



Rail Financing and PPPs

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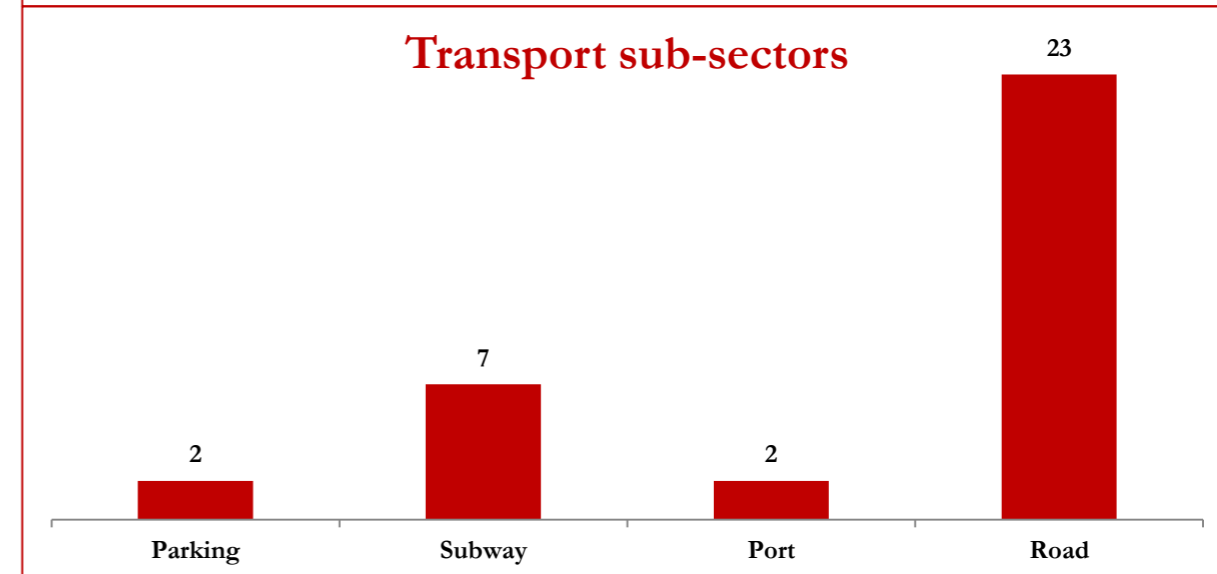
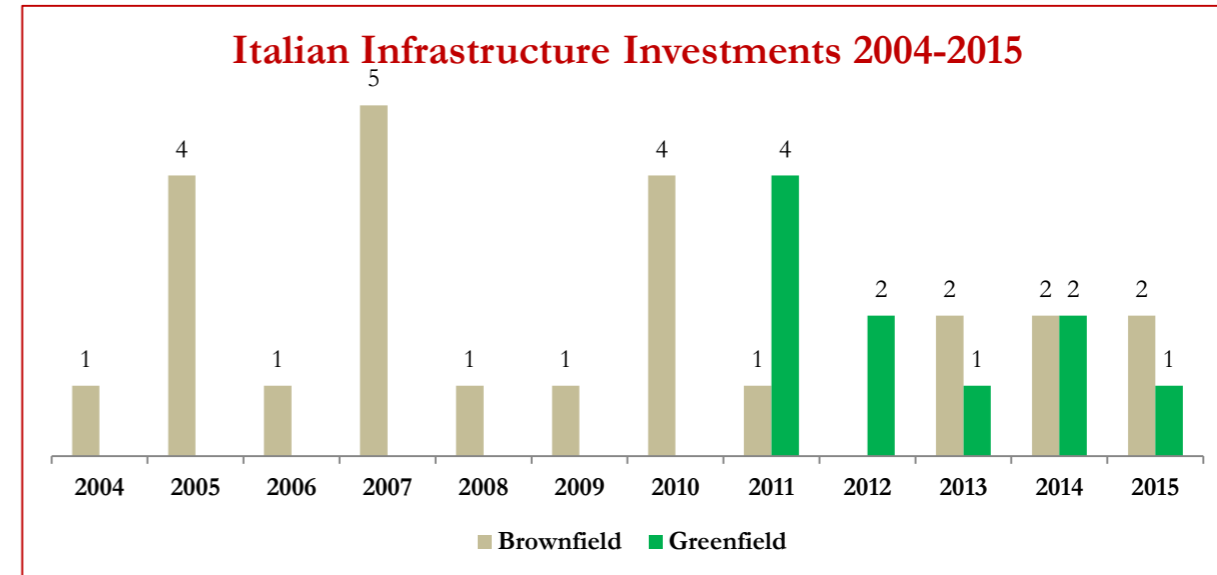
UIC General Assembly

PARIS, December 6th, 2017

Ferrovie dello Stato Italiane S.p.A.

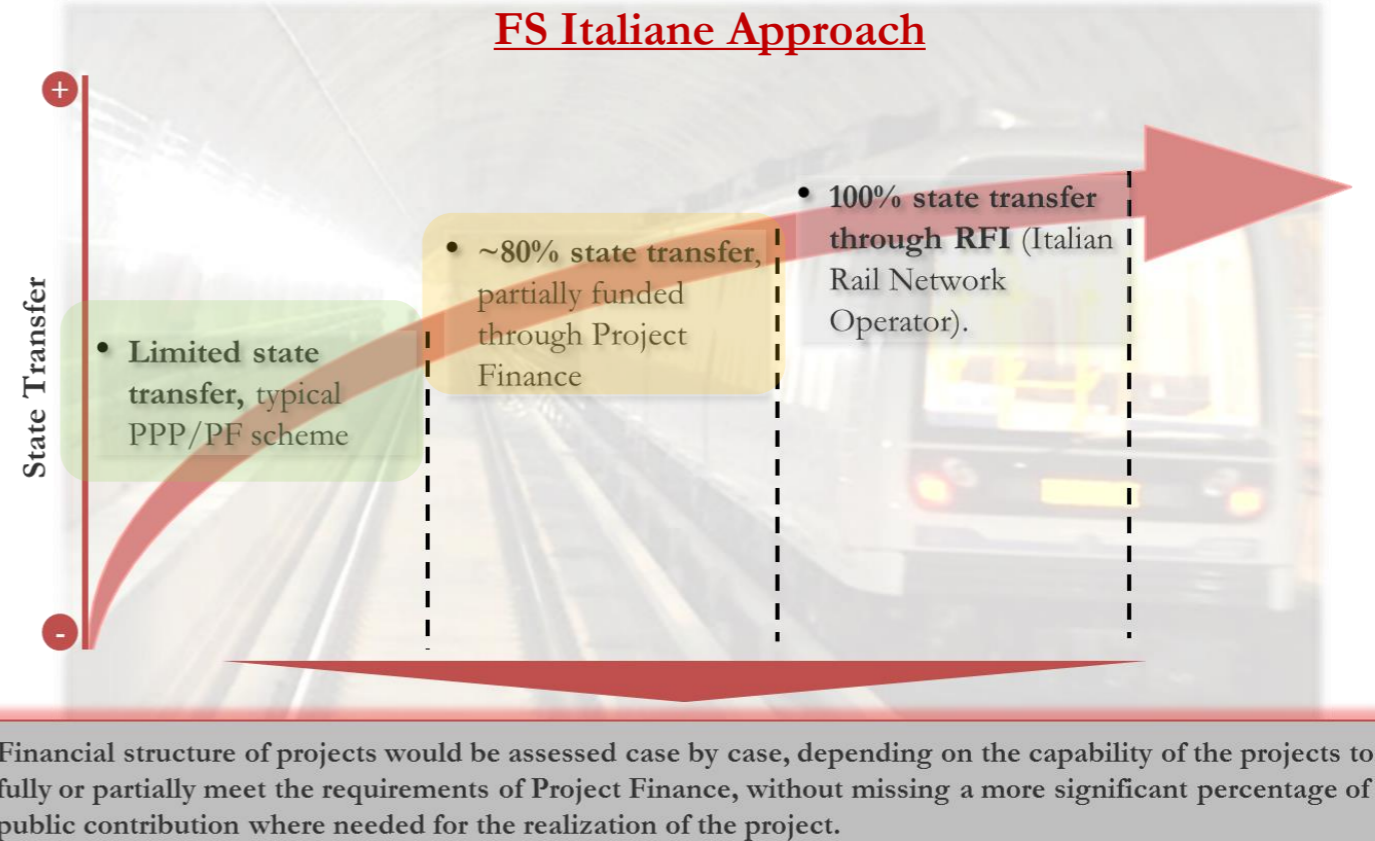
Since 2000, Italy used PPP/PF for EUR 17 bn of infrastructure projectsmost of them on roads and subways

- 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.

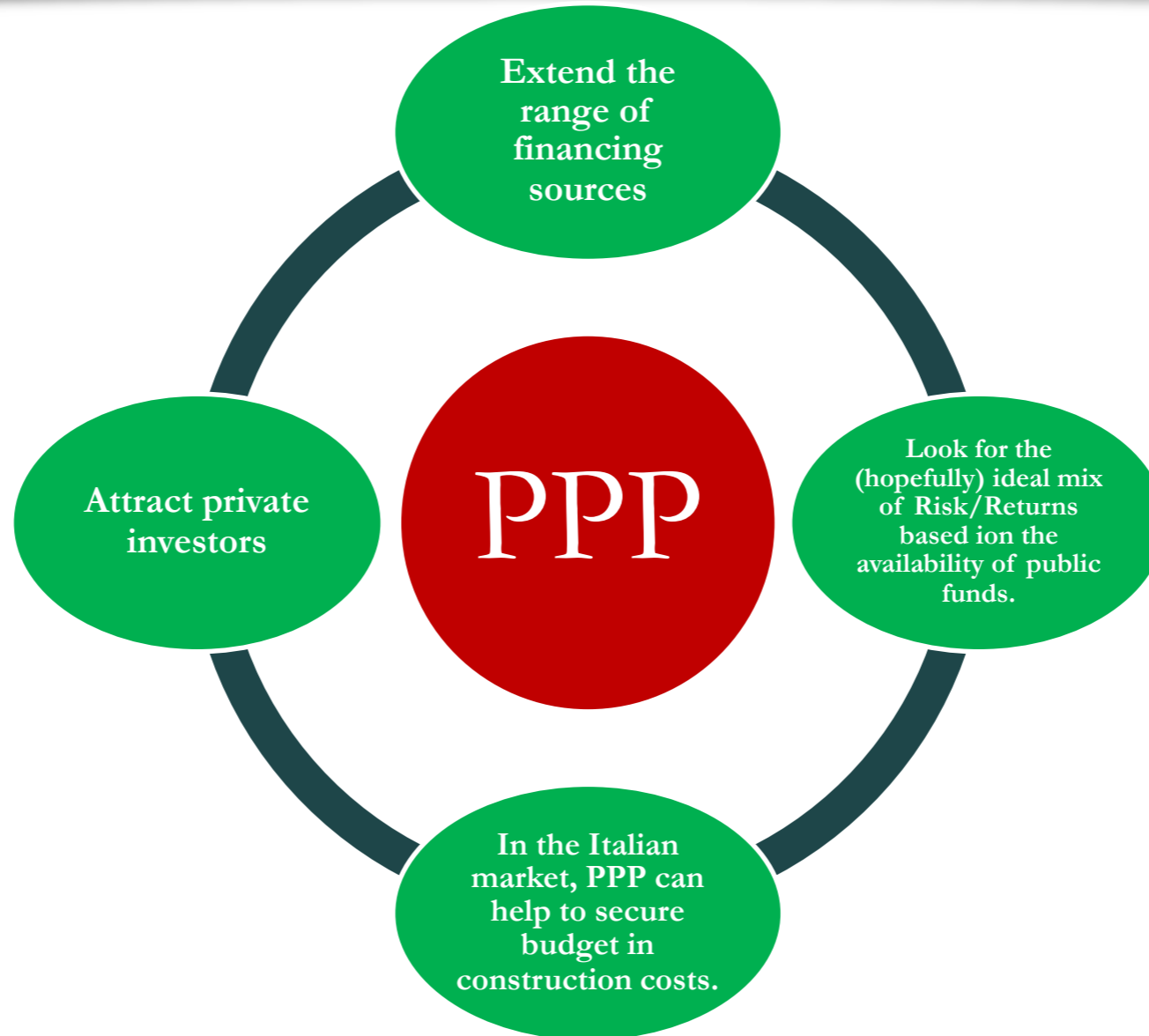


PPP/PF is expected to be widely used in the next years

- 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 browfield, trying to attract private investments also using PPP schemes.



Main advantages of the PPP in Italy



Pros & Cons

BENEFITS

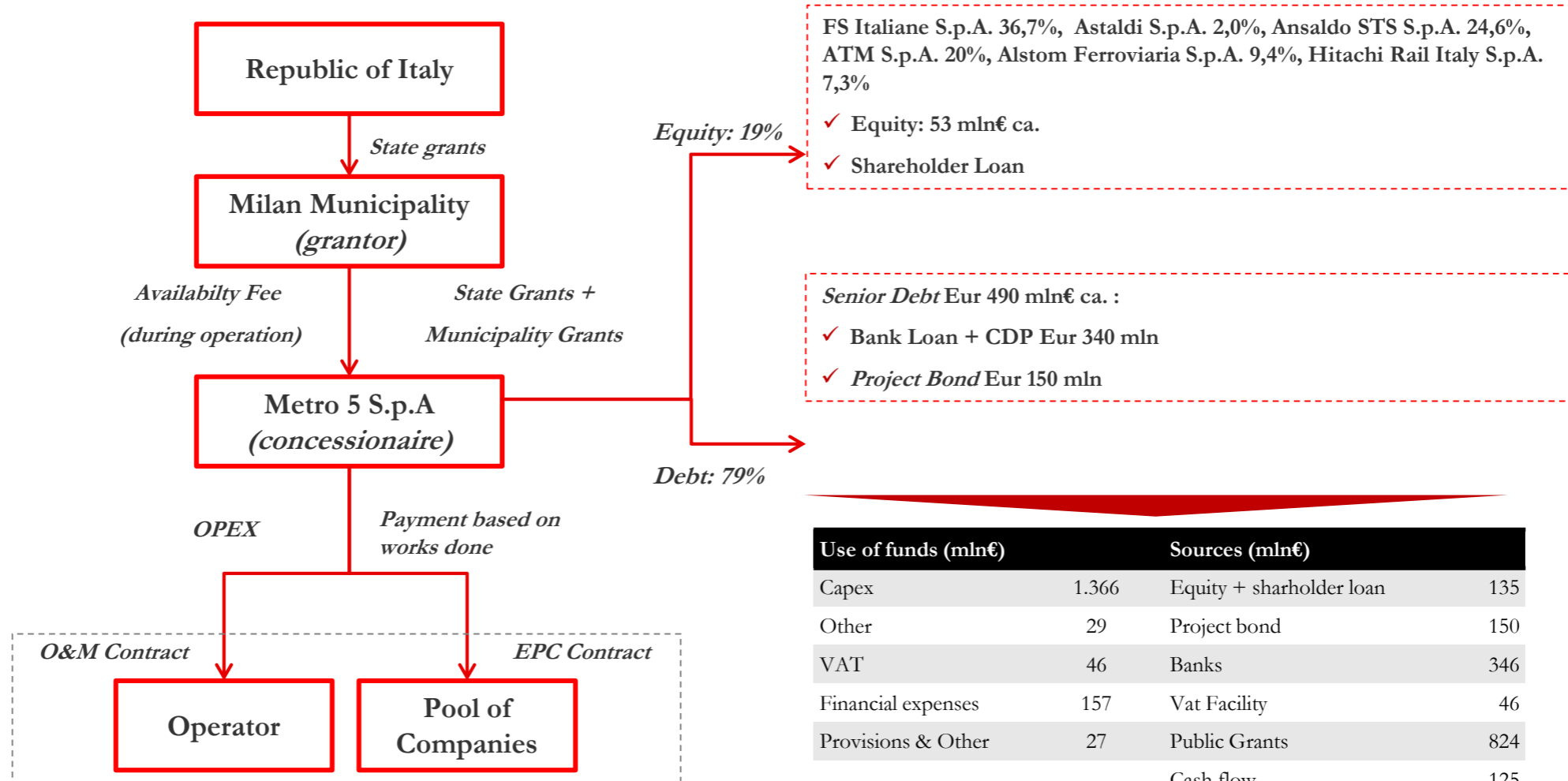
- In Italy, the main benefit is in term of construction cost predictability and limitation on variation on the original amount avoiding huge extra costs.
- PPP can also attract new private investors with different profile during the various stages of the initiative. Yield could be the driver in the first 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



Use of funds (mln€)		Sources (mln€)	
Capex	1.366	Equity + sharholder 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

Metro 5 Highlights

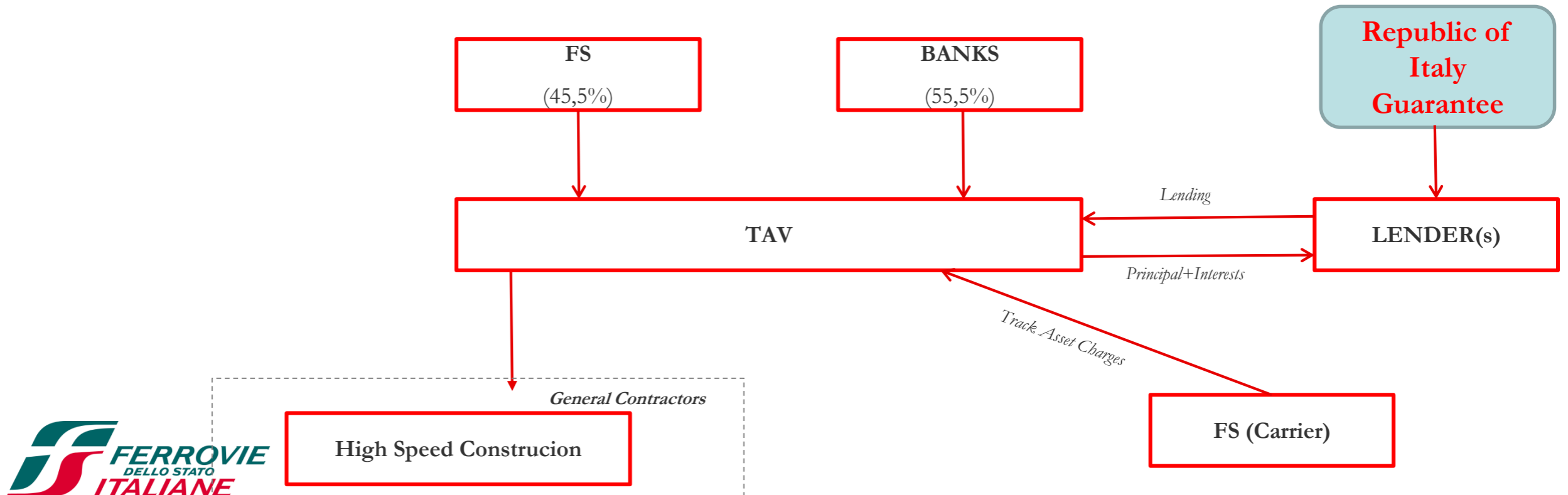
<i>Main Contracts</i>	<i>Companies</i>	<i>Highlights</i>
<p>Operations & Maintenance <i>(O&M)</i></p>	 <p>100%</p>	<ul style="list-style-type: none"> ✓ Management and maintenance of the line/rolling stock including additional services (additional source of revenues) ✓ ATM and SPV bear no traffic risk – payment based on the availability of the line and <u>an agreed number of services (tr/km)</u> ✓ Fixed fee (linked to CPI index)
<p>Engineering, Procurement and Construction <i>(EPC)</i></p>	 <p>50,7%</p>  <p>24,8%</p>  <p>11,8%</p>  <p>10,5%</p>  <p>2,3%</p>	<ul style="list-style-type: none"> ✓ Construction end on 2015. ✓ Risk on EPC contractor ✓ Fixed amount committed to construction. Variation to be agreed with M5 and penalties in case of delays

Since '90s public and private tried to jointly finance High Speed infrastrure

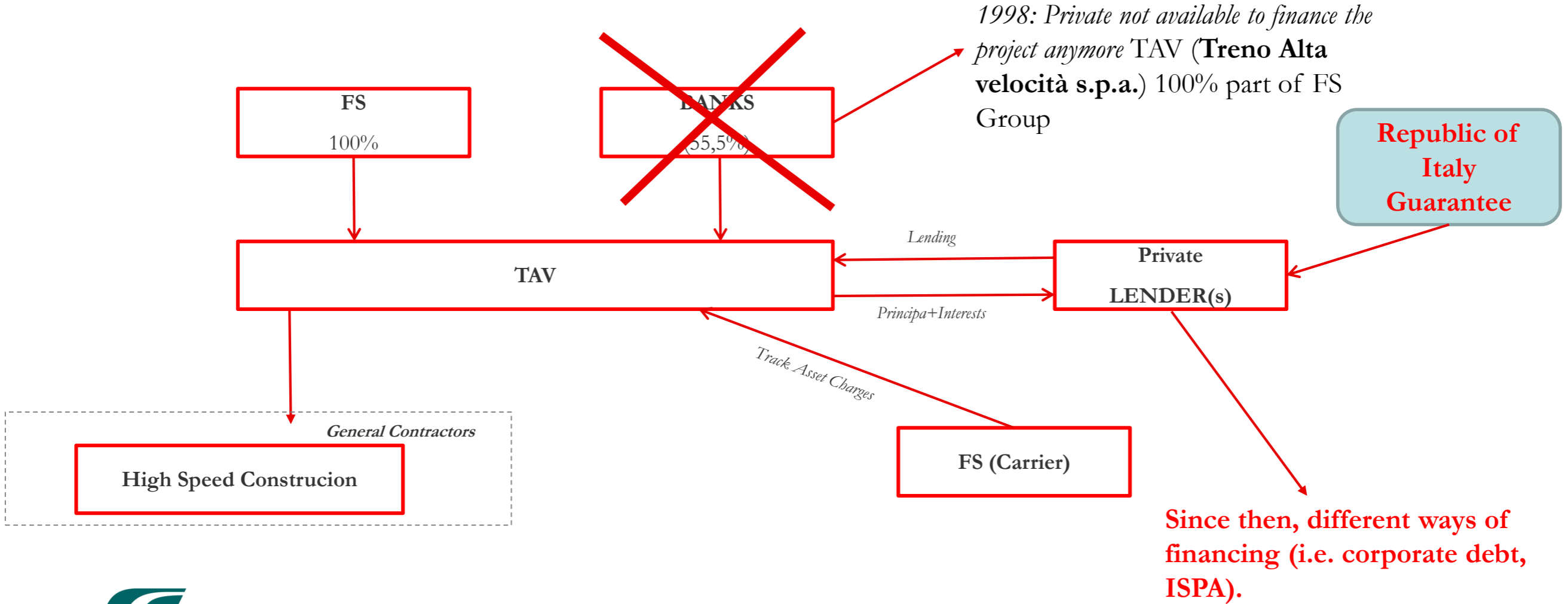
1991-1992

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



High Speed Costs 3 times above the original budget

