Study on State asset management in the EU

Pillar 4 – The re-nationalisation of Transperol A.S.

Contract: ECFIN/187/2016/740792
The re-nationalisation of Transpetrol a.s.

This note describes and then discusses the effects of the re-nationalisation of a formerly-privatised company operating in the oil pipeline sector, the Slovak Transpetrol a.s (Transpetrol). In 2009, The Slovak government decided to re-acquire 49% of Transpetrol's shares they had previously sold, in order to regain the full control of the company.

1. INTRODUCTION

Transpetrol was established on 1st July 1991 as the operator of the oil pipeline network in the area of Czechoslovakia. In 1993, after the Czecho-Slovak separation and the establishment of two independent states, Transpetrol was divided into two independent companies. Mero ČR was set up in the Czech Republic and Transpetrol (which kept the original name) continued to operate in Slovakia only.

Transpetrol was the sole operator of the crude oil pipeline system in the Slovak Republic and therefore it was considered by the government as one of the “strategic” companies of the Slovak economy. Nevertheless, in 2002 the Slovak government sold 49% of the shares of Transpetrol to the Russian company Yukos Oil, maintaining the minimum capital share set by the legislative framework (i.e. 51%).

Following the bankruptcy of Yukos Oil, in 2009 the Slovak government decided to re-acquire the previously sold shares in Transpetrol, regaining the full control in one of its “strategic” companies.

Given that, the case of Transpetrol has been chosen in order to provide on one hand an example of the full renationalization of a company previously sold; and, on the other hand an example of the implementation of government policy with regard to strategic companies.

2. CONTEXT AND IMPLEMENTATION

The Slovak Republic started the transition to a market economy in the context of the former Czech and Slovak Federal Republic with about 98% of property in state hands.

The first step of the privatisation process was the adoption of the Act No. 92/1991 Coll. which set the legislative framework for the transfer of state-owned properties to the private sector (i.e. privatisations).

Afterwards, in Slovakia, in the 1990s, the privatisation and regulation of strategic companies and natural monopolies was brought back to the fore, being the subject of much political and economic debate. In 1995, the government adopted the Act no.192/1995 Coll. on securing state interests in the privatisation of strategically

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important state enterprises and joint stock companies (the so-called Act on Strategic Enterprises), which stipulated two groups of state-owned enterprises. The first group consisted of 26 enterprises that could not become subject of privatisation, among them also all natural monopolies (including Transpetrol). In the second group, 45 strategically significant enterprises were included, which could be privatised.

In 1998, the Slovak government also launched a referendum on the introduction of a constitutional law on the non-privatisation of strategic companies. Given the insufficient turn-up, the referendum was declared void.

However, after the elections in September 1998, the approach of the government to privatisation changed radically. This was reflected in the adoption of the Act No. 253/1999 Coll. which amended the Act No. 92/1991 Coll., making possible the privatisation of 14 strategic enterprises and joint stock companies, among which natural monopolies. In more detail, the parliament abolished the so-called Act on Strategic Enterprises, opening the way for the privatisation of a significant part of the Slovak economy.

Facilitated by the new legislative framework, the state could partially privatise Transpetrol, while keeping ownership shares of at least 51% in the company. The same applies to five state companies mainly operating in the energy and gas sector: Slovak Gas Industry; Power Industry of Western Slovakia; Power Industry of Central Slovakia; Power Industry of Eastern Slovakia; and Slovak Electricity.

As already done for other companies, in April 2000, the Slovak government decided to partially privatise Transpetrol. It launched a public tender to sell 49% of shares in the company, which was won by the Russian oil and gas company Yukos Oil in 2002 for a total amount of 83.1 Eur Mn (equivalent to the 0.32% of Slovak GDP of 2002).

However, Yukos Oil found itself in financial trouble in 2003 when Russia decided the company owed back taxes worth 20.1 Eur Bn.

In this context, the Slovak government intended to buy back the Transpetrol stake, but its efforts were complicated by a legal fight between former Yukos Oil's management and the Russian authorities over the company's assets. In 2009, the Slovak government, through the ministry of Economy, managed to buy back its 49% stake in Transpetrol from Yukos Oil for 177 Eur Mn (equivalent to the 0.28% of Slovak GDP of 2009).

3. ANALYSIS OF THE DEALS

In accordance with the legislative framework set by the above mentioned Act No. 92/1991 Coll. as amended, in 2001 the Slovak government launched an international public tender for the partial privatisation of Transpetrol.

In more detail, as reported in the 2002 Transpetrol annual report, the Slovak government announced a tender for the sale of 49% of shares in the joint stock company.

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6 Information retrieved from Mergermarket database.
7 In 2002 the Slovak GDP was worth 26,305.6 Eur Mn. For more information please see: http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do [Accessed 20th February 2018].
8 Ibid.
9 In 2009 the Slovak GDP was worth 64,023.1 Eur Mn. For more information please see: http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do [Accessed 20th February 2018].
company *Transpetrol* in May 2001. After an in-depth audit was carried out, two binding bids met in the last round of the tender: one from *Yukos Oil*, the other from *Slovnaft*, a.s. on 7th December 2001, the privatisation committee favoured the bid from Russian oil concern *Yukos Oil*, which fulfilled all of the state’s strategic expectations. After the committee’s decision was approved by the Slovak government, the agreement on the acquisition of a 49% stake in *Transpetrol* by *Yukos Oil* was signed on 28th January 2002. Yukos formally completed the acquisition of 49% of *Transpetrol* shares on 29th April 2002 for a total amount of 83.1 Eur Mn.

The agreement also included the transfer of the management rights over *Transpetrol* from the government to *Yukos Oil*. *Yukos Oil* also received the right to buy an extra 3% of the shares, which would give it a majority ownership, if the Slovak government decided to sell them. On the other side, the Slovak government, until 31st March 2017, had the right to veto the sale of the *Yukos Oil* stake to a third party.

In 2006, before the re-nationalisation process, the Slovak government exercised twice its power of veto, preventing the sale of *Transpetrol*'s shares by *Yukos Oil* to two oil and gas Russian companies (i.e. *RussNeft NK OAO*, and *Gazprom PJSC*)\(^{11}\).

With regard to the re-nationalisation process not much public information is available, since the operation was carried out in the context of *Yukos Oil*'s bankruptcy and legal struggles.

In April 2009, the *Ministry of Economy* of the Slovak Republic agreed to buy back 49% stake in *Transpetrol*, from *Yukos Oil*, for a total amount of 177 Eur Mn. The transaction allowed the Slovakian government regain full control of one of its strategic companies. The transaction was completed on 7th April 2009 following approval from the Slovak *Anti-Monopoly Office*.

The details about the privatisation and the subsequent re-nationalisation of *Transpetrol* are summarized in Table 1.

**Table 1** Summary of the main changes in the ownership structure of *Transpetrol* from 2002

<table>
<thead>
<tr>
<th>Buyer</th>
<th>Shares involved in the operation (% of shares)</th>
<th>Transaction amount (Eur Mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Privatisation (2002)</td>
<td>Yukos Oil</td>
<td>49%</td>
</tr>
<tr>
<td>Re-nationalisation (2009)</td>
<td>Ministry of Economy of the Slovak Republic</td>
<td>49%</td>
</tr>
</tbody>
</table>

Source: KPMG elaborations on Mergermarket database.

### 4. Impact Assessment

In the following section, the potential impacts of the re-nationalisation on the target company performance, on public finance and other impacts are analysed, using publicly available data\(^{12}\).

Please note that the analysis of the impacts is mainly based on the comparison between trends and performances registered by both the company and the country before and after the re-nationalisation took place. Therefore, no counterfactual assessment has been carried out, being beyond the scope of this case study, as well as very challenging with respect to the “no re-nationalisation” scenario.

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\(^{11}\) Information retrieved from Mergermarket database.

\(^{12}\) The impacts are assessed using Transpetrol’s annual reports and data.
4.1. Impacts on the target company

The re-nationalisation seemed to have had a negative effect on the profitability of **Transpetrol** and a relevant, positive effect on its solvency.

- **Market positioning**

Since its establishment, **Transpetrol** has been the sole operator of the crude oil pipeline system in the Slovak Republic. Therefore, **Transpetrol** carries out its primary activity in the oil transportation and storage in a monopolistic regime in the Slovak Republic. In this context, it is not possible to thoroughly assess the impact of the re-nationalisation on the market positioning of **Transpetrol**.

In addition, the size of **Transpetrol**’s main markets and the number of its clients have remained stable after the re-nationalisation process, as shown by Figure 1. The major role in terms of realised revenues and utilization of the crude oil pipeline transport capacity in the operation of **Transpetrol** is played by **Slovnaft, a.s.**, a refinery in Bratislava, which is currently the sole customer of crude oil in Slovakia. A significant role is played also by a Czech refinery, the Česká rafinérská.

**Figure 1** Tons of **Transpetrol**’s crude oil to individual customers, 2007–2015

![Figure 1](image)

Source: KPMG elaborations on Transpetrol annual reports.

(a) Data for 2016 has been not included since, as of the time of writing, Transpetrol has not published its annual report for this year.

Comparing the operating revenues registered by **Transpetrol** to its international peers (i.e. EU companies carrying out oil transportation and storage activities), Figure 2 shows that the operating revenues of **Transpetrol** decreased overall from 2008 to 2016 (only a slight increase is registered between 2015 and 2016). By contrast, over the same period, some **Transpetrol**’s peers experienced more positive trends than **Transpetrol**. However, this might have been affected by the characteristics of their respective domestic markets; therefore, it is not possible to infer the potential impact of the re-nationalisation.

It is worth highlighting that **Transpetrol** registered a better trend in terms of operating revenues than **Mero ČR**\(^{13}\), one of the most comparable companies.

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\(^{13}\) In 1993, following the Czecho–Slovak separation, Mero ČR was established taking up the competences and activities of **Transpetrol** in Czech Republic.
Figure 2 Trend in operating revenues (index 100=2008), five EU28 oil transport and storage operators, 2008-2016

Source: KPMG elaborations on Amadeus data.
(a) The trend in the operating revenues is shown for Transpetrol and the closest five EU28 companies according to the operating revenues among the peer group NACE Rev. 2: 4950 LA (i.e. "Transport via pipeline (large companies)"). The graph shows the evolution in the operating revenues for each peer from base year 2008 on.

Profitability

Despite the fact that the size of Transpetrol’s main markets and the number of its clients have remained the same over the period considered, the operating revenues have slightly decreased. In more detail, we can observe a decline between 2012 and 2014 and a gradual recovery in the last two years (i.e. 2015 and 2016).

As shown in Figure 3, the decline in operating revenues was mainly due to a reduction in the crude oil transported and its related revenues, affected, in turn, by the downward trend in the demand. The increase in operating revenues registered in 2015 was mainly driven by the increase of other revenues than from oil transport and storage. Other revenues are related to other services provided to its clients.

Figure 3 Transpetrol’s breakdown of the operating revenues by type of service, 2007 - 2015

Source: KPMG elaborations on Transpetrol annual reports.
(a) Data for 2016 has been not included since, as of the time of writing, Transpetrol has not published its annual report for this year.

The cost structure of Transpetrol is made up of a high proportion of fixed costs (i.e. personal costs and depreciation of tangible and intangible assets represented 58% of
the total operating cost in 2015\textsuperscript{14}). Due to this fact, a small change in Transpetrol’s revenues can have a large impact on profits.

In fact, as far as net income is concerned, Transpetrol registered a significant decrease since the re-nationalisation. Despite that, net income remained always positive in the period considered and therefore the company remained profitable.

Looking at all profitability indicators (i.e. net income, EBITDA, and ROA), they all show negative pattern, despite some of them are “more negative” than others. In fact, after the re-nationalisation, net income and ROA had a worse pattern compared to operating revenues and EBITDA. This was due to the effects of non operating costs and incomes. In detail, “Income/loss from financial activities” (which goes from 3 Eur Mn in 2007 to -0.3 Eur Mn in 2015), and “Depreciation of fixed assets” (which goes from 11 Eur Mn in 2007 to 17 Eur Mn in 2015, showing relevant investments by the company)\textsuperscript{15}. In fact, the net income increase in 2013 was mainly due to an income from financial activities (amount to approximately 6.3 Eur Mn).

**Figure 4** Transpetrol’s Profitability profile, 2007–2016

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure4.png}
\caption{Transpetrol’s Profitability profile, 2007–2016}
\end{figure}

\textit{(a) The ROA has been calculated as the ratio between the Net income and the total assets of Transpetrol.}

- **Efficiency**

Due to the progressive reduction of profitability, Transpetrol has made several attempts to reduce its operating costs, mainly through the reduction of the cost of employees. The re-nationalisation has had no overall significant impact on the EBITDA margin (i.e. EBITDA as a percentage of operating revenues).

In detail, Transpetrol has accompanied the reduction of operating revenues with a quasi-proportional reduction in operating costs. The reduction of operating costs has been mainly achieved through the reduction of labour costs (also as a percentage of operating revenues). Starting from 2013, also the services and material costs as a percentage of operating revenues have decreased. The reduction of costs has allowed the company to maintain a stable level of efficiency despite the reduction of its operating revenues.


\textsuperscript{15} Since the lack of available data, it is not possible to further investigate the rationale of these trends in terms of Income/loss from financial activities and “Depreciation of fixed assets”.


However, it is worth highlighting that, in 2013, the sharp decline in the efficiency of Transpetrol was mainly due to an “extraordinary” increase of the “cost of services”\(^{16}\).

**Figure 5 Efficiency profile of Transpetrol, 2007–2016**

![Graph showing efficiency profile of Transpetrol](image)

*Source: KPMG elaborations on Transpetrol annual reports and Amadeus data.*

n.a. = not available

(a) Data about the service costs as % of operating revenues for 2016 has been not included since, at the time of writing, Transpetrol has not published its annual report for this year.

- **Solvency**

It can be observed that the solvency profile of the company has significantly improved after the re-nationalisation process. In fact, Figure 6 shows an improvement of the Debt-to-equity ratio since 2010, due to a sharp decline in the total debt, and a concurrent increase of Equity.

During 2009, the sole shareholder, the Slovak Republic represented by the *Ministry of Economy* transformed its credit for dividend not paid into equity (for a total amount of 37,774,152 EUR).

Focusing on solvency indicators (i.e. Debt to equity ratio, Asset-based solvency ratio), they have all strongly improved after the re-nationalisation, mainly due to the above-mentioned decision of the Slovak government in 2009.

After 2010, it is possible to observe a slight reduction in the shareholder’s equity, due to a distribution of dividends marginally higher than the net profit of the period. This has not had any relevant impact on the solvency profile of the company.

\(^{16}\) Several costs included in the cost of services registered a peak in 2013 returning to average level in the following years (i.e. cost of repairs, advisory and consultancy services, pipeline routes monitoring).
1.2. Impacts on public finance

In this section, we tentatively address one of the most important issues in state asset management, i.e. the impact of the re-nationalisation of the target company on the country’s public finance.

The main impact of Transpetrol’s re-nationalisation on the Slovak government’s public finance can be identified in the cash outflow registered (in 2009) after the government re-acquired 49% stake by private investors (for a value of around 177 Eur Mn, equivalent to the 0.28% of Slovak GDP of 2009\(^1\)). However, from a national accounts perspective, this was a financial transaction without an impact on government’s expenditures and deficit.

- **Dividends**

The impacts of the re-nationalisation can also be analysed in term of dividends the Slovak government had received following the re-nationalisation. In fact, after the re-nationalisation process, the Slovak government became the sole shareholder of the company and therefore received 100% of target company’s dividends (as compared to 51% pre-nationalisation).

“Dividends received due to the re-nationalisation” in the figure below refers to the dividends that the Slovak government received as a consequence of the re-nationalisation of Transpetrol.

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\(^1\) In 2009 the Slovak GDP was worth 64,023.1 Eur Mn. For more information please see: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=nama_10_gdp&lang=en [Accessed 11th February 2018].
As mentioned above, the Slovak government transformed its credit versus the company for dividends not paid into new shares of Transpetrol. This operation allowed a significant improvement of the solvency profile of the target company, through a relevant reduction of the debt to equity ratio.

1.3. Other impacts

The re-nationalisation of Transpetrol might have also had some impacts on the price and/or quality of the services/products provided to the clients/citizens, as well as on the number of employees of the target company.

- **Customer-oriented indicators**

With regard to the activities of Transpetrol (i.e. transport and storage of crude oil), the environmental aspects and impacts are of primary relevance. In fact, the ecological stability of the affected ecosystems and safety and health of people remains the strategic priority of Transpetrol\(^\text{18}\).\n
Over the period analysed, Transpetrol has managed to constantly renovate its environment certifications (i.e. ISO 1400, ISO 9001, OHSAS 18001).

The environmental impacts became increasingly important for all companies operating in the energy and oil sector, including Transpetrol, in order to guarantee their presence in the market. For this reason, it is not possible to directly infer the impacts of the re-nationalisation on the quality of services provided by Transpetrol to its end-customers. In fact, Transpetrol has maintained standards with regard to the quality of services independently of its ownership.

- **Workforce**

As shown in Figure 8, the number of Transpetrol’s employees has sharply decreased since 2012 (as compared to 2011, in 2012 the number of employees was reduced by 23%).

As explained above, the rationalisation of the workforce was mainly due to the decline in the operating revenues and in the profitability of the company. The main aim of the rationalisation was to ensure a stable level of efficiency and a lower but positive Net income.

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It is worth highlighting that, over the period taken into account, the percentage of women employed by Transpetrol has been reduced.

**Figure 8** Evolution in the number of employees of Transpetrol, 2007–2015

Source: KPMG elaborations on Transpetrol annual reports.
(a) Data for 2016 has not been included since, at the time of writing, Transpetrol has not published its annual report for this year.

Table 2 provides a synthesis of the major impacts briefly described above. The results are presented by means of a RAGS (i.e. Red; Amber; Green; Silver) classification. In detail: “Red” stands for a negative impact, “Amber” for no clear patterns for the impacts, “Green” stands for a positive impact/s and “Silver” stands for no data available for the analysis. As already mentioned, this analysis is only based on the comparison between trends and performances registered by both the company and the country before and after the operation took place. In fact, it is difficult (as well as beyond the scope of this case study) to track back impacts.

**Table 2** Summary table of potential impacts

<table>
<thead>
<tr>
<th>Summary of potential impacts</th>
<th>Impacts on the target company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Scoring</td>
</tr>
<tr>
<td>Market positioning</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td>▪ Since its establishment, Transpetrol has been the sole operator of the crude oil pipeline system in the Slovak Republic. In addition, the size of Transpetrol’s main markets and the number of its clients have remained stable over the period considered. Therefore, it is very difficult to assess the impact of re-nationalisation on Transpetrol’s positioning.</td>
</tr>
<tr>
<td>Profitability</td>
<td>R</td>
</tr>
<tr>
<td></td>
<td>▪ Despite the slight decrease in operating revenues, the profitability indicators (i.e. Net income, and ROA) have shown a sharp decline after the re-nationalisation. This was mainly due to a negative trend in certain costs and revenues that do not come from operating activities (i.e. financial income/losses and depreciation of fixed assets).</td>
</tr>
<tr>
<td>Efficiency</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td>▪ The efficiency of Transpetrol has remained substantially stable over the period.</td>
</tr>
<tr>
<td>Summary of potential impacts</td>
<td>Solvency</td>
</tr>
<tr>
<td>-----------------------------</td>
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</tr>
<tr>
<td></td>
<td>Scoring</td>
</tr>
<tr>
<td></td>
<td>G</td>
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<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Considered. In detail, Transpetrol has accompanied the reduction of operating revenues with a quasi-proportional reduction of operating costs. The re-nationalisation appears to have had no significant effects on the company.</td>
<td>The transformation of Transpetrol’s dividends not paid to the Slovak government into equity significantly improved the solvency situation of the target company.</td>
</tr>
<tr>
<td>Impacts on customers/clients</td>
<td>Scoring</td>
</tr>
<tr>
<td></td>
<td>S</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>It is possible to see a relevant decreasing trend in the Transpetrol’s number of employees since 2011.</td>
<td></td>
</tr>
</tbody>
</table>

**Legend**

- **R** = Negative impact
- **A** = No clear pattern
- **G** = Positive impact
- **S** = No data available

*Source: KPMG elaborations*
5. CONCLUSIONS AND LESSONS LEARNT

This case study is an example of the re-nationalisation process of a “strategic” company formerly privatised. The main selected conclusions and lessons learnt can be summarised as follows:

- the liberalisation policies adopted by the Slovak government in the late 1990s opened the way for the privatisation of a significant part of the Slovak economy, including “strategic” companies featuring natural monopolies (among which also Transpetrol);
- the re-nationalisation process appears to have had relevant positive impacts on the solvency profile of the target company, mainly achieved through the transformation of dividends not paid to the government into equity;
- after the re-nationalisation process, the target company’s policies adopted to handle the decline of profitability has led to a relevant reduction of its workforce;
- the possible impacts of the re-nationalisation of Transpetrol on the Slovak government’s public finances might be summarised as follows. On one hand, in terms of cash outflow associated with the re-acquisition of the stakes; on the other, in terms of increase in the dividends and/or value of the shares gained by the government.