

Special Session 3

Greek Motorway Concessions in Distress:

Towards the Re-Set

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The importance of the Re - Set

- The swift and problem-free implementation of the four problematic concessions is very important for the development of the Greek economy and the increase in employment.
- By boosting these investments, which have already been launched but are presently at a standstill, the country can ensure “fast wins” and attract new investments.

The complexity of the Re - Set

- Interrelationships between the concessionaires with regard to their shareholders and their contractors and banking group overlaps complicate the issues:
 - There are Sponsors with investment interests in more than one concessions.
 - There are Constructors with interests in more than one concessions.
 - Lenders participate in the funding schemes for more than one concessions.

The complexity of the Re - Set

- The European Commission's role is twofold:
 - Provides financial support through the structural funds.
 - Safeguards the compliance to market and competition rules.
- Recapitalization of the Greek banks (which provide 50% of loans) is under way.
- Internationally, many lending institutions have decreased their appetite for project finance.
- Substantial existing loan commitments and claims.

Stakeholders' interests

- The State's priority is the socio-economic benefit and achievement of the “best value for money”.
- Sponsors' interest lies in the actual profitability of the project.
- Lenders' interest is to ensure adequate funds for construction and the repayment of the debt - i.e. the financial viability of the project which depends on the revenues generated during the construction and operation period.

Stakeholders' interests rebalance

- The expectations of each of the three parties in the concession agreements (State, Concessionaires and Banks) have not been fulfilled.
- To avoid termination and lengthy legal disputes, all parties have to lower their expectations and allow a Lose-Lose compromise at a lower potential level than the base scenario by also maintaining the contractual equilibrium in risk sharing.

Inherent Problems

- Motorway planned in road sections with projected low traffic volume, e.g. Pyrgos - Tsakona, Lefktro - Sparti Sections
 - **Consequence** : Project budgets increase significantly
- Construction of many projects / sections in a short time
 - **Consequence** : front - loaded loan program
- Project's basic design open to improvement
 - **Consequence** : Delays in State consent & implementation
- Environmental issues post contact execution
 - **Consequence** : Project Scope changes and delays

Inherent Problems

- State's commitments difficult to implement on time, e.g. 12 months for the delivery of project sites
 - **Consequence** : Concessionaire delay claims
- Toll rates increase for incomplete sections in operation, e.g. Korinthos - Patra, Tempi Valley
 - **Consequence** : User dissatisfaction / Activism
- Operation of open toll collection system leading to disproportional charging of commuters
 - **Consequence** : User dissatisfaction / Activism

Problems during Implementation - Delays

Concessionaires' delays in the:

- final design completion.
- preparation of environmental permit files.
- mobilization of the appropriate construction capacity.

Problems during Implementation - Delays

State delays in the:

- delivery of projects sites,
- Relocation of utilities networks,
- completion of archeological investigations,
- environmental permits issuance,
- refunding of VAT,

that have led to claims by the Concessionaires and their Contractors.

Problems during Implementation - Claims

Concessionaires (directly):

- Loss of revenue
- Operation Costs
- Financing Costs

Contractors (indirectly)

- Construction Costs
- Personnel Costs
- Inflation impact

Problems during Implementation - State Reaction

The Greek State took action in order to:

- Accelerate works progress
- Ensure necessary liquidity
- Address the toll payment violation issue

Problems during Implementation - State Reaction

- A special legal procedure was applied to accelerate expropriations (Olympics Games Law).
- A law accelerating archaeological investigations was voted.
- State Financial Contribution payments have been linked to works progress (in case of Delays caused by the State).

Problems during Implementation - State Reaction

- VAT refunds have been accelerated.
- Legislative arrangements have been made to deal with toll payment violators (administrative sanctions).

As a result, there are no further impacts due to delays.

Problems during Implementation - Financial

- In the last three years the country's economic and fiscal conditions changed dramatically.
- The financial capacity of the country and its citizens has substantially deteriorated.
- Interest rates increased.
- Loan tenors were shortened.
- By mid 2010 serious traffic decline became apparent.

Problems during Implementation - Financial

- The banks have been bound to finance the projects with low margins, compared to the margins the Greek State can obtain nowadays in the capital markets.
- The Greek banks borrow funds at higher interest rates than the rates they are receiving on the projects.
- Certain foreign banks question the ability of the State to honor its contractual obligations.

Problems during Implementation - Financial

In view of these new conditions, by mid 2010, loan draw-downs were suspended for four out of five concession contracts.

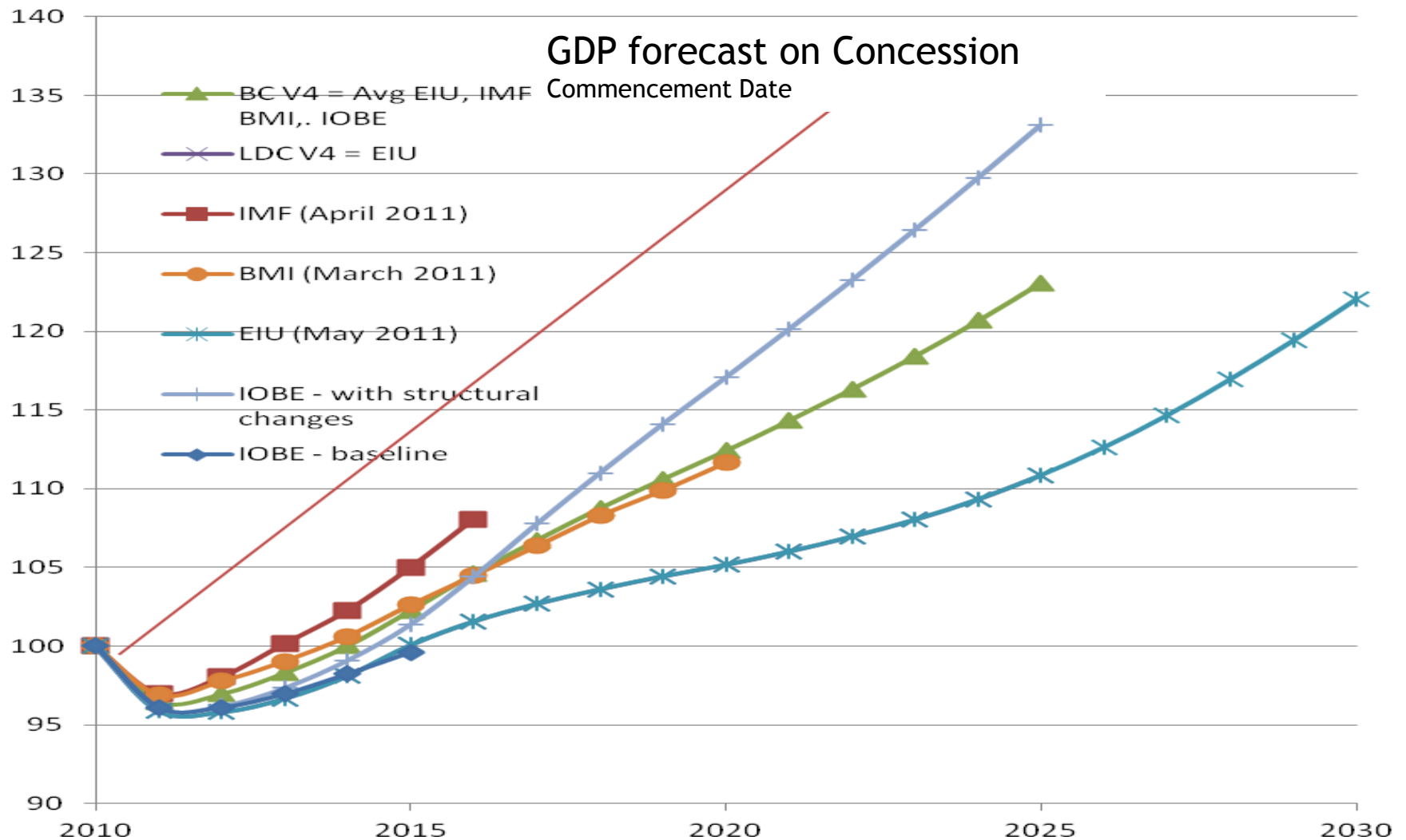
Suspension of Construction works followed soon after.

Problems during Implementation - Financial

New projections of long-term traffic, driven by revisions to the forecasts for the economy's growth rate, led to significantly lower revenues expected for the future.

In combination with the lenders' expressed desire to maintain viability of the investments and increase loan interest margins, the above has further led to forecasted funding shortfalls for the projects.

Problems during Implementation - Financial



Problems during Implementation - Financial

It should however be stressed, that GDP and consequently traffic forecasts are made at a maximum on a 5 year forward looking period.

The remaining forecast is generated simply by linear extrapolation.

Therefore, the State should not bind itself in overly pessimistic scenarios that have been produced in the middle of the worst crisis of the last thirty years.

The negotiation framework - FoU

In order to start negotiations, the State and the Concessionaires, signed a Framework of Understanding (FoU) in June 2011.

The FoU sets the principles to be followed:

- Minimization of amendments to the contractual provisions.
- Respect for the general principles of the EU Treaty.

The negotiation framework - FoU

- Finalization of the project designs/alternative designs.
- Re-determination and agreement on the revenues forecasts, during construction and operation period.
- Identification and agreement on outstanding claims and on conditions to be set for their payment.
- Re-evaluation of project operation cost in combination with the new toll policy (interoperability / electronic tolling).
- Agreement on the new toll policy impact on the projects' revenues.

The negotiation framework - FoU

- Re-evaluation of the projects financing needs and the respective lenders' positions.
- Re-evaluation of the possibility of servicing the Project's loans after the above interventions.
- Investigation of the optimum economic and legal methodology of utilization of the expected State revenues for ensuring (if necessary) repayment of loans.
- Determination of the conditions (economic - time) for recovery by the State of its revenues used according to the above.

The negotiation framework - FoU

- Elaboration and agreement on an Updated Financial Model, which will incorporate all the above.
- Identification, evaluation and agreement on the necessary modifications to contractual documents, including the Designated Loan Agreements.
- New planned toll policy to alleviate the users.
- Adoption of a proportionate electronic toll system.

Toll Policy Adjustment

The Greek State additionally intends to proceed with changes to the Toll Policy with the aim to make it more fair and equitable without however impacting the projects revenues in an adverse manner.

The users are the client of the motorways, so the Concessionaires and the State have to keep them satisfied. This has not always been the case.

Toll Policy Adjustment

At present, no directly proportional charging of users (with respect to the distance travelled) is applied, as a result of the implementation of the open toll collection system.

Specific short trips (especially by the frequent users) are deemed to be charged unfairly.

Toll Policy Adjustment

Additionally, there is no balance between the level of toll rates and the level of service provided in some road sections. More specifically, there are road sections under construction, where the service level has not yet been improved compared to the past; however users are unjustifiably burdened with increased toll rates.

This contradictory situation has been aggravated after the suspension of the construction works.

Toll Policy Adjustment

Furthermore, there are areas where there is no reliable alternative road network; therefore local residents are obliged to be burdened with the use of the motorway, even for short distance trips.

The problem is exacerbated in the case of frequent users.

Toll Policy Adjustment

A medium term goal of the State is the implementation of an exclusively Electronic Interoperable Toll Collection System (EITCS) at national and European level, with free flow of vehicles and fully proportional charging of road users on the basis of distance travelled.

Toll Policy Adjustment

By this collection system:

- All problems deriving from the frequent vehicle stops for toll payments will be resolved.
- The application of the proportional and more fair charging of road users with the distance travelled will be accomplished.
- The users' complains will be reduced, without any further burden for the Greek State.

Toll Policy Adjustment

Preconditions for the achievement of this goal are:

- The obligation of all motorway users to possess an electronic transponder (tag).
- The full interoperability among the Concessionaires systems.
- The creation of a comprehensive integrated State database of all Greek-registered vehicles, as well as all other vehicles circulating in the country.
- The systematic control of EITCS violators, based on new effective regulations.

Toll Policy Adjustment

Short term : Prompt implementation of the contractual toll levels with corrections of potential weaknesses - where required

- in accordance with the following principles:

- Connection of the toll level to the offered service level (increase of tolls rates after improvement of the service level, or reduction to the original toll rates wherever improvement of the service level has not yet occurred).
- Limitation of the financial burden of frequent users making short journeys and using e-tags.

Toll Policy Adjustment

- Limitation of social reaction caused by successive increases in toll charges (combination of the price adjustments to the changes in the service level and charging status at specific dates and their implementation if possible once a year for all Concessionaires simultaneously).
- Ensuring adequate revenue flow to the projects for the avoidance (or reduction) of the funding shortfall of the construction period.

The negotiation framework - Post FoU

- Work Groups were setup and worked on the details under the following disciplines:
 - Technical
 - Legal
 - Financial
 - Toll
- Technical solutions / adjustments to basic design were broadly agreed

The negotiation framework - Post FoU

- An analytical status and options assessment report was prepared and presented / discussed with the appropriate government and EU Commission bodies.
- Financial, Legal and Technical advisors were mandated by the State (Hellenic Republic Asset Development Fund) to support the effort.
- The discussions regarding potential additional support (e.g. Risk Sharing Instruments) sponsored by the EU were initiated by the Ministry of Development and the Ministry of Infrastructure, Transport and Networks.

Negotiation Axes

Three axes for the Re-Set discussions:

- Technical Scope / Technical Modifications / Construction Duration / Claims.
- Sponsors viability (Internal Rate of Return - IRR).
- Lenders exposure / debt service / interest cost.

The following principles should be followed by the State in order to determine the limits of negotiations with the Concessionaires:

- Application of State revenues as loan support under the self - finance principle for each (high traffic) project.
- Reassurance that the State will have priority in the recovery of the amounts granted to the projects to assist them to resolve their financial problems, in particular in case of an improvement in traffic revenues.

Negotiation Principles

- The operation and maintenance cost will be capped and the Concessionaire will commit to not exceeding that level, as long as the project State loan is outstanding.
- Decrease of shareholders IRR compared to that of the base case scenario at concession commencement.
- The Contractors' claims will be handled outside the contract re-equilibrium, according to the contractual provisions.
- The Greek State must secure the necessary additional funds to compensate claims.

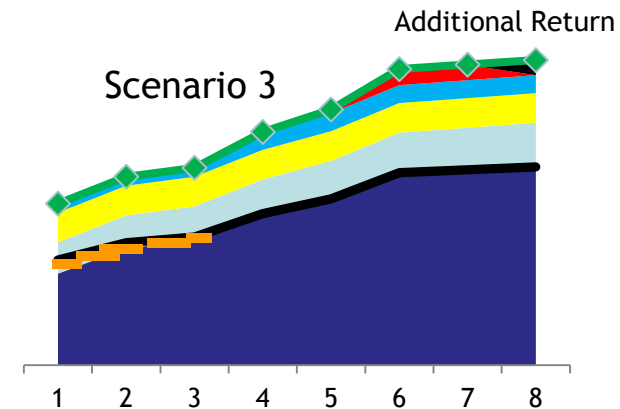
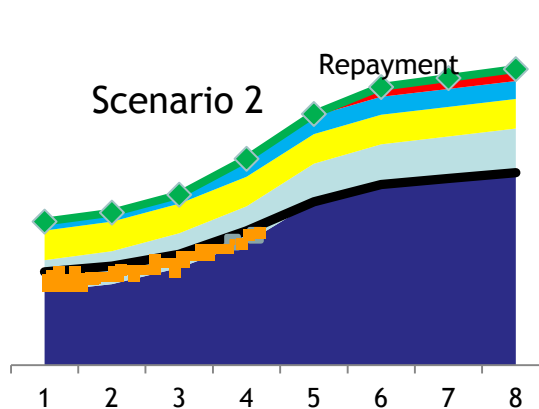
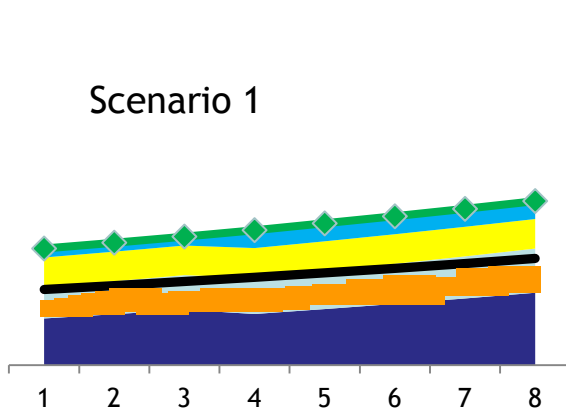
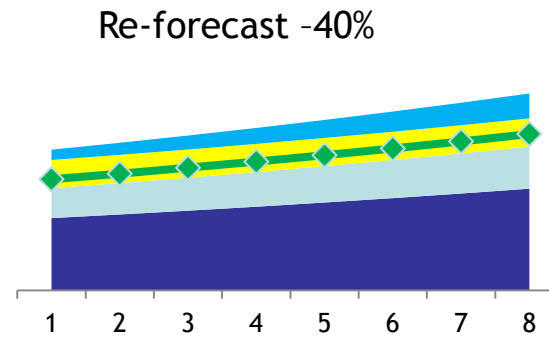
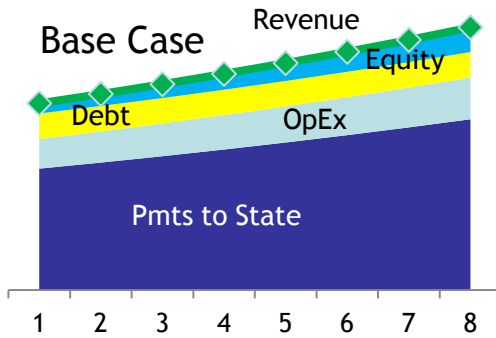
Interventions in the Loan Agreements

Appropriate interventions in the loan agreements are needed in order to keep the debt pricing at relatively low levels.

Indicatively:

- Reduce the Loan Capital by decreasing project scope.
- Reduce the Average Loan Life through “cash sweeps” in order to reduce the Lenders’ exposure.
- Improve loan security in the case of projects subsidised during operation period by making available State toll revenues from another project to service the contractual State subsidy.

Re-Set Illustration



■ State Support

Current status

- So far the following have been achieved:
 - Technical modifications discussions completed.
 - Technical scope determined for one project, pending on the second.
 - Discussions on claims well advanced on two of the four projects; progressing on the other two.
 - Financial analysis of Re-Set solution determined and well advanced.
 - Legal form of Re-Set Solution discussions well advanced.

The way forward

- IRR - Sponsors Re-Set.
- Banks Re-Set: Greek bank re-capitalisation a prerequisite.
- Target: global agreement of the solution by end of July.
- EU final approval and parliamentary ratification by October.

Thank you for your patience