

Project financing in Colombia

■ Project Finance in Colombia – a neglected tool

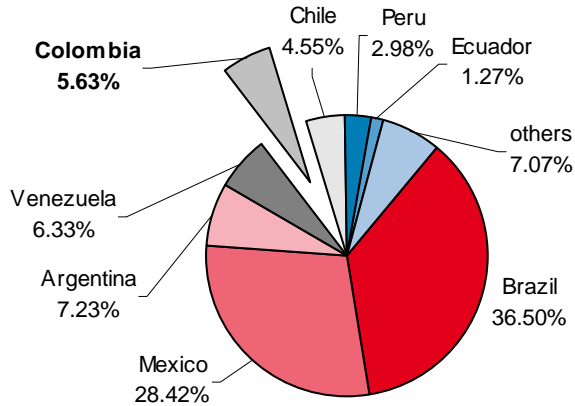
- Traditionally high volumes of corporate level ECA lending.
- High influx of direct loans from multilateral agencies such as IDB or CAF.
- Advanced and developed economy with low dependency on basic resources.
- Typical infrastructure investments (telecommunication, airports, etc.) counting with available local funds.
- Frequently strong, well capitalized owners / sponsors with limited debt funding requirements.

■ Project Finance in Colombia – a tool for the future

- Local banks with strained balance sheets and increased cost of funds.
- Junior sponsors have entered the scene in the oil & gas business.
- Joint ventures being set up.
- Ambitious growth targets of the oil & gas industry – including mega projects.
- Reduced political risk perception.

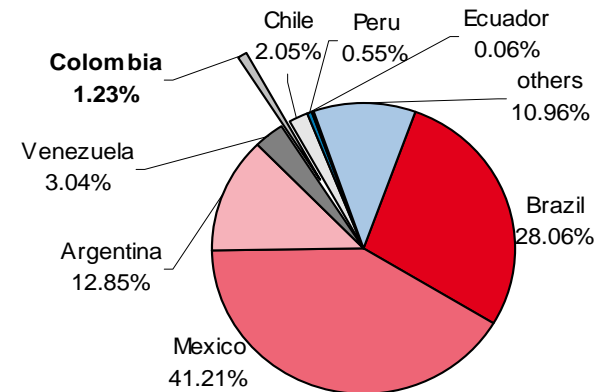
Financing activities in Colombia

Gross Domestic Product Latin America 2007 - USD 3,598.6 bn



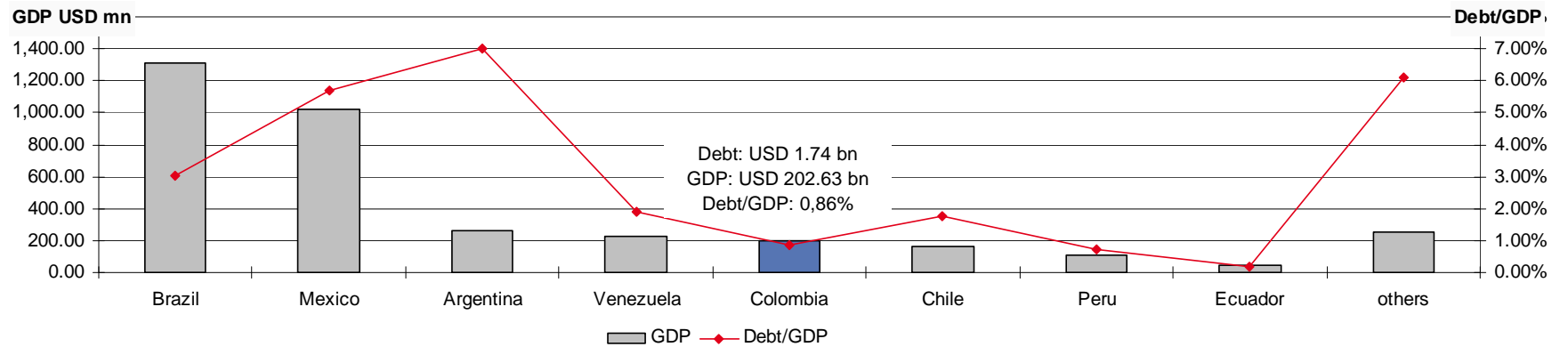
Source: Dealogic

Financing volumes in Latin America 2007 – USD 141.9 bn



Source: Dealogic

Gross Domestic Product Latin America 2007



Source: International Monetary Fund, World Economic Outlook Database, October 2008

Project Finance at a glance

Benefits

Limited recourse

In contrast to corporate financings where the Sponsor is liable for the debt and equity component of the SPV/Project, Sponsor risk is limited to the equity component (after completion)

Off-balance sheet treatment

The non-recourse nature of the project financing allows for an off balance sheet treatment, i.e. the Sponsor's ability to raise additional debt or debt at all is not affected

Risk sharing

Project financings allow for an optimal allocation of risks towards the party best able to manage and control the risk: Suppliers, Offtaker Banks, Sponsors (Joint Ventures), Insurance Companies etc

Tailored debt service and tenor

Repayments solely rely on project cash flows. Thus, amortization and tenor will be tailored to the project cash flows stream resulting in longer tenors in comparison to corporate financings

Facilitating debt financing for small and medium sponsors

Small companies often do not have access to sufficient corporate loan volumes to realize ambitious growth projects. That is when project financing can add value.

Flexible tool

Project financing offers a wide range of individual structures. Leverage, security, tenors, flows of funds and project parties' responsibilities can be adjusted as appropriate.

Disadvantages

Due diligence process

The complexity of the contractual structure (which ensures the optimal risk sharing among the parties involved) requires a relatively long and costly due diligence process

Recourse during construction

Pre-Completion the lenders mostly have full recourse to the Sponsor through a completion guarantee

Cost

Project financings can be fairly complex in nature and require the involvement of certain specialists. Transactions usually take from 6 months to 1 year to be executed.