BBVA
Global Debt Capital Markets

Financing PPPs: Project Finance

June 2006

Index

Section I

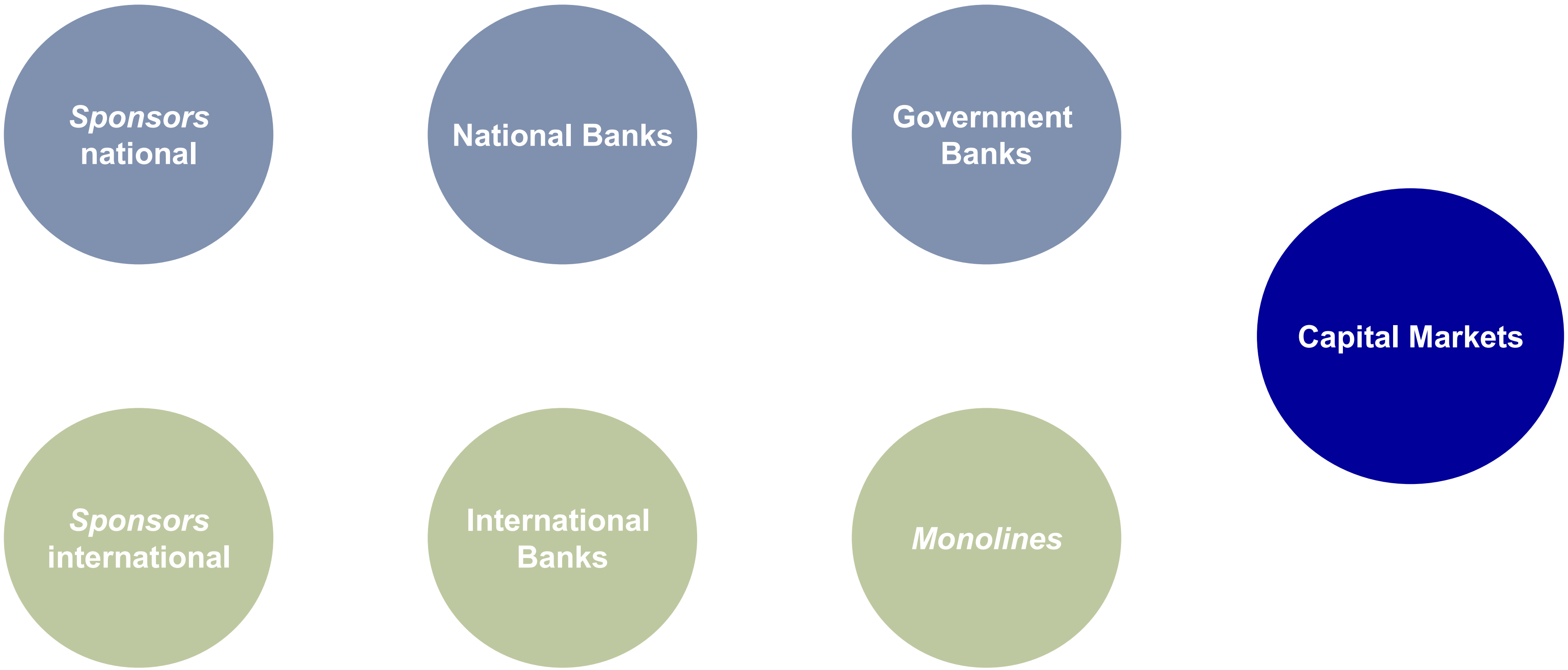
Project Finance

Project Finance

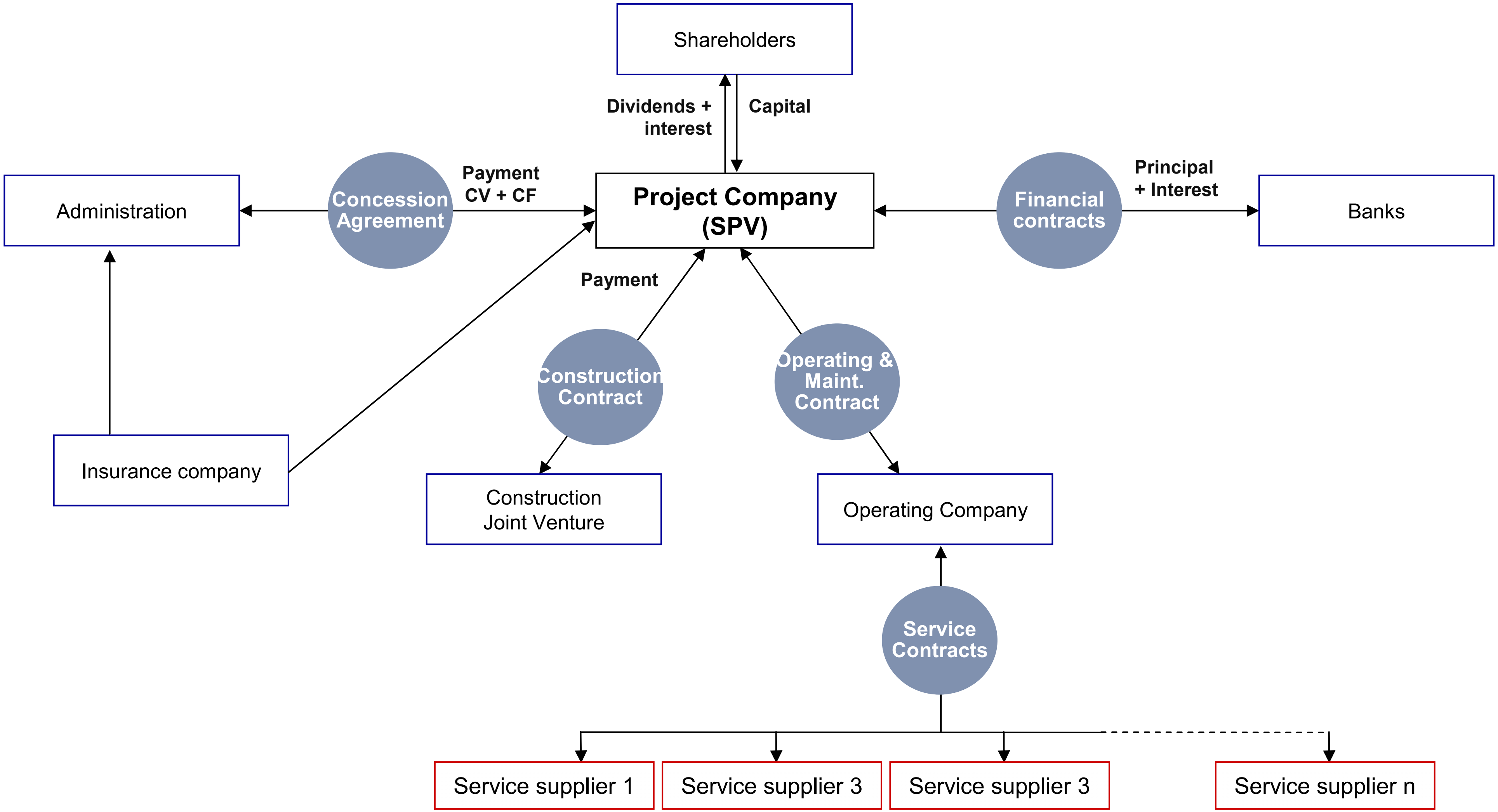
Definition

<u>Definition:</u> 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



Financing Structure



Calendar

Process duration: 4 months

Phase I

Financial Structure

Phase II

Risk analysis

Phase III

Financial closing

- Feasibility Study
- Contracts & Risk management
- Economic analysis and Financing structure

- Term Sheet & IM
- **Arrangers**: Term Sheet & Contracts negotiation
- Financial closing
- **Participants:** Syndication

Financial Advisor: Banks

Financial institution rules

Advisory

Tender preparation

Advisory to the Sponsors

Feasibility study of the project

Risk analysis

Optimum economic, legal and tax structure

Other sponsor research

Legal structure

Coordination between different participants

Project presentation in the Capital Markets

Negotiation with the financial institutions

Arrangement/Financing

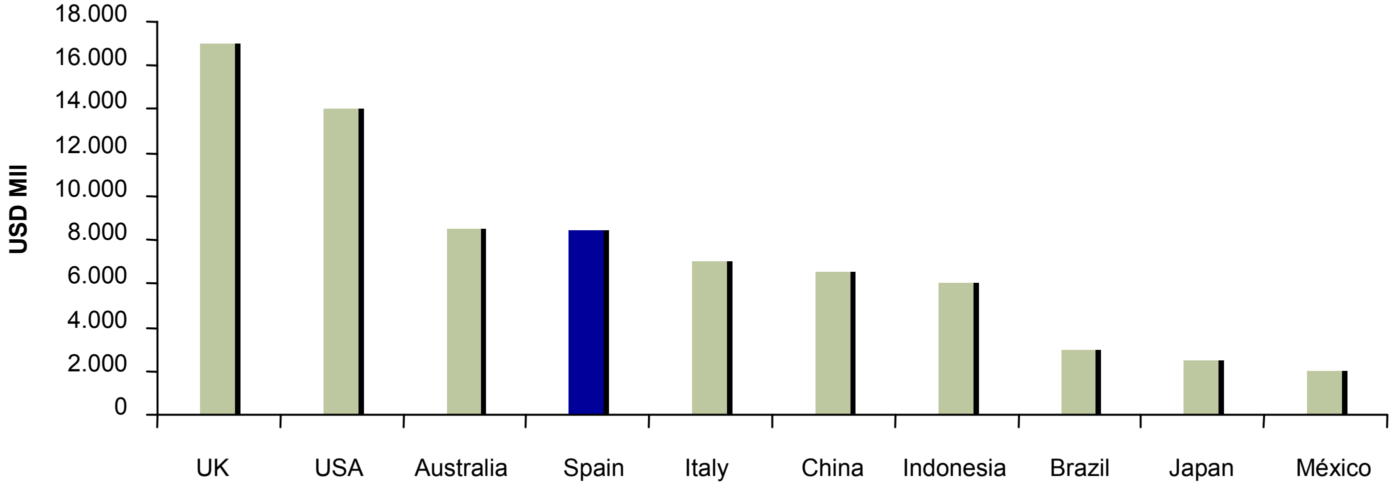
Financial Underwriting

Funding in the Capital Markets

Other financial facilities: bridge, RCF,

Possibility of equity investments

Volume of operations



Volume 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

Bank Financing (II)

► **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:**

Debt Service Coverage Ratio ("DSCR")

$$\frac{\text{Cash Flow available for debt service}}{\text{Debt service (principal, interest \& commissions)}}$$

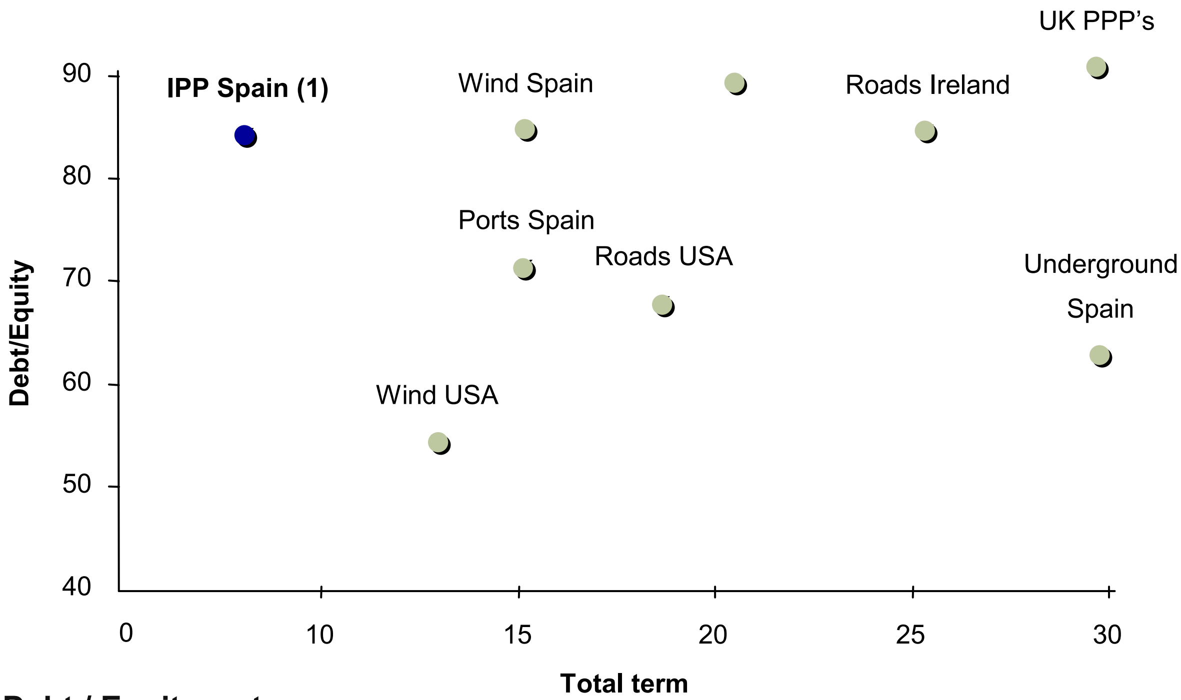
Interest Coverage Ratio ("ICR")

$$\frac{\text{Cash Flow available for debt service}}{\text{Interest}}$$

Loan Live Coverage Ratio (LLCR)

$$\frac{\text{NPV of Cash Flows available for debt service (during debt) discounted at debt rate}}{\text{Outstanding debt}}$$

Leverage and Term



Debt / Equity vs term

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 viñerdos” and M-45

Section II

Spanish market advantages

Project Finance

The main differences with the UK model

UK		SPAIN
▶ Initial competition ▶ Concession terms negotiation	**Concession Grant**	▶ Initial competition
▶ Initial terms stated and then negotiation	**Binding terms**	▶ Fixed from the beginning
▶ Financial Close prior to concession grant	**Financing**	▶ 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:

Contractual structure & risk mitigation

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

Other risk mitigations

- **Sponsors Technical & Financial solvency.**
- **Due diligence.**
- **EPC Contract.**
  - Long warranty periods.
  - Penalty clauses.
- **Operating & Maint. Contract.**
  - Extension definition.
  - Length.
  - Cost limits.

Advisors & Insurance Program