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Energy & Natural Resources - Croatia



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MOL offer to purchase INA shares raises concerns for energy sector

On December 2 2010 MOL announced an offer to purchase the shares owned by the small stockholders of INA (the national oil and gas company) at a price of Kuna2,800 a share. The offer was seen as a hostile takeover attempt against INA, as MOL failed to notify the government of its offer, and was considered to be inconsistent with the shareholders' agreement signed between the government and MOL. MOL's offer was approximately 60% higher than the trading price of INA's shares on the Zagreb Stock Exchange one week before the offer was made. Therefore, on December 3 2010 the Croatian Financial Services Supervisory Agency (HANFA) suspended trading of INA's stocks until December 14 2010.

INA was privatised in 2003 under the INA Privatisation Act 2002. As part of the privatisation process, MOL took over 25% of INA plus one share and signed a shareholders' agreement with the government. In December 2006 the government issued an initial public offering and sold another 17% of INA. In a further privatisation process, MOL increased its share to the current 47.155%, with the government's shares being reduced to 44.836% and institutional and private investors holding 8.009% of the shares. In the meantime, the shareholders' agreement was amended, enabling MOL to gain disproportionately high management rights in relation to its ownership stake. There has been speculation that MOL controls more than 50% of INA shares through some institutional investors, and that non-transparent disposals of INA shares were made by the Croatian government in favour of MOL (INA shares were given as security to the Hungarian OTP bank for loan facilities granted to Podravka, a state-owned company). The dealings between the government and MOL during the INA privatisation process were examined in an investigation conducted by parliamentary special committee. The dealings were also linked to the former deputy prime minister and minister of economy, and the former prime minister, both of whom are facing criminal charges for corruption.

MOL's ownership structure is also of interest. After in 2007 the Hungarian government – through legislative intervention – enabled OMV's merger offer, which was considered to be a hostile takeover of MOL, OMV sold its MOL shares (21%) to Russian firm Surgutneftegas. Surgutneftegas cannot exercise shareholders' rights on legislative grounds and, according to reports, the issue will be brought to arbitration. Through its part ownership of MOL, Surgutneftegas has part ownership of INA.

Although the Croatian government announced that it would urgently issue an official position regarding MOL's offer, this did not happen until one week after the offer. The delay may be because Hungary, whose government strongly supports MOL, took over the EU presidency on January 1 2011. Hungary's six-month presidency will be crucial for Croatia's admission into the European Union. Due to the INA-MOL situation, arrangements regarding the official visit of the Hungarian president to Croatia have been postponed by the Hungarian government. In order to prevent any possible obstacles to accession into the European Union during the Hungarian presidency, the government defended INA's interests not by special legislation, but rather by capital market mechanisms used to defend against hostile takeovers. Consequently, since December 14 2010, when trading of INA shares on Zagreb Stock Exchange reopened, the purchase price has varied from Kuna2,830 to Kuna2,850 – slightly more than MOL's offer.

INA plays a key role in national energy strategy as an operator of significant energy projects (for further details please see "[Tender for feasibility study for South Stream pipeline](#)" and "[Government approves new energy investment projects](#)"). Croatian-Hungarian relations in the energy sector have been further strengthened by the recent issue of a use permit for the Croatian-Hungarian pipeline. With regard to Russian interests, Croatia is striving to join the South Stream pipeline project. This project has become of strategic interest for Croatia since the liquefied natural gas terminal project on the island of Krk was postponed (for further details please see "[Tender announcement due for new floating LNG terminal](#)"). In addition, certain issues still need to be resolved regarding the INA gas supply, but the government has an option to take it back. Following the privatisation of INA, a tender process awarded the gas supply for three years to Italian firm ENI SpA, rather than to the traditional Russian suppliers.

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