

# Deloitte.

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Energy & Resources

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# Global Statement of Qualifications.

Serving Electric Power Companies,  
and Electric Power and Gas Utilities

Audit. Tax. Consulting. Financial Advisory.



# We want to be your business advisor

A secure, reliable, efficient and affordable source of energy is the basis of modern commerce. As recently well publicized blackouts around the world so clearly demonstrate, when the lights go out, business shuts down.

At Deloitte, our worldwide member firms provide an array of specialists whose only job is to assist energy companies in the generation, transmission and distribution of electric power, and the delivery of natural gas. Our professionals can help you improve shareholder value by maintaining access to the capital markets, reducing costs, meeting regulatory requirements, and streamlining business processes. So you're not in this business alone; at Deloitte, energy is our business, too.



# About Deloitte: Focused on energy

Never before has the goal of building shareholder value through quality and integrity been more important than in today's energy environment. Around the globe, senior management and boards of directors face increased demands for corporate accountability and transparency. Some markets have fluctuated wildly, with many countries struggling with economic slowdowns at best and serious downturns at worst. Risk assessment, internal controls, tax strategies, refinancings, restructurings, valuation, business process improvement, data warehousing, energy trading strategy and positioning, modelling, information technology issues, performance management, regulatory pressures, and environmental risks all compete for the energy manager's attention, requiring new solutions to solve new dilemmas. Assurance is more complex than ever before as new requirements and added pressures abound in most developed markets.

## Why Deloitte?

- In order to facilitate the goals of growth, value and improved productivity, today's energy companies look to the member firms of Deloitte Touche Tohmatsu. Our Global Energy & Resources group (GE&R), which includes senior partners from around the world, provides comprehensive, integrated solutions to the energy sector. These solutions address the range of challenges facing energy companies as they adapt to changing regulatory environments, to political, economic and market pressure, and to technological development.
- Our in-depth expertise in this dynamic sector serves as an indispensable resource for a significant proportion of the world's largest energy companies. We have designed our practice to conform to this rapidly changing sector's unique needs and to offer a complete range of services designed to provide the energy industry with unparalleled service, innovation and critical thinking.
- In addition to complete geographic coverage, our member firms offer energy clients deep industry expertise and outstanding services delivered consistently throughout the world. Our integrated teams of internationally experienced professionals are well versed in addressing today's challenges linked to industry specialization, globalization, e-Commerce and the network economy.
- Our member firms have 120,000 people in nearly 150 countries.
- We have global revenues of \$15 billion for fiscal year 2003.
- Our member firms have over 4,000 audit, tax, consulting and financial advisory professionals focused on working with energy companies around the world.
- Our member firms audit more than 50% of the world's largest power companies.
- We have significantly strengthened our energy practice by adding hundreds of energy-focused professionals around the world.
- We have added and strengthened several service lines to offer comprehensive, integrated solutions to meet the needs of energy companies the world over; in particular, our member firms now offer M&A integration and transaction support, human capital consulting, risk management consulting, business process improvement, and integrated cost reduction services.
- Our member firms have a focused approach to client service; a Lead Client Service Partner (LCSP) for each client is responsible for all global services to that client. Lead Client Service Partners have the authority to direct global teams of professionals and to make the decisions necessary to serve the client in any location around the world to the client's best advantage.
- Our people share common technical and operating standards, as well as common methodologies, training and technology.
- We listen to clients, understand their business needs, and offer innovative solutions to their business problems.
- Our member firms provide a work environment for our people that attracts, develops and retains the most talented professionals. As a result of these efforts, Deloitte is recognized as an "employer of choice" in over 20 countries.
- Our member firms have the industry specialists, service offerings, and functional expertise to meet any energy client's needs.
- Our member firms perform client service assessments to obtain an evaluation of our clients' view of our performance, and incorporate the resulting client observations in our client service plan for the following engagement.

**“Deloitte stood head and shoulders above the other firms in a number of areas: industry knowledge...market share...client service team...global reach. We felt these were a very, very important advantage - an advantage that would provide benefits to Energy for years to come.”**

**John Wilder, Chief Financial Officer, Entergy Corporation**

## Geographic energy leadership



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# Deloitte listens Deloitte responds

Clients tell us every day. What matters day in, day out is industry expertise, depth of service, quality of professionals, a broad base of experience, and global reach.

## **Our response** **Service lines**

Energy clients have specific needs that demand specialists. In response to those needs, we have developed over a dozen service lines focused on energy. In addition to the audit, audit-support, tax and consulting specialists outlined in this document, our service line specialists are available to assist our clients with the intricacies of derivatives, energy trading issues, risk management, leasing and financing issues, corporate governance, human capital, energy modelling projects, and a host of other energy-specific needs.

## **Deployment**

GE&R actively supports our global clients by ensuring we have the right people to serve each client. We have the capability of locating professionals with the experience needed and can facilitate their deployment to the client's location.



## **Energy Centers of Excellence**

Around the world, our energy centers of excellence meet global energy clients' needs across a wide array of service lines. Our energy-focused practitioners in these centers serve multiple energy clients. They also serve as a resource for other practices to assist with their energy-specific needs.

## **Training**

Clients keep abreast of the latest developments affecting their business, and deserve professional service by practitioners who are equally focused. For this reason, Deloitte regularly provides both clients and professionals with technical training in the accounting, tax and related disciplines that is tailored to meet the special needs and interests of our power and gas clients.

Our goal is to hold a two-day training for clients and practitioners on each continent each year, each of which has a robust agenda tailored to meet regional needs. We're proud to say that only once have we not met that goal; even then we were able to compensate by holding multiple trainings in the following year around the affected region. We poll our country leaders annually for topics needed in their region and develop a unique agenda for each region, and have developed training courses in both English and Spanish, with presentations frequently made in the local language. These sessions are consistently multinational and cross-functional.

We also make eLearning programs available to our practitioners and are constantly developing new courses, allowing our professionals access to a wide array of industry learning programs. A recent example is our Introduction to Public Utilities on line course now available to practitioners new to power and gas engagements. Additionally, we regularly sponsor webcasts on industry topics such as Accounting for Derivatives, industry conferences, regional and local training sessions, technical training at client sites, and industry-focused sessions covering the latest business trends and issues affecting our clients. These sessions are consistently multinational and cross-functional. Of interest to our clients, our

member firms also regularly conduct client training sessions that are tailored to the individual client.

**Representative recent and upcoming power and gas training initiatives**

- LCSP training, London (September, 2004)
- IFRS training, planned for Europe (Fall, 2004)
- U.K. utilities school, London (October, 2004)
- Annual energy training, Madrid (Fall, 2004)
- Regional energy training, Sao Paulo, Santiago, Buenos Aires and Asia (Fall, 2004)
- Power and gas training, Paris (May, 2004)
- Introduction to utilities, Moscow (November, 2003)
- Energy training - Auckland, Melbourne and Hong Kong (September, 2003)
- Energy trading and risk management seminars, London (annually in September)
- Energy training, Santiago and Buenos Aires (June, 2003)
- Energy training, Sao Paulo (May, 2003)
- IFRS training, Amsterdam (June, 2003)

**Selected recent industry training topics**

- Global and regional business issues facing industry participants
- Technical industry accounting updates, including steps for preparing for adoption of new regulations
- Technical industry tax updates
- Corporate governance
- Latest developments in the energy industry
- Various consulting and corporate finance case studies such as Raising Capital
- Round tables with geographic emphasis and

- service line presentations
- Energy trading and risk management
- M&A, privatization and due diligence
- Derivatives accounting
- Project finance for power companies
- Regulatory environment

**Communication**

GE&R professionals stay connected. We have a designated, active country energy leader for every country where we have offices. Since 1998, each month those country leaders join our global and service line leaders and LCSPs in a conference call to discuss client and industry events and issues. Since 1999, we have had a global energy intranet for the purpose of sharing industry knowledge among our practitioners.

We invite you to join us on our public web site at [www.deloitte.com/energy](http://www.deloitte.com/energy) for the latest in thought leadership, Deloitte-sponsored events and training opportunities.



# Thought leadership

In the energy space, it's not enough to simply offer services. Today's business imperative is industry involvement on a meaningful level. At Deloitte, we take that imperative to heart.



#### Deloitte Energy Conference 2004

The Deloitte Energy Conference offers attendees the latest thinking of leading industry experts from around the globe – policymakers, company executives and industry analysts. From global demand and supply to investment in U.S. markets, this annual event brings together specialists from across disciplines to share knowledge, experiences and perspectives about the latest trends in the energy industry.

#### World Economic Forum

Deloitte has a longstanding relationship with the World Economic Forum dating back over fifteen years. The global firm, initially a Knowledge Partner, has evolved to become a Strategic Partner with the Forum, and has co-developed a number of major research and project initiatives such as the Corporate Governance Workshop, Greenhouse Gas Register and Women Leaders Initiative.



#### Power 2004

Sponsored by Deloitte for the last seven years, this European power conference gathers energy executives to hear CEOs and CFOs of Europe's leading power and gas companies discuss industry developments and challenges.

#### Montreux Energy Round Tables

Deloitte has sponsored Montreux Energy's Geneva and Beijing conferences focusing on energy issues.



#### Flame 2004

This prestigious gas conference focuses on Europe's restructuring gas market, the future of gas trading, regulation and security of supply.

#### Oxford Institute for Energy Studies

Deloitte supports this prestigious research institute led by England's Oxford University, and regularly participates in their energy forums, contributing papers authored by Deloitte's energy specialists. Each year we sponsor a delegate from one of Deloitte's member firms to OIES' two-week seminar addressing energy's most pressing issues of the day.

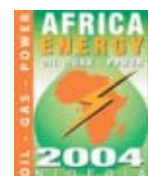


#### Asia-Pacific Power Forum

Beijing hosted APAC's leading power companies addressing the energy needs of some of the world's most populous nations.

#### Africa Energy

Deloitte is proud to be a sponsor of this inaugural conference addressing this emerging market's pressing energy needs.



#### Power Generation World

This Sydney conference focused on the Australian power market and featured Deloitte Australia tax partner Joe Niven as the leadoff speaker.

**EEL EDISON ELECTRIC INSTITUTE Edison Electric Institute**

As a long-standing associate member of EEI, Deloitte brings value to its membership through collaborative research and publications, and through participation in its numerous events each year, including its Annual Convention and Exposition, U.S. and International Conferences, and other issue-oriented events.

*A Guide to Enhanced Corporate Governance and Financial Reporting in the Energy and Utilities Industry* is geared to the corporate executive or board committee member. It was prepared by Deloitte for the Edison Electric Institute to help synthesize and analyze the numerous requirements of new legislation, expanded corporate governance requirements and changing financial accounting and reporting standards.



**American Gas Association**

Deloitte participates as a sponsor at meetings held by the American Gas Association as well as participates in its conferences.

**EPSA**

Deloitte is proud to be a member of the Electric Power Supply Association.



**IFRS**

Deloitte's UK firm and UBS have co-authored an analytical review of the industry issues facing utilities and power companies associated with the adoption of International Financial Reporting Standards. Led by UK senior partner Doug King, this in-depth analysis offers country-specific analysis for selected countries.



**Cuadernos de Energia**

This quarterly Spanish language energy publication addresses issues facing today's energy companies throughout Spain and Latin America, with articles by leading industry regulators, corporate executives and Deloitte energy specialists. It is produced in conjunction with Spanish law firm, Garrigues, and energy trade association, Enerclub.



**Euromoney Yearbooks**

Global energy leader Chris Nicholson and Deloitte Research's Dwight Allen offer "Twin Roles of the Energy CFO," the leadoff article in Euromoney's *International Power & Utilities Finance Review 2004-2005*.



# Tax

How tax efficient is your company? Deloitte's energy tax specialists guide a broad array of projects designed to achieve significant tax savings, including global strategic reviews to manage worldwide effective income tax rates.

**Tax considerations are a key component of all business transactions, in whichever segment of the energy industry you operate. The dynamic nature of today's tax and regulatory environment requires industry-focused tax experts to keep you up-to-speed, and to help you interpret the impact of these changes on your global strategy.**

To address the unique tax issues facing the energy industry, we have established centers of excellence to focus on tax matters affecting the energy industry. These centers include the Energy & Resources Tax Group (ERTG), based in Washington, D.C., and the European Energy Indirect Tax Team, based in London.

Our global team of tax professionals has extensive experience in advising energy companies considering cross-border mergers and acquisitions. The approach is holistic, and considers business integration and tax structure, due diligence, transfer pricing, and tax modelling. Global tax optimization studies examine the repatriation and deployment of foreign earnings, foreign tax credit planning, divestitures, foreign currency management, and energy trading.

Technology-based solutions are an increasingly critical area of tax management. For tax compliance planning and solutions, CORPTax offers integrated tax department services, including an ETS intranet-based software system with global data management and reporting and international tax quantitative and consultative capabilities. Available modules include International, U.S., and multi-state planning.

Global deployment is another area of focus for energy companies, and our member firms' International Assignment Services practice has close to 2,000 international human resource, tax, and technology professionals who can help you meet your global workforce needs. Comprehensive services - assignee tax planning and compliance, international policy design, program administration, tax equalization administration, pre-departure and assignment support, and employee communications - help energy companies deploy their people effectively and efficiently, wherever the market requires them.

#### **Year-round involvement**

In addition to performing annual tax reviews in connection with reporting and compliance deadlines, we assist clients with daily complexities, including tax questions arising from strategic planning, operations, and transactions. We can recommend practical tax strategies relevant to your operations and consistent with your business objectives.

#### **Offerings**

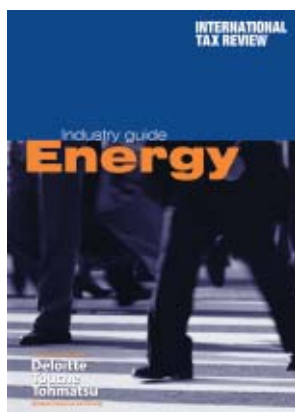
- Tax planning & compliance
- Tax modelling
- Mergers & acquisitions tax planning
- Due diligence
- Business integration & tax structuring
- Site selection
- Joint ventures
- Divestitures
- Transfer pricing
- International assignment services
- Foreign currency management
- Repatriation & deployment of foreign earnings
- Foreign tax credit planning
- Indirect taxes (VAT), duties & customs
- Energy trading taxation
- Lease taxation
- Property taxation



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### Representative tax clients

AEP	Mitsui & Co.
AES	National Grid Transco
AGL (Australia)	Norsk Hydro
CenterPoint Energy	NRG Energy
Duke Energy	PG&E
E.ON	Powergen
Electrabel	Progress Energy
Électricité de France	PSEG
Endesa	Ruhrgas
FPL Group	RWE
InterGen	Scottish Power
MidAmerican Energy Holdings	Sempra Energy
Mirant	Suez
Mitsubishi Corp.	Tractebel
	TXU



### Thought Leadership

**International Tax Review Industry Guide: Energy** Deloitte offers a discussion of the energy industry as a marketplace in flux and its effect on energy taxation. Analysis is included on the tax aspects of global strategies for international acquisitions, tax considerations for investing in the U.S. energy market, M&A in the power industry, deductibility of losses, incentives in the energy industry, VAT aspects of gas, electricity and oil in the EU, capitalization and deduction of power plant construction costs, and certificate trading in environmental commodities.

**European energy taxes** Our global website hosts a country-by-country guide to the indirect taxes (other than VAT) applicable in over 25 European countries on electric power and natural gas. The information in this guide on chargeable events, applicable tariffs and liability provides a valuable tool for energy companies needing to integrate these taxes in the calculation of their profit margin or cost base. The regular updates allow you to keep up with the pace of market liberalization and with the changing indirect tax environment in the region.

**Dbrief webcasts** Deloitte's top-ranked webcast series for tax executives, Dbriefs are informative and interactive, with a variety of timely, relevant business topics. This approach provides you with immediate and measurable feedback through polls and surveys, including realtime benchmarking with your peers. And it's educational, with Continuing Professional Education (CPE) credit available.

### Business Guides for 60 countries

Drawing on their rich resources of country and regulatory information, the global tax network of Deloitte member firms and the Economist Intelligence Unit, NA, Inc. have created a dynamic website designed to



provide convenient, searchable information and insights on tax and business issues in key trading nations. The business guides, updated at regular intervals, contain extensive information on investment conditions, tax regimes and regulatory requirements, along with information for executives working abroad. The companion Human Resource Guides provide information for expatriates including national holidays, visa details, important addresses and web links. A Snapshot view, which presents an at-a-glance summary of basic information, including tax rates for 60 countries, is updated twice a year.

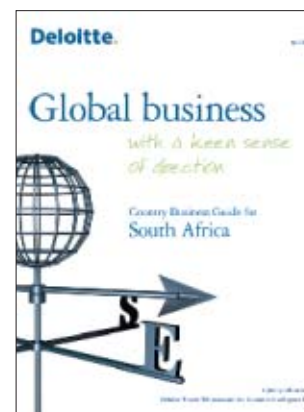
### Case studies

**Strategic Tax Review** Our strategic tax review team performed a comprehensive analysis of an energy company's worldwide tax position. The focus of the strategic review was to identify the client's sub-optimal taxation situations and work with the company to improve its overall effective tax rate. ●

**Research and Development (R&D) Cost Review** Our Research & Development Tax Services Group worked extensively with an energy client to review existing efforts to

capture R&D benefits and develop a methodology for the company to use in the future. Significant refunds were achieved by evaluating R&D expenditures made in prior years. ●

**Transfer Pricing** A multinational client chose our Global Competent Authority Services team to assist in the resolution of a cross-border double taxation dispute based on Deloitte's selection as the top transfer pricing network in the world, according to the latest survey published in Euromoney's 2004 edition of the Expert Guide to the World's Leading Transfer Pricing Advisers. ●



**International Structuring** We have worked extensively with multinational energy companies to plan for their investment in and withdrawal from foreign countries. For example, our global team of mergers and acquisitions specialists worked with an energy client to optimize the client's investment in power generation assets in Latin America. ●

# Consulting

With more than 3,000 energy projects in our portfolio, we know how to help our power, gas and utility clients improve performance, reduce costs, maximize technology, and more...



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#### Seeing things from the inside out

When executives and managers are facing large, complicated challenges, they don't want to talk to rookies. Businesspeople want help from seasoned professionals, partners who can offer guidance based on first-hand industry experience and world-class research.

#### Offerings

- Enterprise applications
- Human capital, including
  - Health care spend reduction
  - Talent management
  - HR Outsourcing
- Collaborative business planning
- Technology integration & implementation
- Mergers & acquisitions
- Financial integrity
- Supply chain management
- Customer billing
- Operations excellence
- Program leadership
- Capital project management
- IT strategy
- Asset management
- Outsourcing

#### Alliances

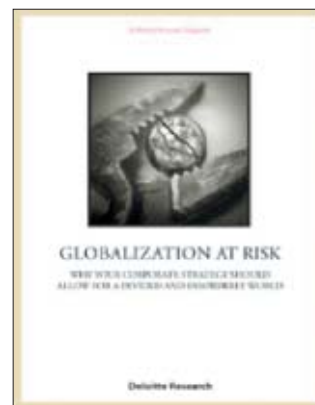
In today's business world, going it alone is nearly impossible. Few companies have all of the necessary skills within their own walls. Success requires collaboration among employees, vendors, suppliers and partners.

That's why we've forged strong relationships with a number of leading technology vendors and service providers. We want to provide our clients with the best possible assistance, no matter where it comes from.

And when it comes to critical business technology - streamlining business processes, improving customer relationships, or transforming a value chain - our alliance partners are second to none.

#### Initiatives

**Customer Billing Solution** Deloitte and SAP have joined forces to offer a customer billing solution that relies on preconfigured software from SAP and Deloitte's Scalable Utilities Template - designed around industry best practices. Working together this solution reduces costs and improves information availability, while minimizing implementation time and decreasing risk.



**Enterprise Value Map** The Enterprise Value Map is a practical way of looking at what Power Companies can do and how those activities can drive improvements in shareholder value. The map is also a powerful tool because it draws practical links between shareholder value and the things companies can do to improve it.

#### Solving the Employee Dilemma

Consolidation of the workforce through the reengineering and automation of processes and an increased level of technical knowledge has increased the demand for highly skilled workers in the Power Industry. Deloitte's scalable and flexible methodology allows Power Companies to manage the "hire-fire" cycle, maximize people / labor dollar spend, pace external markets, and make fact based decisions when it comes to their workforce.

#### Seizing the RFID Opportunity

Radio Frequency Identification (RFID) will create new business opportunities and will change business processes by making objects intelligent and interactive. Deloitte's RFID tools, methodologies, and thoughtware, along with its deep industry knowledge, make it the most innovative firm in helping Power Companies radically improve their business by leveraging RFID.

**Representative consulting clients**

At Deloitte, our member firms have served hundreds of middle-market companies and many of the Global 1000. Our consulting clients include 9 of the top 10 Global Fortune 500 utilities.

- |                      |                    |
|----------------------|--------------------|
| Aquila               | Enel               |
| Allegheny Energy     | Eskom              |
| B.C. Hydro           | Exelon             |
| Centrica             | FirstEnergy        |
| CEZ                  | Gas Natural        |
| China Light & Power  | Gaz de France      |
| Chugoku Electric     | Hokuriku Electric  |
| Constellation Energy | HydroOne           |
| Edison International | Korea Electric     |
| Edison S.p.A.        | London Electricity |



- |                          |                     |
|--------------------------|---------------------|
| Mainova AG               | Scottish Power      |
| nPower                   | Singapore Power     |
| Ontario Power Generation | State Power (China) |
| Powercor Australia       | Tokyo Electric      |
| RAO UES                  | Tokyo Gas           |
|                          | TVA                 |

**“Deloitte Consulting...was awarded the Services Partner Award of Excellence for 2002...the highest honor bestowed upon an alliance firm.”**

SAP America

**“Deloitte ...2nd largest HR Consulting firm in 2002”**

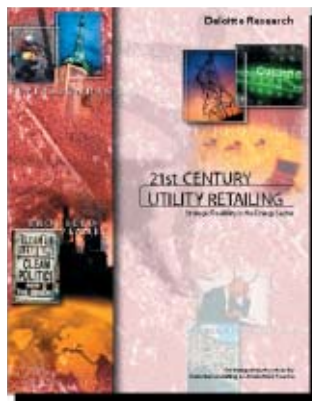
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**Thought leadership**

**Globalization at Risk: Strategic Issues for Energy Companies** Deloitte Research analyzes the implications of energy flows

and financing through 2030, the role of developing countries, U.S. dependence on imports, and energy shipments between regions, then asks, “What’s needed to convert resources to supplies?” Also considered is deglobalization, the other scenario, plus there is analysis of these two competing visions of the future.

**The currency of good governance** In an article for *Energy Business & Technology*, Deloitte authors Richard S. Woodward, Lee A. Dittmar and Carlos R. Munoz discuss the negative impact of financial statement complexities within the Energy Sector. Among the comments: Firms that sit on the



sidelines while competitors strip out complexities will continue to face the wrath of a mistrusting market.

**Business leaders host Corporate Performance Management Webinar** Deloitte Consulting, Longview Solutions, and Exelon Corporation, hosted a Web seminar focusing on the benefits of real-time access to a single enterprise-wide source of financial data.

**The Innovator’s Solution** We have developed an energy specific fact-base and framework for accessing the application of Innovator Solution concepts to specific industry situations, such as non-traditional retail competitors.

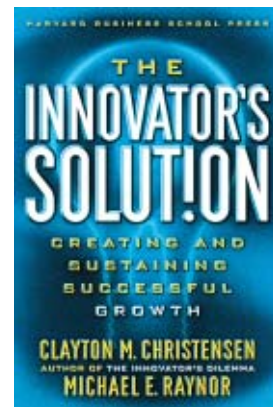
**Case studies**

**Client value proposition: Performance improvement initiative focused on spend to enhance accountability and reduce cost:** Deloitte member firms helped a utility with a comprehensive performance improvement initiative that structurally improved the capital and operating expense performance of the company. ●

**Client value proposition: Drive value to organizations through the application of technology** Deloitte member firms

helped a utility integrate its operational systems to provide better customer service, outage analysis, and dispatch efficiency, which helped it avoid regulatory penalties for excessive outages and outage durations. The real time integration of operational systems included GIS, SCADA, outage management, engineering analysis, and the customer service system. ●

**Client value proposition: Growth through strategic acquisition** Through our member firms, Deloitte, which has the largest utility M&A practice in the world, recently provided a utility with a strategic fit evaluation, value potential estimation (cost and revenue), market complexity evaluation,



and an overall attractiveness assessment of a potential asset acquisition. ●

**Client value proposition: Focus limited resources on core business activities:** Through our member firms, Deloitte is helping a large South American utility transform its business with minimal capital with the design, building, co-financing and operation of billing to its customers. ●

**Client value proposition: Mobile technology to help increase field crew productivity** For a large North American utility, Deloitte member firms’ professionals integrated a mobile enterprise software product which optimized field activities such as scheduling work orders, viewing manuals and maps, ordering equipment, and updating work order status. ●

# Representative audit clients

AEP	NiSource
AES	Norsk Hydro
Areva	PG&E Corp.
CFE	PSEG
Distrigas	Public Power
Dominion	Reliance Industries
DTE Energy	Sempra Energy
Duke Energy	Shikoku Electric Power
Electrabel	Slovak Gas (SPP)
Électricité de France	Statkraft
Endesa	Southern Company
Entergy	Suez
Hydro Québec	Taiwan Power
Iberdrola	Tractebel
InterGen	Turkish Electricity
Kansai Electric Power	TXU
Korea Electric Power	Union Fenosa
Korea Gas	United Utilities
Kyushu Electric Power	

*Quality, integrity,  
independence: it's our  
business*

# Audit

Audit does more than satisfy regulators: it enables companies to grow and evolve by opening the door to capital markets, thereby strengthening shareholder value. No one benefits more from high-quality audit services than today's energy companies.

## The Deloitte Advantage

In today's changing global economy, businesses need trusted advisers. Because the audit services professionals of Deloitte's national practices the world over focus on the energy sector, we can help you identify major risks and opportunities over and above performance of the traditional financial reporting function.

Supported by advanced technology, including our proprietary AuditSystem/2 software, we are constantly looking for ways to improve efficiencies and enhance client service.

Through our member firms, our global network of audit professionals can assist in achieving energy companies' business objectives, in managing the sector's substantial risk, and in improving business performance - no matter where in the world you do business.

## Energy audit challenges

A wide array of specialized energy industry accounting conventions and transactions make auditing any energy business a great deal more than business as usual. Our specialists focus on individual audit and financial statement presentation of idiosyncratic accounts such as:

- Revenue measurement
- Derivatives
- Energy trading
- Stranded costs
- Nuclear decommissioning
- Energy asset depreciation
- Energy asset retirement obligations
- Depletion

- Environmental risk
- Emissions trading
- Nuclear fuel accounting

## IFRS

International Financial Reporting Standards (IFRS) will play an increasingly important role in doing business globally as financial markets become more integrated and investors look for more consistency in the financial reporting of multinational corporations. The European Parliament recently required all companies domiciled in the European Union with publicly traded shares on a European exchange to follow IFRS for their financial reporting by December 31, 2005. This new requirement will affect some 7,000 European companies, including all non-European-based multinationals with European reporting requirements.

This trend is not limited to Europe. An increasing number of South American countries are requiring the use of IFRS and, as a result of this requirement in many countries, companies in some countries not

requiring IFRS, notably Japan, have voluntarily moved to IFRS. In addition, the U.S. SEC is currently considering eliminating the requirement for reconciling to U.S. GAAP for companies following IFRS.

We have already undertaken a significant number of IFRS conversion engagements for energy companies throughout Europe.

## Our clients speak for themselves

In no other area is professional services market share more readily and objectively measured than in audit. We are proud to serve as auditor to the energy industry's leading companies, as listed to the left. ●

**“I have found Deloitte to be a real business partner...willing to step up and say what has to be said...They provide true, independent service. Deloitte...helps us...sustain our growth and our success.”**

David Sokol, Chief Executive Officer, MidAmerican Energy Holdings

# Mergers & acquisitions



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**The energy industry has reached a point of critical self-examination. Growth expectations and challenges are increasing, and marketplace rules of engagement have been recrafted to shift success fundamentals away from entrenched companies. Energy firms must reassess their strategic position and direction, business model and capability. To win, firms must consider whether intrinsic capabilities are sufficient and indigenous assets provide competitive advantage. Utilities are trying to return to what they were seven to eight years ago and are realizing that the world in which they operate has fundamentally changed and getting back to basics does not mean what it did previously.**

With merger activity in the energy and utility industries continuing to struggle due to general economic conditions and regulatory uncertainty, the activity has focused on the divestiture of assets and the participation by non-traditional players. With the retrenching of the traditional players, we are now seeing active interest and participation by private equity players, including both dedicated energy funds and large general investment funds. Sell motivations include duplications through prior mergers, the desire to de-leverage and improve credit ratings and the opportunity to cash out on high valuations resulting from high commodity prices and low interest rates. commodity prices and low interest rates.

In today's marketplace, the importance of globalization in the utility environment is very uncertain. The historic expansion of international mergers and acquisitions in the energy industry made it essential to work on a global landscape. However, the trend of getting back to basics has resulted in more domestic focus and less on the international transactions.

As firms look to the future of M&A, they will need to balance the business rational and investor expectations for higher growth with the ability to capture the value of the transaction and the regulatory landscape where they will be operating. The requirements for success will need to take into account the allocation of capital, management of the resulting balance sheet, the ability to manage the transaction and the resulting integration and the regulatory relationships.

More than ever before, the importance of social issues will drive or destroy value creation in mergers and acquisitions. This will include board composition, executive roles in the new company, political issues surrounding the location of headquarters and facilities. This will require boards to require significantly more due diligence on potential transactions to ensure that the shareholder will benefit from the transaction.

## Offerings

Strategy  
Due diligence/transaction support  
Post-merger integration  
Joint ventures  
Dissolutions

## Representative M&A engagements

Unicom-Peco Energy (\$17 billion)  
Dominion-CNG (\$6.3 billion)  
Powergen-/East Midlands (\$3.2 billion)  
AES-Drax (\$3 billion)  
Reliant Energy-NV Energieproduktiebedrijf  
UNA (\$2.4 billion)  
ABB-Alstom (\$1.5 billion)  
ScottishPower-PacifiCorp (\$7.9 billion)  
CalEnergy-MidAmerican (\$4 billion)  
Site Energies-GPU (\$1.7 billion)  
PG&E-Nees Assets (\$1.7 billion)  
TXU-Eastern Group (\$7.3 billion)  
Duke Energy-Pan Energy (\$23 billion)  
PacifiCorp-Powercor (\$1.6 billion)  
Berkshire-Hathaway-MidAmerican (\$2 billion)  
AEP-Central and South West (\$4.5 billion)  
Centrica integration  
TXU-Norweb integration  
TXU-Amerada Hess Gas integration

# Global Energy Markets

**Deregulation of the energy markets and convergence of the gas and electricity markets have opened the industry to competition, and increased the demand for lower priced and innovative energy products. As a result the risk has been shifted from consumers to energy companies.**

The industry responded with the evolution and dramatic expansion of energy trading (in many cases viewed as a for-profit business) and expanded generation capacity. However, similar to the early growing pains in financial services, the industry did not generally exercise appropriate risk management practices to manage both trading and business practice risks in this volatile business. The impact on the industry has been dramatic: increased regulatory scrutiny, trading and credit losses, and a credit implosion rating, all resulting in less liquid markets and restricted access to capital markets.

Predictably, many companies responded by "exiting" trading. But the legitimate need for intermediation of the energy commodity markets has not gone away; end users, generators, and more recently, hedge funds, see these markets as legitimate and necessary for their own respective purposes. End users still have unwanted risk in the energy prices. Hedge funds see energy as a means of diversification. And generators still require reasonably liquid markets for purposes of portfolio optimization, or "trading around their assets."

As a result of new market entrants and of the events of the past two years, the requirements to participate in the energy markets in a responsible and profitable manner that is explainable to Boards and to analysts are greater than they have been in the past.

At the core of our client service philosophy is the belief that business expertise and technology must be blended to effectively serve energy clients. Our team is composed entirely of experienced energy trading and risk management specialists who are exclusively dedicated to this area of expertise.

Our proven methodologies and tools developed over years of serving the energy and financial services industries and customized to your needs, allow us to achieve the desired goals within the shortest time-frame possible. We have a history of success, consistently surpassing our clients' expectations.

## Offerings

Risk strategy, policies & performance measurement  
Transaction infrastructure, focusing on people, processes & technology  
Retail market services  
Credit risk management, including credit reserving & collections management  
Portfolio analysis  
Analytical tools & technology  
Quantitative services  
Energy risk assurance & advisory services

## Representative GEMs clients

AEP	PacifiCorp
Avista	PG&E
BC Hydro	Progress Energy
Coral Energy	PSEG
Dominion	Select Energy
Duke Energy	Sempra Energy
Dynegy	Shell Trading
Électricité de France	Sithe Energies
FirstEnergy	Southern Company
FPL Group	Teco Energy
Hydro Québec	TXU
Ontario Power Generation	

## Case studies

**For a U.S. utility** Starting from a greenfield state, we assisted in the design, development and implementation of business processes, supporting technology and tools to support all middle and back office processing of ISO and bilateral energy contracting. We also outsourced the ISO processing, resulting in tens of millions of dollars in disputed and recovered charges. ●

**For a European trading operation** We set up a Credit Risk Management department from scratch. This involved developing and

implementing policies, procedures and methodologies for evaluating the credit worthiness of counterparties, determining credit limits and measuring credit risk of trading transactions using models to quantify the exposures. ●

**For the U.K.'s New Electricity Trading Arrangements** Our team developed and documented their trading and risk management policies and procedures manual. We coordinated ideas on trade initiation, capture and risk management, and ensured they represented best market practice. ●



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Today's risk tolerance is at its lowest point in history.

# Corporate & project finance



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“Deloitte managed to deliver more value in a fraction of the time than any of the investment banks involved in our defense.”

CEO of a major utility company subject to an unsolicited bid, on our assistance in mounting its defense

Through our member firms, Deloitte's Corporate Finance Advisory arm provides expert and in-depth industry-focused advice to energy clients, private equity/venture capital firms, MBO/MBI teams, entrepreneurs, and governments. Our professionals are drawn from a multitude of backgrounds, including investment banking, brokerage houses, consultancies, government, and accounting, and have the expertise to serve clients across the barriers of time, language, currency, and culture. With 90 partners and more than 700 staff around the globe, we can combine an integrated global approach with extensive industry expertise and local knowledge.

## Offerings

### Advice on:

- Positioning in the energy chain
- Negotiating strategic alliances
- Project commercial & financial structuring
- Termsheet negotiations with potential lenders
- Contractual negotiations
- Project restructuring

## Projects

- Managing bid processes
- Assessing project viability, financial modelling & sensitivity analysis
- Running auction processes for asset sales
- Running competitive financing processes
- Structuring & running project refinancing on a competitive basis
- Risk analysis
- Preparing information memoranda for potential lenders or investors
- Modelling support for M&A transactions & project development & finance

## Representative corporate & project finance clients

AEP	Mistui & Co.
Duke Energy	National Grid Transco
Edipower	Nationalma
Edison S.p.A.	Elektricheska
Elexon Ltd.	Scottish & Southern
Enel	Scottish Power
ENI Gas & Power	Union Fenosa
E.ON	TXU
Mitsubishi Corp.	Vattenfall

## Case studies

**Refinancing of generation assets** We served on an advisory consortium of supporting sponsors, lending banks and tollers on the 2.3 billion euro refinancing of Edipower. We built a multi-fuel, multiple plant dynamic model to support the bank case and tolling agreements. ●

## Privatization and restructuring advisory

We served as advisor to the Bulgarian government and NEK, the national transmission company, on the creation of power companies and on their subsequent restructuring, and on the sale of strategic stakes to major foreign utility investors. ●

## Divestiture advisory

We were mandated to advise the Czech National Property Fund on the proposed sale of a 65 per cent stake in CEZ, the Czech national generating company with a portfolio of 12,000 MW. We also served as advisor on the proposed sale of its stake in six regional distribution companies. ●

**Bid defense** We advised a major utility on its defense pursuant to an unsolicited offer from an industry competitor, working jointly with a premier investment banking organization and counsel in order to determine and shape defense strategy. Given our industry understanding and relationships with both the target and global utility clients, we were instrumental, in bringing together a consortium to mount an alternative bid, as well as providing advice on financing and tax structures. ●

# Structured finance & leasing

**Deloitte member firms understand that providing quality service entails getting involved in transactions during the early stage of any deal.**

Identifying accounting consequences to a proposed structure prior to implementation can be a key factor in achieving the desired accounting results from the transaction. Our member firms will work with you to ensure you reach the highest level of accuracy and transparency in your financial reporting for these complex transactions.

Our Structured Finance & Leasing group specializes in understanding the complex leasing and consolidation literature relevant to structured finance transactions. To that end, we have developed strong working relationships with a number of financial institutions, investment banks, law firms, and other advisors participating in these complex transactions. We understand the complex nature of structured finance and interact closely with our clients to ensure that they are properly accounting for these transactions, and that the transactions are disclosed appropriately in their financial statements.

## Offerings

Analysis of accounting consequences of a variety of leasing transactions, including leveraged leases, synthetic leases and sale-leasebacks

Interpretation of complex leasing & consolidation literature

Review adequacy of financial statement disclosure for finance & leasing transactions

## Representative structured finance & leasing transactions

AEP greenfield projects  
(US\$525 million)  
Synthetic lease

AES acquisition of NYSEG assets  
(US\$650 million)  
Leveraged lease/sale-leaseback

Dominion greenfield projects  
(US\$1.0 billion)  
Synthetic lease

PG&E greenfield projects  
(US\$7.6 billion)  
Master turbine trust/Synthetic leases

Reliant acquisition of Sithe assets  
(US\$1.0 billion)  
Leveraged lease/sale-leaseback

Sempra Energy greenfield projects  
(US\$1.0 billion)  
Synthetic lease



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*Financing advice  
that's independent  
of the money*

# Financial Advisory Services



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Through our member firms, we advise clients on critical financial and economic events and transactions through the integrated global service lines of Valuation, Dispute Consulting & Forensic Investigations, and Reorganization Services. Our Financial Advisory Services (FAS) practice possesses the experience and unique qualifications needed to assist companies in this evolving energy market. Utilizing their economic experience and business acumen, our industry specialists provide comprehensive financial, economic and strategic advice that helps companies in the energy industry become more efficient, competitive, and profitable.

A strong global presence enables us to seamlessly combine our global resources with our local reach and market knowledge. Our FAS practitioners stand ready to assist power and gas companies in any region of the world.

## Offerings

### Dispute Consulting

Litigation/arbitration services  
Purchase price disputes  
Business insurance claims consulting  
Economic consulting  
Environmental

### Forensic Investigations

Business intelligence services  
Securities litigation/forensic investigations  
Analytic & forensic technology  
Forensic audit assistance

### Reorganization Services

In & out of bankruptcy court representation  
Workout/bankruptcy  
Business & operations review  
Liquidity management  
Capital markets assistance  
Asset disposition review  
Debt restructuring/refinancing

### Valuation

Business & intangible asset valuation  
Tangible asset services  
Cost segregation  
Machinery & equipment valuation  
Construction advisory  
Real estate financial advisory  
Leasing  
Dispute resolution support

## Representative FAS clients

AEP	Mirant
AES	Nexen Inc.
Calpine	NRG Energy
Delta Electricity	PSEG
Duke Energy	Reliant Resources
Dynegy	Sempra Energy
Edison International	Stadtwerke
Electrabel	Dusseldorf AG
EPON	TIWAG-Tiroler
EPZ	Wasserkraft AG
Eskom	Tractebel Power
GE Capital	TransAlta
Jorf Lasfar Energy Company	Trans Power
Ministry of Energy & Natural Resources (Turkey)	

## Case studies

### Dispute consulting & valuation services

Valuation and Dispute teamed to value a U.S. waste-to-energy facility in support of a dispute between the owners and the municipality. ●

### Acquisition valuation of tangible & intangible assets

For an international power company, we performed a fair market valuation of \$2.65 billion in power generation assets, including purchase price allocation and cost segregation analysis for U.S. GAAP and income tax reporting purposes. ●

### Valuation of greenfield project

We assisted a U.S. power company with the financial and tax reporting for over \$600 million in recently constructed power generation facilities. ●

### Bankruptcy tax consulting services for a utility

We analyzed the tax implications of various capital structure scenarios, as well as provided general tax consulting and tax advisory services. Additionally, we provided SFAS 142 and SFAS 144 services. ●

# Enterprise Risk Services

Through our member firms, Deloitte's Enterprise Risk Services (ERS) practice is a global leader in helping clients manage risk and uncertainty, from the boardroom to the network. We provide a broad array of services that allow clients around the world to better measure, manage, and control risk to enhance the reliability of systems and processes throughout the enterprise.

Managing risk today is not what it used to be. Technological innovation, globalization, complex regulations, and increased accountability at the senior management and board levels have all combined to significantly change the landscape of risk management today. Managing risk has become increasingly complex and its reputational impact has never been greater. Unquestionably, there are higher accountability standards for boards of directors and senior executives, an unprecedented complex regulatory environment, a pressing need for better risk reporting, and more integrated and comprehensive risk management.

To help the market cope, new executive positions, tools, rules, and even language have been created, such as chief risk officer, chief security officer, and chief privacy officer. We are witnessing a proliferation of risk management software and other technology solutions and a wave of regulatory mandates requiring certain risk management practices related to security, privacy, operations, compliance, and economic exposures. Companies are taking a closer look at the quality of their risk management activities with particular interest on internal audit and enterprise risk management (ERM). Deloitte's energy-focused ERS teams have helped numerous companies address their risk management needs from assisting in their ERM initiatives to consulting on or, in some cases, providing internal audit services.

## Offerings

### Internal Audit

Strategic assessments & transformation of internal audit functions  
Outsourcing/cosourcing of internal audit  
Development of internal audit plans  
Internal controls evaluation & testing  
Strategic risk & control

### Enterprise Risk Management

Development of enterprise risk intelligence  
Process development & implementation for identifying, assessing, mitigating & monitoring risk

Management capabilities with core management processes

### Security services

Enterprise resource planning (ERP)  
Controls implementation  
e-Business security assessment & implementation  
Identity management  
Security infrastructure, integration & integrity

### Information technology assurance

Assessment of e-Business application security & controls - webtrust  
Assessment of IT general controls, ERP security & controls  
Risk assessment of IT environments  
Sarbanes-Oxley reports related to internal controls  
Systems project control assurance  
Data quality services

### Regulatory consulting

Regulatory accounting & advisory  
Revenue requirements development  
Regulatory testimony/litigation support

### Representative ERS clients

AGL (Australia)	Gas Natural
AEP	Gaz de France
CenterPoint Energy	Norsk Hydro
DTE Energy	Ontario Hydro
Dominion	PG&E
Duke Energy	PacifiCorp
Dynegy	Pinnacle West
Edison International	Progress Energy
El Paso Electric	PSEG
Électricité de France	Reliant Resources
EnCana	Scana
Endesa	Sempra Energy
Entergy	Southern Company
FirstEnergy	TXU
FPL Group	Xcel Energy



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“...if companies view the new laws as opportunities - opportunities to improve internal controls, ... the performance of the board, and ... public reporting - they will ultimately be better run, more transparent, and therefore more attractive to investors .”

William Donaldson, Chairman, Securities & Exchange Commission, July 30, 2003

Internal controls  
and risk : today's  
hot topic

# Business modelling: For powerful analysis

Through our member firms, our business modelling practice has extensive experience supporting the decision making and planning processes of power and gas companies. We have been involved in a range of projects across the international arena, including strategic option evaluation, acquisitions and divestments, portfolio management, and project finance.

**In the increasingly complex power sector, our business modelling practice specializes in supporting decision makers and finance providers who rely on sophisticated financial evaluation and modelling tools.** Drawing on our extensive experience in developing and evaluating such models for leading blue chip power companies and lending institutions, we provide development and assurance services to meet a wide range of decision making and planning needs across the sector.

Whether evaluating strategic options, managing generation portfolios, analyzing corporate or plant transactions, or assessing operational and financial risk, our team can help. Our recognized expertise in developing robust and flexible models maximize stakeholder confidence: models and analysis truly inform and help shape stakeholder decisions and plans.

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#### Offerings

- Strategic option evaluation
- Generation portfolio structuring & financing
- Power plant project finance
- Corporate transaction analysis
- Corporate business planning
- Project monitoring & benefits tracking
- Modelling for regulatory issues
- Model assurance

#### Representative modelling clients

- AEP
- BP Gas & Power
- Eidipower
- Powergen
- Seaboard
- TXU
- U.K. Department of Trade & Industry

#### Case studies

##### **Generation portfolio - Refinancing model**

A portfolio of European generation assets were seeking a multi-billion euro refinancing deal and we were asked to develop a model for use by all stakeholders in the process. We developed a sophisticated operational and financial model of the portfolio's assets, and proposed contractual structure and financing arrangements. This proved pivotal in allowing stakeholders to test a wide range of operational and financial sensitivities prior to finalizing the deal. ●

##### **Renewable energy - Strategic option analysis**

We assisted the strategic analysis department of a major U.K. energy company in developing a project evaluation model for a potential investment in an offshore wind farm. The work involved developing the project valuation model; assessing the impact of the acquisition on the group's consolidated accounts and advising the client on various other valuation and accounting issues. Group earnings impact analysis was used to obtain board approval for the investment. ●

##### **Power plant acquisition - Bid model**

**assurance** We provided modelling assurance services to a global electric utilities company in their bid to buy two European coal-fired power plants. The deal, worth £800 million, was a key step in the client's plans to extend their wholesale power marketing success to Britain. Following the acquisition, we provided additional support in assisting with their application for an electricity generating license. ●

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