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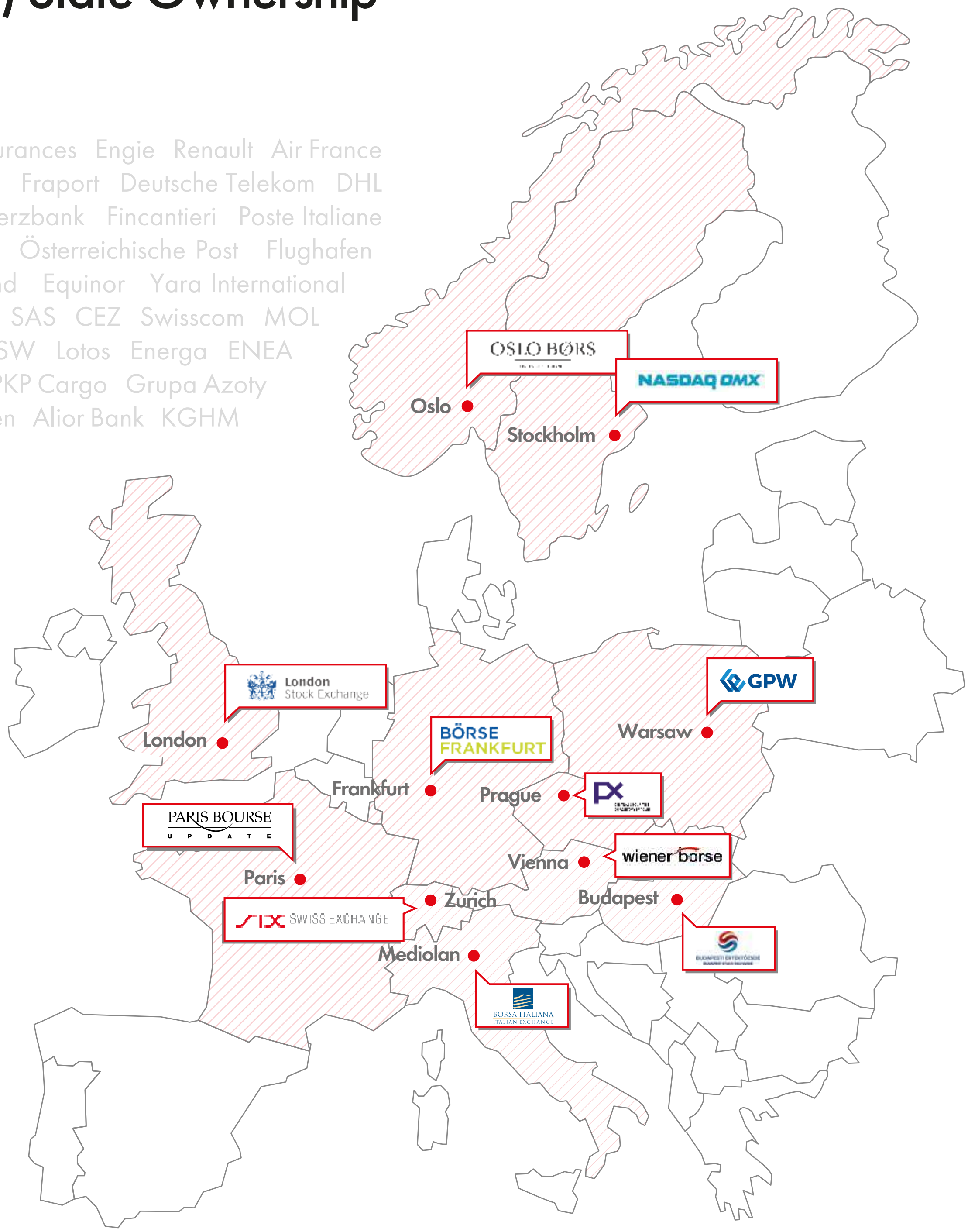
Valuation Driven by Corporate Governance Compliance

Analysis of European Public Listed Companies with (Partial) State Ownership

EDF Energy CNP Assurances Engie Renault Air France KLM Orange EnBW Fraport Deutsche Telekom DHL Deutsche Post Commerzbank Fincantieri Poste Italiane Leonardo Eni Enel Österreichische Post Flughafen Wien OMV Verbund Equinor Yara International DNB Telia Company SAS CEZ Swisscom MOL RBS PGNiG PGE JSW Lotos Energa ENEA Tauron GPW PZU PKP Cargo Grupa Azoty Bank Pekao PKN Orlen Alior Bank KGHM PKO BP



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Executive summary:

The aim of the report was to examine and compare the value of European companies which are listed on the stock exchange (public listed companies), but the governments of the leading European countries play a decisive role in their decision-making through state-controlled shareholding (hereinafter: state-owned companies or SOCs). For the sake of simplicity, the term 'State-Owned Company' (SOC) has been coined to refer to any public listed company with state-controlled shareholding. Another term sometimes used in economic literature – the State-Owned Enterprise – has been deliberately avoided due to its ambiguity as to the legal form of such enterprise (Polish term przedsiębiorstwo państwowe – another legal form – is commonly translated as SOE). The key question posed by the authors was whether a significant stake held by the state has an impact on the value of the companies and, if so, whether their condition (e.g. market valuation) is affected by the country of origin (e.g. listing) of the company, and thus the regulatory environment and corporate governance principles, or rather the sector in which the company operates.

Although state shareholding does not implicate any expressly negative consequences for the management, strategy or financial performance of SOCs, state-owned companies are thought to be less effective than companies with private, non-state shareholders. It is widely suspected that, contrary to non-state shareholders, building the value of the company and generating the return on investment for shareholders are not among the main objectives of the state shareholder. Many say that, as a majority or controlling shareholder, the state does not respect the rights of minority shareholders and does not pursue a transparent HR policy, in particular for nominations to top management positions. On the one hand, state-owned companies are believed to offer investment stability and security to their shareholders (low bankruptcy risk); on the other hand, they are perceived as less flexible, less effective and more prone to political and regulatory pressure, thus generating higher investment risk.

Altogether, 45 European state-owned companies from: Poland, Germany, France, UK, Italy and Austria, Switzerland, Norway, Sweden and - for comparison purposes - one company each from Hungary and the Czech Republic, were examined. The state is represented in these companies either directly (e.g. a central government ministry or department), or indirectly through other state-controlled entities, such as investment funds, sovereign wealth funds or local government institution, or other state-controlled companies. Here are the main conclusions of the study.

Valuation and investment attractiveness of state-owned companies is mainly driven by:

- compliance with corporate governance principles, including mostly respecting the rights of minority shareholders (one share, one right, one vote);
- a consistent senior management nominations policy (lower top management turnover makes the company more attractive in the eyes of investors) which guarantees the implementation of the long-term shareholder value creation policy;
- a predictable and stable dividend policy, which fosters long-term investment in the company (lack of such dividend policy automatically lowers the company's valuation in analytical models).

Conclusions:

- The largest number of SOCs listed on the stock exchange (with market cap of over EUR 350 million each) is in Poland (16), followed by France (6), Germany (5), Italy (5), Austria (4) and Norway (3).
- Poland clearly stands out from among other European markets when it comes to the relative share of SOCs in the biggest stock market indices. While their relative presence is minimal abroad, in Poland companies controlled directly or indirectly by the state account for 74% of the value of the main WSE index – WIG 20.
- In most European countries, the state holds a controlling stake in companies from the Energy and Fuels sectors. In Poland, a substantial part of the banking sector is also owned by the state.
- Some companies from other industries are included in the state shareholding portfolio due to the strategic dimension of the sector or the company itself, or their poor financial condition (e.g. Commerzbank in Germany, Royal Bank of Scotland in UK).
- The German public listed SOCs have the highest market valuation, while the French and Polish ones are undervalued in terms of P/BV and P/E ratios, respectively; Polish companies tend to be valued lower than their foreign counterparts, especially those representing the Energy and Fuels sectors.
- The highest dividend yield – on average more than 4% p.a. – is recorded by the French state-owned companies, the lowest (just over 2%) – by the Polish SOCs.
- The highest top management turnover (and the shortest length of service) is recorded for CEOs of Polish public listed state-owned companies, which should be considered their significant weakness. CEOs of the German SOCs serve the longest, which facilitates the implementation of long-term strategic plans.
- Out of all the SOCs researched, Deutsche Telekom has the highest market cap (EUR 70.5 billion). The second-largest market cap (EUR 61.8 billion) has Equinor (formerly: Statoil) – the Norwegian oil and gas company with worldwide operations, and the third-largest is the Italian energy giant Enel (EUR 51.2 billion).
- In the Energy sector, the most "attractive" SOCs are the Austrian electricity provider Verbund, with a wide portfolio of hydroelectric plants, and the Czech CEZ, whereas the Italian shipbuilding company Fincantieri and the Norwegian chemical giant Yara International lead in the Industry and Mining category.
- Against the background of European competition, the Polish state-owned companies from the Banks sector look strong in terms of both valuation and the profits generated.
- A significant factor contributing to the positive perception of the SOCs by the stock market is the presence of private, international investment funds in their shareholding as they prioritise compliance with corporate governance principles.
- In the shareholding structure of the SOCs from Western Europe, the average number of such shareholders is between 6 and 8 (per one company), while in Central and Eastern Europe it was only 2. The exception to this rule is the Czech energy company CEZ, with a total of 7 funds as shareholders. The weaker representation of foreign institutional investors in the CEE-based SOCs is, according to the authors, caused by their lower market capitalisation, smaller scale of their operations and historical legacy (the relatively recent transition of CEE countries to the market economy, starting in 1989).

The results of research conducted in this report confirm that as long as the state shareholder adheres to good market practices and pursues a sensible investment policy, the large share of state ownership in a public listed company does not have any negative consequences for investors and the market overall. Moreover, it is important that the state, by using its leverage and policy measures, builds lasting shareholder value and does not cause any temporary turbulence among market participants (unstable legal environment, lack of clearly defined objectives for the SOCs, frequent changes in Boards of Directors or no clear dividend policy).

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List of the public listed companies with partial (direct or indirect) state ownership analysed by country

Country	Company	Sector/Category	State ownership share
Poland	PGNiG	Fuels	71.00%
Poland	PGE	Energy	58.38%
Poland	JSW	Industry and mining	55.17%
Poland	Lotos	Fuels	53.19%
Poland	Energa	Energy	51.52%
Poland	ENEA	Energy	51.50%
Poland	Tauron	Energy	40.45%
Poland	GPW	Finance	35.00%
Poland	PZU	Finance	34.19%
Poland	PKP Cargo	Industry and mining	33.01%
Poland	Grupa Azoty	Industry and mining	33.00%
Poland	Bank Pekao	Finance	32.80%
Poland	PKN Orlen	Fuels	32.42%
Poland	Alior	Finance	31.91%
Poland	KGHM	Industry and mining	31.79%
Poland	PKO Bank Polski	Finance	31.39%
France	EDF Energy	Energy	83.70%
France	CNP Assurances	Finance	78.20%
France	Engie	Energy	26.57%
France	Orange	Telecommunication	22.96%
France	Renault	Industry and mining	15.01%
France	Air France KLM	Air transport	14.30%
Germany	EnBW	Energy	93.50%
Germany	Fraport	Air transport	51.34%
Germany	Deutsche Telekom	Telecommunication	31.90%
Germany	Deutsche Post	Postal services	20.53%
Germany	Commerzbank	Finance	15.60%
Italy	Fincantieri	Industry and mining	71.64%
Italy	Poste Italiane	Postal services	64.26%
Italy	Leonardo	Industry and mining	30.20%
Italy	Eni	Fuels	30.10%
Italy	Enel	Energy	23.60%
Austria	Oesterreichische Post	Postal services	52.80%
Austria	Flughafen Wien	Air transport	40.00%
Austria	OMV	Fuels	31.50%
Austria	Verbund	Energy	81.00%
Norway	Equinor (formerly: Statoil)	Fuels	70.30%
Norway	Yara International	Industry and mining	41.10%
Norway	DNB	Finance	40.40%
Sweden	Telia Company	Telecommunication	37.30%
Sweden	SAS	Air transport	14.80%
UK	Royal Bank of Scotland	Finance	62.40%
Czech Republic	CEZ	Energy	69.80%
Switzerland	Swisscom	Telecommunication	50.95%
Hungary	MOL	Fuels	33.60%

In the analysed markets, there were in total 45 public listed companies with state shareholding, 16 of which were Polish. Included in the analysis were companies with market capitalisation above EUR 350 million from Poland and Western Europe (Germany, France, United Kingdom, Italy, Austria, Switzerland, Norway, and Sweden), as well as – due to their comparative value – Hungarian MOL and Czech CEZ.

Ranking of analysed companies by market cap

Rank	Company	Country	Sector/Category	Market cap in EUR million*
1.	Deutsche Telekom	Germany	Telecommunication	70,565
2.	Equinor (formerly: Statoil)	Norway	Fuels	61,796
3.	Enel	Italy	Energy	51,240
4.	Eni	Italy	Fuels	49,970
5.	EDF Energy	France	Energy	41,542
6.	Orange	France	Telecommunication	37,640
7.	Engie	France	Energy	30,514
8.	Deutsche Post	Germany	Postal services	29,565
9.	Royal Bank of Scotland	UK	Finance	28,958
10.	DNB	Norway	Finance	22,326
11.	Swisscom	Switzerland	Telecommunication	21,537
12.	Telia Company	Sweden	Telecommunication	17,860
13.	Renault	France	Industry and mining	16,132
14.	Verbund	Austria	Energy	12,938
15.	CNP Assurances	France	Finance	12,702
16.	OMV	Austria	Fuels	12,518
17.	PKO Bank Polski	Poland	Finance	11,482
18.	CEZ	Czech Republic	Energy	11,223
19.	PKN Orlen	Poland	Fuels	10,765
20.	PGNiG	Poland	Fuels	9,292
21.	Yara International	Norway	Industry and mining	9,178
22.	Poste Italiane	Italy	Postal services	9,117
23.	PZU	Poland	Finance	8,822
24.	EnBW	Germany	Energy	8,077
25.	MOL	Hungary	Fuels	7,922
26.	Commerzbank	Germany	Finance	7,239
27.	Bank Pekao	Poland	Finance	6,658
28.	Fraport	Germany	Air transport	5,776
29.	Leonardo	Italy	Industry and mining	4,440
30.	PGE	Poland	Energy	4,351
31.	KGHM	Poland	Industry and mining	4,137
32.	Air France KLM	France	Air transport	4,063
33.	Lotos	Poland	Fuels	3,808
34.	Flughafen Wien	Austria	Air transport	2,898

35.	Oesterreichische Post	Austria	Postal services	2,028
36.	JSW	Poland	Industry and mining	1,838
37.	Alior	Poland	Finance	1,615
38.	Fincantieri	Italy	Industry and mining	1,557
39.	ENEA	Poland	Energy	1,017
40.	Tauron	Poland	Energy	893
41.	Energa	Poland	Energy	859
42.	SAS	Sweden	Air transport	782
43.	Grupa Azoty	Poland	Industry and mining	720
44.	PKP Cargo	Poland	Industry and mining	458
45.	GPW	Poland	Finance	358

* as at 31 December 2018.

1. STOXX Europe 600 Index

In order to evaluate the market position of the state-owned companies analysed in this report, the STOXX Europe 600 Index was used. With the fixed number of 600 entities, the index includes large, medium-sized and small companies in terms of market cap from 17 European markets: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy Luxembourg, the Netherlands, Poland, Portugal, Spain, Sweden, Switzerland and United Kingdom.

Under the STOXX country classification model, a country is classified as a developed or emerging market based on the following five criteria:

- macroeconomic data,
- market cap,
- market liquidity,
- free currency convertibility on onshore and offshore markets,
- restrictions on capital flows.

Furthermore, a public governance indicator has recently been added to the analysed criteria, which includes the following factors:

- political stability,
- control of corruption,
- regulatory quality.

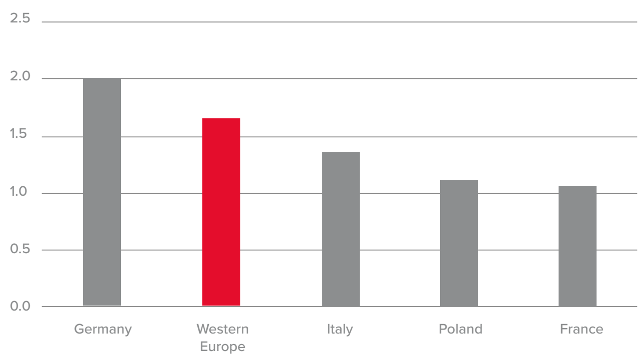
Among 600 companies included in the STOXX Europe 600 Index are 27 SOCs analysed in this report, i.e. less than 5% in relative numbers. These are Deutsche Telekom, Enel, Eni, Orange, Deutsche Post, Engie, Equinor (formerly: Statoil), DNB, RBS, Renault, Swisscom, Telia, PKO Bank Polski, PKN Orlen, EDF Energy, Commerzbank, OMV, PZU, Yara International, Pekao, Leonardo, Air France KLM, KGHM, CNP Assurances, Verbund, PGNiG and Fraport.

Although their relative percentage share in the total number of companies included in the index may be low, they constitute 60% of the companies analysed in this report. A conclusion can therefore be drawn that European public listed companies with partial state ownership are important from the perspective of international institutional investors.

2. Valuation of state-owned companies by country

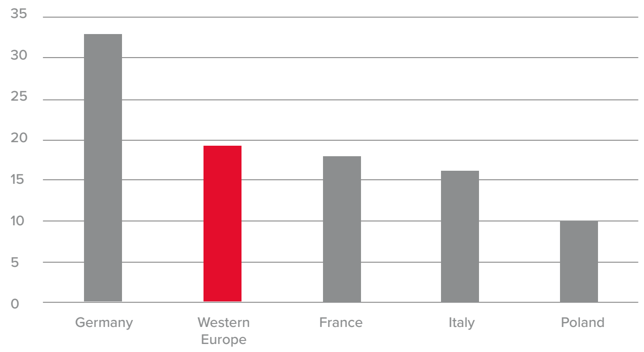
For the purposes of inter-country comparisons, the data were aggregated separately for each market. This has allowed for conclusions on general tendencies on the international level to be drawn. To this end, the P/BV and P/E ratios as at 30 June 2018, i.e. the date of the most recent audited financial statements available for each company, was applied.

P/BV



The German SOCs have the highest value of price-to-book value ratio. Their P/BV valuation (2.00) is almost twice as high as that of the bottom two countries, i.e. Poland (1.12) and France (1.07).

P/E



A similar situation can be observed for the price-to-earnings ratio. Again, Germany leads by a long way before other countries (33.3). However, the P/E valuation of the German SOCs might be slightly skewed as the German state generally pursues the strategy of acquiring stakes in companies hit by financial problems – consequently, the lower denominator (earnings) gives a boost to their P/E ratios. Still, Germany's first place in this ranking is unquestionable. At the other end of the scale is Poland, with an extremely low value of the P/E ratio and a considerable gap to the second-lowest Italy (9.95 vs. 16.09 respectively).

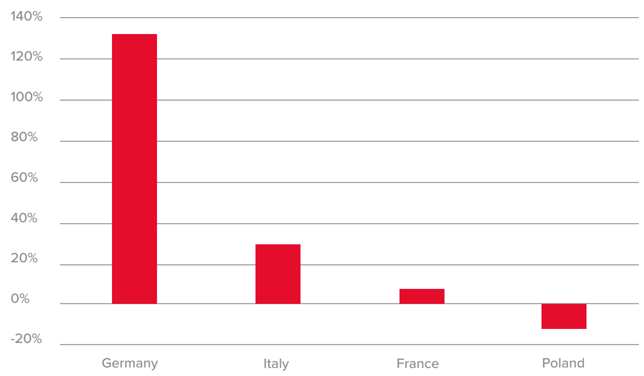
But the P/BV and P/E valuation might not be entirely relevant as it depends not only on how the state-owned companies are managed but also on a large number of other factors, including market liquidity, the size and stability of the economy, and regulatory framework. Therefore, the values of the ratios calculated for the analysed SOCs were benchmarked against the average values of these ratios for the stock indices on the respective markets (DAX, CAC40, WIG20, FTSE MIB).

The results obtained in the comparative approach differed only slightly from the original ones, with Germany upholding its leading position with regard to both the P/BV and P/E ratios.

P/B - comparative approach

Interestingly, the French SOCs looked particularly bad in terms of P/BV valuation, as they were valued at more than 35% less than the average for the CAC40 index. For Poland, the valuation discount was approx. -5%, but this comes as no surprise as the Polish SOCs constitute almost ¾ of the WIG20 value.

P/E - comparative approach



As for the P/E ratio, the lead of the German state-owned companies is enormous. As explained before, this is due to the acquisition by the German state of stakes in companies hit by financial problems and thus generating small, if any, profits, which inflates the value of the ratio. Again, the Polish SOCs come last, with Poland being the only country where state-owned companies were valued at a discount vs. the market (-10%).

The analysis conducted above has shown that the German SOCs have the highest valuation, followed by state-owned companies from Italy, whereas French and Polish companies, which stand out negatively from amongst the other countries, occupy the bottom two positions.

To delve deeper into the underlying reasons for that situation, the aspect of corporate governance compliance was investigated for each country. In particular, two factors were taken into account – top management turnover determining the stable implementation of long-term vision and strategy; and dividend policy as a premium sought by the market for investing in SOCs and accepting bigger exposure to political risks in the form of regular profit distribution to shareholders.

CEO’s average length of service

Company	Country	CEO	Length of service
MOL	Hungary	Zsolt Hernadi	17,7
Fincantieri	Italy	Giuseppe Bono	16,7
Renault	France	Carlos Ghosn	13,6
DNB	Norway	Rune Bjerke	12,0
Deutsche Post	Germany	Frank Appel	11,0
Verbund	Austria	Wolfgang Anzengruber	10,0
Fraport	Germany	Stefan Schulte	9,4
Oesterreichische Post	Austria	Georg Pölzl	9,3
PKO Bank Polski	Polska	Zbigniew Jagiełło	9,3
Orange	France	Stéphane Richard	7,8
SAS	Sweden	Rickard Gustafson	7,8
Flughafen Wien	Austria	Julian Jäger/Günther Ofner*	7,5
CEZ	Czech Republic	Daniel Benes	7,4
EnBW	Germany	Frank Mastiaux	6,3
Telia Company	Sweden	Johan Dennelind	5,4
Royal Bank of Scotland	UK	Ross McEwan	5,3
Swisscom	Switzerland	Urs Schaeppi	5,2
Deutsche Telekom	Germany	Timotheus Höttges	5,0
Eni	Italy	Claudio Descalzi	4,8
Enel	Italy	Francesco Starace	4,7
Equinor	Norway	Eldar Sætre	4,3
EDF	France	Jean-Bernard Lévy	4,2
OMV	Autsria	Rainer Seele	3,5
Yara International	Norway	Svein Tore Holsether	3,4
ENEA	Poland	Mirosław Kowalik	3,0
PGNiG	Poland	Piotr Woźniak	3,0
PGE	Poland	Henryk Baranowski	2,8
Commerzbank	Germany	Martin Zielke	2,7
Engie	France	Isabelle Kocher	2,6
Tauron	Poland	Filip Grzegorczyk	2,2
Grupa Azoty	Poland	Wojciech Wardacki	2,1
GPW	Poland	Marek Dietl	2,0
Poste Italiane	Italy	Matteo Del Fante	1,7
PZU	Poland	Paweł Surówka	1,7
Leonardo	Italy	Alessandro Profumo	1,7
Bank Pekao	Poland	Michał Krupiński	1,6
JSW	Poland	Daniel Ozon	1,1
PKN Orlen	Poland	Daniel Obajtek	0,9
Lotos	Poland	Aleksander Bonca	0,8
PKP Cargo	Poland	Czesław Warsewicz	0,7
KGHM	Poland	Marcin Chludziński	0,6
CNP Assurances	France	Antoine Lissowski	0,2
Air France KLM	France	Anne Rigail	0,1
Alior Bank	Poland	Krzysztof Bachta	0,0
Energa	Poland	Alicja Barbara Klimiuk	0,0

*CFO and COO respectively, the company has no CEO/President of the Board

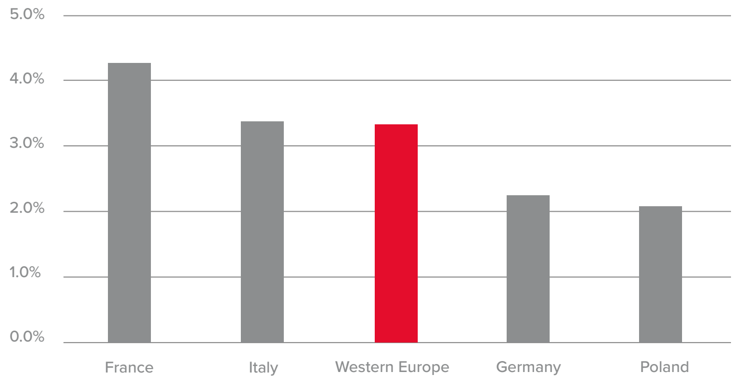
The table on the previous page presents the length of service for CEOs of the state-owned companies analysed, as calculated from the date of taking the helm of the company until 30 December 2018.

The ranking of CEOs by length of service includes CEOs of all companies analysed as a reference point for the later part of the report where individual sectors are analysed. Howver, notably, the longest serving CEO – Zsolt Hernadi – represents the Central and Eastern European region. An opinion may even be ventured that more than 17 years spent by Hernadi leading Hungarian MOL has been one of the key factors which helped transform MOL from a local to an international player on the oil and gas market.The analysis of the average time served by CEOs in each state-owned enterprise has shown that Polish CEOs had the shortest length of service – the leadership change was executed on average every 2 years. This is almost three times shorter than in the following two markets – France and Italy – where CEOs served on average for more than 6 years, whilst in Germany CEO changes were the least frequent of all countries analysed (approx. every 8 years). Interestingly, the Polish longest-serving CEO – President of PKO BP, Zbigniew Jagiełło – comes as high up as 10th in this ranking.

3. Dividend policy of state-owned companies

To get a better picture of public listed companies with partial state shareholding, their dividend policies were compared for each market as dividends are often considered compensation for investors for accepting greater exposure to additional political risks.

Average dividend yield in 2015-2017



The average dividend paid was calculated as the arithmetic mean value of dividends paid by each state-owned company from the given market in the years 2015-2017.
As the above graph shows, the highest dividend was paid by the French SOCs (dividend yield of approx. 4.3%), which had the lowest valuation in terms of P/E and P/BV ratios. At the other end of the spectrum were state-owned companies from Poland, which paid less than half as much – the dividend yield of only 2.1% – and from Germany – 2.25%. Interestingly, the leading market in terms of ratio valuation pays relatively low dividend.
However, significant differences can be spotted in the composition of the groups of SOCs for each market. In France, two (out of six) analysed state-owned companies are from the Energy sector – these companies invested heavily in construction of nuclear power plants so now their energy generation costs are low and they can afford to distribute a significant proportion of their profits to shareholders. Similarly, two (out of five) Italian state-owned companies represent the Energy and Fuels sector. In the case of the German SOCs, the low dividend yield can be traced back to Commerzbank, which is struggling with financial problems. Among Polish state-owned companies are companies representing a wide spectrum of sectors, from Energy and Fuels to Finance, up to Mining.

Consequently, it cannot be conclusively asserted that corporate governance has impact on market valuation of public listed companies with state ownership due to the cross-section of companies representing individual markets being so very different. Therefore, for a better comparison, the authors decided to divide the companies into different sectors in order to better reflect the market reality.

4. Experts comments

Fiorenzo Tagliabue
CEO, SEC Group
Milan, Italy

Corporate diplomacy as a value

Italy's core of the industrial and economic texture was originally based on a direct intervention of the State. This was the model of post war reconstruction and it has been more or less the same during nearly 40 years.

Today the presence of State in national economy while still relevant, is limited to some strategic sectors and stands under European regulations on trade and competition.

Most of public owned companies are now listed entities fully integrated in modern economy. Some of them are global corporations with a worldwide footprint, such as Enel, Eni or Leonardo. Others are now concentrated on a global revamping of both organization and business model such as Poste Italiane which hired SEC to run the community engagement plan in the reorganization process of the local post office footprint.

Positive impact of state-owned companies

While I share the key findings of the survey that effectively highlights the slipper elements in governance and management of public owned companies (management turnover, influence of politics on the implementation of the industrial plans, unclear policy in shareholders remuneration and dividends) I still believe public owned companies have a positive role not only in Italy but globally.

One aspect in particular drive my attention. It is corporate diplomacy to use the concept of a recent book edited in Italy with this title by Vittorio Cino and Andrea Fontana. According to the authors current scenario drive corporations towards rising an institutional profile not for the sake of governing rather than to be governed by a mass of consumers-citizens. These peculiar stakeholders' expectations include quality products while seeking for a stronger brand which is able to take position on significant themes under discussion and which can set an agenda.

New corporate identity

This wider social reach, in fact, is an increasingly aspiration of many multinationals: with hyper consumerism clearly fading away, companies are looking for a new identity, with a stronger and more responsible "corporate" focus and to deliver this by mean of a communication mostly based on contents and sharing rather than product marketing.

In this framework I consider large public owned organization very well equipped, in terms of culture and know how, to take a strong stake into the transformation of the global economy from a product driven scheme to a value driven one.

Nationalisation as defence against hostile takeovers

The history of the German companies listed in this interesting study could not be more different. When Federal Economics Minister Peter Altmeier recently declared, above all with a view to China, that it should be possible to prevent hostile takeovers from abroad by means of state shareholdings, he met with criticism. Such instruments should be reserved for extreme emergency situations, it was said among other things. There was such an emergency 10 years ago when the German government joined Commerzbank to protect it from collapse. Experts speak of a black day for German taxpayers, because the bank is still in deep crisis, its value has fallen drastically and tens of thousands of employees have lost their jobs.

Privatisation success stories

While the federal government joined Commerzbank, it is gradually withdrawing from Deutsche Telekom and Deutsche Post. In 1996, both were transformed from state-owned companies into public limited companies as part of a postal reform. Deutsche Telekom went public in 1996 and Deutsche Post in 2000. Since then, the Federal Government has continuously reduced its shares in both companies. In the case of Deutsche Telekom, the Federal Government will gradually reduce its shareholding further or even sell it completely. Experts say that Deutsche Telekom and Deutsche Post are in a better position today than many competitors in other countries, some of which are still state-owned.

Privatisation slip-ups

But privatization was not successful everywhere. The counterexample is the energy supplier EnBW. The state of Baden-Württemberg had sold the company to its French competitor Électricité de France (EdF) and bought its shares back in 2010 because it saw the danger that a major foreign shareholder could take over the majority. The deal was highly controversial. The leading economic newspaper Handelsblatt wrote: "Apart from the bank rescue, it was the biggest nationalization in the Federal Republic. The sloppily documented deal makes the search for the culprits difficult. The government did not leave many traces. (...) At the same time (...) [it] was the most amateurishly concluded deal of this magnitude ever brokered by a state organisation. It violated law and order, disregarded the sovereignty of parliament and various legal and budgetary principles - not to mention commercially honest conduct."

Another negative example is Deutsche Bahn. Deutsche Bahn AG was privatised in January 1994, but remained in the hands of the state. Later the IPO was to take place, which was highly controversial. The IPO plans provided for the sale of the railway up to a threshold of 24.9 percent. However, the financial market crisis of 2008 threw a spanner in the works: the IPO has not yet taken place.

Peter Rall
Managing Director
Kohl PR & Partner
Berlin, Germany

Harmonised reporting coming for European companies

Today, access to information and the absence of harmonised reporting formats for listed companies is a problem, complicating analysis and comparability on a pan-European basis.

Looking ahead, a central information access point to different national databases of information disclosed by listed companies, the European electronic access point (EEAP), and a harmonised electronic format for reporting, mandatory from the 1 January 2020, will bring much needed additional transparency, making analysis and comparability of listed private and state-owned companies much easier.

Tom Parker
CSO SEC, Chairman of the board
Cambre and Associates
Brussels, Belgium

Sustainable growth is key

Sustainability is the key word of state-shareholders companies.

In France, the government has historically invested in sustainability market sectors (energy, telecommunication...), in order to control strategic assets. But sustainability is not only an investment consideration, it has also impact on results and dividend strategy. French state-shareholders companies are still competing with other European companies in terms of valuation and especially with the German ones and we see in the study that they underperformed if we compared them to the DAX and even to CAC 40 Index. The state has to face some challenges by combing sustainable objectives, return on investment, and managing the governance.

As we've seen in the case of Renault, it is a difficult and delicate balance to find.

Eric Giuily
President de CLAI
Paris, France

Strategic importance of state-owned companies

Polish capital market is dominated by public listed companies with state shareholding. Suffice it to look at WIG20 – among the 20 largest companies listed on the Warsaw Stock Exchange, there are 11 state-owned ones. The state is also WSE's largest shareholder. This is partly due to the historical legacy, that is the yet unfinished process of selling off the state-held shares in privatised but previously state-owned enterprises, and the more recent acquisitions of shares in Polish companies by the state from foreign investors. The latter occurred mostly in the financial sector, involving companies such as PZU, Pekao and Alior Bank. Many large state-owned companies are also strategically important for the state, which means that the state shareholder has the right to veto any decisions, effectively preventing any attempted hostile takeovers from abroad. This has both positive and negative effects. On the one hand, the state acts a stabilizing force and guarantor of security for other shareholders; on the other, its actions are guided not by profit or efficiency considerations but by its mission towards the state and the society.

Is it possible to reconcile these two seemingly conflicting interests? As our report shows, in the contemporary world where sustainability is becoming an increasingly important consideration, the combination of state and non-state shareholding does make sense and is appreciated by more conscientious shareholders. But there is one condition precedent – as with most things in life, common sense and proportion or moderation should be the guides so that the interests of minority shareholders are also considered when devising and pursuing the corporate strategy. Valuations of companies representing the sectors where corporate governance compliance is better are automatically higher. This is particularly significant to remember now when Poland is in the process of rolling out the new pension scheme – Employee Capital Plans – aimed not only at stimulating pension savings among the general public but also, indirectly, at boosting the social capital as the ultimate success of this long-term project heavily depends on it.

Dariusz Jarosz
CEO & President of the Board,
Martis CONSULTING
Warsaw, Poland

5. Valuation of state-owned companies by sector

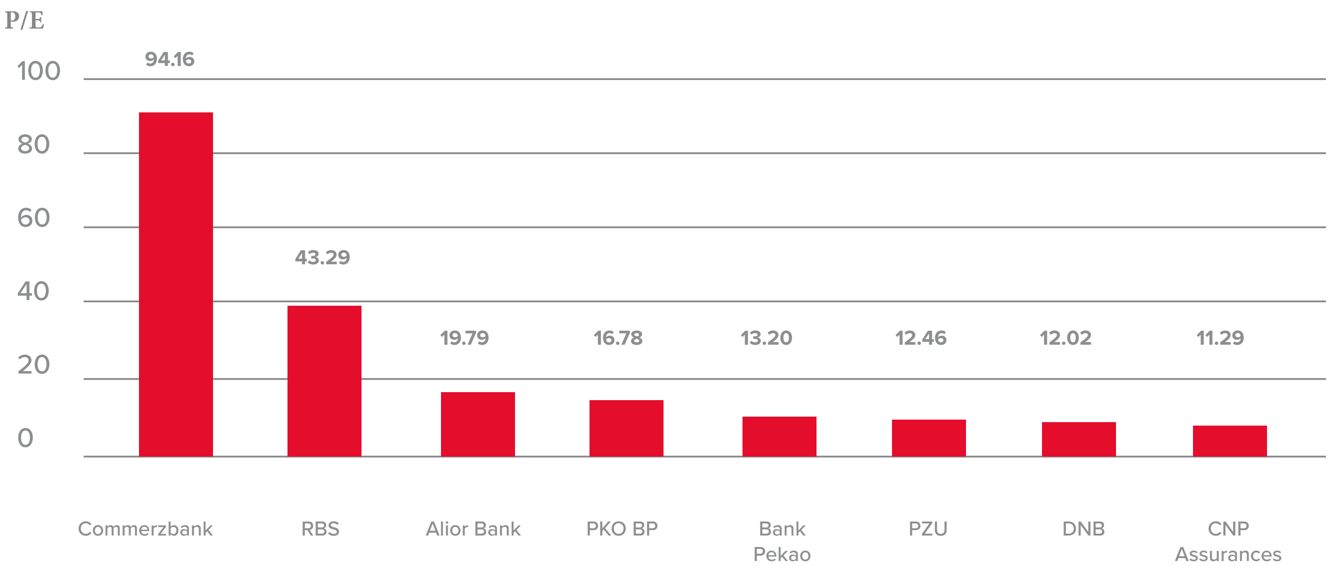
Finance

Company	Country	P/E**	P/BV**	Dividend yield			Free float*	Market cap in EUR million *
				2017	2016	2015		
Royal Bank of Scotland	UK	43.29	0.78	0.00%	0.00%	0.00%	37.60%	28,958
DNB	Norway	12.02	1.25	4.67%	4.44%	4.10%	51.50%	22,326
CNP Assurances	France	11.29	0.85	4.36%	4.55%	6.19%	21.80%	12,702
PKO Bank Polski	Poland	16.78	1.44	1.24%	0.00%	3.66%	53.46%	11,482
PZU	Poland	12.46	2.48	5.93%	4.22%	6.11%	60.73%	8,822
Commerz-bank	Germany	94.16	0.49	0.00%	0.00%	2.09%	79.39%	7,239
Bank Pekao	Poland	13.20	1.41	6.10%	6.90%	6.06%	55.85%	6,658
Alior Bank	Poland	19.79	1.45	0.00%	0.00%	0.00%	49.34%	1,615

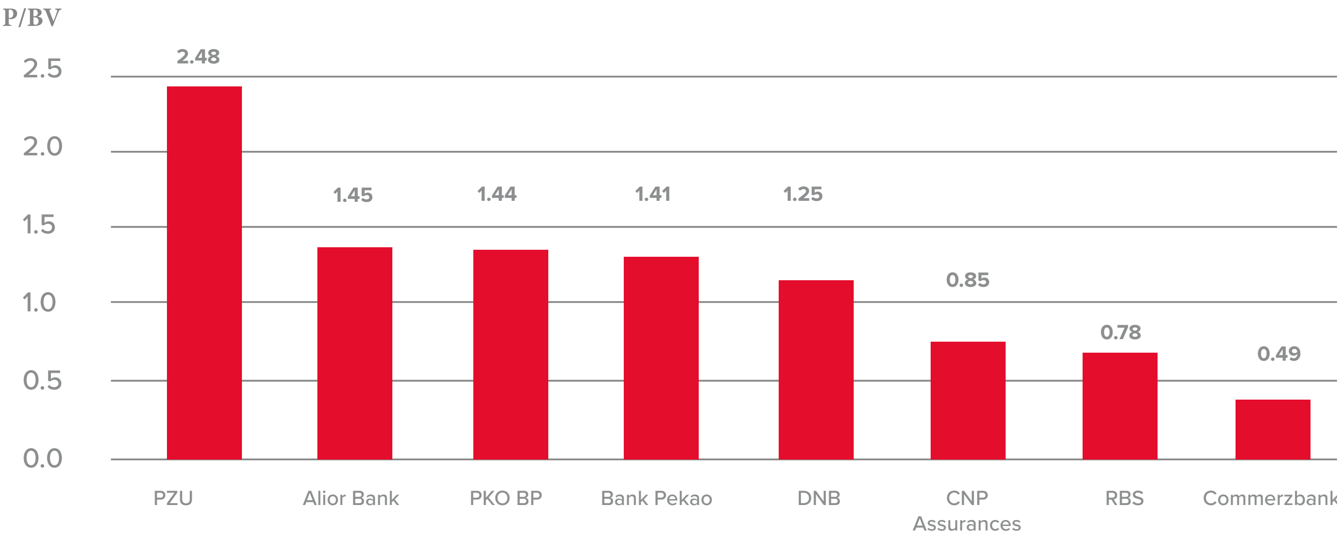
*as at 31 December 2018

**average in H1 2018

As the table above shows, Poland has the biggest representation in the Finance sector (4 out of 8 companies). Also, the Polish state-owned company with the largest market cap (PKO Bank Polski) belongs to this sector.



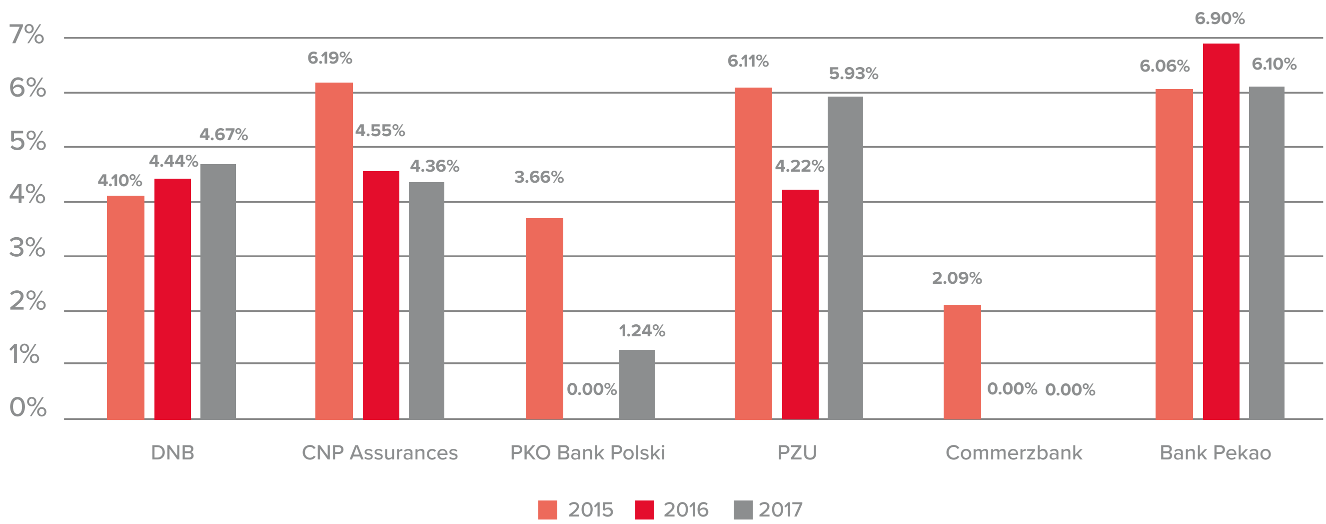
As for the P/E ratios, the top two positions are taken by banks – Commerzbank and RBS – which owe their high position to low net profits. In that case, the P/E ratio analysis does not produce relevant results – it would be more useful if profits were more comparable.



The P/BV ratio analysis shows the strong position of Polish financial institutions – PZU, Alior Bank, PKO BP and Bank Pekao are all valuated higher than large foreign institutions. Unsurprisingly, the bottom two SOCs are RBS (UK) and Commerzbank (Germany) as both face financial difficulties.

Both PZU and Bank Pekao also regularly share their profits with investors, with respective dividend yields being close to those of DNB (Norway) and CNP Assurances (France). This confirms their sound financial condition. Dividends paid to shareholders of PKO BP, if any, were significantly smaller. Commerzbank did not pay any dividends for the previous two years due to the ongoing restructuring efforts.

Dividend yield



Alior Bank and RBS are not presented on the graph as they paid no dividends in the analysed period. While Alior Bank allotted huge funds for investment, RBS did not generate any profits in 10 years since the global financial crisis in 2008, which led to the bailout by the British government .

Still, it should be reminded here that after 2008 many European banks badly affected by the global financial crisis were bailed out by national governments. Poor performance of foreign financial institutions in this report might be related to it.

Polish financial institutions owe their strong position on the European market to the good organisation of the Polish financial sector and surviving the financial crisis of 2008 virtually unscathed, which helped them achieve a higher return on equity of 10% as compared to 4% recorded for Western markets. This was the effect of strong internal demand and their little involvement in complex and highly-risky derivative transactions.

German, French and Italian banks are 90% owned by domestic investors whereas Polish investors hold more than 50% of equity in Polish banks. For comparison, 6 years ago the proportion was the opposite and over 60% of Polish banks' capital came from abroad.

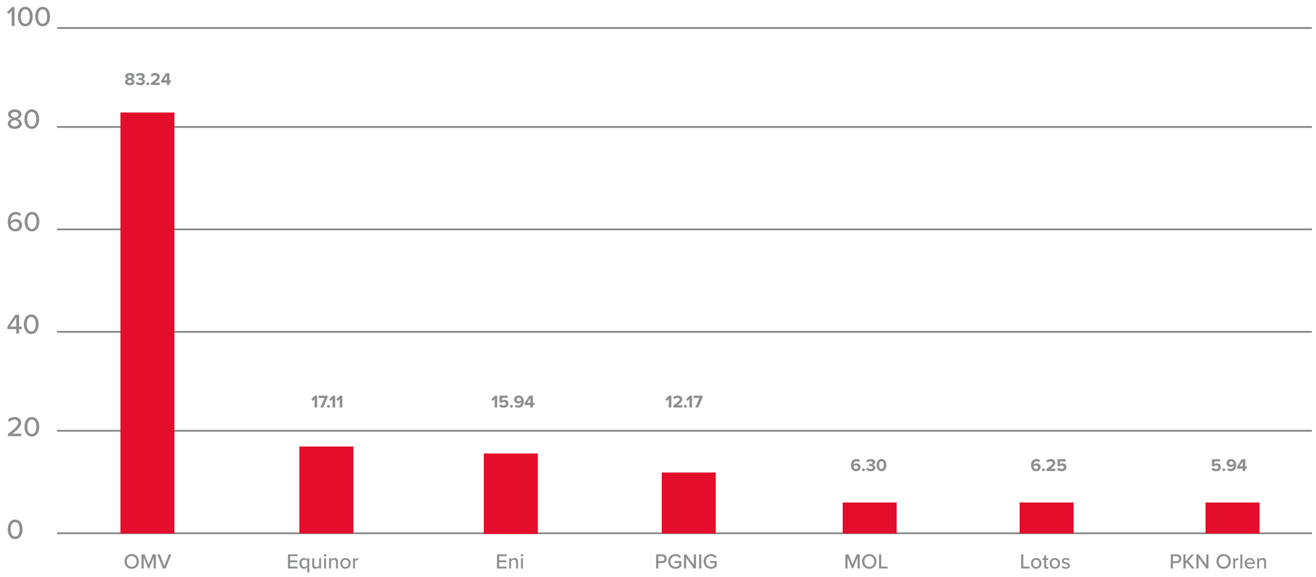
Fuels

Company	Country	P/E**	P/BV**	Dividend yield			Free float*	Market cap in EUR million *
				2017	2016	2015		
Equinor (formerly: Statoil)	Norway	17.11	1.97	4.12%	4.80%	6.24%	29.70%	61,796
Eni	Italy	15.94	1.12	5.80%	5.17%	5.80%	69.90%	49,970
OMV	Austria	83.24	1.80	2.84%	3.58%	3.83%	9.00%	12,518
PKN Orlen	Poland	5.94	1.23	2.83%	3.52%	2.95%	53.97%	10,765
PGNiG	Poland	12.17	1.05	3.18%	3.55%	3.89%	28.12%	9,292
MOL	Hungary	6.30	1.04	0.00%	0.00%	0.00%	78.40%	7,922
Lotos	Poland	6.25	0.98	1.73%	2.61%	0.00%	46.81%	3,808

*as at 31 December 2018

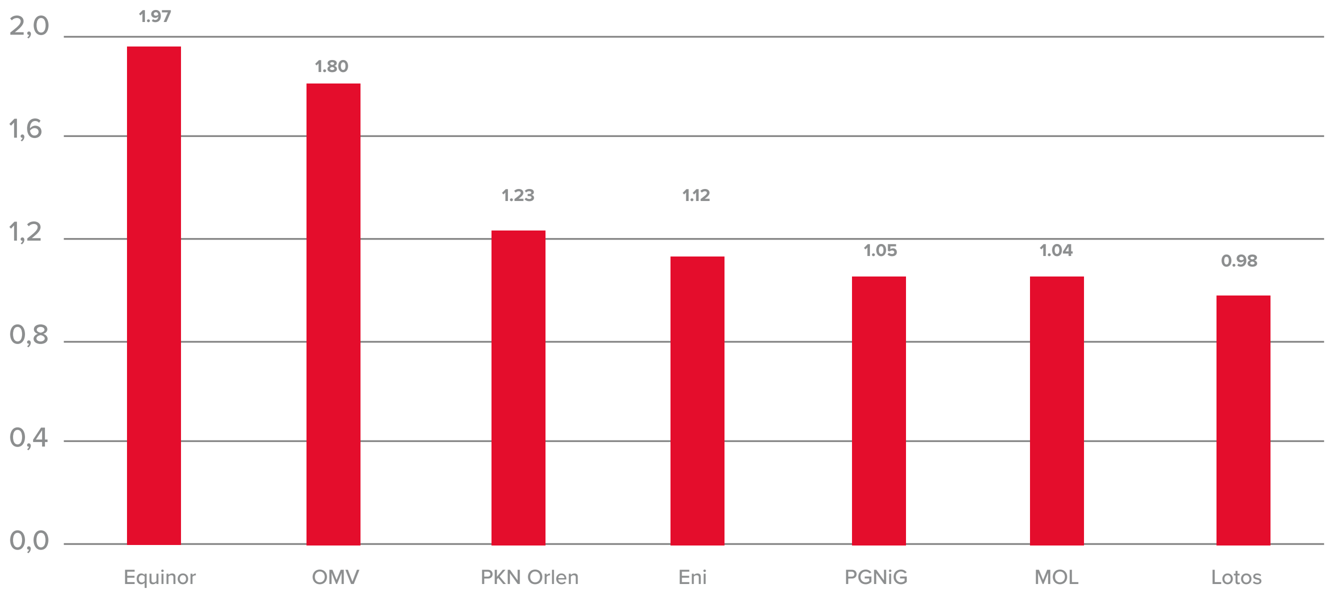
**average in H1 2018

P/E



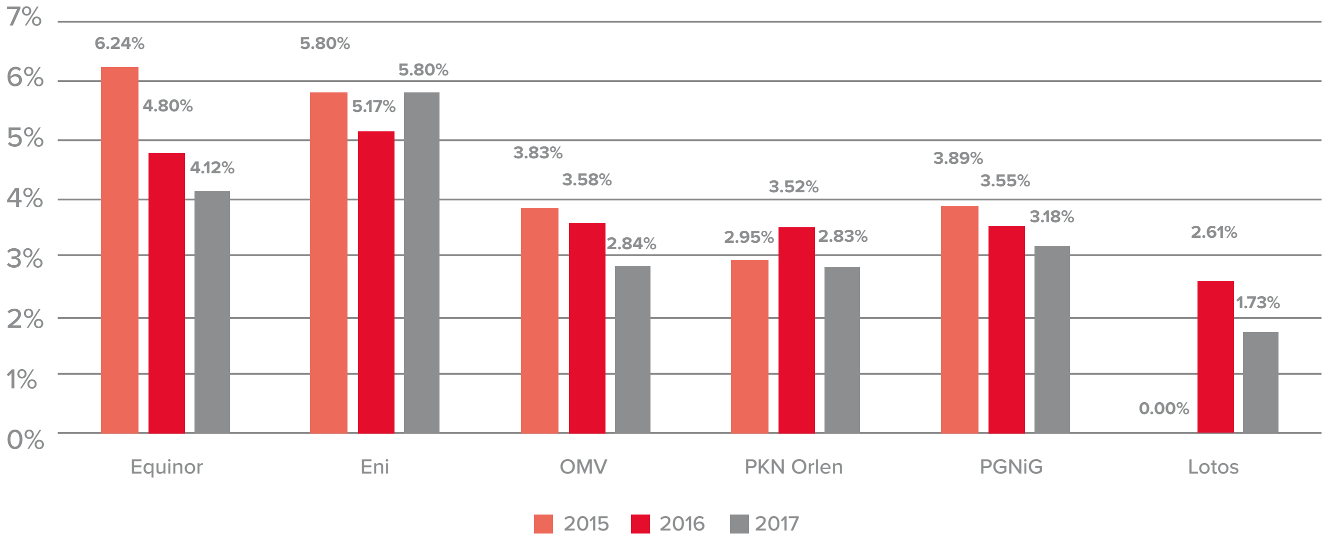
OMV's high P/E ratio value is due to the fact that in H1 2017 the company generated a net loss of EUR 112 million while in H1 2018 it posted a net profit of EUR 800 million. Interestingly, Hungarian and Polish fuel companies have very similar values of P/E ratios whereas the Polish natural gas producer PGNiG is significantly ahead of them.

P/BV



Equinor and OMV lead in terms of price to book value. Both companies stand out clearly against the rest. Significantly, a large stake in them is held by oil-rich countries (Norway in case of Equinor, United Arab Emirates for OMV).

Dividend yield



Almost all state-owned companies representing the Fuels sector regularly pay dividend, the exception being Hungarian MOL. It is noteworthy that the Austrian OMV is on par with Polish PKN Orlen and PGNiG in this respect.

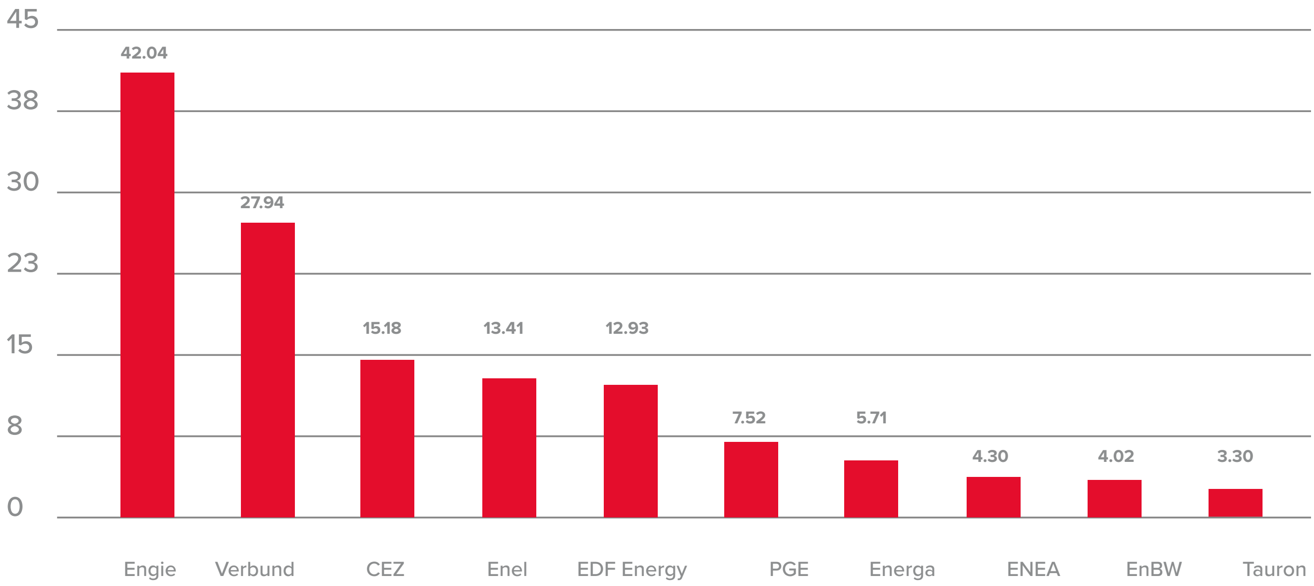
Energy

Company	Country	P/E**	P/BV**	Dividend yield			Free float*	Market cap in EUR million *
				2017	2016	2015		
Enel	Italy	13.41	1.45	4.62%	4.30%	4.11%	76.40%	51,240
EDF Energy	France	12.93	0.79	4.41%	9.25%	8.10%	16.30%	41,542
Engie	France	42.04	0.90	4.88%	8.25%	6.13%	73.43%	30,514
Verbund	Austria	27.94	1.66	2.08%	1.91%	2.95%	19%	12,938
CEZ	Czech Repu-blic	15.18	1.13	0.00%	0.00%	0.00%	30.22%	11,223
EnBW	Germany	4.02	2.00	1.53%	0.00%	2.67%	6.50%	8,077
PGE	Poland	7.52	0.44	0.00%	0.00%	1.95%	32.61%	4,351
ENEA	Poland	4.30	0.35	0.00%	2.63%	0.00%	48.50%	1,017
Tauron	Poland	3.30	0.25	0.00%	0.00%	3.47%	54.49%	893
Energa	Poland	5.71	0.47	0.00%	2.09%	0.00%	48.48%	859

*as at 31 December 2018

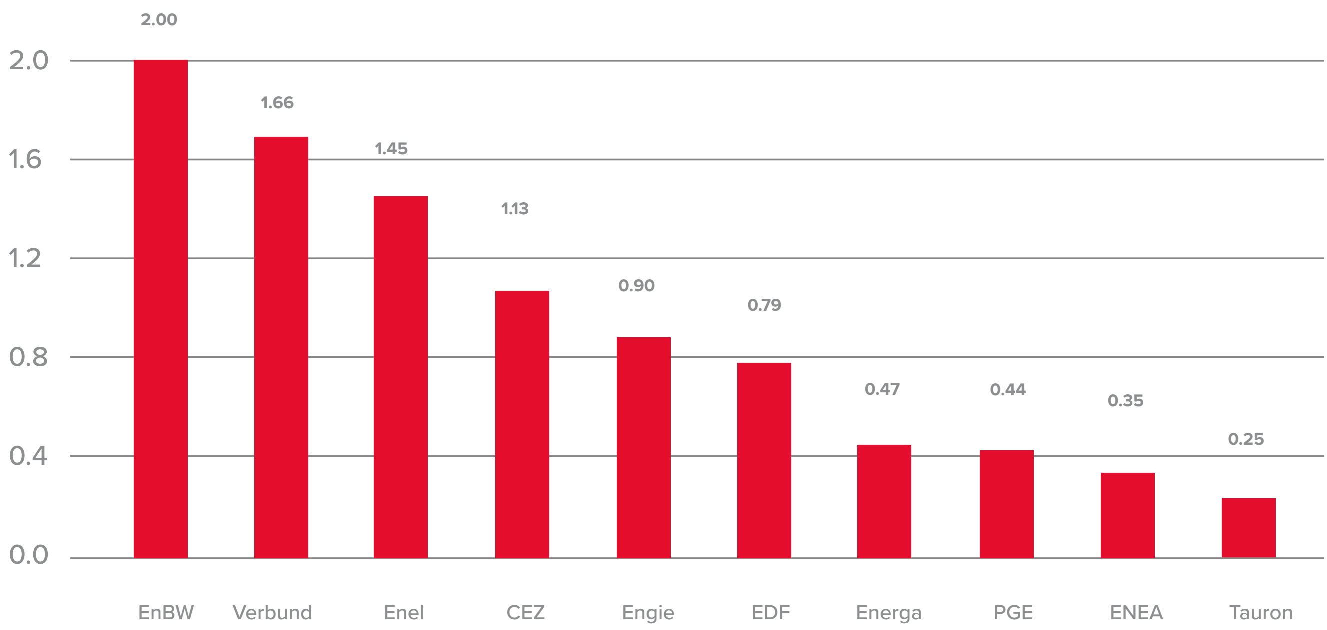
**average in H1 2018

P/E



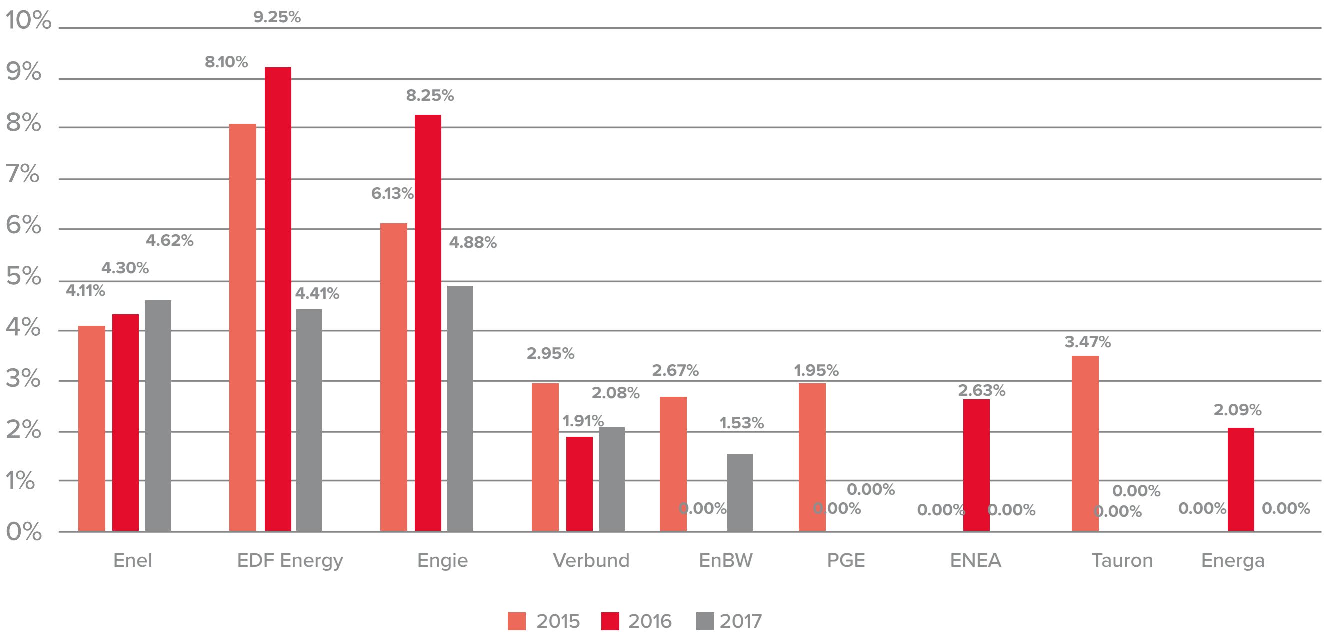
In terms of P/E valuation, top two positions go to Engie (France) and Verbund (Austria), followed by CEZ (Czech Republic). P/E ratio analysis lays open the weakness of Polish energy sector. Only German EnBW has a similar P/E valuation.

P/BV



Leaders in the price-to-book-value ranking are German EnBW, Austrian Verbund and Italian Enel. The average P/BV ratio for foreign companies is three times higher than for the Polish SOCs, occupying the last four positions. The analysed data clearly shows that political interference in the Polish state-owned companies from the energy sector substantially lowers their valuation. Frequent top management changes and implementation of projects enforced by the state have an adverse effect on these companies' financial standing.

Dividend yield



Most state-owned companies from the energy sector do not pay regular dividend. In particular, Czech CEZ (not included in the chart) did not pay any dividends in the analysed years whereas the Polish SOCs from the energy sector paid it only once in the analysed period – PGE and Tauron in 2015, and ENEA and Energa in 2016. However, zero profit distribution to shareholders can be put down to their substantial CAPEX programmes rather than poor financial condition. The Polish energy-sector SOCs did not pay regular dividend to shareholders due to the policy pursued by the Polish Ministry of Energy, which represents the interest of the state shareholder in them. According to the Ministry's policy, those companies' main objective is to focus on value creation and capital accumulation for investment purposes.

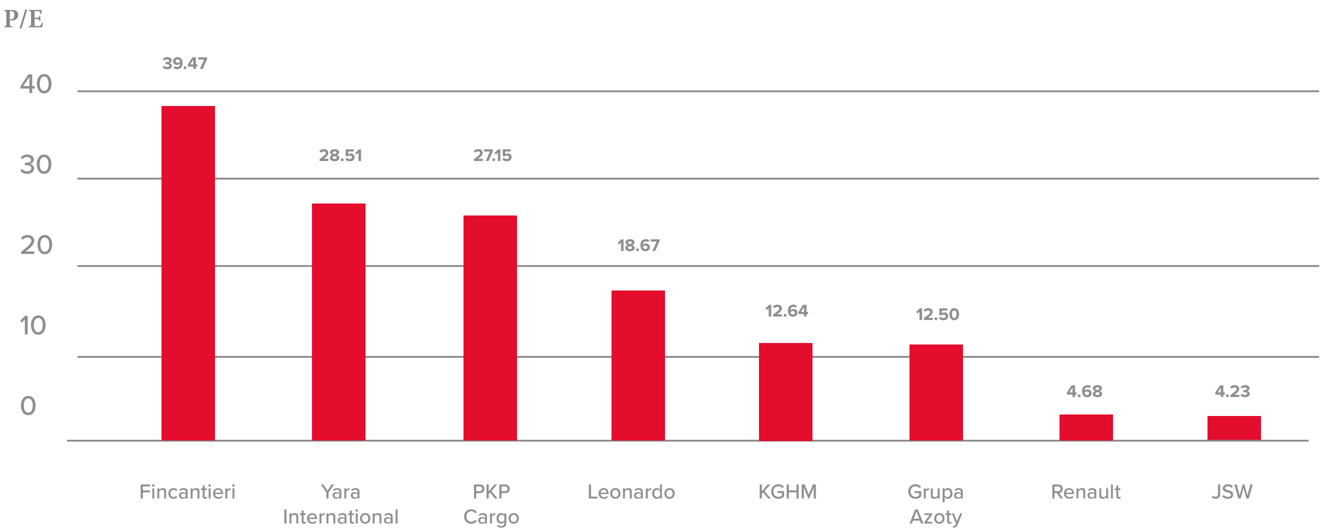
CEOs of the energy-sector companies analysed in the report serve on average more than 6 years, so presumably more than for just one term. Again, Polish companies stand out negatively with their CEO's average length of service more than three times shorter than for foreign companies, considerably deviating from the total average. For comparison, CEO of CEZ (Czech Republic) has been at the helm of the company from more than 7 years and CEO of Verbund (Austria) – for 6.5 years. Among the Polish SOCs, the highest CEO turnover rate is recorded for Tauron and Energa. Unsurprisingly, the average length of service for CEOs of Polish energy-sectors companies is just 1 year and 7 months.

Industry and mining

Company	Country	P/E**	P/BV**	Dividend yield			Free float*	Market cap in EUR million *
				2017	2016	2015		
Renault	France	4.68	0.79	4.23%	3.73%	2.59%	69.99%	16,132
Yara International	Norway	28.51	1.28	1.79%	3.05%	4.05%	58.90%	9,178
Leonardo	Italy	18.67	1.21	1.41%	1.05%	0.00%	69.80%	4,440
KGHM	Poland	12.64	1.12	0.90%	1.08%	2.36%	53.09%	4,137
JSW	Poland	4.23	1.68	0.00%	0.00%	0.00%	44.83%	1,838
Fincantieri	Italy	39.47	1.82	0.80%	0.00%	0.00%	28.36%	1,557
Grupa Azoty	Poland	12.50	0.83	1.80%	1.26%	0.84%	28.62%	720
PKP Cargo	Poland	27.15	0.67	0.00%	0.00%	0.00%	35.63%	458

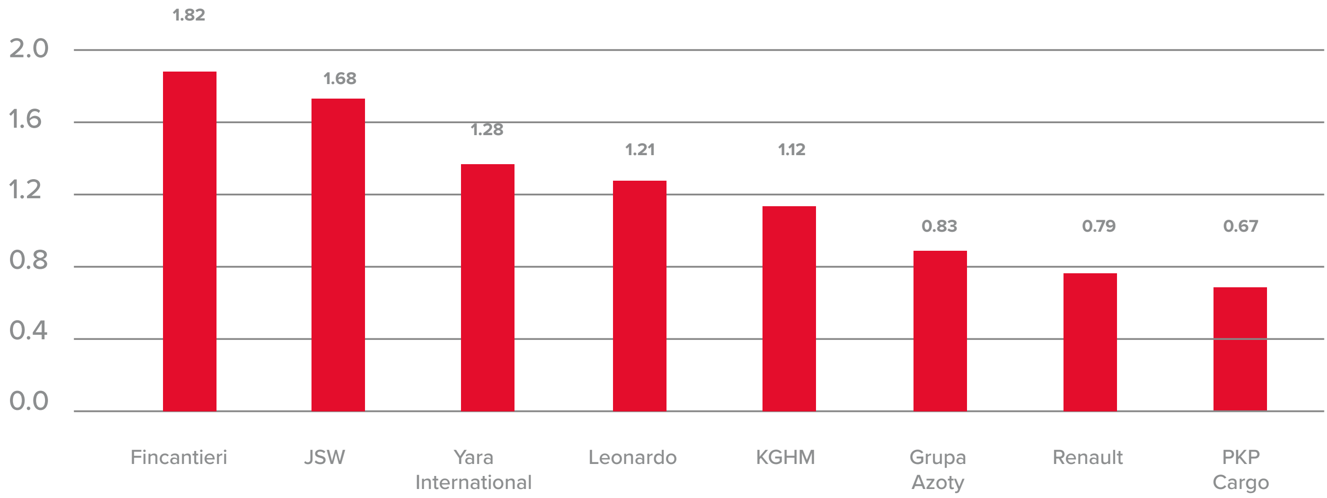
*as at 31 December 2018

**average in H1 2018



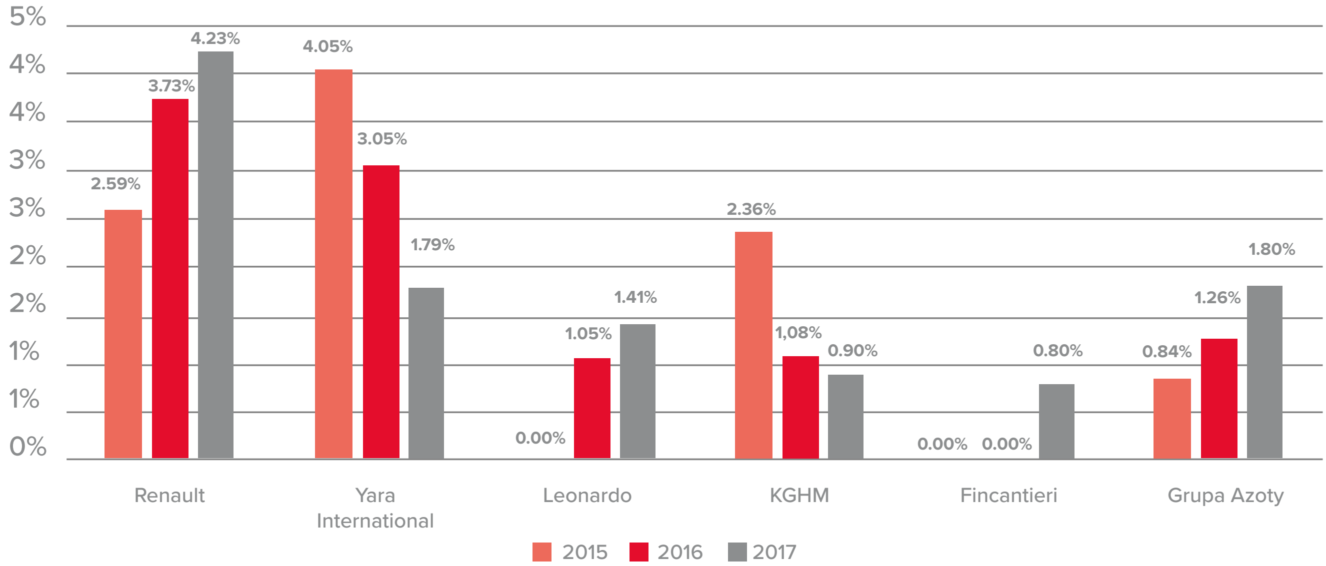
The price-to-earnings ratio for Polish PKP Cargo is relatively close to Italian Leonardo's, whose market cap and scale of operations are far greater than the Polish freight rail carrier. Similarly, JSW and Renault have an almost identical value of the P/E ratio, despite huge differences in the scale of their operations. Grupa Azoty, which is active in the same actor as Yara International, is valued at a considerable discount to this world-leading chemical company.

P/BV



Yet, the profit-to-book-value ratio has proved the strength of JSW on the back of coal prices hikes on international markets. Interestingly, both Grupa Azoty and PKP Cargo come close to Renault in terms of P/BV; this may come as a surprise since the market cap of the French car giant is more than 10 times higher. The leader in the Industry and Mining category is the Italian Fincantieri – again, surprisingly, as the company has paid hardly any dividend in the analysed years (see below) due to the ongoing restructuring.

Dividend yield



JSW and PKP Cargo are not presented in the dividend yield chart as neither company paid any dividend in the analysed period. There is a noticeable upward trend in the dividend rate for Grupa Azoty, Leonardo and Renault.
The average length of service for CEOs in foreign companies from this category is almost 8 years, while CEOs of the Polish SOCs serve on average for just over one year.

Telecommunication

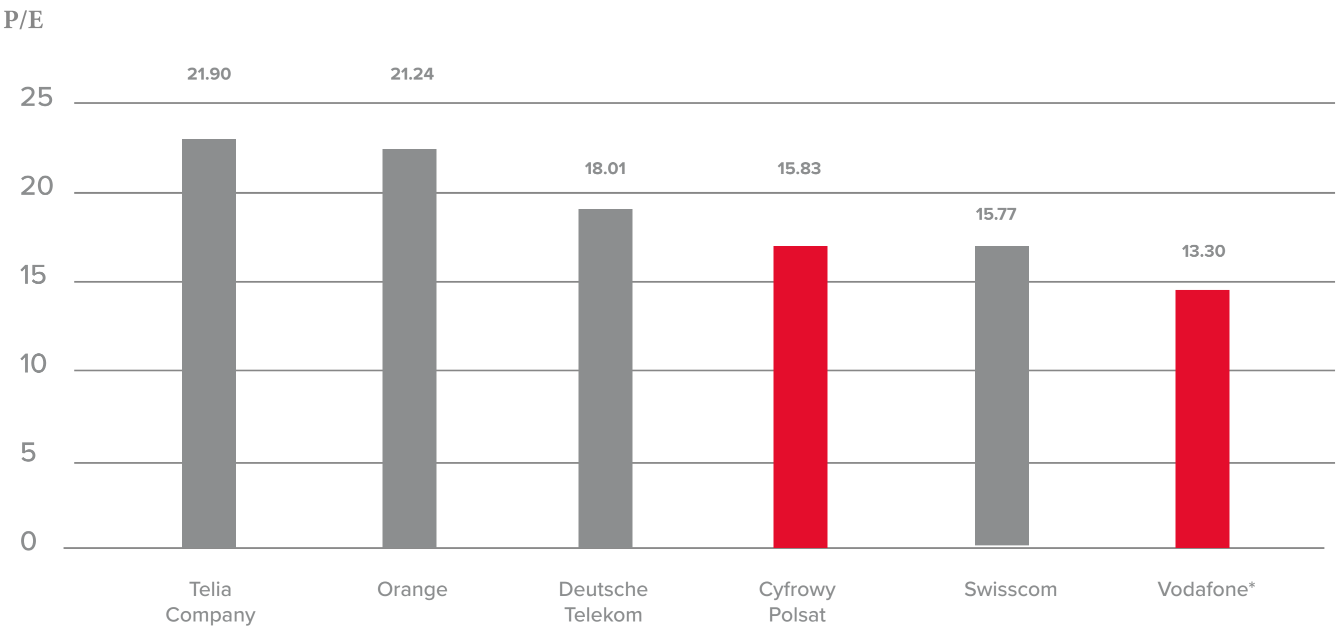
Company	Country	P/E**	P/BV**	Dividend yield			Free float*	Market cap in EUR million *
				2017	2016	2015		
Deutsche Telekom	Germany	18.01	2.07	4.39%	3.67%	3.30%	68.10%	70,565
Orange	France	21.24	1.55	4.49%	4.16%	3.87%	79.97%	37,640
Swisscom	Switzerland	15.77	3.10	4.24%	4.82%	4.37%	49.05%	21,537
Telia Company	Sweden	21.90	1.66	6.29%	5.45%	7.11%	62.70%	17,860
Vodafone***	UK	13.30	0.82	6.05%	5.24%	No data	75.31%	45,219
Cyfrowy Polsat	Poland	15.83	1.28	-	1.30%	-	34.03%	3,355

*as at 31 December 2018

**average in H1 2018

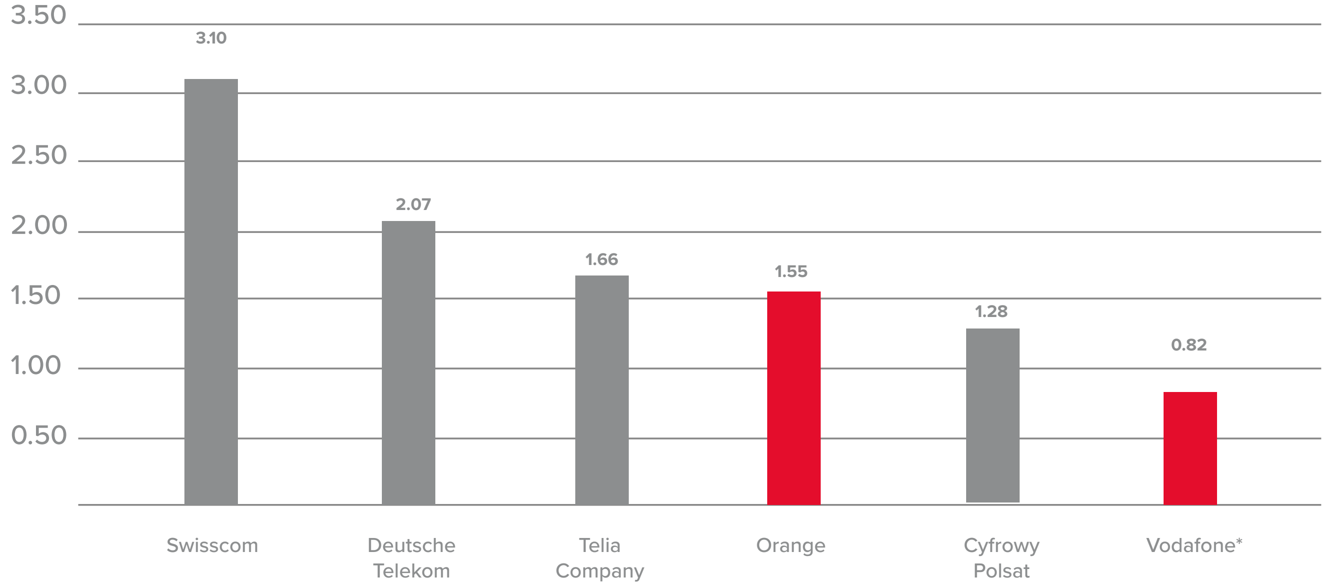
***due to the financial year ending on 31 March, data used for calculating the ratios was as at the end of March 2018

To get a fuller picture, two privately-held companies – Polish Cyfrowy Polsat and UK's Vodafone, a world-leading telecommunications group – were added to this Group.



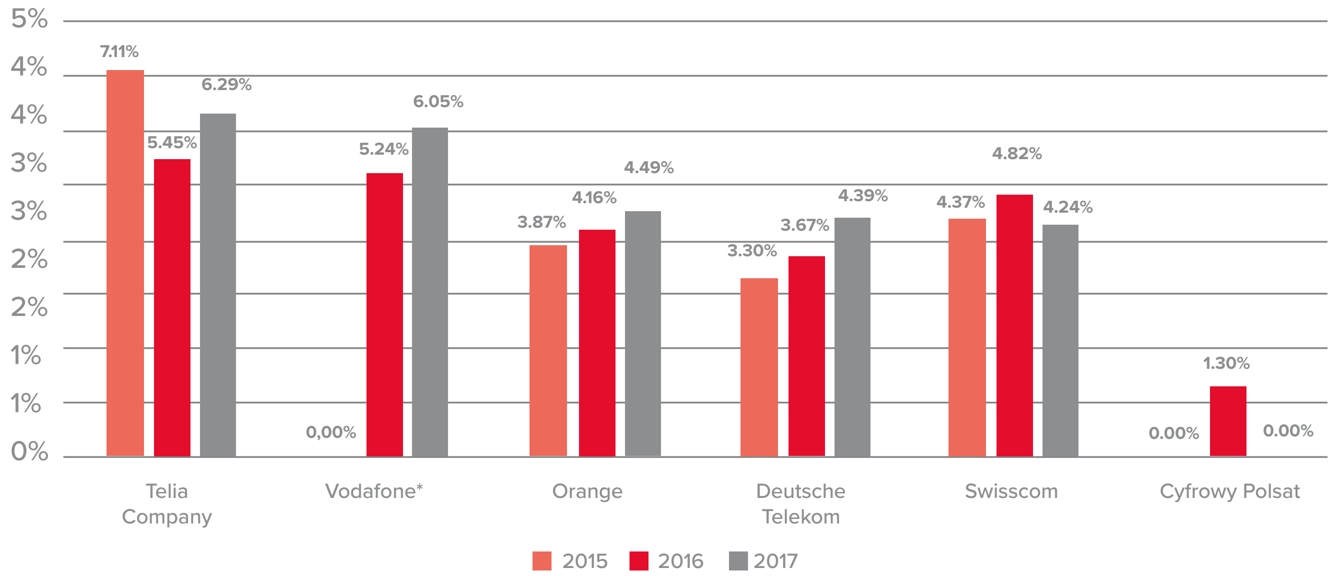
The P/E valuations are very similar for most companies, ranging from 21.9 for Telia Company (Sweden) to 13.3 for Vodafone (UK).

P/BV



When it comes to the price-to-book-value ratios, Swisscom's valuation is 50% higher than the second-highest ranking Deutsche Telekom. It is noteworthy that both privately-held companies – Cyfrowy Polsat and Vodafone – were closing the ranking although intuitively, due to their private, non-state shareholding, they should come higher in terms of P/BV.

Dividend yield



It should be stressed that telecommunications companies regularly pay relatively high dividend. For instance, Vodafone, which is rather low-valued in the ratio analysis, distributes relatively large part of its profits to shareholders. If paid, Polish Cyfrowy Polsat's dividends are quite modest in comparison to European companies.

Other

Company	Country	P/E**	P/BV**	Dividend yield			Free float*	Market cap in EUR million *
				2017	2016	2015		
Deutsche Post	Germany	15.95	3.46	2.89%	3.36%	3.27%	73.86%	29,565
Poste Ita-liane	Italy	13.66	1.25	6.69%	6.19%	4.79%	35.74%	9,117
Fraport	Germany	17.59	1.58	1.63%	2.67%	2.29%	35.20%	5,776
Air France KLM	France	20.03	1.34	0.00%	0.00%	0.00%	61.86%	4,063
Flughafen Wien	Austria	24.06	2.51	2.02%	2.67%	2.28%	11.84%	2,898
Oesterre-ichische Post	Austria	16.12	3.71	5.48%	6.27%	5.80%	47.20%	2,028
SAS	Sweden	5.66	1.64	0.00%	0.00%	0.00%	64.50%	782
GPW	Poland	11.13	2.14	4.68%	5.38%	6.56%	65.00%	358

*as at 31 December 2018

**average in H1 2018

Due to the great diversity of other companies, the authors decided not to classify them in the industry rankings and did not find any merit in comparing them.

6. State institutions holding shares in publicly-listed companies with partial state shareholding

In many European countries operate state or state-owned institutions acting as sovereign investment funds (sometimes also called sovereign wealth funds – SWF), or development or investment banks whose aim is to support the development of national economies. Many such institutions are also active on capital markets and invest, e.g. in shares of publicly listed companies. They may serve as a means of exercising indirect control over such companies by national governments.

6.1. Government Pension Fund of Norway (Norway)

The Government Pension Fund of Norway, the world-largest sovereign investment fund, holds assets worth in excess of EUR 830 billion. The fund is managed by Norges Bank Investment Management (NBIM), part of the Norwegian Central Bank, on the behalf of the Ministry of Finance. The Governor of the Norwegian Central Bank is Øystein Olsen and its headquarters is based in Oslo. It also has offices in London, New York, Singapore and Shanghai. The Government Pension Fund was established in 1990.

The fund holds long-term investments in more than 9,000 companies listed in 73 countries worldwide. Its potential investment targets are only companies already listed or planning an IPO in immediate future. According to the strategy, the capital involvement in one company is no more than 10%. The most valuable stakes held currently by the fund are in companies such as Apple, Amazon, Microsoft, Shell, Nestle, Roche and Facebook. As a rule, the fund does not invest in Norwegian companies to prevent overheating the national economy and to shelter it from the effects of oil price fluctuations.

The Norwegian Ministry of Finance has the ultimate say in deciding the portfolio shares of each investment area. Currently, 67.6% of the portfolio are equity, 29.7% bonds and 2.7% real estate. The formal framework for the fund was laid down by the Parliament, the Ministry of Finance has overall responsibility for the fund and issues guidelines for its management, and Norges Bank, via Norges Bank Investment Management, is responsible for operational management.

Although the name suggests directly that the money allocated in the fund is to be used for pensions, no pensions have been paid out from it as yet and until 2006 the fund was known as the Oil Fund. All revenue from Norway's oil and gas resources in the North Sea is transferred to the fund by the Ministry of Finance. The money is deposited at the Norwegian Central Bank. The objective of this largest pension fund in the world is to help finance the Norwegian welfare state for future generations, when the costs of pensions and welfare benefits become too high for the Norwegian budget. The government can withdraw up to 3% of the fund's value each year and the first withdrawal in its history was made in 2016.

6.2. KfW Group (Germany)

KfW Group is a German state-owned development bank, based in Frankfurt. It was established in 1948 as part of the Marshall Plan. As of 2017, KfW Group held assets of EUR 478 billion. The bank is run by a 5-member Management Board headed by CEO Dr. Günther Bräunig. The Management Board reports to the 36-member Supervisory Board. The Chair and Deputy Chair of the Supervisory Board are the German Federal Ministers of Finance and of Economic Affairs, with the positions alternating annually between them. As of March 2018, the Chair is Peter Altmaier, Federal Minister for Economic Affairs and Energy. KfW Group is co-owned by the Federal Republic of Germany (80 percent) and 16 German states (20 percent).
KfW Group supports German SMEs and start-ups. It promotes German enterprises which are committed to environmental protection and sustainability. The bank provides financing for infrastructural, environmental and educational projects as well as those crucial for the country's economic development both domestically and internationally.
KfW Group implements its strategy through the following subsidiaries:

- KfW IPEX-Bank GmbH – providing project and corporate finance and offers trade and export finance in Germany and abroad;
- DEG (Deutsche Investitions- und Entwicklungsgesellschaft mbH) – supporting private-sector enterprises operating in developing and emerging market countries;
- KfW Capital – supporting the development of the venture capital and venture debt funding landscape in Germany and Europe;
- Technologie-Beteiligungs-Gesellschaft mbH – financing offers for the seed and start-up phases as well as offers to sustainably improve the equity base of German SMEs;
- Finanzierungs- und Beratungsgesellschaft mbH (FuB) – handling special tasks associated with the economic transformation after German reunification;
- Deutsche Energie-Agentur GmbH – promoting the efficient and environmentally friendly production and use of energy including renewable energies.

The Bank provides loans and grants. It raises funds for its operations on the capital markets by issuing issues bonds and taking out loans. KfW Group has the best long-term foreign currency and bank deposit ratings and is considered the safest bank in the world. As a result, it is able to raise any amount of funds on international markets cheaply.
In its 70-year history, the bank has provided more than 1.7 trillion euros in loans to pursue its mission. The German government has used KfW to privatise state-owned enterprises. The German state sells its shares to KfW, which are then floated on the stock exchange. KfW hold a 20.53% stake of Deutsche Post and a 17.41% stake of Deutsche Telekom. Over the years, the German state has gradually divested itself of these companies. Officially, the aim is to fully privatise them. However, the government has an influence on the policies of both companies, as their supervisory boards include the Secretary of State from the Ministry of Finance and the President of KfW. The Federal Republic of Germany is responsible for KfW's commitments and liabilities. The profits of the companies in which the bank holds shares and the profits from investments are used for the day-to-day running of the bank and for financing further investments.

6.3. Cassa Depositi e Prestiti (Italy)

The Italian investment bank Cassa Depositi e Prestiti (CDP) manages assets of EUR 420 billion. The bank is headed by CEO Fabrizio Palermo. Its head office is located in Rome. CDP is one of the oldest investment banks in the world, its history dates back to 1850. Over 82% of shares are held by the Italian Ministry of Finance. The rest belongs to various bank foundations.

Key objectives of the bank's investment strategy are:

- financing public investment and supporting Italy's international economic cooperation and the growth of the national economy;
- supporting Italian companies in their foreign expansion and export activities;
- providing debt financing for infrastructure investments in Italy;
- providing assistance to enterprises affected by natural disasters;
- providing assistance to companies in obtaining financing from private banks;
- providing funds for venture capital investments;
- construction of social housing.

CDP invests the money deposited by the general public in the Italian Post Office's savings programme. 26 million Italians

participate in the programme and anyone can sign up. The fund promotes long-term savings in order to improve the livelihoods of Italian families and to support the country's economic development.
In 2016, CDP assumed the role of Italy's Financial Institution for Development Cooperation, which has enabled it to use EU funds and participate in projects financed through public-private partnerships.
CDP's Board of Directors is composed of 9 members representing, inter alia, the national and local government authorities. The Board is supported in its decisions by four internal committees with consulting and advisory functions: Strategic Committee, Risk Committee, Compensation Committee and Related Parties Committee, as well as a support Non-controlling Shareholders' Committee. In addition, there is also a Parliamentary Supervisory Committee made up of parliamentary members (representatives of the Chamber of Deputies and the Senate) and non-parliamentary members (representatives of the Council of State and the State Audit Court).

6.4. Polish Development Fund (PFR)

As of 2017, the Polish Development Fund (PFR) managed assets worth over PLN 5 billion. The Fund's President of the Board and CEO is Paweł Borys, and the head office is located in Warsaw. The owner is the State Treasury, both directly and through BGK Bank Gospodarstwa Krajowego, a state development bank. The fund was established in 2016 and is modelled on Western sovereign funds.

PFR is a wholly state-owned public listed company supporting the development of private enterprises and local governments, whose main objective is to promote sustainable, long-term economic development of the country and foreign expansion. The institution focuses mainly on infrastructure investments, development of innovativeness, entrepreneurship, promoting export and attracting foreign investors to Poland.

At the centre of PFR Group is the investment fund management company PFR TFI, within which operates the Foreign Expansion Fund. PFR TFI creates and manages investment funds and securities portfolios, while the Foreign Expansion Fund co-finances foreign investments of Polish companies with equity, mezzanine capital and secured loans. Foreign Expansion Fund limits its involvement in individual projects to a maximum of 50%.

One of PFR's largest and best-known investments was the purchase of Pekao Bank together with the partially state-owned insurance company PZU from the Italian UniCredit group in 2017.

7. Description of the reviewed companies

7.1. Austria

Flughafen Wien
The owner and operator of the Vienna International Airport. It is the country's largest airport and serves as the hub for Austrian Airlines and Eurowings Europe. n 2018, the airport handled 27 million passengers. Its headcount is less than 5,000.

Oesterreichische Post
Established in 1999, following the split-off from the mail corporate division of the former Austrian telecommunications concern Post und Telekom Austria. It offers parcel and courier delivery services. It employs approx. 20,500 staff.

OMV
One of the largest companies in Austria, operating in the oil and gas sector. It has a workforce of more than 20,000 employees. In 2008, OMV cancelled its acquisition plans of Hungarian MOL, where it owned a 20% share. Currently, almost 25 per cent of OMV's shares are held by Mubadala Petroleum and Petrochemicals Holding – a state-owned investment fund from Abu Dhabi.

Verbund
Austrian energy producer, operating in 12 countries. Its employment figure is approx. 3,000. 95 % of total energy generated comes from RES, i.e. wind and water.

7.2. Czech Republic

CEZ
Electricity producer, one of the 10 largest power groups in Europe, with shares traded on the Prague and Warsaw stock exchange. CEZ Group was formed in 2003, but the parent company ČEZ was created in 1992, by a state-owned fund. CEZ Group operates in Czech Republic, Bulgaria, Romania and Poland. CEZ Group companies employ more than 30,000 people.

7.3. France

Air France KLM
Air France KLM is the fourth largest airline in Europe. In 2004, Air France merged with Dutch KLM. The Group has more than 80,000 employees. In 2018, it operated a network

of 314 destinations in 116 countries. The Company's CEO is Ms. Anne Rigail (since 17th December 2018), who is the first woman in this position in the history of the company.

CNP Assurances
Founded more than 160 years ago, CNP Assurances is the largest insurance company in France. In 2018, it generated revenues of more than EUR 32.4 billion. It has 35 million customers and more than 5,000 employees worldwide. The company is ranked 15th in the world in respect of total assets under management.

EDF Energy
One of the world-leading energy companies. It serves approx. 35 million customers and employs more than 152,000 people worldwide. The annual electricity generation is 580 TWh – 77% of which comes from nuclear power plants. In 2017, Polish company PGE took over EDF's assets located in Poland for more than PLN 4.2 billion, changing the name from EDF Polska to PGE Energia Ciepła (acquisition of eight CHP plants).

Engie
French energy company with more than 150,000 employees in 70 countries. It has more than 24 million customers worldwide. Engie, alongside OMV, is a contractor of Nord Stream 2. Between 2009 and 2015, the company owned Połaniec Power Plant (Poland), which today belongs to ENEA (Polish energy group, also a state-owned companies).

Orange
One of the most important suppliers of telecom services in the world, the biggest in France. The company employs more than 151,000 all around the world. It is the majority shareholder of Orange Polska (formerly Telekomunikacja Polska).

Renault
One of the largest automobile manufacturers in the world, on par with Toyota, Volkswagen Group and General Motors. The company's headcount is over 180,000 employees worldwide. Together with Nissan and Mitsubishi, Renault forms an alliance (a strategic partnership) whose combined sales in 2017 reached 10.61 million vehicles around the world (1st rank in the world).

7.4. Germany

Commerzbank
23rd bank in Europe in terms of assets. It was founded in 1870 and employs more than 49,000 people. It operates in 50 countries and has 18 million customers. It provides financing for 30% of German foreign trade.

Deutsche Telekom
One of the 10 largest telecom companies in the world. Its headcount is more than 200,000. The company owns the T-Mobile trademark (present in Poland after acquisition of Era GSM).

DHL Deutsche Post
Fourth largest delivery company in the world in terms of market value. It employs more than 550,000 people in 220 countries. It is the legal successor of the privatised Deutsche Bundespost. In 2002, it merged with DHL.

EnBW
One of the largest energy companies in Germany and Europe, with more than 5.5 million customers. It operates in 12 countries, employing more than 21,000. In 2010, French EDF sold 45% of shares in the company and ceased to be a major shareholder.

Fraport
Co-owner (more than 50%) and operator of the largest German airport located in Frankfurt. The Frankfurt Airport handles about 120 million passengers per year. Fraport employs more than 80,000 people.

7.5. Hungary

MOL
Oil and gas company, operating in 30 countries and employing around 25,000 people worldwide. It produces around 100,000 barrels of crude oil per day. For many years, the major shareholder in MOL was Austrian OMV. Currently, more than 7% of shares are held by Oman Oil – an energy sector investment company wholly owned by the government of Oman.

7.6. Italy

Eni
One of the 10 largest fuel producers in the world. It operates in 71 countries and employs 33,000 people. Eni holds a 20% equity interest in ADNOC Refining, part of Abu Dhabi National Oil Company Group, operator of the Ruwais and Abu Dhabi refineries, which was acquired for USD 3.3 billion in January 2019.

Enel
Energy producer and global leader on energy, gas and renewables market. The company operates in 34 countries, employs 69,000 people worldwide, produces 89 GW of energy annually, supplying it to 73 million customers.

Fincantieri
One of the world's largest shipbuilding groups with over 230 years of history. It produces cruise ships, naval vessels, offshore units, ferries and mega yachts. It employs over 8,600 employees and generates an annual turnover of EUR 4.6 billion.

Leonardo
Operates in aerospace and defence industry. It employs 46,000 people worldwide. Main markets are Italy, UK, USA and Poland. It is the owner of the Polish helicopter manufacturer PZL-Świdnik.

Poste Italiane
Italian postal operator, established more than 50 years ago. The company has 13,000 post offices in Italy and employs more than 138,000 people. Annually, more than 34 million customers by the company's 30,000 postmen and postwomen.

7.7. Norway

Equinor
Norwegian oil and gas company, one of the largest in the world. It employs more than 20,000 people and has operations in 30 countries around the world, producing more than 2 million barrels of crude oil daily. Equinor was formerly known as Statoil.

Yara International
One of the 10 biggest fertilizer producers in the world, established in 1905. In 2018, it generated the revenue of almost USD 13 billion, with employment reaching 17,000 people.

DNB
Norway's largest investment bank, serving 2.1 million customers in Norway, with more than 9,000 employees. DNB is the largest shareholder of Oslo Stock Exchange (around 20 per cent share).

7.8. Poland

Alior Bank
Polish bank, established in 2008, currently its largest shareholder is PZU – another state-owned company analysed in the report. It has 4 million customers and holds PLN 50 billion in customer deposits. Its headcount is around 8,000.

Bank Pekao
One of leading Polish banks, established in 1929. Second in Poland in terms of assets (PLN 190 billion). It has more than 17,000 employees.

ENEA
ENEA is one of four main energy groups in Poland. It supplies electricity to 2.5 million customers through a distribution network covering 20% of Poland's area. It has approx. 16,000 employees.

Energa
Energa's core business is production, distribution and sale of electricity, heat and natural gas. It has around 10,000 employees and 3 million customers. It distributes more than 20 TWh of energy per year.

GPW
GPW (Warsaw Stock Exchange, WSE) is the biggest trading floor in the CEE region. The number of companies listed on WSE exceeds 460 and their aggregated market capitalisation is PLN 1.2 billion. It employs only 340 people.

Grupa Azoty
One of the leading players on the fertilizer and chemical markets in Europe and the largest one in Poland. Currently, Grupa Azoty occupies second position in EU in terms of production of nitrogen and compound fertilisers. In 2017, the company recorded revenues of PLN 9.6 billion, with the headcount of around 14,000.

JSW
The largest producer of coking coal in Poland and a major producer of coke in the EU. Established in 1993, it produces more than 14 million tonnes of coking coal per year, employing more than 28,000 people.

KGHM
Polish mining and resources processing company, operating production plants in Europe, and South and North America. It is the 6th largest copper producer and the largest silver producer in the world. Its headcount is 34,000.

LOTOS
Deals with exploration, extraction and processing of crude oil, and distribution of petroleum products. In 2018, it generated sales revenues in excess of PLN 30 billion. It employs around 5,000 people.

PGE
The largest energy company in Poland. It supplies electricity to more than 5 million customers and has more than 40,000 employees. Total length of PGE's power lines is just short of 300,000 km and its installed power capacity exceeds 16 GW.

PGNiG
Natural gas market leader in Poland. In 2018, it posted revenues of PLN 41 billion. It is one of Poland's largest employers,

with around 25,000 employees all over the world.

PKO BP
Established in 1919, currently the largest bank in Poland. Assets under management are worth PLN 300 billion. It has around 28,000 employees.

PKN Orlen
Polish oil and gas group. It operates 6 refineries and owns the largest station network in the CEE region (2.7 thousand stations in Poland, Czech Republic, Germany and Lithuania). It employs approx. 22,000 people. As the only Polish company, it is listed in the prestigious "Fortune Global 500" ranking of the top 500 corporations worldwide.

PKP Cargo
The largest in Poland and Europe's second-largest railway freight transport operator. It generates revenues of PLN 4.7 billion, carrying around 120 million tonnes of goods annual`ly. It operates 2,500 locomotives and employs around 23,000 people.

PZU
The largest financial institution in Poland and in the CEE region. Its history dates back to 1803. It manages assets worth PLN 300 billion. It hires more than 43 thousand employees.

Tauron
The second largest energy producer in Poland and one of the country's main electricity distributors. It controls 30 per cent of Polish coal reserves. The company's headcount is around 25,000.

7.9. Sweden

SAS
One of the largest airlines in Europe. Its shareholders are the governments of Sweden and Denmark. It carries about 30 million passengers a year. It is one of the few companies in the world to be simultaneously listed on three stock exchanges, in Stockholm, Oslo and Copenhagen. The company employs over 10 thousand people.

Telia Company
Swedish telecom company, operating in Scandinavia and Baltic states. It generates the annual turnover of around USD 10 billion, with the headcount of almost 21,000.

7.10. Switzerland

Swisscom
Swiss telecom company, which generated revenues of USD 11.5 billion in 2018. It operates mainly in Switzerland and Italy. It employs approx. 20,000 people.

7.11. UK

RBS
Commercial bank established in Edinburgh in 1727. It has almost 19 million customers worldwide and is ranked 12th in Europe in terms of assets. Its headcount is more than 67,000.

8. Methodology

Selection criteria for companies:
1) Public listed company;
2) State ownership or other state-controlled ownership of a significant stake in the company, which gives dominant influence on its operations (the largest share in votes at GM);
3) Market cap – no less than EUR 350 million;
4) Company domiciled within the European regulatory regime.

Ratio analysis criteria
1) Market cap as at 31 December 2018 – the number of publicly traded shares times the share price as at 31 December 2018;
2) P/E ratio – the average value during H1 2018, calculated as the average share price relative to net earnings per share;
3) P/BV ratio – the average value during H1 2018, calculated as the current market capitalisation relative to the book value of equity;
4) Free float – the number of free-float shares held by investors with less than 5% of shares in trading;
5) Dividend yield – as reported for the financial years 2015, 2016, 2017, calculated as the dividend paid per share relative to the share price.

Source: Reuters, Yahoo Finance, company websites

Analysis of organisational management
1) CEO's average length of service – the arithmetic mean length of service of the last three CEOs/Presidents of the Board.

Source: company websites, Bankier.pl

For the sake of simplicity, the term 'State-Owned Company' (SOC) has been coined to refer to any public listed company with state-controlled shareholding. Another term sometimes used in economic literature – the State-Owned Enterprise – has been deliberately avoided due to its ambiguity as to the legal form of such enterprise.

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