



El emprendimiento
es de todos

Minhacienda

Infraestructura: Mercado de capitales & riesgo fiscal

Juan Miguel Custodio



Infraestructura: Mercado de capitales & riesgo fiscal



GRUPO BANCO MUNDIAL



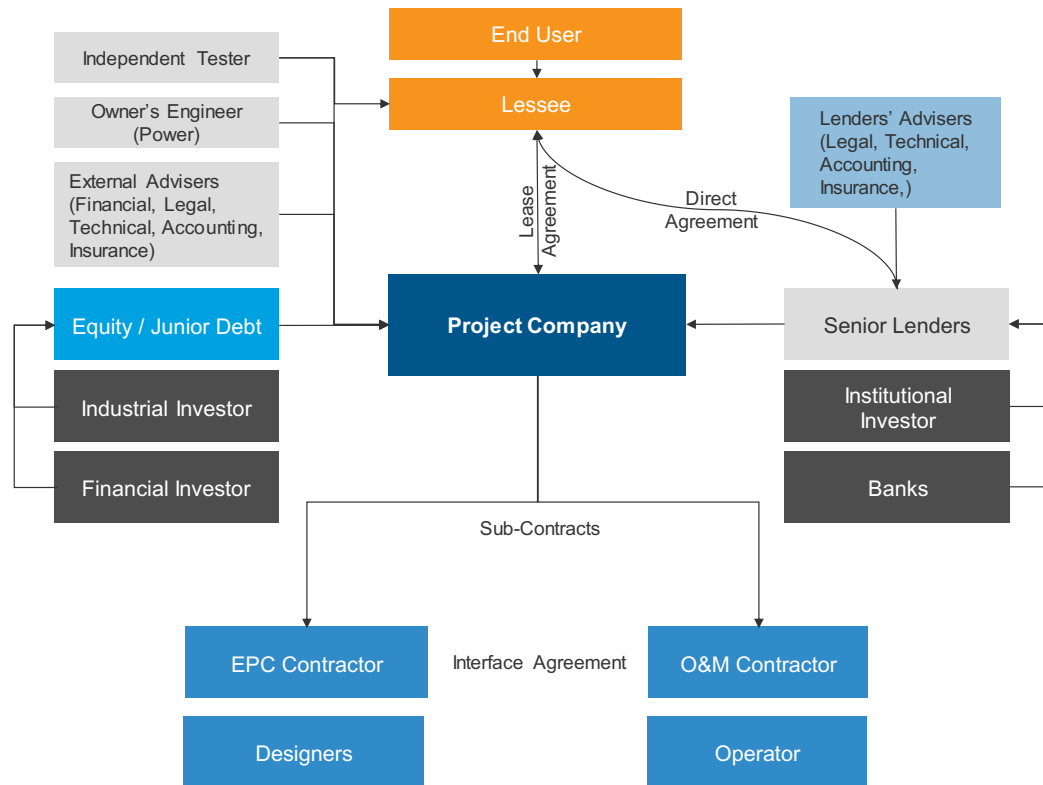
Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Embajada de Suiza en Colombia
Cooperación Económica y Desarrollo (SECO)



Simplified project finance structure

Project Contractual, Ownership and Financing Structure



Risk management

- Each component of risk assessed and **allocated to the party best able to address them**
- Results in **enhanced economics** of transaction thanks to a reduction of the overall risk profile of assets
- Alignment of interests between all project parties (equity investors, lenders, Lessee) to tend towards maximum profitability of the assets with strict reporting requirements in the operational phase

Interest from infrastructure investors

- Risk allocation tailored to align with infrastructure financiers requirements
- Results in **improved financial structure**
 - High leverage
 - Low financing terms



Optimal allocation of risk



Special Purpose Vehicle

- Project finance structure with Special Purpose vehicle in which financing is raised
- Non recourse financing



Risk allocation

- SPV to be isolated from volume risk to the extent possible and key risks to be passed down to D&C and O&M contractors, so as to grant assets with infrastructure-like characteristics, ensuring market standard positions



Debt funding market

- High appetite for infrastructure projects financing from the funding market with historically low rates
- High leverage and low funding terms enhance equity returns



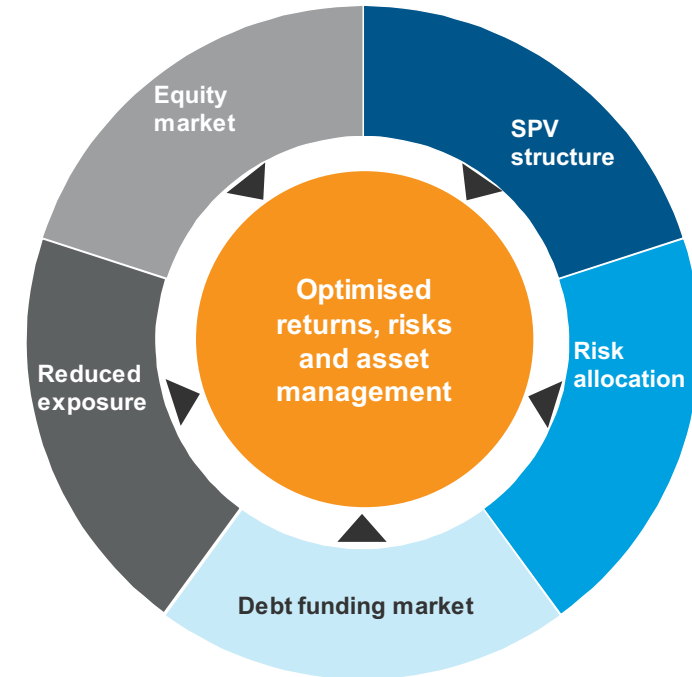
Reduced exposure

- Shareholder only liable to the extent of capital injected into the SPV



Equity market

- High appetite from wide range of infrastructure investors for well-funded, well-structured project both in construction and operations phase
- Contractual structure provides ease for transferability





Infrastructure investors preferences

Key features

- Long-term investment horizon (especially attractive to investors/institutions with long term liabilities)
- Relatively predictable cashflow
 - Main risks passed down to D&C and O&M subcontractors
- Provides diversification, reducing correlation to other asset classes
- Relatively low risk, low volatility

Types of investors

- Strategic investors
- Sovereign wealth fund
- Pension plan/fund (public pension funds provide 20 percent of all investments in infrastructure funds on a global basis)
- Banks
- Insurance company
- Family offices
- Private equity funds/Infrastructure funds

Investor Type	Key Interests
Strategic investors	<ul style="list-style-type: none"> • Shorter term investment horizon • Investment purpose is to participate in development, EPC, O&M etc.
Banks	<ul style="list-style-type: none"> • Medium to long term investment horizon • Mostly interested in funding debt • Low risk appetite
Sovereign wealth fund Pension fund Insurance companies	<ul style="list-style-type: none"> • Long term investment horizon • Invests in both debt and equity • Requires relatively low rate of return due to lower funding costs • Conservative and prefers low risk investments • Diversification effect due to low correlation with other asset classes is also important
Private equity funds/ Infrastructure funds	<ul style="list-style-type: none"> • Allows different classes of investors to participate in larger size asset investments and to mitigate risks through intermediary managers • Medium to long term investment horizon • Invests in both debt and equity • More opportunistic in relation to risks
Family offices	<ul style="list-style-type: none"> • Diversification of investment portfolio • Political and social agenda • Opportunistic investors



Project finance advantages

Corporate financing

- Asset 100% financed on the company balance sheet
 - Debt financing if necessary raised on balance sheet against company credit risk
- Roll-out project risk effectively mixed with the overall company business plan risk
 - Limited assessment of the project intrinsic profitability / cash flow generation
- Cost of financing is the company WACC
- Project losses impact company level with lending banks having recourse on all company assets
 - Should the project underperform/default, it could bring down the whole company

Pros

- Relatively simple structure

Cons

- Capital intensive - balance sheet impact
- Relatively high financing terms at company WACC
- Company liable for 100% of financing in case of downside

Non recourse project financing

- Asset financed with a mix of debt and equity at Special Purpose Vehicle level
 - Debt financing on the SPV balance sheet
 - Lending banks assessing project's viability based on projected cash flows of the assets
- No recourse against shareholders beyond equity injected in the SPV for lenders in case of downside
 - Shareholder isolated from project risk beyond capital provided
- If the volume risk is mitigated:
 - Asset attractive to infrastructure sector lenders and equity investors
 - Ability to optimise financial structure
 - High gearing
 - Low financing terms

Pros

- Balance sheet impact can be tailored (to be assessed)
- Optimised financing structure lowering WACC
- Shareholders isolated from debt liabilities in case of downside

Cons

- SPV costs
- Relative complexity of structure
- Requirement to mitigate volume risk