# The PB Report 2010

**A Publication of the Privatization Barometer**
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## Here comes another privatization wave

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**THE WEBSITE ON PRIVATIZATION IN EUROPE**

Fondazione Eni Enrico Mattei

KPMG

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## The PB Report

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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

What a year! 2010 was unlike any other in financial history, and particularly in the history of privatization, in that it saw the largest share offering ever--indeed the largest security offering of any type—as well as the largest initial public offerings in world and in U.S. history. This year also set records both for the most active quarter ever for initial public offerings (and the second highest annual total) and for the largest annual value of privatization sales ($213.6 billion; €159.9 billion) since the phenomenon of state divestments began over four decades ago. 2010 also witnessed the full emergence of the BRIC (Brazil, Russia, India, and China) countries as major financial players and the continuing shift of financial power eastwards, towards Asia. To top off this amazing year, the United States reprised its surprising role as the world's largest privatizer for the second year running, while China, Brazil, France, Turkey, Poland, and India accounted for ranks two through seven.

The Brazilian government entered the record books with the largest ever stock sale in September 2010, when Petrobras executed a seasoned equity offering that raised approximately $70.0 billion (€52.4 billion). This deal included both capital-raising public issues of voting and non-voting shares - the privatization parts of the offering - and a $42.5 billion (€31.8 billion) grant of **Petrobras** stock to the Brazilian government in exchange for rights to 5 billion barrels worth of recently discovered oil. History's, and the year 2010's, two largest initial public offerings (IPOs) were the $22.1 billion (€16.5 billion) **Agricultural Bank of China** IPO in July and November's $20.1 billion (€15.0 billion) sale of shares in **General Motors**. The governments of Malaysia and India also executed their nation's largest ever share offerings, with the IPOs of **Petronas Chemicals** ($4.1 billion; €3.1 billion) in November and **Coal India** ($3.5 billion; €2.6 billion) in October, respectively.

As has been true for the past several years, the 27 nations of the European Union accounted for a small minority of the aggregate global number and value of privatization deals during 2010. There were 99 EU privatizations that raised €33.1 billion ($44.2 billion), but this represents only 20.6% of the worldwide total, far below the long-run average EU share of 47.1%. As usual, France raised more privatization revenues than any other EU country, but Poland's ranking as the second most active privatizer was far more surprising—and reflected the country's much more robust rate of economic growth and greater financial dynamism. As usual, privatization proceeds raised by EU governments through private sales in 2010 (€21.8 billion; $29.2 billion) were roughly double those raised through public offerings (€11.3 billion; $15.1 billion) and the €16.9 billion ($22.6 billion) of utilities sales once more accounted for over half (51.1%) of all EU privatizations.

Several large infrastructure privatizations were executed by EU and non-EU governments alike during 2010. European deals included the British government's November auction of a 30-year concession to operate the **High-Speed Rail One** (HS1) trains from London to the Channel Tunnel - which was expected to raise about £1.5 billion (€1.8 billion; $2.4 billion), but instead brought in £2.1 billion (€2.5 billion; $3.4 billion) - and the German government's auctions of **4G mobile broadband spectrum** which collectively raised €4.1 billion ($5.5 billion) in May. Non-EU infrastructure privatizations were even larger and included Turkey's sales of the **Istanbul electric grid**, the **Ankara Gas Works**, and three other utilities which collectively raised $12.3 billion (€9.2 billion) plus two massive sales by Australia's Queensland regional government in November - the IPO of a 60% stake in **QR National** that raised A$4.0 billion ($5.1 billion; €3.9 billion) and the auction of rights to operate the **Port of Brisbane** for 99 years, which was won by a consortium including the sovereign wealth fund Abu Dhabi Investment Authority (ADIA) and Global Infrastructure Partners, operators of London's Gatwick Airport.

As noted above, the United States once more topped the rankings of global privatizers, with total proceeds of $49.0 billion (€36.7 billion). Over half ($28.1 billion; €21.0 billion) of this total was raised through a series of small sales of government-held shares in **Citigroup** over the course of the year, followed by the single largest ever accelerated seasoned offering in history, the $10.5 billion (€7.9 billion) sale of Citi shares in December, which was completed in less than two hours. The November IPO of **General Motors**, which cut the federal government's stake roughly in half (to 33%), was the largest stock offering of any kind ever sold on U.S. markets. If the Treasury follows through on its expressed plan to sell shares in **Ally Financial** (formerly GMAC, General Motors' financial arm) during 2011, the United States might well rank high in the privatization league tables for a third straight year.

Despite many successes, 2010 also witnessed a number of spectacular failed and canceled privatizations. None was larger or more embarrassing than the third attempt at selling a controlling stake in **Nigerian Telecom** (Nitel), which collapsed in March 2011 after an almost farcical series of mis-steps throughout 2010. The consortium that won the first Nitel auction in October 2010 offered a $2.5 billion (€1.9 billion) bid, more than twice the expected sale price, but listed as a member of the consortium a company (China Unicom) that soon thereafter announced it was not in fact involved. The reserve bidder, which had offered $1.0 billion (€748 million), failed to come up with the required 30% cash down payment in March 2011, after which the Nitel sale was cancelled. Other failed deals of 2010 include the completed but ultimately canceled (due to anti-trust concerns) Zl7.5 billion (€1.6 billion; $2.6 billion) sale of 84% of Poland's **Energa** electricity company, the unconsummated auction of the Polish electricity company **Enea** - first to the country's richest man, Jan Kulczyk, and then to Electricité de France - and the Korean government's fumbled sale of 59% of **Woori Financial Group**, which failed because no qualified buyers (financial institutions and local private equity funds) chose to bid and because non-financial (Chaebol) firms and foreign private equity groups are barred from acquiring more than a 10% stake in Korean banks.

The relative importance of privatized firms in global markets continued to manifest itself during 2010. In fact, the 150 fully and partially privatized companies in the *Financial Times* FT 500 list of the world's 500 most valuable companies had a combined market capitalization of $7.23 trillion (€5.41 trillion) in June 2010. This represents 30.8% of the $23.50 trillion (€17.58 trillion) combined value of all the FT 500 companies - and slightly less than half (48.7%) of the market capitalization of the 337 non-U.S. companies in the FT 500. It also remains true that European governments hold at least two-thirds of a trillion dollars worth of stakes in partially privatized firms that could be sold in subsequent years, and such sales seem increasingly likely as EU states face truly dire fiscal problems and have few alternatives for raising comparable amounts of revenue. The Chinese, Russian, and Saudi governments collectively retain even more valuable stakes - surely exceeding €1.5 trillion ($2.0 trillion) - in partially privatized, listed companies, and there are entire industries (most notably oil exploration and production) that remain fully or largely state-owned in important national or regional economies.

All in all, the future of privatization seems assured. Several EU governments - including Spain, Poland, Britain, Ireland, Portugal, and, especially Greece - have publicly announced plans to launch or continue major privatization programs during 2011 and beyond. Euro-zone governments worst hit by debt worries want to sell around €35 billion ($46 billion) of assets by 2013.[1] Outside of the EU, the governments of nations as varied as the United States, Mongolia, Turkey, Canada, Russia, and New Zealand have also announced explicit sale plans for the next few years. Longer term, unless economic growth surges to levels unseen in many years, it seems highly likely that western governments will have no choice but to increase privatization sales in order to close yawning budget deficits, and the rapidly growing emerging market countries will choose to sell stakes in their own SOEs for both strategic and financial reasons. Stay tuned.

[1] See "Government Woes Fuel Infrastructure," *Heard on the Street*, *Wall Street Journal* (December 11, 2010).

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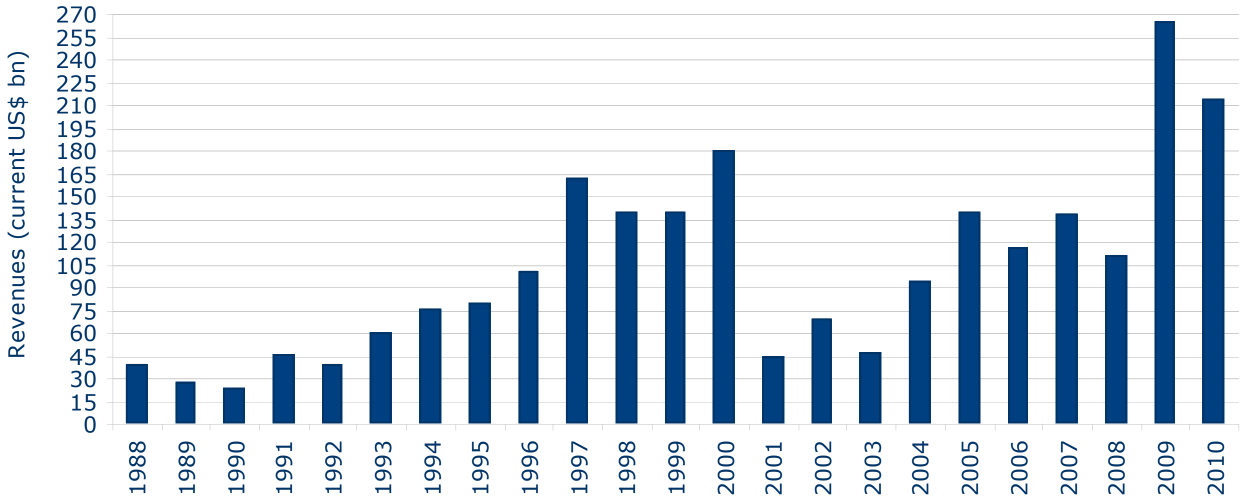
# Privatization Trends and Major Deals in 2010

## Global Trends in Privatization, 2010

2010 was a financial year that set a number of important records. First, the $70 billion (€52.4 billion) **Petrobras** seasoned equity offering (SEO) in September 2010 was both history's largest ever stock offering and the largest corporate security offering of any kind. Second, the $22.1 billion (€16.5 billion) initial public offering (IPO) of **Agricultural Bank of China** in July was the largest IPO in world history, while November's $20.1 billion (€15.0 billion) IPO of shares in **General Motors** was America's largest ever IPO. Third, the fourth quarter saw a record $122.2 billion (€91.5 billion) raised through IPOs worldwide, and emerging market issuers accounted for over half ($146 billion) of the $269.4 billion (€201.6 billion) global IPO total for 2010 - which itself was second only to 2007's record of $295 billion (€222.3 billion).[2] Finally, and most important for our purposes, governments raised a record $213.6 billion (€159.9 billion) through privatization sales of common stock in state owned enterprises.

This assertion of a record level of privatizations must be qualified a bit, since governments actually raised more ($265.2 billion; €184.30 billion) through equity sales in 2009. However, bank repurchases of mostly preferred stock acquired during the Financial Crisis through government rescue operations accounted for almost two-thirds ($168.8 billion; €118.46 billion) of 2009's total.

**Figure 1. Worldwide Revenues from Privatizations 1988 - 2010**




Source: *Privatization Barometer*

[2] IPO data are from Thomson Reuters, *Equity Capital Markets Review, Full Year 2010*. The totals for 2010 compared to 2007 are from Anousha Sakoui, "Share offerings set strong pace despite volatility," *Financial Times* (December 8, 2010), reported in www.ft.com.

Thus, 2010's level of "true privatizations", defined as sales of common stock to private investors, easily exceeds the previous record of $180.0 billion set during 2000. Share issue privatizations (SIPs) were especially important during 2010, and encompassed both the Agricultural Bank of China and General Motors initial public offerings and the $27.5 billion (€20.6 billion) portion of the Petrobras SEO that was sold to private investors, as well as the IPOs of **Petronas Chemicals** ($4.1 billion; €3.1 billion) in November and **Coal India** ($3.5 billion; €2.6 billion) in October - which were the largest IPOs in the history of Malaysia and India, respectively.[3] Figure 1 describes how 2010's global privatization revenues compare to similar totals since 1988.

Reprising its surprise leading role during 2009, the United States was again the leading privatizing country during 2010, with three large share sales raising an astonishing $49.0 billion (€36.7 billion). In addition to the General Motors IPO, the U.S. Treasury disposed of its remaining shareholdings in **Citigroup** in a series of small share sales throughout the year that raised $17.6 billion (€13.2 billion), followed by a single bloc trade in December that raised $10.5 billion (€7.9 billion) in one afternoon.[4] The Treasury also raised $840.4 million (€628.9 million) in a May sale of the warrants the government had acquired in **Wells Fargo** during the Crisis.[5]

The second largest privatizer of 2010, China, was a more familiar ranking player. 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.[6] Besides the Agricultural Bank IPO, we identify three other large Chinese SIPs that collectively raised $5.8 billion (€4.3 billion), bringing China's 2010 total to $27.9 billion (€20.9 billion). The next six largest privatizers of 2010, after the United States and China, were Brazil ($27.5 billion; €20.6 billion), France ($14.0 billion; €10.5 billion), Turkey ($12.3 billion; €9.2 billion), Poland ($8.8 billion; €6.6 billion), India ($8.3 billion; €6.2 billion), and the United Kingdom ($6.8 billion; €5.1 billion). These sales are described in detail in the next two sections.

### Privatization Deals in the European Union, 2010

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. As Table 1 makes clear, the 99 EU privatization transactions that raised €33.1 billion ($44.2 billion) represented only 20.6% of the worldwide total. This level is far below the long-run average EU share of 43.6%, and vastly lower than the 72.5% share of total global divestments that the EU accounted for as recently as 2004. The aggregate EU value in 2010 is also far below recent annual levels, which averaged over €49 billion ($65 billion) between 2004 and 2009. On the other hand, evidence we present at the end of this article suggests that European privatizations are likely to increase significantly - perhaps surge - over the next few years as

[3] Details of the Petronas sale are presented in Kevin Brown, "Petronas Chemical raises $4.1 billion from IPO," *Financial Times* (November 12, 2010).
[4] See Richard Blackden, "Citi shares rise as US government exits," *The Daily Telegraph*-London (December 8, 2010). The $10.5 billion bloc trade is, we believe, the largest accelerated seasoned equity offering ever.
[5] According to an Associated Press news report filed immediately after this sale, Wells Fargo itself purchased 63.6% of the warrants being offered.
[6] Since 2005, the Chinese government has (apparently) been selling down its residual holdings in listed SOEs through open market sales, but since these are never reported contemporaneously they are impossible to track effectively.

governments resort to divestments to try to bridge yawning budget deficits in the post-Crisis era.

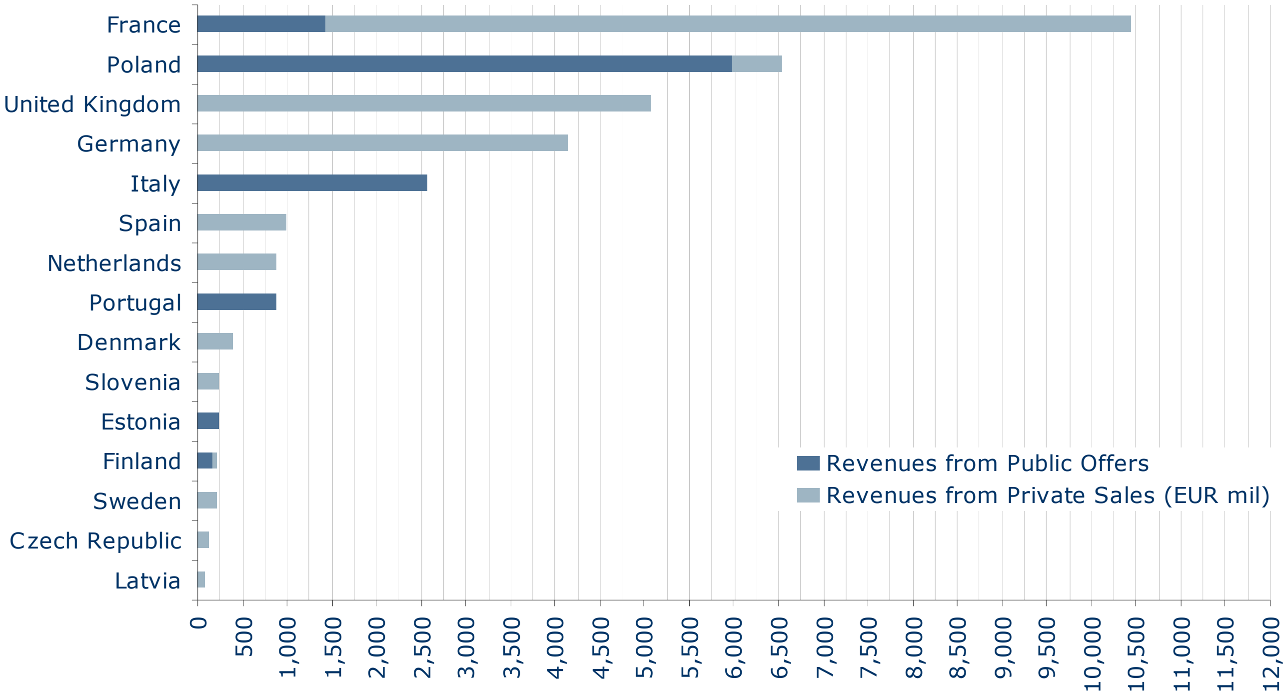
**Table 1. Privatization Revenues, Worldwide and European Union, US$ Billions, 1988-2010**

| 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% |
| **Total** | **2,351.41** | **1,026.11** | **56.36%** | **43.64%** |

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

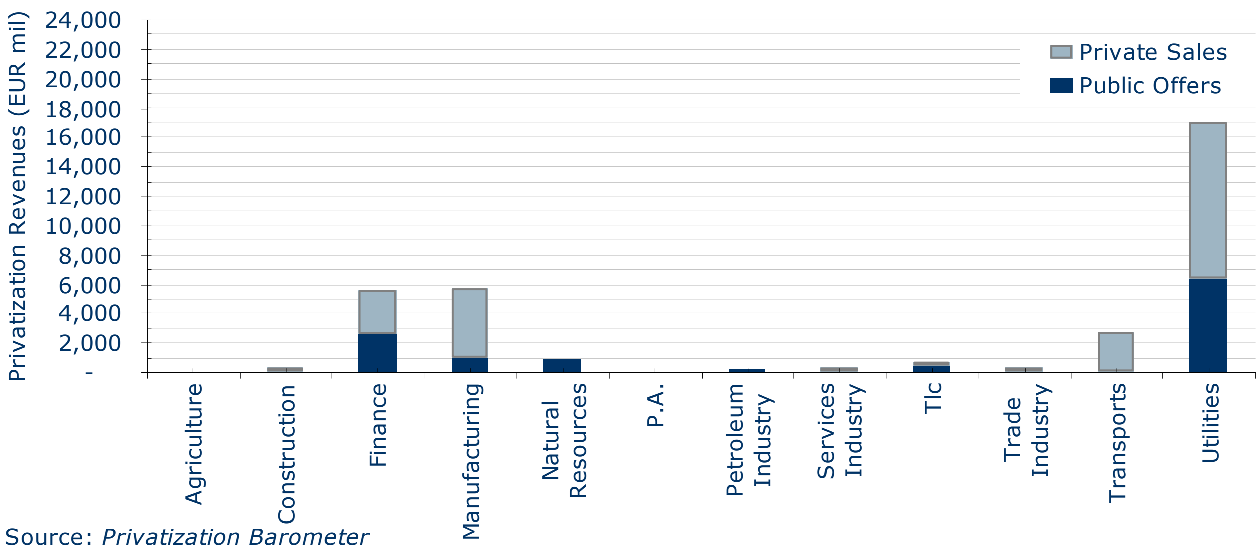
As usual, France was the leading EU privatizer during 2010, followed by Poland, the United Kingdom, Germany and Italy. Figure 2 details the total value of privatization proceeds for leading EU countries during 2010, as well as the split between public offers (SIPs) and private sales of state enterprises directly to private investors or operating companies. As has been true for several years, the total amount raised through private sales (€21.8 billion; $29.2 billion) far exceeded that raised through public offerings (€11.3 billion; $15.1 billion). Figure 3 shows that, as usual, the €16.9 billion ($22.6 billion) of utilities sales accounted for over half (51.1%) of all EU privatizations during 2010, with manufacturing (17.1%), finance (16.7%), and transport (8.0%) sales accounting for most of the rest.

**Figure 2. Distribution of Privatization Revenues by Country, 2010**




Source: *Privatization Barometer*

**Figure 3. Distribution of Privatization Revenues by Sector, 2010**




Source: *Privatization Barometer*

Table 2 lists the 35 EU privatization transactions of 2010 that raised at least €100 million. The largest such deal was the sale of Electricité de France's 45% stake in Germany's **EnBW Energie** to the state of Baden-Wurttemberg for €4.7 billion ($6.3 billion) in early December.[7] Even though this deal involved a sale from a state-controlled enterprise to a state government, we classify it as a

[7] This transaction is described in Peggy Hollinger and Gerrit Wiesmann, "EDF quits Germany with EnBW sale," *Financial Times* (September 6, 2010). These authors also describe how this divestiture broke a corporate governance logjam for EnBW--that of having two co-equal owners, EdF and local works councils and unions, who frequently worked at cross purposes.

privatization since the deal explicitly mentioned a plan to re-sell the stake acquired on the stock market as soon as practicable. A French company, the nuclear power producer **Areva**, was also involved in the second largest EU privatization deal of 2010. Under pressure from the French government, Areva agreed to sell the bulk (3.65%) of its stake in the aerospace group **Safran** for €311 million ($431 million), raise €900 million ($1,247 million) in fresh capital through a rights offering, and put approximately €6 billion ($8.3 billion) worth of non-core assets up for sale. In an embarrassing twist, the only firm bidder that emerged for these assets was the Qatari sovereign wealth fund - which purchased the assets for €4.3 billion ($5.8 billion) in December.[8]

The third largest EU privatization of 2010 was also Europe's largest IPO of the year, the €2.6 billion ($3.4 billion) public offering of a 29.3% stake in Italy's **Enel Green Power SpA** in November. Although this offering was over-subscribed, less was raised than originally hoped and the shares traded flat on

**Table 2. European Deals*, 2010**

| Date | Company Name | Nation | Sector | % for Sale | Value (€ mil) | Direct/ Indirect Sale** | Method of Sale |
|---|---|---|---|---|---|---|---|
| 12/07/10 | EnBW Energie Baden-Wurttemberg | France | Utilities | 45.00 | 4,684.93 | Direct | Private Placement |
| 06/07/10 | Areva T&D SAS | France | Utilities | 100.00 | 4,317.23 | Indirect | Private Placement |
| 11/01/10 | Enel Green Power SpA | Italy | Utilities | 29.30 | 2,566.08 | Indirect | IPO |
| 11/07/10 | High Speed Rail 1 (HS1)[1] | United Kingdom | Transports | 100.00 | 2,544.53 | Direct | Private Placement |
| 12/01/10 | RBS WorldPay | United Kingdom | Finance & Real Estate | 80.00 | 2,259.18 | Indirect | Private Placement |
| 04/29/10 | Powszechny Zaklad Ubezpieczen (PZU) | Poland | Finance & Real Estate | 30.00 | 2,047.76 | Direct | IPO |
| 05/20/10 | 4G mobile broadband spectrum (12)[2] | Germany | Manufacturing | n.a. | 1,329.89 | Direct | Auction |
| 05/20/10 | 4G mobile broadband spectrum (11)[2] | Germany | Manufacturing | n.a. | 1,288.73 | Direct | Auction |
| 05/20/10 | 4G mobile broadband spectrum (10)[2] | Germany | Manufacturing | n.a. | 1,214.64 | Direct | Auction |
| 10/08/10 | PGE Polska Grupa Energetyczna | Poland | Utilities | 10.00 | 1,048.72 | Direct | Accelerated Transaction |
| 12/21/10 | Tauron Polska Energia | Poland | Utilities | 52.00 | 1,005.36 | Direct | IPO |
| 09/28/10 | Galp | Portugal | Utilities | 7.00 | 885.65 | Indirect | Exchangeable Bonds |
| 07/01/10 | Endinet BV | Netherlands | Utilities | 100.00 | 726.75 | Direct | Private Placement |
| 07/28/10 | Naturgas Energia Grupo SA | Spain | Utilities | 29.40 | 599.84 | Indirect | Private Placement |
| 12/10/10 | Areva | France | Manufacturing | 4.80 | 593.88 | Direct | Market Follow-on |
| 01/15/10 | KGHM Polska Miedz SA | Poland | Natural Resources | 10.00 | 537.51 | Direct | Accelerated Transaction |
| 09/10/10 | Gas Natural SDG SA | France | Utilities | 5.00 | 514.14 | Indirect | Accelerated Transaction |
| 07/16/10 | Cajasur | Spain | Finance & Real Estate | 100.00 | 392.00 | Direct | Private Placement |
| 11/09/10 | Warsaw Stock Exchange | Poland | Finance & Real Estate | 63.82 | 358.22 | Direct | IPO |
| 10/12/10 | Safran | France | Manufacturing | 3.65 | 323.70 | Indirect | Accelerated Transaction |
| 03/09/10 | Bogdanka Coal Mine | Poland | Natural Resources | 46.70 | 294.70 | Direct | Accelerated Transaction |
| 02/09/10 | Grupa Energetyczna ENEA SA | Poland | Utilities | 16.05 | 288.76 | Direct | Accelerated Transaction |
| 05/20/10 | 4G mobile broadband spectrum (8)[2] | Germany | Manufacturing | n.a. | 264.93 | Direct | Auction |
| 11/23/10 | Droga Kolinska dd | Slovenia | Manufacturing | 100.00 | 243.43 | Indirect | Private Placement |
| 01/12/10 | Eesti Telekom AS | Estonia | Telecommunications | 40.00 | 238.88 | Direct | Market Follow-on |
| 08/06/10 | Telekomunikacja Polska SA (TPSA) | Poland | Telecommunications | 4.15 | 219.28 | Direct | Market Follow-on |
| 11/16/10 | Sponda Oyj | Finland | Finance & Real Estate | 19.09 | 178.20 | Indirect | Accelerated Transaction |
| 12/15/10 | WSN Environmental Solutions[3] | United Kingdom | Utilities | 100.00 | 174.00 | Direct | Private Placement |
| 02/19/10 | Pharmacy Company Sweden 2 AB | Sweden | Trade Industry | 100.00 | 164.04 | Indirect | Private Placement |
| 10/29/10 | Strukton Groep NV | Netherlands | Construction | 100.00 | 162.41 | Indirect | Private Placement |
| 07/02/10 | TV2 DR-Networks | Denmark | Telecommunications | 100.00 | 157.91 | Direct | Private Placement |
| 09/13/10 | Ruch | Poland | Services Industry | 11.00 | 153.00 | Indirect | Private Placement |
| 10/13/10 | A2SEA A/S | Denmark | Construction | 49.00 | 106.15 | Indirect | Private Placement |
| 01/22/10 | Grupa Lotos | Poland | Petroleum Industry | 10.78 | 105.51 | Indirect | Accelerated Transaction |
| 02/01/10 | RBS Asset Management Ltd[4] | United Kingdom | Finance & Real Estate | 100.00 | 101.56 | Indirect | Private Placement |
| **Total 1H2010 (all 46 transactions)** | | | | | **13,702.02** | | |
| **Total 2H2010 (all 53 transactions)** | | | | | **19,398.24** | | |
| **Total 2010 (all 99 transactions)** | | | | | **33,100.26** | | |

[1] 30-year concession
[2] Number of Frequency Blocks
[3] Waste management activities
[4] Certain Fund Management Assets
* 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.*

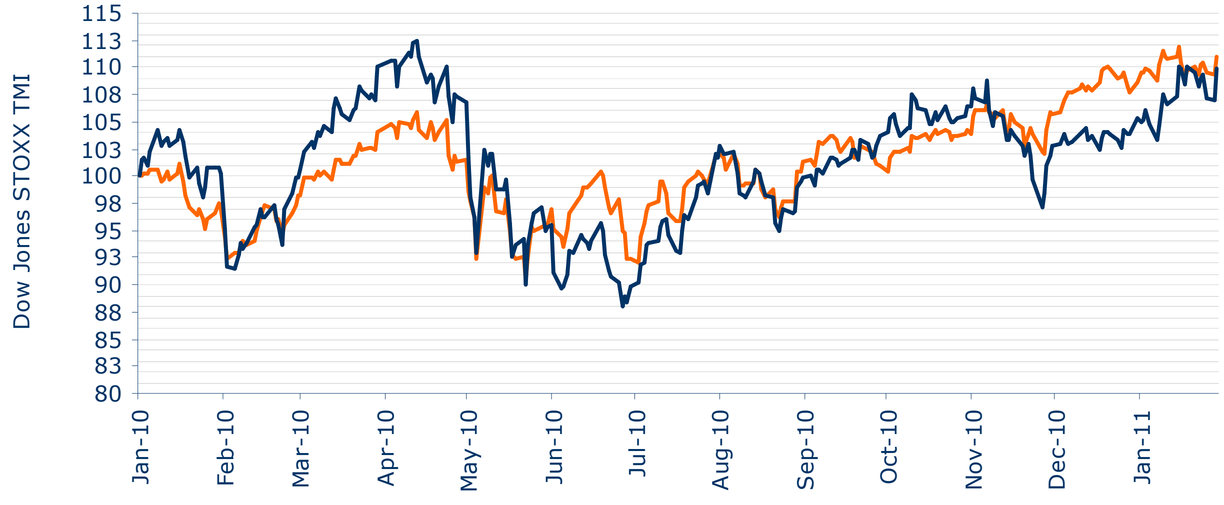
[8] See Juliette Rouillon and Caroline Jacobs, "France's Areva cuts Safran stake," *Reuters*-Paris (October 12, 2010).

opening.[9] In contrast, the fourth largest EU privatization deal of 2010 raised significantly more than originally thought and was judged a rousing success. This was the November auction of a 30-year concession to operate the **High-Speed Rail One** (HS1) trains from London to the Channel Tunnel. The U.K. Department for Transport, which conducted this auction, expected to raise about £1.5 billion (€1.8 billion; $2.4 billion), but competition from four consortiums was so intense that the winner - a group of Canadian pension funds - offered £2.1 billion (€2.5 billion; $3.4 billion).[10] The fifth largest EU privatization deal was a straightforward private sale of 80% of **RBS WorldPay**, a subsidiary of the state-owned Royal Bank of Scotland, to Advent International Corp and Bain Capital LLC. This placement raised €2.3 billion ($3.0 billion) for the British government and RBS in November.

In many ways, Poland was the star privatizer of the European Union during 2010. The Polish government executed several very successful deals, the largest of which was the November IPO of a 30% stake in the insurance company **Powszechny Zaklad Ubezpieczen** (PZU), which raised Zl18.1 billion (€2.0 billion; $2.7 billion).[11] In addition to being Poland's largest ever IPO, this was also the EU's sixth largest privatization of 2010. The offering was nine times subscribed and came on the heels of the much smaller (Zl1.0 billion; €300 million; $423 million), but wildly successful October IPO of 63% of the **Warsaw Stock** Exchange - which was 25 times subscribed, attracted 323,000 retail investors, and soared 22.5% above the offer price on its opening.

The seventh through ninth largest EU sales of 2010 were all **4G mobile broadband spectrum** auctions by the German government, which collectively raised €2.0 billion ($2.7 billion) in May. The final two truly large (at least €1.0 billion) EU deals were Polish SIPs, beginning with the October public sale of a 10% stake in **Polska Grupa Energetyczna** (PGE) in an accelerated transaction that netted €1.05 billion ($1.4 billion). This was followed two months later by

**Figure 4. Equity Markets in Europe, 2010**




Source: Elaborations on *STOXX Limited* Data

[9] Details of this offering are presented in Liam Moloney, "Enel Green Power Flat in Debut," *Wall Street Journal Europe* (November 4, 2010) and Sylvia Pfeifer, "Enel's IPO falls short of target," *Financial Times* (October 29, 2010).
[10] The HS1 deal is described in Robert Wright, "£2.1bn HS1 sale lifts privatization prospects," *Financial Times* (November 5, 2010) and Richard Blackwell, "Canadian investors pick up high-speed line, a key piece of Britain's domestic infrastructure," *The Globe & Mail* –Canada (November 6, 2010).

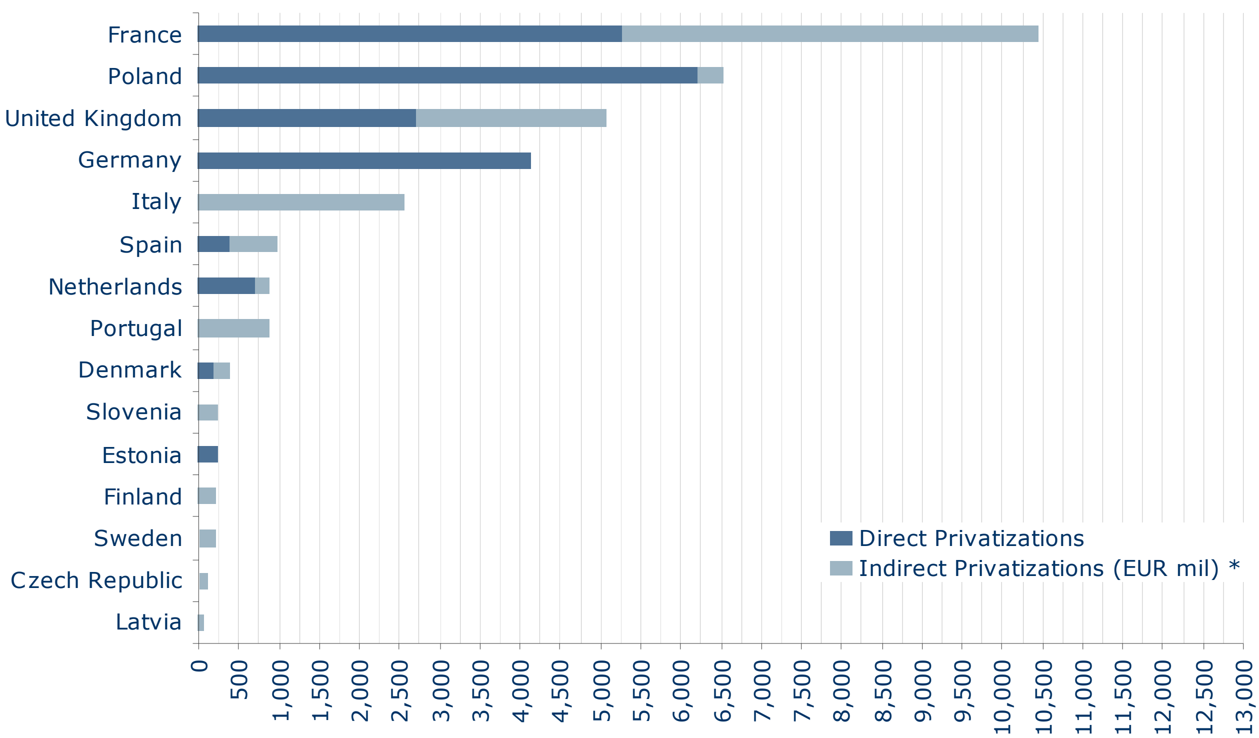
the IPO of a 52% stake in **Tauron Polska Energia**, which raised €1.0 billion ($1.3 billion). The high demand for shares in the bookbuilding phase - when 230,000 retail investors demanded shares - caused the government to increase the offering size from 25% to 53%. But when the offer was executed, the share price actually fell 1.56%.[12]

EU privatization transactions were significantly back-loaded towards the second half of 2010, with 58.6% of the total €33.1 billion ($44.2 billion) being raised then versus 41.4% during 1H2010. As Figure 4 describes graphically, this partly reflected the steadily improving stock market valuations achieved after hitting low points in May and June, although the December closing levels of the EURO STOXX indices were actually lower than the year's highs reached briefly in April. Finally, Figure 5 shows that 60.2% of EU privatizations during 2010 were direct sales of stock by governments or state-owned enterprises themselves, while 39.8% were indirect sales of stock by state-owned banks or holding companies. All of Germany's privatizations were direct sales, as were most from Poland, Estonia, and the Netherlands. Italy's only major deal was an indirect sale, and these dominated transactions from Spain, Portugal, Slovenia, Sweden, Finland, the Czech Republic and Latvia. There was a roughly even mix of direct and indirect sales in Britain and France.

### Sales Outside of Europe during 2010

As exciting as EU privatizations were during 2010, they were swamped in size and number by government divestments in the United States, Brazil, Asia, and

**Figure 5. Distribution of Privatization Revenues by Country, 2010**




* Direct Privatizations refer to the sale of government's direct stakes. Indirect Privatizations include spin-offs and transfer of shares from government owned companies.

Source: *Privatization Barometer*

[11] See Neil MacDonald, "Growing companies hunt for finance," *Financial Times* (December 1, 2010).

the Middle East. Non-EU deals accounted for almost four-fifths (79.4%) of the global privatization total of $213.6 billion (€159.9 billion). Table 3 lists the 31 largest privatizations (those that raised at least $1.0 billion) worldwide during 2010, including those executed in the European Union.

As noted in the introduction, the United States was again (for the second time in sequence) the surprise global leader in total privatization proceeds, with $49.0 billion (€36.7 billion) being raised in three large deals. Over half ($28.1 billion; €21.0 billion) was raised through a series of small sales of government-held shares in **Citigroup** over the course of the year, followed by a single large ($10.5 billion; €7.9 billion) accelerated transaction in December. However, the largest and most dramatic single U.S. privatization deal of 2010 was the IPO of **General Motors**, executed after the 2010 congressional elections in November. At $20.1 billion, this was both the largest IPO and the largest stock offering of any kind ever sold on U.S. markets.[13] As expressed investor demand for GM shares grew steadily after bookbuilding began in the summer of 2010, the government increased the number of shares it planned to sell - to the point that the Treasury sold almost half of the stake (retaining 33%) it received after rescuing GM from bankruptcy in 2009. The offer price was finally set at $33/share, and rose to $35.99/share during the first day of trading. While U.S. investors purchased 90% of the offering, Saudi prince Alwaleed bin Tala al-Saud purchased $500 million himself. The Canadian government, which also acquired a large equity stake (11%) in GM during the 2009 rescue, chose to sell only 1%, and thus still retains 10% of the once-more-public auto maker.[14] Underwriting fees for the GM offering hit historic lows, with Goldman Sachs reportedly submitting a record low bid of 0.75%, and not winning the mandate!

The largest single privatization deal of 2010 was part of the largest - and one of the most complex - stock offering in history, the September **Petrobras** seasoned equity offering. All told, this raised approximately $70.0 billion (€52.4 billion) in a series of tranches involving capital-raising public offerings of voting and non-voting shares, plus a $42.5 billion (€31.8 billion) grant of Petrobras stock to the Brazilian government in exchange for rights to 5 billion barrels worth of recently discovered oil in "pre-salt" fields off the Brazilian coast. This will help Petrobras fund a colossal, five-year capital spending program projected at $224 billion (€167.6 billion).[15] Because of this stock-for-oil swap, the government's stake in Petrobras actually increased from 40% to 48%, despite the fact that the $27.5 billion (€20.6 billion) seasoned public offering of shares was the second largest share issue privatization ever, after the $40.3 billion Nippon Telegraph & Telephone offering in November 1987. Shares of Petrobras ran up prior to the offering date and remained buoyant thereafter.

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[12] The Tauron and several other Polish deals are discussed in Jan Cienski, "Poland energy sell-off moves ahead," *Financial Times* (July 1, 2010).

[13] While we use the $20.1 billion total proceeds figure reported at the time in multiple news media, a year-end report by Thomson Reuters listed the total amount raised by GM and the U.S. government as $23.1 billion after the Green Shoe option was exercised, which would make it the largest ever IPO globally. See Thomson Reuters, *Equity Capital Markets Review, Full Year 2010*.

[14] The GM sale was covered extensively by American and global media. Two good examples are David Welch, Lee Spears and Craig Trudell, "GM IPO Raises $20 Billion Selling Common, Preferred," *Bloomberg News* [http://www.bloomberg.com/news], (November 17, 2010) and Bernard Simon and John Reed, "Saudi prince snaps up 1% stake in GM," *Financial Times* (November 23, 2010).

[15] Petrobras' offering was extensively reported, including in Jonathan Wheatley, "Petrobras offering raises $67 bn," *Financial Times* (September 24, 2010) and Bradley Brooks, "Brazil oil giant in $74b float," *The Advertiser*-Australia (September 25, 2010).

China also entered the record books during 2010, with the largest ever IPO of any type, privatization-related or private-sector. The July offering of a 15% stake in the **Agricultural Bank of China** in Shanghai and Hong Kong raised $18.9 billion (€14.1 billion) initially, and a final total of $22.1 billion (€16.5 billion) after exercising the Green Shoe option.[16] This was the last of the Big Four Chinese banks to list and had been rescued by the Chinese Investment Corporation (China's sovereign wealth fund) only three years before, after its loan losses topped 23.5% of total loans. Besides its record-breaking size, the AgBank offering was also remarkable in that the Chinese government successfully pressured the international investment banks handling the offer to cut their underwriting fees by 30% (from $206 million to $142 million) *after* the sale was completed. The government argued that it had done most of the heavy lifting by arranging for eleven cornerstone investors to purchase over half of the $10.5 billion worth of shares sold in Hong Kong. The bank's shares closed up 2.2% in Hong Kong on the first day of trading.[17]

Two other Chinese bank IPOs ranked in the top 25 privatization deals of 2010. The August sale of a 15.4% stake in **China Everbright Bank** raised $2.8 billion (€2.1 billion) and yielded an 18% first day return for new investors, while the December sale of 27.7% of **Chongqing Rural Commercial Bank** netted $1.78

**Table 3. Details on Global Privatization Transactions*, 2010**

| Month | Company Name | Country | Sector | % for Sale | Value ($ mil) | Method of sale | Comments |
|---|---|---|---|---|---|---|---|
| September | Petrobras | Brazil | Oil and gas | 15.10 | 27,500.00 | Seasoned offer | Part of $70 bn share sale, largest in history |
| July | Agricultural Bank of China | China | Banking | 15.00 | 22,100.00 | IPO | Largest IPO ever; Last Big 4 bank to go public |
| November | General Motors | USA | Manufacturing | 28.00 | 20,100.00 | IPO | Stake cut from 61% to 33% in US' largest IPO |
| Jan-Dec | Citigroup | USA | Banking | 17.00 | 17,600.00 | Market sales | Many small sales spread over year |
| December | Citigroup | USA | Banking | 10.00 | 10,500.00 | Block trade | One final large accelerated transaction |
| December | Electricity and gas distribution grids | Turkey | Utilities | n.a. | 9,600.00 | Auction | Four companies sold in auctions |
| July | EnBW Energie Baden-Wurttemberg | France | Utilities | 45.00 | 6,260.00 | Private Placement | Sold to NECKARPRI Gmbh |
| July | Areva T&D SAS | France | Utilities | 100.00 | 5,768.69 | Private Placement | Sold to Kuwait SWF, plus capital increase |
| November | Petronas Chemical | Malaysia | Chemicals | 31.00 | 4,100.00 | IPO | Largest IPO in Malaysia history |
| November | QR National | Australia | Railroad | 60.00 | 3,900.00 | IPO | Sale by Queensland government |
| October | Coal India | India | Coal mining | 39.70 | 3,500.00 | IPO | Largest IPO in India's history |
| November | Enel Green Power SpA | Italy | Utilities | 29.30 | 3,428.79 | IPO | Stake sold by Enel |
| November | High Speed Rail 1 (HS1)[1] | United Kingdom | Transports | 100.00 | 3,400.00 | Private Placement | Group of Canadian pension funds won bid |
| December | RBS WorldPay | United Kingdom | Finance | 80.00 | 3,018.72 | Private Placement | Stake acquired by Advent International |
| November | Global Logistics Properties | Singapore | Logistics | 49.00 | 3,000.00 | IPO | Subsidiary of Singapore's GIC |
| August | China Everbright Bank | China | Banking | 15.40 | 2,800.00 | IPO | Initial return of 18% |
| April | Powszechny Zaklad Ubezpieczen (PZU) | Poland | Insurance | 30.00 | 2,736.21 | IPO | Stake sold by govt and Dutch investor |
| August | Hyundai Oilbank Co Ltd | South Korea | Oil and gas | 70.00 | 2,233.70 | Acquisition | IPIC (Abu Dhabi) subsidiary sold to Hyundai |
| March | National Mineral Development Corp | India | Iron ore mining | 8.38 | 2,200.00 | Seasoned offer | New shares sold at 13% discount |
| November | Port of Brisbane | Australia | Cargo handling | n.a. | 2,100.00 | Auction | Queensland govt sold operating rights |
| April | Cegelec SA | Qatar | Engineering | 100.00 | 1,983.40 | Acquisition | State of Qatar sold to VINCI SA |
| February | NTPC | India | Electrici power | 5.50 | 1,800.00 | IPO | India's largest electric power company |
| December | Chongqing Rural Commercial Bank | China | Banking | 27.70 | 1,780.00 | IPO | Gained 3.8% on Hong Kong opening |
| May | 4G mobile broadband spectrum (12)[2] | Germany | Manufacturing | n.a. | 1,777.00 | Auction | 12 frequency blocks auctioned |
| May | 4G mobile broadband spectrum (11)[2] | Germany | Manufacturing | n.a. | 1,722.00 | Auction | 11 frequency blocks auctioned |
| May | 4G mobile broadband spectrum (10)[2] | Germany | Manufacturing | n.a. | 1,623.00 | Auction | 10 frequency blocks auctioned |
| April | Electrity distribution grids | Turkey | Utilities | n.a. | 1,524.00 | Auction | Four companies sold in auctions |
| October | PGE Polska Grupa Energetyczna | Poland | Utilities | 10.00 | 1,401.30 | Accelerated Trans | Direct sale to Polish investors |
| June | Tauron Polska Energia | Poland | Utilities | 52.00 | 1,343.37 | IPO | Direct sale, Polish & international investors |
| September | Galp | Portugal | Utilities | 7.00 | 1,183.41 | Exchangeable Bond | Indirect sale by Parpublica |
| December | New Century Department Store Co | China | Retailing | 100.00 | 1,188.90 | Acquisition | Acquired by Chiongqing Department Stores |
| **Full-year 2010 Total (182 Transactions ≥ $10.0 mn)** | | | | | **$213,635.9** | | |
| **1st Half 2010 Total (85 Transactions ≥ $10.0 mn)** | | | | | **$57,323.4** | | |
| **2nd Half 2010 Total (97 Transactions ≥ $10.0 mn)** | | | | | **$156,312.5** | | |

[1] 30-year concession
[2] Number of Frequency Blocks
* In this table we reported only deals greater than $1 billion
Source: *Privatization Barometer, Securities Data Corporation* (SDC) New Issues and Mergers and Acquisitions data, and author's search of various news media (principally *Financial Times*).

[16] See Luo Jun, Eva Woo, and Chua Kong Ho, "Agricultural Bank of China Sets IPO Record as Size Raised to $22.1 Billion," *Bloomberg News* [http://www.bloomberg.com/news], (August 15, 2010).
[17] AgBank's historical loan losses are described in Henny Sender, "China's listed banks at behest of state," *Financial Times* (December 9, 2010) and the AgBank IPO proceeds - plus the Everbright bank offering details - are presented in Jamil Anderlini, "Everbright makes a strong Shanghai debut." *Financial Times* (August 18, 2010).

billion (€1.33 billion) and yielded a modest (by Chinese standards) 3.8% initial return. Collectively, these three IPOs - plus a $1.19 billion acquisition of New Century Department Store by Chiongqing Department Stores in December - brought China's 2010 privatization proceeds total to $27.9 billion (€20.9 billion), second only to the United States. Many Chinese banks also executed large rights offerings during 2010, totaling over $10 billion, but since these did not reduce government ownership (the state owners participated fully in the capital-raising) they do not count as SIPs.

Turkey was the fourth largest non-EU privatizer during 2010, and ranked fifth overall, with total proceeds of $12.3 billion (€9.2 billion). Uniquely among the major players, all of these proceeds came from auctions of gas and electric utilities. The most valuable auction outcomes were announced in December, when four electricity and gas companies were sold for a total of $9.6 billion (€7.2 billion). The final ownership tranche of the **Istanbul electric grid** was bought by Mehmet Emin Karamehmet, one of Turkey's wealthiest and most powerful businessmen, for $1.8 billion, while three other deals raised $2.1 billion, $1.2 billion, and $4.9 billion, respectively.[18] In April, the Turkish competition authority approved the sale of four electric distribution grids, which collectively raised $1.5 billion (€1.1 billion), while an auction of the **Ankara Gas Works** in August raised $1.2 billion (€898 million). Turkish electricity privatizations have raised $16 billion since divestment began in 2008.

India ranks sixth overall among national privatizers during 2010, with total proceeds of $8.3 billion (€6.2 billion). While this was less than the $13.4 billion the Indian government hoped to raise during the fiscal year from selling stakes in 60 Indian SOEs, this was India's largest annual privatization total ever.[19] All seven deals were SIPs, and included the largest stock offering in India's history, the October IPO of a 39.7% stake in **Coal India**, which raised $3.5 billion (€2.6 billion). This offering was heavily over-subscribed and the stock rose 39% above the offering price on the first day of trading. The second largest Indian privatization deal of 2010 was the March seasoned equity offering of 8.38% of **National Mineral Development Corporation** - which was sold at a 13% discount to the previous day's stock price, was 1.3 times subscribed, and raised $2.2 billion (€1.6 billion). The third large Indian SIP was the February IPO of a 5.5% stake in **NTPC**, India's largest electric power company, which raised $1.8 billion (€1.3 billion). The offering reduced the Indian government's residual ownership to 84.5%, it was 1.2 times subscribed, and shares traded flat on the opening day. Most of the shares were actually sold to other Indian state-owned firms.[20]

Although Australia ranks eighth on the 2010 national privatization list, both of the major Australian deals were actually sales by the Queensland regional government. The November IPO of a 60% stake in **QR National** raised A$4.0 billion ($3.9 billion; €2.9 billion) in Australia's second largest ever IPO (after the 1997 Telstra IPO, which raised A$14.3 billion [$10.5 billion; €9.3 billion]), and yielded a 4% initial return to investors on the first day's trading. This sale was the key piece of the Queensland's government's strategy of raising A$15

[18] See Delphine Strauss, "Billionaire takes control of Istanbul's grid," *Financial Times* (December 7, 2010).
[19] While the $13.4 billion target was, as noted, for the fiscal year including October 2010, the target still seems unlikely to be reached as few additional sales beyond those reported here have been completed during the first five months of 2011. See James Fontanella-Khan, "Coal India rises as much as 39% on debut," *Financial Times* (November 4, 2010).
[20] The NTPC deal is described in S. Anuradha, "Institutions back India NTPC share sale for $1.8 bil while retail buyers stay away," *Global Power Report* (February 11, 2010).

billion ($14.6 billion; €10.9 billion) from asset sales in order to regain its triple A credit rating.[21] Also in November, Queensland sold the rights to operate the **Port of Brisbane** for 99 years to a four-member consortium that included Abu Dhabi Investment Authority (ADIA), the world's largest sovereign wealth fund, and Global Infrastructure Partners, operators of London's Gatwick Airport.

Malaysia, Singapore, and South Korea all saw large privatization deals during 2010. The two large Malaysian privatization IPOs were both landmarks in their own ways. The first came in October, when a subsidiary of Petronas, the national oil company, raised M$2.03 billion ($656 million; €491 million) by listing a 33.5% stake in **Malaysian Marine and Heavy Engineering** (MMHE) on the Bursa Malaysia. About one-fourth of the offer (8% of the total holdings) was sold to a strategic investor, France's Technip, while the rest of the IPO was 27 times subscribed by retail investors.[22] The first day price pop was 8.4%, and initial investors who retained their shares earned a 48% return over the first two months of trading. The second Malaysian SIP of note was the November IPO of 31% of **Petronas Chemicals** which, with proceeds of $4.1 billion (€3.1 billion), was the largest ever Malaysian share offering of any kind. Petronas Chemicals had been formed from 31 different Petronas subsidiaries, and the IPO raised more than twice what was originally expected. The parent and subsidiary split the proceeds of the heavily over-subscribed offering 72% and 28%, respectively, and shares closed 10% above the institutional offer price at the end of the first day's trading.[23]

Each of Singapore's two main sovereign wealth funds executed significant IPOs of subsidiaries during 2010. Temasek raised S$1.19 billion ($917 million; €687 million), including proceeds from the over-allotment option, in an October IPO of **Mapletree Industrial Trust** that was 38 times subscribed and jumped 24% above the institutional offer price in the first day's trading.[24] Immediately after this deal closed (also in October), Singapore's Government Investment Corporation (GIC) raised S$3.9 billion ($3.0 billion; €2.2 billion) in an IPO of 49% of **Global Logistics Properties**. This was the largest Singaporean IPO in 17 years.[25] The final large privatization deal of 2010 was the August sale by Abu Dhabi's IPIC sovereign wealth fund of its 70% stake in **Hyundai Oilbank Company** to Hyundai for $2.2 billion (€1.6 billion).

### Failed and Canceled Privatizations during 2010

While 2010 was unquestionably an active and successful privatization year, there were also numerous spectacular failures and canceled offerings - though most of these only became obvious during the first half of 2011. By far the most controversial such failed deal was the third attempt at selling a controlling stake in **Nigerian Telecom** (Nitel), which played out over the course of 2010 before collapsing, almost farcically, in March 2011. The bidder that won the first auction (in October) with a $2.5 billion (€1.9 billion) bid, more than twice the

[21] See Peter Smith, "QR National climbs on trading debut," *Financial Times* (November 21, 2010). The Port of Brisbane deal is also described in a *Financial Times* (November 10, 2010) article by Peter Smith, "Port of Brisbane sold for $2.1bn).

[22] The MMHE sale is described in Jose Barrock, "Malaysia Marine and Heavy Engineering Holdings Bhd's (MMHE) IPO has set a good precedent for local listings," *The Edge Malaysia* (December 27, 2010).

[23] Details of the Petronas Chemicals IPO are presented in Kevin Brown, "Petronas Chemicals raises $4.1bn from IPO," *Financial Times* (November 12, 2010), while the initial return figure comes from a *Chemical Week* (November 29 - December 6, 2010) Newsbrief entitled simply, "Petronas Chemicals IPO.

[24] This IPO is described in Sam Holmes, "Mapletree Industrial Trust Almost 38 Times Subscribed," *Wall Street Journal* (October 19, 2010) and Jonathan Kwok, "Mapletree Industrial IPO hogs limelight," *The Straits Times* [Singapore] (October 22, 2010).

[25] See Anousha Sakoui, "Four IPO record-breakers boost Asia," *Financial Times* (October 13, 2010).

expected sale price, was Minerva Group, a Dubai-backed consortium that reportedly included China Unicom. Bizarrely, shortly thereafter China Unicom announced that it was not in fact a member of the consortium, so the Nigerian government voided this bid in December and turned to the reserve bidder, New Generations, which had offered $1.0 billion (€748 million).[26] When New Generations failed to come up with the required 30% cash down payment in March 2011, the Nitel sale was cancelled.

Another failed deal of 2010, the completed Zl7.5 billion ($2.6 billion; €1.6 billion) sale of 84% of Poland's **Energa** electricity company to the country's largest electric utility (PGE), was voided for much more prosaic reasons: antitrust concerns. The Polish competition authority ruled that the sale would give PGE control of more than 40% of the country's electricity market.[27] Another Polish electricity company, **Enea**, was also supposed to be sold in late 2010, but the winning bid for a 51% stake was voided when talks between the Polish government and the country's richest man, Jan Kulczyk, stalled. The government then turned to the reserve bidder, Electricité de France, but EDF formally withdrew from negotiations—reportedly over the Polish government's insistence on building a new coal-fired power generation plant.[28] The Polish government had been planning to raise Zl25 billion ($8.7 billion; €6.5 billion) through privatization sales during 2010 in order to prevent the public debt from exceeding 55% of GDP, but these two failed offers left it short of that goal.

The Korean government had to cancel a planned December sale of 59% of **Woori Financial Group**, which then had a market capitalization of over $6 billion, for the embarrassing reason that no qualified bidders showed up for the auction. The problem was less the minimum price demanded than the regulation that only financial institutions and local private equity funds are allowed to buy a controlling interest in Korean banks; non-financial (Chaebol) firms and foreign private equity groups are barred from acquiring more than a 10% stake. After this failure, the government reiterated its desire to privatize both Woori and the Korean Development Bank in order to further develop the nation's financial sector.[29]

Two smaller deals round out this list of failed and canceled privatizations during 2010. In May, the Estonian government pulled an IPO of **Eesti Energia**, which could have raised between €400 million and €500 million ($534 million to $668 million) on the London Stock Exchange, and instead announced plans to retain 100% ownership and inject public capital into the firm.[30] Finally, the planned December listing of 35% of **Axiom Telecom** on Nasdaq, which would have raised up to $471 million for Oman's Nawras Telecom, Axiom's parent company, failed due to poor investor appetite. It should be noted, however, that two months previously Bahrain's Mumtalakat successfully raised $388 million (€290 million) by selling an 11.5% stake in **Aluminium Bahrain** (Alba) through

[26] The permutations of the Nitel sale are described in Tom Burgis, "Nigeria approves $2.5bn bid for Nitel," *Financial Times* (October 12, 2010) and Efem Nkanga, "Nitel – Oman Fails to Revalidate Bid Offer," *This Day* [Lagos] (April 6, 2011).
[27] See Jan Cienski, "Setback for Polish privatization plans," *Financial Times* (January 14, 2011).
[28] The Enea saga is detailed in a *Polish News Bulletin* (April 5, 2011; no author cited) entitled, "Enea: Another Never-Ending Privatization Story?"
[29] See Song Jung-a, "Korea halts Woori tender," *Financial Times* (December 17, 2010).
[30] See Andrew Ward, "Estonia scraps London listing," *Financial Times* (May 15, 2010).

a GDR offering on the London Stock Exchange, so there is little sign of waning investor interest for Persian Gulf share offerings generally.[31]

### Market Values of Privatized Companies

The editors of Privatization Barometer periodically compute the market values of privatized firms, and compare their combined valuation to that of always-private companies. As of June 2010, the 150 fully and partially privatized companies in the *Financial Times* FT 500 list of the world's 500 most valuable companies had a combined market capitalization of $7.23 trillion (€5.41 trillion). This represents 30.8% of the $23.50 trillion (€17.58 trillion) combined value of all the FT 500 companies - and slightly less than half (48.7%) of the market capitalization of the 337 non-U.S. companies in the FT 500.

Intriguingly, the fraction of the market capitalization of the annual FT 500 list - or a previous, similar compilation by *Business Week* - accounted for by privatized firms has been increasing more or less steadily since this author first began computing the metric in 1998. This growth probably reflects three things. First, share issue privatizations have been the largest source of new share listings over this period in most countries other than the United States and Britain - whose privatization program had largely run its course by 1998. Second, Russian, Persian Gulf, and especially Chinese companies have dramatically increased their representation in global market capitalization rankings since the late 1990s, and these companies are almost all former state enterprises. Finally, the rising prominence of fully and partially divested companies since 2008 suggests these companies weathered the global financial crisis of 2008-09 better than did most other firms, especially those headquartered in the United States.

Before concluding this article with a discussion of planned and actual sales during 2011, it is worth summarizing a report presented in last year's "Trends and Major Deals" section examining what assets governments have left to sell. In that article, we focused on determining the market value of retained government stakes in EU companies, since a report by Edmund Ng and Elga Bartsch entitled "Poor State of Government Finances & Implications for Equities" presented a detailed listing of stakes that EU governments held in partially privatized firms as of summer 2009. The 41 largest such stakes, those valued at over $2.0 billion, were then worth €300.1 billion ($428.7 billion).[32] Adding in the 68 smaller stakes listed by Ng and Bartsch, plus the roughly €140 billion ($200 billion) that EU governments injected into weakened banks during 2008-09 and which they hoped to recover once markets improve, suggested that European governments had at least two-thirds of a trillion dollars worth of stakes in partially privatized firms that could be sold in subsequent years. Ng and Bartsch argued for the likelihood of just such sales, since these governments faced (and still face) truly dire fiscal problems and have few alternatives for raising comparable amounts of revenue. While we know of no similar listing of the market values of retained stakes in partially privatized companies from regions other than Europe, the 38 listed Chinese, Russian, and Saudi companies in the 2009 FT 500 tabulation of the world's most valuable firms had market

[31] Plans for both the Axiom Telecom and Aluminium Bahrain deals are described in Robin Wigglesworth, "Alba plans $541m Bahrain IPO," *Financial Times* (October 17, 2010), while the successful Alba outcome is detailed in Arthur MacDonald, "Alba's IPO Boosts Investment," *Gulf Daily News* (November 9, 2010).

[32] See Elga Bartsch and Edmund Ng, "Towards Fiscal Tightening and Privatization: Implications for Equities," The *PB Report 2009* (Privatization Barometer), pp. 28-38. A March 2010 *FT* article also stated that European Union members' stakes in partially-privatized, listed companies exceeded €300 billion ($401 billion); see Jennifer Hughes, "States put family silver on the block," *Financial Times* (March 13, 2010).

capitalizations of €969 billion ($1,370 billion), €156 billion ($220 billion), and €69 billion ($97 billion), respectively, and the governments retained large majority holdings (often exceeding 70%) in almost all of these companies. The 2009 total value of these retained stakes must surely exceed €1.5 trillion ($2.0 trillion). Additionally, there are entire industries - most notably oil but also including electric power production and distribution - that remain fully or largely state-owned in important national or regional economies.

### Completed Sales in Early 2011

The extended length of time required for this author to complete his 2010 Report means that we can also describe deals that have been executed during the first five months of 2011. February 2011 saw three large and successful privatizations, plus one IPO that - though actually implemented - largely failed. Another sale actually did fail in May, sort of (it may yet be reborn). The largest successful sale was of a 10% stake in the Russian bank **VTB**, which raised $3.3 billion (€2.4 billion), and yielded investors who purchased shares on the London Stock Exchange a 7% first day return. 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 15% of the offering. Bids from other Russian investors were either rejected or reduced to stress the international flavor of the sale.[33]

The second largest privatization deal of 2011 was the February sale of 13.5% of the Swedish bank **Nordea** in an accelerated transaction that raised €2.1 billion ($2.92 billion) in 90 minutes.[34] The third privatization deal of February was successful, but also controversial. This was the sale of 93% of the Ukrainian telephone operator **UKrtelecom** to Epic, a Vienna-based investment house for €952 million ($1.3 billion). 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.[35]

The deal that was completed disastrously was the February IPO of Indonesia's national airline, **Garuda**, which raised only $524 million (€384 million) - barely half what the government had hoped for - and closed down 17% below the offer price on the first day's trading. This was due to the Indonesian government's insistence on setting an unrealistically high offering price. The local underwriters were left with 40% unsold shares and suffered losses of $300 million, resulting in one being rescued by the same government that had triggered the crisis in the first place.[36] Indonesia had been planning to take as many as 10 state companies public during 2011, but this now looks highly unlikely.

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[33] 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).

[34] 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).

[35] 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).

[36] The Garuda saga is described in Esther Samboh, "IPO Garuda's gain; underwriters' loss," *The Jakarta Post* (February 4, 2011), Anthony Deutsch, Kevin Brown, and Alexandra Stevenson, "Indonesia downsizes plans for state IPOs," *Financial Times* (March 8, 2011), and Abheek Bhattacharya, "The Price Is Always Right," *Wall Street Journal* (March 10, 2011).

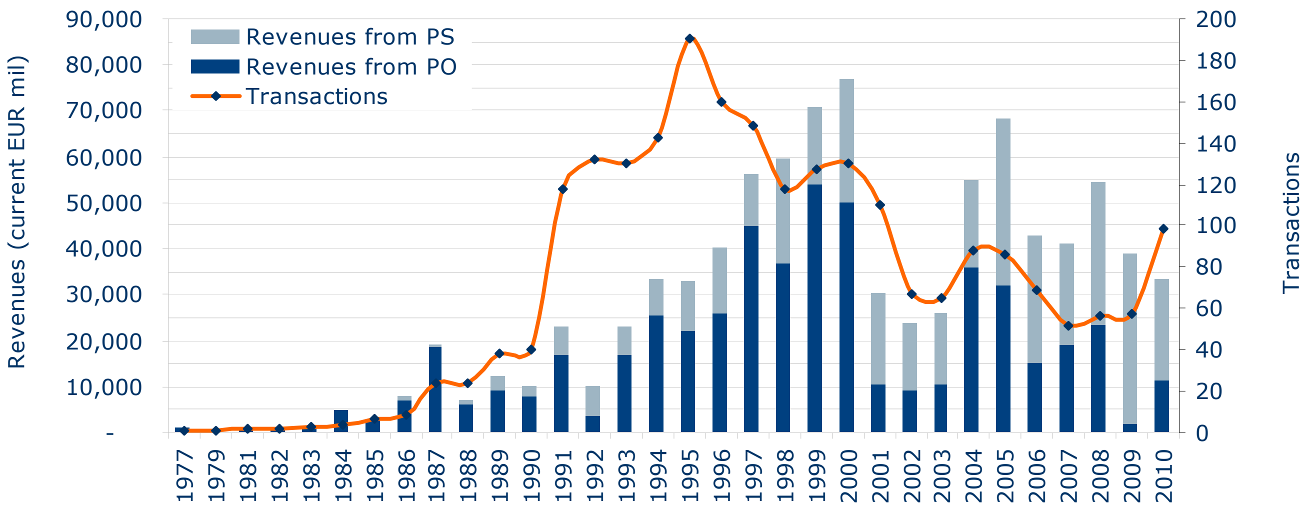
The one privatization deal that apparently failed outright - but may actually be reborn - was the proposed auction of 51% of Serbia's **Telekom Srbija**. In fact only one bidder, Telekom Austria, submitted a conditional offer of €800 million to €950 million ($1.15 billion - $1.36 billion), and this was far below the minimum price of €1.1 billion set by the Serbian government. Even after Telekom Austria raised its bid to €1.1 billion ($1.6 billion), the government was unimpressed and shut down the sale in early May 2011, only to re-open it later in May after receiving expressions of "great interest" from other potential bidders.[37] Stay tuned.

### Planned Sales in 2011 and Beyond

We conclude this survey of privatization trends and major deals by describing sales that seem likely to be completed in the near future. Besides the actual completed and failed sales in early 2011, there are a large number of European privatizations planned for 2011 and 2012. If successful, these sales could again propel aggregate EU privatization proceeds back above €60 billion ($85 billion) for the first time since 2005, as Figure 6 details. One of the largest planned sales is the auction of the Polish mobile phone operator, **Polkomtel**, which could raise as much as €4.4 billion ($6.3 billion) and which is underway as this article goes to press (June 14, 2011). Other planned or proposed EU sales include divestments of **Telia Sonera**, **SSAB**, **SAS**, and **Vattenfall** by the center-right Swedish government, which has successfully privatized several major companies since coming to power in 2007.[38]

Spain's embattled socialist government initially proposed auctioning off 49% of the Spanish airport operator **Aeropuertos Españoles y Navegación Aérea** (AENA), but then decided to explore a stock market listing instead.[39] The AENA deal could raise as much as €8 billion ($10.5 billion). The Zapatero government

**Figure 6. Privatization in the Enlarged Europe: Total Revenues and Transactions 1977 - 2010**




Source: *Privatization Barometer*

[37] 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 is reported by the news service RTV in, "Privatization: Serbia extends deadline in Telekom Srbija sale," KBC Securities report (May 24, 2011).

[38] The proposed Swedish sales are described in Andrew Ward, "Sweden to sell more of Nordea stake," *Financial Times* (February 4, 2011) and Naomi Powell, "Sweden's privatization drive hits bump in the road," The *Globe and Mail* – Stockholm (February 14, 2011).

has actually begun selecting advisors for the stock market flotation of a 30% stake in **Sociedad Estatal de Loterías y Apuestas del Estado SA**, the state lottery operator. If successful, this IPO could raise between €6.5 billion and €7.5 billion ($9.20 billion and $10.62 billion) and give Loterias a market capitalization of over €25 billion ($35.4 billion) - which would make it the world's second most valuable gaming company, after only the Las Vegas Sands Company.[40]

Britain's coalition government is considering multiple sales of infrastructure, such as the **Port of Dover** and the air traffic control service **NATS**, as well as divestment of the **Tote** race betting service.[41] The coalition has also revived plans to privatize the **Royal Mail**, though it has yet to propose any plausible solutions to the twin problems of massive labor resistance to the sale and the service's huge unfunded pension liabilities. The government would also like to sell off its Crisis-induced shareholdings in Royal Bank of Scotland (81%) and Lloyds TSB (41%), but will await the report of Sir John Vickers Independent Commission on Banking before deciding how to proceed.[42]

Several other proposed EU privatizations are directly related to the fiscal crises gripping Portugal, Ireland, and especially Greece. In May 2011, the Portuguese government was forced to commit to selling off residual stakes in the country's energy company **Energias de Portugal SA** (20.5%), airline **TAP Air Portugal** (100%) and **Redes Energeticas Nacionais** (51%) as soon as possible in order to receive a financial bailout from the other EU countries.[43] The newly-elected (February 2011) Irish government also came under EU pressure to speed-up its privatization program, including divestment of **Aer Lingus** and other assets.[44] By far the most critical and extreme financial crisis is that faced by Greece, and as a condition for granting another bailout in May 2011 the EU demanded truly massive budget cuts and accelerated implementation of up to €50 billion ($71 billion) in privatization sales.[45]

There are also several large privatization deals being mooted by countries outside of the EU, including the United States, Mongolia, Turkey, Canada, Russia and New Zealand. By far the largest non-EU deal likely to be executed

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[39] The proposed AENA divestment is described in Gill Plimmer, "Transport sector poised for M&A boom," *Financial Times* (March 15, 2011) and "AENA Plans Stock Exchange Listing," *Bloomberg Businessweek* (May 13, 2011).
[40] See Christopher Bjork, "Spain Moves Forward With Lottery Privatization," *Wall Street Journal* (May 24, 2011).
[41] See Gill Plimmer, "Transport sector poised for M&A boom," *Financial Times* (March 15, 2011). Interestingly, Canadian pension funds are emerging as active bidders for several proposed infrastructure sales, as described in Robin Wright, "£2.1bn HS1 sale lifts privatisation prospects," *Financial Times* (November 5, 2010) and Ellen Kelleher, "Canadians get creative with infrastructure acquisitions," *Financial Times* (March 13, 2011).
[42] Plans (and alternatives) regarding the sale of RBS and Lloyds are described in Julia Kollewe, "RBS and Lloyds shares handout plan wins backing of Lib Dems," *The Guardian* (March 7, 2011) and in Lina Saigol, Patrick Jenkins, and George Parker, "Lib Dem proposes bank shares handout," *Financial Times* (March 7, 2011). The problems bedevilling a Royal Mail sale are described in Brian Groom, "Postal union to fight Royal Mail sell-off," *Financial Times* (December 27, 2010).
[43] Proposed Portuguese sales are detailed in Enza Tedesco, "DJ Portugal To Privatize EDP, TAP, REN By Year End, To Sell BPN," *Dow Jones Newswires* (May 4, 2011).
[44] Ireland's privatization plans are discussed in Eamon Quinn, "DJ Irish Report Recommends EUR5B Sale Of Government-Owned Assets," *Dow Jones Newswires* (April 20, 2011) [reported in Privatization Barometer website] and Nicola Clark, "A Stronger Aer Lingus Says It Is Ready to Fly Solo," *New York Times* (May 27, 2011).
[45] As described in Paul Betts and Christian Oliver, "Greece must sell family silver to bolster asset rating," *Financial Times* (June 2010), the Greek government was proposing only €3 billion worth of privatization sales during the summer of 2010. As the financial crisis deepened over the next eleven months, the proposed privatization total increased steadily to €50 billion in spring 2011, as described in Kerin Hope, "Greece aims to raise €50bn from privatization," *Financial Times* (February 11, 2011) and "European leaders maintaining pressure on Greece to deliver on €50bn privatisation programme," *Irish Finance News* (May 25, 2011).

during 2H2011 is the sale of some or all of the U.S. government's 74.2% stake in **Ally Financial** (formerly GMAC, the financial arm of General Motors), acquired when the Treasury injected $17.5 billion (€12.3 billion) into Ally as part of the GM rescue in 2009. The Treasury also owns $5.9 billion worth of convertible preferred stock in Ally, so a full privatization could raise as much as $15 billion (€10.6 billion). The government filed for an IPO in March 2011 and amended the SEC filing in late-May to include some of the preferred stock as well as common shares, so the offering could commence as early as July.[46]

The government of Mongolia is planning an IPO of a 30% stake in the mining firm **Erdenes Tavan Tolgoi**, which could raise more than $2 billion (€1.4 billion). The competition for this offering mandate has been feverish, with at least 18 investment banks submitting bids to manage the IPO, which is expected to be completed by year-end.[47] On the other hand, the odds of Turkey actually selling off more of its 49% stake in **Turkish Airlines** during 2011 - as once hoped - seem to be fading steadily with each increase in oil prices. In February, the Turkish government's stake was worth $1.62 billion (€1.14 billion), but by late May it had declined to $1.28 billion (€901 million).[48] Even more troubled is the planned sale of 51% of the Canadian government's holding in **Atomic Energy of Canada Ltd** (AECL). This sale was encountering significant headwinds even before the meltdown of four nuclear reactors at Tokyo Electric Power's Fukushima plant in Japan cast a global pall over the entire future of nuclear power. The likelihood of a successful sale of AECL now seems nil, at least during 2011.[49] Russian Prime Minister Vladimir Putin signed an order in mid-May authorizing the central bank to sell a 7.5% stake in **Sberbank**, Russia's largest bank, as part of the long-term goal of selling $50 billion (€35.2 billion) worth of state assets by 2016.[50] If successful, this sale could raise up to $5.5 billion (€3.9 billion) and would reduce the central bank's holding to a bare majority of 50% plus one share. Finally, the center-right government in New Zealand is contesting an election in September 2011 in part on its plan to privatize several important state enterprises.

To summarize, global privatizations during 2010 set record levels, especially for sales outside of the European Union. The trend thus far suggests that EU divestments will increase significantly - and may well surge - during 2011, while the global full-year tally may well top $150 billion (€106 billion) for the third straight year. 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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[46] See Zacks.com, "Former GM Finance Unit, Ally Financial, Files for IPO,"in *Seekingalpha.com* posting (April 3, 2011) and Gwen Robinson, "Ally changes IPO plans" *Financial Times* (May 18, 2011).

[47] The proposed Erdenes Tavan Tolgoi sale is described in Robert Cookson, Leslie Hook, and William MacNamara, "Banks in Mongolian 'gold rush'," *Financial Times* (February 8, 2011) and Laurence White, "Mongolia: Banks mandated in landmark mining IPO," *Euromoney* (March 2011).

[48] A discussion of the Turkish government's plans is presented in Delphine Strauss, "Turkish Airlines stake primed for sale," *Financial Times* (February 14, 2011), while the May 27 stock market valuation is from the company's website (http://www.turkishairlines.com/en-US/corporate/investor_relations/ise_data/index.aspx).

[49] The early prospects for an AECL sale are discussed in Vanessa Kortekaas, "Canadian nuclear power waits to take wing," *Financial Times* (September 15, 2010), while TEPCO's decision to shutter the four nuclear reactors is discussed in "Tokyo Electric to scrap 4 reactors at crippled nuclear plant," *Kyodo News* (March 30, 2011).

[50] See Charles Clover, "Sberbank chief hits at Russian tax-rise plans," *Financial Times* (December 14, 2010) and Ilona Golovina, "Putin signs off on privatization of 7.58% stake in Sberbank," *RIA Novosti* (May 19, 2011).

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# Italy: Laying the foundations for a new and effective privatization round

Although in recent years the privatization operations implemented in Italy are not particularly relevant, the country stands out as an interesting example among European countries. Indeed, in recent years, the Italian government seems to have opened a broad debate about the extent of public property and privatization strategies.

Before analyzing this debate and its impact on Italian economic policies, it is worth briefly reviewing the history of Italy in terms of paths to privatization. The year 1933 may perhaps be considered the date of birth of the Italian state "as an entrepreneur". In that year, IRI – Istituto per la Ricostruzione Industriale (Institute for Industrial Reconstruction) was established. To straighten the Italian industry, IRI acquired shares in the main Italian enterprises. In later years, IRI's role in the national economy became increasingly relevant and many other public holding companies were formed, resulting in an economic system marked by a strong interconnection among public and private ownership in the industrial and financial sectors. That "mixed economy" system cracked in the second half of the 1970s and early 1980s. It was then necessary to undertake an extensive restructuring of the economy in general, as well as specific industries, and the country began to talk about privatizations, while the role of the government in the economy was shifting increasingly from "entrepreneur" to "regulator".

This began the path of privatization in Italy that, as is known, was marked by relatively few sales (although some very significant), especially given the large size of the assets of the state. The lack of knowledge of the actual size and value of public property has contributed to this result. And in fact little more than thirty state owned enterprises have been privatized in Italy since 1992, with revenues of approximately 140 billion euro, a small fraction of the large value and variety of public sector assets.

Since 2000, the privatization process seems to have suffered a sharp slowdown. Indeed, in recent years the only relevant privatization deal was the extended Alitalia affair. However, in truth, the privatization of Alitalia has to be considered a kind of rescue operation rather than a privatization strategy chosen and implemented in a conscious way.

Returning to the present, although there have been few privatization deals in Italy in recent years, compared to what occurred in the 1990s, a meaningful debate about the policies aimed at enhancing the public property now seems to be ongoing in the country, as well as how to adopt more effective privatization strategies.

In particular, as will be explained in more detail in the following paragraphs, the two phenomena listed below are perhaps the most relevant signs of such a change:

1. First, the Government seems to have started serious activities aimed at mapping properly and finally the whole of its assets, bridging what might be called "public balance sheet gap". This activity is particularly important because so far the lack of clear and complete information about the size and value of the assets owned by the local and central government did not allow structuring effective policies to enhance the value of public property. In the first half of the 2000s, the Ministry of Economy and Finance took steps to bridge this gap by estimating the size and value of assets held by central and local governments. More recently, in 2010, the Ministry started a census of all properties owned by public administrations. The perimeter of the census includes all assets owned by the government (property, equity shares, assets under concession, etc.) and aims to provide an assessment of the value of those assets at market prices. The results of this survey, now in progress, will eventually be the basis on which to build a sound policy aimed at making the most of public properties.

2. Second, but no less important, significant changes in attitude are detected at the local government level. Regions, provinces and municipalities have a key role in the economy, even as they are engaged in providing public services to the community. However, over time, the presence of local government in companies' capital has grown disproportionately, often burdening the profitability and efficiency of the companies themselves. In recent years, regulatory reforms have led to significant changes in the ownership structure of local government, triggering new paths for privatization. In particular, these changes are transforming the way public services are provided to citizens: local government continues to play an important role in the economy, but its role is shifting from "entrepreneur" to "regulator and controller". In this way, the market for providing public services is opening more widely to private investments, and in particular to new businesspeople who want to invest and engage in the long-term development of the local area.

In simple terms, then, Italy at last seems ready to reshape its approach to privatizations according to a model that is serious and effective. This model's greatest strength is the broad range of actions it allows:

- compared to the subjects involved: both the central government and local authorities, albeit in different ways;

- with respect to the assets taken into account when devising strategies to enhance the public properties (not just companies, but all the assets owned by the central and local governments), thanks to a better understanding of the size and value of public properties.

### A "public balance sheet gap" to bridge

In Italy, as in other countries, a serious obstacle to successful privatization has been the lack of comprehensive information about the consistency of public properties: governments do not know the size and value of their properties, nor do they know how to enhance them effectively.

In particular, poor awareness of the consistency of public properties has often led to sub-optimal choices in economic policy. Indeed, during recent decades discussions about privatizations have only covered a few hundred companies, despite public properties covering a much broader segment of the economy (including a number of other assets such as loans and other financial items, natural resources, buildings and land, etc.). This has lead to a new awareness of this issue in Italy, as well as a willingness to bridge that "public balance sheet gap".

In the first half of the 2000's decade, the Italian Ministry of Economy and Finance set up a project aimed at drawing the "Balance Sheet of the State" using accounting standards comparable with those used by companies. The "Balance Sheet of the State" project collected information on financial assets and properties held by the entire public sector. The following table summarizes the most important features of the experience.

**Table 1. Balance sheet of the State, Italian Ministry of Economy and Finance project**

| Feature | Description |
|---|---|
| **Goals** | The fundamental goals of the project were:<br>- on the one hand, give a representation of the assets of the public sector comparable with that of liabilities;<br>- provide the Ministry of Economy and Finance an instrument of strategic planning and governance of public assets. |
| **Perimeter** | The perimeter of subjects and objects included in the analysis was set as wide as possible, and in fact included any kind of assets owned by public entities and the maximum number of entities classified as part of the Public Administration. |
| **Information sources** | Information has been gathered from three types of sources:<br>- the "Conto Generale del Patrimonio dello Stato", which is the official financial statement of the State;<br>- an extensive field survey, based on financial statements of a significant number of central and local governments;<br>- other studies and researches. |

The key issue was the choice of accounting standards. Consistent with the objectives of the project, the selected standards were based on fair value or market value. In particular, the standards used were the IAS (International

Accounting Standards) issued by the International Accounting Standards Board (IASB). Assets such as loans, investments and properties were assessed in accordance with IAS standards as used by companies. For the assets that were most difficult to assess (such as infrastructure, natural resources, heritage) it was necessary to identify specific evaluation criteria, based on the concept of "future economic benefit" (that is the same principle underlying the IAS).
The result was the "Balance sheet of the State", that included the whole assets held by central and local governments.

The table below shows the fair value of public assets as calculated in 2004 in the "Balance sheet of the State", compared with the corresponding book value. The result was that the value of the assets estimated using "fair value standards" reached 1,800 billion Euro, and in fact equaled and exceeded the public debt.

**Table 2. Book Value vs Fair Value, 2004**

| | Book value in 2004 (€ mil) | Fair value in 2004 (€ mil) |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | 276,728 | 276,728 |
| Accounts receivable | 458,564 | 191,317 |
| Anticipations and other assets | 70,772 | 49,572 |
| Shares and equity type investments | 136,262 | 132,329 |
| Intangible Assets | 64,108 | 78,218 |
| Tangible asset | 342,423 | 1,087,622 |
| **Total** | **1,348,861** | **1,815,841** |
| **Liabilities and Owners' Equity** | | |
| Loans and Funds | 1,432,072 | 1,476,917 |
| Net Worth | -83,212 | 338,923 |
| **Total** | **1,348,861** | **1,815,841** |

Source: *Dipartimento del Tesoro, KPMG, "Conto patrimoniale delle Amministrazioni pubbliche - Stime 2001-2004", 2005*

Subsequently, the Ministry of Economy and Finance has set up an even more ambitious project aimed at developing a new privatization program, starting from the evidence that emerged in building the "Balance sheet of the State". This project made it possible to define a simple model for the identification of public goods to sell. Its key principle was: regardless of regulatory constraints, any asset should be sold on the market if its rate of return is lower than the cost of debt and its market value is close to its book value.

Finally, in 2010 the Ministry of Economy and Finance launched a real census of public property (this project is named "Conto della P.A. a valori di mercato"): all the central and local governments are required to provide information about the assets they hold. The perimeter of this census includes real estate, investments, goods and services in concession and is still widening. The local and central governments have to provide this information using a dedicated website, and can rely on the support of the dedicated offices established in the same Ministry.

Although there is still a long way to go, the results of this census are going to be the starting point for building a sound policy aimed at enhancing the value of public properties and, in particular, at defining more effective privatization strategies.

**From "local government as entrepreneurs" towards the "holding pattern"**

Speaking about privatization, the focus is generally on disposals of shares held in companies by the central government. However, the issue is also closely related to local governments, participating actively in the country's economy, first of all to ensure public services needed by the citizens. The presence of local governments in the capital of firms is indeed widespread, so widespread it leads to talk of "municipal capitalism" (when local governments behave as entrepreneurs, using their ownership in companies to act in the market).

The size of this phenomenon was outlined by FEEM - Fondazione Eni Enrico Mattei, in a study based on data from Bureau van Dijk. In 2005, this database included 22,844 Italian companies, and local governments (regions, provinces and municipalities) turned out to be shareholders in 711 companies, with assets of 102 billion euro, total turnover of 43 billion euro and around 240 thousand employees. In particular FEEM's researchers have studied whether and how the presence of public capital influences firms' performance. It follows that the higher the share held by private entities, the better the performance in terms of profitability and management efficiency.

**Table 3. Italian Local Government-owned Enterprises***

| Type of Local Government | Number of companies | Total assets | Total turnover | Totale employees |
|---|---|---|---|---|
| Municipalities | 431 | 63,278 | 27,700 | 142,777 |
| Provinces | 19 | 1,431 | 674 | 3,784 |
| Regions | 34 | 6,942 | 2,534 | 15,764 |
| Mixed Governments | 227 | 30,767 | 12,164 | 77,206 |
| **Total** | **711** | **102,418** | **43,073** | **239,531** |

* Italian non-financial companies satisfying at least one of the following size criteria: i) operating revenue equal to at least €1.5 million; ii) total assets equal to at least €3 million; iii) number of employees equal to at least 20.

Source: *C. Scarpa, P. Bianchi, B. Bortolotti, L. Pellizzola, "Comuni S.p.a. Il capitalismo municipale in Italia", Il Mulino, 2009.*

Even Unioncamere (the Italian Union of Chambers of Commerce) has carried out research on the matter of public ownership of businesses . In particular, Unioncamere's researchers have surveyed the companies whose capital is owned in part or entirely by local authorities from 2003 to 2007 (among the whole of limited companies and corporations recorded in the Chambers of Commerce). In 2007, regions, provinces, municipalities and mountain communities hold shares in 5,152 companies (corresponding to an average equal to 7.5 firms per local government). Among these, 3,776 are controlled by local authorities, with shares exceeding 50%. Again, the performance of these companies stands below the national average. Labour productivity is in fact lower than the average, while operating costs are higher.

Moreover, frequently this mix of public and private interests has given way to inappropriate behavior: while some local governments, thanks to these companies, are able to deliver services efficiently to the citizens and to inject profits into public coffers, at least as many governments are spending beyond their budget constraints, creating shortages in the accounts difficult to control.

**Table 4. Unioncamere, The matter of public ownership of businesses, 2003-2007**

| | 2003 | 2005 | 2007 |
|---|---|---|---|
| **Companies whose capital is owned in part or entirely by local authorit** | | | |
| **Total** | **4,604** | **4,874** | **5,152** |
| **Local Governaments holding shares** | | | |
| Municipalities | 6,720 | 7,258 | 7,329 |
| Provinces | 120 | 120 | 103 |
| Regions | 20 | 20 | 20 |
| Mountain Communities | 274 | 251 | 268 |
| **Total** | **7,089** | **7,631** | **7,720** |

Source: *Unioncamere, "Le società partecipate dagli Enti Locali", 2009.*

To deal with these issues, Italy has since 2009 implemented several changes to the regulations governing how local government can hold equity shares. In particular, these changes have been implemented as a result of EU directives related to local public services. The key points of the new regulatory framework, as settled by D.L. 135/2009, are:

- *Procurement procedures of public services*: governments obtain services exclusively by public tenders;
- "*In-house*" *entrustment*: where the service was given "in house" (i.e., to companies whose capital is wholly owned by the local government itself), the entrustment shall lapse on 31/12/2011;
- *Disposal of shares held by government:*
    - i. By 31/12/2011, the governments must dispose of at least 40% of the shares they own in unlisted companies;
    - ii. By 31/12/2013, the governments must dispose of at least 60% of the shares they own in listed companies;
    - iii. By 31/12/2015 the governments must dispose at least 70% of the shares they own in listed companies.

These changes have opened the local services market widely. And in this market, a new kind of rapidly growing investor seems to be particularly relevant. In fact, when the government returns to playing a regulatory role (rather than behaving as an entrepreneur), investments in local services become more attractive to people and businesses from the local area and concerned with its economic development over the long term. The result is a new pattern of management of local services, in which the disposals implemented by the governments may no longer be considered as the mere sale of a business to a contractor; rather the involvement of local private actors is crucial. In particular, these actors (entrepreneurs, foundations, local banks, etc.) may join together and form a kind of "local holding", whose task is to effectively manage local services, working alongside the local governments.

In essence, the privatization process is changing from a "sale one to one" pattern to a "holding based" pattern. Some institutions have already begun to rearrange their shareholding structure and the way in which they provide local public services, creating holding companies governing such services in which are involved local entrepreneurs and investors.

Indeed, given the tight deadlines imposed by the regulations, many local governments have already taken steps to dispose of the enterprises and shares they own. Simple but effective evidence of this trend is the proliferation of calls for the disposal of shares held by local governments. For instance, from September 2010 to January 2011, KPMG offices collected information about 25 invitations to tender, issued by local governments, for the sale of shares or businesses or the selection of advisors to be entrusted with the procedure for the privatization.

### Privatization and enhancement of public properties: Towards a new model

Italy today seems to be laying the foundations for structuring a new approach to privatization and enhancement of public properties. On this foundation, the Government may plan a new round of privatizations. This new round will probably be different from what we have known in recent decades. In fact, thanks to increased awareness of the consistency of public properties, the whole public sector may participate (both central government and local authorities), offering to the market not only equity shares but also many different assets: loans, financial assets, real estate, frequencies, assets under concession, infrastructure, etc. If Italy can successfully pursue this strategy, the country may become a benchmark at the international level, offering best practice lessons for tackling the critical issues that have until now prevented governments from setting effective privatization strategies: the "public balance sheet gap" and the problems of "municipal capitalism".

Of course, many critical issues still need to be tackled. The first is that the tricky relationship between the public sector and the market will have to be redefined in many areas (like social housing, infrastructure, public utilities, etc.). Once these relationships are defined, new paths of privatization may be projected and implemented.

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## Do Employment Protection Laws Hinder Privatizations?

Over the last three decades, governments around the world have pursued privatization as a key instrument of national government policy. Since 1977, 190+ national governments around the world have raised almost $2.0 trillion by selling state-owned enterprises to private entities. Countries could raise a similar or even larger amount by selling stock currently held in fully or partially state-owned companies. For example, a 2009 study by Elga Bartsch and Edmund Ng documents that European governments could raise more than $450 billion by offloading their remaining stakes in partially privatized firms. A recent study by Professor Bill Megginson finds that the Chinese, Russian, and Saudi governments alone retain stakes worth almost $1.7 trillion in partially privatized, publicly traded firms. These amounts do not include entire industries — most notably electric utilities and oil and gas production — that remain 100% state-owned in several countries.

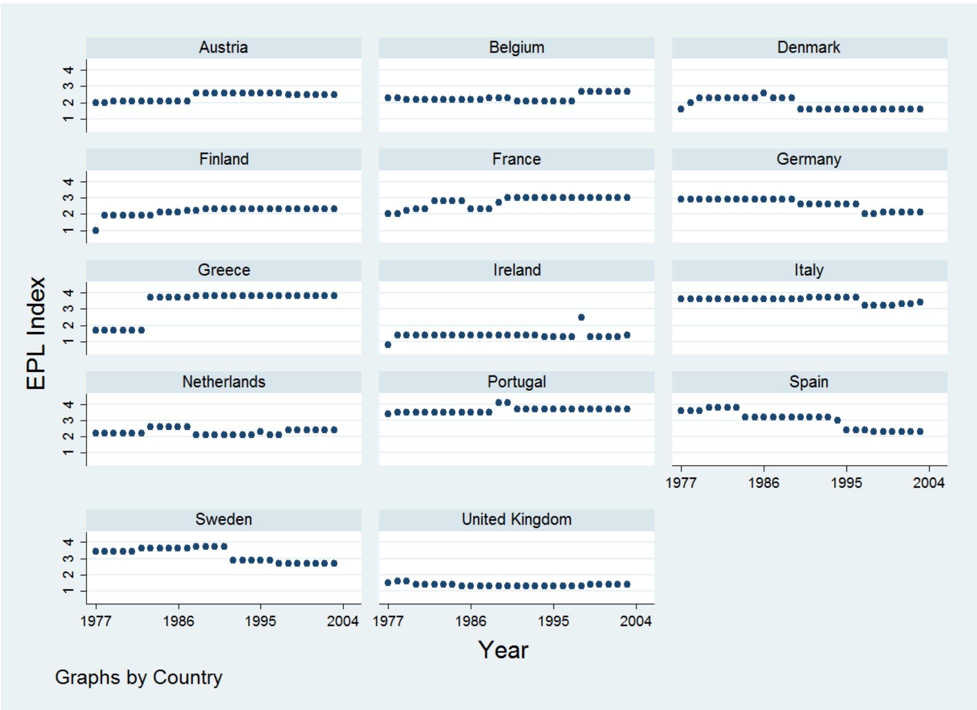
Despite this potential revenue windfall, and the desperate fiscal needs of many national budgets, governments the world over are extremely reluctant to renew large-scale privatization programs. A key reason for this hesitancy is that state-owned enterprises (SOEs) often employ excess workers, and employ them relatively inefficiently. As a result, national governments fear that privatization will result in large scale labor force restructuring either before or after divestiture, though evidence supporting such labor force restructuring is conflicting. Since labor retrenchment is regulated in most countries through employment protection laws, the above reluctance to privatize raises a fundamental question: Do employment protection laws hinder privatization?

In a recent piece of research, Prof. William Megginson of the University of Oklahoma and I examine how national employment protection laws hinder privatization. We use the detailed data on privatization in fourteen European countries sourced from the Privatization Barometer. To measure the stringency of employment protection laws in these countries across time, we use the Employment Protection Law (EPL) index developed by Professors Gayle Allard and Peter Lindert in a 2006 study. This index has been constructed by surveying existing law and regulations in OECD countries and by assigning numerical scores for each and every aspect of employment protection legislation. The final scores have been obtained after necessary reviews and corrections by each of the national governments. The EPL index covers eighteen aspects of employment protection legislation grouped into three broad categories: (i) laws protecting those workers who have signed regular contracts with their employers ("Regular Contracts"); (ii) laws affecting workers with fixed-term/temporary contracts or contracts with temporary work agencies ("Temporary Contracts"); and (iii) regulations applying to collective dismissals ("Collective Dismissals").

The “Regular Contracts” index focuses on the procedural requirements that need to be followed once a decision is taken to fire an employee who has been provided a regular employment contract, the notice period that needs to be given to such an employee, the severance pay requirements, and the prevailing standards of and penalties for “unfair” dismissals. Employment protection laws protect workers covered under “Regular Contracts” from redundancies resulting from economic factors. Such economic factors include bankruptcy, complete or partial liquidation of the enterprise, staff cuts due to changes in the production technology or the structure of the enterprise as well as due to financial problems of the employer. In such a case the redundant worker enjoys protection in the form of a notice period combined with severance pay. Other reasons for employment termination with notice include long-term absence from work due to health reasons, unsatisfactory work performance due to health problems or inadequate qualifications, and refusal to move to another locality in connection with the relocation of the enterprise or of one of its parts. In some countries, age and eligibility for old-age pension are also valid reasons for employment termination with notice by employer while in other countries such a termination is unlawful. The “Temporary Contracts” index evaluates the conditions under which these types of contracts can be offered, the maximum number of successive renewals and the maximum cumulated duration of a temporary employment contract. The “Collective Dismissals” index defines a collective dismissal and specifies the notification requirements provided by law and the associated delays and costs for the employers.

Figure 1 below shows the evolution of the EPL index for the fourteen OECD countries for which both the privatization data and the EPL index are available: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, Sweden, and the United Kingdom. As can be seen by examining Figure 1, there is considerable variation in the stringency of employment protection laws across time in each of these fourteen countries.

**Figure 1. Evolution of the Eployment Protection Law (EPL) Index for 14 European Countries, 1977-2005**



This variation across time within a country is generated by specific law changes relating to employment protection. For example, in France, the employment protection laws relating to the notification of employee dismissals were weakened in 1986. Before this law change, an employer was required to provide the employee with written reasons for his/her dismissal. Furthermore, the employer had to obtain the permission of a state/local body prior to any individual dismissal. In 1986, this law was changed so that the employer only had to notify the state/local body prior to an individual dismissal. Consistent with this law change, in Figure 1, we see the EPL index for France decreasing in 1986.

To examine the effect of the stringency of employment protection laws on privatization, we exploited within-country variation in employment protection laws to control for various differences among countries. Since countries have changed their employment protection laws, such differences within a country enable a researcher to control for observed and unobserved differences among countries stemming from culture, nature of institutions and a host of other factors. We find that stringent employment protection laws indeed deter privatization significantly. Furthermore, employment protection laws inhibit privatization disproportionately more in industries that are less productive, more unionized, and require lower levels of job skill.

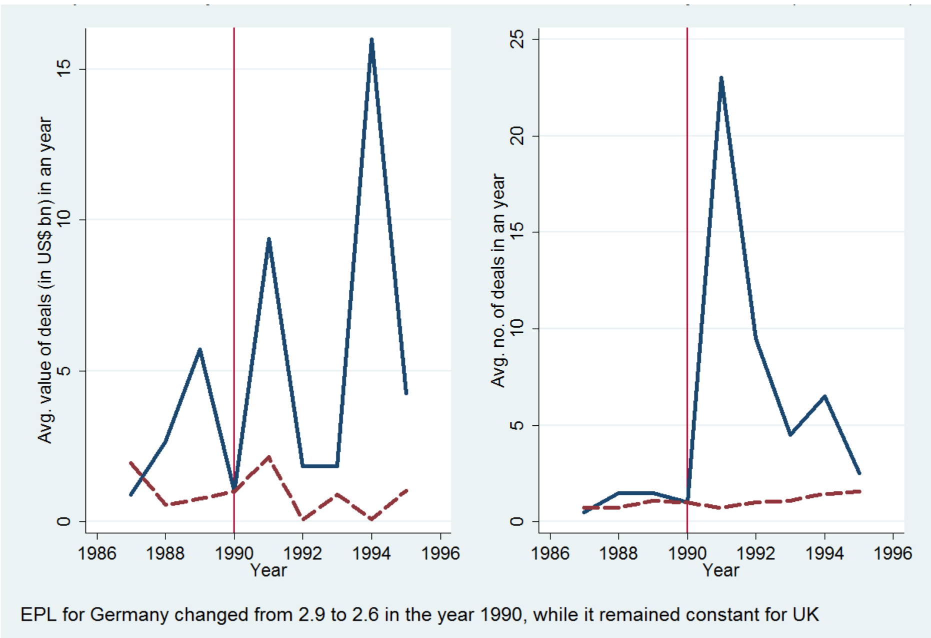
Compared to profit-maximizing privately-owned firms, public enterprises often employ excess labor which renders them relatively inefficient. Upon privatization, the newly privatized public enterprise needs to shed its excess labor in order to enhance efficiency and thereby create shareholder value. By imposing restrictions on the retrenchment of employees, stringent employment protection laws impose hurdles on the management of a newly privatized public enterprise in moving towards the efficient level of employment. Anticipating the difficulties in shedding excess labor in a country where employment protection laws are stringent, private entities would be less willing to bid for the public enterprises that the government wants to privatize. Consistent with such an argument, we find that if we compare two countries that differ in the level of employment protection they provide by approximately one standard deviation, the country having the higher employment protection would on average privatize two state owned enterprises less every three years when compared to the country having the lower employment protection.

Furthermore, when a state-owned enterprise is privatized, private parties would price in the difficulties in retrenching the excess labor force to achieve the efficient level of employment. As a result, private parties would provide a lower value for the shares of the publicly run enterprise when employment protection laws are more stringent. This hypothesis is supported by our previously discussed finding that an increase in the stringency of employment protection laws by one standard deviation in a country, ceteris paribus, leads to two less firms being privatized every three years in that country. Furthermore, post such an increase in the stringency of employment protection laws, the privatized shares would on average fetch $820 million less than the privatized shares when the employment protection was less stringent in that country. Since the average value of a privatization deal is $1.6 billion across the fourteen European countries, the $820 million decrease matches with the two less firms privatized every three years (2/3 × $1.6 billion = $1.06 billion). Furthermore, given the

$1.6 billion value of the average privatization deal in the sample, the $820 million decrease is economically substantial.

Figure 2 below visually depicts the effect of employment protection laws on privatization. This figure shows the before-after difference in privatization in Germany due to the passage of the employment protection law in Germany in 1990 vis-à-vis the before-after difference for United Kingdom since there was no change in employment protection laws in United Kingdom during this period. The right and left panels in the graph plot on the y-axis the average value of the privatization transactions and the number of such transactions respectively for Germany and United Kingdom; the bold line corresponds to Germany while the dotted one corresponds to United Kingdom. To enable comparison, we normalize the y-variable to 1 in 1990 for Germany and United Kingdom. This figure clearly illustrates that after the employment protection law change in 1980, which lowered employment protection, the average number of privatization deals and the average value of these deals increased in Germany when compared to the change over the same period in the United Kingdom.

**Figure 2. Comparison of the Number and Value of Privatization Deals for Germany and the United Kingdom, 1987-1995.**




The fear of job losses upon privatization leads organized labor in the state-owned enterprises to vehemently oppose privatization. Such groups of workers exert considerable political influence since politicians often derive their power by showering their patronage on these groups of workers. The fear of retrenchment would be greater in the less productive industries and in industries that require low levels of skill on the job. Yet, the gains from shedding excess labor force would be the greatest in these industries. However, stringent employment protection laws would inhibit cutbacks in the labor force and therefore have a disproportionate bite in obstructing privatization in the less productive industries and in industries that require low levels of skill on the job. Consistent with these arguments, we also find that compared to the more productive industries, stringent employment protection laws in a country affect privatization disproportionately more in the less productive industries. Similarly, we find that the effect of stringent employment protection laws on privatization is disproportionately more in highly unionized industries as well as industries that require low level of job skills.

Since labor restructuring is one of the most difficult and sensitive issues with respect to privatization, our study highlights that national governments intending to privatize their state-owned enterprises must focus on easing the rigidities in their labor markets. Such labor market reforms not only increase the likelihood of privatization but also enable the government to generate greater proceeds from the privatization exercise. These results are quite pertinent in the context of the privatization agenda laid down by successive national governments: Remove labor rigidities to increase the chances of privatization and to maximize the proceeds from privatization!

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# Privatisation in Ireland: Review in Context and Outlook

## The Irish banking crisis

Over the course of the three years 2007-2010, the Irish banking system imploded. The consequence of this implosion has been that the entire domestic banking system has in effect been nationalised. The government has come under severe criticism, including from this author, from a perceived unwillingness to make a radical early intervention. Throughout the crisis the Irish government's response has always been to attempt to persuade the markets that the banks were and would remain private institutions that were fundamentally if not sound, then with problems which were soluble. The losses which the Irish banks have had to book--losses that were for the most part a consequence of a very significant property boom—are truly massive. Table 1 shows peak values of the banks and the extent of state involvement as of January 2011, which should be read in the context of GNP of some €170 billion in 2007. The estimated future funding requirement is the additional capital which will be required by end 1Q2011 to meet minimum capital requirements. As the banks have been effectively unable to raise funds outside the umbrella of the government guarantee, these funds will be injected by the state. It is widely believed that these funding needs will actually be exceeded as the banks have had difficulty in achieving the projected values for their asset disposals.

The six banks listed in Table 1 had a guarantee extended over the vast majority of their corporate liabilities in September 2008. A state guarantee was extended not only to the deposits, but also to senior bonds, interbank liabilities, and dated subordinated debt. This guarantee was widely criticised at the time has remained in force (see Honohan 2010) ever since 2008, despite best economic practice being to extend such guarantees for only a limited time. Allied Irish Banks and the Bank of Ireland are the two largest retail and clearing banks in Ireland. Both have extraordinarily long histories, with Bank of Ireland having been founded in

**Table 1. Total State Investment in Irish Banks as of January 2011**

| Bank Name | Total Assets, 2008 | Government Investment, January 2011 | Investment Required by Q1 2011 | Government Ownership |
|---|---|---|---|---|
| Allied Irish Bank | €175.4b | €7.5 | €5.3b | 92-97%** |
| Bank of Ireland | €197.4b | €3.75 | €2.2b | 60-85%** |
| Anglo Irish Bank | €101.3b | €28.4b*** | - | 100% |
| Educational Building Society | €21.4b | €0.875b | €0.44b | 100% |
| Irish Nationwide Building Society | €14.4b | €5.4 | - | 100% |
| Irish Life and Permanent | €74.3b | - | - | - |

**ultimate state ownership will depend on the value of final disposal of overseas assets and if further conversion of dividends owing on injected preference shares (now converted to ordinary equity) from cash to equity takes place.

*** €4 billion was injected in Anglo and EU during 2009, and approval for an additional 24.4b has been given, with much of this in the form of government irrevocable promissory notes. It is widely believed that a further €10-12b will ultimately be required.

1782 and Allied Irish Banks having constituents dating back to 1825. The four other guaranteed banks--Irish Nationwide Building Society, Educational Building Society, Irish Life and Permanent, and Anglo Irish Bank--are of more recent, but still distinguished origin, with the origins of the first two dating back to the middle of the 19th century. The collapse of the banking system therefore must be seen in the following context: there was a corporate history within these organisations which had seen them meet far greater challenges including world wars, civil wars, vast economic dislocations and massive business cycles. Yet a decade or less of foolish lending was sufficient to bring Ireland's banking system almost to its knees.

### The Irish fiscal crisis

At the same time that a major property bubble emerged, the finances of the Irish state had become fundamentally undermined. Due to a growing overreliance on transactions taxes from the property bubble and from other transitory taxation measures, by 2010 the collapse had resulted in a structural budget deficit of massive proportions emerging (see Addison-Smyth and Quinn (2009), Kanda (2010)). From a general government surplus of 3% GDP in 2006 the state fell into a deficit of 12% in 2009 and 2010, with over five-sixths of this being structural rather than cyclical. This need for very significant recapitalisation of the banking system, and the subsequent Greek debt crisis of 2010, reduced further the appetite for sovereign risk and forced the Irish state to obtain a bailout from the IMF and the European Central Bank. The extent to which Irish government finances had become dependent on these unsustainable sources of taxation is shown in Table 2, using data taken from Addison-Smyth and Quinn (2009).

**Table 2. Percent of Total Tax Revenue Attributable to Residential Property**

| Year | Stamp duties | VAT | Capital Gains | Total Revenue Share |
|---|---|---|---|---|
| 2002 | 4.00% | 30.30% | 2.10% | 36.40% |
| 2003 | 5.30% | 30.30% | 4.50% | 40.10% |
| 2004 | 5.90% | 30.10% | 4.30% | 40.30% |
| 2005 | 6.90% | 30.80% | 5.00% | 42.70% |
| 2006 | 8.20% | 29.50% | 6.80% | 44.50% |
| 2007 | 6.70% | 30.70% | 6.60% | 44.00% |
| 2008 | 4.00% | 32.90% | 3.50% | 40.40% |

The "Stamp duties" taxes are transactions taxes from the sale of houses. The deterioration of the Irish state's finances had been noted by several commentators, including the OECD and IMF in their annual reports and reports from the Economic and Social Research Institute, the leading economic forecasting body in Ireland. It was only in 2008, however, with the crisis clearly looming on the horizon, that the Irish government began to take serious and significant steps to reduce its structural budget deficit (see documentation on the "National Recovery Plan" at http://www.budget.gov.ie/RecoveryPlan.aspx).

**Table 3. State-Owned Irish Commercial Bodies, January 2011**

| Company Name | Established or Nationalised | Activity |
|---|---|---|
| Irish Aviation Authority | 1994 | Air Navigation and Regulation |
| Dublin Airport Authority (incl. Aer Rianta, Cork and Shannon Airport) | 1937 | Airport Operator |
| Allied Irish Banks | 2010 | Banking |
| Anglo Irish Bank | 2009 | Banking |
| Educational Building Society | 2010 | Banking |
| Irish Nationwide Building Society | 2010 | Banking |
| Radio Teilifís Éireann | 1960 | Broadcasting |
| TG4 | 1996 | Broadcasting |
| Electricity Supply Board (eirgrid) | 1927 | Electricity Generation and Distribution |
| National Oil Reserves Agency | 1995 | Energy Storage |
| Coillte Teo | 1989 | Forestry |
| Bord Gáis Éireann | 1976 | Gas Distribution |
| Bord Na gCon | 1958 | Greyhound racing tracks, betting and regulation |
| Voluntary Health Insurance | 1957 | Health Insurance |
| Irish National Stud Company Ltd. | 1946 | Horse and Cattle Breeding |
| Horse Racing Ireland | 2001 | Horse racing courses, betting and regulation |
| Bord na Móna | 1946 | Peat Production |
| Cork Port Company | n.a. | Port Operator |
| Drogheda Port Company | n.a. | Port Operator |
| Dublin Port Company | n.a. | Port Operator |
| Dún Laoighaire Harbour Company | n.a. | Port Operator |
| Dundalk Port Company | n.a. | Port Operator |
| Galway Port Company | n.a. | Port Operator |
| New Ross Port Company | n.a. | Port Operator |
| Shannon Foynes Port Company | n.a. | Port Operator |
| Waterford Port Company | n.a. | Port Operator |
| Wicklow Port Company | n.a. | Port Operator |
| An Post | 1984 | Postal Services |
| Coras Iompair Éireann `(including Dublin Bus, Bus Eireann and Irish Rail) | 1944 | Rail and Road Transport |
| Arramara Teo | 1949 | Seaweed Processing |

Source: Review Group On State Assets and Liabilities, http://www.finance.gov.ie/viewdoc.asp?DocID=6396

## The range and scope of state-owned companies in Ireland

Table 3 shows the range of commercial state organisations operating in Ireland estimates were that these bodies employed some 41,000 persons and had as of January 2011. As can be seen this is quite a diverse range. As of 2008 turnover equivalent to 5.8% of GDP (Forfas 2010).

Historically, Ireland has assigned the state a very significant role in industry. Many of these state bodies emerged as a result of the government intervening to correct received market distortions, in particular in relation to railways, electricity supply and distribution, and agribusiness issues. Throughout the 1930s and 1940s, the predominant political philosophy was one of attempting to grow behind tariffs and other barriers. This was markedly unsuccessful, with the result that by the 1950s an entirely new form of economic philosophy was gradually introduced, culminating in the "First Programme for Economic Expansion" in 1958. This swiftly re-orientated Irish economic strategy towards a policy of growth via targeted and directed subsidies towards foreign direct investment, and resulted in Ireland attracting hundreds of billions of Euros worth of inward over the past several decades, aided by a low corporate tax rate. A comprehensive overview of the breath, origins, and efficiencies of the various commercial organisations owned and operated by the Irish state is given in Barrett (2004), while an analysis of the effect of privatisation is given in Palcic and Reeves (2007). The latter paper, in common with very many additional research papers, shows the crucial importance of the competitive environment within which the organisation works. Privatisation in and of itself does not guarantee increased economic efficiency.

**Table 4. Proceeds from Privatisations in Ireland, 1990-2010**

| Company | Year | Sector | Proceeds (€m) | Method |
|---|---|---|---|---|
| Greencore | 1991 | Sugar/Food | 210.65 | IPO and Placements |
| Irish Life | 1991 | Insurance | 601.93 | IPO and Placements |
| B&I | 1992 | Shipping | 10.8 | Trade Sale |
| Irish Steel | 1994 | Steel | 0 | Trade Sale |
| Eircom | 1999 | Telecoms | 6399.91 | IPO and Trade Sale |
| ICC Bank | 2001 | Banking | 322.3 | Trade Sale |
| TSB | 2001 | Banking | 408.4 | Trade Sale |
| INPC | 2001 | Energy | 20 | Trade Sale |
| ACC | 2001 | Banking | 154.6 | Trade Sale |
| Aer Lingus | 2006 | Airline | 200 | IPO |

Source: Adapted from Barrett (2004) and Palcic and Reeves (2007)

## The historical experience of Privatising State Bodies in Ireland

Partially as a result of political inertia, and partially as a result of a number of (relatively minor) controversies and experiences, privatisation of these bodies has never been a major plank of any political party or government philosophy in Ireland. A number of privatisations have been carried out since 1990. Table 4 below shows the privatisations, with associated revenues. As can be seen, with the exception of telecommunications total receipts have been relatively small. An aggregate total of just under €9 billion is small by most national standards.

One reason why there has been relatively little in the way of recent privatisations may result from the experience of small investors in relation to Eircom. Privatised at the height of the tech bubble in 2001, the shares of the state telecommunications company suffered like all such in the subsequent collapse: this has resulted in many private investors within Ireland associating privatisation with share losses. It is noteworthy that mixtures of trade sales and IPO have been used historically in the Irish context but with trade sales being the sole method used for disposal of state banks. Evidence from Megginson, et al. (2004) suggests that the nature of the financial and regulatory structure of the country in which the divesting takes place has a crucial effect on the choice to proceed by share issue or trade/asset sale. Key in the decision appears to be the potential to use the privatisation as a method to kick-start the domestic stock market. This was certainly one of the main issues raised as a decision to privatise Eircom via a share issue. In the case of the state's previous experience of privatising banks, all have been via trade sales. Evidence from Megginson, et al, (2004), from Dinc and Gupta (2011), and from Boubakri, et al. (2009) (2008) also suggests the importance of the political superstructure.

As noted earlier, the Irish government now owns a significant part of the Irish banking system. In addition to the potential sale of any of the commercial state bodies listed in Table 3, at some stage the Irish government will also have to sell-off the banking system. This will, however, not be feasible for several years. The Irish banking industry remains crippled by the aftermath of the property and credit bubble, and will take a number of years to be restructured prior to any consideration of the state recouping any of the tens of billions of Euro which it has injected. Based on past experience, trade sales will likely be the preferred route. Banking stocks--in particular, peripheral Euro area domestically focused banking stocks--are likely to remain out of favour with investors for quite some time.

### A forward look

In the next decade, two main strands of privatisation are likely to be seen. The first is the unwinding of the state positions in the nationalised banks, the second a set of privatisations arising from a need to restructure the role of the state consequent on the IMF/EU bailout. This restructuring will also raise funds from the divestment of these state assets. Given the fact that the boards of directors of these companies will continue to be state appointments, especially in the banks, and given that the state will also more than likely retain minority stakes, it is highly probable that the mode of exit will be via the trade or asset sale approach rather than share issue privatisation. The state now effectively controls the domestic banking sector, which it had explicitly not wished to. Even with a significant social democratic presence in government this situation will not persist. It is entirely probable that over the decade 2010-2020 we will see the almost complete sale of all state commercial holdings. Estimates from Forfas (2010) are that aggregate banking profits in 2008 were about €400 million on total book value of non-current assets of €17 billion, though we should note total the banks also debt and pension liabilities of some €8 billion. The total net book value of equity in owned state bodies owned before 2008 therefore is about €9 billion, approximately the same as that which has to date been raised in privatization sales. The position of the banks nationalised post 2008 is more problematic, with significant concern that these retain embedded negative value. Since Megginson (2005) shows that privatizing state banks is no guarantee of long-term efficiency gains, these stakes are likely to be nearly worthless. Given that most trade sales and IPOs are at a multiple of net book value, we can perhaps expect to see Irish privatisations worth around €10 billion.

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# Chinese Bank Reform and Privatization: A Long Way to Go

Since the successful privatization program of the Thatcher government in Great Britain initiated in the early 1980s, privatizations have spread worldwide, in multiple waves. The Chinese banking industry has recently undergone a process of privatization as well, which has had a profound impact on the local financial system and the broader domestic economy.

In the late 1970s, China was still a centrally planned economy, with the government controlling and planning almost all business activities. The government ruled not only the capital allocation processes, but also production plans, labor markets and product markets. Most economic activity was in the hands of state-owned-enterprises (SOEs), which commonly did not prioritize wealth maximization. Rather, the objectives of SOEs focused on fulfilling the government's economic plans and serving social objectives such as achieving a high employment rate.1 Chinese banks mainly served SOEs and bank loans were allocated according to political priorities, rather than on the basis of purely economic considerations, which resulted in low levels of efficiency and led to a large proportion of nonperforming loans in the state-owned banking sector.

To solve these problems, China's banking industry was subject to a series of reforms, culminating in a wave of share-issue privatizations, articulated in four distinct stages.

### Stage 1 (1978-1993): Rebuilding the Financial System

Prior to 1978, the Chinese financial system was structured as a mono-bank model, in which the People's Bank of China (PBOC) acted simultaneously as both a central bank and as a commercial bank. In 1978, the government began to implement banking reforms focused on adjusting the structure and operations of China's banking system. A two-tiered banking system emerged and various banking functions were separated from the People's Bank of China as the latter began to truly act as central bank. Four specialized state-owned banks--the "Big Four", each focused on a different market segment--emerged: the Bank of China (BOC) focused on foreign exchange business, the Agriculture Bank of China (ABC) with a focus on agriculture finance, the Construction Bank of China (CBC) with emphasis on large infrastructure project finance, and the Industrial and Commercial Bank of China (ICBC) which served city savings and lending businesses.

This strict separation of functions was somewhat relaxed in 1985, when the PBOC announced a new policy of encouraging competition between banks. This, in turn, led to overlap among banks in terms of target business sectors.

In 1986, the first domestic joint-equity bank was established, the Bank of Communications. Thereafter, various commercial banks were set up, such as

Shenzhen Development Bank, China Merchant Bank, China Everbright Bank, Shanghai Pudong Development Bank, Fujian Industrial Bank and Hua Xia Bank
.
During this stage, there was very limited competition among banks, because they served mainly as policy-lending "conduits" for the government, and proper incentives for management were lacking. Despite the separation of functions, performance of the banking system remained poor, mainly due to government influence in the fund allocation process.

### Stage 2 (1994-1997): Regulating the Financial System

During the second stage, the government began transforming state-owned specialized banks into state-owned commercial banks. This involved numerous reforms. First, as it became increasingly clear that political lending was leading to deterioration in asset quality in all banks, the government decided to establish financing vehicles dedicated to such political, or social, lending, in order to allow other banks to pursue purely commercial goals. Hence, three specialized "policy" banks were established, the China Development Bank (CDB), the Export–Import Bank of China (Chexim), and Agricultural Development Bank of China (ADBC).

Second, two broad new pieces of legislation were promulgated in 1995, the Central Bank Law and the Commercial Bank Law. The former clearly established the structure and role of the Central Bank, while the latter focused on the governance of commercial banks. The Commercial Bank Law prompted autonomous management, but also called for banks themselves to assume responsibility for risk, for profit and loss, and self-discipline. Finally, also in the spirit of increasing the stability of the financial system, credit ceilings were established.

During this stage, the banking sector was still in transition. Despite initial attempts at encouraging banks to follow economic, rather than political, priorities, government intervention and influence were still very strong.

### Stage 3 (1998-2002): Deepening Reform of State-Owned Commercial Banks

By the end of the 1990s, it became obvious that political lending was still pervasive, and leading to very high proportions of nonperforming loans (NPLs). In fact, most state-owned banks were technically insolvent. As the Asian Financial Crisis developed, the Chinese government advocated a series of additional reforms of state-owned banks in order to ensure financial safety. In 1998, the Ministry of Finance recapitalized the Big Four by issuing USD 32.6 billion of 30-year special government bonds and using the proceeds to enhance the banks' capital adequacy ratios. One year later, China's government established four asset management companies, aiming to take over the bad assets of the Big Four and the China Development Bank. Accordingly, most nonperforming loans were transferred at face value to the asset management companies, further strengthening the banks' balance sheets.

Other measures were undertaken as well, mostly aimed at improving the governance of banks. These included the strengthening of internal management, the elimination of credit ceilings, and the imposition of managerial performance assessment linked to assets quality and loan portfolio performance. The reorganizations also involved dramatic staff cuts, leading to a loss of over five hundred thousand jobs at the Big Four between 1998 and 2002.

Despite the many reforms made at this stage, banks still confronted many problems, especially capital constraints. Bridging the funding gap was a constant challenge and the capital supplemented by the Ministry of Finance was only temporarily sufficient. Despite multiple recapitalizations, banks were quickly becoming, once more, undercapitalized. The culprit, as before, was the high proportion of nonperforming loans, which analysts attributed largely to political interference with the lending process. Perversely, every round of government-led recapitalization led to a banking system even more closely tied to the political class. Clearly, governance reforms in the banking sector had not been fully successful; government ownership was still leading to political interference in the capital allocation process, despite the various attempts at reform. It soon became clear that, in order to survive, the Chinese banking sector had to be transformed into a modern banking system. The government had to impose governance reforms, while at the same time protecting the banking sector from the deleterious consequences of political interference and oversight.

### Stage 4 (2003-present): Public Listing of State-Owned Banks

After three stages of reform, banking governance and governmental interference were still major unresolved issues. After the turn of the century, the Big Four banks, whose combined asset accounted for 70% of the Chinese banking system, remained the top concern and priority in the national economy. Problems generated by nonperforming loans and deteriorating asset quality threatened to impede economic development. Hence, the Chinese government decided to further deepen bank reform by focusing on improving the governance of state-owned banks. The process of reform involved four steps: restructuring, recapitalization, introduction of one or more strategic international investors and, finally, public listing.

In the restructuring phase, the major goal was to reduce exposure to nonperforming assets and introduce new shareholders. By May 2004, most of bad assets were, once more, stripped off and transferred to four asset management companies. After that, Bank of China Ltd. (BOC), China Construction Bank Corporation (CCBC), and Industrial and Commercial Bank of China Ltd. (ICBC) were established. By the end of 2004, the nonperforming loan ratio of CCBC had decreased to 3.92%, the capital adequacy ratio reached 11.29%, and the core capital adequacy ratio hit 8.57%. The nonperforming loan ratio of BOC decreased to 5.12%, while the capital adequacy ratio and the core

**Table 1. Companies held by Central Huijin Investment Ltd. as of June 30, 2009**

| Name | Major Business | Date of Investment by Central Huijin | Stake Owned by Central Huijin |
|---|---|---|---|
| China Development Bank | Commercial Banking | 12/31/07 | 48.70% |
| Industrial and Commercial Bank of China | Commercial Banking | 04/22/05 | 35.41% |
| Agricultural Bank of China | Commercial Banking | 10/29/08 | 50.00% |
| Bank of China | Commercial Banking | 12/30/03 | 50.00% |
| China Construction Bank | Commercial Banking | 12/30/03 | 48.23% |
| China Everbright Bank | Commercial Banking | 11/30/07 | 70.88% |
| China Reinsurance (group) Corporation | Reinsurance | 04/11/07 | 85.50% |
| China Jianyin Investment | Investment Banking | 09/09/04 | 100.00% |
| China Galaxy Financial Holding Company Ltd | Investment Banking | 07/14/05 | 78.57% |
| Shenyin & Wanguo Securities Company Ltd | Investment Banking | 09/21/05 | 37.23% |
| Guotai Junan Securities | Investment Banking | 10/14/05 | 21.28% |

Source: http://www.huijin-inv.cn/ and other websites

capital adequacy ratio rose to 10.04% and 8.48%, respectively.
The second step of the process was recapitalization through a newly established vehicle, Central Huijin Investment Ltd. (Central Huijin). Central Huijin was established at the end of 2003 as a wholly state-owned company, authorized by the State Council to exercise rights and obligations as an investor in major state-owned financial enterprises. Yet, Central Huijin, despite being government-owned, was managed by an independent team. Central Huijin assumed stakes in a number of financial enterprises including six large commercial banks, two securities companies, one financial holding company, one investment company and one reinsurance company, as detailed in Table 1.

Between 2003 and 2005, Central Huijin used foreign reserves to infuse USD 22.5 billion into BOC, USD 22.5 billion into CBC, USD 15 billion into ICBC and, later, USD 19 billion into ABC. Central Huijin became a controlling shareholder in each of the Big Four, with the goal of addressing the ever-present governance issues. During the share-holding system reform of state-owned banks, in order to ensure the safety of injected funds, Central Huijin took a significant number of board of director seats, usually exceeding a third of all positions. This system allowed Central Huijin to exercise veto power in significant affairs. These recapitalization and governance reforms were seen as steps towards public listing of the Big Four.

The third step was to attract international strategic investors. In 1996, Asian Development Bank (ADB) became the first international strategic investors to acquire a small portion of equity in China Everbright Bank (a domestic joint-equity bank). This represented a further partial privatization of a Chinese banking firm although the very first privatization can be traced back to 1991, when Shenzhen Development Bank, a domestic joint-equity commercial bank, successfully listed on the Shenzhen Stock Exchange. More international strategic investors were introduced after 2001, when China entered the WTO. From 1996 to 2005, 14 banks were partially sold to foreign investors, including five city commercial banks, six domestic joint-equity banks, and three of the Big Four, as shown in Table 2. Investment by foreign investors boosted market confidence in Chinese banks and it was hoped that the new shareholders would improve governance standards.

The fourth step was to encourage banks to conduct initial public offerings. The first listings of this privatization wave were all on the Hong Kong Stock Exchange. In June 2005, the Bank of Communications went public, raising more

**Table 2. Investments by International Strategic Investors**

| Chinese bank | Acquisition year | International Strategic Investors | Shareholding (%) |
|---|---|---|---|
| China Everbright Bank | 1996 | Asia Development Bank | 1.90% |
| Nanjing City Commercial Bank | 2001 | International Finance Corporation | 15.00% |
| Bank of Shanghai | 2002 | HSBC, International Finance Corporation | 15.00% |
| China Minsheng Bank | 2003 | Asia Financial Holdings PTE Ltd., Temasek, International Finance Corp | 5.77% |
| Shanghai Pudong Development Bank | 2003 | Citigroup Incorporation | 4.62% |
| Bank of Communications | 2004 | HSBC | 19.90% |
| Industrial Bank Co., Ltd. | 2004 | Heng Seng Bank, Government of Singapore Inv Corp, International Finance Corp | 24.98% |
| Jinan City Commercial Bank | 2004 | Commonwealth Bank of Australia | 11.00% |
| Shenzhen Development Bank Co.,Ltd. | 2004 | Newbridge Asia, AVI III. L.P. | 17.89% |
| Bank of Beijing Co., Ltd. | 2005 | ING Bank N.V., International Finance Corp | 24.90% |
| Hangzhou City Commercial Bank | 2005 | Commonwealth Bank of Australia | 19.90% |
| Bank of China | 2005 | RBS, Merrill Lynch, Li Ka-shing, Temasek, UBS, ADB | 16.80% |
| China Construction Bank | 2005 | Bank of America, Temasek | 14.10% |
| Industrial & Commercial Bank of China | 2006 | Goldman Sachs, Allianz, American Express | 10.00% |

Source: bank websites, annual reports and other published informations.

than USD 2 billion. In October 2005, CBC raised USD 8 billion.

In June 2006, BOC raised USD 11.2 billion on the Hong Kong Stock Exchange and USD 2.5 billion on the Shanghai Stock Exchange. In October 2006, ICBC raised about USD 16 billion on the Hong Kong Stock Exchange and USD 5.9 billion on the Shanghai Stock Exchange, making it the world's biggest IPO at the time.

IPOs by state-owned banks provided new financing but also increased transparency and led to monitoring by shareholders, which in turn led to improvements in corporate governance and operational efficiency. The nonperforming loan (NPL) ratio of ICBC decreased from 2.74% in 2007 to 2.29% in 2008; BOC's NPL ratio declined from 3.12% in 2007 to 2.65% in 2008; CBC's NPL ratio declined from 2.60% in 2007 to 2.21% in 2008. Also by 2008, capital adequacy ratios of state owned banks had risen to 13.06% for ICBC, 13.43 % for BOC, and 12.16 % for CBC.

### Lessons from the Chinese Banking Reforms

Initial reforms of the Chinese banking system proved that recapitalizations were only temporary stop-gap solutions, and the banks--still inefficiently managed--quickly found themselves in need of additional capital. It soon became clear that simply pouring money into the banking sector, while allowing banks to persevere in their inefficient practices, would not lead to a permanent solution. The government tried reforming governance, but initial efforts proved that active government involvement had its own downsides--mainly, inefficiencies in the capital allocation process. In this respect, the Chinese government enacted a new strategy in its fourth stage of reform, and attempted to improve the governance of state owned banks while insulating those from political interference. This strategy was based on changes in ownership structure. First of all, Central Huijin, as mentioned above, was established as a government-owned, yet independently managed investment fund. In all fairness, the independence of Central Huijin is still debated by observers, yet it clearly offers at least some degree of separation between politicians and its holdings. Central Huijin's two main goals were recapitalizing the banking sector and reforming bank governance, while moving away from social and political lending and towards the maximization of returns on loan portfolios.

In a similar fashion, sophisticated foreign shareholders were allowed to purchase stakes in Chinese state-owned banks, with the hope that their expertise and monitoring would lead to governance improvements. Finally, the process of reform culminated in public listing of the firms, which was also seen as serving the dual purpose of increasing access to funds and increasing transparency and shareholder oversight.

In this sense, the true value of this process of changing ownership, culminating in public listing of the banks, lies not in the facilitated access to financing, but rather in the governance improvements stemming from limiting political interference, importation of foreign governance standards and, finally, imposition of market discipline (transparency requirements and monitoring) through public listing.

### The Road Ahead

Through decades of reform, the Chinese banking system has undergone dramatic transformations. A modern banking system has been established, property rights have been strengthened, and governance improved. As a result, the proportion of

nonperforming loans has declined sharply and capital adequacy has greatly improved. But there is still room for improvement.
Capital constraints have been the major problem for the Big Four all along. Despite funding injections by the Ministry of Finance and Central Huijin, and financings from public listings, the problem remains unresolved. Recent recapitalizations have also been politically controversial.

One of the problems highlighted by analysts is the circular nature of some of the refinancing. In multiple rounds, Huijin raised capital in the domestic interbank bond market through bond issues. The purpose was to recapitalize three largest state-owned banks, one policy bank and one insurance company. But more than 80 percent of Central Huijin's first bond issue was bought by state-owned banks, thus raising questions about whether any new funds have really been injected. Overall, rather than building new reserves, recent bond sales may have increased risk in the banking system. In a sense, banks were providing funding to themselves but no fresh cash flowed in. The rating agency Moody's criticized the whole process, noting that recapitalizing banks with bond proceeds purchased by the same banks effectively increases the leverage of the entire banking system. Moody's expressed doubts about the sustainability of this practice, noting that problems are likely to arise if leverage continues to increase while economic growth slows.

In order to tackle the financial crisis, the government pushed out a stimulus package of USD 600 billion in 2008, which helped Chinese banks extend new loan in excess of one trillion USD. Most new loans were provided to large state-owned enterprises, which then invested money in the real estate market, triggering fears of a new real-estate bubble.

Another emerging issue is the potential bad loans produced by municipal government financing vehicles. Municipal governments are not allowed to issue bonds or borrow loans from banks, so many of them set up their own financing vehicles to borrow from state-owned banks. Presently, it is estimated that nearly one-third of the loans to municipal entities might be at risk of default in the near future.

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## Selected News

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2010-12-11 - **Government Woes Fuel Infrastructure**
(WSJ Heard On The Street)--Crisis for Europe's cash-strapped governments spells opportunity for infrastructure funds. Multibillion-euro privatization programs are adding to a bulging pipeline of infrastructure deals as airports, rail links and utilities go on the block. But competition for long-life, inflation-resistant assets is heating up, too, as worries about sovereign credit-worthiness diminish the appeal of government bonds. Investors hoping for infrastructure bargains may be disappointed.
**Euro-zone governments** worst hit by debt worries want **to sell** around **35 billion euros** ($46 billion) **of assets by 2013**, including Spain's airports and lottery operators. In addition, the U.K., Poland, Russia and Turkey have active privatization programs. With infrastructure operators like utilities and construction groups also repairing balance sheets, more than $20 billion in European airport assets alone are up for sale.
There is ample private-sector firepower. Unlisted infrastructure funds in Europe have about $16 billion in unallocated capital, according to research firm Prequin. Over a dozen big pension funds have dedicated infrastructure teams to invest directly. Banks have infrastructure units. Middle East and Asian sovereign-wealth funds are also active.
Competition is pushing up prices. Two Canadian pension funds, for example, recently paid GBP 2.1 billion ($3.3 billion) for the high-speed rail line from London to the Channel Tunnel, beating the U.K. government's expectations.
Add to that the obvious economic risks. And regulatory risks, such as those that made a mess of Ferrovial's 2006 acquisition of U.K. airport operator BAA. Investors must keep their heads even amid forced selling of infrastructure assets.

**BELGIUM**

2010-06-21 - **CVC Plans Belgian Post IPO At End 2010 Or Early 2011**
AMSTERDAM (Dow Jones)--Private-equity firm CVC Capital Partners Ltd. is seeking a listing in Brussels for **Belgian De Post NV**, according to people familiar with the matter. CVC holds a 49.9% stake in the Belgian postal operator, which last week was renamed Bpost, while the Belgian government controls the remaining shares. The public offering of Bpost is expected to take place late in 2010 or early 2011, according to the people. CVC couldn't be reached immediately. Dutch daily Het Financieele Dagblad at the weekend reported CVC was talking to TNT NV about the acquisition of a substantial stake in the Dutch postal and express group's mail unit. It added talks about a deal valued at around EUR1.5 billion were gaining pace. TNT declined to comment on the report, saying only that it was in the process of carving out its mail business as it announced in April. TNT is in the process of separating its mail business from its express unit after it announced last year it would focus on growing its European express and parcels operations. While several people said CVC was closely following the separation of TNT Mail, they couldn't confirm whether it currently is in negotiations to buy a stake in the business. TNT previously has said it would probably complete the separation of the mail unit this year, but couldn't say if a decision on its future would be reached in 2010. One person said that CVC already has calculated potential synergies between Bpost and TNT Post, which could reach over EUR100 million. TNT's strategy to build a European mail network ground to a halt due to the slow pace of liberalization ahead of the 2011 deadline for full opening of the European mail market and after shareholder pressure to separate the mail and express business, which has driven speculation about a possible bid for TNT's express business by United Parcels Services Inc. or FedEx Corp. of the U.S. Since TNT announced two months ago that it would carve out its Dutch mail business it has held a road show for strategic investors to test their appetite for a partnership, while it also held preliminary talks with pension funds, said several people familiar with the process. Several private-equity investors also have expressed interest. Several European mail incumbents have been diversifying their businesses to fight volume declines caused by digitalization and liberalization. Examples include France's La Poste and the U.K. Royal Mail, which have been building European parcels businesses, focusing primarily on the business-to-business market. Last week Royal Mail Chairman Donald Brydon told the Financial Times that the U.K. government should aim to sell a stake in the U.K. mail operator through an initial public offering, while he was skeptical of a spin off of its parcels business, GLS, which is benefiting from customers shifting from premium express services to cheaper express and parcels services, as well as growth in e-commerce businesses. In 2009, TNT and CVC were interested in buying a stake in Royal Mail, but the U.K. government decided to shelve

privatization plans. A listing of Bpost ahead of any decision on the future of TNT Post would provide investors with an indicative valuation of TNT's mail business, according to people familiar with the matter. CVC bought half of its 49.9% stake in Bpost last year for EUR373 million from Post Danmark A/S. Bpost in 2009 reported EUR240 million in profit before taxes, interest and one-off items on revenue of EUR2.3 billion.

## FRANCE

2010-12-10 - **Smaller Than Planned Areva Capital Hike On The Way**

PARIS (Dow Jones)--French state-controlled nuclear firm Areva SA's capital increase is likely to take place before the end of the year, though on a substantially smaller scale than initially planned, Finance Minister Christine Lagarde said Friday. After long negotiations, Kuwait's sovereign wealth fund has offered to invest EUR600 million in Areva for a 4.8% stake in the company and the French government will invest EUR300 million, Lagarde said, adding the fund's offer values Areva at EUR11.5 billion. Areva's supervisory board will meet Saturday at 0900 GMT, a spokeswoman for the company said. The French government owns more than 93% of Areva and has been looking to raise cash needed to realize the company's investment needs. But the project Areva's supervisory board will discuss Saturday is far from initial plans to open 15% of the company to investors, a Paris-based analyst noted. The government was in talks with the Kuwait Investment Authority, the Qatar Investment Authority and Japan's Mitsubishi Heavy Industries Ltd., but talks with the latter two failed at the end of November. Mitsubishi Heavy has been deterred from participating through pressure from state-controlled utility Electricite de France SA. Areva and Mitsubishi are key suppliers to EDF, which feared an investment by the Japanese company in Areva could diminish competition between the two, and it threatened to remove Mitsubishi from its list of suppliers. The Qatar Investment Authority demanded involvement in Areva's uranium mining operations, a condition the French government was unwilling to accept. Lagarde Friday noted though the government is willing "when the time comes" to consider other financing transactions, in order "to complete this first capital increase." Further, Areva's 14% stake in Swiss-based semi-conductor group **STMicroelectronics NV** could soon be sold to a French public entity, the minister said, without elaborating. With the divestiture of its transmission and distribution unit a year earlier, as well as cost savings and operating performance improvement programs, the plans allow Areva to raise EUR5 billion-EUR6 billion to help finance its investment needs, which have been estimated at EUR11 billion-EUR12 billion. Areva is faced with a doubling of costs to build its first third-generation EPR nuclear reactor in Finland. It also has to buy out former partner Siemens AG, after the German group requested early last year to leave nuclear reactor division Areva NP, in which it owned 34%. Siemens' stake valuation is being discussed in court--Siemens values it at EUR4 billion, while Areva sees it around EUR200 million, although the stake is valued at around EUR2 billion in Areva's books. The case is being heard by the International Chamber of Commerce in Paris. The Kuwaiti fund and the French government also agreed on the framework for a shareholders pact that would allow Areva's shares to be listed by mid-2011. Only 3% of Areva's capital, as investment certificates--shares without voting rights--is currently listed.

## GERMANY

2010-04-08 - **LBBW Must Sell Around EUR4.5B Holdings**

FRANKFURT (Dow Jones)--German state-controlled bank Landesbank Baden-Wuerttemberg must sell around **EUR4.5 billion in holdings**, or around half the book value of all its units, as part of a European Union-mandated restructuring, according to a document posted on the European Commission's Web site. Among other holdings, LBBW must sell its stakes in **DekaBank Deutsche Girozentrale**, **some real estate and home loans businesses, and its savings banks insurance unit**, according to the EU document. The bank will also close offices in Barcelona, Madrid, Paris, Amsterdam, Milan, Budapest, Warsaw and Prague by the end of 2010, while scaling down branches in New York, London, Singapore and Tokyo. More broadly, LBBW is required to participate in the consolidation in the state-controlled bank, or Landesbank sector, according to the document. EU regulators are pressuring for restructuring in Germany's state banking sector, which critics say lacks a viable business model and only survives through local government support. LBBW is further prohibited from buying majority stakes in competitor institutions until the end of 2012, according to the document. The details on LBBW's restructuring were laid out by the European Commission following its approval of a restructuring plan for LBBW late last year. A spokesman for LBBW said earlier Thursday that the bank welcomed the EU's decision and planned to implement the restructuring requirements.

2010-10-20 - **German Minister Opposes Full Privatization Of Deutsche Bahn**
BERLIN (Dow Jones)--German Transport Minister Peter Ramsauer opposes a complete privatization of state-owned railway operator **Deutsche Bahn AG** and state-owned German air traffic control company Deutsche Flugsicherung GmbH, Die Zeit weekly newspaper cites him as saying. "The state shouldn't completely sell Deutsche Bahn," Ramsauer told the newspaper, according to an advanced released copy of its Thursday edition. It is only suited in a "very limited way" for privatization and the company's target mustn't solely be profit maximization, he said. Customer service, speed and punctuality, safety and reliability are also important, he said. He also doubted whether a privatized Deutsche Flugsicherung would have opted for a closure of German air space during the Icelandic volcanic ash cloud in spring. "Privatization is sometimes good, but no panacea in order to generate desired results for the common good," he said. The previous grand coalition government called off a partial privatization Deutsche Bahn AG in 2009 due to bad market conditions.

## GREECE

2010-03-17 - **Athens Plans Asset Sales To Pare Debt**
ATHENS (WSJ)--The cash-strapped Greek government is putting a host of state assets on the block, but has drawn the line at off-loading islands in a bid to reduce its crushing debt burden. **Officials plan** to sell some of the country's eclectic holdings, which include jumbo jets and stakes in banks and a famed casino. Prime Minister George Papandreou recently dismissed a suggestion by a few German politicians that Athens sell some of the country's uninhabited islands, telling the *Financial Times*, "There are more imaginative and effective ways of dealing with the deficit than selling off Greek islands." Instead, the government figures that by selling its stakes in a bank and a betting company, as well as its share of the national telecommunications company, it can raise 2.5 billion euros ($3.76 billion) -- the equivalent of 1% of gross domestic product, its target for this year. That would only scratch the surface of Greece's debt -- which has surpassed the country's 250 billion euros-a-year GDP -- but would underscore for financial markets that Athens is serious about fixing its public finances. The government also may put up for sale its shares in 15 other companies, including the water utility in Athens, a leading oil refiner, and several casinos. The Finance Ministry also wants to get rid of some Airbus A340 planes that it owns from the years before the country's debt-ridden national carrier, Olympic Airlines, was privatized. Although the ruling Socialist party enjoys a substantial majority in Parliament, it is divided about privatization. Economic concerns are more likely than political ones to derail any deals. With confidence in the Greek economy low and the rest of the world stumbling through an uncertain recovery, investors might undervalue the assets, meaning the government would raise less money than in a normal year. "The privatization plan sounds excellent in theory. If you sell all of the state assets and maybe throw in the Acropolis too, it's possible the government could hit its targets," says Constantine Michalos, president of the Athens Chamber of Commerce and Industry. "But at current market rates they will be going out on the cheap. Because, let's face it, it's not just Greece that's in recession, it's the whole world." The government has yet to present details of its privatization plan, but has said it is looking at selling or reducing its controlling 34% stake in gambling monopoly OPAP SA as well as the 34% it owns of Hellenic Postbank, a savings bank that initially was allied with Greece's postal service. Many analysts reckon that the government also will exercise an option to sell 10% of Hellenic Telecommunications Organization SA to Germany's Deutsche Telekom AG, which owns 30% of the company and has said it wants to buy more. The most valuable asset to be unloaded is the government's stake in OPAP, the gambling company whose name translates roughly into the Organization for Prognostication on Soccer Matches. Officials estimate Greece would fetch 1.63 billion euros from selling its stake in the enterprise, which was established in the 1950s for betting on soccer. But OPAP's market value has tumbled by more than 30% in the past 10 months. There are other financial considerations. OPAP -- like the state gas monopoly, the country's leading electric utility and others -- is a profitable company that pays dividends. OPAP's dividends to the government add up to as much as 200 million euros a year. Selling the government stakes would come on the heels of Greece's latest austerity plan aimed at narrowing a budget deficit that hit about 12.7% of GDP last year, more than four times the EU's 3% ceiling. While the majority of Greeks are resigned to difficult measures, unions -- incensed by the government's planned wage and benefit freezes -- are resisting. That opposition surged during the recent privatization of the container terminal operations at the Athens port of Piraeus. China's Cosco Pacific Ltd., which won a 25-year concession to manage one of the container terminals, was blocked from taking control of the operation in October after port workers staged a month of protests. "Broader society will accept the need for privatizations," says George Kyrtsos,

political commentator and publisher of the Athens newspaper, City Press. "But there will be some union opposition." In the case of Cosco, the worker protests ebbed amid a 56 million euros voluntary-retirement package, a formula followed by previous Greek governments in an effort to prepare state-owned companies for privatization. Similar deals have been struck at Hellenic Telecom, several state-owned banks and Olympic Airlines. The problem is that in many cases, such programs have transferred the burden of early-retirement costs to Greece's bankrupt state pension system. In January, Greek Labor Minister Andreas Loverdos, who has been given the task of fixing the country's pension system, ordered Hellenic Telecom to pay an additional 100 million euros that he estimates the company owes the government for its voluntary-retirement program. "Yes, privatization should go ahead, but it needs to be done correctly. We can no longer afford the old system of taking pension benefits off the books of state-owned companies," Mr. Kyrtsos says.

2010-10-26 - **Greek Parliament Passes Railway Privatization Law**
ATHENS (Dow Jones)--The Greek parliament Tuesday passed a law to restructure and privatize the heavily indebted **Hellenic Railways, OSE**, amid continuing strikes from workers at the organization. OSE has debts to the tune of EUR10.7 billion and costs the Greek taxpayers about EUR1 billion a year to keep afloat. Its speedy privatization is an important promise given to the International Monetary Fund and European Union in exchange for the EUR110 billion bailout in May to stave off bankruptcy. The law envisages that OSE's workforce will be slashed from the current 6,000 to 3,700 employees. Some will take early retirement, many will be transferred to other public service jobs, but no one will be fired. The Minister of Transport, Dimitris Reppas, argued that: "We cannot accept that the revenues of the OSE are EUR106 million but wage costs are EUR116 million for 2009." The railways will have to cut loss-making activities and routes. But there will be at least EUR180 million state subsidies for lines considered strategically important, even if they are not economically viable. The law will also put in place a framework for exploiting OSE's very considerable real estate assets, worth several billions, to offset part of the cost of the state assuming all of the debts of the organization. OSE has been plagued for decades by political intervention and patronage jobs. The ruling PASOK socialist government intends to deliver a revamped railway operator TrainOSE next year, which will be marginally profitable and then hopes to attract serious interest because it also plans to sell a 49% stake with potential management rights. But unions are determined to resist such efforts and have called an ongoing week-long strike and also held a protest Tuesday in downtown Athens. The unions are resisting the transfer of personnel to other public sector roles, and they are against any wage reductions or possible cuts to pension entitlement. The Panhellenic Federation of Railway Workers said it will challenge this new law in European courts.

2011-01-10 - **Greek Government Eyes OPAP Privatization In 2011**
ATHENS (Dow Jones)--Greece's government is considering privatizing gambling monopoly OPAP SA later this year after introducing legislation to liberalize the Greek gambling market, financial daily Imerisia reports Monday. Without naming its sources, the newspaper says that the government's goal would be to strengthen OPAP's position within a newly liberalized market, adding new games, before proceeding with privatization. Greece is struggling to narrow its budget deficit through a series of fiscal measures and economic reforms, while also cutting its giant debt burden that is expected to reach 153% of gross domestic product by the end of this year. The government holds a 34% stake in OPAP which has an estimated value of more than EUR2 billion. The government also receives almost EUR700 a year in dividends from its OPAP holding. However, the newspaper says any move to privatize OPAP is likely to be resisted by the company's franchisees, who have already announced plans for a 48-hour strike later this week over outstanding tax issues.

2011-05-24 - **Greece Speeds Up Plans To Sell Off State-Held Assets**
ATHENS (WSJ)--Greece, under pressure from Germany and other euro-zone members to reduce its massive debt burden, said on Monday it will accelerate its long-delayed plans to sell off 50 billion euros ($70.7 billion) in state-owned assets over the next five years. The government said it will move forward **plans to sell stakes in some of its most-valuable assets**, including a state-owned bank, the country's gambling monopoly, its two largest ports and a water utility in the northern city of Thessaloniki. The move comes amid growing expectations in Europe that Greece will need a further bailout to avoid defaulting on its debt. Officials in Berlin and other European capitals are reluctant to extend more aid without winning further concessions from Athens and have demanded the government begin selling state property as soon as possible. The government now hopes to raise as much as **5.5 billion euros through asset sales by the end of 2011**, up from an initial target of 2 billion euros to 4 billion euros it had been aiming for just a few weeks earlier. Economists welcomed the announcement, saying that Greece needed to drastically step up

its privatization drive after months of delays. Since coming to office in October 2009, Greece's Socialist government has yet to sell any state assets, fearing internal opposition in the governing party and among the country's powerful labor unions, one of its core constituencies. "This is very encouraging news, there has to be an acceleration of the program, because there really is no alternative," said Yannis Stournaras at the Foundation for Economic and Industrial Research, a Greek think tank. "Of course, it still remains to be seen how the implementation of the program will go." Under the revised program, Greece will immediately seek a buyer for its 34% stake in Hellenic Postbank, something that had been slated for 2013. It will move this year to sell another 34% stake in highly profitable gambling monopoly OPAP SA, instead of next year as originally planned. The new program also calls for moving forward by one year the sale of the state's holdings in **Piraeus Port Authority SA**, **Thessaloniki Port Authority SA** and **Thessaloniki Water Supply & Sewerage Co**. The Greek government currently controls 74% stakes in each. By the end of the June, the government said it will also complete the sale of a 10% stake in former telecommunications monopoly **Hellenic Telecommunications Organization SA, or OTE**, by exercising a put option that expires later this year. German telecom giant Deutsche Telekom AG holds a 30% stake in the company and, under the terms of a 2008 deal, is obliged to buy that stake, valued at around 400 million euros. The government also decided to establish a holding company in which it will park the state assets it has slated for sale. Greece also reaffirmed its commitment to meet its 2011 deficit target of 7.5% of gross domestic product, and said it will take some 6.4 billion euros in fresh austerity measures to reach that.

## HUNGARY

2010-02-27 - **Hungary Renationalizes Airline Malev As Privatization Fails**

BUDAPEST (Dow Jones)--The Hungarian government will gain a 95% stake in Hungarian airline **Malev Zrt.** to keep the firm operational since its 2007 privatization has failed, the Hungarian Finance Ministry said Saturday. Hungary will inject 25.2 billion forints ($126.4 million) into the airline, partly through converting debt into equity, with contribution in kind, and also in the form of cash, the ministry said in a release. Current main owner AirBridge, which is 49% owned by Russian Vnesheconombank and 51% by a Hungarian private individual, will retain a 5% stake in Malev. "The restructuring of Malev needs to continue so that its operation will consume the lowest amount of taxpayer money and also that the European Union won't regard the Hungarian government's step as unlawful state support," the ministry said. As part of the deal, Vnesheconombank will pay the government the EUR32 million in bank guarantees already pledged in the privatization transaction, and it will also convert Malev's "relatively unfavorable" loans into a debt with a lower interest rate, the ministry said. The government targets to turn Malev profitable by 2012 the latest. The government plans "tough steps," which will include further layoffs and a renegotiation of the company's supply contracts, trade union agreements, the ministry added.

## ITALY

2010-06-30 - **Italy's CdP To Shift Enel, Other Stakes To Economy Ministry**

ROME (Dow Jones)--The Italian government has agreed to shift its controlling stakes in **Eni SpA** and **Enel SpA** to comply with an antitrust ruling, state-controlled lender **Cassa Depositi e Prestiti SpA**. CdP agreed to move its entire stake in utility Enel to the Economy Ministry in exchange for the ministry's stake in Eni. It also decided to give the ministry a 17.36% stake in utility Enel, while receiving an unspecified amount in Eni in exchange, it said in a statement. It will also cede 50% of STMicroelectronics NV and 35% of Poste Italiane, the postal service, to the ministry. "The Economy Ministry will cede to CdP a quantity of Eni shares that corresponds to the value of the shares that CdP is ceding to the ministry: to determine their value, the Economy Ministry will name an independent advisor to assess their value," CdP said in a statement. CdP had to decide whether to dispose of most of its stake in Enel or in Italian power grid company Terna SpA by Thursday on antitrust concerns. CdP has 29.95% of Terna. The Economy Ministry owns 13.88% of Enel and 20.32% of Eni. CdP also holds 9.9% of Eni.

## IRELAND

2010-04-27 - **Bank of Ireland to Raise Capital**

LONDON (Dow Jones)--**Bank of Ireland PLC** will seek to raise €3.42 billion ($4.57 billion) to boost its capital under government requirements, leaving the state with a 36.5% stake, as it said trading conditions remain "challenging." The bank will launch a rights issue of as much as €1.89 billion as well as a €1.54 billion private placement to institutional investors and the state. In addition, certain holders of Tier 1 and upper Tier 2 securities will be able to exchange their instruments for either common stock or cash. The exact size of the rights issue will depend on how much is raised from the debt-to-equity swap. Bank of Ireland said Monday that its Tier 1 capital ratio is expected to increase to 8% from 5.3%, meeting the Irish government's stress test. "This transaction is good news for our economy, good news for the taxpayer and good news for Bank of Ireland's shareholders and investors," said Irish Finance Minister Brian Lenihan. "The level of private-sector investment is tangible evidence of the growing international and domestic confidence in both Bank of Ireland and our economy." The government recapitalized Bank of Ireland with €3.5 billion last year and received preference shares that gave it 25% voting rights, or an effective 25% stake in the bank. The government later received another 184 million shares from the bank through a stock payment relating to the coupon on the preference shares. This gave the state an effective 34% stake in the fully diluted share count of the bank.

2009-08-11 - **Polish Prime Minister: Cabinet OKs Updated 2009-2010 Privatization Plan**

WARSAW (Dow Jones)--The Polish government Tuesday cleared a plan to raise **36.7 billion zloty ($12.4 billion) in privatization revenue by the end of 2010** to help finance the widening budget deficit. The Treasury ministry aims to sell stakes in strategic companies including copper miner Polska Miedz SA and refiner Grupa Lotos SA. The ministry also plans to sell stakes in power companies Tauron, PGE and Energa, and proceed with the previously announced sales of chemical companies, offer of minority stakes in listed companies and the sale of the Warsaw Stock Exchange.

## NETHERLANDS

2011-01-11 - **State-owned ABN Amro: Dutch State Will Detail Exit This Week**

AMSTERDAM (Dow Jones)--The Dutch minister of finance will this week inform lawmakers about his exit strategy for nationalized ABN Amro Bank NV, Chief Executive Gerrit Zalm said. "The minister has finished his letter, and I understand he will send it to Parliament in the second half of this week," Zalm told reporters in his New Year's speech at ABN Amro's headquarters. Zalm, a former Dutch finance minister, declined to elaborate. "I have sworn not say anything more," he said. The privatization of state-owned ABN Amro is closely watched, as it could be one of the biggest initial public offerings in the Netherlands in the near future. On previous occasions, Zalm has said that he wants the bank to stay independent, preferably through a stock market listing. He reiterated Tuesday that ABN Amro, the Netherlands' third-largest bank by assets, is expected to return to the market by 2013 or later. "It will be after 2012," he said. ABN Amro comprises the Dutch banking parts of former Benelux financial services giant Fortis, which collapsed under the weight of buying a large part of the former ABN Amro Holding NV in 2007. Those parts are now being merged, a process that is still on track, Zalm said. The merger should be completed by the end of 2012. ABN Amro in November posted a net loss of EUR627 million for the first nine months of the year, mainly due to merger and integration costs. However, the bank said that, otherwise, profitability improved over the period on higher interest income and fewer bad loans.

## POLAND

2010-01-20 - **LOT Polish Airlines Privatization Not Seen Before 2011**

WARSAW (Dow Jones)--Three bidders, including a major international airline, have indicated their interest in participating in the privatization of Poland's troubled flag carrier LOT Polish Airlines, but privatization is not scheduled before 2011, Polish treasury ministry spokesman Maciej Wewior told Dow Jones Newswires. A person familiar with the situation also said Wednesday that the airline would need to keep restructuring, with asset sales and more layoffs likely, before it swings back to operating profit ahead of the planned sale. "Three entities are interested," Wewior said. "One of them is a financial investor and there's an investor from the aviation sector as well." Daily Dziennik Gazeta Prawna said Wednesday that Air France-KLM is among those cicling the Polish airline, but a spokesman for the Franco-Dutch airline group told Dow Jones Newswires it hasn't expressed any interest. Wewior said LOT's sale is unlikely to happen before 2011 as LOT isn't included in the government's privatization plan for this year, but is in its program for 2008-2011. "The privatization of LOT was originally scheduled for 2008, but the airline shouldn't be privatized in the shape it's in now," Wewior said. Air France-KLM made an attempt last year to buy an airline in Central Europe, but in August 2009 withdrew from the tender for SkyTeam partner CSA Czech Airlines after examining the Czech airline's books and citing the downturn in the industry. Germany's Deutsche Lufthansa hasn't responded to the Polish invitation, Poland's Deputy Treasury Zdzislaw Gawlik said, according to the daily. LOT's Star Alliance partner Lufthansa has so far been viewed as the most likely strategic investor for the Polish loss-making airline. LOT said in 2009 it has hired investment bank Morgan Stanley as the company's advisor to find an investor through a capital increase. Wewior said Wednesday the bank has only recently began working on the transaction. Wewior added that the company needs to restructure its operations further before the planned equity boost. He decline to comment if the treasury would prefer an aviation sector investor to a financial investor for LOT. LOT last year found itself on the brink of bankruptcy, having lost 733 million zlotys ($262 million) net in 2008, mostly on failed fuel hedging transactions. In October 2009, LOT decided to dismiss 400 employees by March 2010 to cut costs. The company last year sold some of its non-core assets, including shares in listed Bank Pekao to improve liquidity. LOT received the shares, along with other assets, from the treasury in 2001. A person familiar with the situation told Dow Jones Newswires the company's operating result for 2009 will be better than PLN109 million of negative earnings before taxes and interest, or Ebit, for 2008. LOT may have to dismiss a higher number of employees this year to make sure it's operating result returns to the black at the end of this year, the person added. Poland wants to boost LOT's equity, with Dziennik Gazeta Prawna saying, without citing sources, that some PLN220 million will be enough to control the business. LOT was founded in 1929, placing it among the world's oldest airlines. LOT is 68%-owned by Poland's state treasury. The receiver for bankrupt SwissAir holds a 25.1% stake, while company employees hold 6.9% of the airline.

2010-05-12 - **Polish Privatization Partly Depends On Euro Bailout**
WARSAW (Dow Jones)--Poland's success in meeting its ambitious privatization plan this year partly depends on the success of the euro-zone bailout designed to calm the financial markets, Treasury Minister Aleksander Grad told Dow Jones Newswires in an interview. "The target of 25 billion zlotys [$7.9 billion] for this year seems realistic, although there may always be unpredictable things, such as Greece," he said. "Everything depends on whether the euro bailout plan does what it's supposed to do." After four and a half months, revenue from Polish privatizations stands at PLN7.5 billion, Grad added.

2010-07-30 - **Poland To Raise VAT, Speed Up Asset Sales To Cut Deficit**
WARSAW (Dow Jones)--The Polish government plans to raise the value-added tax rate for three years by one percentage point in order to boost budget revenue and reduce the general government deficit, daily newspaper Rzeczpospolita reports, citing governing party officials. The move contrasts with the ruling Civic Platform party's longstanding campaign to cut taxes. Faced with ballooning deficit and debt, and the need to observe the European Union deficit limit of 3% of gross domestic product, it now has no choice but to temporarily raise taxes on most products, except food, the daily says. The finance ministry decided against earlier, tentative plans to raise the payroll tax that funds the social security system. Poland's budget deficit is expected at 45 billion zlotys ($14.7 billion) next year, said Pawel Arendt, the head of the parliamentary public finance committee. Poland officially expects the budget deficit this year at PLN52.2 billion. The higher VAT rate is expected to bring PLN5.6 billion in additional budget revenue. The government plans, however, to significantly expand its **privatization plan** for next year, with asset sales totaling PLN25 billion, compared to the PLN7 billion initially planned. To achieve this, the treasury will have to sell shares in **PKO Bank Polski**, Poland's largest bank by assets, and Poland's top insurer **PZU,** the daily says.

2010-10-14 - **Poland May Sell All Shares In PKO Bank Polski In Coming Years**
WARSAW (Dow Jones)--The Polish government may sell all its shares in **PKO Bank Polski SA**, Poland's largest bank by assets, in the coming years after cutting its holding to 25% in 2011, daily Rzeczpospolita reported, citing a senior adviser to the Polish prime minister. Jan Krzysztof Bielecki, head of an economic council advising Prime Minister Donald Tusk, said it is possible that the government will unload its stake completely within several years.

Poland indirectly and directly holds 51.23% of PKO Bank Polski. Tusk said in July that his government plans to sell shares in PKO Bank Polski next year, but wants to keep at least 25% to ensure strategic control over the business.

2010-10-15 - **Poland's Treasury To Float BGZ Stake On WSE 2011 Or 2012**
WARSAW (Dow Jones)--Poland's Treasury plans to float its stake in **Bank Gospodarki Zywnosciowej SA**, or BGZ, on the Warsaw Stock Exchange in 2011 or 2012, the daily Parkiet reports, citing Treasury Minister Aleksander Grad. The treasury holds a 37.23% stake in BGZ, while the Netherlands-based Rabobank holds a 59.35% stake. Grad was cited as saying he would like to see BGZ's debut on the WSE in late spring next year. At the end of June, BGZ's book value was 2.3 billion zlotys ($792.8 million).

2010-11-17 - **Poland Restarts Talks With Other Potential Buyers Of Enea**
WARSAW (Dow Jones)--Poland's Treasury Ministry has restarted talks with other potential buyers of state-controlled power company **Enea SA** as its negotiation exclusivity period with Kulczyk Holding SA and Elektron Sp has expired, the ministry said in a statement. The ministry has begun competitive, parallel talks with companies that have been admitted to the process, the ministry said. Its spokesman declined to specify the names of these companies. The settlement of the process of selling the Treasury Ministry's 51% stake in Enea will occur no later than March 31, 2011, the ministry added.

2010-12-07 - **Polish Privatization Seen Short Of $8.3 Billion Target**
WARSAW (Dow Jones)--The Polish treasury ministry is likely to miss its privatization target for this year as key energy projects face delay, Polish daily Rzeczpospolita reports citing unnamed sources. Poland plans to generate 25 billion zlotys ($8.3 billion) in privatization receipts this year. As of December 2, the receipts were officially at PLN26.4 billion, but that figure includes the PLN7.5 billion sale of energy utility Energa to state-controlled peer PGE Polska Grupa Energetyczna SA. The transaction faces opposition from the antitrust regulator and even if it is approved this year, the government may not receive the proceeds in December, the daily says. The sale of the majority stake in another power firm Enea SA is also unlikely this year as negotiations with shortlisted investors are taking longer than expected, the daily says, citing an unnamed source familiar with the matter.

2010-12-15 - **Poland Delays Deadlines In Grupa Lotos Privatization Process**
WARSAW (Dow Jones)--Poland has delayed the sale of its No. 2 oil refiner Grupa Lotos SA, with potential bidders now invited to submit initial offers by March 18 rather than Feb. 4, Treasury Ministry spokesman Maciej Wewior said. Poland's Treasury Ministry holds a 53.19% stake in Gdansk-based Grupa Lotos and wants to sell its entire stake to a strategic investors as part of a privatization plan aimed at plugging the country's budget gap. Potential bidders are now invited to express interest from Jan. 28 to March 14, Wewior said. The ministry will respond to investor bids on April 4, Wewior added.

2011-05-26 - **Final Bids For Polkomtel Due June 10**
WARSAW (Dow Jones)--Binding bids for Polish mobile operator Polkomtel SA are due on June 10, two people familiar with the matter told Dow Jones Newswires Thursday, in what is expected to represent the largest telecommunications transaction in Europe this year. Polkomtel was put up for sale last year by its five owners, four of which are controlled by the Polish government. Private equity firm Bain Capital put in a joint bid with Norway's Telenor ASA, while Apax Partners, Swedish telecom operator TeliaSonera AB and Polish tycoon Zygmunt Solorz-Zak each put in individual bids, people familiar with the transaction told Dow Jones Newswires earlier in May. "Binding bids with committed financing are due on June 10," one of the people said. "As part of the due diligence everyone is holding meetings with [Polkomtel] management this week." Polkomtel's shareholders are expected to pick two of the bidders for parallel talks, the person added. Financing for the buyout is likely to target the bond market, other people familiar with the matter said. One of the people said that the bulk of the financing could be funded from the bond market although different buyers will have different funding strategies. A dual-tranche bond likely to comprise euros, and possibly dollars to tap the deep dollar investor base, could be on the cards. The debt is likely to be backed by loans in the home currency, zlotys, the people added. The bond could come before the summer if the sale is agreed in the next month or so. Poland's largest power group, PGE Polska Grupa Energetyczna SA, holds a 21.85% stake in Polkomtel, while oil refiner PKN Orlen SA and copper miner KGHM Polska Miedz SA each have 24.39%. Poland's Treasury owns stakes of 84.99% in PGE, 27.52% in PKN Orlen and 31.79% in KGHM Polska Miedz. The remaining shareholders in Polkomtel are U.K.-based telecom operator Vodafone Group PLC, which has a 24.39% stake, and coal miner Weglokoks SA, which is wholly owned by the Treasury and holds a 4.98%

stake. Solorz-Zak reportedly placed the highest bid in the initial round, worth more than 18 billion zlotys ($6.43 billion), while the lowest bid was reported by local press to be PLN16 billion. Analysts and economists have said that Polish banks wouldn't be able to finance the transaction by themselves, meaning the eventual buyer would have to sell euros and buy zlotys to pay for Polkomtel. That is one of the factors underpinning the Polish currency this year, economists said. However, "Vodafone wants euros" for its stake, one person said, meaning the effect on the zloty could be smaller. "Everyone else wants zlotys."

## PORTUGAL

2010-03-16 - **Portugal Announces Mass Privatization To Fight Rising Debt**
LISBON (AFP)--Portugal, under strong European Union pressure to correct its public finances, Tuesday announced sweeping privatization measures affecting its airline, rail transport, postal, energy and paper industries, in order to fight a rise in debt. Also covered by the program are bank and insurance activities. The privatization would raise about EUR6 billion ($8.22 billion) by 2013, bringing in EUR1.2 billion this year and EUR1.8 billion next year, the government said. The sales would lead to "increased productivity in these sectors and contribute to the essential reduction of the public debt," which currently amounts to EUR142.91 billion. The expected contribution from the privatizations to reducing debt amounts to about 4.19% of the total debt. The measures, being outlined by Finance Minister Fernando Teixeira Santos to European Union finance ministers in Brussels Tuesday, are to be debated by parliament here on March 25 and then submitted to EU authorities. The urgent program presented Tuesday resumed privatizations for 2010-2013, which had been suspended in 2007 because of the financial crisis. The Socialist government intends to sell great chunks of the Portuguese economy.
It will sell its holding of 8.0% in **Galp Energias S/A**, 25.73% in **Energias de Portugal**, a 51.08% in electricity distributor **REN-Redes Energeticas Nacionais SGPS SA** while retaining a strategic interest.
It also intends to sell its interest of 32.7% in **Inapa-Investmentos Participacoes Gestao S/A**, the fourth-biggest distributor of paper in Europe.
The privatization program also covers the entrance of private capital into the shipyards **Viana do Castelo** and the sale of shares in companies in the industrial and defense sectors, the opening of the capital **TAP Portugal** airline and the sale of **Aeroports du Portugal**. **Rail freight transport** will also be sold to the private sector, and the **postal service CTT** will be opened to private capital. The government said it would re-privatize BPN bank which was taken under state control during the financial crisis, and sell part of the insurance activities of **Caixa Geral de Depositos**, or CGD, bank.
The government raised slightly its estimated debt to 86% of output in 2010, from a previous estimate of 85.4% percent of output this year. The debt will rise to 89.4% of gross domestic product in 2011, 90.7% in 2012 and then turn down to 89.8% in 2013. These figures are far above ceiling levels for countries in the European Union, and specifically the eurozone as is the case for Portugal. There is widespread concern that if the debt crisis in Greece, the subject of the EU ministerial meeting in Brussels Tuesday, isn't contained other countries with big deficit and debt problems could come under pressure on financial markets. EU rules state that a member country must not run a public deficit of more than 3% of output, and that debt should not exceed 60%, or if it does, must fall structurally to below that figure. Portugal intends to cut its annual public deficit from 8.3% of output this year to 2.8% in 2013. Such a reduction is widely considered to be huge. Before the financial crisis, several countries already had structural difficulties in switching their public finances into a strong condition, and the cost of supporting economies through the crisis has raised public deficits and debt in many countries to far above the limits. Data from the national statistics institute published last week showed that the economy shrank by 0.2% in the last quarter of last year from output in the previous quarter.

2010-07-07 - **Portugal To Sell Off Further EDP, Galp Stakes This Year**
LISBON (Dow Jones)--Portugal's privatization program is "on track" and the sale of additional stakes in utility **Energias de Portugal SA** and in oil company **Galp Energia SGPS SA** will probably occur this year, Finance Minister Fernando Teixeira dos Santos is quoted as saying on the Lusa newswire. "Privatizations will go ahead as planned, and we expect that, after the sale of BPN [a private bank nationalized by the state in the peak of the financial crisis], the priority will be energy companies, such as Galp and EDP," Teixeira dos Santos said in parliament.

## SLOVAK REPUBLIC

2010-12-27 - **Slovak Property Fund Recommends New Privatization Sales**
PRAGUE (Dow Jones)--The Slovak government should consider selling several state-owned companies, including heating utilities, bus operators and its minority stake in the largest Slovak fixed-line telecommunications operator, an analysis by the National Property Fund, also known as FNM. The estimated nominal value of the companies recommended for the selloffs, which the government is due to discuss soon, is about EUR400 million, the FNM says. The document recommends that the government sells 100% stakes in **six heating utilities**, a 15% stake in **Slovak Telekom AS**, majority-owned by Deutsche Telekom AG, and minority stakes in **17 bus operators**. It also recommends the sale of a 76% state-held stake in the **Bratislava Stock Exchange**, DMD Group AS, an engineering firm, and several spa and hotel operators. Concerning the earlier planned sale of the state-held stake in Bratislava Airport to Vienna Airport, which was scrapped in 2006, the FNM said it didn't include the airport sale in its analysis. "There will be a separate study on the [Slovak] air travel infrastructure," the FNM analysis said.

## SPAIN

2010-06-29 - **Spanish Savings Banks May Be Allowed To Be Privatized**
MADRID (Dow Jones)--Spanish savings banks with solvency problems effectively may be allowed to be privatized under legal changes proposed by their trade association. The paper said the Spanish Savings Banks Association, or CECA, has proposed to the government, with support from the Bank of Spain, that **savings banks**, currently mostly owned by regional and local governments, should be allowed to issue voting shares although these wouldn't be listed. Under the plan, the savings banks would be allowed to issue unlisted shares equivalent to 100% of their asset value if they have solvency problems, although under normal circumstances this would be limited to 50% shares and 40% voting rights. Spain's saving banks have already gone through a major restructuring with many merging to help cope with massive bad debts in the Spanish construction and real-estate sectors. Last week, Spanish Central Bank Governor Miguel Angel Fernandez Ordonez said a solution must be found to allow savings banks to raise capital in future.

2010-07-08 - **Spain Mulls Selling Up To 49% Of Airport Operator AENA**
MADRID (Dow Jones)--The Spanish government is considering selling up to 49% of state-owned airport operator **AENA Aeropuertos**, newspaper Expansion reports Thursday, citing government documents. The government had earlier said that it wouldn't sell more than 30% of AENA if it was privatized. The government could raise about EUR2 billion from the sale, Expansion says. AENA manages 47 airports, including Spain's two biggest in Madrid and Barcelona.

2010-10-06 - **Spain Govt To Sell Stakes In Iberia, Ebro, Others Next Year**
MADRID (Dow Jones)--Spain's state holding company Sociedad Estatal de Participaciones Industriales plans to sell its stakes in **Iberia Lineas Aereas de Espana SA**, **Ebro Puleva SA** and **Red Electrica Corp. SA** next year, Spanish newswire EFE reported, citing the holding company's Chairman Enrique Martínez Robles. The state holding company plans to sell its 5.16% of Iberia and 8.5% of Ebro Puleva, as well as half of its 20% stake in Red Electrica if market conditions permit it, Martinez Robles was quoted as saying.

2010-12-01 - **Spain Prime Minister: Madrid, Barcelona Airports To Be Privatized**
MADRID (Dow Jones)--The Spanish government plans to privatize the country's top **two airports**, as part of a series of measures seeking to jumpstart anemic economic growth, Prime Minister Jose Luis Rodriguez Zapatero said. Zapatero told legislators in Parliament that Madrid's Barajas and Barcelona's El Prat airports will be run by private operators under a licensing, or concession system. Both airports have been recently remodeled and expanded to absorb increased passenger traffic in coming years. The measures announced by Zapatero seek to foster investment and growth after Spain's timid economic recovery stalled in the third quarter, as government austerity measures, high unemployment and weakening exports weighed on output. The government is also stepping up efforts to rebuild market confidence after Spain's risk premium--as measured by the spread of Spain's 10-year bond over the German equivalent--hit record highs, rising financing costs as a bailout for Ireland flared up market turbulences on concerns about the fiscal soundness of peripheral euro zone members. The country's airport operator AENA will also sell a

49% stake to private operators, above initial plans to sell a 30% stake. The government is also planning to sell 30% of **Spain's state-owned lottery company**, Zapatero added.

2011-01-28 - **Spain Starts Sales Process Of Stakes In Several Listed Companies**
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**, its 8.65% stake in **Ebro Foods SA** and up to 10% of **Red Electrica de Espana SA**. SEPI first announced its intention to sell the stakes in October.

**SWEDEN**

2011-01-25 - **Swedish Finance Minister 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** and **TeliaSonera**. But, we have also made it very clear that Sweden would have to own some companies for quite a long time, such as Vattenfall," 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 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.

2011-02-04 - **Swedish Government Raises SEK19B On Nordea Stake Sale**
STOCKHOLM (Dow Jones)--The Swedish center-right government announced that it has divested 255 million shares in **Nordea** Bank AB at SEK74.5 a share through an accelerated bookbuilding, raising SEK19 billion ($2.94 billion). The sale represents approximately 32% of the Swedish state's stake in the bank and reduces the state's shareholding in Nordea to 13.5% from 19.8%. The Swedish government has agreed not to sell any additional shares in Nordea for a period of 90 days. Nomura, Morgan Stanley and SEB Enskilda were appointed joint bookrunners, and Danske Bank was co-lead manager in the sale. "The proceeds from the sale of SEK19 billion will be used to reduce the Swedish national debt and thereby strengthen the Swedish economy," Minister of Financial Markets Peter Norman said. Sweden's state debt has decreased drastically since the domestic banking crisis in the early 1990s. By Dec. 31 last year, Sweden's public debt was 1.151 trillion Swedish kronor, corresponding to 35% of the Swedish gross domestic product. In 1995, the share of public debt to GDP was 80%. The state's interest payments on state debt was SEK23 billion in 2010. The government in August said it hoped, if re-elected in September, to raise around SEK100 billion in the next four years by moving forward with its divestment of state-owned assets. In addition to Nordea, the government has also said it might sell its 37.3% stake in telecommunications company **TeliaSonera AB** as well as parts of wholly owned mortgage lender **SBAB** and energy firm **Vattenfall AB**. The Swedish state is the single largest owner of businesses in Sweden, with 57 partially or fully owned firms in its portfolio, valued at approximately SEK600 billion. In 2009, the state-owned companies made SEK352.8 billion in revenue, had net profit of SEK34.7 billion, and paid dividends of SEK20.8 billion to the state. The Swedish center-right government's reluctance to keep hold of stakes in businesses that operate in commercial markets is ideological. In its initial proposition to sell some of its company ownership in 2007, the government said the role of the state is to create the framework for business activities rather than run businesses. It said the reduction of state ownership in certain companies would lead to efficiency improvements and higher profitability. "The state-owned companies are important for Sweden and the Kingdom of Sweden should continue being an owner of companies that have a special societal interest to take into consideration. Under other circumstances the role of the Government is to set the rules and the framework for the business sector, not to run companies," Minister of Financial Markets Norman said in a statement. Sweden has already sold off some of its business holdings. In May 2007, the state sold off 8% of its shares

in TeliaSonera, gaining SEK18 billion and reducing its ownership to 37.3% from 45.3%. In February 2008, the state agreed to sell its 6.6% stake in OMX AB for SEK2.1 billion to Borse Dubai and at the end of March 2008, the state sold its alcoholic beverages producer and distributor V&S Vin & Sprit AB--owner of the Absolut Vodka brand--to French beverage giant Pernod Ricard S.A. for EUR5.636 billion. The center-left opposition in January said it would vote against the divestitures of TeliaSonera, SBAB and Vattenfall, gaining support from the new anti-immigration party. However, the opposition didn't mention Nordea.

2011-05-18 - **Sweden To See Budget Surplus in 2011 And 2012**
STOCKHOLM (Dow Jones)--Sweden's government finances will show a surplus of 99 billion Swedish kronor ($15.73 billion) in 2011 and SEK68 billion in 2012, partly because the sale of state-owned assets, the National Debt Office said. The **sale of state-owned assets** is expected to generate income of SEK38 billion in 2011 and SEK25 billion in 2012, the debt office said, adding that "a strong economic recovery will have an impact on central government finances this year and next year, mainly through increasing tax income." The debt office forecast for government surplus in 2011 is SEK81 billion higher than its previous forecast. "A large part of the increase, SEK38 billion, is attributable to income from sale of the shareholdings in above all Nordea but also in Teliasonera," the debt office said. Central government debt will be 30% of gross domestic product in 2011 and is estimated at SEK 1.048 trillion at the end of this year. At the end of 2012, government debt will be SEK981 billion which corresponds to 27% of GDP. Larger central government budget surpluses will lead to decreased borrowing in both 2011 and 2012 compared with previous forecasts, the debt office said. "Even though we give priority to funding in nominal government bonds, the issue volume is reduced by SEK8 billion and SEK16 billion respectively in 2011 and 2012," the debt office said.

## UK

2010-06-22 - **UK Government Mulls Air Traffic Controller NATS Stake Sale**
LONDON (Dow Jones)--The U.K. government is considering selling its stake in air traffic controller **NATS**, Chancellor of the Exchequer George Osborne said. The announcement that it may sell its 49% interest was made during the first Budget since the coalition government took office in May. NATS, a public private partnership, provides air traffic control services to aircraft flying in UK airspace, and over the eastern part of the North Atlantic. Taylor Samuelson, a spokeswoman for NATS said, "Our relationship with government will always be important whatever the level of its shareholding in NATS. Any potential change in its stake in the company is a matter for government." A 42% stake is held by a consortium of U.K. seven airlines known as the Airline Group. NATS staff hold 5%, while the U.K. airport operator BAA Ltd. holds 4%. The Airline Group comprises British Airways PLC, bmi British Midland which is owned by Deutsche Lufthansa AG, Virgin Atlantic, Thomson Airways, Monarch, easyJet PLC and Thomas Cook Group PLC. The new government is on a mission to cut spending and raise cash as it tries to reduce the budget deficit, which is estimated at about 11% of gross domestic product, or about GBP155 billion for the fiscal year ending 2011.

2010-07-23 - **Royal Mail Set For Privatization In "Two To Three Years"**
LONDON (Dow Jones)--**Royal Mail** is likely to be partly or wholly in private hands within two to three years, giving it freedom to escape the Treasury's control and raise money to invest, the Financial Times reports, citing the minister in charge of privatizing the postal service. In an interview with the FT, Ed Davey said the Con-Lib coalition would pass "flexible" legislation by June before embarking on the most ambitious privatization for 20 years. "The objectives are to secure the universal service, drive the organization so Royal Mail is best in class and get private capital and private disciplines in," Davey said in the interview. "We will do that when we think that can best be delivered. I would hope and expect it to be within the next two to three years."

2010-10-06 - **UK Hires A Manager To Sell Assets**
(WSJE)--The Shareholder Executive, the state body that looks after the U.K. government's business holdings, has hired a senior executive from Deutsche Bank AG as it steps up efforts to find buyers for assets including the **Royal Mail**, the **Tote** gambling operation and a **student-loan portfolio**. Anthony Odgers, who was most recently a member of the corporate-restructuring team at Deutsche Bank, has been hired to a new position as head of portfolio management. A well-known figure in U.K. mergers and acquisitions, Mr. Odgers was head of telecommunications

M&A at Lehman Brothers, where he advised on the merger of Telefonica Moviles SA and Telefonica SA as well as on assignments for BT Group PLC and Vodafone Group PLC. He joined Deutsche Bank in May 2007 as chief operating officer for M&A in Europe and later moved to the German bank's corporate-restructuring practice as it looked to capitalize on the glut of restructuring work that arose in light of the financial crisis. Mr. Odgers couldn't be reached for comment.
The Shareholder Executive was set up in September 2003 to improve the way government-owned assets are run and prepare them for sale. It is staffed by a mixture of civil servants and former investment bankers. Chief Executive Steven Lovegrove was previously head of the European media team at Deutsche Bank. Philip Remnant, who is the chairman, is the former head of U.K. investment banking at Credit Suisse Group AG, where he remains a senior adviser. Mr. Remnant said: "Anthony is a highly experienced banker, and his appointment adds strength to the senior management team as the responsibilities of the Shareholder Executive grow. Where appropriate, he will help prepare assets for sale and oversee the sales process as the government seeks to bring in cash in the current difficult economic climate." The appointment of Mr. Odgers comes after former managing director Marc Middleton left the body in the summer to become vice chairman of European advisory at Macquarie Capital. One of Mr. Odgers's principal jobs will be to reinvigorate the sale of government assets earmarked for sale by the previous administration, including the Royal Mail, the student loans portfolio, the Tote, the Dartford Crossing road network and NATS, the British air-traffic-control system. Many of the assets, including the Tote and the Royal Mail, have been on the block before but failed to attract buyers.

2011-01-10 - **RBS, Lloyds Start Touting UK Government's Shares**
LONDON (Dow Jones)--Eager to throw off the yoke of government ownership, the U.K.'s two partially state-owned banks have been quietly moving to stir investor interest in U.K. government holdings of their stocks. **Royal Bank of Scotland Group PLC** and **Lloyds Banking Group PLC**, which are 84% and 42% taxpayer owned, respectively, as well as other investment banks, have been encouraging investor interest in the two banks' shares to lay early groundwork for the sale of stock currently held by the U.K. Treasury, people close to the matter say. In some cases, these discussions involve sovereign-wealth funds in China and Singapore, they say. The government invested GBP65.8 billion ($102.3 billion) in the two banks to keep them from collapsing amid the financial crisis. People close to the banks say they have been approaching investors with the tacit approval of U.K. Financial Investments Ltd., the U.K. government agency that independently manages the holdings for the government. Given the large amount of equity that will be sold, UKFI "hasn't discouraged the banks from selling their story far and wide," said one executive close to the discussions. According to another person involved in the process, UKFI's message is: "You need to find investors at some stage, so any groundwork you can do now is helpful." Even as RBS and Lloyds approach investors on their own, the decision of when to sell--and to whom--belongs to UKFI. A sale of the U.K. government holdings isn't expected until the fourth quarter of the year at the earliest, people close to the matter say, and there is no certainty any sovereign-wealth fund will ultimately be a buyer. In meetings with big institutions, the banks aren't explicitly asking investors to buy shares, which would be premature. Instead, the banks are helping the investors to "get up to speed" on the investment thesis behind each bank, said one of the people close to the talks, who said investor response generally has been polite but noncommittal. A spokeswoman for UKFI said the agency hasn't encouraged the banks to court eventual buyers and doesn't interfere in banks' investor relations generally.
Last month, RBS Chief Executive Stephen Hester said at a hearing before a parliamentary committee that a successful sale of government stakes in RBS "would be a very important positive.... It would help the public purse; it would be symbol of RBS's recovery, and it would help all sides." An RBS spokeswoman said that Mr. Hester, who is overseeing a reorganization of the bank, would want to see the stakes sold only "when the time is right." Some people close to the two banks said the investor talks are nothing more than business-as-usual investor-relations work and shouldn't be seen as a sign that the banks are taking extraordinary steps to recruit new institutional investors. The British government's efforts to disentangle itself from the financial sector have lagged well behind the U.S., where the Treasury last year sold its stake in Citigroup Inc. and has laid the groundwork for returning American International Group Inc. to private hands. Unlike the shares of banks such as Citigroup, on which the U.S government turned a profit, the U.K. government's holdings of Lloyds and RBS are still in the red. As RBS slogs through a major restructuring and both banks grapple with their heavy exposures to troubled Ireland, RBS's share price has remained about 10 pence below the government's buy-in price of 50.2 pence, and Lloyds has been hovering just under the buy-in price of 73.6 pence for the past several weeks. However, people close to both the banks and UKFI said they haven't ruled out an initial sale to an "anchor investor"-- even if it means taking a loss. While it might be tough to spin publicly, the sale could boost interest in the banks and generate future sales if done at the right moment, these people say. That is in part because the government and investors are awaiting the results of a review of the banking

sector to be published in the fall, which is examining radical ideas, such as breaking off investment banks from commercial ones. The commission in charge of the review plans in March or April to publish an "options paper" with a short list of the proposals, which bankers say could clear up enough of the uncertainty surrounding British banks that investors might start tiptoeing back into bank stocks. Many industry and government officials harbor concerns over the two banks' health. UKFI is wary of selling the shares too early--only to have the banks later come back to taxpayers for more money. As the banks have been tentatively sounding out potential investors, the agency has been continuing its own meetings. Last fall, it hired former Bank of America Merrill Lynch investment banker Jim O'Neil, an American, to arrange eventual sales. Mr. O'Neil has been holding meetings with bank executives, getting presentations about their finances and asking questions about strategy and other issues.

2011-01-17 - **Northern Rock Privatization Moves Closer As UKFI Seeks Adviser**
LONDON (Dow Jones)--**Northern Rock PLC** took a step closer to its eventual return to the private sector, as its U.K. government owner said it is seeking a financial adviser to help explore strategic options. U.K. Financial Investments Ltd., the government agency that manages the state's bank stakes, invited corporate finance advisers to register their interest this month in working on the process, in what is likely to be a hotly contested job. It said there isn't a timetable or preferred outcome yet for the strategic review, but bank executives and government ministers previously said a sale is the most likely possibility. Northern Rock was nationalized in 2008, several months after it became one of the credit crunch's first casualties and suffered the U.K.'s first run on a bank in more than a century. The government initially sought a private buyer, with Goldman Sachs Group Inc. advising the Treasury, but decided nationalization was a better option than bids received from Richard Branson's Virgin Money and from Northern Rock executives. Since then, Northern Rock has been split into a "good bank" and "bad bank," with the good bank now being readied for sale consisting of about GBP18 billion in deposits and a small book of mortgage loans. "The common objective of U.K. Financial Investments Limited and Northern Rock PLC is to develop and execute a strategy for returning NR to the private sector," UKFI said. Potential bidders are expected to include Virgin Money and NBNK Investments PLC, a vehicle to be headed by former Northern Rock chief executive officer, Gary Hoffman, that was set up to buy U.K. banking assets. Hoffman is to become CEO of NBNK on May 1, after stepping down at Northern Rock in November. NBNK has agreed not to bid for Northern Rock before November of this year. Corporate finance advisers have until January 24 to express their interest in the work, UKFI said.

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