

# My hands are tied, Aleksandar Obradovic, acting General Manager of EPS

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**I don't see how any political option would benefit from jeopardizing EPS' operations, but if in April we weren't able to pay debts to our suppliers or wages to employees because the Board of Directors didn't convene, the state would have to intervene and provide funds**

EPS as a public enterprise of general interest cannot go bankrupt, but it lacks additional RSD 50 billion or about 500 million euros to stabilize its functioning. The situation is alarming, but a gap in cash flow is not sensational news, because it has been projected in the annual business plan for 2013, said in an interview for NIN Aleksandar Obradovic, acting General Manager of EPS, emphasizing that in the last couple of years EPS' performance has largely deteriorated and that the company has accumulated losses.

**Why has no one paid attention to your alerts? Board of Directors hasn't met so far, nor has the Government taken decisive steps to resolve this problem?**

The Government reacted quickly and on November 16 last year adopted the Decision with regard to corporatisation of EPS, its constitution as limited company, as well as establishment of two subsidiary companies, transmission system operator and distribution system operator. Nothing of the aforementioned has been done, and distribution system operator will have to obtain license in order to be able to request electricity price increase.

**It passed three months since the decision was adopted, so what is the problem?**

The Board of Directors, which makes the necessary decisions, has not met thus far. I am really shocked by the fact that Aca Markovic, Chairman of the Board, decides alone on the effectuation of the Government's decisions, as there is no hierarchy. So I make appeal to the

Board to meet and pronounce on implementation of the Government's decision.

### **And what are reactions to your appeals?**

Markovic considers that there are no conditions for the meeting of the Board, and they wait for the Government, in which there is apparently no consensus, to take a firm stand on this matter.

### **What does it mean "there is no consensus", given that the Government already passed the Decision?**

The Chairman does not recognize this Decision and thinks that the Government should again pronounce on burning issues - i.e. establishment of transmission and distribution system operators and decision on allowing EPS to borrow in order to maintain its operational liquidity.

### **It is quite certain that EPS bankruptcy isn't in anyone's best interest?**

Technically EPS cannot go bankrupt because electricity must be provided, but as CEO I have a moral obligation to warn that someone have to provide funds for EPS' operational liquidity.

### **Is this the result of friction in the ruling coalition?**

I really do not see which political party could benefit from jeopardized operations of EPS.

### **Isn't it symptomatic that in spite of the fact that the executives of all public companies have been replaced, the Government now hesitates to solve the problem of the largest and most significant public company?**

This gets us back to the problem of management of EPS. The Board of Directors does not participate in the daily, operational management, it meets only periodically and decides on important issues, but maybe it does not understand that this problem needs to be urgently addressed. According to his statements, Markovic seems like he is "cut off" from day-to-day operational management, as well as from the Government, because he said he was not sure whether the government has a consensus on this decision. This, however, is not personal, but a systemic problem. The situation is paradoxical - instead of making decisions, which is clearly its task, the Board is waiting for the Government to take a stand. They act as they are not aware of their responsibilities and obligations, and neither of the seriousness of the situation which EPS has to deal with. They have become unapproachable, and to some extent "cut off" from the reality. Although all the decisions depend on them, they still don't meet. They have buried their heads in the sand, like the ostrich, waiting for the end of this situation. But the problem is that it will not pass just like that, so the Board should meet as soon as possible and pronounce on these pressing issues.

### **Is it possible that the employees and suppliers of EPS in March or in April remain empty-handed?**

As long as the Board hesitates to take all necessary decisions, EPS will not be able to borrow from banks, nor to ask for electricity price increase. The preparation for the liberalization of the market for the consumers at medium voltage level, which should enter into force as from January 1<sup>st</sup> 2014, is also put in question.

### **And then what's next?**

There are not many ways to solve the liquidity problem. We need to get the cash. The alternative is that the citizens and companies, which owe RSD 80 billion to EPS, answer to our prayers and pay their debts, or that we somehow delay payments to our suppliers until we solve some problems.

### **It is not very likely that the debtors will now start to pay regularly, while EPS will have to comply with the new Law entering into force as from April 1<sup>st</sup> and service its obligations within 45 days?**

That's exactly why I think it is my duty to warn that borrowing is the only way to solve the liquidity problem. We certainly don't expect consumers to come rushing to pay their debts, or employees to temporarily give up their wages.

### **How do you assess the message from Mladjan Dinkic, Minister of Finance, stating that the Government will not provide guarantees to EPS for new loans?**

The minister has sent a clear signal that the EPS cannot count on that kind of assistance, which we haven't even thought of. But if in April we weren't able to pay debts to our suppliers or wages to employees because the Board of Directors didn't convene, the state would have to intervene and provide funds.

### **Do you believe there are banks willing to give EUR 500 million in loans to EPS?**

EPS has a huge potential and with all necessary changes in place, it could become profitable. It is for this very reason that I regret that the decisions of the Government, made in November, have not yet been implemented. However, my hands are tied, because CEO has no authority to approve and implement the Government's decisions.

### **There are views that further indebtedness of EPS is only a prelude to the sale of the company at price way below its book value?**

The decision about selling EPS can be taken only by the owner, and as far as I know all members of the ruling coalition are against the sale. By looking at the business plan for 2011, 2012 and 2013, anyone can see the gap between revenues and expenditures that can be fixed only by additional borrowing. Everything else pertains to the daily politics and tabloidization of EPS.

### **What are root causes of such a difficult situation? Corruption? Inefficiency? Pricing policy? Surplus employees?**

EPS is a loss maker that for the past eight years practically subsidized consumers – households and companies – with EUR 6 billion, due to unrealistically low price of electricity. That was the cost of the social role of EPS, which the company cannot play any more, because now it is the doldrums. Second, a system of 12 subsidiary companies following their own public procurement practices is not sustainable. Such a system must be centralized under one roof in order to rationalize operations. When it comes to corruption, the Anti-corruption team is working very efficiently as we delivered all documents to the investigating authorities and now we are awaiting the results. All the previous executives used to warn of a difficult situation in EPS, as well as of the risk of doing nothing. Now the problem has become evident. By the way, the liquidity of EPS actually plummeted during the mandate of the previous government and former management. It is clear that borrowing is not a universal remedy for all the problems of loss-making companies. Only if the company operates efficiently and makes profits, it will be able to pay off its old debts. All problems of EPS come from the past, but most of them emerged exactly in the period of the previous government when EPS' liquidity rapidly declined. By that time, a slight chance for recovery in terms of liquidity had existed, but after their decision to give up on EPS, liquidity fell drastically. Their irresponsible attitude towards EPS is root of all problems. We've just had enough guts to publicly disclose that emperor has no clothes.

### **Anyway, according to EPS Annual Report for 2011, the company made profit...**

It was a virtual profit based to artificial increase in the value of fixed assets and the auditor refused to sign such report. A new audit and a new valuation of EPS are underway. When company is loss maker, and projected loss for this year amounts to RSD 27 billion, that loss must be covered at the expense of capital. I do not want to accuse anyone, but it is possible that the primary reason for such an accounting practice doubling or tripling the value of fixed assets is to financially exhaust the company in order to satisfy selfish interests.

### **Since you've already outlined the irresponsibility of the previous government, how do you assess the role of Petar Skundric, former Minister of Energy, and current adviser to Prime Minister Ivica Dacic?**

I would not like to personalize this issue because the government is a collective body and, as such, the owner of EPS. The core problem is that the previous government didn't want to deal with the problems of EPS which were swept under the carpet and that no one cared for reorganization, efficiency and fight against corruption. We have only little time for making some changes, a few weeks, not months.

### **Rationalization often means redundancy cuts. Is there any surplus among more than 32,000 employees of EPS?**

It is impossible to say at this point. The reorganization has not yet started and the public is already talking about layoffs. This year we don't have plan to reduce the number of employees, and only when the plan of reorganization is completed, we will be able to really determine the necessary number of employees.

### **Are you planning to apply for the position of the CEO of EPS?**

Yes. I believe I can lead EPS in the right direction so that it can become more efficient and profitable company.

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