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<td>Risk Matrix</td>
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Section I
Project Finance

Project Finance
Definition: A form of financing projects, primarily based on claims against the financed asset or project rather than on the sponsor of the project. However, there are varying degrees of recourse possible. Repayment is based on the future cash flows of the project.
Principal Participants in a Project Finance

- **Sponsors**
  - national
  - international

- National Banks
- Government Banks
- International Banks
- Monolines
- Capital Markets
Project Finance

Calendar

Process duration: 4 months

Phase I
Financial Structure
- Feasibility Study
- Contracts & Risk management
- Economic analysis and Financing structure

Phase II
Risk analysis
- Term Sheet & IM
- **Arrangers**: Term Sheet & Contracts negotiation
- Financial closing
- **Participants**: Syndication

Phase III
Financial closing

Financial Advisor: Banks
Financial institution rules

<table>
<thead>
<tr>
<th>Advisory</th>
<th>Arrangement/Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tender preparation</td>
<td>Financial Underwriting</td>
</tr>
<tr>
<td>Advisory to the Sponsors</td>
<td>Funding in the Capital Markets</td>
</tr>
<tr>
<td>Feasibility study of the project</td>
<td>Other financial facilities: bridge, RCF,</td>
</tr>
<tr>
<td>Risk analysis</td>
<td>Possibility of equity investments</td>
</tr>
<tr>
<td>Optimum economic, legal and tax structure</td>
<td></td>
</tr>
<tr>
<td>Other sponsor research</td>
<td></td>
</tr>
<tr>
<td>Legal structure</td>
<td></td>
</tr>
<tr>
<td>Coordination between different participants</td>
<td></td>
</tr>
<tr>
<td>Project presentation in the Capital Markets</td>
<td></td>
</tr>
<tr>
<td>Negotiation with the financial institutions</td>
<td></td>
</tr>
</tbody>
</table>
Volume of operations (2004)
Dealogic
Financing tools

Bank financing

No bank financing
  • Securitization
  • Bonds
Bank Financing (I)

- Main financial source
- Debt with SPV. Operative relationship with the sponsors, no financial relationship.
- High leverage ratios.
- Long repayment terms. Taking into account Cash Flows
- It is out of the balance financing for the sponsors, no effect in rating
- Pricing: Interest rate + margin
- Reference rate: DSCR
The Financial model is the main tool to obtain the economic analysis and the financing structure.

Main ratios to measure project capacity to face debt obligations:

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Service Coverage Ratio (&quot;DSCR&quot;)</td>
<td>Cash Flow available for debt service / Debt service (principal, interest &amp; commissions)</td>
</tr>
<tr>
<td>Interest Coverage Ratio (&quot;ICR&quot;)</td>
<td>Cash Flow available for debt service / Interest</td>
</tr>
<tr>
<td>Loan Live Coverage Ratio (LLCR)</td>
<td>NPV of Cash Flows available for debt service (during debt) discounted at debt rate / Outstanding debt</td>
</tr>
</tbody>
</table>
Non Bank Financing

Securitization

- The process of aggregating credit rights of the concessionaire, mainly right to collect tolls, revenues of the commercial areas and payments of the Administration into a negotiable security.

- Risk transfer to the investor.
- Different terms.
- Widely used in the international markets. No in Spain
- Advantages: cheaper financing cost and flexibility.
Non Bank Financing

Bonds

- As the borrower is a SPV, the risk profile is complicated and not attractive for the bond market.
- This type of financing is used with a Monoline guaranty
- In Spain it has been used just in the “Autovía de los viñerds” and M-45
Section II
Spanish market advantages

Project Finance
The main differences with the UK model

**UK**
- Initial competition
- Concession terms negotiation
- Initial terms stated and then negotiation
- Financial Close prior to concession grant

**SPAIN**
- Initial competition
- Concession Grant
- Binding terms
- Financing
- Fixed from the beginning
- Financial Close once the Concession is granted
Advantages of the Spanish Legal Framework

- Asset Responsibility
- Economic + Financial Equilibrium

Legal framework helps to structure different financial schemes
Section III
Risk Matrix
Project Finance
Main risks

Building & Operational Risk:

► Building
► Demand
► Operating

Financial Risk
Risk mitigation

Contracts will provide mechanisms to mitigate the risk:

<table>
<thead>
<tr>
<th>Risk:</th>
<th>Contract</th>
<th>Mitigation mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>Construction Contract</td>
<td>Fixed price</td>
</tr>
<tr>
<td>Delay</td>
<td>Construction Contract</td>
<td>Penalty clause</td>
</tr>
<tr>
<td>Technical performance</td>
<td>Construction Contract</td>
<td>Penalty clause</td>
</tr>
<tr>
<td>Operating</td>
<td>Operation Contract</td>
<td>Technical advisor will control the operation</td>
</tr>
<tr>
<td>Traffic</td>
<td>Concession contract</td>
<td>Fix tariff</td>
</tr>
<tr>
<td>Tariff / Law</td>
<td>Concession contract</td>
<td>Tariff will compensate traffic and law changes</td>
</tr>
<tr>
<td>Force Majeure</td>
<td>Concession contract</td>
<td>Concession agreement will cover these risk</td>
</tr>
<tr>
<td>Political risk</td>
<td>Concession contract</td>
<td>Concession agreement will cover these risk</td>
</tr>
</tbody>
</table>
Other risk mitigations

- Sponsors Technical & Financial solvency.
- Due diligence.
- EPC Contract.
  - Long warranty periods.
  - Penalty clauses.
  - Extension definition.
  - Length.
  - Cost limits.
Advisors & Insurance Program

Risk Matrix

External Advisors
- Traffic Advisor
- Insurance Advisor
- Legal Advisor
- Technical Advisor
- Audit Advisor

Insurance program
- Construction
  - Damages
  - ALOP
  - Civil liability
- Operating
  - ALOP
  - Civil liability
  - Force Majeure