Insights into Japonica's Turnaround Track Record and Accelerating the Turnaround of Greece

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"Managing Corporate Turnarounds"

Draft v.4.3

Founded in 1988

JAPONICA PARTNERS®

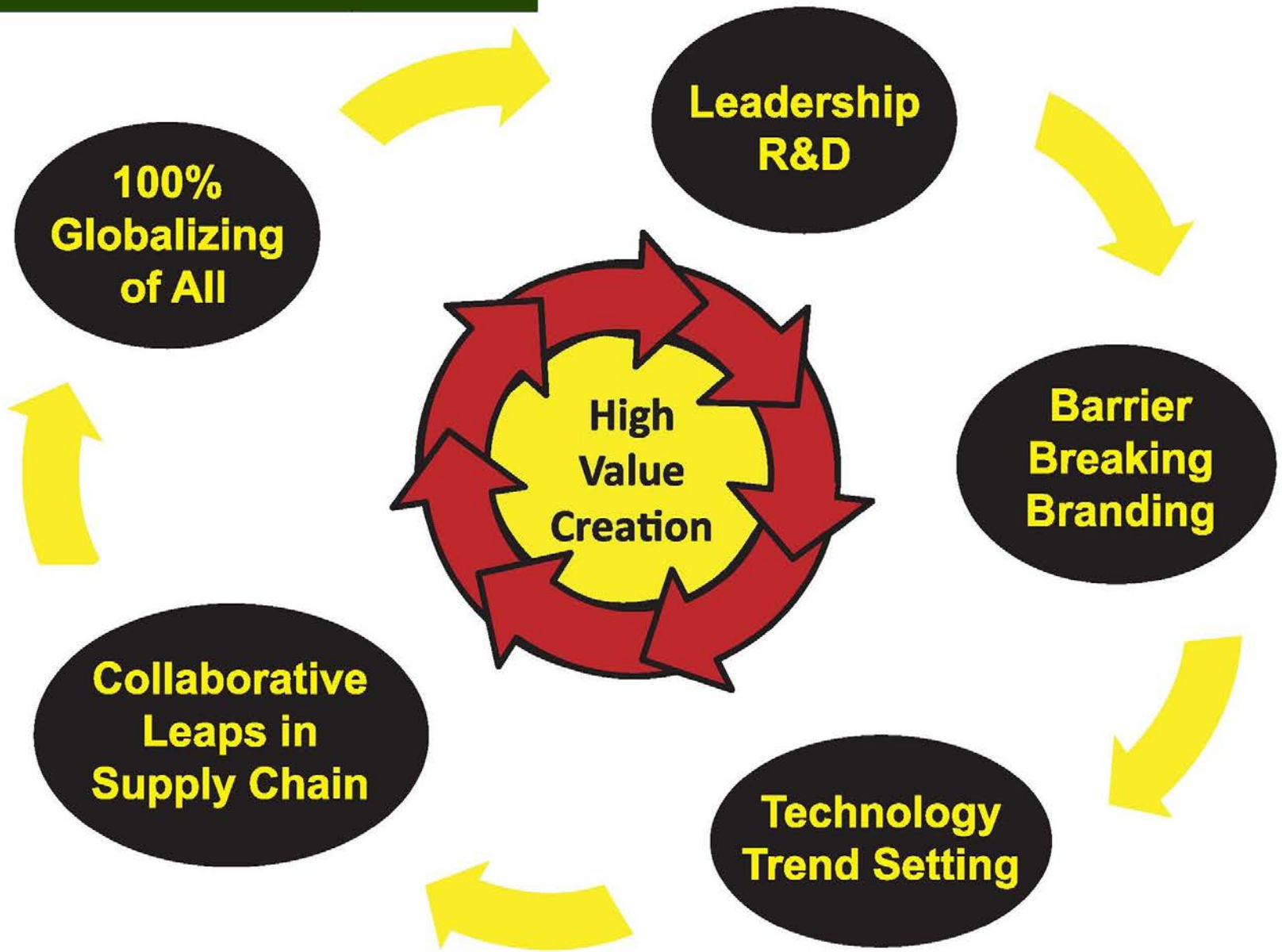
D - C - C

D*iscovering value gaps,* ***C****hanging cultures & perceptions,*
and ***C****reating value through hands-on management.*

发现・改变・创造

JAPONICA PARTNERS®

High Value Creation *D-C-C*



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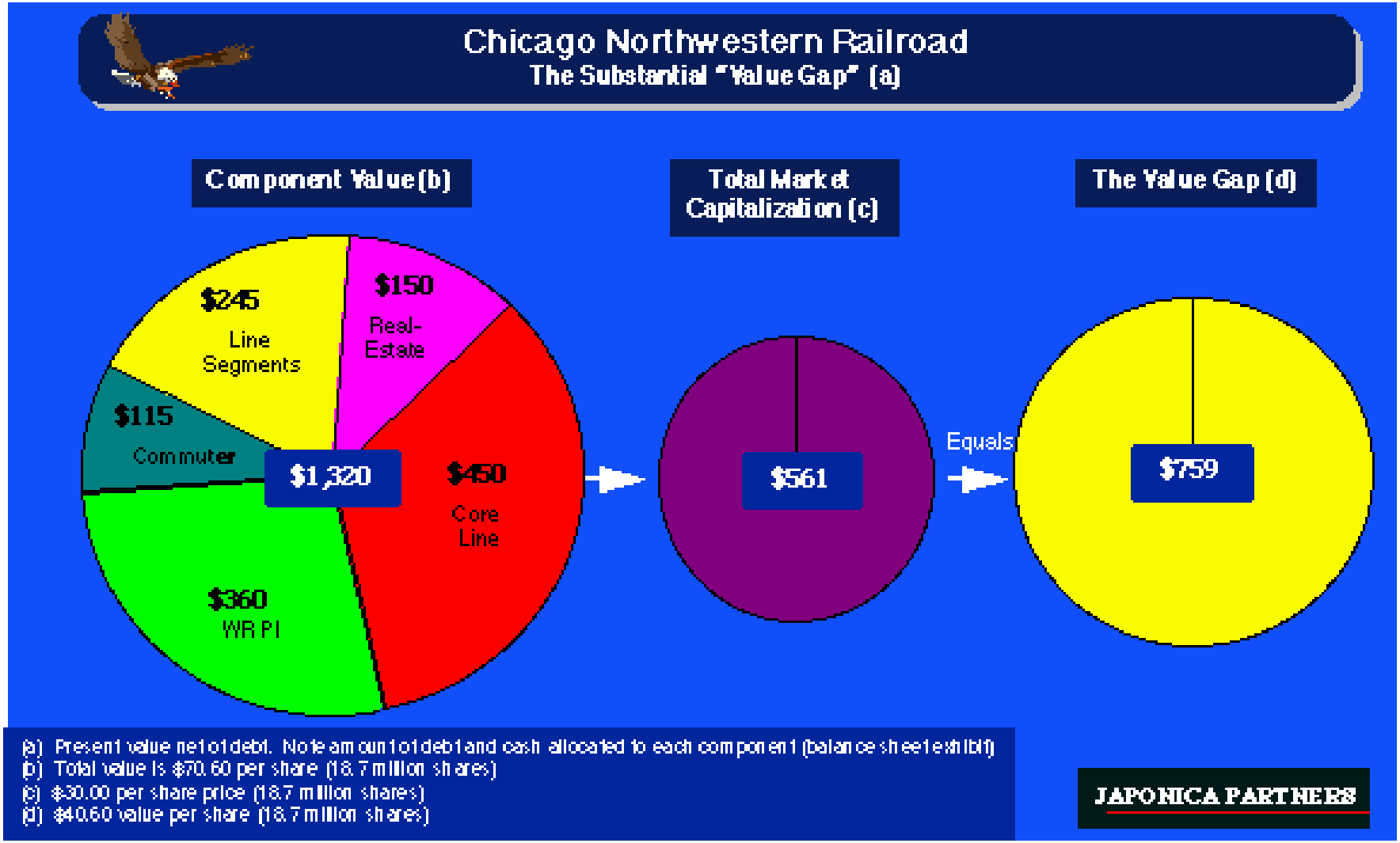
Special Situation Investments

CNW


Chicago Northwestern Railroad
The Substantial "Value Gap" (a)
Component Value (b)
Total Market Capitalization (c)
The Value Gap (d)
$245
Line Segments
$150
Real-Estate
$115
Commuter
$1,320
$450
Core Line
$360
WR PI
$561
Equals
$759
(a) Present value net of debt. Note amount of debt and cash allocated to each component (balance sheet exhibit)
(b) Total value is $70.60 per share (18.7 million shares)
(c) $30.00 per share price (18.7 million shares)
(d) $40.60 value per share (18.7 million shares)
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Rejuvenation of Allegheny's 12 Businesses within 24 Months

	1990	1993	Change
Net Sales	$859	$1,066	24%
Gross Margin	19.4%	27.1%	764 bps
SG&A % of sales	16.5%	12.6%	397 bps
Op. Profit (pre-restructuring)	$25	$155	$130
Op. Profit (GAAP)	$(95)	$155	$250
Operating Margin	**-11.1%**	**14.5%**	--

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Allegheny International/Sunbeam-Oster Investment Metrics

Investment (Sept. 1990)	$120 MM
Investment Value (Dec. 1993) (Partnership Dissolution —Year End)	$1,464 MM
ROI Multiple	12.2x
IRR	125%

Greece is a Classic Turnaround

#1. 15+ year track record of management financial underperformance and value destruction.

#2. Current financial information hides huge debt competitive advantage.

#3. Low hanging fruit for a Chief Turnaround Officer (CTO) to drive down Greece public borrowing costs (spreads) to “super boost” the economy.

Greece is a Classic Turnaround

#1. 15+ year track record of management financial underperformance and value destruction.

Greece Government Overview

- Approximately €80 billion spending
- 650,000 employees
- Half trillion assets and liabilities
- Over half the economy

The Pie is Shrinking Especially in Comparison to Other EU Countries

1. Huge percentage of most productive youth emigrate, leaving the most socially expensive youth.
2. Real GDP has declined 7% from 2001 to 2015 while the EZ average has increased 32%.
3. History of value destruction in the hundreds of billions.
4. Exposure to reduction or even cessation of EU inflow of fund of €7 billion to a small closed economy.

Greece has created only 10 cents in value for each euro of debt added, which is 90 cents in value destruction.

SN	GDP Increase / Debt Increase	Greece	Peer Average	*Peer Countries* Ireland	Italy	Spain	Portugal
1.	Historical (2001 to 2014)	**10%**	**40%**	41%	41%	52%	25%
2.	Forecast (2015 to 2017)	**1%**	**223%**	372%	103%	91%	327%
3.	Forecast / Historical	10%	563%	903%	253%	174%	1332%

SN	Metric	Delta 2001-2014	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
1	GDP	25.4	177.6	180.4	191.2	207.0	226.0	237.5	242.0	232.7	217.9	199.2	193.7	178.9	163.5	152.2
2	Gross Debt - Face	260.2	317.1	319.2	304.8	356.0	330.3	301.0	264.6	240.0	225.3	195.4	183.2	168.0	159.2	151.9
3	**GDP Δ / Debt Δ (Annual)**		**NM**	**-75%**	**NM**	**-74%**	**-39%**	**-12%**	**38%**	**101%**	**63%**	**45%**	**98%**	**175%**	**154%**	
4	**GDP Δ / Debt Δ (Cumu.)**	**9.8%**	**15%**	**17%**	**26%**	**27%**	**41%**	**57%**	**80%**	**91%**	**90%**	**108%**	**133%**	**166%**	**154%**	

Notes: EC and IMF data. Greece Gross Debt Delta 2001-2014 adjusted for PSI.

The Expected Government Spending Multiplier and Very Disappointing Performance

- As late as 2011, respected think tanks were claiming a five multiplier on public investments.
- From 2001 to 2015, GDP increased just 10% for each one euro in additional government debt.

Greece GDP Per Capita has declined from 192% of the average of EU Bottom Half Countries to 119%.

(GDP per Capita data in euros)

SN	Country	2001 GDP per Capita	2001 Rank	2015e GDP per Capita	2015 Rank
1	Bulgaria	2,025	10	6,355	10
2	Croatia	6,034	6	10,192	8
3	Cyprus	16,345	1	19,788	1
4	Czech Republic	7,352	5	15,168	6
5	Estonia	5,001	7	15,513	5
6	**Greece**	**13,899**	**2**	**16,111**	**4**
.	.	.	.	.	.
.	.	.	.	.	.
.	.	.	.	.	.
11	Portugal	13,107	3	17,113	3
12	Romania	2,036	9	8,454	9
13	Slovak Republic	4,439	8	14,255	7
14	Slovenia	11,726	4	18,418	2
15	Average	7,240		13,526	
16	**Greece as a % of Average**	**192%**		**119%**	
17	Greece Debt (Face) as a % of GDP	100%		180%	

Note: IMF and EC data.

Greece Real GDP has declined 7% from 2001 to 2015 while the EZ average has increased 32%.

(€, Millions; at 2010 reference levels)

		REAL GDP		
Rank	**Sample EZ Country**	**2001**	**2015**	**% Change**
1	Slovakia	43.3	75.5	74%
2	Lithuania	19.5	33.5	72%
3	Latvia	13.2	21.5	63%
4	Estonia	11.3	17.7	57%
5	Ireland	130.8	193.2	48%
.	.	.	.	.
.	.	.	.	.
.	.	.	.	.
17	Portugal	170.4	172.1	1%
18	Italy	1583.8	1548.6	-2%
19	**Greece**	**197.7**	**182.9**	**-7%**
	EZ Average (ex-Greece)			**32%**

Note: EC AMECO database.

Greece has overspent on average 120% of Government Revenue each year since 2001.

SN	Fiscal Balance / Total Revenue	Greece	Peer Average	*Peer Countries* Ireland	Italy	Spain	Portugal
1.	**Historical (2001 to 2014 Average)**	**-20%**	-12%	-16%	-7%	-11%	-14%
2.	Forecast (2015 to 2017 Average)	**-7%**	**-6%**	-5%	-5%	-9%	-6%
3.	Forecast Less Historical	**13%**	**6%**	11%	3%	2%	8%

SN	Metric	2001-2014 Avg.	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
1	Revenue	82.0	82.3	87.2	88.6	91.1	93.3	92.4	98.4	93.9	85.3	75.2	70.6	67.3	63.0	59.9
2	Fiscal Balance	-16.4	-6.3	-22.5	-16.9	-21.2	-25.3	-36.0	-24.6	-15.6	-13.0	-10.9	-13.8	-9.9	-7.7	-6.5
3	**Fiscal Bal / Revenue**	**-20%**	**-8%**	**-26%**	**-19%**	**-23%**	**-27%**	**-39%**	**-25%**	**-17%**	**-15%**	**-14%**	**-19%**	**-15%**	**-12%**	**-11%**
4	Expenditures	98.5	88.7	109.6	105.5	112.3	118.6	128.4	123.0	109.5	98.3	86.1	84.3	77.1	70.7	66.5
5	**Expenditures / Revenue**	**120%**	**108%**	**126%**	**119%**	**123%**	**127%**	**139%**	**125%**	**117%**	**115%**	**114%**	**119%**	**115%**	**112%**	**111%**

Note: EC and IMF data.

The value destroyed and annual overspending numbers would be even worse if adjusted for €100+ billion in debt avoided through EU net grants.

(€, Billions)

SN	Period	EU Annual Net Grants *(Period Average)*	10 Year Borrowing Cost *(Period Average)*	Cumulative Debt Avoided
1	2001-2005	€ 3.3	*5%*	€ 18.4
2	2006-2010	€ 3.9	*6%*	€ 47.7
3	2011-2015	€ 4.4	*10%*	€ 104.5

Notes: 1996-2012 Grant data from ECB; 2013-2015 estimates from ECB, EU Budget, and EC data. Borrowing cost data from Bloomberg.

Greece €400+ billion in debt relief and forgiveness is almost 25 times the average of other EU programme member states.

SN		Greece	Peer Average	Cyprus	Ireland	Portugal	Spain
1.	Debt Relief & Forgiveness as % GDP	**230%**	**12%**	22%	8%	17%	2%
2.	Months in Programme(s)	66+	30	30+	36	37	18
	Official Sector Debt Relief:						
4.	Pre-2015	€ 201	€ 17	€ 4	€ 14	€ 29	€ 21
5.	2015-2017 3rd Programme	€ 65	€ 0	€ 0.1	€ 0	€ 0	€ 0
6.	Total Official Sector Debt Relief	€ 266	€ 17	€ 4	€ 14	€ 29	€ 21
7.	Private Sector Debt Forgiveness	€ 149	€ 0	€ 0	€ 0	€ 0	€ 0
8.	Total Debt Relief and Forgiveness	**€ 415**	€ 17	€ 4	€ 14	€ 29	€ 21
9.	2013 GDP	€ 180		€ 18	€ 179	€ 170	€ 1,031

Note: EC and IMF data.

Greece Government Bond Yields are 6.33% Higher than Peers (the “Spread”), Crushing the Economy

(As of 4 Dec 2015)

	10-Year Yield-to-Maturity
Greece	8.09%
Italy	1.65%
Ireland	1.19%
Spain	1.73%
Portugal	2.47%
Peer Average	1.76%
The "Spread"	6.33%

Focus on Pushing Down Government Yield (the “Spread”) Compared to Portugal

(As of 4 Dec 2015)

	T-Bills	2-Year	10-Year
Greece	2.97%	7.98%	8.09%
Portugal	0.00%	0.19%	2.47%
The "Spread"	2.97%	7.79%	5.62%

- Reducing the “spread” lowers everyone’s borrowing costs, increases real estate prices, and creates jobs.
- Public service announcements of spread daily in print, TV, and radio media.

Greece Government Bond Yield Spread to Peers has Widened by 3% from Pre-Turmoil to Current Increasing the Economic Damage

	5 Sep 2014 *(Pre-Turmoil)*	4-Dec-15 *(Current)*	Delta
Greece	5.67%	8.09%	2.42%
Peer Average	2.32%	1.76%	-0.56%
Delta	3.34%	6.33%	2.98%

Accounting Failed Attempts History

Greece has had six failed attempts at implementing government accrual accounting:

***1: 1992** – Greek Ministry of Economy pushes for accrual accounting
2003 – Public hospitals in Greece to implement accrual accounting
***2: 2005** – Greece law passed for public entities to use IAS (IFRS)
2006 – SEV publicly supports adoption of IPSAS
2008 – EC recommends, unofficially, that Greece implement IPSAS
***3: 2009 (March)** – Greece self-reports to OECD that it has full accrual based financial statements
2009 – Greece big four accounting firms plus locals form IPSAS committee
2010 – IPSAS Greece government training of low level employees started (not Minister or MP level)
2011 – IPSAS Greece government training stopped prior to certification exams
***4: 2011/12** – IPSAS Greece projects started
2012 (April) – IPSAS conference in Athens
2013 – IPSAS Greece projects stopped with expiration of funds
2014 (June) – Public tender for computer accrual accounting systems pending
5: 2014 (December) – For the fifth time, Government again promises to adopt IPSAS “next year” ignoring that implementation could start today
6: **2015 (May)** – MoF announces intension to adopt IPSAS, forms committee, but no tangible results.

Public Administration Without Turnaround Management Experience

1. Has yet to use the rules to educate that Greece has a huge debt competitive advantage, not a debt mountain.
2. Has no financial statements, has no balance sheet, and cannot measure change in government net worth*.
3. Uses single-entry cash-basis accounting systems.
4. Has no turnaround managers.
5. Cannot successfully manage what is not accurately measured.

*92% of OECD non-Asia general government and public company expenditures utilize or are in the process of utilizing accrual basis financial statements.

Systemic Weaknesses in Current Public Administration

1. Deputy ministers and directors not hired based on professional merit selection process.
2. Top three levels of civil administration are used to reward political patronage.
3. Estimates of up to 80% of minister hours on political activity, not value creating activities.
4. Political power fights appointment of high profile civil servants.
5. EU/IMF catalyst for having merit-based selection as head of tax revenue.

Increasing Public Debate on "Meritocracy" for Civil Service

1. There is an increasingly active public debate on the topic of selecting senior government civil servants.
2. Two emerging parties supporting professionals as senior servants.
3. Growing support within historically main parties.
4. EU/IMF growing support.
5. Government beginning to discuss publicly.

€7 Billion in EU Annual Net Fund Inflows to Greece

		Incl. in Fiscal Balance	Excl. from Fiscal Balance	Total
1.	Cash Payments (Non-Agriculture)	€ 3.157		€ 3.157
2.	Cash Payments (Agriculture)	€ 0.741	€ 1.370	€ 2.111
3.	EIB Loans		€ 1.480	€ 1.480
4.	EBRD Loans		€ 0.250	€ 0.250
5.	Total	€ 3.898	€ 3.100	€ 6.998
6.	% of Total	56%	44%	100%

Notes: Hellenic Republic, EC, EIB, and EBRD data; 2014 data except EBRD.

€100+ Billion in Value Destroyed Since 2012 OSI/PSI

- Government Financial Assets: Equity and fixed income losses.
- Private sector assets: Reduction in value of both financial and fixed assets, especially real estate.
- Debt Buyback: Unwise debt buybacks based on flawed accounting contributed to liquidity crisis.
- Bank Forced GGB Sale: Destruction of bank equity as financial assets on forced sale of GGBs.
- Revenue Loss: Inaccurate debt data depressed economy.
- Borrowing Costs: Inaccurate debt data increased borrowing costs.
- Repos: Forced intra-government repo funding.
- Swaps: Reduced bank collateral through forced GGB swaps.
- Timing Games: Tax installments, arrears, IRR schemes.

Greece is a Classic Turnaround

#2. Current financial information hides huge debt competitive advantage.

Media Obsession with Greece Nonsense Future Face Value of Debt and Debt Relief Numbers

- The cause of Greece current problems is the debt mountain and prevents prosperity.
- More debt relief on the debt mountain is the holy chalice.

Future Face Value of Restructured and Concessional Debt is a Nonsense Number

- Breaks both international macroeconomic and accounting rules.
- Ignores that time impacts the value of money.
- Ignores interest rates, maturities, re-payment provisions, and market realities.
- Would value €1,000 paid in 100 years earning no interest as worth €1,000 today.
- Can be found in "undeveloped" guidelines or "unilateral" lender covenants.

Harmonized International Rules Correctly Calculate the Present Value of Net Debt and Debt Relief and Lower Government Bond Yields

The Macroeconomic Rules:

- **2008 SNA** (System of National Accounts 2008): Produced under joint responsibility of the EC, IMF, OECD, UN, and WB.
- **ESA 2010** (European System of National Accounts): Passed by EU Parliament with the force of law.

The International Accrual Accounting Rules (consistent with IPSAS/IFRS): used by 92% of the OECD non-Asia governments and public companies (by expenditures).

- **Government Entities**:
  - **Benchmark Examples**: Austria, Canada, France, Hamburg, Hesse, Israel, New Zealand, North Rhine-Westphalia, South Africa, Sweden, Switzerland, United Kingdom, and the United States.
  - **In Process Examples**: Brasil, Chile, China, Estonia, Portugal, Russia, Spain, United Arab Emirates, and the Vatican.
- **Public Sector Organizations Examples**: European Union, IMF, OECD, United Nations, World Bank.
- **Publicly Traded Companies**: All.

Debt Measurement Principles: Summary

SN	Debt Principle	International Accounting (IPSAS and IFRS)	International Statistics (ESA, SNA, GFS*)	Maastricht
1.	Restructured debt	YES	Yes	NO
2.	Concessionary debt	YES	Acknowledged but under development	NO
3.	Net Debt	YES	YES	NO
4.	Audit integrity	YES	NO	NO
5.	Present value at initial recognition	YES	YES	NO
6.	Hierarchy of valuation	YES	YES	NO
7.	Arm's length valuation	YES	YES	NO
8.	Ongoing market prices	NO	Varies	NO

** IMF has principles that are generally consistent with other statistics guidelines but differs on IMF loans where its conflicting role as a lender asserts priority.*

Debt Measurement Frameworks

	International Accounting Standards		International Statistics Systems		Lender Rules			
	IPSAS/IFRS/US GAAP		2008 SNA/ESA 2010		IMF GFSM 2014		Maastricht EDP	
	Initial	**Subsequent**	**Initial**	**Subsequent**	**Initial**	**Subsequent**	**Initial**	**Subsequent**
Publicly Traded Debt Securities	Fair Value	Amortized Cost	Market	Market	Market	Market	Nominal	Nominal
Restructured Securities	Fair Value	Amortized Cost	Market	Market	Market	Market	Nominal	Nominal
Restructured Loans	Fair Value	Amortized Cost	Market	Cost	Nominal	Nominal	Nominal	Nominal
Concessional Securities	Fair Value	Amortized Cost	Market	Market	Market	Market	Nominal	Nominal
Concessional Loans	Fair Value	Amortized Cost	Nominal	Nominal	Nominal	Nominal	Nominal	Nominal
Refinanced Debt	Fair Value	Amortized Cost	Market	Market	Market	Market/Cost	Nominal	Nominal
Refinanced Debt - Official Sector	Fair Value	Amortized Cost	Market	Market	Nominal	Nominal	Nominal	Nominal

IPSAS 29 / IAS 39 (IFRS): Debt Measurement and Reporting Highlights

No material differences between the standards on the below.

Objective: IPSAS improves decision-making, increases transparency, strengthens accountability, and facilitates global comparability.

1. **Initial Recognition**
   - **Fair value** of debt is market value (confirming arm's length) at date of event.
   - **Market price/YTM** or most comparable market price/YTM.
   - **If necessary**, PV with maximum use of observable/prevailing market YTM.

2. **Substantial Modification (Restructured Debt)**
   - If PV of cash flows is at least 10% different from PV of original financial liability.
   - All financial liabilities utilize the **same market based principles**.

3. **Concessionary Loans and Grants**
   - **Fair value** measurement.
   - Recognized existence of **non-exchange transaction** as a subsidy.

4. **Subsequent Measurement:** At amortized cost using **EIR method** accretion.

Ask the Right Net Debt Integrity Question

Did the Net Debt number earn the following Expert's Opinion statement by a Big Four accounting/auditing firm whose independence is beyond question?

"Nothing has come to our attention that causes us to believe that the calculations of Greece financial liabilities as reported to us as of December 31, 2013 have not been, in all material respects conducted reasonably in accordance with IAS 39 and IFRS 13, which are deemed an appropriate approximation of IPSAS 29, applicable for Greece."

Greece Use of Future Face Value of Debt in Perspective

- Not complying with macroeconomic statistics rules (2008 SNA, ESA 2010).
- Not using international accounting rules as utilized in the reports including the European Union (IPSAS), UK (IFRS), Austria (IPSAS), Israel (IPSAS), New Zealand (IPSAS), Switzerland (IPSAS), and the Vatican (IPSAS).
- Not among the 80% (by expenditures) of OECD non-Asia general governments utilizing or in the process of utilizing accrual basis financial statements.

System of National Accounts 2008

SNA Rescheduling

Debt reorganization

22.106 There are four main types of debt reorganization:

b. Debt rescheduling or re-financing. A change in the terms and conditions of the amount owed, which may result or not in a reduction in burden in present value terms.

Debt rescheduling and refinancing

22.109 *Debt rescheduling (or refinancing)* is an agreement to alter the terms and conditions for servicing an existing debt, usually on more favourable terms for the debtor. Debt rescheduling involves rearrangements on the same type of instrument, with the same principal value and the same creditor as with the old debt. Refinancing entails a different debt instrument, generally at a different value and may be with a creditor different than that from the old debt.

22.110 Under both arrangements, the debt instrument that is being rescheduled is considered to be extinguished and replaced by a new debt instrument with the new terms and conditions. If there is a difference in value between the extinguished debt instrument and the new debt instrument, part is a type of debt forgiveness by government and a capital transfer is necessary to account for the difference.

22.111 *Debt rescheduling* is a bilateral arrangement between the debtor and the creditor that constitutes a formal deferment of debt-service payments and the application of new and generally extended maturities. The new terms normally include one or more of the following elements: extending repayment periods, reductions in the contracted interest rate, adding or extending grace periods for the repayment of principal, fixing the exchange rate at favourable levels for foreign currency debt, and rescheduling the payment of arrears, if any.

22.112 The treatment for debt rescheduling is that the existing contract is extinguished and a new contract created. The applicable existing debt is recorded as being repaid and a new debt instrument (or instruments) of the same type and with the same creditor is created with the new terms and conditions.

22.113 The transaction is recorded at the time both parties record the change in terms in their books, and is valued at the value of the new debt.

ESA Rescheduling

Debt operations

20.221 Debt operations can be particularly important for the general government sector, as they often serve as a means for government to provide economic aid to other units. The recording of these operations is covered in Chapter 5. The general principle for any cancellation or assumption of debt of a unit by another unit, by mutual agreement, is to recognise that there is a voluntary transfer of wealth between the two units. This means that the counterpart transaction of the liability assumed or of the claim cancelled is a capital transfer. No flow of money is usually observed, this may be characterised as a capital transfer in kind.

Other debt restructuring

20.236 Debt restructuring is an agreement to alter the terms and conditions for servicing an existing debt, usually on more favourable terms for the debtor. The debt instrument that is being restructured is considered to be extinguished and replaced by a new debt instrument with the new terms and conditions. If there is a difference in value between the extinguished debt instrument and the new debt instrument, it is a type of debt cancellation and a capital transfer is necessary to account for the difference.

Chapter 5: Valuation

5.19 Financial transactions are recorded at transaction values, that is, the values in national currency at which the financial assets and/or liabilities involved are created, liquidated, exchanged or assumed between institutional units, on the basis of commercial considerations.

5.20 Financial transactions and their financial or non-financial counterpart transactions are recorded at the same transaction value. There are three possibilities:

(c) neither the financial transaction nor its counterpart transaction is a transaction in cash or via other means of payment: the transaction value is the current market value of the financial assets and/or liabilities involved.

5.21 The transaction value refers to a specific financial transaction and its counterpart transaction. In concept, the transaction value is to be distinguished from a value based on a price quoted on the market, a fair market price, or any price that is intended to express the generality of prices for a class of similar financial assets and/or liabilities. However, in cases where the counterpart transaction of a financial transaction is, for example, a transfer and therefore the financial transaction may be undertaken other than for purely commercial considerations, the transaction value is identified with the current market value of the financial assets and/or liabilities involved.

MGDD vs ESA: Rescheduling

Manual on Government Deficit and Debt

Implementation of ESA 2010

VII.3.3.2 Rescheduling of a loan

22. There is no real guideline for trea0ing such a case in ESA 2010. Mention is only made of debt restructuring in ESA 2010 20.236 which states the same principle related to the difference in value (without specifying that it is in nominal terms). It is mentioned in 2008 SNA but in a rather descriptive way indicating only in 20.107 b that it "may or may not result in a reduction in present value terms" whereas there is no mention of a possible capital transfer. Therefore, this manual brings a necessary clarification and in useful practical guidance for national accountants.

ESA 2010

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22.106 There are four main types of debt reorganization:

b. Debt rescheduling or re-financing. A change in the terms and conditions of the amount owed, which may result or not in a reduction in burden in present value terms.

22.110 Under both arrangements, the debt instrument that is being rescheduled is considered to be extinguished and replaced by a new debt instrument with the new terms and conditions. If there is a difference in value between the extinguished debt instrument and the new debt instrument, part is a type of debt forgiveness by government and a capital transfer is necessary to account for the difference.

22.112 The treatment for debt rescheduling is that the existing contract is extinguished and a new contract created. The applicable existing debt is recorded as being repaid and a new debt instrument (or instruments) of the same type and with the same creditor is created with the new terms and conditions.

22.113 The transaction is recorded at the time both parties record the change in terms in their books, and is valued at the value of the new debt.

Debt rescheduling and refinancing

22.109 *Debt rescheduling (or refinancing)* is an agreement to alter the terms and conditions for servicing an existing debt, usually on more favourable terms for the debtor. Debt rescheduling involves rearrangements on the same type of instrument, with the same principal value and the same creditor as with the old debt. Refinancing entails a different debt instrument, generally at a different value and may be with a creditor different than that from the old debt.

22.111 *Debt rescheduling* is a bilateral arrangement between the debtor and the creditor that constitutes a formal deferment of debt-service payments and the application of new and generally extended maturities. The new terms normally include one or more of the following elements: extending repayment periods, reductions in the contracted interest rate, adding or extending grace periods for the repayment of principal, fixing the exchange rate at favourable levels for foreign currency debt, and rescheduling the payment of arrears, if any.

Present Value of Net Debt from Greece Third Programme Debt Relief is ~19%

- **Greece credit rating:** CCC credit.
- **Total Third Programme size:** €86 billion.
- **Total Debt Relief:** €70 billion.
- **Present Value of Net Debt:** €16 billion (19%) with corresponding increase in government net worth.
- **Terms:** Interest expense currently approximately 1% with maturities approaching 50 years, and grace periods of 20 years.
- **Measurement Rules:** International macroeconomic rules 2008 SNA and ESA 2010 and international accounting rules IPSAS/IFRS.
- **Disbursements to Date:** €13 billion (August 2015).

2015 Greece Debt Relief of €17.3 Billion

(Point of clarification: There is no cost or loss on debt relief for Greece creditors given ESM intermediary structure.)

SN	Disbursement Date	Disbursement Amount	Present Value of Debt	Debt Relief
1	20 Aug 2015	€ 13.0	€ 2.2	€ 10.8
2	24 Nov 2015	€ 2.0	€ 0.5	€ 1.5
3	1 Dec 2015	€ 2.7	€ 0.6	€ 2.1
4	8 Dec 2015	€ 2.7	€ 0.5	€ 2.2
5	31 Dec 2015E	€ 1.0	€ 0.3	€ 0.7
	Total:	€ 21.4	€ 4.1	€ 17.3
	% of Total:		19%	81%

Notes: Calculated according to international rules; assumes interest rate of 1%, maturity schedule of bank recap funds matching cash disbursements, and disbursement of final €1 billion sub-tranche on 31 December.

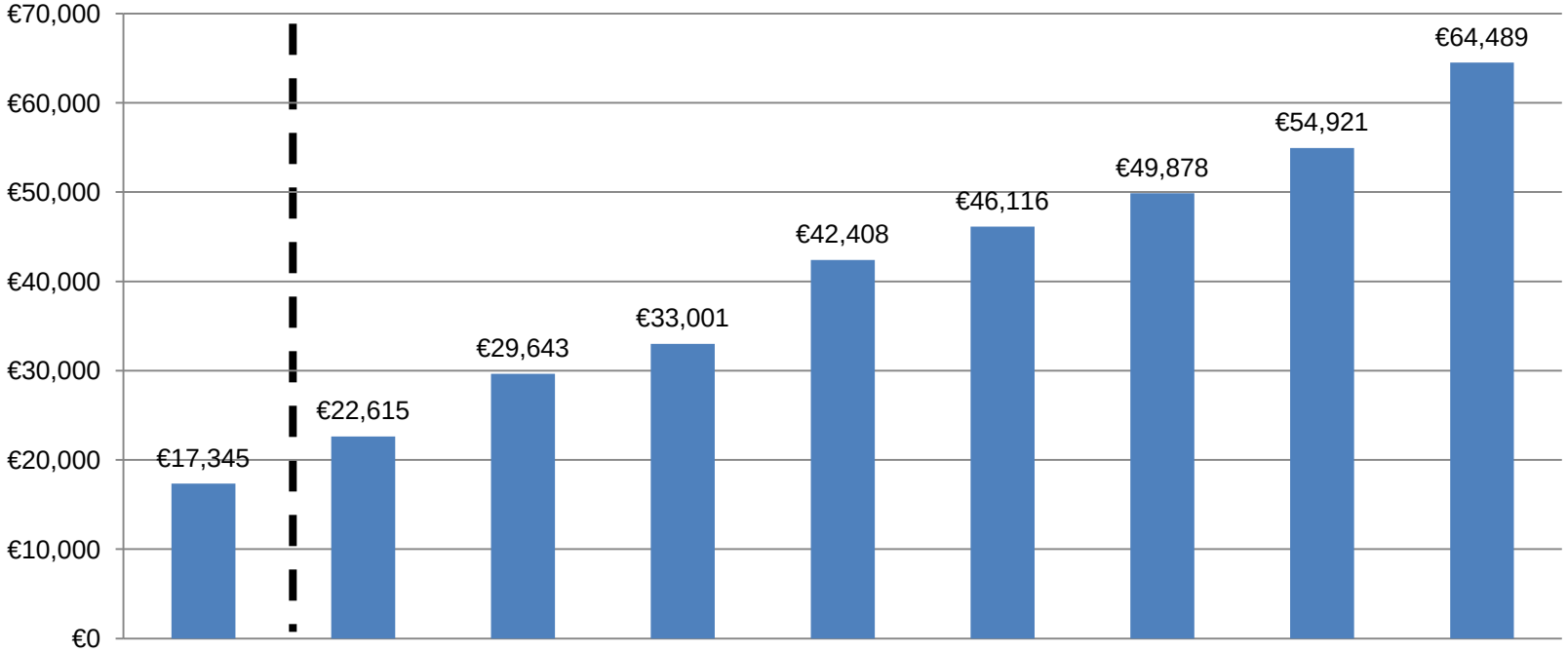
2015 Funding Under the Third Program has Created Value for Greece Equal to 10% of GDP.

(Point of clarification: There is no cost or loss on debt relief for Greece creditors given ESM intermediary structure.)

SN	Use	Funding	Present Value of Debt	Financial Assets	Present Value of Net Debt	Debt Relief (Change in Net Worth)
1	Debt Repayment	€ 16.0	€ 3.0	NA	€ 3.0	€ 13.0
2	Financial Asset Investment	€ 5.4	€ 1.1	€ 5.4	(€ 4.3)	€ 4.3
3	Total	€ 21.4	€ 4.1	€ 5.4	(€ 1.3)	€ 17.3
4	% of GDP (€172 billion)	**12.4%**	2.4%	3.1%	**-0.8%**	**10.1%**

Cumulative Debt Relief on Third Programme for Greece

(Point of clarification: There is no cost or loss on debt relief for Greece creditors given ESM intermediary structure.)



	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Estimated Disbursement	21,420	7,219	9,627	4,600	12,886	5,080	5,154	6,907	13,107	86,000
Present Value	4,075	1,931	2,575	1,231	3,447	1,359	1,379	1,848	3,506	21,350
Debt Relief	17,345	5,288	7,052	3,370	9,439	3,721	3,775	5,059	9,601	64,650
Cumulative Debt Relief	17,345	22,633	29,685	33,055	42,494	46,215	49,990	55,049	64,650	

	Amount	% of Total
Third Programme Total	86,000	100%
Present Value	21,350	25%
Debt Relief	64,650	75%

Notes: 2015 assumes current disbursements plus remaining €1 billion cash and balance of €5.43 billion for bank recapitalization; assumes programme extends beyond current August 2018 end date to use entire €86 billion in approved funding.

ESM Cost of Borrowing Yield Curve

Greece borrows at ESM cost of funds which has current weighted average maturity of approximately four years.

Maturity	YTM
6 month	-0.25%
1 year	-0.22%
5 year	0.08%
10 year	0.76%
20 Year	1.59%
30 year	1.71%
40 year	1.92%

Greece government debt is a huge competitive advantage not a suffocating debt mountain.

- Present value of net debt
- Annual net debt service
- Interest payments

Similar answer.

Greece Present Value (PV) of Net Debt to GDP was 22% of peers.

(€, Billions; 2013 data.)

		Greece % of Peers	Greece	Peer Average	Post-Programme Countries Ireland	Spain	Portugal	Italy
1.	Future Face Value of Debt/GDP		**175%**	**120%**	124%	94%	129%	133%
2.	GDP		€ 182		€ 164	€ 1,023	€ 166	€ 1,560
3.	Future Face Value of Debt		€ 319		€ 203	€ 961	€ 214	€ 2,069
	International macro-economic and accounting rules:							
4.	PV of Debt		€ 124		€ 189	€ 940	€ 185	€ 2,069
5.	PV of Debt/GDP	**60%**	68%	113%	115%	92%	112%	133%
6.	Financial Assets		€ 91		€ 65	€ 292	€ 69	€ 317
7.	Financial Assets/GDP		50%	32%	39%	29%	42%	20%
8.	PV of Net Debt		€ 33		€ 125	€ 647	€ 116	€ 1,752
9.	PV of Net Debt/GDP	**22%**	**18%**	**80%**	76%	63%	70%	112%
10.	PV Impact		€ 195		€ 14	€ 21	€ 29	€ 0
11.	PV Impact/GDP		107%	7%	8%	2%	17%	0%

GREECE PV OF NET DEBT WAS INDEPENDENTLY VERIFIED ON 15 AUGUST 2014.

Note: Japonica calculations based on EC, Eurostat, and IMF data.

Greece Net Debt Service, which is Interest Expense and Principal Payments Less Rebates and Deferrals Adjusted for Financial Assets, is 27% of Peers

	Net Debt Service % of GDP*	Debt Service % of GDP	IMF Gross Financing Needs % of GDP
Greece	2%	6%	19%
Ireland	6%	10%	9%
Italy	13%	15%	17%
Spain	9%	13%	17%
Portugal	7%	11%	20%
Peer Average	9%	12%	15%
Greece % of Peer Average	27%	47%	123%

Notes:
*Debt service ratio converted as PV of net debt as a percentage of PV of debt.
2016 estimates based on Bloomberg, EC, and IMF data. Excludes T-Bills. Greece adjusted for deferred interest and SMP/ANFA rebates.

Greece Cash Interest is slightly above 22% of peers.

(€, Billions; 2015, except Debt)

		Greece % of Peers	Greece	Peer Average	Post-Programme Countries			
					Ireland	Spain	Portugal	Italy
1.	Revenue		€ 81		€ 67	€ 408	€ 79	€ 778
2.	Interest Expense		€ 7.5		€ 7.0	€ 33.9	€ 8.8	€ 70.0
3.	Interest Expense % of Revenue	**96%**	**9.3%**	**9.7%**	10.5%	8.3%	11.2%	9.0%
4.	EFSF Non-Cash Interest		€ 1.4					
5.	ANFA/SMP Rebates		€ 3.9					
6.	Cash Interest Payments		€ 2.2		€ 7.0	€ 33.9	€ 8.8	€ 70.0
7.	**Cash Interest Payments % of Revenue**	**29%**	**2.8%**	**9.7%**	10.5%	8.3%	11.2%	9.0%
8.	Cash Interest Payments % of Debt (2014)	**20%**	**0.7%**	**3.5%**	3.4%	3.3%	3.9%	3.3%
	Potential Better Financial Asset Management							
9.	Other Interest Income on Fin. Assets		TBD					
10.	Cash Net Interest Expense		TBD					

Notes: Based on EC and EFSF data. 2015 data except Debt, 2014.

Greece Financial Asset Categories: 2013 Year End

- Greece does not have a financial system to record government fixed assets; the Greece government has no balance sheet.
- Financial assets do NOT include fixed assets.
- All three sources reports the same numbers: IMF, ESM, and OECD.
- Comparison data is available for Greece peer EU member states.
- Total is greater than €91 billion used in verification as it is more recent data reflecting discovery of more financial assets.

Categories	Amount	% of Total
Currency and Deposits	€ 21,910	23%
Short-term Debt Securities	€ 2,978	3%
Long-term Debt Securities	€ 17,378	18%
Short-term Loans	€ 26	0%
Long-term Loans	€ 799	1%
Listed Shares	€ 30,851	32%
Unlisted Shares and other Equity	€ 20,872	22%
Investment Fund Shares	€ 526	1%
Insurance, Pensions, and Standardized Guarantees	€ 48	0%
Financial Derivatives and Employee Stock Options	€ 0	0%
Total:	€ 95,388	100%

Two Universal Principles

1. Time-value-of-money is the rock upon which finance is based.

2. Financial statements and international rules are the foundation upon which good management and accountability are based.

Present Value of Net Debt (PVND) vs. Net Present Value of Debt (NPVD)

- **PVND** is the present value of government debt less government financial assets.
- **NPVD** is an incorrect use of the net present value calculation as it would first calculate the present value of the scheduled outflows and then subtract the present value of the inflow (which is the day one inflow), resulting most often in a zero or negative value on official debt.

Logic of Present Value of Net Debt

- Present value of debt is the most meaningful debt number as it best reflects economic value today.
- Present value follows both international macroeconomic and accounting rules.
- Net debt, which is the present value of debt less financial assets, provides an assessment of financial condition, debt, and financial assets.
- Governments most highly respected for financial management use change in net debt (and/or net worth) as their most important KPI.

Rules-based Technical Corrections

1. Present value of net debt should be used in decision-making, not future value of gross debt.
2. SMP/ANFA 2015 interest and principal rebates of approximately €3.8 billion used to reduced interest; not zero and should not be included in revenue.
3. 2022 interest on deferred bonds not a one time payment; convention is to be added to principal.
4. Exposure to future interest rate adjustments very manageable.
5. Creditors do not have an accounting loss associated with Greece debt relief.
6. Debt relief should be booked as income upon receipt of funds.

Increasingly Seeing Through the False Victim PR Spin

“Moreover, Greece deters investors by depicting itself as crushed by a crippling debt mountain and a victim of predatory creditors rather than as a land of opportunity for business.” Reuters (6 Dec 2015)

Commenting on Greece, “You have to have a positive story and sell a business case.” John Moran, former Secretary-General of Ireland Department of Finance, Reuters (6 Dec 2015)

Examples of Recent Comments on Correctly Assessing Greece Government Debt Using PV or Debt Service and Not Future Face Value

- International accounting authorities, including IFAC, CIPFA, IPSASB
- Harvard Business School case study by George Serafeim
- Leading think tanks including CEPS, CESIfo, Bruegel, Peterson
- Apolitical economists / historians including DeGrauwe, Soll, Truglia, Weder di Mauro
- German Chancellor Angela Merkel and Dep. Fin. Minister Jens Spahn
- Eurogroup President Jeroen Dijsselbloem
- ESM Managing Director Klaus Regling and ESM annual report
- IMF DSA – June 2015
- Leading business groups including CDU Economic Council.

Growing Consensus on Present Value as Correct Measure of Greece Debt: International Comments

1. **Germany Deputy Minister of Finance Jens Spahn**: Debt burden should be assessed based on "net present value of debt" and "how much in fact does Greece have to pay per year". (Bloomberg, 2 Sep 2015)
2. **European Stability Mechanism Managing Director Klaus Regling**: Greece debt ratio is meaningless (WSJ, 26 Sep 2013) given very generous concessional terms on the debt and the debt relief should be measured using net present value (ESM Annual Report, 18 Jun 2015).
3. **Germany Chancellor Angela Merkel**: "It is rightful that we don't ask about the 120% debt [to GDP] ratio, but ask, what is the actual burden on Greece from its debt service." (Axia, 1 Sep 2015)
4. **IMF**: Given the extraordinarily concessional terms that now apply to the bulk of Greece's debt, the debt/GDP ratio is not a very meaningful proxy (Greece Preliminary DSA 26 Jun 2015) and present value of debt is the appropriate measure for non-market access countries (DSA LIC Framework, 5 Nov 2013).
5. **CDU Economic Council:** It is the present value of a loan that is decisive, not the nominal value. Greece debt is significantly lower than thought. This 'competitive edge' is kept quiet. (Letter to Members of the CDU/CSU Parliamentary Group, 24 Feb 2015)

Growing Consensus on Present Value as Correct Measure of Greece Debt: Within Greece Comments

1. **Bank of Greece Deputy Governor Iannis (John) Mourmouras**: Future talks on debt relief for Greece will focus on the "present value of Greece debt". (AmCham Greek Economy Conference Speech, 1 Dec 2015)
2. **Senior Political Leader Evangelos Venizelos**: Since the beginning of 2012, Greece has received a debt reduction of more than €200 billion: €100 billion in nominal terms, and another €100 billion in net present value terms.(Speech to Hellenic Republic Parliament, 4 Dec 2015)
3. **PWC Greece**: The net present value of Greece government debt is less than half of its nominal value. (Directions for Economic Recovery in Greece, Sep 2013)
4. **Former Deputy Finance Minister Dimitris Mardas**: Greece government debt would be recorded at net present value taking into consideration the current value of the debt discounted by their expiry date on the basis of the market. (Speech to the 19th Government Roundtable of the Economist, 14 May 2015)
5. **Brookings Institute Senior Fellow Theodore Pelagidis**: **"**debt restructuring/ re-profiling might not be such a difficult task since the official tools are there and Greek government liabilities are already in much better shape in present value terms than most of the people realize." (Brookings, 27 Jul 2015)

IMF and World Bank on Calculating the NPV of Debt and Net Debt

IMF Staff Guidance Note prepared by the IMF and the World Bank (April 2007):

1.Countries that primarily rely on concessional financing, the net present value (NPV) of debt is needed to be informative as a measure of a country's effective debt burden

2.This [debt] burden is best measured using the net present value (NPV) of debt to capture the concessionality of outstanding debt

3.NPV debt ratios are summary indicators of the burden represented by the future obligations of a country and thus reflect long-term risks to solvency

IMF Staff Guidance Note (May 2013):

1.Staff should consider three important issues including gross versus net debt

2.Complementary analysis based on net debt presented to show the impact of risk-mitigating factors

3.The use of a standard statistical definition of net debt in line with the Public Sector Debt Statistics Guide is recommended

From IMF (12 June 2014): NESAS – Athens

Marco Cangiano, Assistant Director of the IMF Fiscal Affairs Department and co-editor of *Public Financial Management and its Emerging Architecture*.

"Many countries—not only Greece—were caught by surprise during the crisis because of the poor quality of their fiscal reporting systems. **It would therefore be a welcome development if the Greek government decided to move toward developing an accruals-based reporting** framework in the context of their public financial management reform agenda.

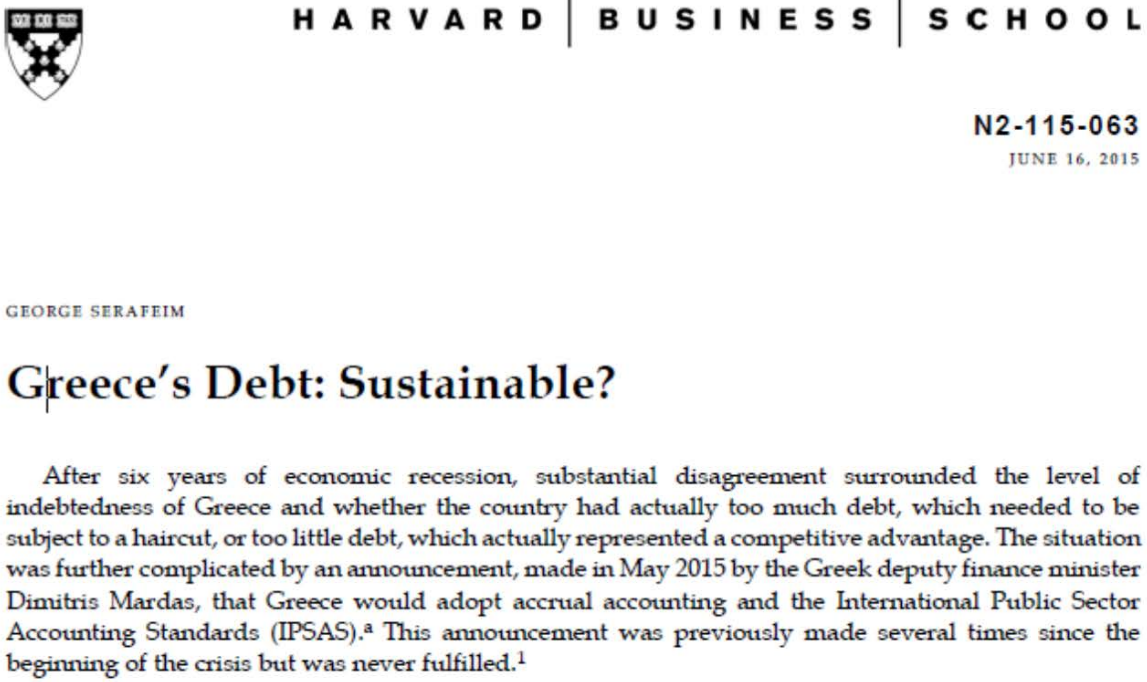
Pending the development of European accounting standards, such a decision would have to **be initially anchored to the existing International Public Sector Accounting Standards (IPSAS),** suitably adapted to the Greek context, and implemented on the basis of a realistic timeframe and the need to develop the appropriate skills."

GFSM (IMF) Box A6.1.
Summary Comparison of GFS and IPSAS - Objectives

Government Finance Statistics:
Evaluate economic impact: Government finance statistics are used to (i) analyze and evaluate the outcomes of fiscal policy decisions, (ii) determine the impact on the economy, and (iii) compare national and international outcomes. The GFS reporting framework was developed specifically for public sector input to other macroeconomic datasets.

IPSAS:
Evaluate financial performance and position: General purpose financial statements are used to evaluate financial performance and financial position, hold management accountable, and inform decision making by users of the general purpose financial statements.

“Fresh Start” from a Management Perspective: HBS Case Study – 16 June 2015



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N2-115-063

JUNE 16, 2015

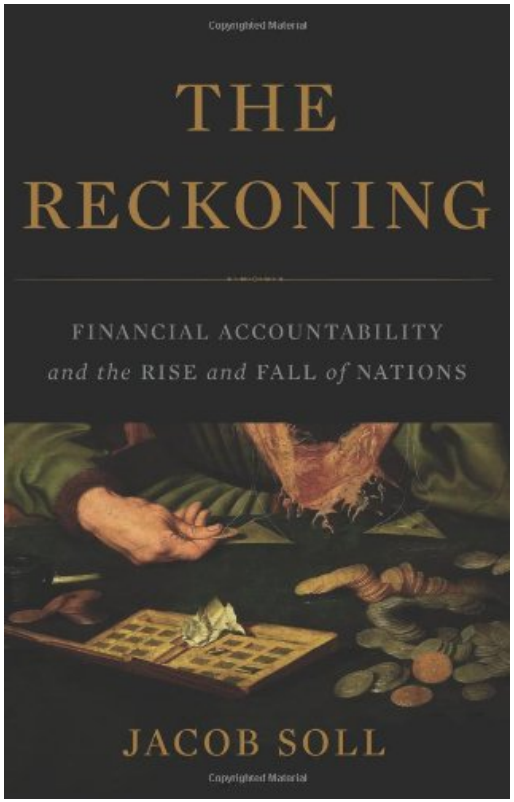
GEORGE SERAFEIM

Greece's Debt: Sustainable?

After six years of economic recession, substantial disagreement surrounded the level of indebtedness of Greece and whether the country had actually too much debt, which needed to be subject to a haircut, or too little debt, which actually represented a competitive advantage. The situation was further complicated by an announcement, made in May 2015 by the Greek deputy finance minister Dimitris Mardas, that Greece would adopt accrual accounting and the International Public Sector Accounting Standards (IPSAS).[a] This announcement was previously made several times since the beginning of the crisis but was never fulfilled.[1]

“**Present value** of net debt is the only debt number that is meaningful and complies with international accounting and statistics rules; future face value is a meaningless and destructive number.” George Serafeim, HBS Professor – July 2015

“Fresh Start” Lessons from History



“Tallying the debt by modern, internationally accepted accounting standards is the **simplest and smartest strategy to solve this crisis** [in Greece].”

Jacob Soll, Historian - 2 July 2015

What is the present value of Greece government net debt, compared to other European countries?

Answer: 22%

Ποια είναι η τρέχουσα αξία του ελληνικού καθαρού χρέους ως ποσοστό του ΑΕΠ σε σχέση με αυτό των ομότιμων χωρών;

Απάντηση: 22%

Greece is a Classic Turnaround

#3. Low hanging fruit for a Chief Turnaround Officer (CTO) to drive down Greece public borrowing costs (spreads) to “super boost” the economy.

Benefits of a Starting a "Super Boost" from Pushing Down the Crushing Greece Government Bond Yields to Portugal Levels

1. Lowering borrowing costs for everyone.
2. Increasing value of real estate, reducing NPLs, and reawakening construction markets.
3. Increasing government revenues and asset values.
4. Boosting commerce including: small businesses, exports, FDI, and equity markets.
5. Jump starting 200,000+ sustainable new jobs within the next 24 months.
6. Saving almost €450 million annually on T-Bills.

Real Estate Values Have the Potential to Increase over 100% when Government Bond Yields Decline to Portugal, Reducing NPLs

Illustrative Example:

Recent Value	€ 145,000
Annual Rental Income	€ 16,000

	10-Year Gov't Bond Yields	Real Estate Risk Premium	Required Rate of Return (Cap Rate)	Real Estate Value	% Increase from Current Value
Recent Value	**8%**	**3%**	**11%**	**€ 145,000**	**NA**
	7%	3%	10%	€ 160,000	10%
	6%	3%	9%	€ 178,000	23%
	5%	3%	8%	€ 200,000	38%
	4%	3%	7%	€ 229,000	58%
	3%	2%	5%	€ 320,000	121%
Portugal	**2.44%**	**2%**	**4.44%**	**€ 360,000**	**148%**
	2%	2%	4%	€ 400,000	176%

Note: Real Estate Value is Annual Rental Income divided by the Cap Rate.

Decline in Government Borrowing Cost Will Jump Start 200,000 to 400,000 Sustainable New Jobs within the Next 24 Months

- Value of income producing real estate will increase given lower cap rates.
- Construction markets will reawaken.
- Small business resurgence.
- Exports will increase given new competitiveness.
- Increased liquidity through ECB collateral and QE eligibility.
- Based on analysis by an OECD economist: Event study approach based on regression analysis on full sample comprised of 180 countries. Event definitions: 200-300 bp decline. Impulse response function using methodoly in Chapter 3 of IMF WEO.

Benchmark for Government Turnaround

Ireland PM Enda Kenny makes major focus to reduce government and consumer borrowing costs. *(January 2012)*

Appoint Government Chief Turnaround Officer: Key Points

1. **Goals:** Appoint a Chief Turnaround Officer (CTO) to push down government bond yields close to or below Portugal for an economic “super boost”.
2. **CTO Responsibilities:** (A.) publish preliminary opening balance sheet within 60 days, (B.) presentations to rating agencies, (C.) presentations to sovereign wealth funds, and (D.) educate institutions on the use of rules in reporting Greece government financial numbers.
3. **Qualifications:** Select the best person in the world for the job to start as soon as possible. The CTO will have no political affiliations or responsibilities.

Q1 2016 Goals for Greece Chief Turnaround Officer

A. **Balance sheet:** Lead working group of EY, Deloitte, KPMG, and PWC to meeting 60-day goal of publishing preliminary opening balance sheet.

B. **Rating agencies:** Presentations to executive rating committees and boards of Moody's, S&P, Fitch, DBRS, and Kroll to earn a BB- or better Greece government bond rating from at least one within 100 days.

C. **Sovereign Wealth Funds:** CEO and investment committee presentations to win €5 billion of investments for Greece with: Canada (CDP, CPPIB, OMERS, and OTPP); China (CIC and SAFE); Japan (GPIF); Kuwait (KIA); Norway (NBIM); Qatar (QIA); Saudi Arabia (Olayan and SAMA); Singapore (Temasek and GIC); UAE (ADIA and DIC); and United States (CalPERS).

D. **Institutions:** Presentations to committee and staff to educate institutions on technically correct use of rules in reporting Greece government financial numbers and the compelling rationale.

CTO's 30-60-100 Day Goals

Milestones	30 Days	60 Days	100 Days
#1 Reduced government 10-year borrowing costs	-2.0%	-3.0%	-4.0%
#2 Preliminary balance sheet		Public Release	
#3. New SWF investments actual and committed		€2 Billion	€4 billion
#4. Increase credit rating from at least one rating agency		B	BB-
# 5. Increase public and private asset values	+10%	+20%	+30%

Publish CTO Job Ad in the FT and Greece Newspapers ASAP

Qualifications:

1. Minimum 10-years of turnaround experience with impeccable professional integrity.
2. Several successful “growth” turnarounds.
3. Unparalleled knowledge of Greece and other EU government financial information.
4. Managed over 5,000 employees.
5. Success with credit rating agencies and sovereign rating rules.
6. Personal relationship with SWF CEOs.

CTO will have no political responsibilities.

Why a Greece Government Balance Sheet is a Highly Effective Tool and the Most Important Reform

1. Lowering borrowing costs.
2. Creating value.
3. Improving decision-making.
4. Assessing performance.
5. Combating corruption.
6. Building trust and confidence.
7. Increasing accountability.
8. Focusing on change in net worth.

Best Process to Produce a Greece Government Balance Sheet

- 60 days for preliminary draft released to all stakeholders.
- Benchmarks for government balance sheet include Australia, Austria, EU, France, Israel, New Zealand, South Africa, Sweden, Switzerland, and UK.
- Balance sheet prepared under international accounting principals (IPSAS/IFRS).
- Balance sheet to be verified by two of the Big Four accounting firms.

Public Education Media Campaign to Build Appreciate of a Greece Government Balance Sheet

- Press release
- Press conference
- Social media campaign
- Domestic road show
- International road show
- December public debate on the correct calculation of debt.

GGB Path to Price of €120

1. Government interest payments to private sector bond holders are only about 1% of revenue compared to peers at almost 10%.
2. PSI nGGBs have step-up coupons rising from current 3% to 4.3%.
3. When 20-Year YTM matches Portugal, GGB price is €107+ (92% increase).
4. When 20-Year YTM matches Italy/Spain, GGB price is €120+ (116% increase).
5. Potential to exchange GGBs for government assets.

Greece Government Annual Public Debt Service is 1% of GDP and Only 9% of EU Peer Countries in 2016

			Greece		*Former Programme Countries*			
		Greece	**% of Peer Average**	**Peer Average**	**Ireland**	**Spain**	**Portugal**	**Italy**
1.	Interest Payments	€ 1.1			€ 7.1	€ 33.2	€ 8.7	€ 71.4
2.	Principal Payments	€ 0.6			€ 8.2	€ 107.7	€ 7.1	€ 185.1
3.	Debt Service	€ 1.7			€ 15.2	€ 140.9	€ 15.7	€ 256.4
4.	Debt Service / GDP	**1.0%**	**9%**	11.0%	7.5%	12.4%	8.6%	15.3%
5.	GDP	€ 172			€ 203	€ 1,134	€ 183	€ 1,675

Notes: Interest payments are net ANFA/SMP rebates. Principal payments exclude T-Bills, which for Greece are largely held by pillar banks. Assumes average interest rates of 2% on peer country non-private sector debt. Data from EC AMECO Database, IMF, and Greece Ministry of Finance.

EU Countries with Little Bond Liquidity and Lower Bond Yields than Portugal Debunk the Greece Illiquidity Excuse for Large Spreads

European Countries	2-Year Bond Yield	Spread to Portugal 0.10% Yield	Private Debt	Ratings (M/S&P/F/D)
Greece	7.37%	7.27%	€ 35.1	Caa3/CCC+/CCC/CCCH
Malta	-0.04%	-0.14%	€ 5.0	A3/BBB+/A/NA
Cyprus	2.34%	2.24%	€ 6.3	B1/BB-/B+/B
Latvia	-0.08%	-0.18%	€ 6.4	A3/A-/A-/NA
Bulgaria	0.17%	0.07%	€ 9.4	Baa2/BB+/BBB-/NA

Note: Bloomberg data as of 18 December 2015.

Insights into Japonica's Turnaround Track Record and Accelerating the Turnaround of Greece

Appendix

Creating Value in Government Assets Through Better Management

1. Value creation should be managed and measured with financial statements.
2. Value creation assessment as alternative to complete monetization.
3. Use of proceeds and value creation to be assessed in context of change in net worth and net debt.

Why Capital Expenditures Should be Capitalized and Depreciated

1. Using professional management practices, capital expenditures should be capitalized and reported as fixed assets.
2. The fiscal balance will benefit from productive capital spending.
3. Financial statements will allow the assessment of return on assets.

Potential Alternatives to Pension Cuts and Tax Increases Using the Rules

All of the following alternatives require a balance sheet for the Greece government:

- Increase government revenues through growth.
- Increase value of pension assets by driving down government bond yields.
- One time charge increase liability and charge to reserve in future years.
- SPV for select pension liabilities matched with dedicated financial assets or income streams.
- Issues amortizing debt to third party to fund dedicated pension pool.

Greece Pension Spending Ranks Highest, but Government Spending is Average

	Pension Expenditures			Primary Expenditures	
Country	% of Revenue & Rank	% of GDP & Rank	Country	Purchasing Power Parity Per Capita & Rank	% of GDP & Rank
Greece	**40% / 1st**	**17% / 1st**	**Greece**	**€9,046 / 15th**	**45% / 9th**
Portugal	35% / 2nd	14% / 5th	Luxembourg	€30,630 / 1st	44% / 11th
Italy	34% / 3rd	16% / 2nd	Finland	€17,462/ 2nd	57% / 1st
Spain	32% / 4th	12% / 10th	Austria	€17,190 / 3rd	50% / 4th
Austria	30% / 5th	15% / 4th	Belgium	€16,559 / 4th	51% / 3rd
Netherlands	29% / 6th	13% / 6th	Netherlands	€16,074 / 5th	45% / 8th
France	29% / 7th	15% / 3rd	France	€15,853 / 6th	55% / 2nd
Germany	27% / 8th	12% / 9th	Germany	€14,109 / 7th	42% / 12th
Slovenia	26% / 9th	11% / 11th	Ireland	€12,790 / 8th	35% / 18th
Malta	25% / 10th	9% / 13th	Italy	€12,339 / 9th	46% / 6th
Lithuania	24% / 11th	8% / 18th	Cyprus	€10,900 / 10th	46% / 7th
Belgium	24% / 12th	12% / 8th	Slovenia	€10,577 / 11th	47% / 5th
Latvia	24% / 13th	8% / 16th	Spain	€10,408 / 12th	40% / 14th
Cyprus	24% / 14th	9% / 14th	Malta	€9,911 / 13th	41% / 13th
Slovakia	24% / 15th	8% / 15th	Portugal	€9,427 / 14th	44% / 10th
Finland	23% / 16th	13% / 7th	Slovakia	€8,284 / 16th	40% / 15th
Luxembourg	22% / 17th	10% / 12th	Estonia	€7,826 / 17th	39% / 16th
Estonia	20% / 18th	8% / 17th	Lithuania	€6,837 / 18th	33% / 19th
Ireland	20% / 19th	7% / 19th	Latvia	€6,295 / 19th	35% / 17th
18 Country EZ Peer Average	25%	12%	18 Country EZ Peer Average	€ 12,971	44%
Greece as % of EZ Average	**160%**	**142%**	**Greece as % of EZ Average**	**70%**	**102%**
Performance Gap to EZ Average	€ 12	€ 9	Performance Gap to EZ Average	(€ 43)	€ 2

Eurozone Exports Excluding Oil Products: YoY Change and Ranking

(Based on Eurostat Data excluding Oil Products)

During the trailing twelve months through September, Greece merchandise exports increased 10.2% year-over-year, which was the 2nd highest in the EZ. The increase was 13.9% in the first half YoY, the 2nd highest rank. However, Greece was hit hard by capital controls in Q3 with only a 4.9% increase and a 13th rank in the EZ.

		2014 Q4		2015 Q1		2015 Q2		2015 6M		2015 Q3		2015 9M		TTM (to Sep 2015)	
SN	Eurozone Member	YoY %	EZ Rank	YoY %	EZ Rank	YoY %	EZ Rank	YoY %	EZ Rank	YoY %	EZ Rank	YoY %	EZ Rank	YoY %	EZ Rank
1	Austria	2.5%	12	0.9%	15	2.9%	14	1.9%	15	6.3%	8	3.4%	14	3.1%	13
2	Belgium	1.2%	15	2.2%	13	6.7%	9	4.5%	12	6.0%	9	5.0%	12	4.0%	11
3	Cyprus	-21.2%	19	39.9%	1	-11.8%	19	11.8%	3	13.5%	2	12.3%	2	3.2%	12
4	Estonia	2.8%	10	0.3%	16	-0.7%	17	-0.2%	17	-5.6%	18	-2.0%	18	-0.8%	18
5	Finland	2.2%	13	1.7%	14	4.9%	12	3.4%	13	-1.1%	17	1.9%	15	2.0%	15
6	France	2.5%	11	3.5%	11	9.0%	6	6.2%	10	5.5%	11	6.0%	10	5.1%	9
7	Germany	5.1%	4	6.8%	7	9.2%	5	8.0%	6	6.7%	7	7.6%	6	7.0%	6
8	**Greece**	**8.4%**	**2**	**14.1%**	**3**	**13.8%**	**2**	**13.9%**	**2**	**4.9%**	**13**	**10.9%**	**3**	**10.2%**	**2**
9	Ireland	10.4%	1	20.8%	2	23.3%	1	22.1%	1	16.8%	1	20.3%	1	17.9%	1
10	Italy	4.8%	7	8.8%	4	6.1%	10	7.4%	8	4.4%	14	6.4%	9	6.0%	7
11	Latvia	1.7%	14	-1.1%	17	1.8%	16	0.3%	16	3.2%	15	1.3%	16	1.4%	16
12	Lithuania	4.0%	9	-3.4%	18	-4.1%	18	-3.8%	19	-6.2%	19	-4.6%	19	-2.4%	19
13	Luxembourg	-0.8%	16	3.9%	10	12.8%	3	8.2%	5	5.7%	10	7.4%	7	5.1%	8
14	Malta	-2.7%	18	-4.4%	19	3.7%	13	-0.5%	18	2.5%	16	0.5%	17	-0.4%	17
15	Netherlands	4.8%	6	5.5%	8	7.8%	7	6.7%	9	9.7%	3	7.7%	5	7.0%	5
16	Portugal	4.8%	5	4.1%	9	5.9%	11	5.0%	11	5.0%	12	5.0%	11	5.0%	10
17	Slovakia	-1.7%	17	3.3%	12	2.8%	15	3.1%	14	8.4%	5	4.8%	13	3.1%	14
18	Slovenia	7.2%	3	7.4%	6	7.6%	8	7.5%	7	6.9%	6	7.3%	8	7.3%	4
19	Spain	4.2%	8	8.6%	5	9.8%	4	9.2%	4	9.0%	4	9.1%	4	7.9%	3
20	**Average (ex-Greece)**	**1.8%**		**6.1%**		**5.4%**		**5.6%**		**5.4%**		**5.5%**		**4.5%**	
21	**Greece % of Average**	**472%**		**233%**		**254%**		**248%**		**92%**		**198%**		**226%**	

Source: Eurostat database (http://ec.europa.eu/eurostat/data/database, accessed on 15 November 2015) "international trade detailed data" dataset for "Member States (EU28) trade by BEC product group since 1999 (ext_st_28msbec)" (BEC: "Total - All products"; Partner: "All countries of the world") less Oil (EU trade since 1988 by SITC; Product 3 Mineral Fuels, Lubricants and Related Materials).

Turnaround Greece: Reading

“Greece’s Debt Sustainable?” Harvard Business School Case Study. June 2015. **Serafeim, George**

“The Reckoning: Financial Accountability and the Rise and Fall of Nations.” Basic Books. 2014. **Soll, Jacob**

“Greece Adopts IPSAS!” Public Finance International. May 2015. **Ball, Ian**

“Public Administration and the Tragic Trident” (Forthcoming.) **Jacobides, Michael G.**

“Greece’s New Agreement with Europe: This Time Different?” Intereconomics. September/October 2015. **Pelagidis, Theodore and Kazarian, Paul B.**

See also: www.MostImportantReform.info

Huge Need to Educate Senior Ministers

1. Little appreciation of benefits of professional skills in management or finance.
2. Political “meritocracy” used to select top three levels of government civil servants.
3. Financial statements, including balance sheet, as management tools a foreign “theory”.
4. Inability to distinguish between value destruction and value creation.
5. Hostile view of accounting rules integrity.

Turnaround Impact of Professional Management in Ministries

- All civil servants including ministers selected based on merit of professional track record: highest value creation and best risk management planning and execution.
- If only non-ministerial level civil servants selected based on merit of professional track record: little impact in turnaround situations as ministers have highest value creation and value destruction potential.

Flawed Political Logic on Greece Government Debt Relief

Examples:

1. **Need Symbolic Victory:** Not educating that the third programme has €64.6 billion of debt relief.
2. **Want Nominal not PV:** Even though nominal cut will not happen, promise nominal debt relief to have perpetual hope.
3. **More money today:** Talking about smoothing debt almost 10 years out will have no impact on citizens in near future.
4. **Don't want to admit debt relief:** Don't want to admit debt relief on third program because voters will want the money and will be unhappy if none.
5. **PV is too complicated:** Everyone can understand difference between today's value of money (PV) versus the distant future.
6. **No more victim benefits:** If we say our debt is lower then no more EU benefits from being a victim.
7. **EU vs. Markets:** Can get free money from Brussels and not from competitive capital markets.

Misinterpreting Third Programme Breathing Space

Third Programme €86 Billion Borrowing Cost Impact: 2015 to 2018

- Greece borrows at ESM cost of funds.
- ESM weighted average maturity is 4+ years.

	Borrowing Cost	**2015**	**2016**	**2017**	**2018**	**Total**
Borrowing from ESM		€ 21.400	€ 28.600	€ 38.200	€ 42.800	€ 42.800
ESM	1%	€ 0.214	€ 0.286	€ 0.382	€ 0.428	€ 1.310
Greece Current	8%	€ 1.712	€ 2.288	€ 3.056	€ 3.424	€ 10.480
Savings		€ 1.498	€ 2.002	€ 2.674	€ 2.996	**€ 9.170**
ESM	1%	€ 0.214	€ 0.286	€ 0.382	€ 0.428	€ 1.310
Greece Potential	2.5%	€ 0.535	€ 0.715	€ 0.955	€ 1.070	€ 3.275
Savings		€ 0.321	€ 0.429	€ 0.573	€ 0.642	**€ 1.965**

Red Herring Excuses for Focus on 2022 to 2042

1. September 2014 spread on 10-year government bond was 3.34%; recent spread of 6.33%.
2. T-bill and two-year Greece government bonds proportionally worse than 10-year.
3. Rating agency framework weighting is on near-term factors (one to three years).
4. Debt sustainability shortcomings driven by near-term year failures: primary balance disappointment, GDP growth weakness, and high market rates.