

The 2009 guide to

Portugal



EUROMONEY

September 2009



Published in conjunction with:
Banco Santander Totta
Caixa - Banco de Investimento

Turning your projects into reality.

EXPLORER
INVESTMENTS

Acquisition of
Gascan
Structured Finance
€ 28 Million
Mandated Lead Arranger
2009

Millennium
investment banking

edp

Revolving Credit
Facility

€ 1,600 Million

Mandated Lead Arranger
2009

Millennium
investment banking

MOTENCE
INVESTMENTS

24.19% Stake Acquisition
of "Lusoporte -
Concessionária para a
Travessia do Tejo, S.A."

Structured Finance

€ 88.5 Million

Mandated Lead Arranger
2009

Millennium
investment banking

Emparque

Acquisition of

Cintra

Structured Finance

€ 450 Million

Mandated Lead Arranger
2009

Millennium
investment banking

Novenergia II
energy & environment (SCA) SICAR

Novenergia - Bonete
Photovoltaic Power Plant
Spain

Project Finance

€ 21.7 Million

Mandated Lead Arranger
2009

Millennium
investment banking

**Eólica dos
Candeieiros, Lda**

Lomba do Vale
Wind Farm

Project Finance

€ 36.9 Million

Mandated Lead Arranger
2009

Millennium
investment banking

AENOR
Douro-Estradas do
Douro Interior

Road Concession

Project Finance

€ 763 Million

Mandated Lead Arranger
2009

Millennium
investment banking

energias do brasil **OMPX**

Porto do Pecém I
Coal Fired Power Plant
Brazil

Project Finance

BRL 1,410 Million
USD 327 Million

Mandated Lead Arranger
2009

Millennium
investment banking

rpGLOBAL

Tychowo
Wind Farm

Poland

Project Finance

PLN 289.9 Million
EUR 50.2 Million

Mandated Lead Arranger
2009

Millennium
investment banking

cerutil

Tender Offer

€ 11.9 Million

Advisory to
Grupo Visabeira, SGPS, S.A.
2009

Millennium
investment banking

parkalgar
parques tecnológicos

Share Capital Increase
for Institutional Investors

Financial Advisor of
Parkalgar, S.A.
2009

Millennium
investment banking

**RADIO
POPULAR**

Financial Advisory

2009

Millennium
investment banking

Certificates

DAX 30

€ 41 Million

Issuer
2009

Millennium
investment banking

Certificates

DJ EURO
STOXX 50

€ 46 Million

Issuer
2009

Millennium
investment banking

Certificates

Dow Jones
Industrial Average

€ 49 Million

Issuer
2009

Millennium
investment banking

galp energia

Floating Rate Notes

€ 700 Million

Co-Lead Manager
2009

Millennium
investment banking

JMR
GESTÃO DE EMPRESAS DE RETALHO SGPS, S.A.

Floating Rate Notes

€ 105 Million

Joint Lead Manager
and Joint Bookrunner
2009

Millennium
investment banking

Millennium
bcp

Fixed Rate Notes

€ 1,000 Million

Joint Lead Manager
and Joint Bookrunner
2009

Millennium
investment banking

HSBC Holdings Plc

Fixed Rate Notes

Lower Tier II

€ 1,750 Million

Co-Lead Manager
2009

Millennium
investment banking

edp

EDP Finance BV
Fixed Rate Notes
5,5%

€ 1,000 Million

Joint Lead Manager
and Joint Bookrunner
2009

Millennium
investment banking

**Magellan
Mortgages 6**

RMBS
Portugal

€ 3,639 Million

Joint Arranger
2009

Millennium
investment banking

edp

EnergyOn No. 1
Securitisation Notes

€ 1,258.6 Million

Joint Arranger
and Joint Lead Manager
2009

Millennium
investment banking

galp energia

Commercial Paper

€ 50 Million

Leader and Bookrunner
2009

Millennium
investment banking

REN

Commercial Paper

€ 100 Million

Leader and Bookrunner
2009

Millennium
investment banking

P T

Commercial Paper

€ 250 Million

Leader and Bookrunner
2009

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investment banking

Active Intelligence

www.millenniuminvestmentbanking.pt

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This guide is for the use of professionals only. It states the position of the market as at the time of going to press and is not a substitute for detailed local knowledge.

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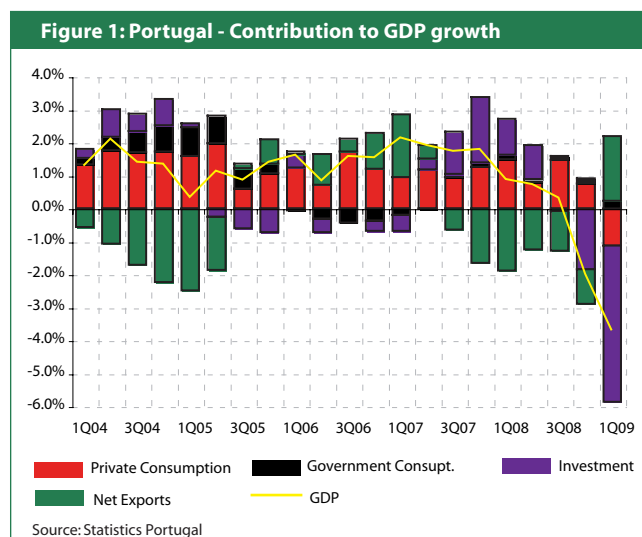
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Post-crisis Portugal

The coming months will reveal whether Portugal's economic restructuring is built on solid foundations, enabling it to return to sustained growth

One year ago the world economy was at a crossroads. The first impact of the financial crisis was fading away, and the general outlook was still one of resilience, especially at the level of Europe and emerging markets, with prospects for moderate, but steady, growth in 2009.

Then, in September 2008, the crisis hit its climax, with the bankruptcy of Lehman Brothers having a major impact, both in financial and economic terms, and resulting in the current recession of the world economy.



As elsewhere, the fundamentals of the Portuguese economy, which was starting to draw on the results of a restructuring process, were put to the test. Here, as elsewhere, a recession could not be avoided.

The economic performance of the next few quarters will contribute to answering a simple question (to which the answer is anything but simple): whether those results were solidly grounded and, if so, whether the economy is prepared to ride the global recovery wave and return to a sustained growth path in the near future.

A bird's eye view of 2008 and early 2009

In the first half of 2008, the Portuguese economy was showing early signs of slowing down, partly reflecting base effects related to investment in transportation (which peaked in 2007), but with still resilient private consumption and export growth.

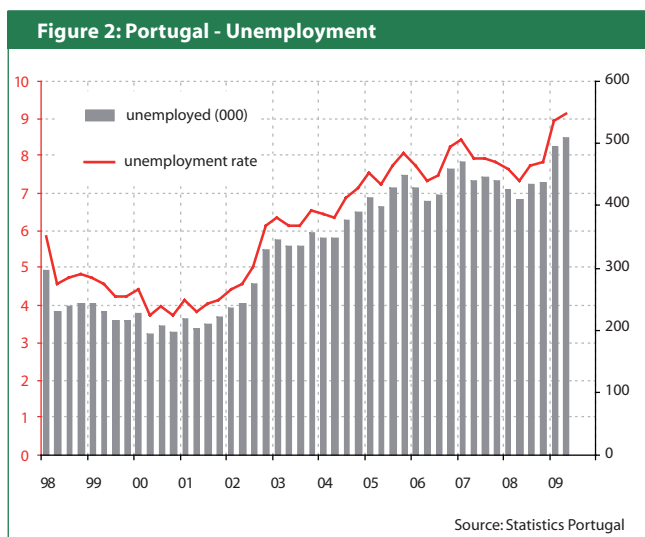
The consensus, in July, was that GDP would grow by around 1% in both 2008 and 2009, basically in line with the euro area, with the US being the most seriously hit economy.

Portugal was also expected to benefit from the political cycle, with general and local elections set for 2009. Elections usually involve some expenditure on public works, with the usual impact on investment.

The bankruptcy of Lehman Brothers dramatically changed this out-

look. Successive revisions of economic forecasts into 2008 and 2009 pointed to a dramatic contraction of activity, at rates not seen in the period since World War II. Economic activity stalled completely, with GDP contracting by around 2%, on average and on a quarter-on-quarter basis, in both 4Q 2008 and 2Q 2009.

Portugal was no exception, with investment and exports falling sharply, reflecting the reaction to a cutback in demand, both current and prospective. The contraction of activity, which had started in 3Q



2008 was aggravated, with GDP falling 1.8% in both 4Q 2008 and 1Q 2009.

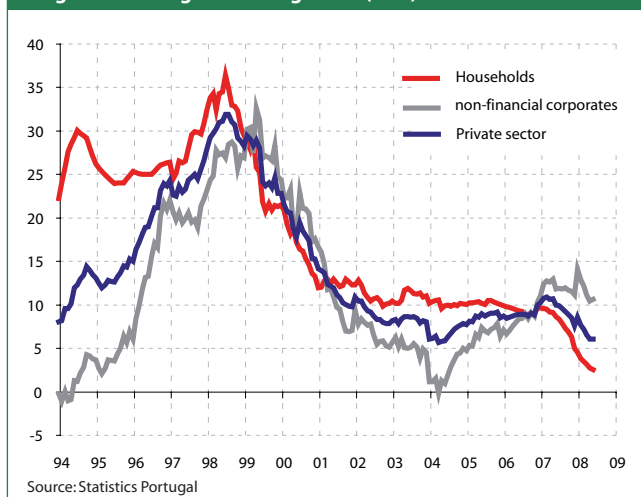
In each of these two quarters, investment and exports fell around 35%, on a quarter-on-quarter basis, a trend that was unprecedented in Portugal, and reflected the strong impact the crisis had both in terms of financial markets perspectives and external demand. Businessmen faced with lower demand, both domestic and external, as well as with worsening conditions in financial markets (tighter credit conditions, with more demanding guarantees and higher credit spreads), have cut back their plans to expand capacity.

Even the larger projects, in terms of public works, but especially at the level of tourism, have been postponed into 2010 and later.

This deterioration at the corporate level had a significant impact on the labour market. Unemployment increased sharply during this period, exceeding 507,000 people, or 9.1% of the workforce, in 2Q 2009. This is an increase of nearly 25% or 1.8 percentage points from the same period in 2008.

As a result, consumer confidence hit historical lows in 1Q 2009. Households have scaled back their expenditure plans, with a clear focus on savings, leading to a contraction in private consumption for two consecutive quarters, in 4Q 2008 and 1Q 2009, something unseen

Figure 3: Portugal - Credit growth (YoY)



since the 1993 recession. Indications are that household expenditure on goods and services stabilized in the second quarter of this year, albeit at low levels.

Despite the reduction in interest rates, which has reduced the average monthly housing instalment by some €300, since last winter, and indications that households are now less worried about labour market prospects, savings are likely to remain the focus, resulting in a stagnation of private consumption expenditures.

Bottoming out or technical growth?

Within this framework, indications are that activity stopped deteriorating in the second quarter of this year, with GDP expanding 0.3% on a quarter-on-quarter basis, but still contracting 3.7% from the same period last year.

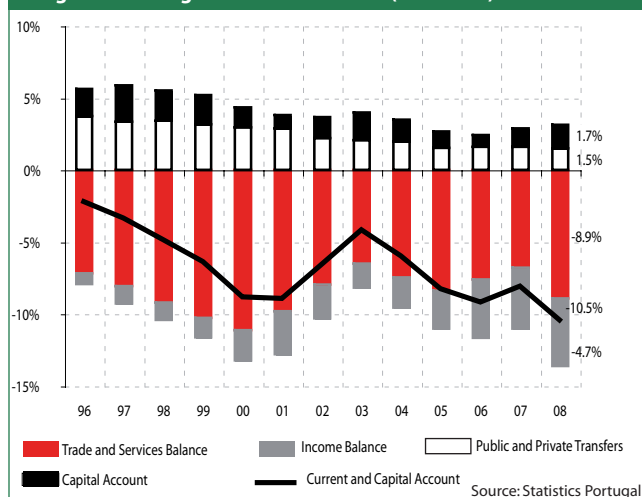
No details on aggregate demand have been published at the time of writing (mid-August 2009), but short-term indicators show that activity may have benefited from a slight recovery of private consumption, but drawing on two technicalities: auto sales in 1Q were brought forward into 2008, in anticipation of higher taxes and sale prices; and Easter was in April this year. This same trend was seen in variables related to both investment and exports. Public expenditure may also have made a positive contribution to GDP growth in this quarter, reflecting the functioning of automatic stabilizers.

Data relating to the early months of the third quarter are scarce and show stabilization around the levels of the last quarter. For the full year 2009, GDP is estimated to contract above 3%, despite an anticipated stagnation in the second half of the year. The recovery will be slow and large base effects could continue to have an impact in 2010. Despite estimates that quarterly growth will gradually pick up, the year average could continue to show a minor contraction in GDP.

The recovery will be export-led, as both households and corporates will continue their adjustment, in a context of elevated unemployment and high levels of spare capacity.

The more positive indications come from abroad, with the early data of activity in Portugal's main trading partners showing greater signs of improvement: manufacturing activity in Germany and France is now contracting at the slowest pace since early 2008, and there are also signs of improvement in Spain. Taken together, these countries account for 50% of Portuguese exports of goods, so any improvement on this

Figure 4: Portugal - Current account (% of GDP)



front is a good omen. Yet businessmen remain conservative in the way they evaluate both export orders and their external competitiveness.

New challenges for the export sector

Prior to the crisis, the Portuguese export sector was going through a deep adjustment, both in terms of product and market mix, moving along the value chain (with an increase in exports of high-tech goods) and finding new markets (emerging markets, Angola).

The crisis has hit hard two of the largest exporting companies: AutoEuropa, the Volkswagen factory in Portugal, and Qimonda, a maker of computer chips. These two companies, in 2007, accounted for over 5% of exports of goods. Qimonda is in a bankruptcy process, while AutoEuropa has significantly reduced its production, as demand for autos has fallen sharply.

In 2Q 2009, and in nominal terms, exports of goods grew 2% on a quarter-on-quarter basis (following a quarterly contraction of 13.2% in the first quarter), but are down 25% year on year. Assuming the largest exporters continued to have little contribution to this trend, there could be indications that it was the bulk of the export sector, consisting of small and medium enterprises, that has made that contribution. This would be (and here there is some wishful thinking) a very positive sign: SMEs could have sailed through the economic storm and be poised to benefit from the recovery of the world economy.

Angola continues to excel, now accounting for 7.5% of Portuguese exports of goods, and having a (very) positive contribution to export growth, of 1.5 percentage points.

Despite the impact of the financial crisis on credit supply, Portuguese corporates continue to indicate the main restriction on investment decisions to be weak sales prospects. Neither interest rates (possibly also taking into account wider spreads) nor access to bank lending are reported as major restrictions (the answers in the latest survey on investment decisions are in line with those of previous surveys).

Credit to the corporate sector has decelerated since earlier 2009, but continues to expand close to 10%. Credit to the SMEs has benefited from the various credit lines created by the government to ensure they continued to have access to bank lending. The four PME Invest lines assumed credit lines in a total of €3,750 million, with specific measures aiming at the export sector. Additionally, the government has created an export insurance line in the value of €4 billion.

Deteriorating fiscal accounts

The functioning of automatic stabilizers and some measures taken by the government are having an impact on fiscal accounts in 2009, following two years with a deficit within the threshold of 3% of GDP. Current revenue is falling over 15%, in year-on-year terms, while current primary expenditure expands 6%.

The measures affecting the deficit include: the reduction in the normal VAT rate to 20%, in effect from 1 July 2008; and the anticipation of VAT and IRS reimbursements. These effects result in some volatility in comparisons, which should be largely offset by the end of the summer: both VAT and IRS revenues are falling 25% year on year.

In 2009, the deficit is estimated to be around 6% of GDP (the government estimates 5.9%, the European Commission 6.9%), following the trend in the other members of the European Union. The public debt ratio to GDP, also in tandem with other countries, is to rise more significantly and approach 80% of GDP.

This will lead to two types of implications in the future. On the one hand, the European Commission will require that, once the recession is over, a sustained reduction in the deficit, with the target of a balanced budget, is in place. On the other hand, the increase in public debt will put an extra burden in view of higher debt service, in a context of elevated interest rates.

Deleveraging, at domestic level...

In view of the repercussions the crisis will have on the overall economic framework, and given the expected increase in public debt, the private sector is expected to deleverage. Leverage is elevated, in Portugal, both at the level of households, and corporate sector. Domestic credit to the private sector was 184% of GDP by the end of 1Q 2009.

Household debt reached over 130% of disposable income in 2008, mainly due to mortgages (explaining 100 percentage points of the indebtedness levels), as in Portugal there isn't a viable housing rental market – ownership is in excess of 65%. With interest payments in excess of 7% of disposable income a year, households have begun to moderate their demand for credit and new loans are 30% below last year's levels.

Corporate leverage is also elevated, as companies have low self-financing capabilities and bank lending is an important source of financing. As in other European countries, capital markets (both fixed income and equity) have a marginal role in financing the needs of the corporate sector.

Following the crisis, companies are likely to postpone some investment decisions, also because spare capacity has increased. Additionally, businessmen will likely require higher rates of return before embarking on investment decisions, so credit demand is likely to decelerate sharply.

This change in attitude by the private sector will have implications for the banking sector. Until the start of the crisis, banks largely relied on the euro money market to finance the increasing demand for credit, in a context of low savings. Funding was also available in wholesale markets, especially through securitizations and, to a lesser extent, medium-term note programmes.

In 2008, and 2009, as households began to save again, banks refocused on on-balance resources, with specific products aiming at promoting savings. The offer of credit has also been adjusted to available funding, with a deliberate management of the commercial gap. Credit is now expected to grow much in line with GDP in the coming quarters.

... and also externally

This adjustment will work through another mechanism, contributing to reducing the external indebtedness of the economy. Basically, the excess demand of credit has been, as mentioned, financed by the rest of the world, with two visible results.

On the one hand is the elevated external deficit, around 8% of GDP a year, which reflects a country consuming above its possibilities and so having a chronic trade deficit, which was only partly offset by transfers from emigrants and exports of services.

Several years of excessive deficits have, in turn, resulted in a negative net external position of 100% of GDP, at the end of 2008. This has brought about some changes in the current account deficit, with rising income payments to the rest of the world. The deficit of the income account has reached 5% of GDP, more than offsetting the improvement in the balance of services. The deleveraging process of the economy should contribute to moderate the increase in the external debt.

Additionally, deleveraging is also key to the next stage of the business cycle. Interest rates are at historical lows and central banks will likely initiate a new period of increasing rates by mid-2010, according to market consensus. The private sector must create the necessary cushion to prevent rising interest rates from constraining or even aborting the nascent recovery of activity in Portugal.

Final remarks

Given so many constraints, a sustained recovery will be dependent on factors such as regained competitiveness, based on productivity gains, and structural adjustment of the economy, in various areas: education, justice and labour markets. So far the private sector has been up to the requirements, it must continue to be so.

The soundness of the banking sector is an important factor supporting the economy, and that is reflected in the growth rate of credit, despite the very tight conditions in global financial markets. Portuguese banks did not have a direct exposure to US toxic assets and their exposure to the Portuguese residential market is solid. The Portuguese real estate market has not been subject to a bursting bubble, with prices fairly stable in the past few years, and most loans are over-collateralized with real guarantees.

Non-performing loans have increased but delinquency ratios remain close to historical minima and banks have reinforced their provisions. The results for the second quarter show that banks have weathered the storm, with profits of over € billion for the five larger banks in the semester.

Santander Totta posted the largest profit, of €78 million. The bank has clearly benefited from its conservative and prudent presence in the market, resulting in the lowest delinquency ratios in the system and the highest return on equity, of 22.4%. It has the best rating in the system, "AA-", above that of the Portuguese Republic.

Time for 'special ops' to support SMEs

In difficult economic conditions, SMEs are rethinking their strategies, streamlining their activities and refocusing on the balance sheet

The recession has been swift and has spread across the majority of economic sectors, sparing few small and medium-sized businesses, amid challenging financial conditions fuelled by banking institutions – key supporters of the 'economic heartbeat'. However, as the first signs of a seemingly slow recovery can be glimpsed, SMEs are determined not only to survive this downturn but to take advantage of the current environment to thrive in the coming recovery. With this in mind, there is an unquestionable opportunity to deploy 'special ops' within the Portuguese SME market.

Survival efforts

The challenging economic environment has laid bare operational or financing faults among SMEs. Inadequate financing structures are one such fault. Operating cash flows have been shown to be more volatile than expected and thus short-term financing has proven to be a greater burden. SMEs are more often engaging banks and other external advisers to assess alternative sources of capital, seeking to restructure existing banking facilities, and to guarantee that existing credit terms and conditions are fair and remain intact for the foreseeable future.

Adequate financing

Banks on the other hand are spending more time stress-testing their clients' business plans and ensuring that the adequate financing structures are in place. As a result, structured finance mechanisms are coming into play a lot more frequently, tapping both banker and client demands: matching asset-facility maturities, cash-sweep regimes, escalating amortizing payments, cash reserve accounts, triggered leverage options, among others. These mechanisms are much needed to boost and normalize the credit supply to SMEs in a volatile environment, that tends to create, in the short term, inflexible risk control measures on the lending side.

Mergers and acquisitions

Tougher conditions may also mean cheaper deals and an opportunity to consolidate. Tightening capital availability, shrinking market share due to the inability to invest, and fixed/rising operating costs, are expected to create the right incentives for a significant merger trend, especially within fragmented market segments characterized by over-supply. 'Bigger is better' under the circumstances – it may well represent the difference between surviving the storm or becoming insolvent. The better-positioned SMEs are already eyeing their competitors, seeking who to buy, when to engage and how much to pay. Access to capital to finance M&A activity is still a concern for many and, given the volatility, most are holding off. However, it is fair to expect this to change quickly as soon as the economic outlook brightens.

Conclusion

SMEs are rethinking their strategies, streamlining their activities and refocusing on the balance sheet, with greater emphasis on cash and debt lines. The SME market is thus becoming increasingly attractive for credit restructuring advisory and structured finance products. As the economy picks up and the best-in-class improve their access to capital, intra-sector consolidation should also become a natural trend, hence increasing mergers and acquisitions among SMEs.

Santander's role

Santander, through both its wholesale banking and retail banking divisions, has for many years supported Portuguese companies with bank loans, structured finance, equity and debt capital markets and M&A advisory. Santander can offer its Portuguese SME clients a strong local presence complemented by international experience and expertise and a very large and solid balance sheet.

With a local team supported by global product teams, Santander is able to benefit from up-to-date market knowledge, supported by a true commitment to develop and deliver innovative financing structures and value-added M&A advisory that meet client needs. The bank is constantly developing its capabilities and putting them to work providing a better service to all its clients. During the first half of 2009, Santander was involved in a series of project finances and syndicated loans, and has also been invited by smaller corporates to support their financing needs.

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Portuguese PPPs aim to maintain pace of infrastructure investment

Portugal has ambitious plans for investment in improving its infrastructure. But, in the current climate, financing these schemes through public-private partnerships is proving a challenge for the project finance community

Since the end of 2006, the Portuguese government has announced several public-private partnerships (PPPs) to be launched in coming years. The government's main argument was that this new wave was a response to an appeal from construction companies, which had a lot of installed capacity – equipment and workforce – being put to little use, and to give a boost to Portugal's stagnant job market. The most significant investments, as in the past, are infrastructure-related. They include the new Lisbon airport, the high-speed link, a new road programme and several new hospitals. It is an ambitious investment programme that is keeping the project finance community busy. In the past year we have seen several of the projects reach financial close at a rapid pace.

The new Lisbon airport has already been the subject of long debate, particularly about its location. Ota, on the northern side of the Tagus river, was initially preferred, but after pressure from lobby groups and different studies reaching different conclusions, the location was changed to Alcochete, on the southern side of the Tagus. However, this new location demands new feasibility studies and a delay in the bidding process was inevitable. In addition, a lack of information on the final deal structure is not helping. Therefore, late 2009 or even 2010 seem to be possible dates to kick off this process, with an expected investment of around €3 billion.

Following the success of the first roads programme, a successor was launched. The main goals of the new programme are to link the poorest interior regions to the largest and richest coastal regions and to provide alternatives to some of the most congested roads. It now comprises

eight projects, for an expected capital expenditure of around €8.8 billion. From these eight projects, all but AE Centro and Pinhal Interior have reached financial close. AE Centro and Pinhal Interior are at the best and final offer (BAFO) stage. More road projects can be launched but are not yet up for tender.

Change of course

This new road programme includes a very important change from the initial one: the Portuguese state is no longer the direct grantor and has been replaced by Estradas de Portugal, a limited liability company, fully owned by the state (at least for the time being), which will aggregate all projects as sub-concessions of a master concession agreement, granted for 75 years. The sub-concessions are granted for 30 years, so the economic value of Estradas de Portugal is a certainty because the company will be entitled to all revenues from existing and future concessions after that period.

So far, because of this and the revenues that are immediately endorsed to Estradas de Portugal by the government – by passing on a percentage of the tax on oil products ('Imposto sobre Produtos Petrolíferos') – it has been possible to fund the tenders and reach financial close in six tenders even though no international credit rating has yet been attributed to the new grantor. The market seems to be relying on the past and present capacity of Portugal to deliver a sound and stable environment for project finance deals to close and we expect this rationale to prevail, despite the difficulties. It is important to emphasize that given the current financial crises and the narrowing of the credit markets this has only happened with the strong commitment of the main Portuguese and Spanish banks, including Caixa Geral de Depósitos (CGD), which alone has financed more than €1 billion of the last six road projects.

Moving to rail infrastructure, the high-speed link is gathering the attention of all parties. The first bidding process for one stretch of infrastructure (Pocirão–Caia) has reached BAFO stage, with the proposals being submitted by 1 June. Financial close was expected in September before the general elections but the decision has now been delayed for the new government, which will be elected in late September. The second stretch (Lisbon–Pocirão) has already been launched and offers were expected by 31 August.

The process, as a whole, will comprise six projects: five infrastructure PPPs and an additional one for signalling and telecommunications. The

Figure 1: Capex of the new road program

	Value (€mn)
AE Transmontana	700
Douro Interior	754
Baixo Tejo	195
Baixo Alentejo	404
Litoral Osete	364
Algarve Litoral	189
AE Centro	1,200
Pinhal Interior	950
Total assets	4,806

Source: Caixa-Banco de Investimento

Figure 2: Capex of the high speed link concessions

	Value (€mn)
Lisboa - Pombal	2,100
Pombal - Porto	1,700
Lisboa - Poceirão	1,600
Poceirão - Caia	1,400
Braga - Valença	800
Signalization and Telecom	600
Total assets	8,200

Source: Caixa-Banco de Investimento

goal is to connect Lisbon to Porto, Lisbon to Madrid and Porto to Vigo by high-speed rail and to the trans-European high-speed rail network. Total capital expenditure is expected to be around €2 billion. International financial conditions and liquidity constraints may be the largest hurdles to overcome, but the strong participation of the European Investment Bank and European Union subsidies and risk matrix are likely to help.

Second wave of health projects

Last, but not least, there is the health sector. The Portuguese PPP health programme is divided into two stages (waves) and includes 10 projects. The government conducted an evaluation of the first wave of health projects and the overall feeling was that there was a complexity in the clinical process that implied a long negotiation process before closing, with delays that undermine the whole purpose of the programme. The first wave of hospitals included an innovation in the classic approach by splitting each health project into two areas: the infrastructure and the clinical part.

However, of the 10 hospitals announced, five years after launch, only two projects have reached financial close (Cascais and Braga) and two more are still in tender. Therefore, the second wave of hospitals will include only the classic infrastructure approach and a simpler qualification method to select three bidders for each project. The clinical part will be developed by the National Healthcare Service, with no private entities involved in the tender. The goal seems clear: to achieve far more in much less time. The expected investment is around €4 billion for the

Hospital projects

1st wave	
Cascais	Construction
Braga	Construction
Loures	BAFO
Vila Franca de Xira	BAFO
2nd wave	
Todos os Santos (Lisbon) Initial Proposal submitted	
Vila Nova de Gaia	To be launched (TBL)
Vila do Conde / Póvoa do Varzim	TBL
Seixal	TBL
ÉVora	TBL
Algarve	Initial Proposal submitted

entire programme and already two new hospitals (Todos-os-Santos in Lisbon and the Algarve Hospital) are in the tender process.

All in all, this paraphernalia of projects comprises an expected total capital expenditure of €7.4 billion, to be executed in five years. This would be an ambitious goal in a normal environment. The level of difficulty increases several notches with the current credit crunch. Lending conditions are, no doubt, worse than initially expected – as experienced in those transactions closed in the past 12 months – and this is putting additional pressure on all market participants.

The new deals, together with the PPPs awarded since the 1990s, imply a very strong budgetary commitment from the state and, therefore, the need to rebalance all PPPs towards the financial capacity of the Portuguese budget. Part of this rebalancing can be achieved by collecting tolls from the shadow toll concessions (SCUTs). Several studies have been conducted on that route. However, this solution implies a different project risk matrix and, therefore, banks need to analyze the implications. The current government is still trying to close the reconversion of some of the SCUTs in toll collecting roads, a process that has been difficult but will prove important in easing the burden placed by these infrastructure projects on the state budget. The easy way to avoid endless discussions with large banking groups is simple, in theory: to refinance existing deals. At the same time, a refinancing process could also be part of a solution to solve the financial rebalancing events still pending for several PPPs, which need to occur sooner rather than later to avoid additional costs or even indemnities.

Refinancing challenge

That's where the credit crunch kicks in. It is currently nearly impossible to get better financial terms than those established for the existing deals, which makes refinancing challenging (to say the least). At the same time, the monoline market, once a catalyst of the refinancing process, is also facing difficulties from consecutive downgrades. Therefore the capital market route is also out of the equation.

Together with the possibility of refinancing existing deals, we also have the need to finance the current pipeline at a time when banking resources are scarce. The harsh credit conditions have made it a real challenge to finance all the concessions that were closed during 2008 and the first half of 2009 (roads and hospitals); however, all the projects reached financial close, which can be considered an achievement in itself. Concepts such as 'mini-perm', 'full cash-sweep' and 'market-flex' are now normal practice in the industry and lending conditions are clearly worse than before. It's not clear yet what additional amount of debt the banking community would be willing to take for the Portuguese PPPs. Some restrictions have already been seen, with a lot of banks committing only small amounts to each deal if their initial consortium does not reach BAFO stage.

Tougher political choices

The mounting financial cost has resulted in most cases in costlier proposals for the state than those seen in earlier stages and in some cases higher than the CPC – Custo Público Comparável (a measure that sets the maximum acceptable level for the Portuguese state to pay for the provision of a public service by a private counterparty). This has meant more public discussion about the cost of these projects and made the political decisions on them harder to take.

The immediate future of the more emblematic PPP projects in Portugal, notably the high-speed link and the new Lisbon airport, is dependent on the result of the general elections to be held in late September. No mandates will be awarded before then to avoid payment of any penalties should the newly elected government prove opposed to any of these massive infrastructure schemes.

stage backing part of the financing with its own guarantee. If these concessions reach financial close the north-south highway corridor (between Oporto and Lisbon) will have a totally new alternative.

The next chapters of any approach to the Portuguese PPP market will probably include an answer from lenders to two challenges:

“The market seems to be relying on the past and present capacity of Portugal to deliver a sound and stable environment for project finance deals to close and we expect this rationale to prevail, despite the difficulties”

No decision has yet been taken regarding the Centro and Pinhal Interior road sub-concessions (launched in the current legislature) and the question remains if they will be awarded before September 2009. These are without question the two biggest and costliest concessions in the PPP road programme. Such is the amount of investment and debt involved that the Portuguese state was considering at one

refurbishing the existing deals and financing the new transactions. The government that emerges from the elections will have to decide which projects already launched will receive the definite go-ahead and what others will be launched. The headlines point to other possible PPPs, such as the construction of some logistical platforms and the winding up and maintenance of secondary/regional roads.

Renewable energy gets new priority

Renewable energy is a sector that is gaining significance in both national and international terms. Portugal has a higher level of energy dependence than many European countries. At the end of August 2008, installed capacity for electric power production from renewable sources was 7,984 megawatts (MW).

The European Commission is concerned about the relevance of the energy issue. That can be seen through the establishment of the '20-20-20 target', which says that, by 2020, 20% of total EU consumption will be supported by renewable production, energy use efficiency will grow by 20% relative to the 'business-as-usual' scenario and that there will be a 20% reduction in emissions of carbon dioxide (CO₂).

The Portuguese government has been creating investment support mechanisms to increase renewable production through a special tariff system, the Portuguese Carbon Fund (used to support national projects that aim at emission reduction or removal by sinks of greenhouse gases) and tax measures.

Wind power

Since one of the objectives for the future of renewable energy in Portugal is to increase wind power capacity, it was decided to reinforce this form of energy by 1,800MW. This was launched by the government as a public tender with a high level of innovation, in three stages.

Stage A was awarded to the Agrupamento Eólicas de Portugal con-

sortium. The goal was to increase wind power capacity by 1,200MW. The innovation in this tender is to use wind power to create a new industrial cluster.

Stage B was awarded to the Ventinvest consortium. This has a goal of an additional 400MW wind power capacity. Vestinvest [Ventinvest above?] will invest €36 million in an industrial cluster, eight wind power plants and an innovation fund.

Stage C of the public tender is for small producers and has a goal to raise wind capacity by 200MW and benefit three areas: poor economic zones, network links and wind power potential.

Hydropower

In keeping with its policies on renewable energy, the government decided to give permits to stimulate the construction of new dams. Four new projects are under construction (Picote, Bemposta, Baixo Sabor and Alqueva) representing an increase of 860MW (17% of installed hydropower capacity, with a total investment estimated at €73 million).

Photovoltaic power

Portugal is in privileged position in Europe in terms of sun exposure. Approximately 4% of primary energy consumed in Portugal is used for heating water; this shows great potential for immediate use of solar energy. The national target determined by the government is to install 150MW of photovoltaic projects.

CGD/CaixaBI participation in the project finance market 2008/09

Overall, in 2008, global project finance volume increased by 13% to \$315 billion, compared to \$278.4 billion raised in 2007, although a decrease in volume was registered towards the end of the year. Within the project finance total, \$80.4 billion corresponds to 306 projects located in Western Europe. Portugal ranked ninth in the global ranking by country volume of project finance, with 23 deals up to an amount of approximately \$12.4 billion, a 422% increase when compared to the previous year.

Looking at 2008 from a sector perspective, energy was the leading sector with \$111.8 billion, accounting for 35% of global project finance volume. Within the energy sector, the most significant increases were in the renewable fuel and wind farms sub-sectors. Portugal contributed to the global volume with €3.440 million [figure needs checking: euro rather than dollars, seems very small amount] through 11 deals.

The infrastructure sector ranked second with a volume of approximately \$80.7 billion. Within the infrastructure sector, the roads sub-sector accounted for 35% of the volume with 54 projects totalling \$28 billion. The roads subsector in Portugal registered six deals with a total volume of \$6.4 billion.

Global PPP/PFI volume remained almost stationary, reaching \$66.9 billion in 2008 compared with \$67 billion in 2007, accounting for 21% of global project finance volume. Western Europe remained the dominant region for PPP/PFI, accounting for 47% of volume with 97 projects worth \$31.6 billion. Within the Portuguese contribution to PPP/PFI volume is one of the most significant deals, the Douro interior motorway project, considered the largest PPP/PFI in the fourth quarter of 2008 and worth \$1.5 billion.

In a full-year analysis, CaixaBI accomplished the following rankings:

- Best Portuguese Mandate Lead Arranger with 24.3% share of the Portuguese project finance volume (\$2.268 billion [billion?] in 14 deals);
- Sixth best European Mandate Lead Arranger with 4.1% share of European project finance volume (\$2.890 billion [billion?] in 23 deals);
- 22nd best Global Mandate Lead Arranger with 1.7% share of the global project finance volume (\$3.189 billion [billion?] in 26 deals).

In 2008, Euromoney granted CaixaBI the European Infrastructure Deal of the Year award for the Marão Tunnel project, on which CaixaBI acted as financial adviser as well as mandate lead arranger. CaixaBI was also referenced within the European Renewable Solar category with the Twin Zone project and in the North America Transport category with the SH130 project.

At the end of the first quarter of 2009, global project finance volume fell 43% to \$40.4 billion, compared to \$70.9 billion raised in 1Q 2008. Regarding the referred project finance volume, \$10.4 billion corresponds to 44 deals located in Western Europe.

The energy sector accounted for 48% of volume at \$19.5 billion, down from 51% in 1Q 2008 but only a drop of 4% compared to 4Q 2008 (\$20.3 billion). Infrastructure sector volume reached \$15.1bn, a fall of 26% compared to 4Q 2008. This sector comprised 37% of the total volume. PPP/PFI contributed 24% (\$9.8 billion) of global project finance volume, down from 33% in 1Q 2008.

Portugal contributed to the global volume with seven deals worth \$3 billion. The Litoral Oeste motorway was one of the top 10 project finance deals in 1Q 2009, worth \$890 million.

Regarding the 1Q 2009 analysis, CaixaBI was the best Portuguese mandate lead arranger, the second best European mandate lead arranger and the fifth best global mandate lead arranger with a total volume of \$929 million in six deals.

At the end of June CaixaBI had the following 1H 2009 rankings:

- Best Portuguese mandate lead arranger with 43% share of the Portuguese project finance volume;
- Third best European mandate lead arranger with 4.7% share of the European project finance volume;
- Second best Global PPP/PFI mandate lead arranger with 4.8% share of the global PPP/PFI project finance volume.

These rankings resulted from the strong development of the Portuguese PPP market with participation in all major projects, namely Baixo Tejo motorway, Baixo Alentejo motorway, Litoral Oeste motorway, Algarve Litoral motorway and the Braga hospital.

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