

LOTE PIRACICABA-PANORAMA

SPEARHEADING A ROBUST ROAD PROJECTS PIPELINE IN BRAZIL

The State of São Paulo, acting through its transportation agency (ARTESP), has awarded the approximately US\$5 billion 30-year DBFOM contract for the brownfield concession of the 1,273km Piracicaba-Panorama Lot project ("Pipa") to a consortium formed by Brazilian private equity firm, Pátria and Singapore's investment fund, GIC. Pipa is the first of several Brazilian road projects expected to be awarded this year by the federal and various state governments and ranks among the largest road projects ever to be awarded to a private sector company in Latin America.

Key characteristics

Pipa is expected to require approximately US\$3.5 billion in capex during the 30-year concession, which will be split into two investment cycles (the first cycle is expected to last 7 years and the second one starts in year 16). Pipa is also expected to require approximately US\$1.5 billion in opex.

The main revenue source for the project will be the tolls to be collected through 21 toll plazas (5 existing and 16 to become operational during the second year of the concession). Toll rates are adjustable for inflation based on a local inflation index. Toll revenue over the 30-year term is expected to be of approximately US\$11 billion. The contract also allows the concessionaire to earn additional revenue through ancillary activities (e.g. advertisements).

The concession agreement includes certain structural features that contribute to its bankability, such as:

- a form of direct agreement to be entered into among the concessionaire, the granting authority and a project funders' agent, which provides for cure, step-in and transfer rights;
- a foreign exchange risk protection mechanism through adjustments in the periodic variable concession fee (*outorga variável*) covering up to US\$500 million of debt principal from financings entered into during the first 5 years of the concession's term;
- compensation in case of delays in the approval of the periodic adjustment (local inflation) of the toll tariff;



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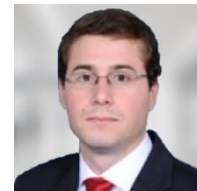
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- a complete and clear allocation of risks between the concessionaire and the granting authority;
- a detailed regulation of the transfer to the concessionaire of a road stretch under a concession set to expire later this year; and
- a comprehensive methodology to calculate an early termination payment.

Clifford Chance's toll road experience

Our unique cross-practice projects, finance and capital markets team is a leader in toll road financings, both in Brazil and the rest of Latin America. We have significant experience with dual-currency bank and bond financings and have structured toll road financings under various schemes including availability payments, guaranteed minimum revenue streams, full traffic risk and combinations of the foregoing. We fully understand the typical risk allocation embedded in toll road financings, and are also familiar with the way in which such risks can be efficiently mitigated.

This publication does not necessarily deal with every important topic or cover every aspect of the topics with which it deals. It is not designed to provide legal or other advice.

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