



REPUBLIC OF MOLDOVA PROJECTS

Profile No.	PROJECT NAME	LOCATION
MO1	Privatization of Moldtelecom	Nationwide

REPUBLIC OF MOLDOVA

Privatization of Moldtelecom

Project Summary

Subsector	Telecommunications
Location	Moldova
Project Cost	US\$60-100 Million (expected share price)
Export Potential	US\$500 Million
Project Type	Privatization
Project Executing Agency	Department of Privatization and State Property Administration



Project Outline

This project involves the proposed privatization of the Government-owned Moldtelecom (MTC) through the sale of a 51% share block to a strategic technical operator.

The Government of Moldova (GoM) has begun the implementation of a reform program to modernize and expand the provision of telecommunication networks and services to enhance national economic and social development. These objectives are being accomplished through increased competition, enhanced private sector participation and the development of a modern legal and regulatory framework for the telecommunications sector.

Since independence in 1991, Moldova has embarked on a wide ranging economic reform program to facilitate the transition to a market-based economy. The proposed project to privatize Moldtelecom is actually the third such attempt following two earlier failed privatization rounds. An initial attempt to privatize 40% of the shares of the J.S.C. "Moldtelecom" (MTC) was undertaken in 1997. At that time, France Telecom (allied with GN Great Northern Telegraph Company)) and Greek Intracom participated in the tender. When Greek Intracom was the only company to submit a bid (an offer of US\$46 million for 40% of the shares), the tender was canceled. A second privatization round in 1998 was canceled due to the economic crisis in Russia.

The GoM views the privatization of MTC as one instrument among many for accomplishing its overall sector policy objectives. The GoM seeks to achieve a balance between the price it can obtain for MTC and its developmental objectives. In accordance with the Privatization Law (1999), the GoM has announced its intention to seek a strategic partner for MTC that would be offered a 51% share-holding in the enterprise. The GoM will also transfer management control of MTC to the chosen strategic investor. In addition, GoM has several objectives for sector development, including achieving 70% Internet connectivity in the schools, tariff rebalancing, providing universal access especially in rural areas, and maximizing investment in MTC. The Government agency

responsible for the privatization reform program is the Department of Privatization (DoP) in close cooperation with the Government Commission (GC) and the Ministry of Economics (MoE).

According to local media sources, the full valuation of Moldtelecom's assets is in the range of US\$120-200 million exclusive of the 3G license. The potential value of American equipment and services provided to Moldtelecom once it has been privatized (including the build out of the 3G network) could surpass US\$500 million.

Technical Description

Background on Moldtelecom

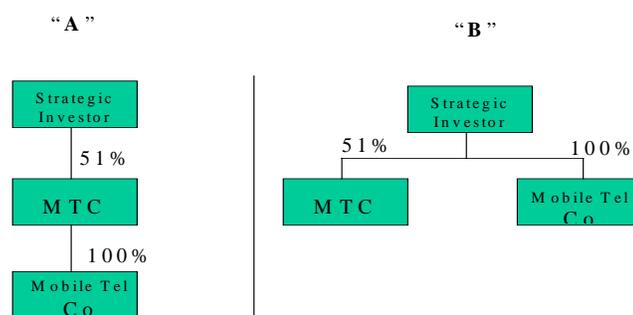
Moldtelecom was founded in 1993 as a result of an initial reorganization of the country's communications sector. As part of this process, the operating activity of Moldtelecom was separated from the regulatory function of the communications sector. In January 1999, Moldtelecom was again reorganized into a Joint-Stock Company (JSC) with the State, represented by the Department of Privatization and State Property Administration of the Economic and Reforms Ministry, as the only shareholder.

In a country with a population of 4.5 million, Moldtelecom is the national monopolistic operator that operates a fixed telephone network with an installed capacity of 636,000 lines (475,000 urban lines and 161,000 rural lines). Since 1993, Moldtelecom has expanded its capacity by 243,000 lines. The company has approximately 7,400 employees. In 2000, Moldtelecom's revenues were approximately US\$49 million and its capital investments were approximately US\$23 million.

Moldtelecom's services include fixed telephony (international, interurban, urban, and rural); telegraphy; and ISDN. It also provides data transport and Internet services with which it competes with private companies. Moldtelecom's switching is 34% digital, 13% quasi-electronic, 51% crossbar, and 2% step-by-step. Moldtelecom has put in place 1,050 km of fiber optic cable for its North-South link and is connected to the international optical fiber networks TEL/TEL, KAFOS/IRUR, and BSFOCS/ITUR. The fiber optic network is built on STM-16 and STM-4 equipment produced by DSC Communications. Through its fiber optic network, Moldtelecom is connected to Ukraine and Romania. The company also has digital connections with Germany, Hungary, Turkey, Romania, Bulgaria, Italy, and Greece, which give Moldtelcom the option of routing telephone calls with those countries through the fiber optic cable, thereby improving the quality of its international service.

The Privatization Tender Process

The GoM seeks a transparent and objective privatization transaction process whereby, in consultation with an advisor (to be hired), a choice will be made between two basic structures of the proposed transaction. These models have different implications with respect to overall attractiveness to strategic investors as well as investment consequences for the GoM for the rollout of a cellular network.



GoM is seeking a strategic investor to acquire 51% of the shares in MTC. As presently structured, the tender will consist of two weighted components, one for the sale of MTC’s existing fixed line operations and other businesses (MTC Component), and a second for the sale of a 3G GSM mobile telephony license (Mobile Telephony Component). The winning bidder will be the pre-qualified bidder with the highest combined score from the MTC and Mobile Telephony Components.

Stage	MTC Component	Mobile Telephony Component
1	Investor Pre-qualification	
2	Bid Amount + “Development” Bid	Financial Bid

Pre-qualification criteria will be objective and bidders will satisfy them on a pass/fail basis. Regarding the MTC Component, two options will be considered for determining the value of the Bid Amount. The GoM will decide on one option of two and this decision will be included in the Information Memorandum and final documents submitted during the Tender.

As for Option 1, the value of the Bid Amount in respect to MTC’s existing businesses will be determined prior to the bidding process, and the Tender Commission will approve the price for those businesses. As for Option 2, the bidders will be required to make financial bids for the shares of MTC. The Development Bid of the MTC Component will comprise a list of objective, measurable sector developmental targets. A weighting system will be determined correlating to the number of developmental targets undertaken. The winner of the MTC Component will be the pre-qualified bidder that agrees to undertake the most development targets under the developmental bid. The undertakings agreed under the MTC component will be reflected in MTC’s applicable license. It is anticipated that MTC will establish a subsidiary to hold the Mobile Telephony license. The winner of the Mobile Telephony Component will be the pre-qualified bidder making the highest financial offer.

Project Site

The privatization process involves the entire MTC network throughout Moldova. The corporate headquarters are based in Chisinau.

Project Status/Timeline

Presently, the Government of Moldova has released the tender for the advising services to structure the privatization. The selected advisor will conduct a complete analysis of MTC, including a valuation of MTC to be used in the calculation of the Bid Amount in the MTC component.

The tender for the privatization is expected during the first half of 2002.

Equipment and Services

This project relates to the sale of equity shareholding only. While there are no immediate prospective sales opportunities of related IT or telecommunications equipment or services associated with this equity sale, the Moldovan government is actively pursuing the involvement in this tender of U.S. fixed network operators. Because digital switches comprise only 34% of the switching capacity of the Moldtelecom network and developmental conditions agreed to by the successful bidder will be a condition of license, the new majority owner will be required to procure a variety of equipment to upgrade the network infrastructure. In addition, the privatized company will have to procure GSM infrastructure equipment related to the establishment of Moldtelecom's cellular network operations. Should an American fixed network operator successfully bid for control of Moldtelecom, long-term sales opportunities for U.S. telecommunications equipment and software providers will be substantially enhanced. Export opportunities as a result of the network and GSM expansion could total as much as US\$500 million.

U.S. Competitiveness

Potential strategic U.S. technical investors are actively encouraged by the Moldovan authorities to participate in this revised third privatization tender. While the privatized company will have a 3G GSM license, there will be market competition for the cellular operations of the privatized company. Moldova presently has two mobile telephone companies that operate on the GSM 900 standard - Voxel and Moldcell. According to media reports, there are about 100,000 cell phone users in Moldova with Voxel, the first mobile phone operator, accounting for most of the mobile users. The subscriber base of Moldcell, which entered the market more recently, has been growing quickly due to competitive pricing.

Project Financing

The Republic of Moldova is expected to hold a public tender during the first half of 2002 at which time, strategic technical partners will be given the opportunity to submit bids to purchase a 51% share block in Moldtelecom.

Conclusion

Potential strategic U.S. technical investors are actively encouraged by the Moldovan authorities to participate in this revised third privatization tender. As a result of the need for upgrading of the network of Moldtelecom and the establishment of a cellular operation, there will be opportunities for U.S. equipment and services suppliers. These opportunities will be enhanced if a U.S. operator successfully bids for 51% of the shares of Moldtelecom.

Competition for the third round of bidding could be light as there were two previous failed tender rounds.

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