Annual Meeting of Senior PPP Officials  2010

Mr. Borja Gari    acciona

Paris _ 12th of April 2010
- PPP Risk Pricing
- PPPs Vs Traditional Procurement
- PPPs Strengths
- PPPs around the World
- Best PPPs Practices
PPP Risk Pricing

- DESIGN
- BUILD
- FINANCE
- OPERATE
- OWN
- MAINTENANCE
- TRANSFER

DIFFERENT PPP DELIVERY MODELS

- BOT
- DBFO
- DBO
- Others
PPP Risk Pricing

- Land Acquisition
- Environmental Impacts
- New project requirements
- Project Agreement variations
- Legal/Force Majeure/Change in law

Design & Construction
- Fixed price
- Construction program

Revenues
- Demand (operating and commercial)
- Competition
- Charging approach (evasion and technology)

Operation and Maintenance
- Innovations & Lifecycle
- Labor force

Financial
- Exchange rate
- Interest Rate

Revenue Forecast
- Refinancing Risk
- Fully committed financing at bid stage
- Other Minor Risks

Subject to negotiation

GOVERNMENT

CONCESSIONAIRE

COMPENSATIONS
PPP Risk Pricing

According to the origin of the risk:

- **MARKET RISKS**
  - They come from market fluctuations
  - They are mostly assumed by the **private sector**

- **UNPREDICTABLE AND FORCE MAJEURE RISKS**
  - Events difficult to predict
  - They are usually taken on or mitigated by the **government**

- **POLITICAL AND LEGAL RISKS**
  - They refer to the legal and regulatory framework
  - They are usually covered by the **government**
According to the stakeholder that ultimately bears the risk

- Risks borne by the project itself (Sponsors)
- Risks transferred to third parties through contracts
- Risks that can be insured
- Risks borne or mitigated by the government
- Risks covered or mitigated by the sponsors as a guarantee for the lenders
PPP Risk Pricing

Pre-Bidding:

- D&C STAGE
  - Project Risk
    - Design
    - Environmental
    - Expropriations
    - Construction

- O&M PERIOD
  - Revenue Risk
  - Service quality
  - O&M Risks
  - Financial Risks

Pre-Awarding:

- AWARD OF CONCESSION
  - TIME
  - END OF CONCESSION PERIOD

Most significant risks
Significant risks
Less significant risks
PPP Risk Pricing

- **Price Efficiency**
  - Allocate risks to the Party that can best manage them
  - Reasonable contingencies for non-mitigable risks
  - Diversifying risks (More than one contractor and more than one bank)

- **Lenders’ Requirements**
  - Efficient / Fair risk allocation
  - Risk matrix: Discipline and consistency
  - Certainty
  - Sponsors Strength & Team (financial capacity + experience + resources)

**Best value for money**
PPPs Vs Traditional Procurement

PPP INFRASTRUCTURE CHALLENGE

- Insufficient level of infrastructure investment to support the long term growth of the nations’ economies

- Governments should partner with the private sector to finance major infrastructure projects

- In response to the global economic crisis, many countries have unveiled massive stimulus packages that include substantial funding for infrastructure (transportation, provision of social services such as health and education, energy generation, water distribution and sewage collection)

- Need for significant new infrastructure investment + limited Public Sector resources → Private Sector Infrastructure Providers are expected to play an increasing role in helping governments deliver the infrastructure improvements demanded by society.

- PPP can leverage and optimize total investments. 200M of Public Funds would allow 1B Investment

- Business Executives pointed out roads and power generation infrastructure are the most important priorities followed by social infrastructure

- Increasing number of projects delivered through concessions / PPP Model as part of the solution to the infrastructure funding gap

Source: Bridging the Global Infrastructure Gap Survey, KPMG International – Economist Intelligence Unit, 2008
### PPPs Vs Traditional Procurement

**GLOBAL INFRASTRUCTURE GAP**

<table>
<thead>
<tr>
<th>Region</th>
<th>Stimulus package for 2009</th>
<th>Of which dedicated to Infrastructure</th>
<th>Specific measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>A$ 42 billion (1.9% GDP)</td>
<td>A$ 4.7 billion</td>
<td>Federal guarantees</td>
</tr>
<tr>
<td>UK</td>
<td>£ 20 billion (1.3% GDP)</td>
<td>£ 3 billion</td>
<td>New PPP Lending Unit</td>
</tr>
<tr>
<td>US</td>
<td>$ 825 billion (5.8% GDP)</td>
<td>$ 180 billion</td>
<td>US National Infrastructure Bank</td>
</tr>
</tbody>
</table>
| Canada | C$ 40 billion (2.6% GDP) | C$ 12 billion | • C$ 4 billion Infrastructure Stimulus for local Authorities  
• C$ 1 billion Green Infrastructure Stimulus Fund |
| France | € 26 billion (1.5% GDP) | € 4 billion | • State Guarantee supporting PPP  
• € 8 billion long term public financing |

- **Government’s priority to productive investments and infrastructure expenditure**
- **PPP will benefit from strong Governments’ support**

**INFRASTRUCTURES WILL FIGHT THE CRISIS**
PPPs Vs Traditional Procurement

Public Sector Comparators: quantitative comparison Traditional Procurement / PPP

Very difficult to compare on Government's side as, most of the time, different departments are responsible for the different activities involved in a PPP (DB, O&M, Funding). There is no overall vision.

ACCIONAS’ LATEST DEALS – QUATITAVE COMPARISON: TRADTIONAL PROCUREMENT / PPP

<table>
<thead>
<tr>
<th>Project</th>
<th>Traditional Delivery Model Net Present Cost</th>
<th>Final PPP Agreement Net Present Cost</th>
<th>Saving</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royal Jubilee Hospital (British Columbia, Canada)</td>
<td>$CAD 370.8 M</td>
<td>$CAD 348.6 M</td>
<td>$CAD 22.2 M</td>
<td><a href="http://www.partnershipsbc.ca/files/projects.html">http://www.partnershipsbc.ca/files/projects.html</a></td>
</tr>
<tr>
<td>Autoroute 30 Highway (Montreal, Canada)</td>
<td>$CAD 2251 M</td>
<td>$CAD 1500 M</td>
<td>$CAD 751 M</td>
<td><a href="http://communiques.gouv.qc.ca/communique/GPQF/November2008/05/c5498.html">http://communiques.gouv.qc.ca/communique/GPQF/November2008/05/c5498.html</a></td>
</tr>
<tr>
<td>Fort St John Hospital (British Columbia, Canada)</td>
<td>$CAD 318.6 M</td>
<td>$CAD 297.9 M</td>
<td>$CAD 20.7 M</td>
<td><a href="http://www.partnershipsbc.ca/files/projects.html">http://www.partnershipsbc.ca/files/projects.html</a></td>
</tr>
</tbody>
</table>
Royal Jubilee Hospital Patient Care Centre

“The new Royal Jubilee Hospital will be designed to provide the best patient care possible in a safe, modern building. A more caring environment will benefit both patients and health professionals.”

— George Abbott, former Minister of Health Services

Expected Benefits

The final partnership agreement between the Vancouver Island Health Authority and ISL Health is expected to achieve value for taxpayers’ dollars of $22.2 million compared to the traditional procurement delivery model. Additional benefits from the partnership delivery model include:

- Transferring risks, such as construction schedule and budget and facilities maintenance and operation, to the private partner;
- Effective risk management through integration of facility design, construction, maintenance and operation;
- Lifecycle maintenance, whereby the private partner is responsible and accountable for ensuring the facility is maintained and rehabilitated over the duration of the project agreement with penalties for non-compliance; and
- Payments to the private partner only when construction is completed, which provides a strong incentive for the private partner to finish construction on schedule.

Public Sector Partners

- Ministry of Health Services
- Vancouver Island Health Authority
- Capital Regional Hospital District

Private Sector Partners

ISL Health
- Design: Cannon Design
- Construction: Acciona Lark Joint Venture
- Finance: Innsfree, Acciona Concessions and Lark Group
- Facilities Mgmt: Angus Consulting Management Western Limited and Acciona Facility Services S.A.

Partnerships BC’s Role

Partnerships BC acted as the procurement manager for this project.

www.partnershipsbc.ca
NOUVELLE AUTOROUTE 30

The project
This completion of autoroute 30 project will contribute to the further integration of autoroutes 10, 15, 20, 30, 540 and 40, therefore, encouraging interconnections between markets in the Greater Montréal area, the Montérégie region, Ontario and the United States. Once completed, autoroute 30 will provide a southern bypass of Montréal. The work consists of two separate sections:
- The Western section, 35 km long, between Châteauuguay and Vaudreuil-Dorion, to which a 7-km stretch will be added to connect Salaberry-de-Valleyfield, under the designation A-530
- The Eastern section includes a 13 km four-lane divided highway south of Candiac, Delson, and Saint-Constant. This section begins at the existing Autoroute 30 in Châteauuguay, and extends to the Jean-Leman interchange in Candiac. It will make it possible to reach the existing Autoroute 30 in complete safety.

The Eastern section will not be connected to the local network. However, all of the roads that cross the highway will be maintained through the use of overpasses, but no interchanges are planned in order to limit urban sprawl, among other things.

Jean-Leman Segment in the Eastern Section
This section of the four-lane divided highway is 3.4 km long (included in the 13 km of the Eastern Section), and is not connected to the local road network.

Completion via PPP offers considerable advantages over using a traditional model, both quantitatively and qualitatively.

- A lower cost of $751 million in present value as at July 1st, 2008 for all the design, construction, financing, maintenance, operation and rehabilitation activities for the duration of the partnership agreement.
- The financing of the completion of the A-30 results in the participation of international-calibre funders who will closely monitor the progress of the design and construction work to complete the highway and the operation of the A-30 to protect their investment.
- Faster completion and commissioning by two years, resulting in greater economic spin-offs and better service to users;
- Risk sharing, particularly in terms of: transfer to the private partner of the risk of construction cost overruns and late delivery and of the operation, maintenance and rehabilitation for the entire partnership agreement;
- Implementation of a quality infrastructure that benefits from the private partner’s capacity for innovation.
Fort St. John Hospital and Residential Care Project

“This new hospital and residential care project represents the first hospital replacement of this size in the North, and will be a crucial component of the continuum of care available to residents in the Peace River.”
— Peace River North MLA, Pat Pimm

Project Overview

The Fort St. John Hospital and Residential Care (FSJHRC) project is a major investment for Northern Health and the Province of British Columbia, delivering numerous benefits and innovations. The project combines a 55-bed acute-care hospital and a 123-bed residential care facility for seniors, co-located at a single site in the City of Fort St. John. The project will feature modern facilities, state-of-the-art medical equipment and will deliver new and expanded health care services. The new buildings will be energy-efficient and built to achieve Leadership in Energy and Environmental Design (LEED) Gold certification.

The new two-storey, 23,353 square-metre hospital will be double the size of the existing Fort St. John Hospital—originally constructed in 1962—and will include an integrated services centre for food, laundry and material services. Key features of the hospital include a significant emergency department, ambulatory clinic space (cancer care clinics, hemodialysis, etc.), a maternity ward with single-bed rooms and academic space for the University of Northern B.C.’s Northern Medical Program.

The new two-storey, 7,916 square-metre residential care facility for seniors will be linked to the hospital through an indoor passageway to allow residents, clinicians and visitors to flow seamlessly back and forth for health care services. Key features of the facility include private rooms with en-suite bathrooms, palliative and special care units, elder friendly designs, extensive use of large windows and easy access to outdoor courtyards and patios.

The FSJHRC project will be delivered using a Design Build Finance Maintain (DBFM) partnership delivery model. The total project capital cost is $297.9 million. The DBFM capital cost components are fixed at $249.4 million, and the amount being financed outside of the public private partnership (notably medical equipment and off-site services) is $48.5 million.

Highlights of the Partnership

The Project Agreement between Northern Health and ISL Health is for a term of 33 years; this includes a construction period and 30 years of operations and maintenance. ISL Health will design and build the FSJHRC project and will be responsible for completing and commissioning the new facilities by May 2012. Over the 30-year operating term, ISL Health will be responsible for facilities management and life cycle services, such as plant maintenance, security, etc.

ISL Health will receive an annual service payment (ASP) and those payments are based on performance, facility availability and service quality. The ASP will be reduced if ISL Health does not meet the performance standards set out in the Project Agreement.

Value for Money

The final partnership agreement between Northern Health and ISL Health is expected to achieve value for taxpayers’ dollars of $20.7 million. Additional benefits from the partnership delivery model include:

- Transferring risks such as construction schedule and budget, and facilities maintenance and operation, to the private partner;
- Effective risk management through integration of facility design, construction, maintenance and operation;
- Life cycle maintenance, whereby the private partner is responsible and accountable for ensuring the facility is maintained and rehabilitated over the duration of the Project Agreement with penalties for non-compliance; and
- Payments to the private partner commence only when construction is completed, which provides a strong incentive for the private partner to finish construction on schedule.

Public Sector Partners

- Ministry of Health Services
- Northern Health Authority
- Peace River Regional Hospital District
- City of Fort St. John

Private Sector Partners

ISL Health:
- Project Management: Health Care Projects Canada
- Design/Build: Stuart Olson/ Acciona Infrastructures Canada Inc.
- Design: Cannon Design Architecture
- Finance: Innisfree Ltd. and Acciona S.A.
- Facilities Management: Angus Consulting Management Western Ltd.

Partnerships BC’s Role

Partnerships BC acted as the procurement manager for this project and is assisting Northern Health with its responsibilities during design and construction.

www.partnershipsbc.ca
PPPs Strengths

- Fixed price, reliable D&C program, high quality standards and efficiency
- Proven technology and innovation
- Long term commitment: SPV responsible from the design to the O&M phase
- Transparency: Triple Monitoring from Lenders, Authorities and Developers.
- Efficient Risk Allocation
- Financing / Refinancing: Sharing gains / Taking risks

Challenges and opportunities

- Huge bidding costs
PPPs around the World

- Despite the financial crisis PPP market is still alive
- Canada, US, UK and Australia are the leading countries
- PPP model has proven to be able to adapt to changes - flexibility

Steps to Success:
- Social infrastructure focused
- Availability payment projects / demand risk aversion
- Strong partners / relationship banks / sub debt
- Support from the authorities: “top up” facilities
PPPs around the World

GOVERNMENT REQUIREMENTS
- WORLD’S BEST OUTCOMES
- EVERYONE TO LOVE IT

BEST TECHNOLOGY AND SOLUTION
RIGHT PRICE
TERRIFIC FOR THIS COMMUNITY
SMART IDEAS
HANG THE EXPENSE, WE MUST WIN

Source: Leighton Holdings Limited
PPPs around the World

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PPPs around the World

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Mr. Borja Gari
PPPs around the World

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ALTERNATIVES

ECONOMIC PPP'S
AVAILABILITY PPP'S
D & C FULLY FUNDED
ALLIANCES

SHARE THE RISK

Source: Leighton Holdings Limited
PPPs around the World

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EOI / RFQ Release

EOI / RFQ Response

EOI / RFQ Short list

ITN / RFP Release

ITN / RFP Response

ITN Short list

BaFO Stage

BaFO Response

Preferred Bidder

Preferred Bidder

FINANCIAL CLOSE PA SIGNATURE

FINANCIAL CLOSE PA SIGNATURE

7 to 12 months

• 1 or 2 documents
• Negotiations with bidders

2 – 4 BIDDERS

2 – 4 BIDDERS

2 – 4 BIDDERS
PPPs around the World

LATINAMERICAN PROCUREMENT PROCESS

1. Draft RFP Document
2. Approval by “Tribunal do Contas”
3. RFP Release
4. RFP Response
5. Preferred Bidder
6. 45 to 60 days
7. BRIDGE LOAN
8. FINANCIAL CLOSE PA SIGNATURE
9. FINANCIAL CLOSE
PPPs around the World

- PROJECTS HAVE REACHED FINANCIAL CLOSE DESPITE THE GLOBAL TURMOIL
- ONLY AVAILABILITY PROJECTS ARE BANKABLE
- INFRASTRUCTURE FUNDS AVAILABLE FOR EQUITY AND SUBORDINATED DEBT
- SOME PROJECTS DO NOT REQUIRE FULLY COMMITTED FINANCING IN BID PHASE. INSTEAD, PREFERRED BIDDER’S LCs ARE REQUESTED AT RFP SUBMISSION
- LOWER GEARING COMPARED TO OTHER COUNTRIES
- PROVINCE FUNDING/CONTRIBUTIONS TO MITIGATE THE LACK OF LIQUIDITY
  - Lenders asking for BREAKAGE FEES after Port Mann Bridge
- BOND MARKET IS BACK FOR HIGHLY RATED PROJECTS
- MINI PERM STRUCTURES: SPONSORS TAKING THE REFINANCING RISK
  - SOME PROVINCES PENALIZE PROPOSALS WITH MINI PERM
LARGE PROJECTS ARE BEING CLOSED

- VICTORIA DESALINATION PLANT – AU$ 3.5b

ONLY AVAILABILITY PROJECTS ARE IN THE PIPELINE

INFRASTRUCTURE FUNDS AVAILABLE FOR: EQUITY AND SUBORDINATED DEBT

SUPERANNUATION FUNDS AS AN ADDITIONAL FINANCING SOURCE: EQUITY AND SUBORDINATED DEBT

CANADIAN PENSION FUNDS WILLING TO INVEST IN AUSTRALIA

ACCIONA’S RELATIONSHIP BANKS WILLING TO ENTER THE AUSTRALIAN MARKET

SYNDICATION IS BEING CONSIDERED FOR LARGE PROJECTS

BANK OPTIMISM IS REFLECTED IN THE MOST RECENT TERM SHEETS:

- TENORS: WILLING TO CONSIDER MATURITIES UP TO 10 YEARS
- TICKETS: UP TO AU$250 MILLION
THOROUGH SELECTION OF PROJECTS

- TOLL RISK IS NOT BANKABLE
- AVAILABILITY PROJECTS STRONGLY RELATED TO CLIENTS’ SOLVENCY
- RELUCTANCE TO FUND “OUTORGAS” OR “BIENES Y DERECHO”
- CURRENCY RISK – VOLATILITY

MULTILATERAL AGENCIES, CAF, BID, BANOBRAZ AND BNDES ARE ALMOST THE ONLY SOURCE OF FINANCING BUT PREPARED TO FUND UP TO 70% OF PROJECTS IN LOCAL CURRENCY

- NO COMMITMENT PRIOR TO FINANCIAL CLOSE: SPONSOR’S RISK
- LONG CLOSING AND DUE DILIGENCE PROCESSES POST PREFERRED PROPONENT

EQUITY REQUIREMENTS ARE AROUND 30% DUE TO BNDES, BANOBRAZ AND MULTILATERAL AGENCIES FUNDING POLICY LIMITS (AROUND 70%)

- HIGH RETURN ON EQUITY
- SHORTER PAYBACK PROFILE THAN OTHER COUNTRIES
Best PPPs Practices

- Same sponsors on all the three levels [Equity, D&B and O&M]
  - Aligns interests
  - Focus on long term

- Sponsors strength (financial & experience)

- Finance commitment at Bid Submission

- Well balance & structured project (risks allocated to best parties)

- Public funds during construction
  - Facilitates financing
  - Aligns interests

- Honorariums: make deals attractive to best sponsors

- Shortlisting of three is perfect (4 too much, 2 is risky)
Best PPPs Practices

ACCIONA’S MOST REMARKABLE LATEST DEALS

- **Nouvelle Autoroute 30 Highway** (Quebec, Canada)
  - PFI, Project Finance International Magazine's “North American PPP Deal of the Year 2008”
  - Euromoney's Project Finance Magazine “North America Deal of the Year for 2008”

- **Royal Jubilee Hospital** (British Columbia, Canada)
  - The Canadian Council for Public Private Partnerships “Project Finance Silver Award” in 2008

- **Fort St John Hospital** (British Columbia, Canada)

- **San Luis de Potosi University and Bajio Hospital**: First PPP University and Hospital in Latin American
NOT TO REINVENT THE WHEEL
NOTHING SUCCEEDS LIKE SUCCESS!

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