Published on *The National Law Review* https://natlawreview.com

Macedonian Gold Mines and Greek Bonds

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Mining in northern Greece dates back at least to the 6th century BC – gold and silver mines flourished during the reigns of Philip II of Macedon and his son, Alexander the Great. They were one of the Macedonian kingdom's main sources of wealth. While Greece today is not considered a large mining jurisdiction, mining has continued in northern Greece since these ancient times, without much interruption.

"Kassandra mines" was first used to describe a mining area in the Halkidiki Peninsula in northern Greece around 1893, when the French- Ottoman SA company gained the mining rights to that area. Those rights were succeeded by the Greek Limited Company of Chemical Products & Fertilizers (GLC-CPF) after 1920, which built additional infrastructure and, during the 1970s, started production at the Olympias mine, which continues today.

GLC-CPF went into liquidation in 1992 and was kept operating by the National Bank of Greece (NBG) until 1995, when the rights to the Kassandra mines and infrastructure were sold to TVX Hellas, a subsidiary of TVX Gold.

TVX worked to expand operations at the Kassandra mines. However, by 2003 TVX's plans were abandoned after a series of regulatory challenges and negative decisions of the Greek Council of State. The villages in the region suffered economic decline and the Greek government implemented a special social programme to support former workers at the Kassandra mines.

Change was around the corner, however. The Kassandra mines licenses and assets were transferred to Hellas Gold SA (Hellas Gold) in 2004 and, in 2006, a special business plan was approved for the development of the Olympias and Skouries mines. Eldorado purchased Hellas Gold in 2012 and commenced construction of the Skouries mine in 2013.

However, political changes in Greece created a more challenging environment for the Skouries mine's development. Eldorado put construction on hold in 2016. Protracted negotiations between Hellas Gold and the Greek government led to an amended investment agreement being signed by the parties in 2021. The agreement created a foundation for significant, new investment in the Kassandra mines on the basis of a new legal and regulatory framework for the benefit of all stakeholders.

Earlier this year, after closing its project financing, Hellas Gold restarted construction of the Skouries mine. The high-grade gold- copper porphyry deposit will be mined using a combination of conventional open pit and underground mining techniques. The total life of mine is approximately 20 years, and it is expected to produce an average of 140,000 ounces of gold and 67m pounds of copper per year. Restarting construction is creating thousands of new jobs, injecting hundreds of millions of euros of private investment creating social and economic benefits at the local and national levels, and harking back to the golden days of Philip II's mines in the Halkidiki region.

Collaboration

The mandated lead arrangers for Hellas Gold's project financing were NBG – again, involved in a critical moment of the Kassandra mines' development after its role in the 1990s – and Piraeus Bank. It primarily comprises a ten- year term facility of €680m, of which €480m is a commercial loan and €200m is funding from the Greek Recovery & Resilience Facility (RRF), provided by the EU via the Greek State. Availability is three years and then seven years of repayments through semi-annual instalments. In addition, the package included a €30m VAT facility and a contingent cost overrun facility of an additional 10% of capital costs, funded by both the lenders and through equity.

The financing is without recourse to Eldorado Gold, except for an equity commitment equal to approximately 20% of the project funding including the contingent facility. In addition, the EBRD provided C$81.5m of funding for the Skouries project by way of an equity investment in Eldorado, which was passed down to Hellas Gold.

Historically, project financing in Greece primarily related to infrastructure assets, the power sector and PPPs, and there are no previous transactions of a similar nature to the Skouries project financing. Significant work and creativity was required to adapt a mining project financing into the Greek context and a Greek law-governed bond structure. Above and beyond this, the features of the project, the sponsors, the procurement strategy and the offtake arrangements created unique challenges to be solved in this financing.

Not enough is mentioned in project financings of the collaboration needed between borrowers, lenders, contractors and advisers to finance challenging projects, but it is essential for success. The Skouries project financing was very much marked by parties not responding to complicated points with a simple "no". Instead, parties considered requests and came back with a "how about this" response. Without this attitude, this financing may have never taken shape.

We discuss a few of the interesting points that arose in relation to the financing, and how they were solved, below.

Resilience & Recovery Facility: The RRF is a temporary instrument that is the centerpiece of NextGenerationEU – the EU's plans to emerge from Covid stronger and more resilient. It provides lower-cost financing for certain types of investments in EU member states. The Skouries project, with its positive impact on growth, jobs, exports and the energy transition, is a prime example of the types of investments the RRF seeks to encourage. The Skouries project applied for and received €200m of its term facility to be funded through the RRF, by far the largest RRF amount awarded to a project in Greece.

The Greek systemic banks administer the RRF on behalf of the Greek State. They are given tranches of €200m, which must be allocated in certain proportions to investments that satisfy the pillars of the RRF scheme. Once a €200m tranche is fully allocated to financings, the bank receives an additional tranche of €200m. A bank cannot sign an RRF facility on behalf of the Greek State unless it has, at that time, the full amount required unallocated and available within its current tranche. Given the Skouries project would utilize €200m of RRF, this created a challenge around ensuring each of NBG and Piraeus had the necessary RRF allocation within the relevant designated pillar at the same time. Finally, a bridge facility of €100m with a potential duration of the entire term loan was implemented until all necessary RRF allocations were available.

The Kassandra Mines as a Whole: Commonly in project financing, a project is housed within a single purpose vehicle to simplify the arrangements and requirements for financing that project. In the case of Hellas Gold, the entire Kassandra mines are covered by a single, statutory transfer arrangement. The Skouries development project could not be separated into another entity. As a result, the financing had to accommodate a contractual separation between the Skouries project including joint facilities and all other activities of Hellas Gold, including the ongoing mining operations at the Olympias mine.

The contractual separation includes different regimes and different requirements for Skouries project and non-Skouries project aspects, including different representations, warranties, undertakings, insurance requirements, budgets, bank accounts including waterfalls and levels of accountability. On the one hand, Hellas Gold retains significant flexibility to continue with its non-Skouries activities and the lenders accept the potential liabilities within the broader corporate entity, but on the other hand there is a series of checks and balances. Ultimately surpluses (and distributions to shareholders) need to go through the Skouries accounts waterfall.

Contracting and Completion Support: An EPCM contracting strategy, whereby an external and experienced contract manager is appointed to help procure multiple contracts for the construction of a project, is reasonably common in the mining sector. Notwithstanding this, in mining project financings and especially with non-recourse project financing that does not include a completion guarantee or a debt service undertaking, lenders may request a single-point lump-sum EPC contract or a small number of lump-sum EPC contracts for the construction of the project. These types of arrangements are traditionally considered to reduce the risk of delays and cost overruns – although in practice that is not always the case.

Construction of the Skouries project started in 2013 and it has been in care and maintenance since 2017. In this context, getting a contractor to assume responsibility for the site and existing works is very difficult and, to the extent possible, prohibitively expensive. Given this and given EPCM strategies are generally common in the mining sector, Hellas Gold was intent on a EPCM contracting strategy and on entering into the contracts during the construction period – rather than up-front, which would likely have a material cost-implication – while maintaining the non- recourse nature of the financing and for sponsor support to be limited to the agreed equity contribution.

This required significant education of the lender group, including presentations with the procurement team and a deep-dive into the incentive structure of the EPCM contract. Through collaboration and an understanding of the flexibility required by Hellas Gold and the controls required by the lender group, a detailed contracting strategy was included in the financing documents. Different levels of control are applied by the lenders depending on whether a contract satisfies the contracting strategy – including remaining consistent with certain pre-agreed templates – and the value of the contract.

This strategy supplemented modelling of potential cost overrun scenarios and, to increase the amount of contingent funding available, a contingent facility was provided by the lenders. In addition, the financing documents includes a built-in mechanism to extend the availability period, and to delay the start of repayments by six months.

Conclusion

The Skouries project financing represents the culmination of many years of planning to finally bring a world-class, leading gold and copper mine to northern Greece. The mine will use dry tailings, will fully comply with the EBRD performance requirements, will be one of the most sustainable mines in the EU, and contribute to net-zero ambitions. The Skouries project financing demonstrates the flexibility of project financing as a medium to adapt to different situations and resulted in a package that includes elements of several types of financing approaches, an original contracting strategy and a template for future innovations in the Greek market and beyond. It also demonstrates the importance of the different parties, stakeholders and advisers coming together to develop solutions and enable projects, rather than find reasons to say no. Endless cookies from The Cookie Spot bakery in Athens also help.

National Law Review, Volume XIII, Number 297