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The PB Report 2011

A Publication of the Privatization Barometer
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Financial Crises and Declining Privatization

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Fondazione Eni Enrico Mattei

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Contents

DATA VIEW

1977- 2011

Privatization in Europe 9

1988 - 2011

Privatization in the World 8

World and EU Revenues 10

2011

EU Revenues by Country (PO/PS) 11

EU Revenues by Sector (PO/PS) 12

EU Deals 13

Equity Markets in Europe, 2011 14

Global Deals 16

EXECUTIVE SUMMARY 3

TRENDS AND DEALS 7

William L. Megginson – Bernardo Bortolotti

Privatization Trends and Major Deals in 2011

ARTICLES 23

Alessandro Carpinella

Privatizing airports: Comparing two experiences 23

Sergei Guriev

The New Russian Privatization 31

Philip Barry

Partial privatization to kick-off in New Zealand 35

Ginka Borisova

Leaving the Nest: Privatized Firms and Debt Financing 40

WHAT'S GOING ON? 46

Selected News

From PB News / DowJones Newswire

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A Publication of
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What is the PB Report?

The PB Report is a twelve-month summary on privatization activity in the enlarged European Union. It aims to monitor the most recent trends, to analyze aggregate data on revenues and transactions, and to provide updated statistics at the country and sector level.

The report highlights the most important privatization deals of the year, focusing on the European Union but also monitoring the process around the rest of world. It hosts contributed articles by top international scholars, who will make accessible to the reader the most recent results of professional research.

Rigorous, updated, easily accessible and freely distributed on the web, the PB Report is an authoritative source of information and a vehicle for a more informed discussion on the choices and consequences of privatization.

The Privatization Barometer was developed by Fondazione Eni Enrico Mattei (FEEM) with the financial support from Fondazione IRI. As of 2010, KPMG Advisory S.p.A. becomes unique partner of PB, providing data, research skills and financial resources. This second joint issue of PB Report represents the long term strategic partnership between FEEM and KPMG Advisory S.p.A.

Executive Summary

2011 was a year of global financial retrenchment, prompted by the emergence of multiple sovereign debt crises in Europe and the fallout from political fights over raising the U.S. federal government's borrowing limit. These crises hit planned privatization offerings very hard, and governments raised only $94.4 billion (€68.2 billion) through divestments during 2011, less than half the record $213.6 billion (€159.9 billion) raised globally during 2010.[1] Share issue privatizations (SIPs) accounted for roughly half (47%) of this total, far lower than usual and the three-quarter share of world privatizations SIPs accounted for in 2010, but 2011's largest single privatization was the $8.70 billion (€6.13 billion) **AIG** seasoned equity offering in May. This offer reduced the U.S. federal government's ownership in the rescued insurer from 92% to 77% and this one sale was large enough to make the United States the third largest privatizing country of 2011. However, the overriding characteristic of 2011 as a privatization year was the exceptionally large number of failed, withdrawn, and cancelled privatization sales, which totalled at least $34.6 billion (€26.1 billion), including almost $17 billion (€12.0 billion) just from two planned Spanish offering that were cancelled within days of final launch.

Continuing a trend that has been emerging for several years, the 27 countries of the European Union accounted for a small minority of the total number and value of privatization deals worldwide during 2011. The 49 EU privatization transactions that raised $26.4 billion (€19.5 billion) in 2011 represented only 27.9% of the worldwide total, far below the long-run average EU share of 43.0%, and vastly lower than the 68.2% share of total global divestments that the EU accounted for as recently as 2008. The aggregate EU value in 2011 is also much lower than recent annual levels, which averaged over $62 billion (€46 billion) from 2004 to 2010. The EU's largest privatization of 2011 was July's private sale by Ireland's **National Asset Management Agency** (NAMA) of properties the agency had seized from bankrupt Irish lenders, which raised €3.90 billion ($5.25 billion). The second largest EU deal of 2011 occurred in December, when Portugal sold a 21% stake in **Energias de Portugal** (EDP) to China's Three Gorges Corporation for €2.70 billion ($3.52 billion), while the third largest was the February sale of a 6.3% stake in Sweden's **Nordea Bank AB** in an accelerated transaction that raised the €2.17 billion ($2.93 billion) in 90 minutes. The final large EU privatization of 2011 was April's sale by the French Treasury of a 26.32% stake in **La Poste** to Caisse des Dépôts et Consignations (CDC) France's sovereign wealth fund, which yielded €1.50 billion ($2.11 billion).

[1] See Gill Plimmer, "Privatisation fever takes grip," *Financial Times* (June 26, 2011).

As in the EU, privatizations elsewhere in the world were subdued during 2011, though the total value of non-EU deals ($68.0 billion; €48.7 billion) was two and one-half times that of the EU in both euro and dollar terms. China again led the world in the total value of privatizations (19 deals; $14.12 billion; €10.12 billion), followed by Australia (5 deals; $9.26 billion; €6.58 billion), the United States (1 deal; $8.70 billion; €6.13 billion), and the Russian Federation (4 deals; $8.21 billion; €6.33 billion). All of these national totals represent sharp declines from 2009 and 2010. As is often the case, the bulk of China's privatization proceeds came from primary share offerings by state-owned enterprises (SOEs) that reduced the state's equity ownership stake only indirectly, by increasing the total number of shares outstanding. The two largest Chinese privatizations of 2011 were the September and May IPOs of **Sinohydro Group** and **Shanghai Pharmaceutical Holding Company**, which raised a modest (by Chinese standards) $2.11 billion (€1.53 billion) and $1.97 billion (€1.38 billion) for the companies, respectively. The two largest Australian sales were the A$3.08 billion (US$3.35 billion; €236 billion) May sale of **Queensland Motorways Ltd** to a private infrastructure management consortium and the A$2.30 billion (US$2.27 billion; €1.63 billion) March sale of the retail business of **Integral Energy**, executed by the states of Queensland and New South Wales, respectively.

Besides the offerings described above, four large deals of 2011 raised at least $2.0 billion for selling firms or governments, often in creative ways. In October, Russia sold a 75% stake of **Freight One**, the freight subsidiary of Russian Railways, for ($4.20 billion; €3.36 billion) in an auction that was won by Independent Transport Company (NTK), controlled by Vladimir Lisin, Russia's richest man. The **Qatar National Bank** (QNB) raised ($3.49 billion; €2.46 billion) in a rights offering in May, while Russia sold a 10% stake in the bank **VTB** in a February offering on the London Stock Exchange, raising $3.3 billion (€2.4 billion). A Russian state-controlled company, Rosneft, also figured prominently in the last big "privatization" deal of 2011, with its October purchase of a 40% share in the **Carabobo 2 Block Project** (an oil and gas exploration project) from Venezuela's state oil company PDVSA. These and other deals from Russia's privatization program are described in Sergei Guriev's article, "The New Russian Privatization," later in this Report

While 2011 will doubtless be remembered as a down year for completed privatizations, it was actually even worse in terms of the number and value of privatization sales that failed, were cancelled, or were withdrawn. The largest overall collapse, unsurprisingly, occurred in Greece—which was forced to admit in early 2011 that it would be able to raise only a very small fraction of the promised €50 billion ($67.5 billion) [reduced one year later to a more reasonable €19 billion ($24.9 billion)] from selling state assets during the 2011-15 period. Spain experienced in September 2011 by far the largest two canceled deals of the year, both at very late stages in the sales process. These were the proposed public offering of 30% of **Sociedad Estatal de Loterías y Apuestas del Estado**

SA, the state lottery operator, and the auction of the **Madrid (Barajas)** and **Barcelona (El Prat) Airports**. These were scheduled to raise as much as €7.0 billion ($9.7 billion) and €5.0 billion ($6.9 billion), respectively.

Russia suffered three failed privatizations during 2011 and the first half of 2012, including last year's second largest. This was the canceled offering, in November 2011, of 6.9% of the state's holdings in **Sberbank** due to poor market conditions, which could have raised as much as $6.0 billion (€4.3 billion). Six months earlier, the state-owned holding company Oboronprom was forced to cancel its planned $500 million (€352 million) London IPO of a 25% stake in **Russian Helicopters**, and in June 2012, the newly re-elected Putin government delayed the planned sale of a stake in **Rosneft** from 2012 until 2014. Another of 2011's largest failed privatization deals was actually a sequel. After failing to sell its 59% stake in **Woori Financial Group** in December 2010, the Korean government tried and failed once more in August 2011. Once again, the problem was the regulation that only financial institutions and local private equity funds were allowed to buy a controlling interest in Korean banks, and only one group submitted a formal bid.

In some ways, the first half of 2012 points to modestly better times ahead for governments wishing to privatize state assets. There have been three major sales thus far, all of which were executed in February or March 2012. By far the largest deal was the Brazilian government's February sale through auction of a 30-year concession to operate and improve the country's three most important airports, which yielded R$24.5 billion ($14.4 billion; €11.0 billion), far more than expected. The winning bidders, mostly Brazilian pension funds and state-owned enterprises, paid R$16.2 billion ($8.96 billion; €6.84 billion) for **São Paulo's Guaralhas International Airport**, five times the minimum bid, and more than eight time the minimum bid price for Brazilia's airport. These airport privatizations are analyzed in Alessandro Carpinella's article, "Privatizing Airports: Comparing two Experiences," later in this Report. The second large privatization, in early March 2012, was the secondary offering of a 5% stake in India's Oil and Natural Gas Company (ONGC), the first major sale under the government's new streamlined share issue process, while the third significant privatization deal of 2012 was the February auction of a 40% stake in Portugal's **Redes Energéticas Nationais** (REN) to the State Grid Corporation of China that raised a total of $764 million (€592 million).

Offering the greatest hope for the future is the large number and value of planned and pending privatization deals that seem likely to be completed in the second half of 2012 or the next few years. Most significant are the delayed but not abandoned national divestment programs that governments plan to renew once markets--and western political prospects--stabilize. The newly-elected conservative Greek government reaffirmed, in June 2012, plans to raise at least €19 billion ($25 billion), and perhaps as much as €42 billion ($55 billion), from the sale of state

assets before the end of 2015. In June 2012, the Russian government announced that it planned to raise Rb 300 billion ($9.31 billion; €7.39 billion) through privatizations by the end of 2012, and also reiterated its determination to raise some Rb 1,030 billion ($32 billion; €25 billion) through divestments by 2016. As discussed in detail in Philip Barry's article later in this Report, "Partial Privatization to Kick-Off in New Zealand," New Zealand in June 2012 passed legislation authorizing the partial privatization of five major state companies and planning to raise $5.6 billion (€4.1 billion). Additionally, the national governments of Poland, Spain, Portugal, Romania, Ukraine, Nigeria, and Italy have all articulated multi-year, multi-billion-dollar divestment plans to be launched (or re-launched) once market conditions improve.

To summarize, the total value of global privatizations during 2011 fell sharply from the previous two years' record levels, and there has been only a partial rebound during the first half of 2012. While governments are highly likely to eventually turn to privatizations to help recover from their current fiscal woes, this will probably not begin in earnest until markets stabilize. Supporting this view is the fact that governments have announced plans to divest over $160 billion (€124 billion) once markets and political waters stabilize, so the immediate future looks rather bright. Longer term, the continuing fiscal crisis gripping most western countries suggests that privatization programs will remain a central issue for global finance and economics for many years to come.

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Privatization Trends and Major Deals in 2011

Global Trends in Privatization, 2011

2011 was a year of global financial retrenchment. According to the market research firm DealLogic, at least 215 IPOs worth more than a record $44.1 billion (€33.9 billion) were pulled by issuers worldwide just through 3Q2011.[2] This retrenchment, prompted as it was by governmental crises in Europe (the sovereign debt crisis) and the United States (the political fight over raising the federal government's borrowing limit), hit planned privatization offerings especially hard. A dramatic example of this was the Spanish government forced cancellation, literally days before execution, of what would have been 2011's largest privatization—the October sale of 30% of the national lottery, **Loterias y Apuerto del Estado**, which would have raised over €7 billion ($9.7 billion)—and the near coincident delayed (not yet renewed) sale of the Madrid and Barcelona airports that could have raised more than €5 billion ($6.9 billion).[3] The governments of Poland, Russia, Turkey, Korea, Portugal, Italy, and of course Greece were also forced to cancel or severely scale back large planned sales, as we discuss in detail later in this report.

Doubtless because of the financial gloom pervading most of 2011, the year witnessed the lowest total value ($94.4 billion; €68.2 billion) of privatizations worldwide since 2003. This represents a massive drop from 2010's record $213.6 billion (€159.9 billion) raised through sales of common stock during 2010 and the record overall total value of privatizations ($265.2 billion; €184.3 billion) worldwide during 2009.[4] As often happens during periods when capital markets are stressed, such as during the recessions of 1990-91 and 2001-02, share issue privatizations (SIPs) were especially depressed during 2011. The single largest SIP, and largest of all privatization deals during 2011, was the May seasoned equity offering of 300 million shares in the American insurance company **AIG**, which raised a total of $8.70 billion (€6.13 billion) for the company ($2.90 billion of newly-issued shares) and the U.S. Treasury ($5.80 billion of existing shares).[5] This offer reduced the federal government's ownership in the rescued insurer from 92% to 77% and this one sale was large enough to make the United States the third largest privatizing country of 2011.

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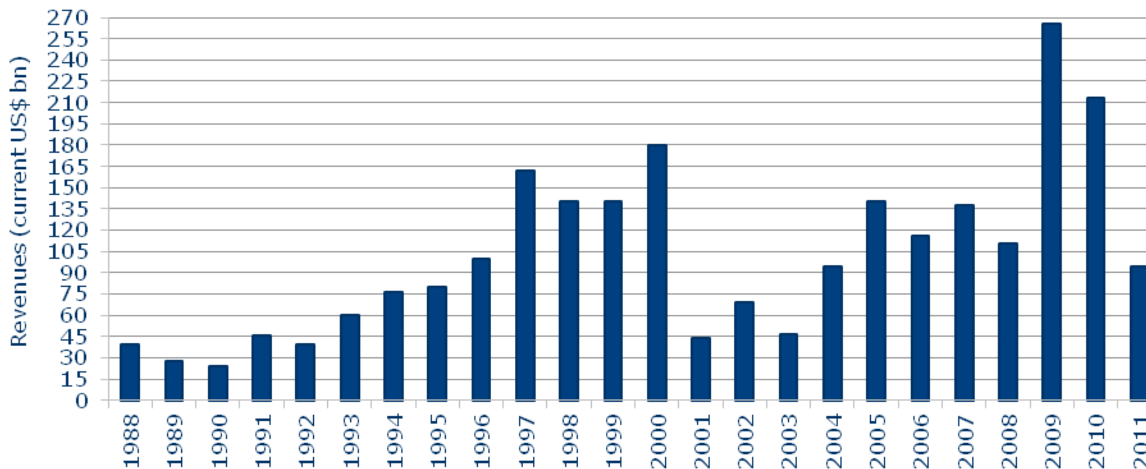
[2] See Robin Wigglesworth, "German listing delays add to IPO gloom," *Financial Times* (September 16, 2011) and Miles Johnson, "Spain drops plans to sell off El Gordo," *Financial Times* (September 30, 2011), in www.ft.com.

[3] See Raphael Minder, "Spain abandons I.P.O. for national lottery; State may struggle to sell other assets earmarked to raise needed revenue," *International Herald Tribune* (September 30, 2011) Graham Keeley, "Nervous bidders bring sale of Spanish airports to a halt," The Times (London) [October 14, 2011], and Miles Johnson, "Spain drops plans to sell off El Gordo," *Financial Times* (September 30, 2011).

[4] See Gill Plimmer, "Privatisation fever takes grip," *Financial Times* (June 26, 2011).

[5] See Michael J. de la Merced and Mary Williams Walsh, "U.S. isn't crowing over profit from A.I.G." *The International Herald Tribune* (May 26, 2011) and "US Treasury starts selling AIG shares," *Global Banking News* (May 26, 2011). AIG's offer prospectus is available from the U.S. Securities & Exchange Commission's EDGAR database at http://sec.gov/Archives/edgar/data/5272/000095012311048645/y91210b7e424b3.htm.

The next five largest privatizations of 2011 were all asset sales rather than SIPs, including the second largest, July's private sale by Ireland's **National Asset Management Agency** (NAMA) of properties the agency had seized from bankrupt Irish lenders, which raised €3.90 billion ($5.25 billion).[6] Figure 1 describes how 2011's global privatization revenues compare to similar totals since 1988.



Regaining the position it held for most of the past deacde, China was the leading privatizing country during 2011, with 19 significant ($200 million or more) SIPs and private sales raising $14.12 billion (€10.12 billion).[7] As is often the case, the bulk of China's privatization proceeds came from primary share offerings by Chinese state-owned enterprises (SOEs) that reduced the state's equity ownership stake only indirectly, by increasing the total number of shares outstanding. The two largest Chinese privatizations of 2011 were the September and May IPOs of **Sinohydro Group** and **Shanghai Pharmaceutical Holding Company**, which raised a modest (by Chinese standards) $2.11 billion (€1.53 billion) and $1.97 billion (€1.38 billion) for the companies, respectively.[8] The next two largest Chinese privatizations were also IPOs of primary (newly-issued) shares and six of the seven largest Chinese deals of 2011 were IPOs or seasoned equity offerings.

Australia was the second largest privatizer of 2011, executing five deals worth $9.26 billion (€6.58 billion). Listing the country as a seller is, however, something of a misnomer, since the two largest sales were executed by the Australian states of Queensland and New South Wales, respectively. These were the A$3.08 billion (US$3.35 billion; €2.36 billion) May sale of **Queensland Motorways Ltd** to a private infrastructure management consortium and the A$2.30 billion (US$2.27 billion; €1.63 billion) March sale the retail business of

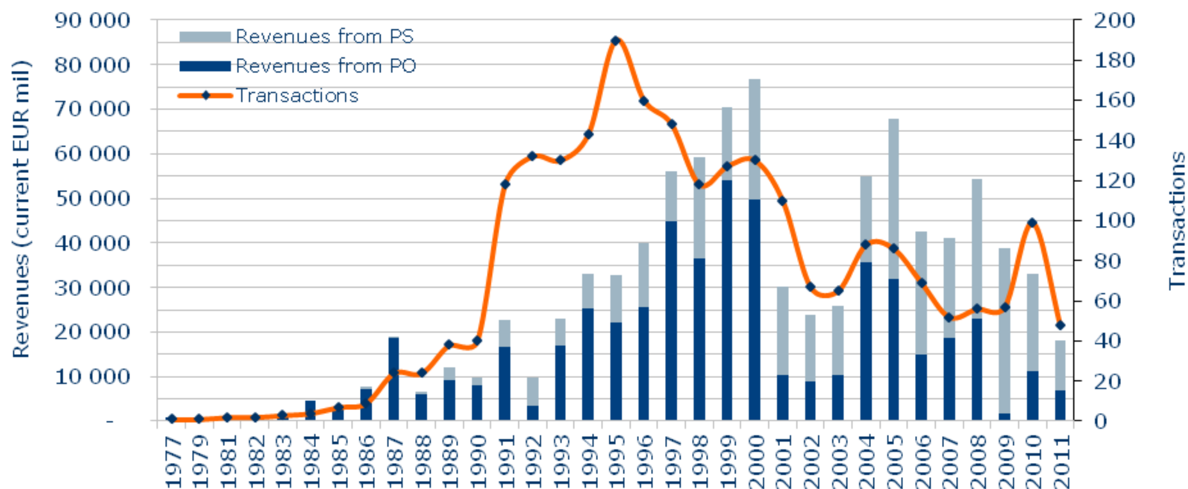
[6] See Eamon Quinn, "Irish Bad Bank Starts to Sell Down Property Empire," Dow Jones Newswire (July 28, 2011).
[7] The Hong Kong and Shanghai stock markets actually witnessed a far larger number and value of Chinese share offerings during 2011, but most of these involved sales—especially by Bank of America, but also involving other western banks--of existing shareholdings in partially privatized Chinese banks, plus rights offerings in which the State fully subscribed for new issues. Neither of these types of transactions reduces state holdings, so we do not include them in the privatization totals.
[8] See Daniel Ren, "Sinohydro's reduced IPO raises 13.5b yuan," *South China Morning Post* (September 29, 2011) and "Shanghai Pharma shares flat on Hong Kong debut," *China Business Newswire* (May 25, 2011.

Integral Energy.[9] The next six largest privatizers of 2011--after China, Australia, and the United States--were Russia (4 deals; $8.21 billion; €6.33 billion), Ireland (4 deals; $6.89 billion; €5.12 billion), Poland (15 deals; $4.40 billion; €3.26 billion), Portugal (1 deal; $3.52 billion; €2.70 billion), Qatar (1 deal; $3.49 billion; €2.46 billion), and Sweden (3 deals; $3.03 billion; €2.25 billion). These sales are described in detail in the next two sections.

Privatization Deals in the European Union, 2011

Figure 2 describes the evolution of total privatization revenues (in current € millions) and transactions in the enlarged European Union over the entire privatization era 1977-2011. This clearly illustrates that the number of EU privatizations peaked in the mid-1990s, before beginning a long but mostly steady decline that continues though 2011. Sale revenues peaked during the Bubble Era of 1998-2000, with €211 billion being raised just during these three years, dropped sharply during the recession of 2001-2003, and then fluctuated between €41 billion and €68 billion during 2004 and 2008. Proceeds then declined monotonically after 2008, falling to only €19.5 billion last year—the first time proceeds dropped below €20 billion since 1993!

Figure 2. Privatization in the Enlarged Europe: Total Revenues and Transactions 1977 - 2011



Source: *Privatization Barometer*

Continuing a trend that has been emerging for several years, the 27 countries of the European Union accounted for a small minority of the total number and value of privatization deals worldwide. Table 1 presents the total proceeds, in US$ billions, raised by European Union and non-EU countries between 1988 and 2011. This presentation shows that the 49 EU privatization transactions that raised $26.4 billion (€19.5 billion) in 2011 represented only 27.9% of the worldwide total. This level is far below the long-run average EU share of 43.0%, and vastly lower than the 68.2% share of total global divestments that the EU accounted for as recently as 2008. The aggregate EU value in 2011 is also far below recent annual levels, which averaged over $62 billion (€46 billion) from 2004 to 2010. While governments are highly likely to eventually turn to privatizations to help recover from their current fiscal woes, this will probably not begin in earnest until markets stabilize.

[9] See Jessica Marazalek, "Toll roads fetch $3b," *The Courier Mail* (Australia) [May 11, 2011] and S. Anuradha, Australia's Origin Energy launches first part of $2.3 bil share sale to existing shareholders," *Global Power Report* (March 24, 2011).

Table 1. Privatization Revenues, Worldwide and European Union, US$ Billions, 1988-2010

Year	World	EU25	% World (ex-EU 25)	% EU25
1988	39.00	7.82	79.90%	20.10%
1989	28.00	14.21	49.20%	50.80%
1990	24.00	12.58	47.60%	52.40%
1991	46.00	28.02	39.10%	60.90%
1992	39.00	12.68	67.50%	32.50%
1993	60.00	27.11	54.80%	45.20%
1994	76.00	39.6	47.90%	52.10%
1995	80.00	43.8	45.20%	54.80%
1996	100.00	51.4	48.60%	51.40%
1997	162.00	63.46	60.80%	39.20%
1998	140.00	66.12	52.80%	47.20%
1999	140.00	75.1	46.40%	53.60%
2000	180.00	70.87	60.60%	39.40%
2001	43.80	27.07	38.20%	61.80%
2002	69.20	22.53	67.40%	32.60%
2003	46.60	29.4	36.90%	63.10%
2004	94.00	68.14	27.50%	72.50%
2005	140.00	84.52	39.60%	60.40%
2006	116.00	51.45	55.60%	44.40%
2007	138.00	54.48	60.50%	39.50%
2008	111.00	75.64	31.90%	68.10%
2009	265.17	55.88	78.90%	21.10%
2010	213.64	44.23	79.40%	20.60%
2011	94.40	26.36	72.10%	27.90%
Total	**2,445.81**	**1,052.47**	**57.0%**	**43.0%**

Source: *Privatization Barometer, Securities Data Corporation (SDC) New Issues and Mergers and Acquisitions files, and author's search of various news media (principally Financial Times).*

As implied by the discussion above, Ireland was the leading EU privatizer during 2011, followed by Poland, Portugal, Sweden and, remarkably, Greece. The traditional leading EU privatizer, France, placed only sixth with three deals raising a mere €1.88 billion ($2.63 billion). Unlike in previous years, no single country dominated EU privatizations or established an especially compelling narrative for the year's sales. While several countries—especially Poland, Spain, Greece, and Portugal--began the year with expansive divestment plans, the reality of unwelcoming stock markets and fiscal crises forced all these countries to scale their plans back and instead to react opportunistically when markets seemed to open for individual sales.

Figure 3 details the total value of privatization proceeds for leading EU countries during 2011, as well as the split between public offers (SIPs) and private sales of state enterprises directly to private investors or operating companies. As has been true for several years, the total amount raised through private sales (€12.50 billion; $16.87 billion) far exceeded that raised through public offerings (€6.97 billion; $9.49 billion).

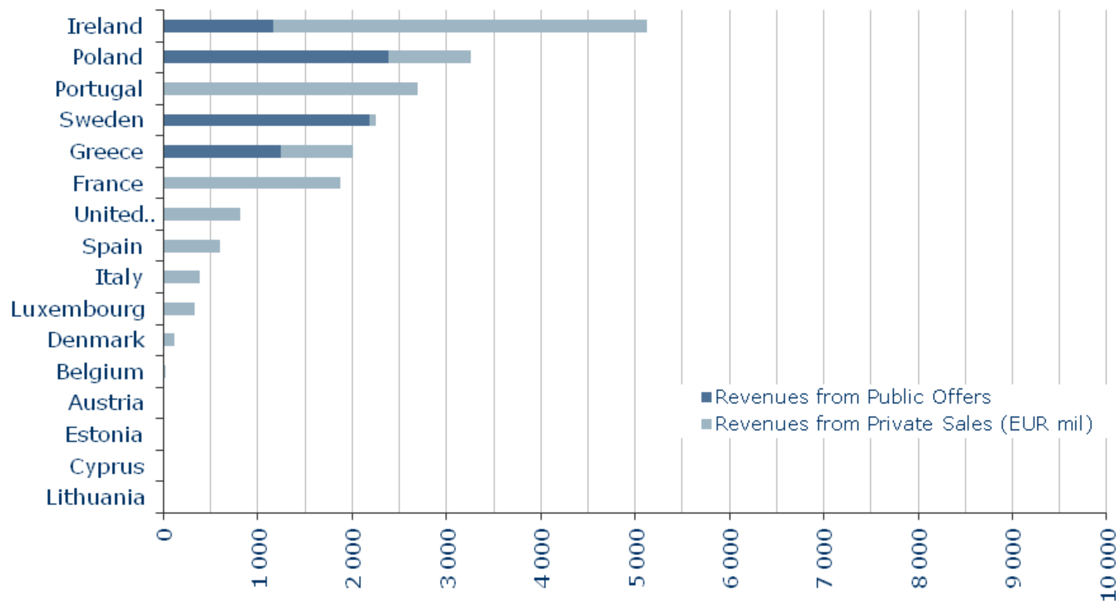
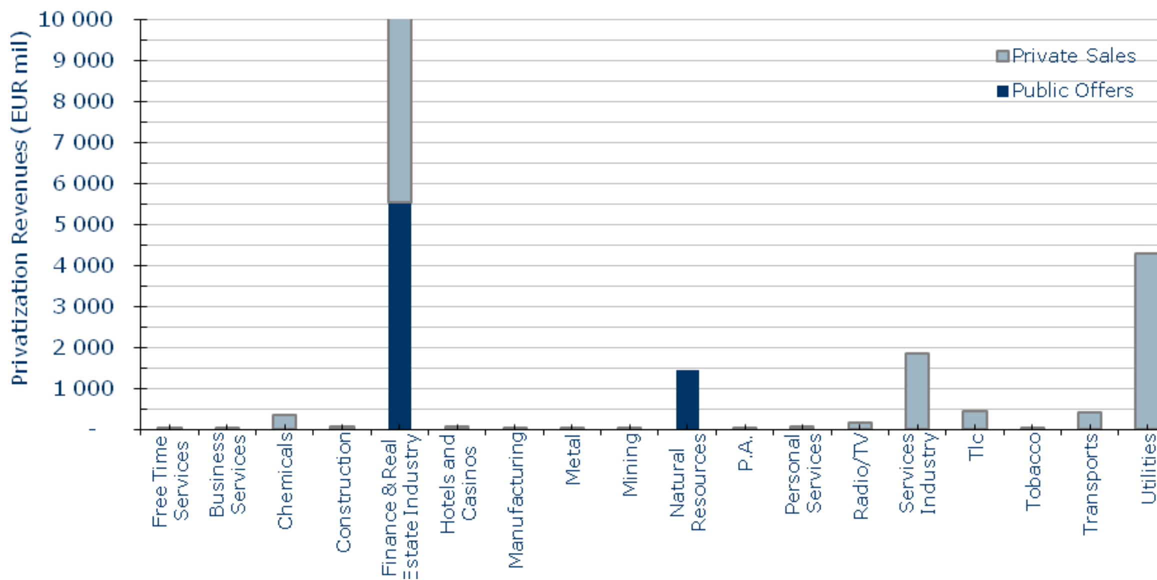


Figure 4 shows a ranking reversal occurred in 2011 between Utilities and Finance, the two industries traditionally accounting for the largest fractions of EU privatizations. The usual leading industry, Utilities, ranked second last year, with the €4.28 billion ($16.87 billion) in sales representing only 21.9% of the EU total, compared with €10.23 billion ($16.87 billion) in disposals of financial companies, representing a massive 52.4% of EU privatization totals. The Services industry ranked third, with most of the €1.85 billion ($2.58 billion) total being accounted for by April's sale by the French Treasury of a 26.32% stake in **La Poste** to Caisse des Dépôts et Consignations (CDC) France's sovereign wealth fund.[10]

[10] See "French state, CDC inject EUR 1.05bn in La Poste," *SeeNews France* (April 7, 2011). Since this transaction represents a state owner (the French Finance Ministry) selling a major equity stake to another institution owned by the same national government (CDC), the deal pushes the very limit of what could be called a "privatization." We classify this as a privatization because CDC acts principally as a commercially-oriented investor rather than a politically-motivated actor, though this is clearly a marginal call. In all other cases encountered while compiling this report, we count purchases of equity stakes by *foreign* sovereign wealth funds and other state-owned financial institutions as privatizations, but exclude equity purchases by state-owned institutions from the same country as the seller.

Figure 4. Distribution of Privatization Revenues by Sector, 2011



Source: *Privatization Barometer*

Table 2 lists the 35 EU privatization transactions of 2011 that raised at least €100 million. As noted above, the largest such deal was **NAMA** of Ireland's private sale of properties which raised €3.90 billion ($5.25 billion). The second largest EU privatization deal of 2011 occurred very late in the year (December), when Portugal sold a 21% stake in **Energias de Portugal** (EDP) to China's Three Gorges Corporation for €2.70 billion ($3.52 billion).[11] The third largest EU privatization deal of 2011 was the February sale of a 6.3% stake in Sweden's **Nordea Bank AB** in an accelerated transaction that raised the €2.17 billion ($2.93 billion) in 90 minutes, while the fourth largest EU sale was the aforementioned La Poste sale by the French Treasury.[12] The fifth largest EU deal was the world's largest privatization IPO in euro-terms, the July initial offering of a 36.3% stake in Poland's coking coal producer **Jastrzebska Spolka Weglowa** (JSW), which raised Zl 5.37 billion (€1.45 billion, $1.95 billion).[13]

The 2011 EU privatizations holding size ranks six through eight were all public share offerings. The sixth largest sale was the June rights offering by the **Agricultural Bank of Greece**, which raised €1.25 billion ($1.79 billion), while the seventh largest EU deal was the July seasoned equity offering of a 21% stake in the **Bank of Ireland**, which raised €1.12 billion ($1.56 billion) in new capital for the beleaguered and nationalized bank.[14] Poland re-emerged as issuer of the eighth largest EU deal of 2011 with its June accelerated bookbuilt secondary offering of a 10.0% stake in **Powszechny Zaklad Ubezpieczen SA** (PZU), raising €859 million ($1.16 billion).[15]

[11] See Peter Wise and Gerrit Wismann, "Three Gorges outbids rivals for stake in EDP," *Financial Times* (December 22, 2011) and Mark Smedley, "Chinese Firm Wins Stake in Portugal's EDP," *International Oil Daily* (December 27, 2011).
[12] See See Andrew Ward, "Sweden to sell more of Nordea stake," *Financial Times* (February 4, 2011) and Agence France-Presse, "Sweden raises €2.16 bn with Nordea share sale," *Swedish Newswire* (February 4, 2011).
[13] See Marynia Kruk, "Poland's JSW Opens Up In Warsaw Stock Exchange Debut," *Dow Jones Newswire* (July 6, 2011) and "JSW IPO a Disappointment," *Polish News Bulletin* (July 8, 2011)..
[14] The Agricultural Bank offering is described in "ATEbank Announcement - Rights Issue Prospectus pproval," *Daily the Pak Banker* (June 6, 2011) while Bank of Ireland's SEO is described in By Conor Humphries and Padraic Halpin, "Bank of Ireland sale keeps it out of state hands," *Dow Jones Newswires* (July 25, 2011).
[15] See "Poland puts 10% stake in PZU up for sale," *M&A Navigator* (June 9, 2011).

The last four large (more than €350 million) EU privatizations were all private sales of stock to strategic investors—in the largest two cases, to foreign strategic investors.[16] Greece led off in early June by exercising the put option it had negotiated years before, and forced Deutsche Telekom to purchase an additional 10% of **Hellenic Telecom (OTE)** for €435 million ($585 million), increasing DT's holdings of OTE to 40%. Two weeks later, Spain's Gas Natural ended a long pricing dispute regarding gas imports with Algeria's Sonatrach by agreeing to pay $1.89 billion. At the same time, **Gas Natural** allowed Sonatrach to purchase a 3% stake in the Spanish gas distributor for €516 million ($737 million). Poland and Italy exceeded large private placements in October and December with, respectively, the sale of an existing 85% stake in the Polish utility **Stoleczne Przedsiebiorstwo** to France's Veolia Environment, that raised €389 million ($524 million), and the secondary offering of a 29.75% in the state company owning and operating Milan's two main arirports, **SEA S.pA**. for €385 million ($520 million).[17] This airport privatization is analyzed in Alessandro Carpinella's insightful article, "Privatizing Airports: Comparing two Experiences," later in this Report.

Table 2. 2011 Privatization Deals in the European Union*, € Millions

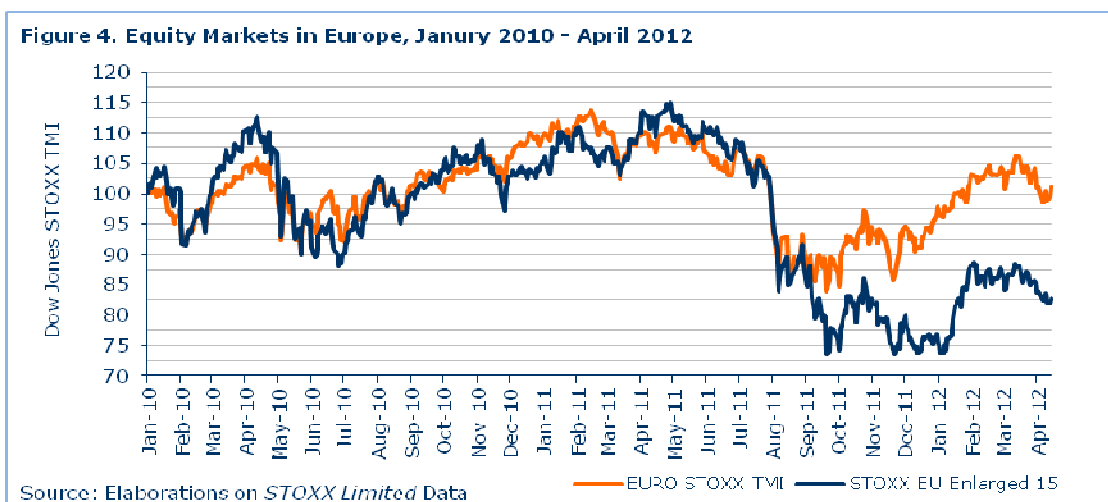
Date	Company Name	Nation	Sector	% for Sale	Value (€ mil)	Direct/ Indirect Sale**	Method of Sale
07/28/11	NAMA Properties - assets sales	Ireland	Finance & Real Estate	100.00	3,900.00	Direct	Private Placement
12/23/11	Energias de Portugal (EDP)	Portugal	Utilities	21.00	2,700.00	Direct	Private Placement
04/02/11	Nordea Bank	Sweden	Finance & Real Estate	6.30	2,185.22	Direct	Accelerated Offer
06/04/11	La Poste	France	Services Industry	26.32	1,500.00	Direct	Private Placement
06/07/11	Jastrzebska Spolka Weglowa SA	Poland	Natural Resources	36.30	1,446.13	Indirect	IPO
06/24/11	Agricultural Bank of Greece	Greece	Finance & Real Estate	n.a.	1,245.00	Direct	Rights Offering
07/27/11	Bank of Ireland	Ireland	Finance & Real Estate	21.00	1,158.09	Direct	Follow-on
10/06/11	PZU SA	Poland	Finance & Real Estate	10.00	858.77	Indirect	Accelerated Offer
06/17/11	Gas Natural SDG SA	Spain	Utilities	3.85	516.00	Direct	Private Placement
06/06/11	OTE SA	Greece	Telecommunications	10.00	434.85	Direct	Private Placement
11/10/11	Stoleczne Przedsiebiorstwo	Poland	Utilities	85.00	389.28	Direct	Private Placement
12/16/11	SEA S.p.a.	Italy	Transportation Industry	29.75	385.00	Indirect	Private Placement
02/04/11	SNPE Materiaux Energetiques SA	France	Chemicals & Allied Products	100.00	346.75	Indirect	Private Placement
06/01/11	Luxembourg Energy Office SA	Luxembourg	Utilities	100.00	325.55	Direct	Private Placement
03/22/11	Tauron Polska Energia	Poland	Utilities	n.a.	325.00	Direct	Private Placement
03/06/11	Tote	United Kingdom	Services Industry	100.00	323.56	Direct	Private Placement
03/23/11	RBS-RE Loan Portfolio	United Kingdom	Finance & Real Estate	100.00	299.45	Indirect	Private Placement
03/01/11	Hellenic Postbank	Greece	Finance & Real Estate	Pref shs	223.95	Direct	Private Placement
10/28/11	BBC Worldwide Ltd-Magazine Business	United Kingdom	Radio & Television Broadcasting	100.00	144.98	Direct	Leveraged buyout
01/07/11	AKE Net,AKE Forsyning A/S	Denmark	Finance & Real Estate	100.00	121.03	Indirect	Private Placement
01/28/11	Attica Bank	Greece	Finance & Real Estate	Pref shs	101.09	Direct	Private Placement
05/20/11	BGZ SA	Poland	Finance & Real Estate	37.00	83.82	Indirect	IPO
04/13/11	Serveis Funeraris de Barcelona SA	Spain	Personal Services	36.00	64.40	Indirect	Private Placement
11/17/11	Przedsiebiorstwo Napraw Infrastruktury	Poland	Construction Firms	100.00	58.33	Indirect	Private Placement
09/29/11	Maybourne Hotel Group	Ireland	Hotels and Casinos	36.20	56.57	Direct	Private Placement
04/29/11	Dombron Intressenter AB	Sweden	Finance & Real Estate	50.00	47.23	Direct	Private Placement
06/10/11	University for Industry{UFI}	United Kingdom	Business Services	100.00	45.99	Direct	Private Placement
12/05/11	CDC Climat SA	France	Public Administration	25.00	31.75	Direct	Private Placement
04/20/11	Kieleckie Kopalnie Surowcow Mineralnych SA	Poland	Mining	85.00	29.44	Indirect	Private Placement
02/16/11	KolTram Sp zoo	Poland	Manufacturing	100.00	25.87	Indirect	Private Placement
07/15/11	Arbetslivsresurs AR AB	Sweden	Services Industry	100.00	16.64	Direct	Private Placement
08/29/11	MTMG Sp zoo	Poland	Transportation	100.00	15.64	Direct	Private Placement
01/21/11	Real Racing Club de Santander	Spain	Amusement & Recreation	80.00	15.19	Direct	Private Placement
12/01/11	Electrawinds SA	Belgium	Utilities	n.a.	14.64	Direct	Private Placement
08/31/11	WUZ PUZiP Sp zoo	Poland	Transportation	100.00	11.48	Direct	Private Placement
06/24/11	Austria Card GmbH	Austria	Manufacturing	15.00	10.19	Direct	Private Placement
Total 1H2011		**22 Transactions**			**9,007.72**		
Total 2H2011		**14 Transactions**			**10,449.16**		
Total 2011		**36 Transactions**			**19,456.88**		

* In this table we reported only deals greater than €100 million
** Direct Privatizations refer to the sale of government's direct stakes. Indirect Privatizations include spin-offs and transfer of shares from government owned companies. Parenteses report the Parent/Seller Company name.
Source: *Privatization Barometer.*

[16] These two foreign sales are described in, respectively, "Deutsche Telekom: Greek State to Sell 10% of OTE," *Dow Jones Newswire* (June 6, 2011) and Miles Johnson, "Gas Natural calls time on Sonatrach dispute," *Financial Times* (June 15, 2011).

[17] See "Veolia Environnement Bolsters Its Leadership of the European Heating Networks Market with the Attribution of EU's Largest Heating Network," *Business Wire* (October 11, 2011).

Unlike previous years, there was no sharp distinction between the value EU privatization transactions during the first versus the second half of 2011; proceeds were depressed in both periods. As Figure 5 describes graphically, this reflected the deteriorating stock market valuations that began in Old Europe (measured by the Euro STOXX TMI) in February 2011 and in New Europe (measured by the STOXX EU Enlarged 15) three months later. Market valuations declined steadily during the summer of 2011, then collapsed in August as the U.S. debt-ceiling fight reached a crescendo and the European sovereign debt crisis intensified. Although Old Europe stock values recovered from their Fall 2011 lows somewhat in November and December 2011—and then improved steadily during the first four months of 2012—valuations in New Europe remained below August's depressed values for the next eight months.



Sales Outside of Europe during 2011

As in the EU, privatizations elsewhere in the world were subdued during 2011, though the total value of non-EU deals ($68.0 billion; €48.7 billion) was two and one-half times that of the EU in both euro and dollar terms. China again led the world in the total value of privatizations (19 deals; $14.12 billion; €10.12 billion), followed by Australia (5 deals; $9.26 billion; €6.58 billion), the United States (1 deal; $8.70 billion; €6.13 billion),and the Russian Federation (4 deals; $8.21 billion; €6.33 billion). All of these national totals represent sharp declines from 2009 and 2010. Table 3 lists the 49 largest privatizations (those that raised at least $500 million) worldwide during 2011, including those executed in the European Union. These sales raised a total of $80.5 billion (€58.4 billion) for divesting governments (secondary share sales) and state-owned companies (primary share offerings).

A total of 28 privatizations during 2011 raised at least $1 billion, and twelve raised more than $2 billion, though only two raised over $5 billion. These two--the May seasoned equity offering (mixed primary and secondary shares) of America's AIG that raised $8.70 billion (€6.13 billion) and the July sale by Ireland's **National Asset Management Agency** (NAMA) of properties, which raised €3.90 billion ($5.25 billion)—have been described in detail above. The 2011 deals ranking fourth, sixth, eighth, ninth, eleventh, and twelfth have also been described in the Introduction or in the section analyzing EU privatizations. These are, respectively, Portugal's sale of a 21% stake in **Energias de Portugal** ($3.52 billion; €2.70 billion), Australian state government divestment of **Queensland Motorways Ltd** (US$3.35 billion; €2.36 billion), Sweden's accelerated offering of 6.3% of **Nordea Bank AB** ($2.93 billion; €2.17 billion), Australian state government sale of the retail business of **Integral Energy**

(US$2.27 billion; €1.63 billion)—of infrastructure assets, the accelerated seasoned offering of 6.3% of Sweden's **Nordea Bank** ($2.93 billion; €2.17 billion), France's sale of 26.32% of **La Poste** (€1.50 billion; $2.11 billion), and the IPO of China's **Sinohydro Group** ($2.11 billion; €1.53 billion).

The remaining four very large ($2 billion plus) deals of 2011 are both diverse and interesting examples of how governments had to structure deals to successfully privatize assets. In October, Russia sold a 75% stake of **Freight One**, the freight subsidiary of Russian Railways, for ($4.20 billion; €3.36 billion) in an auction that was won by Independent Transport Company (NTK), controlled by Vladimir Lisin, Russia's richest man.[18] The **Qatar National Bank** (QNB) raised ($3.49 billion; €2.46 billion) in a rights offering in May, while Russia sold a 10% stake in the bank **VTB** in a February offering on the London Stock Exchange, raising $3.3 billion (€2.4 billion) and yielding investors who purchased shares a 7% first day return.[19] Although the Russian government and VTB managers emphasized that non-Russian investors such as Italy's Generali and the American private equity fund TPG purchased large stakes, it later emerged that the single largest buyer was the Russian tycoon, Suleiman Kerimov, who purchased 1.5% of the offering. Bids from other Russian investors were either rejected or reduced to stress the international flavor of the sale. A Russian state-controlled company, Rosneft, also figured prominently in the tenth largest "privatization" deal of 2011, with its October purchase of a 40% share in the **Carabobo 2 Block Project** (an oil and gas exploration project) from Venezuela's state oil company PDVSA.[20] As discussed in the Introduction, we classify this transaction between two state-owned companies as a privatization because the companies are controlled by different national governments—though admittedly this is a definitional stretch.

We now briefly describe several of the 2011 non-EU deals that yielded between $1 billion and $2 billion. Australia accounted for two of these deals—the June sale of the **Abbott Point Coal Terminal** to India's Mundra Point and Special Economic Zone for A$1.80 billion ($1.95 billion; €1.37 billion) and the acquisition of the retail business of **Energy Australia Pty Ltd** by Truenergy Pty Ltd for A$1.48 billion ($1.46 billion; €1.05 billion) in March.[21] China was involved in even more of these medium-sized offerings, all of which were share-issue privatizations, and the largest three of which were IPOs. These are the May offering of **Shanghai Pharma Holding Company**, which raised $1.97 billion (€1.38 billion), the December IPO of **New China Life Insurance Company** ($1.79 billion; €1.25 billion), and the September offering by **CITIC Securities Company Ltd** that raised $1.70 billion (€1.23 billion). The last of these Chinese SIPs was the April rights offering of **Wuhan Iron and Steel** that raised $1.28 billion (€853 million).[22] The Colombian state oil company **Ecopetrol** raised

[18] See Coourtney Weaver, "Russia's richest man buys freight rail stake," *Financial Times* (October 28, 2011) and Esmerk, "Russia: Vladimir Lisin's companies buy 75% in Freight One," *Kommersant* (October 31, 2011).
[19] The VTB sale is described in Catherine Belton, "Russian Tycoon buys 1.5% stake in VTB," *Financial Times* (February 17, 2011) and Ben Aris, "VTB bank sale launches privatisation drive in Russia," *The Telegraph* (February 24, 2011).
[20] See Juliette Kerr, "Russian Companies to Accelerate Heavy Oil Project in Venezuela," *Global Insight* (October 10, 2011).
[21] The Abbott Point terminal and Energy Australia sales are described, respectively, in "Government to set up investment firm like DP World," *Realty Plus* (June 24, 2011) and "TRUenergy plans to invest around AUD 10 billion on renewable energy," *Tendersinfo News* (March 11, 2011).
[22] The Shanghai Pharma deal is cited in footnote 7 above, while the New China Life, CITIC Securities, and Wuhan offers are described, respectively, in "New China Life IPO rises on Shanghai debut," *China Economic Review* (December 19, 2011), Elzio Barreto and Soo Ai Peng, "Citic, Sinohydro, Great Wall Show China's IPO Struggle," *HedgeWorld Daily News* (September 28, 2011), and "Wuhan Iron and Steel Company: Notice of Right Issue," *News Bites Asian Markets : China* (April 6, 2011).

$1.34 billion (€939 million) in August with a public offering of newly issued shares, while another South American state-owned company, Chile's Codelco, executed a secondary public offering of the financial company **E-CL SA** natural resources in January that raised $1.05 billion (€804 million).[23]

We conclude this discussion of non-EU privatizations by describing one of the most controversial deals. This was the February sale of 93% of the Ukrainian telephone operator **UKrtelecom** to Epic, a Vienna-based investment house for $1.3 billion (€952 million). The controversy arose because foes of Ukrainian president Viktor Yanukovitch accused his government of designing the auction to favor his political cronies, a charge that government and company officials denied.[24]

Table 3. Details on Global Privatization Transactions*, 2011, US$ Millions

Date	Company Name	Country	Sector	% for Sale	Value ($ mil)	Value (€ mil)	Private Sale (PS) or Public Offer (PO)?	Method of sale	Type of shares
05/24/11	AIG	United States	Finance & Real Es	n.a.	8,700.00	6,125.00	PO	SEO	Combination
07/28/11	NAMA Properties	Ireland	Finance & Real Es	100.00	5,247.00	3,900.00	PS	Asset sale	Secondary
10/28/11	Freight One (Russian Railways)	Russian Federatioı	Transportation	75.00	4,200.00	3,360.00	PS	Auction	Secondary
12/23/11	Energias de Portugal (EDP)	Portugal	Utilities	21.00	3,515.00	2,700.00	PS	Private Placement	Secondary
05/08/11	Qatar National Bank (QNB)	Qatar	Finance & Real Es	n.a.	3,494.00	2,460.00	PS	Private placement	Primary
05/10/11	Queensland Motorways Ltd	Australia	Infrastructure	100.00	3,347.00	2,357.00	PS	Asset sale	Secondary
02/14/11	OAO "Bank VTB"	Russian Federatioı	Finance & Real Es	n.a.	3,269.00	2,419.00	PO	SEO	Secondary
02/04/11	Nordea Bank AB	Sweden	Utilities	6.30	2,931.00	2,169.00	PO	Accelerated offer	Secondary
03/01/11	Integral Energy	Australia	Utilities	100.00	2,268.00	1,633.00	PS	Private Placement	Secondary
10/14/11	Carabobo 2 Block Project	Venezuela	Natural Resource:	40.00	2,200.00	1,595.00	PS	Private Placement	Secondary
04/06/11	La Poste	France	Services	26.32	2,112.00	1,500.00	PS	Private Placement	--
09/28/11	Sinohydro Group Ltd	China	Pharmaceuticals	n.a.	2,112.00	1,531.00	PO	IPO	Primary
05/13/11	Shanghai Pharm Hldg Co Ltd	China	Mining	n.a.	1,966.00	1,384.00	PO	IPO	Primary
06/01/11	Abbott Point Coal Terminal	Australia	Transportation	100.00	1,951.00	1,366.00	PS	Private Placement	Secondary
07/06/11	Jastrzebska Spolka Weglowa	Poland	Finance & Real Es	36.30	1,946.00	1,446.00	PO	IPO	Secondary
12/08/11	New China Life Ins Co Ltd	China	Finance & Real Es	n.a.	1,893.00	1,454.00	PO	IPO	Primary
06/24/11	Agricultural Bank of Greece SA	Greece	Finance & Real Es	n.a.	1,788.00	1,252.00	PO	Rights offer	Primary
09/27/11	CITIC Securities Co Ltd	China	Natural Resource:	n.a.	1,698.00	1,231.00	PO	IPO	Primary
07/27/11	Bank of Ireland	Ireland	Finance & Real Es	21.00	1,558.00	1,158.00	PO	Follow-on	Primary
03/01/11	Energy Australia Pty	Australia	Utilities	100.00	1,459.00	1,050.00	PS	Private Placement	Secondary
08/18/11	Ecopetrol SA	Colombia	Manufacturing	1.67	1,342.00	939.00	PO		Primary
02/11/11	Ukrtelecom	Ukraine	Telecommunicatic	93.00	1,300.00	962.00	PS	Private Placement	Secondary
04/01/11	Wuhan Iron & Steel Co Ltd	China	Finance & Real Es	n.a.	1,275.00	853.00	PO	Rights offer	Primary
06/10/11	PZU SA	Poland	Utilities	10.00	1,155.00	859.00	PO	Accelerated offer	Secondary
09/23/11	PR 22 Roadway	Puerto Rico	Infrastructure	100.00	1,136.00	824.00	PS	Private Placement	Secondary
05/23/11	Integrated Healthcare Holdings	Malaysia	Services	30.00	1,091.00	768.00	PS	Private Placement	Secondary
01/28/11	E-CL SA	Chile	Finance & Real Es	n.a.	1,051.00	804.00	PO		Secondary
05/16/11	Power Finance Corp Ltd	India	Mining	n.a.	1,032.00	727.00	PO		Combination
11/23/11	Shanxi Coal Import & Export	China	Utilities	n.a.	865.00	639.00	PO		Primary
04/08/11	Istanbul Deniz Otobusleri	Turkey	Transportation	100.00	861.00	576.00	PS	Auction	Secondary
10/20/11	Shanghai Jahwa Group	China	Manufacturing	100.00	804.00	576.00	PS	Private Placement	Secondary
06/02/11	Huaneng Renewables Corp Ltd	China	Utilities	n.a.	799.00	559.00	PO	IPO	Primary
08/03/11	Zimbabwe Iron & Steel Co	Zimbabwe	Manufacturing	100.00	750.00	481.00	PS	Private Placement	Secondary
06/17/11	Gas Natural SDG SA	Spain	Utilities	n.a.	737.00	516.00	PS	Strategic investor	Primary
04/15/11	Mapletree Commercial Trust	Singapore	Finance & Real Es	--	719.00	481.00	PO	SEO	Primary
06/01/11	Tekapo Hydor Power Stations	New Zealand	Utilities	100.00	668.00	477.00	PS	Private Placement	Secondary
08/19/11	Pacifico Sur Toll Road	Mexico	Infrastructure	100.00	667.00	466.00	PS	Concession	Primary
05/20/11	Banco Estude do Rio de Janeiro	Brazil	Finance & Real Es	96.20	632.00	445.00	PS	Private Placement	Secondary
06/06/11	OTE SA	Greece	Telecommunicatic	10.00	585.00	435.00	PS	Private Placement	Secondary
09/12/11	Bank Danamon Tbk PT	Indonesia	Finance & Real Es	n.a.	580.00	421.00	PO		Primary
04/07/11	Central Bank of India	India	Finance & Real Es	n.a.	565.00	378.00	PO		Primary
09/21/11	Bank Danamon Tbk PT	Indonesia	Finance & Real Es	24.60	561.00	407.00	PO	Rights offer	Primary
03/15/11	Hubei Changjiang Press & Media	China	Publishing	100.00	545.00	392.00	PS	Private Placement	Secondary
03/17/11	Bank of Baroda	India	Airlines	n.a.	545.00	392.00	PO		Primary
01/27/11	PT Garuda Indonesia(Persero)	Indonesia	Manufacturing	n.a.	528.00	404.00	PO	IPO	Combination
10/11/11	Stoleczne Przedsiebiorstwo	Poland	Utilities	85.00	524.00	389.00	PS	Private Placement	Secondary
03/14/11	Periferico Sur Toll Road	Mexico	Infrastructure	100.00	521.00	375.00	PS	Concession	Primary
12/16/11	SEA S.p.a.	Italy	Transportation	29.75	520.00	385.00	PS	Private Placement	Secondary
04/19/11	Minmetals Resources Ltd	Hong Kong	Mining	n.a.	500.00	335.00	PO		Primary
Total 1H2011		**30 Transactions**			**48,394.00**				
Total 2H2011		**19 Transactions**			**32,118.00**				
Total 2011		**49 Transactions**			**80,512.00**				

* In this table we reported only deals greater than $500 million
Source: *Privatization Barometer, Securities Data Corporation (SDC) New Issues and Mergers and Acquisitions files, and author's search of various news media (principally Financial Times).*

[23] See Juliette Kerr, "Ecopetrol Sees Strong Interest in Share Sale But Falls Short of Target," *Global Insight* (August 26, 2011) and "Chile: Coldelco pockets US$1bil parting from E-CL," *El Mercurio* (January 29, 2011)
[24] The initial phase of the Ukrtelecom deal is described in Roman Olearchyk, "Epic to acquire 93% of Ukrtelecom for $1.3bn," *Financial Times* (February 13, 2011), while the deal's completion is discussed in Chris Dziadul, "Ukrtelecom sale completed," *Broadband TV News* (May 11, 2011).

Failed and Canceled Privatizations During 2011 and Early 2012

2011 will doubtless be remembered as a down year for completed privatizations, but it was actually even worse in terms of the number and value of privatization sales that failed, were cancelled, or were withdrawn. The largest overall collapse, unsurprisingly, occurred in Greece—which was forced to admit in early 2011 that it would be able to raise only a very small fraction of the promised €50 billion ($67.5 billion) [reduced one year later to a more reasonable €19 billion ($24.9 billion)] from selling state assets during the 2011-15 period.[25]

As noted in the Introduction, Spain experienced in September 2011 by far the largest two canceled deals of the year, both at very late stages in the sales process. These were the proposed public offering of 30% of **Sociedad Estatal de Loterías y Apuestas del Estado SA**, the state lottery operator, and the auction of the **Madrid (Barajas)** and **Barcelona (El Prat) Airports**. These were scheduled to raise as much as €7.0 billion ($9.7 billion) and €5.0 billion ($6.9 billion), respectively.

Russia had the unenviable distinction of suffering three failed privatizations during 2011 and the first half of 2012, including last year's second largest. This was the canceled offering, in November 2011, of 6.9% of the state's holdings in **Sberbank** due to poor market conditions, which could have raised as much as $6.0 billion (€4.3 billion). Six months earlier, the state-owned holding company Oboronprom was forced to cancel its planned $500 million (€352 million) London IPO of a 25% stake in **Russian Helicopters**, which would have been used to support the company's ambitious development plans.[26] Finally, in June 2012, the newly re-elected Putin government delayed the planned sale of a stake in **Rosneft** from 2012 until 2014. The failures—and successes—of Russia's current privatization program are described quite well in Sergei Guriev's article, "The New Russian Privatization," later in this Report.

The third largest failed privatization deal of 2011 was actually a sequel. After failing to sell its 59% stake in **Woori Financial Group** in December 2010, the Korean government tried and failed once more in August 2011. Once again, the problem was less the minimum price demanded ($4.80 billion; €3.44 billion) than the regulation that only financial institutions and local private equity funds were allowed to buy a controlling interest in Korean banks; non-financial (Chaebol) firms and foreign private equity groups were barred from acquiring more than a 10% stake. In the end only one local bank submitted a bid, and the auction rules required at least two bidders.[27] After this failure, the government once again reiterated its desire to privatize both Woori and the Korean Development Bank in order to further develop the nation's financial sector.

Along with Russia, Poland experienced three individual failed privatizations during 2011 and 1H2012. The largest occurred in August 2011, when poor market conditions forced the government to abandoned its planned sale of a 15% stake in **Bank PKO**, which it was hoped would have raised Zl 6.80 billion ($2.30 billion; €1.61 billion). Three months earlier, the government suffered an embarrassing partial failure in its attempt to sell another financial institution,

[25] See Peter Spiegel, "Greek debt nightmare laid bare," *Financial Times* (February 21, 2012).
[26] The Sberbank offer's denouement is described in Courtney Weaver, "Russian privatisation: technical delays," *Financial Times* (November 21, 2011), while the failed Russian Helicopters IPO is described in Courtney Weaver, "Russian Helicopters postpones London IPO," *Financial Times* (May 11, 2011).
[27] See Kim Yon-se, "MBK sole preliminary bidder for Woori Finance stake," The Korea Herald (August 17, 2011) and Song Jung-A, "Woori sale collapses due to lack of bidders," *Financial Times* (August 19, 2011).

Bank BGZ. It had planned to raise €352 million ($500 million) by selling 37% of the company at Zl 160/share, but was only able to sell 12% at a price of Zl 66/share—raising only €80 million ($114 million).[28] The third embarrassment for the Polish government occurred in March 2012, when the opposition party was able to pass (by one vote) a parliamentary resolution blocking the sale of the **Lotos Refinery**, as it became clear that the only likely bidders for the 51% stake, worth €461 million ($600 million), being peddled by Poland were Russian oil firms.[29]

Poland was not the only country to experience a failed sale of a state-owned oil refinery during 2011; the Romanian government was forced by poor market conditions in July to abandon its planned sale of 9.7% of **Petrom** for $684 million (€484 million), even though it priced the shares offered at a 2.7% discount to the previous closing price.[30] This unsuccessful sale left the Romanian state's holdings in Petrom at 21%. Poor market valuations also forced Turkey, in November 2011, to cancel the planned sale of its remaining 49% stake in **Turkish Airlines**.[31]

The last three withdrawn and canceled privatizations of 2011 each failed for a different reason. The largest of these was the proposed spring auction of 51% of Serbia's **Telekom Srbija**, which the Serbian government hoped would raise $1.83 billion (€1.40 billion). In fact only one bidder, Telekom Austria, submitted a conditional offer of €800 million to €950 million ($1.15 billion - $1.36 billion), which was rejected. In response, Serbia decided to sell the company on the stock market, hopefully before the end of 2012.[32] The second failure was an attempt by America's WakeMed Health and Hospital in May to acquire the government-owned (by the state of North Carolina) company **Rex Healthcare** for $750 million (€525 million), which was blocked by the target firm's opposition and the unwillingness of state officials to intervene.[33] Third, the sale of Italy's **Tirrenia di Navigazione S.p.A**. to Compagnia Italiana di Navigazione, agreed to in May 2011, was abandoned eleven months later after the European Commission opposed it on competition grounds.

Completed Sales in Early 2012

Given the extended length of time required for this author to complete this 2011 Report, we can also describe deals that have been executed during the first half of 2012. There have been three major sales, all of which were executed in February or March 2012. By far the largest deal was the Brazilian government's February sale through auction of a 30-year concession to operate and improve the country's three most important airports, which yielded R$24.5 billion ($14.4 billion; €11.0 billion), far more than expected. The winning bidders, mostly

[28] The problems bedevilling the PKO and BGZ offers are described in, respectively, Stefan Wagstyl, "Poland: Pko offer blown off course," *Financial Times* (August 24, 2011) and "Treasury sets IPO price of bank BGZ at PLN 60, cuts offer to 12% from 37%," *Poland Today* (May 19, 2011).
[29] See "Poland rejects Lotos-Orlen privatisation proposals," *Chemical News & Intelligence* (March 2, 2012) and Jan Cienski "Lotos: no Russian buyers, we are Polish," *Financial Times* (March 2, 2012).
[30] See "Romania to try again in 2012 after bids for $800m of Petrom stock fall short of target," *EuroWeek* (July 29, 2011) and Neil Buckley, "Romanian energy sell-off loses power," *Financial Times* (July 24, 2011).
[31] See Leyla Bulton, "Turkish Airlines: 'Europe's favorite' carrier steers a contrarian course," *Financial Times* (November 21, 2011).
[32] The original failure is described in Neil MacDonald, "Telekom Austria sweetens its bid for Telekom Srbija," *Financial Times* (May 4, 2011), while the re-opening of the tender process and ultimate failure are reported, respectively, by the news service RTV in, "Privatization: Serbia extends deadline in Telekom Srbija sale," KBC Securities report (May 24, 2011) and "Greece's OTE in talks with Telekom Srbija on 20% stake sale," *Serbia Today* (November 30, 2011).
[33] See Alan M. Wolf, "WakeMed's bid for Rex pits money, care," *The Cary News* (May 18, 2011).

Brazilian pension funds and state-owned enterprises, paid R$16.2 billion ($8.96 billion; €6.84 billion) for **São Paulo's Guaralhas International Airport**, five times the minimum bid, and more than eight time the minimum bid price for Brazilia's airport. This was the first major privatization of President Dilma Rousseff's administration, and was motivated by the pressing need to upgrade the nation's infrastructure before hosting the World Cup in 2014 and the Olympics two years later.[34] These Brazilian airport privatizations are analyzed in Alessandro Carpinella's article, "Privatizing Airports: Comparing two Experiences," later in this Report.

The second large privatization, in early March 2012, yielded a very controversial outcome. This was the secondary offering of a 5% stake in India's **Oil and Natural Gas Company** (ONGC), the first major sale under the government's new streamlined share issue process, which was priced at a 2.3% *premium* to the prior day's closing price. Unsurprisingly, the initial uptake of shares was very low—but a late surge in buying by Indian state-owned banks and operating companies allowed the offering to be fully subscribed and to raise Rs121.6 billion ($2.50 billion; €1.91 billion). Six weeks later, the Indian government announced a new tax on domestic oil production, imposing significant losses on the unfortunate investors (both the willing and unwilling) who had purchased shares.[35]

The third, and smallest, privatization deal of February 2012 was the auction of a 40% stake in Portugal's **Redes Energéticas Nationais** (REN) that raised a total of $764 million (€592 million). The winning bidder, State Grid Corporation of China, bought 25% of REN, while the second place bidder, Oman Oil, bought the other 15% on offer.[36]

Planned Sales in Late-2012 and Beyond

We conclude this survey of privatization trends and major deals by describing sales that seem likely to be completed in the second half of 2012 or the next few years, beginning with delayed national divestment programs that governments plan to renew once markets--and European political prospects--stabilize. As noted above, the newly-elected conservative Greek government reaffirmed, in June 2012, plans to raise at least €19 billion ($25 billion), and perhaps as much as €42 billion ($55 billion), from the sale of state assets before the end of 2015.[37] In June 2012, the Russian government announced that it planned to raise Rb 300 billion ($9.31 billion; €7.39 billion) through privatizations by the end of 2012, and also reiterated its determination to raise some Rb 1,030 billion ($32 billion; €25 billion) through divestments by 2016. As discussed in detail in Philip Barry's article later in this Report, "Partial Privatization to Kick-Off in New Zealand," New Zealand in June 2012 passed legislation authorizing the partial privatization of five major state companies and planning to raise $5.6 billion (€4.1 billion). Additionally, the national governments of Poland, Spain, Portugal, Romania, Ukraine, Nigeria, and Italy have all articulated multi-year, multi-billion-dollar divestment plans to be launched (or re-launched) once market conditions improve.

[34] See Joe Leahy, "Brazilian airport bids airlines' fears," *Financial Times* (March 27, 2012).
[35] The February ONGC offering is described in "ONGC's slippery auction sale," *Hindustan Times* (March 7, 2012) and Neil Munshi, "Confusion reigns at ONGC share sale," *Financial Times* (March 1, 2012), while the subsequent tax imposition is discussed in James Crabtree, "Coal fight shows how India treats investors," *Financial Times* (April 10, 2012).
[36] See Peter Wise and Leslie Hook, "China's State Grid to take 25% stake in REN," *Financial Times* (February 2, 2012) and "Oman Buys Into Portugal's REN," *International Oil Daily* (February 28, 2012)..
[37] See Peter Spiegel and Alex Barker, "Greek accounting cannot hide the urgency for growth," *Financial Times* (February 21, 2012) and Kerin Hope, "Athens to speed up privatisation," *Financial Times* (July 3, 2012).

In September 2011, the Japanese government announced what is by far the largest single planned privatization for the foreseeable future. This is the proposed sale of the state's entire 51% holding in **Japan Tobacco**, which could raise as much as ¥2,000 billion ($26 billion; €18.9billion) at current prices.[38] If executed, proceeds from a successful sale would be allocated to pay for reconstruction from the catastrophic Fukushima nuclear power plant meltdown in March 2011. At the same time, Japan's government also announced plans to divest stakes in the oil company **Inpex** and the exploration and development company **Japex**, together valued at ¥566 billion ($7.41 billion; €5.38 billion).

Besides announcing a general privatization sales target for 2012-15, the Russian government also articulated specific plans in 1H2012 to divest stakes in four individual companies. Russia's economic Development Minister announced plans, in June 2012, to raise Rb 100 billion ($3.10 billion; €2.46 billion) from selling a 7.6% stake in **Sberbank** and Rb 25-27 billion ($776-858 million; €616-663 million) for 25% in the tanker operator **Sovcomflot**, as well an unspecified stake in the oil and gas giant **Rosneft**.[39] Separately, a memorandum of understanding was signed in May 2012 between the Russian company that produces Lada, **Avtogaz**, and the consortium of Renault and Nissan under which the consortium will increase its ownership of Avtogaz from the current 25% to 75% in 2014.[40]

After finally (after ten years' trying) selling the **Tote** race betting service for €324 million ($435 million) in 2011, Britain's coaltion government is considering multiple privatization sales, such as its remaining 49% air traffic control service **NATS**, and has also revived plans to privatize the **Royal Mail**, after nationalizing the company's huge unfunded pension liabilities.[41] The government would also like to sell off its Crisis-induced shareholdings in Royal Bank of Scotland (81%), Northern Rock, and Lloyds TSB (41%), and took the first tentative steps in that direction in June 2011.

Several privatization plans within Old Europe have also been announced. After successfully selling stakes of **Energias de Portugal SA** and **Redes Energeticas Nacionais** to Chinese state companies in late 2011 and early 2012, the Portuguese government headed by Prime Minister Pedro Passos Coelho announced plans to quickly follow up with sales of stakes in the 100% state-owned airline **TAP Air Portugal** and in the airport operator **Aeroportes de Portugal**.[42] Meanwhile, the government of Spain's capital city, Madrid, announced plans in February 2012 to sell a minority stake (20-30%) in **Canal Isabel II**, the region's water system, hoping to raise €3.0-35 billion ($3.90-4.56 billion).[43] In March 2012, the Greek government also announced plans to auction off its 68% ownership interest in the gas distributor **Depa** for up to €2.0 billion ($2.62 billion), attracting interest from many international energy

[38] See "Share sell-off could see nation lose energy advantages," *The Daily Yomiuri(Tokyo)* [September 29, 2011] and Michiyo Nakamoto, "Japan Tobacco sale planned for reconstruction," *Financial Times* (June 7, 2012). The latter article also describes the government's planned sales of Japex and Inpex.

[39] See Courtney Weaver, "Russia presents new privatisation plan," *Financial Times* (June 7, 2012).

[40] See Esmerk, "Russia: Renault-Nissan to hand over USD 750mn in established JV in three steps," *Vedomosti* (May 5, 2012) and "Nissan-Renault to take Avtovaz driving seat," *SKRIN Market & Corporate News* (May 5, 2012).

[41] See Brian Groom, "Will Britons buy into Royal Mail?" *Financial Times* (April 10, 2012) and Rose Jacobs, Anousha Sakoui, and Jim Pickard, "Airlines plan sale of Nats stake," *Financial Times* (June 7, 2012).

[42] See Peter Wise, "Privatisation: Extensive sell-offs constitute irreversible retreat by government" *Financial Times* (April 10, 2012).

[43] See "Aguirre admits plans for Canal de Isabel II privatization," *SeeNews Spain* (February 6, 2012).

companies—including Russia's Gazprom.[44] Finally, in June 2012 the Italian government announced plans to sell stakes in three non-strategic companies—the export credit agency **SACE**, the services company **Simest**, and the industrial holding company **Fintecna**—"within months," hoping to quickly raise €10.0 billion ($12.6 billion).[45]

Eastern European companies have also teed up major privatizations for 2012 and later. Most significantly, the president of Belarus, Alexander Lukashenko, announced plans in October 2011 to sell a minority stake in **Belaruskali**, the world's second largest potash producer for up to $30 billion (€21.8 billion). This sale was mandated as part of a $3 billion fiscal rescue loan from Russia, but initial response from potential international investors was tepid. Five months later, the Ukrainian government announced plans to sell a stake in **Naftogaz** in late 2012 or 2013.[46]

Governments outside of Europe also announced four significant planned privatizations during late 2011 and early 2012. The government of Mongolia is still planning to launch its long-delayed IPO of a 30% stake in the mining firm **Erdenes Tavan Tolgoi**, which could raise more than $2 billion (€1.4 billion).[47] The American state of Virginia reacted enthusiastically in June 2012 to a proposal from Denmark's AP Møller-Maersk to purchase the 40-year right to operate and improve the **Hampton Roads port facilities** and an inland railroad terminal for a payment of $1.1-1.3 billion (€870-1,020 million).[48] Four months earlier, the Nigerian government increased electricity tariffs and announced firm plans to sell **18 electric production and distribution companies** in order to ensure adequate capital for investment and improve reliability of service.[49] Fourth, the Colombian government in April 2012 re-committed to selling a 10% stake in the oil company **Ecopetrol** after the nation's Constitutional Court had blocked an earlier presidential decree authorizing the sale.[50]

We conclude this analysis of pending privatizations by detailing pairs of announced sales in two important industries, airlines and stock exchanges. Both Iran and Kuwait have solicited offers to purchase stakes in their struggling national air carriers, Iran Air and Kuwait Airways, respectively. [51] **Iran Air** has been crippled by sanctions and an inability to purchase spare parts, so in August 2011 the government expressed its desire to raise $1.50 billion (€1.04 billion) by selling a 50% plus one share stake in the carrier. **Kuwait Airways** is also

[44] See Isabel Gorst, "Gazprom eyes Greek state gas company," *Financial Times* (March 16, 2012) and "Greece burning the furniture to survive; Greece sales," *Business World Digest* (March 27, 2012).
[45] See Guy Dinmore, "Italy sells off state assets to reduce debt," *Financial Times* (June 15, 2012).
[46] The planned sale of Belaruskali is described in "Belarus is ready for Belaruskali international tender," *M&A Navigator* (October 7, 2011) and Stefan Wagstyl, "Belarus: a $30bn deal, with strings," *Financial Times* (October 7, 2011), while Naftogaz's proposed sale is discussed in Andrew Neff, "Ukrainian Government Approves Draft Law to Split Naftogaz But Bans Its Privatisation," *Global Insight* (March 19, 2012).
[47] See Robert Cookson, Leslie Hook, and William MacNamara, "Banks in Mongolian 'gold rush'," *Financial Times* (February 8, 2011), Laurence White, "Mongolia: Banks mandated in landmark mining IPO," *Euromoney* (March 2011), and Rohan Somwanshi, "Mongolia postpones IPO for Tavan Tolgoi coal deposit," *SNL Coal Report* (May 7, 2012).
[48] See Robert Wright, "Virginia eyes partial port privatisation," *Financial Times* (June 3, 2012) and "Virginia port may extend deadline for rival offers to APM Terminals' deal – report," *SeeNews North America* (July 10, 2012).
[49] See Xan Rice, "Nigeria power rates to rise up to 88%," *Financial Times* (February 12, 2012).
[50] See "Colombia: Ecopetrol and government are not planning share issues," *Portafolio (Colombia)* [February 10, 2012].
[51] The attempted Iran Air sale is described in Najmeh Bozorgmehr, "Tehran seeks to privatize national airline," *Financial Times* (August 15, 2011) and Gala Riani, "Iran Hopes to Privatise National Airline," *Global Insight* (August 16, 2011), while Kuwait Airways' plans are detailed in Andy Sambidge, "No Kuwaiti job losses seen in airline privatization," ArabianBusiness.com (July 11, 2011) and Robin Wigglesworth, "Kuwait Airways to sell $280m stake," *Financial Times* (July 31, 2011).

unprofitable, but for different reasons--a bewildering mix of aircraft in an 18-plane fleet, an unproductive and unfireable workforce, and capable and aggressive regional competitors—but also began in July 2011 looking for redemption through sale of a $280 million (€214 milion) stake sale to foreign investors. The Kuwaiti government is also embroiled in an effort to sell the **Kuwait Stock Exchange** in 2012 to comply with a bizarrely specific capital market law passed in 2010. This law mandated that 50% of the Exchange be sold to retail investors and the remaining 50% be sold in ten 5% blocs to corporate buyers.[52] Finally, the Turkish government arranged the merger of the country's two major stock markets, the **Istanbul Stock Exchange** and TurkDex, and announced plans to privatize the resulting combined company.[53]

To summarize, the total value of global privatizations during 2011 fell sharply from the previous two years' record levels, and there has been no rebound yet during the first half of 2012. On the other hand, governments have announced plans to divest over $160 billion (€124 billion) once markets and political waters stabilize, so the immediate future looks very bright. Longer term, the continuing fiscal crisis gripping most western countries suggests that privatization programs will remain a central issue for global finance and economics for many years to come.

[52] See Camilla Hall and Simeon Kerr, "Kuwait edges towards bourse sell-off," *Financial Times* (February 6, 2012).
[53] See Jermey Grant, "Capital Markets: Ankara weighs in with shake-up of exchanges," *Financial Times* (December 13, 2011).

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Privatizing airports: Comparing two experiences

Under the burden of the financial crisis, governments are called today to implement the effective strategies needed to prevent a further deterioration of the economic and financial situation and to restore growth. Meanwhile, they must reduce their high levels of debt, whose burden threatens to undermine their financial stability. Thus, the governments' task appears definitely difficult: on the one hand, they have to find the right mix of operations needed to restore growth and support the economic system; on the other hand they need to put in place effective strategies to rebalance debts and ensure financial stability. Given the context, in various countries, local and central governments are investigating thoroughly their portfolios of assets, seeking resources to reduce debt and fund investments. In fact, a contribution to the rebalancing may come from privatization transactions, which are yet difficult to achieve because of such challenging market conditions.

In this framework, there are two major factors that are pushing governments to look for all the assets to be put on the privatization's table. One the one hand, governments are no longer capable to support large investments needed, for example, in the infrastructure sector and, consequently, they seek private investors. On the other side, where the financial distress is stronger, it is urgent to disinvest holdings in companies that generate or may generate losses, whose weight is no longer sustainable by central and local governments and, moreover, in many countries, institutions have to urgently raise financial resources to avoid default.

Focusing on airports: The need to invest and the urge to rebalance budgets

In these pages we want to focus on a specific theme: the privatization of airports. That is because in this field the two drivers pushing for privatization (the need of private resources to finance investments and the urge to balance the budget) are both present and strong. Airports are indeed assets that require substantial investments and that can also ensure a good return. Speaking about privatization, this issue seems also to be particularly critical, not only for the relevance of such assets in the development of any country, but also because of the elaborate ownership structure of the airports and the companies that are responsible of their management, which often includes a variety of players such as central governments, local governments, and other public agencies and authorities.

In 2011, there was widespread discussion about airports' privatisations. The Greek government has been planning to sell a long list of airports, beside various other assets, like the state lottery, utility companies, roads and lands, shares in banks, and so on. In Spain, the government is considering selling stakes in the state lottery and it has announced a plan to privatize Madrid's Barajas and Barcelona's El Prat airports and sell a stake in AENA Aeropuertos. The privatisation plan was eventually suspended because of the fear of getting fire-sale prices for the assets, and the government is now working on potential alternative strategies to raise funds from private sources. The British government

announced that it may sell its stake in air traffic controller NATS, and Ofcom has already approved its plan to sell spectrum for mobile broadband. The government is also considering selling hectares of forest and woodland and dozens of buildings. The Portuguese government is considering selling shares in utility companies, the power-grid operator, several state media interests, as well as shares in the state airline TAP and the airport owner ANA, which runs airports in Lisbon, Faro, Oporto and the Azores. In Italy, the Municipality of Milan sold a minority stake of SEA, the company that manages Milan's airport system, and is now considering whether to sell a further stake. In Ireland, a commission has been established by the government to review all the state's assets and plan a path to privatization.

Indeed, although the press releases suggest that airport privatization is a recurring theme, there was only one transaction recorded in Europe during 2011. In all other cases, the transactions didn't take place or have been suspended due to challenging market conditions.

Although the underlying asset is always the same, the patterns of airport privatizations that emerge from the experiences implemented or only assumed in recent years is actually varied and wide. To investigate the different paths of privatization that can be implemented within the airports, we have chosen to focus on two experiences: the privatization of three major Brazilian airports (Guarulhos, Campinas and Brasília) and that of SEA, the company that manages the airport of Milan in Italy. The two operations have been carried out almost simultaneously (the first at the beginning of 2012, the second in December 2011) and represent two definitely different models, nearly one the direct opposite of the other:

- in Brazil, the government was willing to promote the modernization of its airport system, and used the instruments of concessions and significant subsidised loans to attract private investors and assign them the airport's management;
- in Italy, the Municipality needed to raise financial resources, and sold a minority stake to a private investor who was involved in the company as an equity shareholder, while the airport management's responsibility was kept by the Municipality as its main shareholder.

The two experiences describe very different strategies, but both aimed to create value by giving space to private shareholders. And, of course, the judgment on their effectiveness in pursuing that aim can hardly be determined only according to the hammer price.

In the two following paragraphs the two experiences of airport privatization are briefly described.

Brazilian experience: Financing private investments

In July 2011, the Guarulhos, Campinas and Brasília airports were included in federal government's National Privatization Plan. Guarulhos and Campinas (both in São Paulo) and Brasilia (in Brasilia) are Brazil's three largest airports, and are responsible for handling 30 per cent of passenger traffic, 57 per cent of load traffic, and are home to 19 per cent of Brazilian aircraft.

The decision to privatize was taken in order to accelerate the expansion of Brazilian airports, whose modernization has become a key issue in the run-up to the 2014 Soccer World Cup, spread among 12 Brazilian cities, and the 2016 Olympic Games, to be held in Rio de Janeiro. In fact, there were growing concerns that the airport infrastructure wouldn't be ready to deal with the expected influx of visitors. There began a process to privatize the airports that took seven months to complete, and included the participation of many subjects: the Secretariat of Civil Aviation of the Presidency of the Republic, the Office of

the President's Chief, the Ministers of Finance and Planning, Budget and Management, ANAC, INFRAERO and the Air Force Command.

ANAC - Agência Nacional de Aviação Civil is the Brazilian agency responsible for the regulation and the safety oversight of civil aviation, whose tasks are also to establish the model of concession for airport infrastructures and provide concessions of aeronautical services and resources for airports of strategic, economic or tourist interest.

INFRAERO - Empresa Brasileira de Infraestrutura Aeroportuária is a Brazilian government corporation responsible for operating the main Brazilian commercial airports. It manages 66 airports, which represent 97 per cent of the regular air transport traffic in Brazil, 69 Air Navigation Groupings, and 51 Air Navigation Technical Units, in addition to 34 cargo logistic terminals. In March 2010, the Federal Government of Brazil announced that INFRAERO would adopt the model of concession, becoming a concessionary rather than an administrator of the airports that it has been currently operating. Its aim was to open up to private capital to obtain the resources necessary for infrastructure investments.

In January 2012, ANAC published a tender for the concession for the expansion, maintenance and operation of the three international airports. The federal government's concession model for the Guarulhos, Campinas and Brasília airports was as follows:

- The concessions outline INFRAERO as a minority shareholder, with 49 per cent of capital, and the concessionaires are responsible for the management of each airport. In fact, each of the concession contracts is awarded to a Special Purpose Vehicle (SPV) that is established between the private investor and INFRAERO. The private investor owns 51% of the SPV, INFRAERO 49%. Following the signing of the contract, there is a six-month transition period (extendable for another six months at the discretion of the concessionaire) in which the airport will be jointly managed by the concessionaires and INFRAERO. After this period, the concessionaires will take over all airport operations.
- The three concessions require the firms to improve the airports, and forecasted investments of each airport include: R$ 4.6 billion (US$ 2.7 billion) for Guarulhos; R$ 8.7 billion (US$ 5 billion) for Campinas; and R$ 2.8 billion (US$ 1.6 billion) for Brasilia. Moreover, the concession contracts outline that each airport concessionaire will be required to complete civil works for the 2014 World Cup within 18 months after the signing of the contract. For this phase of civil works, forecasted investments for each airport include new terminals to hold millions of passengers, expansion of runways, yards, parking lots, access roads and so on.
- With regard to investments, the majority of funding for infrastructure will be supported by subsidised loans from the Brazilian development bank BNDES - Banco Nacional de Desenvolvimento, which has committed to financing 80% of total investment and 90% of eligible items. In addition, BNDES will ensure facilitation of the rate of funding.
- The terms of the concessions offered vary among the airports: 20 years for Guarulhos; 30 years for Campinas; and 25 years for Brasilia.

The minimum bidding prices were R$ 3.4 billion (US$ 2 billion) for Guarulhos, R$ 1.5 billion (US$ 0.9 billion) for Campinas and R$ 582 million (US$ 338 million) for Brasília. The dealer will have to pay the sum in inflation-linked instalments over the period, and to give to FNAC - Fund for National Civil Aviation a percentage of the turnover (from 2 to 10%).

The tender was closed in February.

Table 1. The federal government's concession model for the Brazilian Airports

Privatization Data	Guarulhos International Airport	Brasilia International Airport	Campinas International Airport
Asset for sale	51% of the SPV that is going to be concessionaire over 20 years.	51% of the SPV that is going to be concessionaire over 25 years.	51% of the SPV that is going to be concessionaire over 30 years.
Annual contribution to FNAC	10% of gross revenue	2% of gross revenue	5% of gross revenue
Investment required	R$ 4.6 billion ($ 2.7 billion)	R$ 2.8 billion (US$ 1.6 billion)	R$ 8.7 billion (US$ 5 billion)
Minimum price	R$ 3.4 billion ($ 2 billion)	R$ 582 million ($ 338 million)	R$ 1.5 billion ($ 0.9 billion)
Final price	R$ 16.2 billion ($ 9.4 billion)	R$ 4.5 billion ($ 2.6 billion)	R$ 3.8 billion ($ 2.2 billion)
Winner	Invepar ACSA Consortium	InfrAmérica Consortium	Aeroportos Brasil Consortium

Source: *INFRAERO - Empresa Brasileira de Infraestrutura Aeroportuária*

The Guarulhos airport in São Paulo was taken by Investimentos e Participacoes em Infraestrutura SA — Invepar, a holding company made up of construction companies and some of Brazil's largest pension funds, together with Airports Company South Africa. The consortium bid R$ 16.2 billion (US$ 9.4 billion).
Brasilia's concession was picked up by Brazil's Engevix construction firm and Argentina's Corporacion America, with a bid of R$ 4.5 billion (US$ 2.6 billion).
Transportation company Triunfo Participacoes won rights to operate the Viracopos airport in Campinas, which is expected to become Brazil's biggest airport. Triunfo, partnering with the construction company UTC Participacoes and France's Egis Airport Operation, bid R$ 3.8 billion (US$ 2.2 billion).
Eventually the three airports auctioned were sold for a total amount of US$ 14 billion, almost five times the minimum value set by Government.

Italian experience: Selling a minority stake to raise resources

SEA S.p.A. – Società Esercizi Aeroportuali, is the company that manages the Milan airport system. SEA S.p.A. and its Group companies manage and develop the airports of Milan Malpensa and Milan Linate, ensuring all services and activities related thereto, such as landing and departure of aircraft, airport security management, baggage handling and continued development of commercial services to passengers, workers and visitors by offering extensive and varied services. The airport system managed by the SEA Group includes two airports: Milan Linate Airport, dedicated to customers flying on domestic and international intra-EU flights, and Milan Malpensa Airport, which operates through two passengers airports (Milan Malpensa 1, dedicated to domestic, international and intercontinental flights, and Milan Malpensa 2, dedicated to low-cost traffic) and a cargo terminal (Milan Malpensa Cargo, that ranks among the major European cargo airports for freight carried). Moreover, SEA also has a relevant share of Bergamo-Orio airport, the low-cost airport located north-east of Milan. In 2010 the company, which recorded total revenues of € 633.7 million, served 27 million passengers.

The Municipality of Milan held 84.56% of SEA S.p.a. until 2011. In that year, the Municipality decided to dispose part of its shares in the company. The decision was also taken by the Municipality because of the financial strictures imposed by the central government through the “Patto di Stabilità Interna”, that is the document where the Italian government sets out targets and constraints with which local administrations have to comply. In fact, in order not to fail to meet budget constraints, the Municipality needed to raise funds within the year.
During 2011 the Municipality had already issued two public auctions, offering to sell 18.6% stake in Milano Serravalle - Milano Tangenziali Spa, which is the company that manages an infrastructural network that serves the Milan and Lombardy area. On both occasions, the market did not show interest in the investment, and the procedures were closed without any result.
Considering the outcome of the auctions relating to the share in Milano Serravalle - Milano Tangenziali SpA, in November 2011 the City Council finally decided to sell through public tender two alternative blocks of shares, made up as follows:

- 18.6% stake in Milano Serravalle - Milano Tangenziali SpA and 20% stake in SEA S.p.A.
- 29.75% stake in SEA S.p.A.

Moreover, some changes to the governance of the two companies were promoted to increase the potential private shareholders’ influence, in order to maximize market interest for the shares.
In December, the public tender was won by F2i, whose bid was € 385 million, which was basically the starting bid. Among the two alternative blocks of shares, F2i chose to buy the 29.75% share of SEA.
As a result, the City Council raised resources to balance its finance, and F2i became the largest private SEA S.p.a. shareholder. Holding a minority share, F2i’s involvement in the management of the company is not relevant, and the Municipality continues leading SEA S.p.a. as the main shareholder.

Table 2. SEA S.p.A. Privatization Data

Privatization Data	**SEA S.p.A. - Società Esercizi Aeroportuali**
Asset for sale	Two alternative blocks of shares: · 18.6% stake in Milano Serravalle - Milano Tangenziali SpA and 20% stake in SEA S.p.A. · 29.75% stake in SEA S.p.A.
Minimum price	€ 385 million
Final price	€ 385 million
Winner	F2i – Fondo Italiano per le Infrastrutture, closed-end investment fund, dedicated to investments in the infrastructure sector

F2i – Fondo Italiano per le Infrastrutture is a closed-end investment fund, dedicated to investments in the infrastructure sector. It is promoted and managed by the fund management company F2i Sgr. With € 1,852 million raised, it is the largest Italian closed-end fund and the largest infrastructure fund on the international market focused on a single country.

Among F2i's sponsors there is also CDP - Cassa Depositi e Prestiti, a joint-stock company under public control, with the Italian government holding 70% of its capital and a broad group of bank foundations holding the remaining 30%. Cassa Depositi e Prestiti plays a key role in financing public-sector investments in Italy and it is a key partner for public entities in the development of infrastructure projects and the growth and international expansion of Italian enterprises. In fact, it manages a major share of the savings of Italians – postal savings – which it uses to support the growth of the Country, providing financing to major strategic sectors (as transportation networks and local public services, public building and social housing, energy and communication, environment and renewable energy) and support for SMEs, internationalization of companies, research and innovation. Moreover, Cassa Depositi e Prestiti holds equity participations in some of the largest public interest companies in Italy and it is also actively involved in private equity funds specialized in infrastructure.
To date, the City of Milan is considering whether to sell a further stake of SEA and reduce its share of control under 51%.

What to learn from the comparison?

Considering these two experiences, so different from each other, it becomes immediately clear that the hammer price cannot be the sole criteria to judge the effectiveness of a privatization path.
To assess the two experiences and draw conclusions it is first necessary to gain a clear picture of their major differences:

- *Government's needs*: first of all, the two operations are distinguished by the different needs of public administrations and, therefore, by the goals that they want to achieve. As seen above, Brazil's government needed to accelerate the expansion and modernization of the Brazilian airport system in view of the influx of visitors expected for the 2014 Soccer World Cup and the 2016 Olympic Games. In the Italian experience, instead, the Municipality's most urgent need was to enhance the asset and raise financial resources from the private sector to meet the regulatory constraints imposed on local government finance.
- *Asset for sale*: another significant difference is about the asset for sale. In the Brazilian experience, it is the 51% of the company that is going to be concessionaire for the expansion, maintenance and operation of the international airports over a period from 20 to 30 years. In Italy, the Municipality of Milan sold a minority stake in the corporation that manages the airport system, keeping the company under the Municipality's control.
- *Management and investor involvement*: as regard to the Italian experience, the transaction does not entail a relevant role of the private investor in the company's management. The investor acquires a minority stake, and the main shareholder, the Municipality, keeps leading the company. On the other hand, Brazilian concessionaries are going to be responsible for the management of each airport, taking over all operations after a six-month transition period.

Private and public Investment: with regard to investments, in Brazil, although the concessions are managed by the private investors, the majority of funding for infrastructure is going to be supported by subsidised loans from Banco Nacional de Desenvolvimento (BNDES), which has committed to financing 80% of total investment and 90% of eligible items and will ensure facilitation of the rate of funding. In contrast, the privatization of SEA did not involve any additional investment by the Municipality.

Table 3. Brazilian experience vs Italian experience

	Brazilian experience	Italian experience
Main government's needs	To accelerate the expansion and modernization of Brazilian airport system.	To raise financial resources from the private sector to meet regulatory constraints.
Asset for sale	The 51% of the company that is going to be concessionaire for the expansion, maintenance and operation of the international airports over a period from 20 to 30 years.	A minority stake (29.75%) in the company that manages the airport system.
Private investor's role in management	Investors are responsible for the management of each airport. In particular, investors are also required to invest in the development of airports as mandated by the concession contracts.	Not relevant at the moment, because the investor acquire a minority stake and the main shareholder is the Municipality.
Financial resources to the public administration	The hammer price offered for the concession plus a percentage of the turnover from 2 to 10%.	The hammer price paid for acquiring the stake.
Financial resources to the private investor	Subsidised loans from BNDES, which has committed to financing 80% of total investment and 90% of eligible items, and facilitation of the rate of funding.	None

In hindsight, maybe only in Italy there has been a "real" privatization, "real" meaning that private money actually comes into public coffers of Milan Municipality without any corresponding cash outflow (even if the private investor is surely supported by a public entity that owns a significant part of its capital). However, the limited role given to the private investor in the management of the company had a relevant impact on the value of the share and on its final price.

On the contrary, in Brazil the private investors become the operating partners responsible for the companies' management. This certainly raises the value of the transactions. But there is also another element that contributes to this end: the deals are strongly supported by subsidised loans and other facilitations. Therefore the privatizations are enforced thanks to a good supply of public money. The private investors take over the equity risk (as majority shareholders of the special purpose vehicles that are assigned the concessions), but the underling rules are actually closer to credit risk and, moreover, the investors are provided with significant financial assistance.

Taking into account how different are the specificities of contexts, objectives and instruments used in the two transactions, it is not possible to make a clear judgment about the effectiveness of the two paths of privatization. Rather, from the comparison comes a multifaceted picture, but is however clear that, in privatization transactions, it is possible to create additional value giving space to private investors in the management of the privatized company and involving in the operation public institutions capable of supporting investments by ensuring financial resources. Yet, in this case, it is necessary to be careful in evaluating the transaction's results, distinguishing what is just a shift in revenues and expenditure in the Administration's balance sheet and what actually goes into public coffers in front of privatization.

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The New Russian Privatization

An independent observer of Russia's privatization plan should be puzzled. The Russian government has announced a plan to privatize minority stakes in many state companies. Moreover, Russian President Dmitry Medvedev in his programmatic speech in June 2011 went further and said that Russia should also privatize all government stakes in all sectors except possibly blocking stakes in infrastructure companies. His predecessor – and successor – Vladimir Putin has repeatedly said that he is not fond of "state capitalism". And yet, privatization is not happening. The total proceeds from privatization in 2008-10 amounted to less than 1 billion US dollars (less than 0.1% of GDP). The only substantial sale that did take in 2011 place was privatization of the 10% stake in the second largest bank VTB in 2011. This is the stake that government purchased during the crisis in a 2009 bailout, but even after the privatization government keeps 75% of VTB equity. And after the announced "buyback" from VTB retail investors, the government 's stake will grow even further.

If anything, Russia is on the nationalization rather than privatization track. Russian state companies are purchasing more and more assets. Some of the deals (like the one with VTB above) are implications of the crisis 2008-09 crisis. For example, the state-owned development bank, VEB, bailed out the third largest bank in Russia, Gazprombank, in 2009 through providing a convertible loan. Now, it has converted its loan into an equity stake in Gazprombank so that VEB and Gazprom (state-owned gas monopoly) together control the majority of equity in this bank. Also, the state banks took over large amount of collateral (mostly, real estate) from debtors who went bankrupt during the crisis.

But many of the nationalizations are not directly related to the crisis. Following the 2007-08 privatization of electricity companies, several of these companies were bought by Russian state and its companies (including Gazprom). The largest state bank Sberbank took over one of the leading investment banks, Troika.

So why is privatization not happening? And if it is not happening now, will it happen in the future and how large will it be?

Why privatization is *not* happening

The main argument against privatization in Russia is its traumatic 1990s' experience. The Russian public believes that the 1990s sales (both mass privatization through vouchers and loans-for-shares privatization of a score of government companies) resulted in low privatization revenues, asset stripping and the rise of oligarchs. The mainstream explanations for this are corruption, the lack of market institutions and macroeconomic instability.

There are reasons to believe that the situation has now changed and the new privatization can be run in an honest and transparent way, helping to improve the efficiency of privatized companies and raising substantial funds for the government budget. Indeed, Russia has built financial markets, a modern banking system, and a workable legal system. There are efficient banks, asset management companies and investment banks. Russia has joined the WTO and

is about to join the OECD (which will have important implications for governance and corporate governance). Moreover, there is recent evidence that Russia can run honest and open sales. The most important example is the privatization of the electricity generation assets in 2007 and 2008.

Another, 'cultural', argument against privatization suggests that Russia has not had private property for seven decades, so privatization cannot work in Russia, by definition (as the public does not understand the concept of private property). This argument is also wrong. First, as mentioned above, Russia has had its share of successful privatizations recently. Second, the most thorough econometric studies (by Brown, Early, and Telegdy) have shown that in the initial years of reforms the benefits of privatizations were negative or zero, but by the later years of their study (first half of 2000s) privatization delivered substantial benefits to divested companies.

There is also a 'fiscal' argument against privatization: the government should postpone privatization in order to make sure it sells its assets at a higher price. There are two versions of this argument. First, the Russian government can just wait until Russian asset prices go up. Second, the Russian government should actively restructure the state companies to raise their value. The first argument assumes that stock prices are set to grow and this opportunity is for some reason not currently priced in. While at the first glance this contradicts the efficient market hypothesis, this argument is not without merit. It may well be the case that the current stock prices reflect the risks related to the imperfect political and economic institutions (including corruption and expropriation risk). Therefore, if the government is certain it will be able to improve institutions, it may count on higher asset prices in the future. The problem of course is that the current government's record in improving institutions has been disappointing. Various indicators of governance and investment climate suggest that the quality of institutions in Russia is at the same level or worse than in the early 2000s.

The second fiscal argument is problematic for the same reason. If the government believes it should improve the effectiveness of the state companies, why hasn't it done this before? In 2008, President Medvedev suggested that government companies should become the gold standard of corporate governance and efficiency. Company-level corporate governance indicators show that this has not happened.

International evidence suggests that this challenge is not unique to Russia. Privatizations do provide abnormal returns to the buyers of privatized companies. But the political implications of this issue are especially painful in Russia. The legitimacy of the 1990s privatization is undermined precisely because the broad public perceives the 1990s privatization prices as too low. Therefore, it is important to make sure that in the forthcoming privatization deals, the government assures the maximum possible revenue.

There is another important reason explaining why privatization is not happening. The ruling elites understand that privatization will undermine their own political base, which includes the employees of government-owned companies. Privatization will raise efficiency of the privatized companies but will also probably lead to downsizing, hence running against the interests of supporters of the government.

Why privatization *should* happen

Privatization in Russia will bring four major benefits. First, it will improve the performance of the privatized companies. Second, it will improve the competitive environment. The commanding heights of the Russian economy – including energy, transportation, communications, banking – are now controlled by government companies whose decision making is influenced by political factors. Third, it will raise substantial resources for the government's budget.

While at the current oil price Russia has a strong fiscal position, it will deteriorate in a few years due to a massive, looming pension problem, and privatization revenues can help finance the needed pension reforms. Fourth, privatization will create demand for reforms. State companies are not interested in institutions of property rights, contract enforcement and competitions – but private firms are.

Will privatization be popular? Even though privatization improves corporate performance it lack popular support in many countries. The reason is that even though privatization is good for social welfare and raises productivity, it is more likely to result in cutting jobs rather than in creating jobs. However, this argument is incomplete as it does not take into account the fact that many state companies in Russia are corrupt. The very fact that corruption is rampant creates a substantial public support for privatization. Also, given that Russia faces severe demographic challenges, increases in productivity are more important than job creation (unemployment is already very low at 6%).

How **should privatization happen?**

On March 22, 2012 Russian President Dmitry Medvedev approved a very straightforward plan for privatization (developed by so called Strategy 2020 Working Group and by Russia's Open Government). By July 1, 2012, Russian Agency for State Property should publish the list of assets it wants to keep. For each asset the government should justify the reasons why these assets should remain in state property. The Open Government should then organize a public discussion of these arguments and come back to the government with evaluation of those arguments. By December 1, 2012, Russian government should decide which assets should be kept and roll out a road map (with deadlines) for privatizing all other assets. President Medvedev emphasized that he wants to makes sure that privatization should happen through open and competitive procedures and assure the maximum possible revenue raised.

This directly implies that the Russian government will be very open towards participation by foreign investors. Indeed, the more open the competition, the greater the privatization revenues. Moreover, as foreign owners bring in both modern technology and world class management, they are likelier to improve productivity (as shown in the extensive empirical literature).

How much money will the privatization bring? If the Russian government follows the plan above and sells production capacity of Gazprom (keeping the pipeline state owned), all the oil companies including Rosneft, all the state banks, all the transportation companies, all the electricity assets and thousands of small companies it owns, it will raise around $200 billion dollars (based on current asset prices). This is a substantial amount of money – an order of magnitude more than the total proceeds of 1990s privatizations, and this total exceeds 10% of GDP.

Furthermore, the estimate above is a lower bound. If the markets see privatization happening they will probably become more optimistic about the Russian government's commitment to market reforms so that asset prices are likely to increase.

When **will privatization happen?**

Even though there are strong arguments for privatization – and support for privatization from the outgoing President Dmitry Medvedev – it is not clear whether privatization will actually happen soon. Indeed, as argued above, privatization is politically risky for the government. There are therefore two possible scenarios.

The pessimistic scenario is that the government will postpone privatization until it faces severe fiscal challenges. This will happen when/if the oil price goes

down. Unfortunately, this is exactly the outcome in which Russian assets will be much cheaper – both because they are all contingent on oil rents and because of potential political instability. In this case, privatization will not bring substantial revenues which will unfortunately undermine its legitimacy – very much like in 1990s.

The optimistic scenario is that the government will recognize the long term risks of sticking to the "state capitalism" model, foresee the forthcoming fiscal challenges due to oil price volatility and underfunded pension system and will prefer to privatize early – as long as the oil price is high. Also, this will also help the government to defuse the criticisms from opposition. The opposition has been very vocal holding the government accountable for not delivering on its commitments. Given that commitment to privatization has been clearly made, failing to stick to this commitment will generate additional risks as well.

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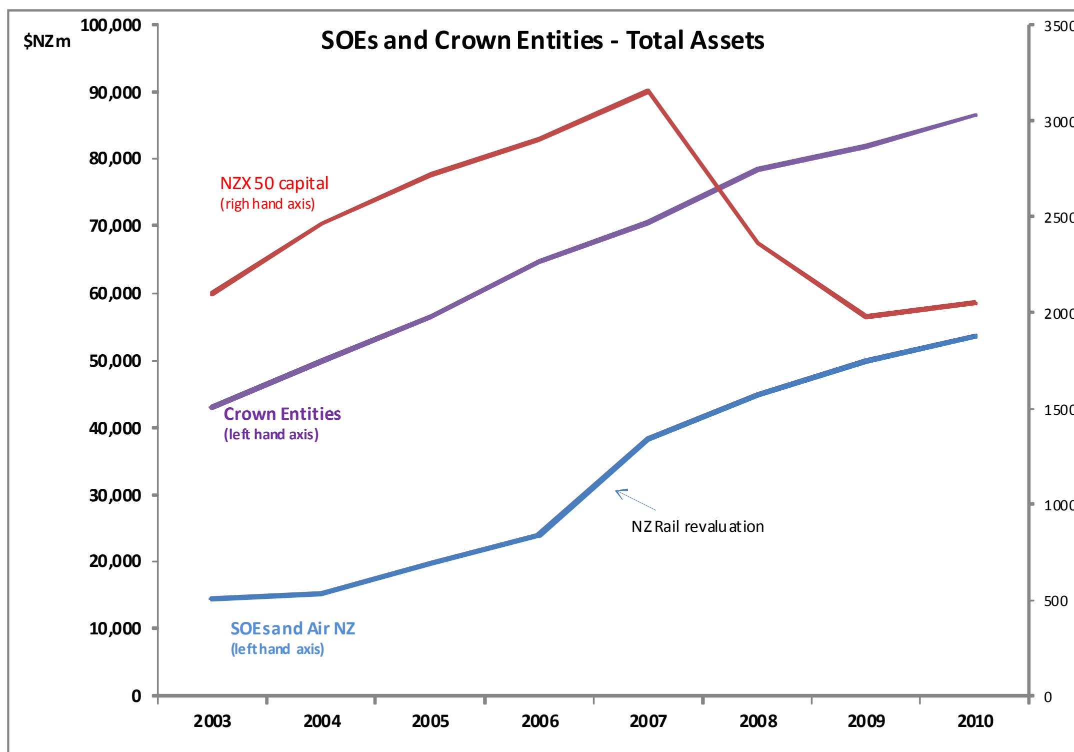
Partial privatization to kick-off in New Zealand

After a 12 year long "cup of tea", privatization is back on the government's agenda in New Zealand. The National Party was re-elected for a second three year term in government in November 2011. A key part of National's election campaign was a commitment to sell-down the government's holdings in five major enterprises. With the election result the government now has a mandate to proceed.

New Zealand was seen as an early leader in privatizations, selling some 30 enterprises in the late 1980s and 1990s. However, over the 2000s, under the Labour-led government, privatization was halted. Instead, over the period 2002 to 2010, major growth in the government commercial sector occurred, with the assets of state owned enterprises and Crown entities increasing 2.5 times (refer Figure 1 below). The growth in commercial assets held by the government reflected a combination of renationalisations of Air New Zealand, of the country's rail network and the buyout by Auckland Regional Council of the minority shareholders in Ports of Auckland; the start up of new enterprises by the government, most notably of a state owned retail bank, Kiwibank; and growth in the balance sheets of the existing state enterprises.

Figure 1: SOE and Crown Entity Total Assets



Nb: Crown Entities are state enterprises with a mixture of commercial and non-commercial objectives.

The five state enterprises that are now to be sold down by the government are three electricity companies, a coal company and Air New Zealand. The government currently owns 100% of the four energy companies and 75% of Air New Zealand.

The electricity companies, Genesis Energy, Meridian Energy and Mighty River Power are vertically integrated generators and retailers of electricity. Together they have over 6,000MW of generating capacity and account for 65% of New Zealand's generation market. The largest, Meridian, is 100% renewable (hydro and wind) based.

The coal company, Solid Energy, is New Zealand's largest coal mining company, accounting for around 85% of national production. Around 60% of the company's revenue is from export sales, being sales of high-quality coking coal, largely to China, India and Japan. The company also mines thermal coal in the North Island, supplying domestic customers, primarily Genesis and New Zealand Steel.

Air New Zealand has already been privatised once before, in 1989. However the company ran into severe financial difficulties and was recapitalised by a government equity injection in 2002. The company is still listed on the New Zealand share market, with around 25% of its shares currently in private hands.
The government is to sell up to 49% of the four energy SOEs and is to commit by way of legislation to maintain a majority shareholding in all the five companies. The sales of the four energy companies will be by way of Initial Public Offerings (IPOs). The government's holding in Air New Zealand could be reduced via a share placement or a public offer.

Traditionally New Zealand governments have relied largely on trade sales when privatising state owned assets, with 100% of the government's shares sold to a single buyer or consortium of buyers (refer Table 1 below). Indeed, 27 of the 30 privatizations that occurred in New Zealand in the late 1980s and 1990s were by way of trade sale. These trade sales accounted for 83% of all sales proceeds from privatizations in New Zealand. In some of these cases, such as the largest transaction, that of Telecom Corporation of New Zealand Limited, the successful buying consortium was required to subsequently partially sell down its interest by way of a public share issue.

In contrast, the last three privatizations in New Zealand – those of Auckland International Airport Ltd, Contact Energy Ltd and Capital Property Services - in the late 1990s were all by way of sharemarket listings. The move towards public sharemarket listings in privatizations in New Zealand reflects a shift in political pressures, with the government wanting to ensure widespread domestic holdings for the privatized company, and a desire by the government to help develop the New Zealand sharemarket.

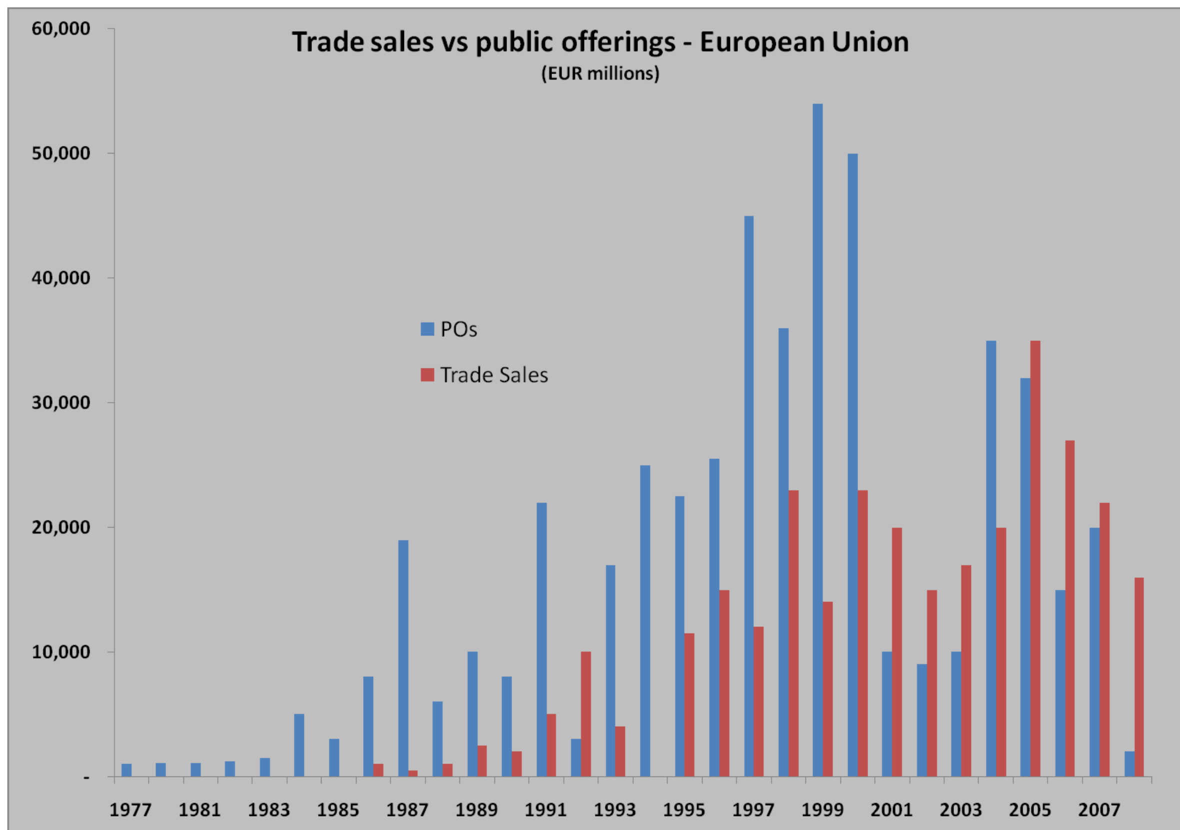
Table 1. New Zealand privatizations: 1988-1999

	Number	Value ($US)[1]
Privatizations	30	$9b
- trade sales	27	$7,2b
- public offerings	3	$1,8b

1. Converted at the average $NZ/$US exchange rate for 1988-1999 of 0.60

The move away from trade sales and towards IPOs in New Zealand contrasts with the trend in Europe. As Figure 2 below illustrates, while public offerings were most common method of privatization in the European Union (EU) in the fourth quarter of the last century, trade sales have become the dominant means in the EU in more recent years.

Figure 2: Trade Sales vs Public Offerings – European Union



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Source: Bortolotti & Megginson, 2008.

Scoping studies for the four New Zealand energy SOEs have been completed and a sales programme report has been completed by the Crown Advisor, Deutsche Bank. Mighty River Power has been identified by the government as the first sales candidate, with three investment banks, First NZ Capital/Credit Suisse, Goldman Sachs and Macquarie appointed as Joint Lead Managers for the sale.

Legislation has been passed for the sales to proceed to remove the four SOEs from the State Owned Enterprises Act so the companies can operate under legal and governance arrangements as similar as possible to other listed entities. However, the legislation includes a requirement on the Government to maintain a minimum shareholding of 51% and a maximum permitted shareholding for all non-Crown individual equity holders of 10%.

The total proceeds raised by the government from the sell-down of its interest in the five entities could be around US$5.6b, based on recent broker valuations of the enterprises and assuming the government retains 51% shareholding in each of the five businesses.

The first IPO is scheduled to take place in 2012, with the government announcing that the sale of Mighty River Power is likely to proceed in the third quarter of the year. Subsequent transactions are likely to occur at around six to twelve months intervals. The timing is, however, dependent on legal challenges, with some Maori groups challenging the sales process through the Waitangi Tribunal, and will be subject to market conditions and particular company circumstances.

There have not been many formal studies done of the effects of past privatizations in New Zealand. However, those that have been conducted (one of the sale of Telecom NZ and one of the sale of New Zealand Rail) show strong evidence of efficiency gains (Boles de Boer and Evans (1996) and New Zealand Institute for the Study of Competition and Regulation (1999)). Many of the public, however, remain deeply sceptical about privatisation, with concerns focusing especially around foreign control of the companies. The government has moved to allay these concerns by the policies noted above (selling only up to 49% of the companies and by the additional step of a 10% cap on individual shareholdings). In addition, the marketing of the shares will be targeted at domestic investors. Nevertheless, given the size of the transactions and the relatively thin domestic capital markets, foreign participation in the sales process will almost certainly be required if the government is not to forego too much value in the process.

The sales are likely to lead to greater transparency in the performance of the partially privatized SOEs and increased external monitoring of their performance. However, with the government retaining control of the enterprises, the efficiency gains arising from the asset sales may be limited. The incentives on private shareholders to monitor the performance of the enterprises will be weakened (compared with 100% privately owned companies) as the private shareholders can look to the deep pockets of the government to bale the companies out if they get into financial difficulties. It should be noted, however, that most bailouts by governments of private enterprises in recent years – both in NZ and in other countries - have inflicted substantial costs on shareholders, often to the full amount of the equity. Bondholders have been protected largely but not shareholders. So shareholders in the partially privatized enterprises may still have relatively strong incentives to monitor management despite ongoing government control. The absence of the threat of takeover is probably the more significant factor in reducing the pressures on the partially privatised enterprises to perform.

Questions must also be raised around the sale method chosen by the government. The government has listed no fewer than 10 objectives for the sales, including

maximising sales proceeds, deepening domestic capital markets and widespread and substantial New Zealand share ownership (New Zealand Budget Paper (2011)). Inevitably there are tensions between and tradeoffs to be made amongst these multiple objectives.
Despite the caveats noted above, the planned privatizations are a positive feature of the new government's economic policy. The new government will be keen that the first sale in the new program scheduled for later this year goes off smoothly and is seen to be a commercial and political success.

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Leaving the Nest: Privatized Firms and Debt Financing

Privatization waves have been rippling through Europe since the late 1960s and have since spread to more than 300 companies in over 25 European countries. Government ownership in these critically important companies (such as airlines, telecommunications, and banks) was initially instituted as a way to ensure their uninterrupted operations and to alleviate market failure. However, it soon became clear that the inefficiency of state ownership was imposing too heavy a cost to serve its intended purpose, and governments began divesting their state-owned enterprises (Megginson and Netter, 2001). The Thatcher government, for instance, undertook a wide range of privatization deals in the 1980s and 1990s, essentially making almost all formerly state-owned U.K. firms fully privatized today. Privatization has subsequently gained considerable inertia around the globe – besides often placing firms in the hands of superior management, it typically allows governments to create substantial revenue through the sale of state-owned assets. Table 1 shows the number and value of privatization deals transacted in 14 European Union (EU) countries over 2001-2009.

Table 1. Privatizations in 14 EU Nations, 2001-2009

Country	Number of privatizations	Avg. deal value (€ mil)	Total deal value (€ mil)	Avg. % ownership sold
Austria	8	365.7	2,925.6	76.3%
Belgium	4	230.3	921.2	92.5%
Denmark	5	67.4	337.1	77.2%
Finland	8	187.0	1,496.0	82.5%
France	12	132.9	1,595.0	78.7%
Germany	23	517.3	11,897.6	78.8%
Greece	3	155.7	467.2	66.0%
Hungary	14	221.2	3,096.7	84.5%
Italy	17	468.5	7,965.2	80.6%
Netherlands	7	158.4	1,109.0	80.7%
Portugal	2	18.9	37.7	67.0%
Spain	4	90.3	361.3	80.0%
Sweden	17	617.5	10,496.8	88.1%
United Kingdom	12	526.0	6,311.6	89.8%
Total	**136**	**360.4**	**49,018.0**	**81.8%**

Source: Thomson ONE Banker Deals Analysis

The question of debt pricing: Firm improvements vs. state guarantees

Improvements on many levels accrue to privatized firms: efficiency, productivity, and investment policy, to name a few. While companies enjoy the fruits of operating free from government control, they also have to more seriously consider how to provide funds for their investments and day-to-day

operations. State-run enterprises enjoy soft budget constraints, leaning on the substantial resources of their government owners when financial problems inevitably arise. For example, the partially-privatized telecommunications giant France Telecom was carrying a significant debt load and operating at a considerable loss in 2003 when the French government stepped in and offered a credit guarantee on a major bond issue by the firm (Echikson, 2008). But as state subsidies gradually disappear during privatization, former state-owned companies must get accustomed to tighter budget constraints imposed by the open market. Prior to the privatization of Gaz de France, Electricite de France, and the overall liberalization of the French utilities industry in the mid-2000s, it was noted in the press that “the golden days” of being supported by the government are in the past (Knight, 2002). With the impending loss of government guarantees, the two companies were called upon to strengthen their performance and balance sheets in response to potential credit rating downgrades.

In general, firms employ retained earnings, debt, and equity to finance their business operations. Companies may use internally-generated funds to pay dividends, for example, and may be reluctant to issue equity often, thus making debt issuance – and, in particular, public debt (bonds) – a critical source of financing. While equity holders participate in the decision-making process of the firm, bondholders have less direct control over the numerous changes firms go through as they become privatization targets and are sold to private investors. Naturally, as bondholders are primarily concerned with the ability of the firm to repay borrowed funds, these investors will closely monitor how changes in ownership structure and control may affect the firm's ability to meet debt obligations. Consequently, the question of debt pricing hinges on the availability of repayment funds, be they internally generated by the firm or externally supplied by a government backer. So while privatized companies may enjoy a lower cost of debt as the government relinquishes control and corresponding firm improvements are realized, debtholders could also sorely miss the implicit guarantee of repayment previously provided by state owners and thus impose a greater cost for lending capital. Additionally, if bondholders see their concerns ignored at the expense of attracting (and catering to) new shareholders during the privatization process, they will react accordingly by charging the privatized firm more to borrow funds.

A study on privatization and the cost of debt

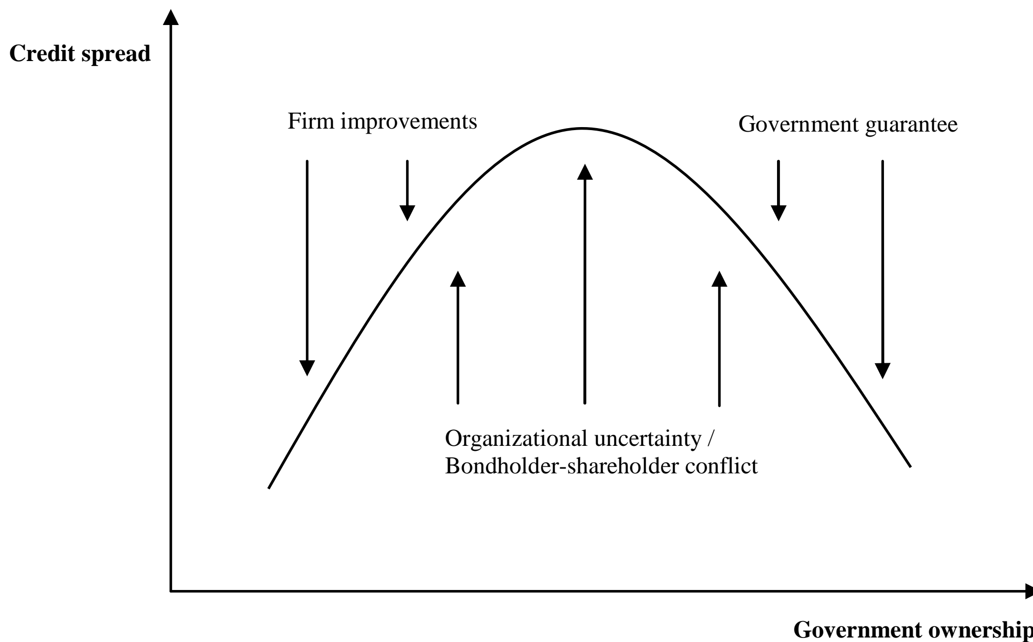
To determine how government ownership and its reduction affects the debt pricing of privatized firms, Borisova and Megginson (2011) study a sample of over 300 bonds issued by 60 privatized firms from 14 countries in the EU. In particular, the authors examine the relationship between the amount of government ownership and the credit spreads on all plain vanilla bonds that these privatized firms have outstanding. Bond spreads indicate the cost imposed by bondholders on privatized firms seeking to borrow funds. Privatization information and ownership data are provided by the Privatization Barometer and cover the period 2001-2009. The firms examined are either partially or fully privatized, and the corresponding different levels of retained government ownership lead to varying effects on the ability of firms to borrow from the capital markets. Table 2 shows the distribution of privatized companies and the average size of government shareholdings in partially privatized firms on a per country basis.

Table 2. Borisova and Megginson (2011) Sample of Bond-Issuing Privatized Firms over 2001-2009

Country	Partially privatized firms	(Avg. stake %)	Fully privatized firms
Austria	1	(51.0%)	1
Belgium	1	(18.7%)	0
Denmark	0		1
Finland	4	(23.4%)	0
France	9	(28.5%)	8
Germany	0		4
Greece	1	(57.8%)	0
Hungary	1	(37.1%)	0
Italy	4	(25.3%)	6
Netherlands	2	(19.6%)	1
Portugal	1	(28.6%)	0
Spain	1	(3.0%)	2
Sweden	1	(41.3%)	0
United Kingdom	0		11
Total	**26**	**(28.9%)**	**34**

Borisova and Megginson (2011) show that bond spreads are relatively low when the state owns a significant stake in a firm, suggesting the value of government guarantees to bondholders. Overall, however, the cost of debt is lower for fully privatized firms than for partially privatized firms, with average spreads of 79 basis points (bp) and 84 bp, respectively. Across firms with different state ownership levels, spreads (temporarily) start to rise as government ownership gradually decreases in privatized firms. Holders of debt securities seem to fear that at lower stakes the government does not have the vested interest to back the firm in the case of bankruptcy, yet there is enough government involvement to interfere with the value-maximization of the firm. As ownership and control within the firm changes, uncertainty about the partially privatized firm's future, be it near or far, also likely contributes to the observed increases in the cost of debt. Only after the firm is completely privatized do bondholders reduce the returns they require from buying the bonds of a formerly government-owned firm. These results hold true even after the stability of the sovereign debt rating and the level of creditor rights protection are taken into consideration. Figure 1 summarizes the cost of debt factors and movements within privatized firms based on the amount of remaining government ownership.

Figure 1. Cost of Debt Factors across Different Levels of State Ownership



The value of government guarantees in debt pricing is especially pronounced during times of economic distress. Throughout the recent financial crisis of 2008, higher retained government stakes are associated with even lower spreads during these burdensome times relative to periods of normal economic activity. Partially privatized firms have slightly lower average bond spreads (165 bp) than fully privatized firms (182 bp) in these years. This result highlights the magnified effect of implicit guarantees for partially privatized firms when debtholders assume the government's backing will help prevent default. However, there are limits to state recovery plans, even for former government enterprises. The European Commission rejected a proposed bailout by the Italian government for privatized airline Alitalia in 2004, citing that an earlier bailout in 1997 prohibits it under EU law (Agence France-Press, 2004). Further, the 2008 Financial Crisis stirred up fears that bailouts for multinational EU banks could not be implemented in an expeditious manner due to diverse national regulations (Saltmarsh, 2008). Clearly, the government guarantee of solvency implicit in state ownership is not a panacea.

Relieving bondholder uncertainty: The speed of privatization and golden shares

Borisova and Megginson (2011) also find that the pace at which governments are privatizing also affects the perception of the firm's creditworthiness. Privatizing governments may not always have the luxury of being able to act swiftly, but the faster the government is able to release the company from its grip, the quicker bondholders are willing to lend funds to the formerly government-owned firm at lower rates. Especially when trying to sell a portion of the firm for the first time, the general public, as well as bondholders, are

unsure what direction the firm will take after partial privatization. How might a steady stream of new owners affect the firm's operations as gradual, partial privatizations continue and the state relinquishes control? And what concessions will be given to new shareholders, perhaps at the expense of bondholders, to ensure each partial privatization sale is a success? These questions remain until the privatization process is completed and may be more costly to firms already dealing with a high degree of operating uncertainty. Indeed, Borisova and Megginson (2011) show increased bond spreads for firms with greater fluctuations in their profits that have government ownership levels just above 50%. Purely from a debt pricing standpoint, therefore, it may be better if the state can divest its stake in a one-time transaction, provided that the market is able to absorb such sizable stock issues.

Golden shares are widely used by governments to retain nominal control after full divestitures, and twenty-three of the firms studied by Borisova and Megginson (2011) have these shares in their structure. Although golden shares are generally damaging to corporate governance (Borisova et al., 2012), the effect of these control mechanisms on the cost of debt is found to depend on ownership and countywide factors. Specifically, golden shares work to decrease credit spreads in partially privatized firms, as these special shares can serve the role of clarifying the government's role in the management of the firm as privatization continues (Bortolotti and Siniscalco, 2004). However, companies in nations with sub-par sovereign credit ratings are found to have a higher cost of debt when a golden share is present, suggesting that the state's credit backing is not strong enough to warrant its interference in the firm's operations.

In conclusion, the cost of debt varies for former state-owned firms as they go through the privatization process. Bond spreads initially climb as a privatized firm is divested but eventually drop when the firm is fully privatized. Bondholders seem to feel secure when the government is a shareholder in a firm, believing that regardless of circumstances, the firm will pay back its lenders due to an implicit state guarantee. Another factor is that the impending ambiguity concerning the long-term ownership of the firm could cause bond market participants to charge partially privatized firms higher rates, until it becomes clear which direction the firm will take. Although not always economically or politically feasible, a firm's cost of debt seems to benefit most from a rapid, thorough privatization. In this case, implicit government guarantees still disappear – but firm efficiencies are realized more quickly, and the volatility and bondholder-shareholder conflicts potentially arising from privatization sales are minimized. By understanding how debt pricing is affected by state divestiture, we gain a more complete and nuanced view of the various firm improvements facilitated by the privatization process.

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Selected News

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AUSTRIA

2011-02-03 - **Austria Bourse CEO Urges Govt To Resume Privatization**
LONDON (Dow Jones)--The Vienna Stock Exchange wants Austria's coalition government to resume its privatization policy to boost the country's capital markets and generate money to cut government debt and avoid raising taxes, its chief executive said Thursday.
"We are asking, we are demanding strongly the Austrian government to return to their very successful and active privatization policy which has run for two decades," the exchange operator's chief executive officer, Michael Buhl, told Dow Jones Newswires, noting that the privatization policy has been put on hold in the past two years.
The Austrian government is led by the Social Democratic Party of Austria, in coalition with the conservative Austrian People's Party.
"We're putting forward some pressure because we do think that there's a lot of potential" for the central government and the country's different states, Buhl said, citing a study by the Economica Institute for Economic Research that said that **up to EUR20 billion could be raised through the partial privatization of state assets**, where stakes of 25%-plus-one-share remains with the government.
Another **EUR4 billion could be raised by reducing the government's stake in companies that are already listed on the stock exchange**.
"In Austria, there's a discussion on how to go forward--is it through savings or tax increases? We want to show that if we privatize state assets, even just partially...the EUR24 billion to be raised will be more than enough to reduce the government debt and not make any kind of tax increase," Buhl said.
Buhl is also CEO of the CEE Stock Exchange Group, which includes the Vienna Stock Exchange, Budapest Stock Exchange, Prague Stock Exchange and Ljubljana Stock Exchange.
Buhl warned that foreign investors in Hungary are limiting new investments into the country following new moves by the government to cut debt.
"Sentiment-wise, it has not been positive. Investors cannot be sure of what's going to happen tomorrow. The government has been creative in making various new taxes mainly to be borne by foreigners and it remains open what they will do in years to come," Buhl said.
To help raise money and reduce debt, the Hungarian government late last year imposed so-called "crisis taxes" on telecommunications, retail and energy firms.
It also decided to do away with mandatory private pension funds to boost the amount of money paid into the state pension system, and then use those funds to meet strict budget deficit targets set by the European Union, pay pensions and pay off government debt.
"Investors are putting new investment on ice and are saying 'Let's see what's going to happen for the time being,'" Buhl said.
Data from Thomson Reuters show that value of shares traded in the Budapest Stock Exchange in December last year fell 20% to EUR881 million from December 2009.
Buhl said he expects the Vienna, Prague and Ljubljana exchanges to see higher trading volume this year.
"Austrian and Czech companies are making better profits because they have restructured during the financial crisis. They are now in more sound footing to go into the new upswing of the global economy," Buhl said.
He said the Ljubljana exchange should see "an even more pronounced" rise in trading volume with the help of a new and faster trading platform called Xetra, developed by Deutsche Boerse AG (DB1.XE). He said would be "happy" if the Budapest exchange maintains its level of trading volume.
Buhl also said the pipeline for initial public offerings in the group is "definitely better" this year, with one or two companies set to float in Vienna in the first half of the year, but he didn't give an expected number of IPOs for the four markets.

BULGARIA

2011-04-06 - **Bulgaria To Sell Majority Stake In Sofia Stock Exchange**

SOFIA (AFP)--The Bulgarian government gave the go-ahead Wednesday to plans to sell its 50.2% stake in the **Sofia stock exchange**.
Banks, smaller financial institutions and Bulgarian investors hold the other 49.8% in the bourse.
The government is hoping to sell its stake to a strategic foreign investor to help boost the image and attractiveness of the Bulgarian market.
Finance ministry officials expect the sale process to start before the end of the year.
In a bid to gauge a possible asking price for the government's shareholding, the stock exchange's shares were publicly-listed in January.
In recent years, a number of other national exchanges have expressed an interest in the Sofia stock exchange, including Frankfurt and Vienna.

2011-08-05 **- Bulgaria To Sell Stake In Defense Giant Arsenal**

SOFIA (AFP)--**The Bulgarian government has put its 36% stake in Arsenal Kazanlak**, the country's largest arms and munitions production plant, up for sale, the country's privatization agency said Friday.
The government's 35.78% stake was offered to buyers with experience in the defense or export sectors, with binding bids to be submitted within the next four months.
Arsenal is Bulgaria's biggest arms and munitions manufacturer and was a licensed producer of Russian Kalashnikov assault rifles during the Cold War.
In recent years, however, the licenses have been a constant bone of contention between Sofia and Moscow, which has accused Bulgaria of counterfeiting the famous AK-47.
Its plant, employing over 5,000 workers, was partly privatized through management and employee buyouts between 1999 and 2001.
About 65% is now owned by the private Arsenal 2000 joint-stock company, cited in the Bulgarian media as the most likely buyer of the remaining government stake.

2012-01-27 **- Bulgarian Govt to Sell Up to 25% of State Energy Holding**

SOFIA (AFP)--Bulgaria's government plans to sell a minority stake at the **Bulgarian Energy Holding** to raise several hundred million euro.
Bulgaria's Cabinet is considering privatizing a minority share of the state-owned Bulgarian Energy Holding, a deputy economy minister has confirmed.
Speaking to journalists in Sofia late on Friday, Deputy Economy Minister Delyan Dobrev has confirmed what was mentioned by Bulgarian Finance Minister and Deputy PM Simeon Djankov in an interview for Reuters.
Djankov had said the government aimed to sell a stake of between 10 to 25% in state energy company BEH (Bulgarian Energy Holding) via a foreign stock exchange by the end of the year, which could raise "several hundred million euros".
Dobrev, however, mentioned a smaller BEH stake slated for privatization – between 10% and 15%.
"This is still just an idea, no action has been taken in that respect," the deputy economy minister said on Friday, as cited by BTA.
In his words, this could happen only at some large international stock exchange because the volumes trade through the Bulgarian Stock Exchange are too small.
He explained that the sale of a minority stake at BEH was an alternative to the idea to privatize a stake at Bulgaria's Electricity System Operator (ESO) (the state company executing the planning and control of the electrical power system in Bulgaria – editor's note), which could be executed via the Bulgarian Stock Exchange.
The Bulgarian government is not mulling the sale of any stakes in Bulgartransgaz, a subsidiary of the state-owned natural gas provider Bulgargaz, Dobrev said.
The Bulgarian Energy Holding is a 100% state owned joint stock company, including the Maritsa Iztok (East) Mines, the Maritsa Iztok (East) 2 Thermal Power Plant, the Kozloduy Nuclear Power Plant, the National Electric Company NEK, the Electricity System Operator ESO, Bulgargaz, Bulgartransgaz, and Bulgartel.

FRANCE

2011-07-25 - **No Plan To Open Up Areva's Capital To EDF**

PARIS (Dow Jones)--French energy minister Eric Besson Monday said there is no current plan to further open state-controlled **nuclear engineering group Areva SA's** (AREVA.FR) capital to state-controlled power group Electricite de France SA (EDF.FR), though he didn't exclude EDF taking a stake in Areva's mining activities.
Speaking in an interview with France Inter radio, Besson said the idea to open Areva's capital to EDF is "not excluded nor planned."
EDF currently owns 2.4% in Areva.
Areva's mining activities are to be formally turned into a legal unit and when the process is over, "we'll see who gets into the capital" of the mining unit, Besson said.
The minister is to travel later Monday to visit an Areva plant, along with the new Areva Chief Executive Luc Oursel and EDF's chairman and CEO Henri Proglio, as part of a plan to rekindle the relationship between the two companies, after Proglio publicly clashed with Areva's former CEO Anne Lauvergeon over the past year and half.
EDF is Areva's biggest customer.
The two groups are to sign Monday several commercial and technical agreements on nuclear plants maintenance and nuclear fuel, as part of a wider strategic partnership to be signed in the fall.

2011-09-21 - **France Shelves Plan To Privatize Regional Airports**

PARIS (Dow Jones)--The French government has shelved the idea of privatizing four major regional airports, French daily Les Echos reports on its website Wednesday, without citing specific sources.
Local officials opposed the plan to privatize airports in Lyon, Bordeaux, Toulouse and Montpellier, the newspaper said.
The government's 60% stake in the properties would have raised around EUR500 million, the newspaper said.

2012-01-06 - **French Government Considers Nationalization Of Dexia**

PARIS (Dow Jones)--The French Government is considering nationalizing what is left of the troubled Franco-Belgian bank Dexia SA (DEXB.BT), business daily Les Echos reports Friday without citing sources.
In October, French state-controlled financial institution Caisse des Depots de Consignations, or CDC, and La Banque Postale had agreed to join forces to launch a new bank at the end of the first half of 2012, taking over Dexia Credit Local and Dexia Munical Agency. The French and Belgian governments were to bring guarantees to this new bank.
However, according to the report, as the debt crisis deepens, these guarantees could prove very costly. "For Brussels, paradoxically nationalizing Dexia could be more expensive than bringing the guarantees elaborated in October," said a person close to the matter, cited by Les Echos.
A final agreement is yet to be reached, as nationalizations remain a politically sensitive issue, says the report.

GERMANY

2011-02-28 - **Deutsche Bahn Completes Deal To Sell German Arriva Operations**

FRANKFURT (Dow Jones)-- German state-owned railway operator Deutsche Bahn AG said Monday it has completed its deal to sell Arriva's rail and bus business in Germany to a consortium led by Italy's state-owned Ferrovie dello Stato.
French fund Cube Infrastructure was also part of the buyer consortium.
The European Commission approved the takeover in mid-February. No financial details were disclosed.
The deal follows Deutsche Bahn's acquisition of the U.K.-based Arriva PLC in 2010 for EUR2.8 billion, cleared by the commission in August, subject to the divestment of Arriva Deutschland.

2011-09-09 - **No Quick Privatization Of Deutsche Bahn Says German Minister**

FRANKFURT (Dow Jones)--A speedy privatization of German rail company Deutsche Bahn AG is no longer a priority, German Traffic Minister Peter Ramsauer said Friday.
"I believe that within my term of nearly two years I've managed to bring about a turning point in rail policy strategy, moving away from the privatization madness," he said.

While a company like Deutsche Bahn needs to be commercially managed, public interest shouldn't take a back seat to cash flow principles, he said.
However, Ramsauer also called for greater public support of necessary rail network construction.

GREECE

2011-02-12 - Greece Criticizes IMF, EU Call To Sell Assets To Pay Debt

ATHENS (Dow Jones)--The Greek government said Saturday the behavior of its international lenders of last resort was unacceptable and constitutes an unwelcome interference in domestic affairs, revealing a significant rift in relations.
On Friday, the International Monetary Fund, European Commission and the European Central Bank--locally known as the "troika"--held a joint press conference in Athens that approved the provision of another EUR15 billion in bailout aid, but made several stinging comments and imposed severe demands on the debt-laden country.
"The behavior of our international lenders on Friday was unacceptable. Everyone must accept their roles, and while we have needs, we also have limits and we will guard our honor. We will not accept interference in our internal matters," Greek government spokesman George Petalotis said.
And on Saturday Greek Prime Minister George Papandreou also weighed in on receiving a call initiated by the head of the IMF, Dominique Strauss-Kahn.
"In a telephone conversation, the prime minister conveyed the message on behalf of the Greek government that the behavior of the representatives of three international lenders on Friday was unacceptable," according to a statement from his press office.
The financially troubled Mediterranean country agreed to implement unprecedented austerity measures and unpopular structural reforms that are reviewed every three months in exchange for the EUR110 billion bailout inked in May of 2010 with the IMF, EC and ECB to stave off insolvency.
But the comments by Petalotis revealed the first serious cracks in the relationship between the cash-strapped country and its international lenders of last resort. The troika now seems to be determined to force an accelerated pace of reforms, even beyond what may be technically, politically or socially possible for the socialist government that came to power in October 2009.
In the joint press conference on Friday, the troika also demanded that Greece embark on a EUR50 billion revenue-raising privatization program to be completed by end of 2015. The lenders argued that Greece has a massive amount of commercially exploitable real estate and significant stakes in listed and unlisted companies. The cash raised should be earmarked for the reduction of Greece's mountainous national debt pile that tops EUR330.1 billion.
But the government had committed only to a EUR7 billion privatization program over three years, which was itself considered difficult to implement. Economists estimate that over the last 20 years Greece has managed to raise only EUR10 billion from privatizations. In that historical context, the new target appears extremely ambitious.
The international lenders backstopping Greece also indirectly argued that there should be reductions to already low private-sector wages, further cuts to the public-service payroll, dramatic changes to public administration and health care, reduced military spending, as well as speedy implementation to open up closed professions.
While the troika stopped short of publicly demanding new measures that would hit the pocket of the average Greek pensioner, worker or consumer, they warned the government that additional measures will be needed to meet fiscal consolidation targets.
The IMF-EC-EBC argued that those protesting austerity measures through disruptive strikes and rallies didn't understand that the memorandum and its cash contributions, which now top EUR53 billion, actually saved Greece from the "abyss" of sovereign default and gave it time to make a historic fiscal adjustment.
The troika also criticized the local media, warning them not to pander to misleading populism and to understand that the excessive privileges of a small number needed to be swept away for the greater good of the majority.
In response to the criticism of the socialist government and Greek oppostion parties, the troika issued a joint press statement late Saturday to try to reduce tensions, prevent the rift from solidifying and defuse the ire of local media.
"Our three institutions have full respect for the prerogatives and initiatives of the Government in all areas of economic decision-making, and our role is to advise and support the Government while considering options during the decision-making process. It is regrettable if a different impression was perceived at any time," the statement by the IMF-EC-ECB said.

2011-02-28 - Aggressive Deficit Cuts Into 2015; Bank M&A Starts

ATHENS (Dow Jones)--Greek Finance Minister George Papaconstantinou said on Sunday that the socialist government will pursue aggressive deficit cutting into 2015 and he believes that local bank sector tie-up action has just begun.

The debt laden Mediterranean country has promised its international lenders--the International Monetary Fund, the European Commission and the European Central Bank--it will cut its budget deficit to below EUR17 billion, or 7.4% of gross domestic product, this year, from 9.4% in 2010.

This promised reduction plus unprecedented austerity measures have been given in exchange for drawing down on the EUR110 billion bailout to prevent default.

"For 2011 our aim is to cut the deficit to EUR17 billion, or 7.4% of GDP, and the effort between 2012 to 2015 is for another 8% to 10% of GDP, or about EUR20 billion," Papaconstantinou said in an interview with leading Greek financial website Capital.gr.

The Finance Minister said two-thirds of that target would come from cost cutting and one-third from raising revenues.

Papaconstantinou explained that for the national debt, which currently tops EUR330.1 billion, or 152.6% of GDP, to start decelerating after 2013, three factors need to be in place.

The cash strapped country needs "primary surpluses of 5.5% of GDP, economic growth of more than 2%, and an average cost of debt servicing at about 5%, and I feel secure enough that this will be the case," the Finance Minister said.

Given the current sovereign crisis, local banks are losing deposits and largely frozen out of Interbank markets and have become increasingly dependent on the ECB for liquidity.

The Finance Minister has repeatedly argued for consolidation in the fragmented local banking sector to exploit costs synergies, and ensure adequate capital and liquidity to support robust lending.

On Feb. 18, Greece's third largest lender, Alpha Bank (ALPHA.AT), rejected a "friendly" merger proposal from the dominant local institution, National Bank of Greece (NBG).

Papaconstantinou had issued a statement welcoming and encouraging the talks, but shortly after that the bid was turned down.

The Finance Minister said he, along with the Bank of Greece (TELL.AT), hopes for continued tie-up talks in the Greek banking sector.

"The EC, the ECB and the IMF in a joint statement have spoken about the need for the restructuring of the Greek banking system," the Finance Minister said.

"This is the first act in what we believe will be a [sequence of events] that will pay out over the next weeks and months," Papaconstantinou predicted.

He said the merger between the two banks was a matter for "shareholders." And even if the state was a shareholder through preference shares issued to boost capital, it would not become embroiled "in determining whether the price offered is correct or not because that would go against the principles of corporate governance."

The Finance Minister said that the states' views are expressed by its representatives on the board of Alpha and NBG.

"In the case of Alpha Bank, our representative asked for more time to study the offer and did not consider that the decision [to reject the bid] should have been taken so quickly," Papaconstantinou added.

On the very ambitious EUR50 billion target in privatization revenues set just two weeks ago, the Finance Minister clarified that the government was only aiming for EUR1 billion for this year.

He said the government was looking to exploit 15 sizable state owned properties, including the prime old Hellenikon airport site. "We will be selling [gas monopoly] DEPA, extending the concession for Athens International Airport and smaller items, like aircraft and casinos, in 2011."

And even if the government is targeting revenues from gaming, Papaconstantinou ruled out selling off any the state's 34% stake in local betting monopoly OPAP (OPAP.AT).

2011-04-15 - Outlines 5-Year Austerity Plan, Details Privatizations

ATHENS (Dow Jones)--Greece's government Friday outlined **plans to take a further EUR26 billion in new austerity measures over the next five years**, and said it would sell down its stake in key state-owned enterprises in an effort to reduce its giant debt.

The measures, presented in a cabinet meeting earlier in the day, include some EUR15.6 billion in spending cuts, and another EUR10 billion in revenue measures.

The government also reaffirmed its previously stated goal of raising EUR15 billion from privatizations by 2013--and EUR50 billion by 2015--mainly by exploiting the state's vast property holdings.

However, the government said it would also reduce its 20% stake in former telephone monopoly Hellenic Telecommunications SA (OTE) this year, and sell a 17% stake in incumbent power company, Public Power Corporation SA (PPC.AT) next year.
Earlier Friday, Prime Minister George Papandreou said that more specific details of the austerity plan would be presented after Easter.

2011-05-02 - **Greeks Favor Privatizations To Cut Debt**
ATHENS (Dow Jones)--More than seven out of 10 Greeks said they favor privatization of state assets as a measns to cut the country's giant public debt burden, according to a poll by daily newspaper Kathimerini.
The poll, released over the weekend, showed that 74% said that Greeks thought privatizations were "certainly" or "probably" needed.
That support included 60% who approved of the privatization of the loss-making state railroad company, OSE. Some 50% also supported privatization of gambling monopoly OPAP SA (OPAP.AT) and various casinos, with similar approval levels being expresssed for various state-owned banks and public transport companies.
In the case of state-owned utility Public Power Corporation SA (PPC.AT), whose militant union has already threatened to call a strike opposing privatization, 47% of respondents thought the state should go ahead with reducing its stake. That compares with 40% who approved such a move three years ago.
In mid-April, the Greek government outlined plans for a raft of privatizations in an effort to cut the country's public debt, which is expected to peak at around 160% of gross domestic product in 2013. Greece's parliament is expected to vote on that privatization strategy sometime this month or in early June.
The same poll also showed that 58% of respondents favored abolishing life-time job guarantees for workers in the public sector.

2011-06-28 - **EUR50 Bln Program "Not A Fire Sale"**
LONDON (Dow Jones)--The Greek government's privatization program is not a fire sale, although some assets may be sold cheaply, the head of the program said Tuesday.
The government aims to raise EUR50 billion from the sale of state assets by 2015, and EUR15 billion by the end of next year. Implementation of the program is essential if the government is to continue to receive funding from the euro zone and the International Monetary Fund, and avoid a default on its debts.
Speaking to potential investors, George Christodoulakis said that despite those pressures, the program will be properly managed and take account of other objectives, including maintaining competition in the sectors involved and protecting the environment.
"This is not a fire sale," said Christodoulakis, special secretary for asset restructuring and privatizations at the Ministry of Finance. "We will go through professional procedures of sale. We may sell them chiefly, since these revenues will be devoted to the buying back of cheap debt."
Half of the assets for sale by value are real estate, but Christodoulakis said the government doesn't yet have a clear idea of exactly what it owns.
He said that in estimating the total value of its real estate portfolio, the government had looked at the potentially "enormous" value of the site of the former Athens airport and "multiplied" that over other major assets.

2011-10-11 - **Greece To Announce Details On Property Sales In Coming Days**
ATHENS (Dow Jones)--Greece's government is due to announce details of planned property sales in the next few days, Finance Minister Evangelos Venizelos said Tuesday, a move that would help jumpstart the country's ambitious, but long-delayed privatization program.
Speaking at a conference on Greece and the Mediterranean, Venizelos welcomed foreign investment--particularly Arab investment--in the country's privatization drive.
"A very significant area is that which combines Greece's physical advantages, tourism, with real estate, with property development," he said. "In a few days we will have an official announcement relating to bidding procedures."
"In the coming days we will start to make public, specific [details] on summer properties that are being offered mainly for tourist and urban development," he added.
Greece is hoping to exploit roughly some EUR35 billion in state-owned property over the next three to four years as part of its efforts to reduce the country's towering EUR350 billion public debt burden.
On Wednesday, Venizelos is expected to meet with the heads of various state-owned companies that among them have large property and real estate holdings to discuss how best to exploit those assets.

In his remarks, Venizelos also welcomed Arab investment in Greece's banking sector, following a recent move by the Qatari royal family to take a stake in Greek lenders Alpha Bank SA (ALPHA.AT) and EFG Eurobank Ergasias SA (EUROB.AT).
In August, the two banks agreed to merge to create the largest financial institution in Southeast Europe. But the merger also comes amid rising challenges for Greek banks who are facing severe liquidity shortages, rising non-performing loans and losses on their holdings of Greek government bonds.
In the past few weeks, the German government has been seen championing an as-yet unofficial proposal to force Greece's creditors to accept a steep discount on their holdings of Greek bonds as a way of easing Greece's debt burden.
Such a discount, possibly of about 50% to 60%, could reshape Europe's banking sector and would have a severe impact on Greek banks in particular, who would most likely be forced to raise fresh capital from a special Greek government support fund.
Speaking of a "new landscape" in Europe's banking sector, Venizelos welcomed foreign investment but also said there was no plan to nationalize the Greek banks.
"In that landscape, we want Greek banks to play a leading role," he said. "But if some have in mind some kind of traditional, and ultimately, nonsensical scheme of nationalizing the banks, they can be certain, they won't see that happen."
"What they will see is a plan for strengthening, a plan recapitalizing our banking system," he added.

HUNGARY

2011-05-13 - Privatization Has Ended In Hungary

BUDAPEST (Dow Jones)--Hungary's privatization program has come to an end, in line with the country's new asset management guidelines for 2011-14, the country's resources minister said Friday.
"Privatization isn't the way we intend to attract foreign direct investment to Hungary," Tamas Fellegi said at the HBLF Financial Summit.
"As an asset manager, the state has to act somewhat differently than a private company would. At times, decisions overwriting business decisions are necessary. This doesn't mean bad decisions or running loss-making companies but taking into consideration certain national interests," Fellegi said.
The government intends to increase the overall value of state-owned assets, Fellegi said.
The governing Fidesz party, which won general elections a year ago, has vowed to protect state assets, mainly strategic ones related to energy and water supply.
Since the change of the regime in 1989, Hungary privatized many of its large state-owned companies, including the four main firms on the Budapest Stock Exchange, OTP Bank Nyrt. (OTP.BU), oil company MOL Nyrt. (MOL.BU), telecommunications firm Magyar Telekom Telecommunications PLC (MTELEKOM.BU) and drug company Gedeon Richter Nyrt. (RICHTER.BU).

2011-06-17 - Hungary To Review Privatization, May Take Back Firms

BUDAPEST (Dow Jones)--The Hungarian government plans to review privatization contracts and may even take back companies if it finds new owners didn't act in line with their obligations, Hungarian daily Magyar Nemzet reported Friday.
The government could review privatization deals dated from the change of the regime in 1989 until 2010 to see whether those companies met their pledges in the contracts, such as environmental protection, environmental security or re-cultivation. The review is set to close by end-November.
The review and the possible outcome to take back companies or taking legal action is in line with the government's anti-privatization stance. Officials have stated earlier that privatization has ended in Hungary and that the country's strategic assets must be protected.
The three governing party lawmakers' initiative, already submitted to parliament, stems from some cases in recent years that showed insufficient resources were spent to cover environmental obligations after privatization, Magyar Nemzet said.
Such cases were Northwest Hungary's red sludge disaster last October when toxic industrial waste crashed through villages, killing 10 people, or the missing re-cultivation of a bauxite mine elsewhere in Hungary.
The government and the State Audit Office will examine some 1,800 firms, Magyar Nemzet cited governing party Fidesz parliament member Ferenc Papcsak, the party's former accountability commissioner, as saying.

IRELAND

2011-04-20 - **Irish Report Recommends EUR5B Sale Of Government-Owned Assets**

DUBLIN (Dow Jones)--**The Irish government could in time raise EUR5 billion from the sale of its state-owned assets to help pay down some of the country's debts**, a report for the Irish finance ministry said Wednesday.
But the report--called the Review Group On State Assets and Liabilities--recommends against any so-called fire sales of assets such as power generating stations and other energy and transport companies currently owned by the government.
It was written by economics consultant Colm McCarthy, who in 2009 completed a report for the Irish finance ministry that recommended billions of euro in government spending cuts and a large reduction in payroll numbers across the Irish public sector.
The new Irish coalition government led by Enda Kenny, which took power last month, said it would be guided by the results of the McCarthy report to find EUR2 billion from the sale of unidentified "non-strategic state assets" to help finance a planned investment program amid Ireland's economic crisis.
But such assets would only be sold when "when market conditions" were right, the new government has said.
The junior coalition partner in the government is the Labour Party, which traditionally draws some support from public sector trade unions.
The coalition's program for government also sees the reduction of up to 21,000 public sector payrolls from about 325,000 currently by 2014 and a further reduction of 4,500 jobs in 2015.

2011-09-12 - **Ireland Faces Bailout Pressure To Sell State Assets**

DUBLIN (Dow Jones)--The Irish government faces a "hugely difficult" task identifying a list of state-owned assets by a deadline set by the country's troika of bailout lenders, Ireland's Energy Minister Pat Rabbitte said Monday.
The Irish coalition is seeking to draw up EUR2 billion in sales of proposed state-owned assets by the end of the year but its bailout lenders--the European Union, the International Monetary Fund and the European Central Bank--were urging it to sell even more, Rabbitte said.
"The troika pressures on the government are more severe in the sense they want what they call an ambitious program of disposal of state assets," he told Irish broadcaster RTE Radio, without specifying how much more the troika requires.
In a staff report published last week, the IMF urged the Irish government draw up a list of EUR5 billion in proposed state asset sales.
Rabbitte said the government wants to use the receipts from the sale of state assets to boost employment, saying selling state assets only to pay down debt seemed to him to be a "pretty futile" exercise.
Learning the lessons of previous privatizations, Rabbitte said the government would retain control of the transmission networks of power and gas companies if it were to sell its energy companies, saying the government is still discussing the matter.
He said in his personal view there was no great reason for the government to hold its 25% stake in airline Aer Lingus Plc, but that the government would not be forced to dispose of assets in so-called fire sales.
A government report earlier this year--called the McCarthy report after the economist who wrote it--identified a list of assets the government may sell.

2011-09-15 - **Ireland Will Sell Stake In Aer Lingus**

DUBLIN (Dow Jones)--The Irish government will sell its 25% stake in airline Aer Lingus Group PLC [EL1.DB] as part of the country's bailout deal, the Irish Times reports Thursday, provided the holding sells at a premium to the current value of EUR89 million.
The newspaper says the government will also seek to ensure Aer Lingus's "valuable" Heathrow landing slots will be used for access to Irish airports. The newspaper didn't name its sources.
The airline has cash reserves of EUR358 million but faces a potential liability for a EUR400 million pension deficit, according to the paper.
On Wednesday, the Irish government confirmed it will sell a minority stake in the Electricity Supply Board, one of Ireland's largest state-owned energy utilities, as part of a requirement of the country's bailout deal.
The European Union, International Monetary Fund and the European Central Bank may require the country to raise as much as much as EUR5 billion from the sale of state assets.

ITALY

2011-12-16 - F2i to buy 30 pct stake in SEA Milan airport operator

MILAN (Reuters)-- Italian infrastructure fund F2i has won the City of Milan's auction of a 29.75 percent stake in SEA, the operator of Milan's Malpensa and Linate airports, with a 385 million euro ($502 million) bid, a city official said on Friday.
F2i, in which state holding CDP and bank sector players own stakes, beat off a higher 425 million euro offer from Indian group SREI infrastructure fund which was judged to have deposited its bid after the deadline.
The award to F2i was announced by the president of the auction commission Davide Corritore at the end of a near seven-hour meeting.
The exclusion of SREI was criticised by its Italian representative Vinod Sahai. He said it was "disconcerting and is not correct". The SREI fund will decide by Monday if it challenges the decision, he said.
"We want to take new Indian companies to Malpensa and manage other airports in India with SEA," he said.The

NETHERLANDS

2011-03-04 - Former Dutch Giant ABN Amro Takes Hits For Better Future

AMSTERDAM (Dow Jones)--**ABN Amro Bank NV**, the former Dutch financial giant that collapsed and was nationalized during the financial crisis, took a massive earnings hit for 2010 in a move aimed at clearing the decks to prepare it for privatization and a step toward its former prestige.
ABN Amro is the remnant of ABN Amro Holding NV, a former national champion that was taken over in 2007 for EUR71 billion by a consortium of Royal Bank of Scotland Group PLC (RBS), Banco Santander SA (STD) and Fortis Holding.
That deal was one of the largest ever in the banking industry that turned out also to be one of the most damaging. When the financial crisis hit, RBS and Fortis ran into severe problems and both needed multi-billion government bailouts.
The Dutch government eventually took control of the Dutch parts of Fortis and the former ABN Amro businesses. It poured in nearly EUR27 billion and has now merged the assets to reestablish the ABN Amro brand. It named Gerrit Zalm, a former finance minister, as chief executive.
The Netherlands' third-largest lender by assets will likely return to the market in 2014, probably through a stock market listing. Both the government and Gerrit Zalm are under pressure to fetch a good price and recoup some taxpayer money.
But the merger has been a complex and costly affair so far and pushed ABN Amro to a EUR414 million net loss in 2010, the bank reported Friday.
A sale of commercial banking parts to Germany's Deutsche Bank AG (DB), which the European Commission had ordered to approve the merger, resulted in a EUR818 million loss. And the merger with Fortis, which will result in 6,500 job-cuts, led to EUR679 million in restructuring costs last year.
CEO Zalm urged reporters to look beyond the bottom line figures. He stressed that, without the merger charges, ABN Amro's profitability is improving and that it is slowly becoming more efficient than the former ABN Amro, which was often criticized by investors for failing to contain costs.
Zalm said he expects the bank to return to profit in 2011, of which 40% will directly go to the Dutch state's treasury as a dividend. He also said that integration costs will "diminish sharply" in the coming two years and that the synergies, which ABN Amro estimates at EUR1.1 billion, will slowly take shape.
The CEO stressed that the bank barely resembles the former ABN Amro, which was one of the world's biggest financial institutions with vast retail operations in Brazil and Italy, and a large but inefficient investment banking arm.
The new bank will have a big retail franchise in the Netherlands, an international private-banking unit with growth potential in Asia, and a merchant bank that focuses on niche markets, such as energy and transport. ABN Amro's dealing room, the biggest in continental Europe, reopened this year and the lender has established new offices in Athens, New York, and Sao Paolo. However, more risky activities, such as proprietary trading, belong to the past, Zalm said. "There are certain things we won't do anymore. We won't start a big investment bank in London."

2011-05-06 - **Dutch Government Won't Speed Up Privatization Plans**
ROTTERDAM (Dow Jones)--The Dutch government won't push for an accelerated privatization of state-owned companies in a bid to shore up public finances, Prime Minister Mark Rutte said Friday.
"Privatization of course generates money, but it won't fix the structural budget deficit," Rutte told Dow Jones Newswires on the sidelines of a conference in Rotterdam.
Rutte added the Dutch government isn't principally against privatization, referring to current efforts to sell public-transport companies in major cities like Amsterdam, Rotterdam and The Hague.
The Netherlands underwent a wave of privatization in the 1980s and 1990s, when the Dutch government offloaded a series of energy, telecom and postal companies.
State-owned firms that are considered possible candidates for privatization are Amsterdam airport operator Schiphol Group and casino operator Holland Casino BV.
Rutte's administration aims to cut spending by EUR18 billion up to 2015 to rein in the budget deficit, which ballooned during the financial crisis and the subsequent economic downturn. The fiscal shortfall stood at 5.4% of gross domestic product at the end of 2010.

2011-06-08 - **Dutch Government Mulls Retaining 5% Stake In ABN Amro**
AMSTERDAM (Dow Jones)--The Dutch Minister of Finance, Jan Kees de Jager, said Wednesday that the government may keep a 5% stake in ABN Amro Bank NV to help ward off possible predators who may want to buy the Dutch banking group to split it up.
He told parliament that the Dutch government may not be able to recoup the money it invested in ABN Amro and that plans to list it in 2014 could be postponed. Some politicians have been skeptical about the timing of the listing, claiming that the proceeds from a sale might be higher in a few years time.
De Jager said that if the Dutch government does list ABN Amro in 2014, preparations would start in 2013. He said that an initial public offering would probably yield less than if the bank were sold to a trade buyer, which would likely offer a strategic premium.
In January De Jager said the government aimed to substantially reduce its Dutch financial sector stakes within the next five years, with a stock market listing the most likely option for ABN Amro and insurer ASR.
The Dutch state took control of ABN Amro in 2008 when it rescued former Benelux financial services company, Fortis. Fortis collapsed shortly after its acquisition of ABN Amro, made as part of a three-way consortium with Royal Bank of Scotland Group PLC (RBS) and Banco Santander SA (STD). The ABN Amro assets in the Netherlands are being merged with the Dutch assets of the former Fortis in a bid to create a national banking champion for the Netherlands.
In total, ABN Amro received between EUR4.2 billion and EUR5.45 billion in state funds, which led the European Commission to place restrictions on some of its activities for competition reasons. The EUR12.8 billion the Dutch government spent in acquiring the assets wasn't considered to be aid because that money wasn't used to prop up the bank.

POLAND

2011-01-11 **- Polish Pension Funds To Have More Cash For Stock Investments-MOF**
WARSAW (Dow Jones)--Polish pension funds will eventually have more cash for stock market investments as a result of the pension system overhaul the government is planning for later this year, Finance Minister Jan Vincent-Rostowski told the Senate Tuesday.
The government plans to cut cash transfers to private pension funds in an effort to improve public finances. According to the plan, the transfers would be cut from 7.3% of gross wages to 2.3% from April 2011. Private pension funds invest up to 40% of their cash inflows on the market and 60% in government bonds.
The government plans to change allocation limits for pension funds, allowing for more flexibility to invest in stocks, Rostowski said. In the future, due to the government's plan for a tax exemption on savings transferred by taxpayers to private pension funds, the funds will have more cash available for stock market investments than they do now, he said.
He added that the planned pension overhaul won't affect privatization projects this year. The government officially expects to sell 15 billion zlotys ($5 billion) worth of state-owned assets in 2011.

2011-03-04 - **Poland Mulls IPO Of Its Stake In Power Group ZE PAK**
WARSAW (Dow Jones)--Poland's Treasury Ministry is considering listing its stake in Polish power group **Zespol Elektrowni Patnow-Adamow-Konin SA**, or ZE PAK, instead of selling it to a strategic investor, two people familiar with the matter told Dow Jones Newswires Friday.
Poland is trying to sell its 50% stake in ZE PAK, as well as two lignite mines, in a package to a strategic investor, and is in exclusive talks with Polish engineering firm and boiler maker Rafako SA (RFK.WA).
The disposal is part of an ambitious privatization drive, in which the Treasury is aiming to raise 15 billion zlotys ($5.27 billion) this year, after selling PLN22 billion worth of state assets in 2010, according to its website.
However, ZE PAK's complicated ownership structure--the legacy of a now discredited privatization method in which a minority shareholder has operational control over a given company--have made talks difficult.
This difficulty has prompted the Treasury to consider listing ZE PAK on the Warsaw Stock Exchange through an initial public offering, the two people said.
Yet to be decided is whether only the Treasury's shares in ZE PAK would be sold, or whether ZE PAK would also issue new shares in order to pay the Treasury Ministry for the two lignite mines, one of the people said.
Such a move, which is still just an idea, would dilute the ZE PAK stake controlled by Polish tycoon Zygmunt Solorz-Zak, who also controls Rafako, the people said.
Analysis conducted ahead of the possible IPO value ZE PAK and the two mines together at roughly PLN1.5 billion, the other person said.

2011-03-29 - **Poland To Reduce Stake In PKO Bank Polski In Mid-September**
WARSAW (Dow Jones)--The Polish government will sell shares worth up to $5.1 billion in PKO Bank Polski SA (PKO.WA) in September, but will keep at least a 25% stake and retain control over the country's largest lender, Treasury Minister Aleksander Grad told a press conference Tuesday.
The Treasury directly holds 40.99% of shares in PKO Bank Polski, while state-owned BGK bank has 10.24%.
Grad said BGK will sell all of its shares in PKO Bank Polski in a public offering, while the amount of shares the Treasury will offer will depend on market demand.

2011-04-06 **- Poland Sees 2012 Privatization Revenue At About PLN10 Billion**
WARSAW (Dow Jones)--Poland's preliminary forecast for revenue from asset sales in 2012 is around 10 billion zlotys ($3.58 billion), Polish Treasury Minister Aleksander Grad told PiN radio Wednesday.
"This is a first, somewhat conservative estimate," Grad said.
Poland kicked off an extensive privatization program in 2008, aiming to trim back government ownership in a number of large companies to stakes of between 25% and 30%, while selling off or liquidating hundreds of smaller companies. The ministry's 2011 privatization revenue target is about PLN15 billion.
Grad added that the Treasury expects dividend revenue from state-held equity in 2010 of between PLN3.3 billion and "more than PLN4 billion."

2011-07-19 - **Poland To Sell $2.7 Bln Worth Of PKO Bank Polski Shares**
WARSAW (Dow Jones)--The Polish government will sell up to 15.25% of shares, worth about $2.7 billion as of Monday's close, in **PKO Bank Polski SA** (PKO.WA), Poland's largest bank by assets, the treasury ministry said in a statement late Monday.
The secondary offering is expected at the turn of the third quarter, the ministry said. The government will directly sell up to 5% in the bank, while government-owned bank BGK will sell its entire 10.25% stake.
The government, directly and indirectly through BGK, holds 51.24% in PKO Bank Polski. If it sells all the shares on offer, its stake will go down to 35.99%. It earlier planned to pare its stake down to as much 25% as part of a privatization drive that is expected to bring 15 billion zlotys ($5.2 billion) this year.
After PKO Bank Polski's secondary offer, the government will keep control over the country's largest lender, the ministry said. The bank's general meeting in April changed its corporate charter, limiting voting rights to 10% of total votes per shareholder except the treasury.
The shares in the secondary offer will be offered to the Polish public as well as to domestic and international institutions, Treasury Minister Aleksander Grad said in the statement. The offer will be one of this year's most important transactions in Poland and central Europe, he added.
PKO Bank Polski recently passed recent European Union-wide stress tests, the only Polish bank that needed to undergo them, significantly exceeding the capital adequacy ratios required under the adverse scenarios set by the European Banking Authority.

2011-07-27 - **Poland To Hold IPO Within Months For New Property Firm**
WARSAW (Dow Jones)--The Polish government has created a property holding company by consolidating a number of state-owned real estate firms and plans to float it on the Warsaw Stock Exchange within the next few months, the treasury ministry said in a statement Wednesday.
The market value of the group's about 180 properties is 2.6 billion zlotys ($939 million), the ministry said. The group, named PHN, holds more than 1,300 hectares of undeveloped properties.
In the first stage, the group will manage its properties and run development projects with business partners. It eventually plans to manage office, retail and logistics properties on its own, the treasury said.
The treasury could sell up to 100% in the firm, Undersecretary of the Treasury, Krzysztof Walenczak, told Dow Jones Newswires in January.
Dipservice w Warszawie SA, a company created in 1962 to provide housing and offices for diplomatic missions in Poland, and Towarzystwo Obrotu Nieruchomosciami Agro SA, which leases, buys and sells land throughout Poland, make up a large part of the holding.

2011-08-23 - **Poland On Track To Meet Its PLN15 Bln Privatization Goal**
WARSAW (Dow Jones)--Poland's treasury ministry is on track to reach its goal of raising 15 billion zlotys ($5.16 billion) this year from the sale of state assets, the government said in a statement Tuesday.
"The privatization processes are going as planned," the statement said.
The government didn't mention, however, whether the Treasury will continue a planned secondary public offering of the country's largest bank, PKO Bank Polski SA (PKO.WA), set for September.
PKO Bank Polski is 40.99% owned by the Treasury and 10.25% by state-owned Bank Gospodarstwa Krajowego. BGK plans to sell all its holding in PKO and the Treasury wants to reduce its stake by 5%. The offer could be worth around $2.7 billion.

2011-11-08 - **PKO Bank Polski Cancels Secondary Public Offer Due To Euro Crisis**
WARSAW (Dow Jones)--The Polish government has cancelled its plan to sell a minority stake this year in a secondary public offer of PKO Bank Polski SA (PKO.WA), the country's largest bank by assets, due to the volatility in global markets caused by the ongoing euro-zone crisis, the treasury ministry said in a statement Tuesday.
The offer could be organized in the first half of 2012 when market conditions are expected to improve, the ministry said.
In late August, the Polish government said it would delay the secondary public offering of shares in PKO BP due to volatility on the equity markets. The offering, which could have been worth up to $2.7 billion when first announced, was originally scheduled for September.
The Polish government directly holds 40.99% in the bank, while an additional 10.25% is held by state-owned Bank Gospodarstwa Krajowego. BGK was to sell its entire holding in the bank during the secondary offering, while the Treasury wanted to sell up to 5% in PKO Bank Polski.

2011-12-16 - **Poland To Publish New Privatization Plan In January**
WARSAW (Dow Jones)--Poland's Treasury Ministry will publish a new privatization program for 2012-13 in January, as the government continues to sell assets to shore up its public finances.
Since November 2007, the Polish government has sold 43.94 billion zlotys ($13 billion) worth of state assets.
New Treasury Minister Mikolaj Budzanowski Friday confirmed the ministry still plans to raise PLN10 billion from privatizations next year alone, and expects to receive PLN8 billion in dividend revenue from its various equity stakes.
"Now is the best time to do it," Budzanowski said, referring to privatization. "If one decides to sell something, one should start the process immediately and not start in a year, for example."
He added that the privatization of each company will be addressed individually. Still, the ministry's policies will remain largely unchanged, including its preference for stake sales through the Warsaw Stock Exchange.
Poland's center-right Civic Platform party won re-election in October.
Besides privatizations, Budzanowski said the ministry will now focus on fostering investments by state-controlled companies.
Such investments now in progress include a liquefied natural gas terminal being built on the Baltic Coast, the construction of a tighter network of natural gas pipelines, the extraction of commodities, especially shale gas, and the construction of new power plants, Budzanowski said.
The Treasury will continue to keep stakes of between 25% to 30% in strategic companies, he added.

2011-12-23 - **Polish Privatization Official Walenczak To Step Down Dec 27**
WARSAW (Dow Jones)--Krzysztof Walenczak, the Polish undersecretary of the treasury responsible for jump-starting the central European country's privatization drive, is leaving the ministry Dec. 27, he said Friday.
"The 27th is my last day," the former Lehman Brothers investment banker told Dow Jones Newswires.
He plans to return to the private sector after two years at the ministry and helping to sell $13 billion zlotys ($3.83 billion) worth of state assets.
Walenczak said his successor is likely to be someone with a similar background to himself.
"The government has done a lot for financial markets [in Poland]," Walenczak said. "Now financial markets need to do something for the government."
Working for the ministry is a form of civic service and Walenczak hopes someone from Warsaw's investment banking community will take up this mantle. "When the call comes, you have to take it," he said.
Poland's treasury ministry is still the main source of large initial and secondary offerings on the Warsaw Stock Exchange as, 20 years after jumping to a market economy, few organically grown, private sector companies are as large as state-controlled companies with communist era legacies.
It also promotes Warsaw as a regional financial center at multiple roadshows abroad, at conferences in the capital, and through its policy of encouraging retail Polish investors to become shareholders.

2011-12-23 - **Poland Moves Ahead With IPOs Of Grupa PHN And ZE PAK**
WARSAW (Dow Jones)--Poland's Treasury Ministry has set in motion two privatization projects, of real estate holding company Grupa PHN SA and utility Zespol Elektrowni Patnow Adamow Konin SA, as it aims to raise 10 billion zlotys from asset sales in 2012, said Treasury Undersecretary of State Krzysztof Walenczak.
The Treasury Ministry has assigned the mandate to conduct the initial public offering of Grupa PHN to UBS AG (UBS, UBSN.VX) and Citigroup Inc. (C) and to conduct the IPO of ZE PAK to J.P. Morgan Chase & Co. (JPM) and Credit Suisse Group AG (CS, CSGN.VX), Walenczak told Dow Jones Newswires on Friday. Both had been slated for privatization.
The IPO of Grupa PHN, which is valued at "between $1 billion and EUR1 billion," depending on currency fluctuations, has been penciled in for June 2012, he added. Grupa PHN was created out of a merger of 14 state-owned companies with property holdings, mainly in the Polish capital, Warsaw.
"The Treasury wants to find an anchor investor or two for the company, to take a significant stake and managerial responsibilities at the company," Walenczak said. The size of the stake the government will decide to sell depends on the level of interest from potential anchor investors.
Walenczak said he plans to step down as Treasury undersecretary of state on Dec. 27 and plans to move into the private sector.
"Such an investor could take a pre-IPO tranche, a tranche in the IPO, or both," Walenczak said. "We're in talks with sovereign wealth funds on becoming such anchor investors."
Meanwhile, Walenczak said he expects ZE PAK to debut in the second or third quarter of 2012. The Polish government holds a 50% stake in ZE PAK, conglomerate Grupa Elektrim holds a 47.38% stake, and individual investors hold a 2.62% stake, according to the company's website.
Poland's Treasury and Elektrim have agreed that no new shares will be issued in the IPO. Walenczak expects the Treasury and Elektrim to reach an agreement in the first quarter on who will shares and how many.
Other privatization projects, valued at billions of dollars, are still in limbo.
The Treasury Ministry may opt to list Energa, Poland's fourth-largest utility, if its acquisition by larger rival PGE Polska Grupa Energetyczna SA (PGPKY, PGE.WA), also majority-controlled by the government, isn't approved on antitrust grounds.
"If the [antitrust] court doesn't give approval, we have to be prepared," Walenczak said. "We have to be prepared for both alternatives."
Meanwhile, other people at the ministry and their advisers will need to decide on the model for trimming the government's stake in another utility, Enea SA (ENA.WA), which has been the subject of several failed privatization attempts. One option would be a secondary public offering, with a tranche reserved for retail investors. Poland holds a 52.13% stake in Enea. Swedish utility Vattenfall AB holds an 18.67% stake.

PORTUGAL

2011-05-04 - **Portugal To Privatize EDP, TAP, REN By Year End, To Sell BPN**

LISBON (Dow Jones)--Portugal will have to privatize the country's energy company Energias de Portugal SA (EDPFY), airline TAP Air Portugal and Redes Energeticas Nacionais by the end of the year, as part of a rescue package agreed with the International Monetary Fund and the European Union, reports Diario Economico in its Wednesday Internet edition.
Portugal's government owns 20.5% of EDP through Parpublica and 51% of REN.
Citing a memorandum of understanding between the Portuguese government and the IMF and the EU, the paper says that another two companies, which weren't identified, will have to be privatized in 2012.
In addition, the Portuguese governemnt will have to sell state-owned Banco Portugues de Negocios by the end of July without a minimum selling price, the newspaper added.
In August 2010, the government tried in vain to sell BPN, setting a minimum price of EUR180 million.

2011-05-04 - **Portugal Details Bailout Plan**

LISBON (Dow Jones) -- Portugal detailed the 78 billion euro ($115.5 billion) bailout package that will fund the troubled country's deficits and provide capital for its banks, while obliging it to slash government spending and sell state assets.
The package, which was announced late Tuesday, imposes new austerity measures on the debt-burdened country that don't include cuts to the minimum wage or reductions in public-sector jobs, requirements that were unpopular in earlier deals for Ireland and Greece.
The three-year deal with the European Union and the International Monetary Fund is likely to carry an interest rate of between 4.3% and 4.7% -- about half of what private markets would have charged Portugal for long-term borrowing -- while requiring that the country raise at least 5.5 billion euros in privatizations, eliminate some tax deductions, and cut central government expenditures, said people familiar with the situation.
On the back of the deal, Portugal successfully sold 1.117 billion euros in three-month Treasury bills Wednesday, albeit at high interest rates. In addition, stocks in Lisbon rose 1.3%, leading European exchanges, while the euro was stronger against the dollar, trading just below $1.49.
"The size of the package seems to be designed to put a convincing ring-fence around the problems for Portugal," said Peter Westaway, an economist at Nomura in London.
Portugal is the third euro-zone country after Ireland and Greece to request a bailout from the EU and the IMF.
Many worry that in the absence of a convincing plan to prop up fiscally frail Portugal, financial contagion could spread to Spain, which is much bigger than the three other troubled euro-zone economies combined.
The EU and IMF reached a deal on the three-year financing package Tuesday with the caretaker government of Portuguese Prime Minister Jose Socrates, who put the total figure at 78 billion euros.
According to the agreement, 12 billion euros of the bailout funds will be offered to the country's banks so they can raise their core Tier 1 capital ratios -- a key measure of a bank's ability to absorb sudden losses -- to 9% this year and to 10% by the end of 2012.
Officials from the larger Portuguese banks, including Banco Espirito Santo SA, Banco BPI SA and Banco Comercial Portugues SA, have said they won't need to tap the rescue package.
An official announcement of the bailout deal is expected as soon as Thursday.
In return for the aid, the EU and IMF will lean on Portugal to pare its persistent deficits -- the state hasn't had a balanced budget in more than 30 years -- through spending cuts, elimination of tax deductions and privatizations that will include the national airline TAP Air Portugal and power companies Energias de Portugal SA and Redes Energeticas Nacionais SGPS SA.
Portugal will also be called on to cut 500 million euros a year in central government spending, while making overhauls to the country's labor and housing markets.
The leaders of Portugal's two main opposition parties indicated late Wednesday that they would give their blessing to the bailout deal.

2011-12-23 - **China Gets Stake In Portugal's EDP**

LISBON (Dow Jones)--Portugal's government said on Thursday that China Three Gorges Corp. won the bidding for its 21% stake in **EDP-Energias de Portugal SA** with an offer of 2.69 billion euros ($3.51 billion), in the first of a series of sales of state-owned assets under its austerity program.

The deal marks the first time a mainland Chinese firm acquired a significant stake in a southern European company and may portend other such moves as cash-strapped European governments from Madrid to Athens have been clamoring for Chinese funding to help them finance gaping budget deficits.
For government-controlled China Three Gorges, which operates the $23 billion Three Gorges dam on the Yangtze River, the transaction opens doors to EDP's renewable-energy assets in Brazil, a key emerging power. The Portuguese company is a major power producer there, operating a sizable fleet of hydroelectric plants and supplying more than two million customers with energy.
The investment will help China Three Gorges "showcase its superiority in hydropower, clean energy project construction and power production," Chairman Cao Guangjing said in a statement.
It also shows how Portugal's centuries-old links with Brazil and Africa are now making the cash-strapped country an attractive investment for Chinese companies, underscoring a shift in world power that has seen emerging economies asserting their might over newly fragile developed countries.
Portugal is selling its crown jewel assets as part of a 78 billion euros bailout agreement it entered into with the European Union and the International Monetary Fund. Under the terms of the rescue, Portugal has committed to cut government spending and its budget deficit.
"The privatization program is not only important because it gives us access to a source of financing," Portuguese Finance Minister Vitor Gaspar said on Thursday. "It also shows that one can diversify such financing sources."
Portugal's treasury secretary, Maria Luis Albuquerque, said Chinese banks behind China Three Gorges are willing to provide financing to other Portuguese companies.
The Chinese firm, which outbid German heavyweight E.ON AG and Brazil's Centrais Eletricas Brasileiras SA, has big ambitions but a small international profile for now. Portugal's government expects China Three Gorges to invest over 8 billion euros in EDP to support its expansion plan. The Chinese company also wants to tap EDP's experienced management team.
As weak euro-zone economies shed prized assets through ambitious privatization programs to cut debt, Portugal is attracting significant investments from China because of its presence in former colonies that are resurfacing as red-hot markets, rich in natural resources.
Portugal's Galp Energia SGPS SA, for example, recently closed a $5.19 billion deal to sell a 30% stake in its Brazilian unit to China Petrochemical Corp. Galp needs cash for future investments linked to its 10% share in Brazil's largest oil project.
"Portugal has big attractiveness because it knows Africa and South America well," said Ricardo Salgado, chief executive of Banco Espirito Santo SA.
Banco Espirito Santo controls a bank in oil-rich Angola, BES Angola. BES and its Chinese counterpart agreed to cooperate in Portuguese-speaking markets, where the Asian giant and its companies are doing an increasing amount of business.
China bought $57.7 billion in goods from eight Portuguese-speaking markets, led by Brazil and Angola, from January to September, up 23% from a year ago, according to Chinese government data. Chinese exports to those countries rose 34% in that period to $28.8 billion.

SPAIN

2011-01-28 - **DJ Spain Starts Sales Process Of Stakes In Several Listed Cos**

MADRID (Dow Jones)--Spain's industrial holding company, SEPI, Friday said it is starting the sales processes for its 2.71% stake in International Consolidated Airlines Group SA (IAG.LN), its 8.65% stake in Ebro Foods SA (EBRPY) and up to 10% of Red Electrica de Espana SA (REE.MC).
SEPI first announced its intention to sell the stakes in October.

2011-04-13 - **Spanish Government: China Fund Mulling EUR9.3B Investment In Spain**

MADRID (Dow Jones)--A Chinese sovereign wealth fund has informed Spain's government that it's mulling an investment of up to EUR9.3 billion in the country's troubled financial sector, a Spanish government spokesman said Wednesday.
The spokesman was confirming an earlier report in Spain's state-owned news agency EFE.
The announcement comes as Spanish Prime Minister Jose Luis Rodriguez Zapatero is on an Asian tour to China and Singapore.

During a meeting with Zapatero Tuesday, Chinese Prime Minister Wen Jiabao said his government plans to continue buying Spanish bonds, as it has done recently, and it may also take part in the restructuring of the country's savings banks, or cajas.
China already holds EUR25 billion in Spanish sovereign debt, accounting for some 12% of all foreign holdings. Overall, foreigners hold around half of Spain's government debt.
Wen also said China's sovereign wealth funds may also help fund the cash-strapped cajas, but didn't say how much they could contribute. The cajas need around EUR15 billion in fresh capital this year, according to estimates from Spain's central bank.

2011-05-13 - **Aena Studies Stock Listing As Part Of Privatization Plan**
MADRID (Dow Jones)-- Spanish state-owned airport operator **Aena** is studying a listing on the stock exchange as a part its effort to privatize 49% of its capital, reports Expansion in its Friday Internet edition, citing remarks by Spain's Infrastructure Minister, Jose Blanco.
AENA will launch a tender Friday to pick an investment bank that will handle its stock listing, the paper adds.

2011-06-20 - **Spain Hires RBS To Privatize Airports**
MADRID (Dow Jones)--The Spanish government said Monday that it selected investment bank Royal Bank of Scotland PLC (RBS) to coordinate the privatization of the country's airports, in the latest step to shed state-owned assets and cut spending to narrow Spain's hefty budget gap.
Socialist Prime Minister Jose Luis Rodriguez Zapatero announced a plan last year to privatize Madrid's Barajas and Barcelona's El Prat airports and sell a stake in AENA Aeropuertos, the world's largest airport group by passenger traffic. He also planned to sell off part of the publicly owned National Lottery. Spain expects to sell 30% of Loterias later in 2011 to raise some EUR7.5 billion.
The privatizations are a key component of Spain's plan to lower its budget deficit to 3% of gross domestic product in 2013 from 9.2% in 2010.
Investors are monitoring Spain's finances closely as the euro-zone sovereign-debt crisis rolls on. Greece, Ireland and Portugal have all been forced to accept financial aid packages from the European Union and the International Monetary Fund after investors lost faith in the countries' ability to pay back fast-rising government debt.
Zapatero's government has pushed through reforms, cut public-sector wages and moved to shore up confidence in the country's banking industry, which suffered huge losses in the collapse of a decade-long real estate boom.
After its expansion in 2006 with an investment of EUR6.2 billion, Madrid´s airport has some of the strongest growth prospects in Europe, particularly as a hub for connecting flights between Europe and Latin America with ample room for expansion.
Juan Ignacio Lema, AENA´s president, said in a recent interview that after a recent expansion the Barajas airport has the capacity to increase its passenger air traffic by 40% and substantially boost its restaurant and other retail offerings, such as duty-free shops.
He added that neither Madrid's nor Barcelona's airports will require big infrastructure investment for at least 15 years. Spain invested some EUR1.2 billion to expand Barcelona's airport in 2009.
By letting the private sector take over the airports, the Spanish government is hoping to expand the revenue that the assets generate, which currently is far below what London´s Heathrow airport, Europe's busiest, brings in, Lema said.
Lema says that airport fees in the major European countries are five times greater on average than those in Spain. "There's space to raise revenue, while maintaining competitiveness with the main European airports," he said.
But charging more for using Spain´s airports could be hazardous at a time when low-cost airlines provide 40% of Spain´s air traffic. The streamlined carriers typically demand lower airport fees while avoiding more expensive airports. Low-cost airline Ryanair Holdings Ltd. (RYA.DB) currently carries more passengers than Spain's flagship airline Iberia, now a partner of British Airways in the recently created International Consolidated Airlines (IAG.LN).
Various Spanish infrastructure operators have said they would want to participate in the privatization of Madrid and Barcelona airports. They include Ferrovial SA (FER.MC), which controls BAA Ltd., the owner of London's Heathrow and other British airports. Abertis Infraestructuras SA (ABE.MC), which operates London's Luton and is a partner of AENA for the operation of several airports in Latin America, has also expressed interest. Construction company Fomento de Construcciones y Contratas SA (FCC.MC) may also jump in, according to company executives.
These infrastructure operators may seek support from venture-capital funds or other investors seeking to provide funding for bids.

The government expects to award the licenses for Spain´s two largest airports, in its two largest cities, by December. The plan as it stands now involves awarding the licenses for Madrid and Barcelona to two separate and competing companies.
Aside from handing over control of Madrid´s and Barcelona´s airports, Spain is seeking to sell a minority stake in AENA itself. Zapatero last December said the privatization would include offloading up to 49% of AENA, but the government has since scaled back its ambitions. Early in 2012 the government may sell 5%-15% of AENA, Lema said.
The public airport operator could go public sometime next year. Lema said that based on its operating profits, AENA could be worth about EUR20 billion. The company has a debt load of EUR12 billion.
Many analysts doubt AENA could attract much investor interest for a non controlling share, particularly after the airport manager no longer operates in Madrid and Barcelona. AENA has been registering losses since 2007 and says it will begin turning a profit again in 2012. Nevertheless, Lema said sovereign-wealth funds and other investment funds have already expressed interest in acquiring a stake, although he declined to provide specific details.
Separately, AENA Aeropuertos said late Monday that had received six bids for the management of 13 of its control towers in Spain, and that it expects to pick three winning bids by October.

2012-01-17 - **Spain May Drop Plans To Sell Madrid, Barcelona Airports**
MADRID (Dow Jones)--The Spanish government may decide to drop the previous administration's plan to sell Madrid's Barajas and Barcelona's El Prat airports, reports Expansion in its Tuesday Internet edition.
The previous Socialist government was forced in October to push back its plan to sell its largest airports until Jan. 31, as bidders needed more time to secure financing for the deal. The sale of the two airports was expected to raise EUR5 billion.
Separately, the government may also decide to launch an initial public offering for the country's state-owned airport operator Aena Aeropuertos, the paper adds.

SWEDEN

2011-01-25 **- Swedish Fin Min Confident Privatization Plans Will Succeed**
HELSINKI (Dow Jones)--Swedish Finance Minister Anders Borg Tuesday said he is confident the center-right government can find common ground with the opposition over reducing Sweden's ownership in privately held companies.
"It is possible to move forward together on this issue, maybe with the Green party or the Social Democratic party. We are ready to listen to their ideas and to find common ground," Borg told a news conference in Helsinki while visiting his Finnish counterpart Jyrki Katainen.
The far-right Sweden Democrats have said they will support the left-wing opposition to the government's divestment plans, effectively blocking them.
Borg nevertheless reiterated the plans and said the expected proceeds of roughly 100 billion Swedish kronor ($15.17 billion) would be used to repay debt.
"I hope we could dilute our ownership in companies like Nordea (NDA.SK) and TeliaSonera (TLSN.SK). But, we have also made it very clear that Sweden would have to own some companies for quite a long time, such as Vattenfall (VAT.YY)," Borg said.
"In a medium-term perspective, my forecast is that we would continue to have a substantial stake also in TeliaSonera."
The motion will most likely go to a vote in March.
Borg noted that the government, which has also said parts of mortgage lender SBAB and Scandinavian airline SAS AB (SAS.SK) could go on the auction block, was under no obligation to dilute its ownerships.
"Many of these companies are very well run, e.g. Nordea and TeliaSonera are excellent companies and assets for Swedish taxpayers, so it's not a problem if we were to keep them for some additional time," Borg said.
During its 2006-10 term, the center-right coalition sold Absolut Vodka-maker Vin & Sprit AB as well as its stake in Nordic and Baltic stock exchange operator OMX, among others.

2011-06-21 - **Swedish Government May Sell More Of Nordea From Autumn**

STOCKHOLM (Dow Jones)--The Swedish government said Tuesday that it would start selling more of its stake in Swedish bank Nordea AB (NDA.SK) from mid-August at the earliest as part of its continuing plan to raise funds and bolster the country's financial position.

It said part or all of the Nordea stake would be sold in small chunks over time.

Financial Markets minister Peter Norman said there was some speculation that the stake would be sold sooner but that current market conditions made that unlikely.

The Swedish government owns around 13.4% of Nordea, Sweden's largest bank by market capitalization, at a current value of around 36 billion Swedish kronor ($5.64 billion).

In February this year, the government sold 255 million shares in Nordea to Swedish and international institutional investors, raising SEK19 billion, after earlier having postponed its long-term plan to divest state-owned corporate assets during the financial crisis. Before that sale, the government held 19.8% of Nordea.

The government plans to sell the Nordea stake in small quantities on the stock market on a daily basis to reduce negative effects on the share price, it said Tuesday.

"I think the unrest we see on the financial markets shows that the government shouldn't own bank shares," Norman said. "The proceeds will reduce Sweden's national debt and thereby its vulnerability," he added.

At 0808 GMT, Nordea shares were up 1.2% at SEK67.55, slightly outperforming a 1% rise in the wider Stockholm market.

Some market participants had expected the Swedish government to sell Nordea shares before August, thereby putting pressure on the share price, so Tuesday's news is positive for the stock in the short run, said analyst Suvi Kosonen at Pohjola Bank.

Still, she said, a quick sale would probably be better for the Nordea share's long-term performance, as the "overhang" of a potential divestment will now remain for some time.

UK

2011-06-15 **- Osborne: Have Decided To Put Northern Rock Up For Sale**

LONDON (Dow Jones)--Chancellor of the Exchequer George Osborne Wednesday kick-started the sale of Northern Rock PLC, in a modest step to cut U.K. taxpayer support of the banking sector that has lasted far longer than in most other parts of Europe and in the U.S.

"Images of the queues outside Northern Rock branches were a symbol of all that went wrong, and its chaotic collapse did great damage to Britain's international reputation," Osborne said in his annual Mansion house speech to bankers in central London. "Its return now to the private sector would help to rebuild that reputation."

Osborne said that while the government prefers to sell Northern Rock, it hasn't ruled out other options, which could include the remutualization of the bank or its float on the stock market.

The sale of Northern Rock marks the beginning of the government's gradual withdrawal from its massive stake in the U.K.'s financial sector. The government will begin to sell off its stakes in Royal Bank of Scotland Group PLC (RBS, RBS.LN) and Lloyds Banking Group PLC (LYG, LLOY.LN) in the coming years. People familiar with the matter have previously said those sales might start next year.

The lengthy process is in contrast to the U.S., where government assistance made to major banks including Citigroup Inc. (C) and Bank of America Corp. (BAC) in the crisis has been repaid in full. In Europe, Germany has been largely reimbursed by banks such as Commerzbank AG (CRZBY, CBK.XE) that it helped out, while French banks have also shed their crisis state support.

The U.K. government privatized Northern Rock in February 2008 following the near-collapse of the bank in September 2007 from funding problems. It ended up with an 83% stake in RBS and a 41% stake in Lloyds after a series of bail-outs as the financial crisis deepened in 2008 and 2009.

The chancellor also used his speech to address the "British dilemma" of reforming the U.K.'s banking sector, while still maintaining its attractiveness as a leading financial center.

Since the crisis, there has been a fierce public and political debate over the role of banks and the U.K.'s reliance on the sector for economic growth, leading to the creation by the chancellor last year of an Independent Commission on Banking studying potential reforms to make banks safer and more competitive. Osborne Wednesday endorsed proposals made by the ICB in April to "ring-fence" U.K.'s banks' retail arms from their investment-banking businesses. He also endorsed the "bail in instead of bail out" approach recommended by the ICB, which would see private investors, rather than taxpayers, bear the cost if things go wrong.

The country's major banks--RBS, Lloyds, Barclays PLC (BCS, BARC.LN) and HSBC Holdings PLC (HBC, HSBA.LN, 0005.HK)--have accepted that some form of a ring fence is inevitable and are now lobbying for a say on where the line is drawn when the ICB makes final recommendations to the government in September.
Osborne also said he wants to see full implementation for the new capital requirements agreed under Basel III, a set of international accords governing banks negotiated at the behest of the Group of 20 leading nations. He said it was vital that the rules give national regulators the discretion to add to the Basel requirements when national circumstances require it.
The government aims to identify potential buyers for the mortgage lender this year, although the completion of the sale may take longer, a person familiar with the matter told Dow Jones Newswires.
It could be bought by an existing building society, such as Yorkshire Building Society or Coventry Building Society, the person said, adding that increasing competition among the U.K's existing retail banks is a stated aim of the chancellor.
Richard Branson's Virgin Money, which tried to buy Northern Rock before its nationalization, has also expressed an interest.
The U.K. injected about GBP1.4 billion ($2.3 billion) of taxpayer money into Northern Rock and it is unlikely the sale of the bank would result in a profit. The bank made a GBP223.4 million net loss for 2010. After being carved out of a "bad bank" holding the bulk of the original Northern Rock's mortgage portfolio, Northern Rock PLC now consists of GBP16.7 billion in retail deposits, a GBP12.2 billion mortgage book and 75 branches.
The "bad bank" still owes the government about GBP22 billion that is being used to fund its portfolio of mortgages in run off.

2011-06-19 - **UK Weighs Privatizing Administrative Services**
(WSJ)--The U.K. is preparing a major push to increase the use of the private sector in operating government back offices as part of its attempts to cut public spending, people familiar with the matter said.
Francis Maude, the minister charged with squeezing efficiencies out of the public sector, is examining back-office areas that can be privatized, such as administration of the state pension and National Health Service prescriptions. The private sector's involvement in the wider NHS back office is also expected to increase.
The drive to privatize such functions could hit tough opposition, however.
The government has already encountered difficulties in its efforts to bring private competition into front-office functions, like the NHS. Attempts to bring the private sector even further into the back office will likely kick off union reaction at a time when the U.K. faces the prospect of a round of public-sector strikes over issues such as job losses and rights.
"Privatization of back office is something we expect and will oppose," said Richard Simcox, a spokesman for the Public and Commercial Services Union.
On Friday, the government got an early taste of that opposition when civil servants who administer the state pension went on strike over proposals to mutualize their department, which will allow holders of pensions to take a stake-but which unions call privatization by the back door.
Earlier this month, thousands of civil servants voted to strike as a protest against pension changes.
The government hopes to release a major consultation document on public-sector reform before August. That will include what the government sees as radical ideas, such as people being given individual budgets to pay for public services, like care for the elderly, rather than having civil servants decide how all the budget is spent.
In the new push, government officials have asked private-sector companies to pitch ideas on how they can help run state-run back offices, one person familiar with the matter said. Officials believe that, given their steady cash flows, back-office functions could be marketed to companies seeking dependable returns.
As part of attempts to reduce spending, government departments have had their budgets slashed, some by as much as a third, and some believe outsourcing back-office functions may save money over time, another person said.
A spokeswoman for Maude didn't return phone calls.
With a budget deficit of over 8%, the government wants private-sector companies to compete with public-sector services in a bid to increase efficiencies, drive down costs and offer greater choice.
Rolling back the state is also a longtime ideological aim of Prime Minister David Cameron's Conservative Party. Last week, though, Cameron had to water down a banner attempt to bring greater competition into the NHS, after doctors and the public accused the government of trying to privatize the health service.
Despite Cameron's stalled NHS reform, the health service is one area in which the government has already experimented with allowing the private sector to run back offices. NHS Shared Business Services is jointly owned by

the NHS and business-services company Steria. It handles finance, accounting, and other human-resource functions, as well as some procurement for the health-care provider.
John Neilson, its chief executive, said the venture will increase its share of the NHS back-office work. "Over time, it will widen," he said.
NHS SBS currently works for 40% of NHS Trusts, the operational units that deliver NHS care. By the end of the year, Neilson said, he believes he will work for over half of them, and that this work will be brought across to the bodies that will succeed the Trusts under the government's current reforms to the health service. Neilson estimates his unit saved the Treasury some 70 million British pounds ($113 million) from 2005 to the start of 2010.
Neilson said he also expects his company to move into other back-office functions like data management.
He said this sort of private-sector involvement in the back office is almost unique to the U.K., though more recently several other European countries have discussed with NHS SBS the possibility of setting up similar models in their countries.
Britain's last government took an even more radical look at privatizing back-office work, and explored bundling government activities such as human resources and information-technology management into commercial companies and selling or listing them.
The British public sector manages an asset base valued at well over 800 billion British pounds, according to the Treasury.

2011-11-17 - **Northern Rock is being sold to Virgin Money for £747m, the government has announced**
The bank was nationalised in 2008 following its near collapse at the onset of the global credit crunch.
Northern Rock plc will be rebranded as Virgin Money, which has pledged no compulsory job cuts for three years.
BBC business editor Robert Peston said the sale would see taxpayers end up with a "paper" loss of somewhere between £400m and £650m.
The bank currently employs 2,500 people, down from 5,500 when it was nationalised.
On nationalisation, the government subsequently split the bank into two, Northern Rock plc, and Northern Rock (Asset Management), into which was placed its bad debt.
Sources at Northern Rock told the BBC that there were cheers at the bank's Newcastle headquarters when the news of the Virgin Money deal was announced.
Taxpayer loss
The government said Northern Rock customers would see no change to their accounts and services and would not need to take any action.

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