

Project Finance Opportunities



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The Portuguese Government has plans for the development of several infrastructure projects in the next decade.

This paper reviews the three major PPP projects that are being carried out in Portugal: the high speed rail network, the new Lisbon international airport and the conclusion of the National Road Programme.

1. Introduction

The Portuguese equivalent of Public/Private Partnerships (PPP) started with the construction of the second Tagus Bridge, one of the longest bridges in the world.

Between 1997 and 2007, several projects for the development of a major road construction programme achieved closure.

More recently the Government, in office since March 2005, announced as main objectives of its economic programme to promote the growth of the economy, reduce unemployment and bring the Government deficit to within the limits of the Stability Pact.

To that effect, the Government plans the development of major infrastructure projects worth €25,000 million through existing and new PPPs, which are described in the infrastructure investment priorities programme (*Programa de Investimentos em Infra-estruturas Prioritárias* – the “Priorities Programme”) presented in July 2005.

This paper reviews the major PPP projects which are presently being studied, evaluated and/or implemented in Portugal: the construction of a high speed rail network, the new Lisbon international airport and the completion of the national road programme.

2. The high speed rail project

2.1. The project

After several delays, the Portuguese Government has finally decided to start the construction of the high-speed rail network, which will represent an overall investment of over €9,000 million, making this the largest infrastructure project in Portugal ever to be completed.

Despite the political controversies concerning the high speed link from Lisbon to Madrid, this project is in the European Commission’s list of Europe’s priority projects.

In November 2006, the Portuguese Government and RAVE, the public undertaking responsible for the management of the project, presented the Strategic Guidelines for the National Railroad Sector (*Orientações Estratégicas para o Sector Ferroviário Nacional*). Among other issues, this document established the route for the high-speed rail network.

The high-speed rail network will comprise, in a first phase, three links:

- Lisbon/Oporto;
- Lisbon/Madrid; and
- Oporto/Vigo.

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According to the Government, approximately 6,100 million passengers will travel between Lisbon/Madrid per year; despite the difficulties in predicting the increase of passengers over a long period of time, the Government expects this figure to reach 9,500 million in the next twenty years.

The high-speed railway connecting Lisbon and Oporto, for passengers only, will link the Campanhã station, in Oporto, and the Oriente station, in Lisbon, and will be served by stations in Leiria, Coimbra and Aveiro. RAVE estimates that a Lisbon to Oporto trip will take around one hour and fifteen minutes.

The high-speed train which will connect Lisbon to Madrid will only have one stop in Portugal, in Évora, and will be designed to transport both passengers and freight. The travel time for a trip from Lisbon to Madrid should take two hours and forty five minutes.

The original project also included the construction of a link to Ota, where the new airport was initially planned to be constructed. However, the Government's decision to change the new airport's location to Alcochete will entail the amendment of the initial plans. Among other things, the Government will abandon the construction of the branch link to Ota.

As a result of this change, RAVE is now studying the construction of a rail line between the Oriente station and the new airport, to be served by a shuttle, and of a common rail line between Entre Campos, in the center of Lisbon, and Alcochete.

The location of the new airport in Alcochete will also require the construction of a third bridge over the Tagus River, which will link Chelas and Barreiro, in a 13 kilometres' pathway. The new bridge will include two high speed rail tracks, two conventional tracks and two tracks for traffic road with three lanes each. This project should cost approximately €1,700 million.

Lastly, the Oporto/Vigo's link, which will also be designed for the transportation of passengers and freight, will have one single station in Braga. The journey from Oporto to Vigo is expected to last around one hour.

In this first phase, the Government will not launch the construction of the links Aveiro/Salamanca and Faro/Huelva, as initially planned, but the development of these links could be resumed in the not so distant future.

The first phase of the high-speed rail project will require an overall investment of around €9,100 million, of which €7,700 million will be applied in the links Lisbon/Oporto and Lisbon/Madrid and €1,400 million in the link Oporto/Vigo.

The investment will be mainly supported by the Portuguese State (40%) and by European funds (22%). The remainder 38% will be borne by private operators under PPP schemes. According to the Government, the project will generate an operational cash flow that will cover around 45% of the required investment.

2.2. The business model

As expected, in the business model announced by the Government in June 2007, a substantial part of the investment will be made by private investors, under a PPP scheme, who will operate the rolling stock and parts of the infrastructure.

The project will be divided into six concessions, with the duration of forty years, which is longer than the thirty years which is the common timeframe for Portuguese concessions.

The construction of the infrastructure will be split in five sections of the rail network, each awarded to a different consortium:

- Two sections of the link Lisbon/Oporto (Lisbon/Pombal and Pombal/Oporto);
- Two sections of the link Lisbon/Madrid (Lisbon/Poçoirão and Poçoirão/Caia); and
- One section of the link Oporto/Vigo (Braga/Valença).

The construction of the stations in Évora, Leiria and Aveiro will be carried out by the private operators responsible for the development of each of these links.

Due to the higher costs and risks involved, the construction of the Lisbon and Oporto rail infrastructures and stations and the operation of its rolling stock will be developed under the traditional public procurement rules by REFER, the State rail infrastructure operator.

The construction of the railway station of the new Lisbon international airport will be awarded directly to NAER – Novo Aeroporto S.A. (NAER), the public undertaking incorporated with the purpose of managing the New Lisbon Airport project, and included in the new Lisbon airport project. The construction model for the stations of Elvas/Badajoz, Coimbra and Braga has not been decided so far.

The conclusion of these five sections represents 90 to 95 per cent of the overall investment.

The telecommunications and signalling systems, representing 5 to 10 percent of the investment, will be commissioned and operated by a separate entity.

The operation of passengers' service will be carried out by private operators operating the rolling stock under a lease from the Portuguese State.

On 2 June 2008, the Government announced the call for tenders for the construction and operation of the first section of the Portuguese high speed train network linking Poçoirão to Caia (next to the Spanish border), which represents 28% of the overall high speed rail project and will cost between €1,450 million and €1,700 million.

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This tender is one of the first procedures to which the new Public Procurement Code (PPC) will apply.

Among other things, under the PPC several formalities in relation to the procurement procedure are carried out using an Internet platform, although in this first tender the bids were also submitted in paper form.

Four proposals were submitted. The consortia lead by Brisa and Mota Engil were recently selected for the BAFO stage.

In March 2009, the Government launched the public tender for the construction and operation of the section Lisbon/Poçoirão, comprising the third bridge over the Tagus River

2.3. Future steps

The award of the concession for the construction and operation of the sections Poçoirão/Caia and Lisbon/Poçoirão are expected to take place during the third quarter of 2009 and the beginning of 2010, respectively.

The public tenders for the construction and operation of the link Lisbon/Oporto, for the concession of the rolling stock and for the commission of the signalling and telecommunications systems are expected to be launched until the end of 2009.

The current market conditions and the general election of 2009 may cause some delays in the implementation of the project's schedule.

In any case, the current Government has pledged to have the links Lisbon/Madrid and Lisbon/Oporto in operation by 2013 and 2015, respectively, as originally planned.

3. The new Lisbon airport

3.1. Background

The construction of a new Lisbon airport has been under discussion since the seventies. However, the continuous expansion of the Portela airport allowed it to continue to meet the increasing traffic demand.

In July 2005, the government, pressed by the exhaustion of Portela's capacity, which will no longer meet the demand by the end of 2016, finally announced that the new Lisbon airport would be built.

After several studies on the possible locations, the Portuguese Prime Minister announced, on the 10th January 2008, that the new airport will be built in Alcochete, on the southern bank of the Tagus River, and dismissed the original proposed location in OTA, in its northern bank.

3.2. The project

According to the Government's latest estimates, the New Lisbon Airport is expected to require an investment of approximately €4,900 million, which includes the construction of the airport and a rail link to Lisbon.

Presently, the Government intends to grant a concession of up to 30 years, in which case the operation period would be of a maximum of 23 years (from 2017 to 2039).

Although, it had been originally decided to shut down the existing Portela airport in 2017, it is still possible that the Portela airport could continue to be used for domestic flights and flights to some European cities.

On 26 January 2007, the Council of Ministers approved the model for the transaction of the new Lisbon airport.

The model disclosed combines the privatization of ANA – Aeroportos de Portugal, S.A. (ANA) and the concession for the planning, construction, financing and operation of the new Lisbon airport.

The approved model presents the following features:

- The privatisation of ANA and the granting of the concession for the planning, construction, financing and management of the new Lisbon airport will be subject to a single international public tender, where bidders will simultaneously bid for the acquisition of a controlling stake in ANA and for the construction and operation of the new airport infrastructure;
- All airports will remain within the perimeter of ANA; and
- The government and European funds to be used in the construction of the new Lisbon airport may not exceed €600 million, €170 million of which will be funded by the European Union.

The public tender will be divided in two phases:

- A pre-qualification phase, consisting on a first selection based on the reputation, conditions of access to capital and expertise of the bidders; and
- A tender phase, on which the pre-qualified consortia will have the opportunity to provide their views on the main aspects of the project and the project documentation.

Unlike the other project financing models used in Portugal there will not be a negotiation phase.

This solution entails several risks for the private and public sectors that should be adequately dealt with:

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- Control and governance: the Government will maintain a shareholding in ANA, which means that it will retain a certain degree of control over its management;
- Funding of the project: the proceeds from the privatisation of ANA will limit the need for resorting to State funds or increase of the Lisbon airport tariffs, but the utilisation of the privatisation proceeds could be subject to certain constraints, depending on the terms and conditions of the concession agreement and concessionaires obligations in respect of the non-profit airports operated by ANA;
- Viability/Role of ANA: maintaining the construction and operation of the New Lisbon Airport in the scope of ANA will ensure the viability of ANA but it will be difficult to harmonise ANA's duties concerning the other airports and the private partners interests in the construction of the new Lisbon airport;
- Complexity of the tender and selection process: the coordination between the concessionaire selection procedure and ANA's privatisation process will likely increase the complexity of the project; and
- Risks of the tender and selection process: once the Government approves the final documentation, some competitors may choose not to bid if their suggestions have not been accepted. On the other hand, by rejecting bidders suggestions additional pressure could be placed on the winning consortium, which would make it more difficult to finance the project or might increase the financing costs.

3.3. Future steps

The change of the location of the New Lisbon Airport from OTA to Alcochete delayed the launch of the public tender, which was originally scheduled to take place in 2007, as the new location must comply with the environmental law requirements and subject to a review of the European Commission, which must confirm the granting of the structural funds that had already been allocated to the original project.

As a result, the pre-qualification procedure is now expected to start in the second or third quarter of 2009. This pre-qualification phase can be carried out before the completion of the required environmental studies. The formal bidding procedure, to which only the pre-qualified entities will be allowed to participate in, should be initiated in 2010.

Several international and local investors, airport operators and contractors have already publicly expressed their interest in the project. The Government expects that there will be between four and six bidders.

The first consortium to announce its interest in this project was Asterion, a consortium formed by Brisa (25%), the main highway concessionaire in

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Portugal, Mota-Engil (25%), one of the largest Portuguese construction companies and Somague (17.5%), also one of Portugal's main contractors, now controlled by Sacyr, together with three of the four largest national banks, Banco Espírito Santo (10%), Millenniumbcp (10%) and Caixa Geral de Depósitos (10%).

A second consortium grouping Teixeira Duarte, Ferrovial and BAA was announced in November 2008.

In March 2009, Semapa, Santader Totta, Crédit Suisse, Bento Pedroso and Schiphol and Edifer announced the formation of a third consortium.

Other local investors as well as several major International players have been reported to have expressed publicly their interest in the project, including among others MSF, Construtora do Tâmega, Alves Ribeiro, Zagope, OPCA, Grupo Mello, Efacec and Soares da Costa, Alstom, Fraport AG, Vinci, Transdev, Airports of Paris, which has already participated in some of the developing phases of the New Lisbon Airport project, Dragados, Bouygues, Abertis and Macquarie.

The New Lisbon Airport will be one of the largest new infrastructure projects in Europe. The Portuguese Government expects that the new airport could become one of Europe's ten largest international hubs, attracting traffic from and to Brazil and other countries in South America, as well as traffic from the Northern hemisphere into Africa and the Middle East.

The manner in which the tender procedure has been set, which could be more transparent than other PPP tenders, will certainly improve the chances of international players willing to present an aggressive bid to win the award in detriment of Asterion, which could be over conservative in the assessment of the risks and over confident in its own strengths.

4. The new PPP road program

In December 2007, the Portuguese Government, in collaboration with Estradas de Portugal, S.A. (Estradas de Portugal), the public concessionaire of the Portuguese road network, announced the launch of several road and motorway subconcessions, in an overall investment of nearly €3,100 million.

The construction and/or improvement of these road stretches, which are distributed by the entire Portuguese mainland territory, is deemed a priority by the Portuguese Government as regards the conclusion of the National Road Programme, which is expected to be in completed in 75% by the end of 2012.

The guidelines of the operation and financing model for the National Road Program were disclosed in July 2007 and, among other issues, determined the conversion of Estradas de Portugal from public undertaking to public limited company with exclusive public participation.

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Pursuant to these guidelines, the conclusion of the National Road Program is the main goal of Estradas de Portugal for the next decades, for which it shall collaborate with the private operators under traditional subconcession schemes.

Therefore, Estradas de Portugal launched, by the end of 2007, the international public tenders for the subconcession of the following sections of the road network:

- Trás-os-Montes motorway, which includes four stretches, in a total length of 130 kilometres, representing an overall investment of €500 million;
- Douro Interior, which includes two stretches, in a total length of 261 kilometres, representing an overall investment of €520 million;
- Baixo Alentejo, which includes seven stretches, in a total length of 334 kilometres, representing an overall investment of €520 million; and
- Baixo Tejo, which includes six itineraries, in a total length of 32 kilometres, representing an overall investment of €110 million.

In March 2008, Estradas de Portugal launched three other road subconcessions, namely:

- Algarve Litoral, which includes the Recuperation of the National Road 125, throughout 153 kilometres;
- Centre Motorway, with 191 kilometres of new motorway stretches, in an overall investment of €740 million; and
- Litoral Oeste, which comprises the construction of 80 kilometres of new roads, representing an investment of around €260 million.

In June 2008, the Pinhal Interior subconcession was also announced. It aims for the requalification of IC3 and IC8, in a total length of 537 km, representing an overall investment of €1,200 million. Of the 547 kilometres of new motorways which construction is planned, around 178 kilometres should not have toll collection. The financing model will consist of a mixed system, under which the toll's revenues may finance the construction, operation and maintenance of the free motorways but will be completed with public funds.

The first concession to be awarded was the Trás-os-Montes motorway on 24 October 2008, followed by the Douro Interior subconcession which was granted on 28 October.

In January, EP awarded the Baixo Alentejo and the Baixo Tejo subconcessions.