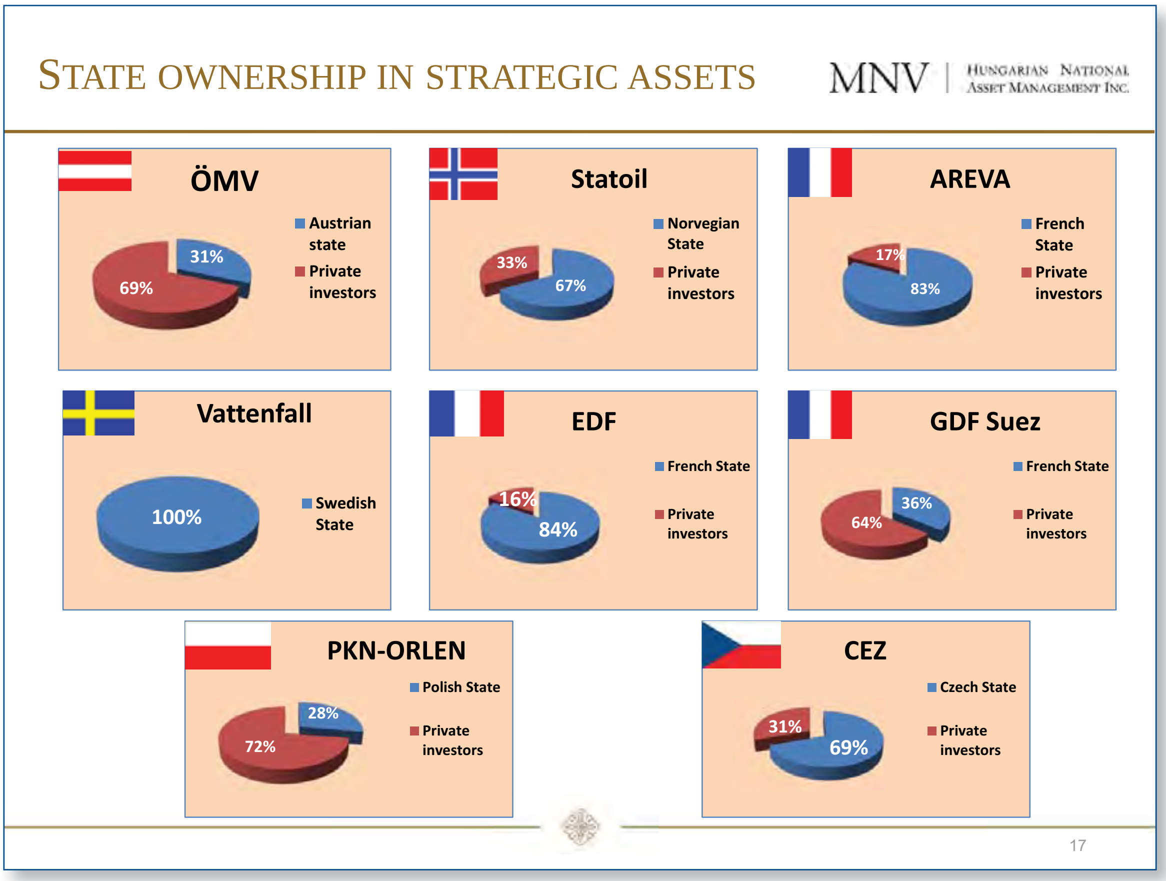


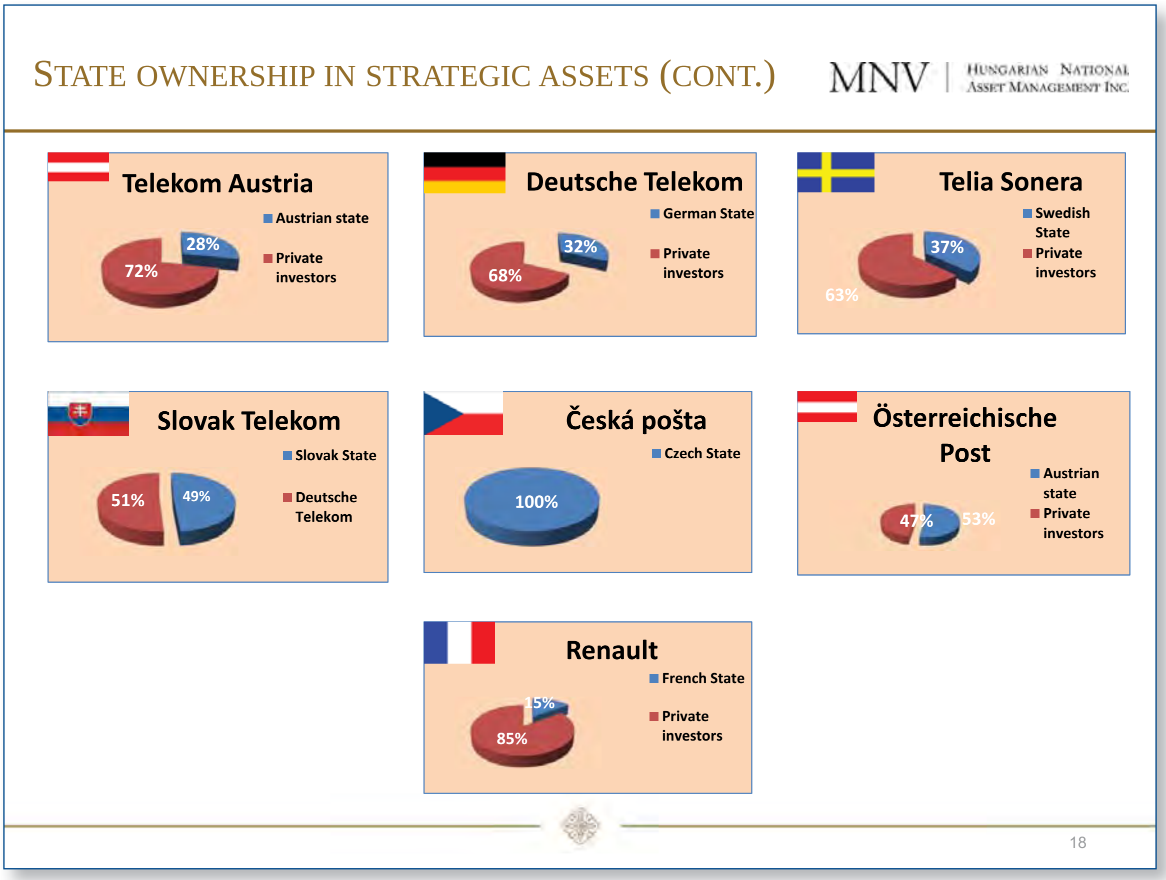
Gas



Source: P. Mihályi

16


STATE OWNERSHIP IN STRATEGIC ASSETS
MNV | HUNGARIAN NATIONAL ASSET MANAGEMENT INC.
ÖMV
Austrian state
Private investors
31%
69%
Statoil
Norvegian State
Private investors
33%
67%
AREVA
French State
Private investors
17%
83%
Vattenfall
100%
Swedish State
EDF
French State
Private investors
16%
84%
GDF Suez
French State
Private investors
36%
64%
PKN-ORLEN
Polish State
Private investors
28%
72%
CEZ
Czech State
Private investors
31%
69%
17


STATE OWNERSHIP IN STRATEGIC ASSETS (CONT.)
MNV | HUNGARIAN NATIONAL ASSET MANAGEMENT INC.
Telekom Austria
Austrian state
Private investors
28%
72%
Deutsche Telekom
German State
Private investors
32%
68%
Telia Sonera
Swedish State
Private investors
37%
63%
Slovak Telekom
Slovak State
Deutsche Telekom
51%
49%
Česká pošta
Czech State
100%
Österreichische Post
Austrian state
Private investors
47%
53%
Renault
French State
Private investors
15%
85%
18

CONCLUSION

MNV | HUNGARIAN NATIONAL ASSET MANAGEMENT INC.

- Once-in-a-lifetime situation
- No precedent, no experience
- Under pressure, limited opportunities
- Result: mixed

NO ABSOLUTE PROPER SOLUTION

19

MNV | HUNGARIAN NATIONAL ASSET MANAGEMENT INC.

APPRECIATING YOUR KIND ATTENTION

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www.mnv.hu

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12 AREAS WHICH PRIVATIZING GOVERNMENTS WILL NEED TO ADDRESS

Hans Christiansen
Senior Economist in the Corporate Affairs Division, OECD

Hans Christiansen joined the Corporate Affairs Division after previous postings in the OECD Investment Division, Financial Affairs Division and the Economics Directorate. Prior to joining OECD, he worked for the Bank for International Settlements (BIS) in Switzerland.

Mr. Christiansen's currently acts as the secretary to the OECD Working Group on Privatisation and Corporate Governance of State-Owned Enterprises, which is the custodian of the OECD Guidelines on Corporate Governance of SOEs. His current assignments includes OECD's ongoing project on State-Owned Enterprises in the World Economy, responsibility for the OECD regional Networks on Corporate Governance, as well as involvement in other SOE-related activities throughout the world.

A Danish national, he holds a graduate degree in Political Economics from the University of Copenhagen.

OECD

The mission of the Organisation for Economic Co-operation and Development (OECD) is to promote policies that will improve the economic and social well-being of people around the world. The OECD provides a forum in which governments can work together to share experiences and seek solutions to common problems.

POLAND

Privatisation Plan & Investment Opportunities

CASE

Ministry of Treasury
of the Republic
of Poland

OECD

Ministry of Treasury of the Republic of Poland

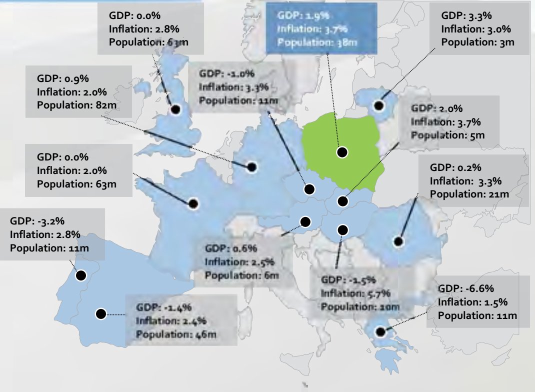
POLAND
Privatisation Plan & Investment Opportunities

May 2013

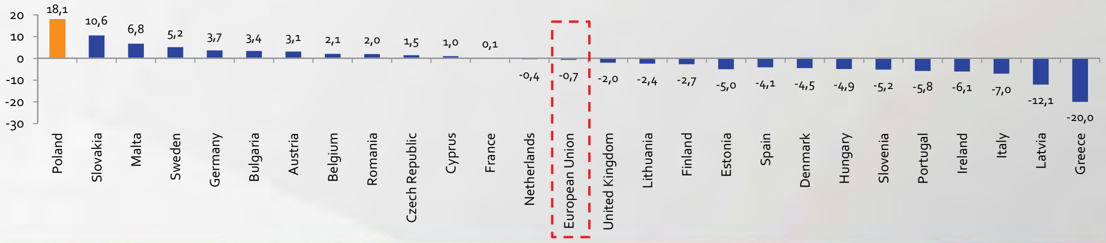
Ministry of Treasury of the Republic of Poland

Poland – a distinctive economy...

- 8th economy in the EU, 22nd economy world-wide by GDP
- Largest economy in the CEE region and among new EU countries
- Avoided recession over the last 20 years
- Healthy banking sector:
  - Loan to deposit ratio: 111.3% (Sep 2012)
  - Tier 1: 12.7% (Sep 2012)
- Balanced GDP composition



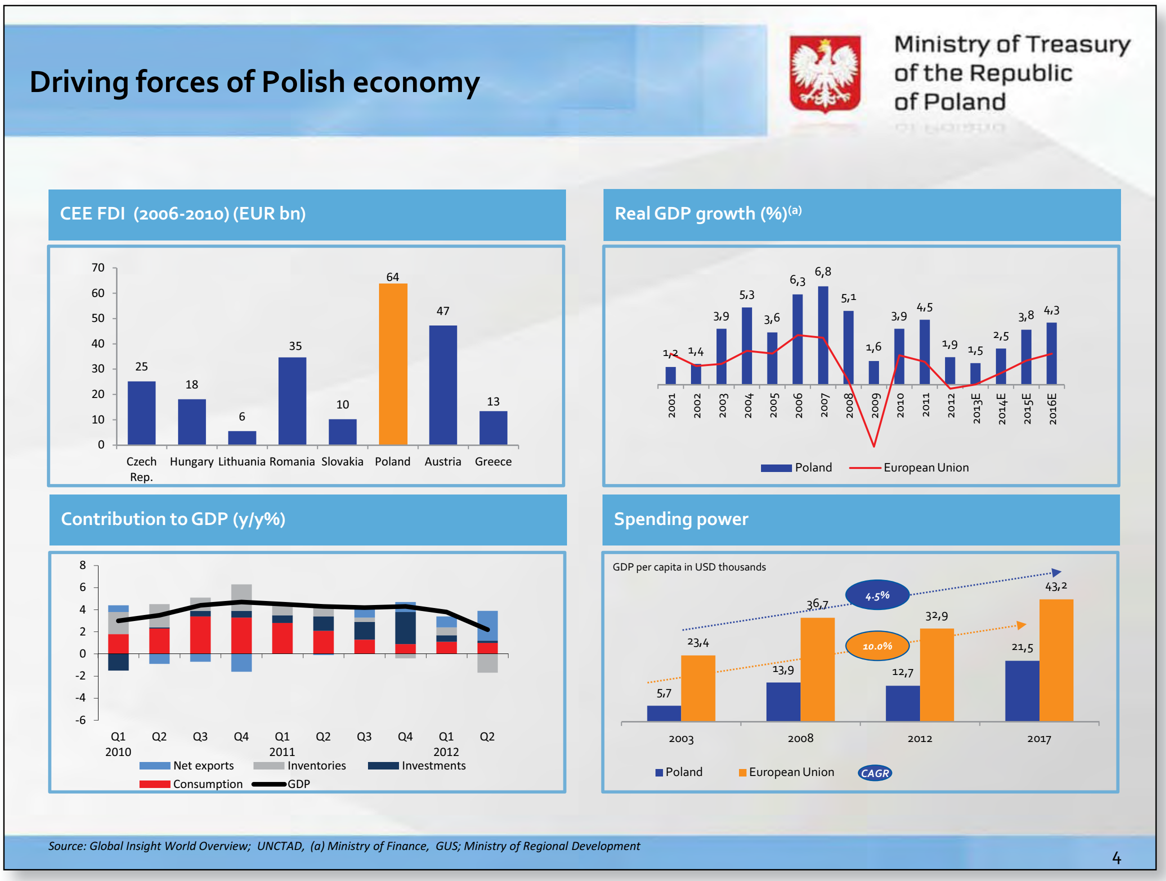
Cumulative GDP growth(a) 2008-2012



Source: (a) Eurostat

2


Stimulus packages contribute to economic stability and development
Ministry of Treasury of the Republic of Poland
EU funds inflow
EUR 67bn up to 2013
84% of EU funds already allocated*
EURO2012 POLAND-UKRAINE
UEFA
Government stimulus
Infrastructure spending
Wide range of fiscal and pension reforms to reduce public finance deficit to ca. 3% of GDP and public debt to 52% of GDP in 2012
Government spending forecast 2009-2012: for roads EUR 23bn for rail EUR 4bn
Significant FDI inflows to Poland: EUR 68.6bn (2006-2011)
Foreign Direct Investments
Shale gas
The Energy Information Administration estimates Poland's shale gas resources at 5.23tcm**
Source: Ministry of Transport, Construction and Maritime Economy, National Bank of Poland, National Cohesion Strategy, EIU report as of March 2012.
Note: Currency conversion based on USD/PLN exchange rate of 3.1891 as of May 4 2012
* December 2012 ** Trillion cubic metres
3


Driving forces of Polish economy
Ministry of Treasury of the Republic of Poland
CEE FDI (2006-2010) (EUR bn)
70
60
50
40
30
20
10
0
25
18
6
35
10
64
47
13
Czech Rep.
Hungary
Lithuania
Romania
Slovakia
Poland
Austria
Greece
Real GDP growth (%)(a)
1,2
1,4
3,9
5,3
3,6
6,3
6,8
5,1
1,6
3,9
4,5
1,9
1,5
2,5
3,8
4,3
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013E
2014E
2015E
2016E
Poland
European Union
Contribution to GDP (y/y%)
8
6
4
2
0
-2
-4
-6
Q1 2010
Q2
Q3
Q4
Q1 2011
Q2
Q3
Q4
Q1 2012
Q2
Net exports
Inventories
Investments
Consumption
GDP
Spending power
GDP per capita in USD thousands
5,7
23,4
13,9
36,7
12,7
32,9
21,5
43,2
4.5%
10.0%
2003
2008
2012
2017
Poland
European Union
CAGR
Source: Global Insight World Overview; UNCTAD, (a) Ministry of Finance, GUS; Ministry of Regional Development
4

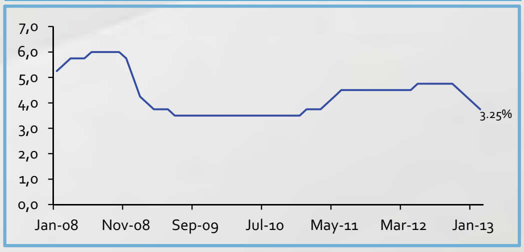
Stable monetary policy…

Ministry of Treasury of the Republic of Poland

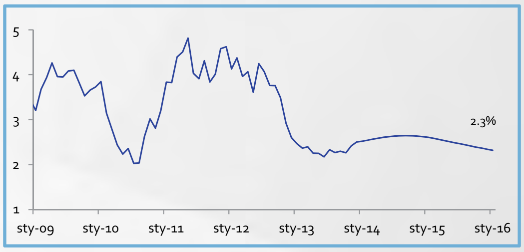
Prudent monetary policy

- National Bank of Poland's medium term inflation target: 2.5% 1 percentage point (since 2004)
- Avg CPI inflation : 3.0% (since 2004)
- Current CPI inflation : 1% y/y in March 2013 (core inflation 1.0%)
- Interest rate cut by 50bp to 3.25% (6 March 2013)
- GDP forecasts: 1.5% - 2013; 2.5% - 2014

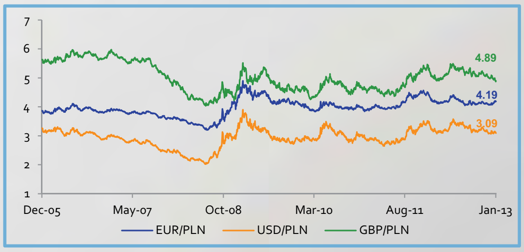
National Bank of Poland interest rates (%)



Inflation Forecast (%)



FX Developments



Source: National Bank of Poland, Global Insight World Overview, Ministry of Finance

5

… and fiscal policy

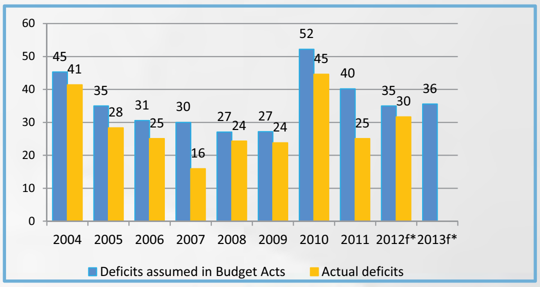
Ministry of Treasury of the Republic of Poland

Key drivers behind fiscal policy

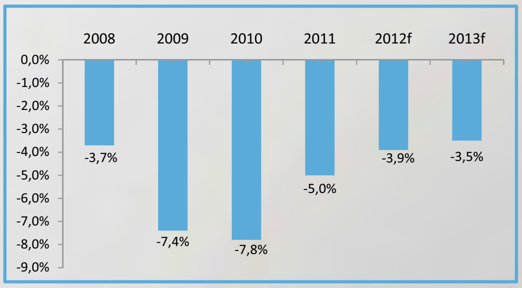
- A widening fiscal deficit in 2009 and 2010 related to automatic stabilizers, tax cuts and accumulation of large infrastructure projects in 2009-2012 (mainly EURO 2012)
- Expenditure (mainly infrastructure) financed by EU funds made up over 10% of total expenditure
- In 2012 government deficit fell to 3.9% of GDP; 2013 forecast - 3.5% of GDP
- Debt-to-GDP ratio on a decreasing path: 2013 target of 55.8%*
- Since 2011 a strategy of systematic deficit reduction has been enforced resulting in a budget deficit well below plan
  - 2013 target budget deficit PLN 35.6bn

** Polish methodology (differs from ESA95 treatment of expenditures on infrastructure investment projects (National Road Fund))*

Budget deficit execution (PLN bn)



Government budget balance (% GDP)



Source: Ministry of Finance ; (a) The Convergence Programme – 2011 update

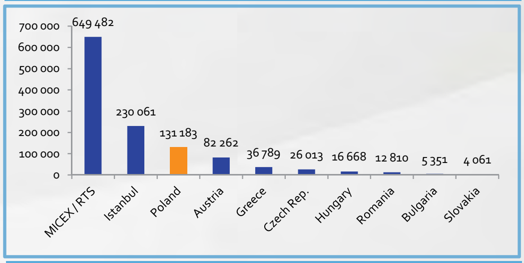
6

Warsaw Stock Exchange

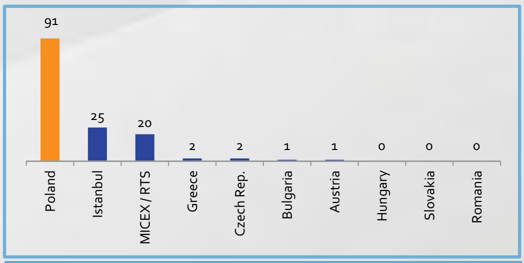
Ministry of Treasury of the Republic of Poland

Stable and Vibrant Platform to Raise Capital and partnership with NYSE

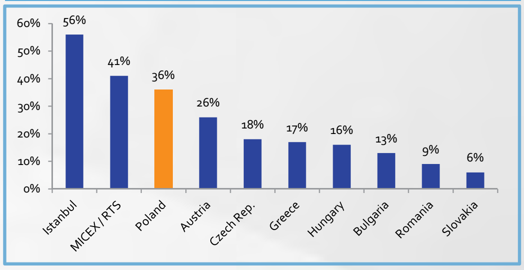
Market Capitalisation (EURm) – Jan 2013



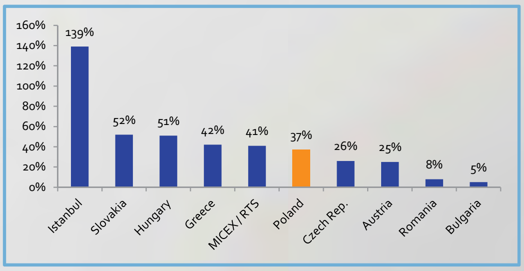
Number of New Companies Listed (2010-2012)



Capitalisation of domestic companies as % of GDP



Turnover ratio



Source: FESE, WFE, WSE

7

Strengthening Warsaw as a regional financial centre

Ministry of Treasury of the Republic of Poland

Domestic Issuers

395

434

International Issuers

44 on the main market / 8 on the alternative market. Listings from 20 countries including: Ukraine, Czech Rep, Israel, Hungary, Slovenia, Lithuania, Bulgaria, Estonia, France, UK.

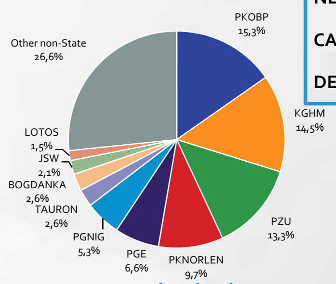
POLAND'S CAPITAL MARKET

MAIN MARKET

NEWCONNECT

CATALYST

DERIVATIVES – options & futures



WIG 20 – privatised core companies

- **International trading flows** - with approx. 50% of all trading volume generated by international investors
- **Domestic institutional investors** (pension funds (OFE), mutual funds, asset managers)
- **Active retail investor segment** (18% of trading flows on WSE main market)

Global and Domestic Investors

Source: Warsaw Stock Exchange and NewConnect websites, as of February 27, 2013

8

Domestic Pension Funds - a key liquidity driver of WSE

Ministry of Treasury of the Republic of Poland

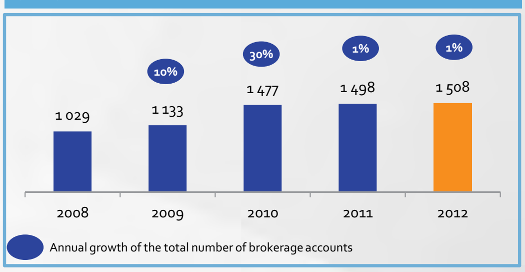
Continued Inflow of Funds Despite Recent Changes to the Pension System

Pension Funds (a)* - AUM

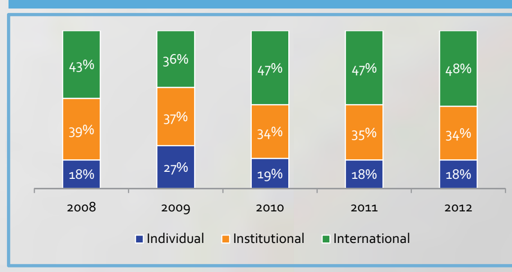
Mutual Funds (a)* - AUM

Retail Investors Contribute to WSE Market Liquidity

Number of brokerage accounts in Poland(b) ('000)



WSE Equity - Turnover Breakdown (%)(c)



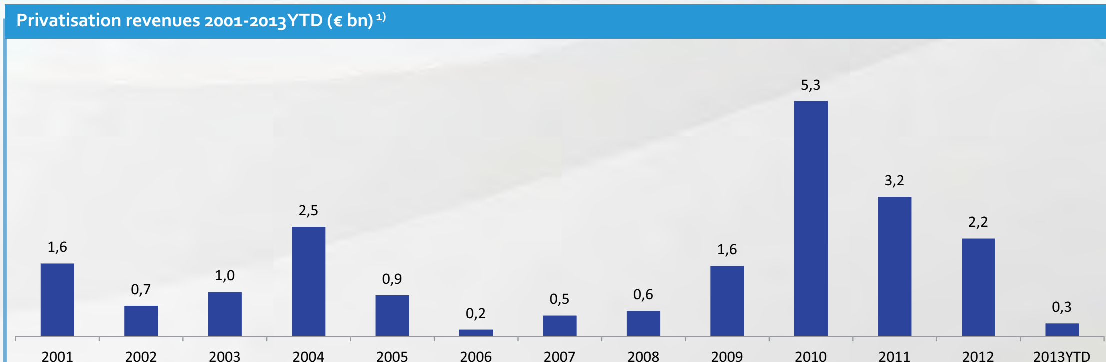
(a) KNF-Financial Supervision Authority - statistics, Chamber of Fund and Asset Management * PLN/EUR: PLN 4.1658
(b) WSE internet portal, KNF-Polish Financial Supervision Authority - statistics, KDPW, Chamber of Fund and Asset Management (c) WSE

9

Privatisation transactions – Completed

Ministry of Treasury of the Republic of Poland

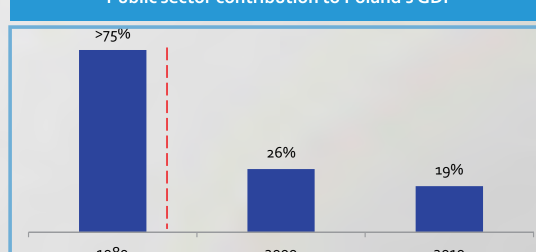
Privatisation revenues 2001-2013YTD (€ bn) 1)



Allocation of privatisation revenues

1. **Entrepreneurs' Restructuring Fund** -15% of privatisation revenues
2. **Reprivatisation Fund** - resources from the sale of the Treasury's 5% stakes in companies formed as a result of commercialisation
3. **State Treasury Fund** - 2% of privatisation revenues
4. **Polish Science and Technology Fund** - 2% of privatisation revenues
5. **Demographic Reserve Fund** - 40% of gross privatisation revenues net of Reprivatisation Fund

Public sector contribution to Poland's GDP 2)



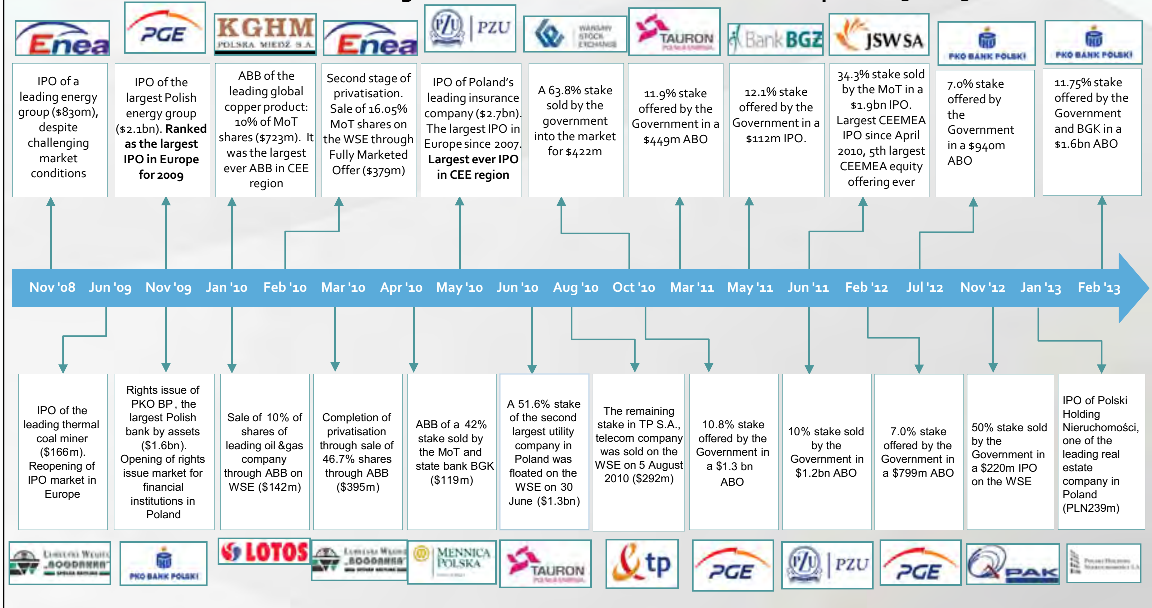
1) exchange rate 1 €= 4.1432PLN; 2) Polish Central Statistical Office

10

Key transactions to date

Ministry of Treasury of the Republic of Poland

Poland - one of the largest number of IPOs and ABOs in Europe (2009-2013)



11

Polish Privatisation Programme 2012–2013

Ministry of Treasury of the Republic of Poland

Privatisation Programme

- ca. 260 companies earmarked for privatisation (e.g. energy, food, transport, metallurgy, chemicals, services, coal mining, real-estate, defence, agriculture)
- The Ministry intends to sell off all of its holdings in 85% of companies included in the Privatisation Programme
- The Ministry will retain majority/controlling stakes in companies of strategic importance (mainly energy, financial and defence companies)
- Privatisation proceeds in 2012 of €2.2bn, target €1.2bn in 2013

Privatisation Methods

Capital Markets	Trade Sale
▪ IPO and follow-on offerings pipeline ▪ Civic Shareholding The intention is to retain decision-making and intellectual capital creation in Poland.	▪ Negotiations following a public invitation, public tender, public auction ▪ Direct sale to secure know-how and consolidated ownership ▪ Price is the only selection criterion ▪ Additional investor commitments

12

Privatisation via the Stock Exchange

Ministry of Treasury of the Republic of Poland

Privatisation Plan 2012-2013

- Many companies earmarked for privatisation are already listed on the WSE
- Timeframe dependant on market conditions

Key Sectors

- Chemical
- Energy
- Financial institutions
- Mining

Company	Sector	Market cap. (€m)*	Current stake	Target stake
Ciech	Chemicals	265	39%	0%
Grupa Azoty	Chemicals	1,348	33%	33%
ENEA	Energy	1,608	52%	0%
PGE[a]	Energy	7,536	62%	50%
PKO BP[a]	Financial	10,394	31%	25%
PZU[a]	Financial	8,456	35%	25%
WSE	Financial	426	35%	0%
PHN S.A.	Real Estate	249	75%	0%
JSW[b]	Mining - Coal	2,745	56%	34%
Energa	**Energy**	**Not listed**	**84%**	**0%**
Weglokoks	Trading - Coal	Not listed	100%	0%
Kompania Węglowa[b]	Mining - Coal	Not listed	100%	50%
Katowicki Holding Węglowy[b]	Mining - Coal	Not listed	100%	50%

* as at March 2013

(a) Strategic companies

(b) Companies under the supervision of the Ministry of Economy

13

Polish Retail Investors

Ministry of Treasury of the Republic of Poland

Unique Support for Liquidity across WSE Segments

- Akcjonariat Obywatelski (Civic Shareholding Programme) - a long term programme initiated by the Ministry of Treasury during the IPO of PZU and further developed during the privatisation of Tauron, WSE and JSW
- The aim is to increase the participation of Polish individuals in the domestic capital markets and Privatisation Programme, and also to encourage Poles to actively manage their savings
- Successful participation in IPOs

Company	PGE	PZU	Tauron	WSE	JSW
IPO Date	Oct- 2009	May-2010	Jun-2010	Oct-2010	Jul-2011
No of subscribers	85,000	250,000	230,000	323,000	168,000

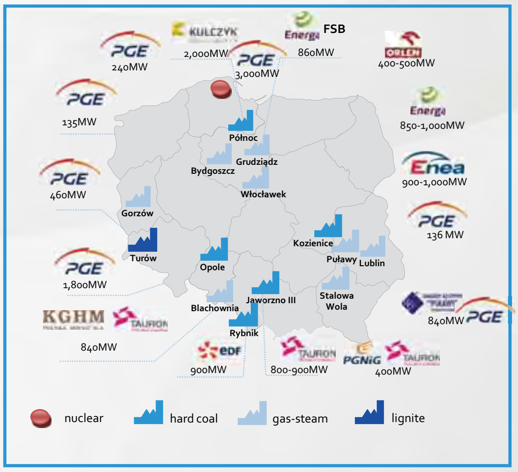
- Today individual investors generate ca.
  - ✓ 18% of trading flows of WSE Main market
  - ✓ 77% of trading flows on NewConnect
  - ✓ 46% of trading flows in future contracts
  - ✓ 64% of trading flows in options

14

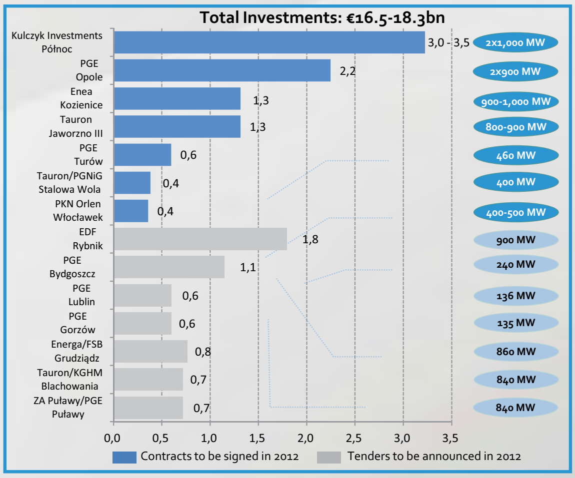
Energy Projects: Overview

Ministry of Treasury of the Republic of Poland

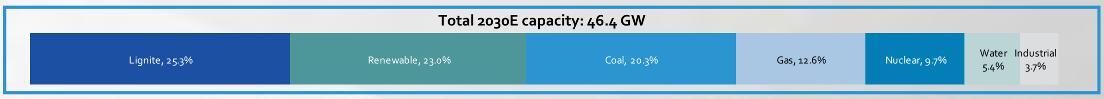
Asset Location



Contracts / tenders for new power blocks (2012) [a]



Target energy mix in 2030[b]



Source: Equity research, Wood Mackenzie.
Note: Represents capacity additions of public companies only; PLN/EUR= 4.1857
(a) Estimate, based on average cost of development of gas-steam block PLN 2bn per 1MW.
(b) Forecast update of demand on fuel and energy by 2030, analysis prepared by ARE for MoE to update the Energy Policy by 2030

15

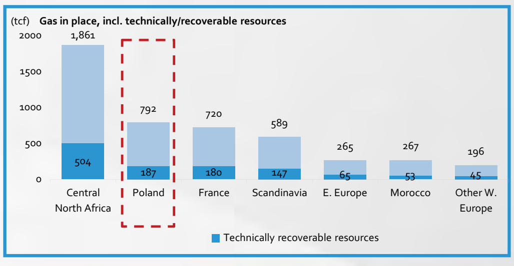
Shale Gas

Ministry of Treasury of the Republic of Poland

Key considerations

- Poland is one of the leading potential shale gas plays outside of North America due to scale, technical merits and favourable macro conditions
- EIA estimates for Poland: 792tcf (trillion cubic feet) / 5.23tcm of gas
- Polish Geological Institute estimates: 1.92tcm

Shale gas resources in selected regions



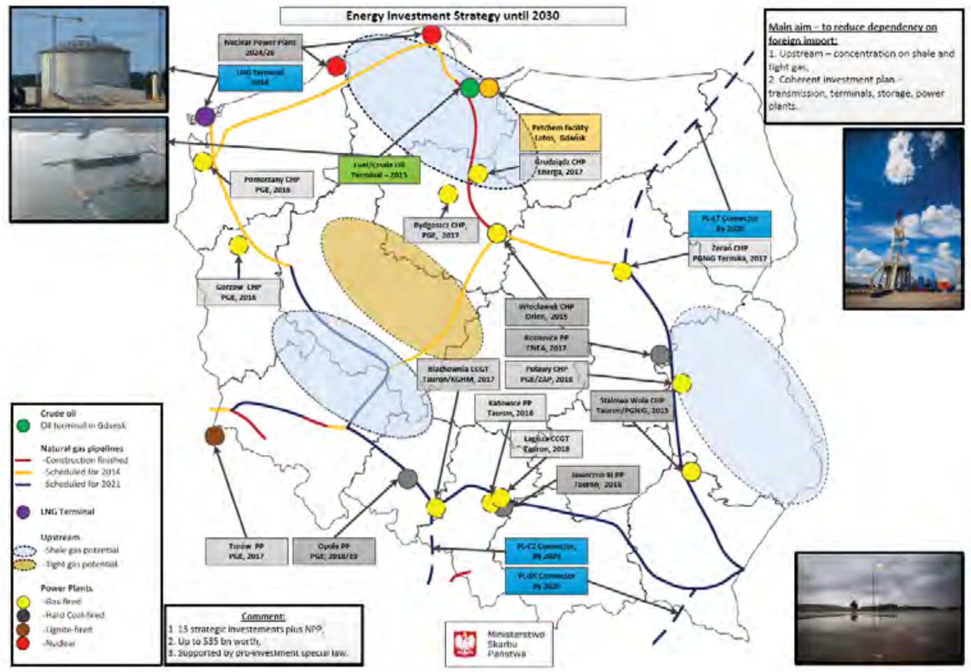
- 2007 to 2010 saw a major land rush to the region with ca. 16m acres licensed or applied for along the shale trend
- The largest acreage holders are PGNiG, PKN Orlen, Chevron, Marathon and ConocoPhillips (111 licenses granted)
- 42 wells have been drilled to date, all have had extensive sections of gas shows; however, activity levels are set for dramatic uptick in the next 18 months with c.30 wells planned
- Favourable tax and legal regime for investors expected
- Production of shale gas on a small scale is planned for 2014, with industrial production by 2015.
- Potential deposits of tight gas are located in Wielkopolska region

Source: EIA "World Shale Gas Resources", April 2011.

16

Energy Sector : Investment Map

Ministry of Treasury
of the Republic
of Poland



17

Ministry of Treasury
of the Republic
of Poland

Appendix – Company Descriptions

Energa

Not listed, planned IPO in 2013

Sector: Energy

Ministry of Treasury of the Republic of Poland

Company overview

- Holding company engaged in energy generation, distribution and trading
- Provides electricity to 2.5 million households and more than 300,000 companies - 17% market share
- Generates more than 4.5 million MWh of electricity in 54 manufacturing facilities
- Energa Group's installed capacity is ca. 1200 MW - 3% market share

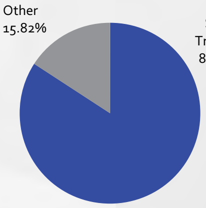
Source: Company data

Key financial data (€m)

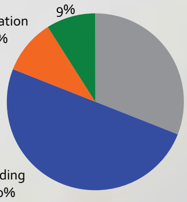
FYE -Dec	**2009**	**2010**	**2011**
Revenue	1 996	2 170	2 423
% growth	*8.7%*	*8.8%*	*11.6%*
EBIT	209	195	193
% margin	10%	9%	8%
EBITDA	251	336	350
% margin	*12.6%*	*15.5%*	*14.4%*
Net income	101	149	157
% margin	*5.1%*	*6.9%*	*6.5%*
Total assets	2 604	3 008	3 257
Equity	1 758	1 893	1 885

Source: Company data Note: PLN/EUR= 4.1991

Shareholder strucure



Revenue breakdown – by segment (2011)



Source: Company data

19

Polski Holding Nieruchomości

Sector: Real estate

Ministry of Treasury of the Republic of Poland

Company overview

- Listed on WSE since February 2013 (ticker: PHN-WA)
- Market cap: EUR 0.2bn (Mar 2013)

- PHN is one of the leading real estate companies in Poland in terms of the portfolio value
- Established in 2011 as a result of consolidation of state-owned companies
- Company manages 150 properties in attractive locations and over 1,100ha land bank

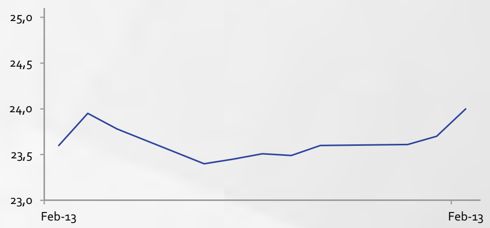
Source: Company data

Key financial data (€m)

FYE -Dec	**2009**	**2010**	**2011**
Revenue	54.2	62.9	51.8
% growth	n.a.	16.1%	-17.8%
EBIT	-84.9	16.0	-44.8
% margin	n.a.	25.5%	n.a.
EBITDA	-83.5	17.4	-43.8
% margin	n.a.	27.6%	n.a.
Net income	-71.7	13.0	-36.3
% margin	n.a.	20.6%	n.a.
Total assets	662.6	660.4	613.3
Equity	531.5	536.2	499.4

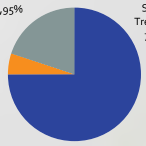
Source: Company data Note: PLN/EUR= 4.1432

Share price performance (PLN)

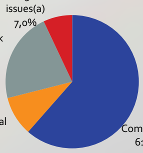


Source: Euromoney

Shareholder structure



Portfolio structure (Sep '12)



Source: Company data; (a) Properties with legal issues and positive outlook

20

Azoty Tarnow

Sector: Chemical

Ministry of Treasury of the Republic of Poland

In July 2012 Azoty Tarnów announced its acquisition of ZA Pulawy. Both companies stand to benefit from significant synergies following the current consolidation process

Company overview

- Listed on WSE since 2008 (ticker: ATT-WA)
- Market Cap: EUR 1.3bn (March 2013)

- Azoty Tarnów is one of Poland's largest chemical groups
- Key product groups include:
  - Nitrogen fertilisers: calcium ammonium nitrate, ammonium nitrate, ammonium sulphate nitrate, ammonium sulphate and urea
  - Polyamide, poly-oxy-methylene and caprolactam
  - Oxo-alcohols, plasticisers and maleic anhydride
- In 2010, Azoty Tarnów acquired a 52% stake in its peer ZA Kędzierzyn for PLN150m and a further 41% in 2011 for PLN200m

Source: Company data

Key financial data (€m)

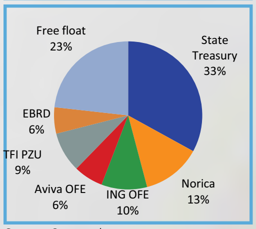
FYE-Dec	2009	2010	2011
Revenue	290.2	454.4	1,275.3
% growth	*n.a.*	*56.6%*	*180.7%*
EBIT	(3.4)	100.9	138.9
% margin	*n.a.*	*22.2%*	*10.9%*
EBITDA	15.9	122.9	184.0
% margin	*5.5%*	*27.1%*	*14.4%*
Net income	(0.9)	95.7	119.2
% margin	*n.a.*	*21.1%*	*9.3%*
Total assets	*385*	*821*	*1,108*
Equity	*271*	*493*	*706*

Source: Company data Note: PLN/EUR= 4.1991

Share price performance (PLN)

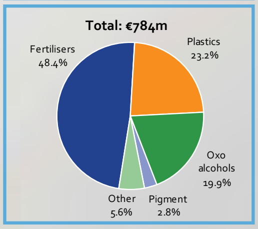
Source: Euromoney

Shareholder structure



Source: Company data

Revenue breakdown (2011)



21

Ciech

Sector: Chemical

Ministry of Treasury of the Republic of Poland

Company overview

- Listed on WSE since 2005 (ticker: CIE-WA)
- Market Cap: EUR 0.3bn (Mar 2013)

- Established in 1945, Ciech is one of the largest chemicals producer in Poland and the CEE region, and the second largest soda ash manufacturer in Europe
- It has a diversified business portfolio which consists of the Soda Division, the Organic Division (TDI, EPI, epoxy resins), and the Agro Division (pesticides)
- The Company has successfully undergone a restructuring process, having achieved PLN550m out of PLN650m target
- In February 2011, the Company conducted a capital increase (with reduction rate in additional subscriptions of c. 94%.) raising c. PLN 440m (c. €110m) on the capital markets

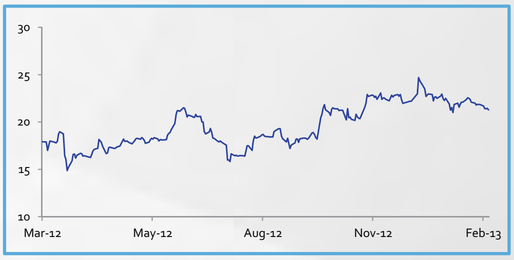
Source: Company data

Key financial data (€m)

FYE-Dec	2009	2010	2011
Revenue	812.6	*870.7*	*953.8*
% growth	*n.a.*	*7.2%*	*9.5%*
EBIT	32.7	*32.6*	*25.5*
% margin	*4.0%*	*3.7%*	*2.7%*
EBITDA	84.0	*85.9*	*78.6*
% margin	*10.3%*	*9.9%*	*8.2%*
Net income	(23.7)	*5.3*	*3.2*
% margin	*n.a.*	*0.6%*	*0.3%*
Total assets	*978*	*993*	*911*
Equity	*208*	*215*	*293*

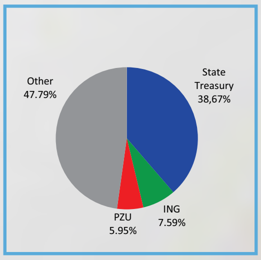
Source: Company data, excluding discontinued operations Note: PLN/EUR= 4.1991

Share price performance (PLN)



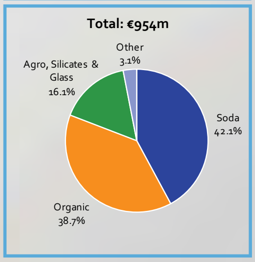
Source: Euromoney

Shareholder structure



Source: Company data

Revenue breakdown (2011)



Company data: Dec-2011, excl.discontinued operations

22

PKO Bank Polski

Sector: Financial

Ministry of Treasury of the Republic of Poland

Company overview

- Listed on WSE since 2004 (ticker: PKO-WA)
- Market Cap: EUR 10.4bn (Mar 2013)

- PKO Bank Polski is the largest commercial bank in Poland
- The bank provides comprehensive retail, private and personal, SME and corporate banking services
- Over 6.1m clients have access to the banks services via 1,201 branches, 1,560 agencies, and c. 2,400 ATMs
- Leading position on the retail market with c. 19.5% market share in the loans market and c. 22.5% in the deposits market
- PKO operates predominantly in Poland, but also is present in Ukraine and Great Britain

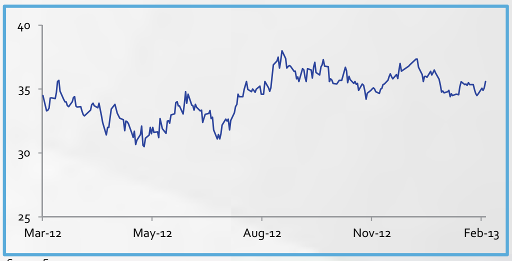
Source: Company data

Key financial data (€m)

FYE-Dec	2009	2010	2011
Net interest income	1,207	1,557	1,818
Total income	2,119	2,436	2,667
Net income	551	768	910
Shareholders' equity	4,882	5,103	5,452
CI	*47.9%*	*41.7%*	*39.6%*
ROE [a]	*11.3%*	*15.1%*	*17.5%*
Loans/ Deposits	*96.3%*	*98.3%*	*96.7%*
Tier 1 capital	*9.7%*	*11.3%*	*13.3%*
Total assets	*38,110*	*42,896*	*42,746*
Equity	*33,142*	*37,495*	*37,632*

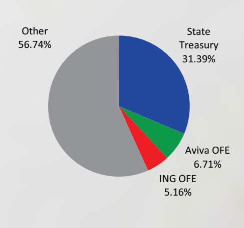
Source: Company data Note PLN/EUR= 4.1991;
(a) Calculation based on average shareholders equity for past four quarters

Share price performance (PLN)



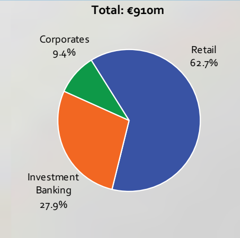
Source: Euromoney

Shareholder structure



Source: Company data

Net Income (2011)



23

PZU

Sector: Insurance

Ministry of Treasury of the Republic of Poland

Company overview

- Listed on WSE since May 2010 (ticker: PZU.WA)
- Market Cap: EUR 8.5bn (Mar 2013)

- PZU is the largest insurance company in the region
- Leading position in the Polish insurance market in both life and non-life segments with 43.4% and 34.9% market share respectively (2010)
- PZU also operates Poland's third-biggest pension fund (14% market share)
- Although PZU focuses on the Polish market where it generates over 98% of its premiums, it also has subsidiaries in Lithuania and Ukraine

Source: Company data

Key financial data (€m)

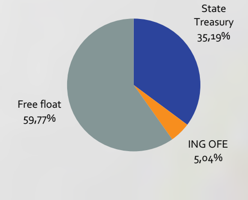
FYE-Dec	2009	2010	2011
Gross Written Premium	*3,431*	*3,475*	*3 ,650*
Non-life Insurance	*1,917*	*1,919*	*2, 037*
Life Insurance	*1,515*	*1,556*	*1, 613*
Investment Result	*829*	*665*	*381*
Operating Profit	*1,099*	*738*	*707*
Non-life Insurance	*650*	*863*	*652*
Non-life Ins. (excl. dividend received)	*311*	*118*	*177*
Life Insurance	*784*	*617*	*449*
Net Profit	*899*	*583*	*560*
ROE	*24.0%*	*20.3%*	*18.3%*
Total assets	*12,954*	*12,811*	*11,682*
Equity	*2,744*	*3,236*	*2,884*

Source: Company data Note: PLN/EUR= 4.1991

Share price performance (PLN)

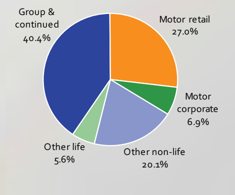
Source: Euromoney

Shareholder structure



Gross Written Premium structure (2011)

Total: €3,65om



Source: Company data as of Dec-2011

24

Warsaw Stock Exchange — Sector: Financial

Ministry of Treasury of the Republic of Poland

Company overview

- Listed on WSE since November 2011 (ticker GPW-WA)
- Market Cap: EUR 0.4bn (Mar 2013)

- WSE is the largest national stock exchange in the CEE region
- Key statistics (Dec 2012)
  - EUR 176bn market cap (Main Market)
    EUR 2.6bn market cap (NewConnect - Alternative)
  - 864 listed companies (437– Main Market, 427 – NewConnect)
  - EUR 139bn issue value of Catalyst bond market

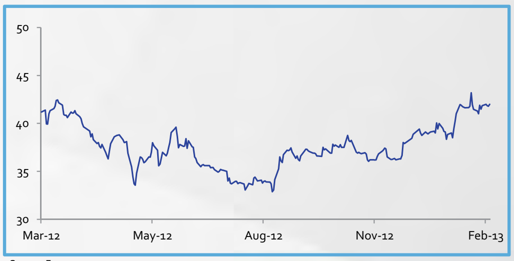
Source: Company data

Key financial data (€m)

FYE -Dec	2009	2010	2011
Revenue	48	54	64
% growth	*8.0%*	*13.1%*	*18.9%*
EBIT	19	22	32
% margin	*39.9%*	*40.7%*	*49.7%*
EBITDA	22	26	36
% margin	*47.1%*	*48.1%*	*55.5%*
Net income	24	23	32
% margin	*50.5%*	*42.0%*	*49.9%*
Total assets	*257*	*141*	*164*
Equity	*127*	*133*	*118*

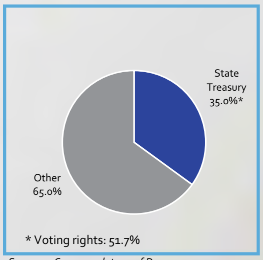
Source: Company data Note: PLN/EUR= 4.1991

Share price performance (PLN)



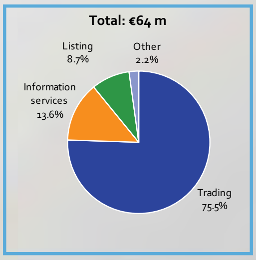
Source: Euromoney

Shareholder structure



Source: Company data as of Dec-2011

Revenue breakdown (2011)



25

KGHM Polska Miedź — Sector: Copper/Silver

Ministry of Treasury of the Republic of Poland

Company overview

- Listed on WSE since July 1997 (ticker KGH-WA)
- Market cap: EUR 8.2bn (Mar 2013)

- KGHM is the number one European copper producer and the world's third largest silver producer
- The company possesses its own copper ore deposit with estimated additional 40 years of mine life
- Operates 3 mines with 29 shafts, as well as 3 smelter facilities and has 4 exploration projects in the pipeline
- KGHM increased its international presence through its 2012 acquisition of Canadian mining company, Quadra

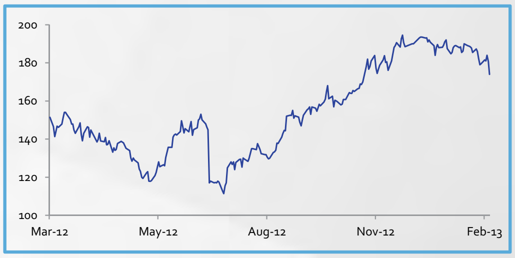
Source: Company data

Key financial data (€m)

FYE -Dec	2009	2010	2011 (a)
Revenue	2,896	4,131	5,287
% growth	*-4.2%*	*42.7%*	*28.0%*
EBIT	640	1,325	3,146
% margin	*22.1%*	*32.1%*	*59.5%*
EBITDA	818	1,526	3,347
% margin	*28.2%*	*36.9%*	*63.3%*
Net income	556	1,126	2,632
% margin	*19.2%*	*27.3%*	*49.8%*
Total assets	*3,627*	*5,370*	*6,847*
Equity	*2,576*	*3,772*	

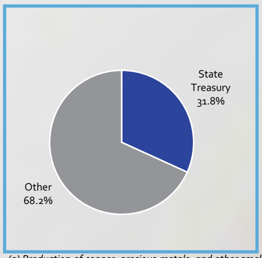
Source: Company data; (a) Unaudited financial data ; Note: PLN/EUR= 4.1991

Share price performance (PLN)

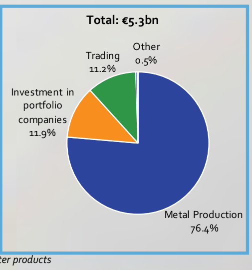


Source: Euromoney

Shareholder structure



Revenue breakdown (2011)



(a) Production of copper, precious metals, and other smelter products
Source: Company data as of Dec-2011 (four quarters)

26

Grupa Lotos

Sector: Oil & Gas

Ministry of Treasury of the Republic of Poland

Company overview

- Listed on WSE since June 2005 (ticker LTS-WA)
- Market Cap: EUR 1.3bn (Mar 2013)

- Grupa Lotos is the second largest refining group in Poland
- The company also runs the second largest chain of fuel stations in Poland (369 - 2011)
- Lotos owns upstream assets in the Baltic Sea (Pertrobaltic, Geonafta) and the Norwegian Sea

Source: Company data

Key financial data (€m)

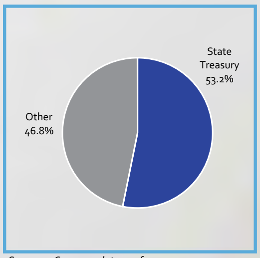
FYE -Dec	2009	2010	2011 [(a)]
Revenue	3,421	4,702	6,990
% growth	*-12.1%*	*37.4%*	*48.7%*
EBIT	100	182	243
% margin	*2.9%*	*3.9%*	*3.5%*
EBITDA	168	276	384
% margin	*4.9%*	*5.9%*	*5.5%*
Net income	218	163	156
% margin	*6.4%*	*3.5%*	*2.2%*
Total assets	*3,709*	*4,482*	*4,576*
Equity	*1,667*	*1,900*	*1,744*

Source: Company data ; (a) Unaudited financial data ; Note: PLN/EUR= 4.1991

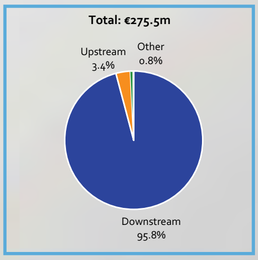
Share price performance (PLN)

Source: Euromoney

Shareholder structure



EBITDA breakdown (2010)



Source: Company data as of 2010

27

PKN Orlen

Sector: Oil & Gas

Ministry of Treasury of the Republic of Poland

Company overview

- Listed on WSE since November 1999 (ticker: PKN-WA)
- Market cap: EUR 5.6bn (Mar 2013)

- PKN Orlen is the largest refinery and petrochemical group in the CEE region by revenues
- Operates 7 refineries, out of which 3 are located in Poland, 3 in the Czech Republic and 1 in Lithuania
- The group's retail network comprises approximately 2,600 outlets offering services in Poland, Germany, the Czech Republic and Lithuania

Source: Company data

Key financial data (€m)

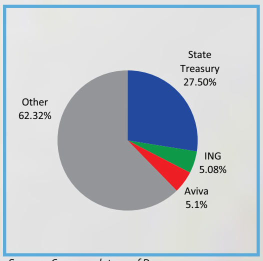
FYE -Dec	2009	2010	2011 [(a)]
Revenue	16,229	19,960	25,557
% growth	*-14.6%*	*23.0%*	*28.0%*
EBIT	262	746	777
% margin	*1.6%*	*3.7%*	*3.0%*
EBITDA	874	1,325	1,346
% margin	*5.4%*	*6.6%*	*5.3%*
Net income	311	587	741
% margin	*1.9%*	*2.9%*	*2.9%*
Total assets	*11,957*	*12,933*	*13,162*
Equity	*5,288*	*6,128*	*6,005*

Source: Company data ; (a) Unaudited financial data ; Note: PLN/EUR= 4.1991

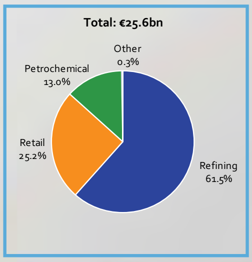
Share price performance (PLN)

Source: Euromoney

Shareholder structure



Revenue breakdown (2011)



Source: Company data as of Dec 2011

28

PGNiG — Sector: Oil & Gas

Ministry of Treasury of the Republic of Poland

Company overview

- Listed on WSE since September 2005 (ticker PGN-WA)
- Market Cap: EUR 8.1bn (Mar 2013)

- PGNiG Group, a leader on the domestic market, is the only vertically integrated company in the Polish gas sector with annual sales exceeding 14 billion cubic meters
- The company is also active in crude-oil mining
- The Group through its subsidiaries operates on both domestic and international markets (Denmark, Egypt, Kazakhstan, Norway, Pakistan)

Source: Company data

Key financial data (€m)

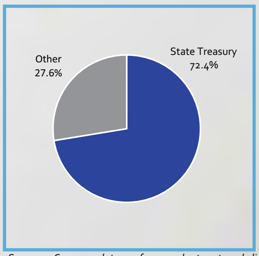
FYE-Dec	2009	2010	2011
Revenue	4,618	5,084	5,496
% growth	4.9%	10.1%	8.1%
EBIT	328	690	402.6
% margin	7.1%	13.6%	7.3%
EBITDA	686	1,054	779
% margin	14.9%	20.7%	14.2%
Net income	296	587	389
% margin	6.4%	11.5%	7.1%
Total assets	7,570	8,676	8,507
Equity	5,221	5,947	5,490

Source: Company data Note: PLN/EUR= 4.1991

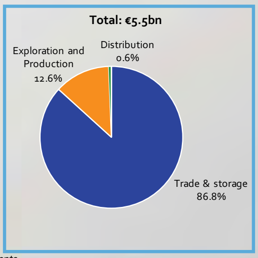
Share price performance (PLN)

Source: Euromoney

Shareholder structure



Revenue breakdown (2011)



Source: Company data as of 2011, sales to external clients

29

Enea — Sector: Energy

Ministry of Treasury of the Republic of Poland

Company overview

- Listed on WSE since 2008 (ticker: ENA-WA)
- Market Cap: EUR 1.6bn (Mar 2013)

- Enea is Poland's third largest vertically integrated electricity utility company
- It operates a sizeable distribution network in north-western Poland delivering electricity to ca. 2.4 m customers
- Enea's generation portfolio comprises the largest hard coal-fired plant in Poland, the 2,900MW Kozienice plant as well as 56MW of hydro capacity

Source: Company data

Key financial data (€m)

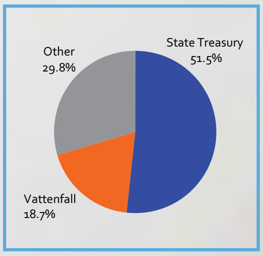
FYE-Dec	2009	2010	2011 (1)
Revenue	1,709.0	1,872.3	2,315.0
% growth	n.a	9.6%	23.7%
EBIT	120.8	170.1	203.2
% margin	7.1%	9.1%	8.8%
EBITDA	278.8	326.0	373.1
% margin	16.3%	17.4%	16.1%
Net income	122.7	152.8	191.2
% margin	7.2%	8.2%	8.3%
Total assets	2,980	3,245	3,070
Equity	2,283	2,497	2,348

Source: Company data; Note: PLN/EUR= 4.1991; (1) Based on 4Q 2011 report.

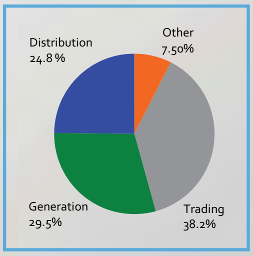
Share price performance (PLN)

Source: Euromoney

Shareholder structure



Revenue breakdown(2011)



Source: Company data; revenue before excise tax.

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PGE Sector: Energy

Ministry of Treasury of the Republic of Poland

Company overview

- Listed on WSE since 2009 (ticker: PGE-WA)
- Market Cap: EUR 7.5bn (Mar 2013)

- Polska Grupa Energetyczna (PGE) is the largest utility player in Poland and one of the largest companies in the energy sector in CEE
- The company owns generation assets with total installed capacity of 13.1GW as well as lignite mines with annual output of c. 48.9m tonnes
- PGE has ca. 40% share in the generation market, c. 25% share in distribution and 5.1m clients
- Operations are mainly focussed in southern and central Poland

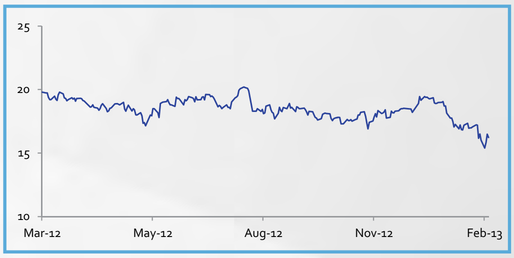
Source: Company data

Key financial data (€ m)

FYE -Dec	2009	2010	2011
Revenue	5,166	4,892	6,716.0
% growth	*n.a.*	*-5.3%*	*37.3%*
EBIT	1,277	1,000	990
% margin	*24.7%*	*20.4%*	*14.7%*
EBITDA	1,907	1,633	1,638
% margin	*36.9%*	*33.4%*	*24.4%*
Net income	1,036	867	1,188
% margin	*20.1%*	*17.7%*	*17.7%*
Total assets	*13,264*	*13,622*	*13,168*
Equity	*9,464*	*9,495*	*9,227*

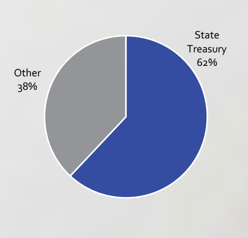
Source: Company data Note: PLN/EUR= 4.1991

Share price performance (PLN)



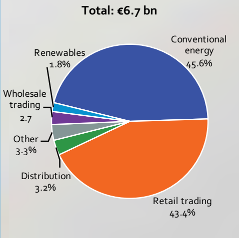
Source: Euromoney

Shareholder structure



Source: Company data

Revenue breakdown(2011)



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Tauron Polska Energia Sector: Energy

Ministry of Treasury of the Republic of Poland

Company overview

- Listed on WSE since June 2010 (ticker: TPE-WA)
- Market Cap: EUR 2.0bn (Mar 2013)

- Tauron Polska Energia is the second largest vertically integrated power company in Poland with installed generation capacity of 5.5GW
- Key statistics (2011)
  - 4.6 million tons of trading coal produced
  - 38.2 TWh of electric energy supplied
  - 21.4 TWh net electric energy generated
  - 4.1m clients

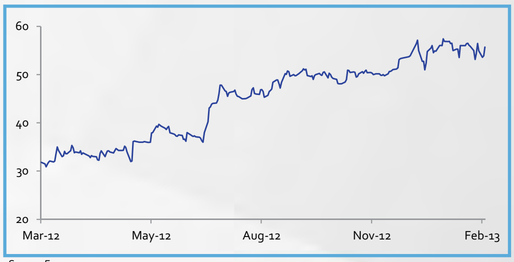
Source: Company data

Key financial data (€m)

FYE –Dec	2009	2010	2011
Revenue	3,272	3,686	4, 959
% growth	*10.0%*	*12.7%*	*34.5%*
EBIT	316	334	*385*
% margin	*9.6%*	*9.1%*	*7.8%*
EBITDA	631	659	*722*
% margin	*19.3%*	*17.9%*	*14.6%*
Net income	227	237	*296*
% margin	*6.9%*	*6.4%*	*6.0%*
Total assets	*5,397*	*5,924*	*6,367*
Equity	*3,467*	*3,846*	*3,617*

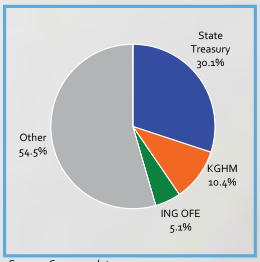
Source: Company data Note: PLN/EUR= 4.1991

Share price performance (PLN)



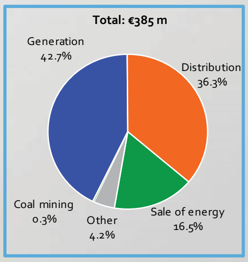
Source: Euromoney

Shareholder structure



Source: Company data

EBIT breakdown (2011)



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JSW

Sector: Coking Coal Mining

Ministry of Treasury of the Republic of Poland

Company overview

- Listed on WSE since 2011 (ticker: JSW-WA)
- Market cap: EUR 2.7bn (Mar 2013)

- Jastrzębska Spółka Węglowa (JSW) is the largest coking coal producer in the European Union
- JSW operates 5 underground mines located in Poland with total reserves of 552m tonnes of coal
- Coking coal (mostly HCC) accounts for ca. 70% of JSW's output
- The company also owns coke production facilities with total capacity of ca. 5m tonnes per annum
- JSW's customer base primarily consists of blue chip steel and energy producers operating within Central Europe

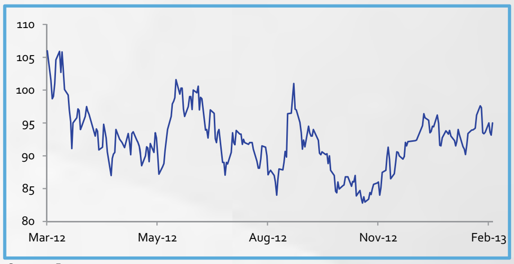
Source: Company data

Key financial data (€m)

FYE -Dec	2009	2010	2011
Revenue	1,067.9	1,741.4	1,710.8
% growth	*n.a.*	*63.1%*	*n.a.*
EBIT	(171.2)	465.1	378.5
% margin	*n.a.*	*26.7%*	*22.1%*
EBITDA	8.1	661.9	521.4
% margin	*0.8%*	*38.0%*	*30.5%*
Net income	(159.9)	358.8	264.6
% margin	*n.a.*	*20.6%*	*15.5%*
Total assets	*2,225*	*2,682*	*3,051*
Equity	*1,169*	*1,542*	*1,892*

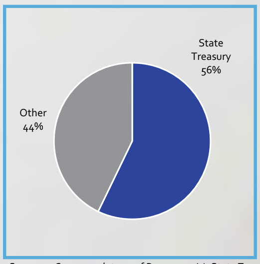
Source: Company data ; Note: PLN/EUR= 4.1991

Share price performance (PLN)

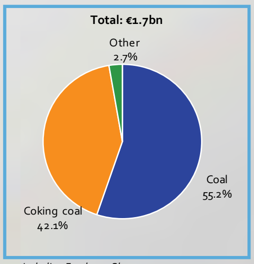


Source: Euromoney

Shareholder structure[1]



Revenue breakdown (2011)



Source: Company data as of Dec-2011. (1) State Treasury, including Employee Shares.

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Katowicki Holding Węglowy

Not listed, planned IPO

Sector: Coal Mining

Ministry of Treasury of the Republic of Poland

Company overview

- KHW is one of the largest domestic and European producers of steam coal
- KHW consists of 4 modern coal mines
- KHW holdings guarantee the stability of supply for at least 50 years
- KHW domestic market share in coal mining is about 20 %

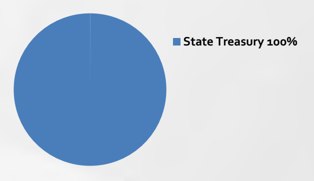
Source: Company data

Key financial data (€m)

FYE -Dec	2009	2010	2011
Revenue	968	940	1,005
% growth	*13%*	*-3 %*	*7 %*
EBIT	57	39	64
% margin	*6%*	*4%*	*6%*
EBITDA	n/a	140	173
% margin	*n/a*	*15%*	*17%*
Net income	21.5	9	42
% margin	2.2%	1%	4%
Total assets	*1,147*	*1,127*	*1,121*
Equity	*315*	*323*	*357*

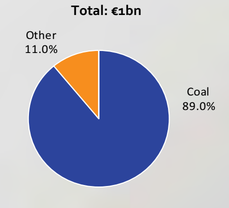
Source: Company data; (a) Unaudited financial data ; Note: PLN/EUR= 4.1991

Shareholder structure



Source: Company data

Revenue breakdown (2011)



Source: Company data (a) Production of copper, precious metals, and other smelter products

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Kompania Węglowa
Not listed, planned IPO

Sector: Coal Mining

Ministry of Treasury of the Republic of Poland

Company overview

- KW produces, develops and distributes hydrocarbon products. It has 15 coal mines.
- KW is the largest coal producer in Europe.
- In 2010 KW's production accounted for 29.5% of total coal production in the EU
- It has about 50% market share in coal sales in Poland

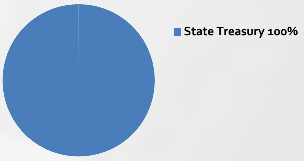
Source: Company data

Key financial data (€m)

FYE -Dec	**2009**	**2010**	**2011**
Revenue	2518	2457	2,893
% growth	*28%*	*(2.5%)*	*18%*
EBIT	(39)	22	136
% margin	*-1.5%*	*0.89%*	*4.7%*
EBITDA	176	219	335
% margin	*7%*	*8.8%*	*11.6%*
Net income	6	9,8	127
% margin	0.2%	0.4%	4.3%
Total assets	*2,427*	*2,786*	*2,819*
Equity	*357*	*595*	*702*

Source: Company data ; (a) Unaudited financial data ; Note: PLN/EUR= 4.1991

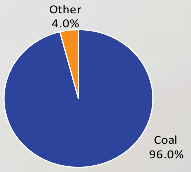
Shareholder structure



Source: Company data

Revenue breakdown – by segment (2011)

Total €2.9 bn



Source: Company data

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Ministry of Treasury of the Republic of Poland

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