

Project & Structured Finance

Project finance is used by sponsors desirous to develop projects on an off balance sheet basis. Lenders, including Export Credit Agencies (“ECAs”) like SACE, are therefore requested to provide non-recourse or limited recourse, project-based financing. Sponsors’ commitments are limited to the equity portion of the project’s financing sources, and to possible other, tailor-made types of sponsor support like completion guarantees, standby equity/subordinated shareholders’ debt, technical/operational assistance, marketing support, as each particular case may require. The absence of guarantees of the project debt from established, creditworthy entities, creates the need for an in-depth due diligence (technical, environmental, economics, contracts, etc.) and an adequate security package. Project finance’s scope of application is therefore limited to self-sustainable projects, which are able to fully cover their own operation, maintenance and debt service costs, as well as to provide a satisfactory return for shareholders, and be of sufficient size to amortize due diligence costs.

Structured finance is generally used for investments by corporations whose balance sheets are not sufficiently robust or large to support the investment without additional securities. It involves the same type of due diligence as Project Finance, although sometimes more limited, as a track record of operations exists, that allows more visibility of the credit risk than in the case of a pure green-field transaction. The security package is structured on a tailor made basis, with a view to adequately enhance the creditworthiness of the borrower.

Why SACE

SACE is uniquely positioned to play a key role in Structured & Project Finance Transactions (“SPF Transactions”) for the following reasons:

- **SACE’s** proven track record of successfully guaranteeing large-scale limited and non-recourse finance transactions since the mid-90s, with an **average annual volume of new guarantees of US\$ 1 to 1.5 billion** issued in a variety of sectors, mainly oil & gas, petrochemicals, fertilizers, power, steel, aluminum and telecom;
- **SACE’s** diversified and recently upgraded range of guarantee products, as well as flexible eligibility criteria;
- **SACE’s** streamlined approval process enabling SACE to obtain the required commitment in an efficient manner;
- **SACE’s** consolidated working relationship with all other major ECAs, multilateral agencies and commercial banks, allowing efficiency in multi-source transactions;
- **SACE’s** dedicated team of senior executives composed of individuals with solid project finance experience and familiarity with the peculiarities of the different industries.

Our Products

SACE offers a wide range of products to meet the needs of the banks and/or capital market investors (“**Financiers**”) and of the exporters in SPF Transactions. The main products available for this purpose are:

BUYER CREDIT AND BOND COVER

The Buyer Credit Cover and the Bond Cover are designed for the **debt financiers** of a SPF Transaction, to cover the risk of non-payment of principal and interest due under the financing agreement subscribed by the project company or the corporate borrower (“**Borrower**”), as the case may be, in order to finance the purchase of exported goods and services eligible for SACE’s guarantee.

The beneficiary of the **Buyer Credit Cover** is the **banking syndicate** extending a credit facility to the Borrower. SACE can at its election offer either a standard **Insurance Policy** (i.e. coverage of non payment caused by defined political and commercial risks, with

invalidity/enforcement risks remaining with the insured party) or an unconditional and irrevocable **Financial Guarantee** (i.e. coverage of non payment as such, with no carve out for invalidity/enforcement).

Beneficiaries of the **Bond Cover** are the **bondholders** subscribing the notes issued by the Borrower on capital markets (through the bond trustee acting as their representative). The Financial Guarantee is the only option of cover suitable for a Bond Issue.

The percentage of cover is of up to **100%** in both cases, 100% being reached subject to a satisfactory risk sharing between the various lenders.

The main terms of credit applicable to financing facilities covered under the Buyer Credit and Bond Covers are governed by the OECD Arrangement on Export Credits for PF Transactions (“**Consensus**”).

The amount eligible for financing under SACE Buyer Credit and Bond Covers is of up to 85% of the con-

tracts for the supply of goods and/or services (including construction) entered into by the Borrower with Italian exporters or Joint Ventures having an Italian participation. Capitalized interest during construction and up to 85% of the SACE premium are also eligible.

There is **no maximum amount** of SACE involvement in PF Transactions.

The insurance/guarantee premium depends on **SACE's internal credit rating** of each particular transaction, in compliance with the OECD Consensus.

in a Corporate Borrower providing collaterals. The insurance policy covers equity injections in, and/or associated loans (also from financial institutions) to, the project company, against political risk and (on a case by case basis) breaches of Host Government's or Sub-sovereign entity's contractual undertakings.

SUPPLIER CREDIT COVER

Supplier Credit Covers protect the Italian exporters against financial losses caused by breaches of the export contracts by buyers: non-payment, abusive termination, contract frustration, destruction or damage of equipment, requisition or seizure of equipment and unfair calling of bid/performance bonds.

OVERSEAS INVESTMENT COVER

The Overseas Investment Cover is designed for Italian companies and their foreign subsidiaries investing in an offshore Project Company or

How we work

SACE's approach to SPF Transactions is characterized by an early involvement in the financing process, a direct and active participation in financial negotiations and a close co-operation with the other financiers involved in the transaction.

EARLY INVOLVEMENT

SACE wishes sponsors, financial institutions and exporters to involve SACE from the early stages of the financing process of SPF Transactions, in order to streamline due diligence and negotiations and achieve a timely closure of the financing, including issuance of the SACE Guarantee. Members of the Structured Finance Division of SACE are fully available to provide information and guidance on SACE's application process and to assist in finding the most suitable solution to specific requirements early on in the process.

ACTIVE PARTICIPATION IN NEGOTIATIONS

A dedicated team is set up for each SPF Transaction in order to guarantee timely and effective support to the various counterparties involved. Depending on the size and complexity of the transac-

tion, the team generally includes one or two senior underwriter(s) with solid experience in the sector, one project manager and other internal resources as needed (legal, credit evaluation, environmental assessment). SACE's team participates in the negotiation of the relevant project, financing and security documents. This approach ensures that SACE's requirements and issues are directly discussed and addressed with the parties concerned as early as they arise, achieving more transparency, efficiency and time savings. The support of external consultants is generally required in order to assist SACE in the evaluation of the project. The scope of external consultancy services (i.e. legal, technical, commercial) depends on the relevant features (sector, structure complexity, etc.) of each particular SPF Transaction and is agreed upon between SACE and the applicant/Borrower/Sponsors in the preliminary phase of SACE's appraisal. Consultants are selected and managed by SACE while their costs are, as is customary in SPF Transactions, for the account of the Borrower/Sponsors. In order to minimize costs, SACE is prepared to share consultancy services with the other ECAs, IFIs and commercial lenders involved in the project (with certain exceptions in the case of the legal counsel).

CO-OPERATION WITH OTHER ECAs

Large SPF Transactions are characterized by a high level of complexity, increasing with the number of players involved. SACE has developed extensive experience in multi-sourcing project and structured financings involving several ECAs, IFIs, commercial lenders and local financing institutions. SACE favours full and transparent information sharing and cooperation with all other financiers in the due diligence process.

PROCESS

In the preliminary stage of development of a project, SACE can provide a detailed Letter of Interest setting out the main general conditions, to the extent identified at such stage, for SACE to be able to support the transaction. Application for a Letter of Interest should include a brief description of the project, the parties involved, the indicative financing plan and the proposed security package. SACE is flexible as to the prerequisites for starting its detailed appraisal of a project in cooperation with the other parties involved. An application for cover has to be submitted when the project reaches a more advanced stage. The appropriate form can be downloaded from SACE's website or requested to SACE team members. Where SACE is not already involved in the due diligence at such time, applications should be accompanied by a short preliminary information

memorandum (including contract summaries and cash flow projections). Projects are submitted to SACE's Board of Directors for approval once due diligence is completed and the financial terms substantially agreed. SACE always endeavours to submit projects to its Board in a timely manner consistent with the project's own schedule towards closing. SACE issues its Guarantees shortly after SACE's Board approval.

ANTI-BRIBERY MEASURES

In compliance with Italian and international rules against bribery, SACE has adopted specific measures as follows: i) adequate information to the Insured Parties on applicable rules; ii) collection of information and representations requested from Insured Parties and Exporters; and iii) fulfilment of suitable KYC activities.

Furthermore, SACE has adopted a specific "Model of Organisation, Management and Control" and an "Ethical Code of Conduct", both aimed at preventing and identifying the risk of criminal offences in the ordinary course of business activities. Insured Parties and Exporters are requested to act in conformity with the Ethical Code of Conduct's principles.

SACE's Ethical Code of Conduct ("Codice Etico") can be found on Web link: <http://www.sace.it>

TERMS OF THE OECD CONSENSUS FOR EXPORT CREDITS

The current OECD Consensus entered into force on the 1st of December 2005 and provides for the following:

- **DRAWDOWN PERIOD:** not regulated
- **REPAYMENT PROFILE:** first repayment of principal within 2 years of the starting point of credit; maximum repayment period of 14 years (10 years for “High Income Countries” as defined by the Consensus); average life not to exceed 7.25 years (5.25 years for High Income Countries); no principal instalment must exceed 25% of the total principal amount.
- **PREMIUM:** the applicable base rate is a function of the OECD classification of Borrowers’ countries into 7 risk categories and is the subject of an OECD-regulated minimum premium benchmark. Such benchmark foresees the possibility of certain

discounts if a transaction meets certain criteria. An internal SACE’s credit rating system, based on each transaction’s characteristics, provides for the final Premium, in compliance with the OECD rules.

- **PERMITTED EXCEPTIONS:** a reduction of up to 40% of the minimum premium benchmark for the relevant country can be obtained in SPF Transactions through the implementation of certain structuring parameters such as, inter alia: offshore revenue flows/debt repayment mechanisms, the existence of a Debt Service Reserve Account and other securities available. Details of the Permitted Exceptions regime can be found on the OECD website or provided by SACE on request.