

MONEY TAKES MANY SHAPES | L'ARGENT PREND PLUSIEURS FORMES

# 2008 TAC Annual Conference

## Congrès annuel 2008 de l'ATC



**SNC-LAVALIN**  
Capital

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## PPP Financing: Challenges Ahead, the Devil is in the details

Christiane Bergevin  
President

SNC-Lavalin Capital Inc.

September 22, 2008

- Leading adviser and arranger in Canada and abroad:
  - Clients: External and shareholder, SNC-Lavalin Group.
- World-class expertise in the modeling and financing of projects:
  - Integrated group of 16 financial specialists;
  - Understanding of engineering & construction issues;
  - Multidisciplinary team with global perspective.
- Present in Amsterdam, Algiers/Paris and Montreal;
- Active in more than 40 countries – Financing closed: US \$6 B+;
- Fully independent/arm's length approach – Chinese walls;
- One of the most comprehensive Global Transport Financial Advisory Expertise.

*Pan-Canadian Leading Transport finance expertise  
Top 10 Global Finance Industry League Tables rankings  
in last three years.*

### 2007

#### No. 3 Advisory mandates in Project Financing, Americas

*Thomson Financial SDC/Project Finance International*

#### AMERICAS ADVISORY MANDATES WON IN 2007

|                              | Total |
|------------------------------|-------|
| 1 Ernst & Young              | 20    |
| 2 PwC                        | 15    |
| 3 SNC Lavalin Capital        | 8     |
| 4 Mizuho                     | 8     |
| 5 BNP Paribas                | 5     |
| 6 Taylor de Jongh            | 3     |
| 7 SMBC                       | 3     |
| 8 Royal Bank of Canada       | 3     |
| 9 Dexia                      | 2     |
| 10 HSBC                      | 2     |
| 11 Espirito Santo Investment | 1     |
| 12 KPMG                      | 0     |

### 2006

#### No. 4 Financial Advisers of Africa Project Finance Deals *Dealogic Global Project Finance*

| Pos. | Mandated Arranger                 | Amount(\$m.) | Deals | %share |
|------|-----------------------------------|--------------|-------|--------|
| 1    | Credit Agricole SA                | 1516         | 2     | 26.5   |
| 2    | BNP Paribas SA                    | 1156         | 2     | 20.2   |
| 3    | Standard Chartered plc            | 1056         | 1     | 18.5   |
| 4    | SNC-Lavalin Capital               | 460          | 1     | 8.1    |
| 5    | Citigroup Inc                     | 428          | 1     | 7.5    |
| 6    | Fieldstone Private Capital Group  | 251          | 1     | 4.4    |
| 7    | Banco Espirito Santo de Investime | 239          | 1     | 4.2    |
| 7    | Societe Generale                  | 239          | 1     | 4.2    |
| 9    | Barclays plc                      | 226          | 1     | 4.0    |
| 10   | Standard Bank Group Ltd           | 75           | 1     | 1.3    |

### 2005

#### No. 9 Bookrunner of Global Project Finance Bonds *Dealogic Global Project Finance*

|    | Bookrunner                   | Value \$m | Deals | % Share | 2004 |
|----|------------------------------|-----------|-------|---------|------|
| 1  | Citigroup                    | 4,404     | 13    | 23.4    | 3    |
| 2  | Goldman Sachs Group          | 3,510     | 5     | 18.7    | 1    |
| 3  | Lehman Brothers holdings     | 2,146     | 6     | 11.4    | 4    |
| 4  | Credit Suisse                | 946       | 4     | 5.0     | 7    |
| 5  | Calyon                       | 795       | 1     | 4.2     | 8    |
| 6  | Royal Bank of Canada         | 715       | 3     | 3.8     | 18   |
| 7  | ABN Amro                     | 695       | 5     | 3.7     | 6    |
| 8  | Deutsche Bank                | 685       | 3     | 3.6     | 5    |
| 9  | SNC-Lavalin Capital          | 571       | 2     | 3.0     | -    |
| 10 | SG Corp & Investment Banking | 555       | 2     | 3.0     | -    |

- International leader in engineering, construction, operations and maintenance, and infrastructure concessions;
- Active in a variety of sectors including C&P, Infrastructure, M&M, Power, Transportation, Environment and Pharmaceuticals;
- Offices across Canada and in 35 other countries;
- Annual revenues in 2007 of Cdn \$6.7 B+;
- 18,000+ employees, active in 120 countries;
- Centre of Excellence in Transportation - Vancouver, Toronto, Montreal and France;
- Leading infra investor and concessionnaire in Canada and abroad.

- Cdn \$544 M New-Brunswick Trans-Canada Highway construction:
  - Sole advisor/arranger;
  - Rated private placement;
  - 2006 Award of Merit: Canadian Council for public-private partnerships;
  - 2008 Global Road Achievement Award (Innovative Financing), International Road Federation.
- Cdn \$1.9 B Canada Line, Richmond - Airport Vancouver (RAV):
  - Lead- advisor for Cdn \$600 M bank financing;
  - 2005 Project Finance Deal of the Year.
- Cdn \$4 B Highway 407 in Toronto:
  - Advisor for the Cdn \$2.45 B acquisition bridge financing (traffic risk);
  - 1999 Project Finance Deal of the Year.
- Cdn \$157 M floating Bennett Bridge (availability and traffic risks):
  - Sole advisor/arranger;
  - Rated institutional private placement;
  - First S&P 'A' rated PPP in North America.

- Advisor to Acciona/SNCL for Edmonton Anthony Henday Drive Northwest bid (Alberta, Canada);
- Advisor to SNCL for Highway 30 bid (Quebec, Canada);
- Advisor to SNCL for Highway 25 bid (Quebec, Canada);
- Co-advisor to NGE SNC-Lavalin/FAYAT/NGE /Malet for RN88 (France);
- Advisor to SNCL for Puy-de-Dôme Tramway (France).

- CDN Pearson Airport Rail Link Concession to Toronto:
  - Sole advisor to SNCL (selected concessionaire).
- VIA Rail CDN \$4 B Fast Train Project between Quebec and Windsor:
  - Financing Study.
- Edmonton – Calgary High Speed Rail Project:
  - Financing Study.
- 1,228 km Freight Railway Concession between Senegal and Mali:
  - Sole advisor/arranger for US \$60 M project financing;
  - Canac-led investment.
- Roberts Bank Private Container Port development:
  - Co-investor and co-advisor (to preferred proponent APM Terminals/SNCL).

- Rising PPP activity worldwide; road sector is a favorite;
- In Canada alone, Cdn \$6 B+ PPP road awards in last 12 months;
- Concessionaires include financial groups and industry players;
- Experienced Provincial agencies, sharing of best practices;
- Standardized documentation, moving to faster closing processes;
- Substantial Financing Challenges ahead;
- Lifecycle Costs risk transfer.

## PPP structures

No user-fee potential and/or complex construction risk:

- risk sharing for completion
- public sector availability payment

Greenfield user-fee risk + medium to high construction risk (Bridges, Mass Transit, Roads):

- Private sector completion risk
- Public sector subsidies and availability payment

Profitable user-fee risk + low construction risk, brownfield roads:

- Accountability of private sector for construction, O&M and revenue
- Regulated by public sector



**Availability**

*Bennett Bridge*  
(BC)

**Shared risk**

*Highway 25 and 30 (Qc)*  
*Canada Line*  
(BC)

*Chicago Skyway*  
*H407*

**Full Market risk**

- PPP = Risk allocation between private and public Partners;
- Risk allocation - who can best assume each risk at lowest cost;
- Typical risks assumed by private partners:
  - Ownership and Financing of assets;
  - Design & Construction;
  - Operations & Maintenance (O&M);
  - Major Maintenance incl. Capital Replacements (“Lifecycle Costs”).
- Our Experience: Risk Transfer works BUT Lifecycle Costs risk transfer needs to be carefully monitored:
  - Various bidders’ ownership horizons (long-term industry vs. financial players) may lead to substantial differences in lifecycle cost estimates;
  - NPV alone cannot capture this risk, need for benchmarks during evaluation.

**...Is this Sustainable?**

- Wide variations: 6% to 25%+ of construction costs;
- Sector and project type:
  - High: Hospitals and Mass Transit (major rehab after typically 15-20 years, medical equipment in the UK, train replacements, etc.) ;
  - Low: e.g. Roads.
- Extent of life of concession (30 to 99 years);
- Technology and industry norms;
- Existing benchmarking of Major Maintenance;
- Correlation with inflation indices.

**Challenging Long-Term Predictions**

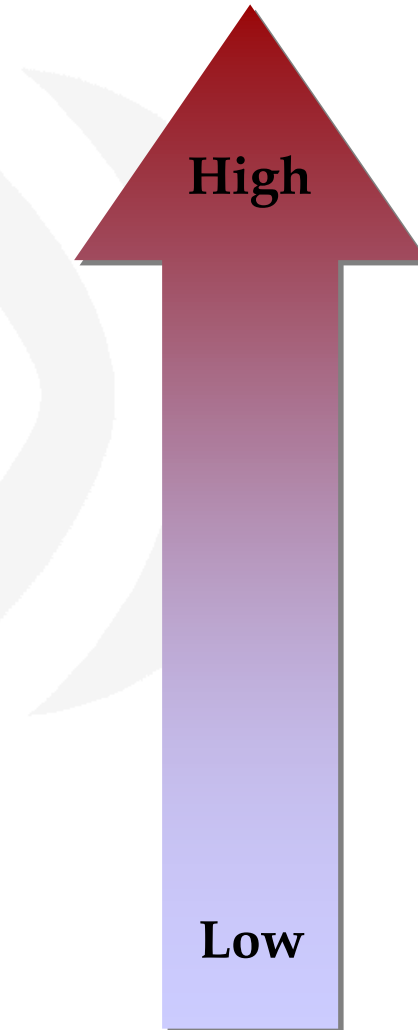
## Life cycle risks      Mitigants

Traditional High Lifecycle (Bridges, Mass Transit, Specialized Buildings):

- Fewer benchmarks, uncertainty of long-term horizon, linkage to inflation;
- Need for customized risk transfer approach.

Traditional Low Lifecycle (Standard buildings, Roads):

- Benchmarks and track record;
- Manageable for private sector.



**Revenue Upside**

**Shared Risk**

**Restate**

**Adjusted Index**

- Credit crunch, markets in turmoil, fewer banks;
- Long-term banks maturities offering; sharp reduction:
  - 30 years -15 years.
- Significantly smaller underwriting and hold;
  - \$300M - \$75M.
- Increased credit spreads both in bank and bond markets (25 bp/year<sup>+</sup>);
- Terms and conditions; more stringent compared to « pre-crunch »:
  - Inclusion of market flex clauses (i.e. spread can further increase post-award).
- Upward pressures on return on equity.

*Substantial Funding Uncertainty leads to higher financing costs for new PPPs (until environment restores);  
Our estimate: currently 3-5%, bigger challenge for large-scale projects .*

- Adjusted NPV process (vs. 100% NPV criteria used in several projects):
  - Adjusted NPV for lifecycle costs benchmarks;
  - Adjusted NPV for strategic criteria (local content, strength of process;
  - Alignment of NPV valuation assessments with Value for Money analyses.
- Reduction in Bids' evaluation time – shorter schedule helps bidders to improve financing cost;
- Standardized documentation to allow for short closing processes;
- Thorough debriefing post-award.



# SNC•LAVALIN Capital