

TRAI NOSE PRIVATIZATION: THE TRAIN HAS BEEN DELAYED.

INTRODUCTION

- The rail sector is regulated through two main pieces of legislation:
 - Presidential Decree 41/2005 incorporates into the Greek law the European Union directives opening up the rail market.
 - The Law 3891/2010 sets the framework for the restructuring of railways in Greece. The Law is complementing the European directive on railroad transportation (91/440/EC, 95/18/EC as amended by 2001/12/EC and 2001/13/EC, and the directive 2001/14/EC) which has been introduced into Greek Law by presidential decree 41/2005.
- The rail market remains closed to competition both in the passenger segment and in freight.

UNBUNDLING OF ACTIVITIES

3

- According to Law 3891/2010:
 - The restructuring of the OSE Group is initiated with the unbundling of activities the assumption of existing debt by the state and the allocation of existing assets among the companies.
 - OSE will retain the fixed network assets while TRAINOSE will be obtaining the rolling stock.
 - OSE will become the manager of the national railway network infrastructure after merging with the existing manager EDISY.
 - ERGOSE will be responsible for new investment implementation as project managers.
 - GAIAOSE will have possession of the real estate assets that are not related to the main activity but can be commercially developed.

TRAINOSE OPERATIONS

4

- TRAINOSE will be the service provider of rail transportation of both people and goods.
- Furthermore, TRAINOSE will be able to develop coach transportation activities and road transport of goods.
- Rolling stock owned by OSE may be transferred to TRAINOSE without cost but it may count as a capital increase.
- TRAINOSE may sign a contract with OSE on the type of services that will offer including the use of stations and other facilities as well as the maintenance of existing rolling stock.

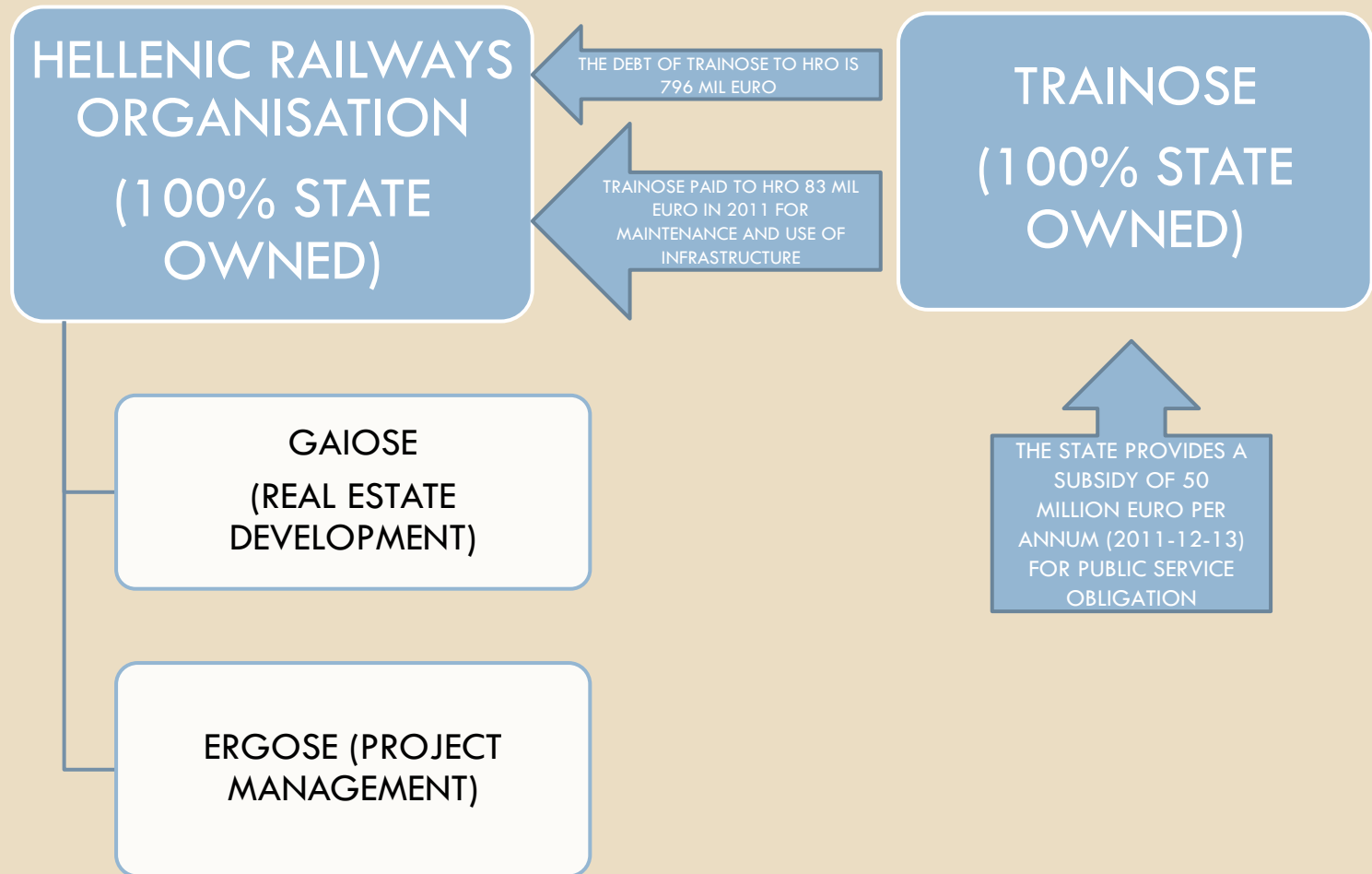
LABOUR RELATIONS

5

- The Law 3891/2010 sets the framework for the radical change of labour relations and the transfer of surplus personnel.
- The Law stipulates that in privatized companies the Board of Directors will have the authority to decide on the structure of the management team and on internal operations regulations.
- For TRAINOSE the surplus personnel is estimated in the Law at 751 employees 500 of which employed in the main rail activity.
- TRAINOSE will be operated as a private company if partly privatized.

GREEK RAILWAYS CORPORATE STRUCTURE AND ECONOMIC RELATIONS

6



RAIL REGULATION

7

- The law 3891/2010 sets out the framework for the establishment of an independent regulator of railroad activities. The Regulator has all the powers required to perform its role and is relatively independent from government interference.
- The new law must be seen in conjunction with Presidential Decree 41/2005. The PD incorporates into Greek law the directives opening up the rail market. Up to now the role of regulator was assigned to the Ministry of Transport. Now with the new law an independent regulator is set up.
- The Regulator is independent in the sense that it has its own economic resources from a budget line and the decision of its executive officers and board are final subject only to judicial scrutiny. There is no apparent interference by the Ministry of Transport. The only possible line of influence comes from the appointment by the government of its officials.
- The Regulator will classify the rail network in accordance to the state of utilization.
- The establishment of the Regulator is a clear indication that new operators will be accepted into the market. In article 27.2-8 one of the Regulators responsibilities is specified, namely the granting of permits to operators.

EVALUATION

- The Law must be seen in conjunction with presidential decree 41/2005.
- The Law does not fully open the network to competition and seeks to protect TRAINOSE.
- In case the TRAINOSE privatization fails or is modeled in an unsatisfactory way the government will have no alternative but to open rail services to fully independent operators in the existing routes as it is envisaged in the PD 41/2005.
- The main weaknesses of the government's approach are:
 - Even with management control, a minority stake in TRAINOSE is unlikely to be attractive to third-party investors – the potential rewards may not be adequate to support the inherent financial and operational risks.
 - Risk of political and Trades Union interference through retention by Government of a majority shareholding in TRAINOSE.
 - Private Operators unlikely to find Open-Access over main lines or operations at the margins on routes given-up by TRAINOSE attractive.
 - No increase in competition - so efficiency (cost reduction) and service quality goals may not be achieved.
 - No separation of passenger and freight activities.
 - Direct Award of long-term PSO contract to TRAINOSE (necessary to give confidence to the third-party investor) could be open to legal challenge.

THE NETWORK

- The total operating network was 2552 km in 2009.
- It is evident that the railway network needs significant modernization (electrification, double track, extension).
- **The Athens Salonica** line is under modernisation which is expected to be completed by 2013.
- **The Athens Patras** line will not be modernised and completed until 2018. The last phase will involve the construction of the remaining 5 km line from Rio to Patras and is not expected to start before 2015 due to funding constraints.
- **The Athens Suburban** will be extended by 31km towards the port of Lavrio covering an area of more than 350.000 people. Funding will probably be available from European structural funds sources but completion is not expected before 2018.

HRO COMPANY RESULTS

10

- HRO has benefited from the restructuring:
- Employment has declined from 5003 in 2010 to 2872 in 2011.
- However as turnover declined due to the split of TRAINOSE losses have been mounting.

	2011	2010
Fixed assets	11875	13042
Liabilities	10281	9892
Turnover	84433	179785
Sales cost	430370	476514
Gross Margin	(346370)	(296729)
EBITDA	(1289881)	(376103)
EBIT	(1758602)	(823344)

TRAINOSE COMPANY RESULTS

11

- TRAINOSE has benefited from the restructuring:
 - ▣ Employment has declined from 1532 in 2010 to 907 in 2011.
 - ▣ Salary costs have declined by 46.7% since 2010.
 - ▣ Maintenance costs have declined by 53.1% due to the decline in services and new arrangements with HRO.
 - ▣ Overall the company has reduced losses by 85.8%.
 - ▣ Traffic in the key Athens Salonica line has improved by 38% in volume terms and 20% in income terms.

	2011	2010	Change
Turnover	84636	102692	(17.6%)
Subsidy	50000	0	
Other income	5628	5532	
Sales cost	166686	294156	(43.3%)
EBITDA	(26422)	(185932)	
EBIT	(33571)	(187303)	

FREIGHT OPERATIONS

12

- TRAINOSE operates rail freight services, domestically, internationally and transit, on a number of routes covering services to and from the Greek border mainly from Thessaloniki to Bulgaria, FYROM, Serbia and Hungary. TRAINOSE freight services involve the transportation of bulk cargo (unpackaged cargo in large quantities), general cargo and the transport of containers.
- TRAINOSE has been carrying 3.6 million tons in 2009 or 1052874 tons kilometers.
- Within 2011 TRAINOSE has initiated the introduction of a common transparent billing system for all customers and The creation of a hub in Thriasio for accepting the freight traffic on the Athens Salonica axis which has led to a 5 fold increase in the number of freight trains per week.
- The major freight categories are:
 - Coal, Oil and derivatives;
 - Metallurgy products-primary metals and other metal products;
 - Machines, plants, devices, apparatuses, mechanical, electrical and traffic-transport devices;
 - Construction material;
 - Containers and other transport units of intermodal transport (loaded and empty); and
 - Transportation users wagons, empty etc.
- The freight service has a lot of potential and is expected to be highly profitable especially with the completion of the connection with Pireas port and the development of a logistics centre in Thriasio.

PASSENGER RAIL

13

- The main profitable route is the Athens Salonica with 14 itineraries leaving every two hours.
- Pricing has attracted passengers from other modes especially private cars and buses.
- Total passenger traffic reached 10 million in 2007 declined to 7.7 million in 2009.
- The suburban passenger traffic reached 7.8 million in 2009 of which 6 million is the Athens to Airport line.

According to the restructuring plan the Athens Salonica line and the suburban will break even with the existing subsidy and with better management they may turn into profit.

PRIVATISATION FRAMEWORK

14

- The privatisation procedure has not officially started.
- The first group of advisors resigned before taking over the job.
- Three groups have submitted offers for advising the government including Lazards.
- The initial announced framework involved privatisation of 49% of TRAINOSE conceding the management to the investor.
- The aim of the government was to attract a similar European operator like Deutsche Bahn or SNCF.

THE MAIN ISSUES

15

- Operators reluctant to participate in TRAINOSE fearing continuous state interference.
- They prefer to participate in a tendering of services especially in the profitable Athens Salonica line.
- European Commission has opened a state aid case in 2010 regarding the debt write off of TRAINOSE. The case is still open.

The government should opt for the dominant privatisation model in Europe and tender services in the main lines asking investors to employ former TRAINOSE personnel and use existing rolling stock. It should establish a powerful **independent** Regulator charged with encouraging the development of competition in the provision of freight and passenger rail services, and ensuring the provision of non-discriminatory access to the network and associated facilities and also protecting the national interest, issuing licenses and overseeing safety.

INVESTOR INTEREST

16

- According to market sources:
 - ▣ SNCF are interested only on the Athens Salonica line.
 - ▣ Russian Railways have indicate that they might be interested in the whole business including HRO.
 - ▣ Chinese investors are also looking into the whole group.
 - ▣ Other private European operators have looked into the business but they are reluctant to commit to any business deal in the current climate.