

The shares sale in distribution companies for 693 million euros represents the largest amount in the history of Bulgarian privatization. Seven distribution companies in Bulgaria were privatized in 2004, with the majority shares (67%) held by companies CEZ, EVN and E.ON.

This privatization is being considered a great success for all involved parties. The purpose of the privatization was to attract foreign investments in order to reduce the commercial and technical losses and to bring professional management to lead the companies.

The restructuring of Bulgarian power market started in 2002, adopting a new Power Strategy and Privatization strategy. The following year the Energy Law was adopted, stipulating a new market model and introducing market rules. It has been planned to restructure National electric power industry company NEK EAD and the company Bulgargas, as well as privatization of the production and transmission capacities. The third phase, since 2005, implies total energy market liberalization.

Restructuring the National electric power industry company NEK EAD implied the separation of the three electricity producers and seven companies for electricity distribution. NEK is the owner of transmission network of 110KV and it operates as a National transmission operator.

In 2011, NEK was operating by the principle "One-buyer model" as the sole electricity buyer, buying from the independent producers and the only supplier for distribution companies and clients. The restructuring has significantly influenced the investment growth in the relevant sector. One of the major advantages of the "One-buyer model" is the option of attracting capital from the private sector, through the installation of additional capacities or through privatization.

The new Energy Law of 2003 entirely covers the Directives of European Union in the field of electricity and gas. This Law has introduced the new market model which replaced one-buyer model. The electricity market consists of two segments: the market based on the regulated prices, and free market. The regulated market is based on contracts with the Public Supplier, and the market model is based on the freely formed price among participants.

As a result of a great many of serious measures, the companies for electricity distribution increased significantly their capacity of attracting investors. During 2002, these companies recorded losses, and the price of electricity was extremely low, but in 2004 the situation was significantly different. The distribution companies finished the year, 2003 with positive financial results.

At the end of October 2003, the Privatization Agency announced the beginning of privatization of these companies. The selling method was by public tender, with submitting the preliminary and final offers. The selling was realized through three simultaneous/parallel/, separate tenders, in a way that seven companies were grouped in

three packages - West Bulgaria, Southeast Bulgaria and Northeast Bulgaria.

The strategic investors had to meet the following requirements of the tender:

Amount of sold electricity, according to the operating data for 2002, of minimum 7,000 GWh,

Capital of strategic investors equal to or larger than 700 million euros, 31st December 2002 included, Long-term loan rating of the company is equal to or higher than BBB minus (Standard & Poor's), Baa3 (Moody's Investors Service) и BBB minus (Thomson Bank Watch).

Proven experience on the liberalized electricity market- the electricity market is considered to be liberalized when at least 26.5 % of the market is open. Investor must have a share of minimum 5 % on the liberalized market.

According to the terms of the tender, the interested companies could apply for all packages, but they could buy only one. In the future sale of the minority share of the State, the share price will be equal to or higher than the price at which the part of 67 %, previously approved by the Government, was sold. According to this, the price of minority share of the State cannot be lower than 439 million euros.

The government has announced the sale of 67% of distribution companies capital. Czech State electric power industry, CEZ was selected to be the buyer of the company West Bulgaria Pool with a bid of 281 million euros. The bid of 271 million euros for the company in southeastern Bulgaria (Plovdiv and Stara Zagora) gave the Austrian company EVN AG. Third package, which includes Northeastern Bulgaria (Varna and Gorna Oryahovitsa), belonged to the German company E.ON Energie AG, which offered 140 million euros. Sale of shares of these companies for 693 million euros represents the largest amount in the history of the Bulgarian privatization. Distribution companies, grouped in three packages, have 4.5 million clients, and their income was larger than 1.6 billion euros in the year of privatization. Privatization of Bulgarian distributive companies was a great success. Two key factors contributed to this fact-adequate financial assessment of property and losses before privatization and the role of the Regulatory Commission (SERC), which enabled investors to know which regulatory conditions will apply on the market for a longer period.