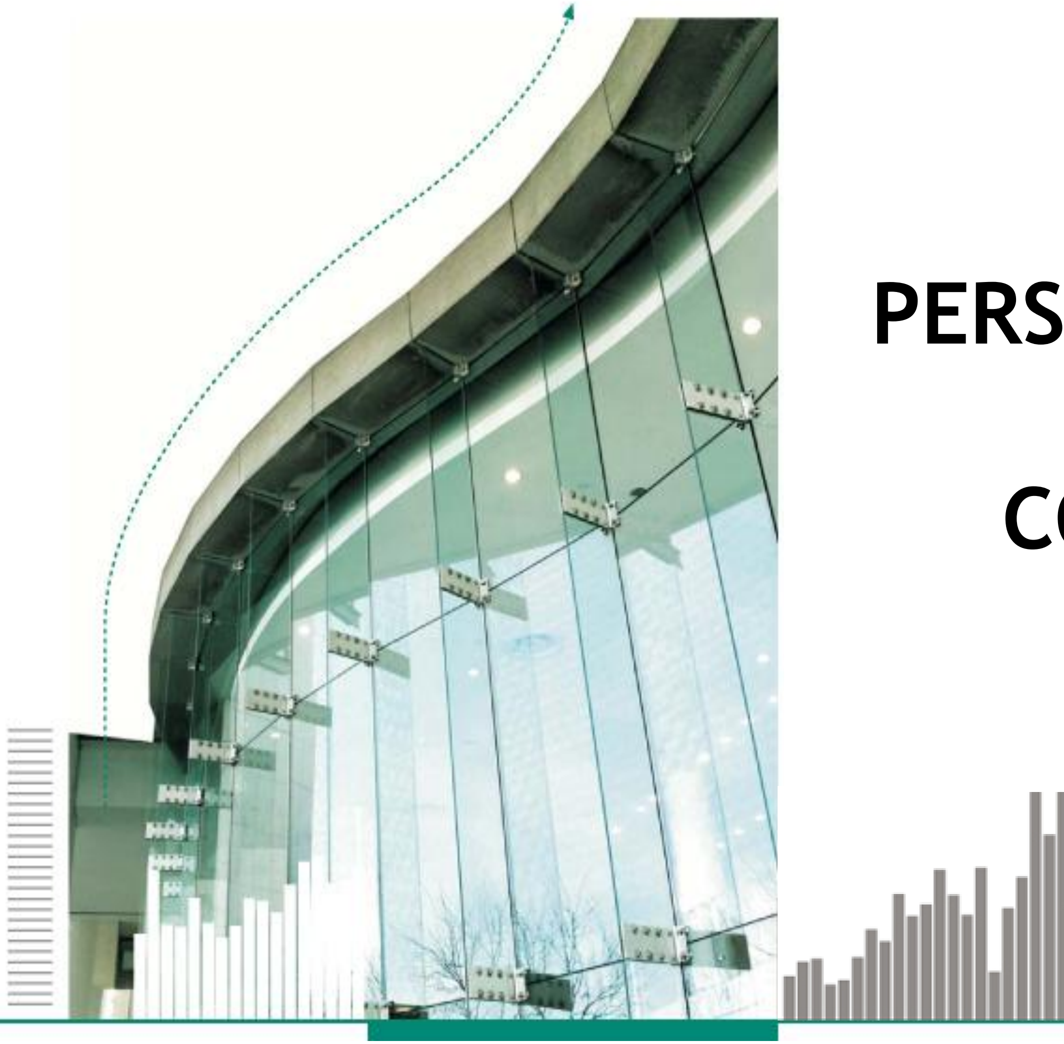

EQUITY PERSPECTIVES IN START-UP CONCESSIONS

IBTTA's Transportation Summit of South Africa
12 – 13 MARCH 2012

A II M
AFRICAN INFRASTRUCTURE INVESTMENT MANAGERS

OLD MUTUAL
Investment Group

The Different Natures of the Equity Group

INVESTMENT THESIS

- Investment thesis is not necessarily the same:
  - Default is “Whole of life perspective”
  - Construction Shareholders
  - Private Equity Purists
  - Infrastructure Funds
- Ideal shape of the cash flows different for each party

STAGE OF INVOLVEMENT

- Start–up or “financial close” equity:
  - Capital growth and yield
  - Involvement and time commitment
  - Scarce resource – look after it
- Yield seeking equity:
  - Later participation
  - Less involvement
  - More abundant resource

Observations and Lessons Learnt

COMPLEXITY

- Project Finance - future perspective and expectations as opposed to asset-backed investment
- This leads to complexity of arrangements
- Greater number of parties at the table the lesser the probability of financial close
- Each party, together with advisors, probably brings at least 3 views to the table e.g. consider the different views around termination provisions

LEGAL AGREEMENTS

- Complexity and sheer volume
- Yet no legal document ends up being watertight
- Focus on Principles being captured well
- Less is better

CONTINUITY

- Disjoint between people involved at:
  - Development phase
  - Construction phase
  - Ops and Maintenance phase

Relationships built during the early processes – "unwritten" understanding and undertakings and context of certain arrangements

EQUITY VALUE AT FINANCIAL CLOSE

- Recognise value accrual to date
- Stand toe to toe amongst equity group from FC onwards
- Avoid free carry as far as possible – situations change and alignment of decision making skews
- Mezzanine debt
  - Neither fish now fowl
  - Position is asymmetric

Start-up Considerations

CONCESSIONS AUTHORITY

- Risk of Concessioning Authority abandoning the process and the cost of bidding:
  - Significant % of project cost spent on implementation – both public and private
  - Costs seldom recoverable
  - If integrity is compromised or project abandoned the A teams go away and the B teams pitch up next time round

TIMING

- Compromise on relationship understanding and/or dd
- Risk you are willing to take?
- Quality of technical partners
- Level of co-operation

BID RISK

- Appetite for Bid Risk varies
  - Some parties have had more input
  - Some parties stand to gain on total project economics
  - Some parties are better able to understand the bid risk

THE "GOLDEN TRIANGLE"

- Traffic and revenue
  - Quality of the traffic data available and the traffic forecasting
  - Tolling strategy
  - GDP, traffic growth and traffic mix – consideration of upside potential
- Lifecycle investment
  - Assessing exposure to capital expenditure during operational period
  - Non-alignment between equity interests

THE "GOLDEN TRIANGLE" (cont)

- Level of Service obligations
  - Condition of the Road
  - Speed of Processing

Get traffic and/or life cycle cost wrong – dire consequence on equity return and ultimately on Level of Service

RISK TRANSFER

The level of risk transfer to the shareholders:

- From Concessioning Authority to Concessionaire
  - Ability to recover lost revenue vs. cost compensation
  - Hair trigger termination – consequence for the non-defaulting parties
  - Site and environmental risk
- From Concessionaire to Subcontractors
  - Penalty pass through and cap on liability
  - Delayed completion and liquidated damages
  - Independent Engineer and dispute resolution

FUNDING RISK

- Financial close risk and potential changes in financing conditions during extended processes
  - Conceptual thing up front
  - Different project emerges as project develops
  - Different project emerges post implementation
- Optimising debt tenor and refinancing at the end thereof
- Interest rate exposure and hedging strategy