

CONSULTATION DOCUMENT

DEFINING THE MODEL FOR PRIVATE PARTICIPATION IN THE MANAGEMENT OF THE TAGUS RIVER PUBLIC TRANSPORT SERVICES

June 2014



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THE TAGUS RIVER PUBLIC TRANSPORT SERVICES

DISCLAIMER:

This Consultation Document is for information purposes only and is not part of any legal tender procedure.

Neither the Portuguese State, nor the State Owned Enterprises (SOE's) envisaged will assume any responsibilities whatsoever in respect of its contents or in relation to any comments made by the Respondents.

The data presented here does not excuse the consultation of Annual Reports, approved and published under the legislation in force.

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A. CONTEXT AND OBJECTIVES

As it is publicly known, the Portuguese State intends to open to private participation the exploitation of public transport services currently provided by **SOE's**, as agreed in the Memorandum of Understanding signed with the European Commission, the European Central Bank and the International Monetary Fund.

That is the case of the public transport services actually operated by Transtejo – Transportes do Tejo, S.A. (Transtejo) and Soflusa – Sociedade Fluvial de Transportes, S.A. (Soflusa), respectively.

The main objectives are to foster the efficiency in the provision of those services while reducing charges for the Portuguese State, assuring the fulfillment by the private operators of public service level, quality and safety requirements.

It is intended, therefore, that regardless the operating model to be adopted, the burden of the State to fund the operation of Transtejo and Soflusa - by paying Compensatory Allowances (IC) – cease to exist.

The management of public transport services will only be awarded to private operators in case there is strong evidence it will improve the fulfillment of the objectives mentioned above in comparison with **SOE's**.

Several models exist for private participation in the exploitation public transport systems. With this consultation document it is the State's intention to enable all stakeholders to provide constructive feedback in order to improve the model design.

Respondents are welcome to comment on any part of the consultation document in respect of which may have any comments or suggestions they understand to share (in Portuguese or English) and remit these contributions to the email address consulta-tt-sl@imt-ip.pt, until June 20th, 2014.

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B. FRAMEWORK

1 Transtejo

Transtejo is a public transport company responsible for the Tagus crossing, ensuring the passenger river links through 4 different routes: Montijo – Terreiro do Paço, Seixal – Cais do Sodré, Cacilhas – Cais do Sodré and Trafaria – Porto Brandão – Belém.

The company was established in 1975 and since then Transtejo plays a crucial role in the transport of passengers in the metropolitan area of Lisboa, contributing to the urban mobility.

In 2013 Transtejo carried around 13,3 million passengers on the 4 existing routes. To provide its public transport services Transtejo uses a fleet of 20 ships and a total staff of 321 persons.

In parallel to its main activity, the transport of passengers between the two margins of the Tagus River, Transtejo also develops other activities such as touristic programs in the Tagus River, rental of ships and the operation of car parks, commercial spaces and publicity.

Transtejo – Main KPIs

TRANSTEJO - Main KPIs	2010	2011	2012	2013
OPERATIONAL				
Passengers (in millions)	17,6	16,7	14,4	13,3
Montijo - Terreiro do Paço	1,8	1,7	1,5	1,5
Seixal - Cais do Sodré	1,8	1,8	1,7	1,6
Cacilhas - Cais do Sodré	13,2	12,5	10,6	9,7
Trafaria - Porto Brandão - Belém	0,8	0,8	0,6	0,5
Passengers-Km (in millions)	71,8	68,4	60,9	57,0
Load Factor (%)	28,0%	28,0%	28,6%	27,1%
Fleet (operacional)	23	24	21	20
Staff*	362	343	346	321

* number of employees at 31th December

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Transtejo – Adjusted EBITDA (excluding non-recurring effects)

EBITDA (€)	2010	2011	2012	2013
Sales	7.259.086	7.614.044	7.663.062	7.431.038
Compensatory Allowances	6.534.627	6.269.504	6.042.851	5.759.747
Other operating income (1)	4.268.305	1.301.622	1.832.205	989.609
OPERATING REVENUES	18.062.019	15.185.170	15.538.118	14.180.393
Cost of materials and services consumed	3.533.362	5.687.255	4.699.997	4.022.303
Supplies and Services	8.078.428	6.564.231	6.624.542	5.871.837
Personnel costs (2)	9.502.325	8.483.851	8.230.562	8.428.083
Other operating expenses (3)	3.376.385	6.764.944	7.868.302	6.932.511
OPERATING COSTS	24.490.500	27.500.281	27.423.403	25.254.734
EBITDA	-6.428.481	-12.315.112	-11.885.285	-11.074.340
<i>(1) Excluding investment subsidies</i>	1.268.309	1.843.715	1.527.228	1.529.996
<i>(2) Excluding personnel exit costs:</i>	43.794	9.980	146.397	310.319
<i>(3) Includes loss of associated companies (soflusa).</i>	2.387.113	4.372.680	7.250.670	6.594.063

2 Soflusa

Soflusa is a public transport company responsible for the passenger river link between Barreiro and Terreiro do Paço. In addition to its main activity, the transport of passengers, Soflusa is also responsible for the operation of car parks, commercial spaces and publicity.

Soflusa was established in 1993 and was acquired by Transtejo in 2001.

In 2013 Soflusa carried around 9,8 million passengers and had a fleet of 12 ships and a total staff of 158 persons.

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Soflusa – Main KPIs

SOFLUSA - Main KPIs	2010	2011	2012	2013
OPERACIONAIS				
Passengers (in millions)	11,0	10,7	9,7	9,8
Barreiro - Terreiro Paço	11,0	10,7	9,7	9,8
Passengers-Km (in millions)	109,7	107,3	97,2	97,6
Load Factor (%)	38,3%	38,6%	37,9%	38,4%
Fleet (operacional)	12	12	12	12
Staff*	169	165	163	158

* number of employees at 31th December

Soflusa – Adjusted EBITDA (excluding non-recurring effects)

EBITDA (€)	2010	2011	2012	2013
Sales	6.710.928	7.129.788	7.421.194	7.342.047
Compensatory Allowances	4.582.208	4.356.774	1.504.211	1.444.006
Other operating income (1)	1.588.483	1.609.437	1.530.559	1.620.787
OPERATING REVENUES				
	12.881.620	13.095.999	10.455.965	10.406.840
Cost of materials and services consumed	4.804.781	5.349.682	5.188.572	4.804.031
Supplies and Services	4.410.262	4.402.407	4.410.215	4.105.299
Personnel costs (2)	4.544.604	4.223.846	3.950.367	4.143.915
Other operating expenses	128.385	239.554	277.493	208.311
OPERATING COSTS				
	13.888.032	14.215.488	13.826.647	13.261.556
EBITDA				
	-1.006.412	-1.119.488	-3.370.682	-2.854.716
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(1) Excluding investment subsidies	2.145.823	1.931.881	1.759.430	1.758.936
(2) Excluding personnel exit costs:	0	0	0	44.500

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3 Transtejo/Soflusa Group

The consolidated adjusted EBITDA presents the income statement at 31th December 2013 for the Transtejo/Soflusa Group.

EBITDA (€)	2010	2011	2012	2013
Sales	13.970.015	14.743.833	15.084.256	14.773.085
Compensatory Allowances	11.116.836	10.626.277	7.547.063	7.203.753
Other operating income (1)	4.871.289	1.862.337	2.326.641	1.574.220
OPERATING REVENUES	29.958.140	27.232.447	24.957.960	23.551.057
Cost of materials and services consumed	8.338.143	11.036.937	9.888.568	8.826.334
Supplies and Services	10.758.357	9.917.915	9.998.634	8.943.713
Personnel costs (2)	14.090.723	12.707.697	12.180.930	12.571.998
Other operating expenses	1.073.863	2.631.818	1.036.215	402.915
OPERATING COSTS	34.261.086	36.294.367	33.104.347	30.744.961
EBITDA	-4.302.946	-9.061.920	-8.146.387	-7.193.903
<i>(1) Excluding investment subsidies</i>	3.414.132	3.775.596	3.286.658	3.288.932
<i>(2) Excluding personnel exit costs:</i>	43.794	9.980	146.397	354.819

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4 Regulation and governance

The establishment of the Authority for Mobility and Transport (AMT) is ongoing, succeeding to the Institute for Mobility and Transport, IP, on its attributions remit on regulation, promotion and protection of competition within the land, river and sea transport.

The *Regulamento dos Transportes em Automóvel* (RTA) (approved by Decree n.^º 37272, of December 31st, 1948) is under revision in order to adjust the Portuguese legal framework to the EU applicable legislation (Regulation 1370/2007, of the European Parliament and of the Council of October 23rd, 2007).

Autoridade Metropolitana de Transportes de Lisboa (AMTL) is preparing a revision of the “Passes L” and “Passes Combinados” model in order to increase / improve the intermodality in the region of Lisboa. This improvement to model will be performed in articulation with all the relevant stakeholders (Municipalities, operators, etc.)

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C. ISSUES FOR CONSULTATION

Respondents are welcome to comment on any content of this document, as well as to any of the working hypotheses assumed. Specifically, we welcome feedback on the following questions:

1 Exploitation Model

There are two base options regarding the exploration model to adopt:

a) *Net Cost Model*:

- The private operator bears demand risk
- All tariff revenues and marketing revenues are due to the private operator
- The base case hypothesis is an annual tariff growth at inflation rate
- The revenues received by the private operators (tariffs and other) are expected to be sufficient to address the return rate required, i.e. no Compensatory Allowances (CA) shall be due to private operators

b) *Gross Cost Model*:

- The private operator is responsible for operating the public transport service, being remunerated through a fixed fee and a variable fee, depending on the level of production achieved
- An incentive mechanism to foster demand, limited to a % of annual revenues, can yet be established
- It is intended with this model that the cost savings for the public partner allows to achieve a perfect balance with the tariff revenue

These two models can also be combined.

Question 1a) How do you assess the *Net Cost* model versus a *Gross Cost* model for Transtejo and Soflusa?

2 Contract and tender process

Question 2a) How do you assess the possibility of the contract(s) to be awarded by Transtejo and by Soflusa versus being directly awarded by the Portuguese State?

Question 2b) How do you assess the possibility of the public transport operations provided by Transtejo and Soflusa being merged into a sole operation, giving rise to only one tender procedure and one contract?

Question 2c) Which is the minimum contract duration you estimate to make the operation model balanced and to achieve the State's proposed goals?

Question 2d) How do you assess the hypothesis of the contract(s) to be awarded to provide for a mechanism of reward for performance and alignment of incentives, which allows the automatic extension of the contract duration for a period of time in case certain goals set out in the contract(s) are achieved?

3 Operation and maintenance

Question 3a) How do you assess the possibility of the private operator to assume the light maintenance of Transtejo and Soflusa fleet?

Question 3b) How do you assess the possibility of the private operator to assume the major repairs of Transtejo and Soflusa fleet?

Question 3c) How do you assess the possibility of the private operator to be responsible for the light maintenance of Transtejo and Soflusa infrastructure (e.g. terminal, piers, etc.)?

4 Investment (Capex)

Question 4a) How do you assess the possibility of the private operator to be entitled to use current Transtejo and Soflusa fleet subject to the payment of an annual fee equal to the corresponding leasing costs charged to Transtejo and Soflusa?

Question 4b) How do you assess the possibility of the private operator taking responsibility for Transtejo and Soflusa fleet renewal in order to ensure a certain

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average / maximum age of the fleet and / or certain levels of service and quality of service? At the end of the contract the responsibility for the leasing charges of the fleet will be transferred to the succeeding operator or in alternative the succeeding operator will pay to the former operator a sum equal to the unamortized value of the asset.

Question 4c) In this case, what average / maximum age and / or levels of service and quality of service you consider adequate?

5 Network management and public service level requirements

Question 5a) What degrees of freedom and responsibility you deem to be appropriate, respectively in Net Cost Gross and Gross Cost Models, for the (re)definition and optimization of supply of Transtejo and Soflusa while ensuring compliance with service levels, public service obligations and levels of quality and safety pre-established?

Question 5b) How do you assess the conditioning of the (re)definition and optimization of supply to the presentation of a strategic plan subject to the approval of the awarding entity, subject to the opinion and coordination with other stakeholders, including the municipalities?

Question 5c) How do you assess the possibility of complementing the public transport service by ship offered by Transtejo and Soflusa with other modes of transport, ensuring the same points of origin and destination?

6 Employees

Question 6a) How do you assess the possibility of all personnel associated with Transtejo and Soflusa concessions following the establishment (with exception to an eventual reduced administrative structure that may remain in the companies for the contracts' management)?

Question 6b) How do you assess the current collective labor agreements of Transtejo and Soflusa and the possibility of the renegotiation of long term labor collective agreements, in articulation with employees representatives, to be held by the SOE's versus the private operator?

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7 Other subjects

Question 7a) To achieve the zero CA objective, do you have any other suggestions regarding the proposals indicated or any other not included in this document?

Question 7b) Would you like to make any other comment or recommendation on any other matter relating this consultation?