Rail Financing and PPPs
-
UIC General Assembly

PARIS, December 6th, 2017

Ferrovie dello Stato Italiane S.p.A.
Since 2000, Italy used PPP/PF for EUR 17 bn of infrastructure projects
.....most of them on roads and subways

- **EUR 17 bn** on infrastructure projects with PPP/PF scheme between 2000 and 2016.

- Debt for EUR 14.3 bn and Equity for EUR 2.8 bn; average leverage at 5.

- PPP for Greenfield project only starting from 2011.

- PPP are mainly focused on roads and subways. No railway projects have been realized through PPP schemes.

PPP/PF is expected to be widely used in the next years

- Italian government and local authorities had already allocated more than EUR 6 bn in infrastructure project (and rolling stock purchase)
  → **Sustainable Urban Mobility Plans.** Additional EUR 3,4 bn expected in 2018 budget law.

- **Target:** New Subways, completion of existing Subways, Light Rail, New Tramline or their completion, Urban Railway Network, Rolling Stocks and other equipment, heavy maintenance of infrastructures.

- **FS Italiane Group intends to select some infrastructure projects** in order to actively participate to national development and urban mobility.

- FS has also signed a **MoU with CDP** (Italian Development Bank) with the aim to identify and promote project both greenfield and brownfield, trying to attract private investments also using PPP schemes.

**FS Italiane Approach**

- Financial structure of projects would be assessed case by case, depending on the capability of the projects to fully or partially meet the requirements of Project Finance, without missing a more significant percentage of public contribution where needed for the realization of the project.
Main advantages of the PPP in Italy

- Extend the range of financing sources
- Look for the (hopefully) ideal mix of Risk/Returns based on the availability of public funds.
- Attract private investors
- In the Italian market, PPP can help to secure budget in construction costs.
Pros & Cons

**BENEFITS**

➢ In Italy, the main benefit is in term of construction cost predictability and limitation on variation on the original amount avoiding huge extra costs.

➢ PPP can also attract new private investors with different profile during the various stages of the initiative. Yield could be the driver in the first stages and, after construction, banks and other categories of institutional investors.

➢ PPP allows to have all the stakeholders involved in the project, forcing them to assess all the main topics and risks of the project and allocate them in the cheapest way.

➢ Looking at the brownfield projects, PPP could be successfully used to extend and develop existing networks

**FEARS AND RELUCTANCES**

➢ Need to be very careful in the selection of the partner in sponsorship (reputation, credit profile, reliability, etc.)

➢ Still lack of expertise inside Public Sector (mainly for Local Authorities)

➢ Public Sector often looks at project finance simply as a “way of procurement”.

➢ Widening gap between the «private» WACC and the cost of public debt.

➢ Risk of shorter maturities of banking lending, not covering the entire project life.
Metro 5 awarded as PPP of the year in 2017

Contractual and legal framework

Republic of Italy

State grants

Milan Municipality (grantor)

Availability Fee (during operation)

State Grants + Municipality Grants

Metro 5 S.p.A (concessionaire)

O&M Contract

EPC Contract

Operator

Pool of Companies

Use of funds (mln€) | Sources (mln€)
--- | ---
Capex 1.366 | Equity + shareholder loan 135
Other 29 | Project bond 150
VAT 46 | Banks 346
Financial expenses 157 | Vat Facility 46
Provisions & Other 27 | Public Grants 824
Cash flow 125

Total 1.625

Total 1.625

Equity: 19%
Shareholder Loan

Senior Debt Eur 490 mln€ ca.:
Bank Loan + CDP Eur 340 mln
Project Bond Eur 150 mln

Metro 5 Highlights

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| Operations & Maintenance
  *(O&M)*                                  | ATM       | ✓ Management and maintenance of the line/rolling stock including additional services (additional source of revenues)                  |
|                                         |           | ✓ ATM and SPV bear no traffic risk – payment based on the availability of the line and an agreed number of services *(tr/km)*          |
|                                         |           | ✓ Fixed fee (linked to CPI index)                                                                                                        |
| Engineering, Procurement and Construction
  *(EPC)*                                  | ASTALDI   | ✓ Construction end on 2015.                                                                                                               |
|                                         | AnsaldoSTS| ✓ Risk on EPC contractor                                                                                                                  |
|                                         | Hitachi Rail Italy | ✓ Fixed amount committed to construction. Variation to be agreed with M5 and penalties in case of delays |
|                                         | ALSTOM    |                                                                                                                                           |
|                                         | ATM       |                                                                                                                                           |
Since ‘90s public and private tried to jointly finance High Speed infrastructure

1991-1992
Agreement between Minister of Transport and FS for the new High Speed infrastructure «Financing: 40% State funds and 60% private funds»

TAV (Treno Alta velocità S.p.A.) was established for the design and construction of the High Speed System. Tav was also involved in commercial operation whose flows to be addressed to debt service and equity return. Carrier operation was out of scope being reserved exclusively to FS.
Private investors out from equity in 1998

1998: Private not available to finance the project anymore TAV (Treno Alta velocità s.p.a.) 100% part of FS Group

Since then, different ways of financing (i.e. corporate debt, ISPA).
High Speed Costs 3 times above the original budget

- **Euros**
- **Years:** 1992 to 2006
- **Costs Evolution:**
  - **1992:** 10.7
  - **1993:** 12.7
  - **1994:** 15.2
  - **1995:** 18.7
  - **1996:** 20.7
  - **1997:** 22.8
  - **1998:** 24.2
  - **1999:** 25.3
  - **2000:** 28.8
  - **2001:** 30.2
  - **2002:** 31.3
  - **2003:** 31.3
  - **2004:** 30.2
  - **2005:** 32.0
  - **2006:** 31.3

- **Types of Systems:**
  - **AV**
  - **AV / AC**

- **Responsibility:**
  - **FS + Privati**
  - **FS**