

THE LOAN GUARANTEE INSTRUMENT FOR TRANS-EUROPEAN TRANSPORT NETWORK PROJECTS

Fact-Sheet

What is LGTT?

LGTT is the acronym for Loan Guarantee Instrument for Trans-European Transport Network Projects, an innovative financial instrument set up and developed jointly by the European Commission and the European Investment Bank (EIB) which aims at facilitating a larger participation of the private sector involvement in the financing of Trans-European Transport Network infrastructure ("TEN-T").

What are the objectives of the LGTT?

This new instrument will facilitate private sector involvement in core European transport infrastructure, which often faces difficulties in attracting private-sector funding due to the relatively high levels of revenue risk in a project's early operating stages. The LGTT, which is part of the EU's TEN-T programme and the EIB's Action for Growth initiative, it will partially cover these risks and consequently improve significantly the financial viability of a project. LGTT will be financed with a capital contribution of €1 billion (€500 million each from the Commission and the EIB) which is intended to support up to €20 billion of senior loans. The LGTT aims to facilitate investment in TEN-T projects by significantly improving the ability of the borrower to service senior debt during the initial operating period or "*ramp-up*" phase of the overall project and of its initial traffic revenue. Its design will substantially enhance the credit quality of the senior credit facilities, thereby encouraging a reduction of risk margins applied to senior loans to the project. These savings should surpass the cost to the borrower of the guarantee, resulting in a financial value-added for the project.

Which transportation projects can benefit from the LGTT?

Projects or part of a project of common interest in the field of transport in the framework of Decision No 1692/96/EC (the "TEN-T Project") compliant with Community laws and for which financial viability is based in whole or in part, on revenues, tolls or other user-charges based income.

How much financing can the LGTT provide?

The stand-by liquidity facility guaranteed by the LGTT should not normally exceed 10 % of the total amount of the senior debt (up to 20% in exceptional cases e.g. high traffic volatility during the ramp-up period with strong indication of stabilised traffic and acceptable debt service capacity post ramp-up). The amount of the guarantee is subject to a maximum ceiling of €200 million per project pursuant to the EIB Structured Finance Facility rules ("SFF"). The SFF is the EIB's main facility for increased risk taking, established in order to support projects of European importance including large-scale infrastructure schemes.

What risks does the EIB take under the LGTT scheme?

Under the LGTT the EIB will accept exposure to higher financial risks than under its normal lending activities. In effect, if the EIB guarantee is called upon by the stand-by liquidity facility ("SBF") providers at

the end of the availability period, then the EIB would reimburse the SBF providers and become a subordinated lender to the project but ahead of any payment to the equity providers and related financings. Once the EIB has become a creditor to the project, amounts due under the LGTT will also rank junior to the debt service of the senior credit facility. The EIB, by taking such subordinated risk through the LGTT guarantee, will help the project to cope with the revenue risk of the early years of operation while relying on the long-term perspective of the project to be financially viable.

What do you mean by initial operating period or “ramp-up” phase of the project?

The aim of the LGTT is to improve the ability of the borrower to service senior debt during the initial operating period or “ramp-up” phase of the project, irrespective of initial traffic revenue. In other words, the LGTT together with the SBF, will become effective and cover the period from the completion of the project, i.e. for example when the project is declared open to traffic in accordance with the concession agreement and/or the lenders’ technical adviser has confirmed satisfaction of the completion tests, until the 5th anniversary of the completion date (up to seven years in special cases).

How can Promoters apply for LGTT financing?

Please contact EIB directly through the attached web site connections. There are no formal requirements such as application forms in order to apply for LGTT financing. The EIB can be contacted directly, either via its Head Offices in Luxembourg or via its European External Offices.

How does the LGTT work?

The LGTT is an EIB guarantee, the risk capital for which is jointly provided by EIB and the European Commission in favour of commercial banks which will provide SBF in addition to the usual project finance funding instruments. The SBF can be drawn by the project company in case of unexpected reductions in traffic income of the project during the initial ramp-up period of operation in order to assure service of its senior credit facilities. The SBF, funded by commercial banks, will benefit from a guarantee from the EIB and will be available for draw down in the initial ramp-up period only (availability period, up to 7 years, but no longer than the ramp-up) after construction of the project is completed. All repayments to be made on the outstanding amounts of the SBF on a cash sweep basis are in principle subordinated to the senior loans underpinned by it, subject to specific needs of a given financial structure. If at the end of the availability period there are still amounts outstanding under the SBF (interest, interest accrued and principal), the LGTT guarantee can be called upon by the SBF providers, the EIB would pay out the SBF providers and then become subordinated creditor to the project. Once EIB becomes a creditor to the project, amounts due under the LGTT will still rank junior to the debt service of the senior credit facility and would be repaid either on a cash sweep basis based on the post senior debt service available cash (default solution) or on a fixed reimbursement profile of the LGTT debt. Please see the diagramme below describing contractual structure.

Loan Guarantee Instrument for TENs Transport (LGTT)

