

# THE PRIVATISATION OF THE PUBLIC POWER CORPORATION OF GREECE

A BRIEF PRESENTATION

S. TRAVLOS - JULY 2012

# PPC A SHADOW OF ITS PAST

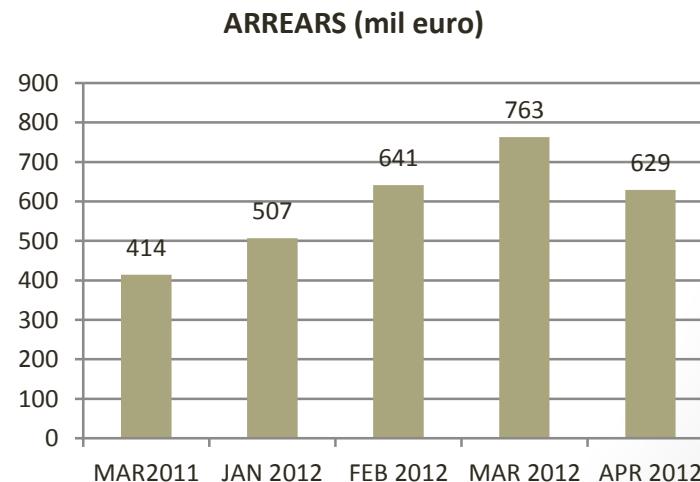
- PPC controls 70% of the wholesale market and 99% of the retail market.
- It runs 103 power stations, owns the national power transmission system of 12,093 km, as well as a power distribution network of 226,456 km.
- The state has a 51.12% stake in the company and the trade union another 3.81%. The largest private shareholder is the Silchester International Investors LLP with a total of 13.80% of the free float.

Despite its unassailable monopoly position PPC has declined. Its capitalisation has dwindled to 433 million euro a fraction of its value in 2009.

# FINANCIAL RESULTS 1RST QUARTER 2012

- EBITDA 232 million in the first quarter 2012 down 29% compared to the same quarter 2011.
- Payroll expense at 235.4 down by 17.5%.
- Total revenue at 1549.8 million euro up by 17% compared to the same quarter 2011.
  - 54.8% of revenue for fuel costs compared to 35.3% in 2011.
  - 15.2% of revenues for payroll compared with 20.8% in 2011.

	Q1 2012	Q1 2011	CHANGE Q1-12/Q-111
REVENUES	1549.8	1374.4	17%
PAYROLL	235.4	285.5	-17.5%
ENERGY PURCHASES	432.1	193.5	123.3%
EBITDA	232	327.6	-29.2%



# FINANCIAL TROUBLES MOUNT

- PPC has almost fully depleted its liquidity, owing to sharply falling earnings, climbing overdue receivables, and the absence of new credit facilities.
- Greek banks rolled over 525 mln euros of PPC loans which were maturing at end-June with an average weighted 9% interest rate on the 29<sup>th</sup> of June.
- PPC still has about 500 million euros maturing at the end of this year.
- The Greek electricity market operator has applied to the Greek Deposits and Loans Fund for a 300 million-euro loan to pay off its debt to PPC and other energy companies, which in turn owe 300 million euros to Greece's gas company DEPA.

# LIBERALISATION AND PRIVATISATION HAS BEEN IMPOSED

- **TROIKA HAS IMPOSED CONCRETE MEASURES FOR ENHANCING COMPETITION AND ACCELERATING PRIVATISATION IN THE FEBRUARY 2012 MOU.**
- Unbundling of network activities the Government ensures that network activities are effectively unbundled from supply activities.
- In particular, for electricity:
  - All the necessary transfers of staff and assets of the transmission system operator (TSO) are completed; the TSO management, its supervisory body and the compliance officer are appointed in accordance with the Electricity Directive 2009/72/EC. **[February 2012]**
  - All necessary transfers of staff and assets to the legally unbundled distribution system operator (DSO) are completed. **[Q1-2012]**
    - The unbundled TSO is certified by the Greek energy regulator. **[Q2-2012]**
- The Government commits to launch the privatisation of PPC and DEPA following the unbundling of the TSOs in line with the commitments of this memorandum and monitors the process to ensure competition in the market.

# COMPETITION WILL BE ENHANCED

- The Government finalises the remedies to ensure the access of third-parties to lignite-fired electricity generation. **[Q1-2012]**
- The Government starts implementing the measures ensuring the access by third parties to lignite-fired electricity generation. **[Q3-2012]**
- The implementation of the measures to ensure access by competitors of PPC to lignite-fired electricity generation is completed. Third parties can effectively use lignite-fired generation in the Greek market. **[November 2013]**
- In the context of the privatization of PPC, the Government takes the necessary steps to be able to sell hydro capacity and other generation assets to investors. That sale is separate from the divestiture of lignite capacity provided for in the Commission's decision on the Greek lignite case. Nevertheless, investors may be given the possibility to buy hydro capacity / other generation assets jointly with the lignite capacity provided for in that decision. The sale of hydro capacity will i) not delay the sale of lignite assets beyond the time frame provided for in the relevant Commission Decision and ii) not prevent the sale of lignite assets without a minimum price.
- Regulated tariffs:
  - Further measures are adopted to ensure that the energy component of regulated tariffs for households and small enterprises reflects, at the latest by June 2013, wholesale market prices, except for vulnerable consumers. **[Q2-2012]**
  - The Government removes regulated tariffs for all but vulnerable consumers **[Q2-2013]**

# REGULATORY FRAMEWORK UPGRADED

- The Government ensures that its regulatory framework for the energy sector fully complies with the provisions in the Electricity and Gas Regulation, in particular concerning transparency, congestion management and non-discriminatory and efficient allocation of capacity on gas and electricity networks. In particular, the Government commits to resolve all open issues regarding the infringement case 2009/2168 for non-compliance with the Electricity Regulation. This resolution will include the adoption by the Independent Regulatory Authority (RAE) of a modified electricity market code and establishing cross-border electricity trading procedures for the interconnectors with Bulgaria in line with the provisions of Regulation (EC) 714/2009 and its annexes.  
**[Q1 2012]**
- The Government undertakes to:
  - Establish a One-Stop Shop for the licensing and permitting of the following classes of infrastructure projects **[Q4-2012]**: LNG installations, natural gas storage and transmission pipeline projects and electricity transmission lines.
  - Establish an LNG code, approved by RAE, which ensures transparency and nondiscriminatory access to the Revithoussa LNG plant and the efficient allocation of unused capacities. **[Q3 2012]**

# PREPARATORY MEASURES HAVE BEEN INITIATED

- Financial advisors are in place since last year: ALPHA BANK, BANK OF AMERICA MERRILL LYNCH, CREDIT SUISSE SECURITIES (EUROPE) LIMITED, NATIONAL BANK OF GREECE.
- Legal advisors have been appointed: Shearman Sterling LLP and Kyriakidis Georgopoulos partners.
- Advisors have been preparing alternative scenarios for privatisation:
  - **Sale of 17% to a strategic investor:** This will not solve the issue of competition in the market and may lead to more complications as it will represent a transfer of a near monopoly to the private sector.
  - **Sale of transmission and retail subsidiaries:** That option is not likely to occur as it has been agreed with EC to retain 100% ownership of both subsidiaries.
  - **Sale of individual power stations:** It may not work as power stations may be sold at well below their current value.
  - **Creation of a smaller PPC initially subsidiary of PPC and sale of the subsidiary.**

# THE MOST LIKELY SCENARIO

- Create a small PPC as a subsidiary.
- Transfer a number of lignite power plants (at least 40% of existing capacity) hydroelectric power plants and gas fired power plants to this entity.
- Privatise the new entity up to 100% and create competition in the market.
- Mother company continues to remain within the state sector and the capital raised through the sale of the subsidiary can be used to refinance debts and undertake new investments.

The government will make its intentions clear during the programmatic declaration over the weekend 7/8 July but details will take longer to emerge.

# MORE WORK REQUIRED

- Change of leadership in PPC is expected to go ahead in the next few weeks.
- Radical Restructuring will take place within 2012.
- A sustainable arrangement of all the financial relationships in the energy market has to be finalised in the next few months.
- The abolition of the special real estate tax has to be implemented as soon as possible and PPC must speed up the collection of the arrears from customers.
- A sustainable tariff reform on the basis of the commissioned study will go ahead during the summer.
- The break up of the company valuation of the assets establishment of the subsidiary might be completed by the year-end.
- Tendering procedure to accept offers will start later on this year.
- The sale of the subsidiary is not expected to conclude before the middle of 2013.

# MAJOR OPPOSITION EXPECTED

- Privatisation of PPC seen as a landmark move both by the government and opposition.
- Union will oppose break up and privatisation with full force.
- SYRIZA will make it the key opposition target.
- Local communities where power stations are located may also react to privatisation.

PPC privatisation can become a major survival test for the coalition government.