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BOO & BOT

Approaches to Privatization

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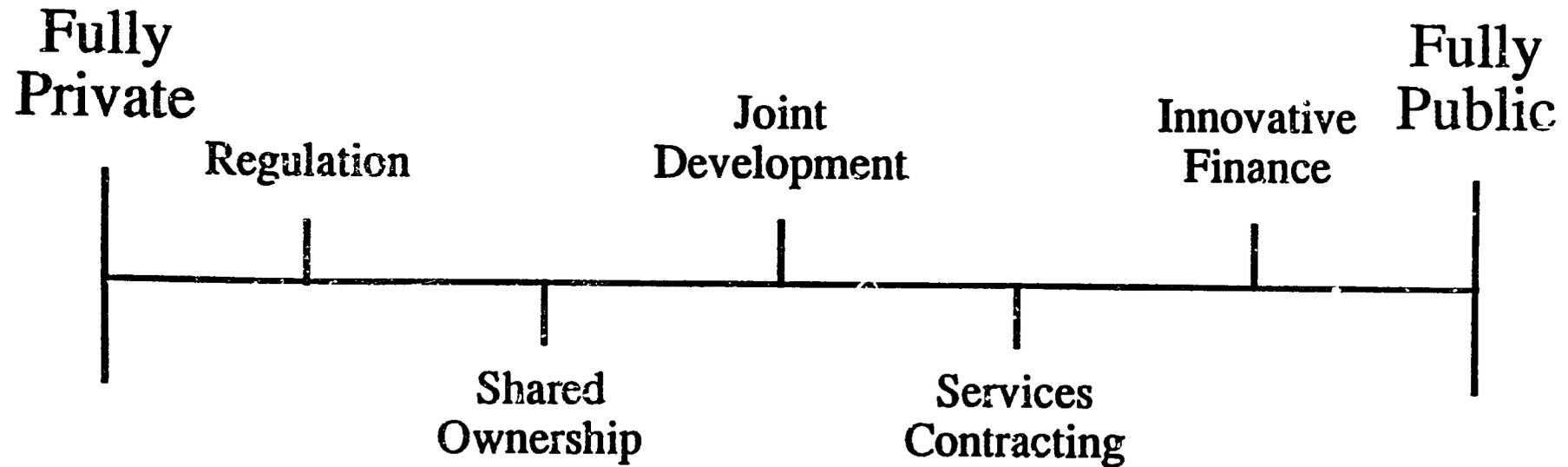
Potential Public and Private Participants

Federal Government
State Governments
Counties
Municipalities
Special Districts
Independent Authorities

Engineers
Lawyers
Financial Consultants
Construction Companies
Technology Suppliers
Equipment Manufacturers
Operations Specialists
Real Estate Developers
Marketers
Bankers



A Spectrum of Policy Options

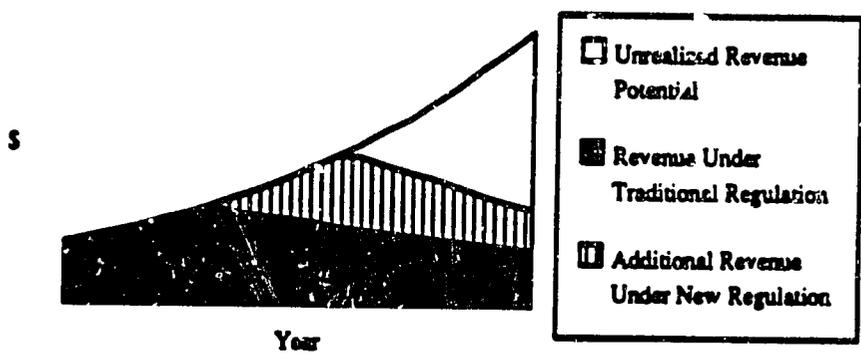


	Construction	Operation	Ownership	Financing	Revenues
Chicago-Kansas City Tollway	●	●	◐	◐	◐
Florida High Speed Rail	●	●	●	●	◐
West Side Transitway	●	●	●	●	◐
Dulles Toll Road Extension	●	●	●	●	●
Florida Prison	●	●	◐	◐	○

Public	○	Private	●	Public-Private	◐
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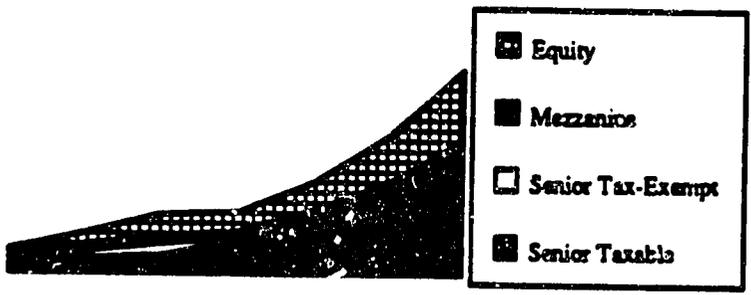


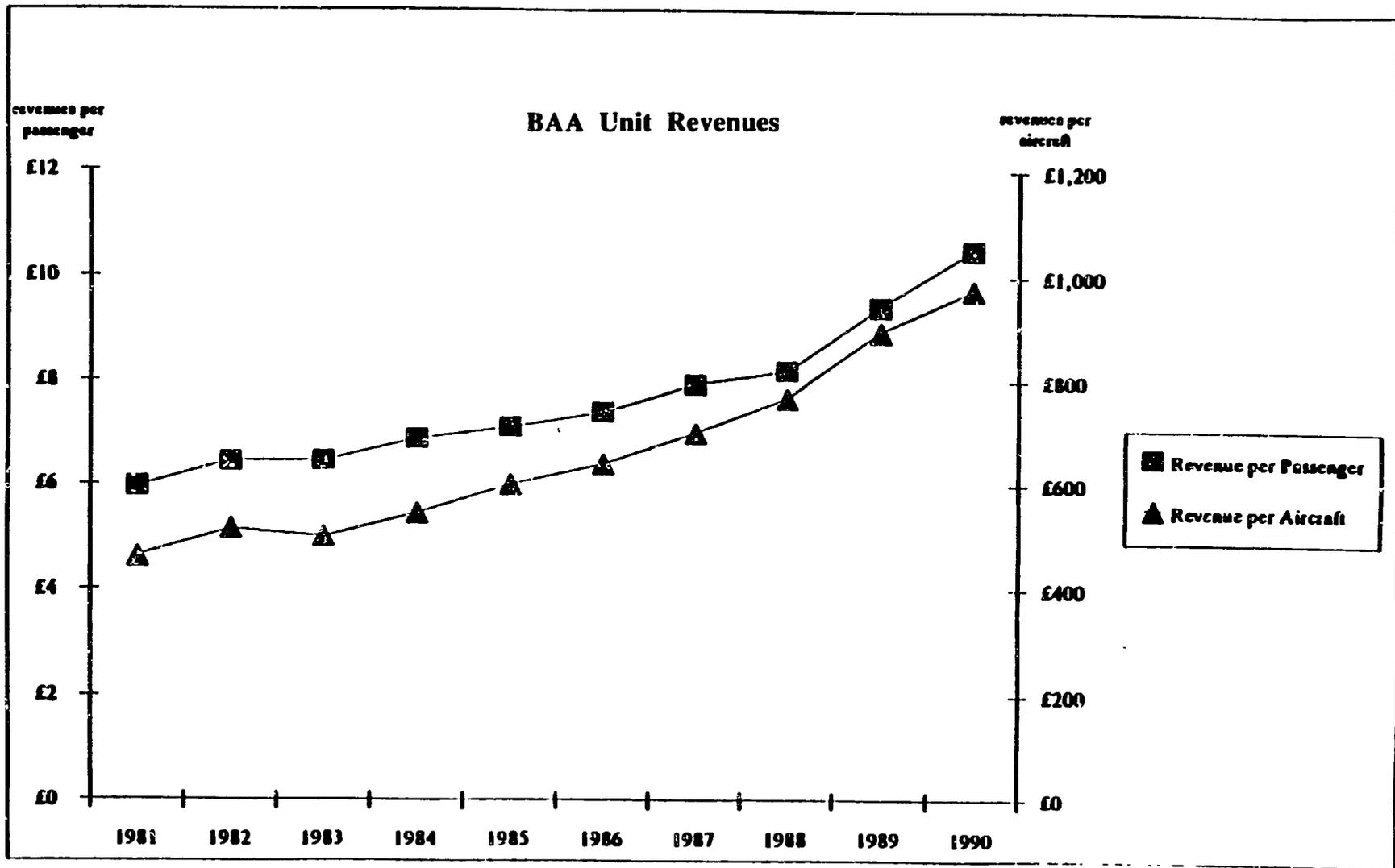
Hypothetical Toll Road Revenues



Chicago-Kansas City Tollway Financing Plan

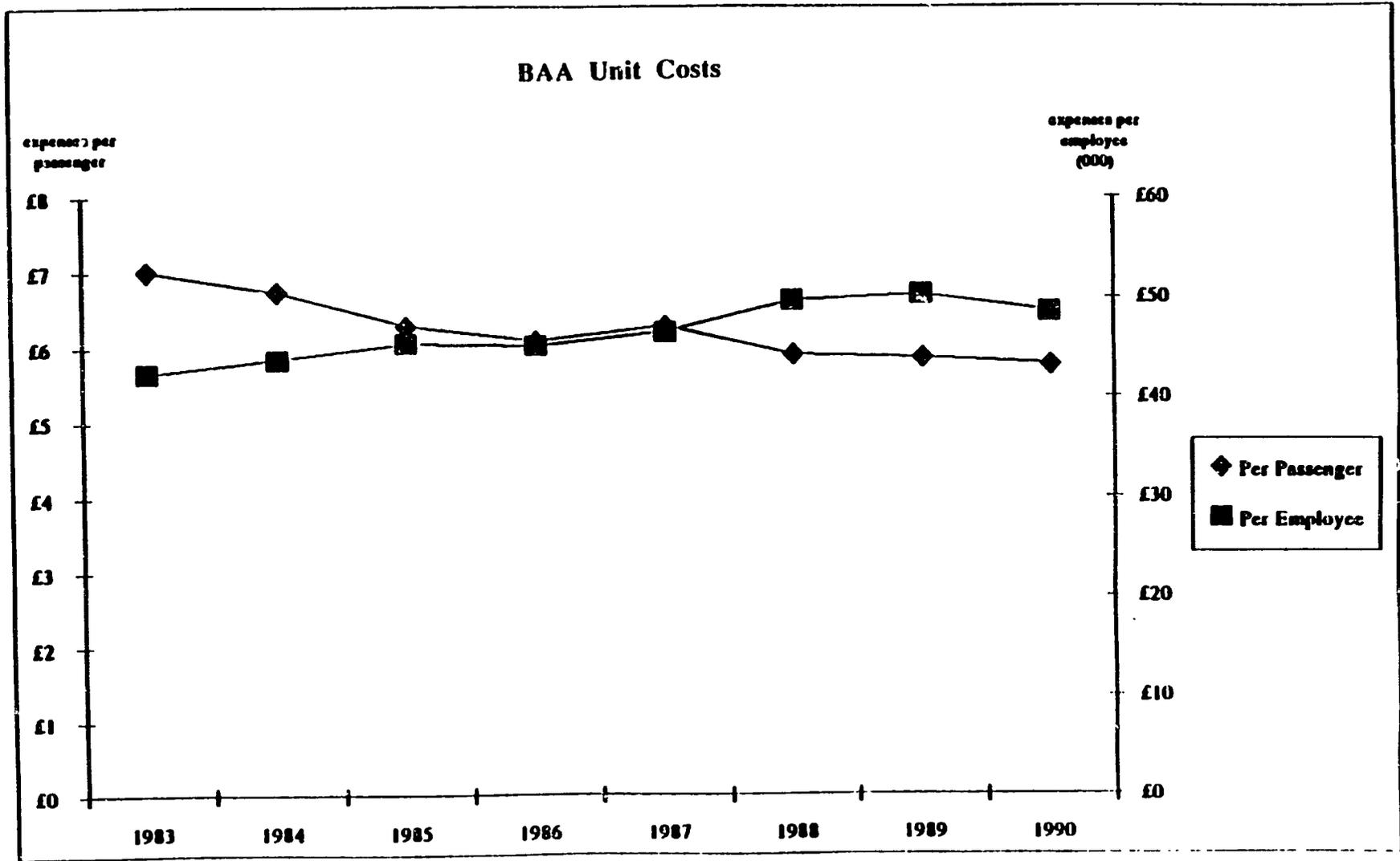
(Revenues and Payments to Investors)



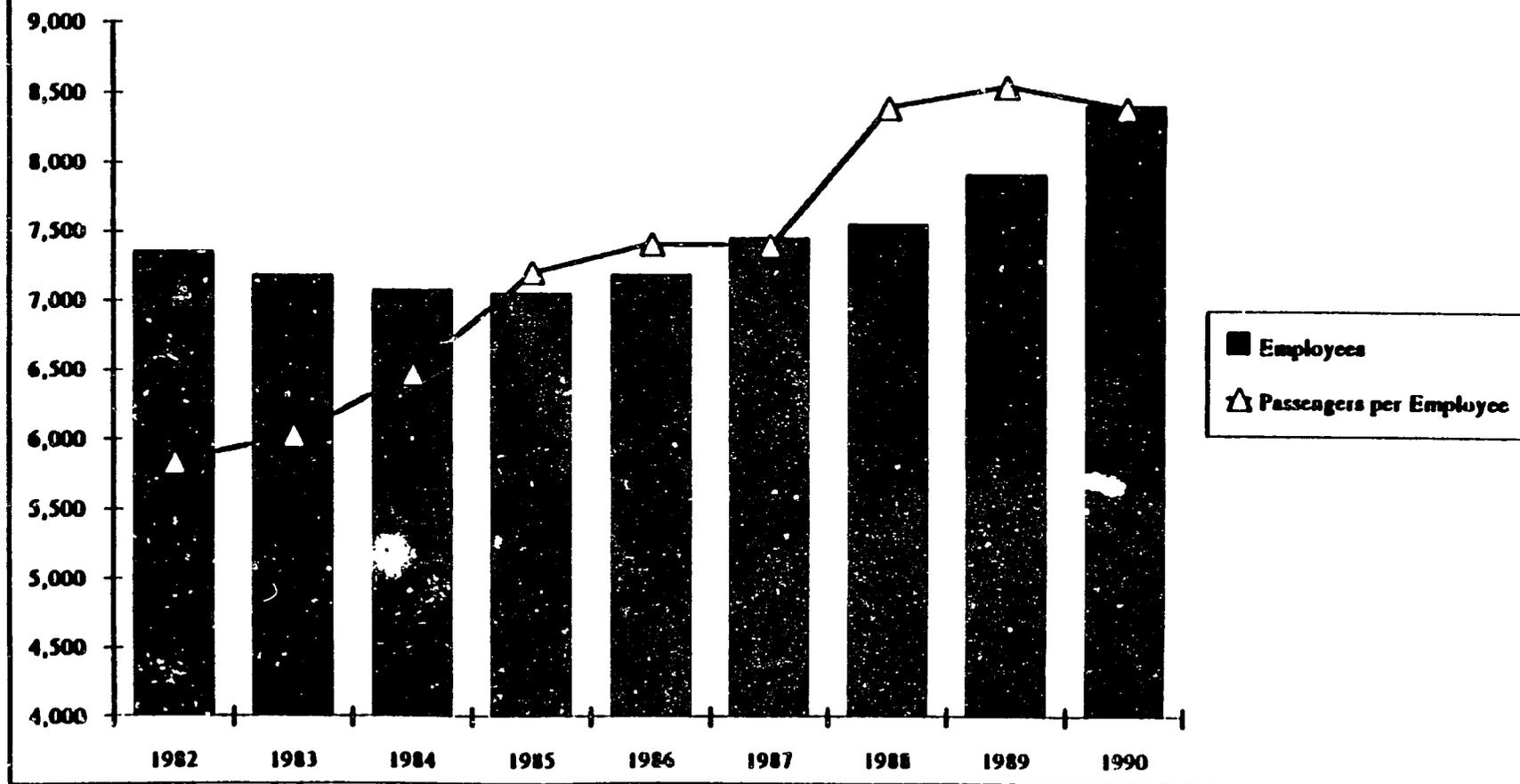


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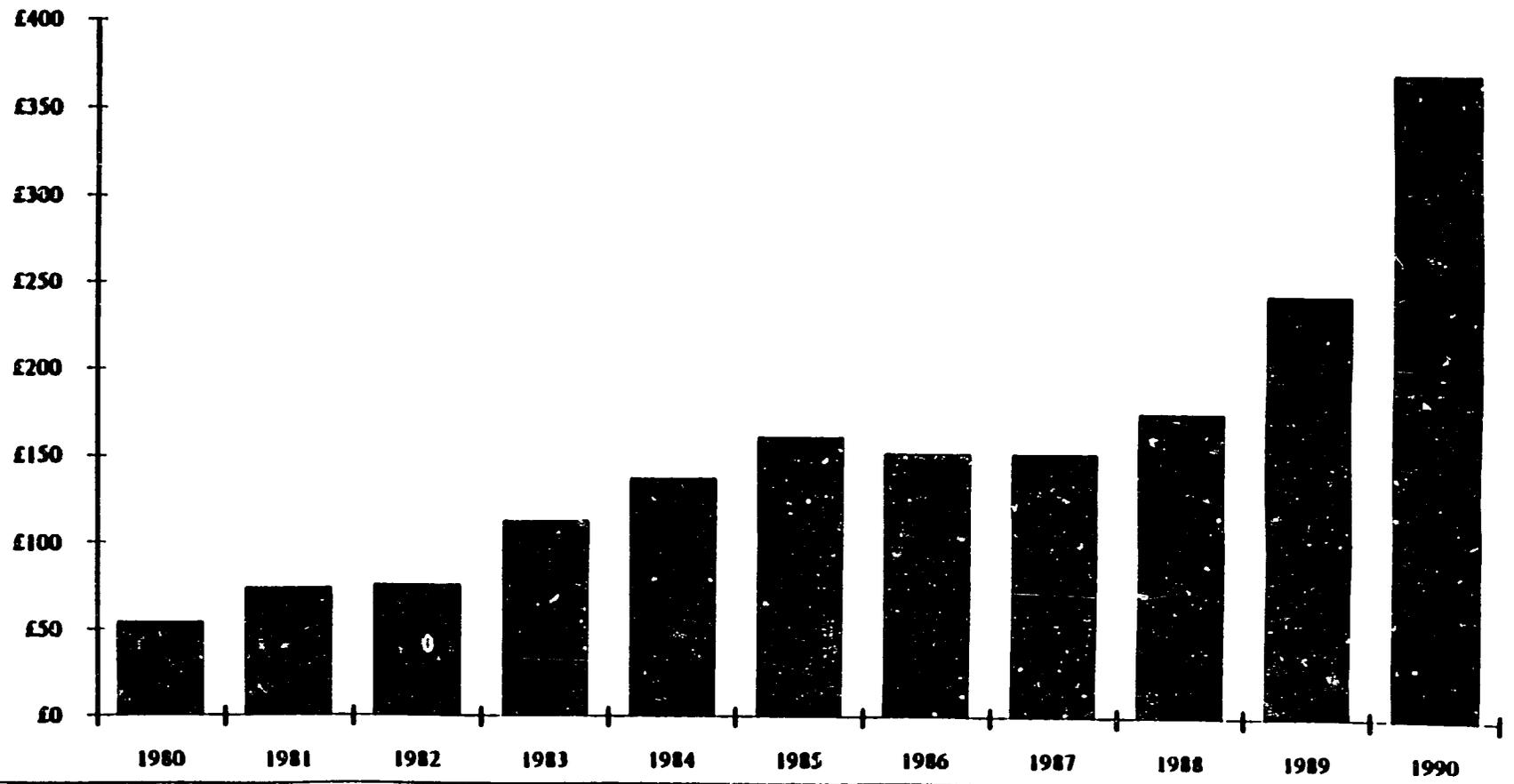
BAA Workforce & Productivity



12

millions

BAA Capital Investment



IPG

Issues in Developing Public-Private Partnerships

Development

Private development can lead to innovative, low cost solutions, but also risks that the final product will not meet all government objectives.

Operation

Increased private sector control and flexibility can lead to increased revenue and efficiency, but can also create the potential for monopoly pricing and abuse of the public trust.

Revenues

Increasing the private sector share of revenues increases the potential level of private sector financing, but reduces government revenues.

Financing

Public-private partnerships can dramatically reduce the cost and financial risk to the public sector. However, the more risk is placed on the private sector, the higher returns will be required to attract private investment.

Ownership

Private ownership reduces the level of government control and can increase legal liability. However, private sector ownership can lead to greater investment levels and well-maintained facilities.

Regulation

Generally, less regulation is not required. However, if the good to be provided by the public sector developer is a monopoly, some form of regulation may be needed to limit potential abuse.

Duration

The longer the partnership is in effect, the more opportunity for the private sector to recover investment. This increases financial feasibility, and can lead to increased investment.



Summary Table for Public-Private Partnership Models

Perpetual Private Ownership						
Pure Private Development/Operation	●	●	◐	●	●	●
Perpetual Franchise	●	●	●	●	●	◐
Regulated Private Ownership	●	●	●	●	●	○
Private Ownership with Risk Sharing	●	●	●	◐	●	◐
Assisted Private Ownership	●	●	●	◐	◐	◐
Temporary Private Ownership						
Build-Operate-Transfer	●	◐	●	●	◐	◐
Temporary Privatization	●	●	●	●	◐	◐
Mixed Ownership						
Build-Transfer-Operate	●	●	●	●	◐	◐
Lease-Develop-Operate	●	●	◐	◐	◐	◐
Shared Ownership	●	●	◐	◐	◐	◐
Private Involvement Under Government Ownership						
Turn-Key Development	◐	○	○	○	○	○
Contracting	○	◐	◐	○	○	○

- Key**
- = Primarily Private
 - ◐ = Mixed Public/Private
 - = Primarily Public

(For consistency, a lack of regulation has been treated as primarily private involvement, and extensive regulation treated as primarily public.)

BEYOND BOT
Models for Public-Private Partnerships

1. *Build Own Operate (BOO)*
2. *Build Operate Transfer (BOT)*
3. *Build Transfer Operate (BTO)*
4. *Buy Build Operate (BBO)*
5. *Lease Develop Operate (LDO)*
6. *Add Own Operate (AOO)*
7. *Contract Add Operate (CAO)*
8. *Super Turnkey*
9. *Operations and Maintenance Contract*

BOO/BOT+ PROJECTS ON THE WAY

Philippines Hopewell Power BOT
Philippines Port Terminals BOT
Philippines Toll Road BBO
Philippines Light Rail BBO
Bankok Hopewell Rail BOO
Pakistan Hab River Power BOT
Pakistan Telephone BBO
Malaysia Tenaga Power BBO
Malaysia Watewater BOT
Malaysia North-South Tollway BOT
Kuala Lumpur/Kauntan Road LDO
Malaysia Saba Water Supply BOT
English Channel Tunnel BOO/BOT
Athens Spata Airport BOT
Greek BOT Power Plants BOT
Portugal Tagus Bridge BOT
German Hamburg-Berlin Rail BOT
German Toll Roads BTO
Hungary Gyor Toll Road BOT
Serbian Toll Road BOT
Hungary Railroad BBO/BOO
Hungary Power BOO
Poland Modlin Airport BTO
Prague Airport Terminal BOT
Hong Kong Airport, Sewers, Landfills
French MUSE Tunnel BOO
Dublin, Ireland Beltway BBO
Turkey Water Supply BOT
China Hangkong-Macao Tollway BOT
Mexican Toll Roads BOO
Prince Edward Island Bridge BOT
Toronto Airport Terminal 3 BTO
Toronto Airport Terminal 1 & 2 LDO
Texas High Speed Rail BOO
Puerto Rico Bridges BTO
Dulles Toll Road Extension BOT
California Toll Roads BTO

HISTORY

- 1978 PHILIPPINES GEOTHERMAL POWER
ORIGIN OF CONTRACTS
PRICING CONCEPT
- 1981 INDONESIA GEOTHERMAL POWER
DEVELOPMENT OF THE CONCEPT
- 1982 TURKEY LAKE VAN POWER
DUPLICATION OF THE CONCEPT
- 1983 TURKEY ELBISTAN POWER
USED TO TEST PROJECT COMMERCIAL
VIABILITY; PROJECT DID NOT
PROCEED
- 1985-1991 TURKEY VARIOUS SECTORS
CONCEPT PROMOTED
PROJECTS IMPLEMENTED

STATUS OF BOO/BOT PROJECTS

TURKEY	POWER	700MW ON LINE 1000MW SIGNED
	COMMUNICATIONS	IMPLEMENTATION
	TOURISM DEVELOPMENT	COMPLETED (BLO)
CHILE	PETROCHEMICALS	COMPLETED
	POWER	COMPLETED
PHILIPPINES	POWER	70MW SIGNED **
CHINA	POWER	SIGNED **

** NOT TRUE PRIVATE SECTOR PROJECTS/REPAYMENT OF DEBT GUARANTEED BY THE GOVERNMENT

OTHER PROJECTS (NOT A COMPLETE LIST)

PAKISTAN	POWER	UNDER DISCUSSION
THAILAND	VARIOUS	UNDER DISCUSSION
PHILIPPINES	VARIOUS	PROPOSED

TURKEY

LARGE COAL-FIRED POWER PROJECTS

	A	B	C	D
CONFIGURATION (MW)	2x500	4x300	2x500	3x350
SPONSORS	USA	USA/ JAPAN/ OTHER	JAPAN/ OTHER	EUROPE/ USA
LOCATION	WEST	SOUTH	SW	WEST
FINANCE	INC.	INC.	YES	YES

LESSONS

1. DON'T NEGOTIATE CAPITAL COSTS -
NEGOTIATE POWER PRICE
2. DON'T DICTATE DESIGN/CONFIGURATION -
NEGOTIATE STANDARDS
3. BE FLEXIBLE - PERMIT SPONSORS TO PROPOSE
ORIGINAL SOLUTIONS, THEN EVALUATE
4. NO ONE COUNTRY WILL FINANCE AN ENTIRE
PROJECT. MULTINATIONAL CONSORTIA ARE
IMPORTANT

TURKISH LARGE COAL-FIRED POWER PROJECTS

	A	B	C	D
CAPITAL COST \$/KW	903	904	905	950
POWER PRICE \$/KWH	.042	.041	.039	.046
OPERATING PERIOD (YRS)	15	15	23	15
EQUITY/DEBT (%)	20	20	20	20

AMERICAN CASE STUDIES

- o Florida High Speed Rail (BOO)
 - intermodal competition
 - speculative demand
 - massive subsidy needs
 - environmental/land use issues

- o Albany, New York Airport (LDO)
 - pressing public need
 - competing public agency
 - hostile airlines
 - hostile policy environment

- o Dulles Airport Toll Road Extension (BOT)
 - new policy framework
 - competing transport agency
 - dependence on new development
 - unfamiliar financial market

- o California AB680 Toll Roads (BTO)
 - public not familiar with tolls
 - demand uncertainty/competition
 - legislative/policy risk
 - tort liability concerns

WHICH MODEL?

- o Is it a new or existing facility?*
- o Can it be financed solely with user fees?*
- o Who should direct and fund design, planning, and construction?*
- o Who should provide construction financing?*
- o Who should be responsible for each source of revenue?*
- o Who should hold title and for how long?*
- o Who should operate the facility and for how long?*

KEY ISSUES IN A BOO/BOT AGREEMENT

1. type of partnership model
2. duration of franchise
3. government assistance to be provided
4. credit support
5. competition protection
6. default provisions
 - private developer
 - government
 - remedy rights
7. price regulatory structure
8. ancillary development⁺ rights
9. quality of service requirements
10. transfer mechanism/requirements

INGREDIENTS FOR A SUCCESSFUL BOO/BOT

1. Project serves a pressing public need.
2. Project able to collect substantial user fees.
3. Sponsoring agency is not a competitor.
4. Private developer provides value added.
5. Project has access to same subsidies as are available to similar government projects.
6. Government procurement rules are not used.
7. Project has potential for non-user revenues.
- 8* Single agency negotiates binding agreement.
9. Government provides some backup credit support.

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GOVERNMENT MISTAKES IN BOO/BOT PROJECTS

1. requiring legislative approval of agreement
2. requiring excessive bonds
3. allowing uninhibited competition
4. ad hoc and excessive regulation of fees and returns
5. requiring government procurement procedures
6. arcane methods for selection of developer
7. government involvement in operations

GOVERNMENT ACTIONS HELPFUL TO BOO/BOT PROJECTS

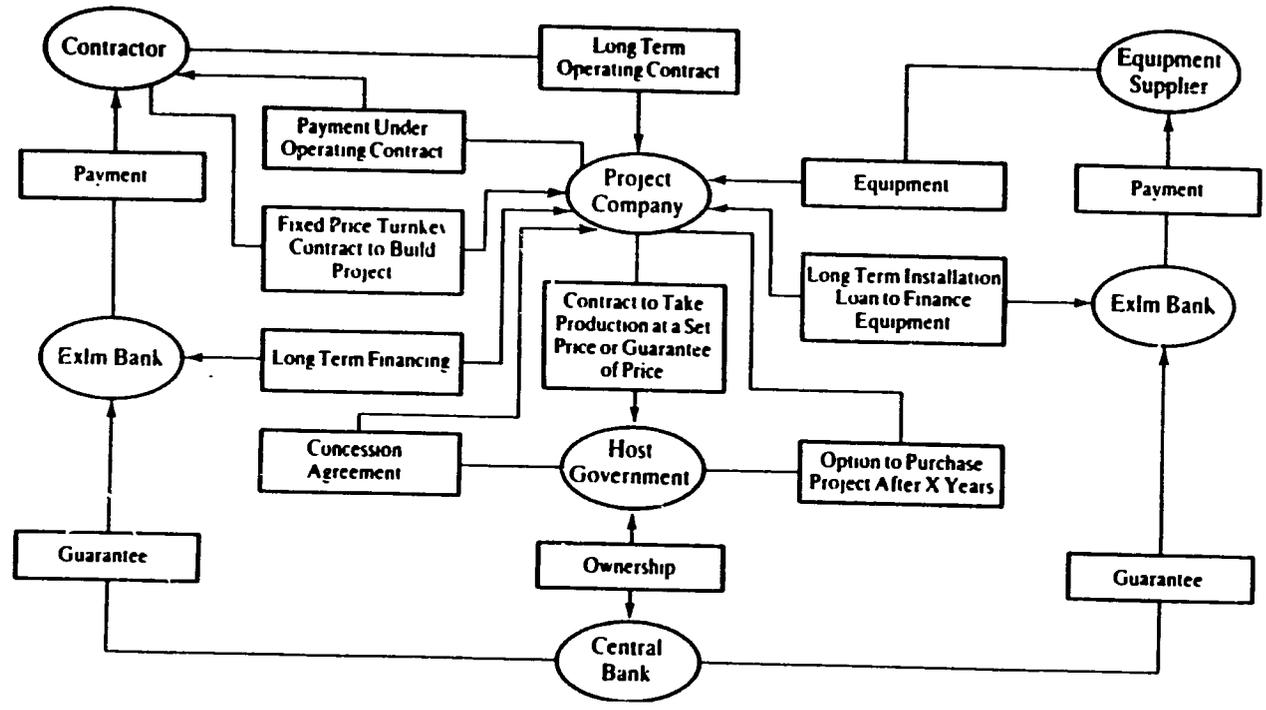
1. Allow developer to propose project specifications.
2. Establish broad criteria for selecting winner(s).
3. Provide active government assistance in planning/permits.
4. Defer taxes and bills for government services.
5. Free or discounted use of government right of way.
6. Use of government power to condemn property.
7. Allow ancillary development around facility.
8. Empower single agency to solicit/negotiate deal.
9. Limit actions of non-contract parties.

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Responsibilities by Phase Under Build-Transfer Operate

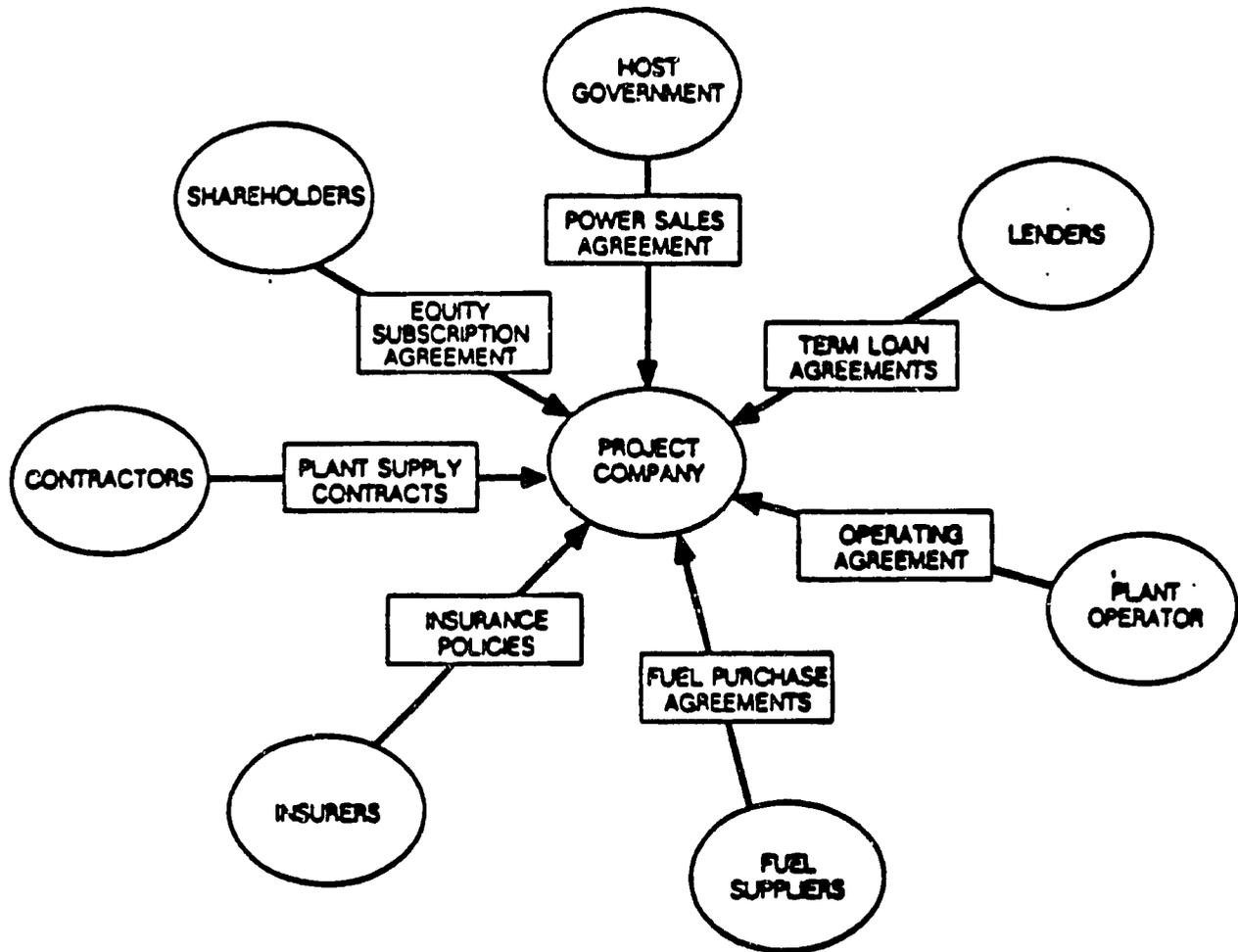
Build	Transfer	Operate
<p>Public Sector Responsibilities</p> <ul style="list-style-type: none"> • Develop broad specifications/ goals • Solicit qualified private sector applicants • Evaluate proposals • Negotiate and Award Franchise Agreement • Assist in Permitting 	<p>Public Sector Responsibilities</p> <ul style="list-style-type: none"> • Assume ownership of facility • Issue operating rights to private developer • Develop operating requirements 	<p>Public Sector Responsibilities</p> <ul style="list-style-type: none"> • Maintain facility according to contract requirements • Monitor the operation of facility and regulate private developer • Honor all operational aspects of franchise agreements
<p>Private Sector Responsibilities</p> <ul style="list-style-type: none"> • Develop detailed proposals • Negotiate franchise agreements • Obtain permitting • Obtain financing • Complete design of facility • Construct facility 	<p>Private Sector Responsibilities</p> <ul style="list-style-type: none"> • Transfer title of completed facility to public sector 	<p>Private Sector Responsibilities</p> <ul style="list-style-type: none"> • Operate facility according to terms of agreement • Reimburse public sector for incurred expenses • Collect fees • Repay debt

BOT & BOO Transactions



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AN ELECTRICAL POWER PRIVATIZATION PROJECT'S CONTRACTUAL/ FINANCIAL STRUCTURE



ELEMENTS OF A POWER PURCHASE AGREEMENT

Developer's Obligations

obtain land
secure regulatory approvals
obtain financing
build plant of certain description
obtain fuel
operate and maintain plant

Utility's Remedies

security deposit
penalties
damages
termination
right of purchase/possession

Utility's Obligations

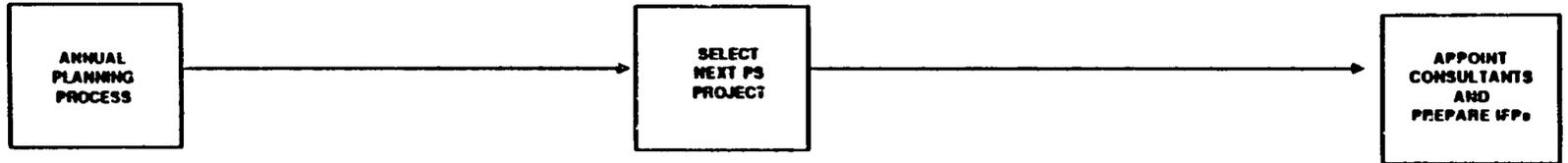
interconnection
purchase power
o fixed price
o term of agreement

Developer's Remedies

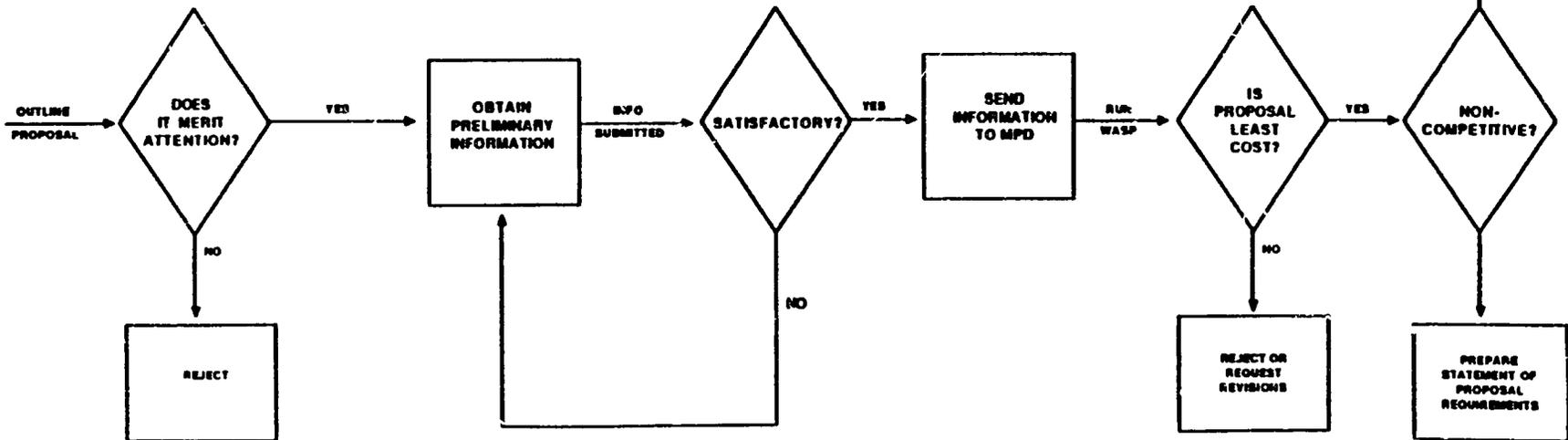
deemed commissioning
damages
termination
wheeling out

INITIATION OF PROJECTS

SOLICITED PROPOSALS



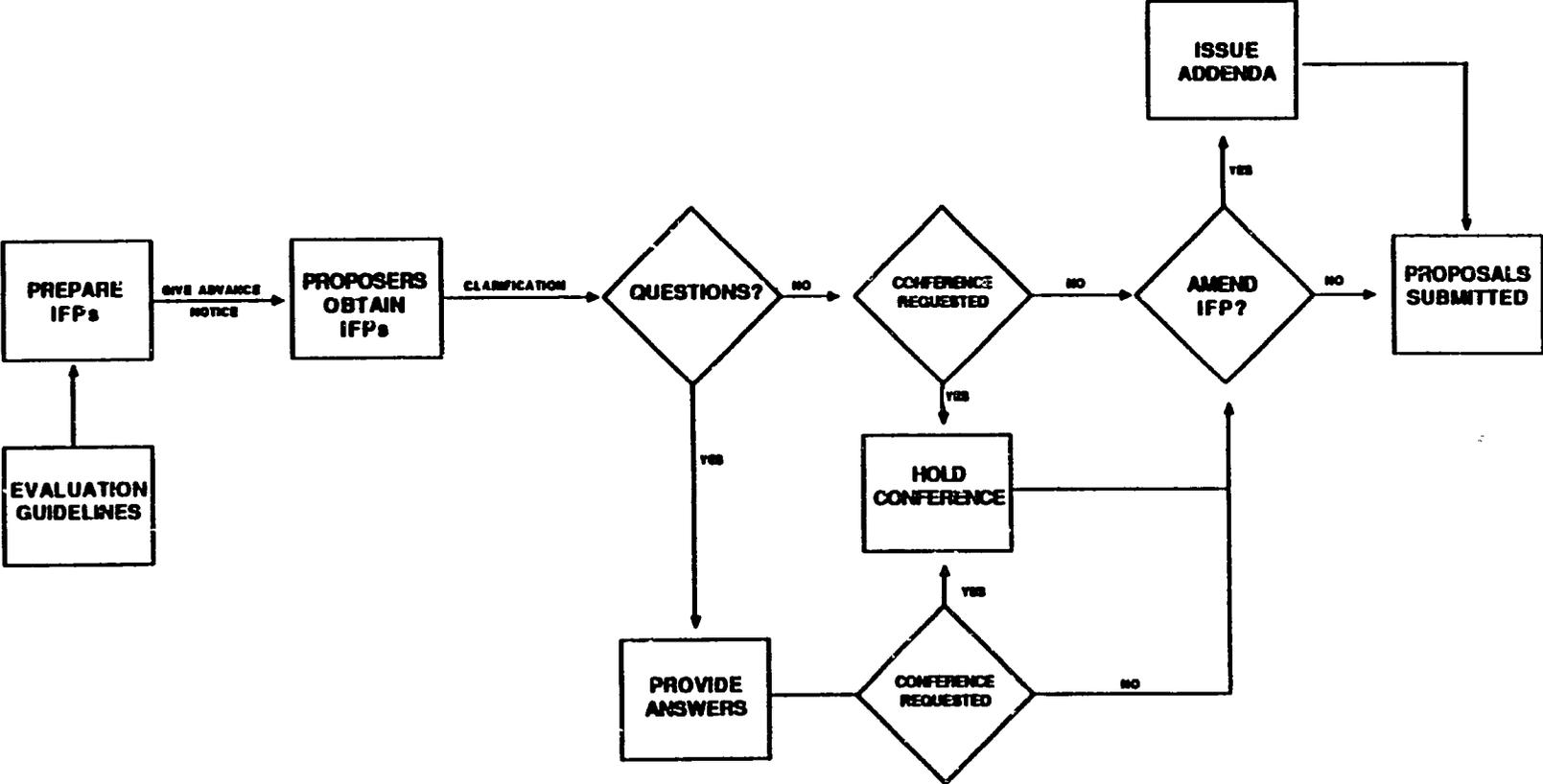
UNSOLICITED PROPOSALS



dt



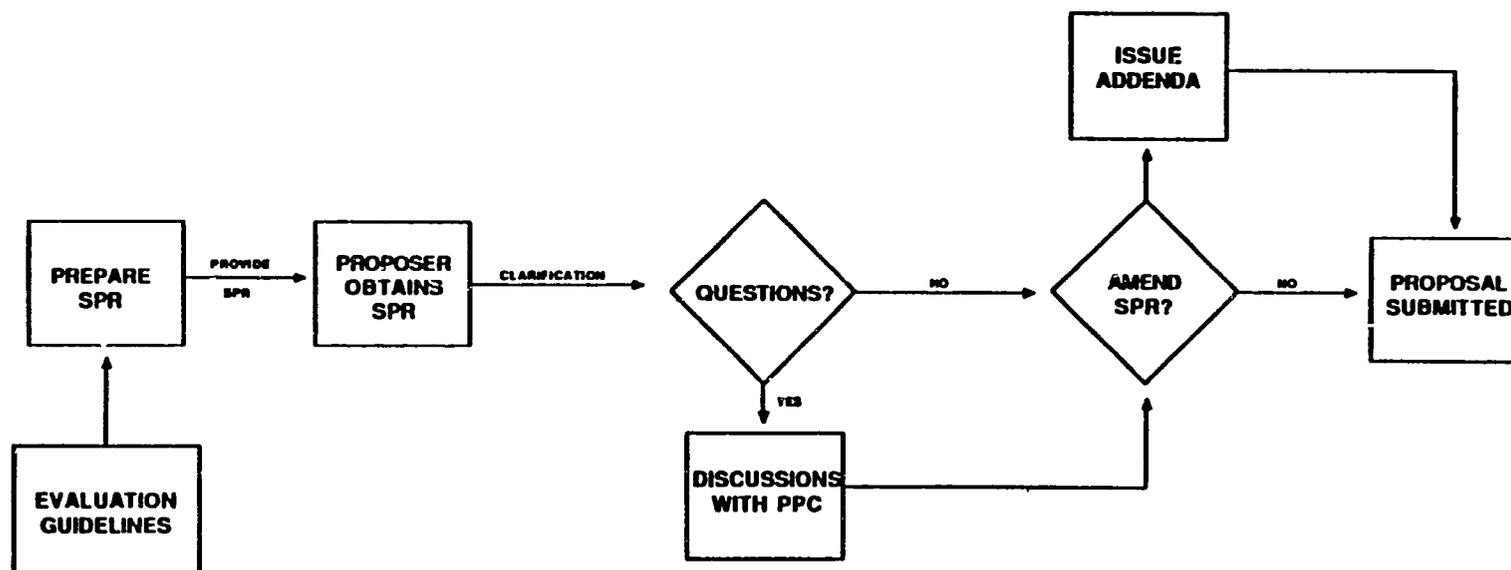
INVITATION FOR PROPOSALS - SOLICITED PROPOSALS



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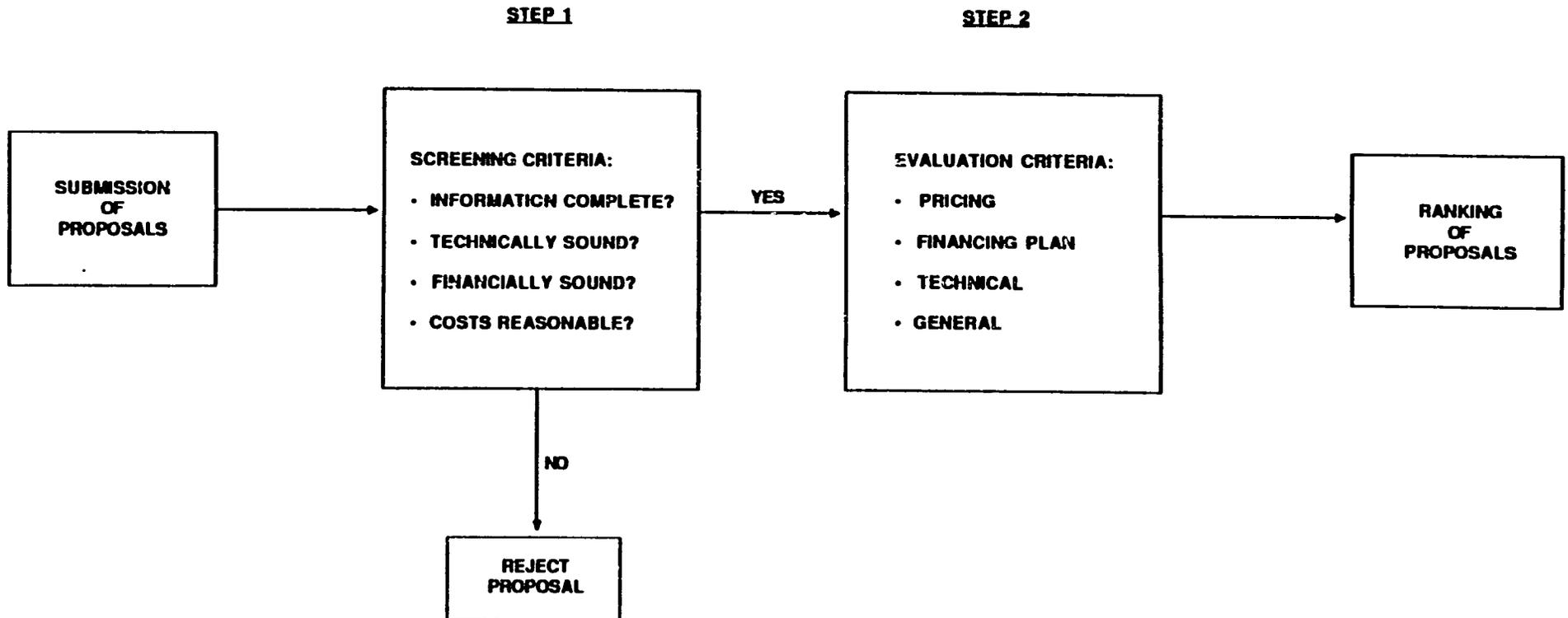


STATEMENT OF PROPOSAL REQUIREMENTS - NON-COMPETITIVE
UNSOLICITED PROPOSALS



2/2

THE EVALUATION PROCESS



60-60

ILLUSTRATIVE EVALUATION GUIDELINES

		<u>% of score</u>
<u>PRICING</u>		
Basic price	- bid price in paisa/kWh on IFP assumptions	[40]
Indexation	- sensitivity of bid price to different assumptions	[7]
Reopeners	- risk involved in proposed reopeners	[13]

		[60]
<u>FINANCING PLAN</u>		
Financial strength	- financial standing and resources of the proposer and its financial backers	[5]
Viability	- soundness of the proposed financing plan	[5]

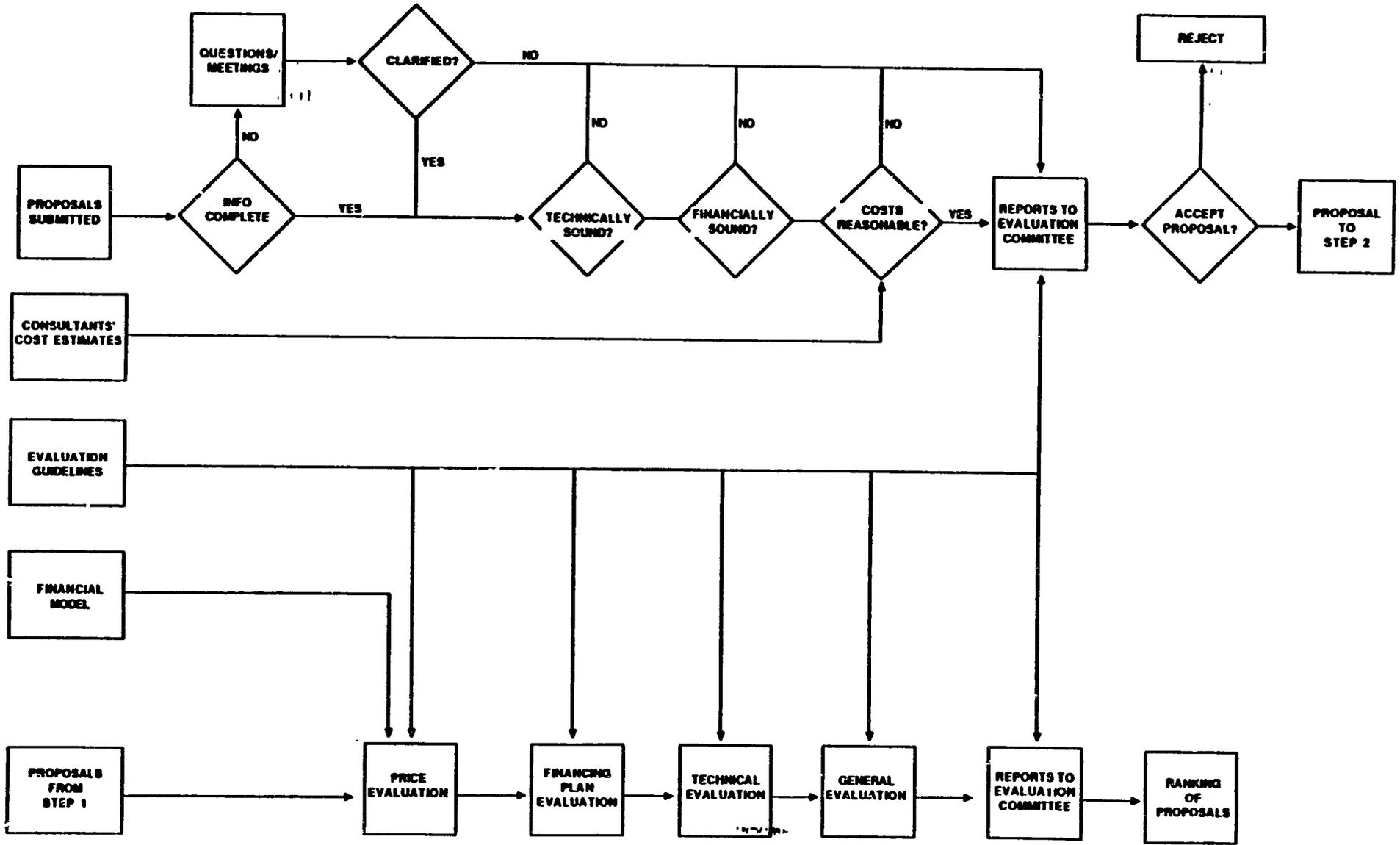
		[10]
<u>TECHNICAL</u>		
Capability	- capability of the proposer based on similar projects	[3]
Reliability/flexibility	- plant design and reliability	[7]
Implementation	- implementation plan, construction time and completion date	[4]
Environmental	- environmental impact	[3]
Procedures	- project procedures for quality, training etc	[3]

		[20]
<u>GENERAL</u>		
Commitment	- bidder's commitment to Pakistan and to the project	[5]
Responsiveness	- general attitude and responsiveness to GOP requirements	[5]

		[10]

TOTAL		<u>100</u>

EVALUATION OF SOLICITED PROPOSALS

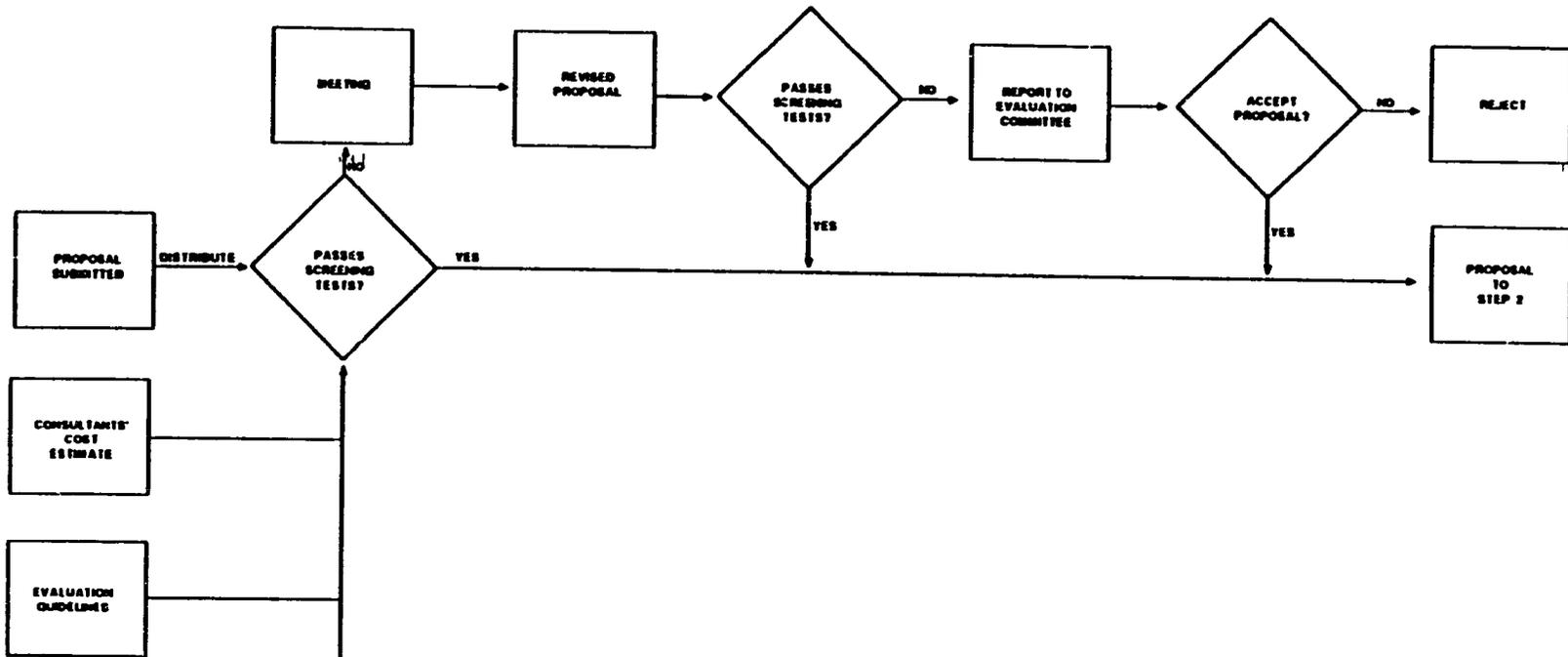


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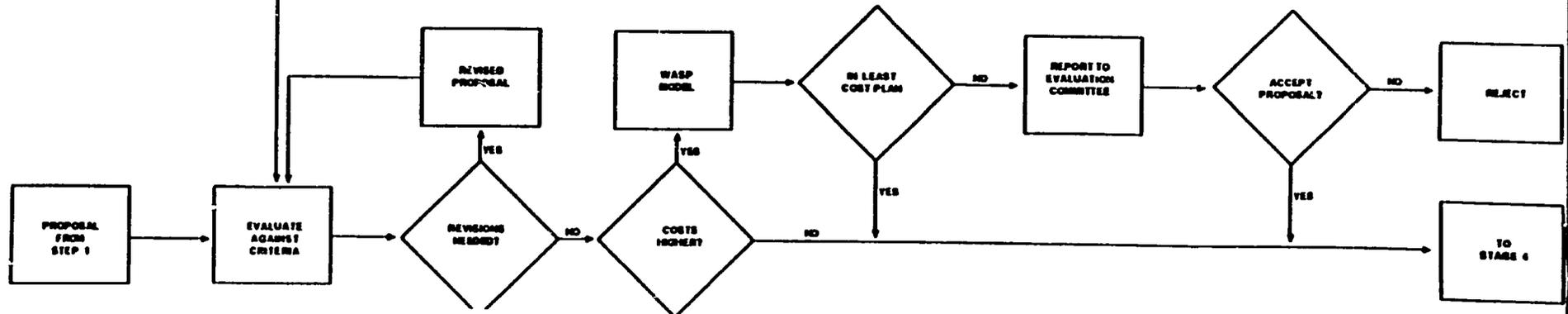


EVALUATION OF NON-COMPETITIVE UNSOLICITED PROPOSALS

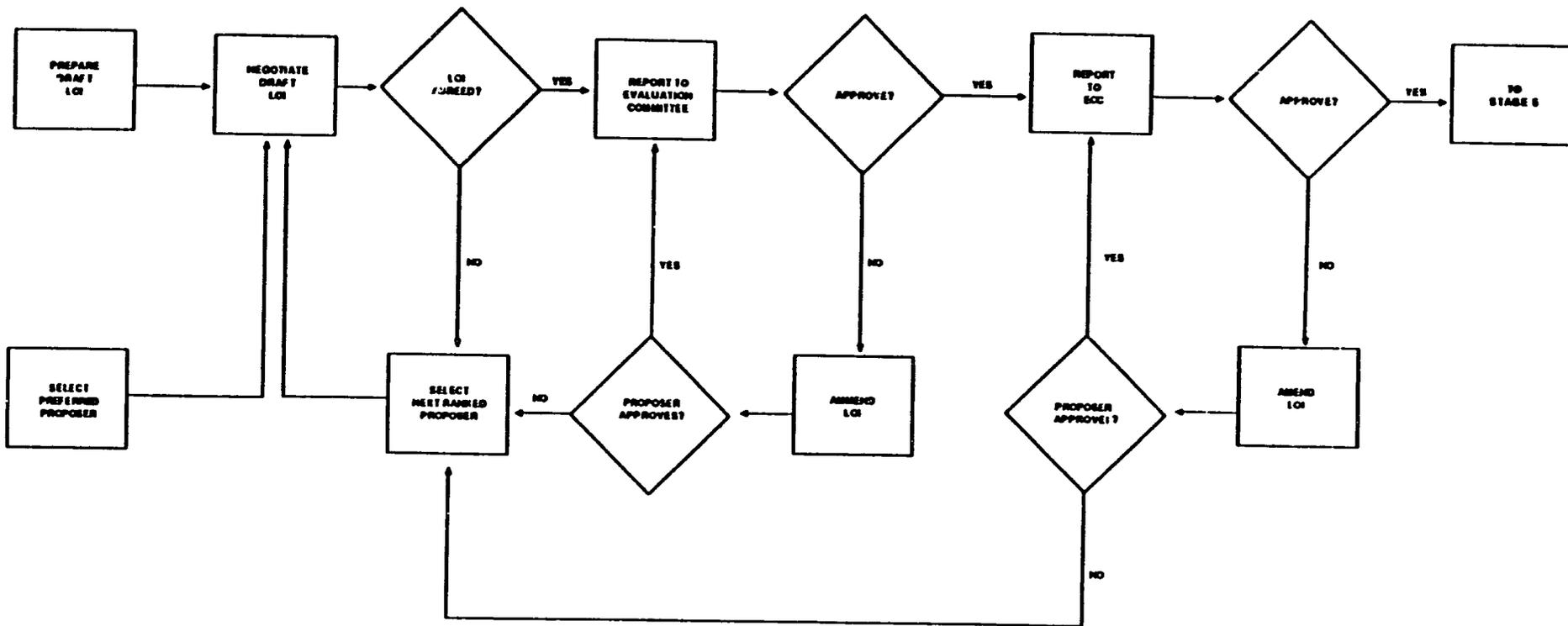
STEP 1



STEP 2



NEGOTIATION AND ISSUE OF LOI

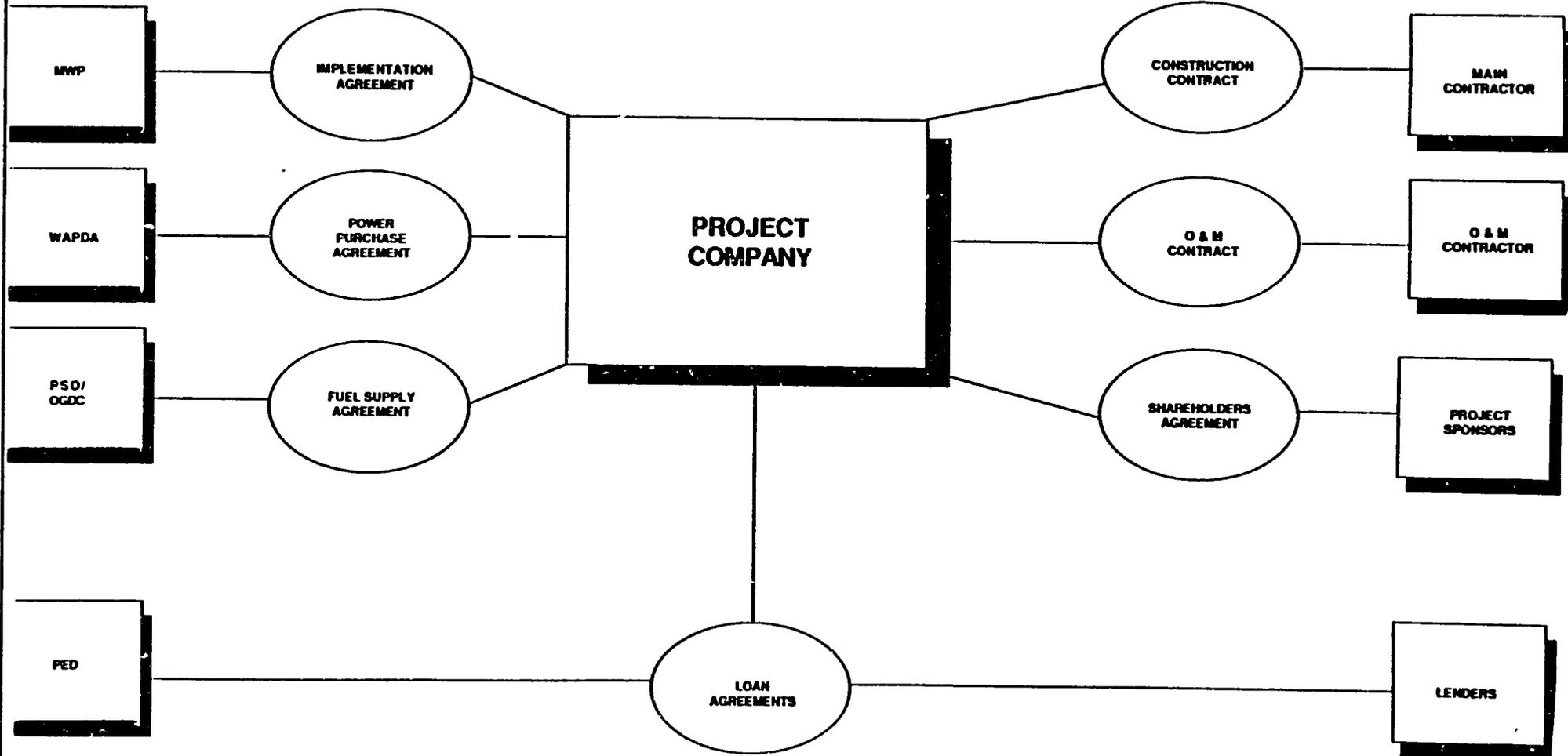


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TYPICAL CONTRACTS AND AGREEMENTS

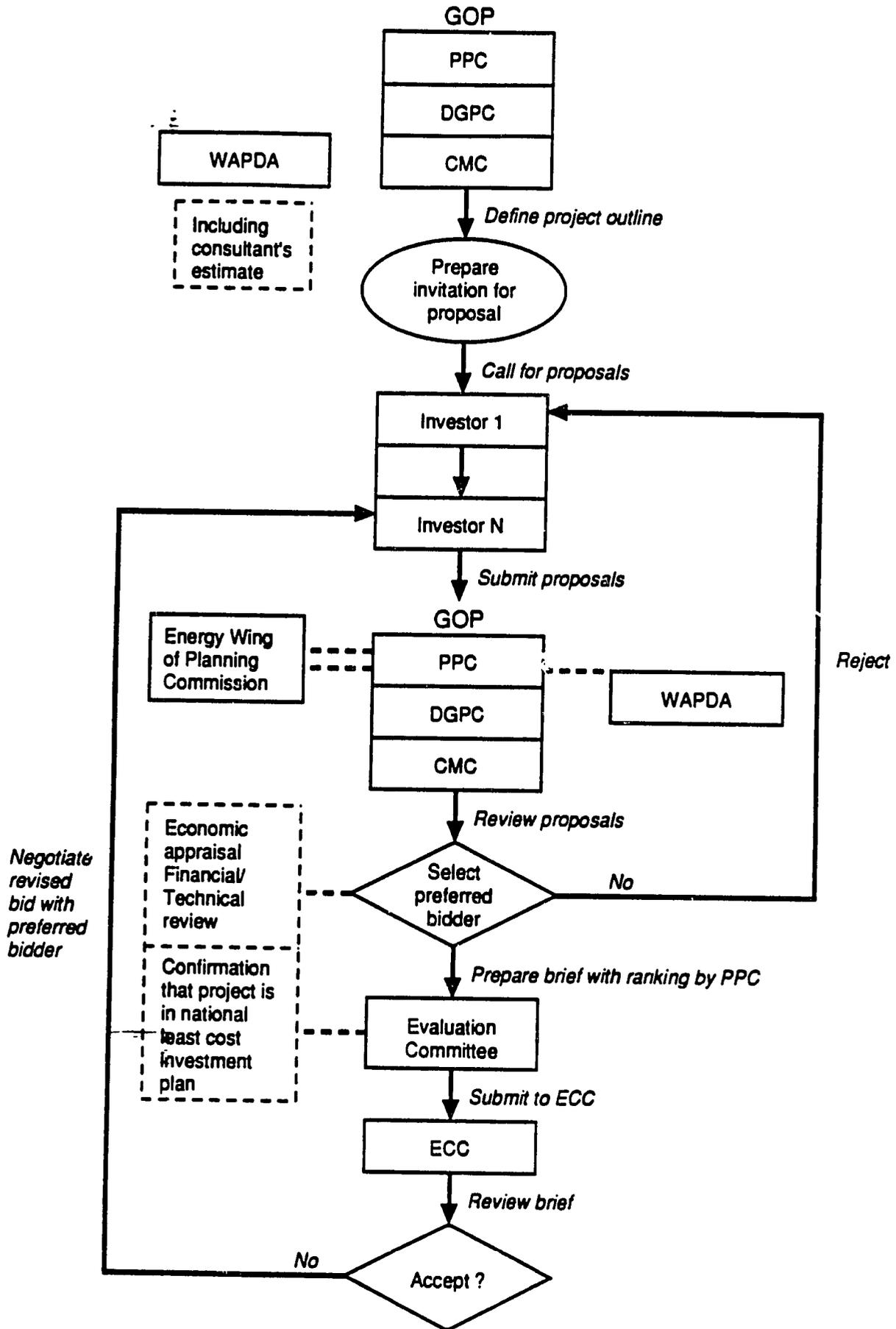
PUBLIC SECTOR

PRIVATE SECTOR

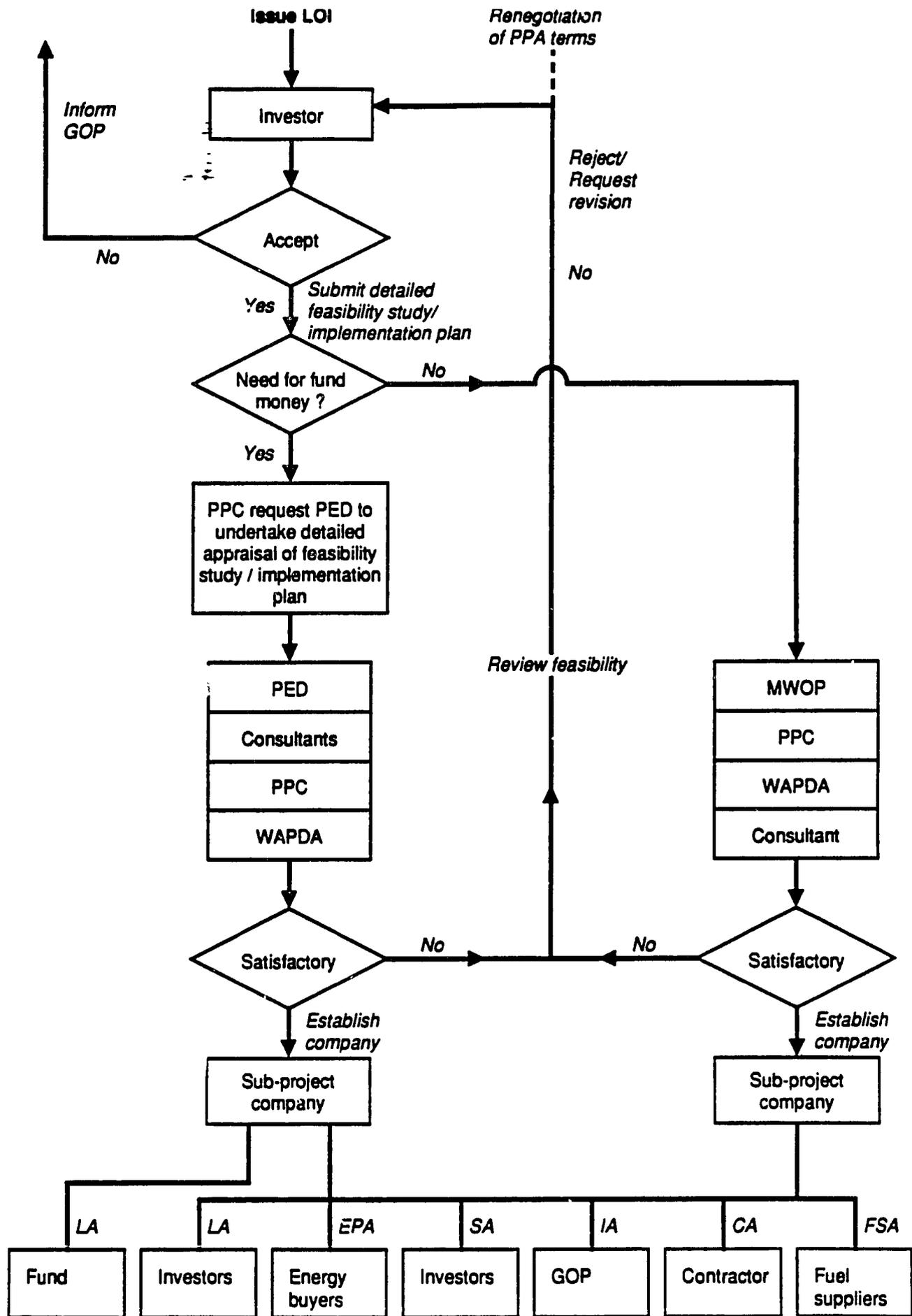


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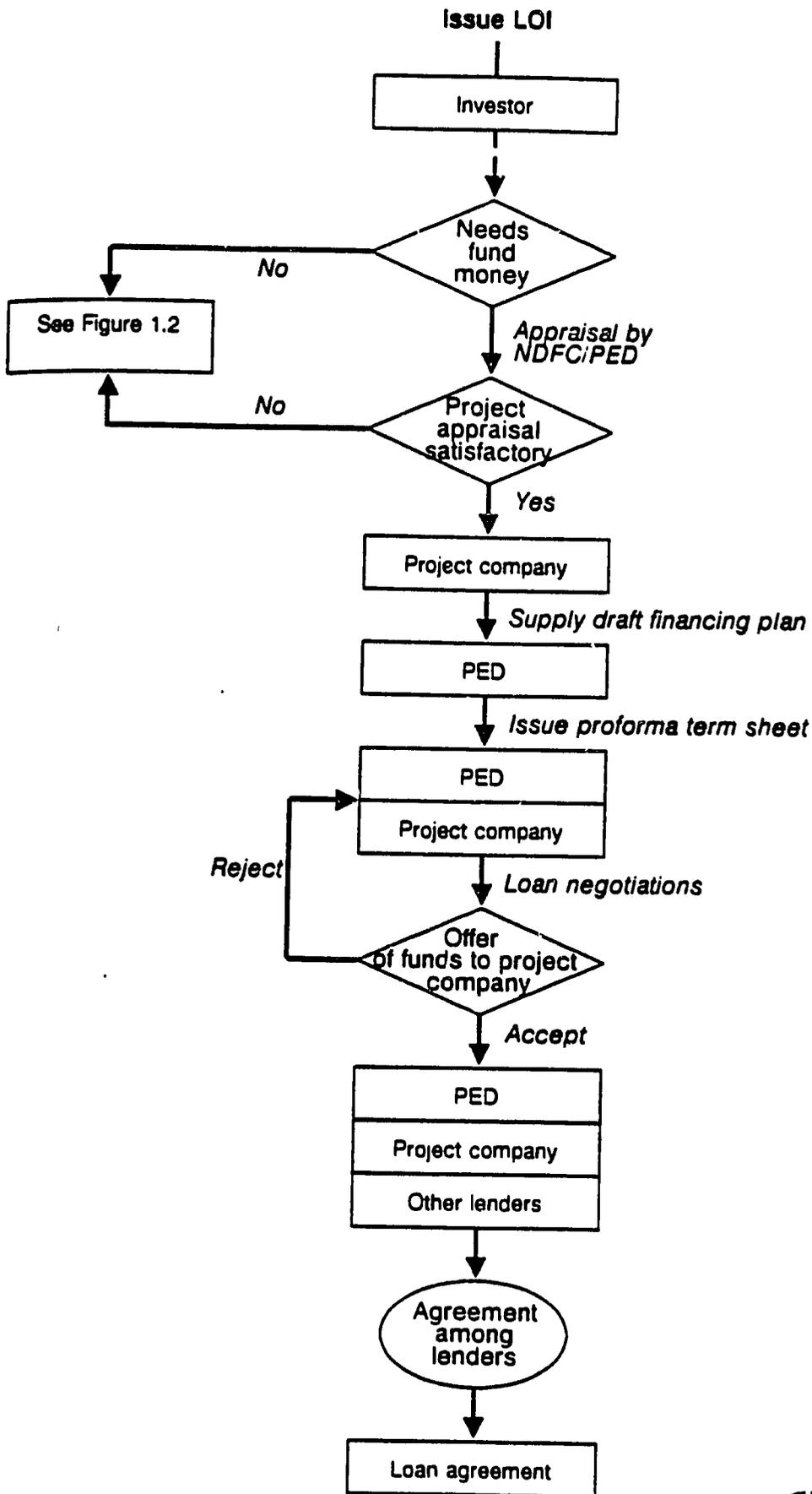
UP TO ISSUE OF LOI



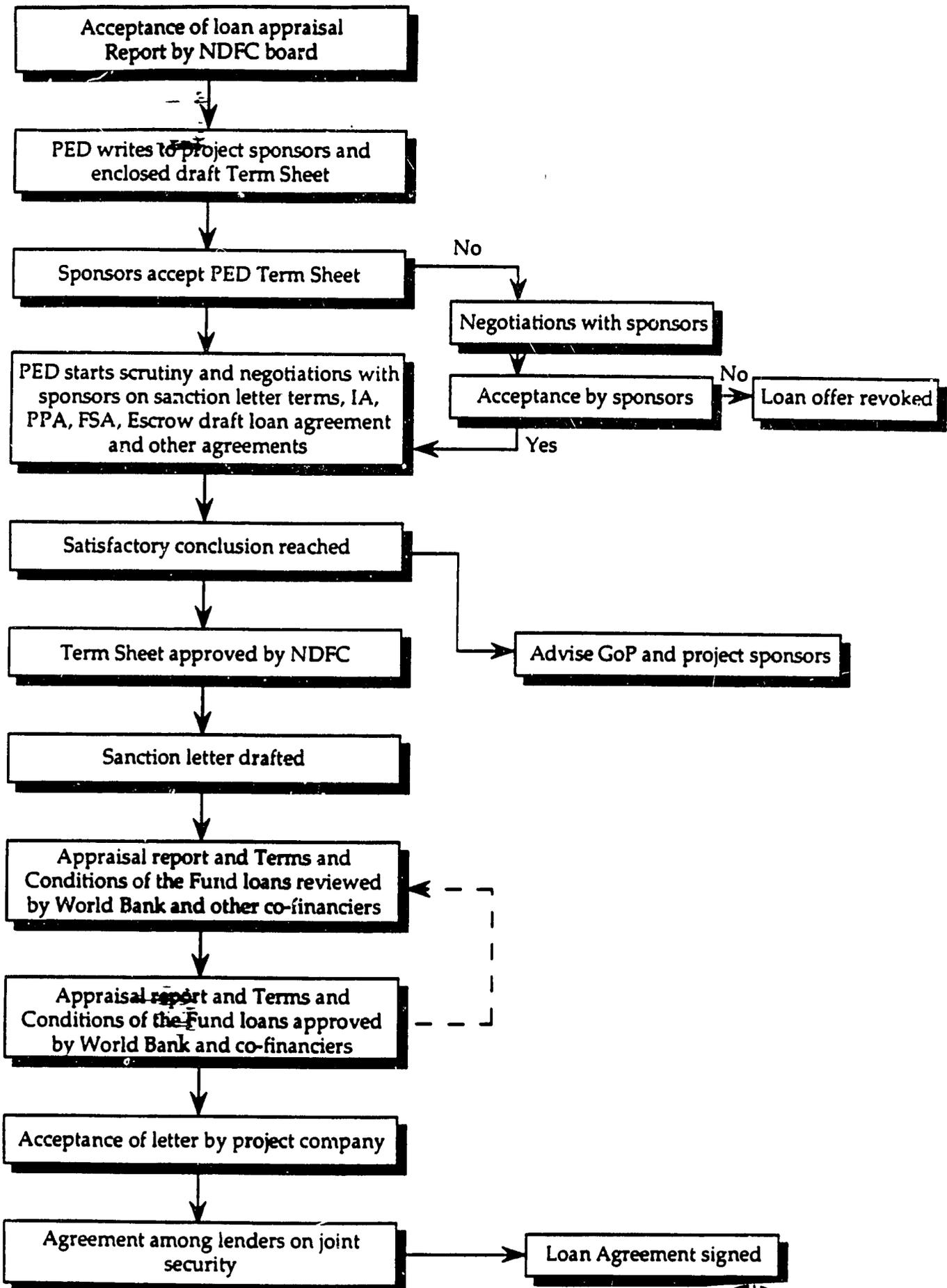
ISSUE OF LOI TO IMPLEMENTATION



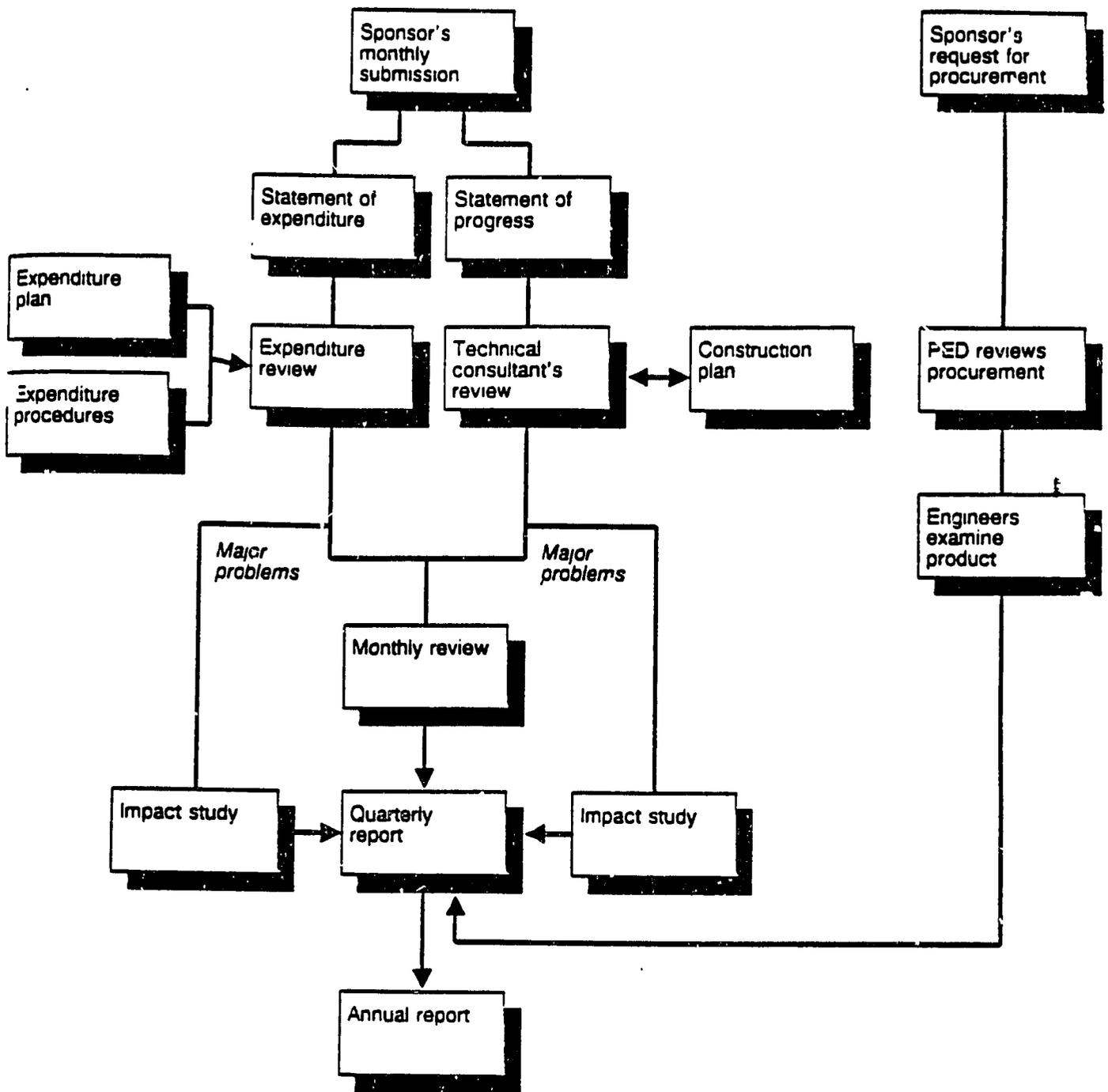
LOAN APPROVAL PROCESS



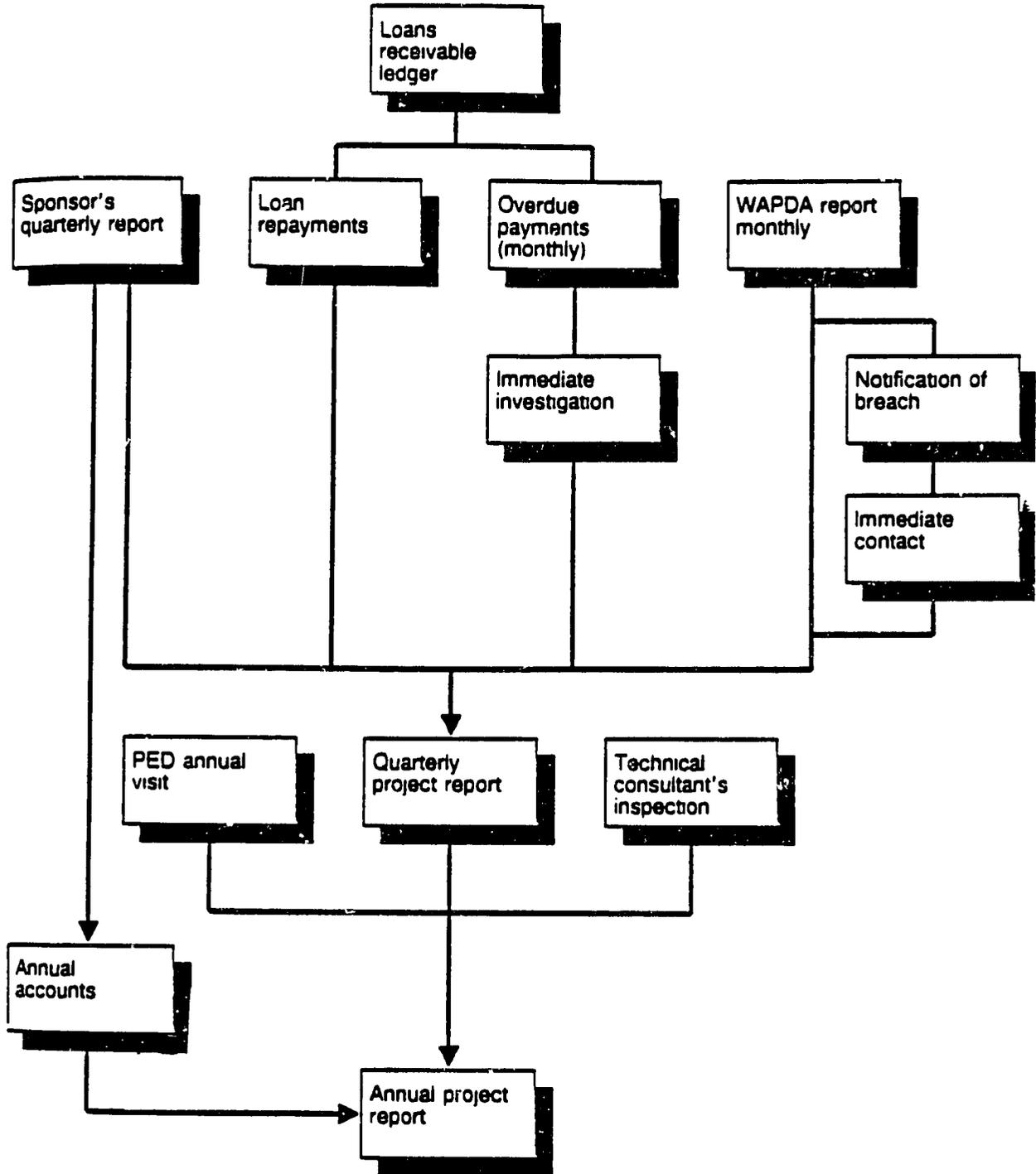
Loan Approval Process



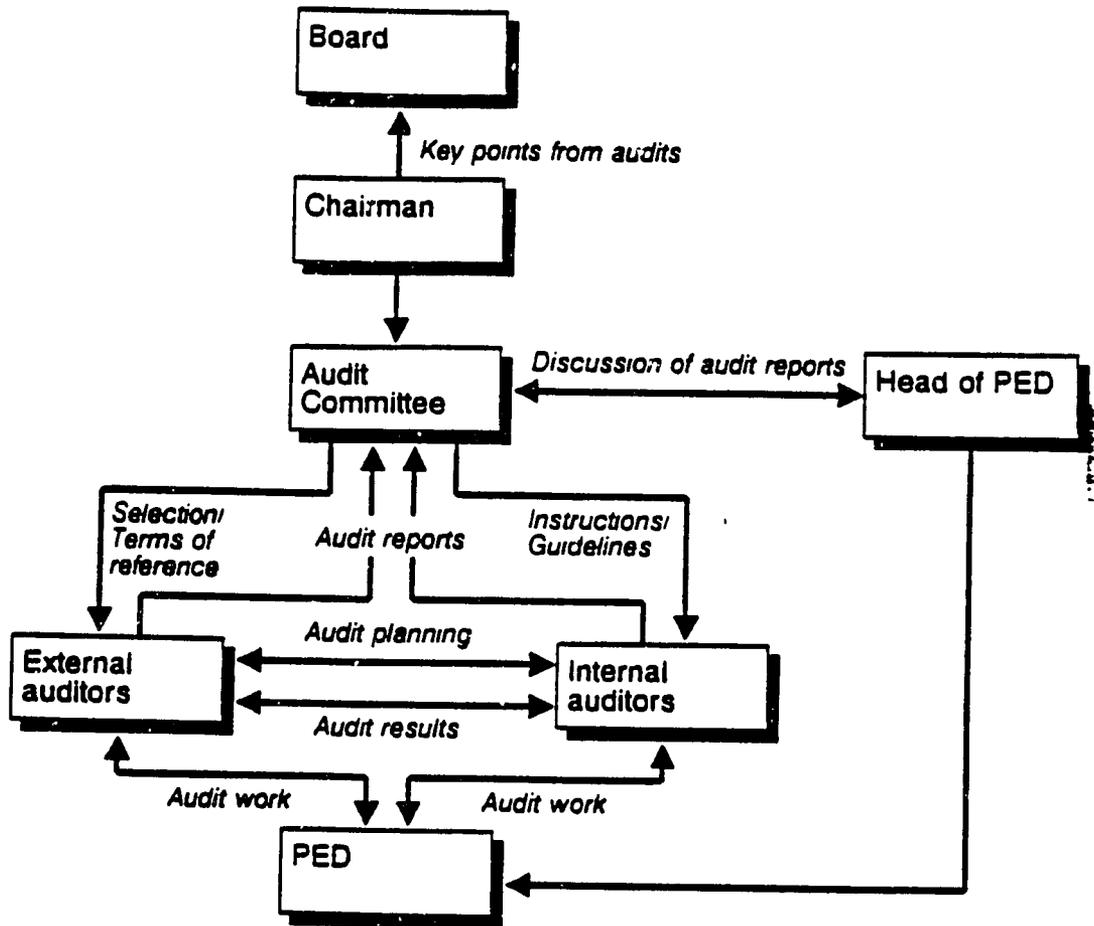
PROJECT SUPERVISION



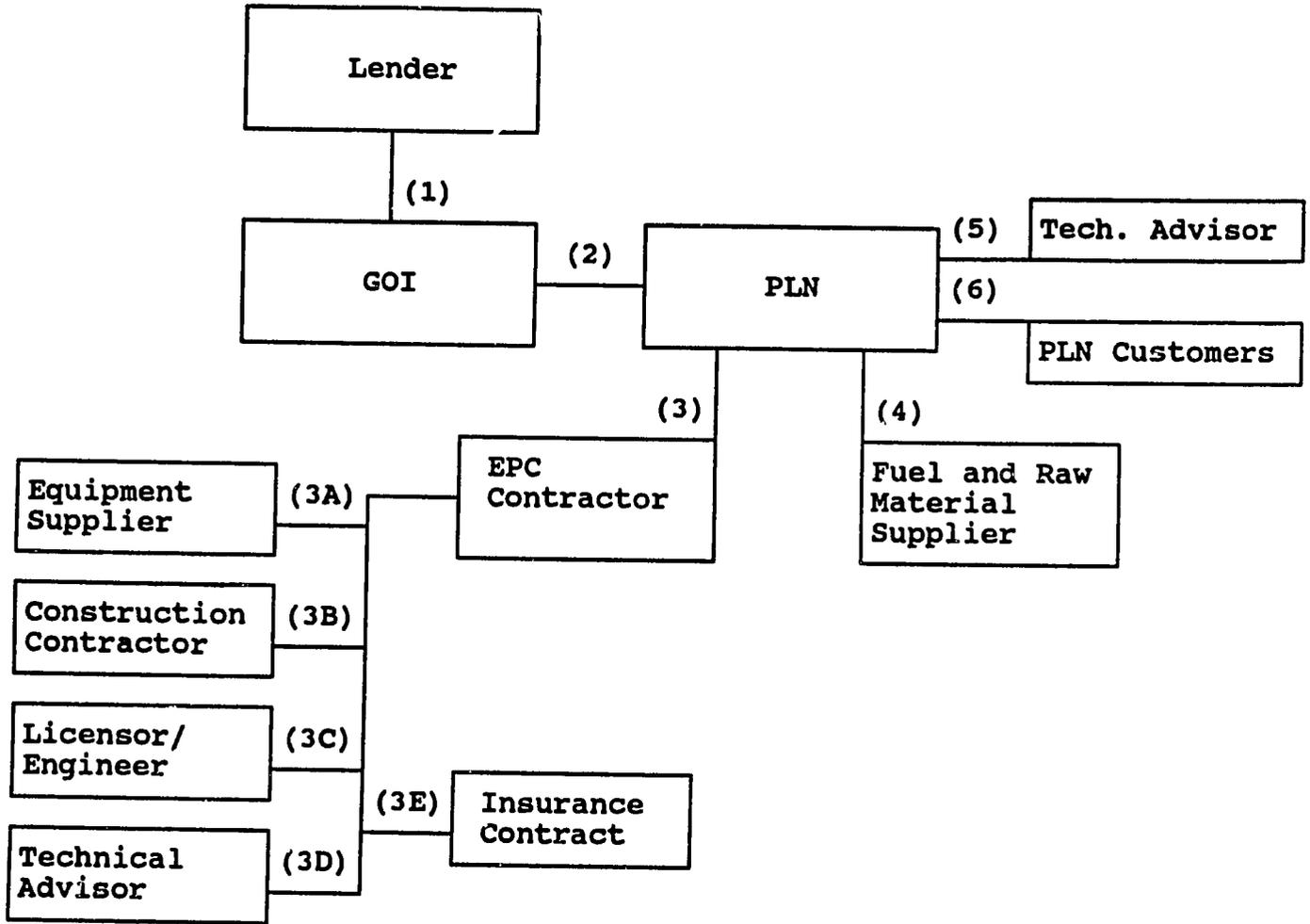
PROJECT MONITORING



INTERNAL AND EXTERNAL AUDIT INFORMATION AND DECISION FLOWS



FULL RECOURSE STRUCTURE



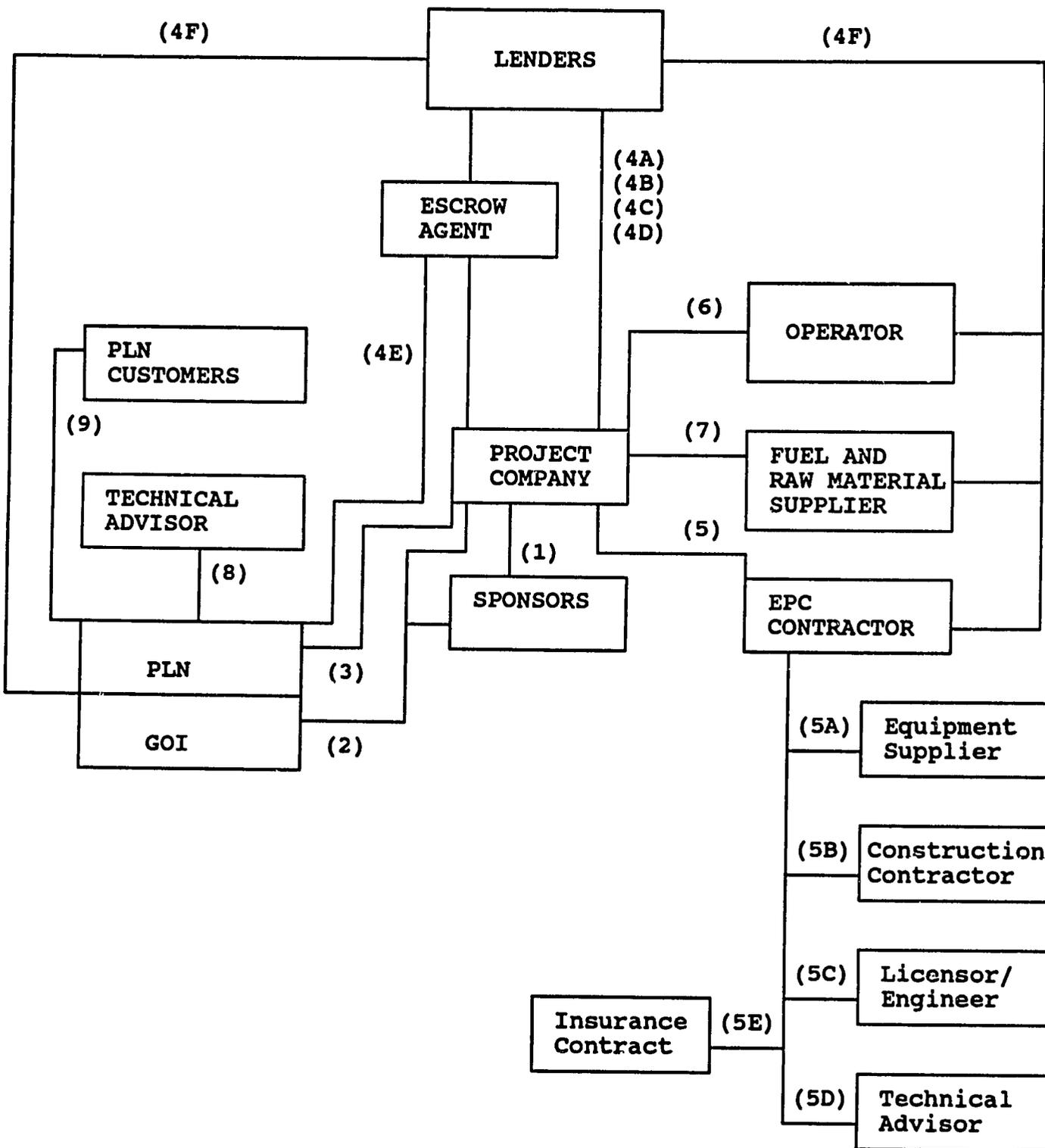
LEGAL DOCUMENTS AND FLOW OF FUNDS

FULL RECOURSE

1. LOAN AGREEMENT
2. SUB LOAN AGREEMENT
3. EPC CONTRACT (TURNKEY)
 - 3A. EQUIPMENT SUPPLY CONTRACT
 - 3B. CONSTRUCTION CONTRACT
 - 3C. LICENSE/ENGINEERING AGREEMENT
 - 3D. TECHNICAL ADVISORY CONTRACT
 - 3E. INSURANCE CONTRACTS
4. FUEL SUPPLY AGREEMENTS/RAW MATERIAL SUPPLY CONTRACTS
5. TECHNICAL ADVISORY CONTRACT
6. SALES TO CUSTOMERS

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BOT/BOO STRUCTURE



LEGAL DOCUMENTS AND FLOW OF FUNDS

BOO/BOT

1. JV AGREEMENT
2. IMPLEMENTATION AGREEMENT
3. SALES AGREEMENT (POWER PURCHASE AGREEMENT)
4. FINANCING AGREEMENTS
 - 4A. LOAN AGREEMENT
 - 4B. MORTGAGE
 - 4C. ASSIGNMENTS OF PPA/EPC CONTRACT/
O+M CONTRACT/INSURANCE CONTRACTS
 - 4D. CONTINGENT FINANCING AGREEMENTS
 - 4E. ESCROW AGREEMENT
 - 4F. CONSENTS TO ASSIGNMENT
5. EPC CONTRACT (TURNKEY)
 - 5A. EQUIPMENT SUPPLY CONTRACT
 - 5B. CONSTRUCTION CONTRACT
 - 5C. LICENSE/ENGINEERING CONTRACT
 - 5D. TECHNICAL ADVISORY AGREEMENT
 - 5E. INSURANCE CONTRACTS
6. OPERATIONS AND MAINTENANCE CONTRACT
7. FUEL SUPPLY AGREEMENTS/RAW MATERIAL SUPPLY CONTRACTS
8. TECHNICAL ADVISORY AGREEMENT
9. SALES TO PLN CUSTOMERS

ISSUES IN BOO/BOT REGULATION (2)

5. RATE BASE CONTENT
 - Fee Revenues
 - Non-Fee Revenues
 - Allowable Expenses
 - Reserves

6. RATE DESIGN
 - discrimination among user classes
 - peak v. off-peak v. base load

7. REVENUE SHARING
 - Continuous
 - After ROR Limit
 - As Part of Incentives

8. INCENTIVES
 - Vehicle Occupancy
 - Speed and Throughput
 - Operating Efficiency
 - Facility Condition
 - Safety Record

9. GOVERNMENTAL/CORPORATE USE/SUBSIDY
 - Compensatory
 - Residual

ISSUES IN BOO/BOT REGULATION (3)
Accounting Issues

1. *Internal Consistency/Integrity of Agreement*
2. *Accounting Definitions; e.g., capital costs*
3. *Cash v. Accrual*
4. *Construction Works in Progress/phasing*
5. *Treatment of Out-Year Capital Expenditures*
6. *Allowable/Required Size of Reserves*
 - *working capital*
 - *debt service*
 - *maintenance*
 - *capital improvement*
7. *Cash v. Accrual Accounting*
8. *Treatment of Government Loans, Grants, and Guarantees*
9. *Reporting Requirements*
10. *Audit Rights*
11. *"Arms Length" Transactions Requirement*
12. *Indexation of Allowable Rate of Return*
13. *Force Majeure Provisions*
14. *Awards for State Default/Change of Law*
15. *Incentives and Revenue Sharing*

BEST OPPORTUNITIES FOR TRANSPORT PRIVATIZATION

1. *missing links in the local road network*
2. *missing links in the regional road network*
3. *parallel toll alternatives to congested freeways*
4. *existing airports with development potential*
5. *new merchant airport facilities*
6. *intercity high speed rail*
7. *high density or special destination rail links*
8. *port facilities*

TRANSPORT PROJECTS NOT AMENABLE TO BOO/BOT

1. *urban streets and thoroughfares*
2. *rural, low-volume circulator roads*
3. *small airports*
4. *low density mass transit lines*
5. *bridges and tunnels that are difficult to toll*
6. *projects that face great competition from other routes and modes*

MACRO-ECONOMIC ISSUES

1. PUBLIC SECTOR ACCOUNTS

A. CAPITAL BUDGET

B. EXPENDITURE BUDGET

C. PUBLIC SECTOR BORROWING
REQUIREMENT

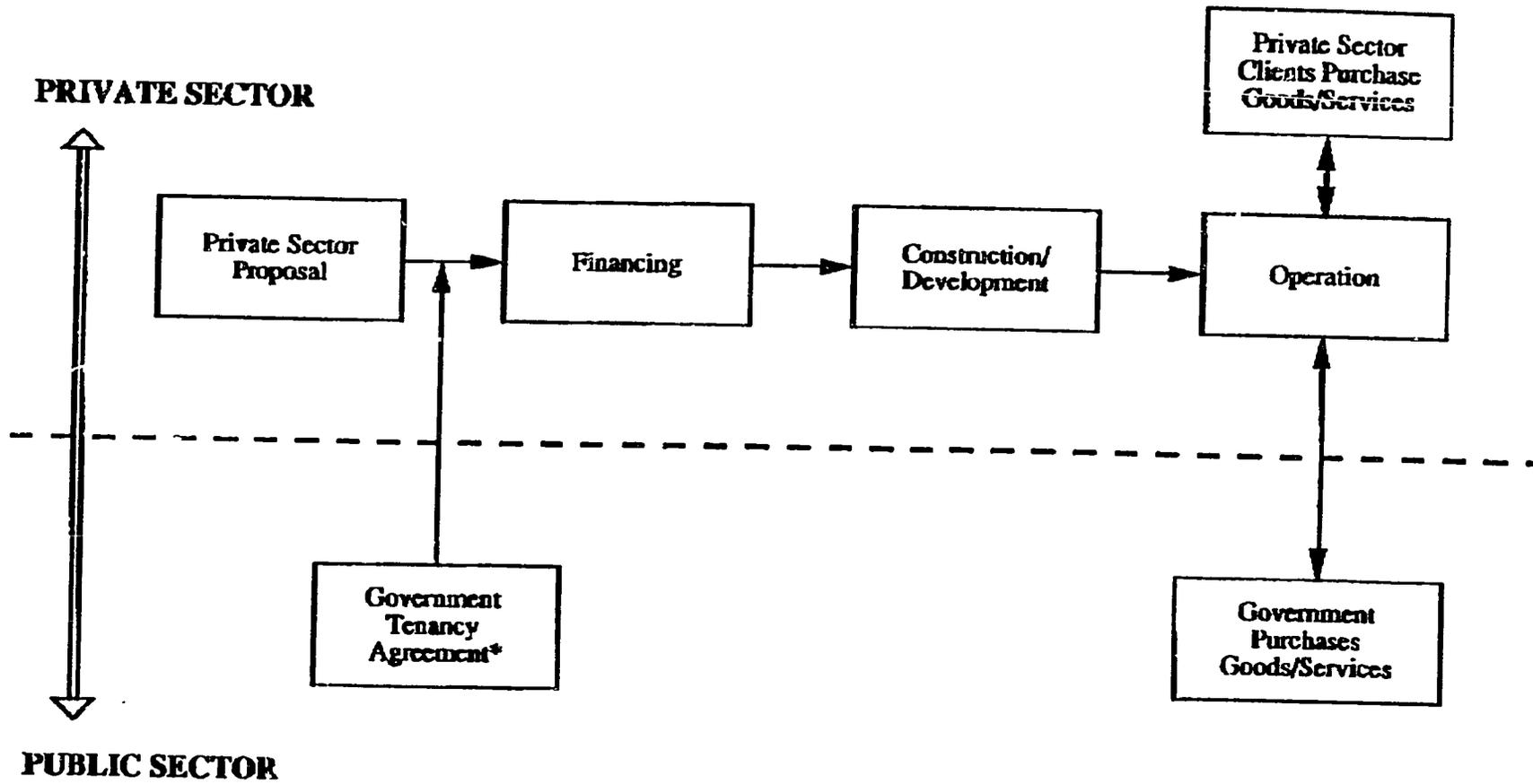
2. BALANCE OF PAYMENTS

A. FOREIGN EXCHANGE POSITION

B. AGGREGATE FOREIGN DEBT AND COUNTRY
LIMITS: THE QUESTION OF
ADDITIONALITY

3. PLANNING FOR PRIVATE SECTOR PROJECTS

Private Ownership With Risk-Sharing ("Anchor Tenancy")



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Examples of Risk Sharing Under Assisted Private Ownership and Private Ownership with Risk Sharing Models

Technological Risk

This is the risk that technologies critical to project success either will not be developed, will require greater than expected spending, or will be patented by a potential competitor. The public sector can reduce technological risk by funding technological development, or by directly providing key technologies.

Development Risk

This is the risk that development costs will be substantially higher than expected, with substantial cost overruns. The public sector can reduce development risk by underwriting development, or by insuring development costs.

Market Risk

This is the risk that the market for the goods or services being developed will be substantially smaller or more price sensitive than expected. Market risk may be reduced through anchor-tenancy, and floor prices.

Government Policy Risk

This is the risk that government policy changes will adversely impact project profitability. This can be reduced by a clear statement of government policy, and by agreements to maintain key policies.

Operational Risk

This is the risk that operating costs will prove to be higher than expected, or that unpredictable events will increase costs such as launch failure or payload failure. The public sector can reduce operational risk by providing operational assistance and technical expertise, by direct insurance, or by subsidizing private insurance.

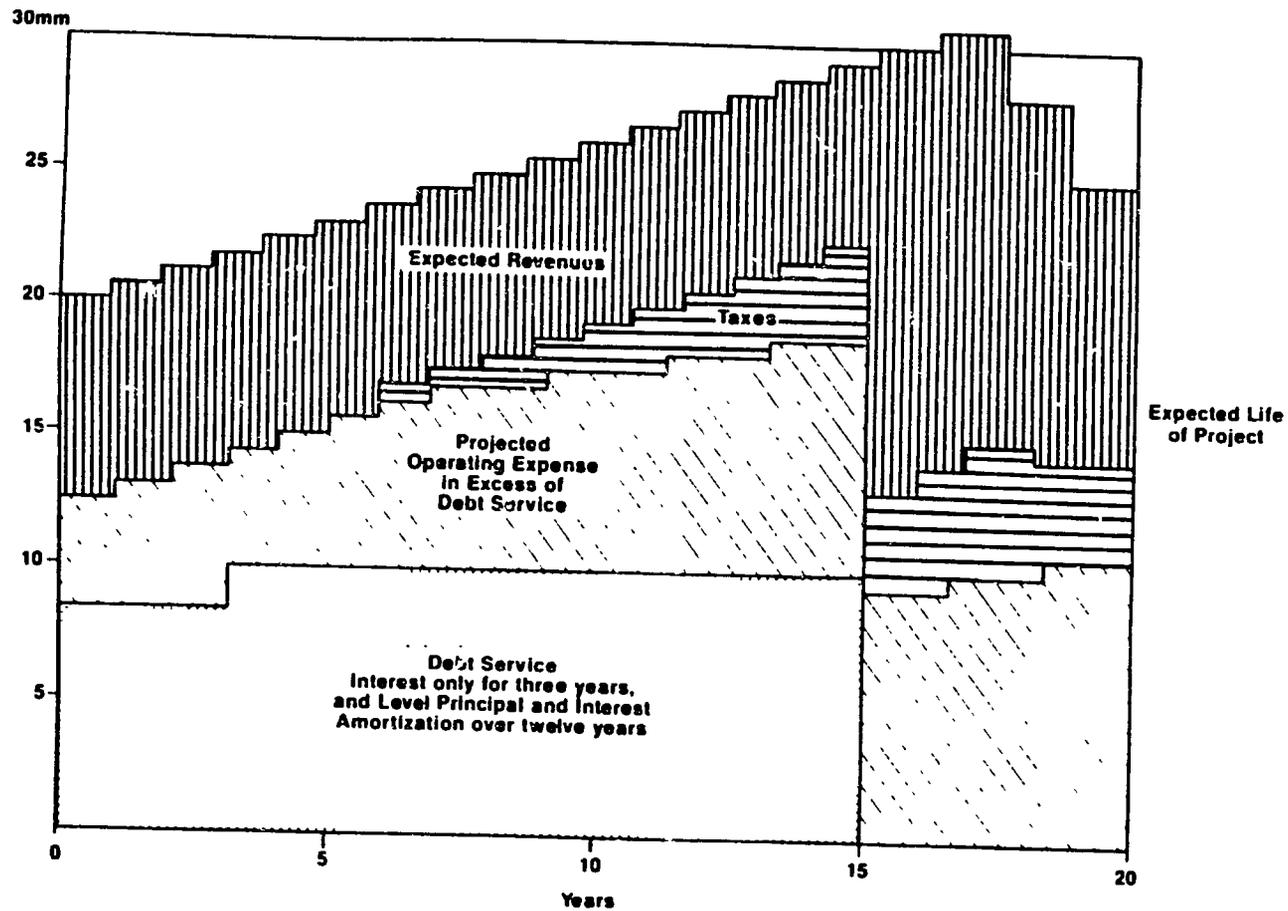
Legal Risk

This is the risk from legal liability. This can be reduced by government ownership, government assistance, or by statutory limits on liability and guidelines on legal responsibility.

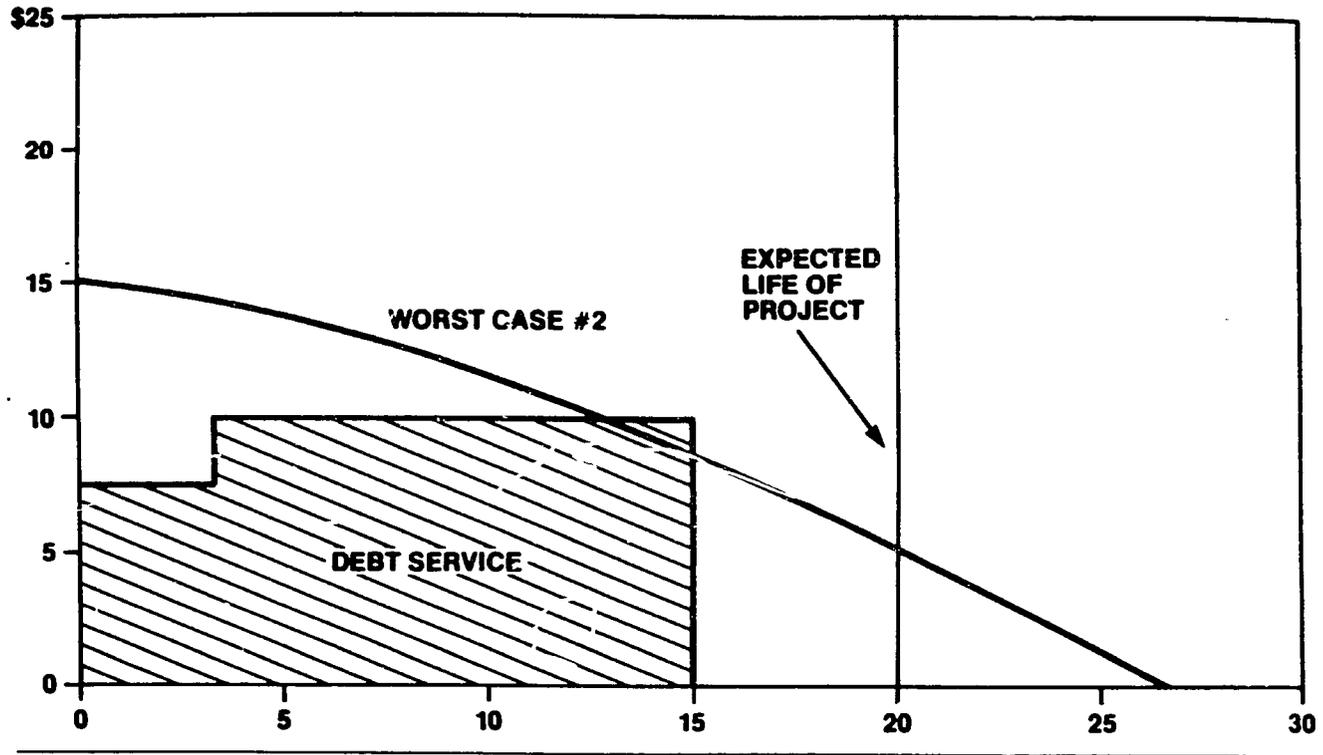
Financial Risk

This is the risk that financing costs will be higher than expected, or that financing will be more difficult to obtain. Financing can be facilitated by government assistance in reducing any of the above risks.

Revenue, Operating Expenditure, Taxes and Debt Service Adjusted for Inflation and Escalation

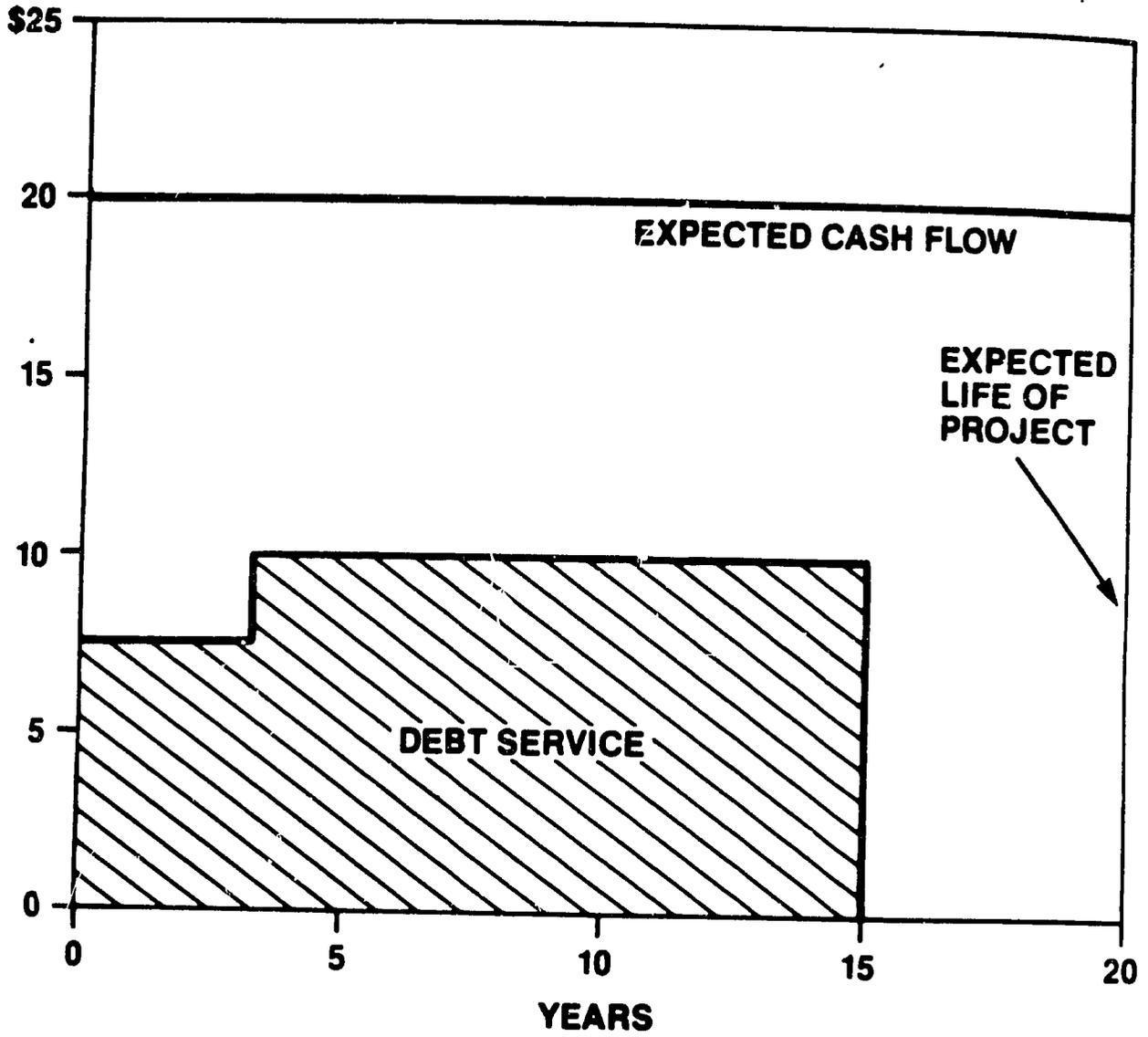


Another Worst-Case Cash Flow

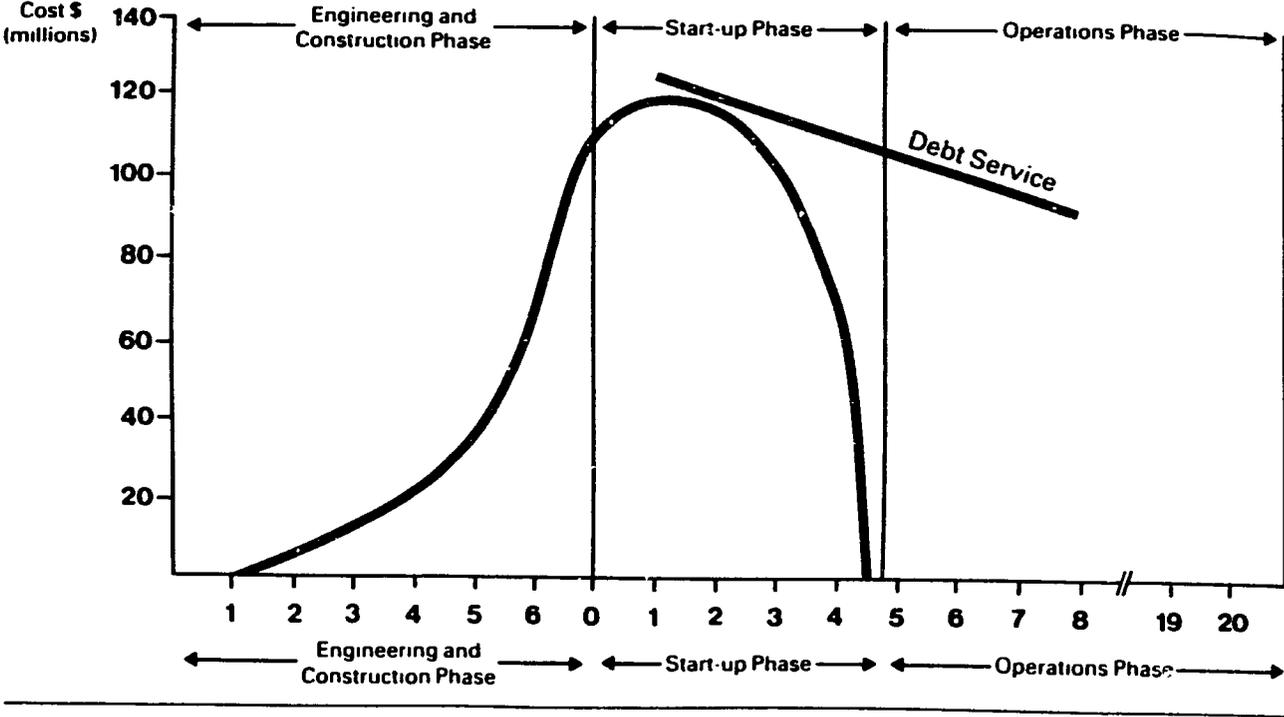


58.

Debt Service & Expected Cash Flow to Service Debt



Risk in Project Finance

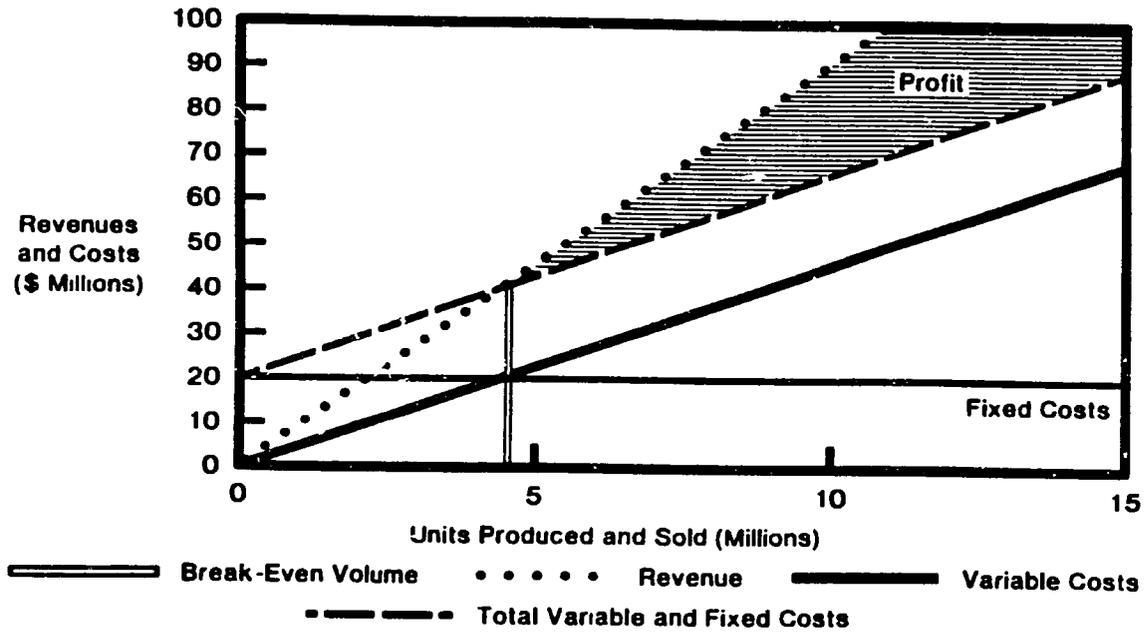


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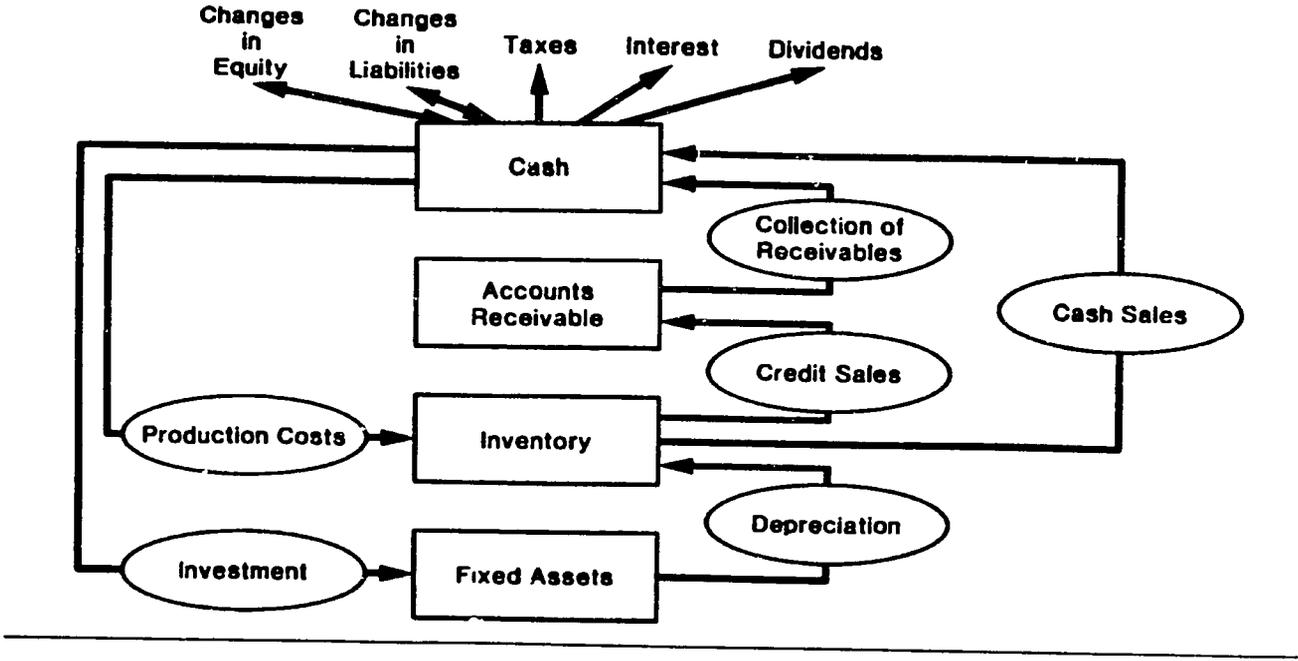
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Calculation of Break-Even



19/1

Cash Flow from Production



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Hypothetical combined-cycle power plant packaging strategy/financing sources

	World Bank	Regional banks ^a	Export credit agencies ^b	Foreign aid agencies ^c	Commercial banks	Host country
1. Gas turbine generators and accessories - supply, install, and test	x	x	x	x	x	
2. Steam generator and accessories - supply, install, and test	x	x	x	x	x	
3. Steam turbine generator and accessories - supply, install, and test	x	x	x	x	x	
4. Controls and instrumentation supply (purchase order)	x	x	x	x	x	
5. Electrical, control, and instrumentation equipment and materials - supply, install, and test	x	x	x	x	x	
6. Mechanical equipment and piping - supply, install, and test	x	x	x	x	x	
7. Civil - site work and improvement, buildings and structures construction	x	x		x	x	x
8. Housing colony	x	x		x	x	x
9. Transmission lines and interconnection - supply and install	x	x		x	x	
10. Architect engineer services - engineering, procurement, and construction management	x	x	x	x	x	

^aAFDB, EIB, EEC, ADB, IDB, etc.

^bUS Eximbank, EDC, Japan Eximbank, etc.

^cUSAID, UKODA, Japan OECF, Canada CIDA, etc.



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BOO/BOT FINANCIAL INSTRUMENTS

1. DEBT

Commercial Bank Loan
Bonds
Senior v. Subordinated

2. MEZZANINE INSTRUMENTS

Variable Rate Debt
Warrants
Convertibles
Swaps

3. EQUITY

Common Stock
Preferred Stock

4. CREDIT SUPPORT

Letter of Credit
Loan Guarantees
Standby Revenue Support
Bond Insurance
Pooled Financing

Credit Structure Determinants



PROJECT FINANCING

- o Financing which is non-recourse to sponsors (developers, owners) beyond the extent of their equity commitment
- o Basis for Extension of Credit
 - * Contractual Arrangements (collaterally assigned) with capable, creditworthy parties or guaranteed by acceptable credits
 - Site ownership or lease
 - Engineering, Procurement, Construction
 - Fuel Supply
 - Off-Take Purchase (electricity/steam)
 - Interconnection/Transmission
 - Operations and Maintenance
 - Insurance
 - Equity Commitments
 - Security Interest in Physical Assets.
 - * Projected cash flow coverages of principal and interest payments
 - Contractually locked-in differential between revenues and costs
 - "Shirt-tail" of coverages extending beyond term of debt
 - Temporary weaknesses in coverages covered with reserves or cash sweeps
 - Minimum 1.2X; average 1.4X after taxes

PROJECT FINANCE
BENEFITS TO PROJECT OWNERS

- o Distributes risk to contracting parties .
 - Engineering, Procurement, Construction Contractor
 - Fuel Supplier
 - O&M Contractor
 - Off-Take Purchaser
 - Equity Return Subject to Operational Risk
- o Preserves Debt Capacity of Owner, Offtake Purchaser, Utility
- o Off-Balance Sheet
- o Higher Leverage than Corporate Capital Structure
 - Can increase equity return
 - Reduces cost of capital
- o Tax/Accounting Benefits
- o Minimizes conflict with Sponsor's other restrictive covenants
 - Debt and equity instruments
 - Charters
- o Protects Sponsor's other Assets
- o Provides Financing Not Otherwise Available to Sponsor

PROJECT FINANCE
ATTRACTIVENESS TO LENDERS

Hard Asset

- Long-lived
- Produces cash flows
- Secured deal

o Predictable Economics

- Established cost-revenue relationship
- Little or no market risk for output
 - . Demand growth for output
 - . Take-or-pay purchaser

o Fee Potential

o Higher Interest Rates



PROJECT FINANCE
OWNER/DEVELOPER TRADE-OFFS

- o Undiversified Risk to Lenders Results in:
 - Fixed returns to equity with little windfall profit potential
 - Limitations on Ownership/Management transfers
 - Extensive due diligence
 - Complex and lengthy credit documentation
 - Higher structuring fees
 - Higher interest rate spreads
 - Higher transaction costs
 - . Counsel
 - . Independent Engineers
 - Higher cost/risk during development (prefinancing) stage



PROJECT FINANCE
LENDER'S RISK ANALYSIS

- o Capabilities of Owners/Developers/Sponsors
- o Off-Take Buyer's Long-term Creditworthiness
- o Technology
 - Proven commercial application
 - Competitively low cost
- o Site Control
- o Fuel Availability
- o Interconnection/Transmission Interruptibility
- o Environmental Impacts
 - Compliance with regulations
 - Potential lender liability
- o Regulatory/Legislative Environment
 - Potential interference with essential project economics
 - . Contractual interference/enforcement
 - . Tax rate on sales of electricity
 - . Tax rate on purchase of fuel
 - . Other taxes/royalties
 - . Changes in taxes/royalties over time
 - Burdensome regulation of owners/lenders/contracting parties
 - Change in regulation of project operations



o Construction

- Single point responsibility
- Creditworthy contractor
- Price control
- Timely completion
- Force majeure
- Guaranteed performance standards
 - . Efficiency
 - . Capacity
- Insurance

o Operations

- Capabilities of O&M contractor
- Business/contractual management
- Availability of spare parts
- Availability of specialized maintenance contractors
- Insurance

o Project Economics

- Matching of costs and revenues
 - . Fixed costs - capacity payments
 - . Variable costs - energy payments
- Matching price adjustments
- Interest rate sensitivity
- Project contracts
 - . Match term of debt and shirrtail
 - . Ability to cure defaults
 - . No open ended project liabilities

o Funds Management

- Permission to borrow foreign currencies/pay in foreign currency
- Exchange rates
- Interruption of convertibility
- Logistical competence of borrower



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PROJECT FINANCE
ROLE OF HARD EQUITY

1. Improve pro forma debt service coverages.
2. Provide incentive for close management attention to potential problem areas in construction: Cost overrun sharing.



PROJECT FINANCE

ACCESSING THE DEBT MARKET EFFICIENTLY

1. Match type of project to user's specific electrical need within the limits of fuel availability.
2. Integrate the financial structure with the contractual structure.



PROJECT FINANCE

LENDER PROFILES

Bank Lenders

Senior secured debt
Construction and Term
Multiple takedown
Floating or fixed rates
Letters of credit or
direct loans
Refinanceable
Agented underwriting
100% debt
Long term (17 years)
Portfolio cross border
limitations

Low interest cost

Export Credit

Usually requires Government
participation in ownership

Requires Government guaranty
or comfort

Value of equipment
5-30 year term

Fixed rates
Substantial grace periods
Lowest interest cost

Vendors/Contractors

Deeply subordinated debt
May be secured
Limited to vendor's profits
Convertible to Equity
Floating rates
Highest interest cost

Institutional Lenders

Senior secured debt
Construction and Term
Single takedown
Fixed rates
Direct loans only
Refinancing difficult
Best efforts placement
100% debt difficult
Longer term (20-23 years)
Statutory and portfolio
cross border
limitations
Higher interest cost

International Lenders (IFC, IADB)

May require Government
participation in
ownership
Direct loans or guarantys

May limit vendor choice
Portfolio limitations
10 year term
High interest cost
"Complimentary" debt
Not 100% of debt needs
Fixed or Floating rates

936 Investors

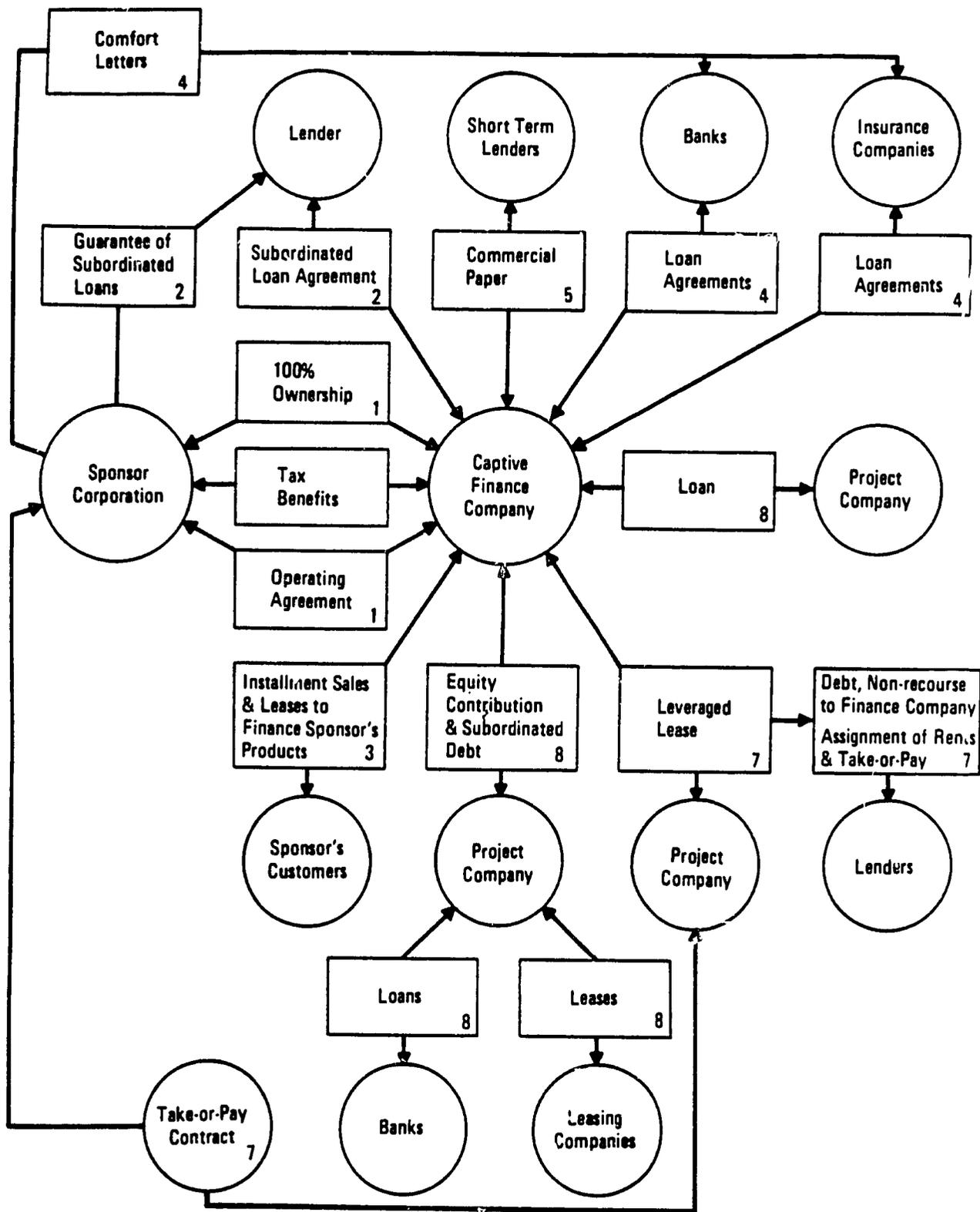
No project risk
Require investment grade
rated credit backstop
Terms 180 days - 5 years
Require approval of
investment
Low (tax exempt) interest
cost



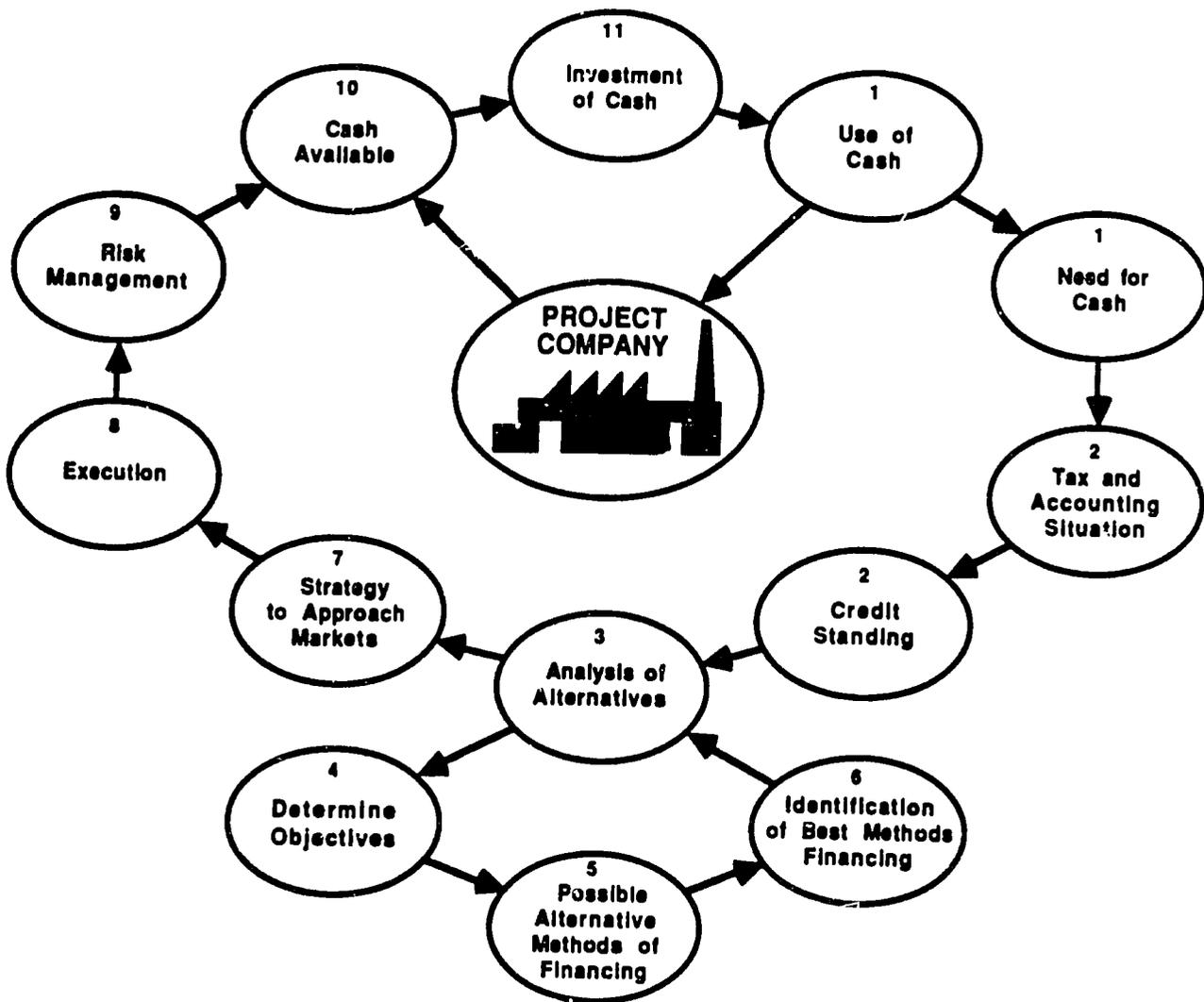
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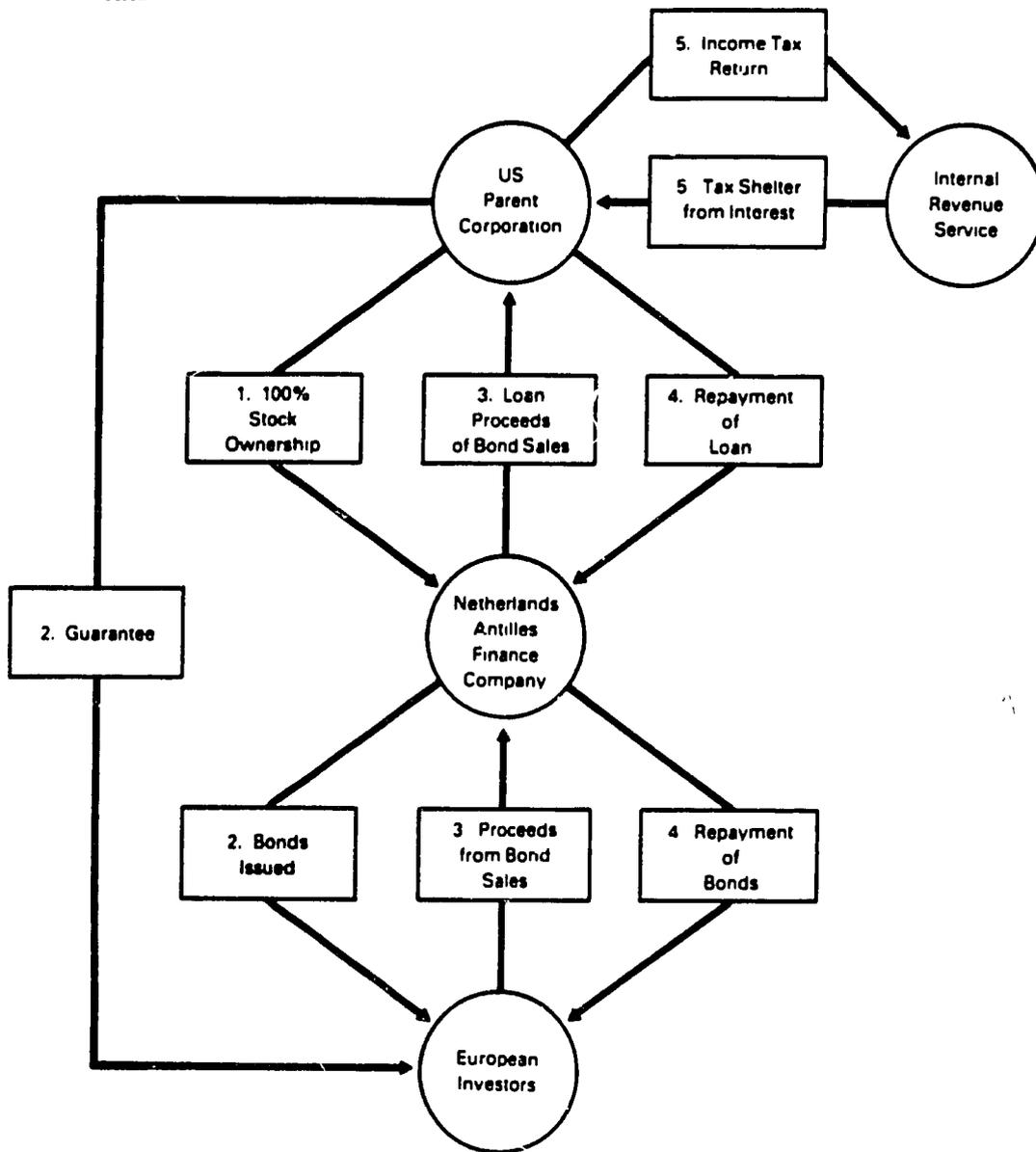
Use of a Captive Finance Company to Finance Projects



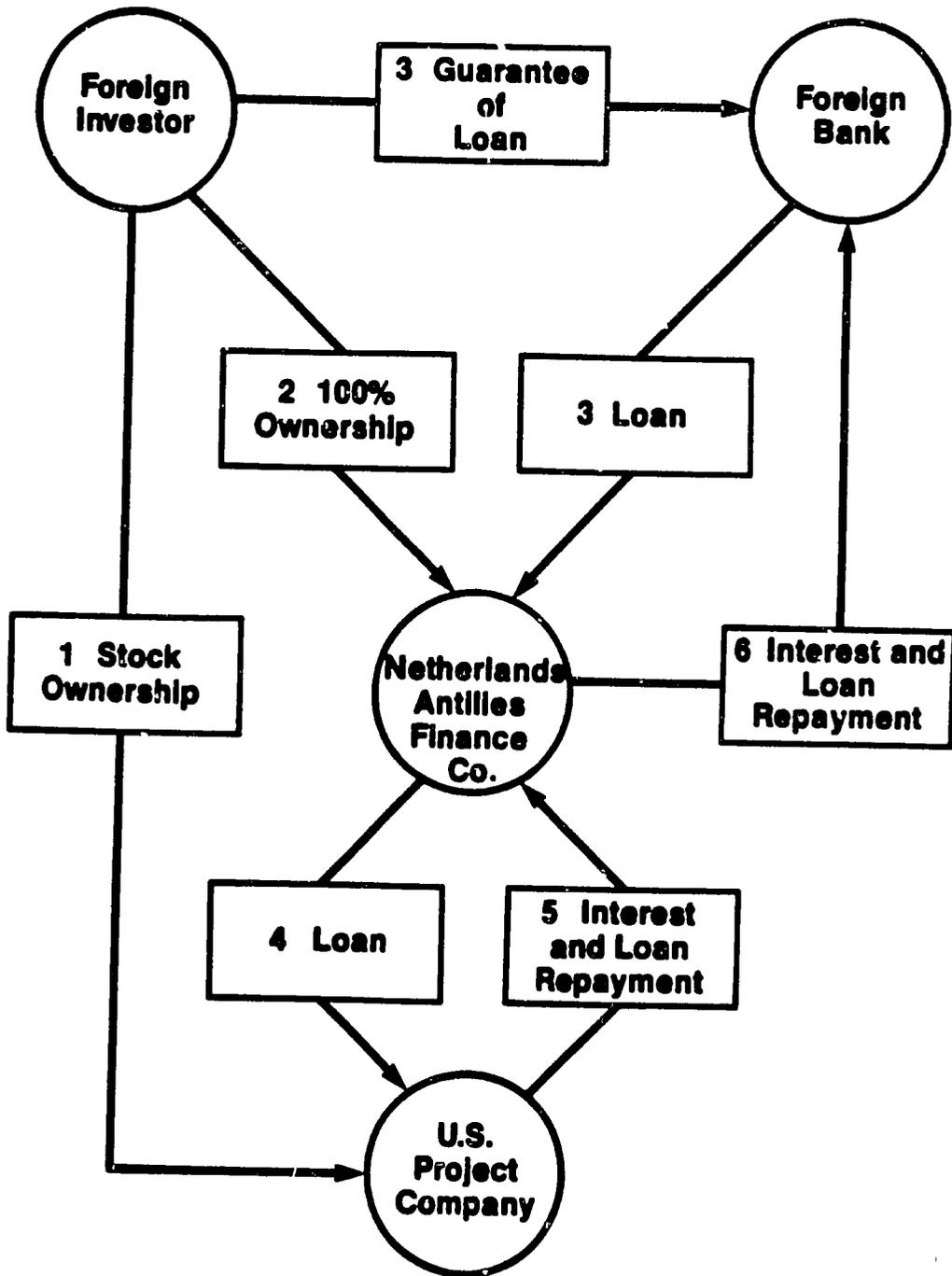
Meeting Continual Financing Needs



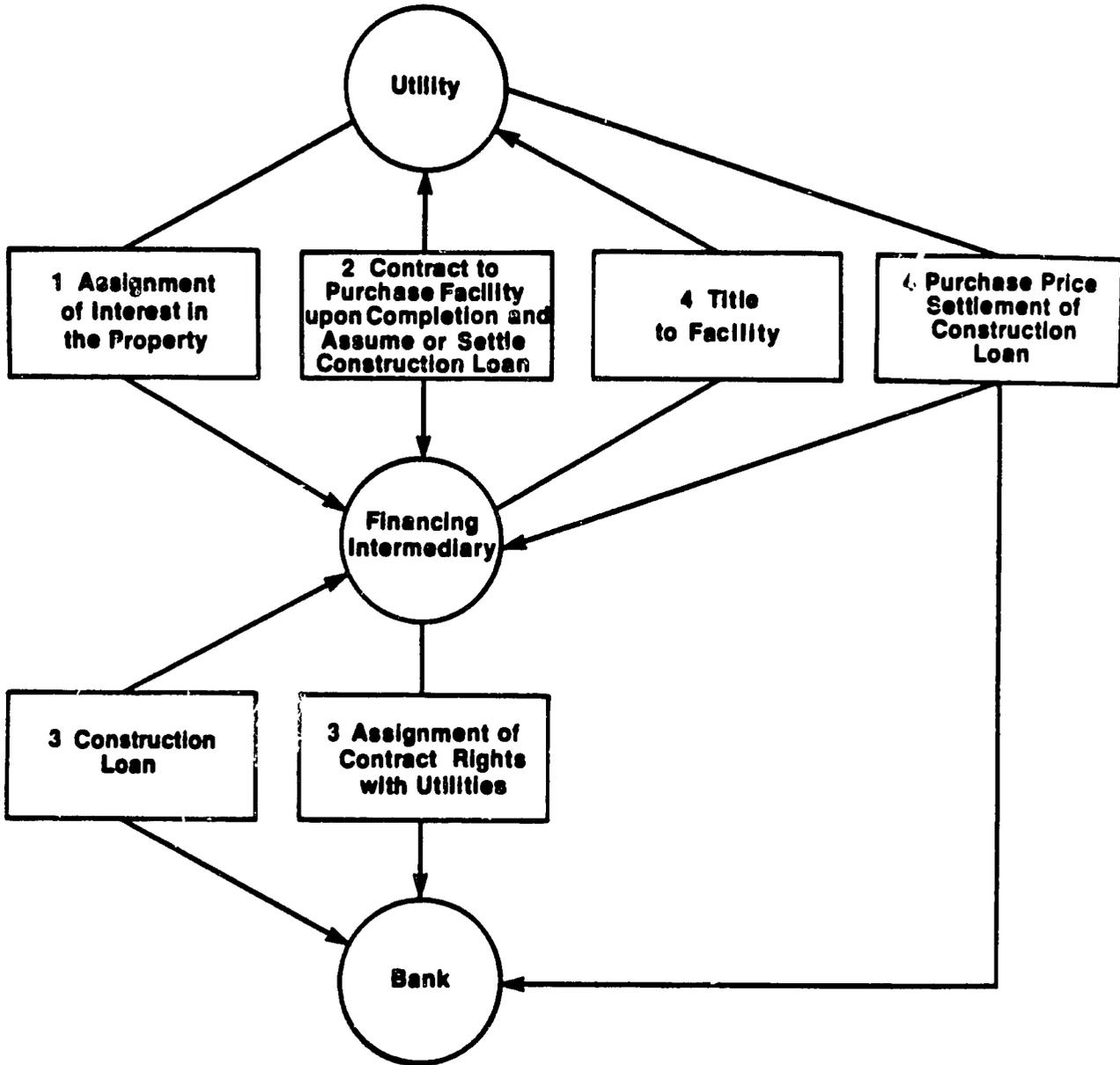
Use of Netherlands Antilles finance subsidiary of US parent to raise debt outside the United States under former tax law to avoid withholding tax



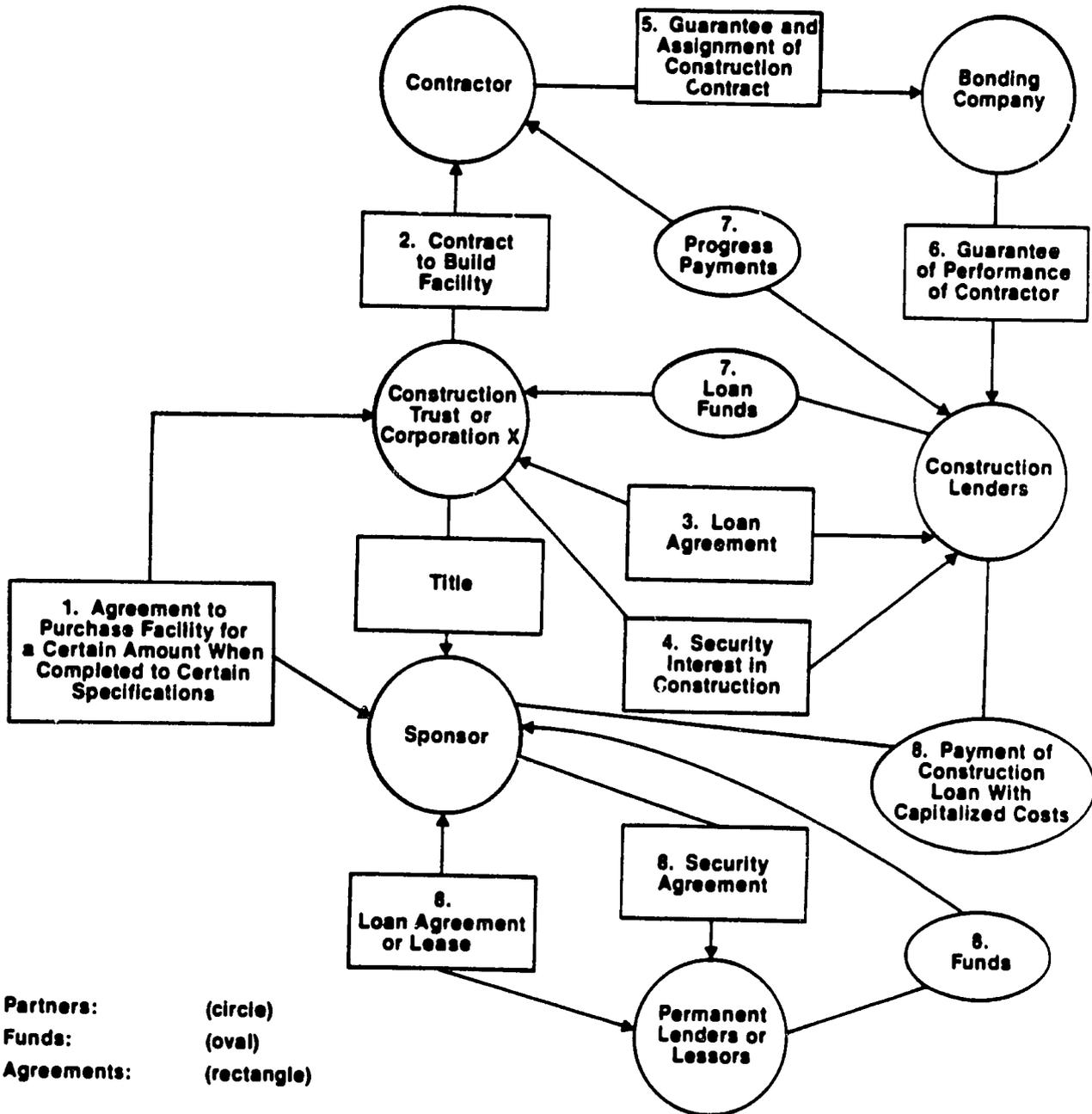
Use of a Netherlands Antilles corporation by a foreign investor to invest in a project company in the United States under former tax law



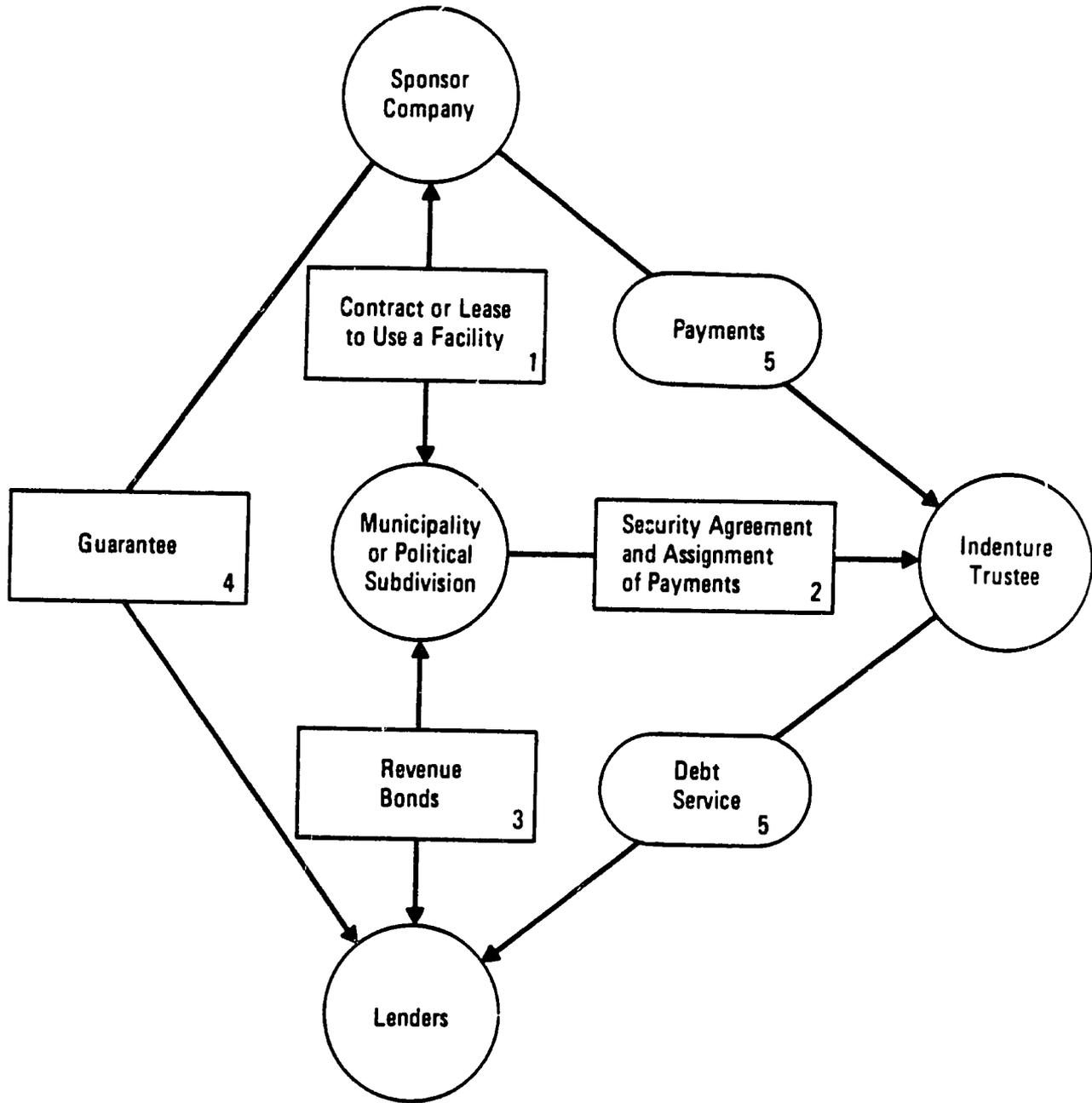
**Financing of Construction by a Utility by
a Construction Intermediary in which
Creditors Rely Primarily Upon the Credit
of the Utility**



Construction financed through construction trust which relies on the credit of the contractor



Project facility financed with tax-exempt revenue bonds supported by a contract or lease from sponsor and a guarantee

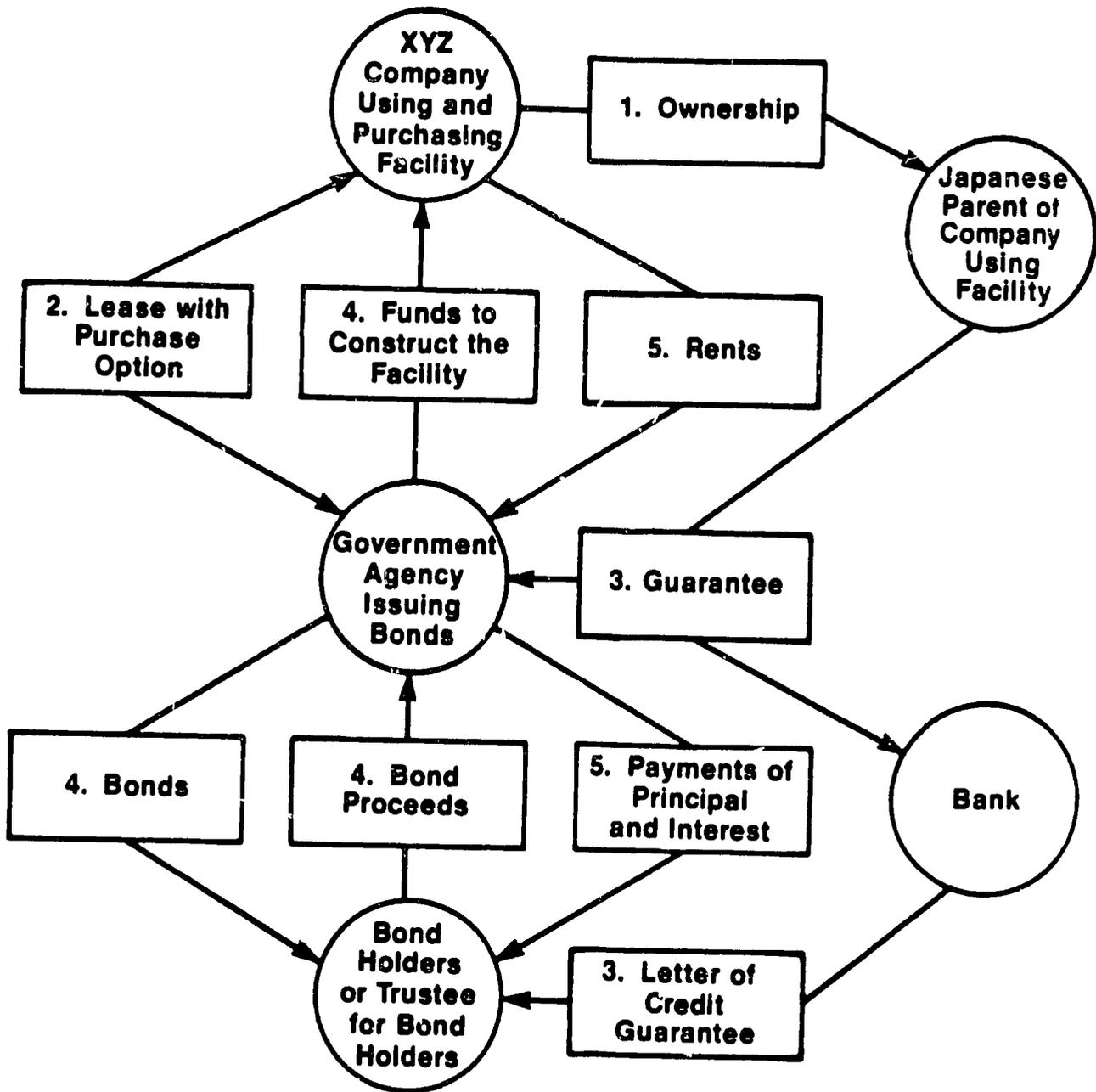


Summary

1. The sponsor company enters into a contract or lease with a political subdivision for the use of a port facility. The contract or lease contains a purchase option at a nominal purchase price after debt had been repaid.
2. The political subdivision enters into a security agreement with an indenture trustee and pledges payments or rents due under the lease or contract to the indenture trustee.
3. The political subdivision issues industrial revenue bonds to the lenders on a basis whereby the lenders look solely to the proceeds from the contract or lease with the sponsor company for payment.
4. Simultaneously, the sponsor directly guarantees payment of the bonds. (In the alternative, the guarantee might run to the indenture trustee.)
5. The proceeds of the bonds are used to purchase the facilities, the contract or lease commences; payments are made by the sponsor company directly to the indenture trustee and the indenture trustee pays the debt service.
6. The sponsor company claims income tax benefits of depreciation (straight line) and interest expense.

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Industrial revenue bonds backed by a bank letter of credit



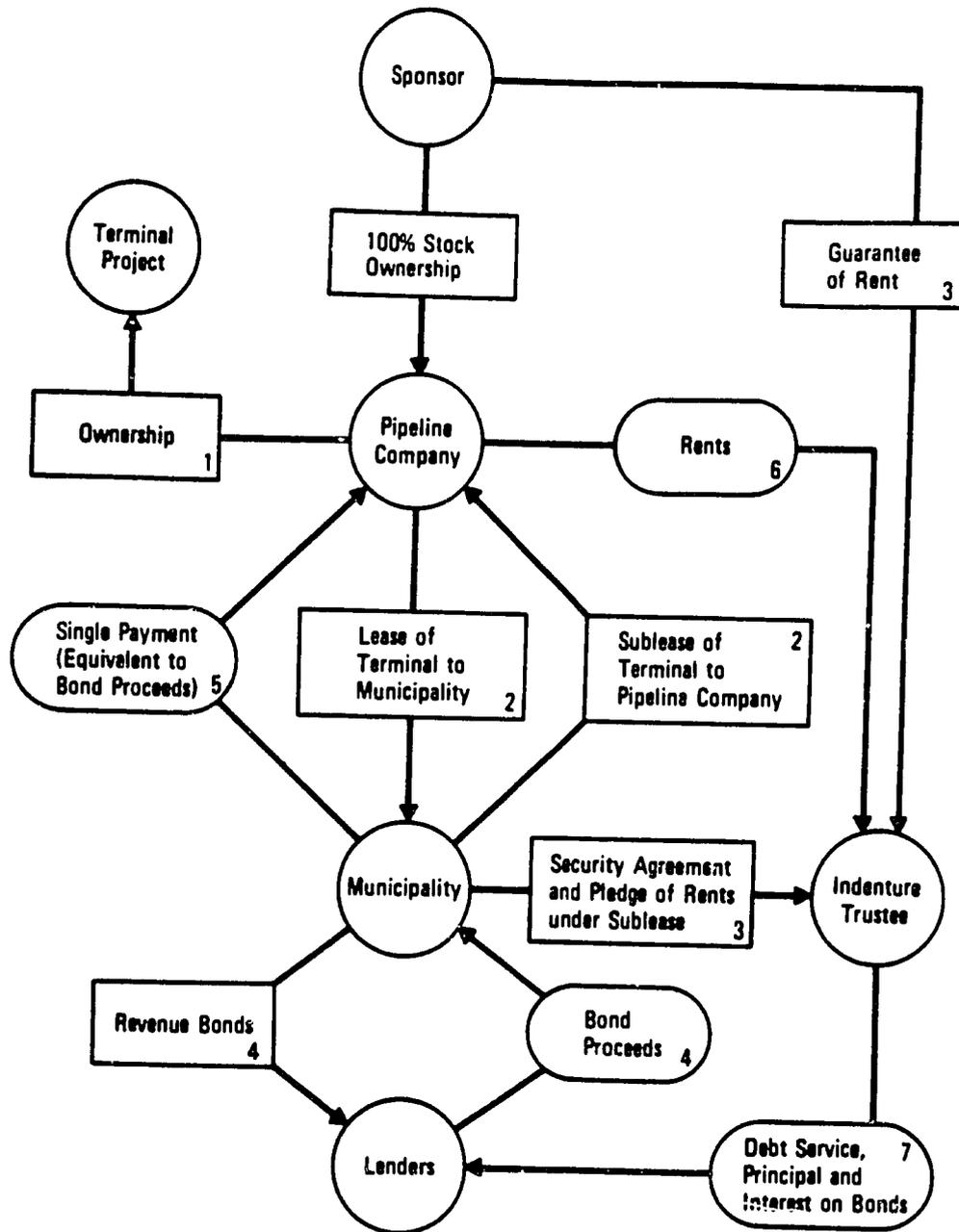
Summary

1. The XYZ company is a subsidiary of a Japanese company which is a strong credit in Japan but not well known in the United States and not desirous of publishing financial information in the United States or of complying with SEC disclosure rules.
2. The XYZ corporation desires to finance a manufacturing facility (consisting less than \$10 million) through use of industrial revenue bonds, and arranges with a state government agency for such a financing, using a lease with a purchase option.
3. In order to obtain the best possible rate on the bonds (or to make them an acceptable credit risk), the Japanese parent, whose credit is well known and well regarded by a Japanese bank, arranges for the Japanese bank to issue a letter of credit guaranteeing the bonds. The parent guarantees the bank that XYZ corporation will meet its obligations under the lease to the government agency.
4. The bonds are issued and the bond proceeds used to construct the facility.
5. Rents are paid, and principal and interest on the bonds are paid.



92'

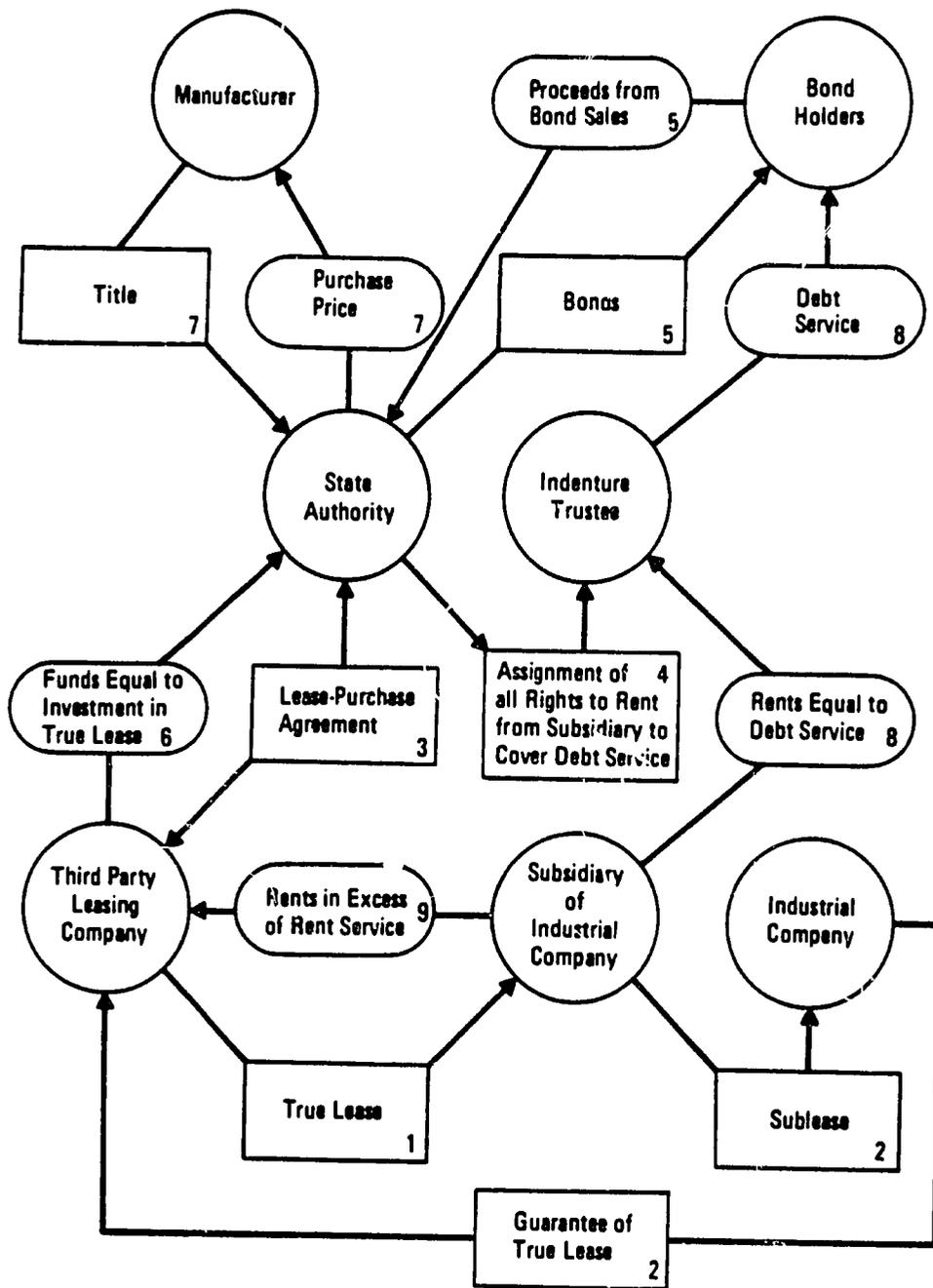
Financing of port terminal through use of industrial revenue bonds



Summary

1. A pipeline company owns a terminal facility which it wishes to finance through the use of industrial revenue bonds
2. The pipeline company agrees to lease the terminal to a municipality or political subdivision which, in turn, subleases the terminal back to the pipeline company.
3. The municipality or political subdivision enters into a security agreement with an indenture trustee and pledges rents due under the sublease to the indenture trustee. Simultaneously, the sponsor of the pipeline company agrees to guarantee the rental payments to the indenture trustee.
4. The municipality or political subdivision issues the industrial revenue bonds to lenders and the proceeds from the bond sales are paid to the municipality or political subdivision.
5. An amount equivalent to the bond proceeds is paid by the municipality or political subdivision to the pipeline company as a single lump sum payment of rent for the lease of the terminal. This sum is used by the pipeline company to pay off the construction lenders.
6. Periodic rents are paid by the pipeline company to the indenture trustee over the lease term under its sublease from the municipality or political subdivision; these rentals are sufficient to service the debt.
7. Debt service is paid by the indenture trustee to the lenders using the sublease rentals.
8. The pipeline company claims income tax benefits of straight line depreciation and interest expense.

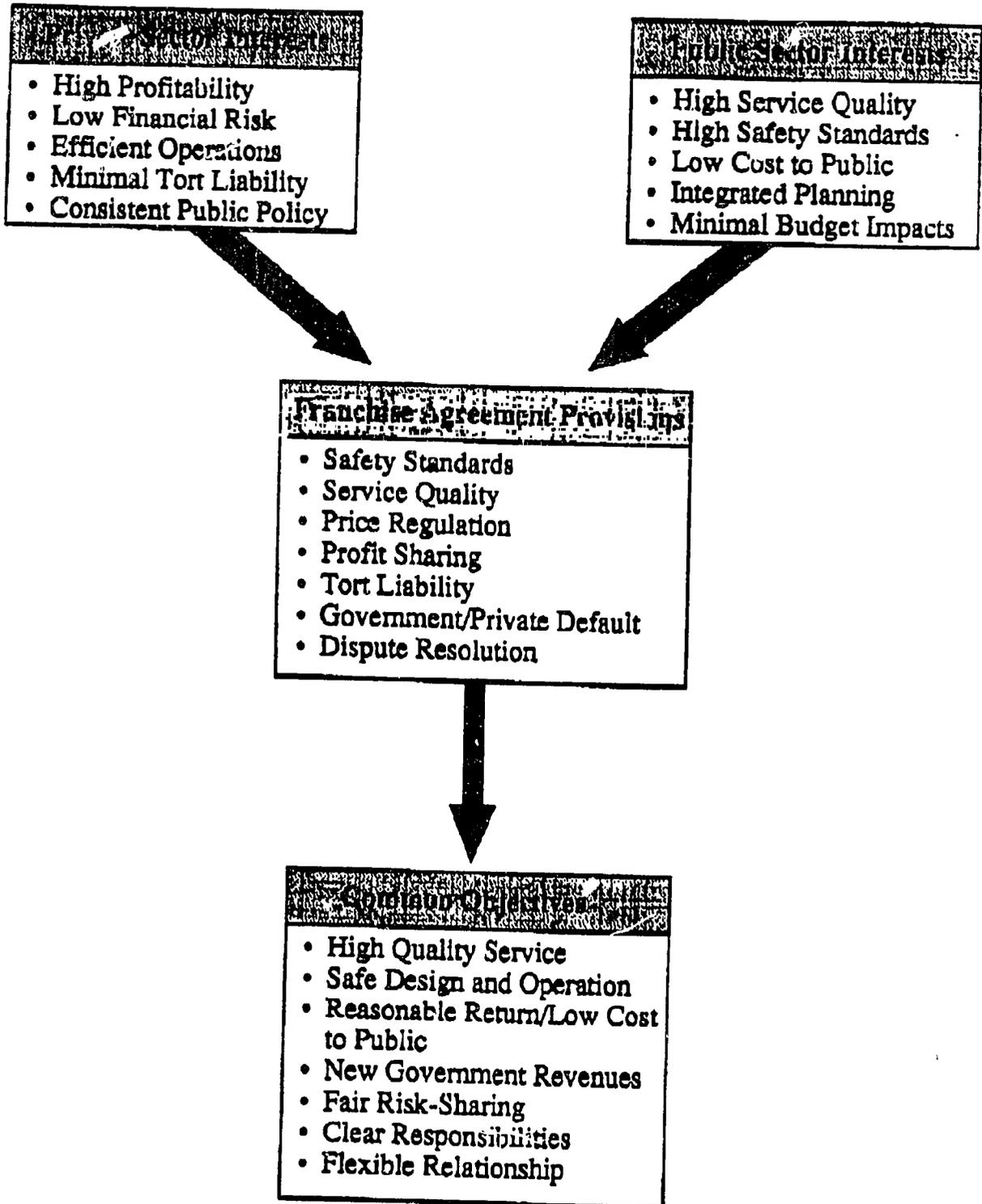
Leveraged lease of hazardous waste disposal facility using industrial revenue bonds as leveraged debt



Summary

1. A subsidiary of an industrial company desires to finance certain hazardous waste disposal equipment through the use of a leveraged lease which uses industrial revenue bonds as leverage, and enters into a true lease with a third party leasing company for the equipment.
2. The hazardous waste disposal equipment will actually be a benefit to the industrial company parent, and it enters into a sub-lease of the hazardous waste disposal equipment from its subsidiary, and also enters into a guarantee of the subsidiary's lease, which runs to the benefit of the third party leasing company.
3. The third party leasing company, in turn, enters into a lease-purchase agreement with the state authority responsible for issuance of hazardous waste disposal industrial revenue bonds. (On the conclusion of the lease from the state authority, the third party leasing company will acquire the equipment for a nominal price.)
4. The state authority and the third party leasing company assign all their rights to rent to an indenture trustee. (Rents are sufficient to cover debt service.)
5. The state authority issues bonds to the lenders (bond holders) and the proceeds from the bond sales are paid to the state authority.

Achieving Public Objectives Through a Franchise Agreement

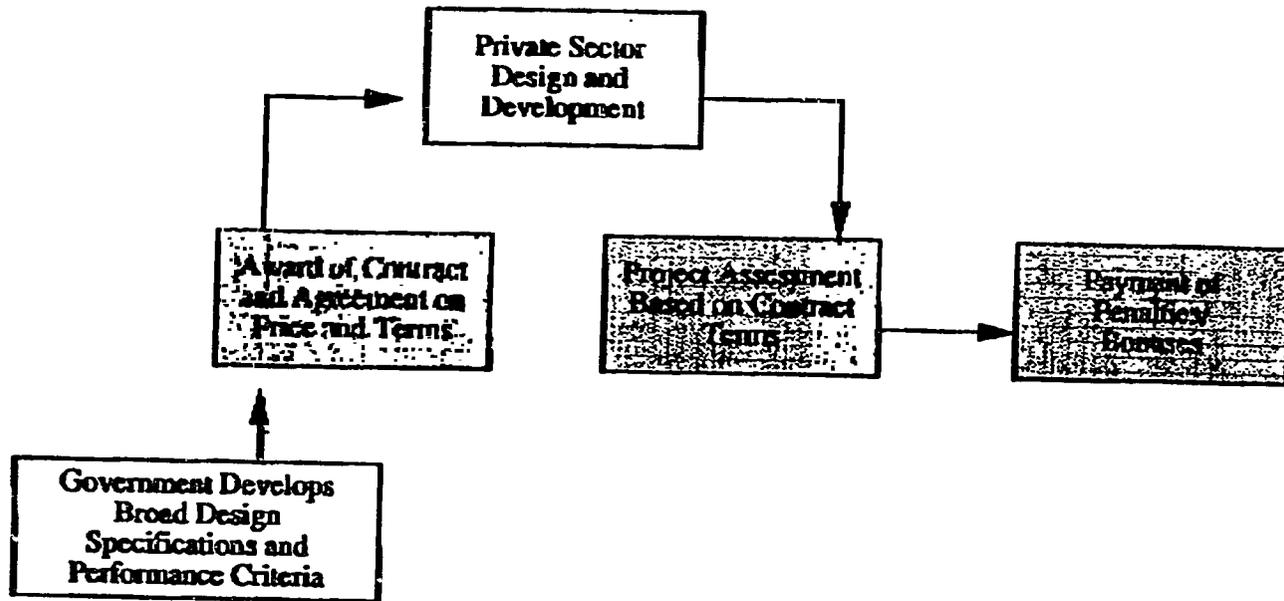


Turn-Key Development Process

PRIVATE SECTOR



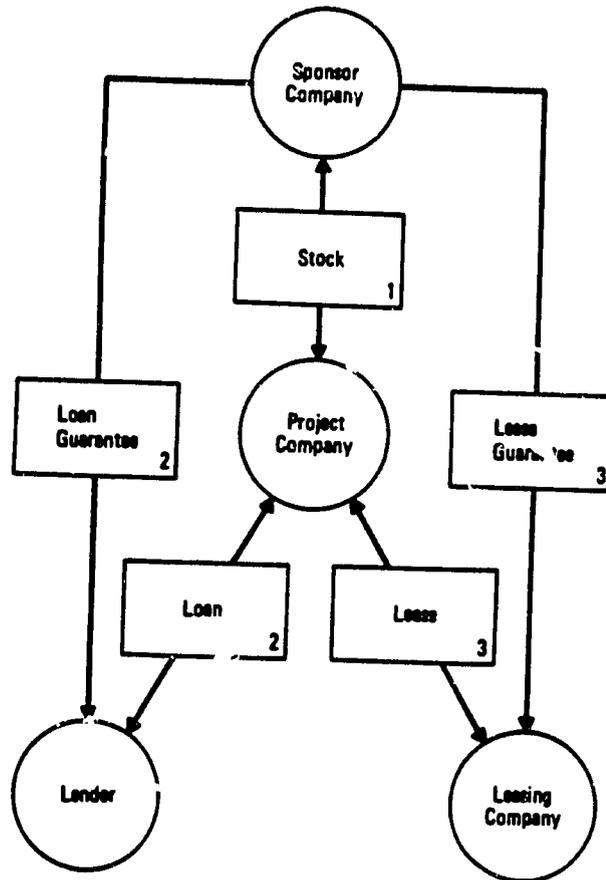
PUBLIC SECTOR



Mixed responsibilities between the private sector and the public sector.

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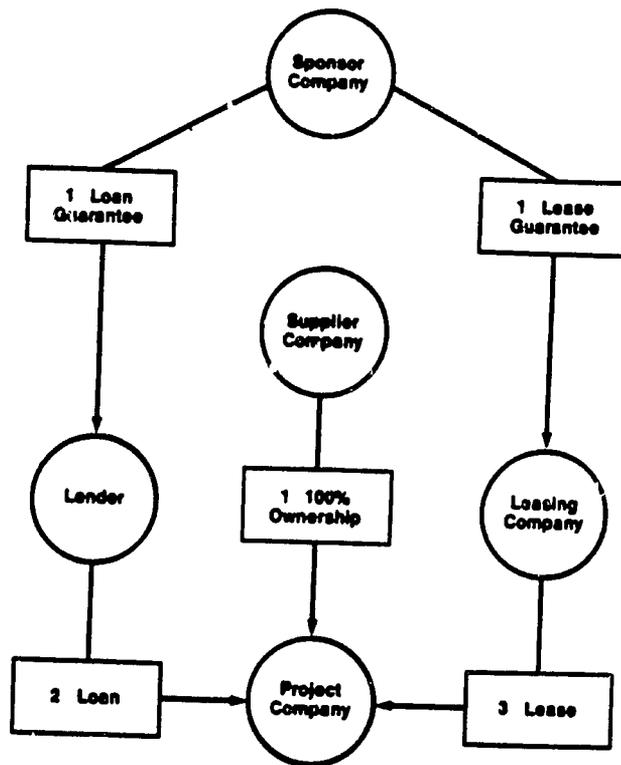
Project company supported by owner sponsor's guarantee



Notes:

1. Sponsor company establishes a thinly capitalized special purpose company to own and operate a project.
2. Sponsor company provides direct and indirect guarantees for loans to the project company.
3. Sponsor company provides direct and indirect guarantees for leases to the project company.

Project financing supported by sponsor guarantee

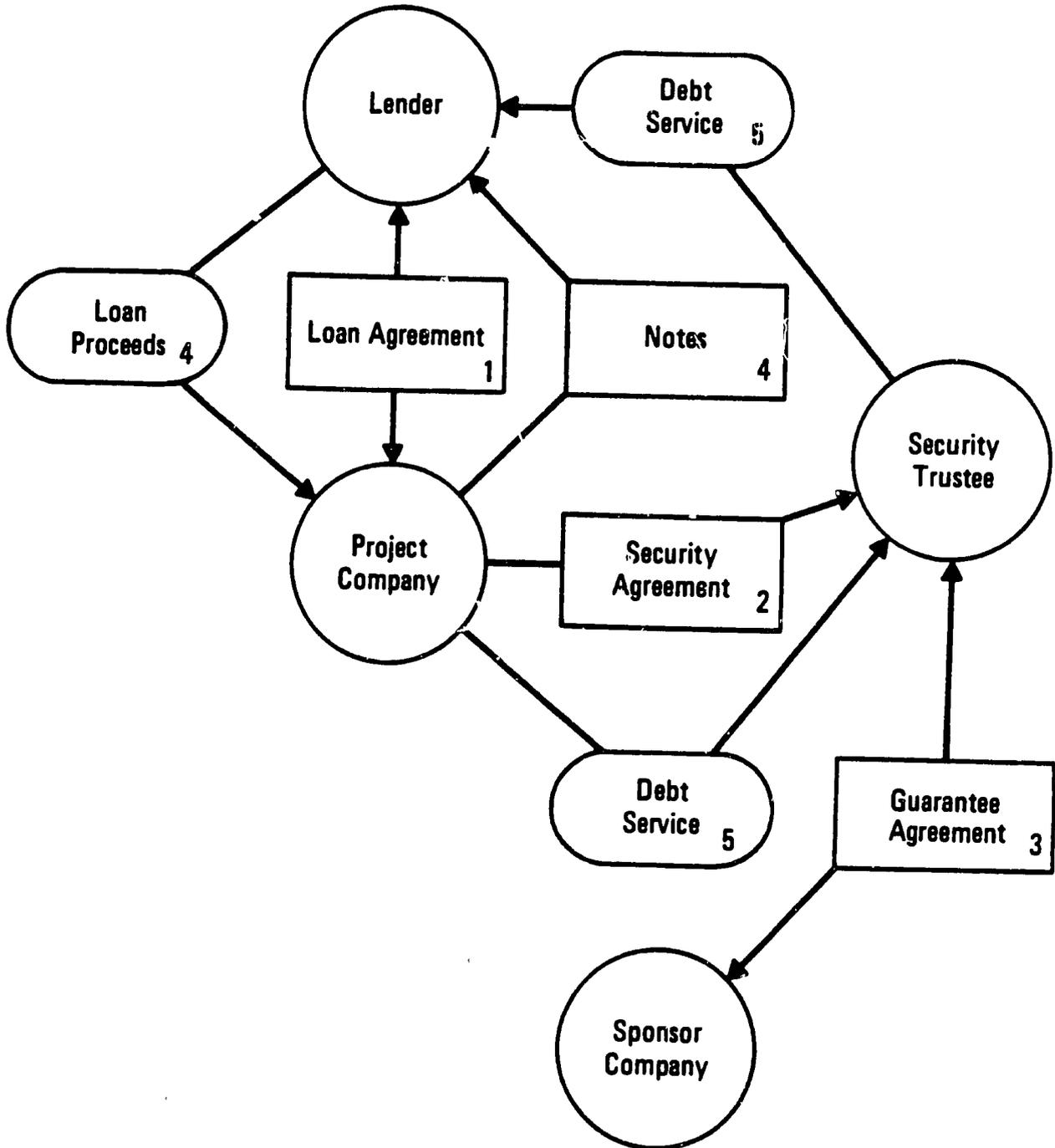


Summary

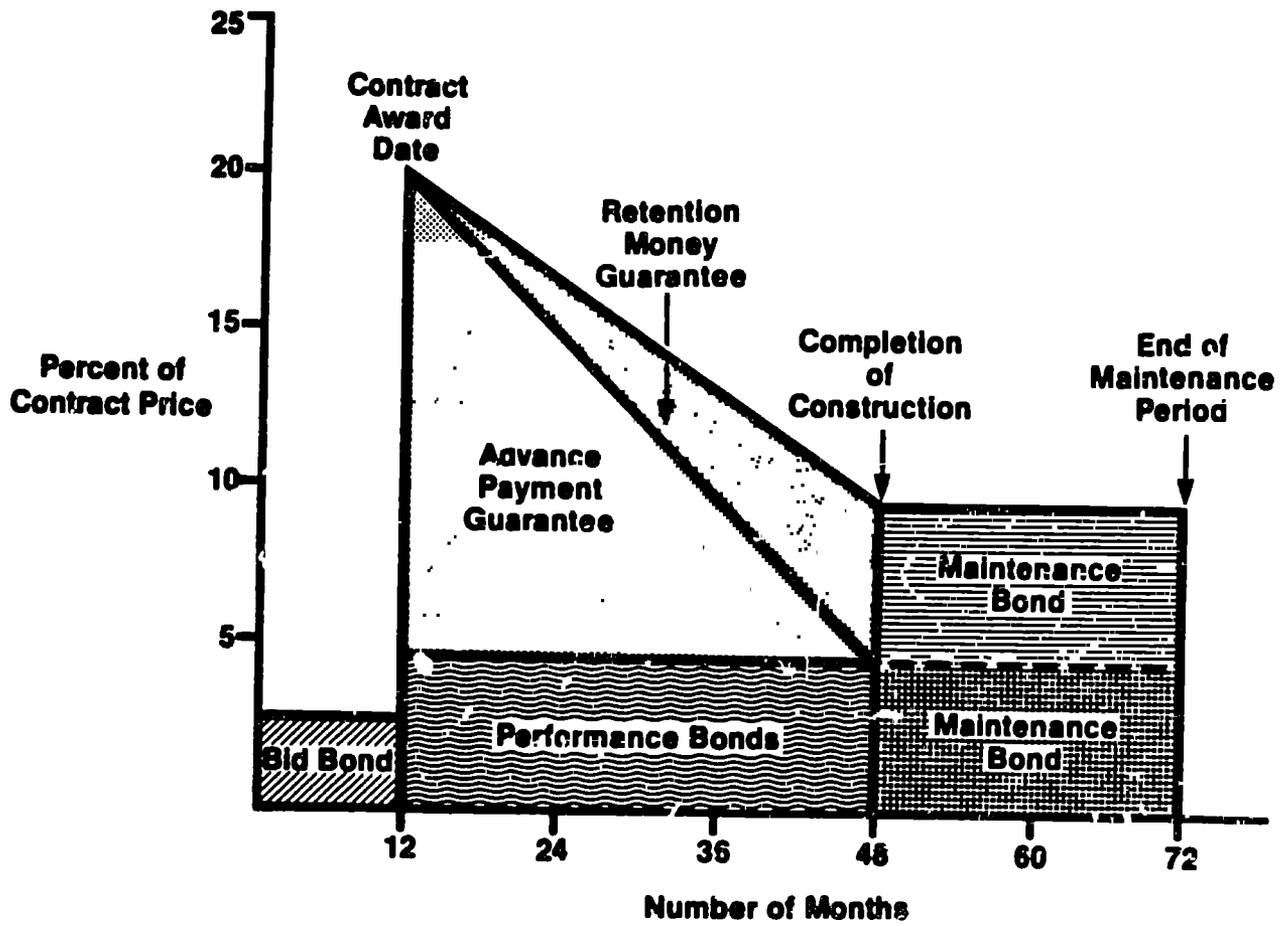
1. The sponsor is interested in having a certain facility which will provide a needed product or service. It does not want to own or operate the facility. The sponsor, therefore, arranges for a supplier to build and own the facility, and agrees to guarantee a loan and a lease in connection with the project.
2. The project company arranges a loan from a lender, backed by a guarantee from the sponsor.
3. The project company arranges a lease from a leasing company, backed by a guarantee from the sponsor.



Guarantee by a sponsor company using a security trustee

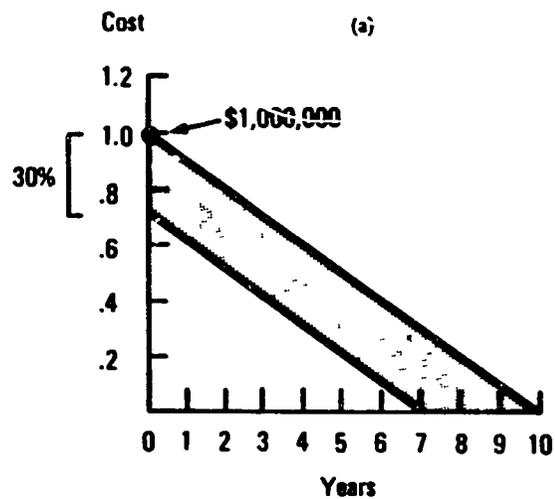


International construction contract performance bonds and guarantees

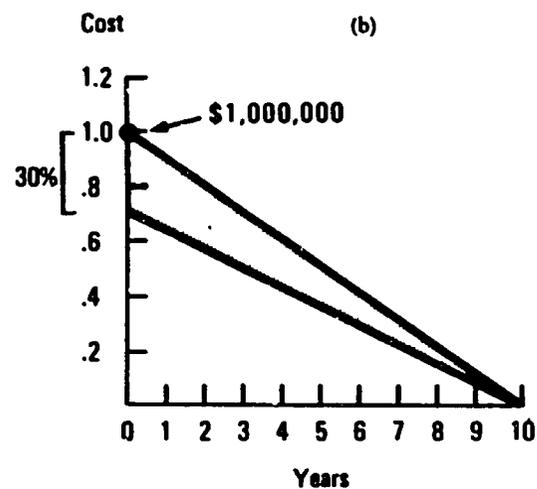


30% deficiency guarantee on a 10-year level principal payment note

Which remains 30% throughout life of loan

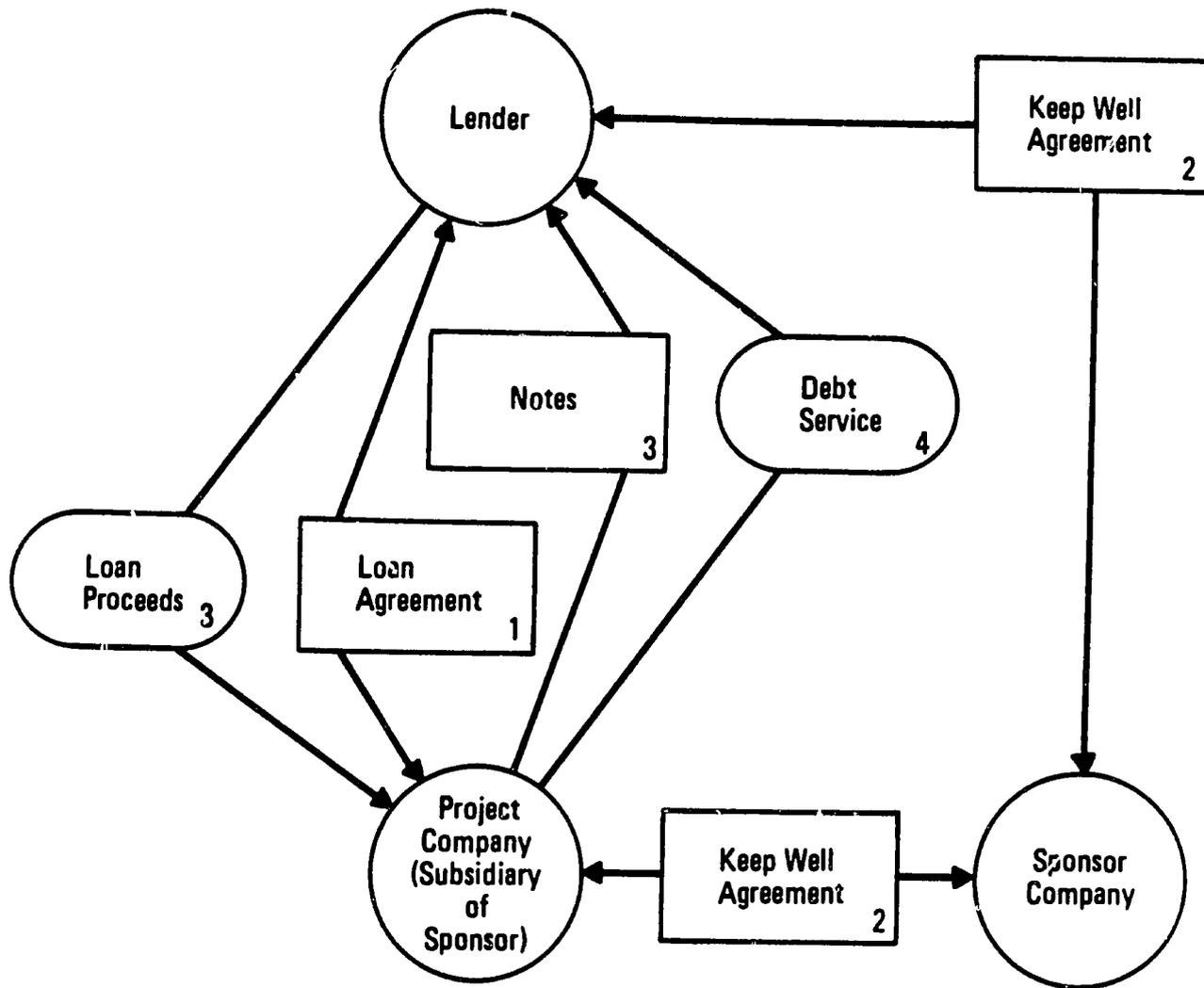


Which is reduced in proportion to outstanding loan balance



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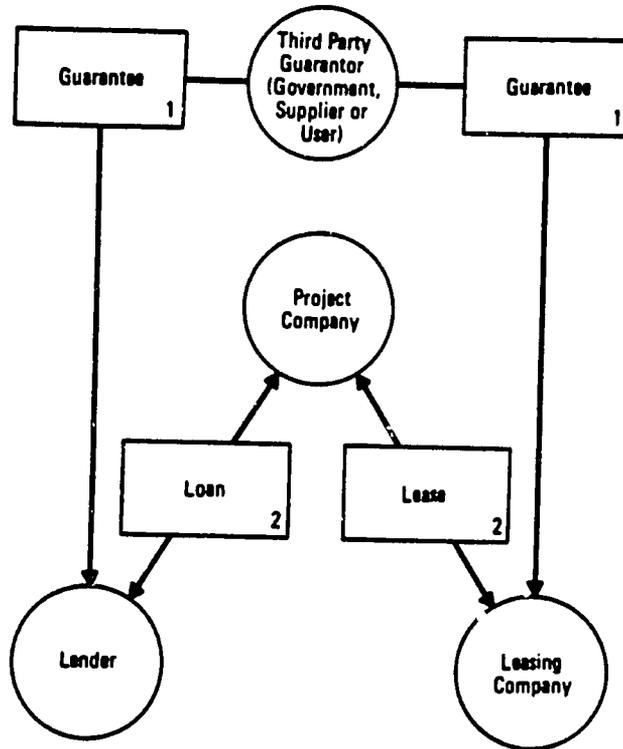
Keep-well agreement by sponsor company for subsidiary



Summary

1. The project company enters into a loan agreement with a lender.
2. A keep-well agreement is entered into between the sponsor and the project company; the sponsor also enters into an agreement with the lender to keep-well the project company.
3. The notes are signed and delivered by the project company to the lender, and the loan proceeds paid to the project company.
4. Debt service is paid to the lender by the project company.

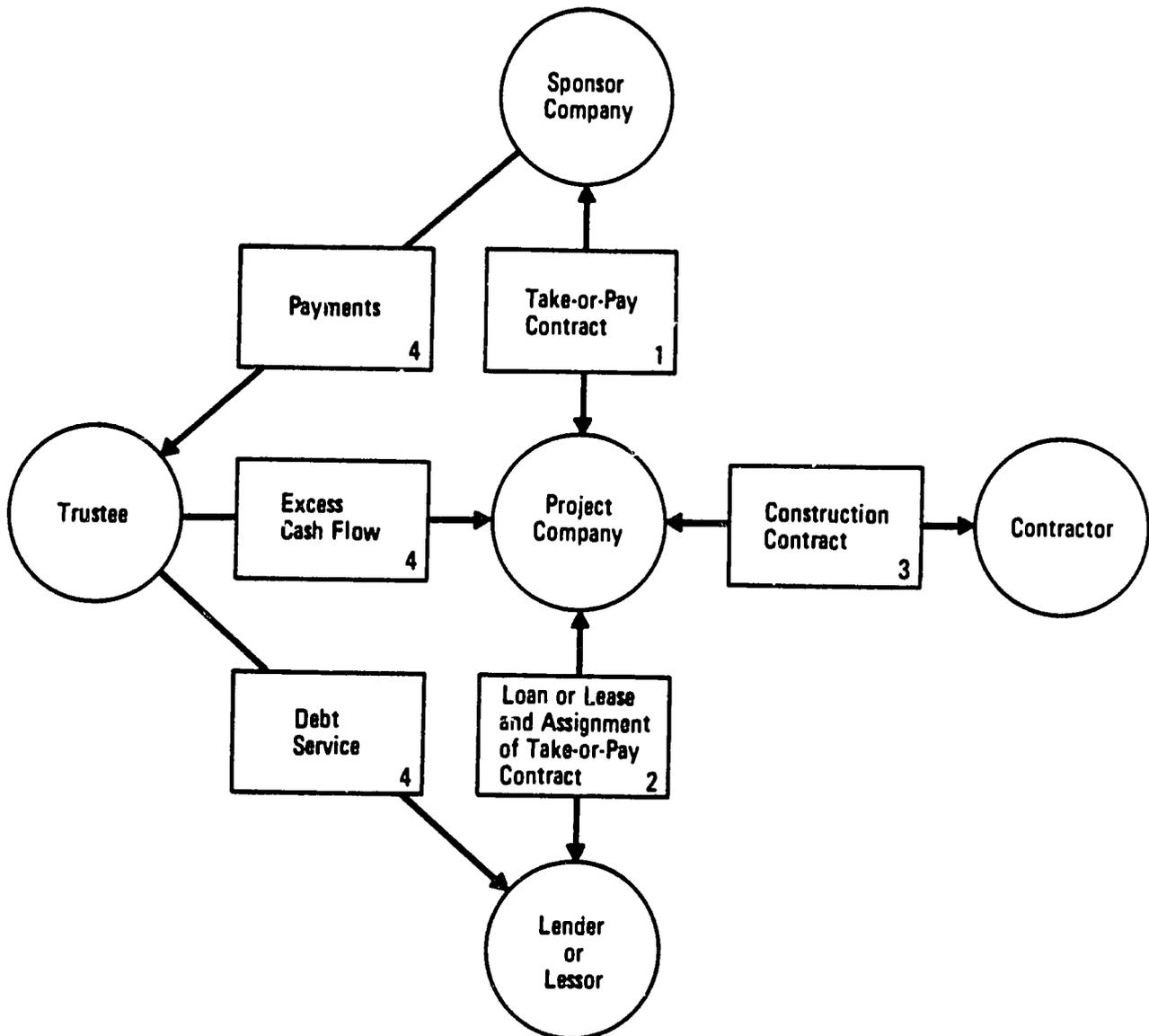
Third-party guarantor



Summary

1. A third party guarantor which does not own or control the project company enters into a guarantee agreement whereby it guarantees loan obligations and/or lease obligations of the project company.
2. On the basis of the guarantee, a lender and/or a leasing company enter into a loan or lease, respectively, with the project company.

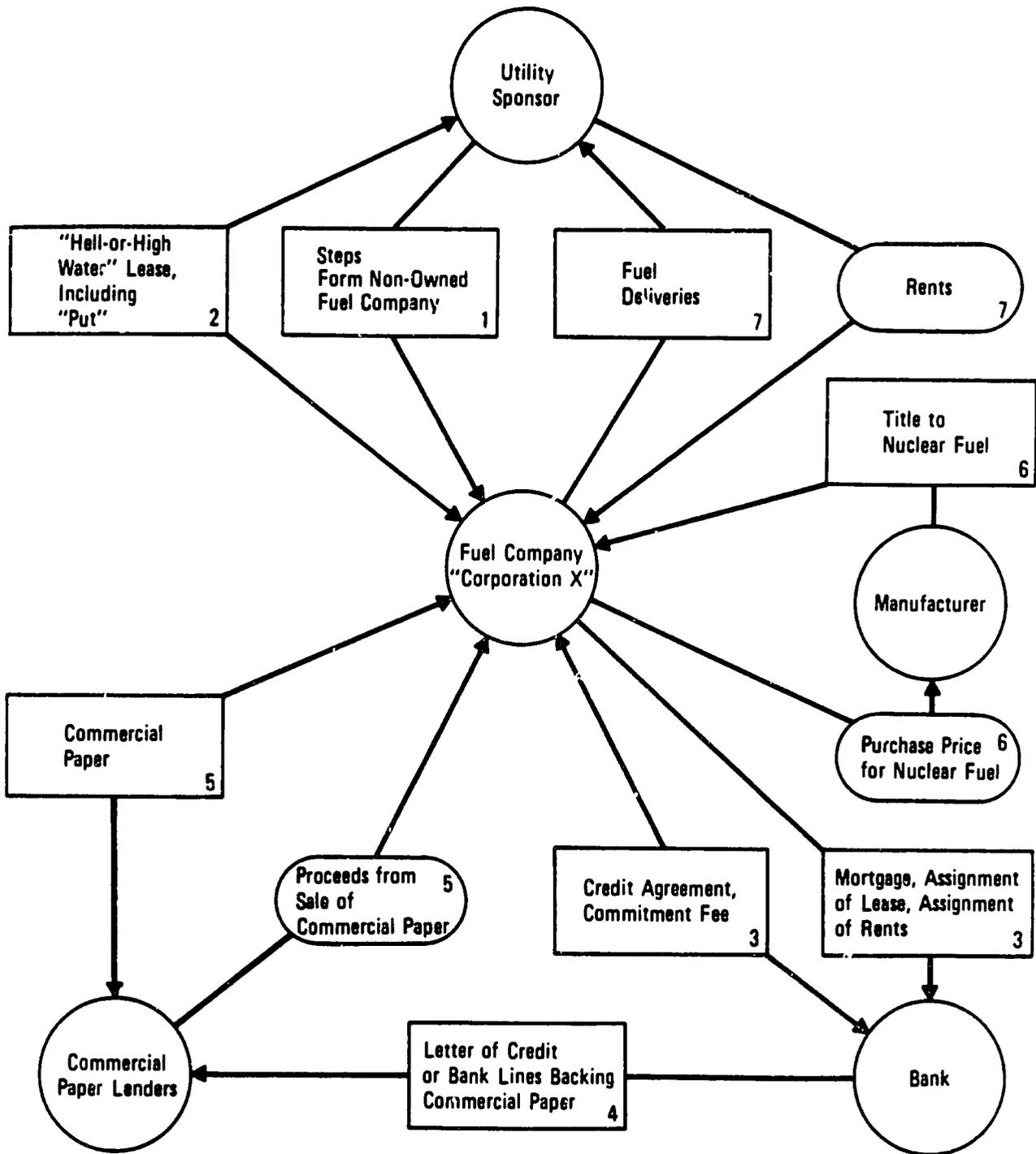
Project financing supported by a take-or-pay contract



Summary

1. A sponsor company enters into a take-or-pay contract with a project.
2. A project company arranges a loan or lease with a lender or lessor and assigns the take-or-pay contract as security to the lender or lessor or to a security trustee acting for them.
3. Proceeds of the loan or lease are used to finance the construction of the property.
4. Take-or-pay contract payments are made to the trustee which, in turn, pays debt service to the lender(s) or lessor(s); any excess cash flow is paid to the project company.

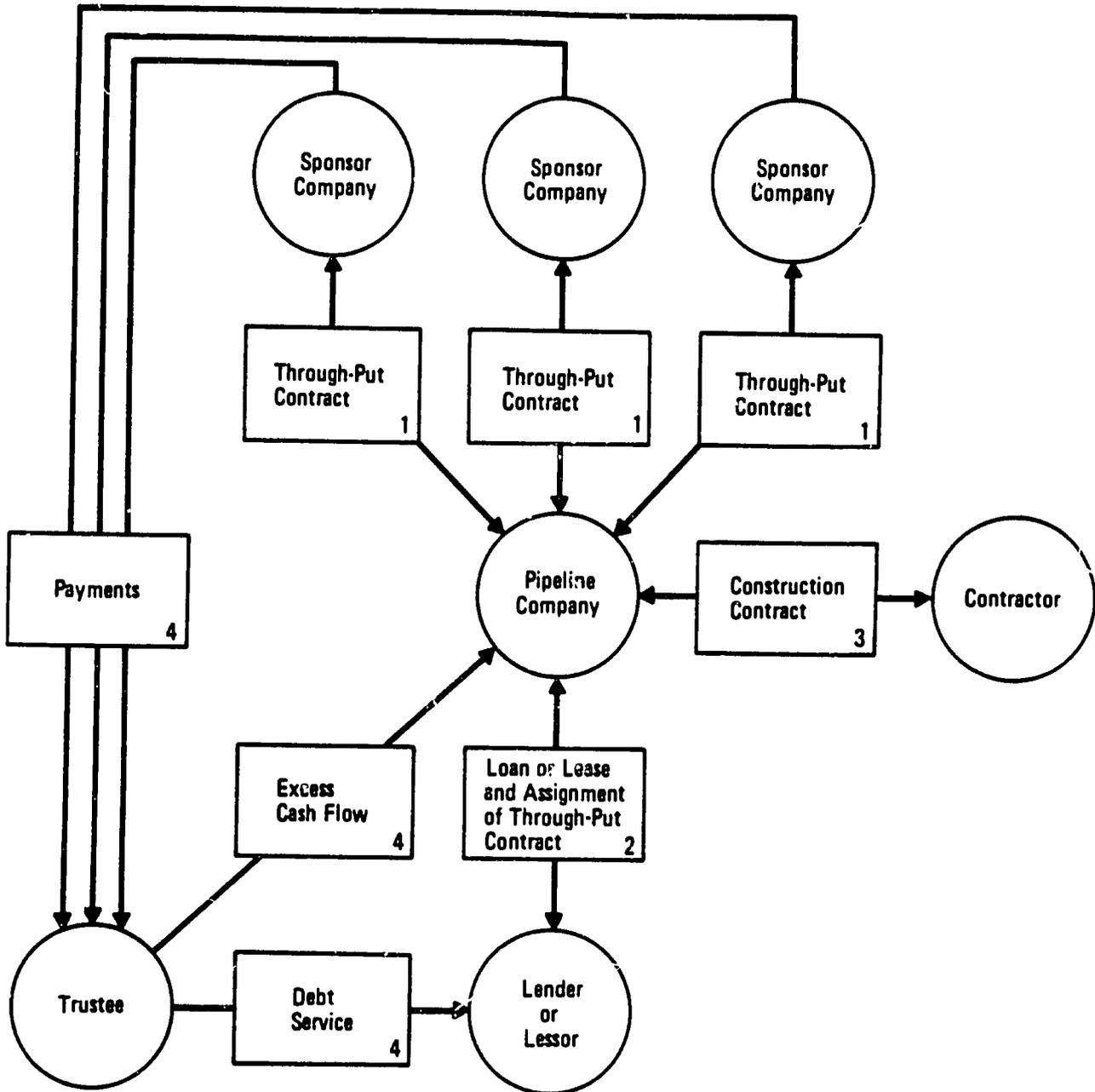
Purchase supported by hell-or-high water contract



Summary

1. A utility sponsor causes a fuel company or trust, Corporation X, to be formed.
2. The utility enters into a hell-or-high water lease or contract for nuclear fuel, which includes a put, whereby the fuel company can put the fuel back to the utility.
3. The fuel company enters into a loan agreement with the bank; the fuel company gives the bank a mortgage on the nuclear fuel and assigns the lease and all rights under the lease to the bank as security for the loan.
4. The bank issues a letter of credit or a line of credit dedicated to backing commercial paper to be issued by the fuel company.
5. The fuel company issues commercial paper and receives the proceeds.
6. The fuel company uses the proceeds from the commercial paper to pay for the nuclear fuel. Title to the nuclear fuel is conveyed to the fuel company.

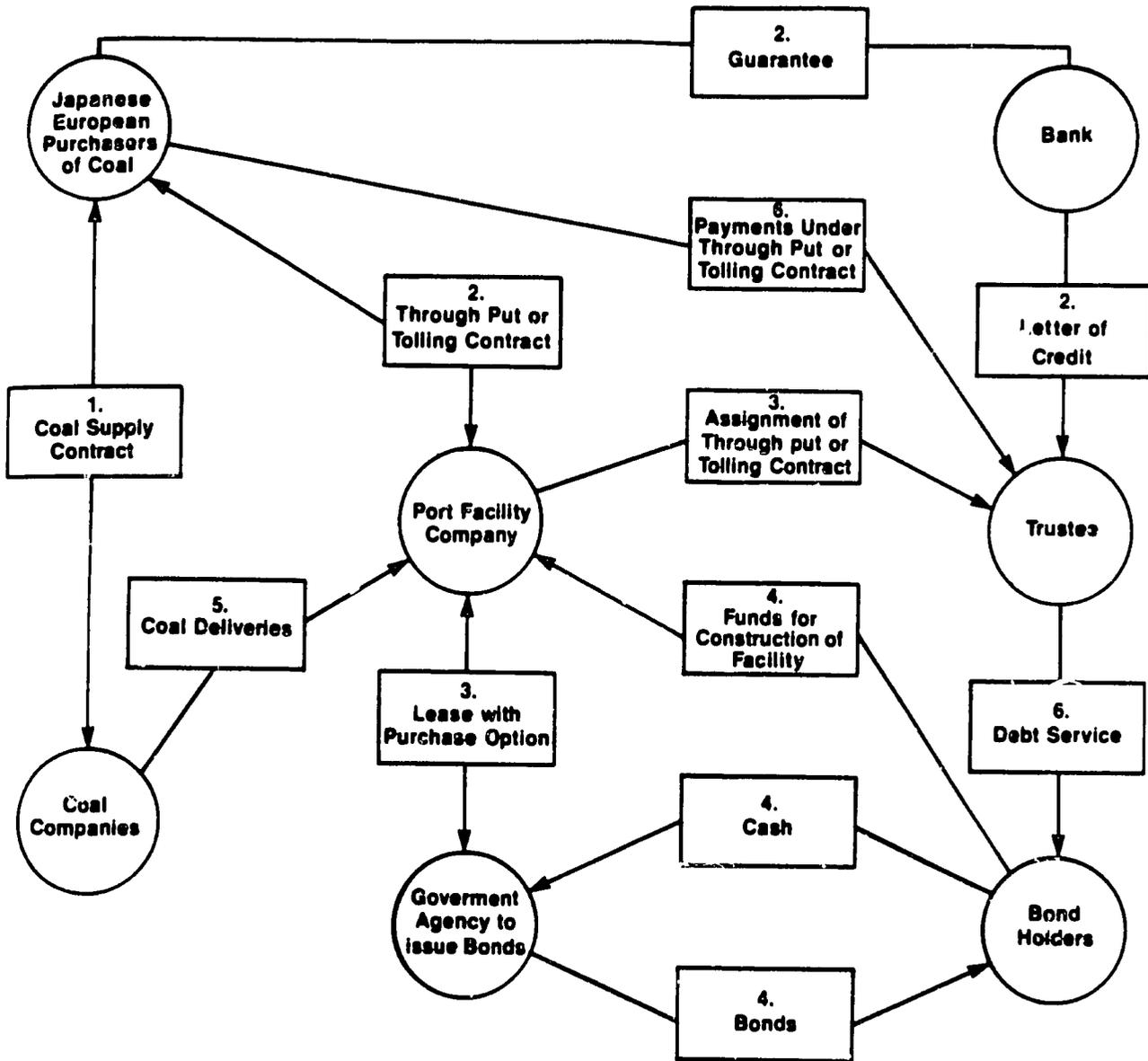
Through-put contract to support a borrowing



Summary

1. Three sponsor companies enter into a through-put contract with a pipeline company.
2. The pipeline company enters into a loan or lease with a lender or lessor and assigns the through-put contract as security to the lender or lessor (or to a security trustee acting for them)
3. Proceeds from the loan are used to build the pipeline.
4. Payments under the through-put contract are paid to the trustee; the trustee uses those payments for debt service and pays the excess cash flow to the pipeline company.

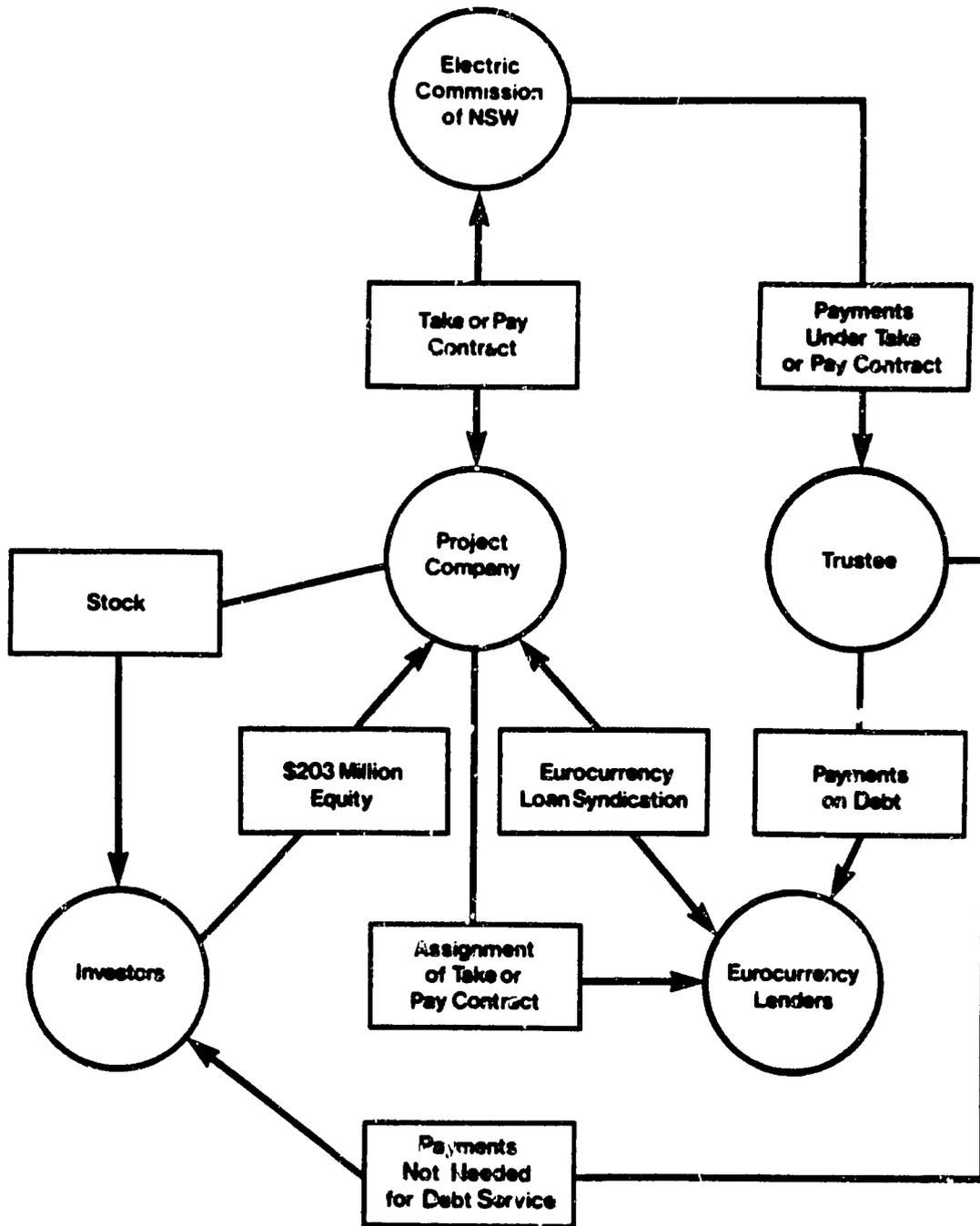
Coal port financing using IRBs supported by a letter of credit and through-put agreement



Summary

1. Coal companies and certain Japanese and/or European companies (coal purchasers) enter into a contract whereby the coal companies are to supply coal to the coal purchasers under a long-term contract.
2. The coal purchasers enter into a long-term through-put or tolling contract with the port facility company. Their obligation is backed by a letter of credit.
3. The port facility company arranges to finance the facility with the appropriate government agency, and assigns the through-put/tolling contract along with a security interest in the facility to a trustee as security for the bonds.
4. The funds to finance the coal port facility are raised through a tax-free industrial revenue bond.
5. Coal deliveries commence.
6. Payments to the trustee under the through-put/tolling contract begin, and debt service is paid.
7. As a variation, a leveraged lease using the bonds as leveraged debt could be used to finance the equipment portion of the port facility.

Sale of project company with take-or-pay contract supporting leveraged debt and equity



Summary

1. A project company is formed by the Electric Commission of New South Wales, which then agrees to sell to the project company the Eraring Generating Plant for about A\$1.4 billion.
2. The Electric Commission enters into a long-term unconditional take-or-pay contract to purchase electricity from the project company at rates which will service debt and provide a return of the equity for the A\$1.4 billion investment.
3. Stock of the project company is sold to investors for A\$200 million.
4. A loan syndication is arranged for A\$1.25 billion secured by an assignment of the take-or-pay contract and the plant.
5. The sale of the generating plant of the project company is completed for A\$1.4 billion.
6. Power is furnished by the project company to the Electric Commission and payments are made through a trustee to service the debt and repay the equity.
7. Funds not needed to service debt are paid to the investors.

B.O.T. (BUILD-OPERATE-TRANSFER) PROJECT
IN PEOPLE'S REPUBLIC OF CHINA

- HOPEWELL POWER (CHINA) LTD.
- CITICORP HONG KONG APPOINTED FINANCIAL ADVISOR AND LEAD MANAGER.
- 2 x 350MW COAL FIRED POWER STATION SHAJIAO "B" - LOCATED AT SHAJIAO, GUANGDONG PROVINCE APPROX 100KM WEST OF HONG KONG.
- LIKE ALL P.R.C. JOINT VENTURES, STRUCTURE IS: -

PARTY "A" - SHENZHEN SPECIAL ECONOMIC POWER DEVELOPMENT CO (SINGLE PURPOSE COMPANY FORMED TO BUY ALL POWER FROM PARTY "B").

PARTY "B" - HOPEWELL POWER (CHINA) LTD.

OWNERSHIP - HOPEWELL, HONG KONG	50	%
CHINA DEVELOPMENT INVESTMENT (HK) LTD	40	%
KANEMATSU-GOSHO LTD	5	%
YUE XIU ENTERPRISES LTD	2.5	%
SHUM YIP DEVELOPMENT CO LTD	2.5	%



KEY ELEMENTS OF B.O.T. ARRANGEMENT

- HOPEWELL WILL OWN AND OPERATE PLANT FOR TEN YEARS THEN TRANSFER OWNERSHIP TO PARTY "A" AT NO COST.
- CHINESE PARTY "A" AGREED TO PURCHASE A MINIMUM QUANTITY OF ELECTRICITY AT FIXED PRICE OVER TEN YEAR PERIOD ON "TAKE OR PAY" BASIS (AS LONG AS PLANT IS CAPABLE OF DELIVERY).
- PARTY "A" AGREED TO SUPPLY COAL OVER TEN YEAR PERIOD AT FIXED PRICE (SUPPLY OR PAY).
- ELECTRICITY IS PAID FOR 50% IN RENMINBI AND 50% IN FOREIGN EXCHANGE (HK\$).
- RENMINBI IS USED TO PAY FOR COAL SUPPLIES AND LOCAL PLANT OPERATING COSTS.
- FX PAYMENT SERVICES DEBT AND PROVIDES PROFIT TO PARTY "B".
- COAL SUPPLY AND OFFTAKE AGREEMENTS ARE BACKED BY A PRC PERFORMANCE BOND.



CONSTRUCTION

- HOPEWELL NEGOTIATED FIXED PRICE TURNKEY CONTRACT (FIXED PRICE, FIXED COMPLETION, AGREED QUALITY).
- MITSUI & CO LTD LEAD CONSORTIUM INCLUDING ISHIKAWAJIMA HARIMA HEAVY INDUSTRIES (IHI) (BOILERS), TOSHIBA (TURBINES).
- SLIPFORM ENGINEERING (HOPEWELL SUB) WAS RESPONSIBLE FOR CIVIL WORKS.
- HOPEWELL IN TURN COMMITTED TO BUILD THE PROJECT ON A TURNKEY BASIS AT FIXED PRICE TAKING TIME AND COST OVERRUN RISKS.



PROJECT COSTS/FINANCING.

- PROJECT COST US\$512 MILLION.
- INCLUDES FIXED CONSTRUCTION COST (CIVILS, E & M, START-UP, FINANCING COST INCLUDING CAPITALISED INTEREST DURING CONSTRUCTION AND INSURANCE COSTS).
- COSTS FUNDED BY:
 - SHAREHOLDER EQUITY
 - SUBORDINATED LOANS
 - DEFERRED RMB PAYMENT
 - DEBT FINANCING
- DEBT/EXPORT CREDITS/BANK LOANS
 - YEN 52 BILLION SUPPLIER CREDIT BACKED BY JAPAN EXIM.
- NON EXIM FINANCING PROVIDED IN HK\$, EUROYEN, RENMINBI.
- JAPAN EXIM WOULD NOT TAKE CREDIT RISK OF PROJECT.
- CITICORP ARRANGED ALL PROJECT FINANCING FROM SYNDICATE OF 46 BANKS INCLUDING GUARANTEE TO JAPAN EXIM.
- FINANCING ALL COMPLETED APRIL 1986.



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PROJECT IMPLEMENTATION

- UNIT 1 SYNCHRONIZATION
22 MONTHS FROM START OF CONSTRUCTION.
- UNIT 2 SYNCHRONIZATION - 28 MONTHS.
- POWER STATION FULLY TESTED AND
COMMISSIONED AND IN FULL COMMERCIAL
OPERATION 33 MONTHS AFTER SITE FORMATION.
- COMPLETED SIX MONTHS EARLIER THAN
CONTRACT DATE WITH P.R.C.
- AVERAGE PLANT AVAILABILITY IN FIRST YEAR
OF OPERATION 92%.



REFINANCING 1987

- SUPPLIER CREDIT FROM JAPAN EXIM WAS YEN 52 BILLION 7.3% FIXED FOR TEN YEARS.
- BY MAY 1987, YEN DOMESTIC RATE DOWN TO 5.4%.
- CITICORP PROPOSED REFINANCING USING FLOATING RATE EUROYEN (4.8%) AND SWAP INTO FIXED RATE.
- REFINANCING COMPLETED AUGUST 1987 INCLUDING SWAP INTO FIXED YEN AT APPROX 5.4%.
- COST SAVING TO PROJECT APPROX US\$40 MILLION.



PROJECT FINANCING
JAMAICA POWER PROJECT
POTENTIAL STRUCTURE

- Benefits**
- Efficient (low cost) access to debt markets.
 - Non-recourse to owner, utility or customer.
 - Does not utilize Jamaica debt capacity.
 - Matches F/X risks with benefits.
 - Increase Island total generation.
- Key**
- Match size and type of project to needs of one or more industrial customers who are:
 1. Electrically accessible (if necessary, transmission through JPS.)
 2. Exporting product for sale in U.S. Dollars.
 3. Creditworthy, or have a creditworthy parent/guarantor.
 - Due to economies of scale it may be possible to over size somewhat, without adding significant capital cost.
 - With cooperation, valuable excess power may be available to the utility on a regular basis or during off peak periods for the industrial customer.



o Priority of payments by escrow/collateral agent:

- Project operating expenses plus fuel
- Provision for taxes
- Service debt interest plus principal amortization
- Debt service reserves
- Subordinated creditors interest and principal
- Excess available for distribution to owners

o Some combination of capacity and energy credits paid by the utility and tax holidays for the project and/or the industrial, may be necessary to generate savings necessary to capitalize the project in a reasonable term. One way may be to let the industrial have non-recourse (limited partnership) ownership for tax purposes in Jamaica to allow benefits of depreciation to be transferred to an efficient user.

o After financing is repaid, transfer project to the utility at nominal cost. Utility begins serving industrial directly, at reduced rates.



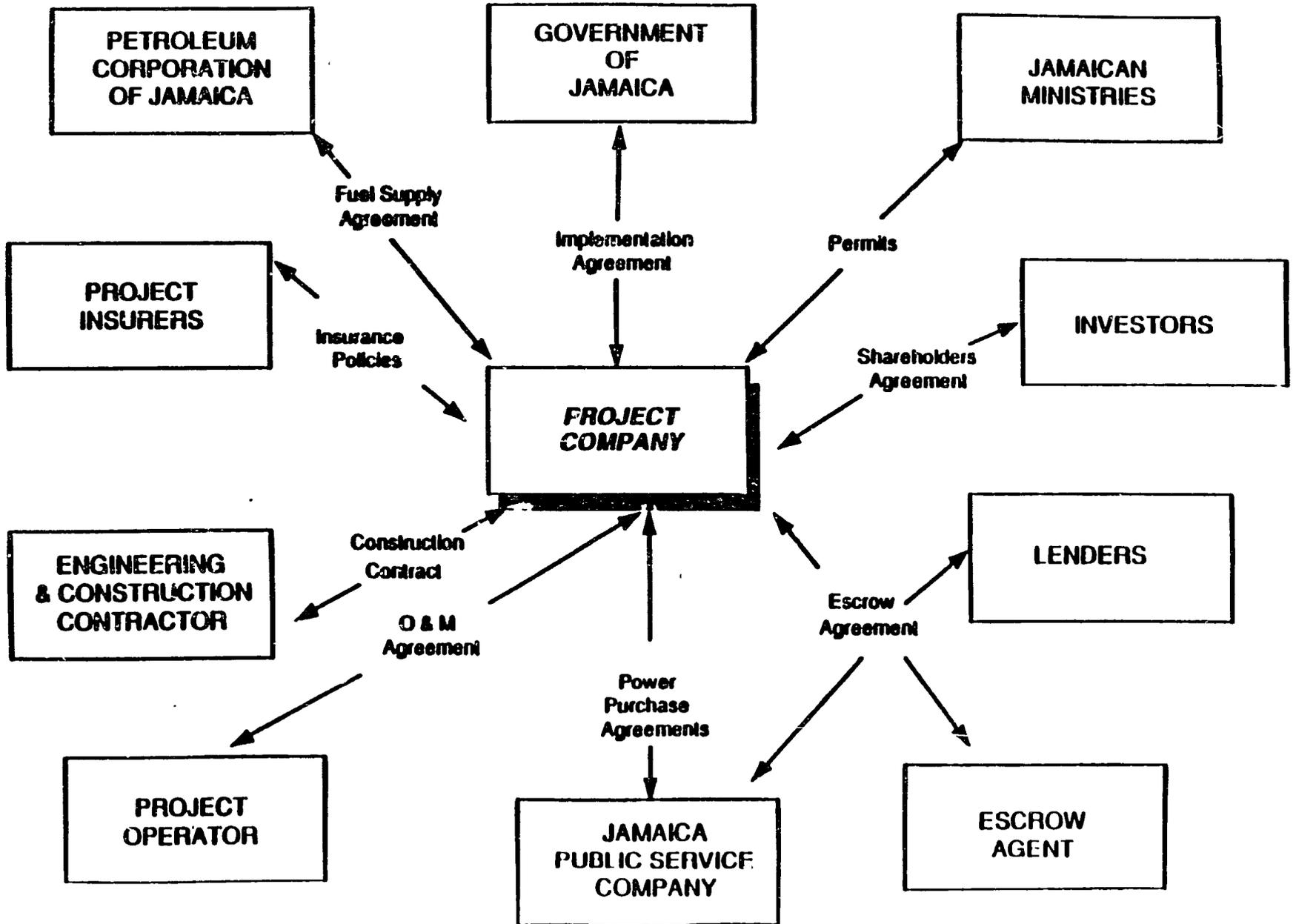
JAMAICA POWER PROJECT
(Continued)

Structure - BOOT

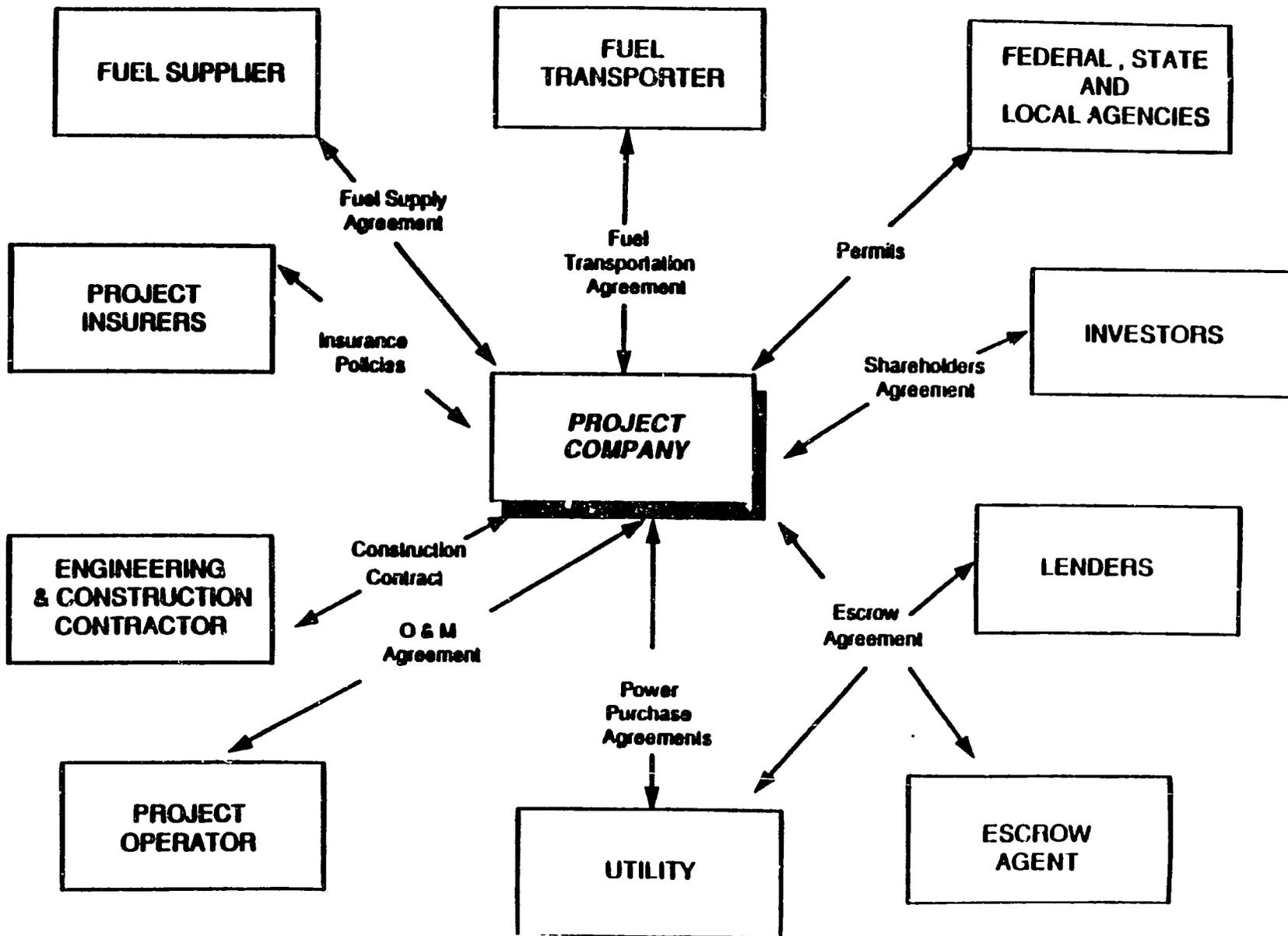
- o Third party development and ownership.
- o Power sales to exporting industrial directly, on take-or-pay (capacity credit) basis and coverage of variable costs of generation.
- o Insert a dispatching and transmission contract with the utility if additional remote industrials are to be purchasers.
- o Industrial's obligations to pay in U.S. Dollars at an acceptable place (probably escrow account in New York or possibly Puerto Rico), guaranteed by international parent.
- o Excess (and emergency) temporary power sold to utility on separate contract: take or pay (for any predictable excess) and variable costs of generation for economy sales. Utility to pay directly to project in local currency plus FX rate for component representing variable fuel cost.
- o Utility indemnifies project for changes in applicable Jamaica and local taxes on project operations or fuel supply.
- o Utility's performance obligations (including obligations to pay for power) guaranteed by the government.



JAMAICAN SECURITY PACKAGE



U.S SECURITY PACKAGE



1/10

HOPEWELL ENERGY (PHILIPPINES) CORP

- 200MW GAS TURBINE PLANT LOCATED AT NAVOTAS, METRO MANILA.
- B.O.T. BASIS (BUILD-OPERATE-TRANSFER).
- HOPEWELL WILL BUILD, OWN AND OPERATE FOR 12 YEARS AND THEN TRANSFER FREE OF CHARGE TO NATIONAL POWER CORPORATION (NPC).
- PROJECT AGREEMENT SIGNED 16 NOV 1988.
- CITICORP HONG KONG APPOINTED FINANCIAL ADVISORY BY HOPEWELL.



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PROJECT DESCRIPTION

- 200MW GENERATING CAPACITY TO BE UTILIZED AS PEAK LOADING PLANT.
- ALL ELECTRICITY WILL BE PURCHASED BY NPC.
- EQUIPMENT:

3 WESTINGHOUSE W501/B TURBINE-GENERATOR UNITS PRESENTLY INSTALLED IN COLORADO. UNITS TO BE REFURBISHED AS NECESSARY AND INSTALLED WITH SWITCH-GEAR AND TRANSFORMERS. OTHER DEVELOPMENT TO INCLUDE BUILDINGS, ROADS, LANDSCAPING, DRAINAGE, FIRE PROTECTION, LIGHTING AND SECURITY SERVICES.
- SITE:

NPC WILL PROVIDE THE SITE AND ALL FUEL FOR GENERATION OF ELECTRICITY AT NO COST TO HOPEWELL.



COST ESTIMATE

TOTAL COST : US\$45.477 MILLION

COST TO HOPEWELL: US\$41 MILLION

COST TO NPC : US\$4.477 MILLION
(LAND LEASE + CERTAIN
INFRASTRUCTURE)

FINANCING PLAN

(HOPEWELL PORTION)

LOANS : IFC - US\$10 MILLION
ADB - US\$10 MILLION

COMPLEMENTARY : US\$10 MILLION
FINANCING
(ADB LINKED)

EQUITY : US\$11 MILLION

NO FINANCING IS BEING ARRANGED FOR NPC
PORTION.



EQUITY

SHAREHOLDERS ARE:

HOPEWELL (B.O.T. SPONSOR): US\$ 6.611 MILLION

CITICORP (ALSO FINANCIAL ADVISOR) : US\$ 2.189 MILLION

ADB : US\$ 1.100 MILLION

IFC : US\$ 1.100 MILLION

TOTAL EQUITY : US\$11.000 MILLION

DEBT

- LOANS FROM ADB AND IFC HAVE BEEN ARRANGED WITH 10 YEAR MATURITY, IN US\$ ON FLOATING RATE BASIS.
- COMPLEMENTARY FINANCING (ADB LINKED) HAS BEEN ARRANGED WITH 7 YEAR MATURITY IN US\$ ON FLOATING RATE BASIS.
- THIS PORTION IS PROVIDED BY 4 COMMERCIAL BANKS WITH ADB AS LENDER OF RECORD BUT WITH COMMERCIAL BANKS TAKING FULL PROJECT RISK.



OPERATION OF PROJECT FACILITIES

- HOPEWELL WILL OPERATE AND MAINTAIN THE PLANT FOR 12 YEARS.
- NPC WILL PAY HOPEWELL A CAPACITY FEE (MONTHLY) FOR STANDBY CAPACITY COMMITTED TO BE AVAILABLE PLUS AN ENERGY FEE BASED ON ELECTRICITY ACTUALLY GENERATED.
- ALL PERFORMANCE OBLIGATIONS OF NPC (INCLUDING PAYMENTS) TO BE GUARANTEED BY GOVERNMENT OF PHILIPPINES.
- CAPACITY FEE AND ENERGY FEE TO BE PAID IN US\$ TO OFFSHORE BANK ACCOUNT TO BE MAINTAINED BY HOPEWELL.
- PROJECT AWARDED "PIONEER" STATUS BY GOVERNMENT. THIS PROVIDES CERTAIN PRIVILEGES INCLUDING "TAX HOLIDAY" OF 5 YEARS AND WAIVER OF IMPORT DUTIES ON EQUIPMENT.



SECURITY FOR LENDERS

- CHARGE OVER ALL HOPEWELL PHILIPPINES ASSETS.
- PLEDGE OF SHARES IN HOPEWELL PHILIPPINES.
- ASSIGNMENT OF HOPEWELL INTEREST IN PROJECT DOCUMENTS:-
 - PROJECT AGREEMENT
 - ACCESSION UNDERTAKING
 - PERFORMANCE UNDERTAKING
 - SUPPLY CONTRACT
 - INSTALLATION CONTRACT
- CHARGE OVER HOPEWELL'S DEBT SERVICE ACCOUNT.

ADDITIONAL UNDERTAKINGS

- RESTRICTIONS ON TRANSFER OF EQUITY SHARES.
- HOPEWELL PARENT COMPANY TO USE BEST EFFORTS TO ENSURE PROMPT COMPLETION AND MEETING ANY COST OVER-RUNS.

B.O.T. IMPLEMENTATION PLAN ACTIVITY SCHEDULES

Activity	Concerned Agency	April	May	June
1. Preparation of Initial BOT Projects List and Profiles	DPWH/DOTC NPC/DTI/DOT NEDA/CCPAP	19 April		
2. Publication of BOT implementing Rules and Regulations	DPWH/NEDA/ICC	19 April	03 May	
3. Preparation of BOT Primer / Other matters for workshop with agencies	CCPAP	23 April	07 May	
4. Conduct BOT Workshop with agencies (on priority project list and BOT Primer)	CCPAP		10 May	
5. Preparation of Revised/Final list of priority BOT Projects	IA/CCPAP OP/NEDA		08 May	15 May
6. Submit Initial List of Priority BOT Projects to Congress	OP		23 May	
7. Prepare Pre-FS/FS of priority BOT Projects	IA/CCPAP		23 May	
8. Conduct BOT meeting with Officers of League of Governors	CCPAP/NEDA/OP		16 May	23 May
9. Conduct first BOT Meeting for local Chamber of Commerce	CCPAP/PCCI/OP		23 May	
10. Meeting with Com. Counselors (Conduct BOT Briefing)	CCPAP/OP		01 June	07 June
11. Conduct BOT Briefing for Media	CCPAP/OP		10 May	10 June
12. Meeting with Major Financing Institutions (BOT Briefing)	CCPAP/OP			10 June
13. Conduct National Conference on BOT (with Foreign participants)	CCPAP			15 June
14. Conduct Regional Workshop on BOT	CCPAP			(Sept. 1991) (July-Dec. 1991)



REVISED TASK AND PERSONNEL SCHEDULE FOR BOT SPECIALISTS

TASK DESCRIPTION	MARCH 4 - 10	MARCH 11 - 17	MARCH 18 - 24	MARCH 25 - 31	APRIL 1 - 7	APRIL 8 - 14	APRIL 15 - 21	APRIL 22 - 28	APR./MAY 29 - 05	MAY 6 - 12	MAY 13 - 19	MAY 20 - 26
Home Office Preparations												
Travel Wash., DC to Manila												
Consult w/CODA, CCPAP, USAID												
Prepare Project Profiles for Project Identification												
Visits to DPWH, DOTI, PPA, NAI, NPC and DOT(Project Profiles)												
Review Potential BOT List Submitted by Agencies												
Present Possible BOT List to CODA, CCPAP and USAID								X(22)				
Preparation of Workshop Primer												
Develop Feas. Study Criteria for Privatized BOT Project												
Conduct Workshop with Sector Agencies												
Outline Major Elements for BOT Terms of Reference												
Implementation Plan												
STAFFING												
BOT Specialist (Philippines) Joseph Revis (USA)												
Transport Planner (Philippines) Marcelo Minc (USA)												
CCPAP Counterpart(Philippines)												



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PROJECT PROFILE FOR PRIVATE SECTOR PARTICIPATION PROJECTS

I. PROJECT SUMMARY

1. PROJECT TITLE : _____

2. LOCATION : _____

3. PROJECT SECTOR : _____

SUB SECTOR : _____

4. CONCERNED AGENCY/IES:

IMPLEMENTING : _____

PROPOSING : _____

CONTACT PERSON : _____

5. PROJECT OBJECTIVES:

DEVELOPMENT : _____

6. PROJECT DESCRIPTION:

GENERAL : _____

TECHNICAL : _____

SCHEDULE (years) : _____

II. PROJECT COSTS (Private Sector Costs Only)

PROJECT COSTS :

Total Costs

Construction	_____	_____	_____
Row/Land	_____	_____	_____
Equipment	_____	_____	_____
Supplies	_____	_____	_____
Other Inves. Costs	_____	_____	_____
Operating Costs	_____	_____	_____
Maintenance	_____	_____	_____
G & A	_____	_____	_____
Other	_____	_____	_____

III. PROJECT PREPARATION STATUS

Project Steps As Of: _____

Concept Paper	: () On-going	() Completed	() Not Apply
Prefeasibility Study	: () On-going	() Completed	() Not Apply
Feasibility Study	: () On-going	() Completed	() Not Apply
Detailed Engineering	: () On-going	() Completed	() Not Apply
Environmental Apprvl	: () On-going	() Completed	() Not Apply
Budget(Public) Apprvl	: () On-going	() Completed	() Not Apply

IV. BIDDING IMPLEMENTATION SCHEDULE

EXPECTED DATE FOR START OF BIDDING PROCESS: _____
(Issuance of Prequalification Request)

V. PROJECTED FINANCIAL & ECONOMIC RESULTS

1. Rates of Return: _____ FIRR _____ EIRR

2. Investment Factors: (Present Yearly Data In Five Year Intervals)

PROJECTED DEMAND: passengers, consumers, tons-ton km vehicles, ships, aircraft, passengers, units of power, acres, floor area, or other appropriate units of demand.

PROJECTED REVENUE:

PROJECTED COSTS:

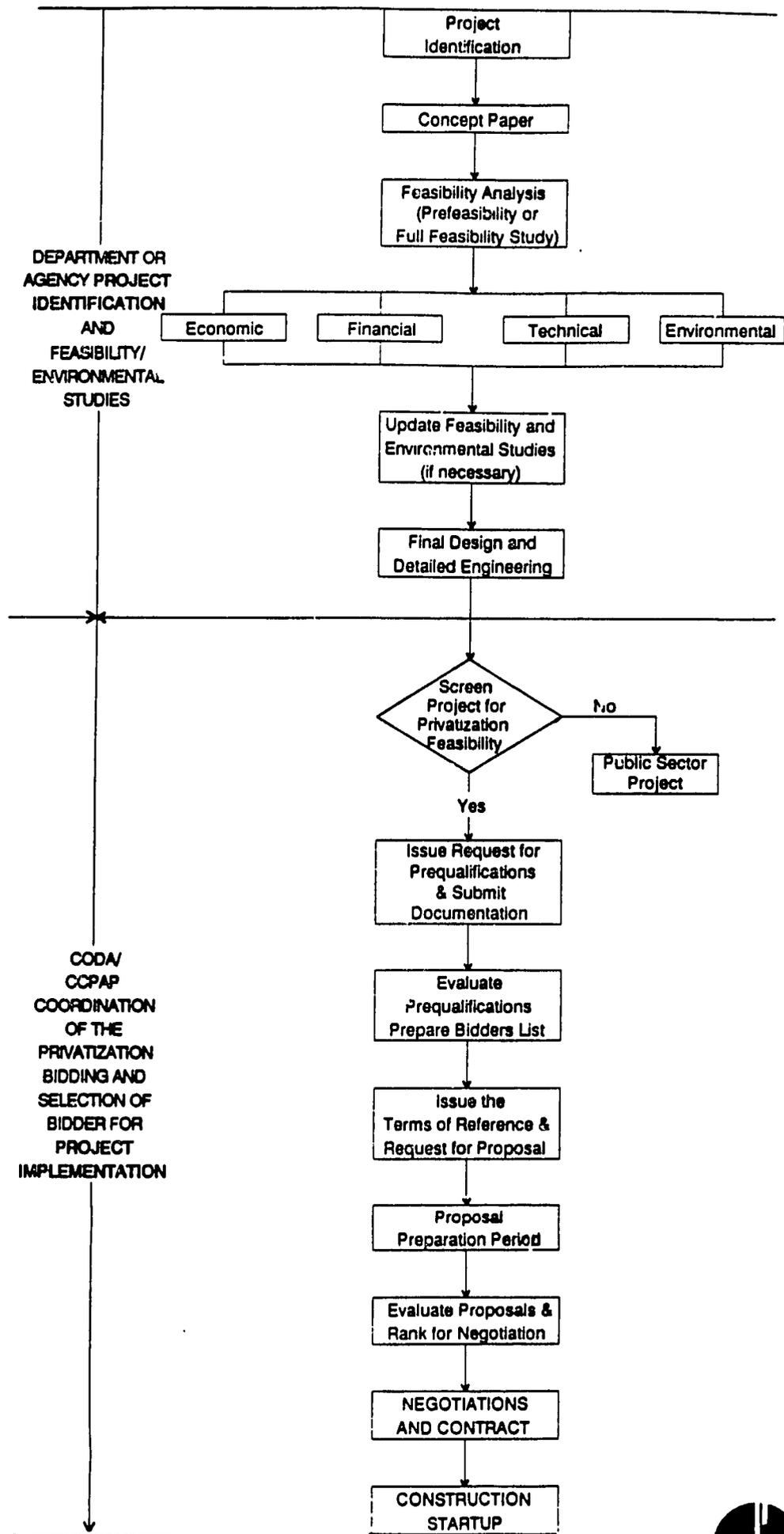
NET REVENUES:

RETURN ON INVESTMENT: Year 1 _____ % Year 5 _____ % Year 10 _____ %

PAYBACK PERIOD: Years _____



PRIVATIZATION PROJECT CYCLE



**EVALUATION CRITERIA TO IDENTIFY
CANDIDATE PROJECTS FOR PRIVATIZATION**

Criteria Categories	Requirements Relative to Privatization		
	No Operation No Ownership	Operations No Ownership	Operations Ownership
	BT	BOT/BTO/ BTLBO	BOO/BOOT
I. MARKET CRITERIA			
1) High level of user demand for essential and homogenous service/product	Not required	Not required	Required
2) Reasonably predictable forecasts of revenues and costs are possible	Helpful But Not required	Required	Required
3) Status of market competition and regulation requirements			
a. Competitive Market	Not required	Not required	Not required
b. Monopoly Market	Not required	Required	Required
4) Has Competitive Financial Internal Rate of Return (FIRR)	Helpful	Required	Required
5) Are no unusual risk factors that would discourage private investors (no guarantees needed)	Helpful But Not required	Required	Required
a. Reliability of Forecasts	Helpful	Required	Required
b. No Excessive Inflation	Required	Required	Required
c. No Excessive Exchange Fluctuations	Helpful	Required	Required
d. Exchange Convertability	Required	Required	Required
e. Profit Transferability	Required	Required	Required
f. No Legal or Statutory Limitations/Constraints	Required	Required	Required
g. Economic Stability	Helpful	Required	Required
h. Political Stability	Helpful	Required	Required
6) Privatization gains are large and realizable, and offset social welfare/equity losses	Helpful	Required	Required

**EVALUATION CRITERIA TO IDENTIFY
CANDIDATE PROJECTS FOR PRIVATIZATION**

Criteria Categories	Requirements Relative to Privatization		
	No Operation No Ownership	Operations No Ownership	Operations Ownership
	BT	BOT/BTO/ BTLBO	BOO/BOOT
II. ECONOMIC AND POLICY CRITERIA			
1) Will make a net economic contribution to the economy measured in terms of the Economic Internal Rate of Return (EIRR)	Critical	Critical	Critical
2) The EIRR is sufficiently high to warrant implementation even with low FIRR.	Can Be Implemented	Can Be Implemented	Can Be Implemented
3) If it is a public utility type of project (monopoly environment), can workable and regulations acceptable to the private sector be developed.	Not required	Required	Required
4) It is a large new project or major improvement for which:			
a. Investment costs are high	Not required	Usually	Usually
b. Foreign Exchange requirements are large.	Not required	Usually	Usually
c. Provides a technology transfer opportunity.	Helpful But Not required	Helpful But Not required	Helpful But Not required
d. Provides scarce management or other needed skills	Helpful But Not required	Helpful But Not required	Helpful But Not required
e. Bidders will have a strong long-term commitment to remain after construction is finished.	Not required	Required	Required
III. INSTITUTIONAL CRITERIA			
1) No major legal, statutory or regulatory constraints.	Required	Required	Required
2) Required Institutional and organizational infrastructure is available and working.	Required	Required	Required

PHILIPPINE BOT PRIVATIZATION PROGRAM QUICK-ACTION PROJECTS

Projects & Tasks	Months From Start											
	1	2	3	4	5	6	7	8	9	10	11	12
<u>TASKS:</u>												
Update Feasibility Study												
Screen For Privatization Feasibility												
Request For Submitting Prequalification Docs.												
Evaluate Prequals & Prepare Bidder's List												
Issue Request For Proposal(TOR)												
Proposal Preparation												
Evaluate Proposals & Rank Bidders For Negotiations												
Negotiations & Contract Signing												
<u>PROJECTS:</u>												
DPWH – EXPRESSWAYS												
1) Sto.Tomas–Lucena City Expressway (60kms)												
2) Mabalacat–Urdaneta Expressway (93km)												
3) South Luzon Expressway (Lipa City–Batangas City) (21km)												
4) Shaw Boulevard (R–5) Extension (7.3km)												
DOTC/PPA – PORT FACILITIES												
1) Manila North Harbor Grains Terminal Project												
DOTC/AIR TRANSPORTATION												
1) Construction of a New International Cargo Terminal (ICT) in the undeveloped areas So.West of the IPT												

**IMPLEMENTATION AND OTHER
OPERATING AGREEMENTS**

CASE OF HUBCO

OBJECTIVES :

- 1. DESCRIBE IMPLEMENTATION AND OTHER
OPERATING AGREEMENTS IN HUBCO CASE.**
- 2. IDENTIFY POLICY AND OPERATING ISSUES
WHICH HAD TO BE IN PLACE BEFORE
NEGOTIATIONS BEGAN.**

PHYSICAL DETAILS

- o **Basic Details:**

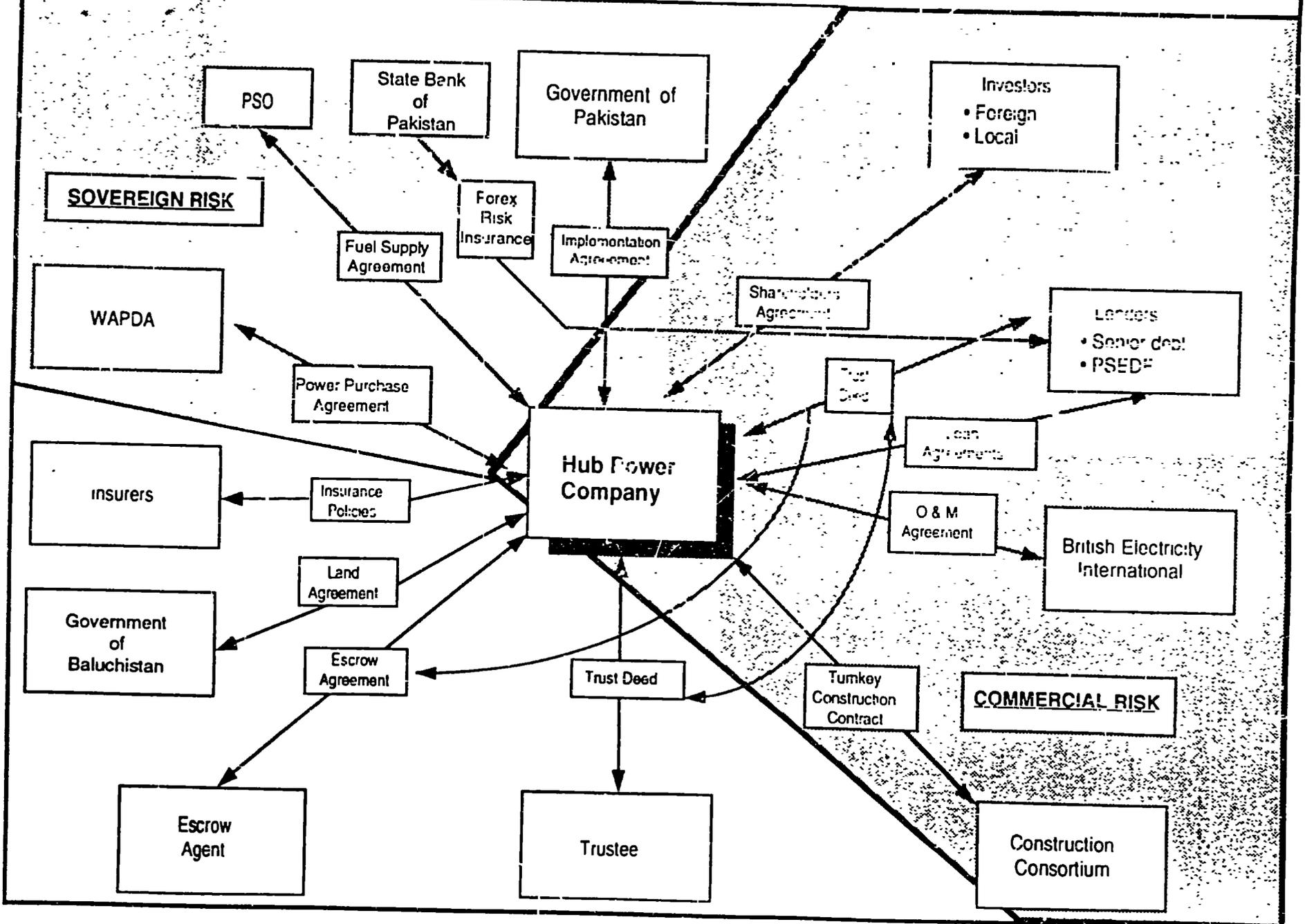
Gross Station Capacity	1292 MW
Net Station Output	1200 MW
Configuration	4 x 323 MW
Plant Type	Steam Power Station
Fuel Type	Residual Furnace Oil
Loading	Base Load
Cooling	Open Cycle Sea Water

- o **Site:** North of Hab River Mouth at Arabian Sea Coast, 40 KM NW of Karachi, Lasbella District, Baluchistan.

- o **Land:** 1507 Acres - Allotted by Govt of Baluchistan. Documentation is reported to be in process.

- o **Manpower:**
 - Construction phase - over 3,000 during peak work periods.
 - Operations Phase - over 300 including expatriates.

Hub Power Complex Security Package: Sovereign And Commercial Risks



ESCROW AGENT AGREEMENT

AGREEMENT STILL UNDER PROCESS OF DEFINITION & PREPARATION

PURPOSE:

To control the collection, management & disbursement of funds received by the company.

Agreement shall become effective at financial close & shall remain in force for the duration of IA, or later, until all lenders are repaid.

PARTIES:

The Company, the Lenders, WAPDA, PSO, PSEDF, Escrow Agent & GOP.

ACCOUNTS (PROPOSED):

There will be several designated Escrow Accounts e.g.,

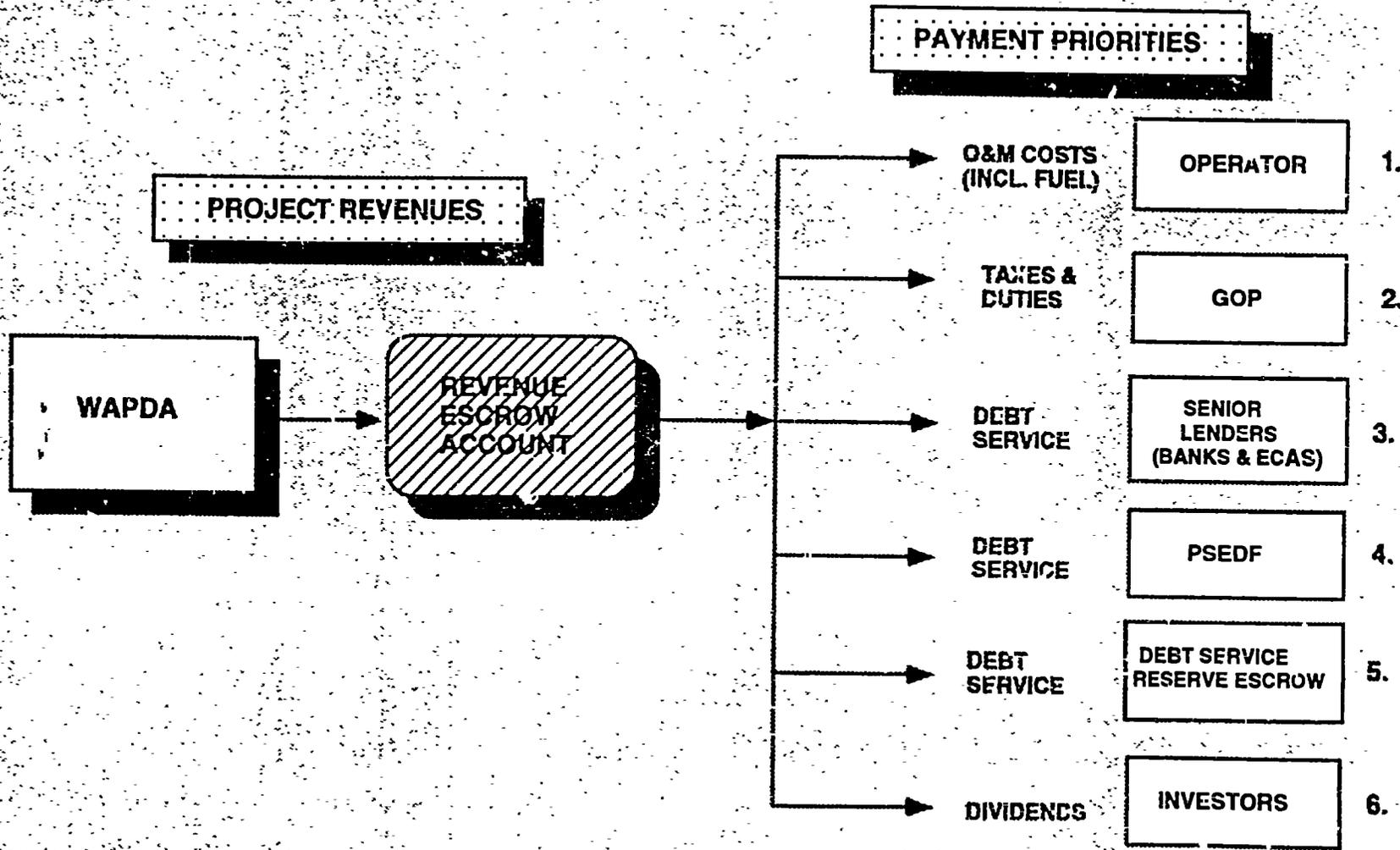
- i) Operating Account.
- ii) Debt Service Reserve Account
- iii) Insurance Account
- iv) Exceptional Events Disputes Account.
- v) Interest Escrow Account.

ROLE OF THE AGENT:

Sets forth the principal responsibilities of the Agent, e.g.,

- o Administrator of Cash flow.
- o Holds project security on behalf of all lenders.
- o Controls disbursement of equity subscriptions.
- o Authorizes disbursements as appropriate from the Operating Account according to agreed set priorities.
- o Presents rupee equivalent in debt reserve to the State Bank of Pakistan for conversion to required debt service currencies.
- o Monitors and, if necessary controls insurance package.
- o Authorizes disbursements as appropriate from Insurance Account according to the set priorities.
- o Applies liquidation proceeds in accordance with Trust Deed, on enforcement.

Hub Power Complex: Cash Flow Priorities under the Escrow Agreement



PRIVATE SECTOR ENERGY DEVELOPMENT FUND

PROPOSED SUBPROJECTS

Cofinanciers

	US\$ MILLION
WORLD BANK	150
JEXIM 1/	150
USAID	26
ODA of UK	50
ITALY 2/	50
FRANCE 3/	20
GERMANY 4/	25
Nordic Investment Bank	13
TOTAL	594

- BANK IS LEAD FINANCIER.
- THE ACTIVITIES OF THE COFINANCIERS RELATIVE TO THE FUND ARE GOVERNED BY THE COFINANCIERS' AGREEMENT
- 1/ United funds administered by the Bank.
- 2/ Committed.
- 3/ Preliminary smt. for Hub Project
- 4/ Support for specific potential projects agreed with GOP.

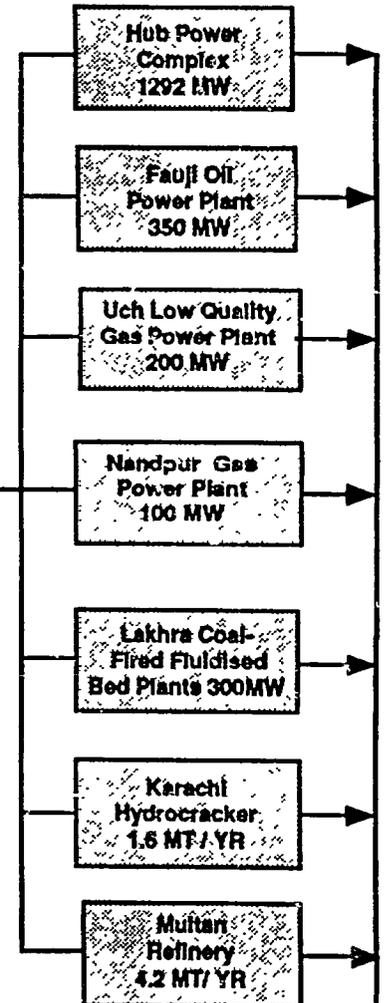
PROVIDE LOANS TO THE
GOVERNMENT OF PAKISTAN (GOP)
 FOR
THE PRIVATE SECTOR ENERGY DEVELOPMENT PROJECT (LOAN 2982-PAK)
 UNDER SOVEREIGN GUARANTEE

THE FUND IS ADMINISTERED BY THE
NATIONAL DEVELOPMENT FINANCE CORPORATION (NDFC)
 Under An
ADMINISTRATION AGREEMENT
 Between
GOP
 and
NDFC

PSEDF

Terms

- Covers up to 30% of total project costs.
- Up to 23 years maturity
- Up to 8 years grace
- Prevailing market interest rate
- covers cost of borrowing plus spread to cover foreign exchange rate risk insurance, administration, fees, reserve accumulation, contingencies.
- Subordination to commercial banks and export credit.



Spread between borrowing and lending rates for GOP would be about 8%. Estimated earnings of US\$1.4 billion over a period of 30 years on US\$484 million onlent. Rupee reflows would be available to cover local costs for subprojects.

DEBT SERVICE TO NDFC

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IMPLEMENTATION AGREEMENT

EXECUTED BETWEEN GOP AND HUBCO

The major agreement of the Security Package, with all others tied/linked around the IA.

PURPOSE:

Defines terms under which GOP grants Hubco the rights to build, finance, own, operate, maintain and manage the Complex; as well as defining all other rights and obligations of each party to the agreement.

MAJOR CLAUSES:

- o Terms & conditions of the concession.
- o In case of early termination of IA, the compensation available to the lenders and investors.
- o Parameters of the construction and operating periods.
- o Force Majeure provisions and circumstances under which GOP will make available Special Temporary Funding.
- o Governing Law and procedures for arbitration in the event of disputes between GOP, WAPDA or PSO and Hubco.
- o Subordination of PSEDF to Senior Lenders.
- o Procedures for Novation.
- o Availability of SBP insurance to fix exchange rate parities for external loans.
- o Repatriation of dividends.
- o Reinsurance and cutthroughs.
- o Escrow Agent provisions.
- o Events of Default

COMPENSATION FOR LOST EARNINGS

FOR GOP EVENT OF DEFAULT

Compensation = Loans Outstanding + Net Asset Value
+ Lost Earnings

Negotiating Positions on Lost Earnings

Year	Hub River Initial Position	GOP/PW Initial Position	Current Proposal	Years of Ops
	Net Income + Depreciation Discounted @ 18%	NAV + 5 Years of 18% Returns Discounted @ 12.5%	Net Income + Depreciation - Loan Principal Discounted @ 15%	
1995	\$ 734	\$ 394	\$ 463	1
1996	\$ 726	\$ 418	\$ 462	2
1997	\$ 717	\$ 442	\$ 442	3
1998	\$ 705	\$ 467	\$ 460	4
1999	\$ 684	\$ 498	\$ 458	5
2000	\$ 659	\$ 530	\$ 456	6
2001	\$ 628	\$ 564	\$ 454	7
2002	\$ 590	\$ 599	\$ 451	8
2003	\$ 544	\$ 635	\$ 449	9
2004	\$ 488	\$ 673	\$ 446	10
2005	\$ 489	\$ 643	\$ 442	11
2006	\$ 488	\$ 615	\$ 437	12
2007	\$ 484	\$ 590	\$ 432	13
2008	\$ 477	\$ 568	\$ 426	14
2009	\$ 465	\$ 549	\$ 419	15
2010	\$ 446	\$ 535	\$ 411	16
2011	\$ 420	\$ 524	\$ 401	17
2012	\$ 384	\$ 519	\$ 391	18
2013	\$ 335	\$ 520	\$ 378	19
2014	\$ 325	\$ 474	\$ 364	20
2015	\$ 312	\$ 429	\$ 347	21
2016	\$ 297	\$ 383	\$ 328	22
2017	\$ 280	\$ 337	\$ 306	23
2018	\$ 259	\$ 308	\$ 281	24
2019	\$ 234	\$ 308	\$ 252	25
2020	\$ 205	\$ 308	\$ 308	26
2021	\$ 171	\$ 308	\$ 181	27
2022	\$ 131	\$ 308	\$ 137	28
2023	\$ 84	\$ 308	\$ 87	29
2024	\$ 29	\$ 308	\$ 29	30
2025	\$ 29	\$ 308	\$ 29	31

FORCE MAJEURE

LA (Clause 17) defines exceptional events to include Natural Events, Pakistan Political Events, Political Events Outside Pakistan, as described below:

Natural Events

- (a) *any material effect of the natural elements, including fire, earthquake, tsunami, flood, storm, cyclone, typhoon, or tornado;*
- (b) *explosion or chemical contamination (other than resulting from an act of war);*
- (c) *epidemic or plague;*
- (d) *any event or circumstance constituting Force Majeure-Natural under the Power Purchase Agreement or the Fuel Supply Agreement; and*
- (e) *any other analogous event.*

Pakistan Political Events

- (a) *act of war (whether declared or undeclared), invasion, armed conflict or act of foreign enemy, blockade, embargo, revolution, riot, insurrection, civil commotion, act of terrorism, or sabotage;*
- (b) *radioactive contamination or ionising radiation originating from a source in Pakistan, or resulting from another Pakistan Political Event;*
- (c) *strikes, works to rule, go-slows which are either widespread, nationwide, or, unless caused by Hubco or the Contractors, of a political nature;*
- (d) *the making of, or any change in, Laws of Pakistan materially and adversely affecting the performance by Hubco, or the Direct Contractors of their obligations or which impinges on the enjoyment by Hubco, or the Direct Contractors, of its, or their, rights under the Security Package;*
- (e) *expropriation, or compulsory acquisition, of shares in, or assets of, Hubco by a provincial or local government in Pakistan;*
- (f) *inability of the company to acquire consents, renew consents, or to keep consents in force free of new adverse conditions;*
- (g) *any event or circumstance constituting Force Majeure-Political under the Power Purchase Agreement or the Fuel Supply Agreement; and*
- (h) *any other analogous event.*

Foreign Political Events

- (a) *act of war (whether declared or undeclared), invasion, armed conflict or act of foreign enemy, blockade, embargo, revolution, riot, insurrection, civil commotion, or act of terrorism);*
- (b) *radioactive contamination or ionising radiation originating from a source outside Pakistan and not fitting within Pakistan Political Event;*
- (c) *strikes, works to rule or go-slows which are either widespread or nationwide;*
- (d) *any event or circumstances constituting Force Majeure - Foreign under the Power Purchase Agreement, and*
- (e) *any other analogous event*

GOVERNING LAW

HUBCO HAS FOUR SETS OF DOCUMENTS

- (1) GOP DOCUMENTS: IA, PPA, FSA
- (2) LENDERS DOCUMENTS: SENIOR LOANS, SUBORDINATED LOANS, TRUST DEED, INTERCREDITORS ARRANGEMENTS, ETC.
- (3) PROJECT DOCUMENTS: CONSTRUCTION CONTRACT, O&M AGREEMENT
- (4) CONSTITUTIONAL DOCUMENTS: ARTICLES, MEMORANDA, REGISTRATION STATEMENTS, SHAREHOLDERS AGREEMENT

ORIGINAL POSITION

GOP DOCUMENTS AND CONSTITUTIONAL DOCUMENTS MUST BE GOVERNED BY PAKISTAN LAW. LENDERS DOCUMENTS AND PROJECT DOCUMENTS CAN BE GOVERNED BY WHATEVER LAW IS CHOSEN BY THE PARTIES TO THE CONTRACT

LENDERS POSITION

GOP DOCUMENTS MUST BE GOVERNED BY THE SAME LAW AS ARE SENIOR LOAN DOCUMENTS I.E., U.K. LAW. ONLY CONSTITUTIONAL DOCUMENTS CAN BE GOVERNED BY PAKISTAN LAW

PROPOSAL ON TABLE *

GOP DOCUMENTS TO BE DOMICILED IN PAKISTAN BUT GOVERNED BY INTERNATIONAL LAW

SUBORDINATION *

ORIGINAL CONCEPT:

PSEDF TO BE SUBORDINATED IN CASH FLOW BUT NOT IN LIQUIDATION

SENIOR LENDERS POSITION:

PSEDF TO BE SUBORDINATED IN CASH FLOW AND LIQUIDATION

PROPOSAL ON THE TABLE:

PSEDF AND SENIOR LENDERS TO SHARE IN LIQUIDATION PROCEEDS ON A 70:30 BASIS UP TO THE POINT WHERE SENIOR LENDERS ARE FULLY PAID OUT. BEYOND THAT, ALL LIQUIDATION PROCEEDS TO BE APPLIED TO PSEDF OUSTANDINGS

OUTSTANDINGS UNDER SPECIAL TERMPORARY FUNDING FOR FORCE MAJEURE AND ALL OTHER AMOUNTS DUE TO PSO AND WAPDA TO BE JUNIOR TO ALL LENDERS, INCLUDING PSEDF

SOME IMPORTANT POLICY
AND OPERATING ISSUES

(HUBCO IMPLEMENTATION AGREEMENT)

- COORDINATING BODY
- GOVERNING LAW
- FOREIGN EXCHANGE :
 - * AVAILABILITY OF FOREX
 - * FIXING PARITY
- CREATION OF A FUND AND DEFINITION OF LENDING GUIDELINES
- PROCEDURES FOR NOVATION
- DIVIDENDS :
 - * DEBT/EQUITY MIX
 - * IRR TO EQUITY *
 - * TREATMENT OF PRE-ORGANIZATIONAL EXPENSE
- REINSURANCE AND CUT THROUGHES
- TAXES, DUTIES

**SALES AGREEMENT
TECHNICAL AND LEGAL ISSUES**

CASE OF HUBCO

OBJECTIVE :

- 1. DESCRIBE CONTENT OF SALES AGREEMENT ;**
- 2. IDENTIFY POLICY AND OPERATING ISSUES WHICH HAD TO BE IN PLACE BEFORE NEGOTIATIONS BEGAN.**

POWER PURCHASE AGREEMENT

EXECUTED BETWEEN HUBCO AND WAPDA

PURPOSE:

To set forth terms under which HUBCO will make available to WAPDA and WAPDA will purchase from HUBCO the power generated at the complex.

RESPONSIBILITIES:

WAPDA

- Build & Operate the Interconnection & Transmission Facilities.
- Obligation to purchase, annually 6791 GWh of Net Electrical Output.
- Payment of two tariffs: a CPP in advance and an EPP in arrears, subject to acceptable indexation provisions.
- Bonus for annual energy sales beyond 6791 GWh.
- Continue to purchase power for a minimum of 30 years, or longer if lenders are not paid out by that time.
- Adjustments in CPP/EPP in case of conversion of Complex from RFO to gas.
- * Payment of CPP to Hubco and LD's to PSO for failure to build interconnection facilities on a timely basis.

HUBCO

- Complete the Complex as per agreed specifications & schedules.
- Appoint a Consortium for construction of Complex.
- Appoint an O&M Contractor for Operation and Maintenance of Complex.
- Provide RFO storage capacity of 120,000 tons at Site.
- Despatch the Units/Complex as per WAPDA's requests.
- Pay applicable LD's for failure to meet Construction Schedule and/or penalties for inability of the Complex to meet agreed operating parameters.

GOP SUPPORT:

- GOP to guarantee the Performance of WAPDA under PPA.

BASE CASE TARIFF BREAKDOWN

Three Components to the Tariff

1. CPP

Total Debt Service
 Foreign
 Local
O&M Costs
 Fixed
 Foreign
 Local
Hubco Costs
Insurance
 o Insurance Package
 o SBP Insurance
Shareholders Return

Total CPP

2. EPP

O&M Costs
 Variable
 Foreign
 Local
Fuel

Total EPP

3. Supplemental Tariff

HAB POWER COMPANY LTD.

TARIFF/DATA

Annual Load Factor:	60%
Annual Generation:	6791 GWh
Base Fuel Price:	2350 Rs/tonne
Net Fuel Caloric Value:	10200 Kcal/kg
Fuel Used on Sent Out Energy:	0.2265 MWh

Average Tariff Rs/Kwh	Yrs 2-12	Yrs 13-24	Yrs 2-30
Energy Charge:			
- Fuel	0.532	0.533	0.533
- Variable O&M	0.032	0.032	0.032
Sub-Total:	0.564	0.565	0.565
Capacity Charge:			
- Fixed O&M	0.065	0.057	0.060
- Project Company Costs	0.011	0.010	0.010
- Insurance	0.012	0.012	0.012
- Debt Svs: Multi-lateral	0.007	0.000	0.003
PSEDF 1	0.165	0.100	0.104
ECO	0.123	0.000	0.047
Yen Export Credit	0.026	0.000	0.010
\$ Export Credit	0.082	0.000	0.031
Local 1-4	0.049	0.000	0.018
Mugarda	0.000	0.000	0.000
- Exchange Risk Insurance	0.043	0.000	0.017
- Supp. Finance Charges	0.003	0.001	0.001
- Cash for Shareholders	0.211	0.220	0.216
Sub-Total:	0.797	0.400	0.529
Total Tariff:	1.362	0.965	1.094
IRR on Equity:	18.1%		

TARIFF REOPENERS

TARIFF ADJUSTMENTS CAN BE MADE FOR

- o Changes in financing terms
- o Changes in design suggested by
 - environmental study
 - geological investigations
 - determination of needed marine facilities
- o Changes in Tax Assumptions
- o Increases/Decreases in Insurance Premiums
- o Escalators in Construction Contract
- o Foreign Currency Movements

UP TO FINANCIAL CLOSE, ADJUSTMENTS CAN BE MADE FOR CHANGES IN FINANCING TERMS, CHANGES IN DESIGN, ESCALATORS IN CONSTRUCTION CONTRACT

BEYOND FINANCIAL CLOSE, ADJUSTMENTS CAN BE MADE TO COMPENSATE FOR VARIABLE INTEREST RATES, CHANGES IN TAX, INCREASES/DECREASES IN INSURANCE PREMIUMS, FOREIGN CURRENCY MOVEMENTS DURING CONSTRUCTION PERIOD

HUBCO PROJECT COST VARIATIONS

	April 1988 Original Proposal	Dec 1989	May 1991	July 1991	Jan 1992
Project Cost:					
Project Dev. Cost		23	23	23	23
Construction Contract	683	763	892	892	855
Other Costs		78	892	84	105
Sub-Total	683	864	997	999	983
Int. & Other Finance Costs during Construction	140	237	297	297	551
Project Cost:	823	1101	1295	1296	1534
* Contingency (stand-by facility)				200	305
Total Project Cost:	823	1101¹	1298²	1496³	1839⁴

¹ Original Consortium disbands and withdraws offer.

² New Consortium is formed and submits formal offer.

³ Provision of contingency to cover cost over runs \$200 million added to the project costs.

⁴ Includes impact of foreign exchange impacts on turnkey construction, lenders requirement for \$315 million rather than \$200 million in contingencies plus the establishment O&C \$104 million interest escrow account.

HUBCO

Analysis of Financing Costs

In US\$
Millions

Debt and Equity Fees
Export Credit Premiums
Foreign Exchange Insurance
Interest During Construction
Coupon on Convertible Bonds
Interest Escrow Account
Changes in Working Capital

50
14
100
273
40
41
33
551

1999

HUBCO
Projected Financing Plan¹
(US\$ Million)

	Base Financing	% ²	Contingency Financing	Total Financing	% ²
Equity					
Foreign Investors					
Sponsors/HPG Members	128	8	76	204	11
Offshore Financial Institutions	74	5	-	74	4
Commonwealth Dev. Corp.	8	1	-	8	-
Subtotal Foreign Equity	210	14	76	286	15
Local Investors					
HUB Convertible Bonds	100	7	-	100	5
Subtotal Equity	310	21	76	386	20
Debt					
Foreign					
PSEDF	355	23	76	431	24
Commercial Bank Syndicate	300	20	60	360	20
Export Credit Agencies	300	20	-	300	16
Commonwealth Dev. Corp.	20	1	-	20	1
Additional Facilities	94	6	93	187	10
Subtotal Foreign Debt	1069	69	229	1298	71
Local					
Local Banks	155	10	-	154	9
Subtotal Debt	1224	79	229	1452	80
TOTAL	1554	100	305	1839	100

¹ Figure may undergo adjustments

² Taken as a percentage of the total cost of the Complex, which includes interest during construction and other finance related costs.

**SOME IMPORTANT POLICY AND
OPERATING ISSUES**

(HUBCO SALES AGREEMENT)

- **GOP, TO GUARANTEE PERFORMANCE OF WAPDA ?**
- **MINIMUM OFF TAKE OF 6791 GWH**
- **BONUSES PAYABLE FOR POWER > 6791 GWH**
- **TERM = AT LEAST 30 YEARS**
- **DIVISION OF TARIFF INTO TWO COMPONENTS CPP
PAYABLE IN ADVANCE ; EPP PAYABLE IN ARREARS**
- **METHODS USED TO NEGOTIABLE TARIFF :**
 - * **AVOIDED COST**
 - * **ICB WITH LIMITED REOPENERS**
 - * **LINE BY LINE NEGOTIATION**
- **REOPENERS**
- **INDEXATION PROVISIONS**

INDEXATION FORMULAE

APPLIES ONLY TO FIXED AND VARIABLE O&M + SHAREHOLDER RETURNS

$$\text{Yearly Increase in Tariff} = [1/2 (I_p + I_{us}) \times E] + [D_{p-us} \times E(fe)]$$

Where,

I_p = inflation rate in Pakistan

I_{us} = inflation rate in the United States

E = budgeted outflows related to total shareholder returns
and total O&M expenditure

D_{p-us} = depreciation of the Pakistan rupee relative to the
U.S. dollar

(K) $E(fe)$ = foreign O&M expenditure as budgeted and approved by
the GOP + 40% of total shareholders returns

Example:

If,

I_p = 12%

I_{us} = 4%

E = \$ 100 million

D_{p-us} = 5%, and

$E(fc)$ = \$ 60 million

Then, total tariff increases during the year would amount to
\$ 11 million, or 11% of the budgeted outflow for these two items

NOTE THAT ALL OTHER EXPENSE ITEMS ARE PASS THROUGHS BOTH IN
ABSOLUTE RUPEE AND DOLLAR TERMS

a. Consortium Leader, Project Management (Pacific Power Engineering Company)

Item	Amount US\$M	Advance	During Construction	Comple tion
Materials & Equipment and Balance of Plant	5.420	15%	75% pro-rata shipment value	10% in 4 install ments, pro- rata value of each Section
Transportation	.046	15%	85% pro-rata shipment value	
Spare parts	1.098	15%	85% pro-rata shipment value	
Project Administration Fee	6.702	15%	85% in installments	
Total	13.296			

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b. Turbine Contractor (Stewart & Stevenson)

Item	Amount US\$M	Advance	During Construction	Completion
Equipment Supply	53.600	15%	75% pro-rata value of equipment shipped	10% in 4 installmen ts pro- rata value of equipment
Local Transport	.050	15%	85% pro-rata value of equipment delivered	
Transportation	.280	15%	85% pro-rata value of works	
Spare Parts	2.680	15%	85% pro-rata value of shipment	
Total	56.610			

c. Generator Contractor (Cockerill Mechanical Industries).

Item	Amount US\$M	Advance	During Construction	Completion
Equipment Supply	5.650	15%	75% pro-rata value of equipment shipped	10% in 4 installmen ts pro- rata value of equipment
Transport	.448	15%	85% pro-rata value of equipment delivered	
Local Equipment	2.350	15%	75% pro-rata value of equipment delivered	10% in 4 installmen ts pro- rata value of local equipment in each Section
Local Transportation	.050	15%	80% pro-rata value of works	5% paid in pro-rata value of erection and commission ing in each section.
Spare Parts	.800	15%	85% pro-rata value of shipment	
Total	9.298			



ARRIES PROJECT
STATUS OF ISSUES

COST OVERRUN

Proposal

1.	Liquidated Damages	10.00
2.	Sponsors Delay in Completion	10.00
3.	PED Standbys	10.00
4.	Other Standbys	
	Senior Lenders	10.00
	Equity Shareholders	<u>5.00</u>
		45.00

Negotiable Position

1.	LDs	10.00
2.	Equity	15.00
	[Sponsors Delay in Completion	
	10.00]	
3.	PED	20.00
4.	Senior <input type="checkbox"/>	<u>45.00</u>

Under advisement by GOP.

TARIFF

Proposal

ROE of 25% p.a.

Negotiable Position

ROE of 25%
OR
Reopeners for all PED and Senior
Loan drawdowns for cost overruns
AND
Suitable indexation applied to
ROE
AND
Suitable bonus arrangements.



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PSEDF

Proposal

1. Advance Payment Loan
2. Subordination from a Cash Flow and Liquidation Perspective
3. PED Standbys be Drawn First
4. No IDC relief for PED prior to COD.

Negotiable Position

1. Allow the Fixed Turnkey Price to go up
2. Market will decide this! GOP will have to make policy decision.
3. Not necessary. See Cost overruns, above.
4. NDFC possibility of making loans to cover IDC (Under advisement by NDFC and MOF).

INSURANCE

Proposal

Low Deductibles, High Premiums

Negotiable Position

High Deductibles, Low Premiums..OK..

Provided that GOP pickups all uninsurable risks such as:
Inside the Fence - Earthquakes
Outside the Fence - Radioactive Activity
(Under advisement by GOP)



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COMPENSATION

Proposal

For all Company/Gop Event of Default

1. Assumption of loans by GOP in the event of termination
2. Compensation for NAV (indexation of assets)
3. ROE to termination
4. Earnings after termination (for remaining concession period)

Negotiable position

Only for GOP Events of Default

1. Assumption of loans by GOP in the event of termination
2. Compensation for NAV based on Market Land + (Historical Cost - Historical Liabilities) + .25(Plant Replacement Cost Historical Cost).

Under advisement by GOP.
3. ROE to termination
4. Earnings after termination (for five years or for the remainder of the concession period, whichever is less.)

For Company Events of Default

1. Assumption of loans by GOP in the event of termination
2. Domestic equity holders should be held harmless. Under advisement by GOP.

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SHAREHOLDER'S LIABILITIES AND RISKS

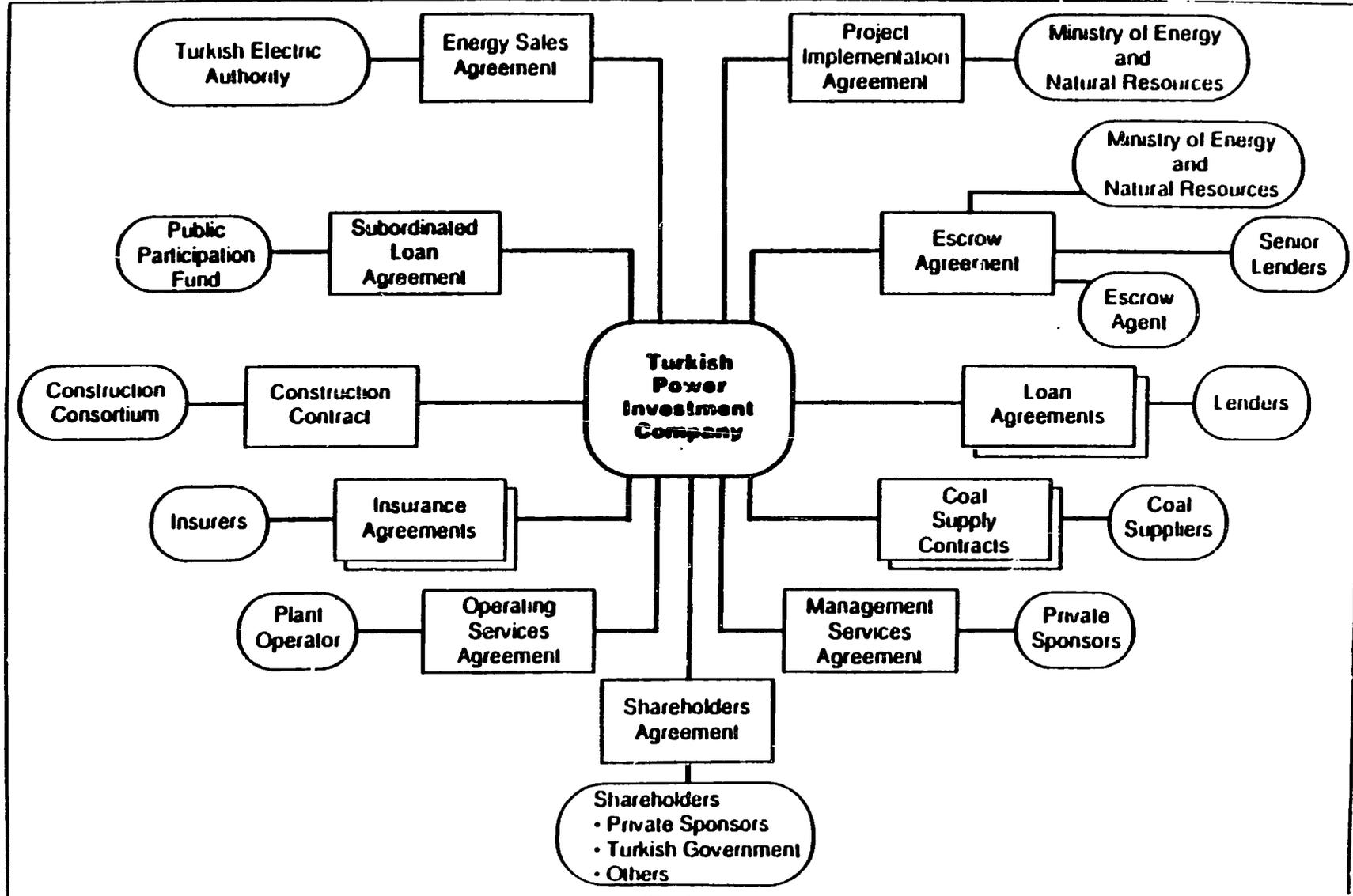
Proposal (Main Points)

1. Preorganization expenses to be Audited by own auditors
2. No Completion Guarantee
3. Right of Withdrawal
4. NDFC not on Board
5. Lock in of Shareholders for 10 years.
6. Several Guarantees by Shareholders

Negotiable Position

1. Under advisement, preorganization expenses to be audited by Auditors approved by GOP.
2. Completion Guarantee to be substituted by cost overrun structure which is under advisement by GOP.
3. No right of withdrawal OK, provided cost overrun structure is accepted, and compensation, indexation and bonus arrangements are OK.
4. NDFC presence on Board is OK.
5. Lock in of Shareholders for 23 years, selldown permitted with consent of GOP.
6. Under advisement, Joint and Several Guarantees may be OK, subject to approval by Chairman (So. Calif Edison)

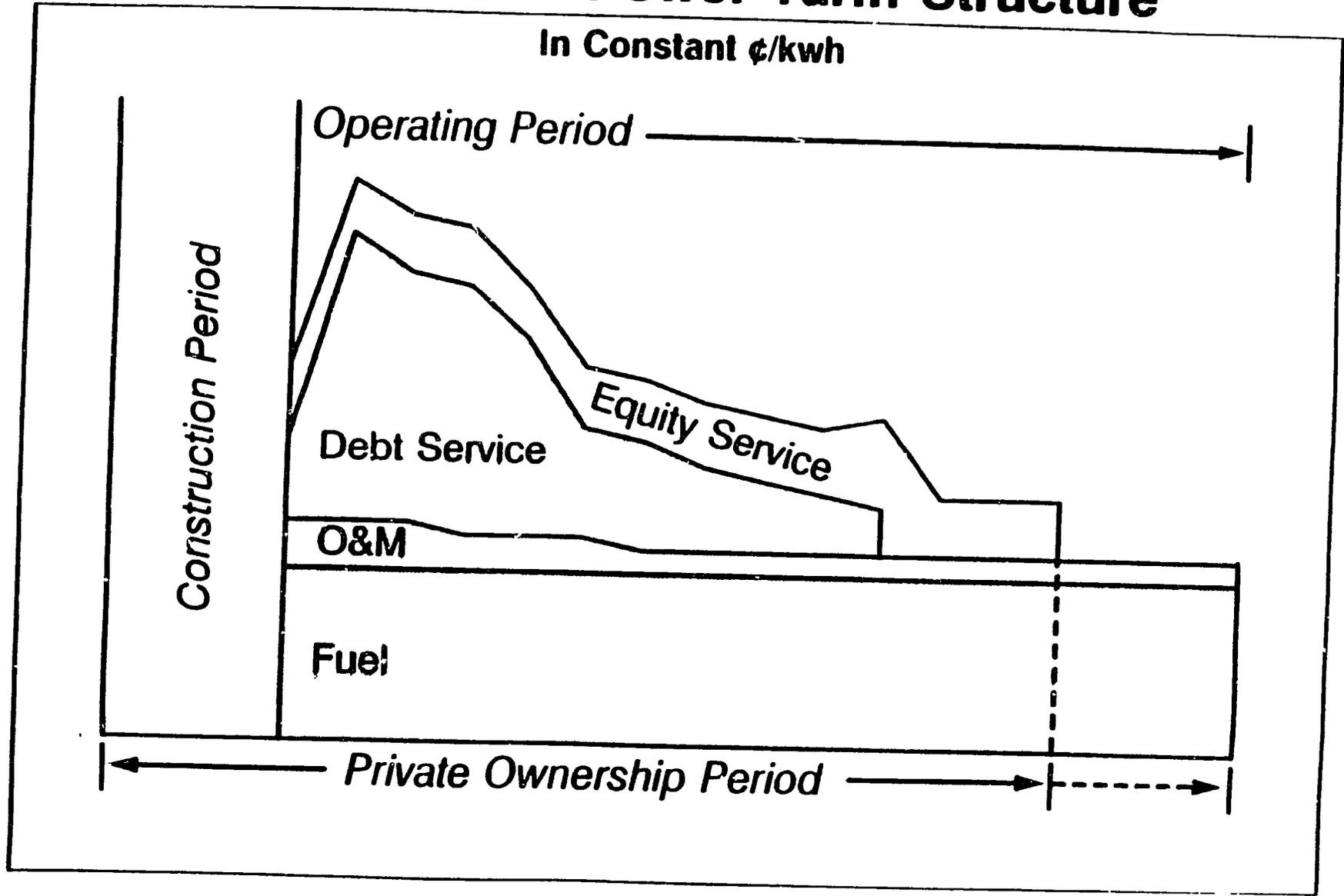
Turkish BOT Power Project Contractual Structure



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Turkish BOT Power Tariff Structure

In Constant ¢/kwh



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Differences Between Procurement Processes

PRINCIPLES	WORLD BANK / EXIM BANK	USAID	ODA	KFW	NIB
International Competitive Bidding	Y				
Competitive Bidding Tied to Co-financiers Country		Y	Y	Y	Y
Sole Sourcing Permitted	Subject to Negotiation				
Postqualification Possibilities	Y		Y		
Savings Targets			Y		
Post Tender Negotiations			Y		
Inspection of Goods	Note 1		Y		
Acceptance and Handover Procedures					
Disbursement : L/C	Y				
Disbursement : Direct by Co-financier	Note 2	Y	Y	Y	Y
Bid Opening	Open	Open	Closed	Open	Open
Procurement Agent Required			Y		

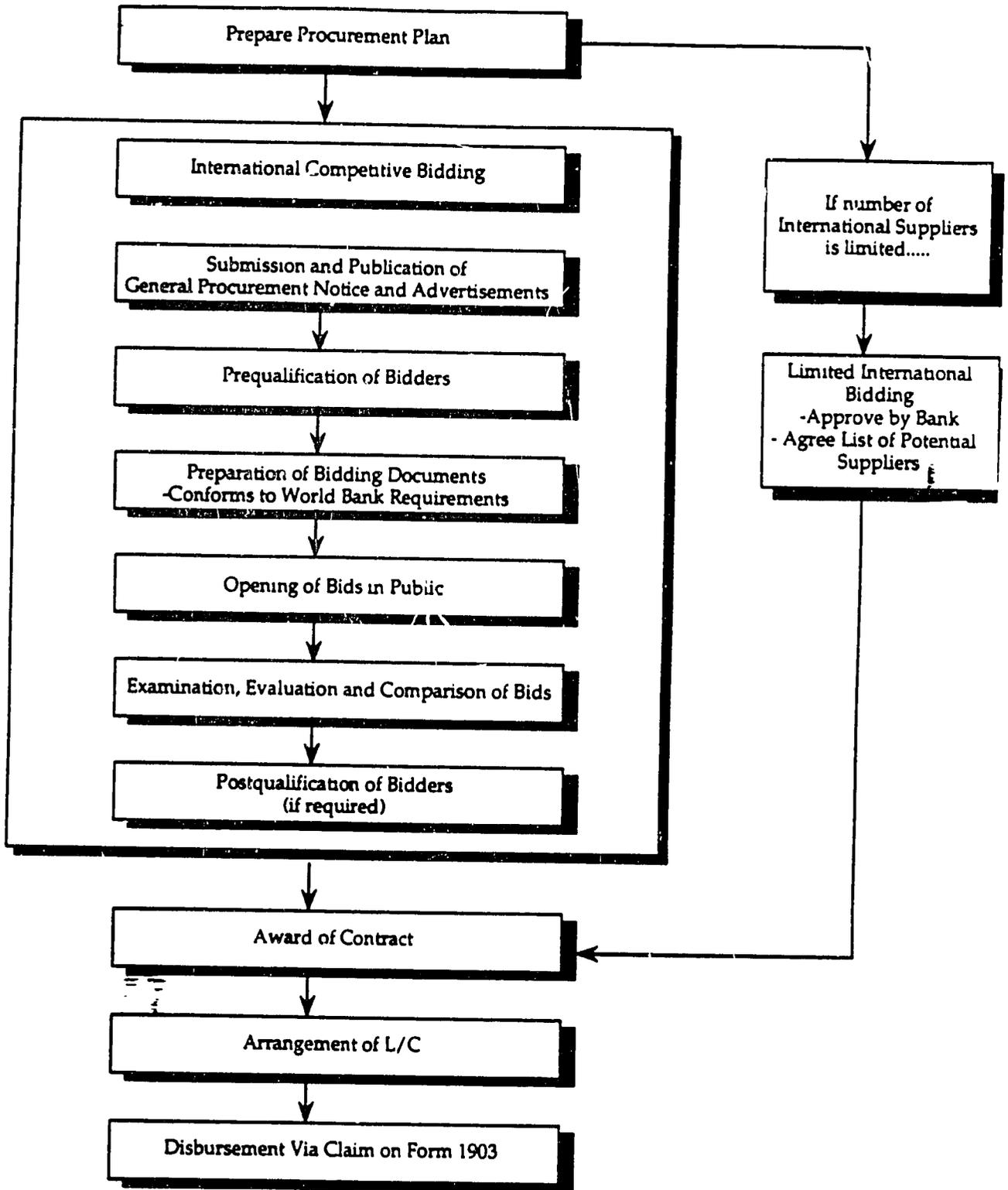
Y = Part of Formal Process



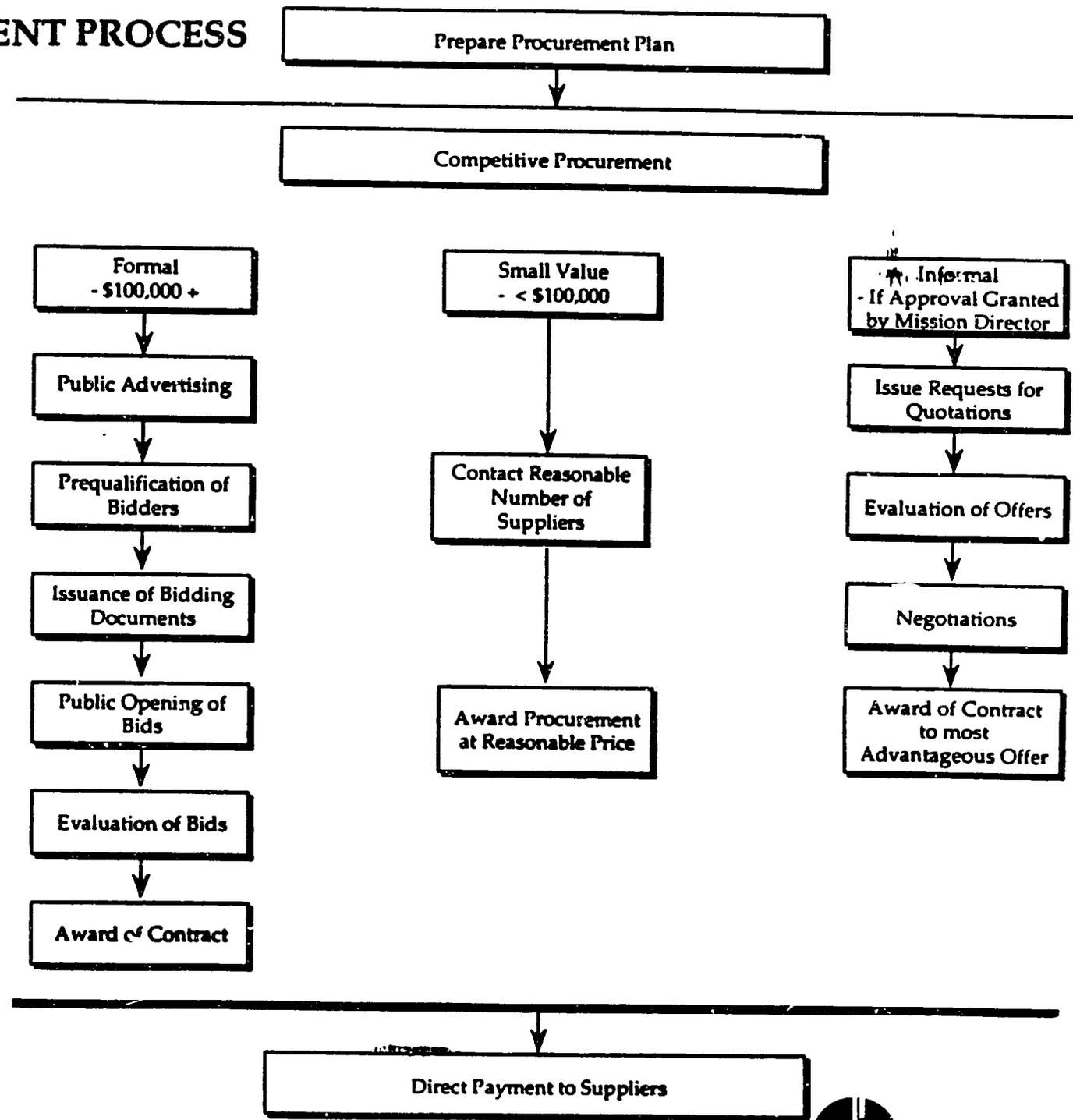
IPG

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WORLD BANK PROCUREMENT PROCESS



USAID PROCUREMENT PROCESS



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Glossary

Account party	In a commercial letter of credit, the party instructing the bank to open a letter of credit and on whose behalf the bank agrees to make payment. In most cases, the account party is an importer or buyer, but alternately, may be a construction contractor or a supplier bidding on a contract.	Revenue Code (Section 167 (m))	which permit shorter or longer than ACRS guideline class life to be used for tax depreciation where ACRS is not applicable. Capital equipment may be depreciated over a period which may be up to 20% more or less than the applicable class life, rounded to the half-year.
Accounts payable	Money owed to suppliers. Also called payables and trade payables.	Advance payment guarantee	An arrangement whereby a person employing a contractor makes funds available to the contracting party for purchase of equipment and organizational expense necessary to get the construction under way.
Accounts receivable	Money owed by customers. Also called receivables and trade credit.	Advised letter of credit	A commercial letter of credit whose authenticity has been verified by a bank, generally in the beneficiary's location. This bank then advises the beneficiary of the authenticity of the letter of credit but does not take on any payment obligation.
Accrual accounting	A method of accounting in which revenue is recognized when earned and expenses are recognized when incurred without regard to the timing of cash receipts and expenditures (<i>cf. cash accounting</i>).	Affiliate	A corporation which directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with another corporation.
Accrued interest	Interest earned but not collected. Interest earned, but not paid, since the latest payment date.	Affiliated corporation	See affiliate.
Accrued interest	Interest due from the issue, or from the last coupon date to the present on an interest-bearing security, or from the last payment date on a loan.	After-tax cash flow	Total cash generated by an investment annually, defined as profit after-tax plus depreciation, or equivalently, operating income after tax plus the tax rate times depreciation.
Acid test or quick ratio	Current assets, less inventories, divided by current liabilities.	After-tax real rate of return	Money after-tax rate of return minus the inflation rate.
Acres	Pronounced "ay-kers", a short way of saying ACRS.	Agent	A firm that executes orders for or
ACRS	An acronym for accelerated cost recovery system.		
ACRS deductions	Tax deductions allowed under Section 168 (a) of the Internal Revenue Code. Tax depreciation deductions.		
ADR	Asset depreciation range. Refers to regulations under the Internal		

	average of the maturities of a given loan.	Bank draft	An international transfer of funds using an instrument that is much like a cheque in use and appearance.
Average payment period	The number of days, on average, within which a firm pays off its accounts payables.	Bank line	A line of credit granted by a bank to a customer.
Average rate of return (ARR)	The ratio of average net earnings to average investment.	Bank wire	A computer message system linking major banks. It is used not for effecting payments but as a mechanism to advise the receiving bank of some action that has occurred, such as the customer's payment of funds into that bank's account.
Back bond	A Eurobond created out of the exercising of a warrant. Also known as a virgin bond.	Bankers' acceptance	A form of credit created when a bank accepts a time draft drawn on itself. By accepting a draft, the bank is obligated to pay the face amount at a specified time in the future, usually six months or less after the acceptance of the draft. In many situations, a seller of merchandise can sell the acceptance for an amount less than face value and have use of funds until repayment on the maturity date of the acceptance.
Back-to-back letter of credit	A letter of credit issued on the strength of another letter of credit (backing credit). It is, in effect, an extension of the terms and conditions of the backing credit. To qualify as a back-to-back credit, the terms must be identical with those of the backing credit except for any or all of the following features: the beneficiary's name; the account party; the amount, which cannot be more than that of the backing credit; the validity date; and the insurance amount.	Bankruptcy	A legal condition in which an individual's or company's assets are assumed by a federal court official and the company is operated and/or its assets are used to pay off creditors.
Balance of payments	Payments to and receipts of a country as compared to payments by a country for a certain time period. A double-entry bookkeeping record of transactions between a country and its trading partners during a particular period of time.	Bargain purchase option	A provision that allows a party, at its option, to purchase an asset for a price that is sufficiently lower than the expected fair market value at the time such option becomes exercisable so that the exercise of the option appears, at the inception of the lease, to be reasonably assured.
Balance reporting	A computerized service offered by banks to clients that allows clients to obtain daily balance information on their different bank accounts.	Barter	Known also as countertrade, it entails the settlement of trading accounts by a method of indirect swap and has become increasingly important in trade between East and West and with currency starved Third World nations. Barter has become of increasing importance in Latin America since that continent's debt servicing problems in the 1980s. It obviates the need to dip into precious foreign exchange reserves.
Balance sheet	An accounting statement that displays the assets, liabilities, and equity of a company.	Base rate	Floating interest rates on bank loans in the United States are quoted on the basis of the prime rate or the base rate of the lender
Balloon payment	Where a term loan is amortized in equal periodic instalments except for the final payment, which is substantially larger than the other payments, the final payment is known as a balloon payment.		
Bank branch	A separate banking unit that is part of a United States or foreign bank. Not a separate corporation or subsidiary.		
Bank discount rate	Yield basis on which short-term non-interest-bearing money market securities are quoted. A rate quoted on a discount basis understates bond equivalent yield. That must be calculated when comparing return against coupon securities.		

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	on a specific property, plant, or piece of equipment. See also Debenture.	Break-even analysis	Analysis of the level of sales at which a firm or product will just break even.
Bond house	A firm which underwrites, distributes and deals in bonds as one of its primary activities.	Bridge financing	Interim financing of one sort or another.
Bond rating	An appraisal by a recognized bond rating service of the soundness of a bond as an investment.	Broker	Brokers are intermediaries who trade in a variety of financial instruments including foreign exchange, equities, commodities, bullion or insurance on behalf of their clients and who charge a fee—or commission—for this service and advice. Brokers fulfil an important function in the market by bringing together buyers and sellers in an efficient manner.
Bond warrants	Warrants attached to bonds (or other securities) buy further bonds with the same or a lower coupon in the future are called bond warrants. The investor is given the benefits if interest rates fall before receives money from the sale of the warrants. This warrant or option reduces the overall cost of borrowing by the original issuer.		A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides.
Bonus	In connection with Euronotes, an acronym for "Borrowers option for notes and underwritten standby". Refers to global commercial paper which are non underwritten Euronote issuance programmes sold on a global basis with the book moving from time zone to time zone to provide 24-hour coverage. Same as global note facility.	Ball market	A period of optimism when increases in market prices are anticipated.
		Bulldog bond	A foreign bond, denominated in sterling, and issued in the UK domestic bond market in London is known as a Bulldog bond.
		Bullet loan	A term loan with periodic instalments of interest only with the entire principal due at the end of the term as a final payment. The final payment on a balloon loan is sometimes referred to as a bullet
Book-entry securities	The US Treasury and federal agencies are moving to a book-entry system in which securities are not represented by engraved pieces of paper but are maintained by financial institutions in computerized records of the securities they own as well as those they are holding for customers.	Burn-up contract	Another name for a nuclear fuel lease.
		Business risk	Risk due to uncertainty about investments outlays, operating cash flows, and salvage values without regard to how investments are financed (cf. financial risk).
Book value	The value at which an item is reported in financial statements.	Buy-back	Another term for a repurchase agreement.
Book value of a project	Assets minus liabilities.	Buy on close	To purchase traded security or a futures contract at the end of the exchange's trading day at a price within the closing range. Buy on opening is the opposite arrangement.
Bought deal	A bought deal occurs when the Lead Manager offers to launch an issue with a specified price and coupon.		
*Bought deal	A Eurobond issue which is fully underwritten on fixed terms and conditions by the Lead Manager.		
Bracketing	The group of underwriters in a syndication. The major investment banking firms come first, but they can be elsewhere. Other brackets are determined by participating underwriters' size and capacity to place securities.	Cable transfer	A type of remittance. Funds are transferred from one bank to a named party at another bank, using electronic transmission
		Call	An option to purchase an asset at a set price at some particular time in the future.

	rise beyond that, the coupon is fixed at the capped rate. Capped floating rate notes are mainly issued by banks.	Cash turnover	The number of times a firm's cash is collected in a year.
*Capped FRN	A Floating Rate Note with a maximum rate of interest.	CEDEL	One of the two major organizations in the Eurobond market which clears, or handles, the physical exchange of securities and stores securities. Based in Luxembourg, the company is owned by several share-holding banks and operates on a non-profit basis.
CARS	Pass through securities collateralized by automobiles.	Central bank	The official government-owned bank in a foreign country.
Carve-out	An exception to a general rule or provision or covenant. Refers to a production payment carved out of a larger production payment, or a right to a specified share of production from a certain mineral property.	Certificate of deposit (CD)	A negotiable, interest-bearing, instrument evidencing a time deposit with a commercial bank on which the bank pays principal at maturity. Interest may be paid at intervals or at maturity. Large-denomination CDs are typically negotiable.
Carved-out production payment loan	A loan secured by a carved-out production payment.	CHIPS	An acronym for the Clearing House Interbank Payments System, a computer system operated by New York banks to settle international payments. Using CHIPS, checks are cleared, other instruments are exchanged, and net balances are settled among banks. Most Euro transactions are cleared and settled through CHIPS rather than over the Fed wire.
Cash accounting	A method of accounting in which changes in the condition of an organization are recognized only in response to the payment or receipt of cash.	CIRCUS	Combined interest rate and currency swap.
Cash budget	A plan or projection of cash receipts and disbursements for a given period of time.	Claw back	A British term to describe a taxpayer paying back to the government an amount equal to tax benefits previously claimed, such as depreciation deductions.
Cash cow	Company or product that generates more cash than can be productively reinvested in that particular company or product.	Clean letter of credit	A letter of credit payable upon presentation of a draft, not requiring the presentation of documents.
Cash cycle	The number of days between the purchase of raw materials and the collection of sales proceeds for finished goods.	Clearing house	Facility through which transactions executed on the floor of an exchange are settled. Also assures the proper conduct of an exchange's delivery system and the adequate financing of trading.
Cash flow	Reported profits plus depreciation, depletion, and amortization. Net income, depreciation, and amortization during the period analysed. A measure of a company's liquidity, consisting of net income plus noncash expenditures (such as depreciation charges). In a credit analysis, cash flow is analyzed to assess the probability that debt retirement commitments can be met without refinancing, that regular dividends will be maintained in the face of falling earnings, or that plant and equipment can be modernized, replaced or expanded without increasing the equity or debt capital.	Clearing house funds	Payments made through the New York Clearing House's computerized Clearing House Interbank Payments System. Clearing house debits and credits used to be settled in Fed funds on the first business day after clearing. Since October 1981, these debits
Cash market	This term has been used to denote the market in which commodities, T bills and other debt securities are traded, for immediate delivery, against cash.		

	to principal, the new base thus established being the principal for the computation of interest for the following period. Interest returns are compounded by reinvesting one period's income to earn additional income the following period.		future, may never arise, and dependent upon some factor other than the passage of time. Examples of this kind of liability are potential legal rulings against the company or contract payments due in the future. The notes to financial statements should include a description of contingent liabilities
Compound value	The end-period value of a sum earning a compounded return.		
Concentration	In banking terms, the centralization of a cash pool.	Contingent rentals	Rentals in which the payment of rents are dependent on some factor other than the passage of time.
Conditional sale	A transaction for the purchase of an asset in which the user, for federal income tax purposes, is treated as the owner of the equipment at the outset of the transaction.	Contingent swap	A swap in which terms are predetermined but which is activated by the action of a third party, such as the exercising of a warrant. Also known as an option swap.
Conditional sale lease	A lease which in substance is a conditional sale (sometimes called a money-over-money lease or a lease intended as security).	Continuous tender panel	In connection with Euronotes, a panel which has characteristics of both a sole-placing agency and a tender panel. The CTP agent agrees on the issue price (the strike offered yield or SOY) with the issuer, and underwriting banks may request protection on their national allocations at the agreed price. Such allocations are calculated pro rata to their underwriting commitments but are only exercisable to the extent that the CTP agent has not pre-sold the issue tranche. The SOY can change during the bidding period and underwriters may be able to increase their initial allocations by bidding at or under the SOY.
Confirmed letter of credit	A letter of credit in which the issuing bank's obligation to pay is backed by a second bank. The confirming bank agrees to pay if the terms of the letter of credit are met, regardless of whether the opening bank pays.		
Conglomerate diversification	Ownership of operations in a number of functionally unrelated business activities.	Conversion premium	The difference between the current price of a firm's stock and the conversion price of a convertible security.
Consortium banks	A merchant banking subsidiary set up by several banks that may or may not be of the same nationality. Consortium banks are common in the Euromarket and are active in loan syndication.	Conversion price	The price at which a convertible security may be exchanged for common stock.
Consortium project	A project structured by two or more parties as a partnership or joint venture.	Conversion ratio	The number of shares of stock for which a convertible security can be exchanged. It is calculated by dividing the par value by the conversion ratio.
Constant-dollar accounting	System of inflation accounting in which historical-cost items are restated to adjust for changes in the general purchasing power of the currency.	Conversion value	The current market price of a firm's stock multiplied by the conversion ratio.
Constant purchasing power	The amount of a currency required over time to purchase a stable basket of physical assets.	Convertible bond	A bond containing a provision that permits conversion into other securities of the issuing entity, typically common stock at some fixed exchange ratio.
Consumer price index (CPI)	An index measure of inflation equal to the sum of prices of a number of assets purchased by consumers weighted by the proportion each represents in a typical consumer's budget.		
Contingent liability	A contingent liability is a liability which may arise sometime in the		

Cross-border loans	Cross-border loans consist of loans in which a bank in one country lends to the borrower in a separate country. Also refers to a syndicate of banks from one or more countries loaning to a project or borrower in another country.		date. From the seller's viewpoint, the option differs from a forward or future purchase or sale of currency because he cannot know whether the option will be exercised.
Cross-collateralized pooled financing	Pooled securities allowing recourse to other mortgages or security interests in the pool.	Current asset	Any asset which will turn into cash within one year.
Cross-currency loans	Cross-currency loans refer to a bank in one country making a commercial loan to a borrower in the same country or in a second country using the currency of a third country.	Current expenditures	Short-term expenditures that are completely charged to income in the year in which they occur.
Cross-hedge	Hedging a risk in a cash market security by buying or selling a futures contract for a different but similar instrument.	Current liability	Any liability which is payable within one year.
CRTs	Abbreviation for the cathode-ray tubes used to display market quotes.	Current maturity	Current time to maturity on an outstanding note, bond, or other money market instrument; for example, a ten year note one year after issue has a current maturity of nine years.
Cumulative preferred stock	Preferred stock containing the requirement that any unpaid preferred dividends accumulate and must be paid in full before common dividends may be distributed.	Current portion of long-term debt	That portion of long-term debt which is payable within one year.
Currency basket	This occurs where a selection of currencies (the basket) is combined to create a common unit. In such cases, the value of each currency is usually weighted according to various economic criteria, such as, the foreign component of a country's total trade, its gross national product and importance in world trade. Examples are the 10-component European Currency Unit (ECU) and the Special Drawing Right (SDR) which comprises the dollar, yen, Deutschmark, sterling and French franc.	Current ratio	Current assets divided by current liabilities (a liquidity measure).
Currency option	A currency option entitles the holder to buy or sell a certain amount of foreign currency at a specific price until a specific date. It differs from a future or forward purchase or sale of exchange in that the forward or future contract implies an obligation to buy or sell currency, while the option confers a right which need not be exercised. To the seller, or writer, the option is a contingent obligation to buy or sell currency at a stated price until a specific	Current yield	The Current yield measures the annual income return on a particular security. Expressed as an annual percentage the current yield is defined and calculated as follows: $\text{Current yield (\%)} = \frac{\text{Coupon}}{\text{Net price}} \times 100$ <p>The net price is expressed as a percentage of the security's market price and excludes accrued interest.</p>
		Cushion bonds	High-coupon bonds that sell at only a moderate premium because they are callable at a price below that at which a comparable noncallable bond would sell. Cushion bonds offer downside protection in a falling market.
		Daily adjustable securities	Puttable long-maturity bonds with coupon rate adjusted daily.
		Days sales in cash	A measure of management's control of cash balances, defined as cash divided by sales per day.
		Dealer	A securities dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

	- expenses) of an oil or gas well or mine. In the case of an oil well, most of the expenses up to installation of the "Christmas tree".		
Development carve-out loan	A loan secured by a development carve-out.	Discount bond	A bond selling below par.
Direct bid facility	In Euronotes, a provision in tender panel facilities whereby members may make unsolicited bids to the issuer for particular note amounts or maturities.	Discount note	A note sold on a discount basis; the standard form of a Euronote.
Direct collection	A service offered by a bank on a case basis to sellers with high volumes of collection activity in order to expedite processing and thus accelerate payment. The remitting bank provides the collection forms which the seller, rather than the bank, prepares and mails with any accompanying documentation to the overseas collecting bank. Copies of the collection form are sent to the remitting bank for control and for follow-up if payment is not received.	Discount securities	Non-interest-bearing money market instruments that are issued at a discount and redeemed at maturity for full face value; for example, US Treasury bills.
Direct financing lease	A lease classification for a financing lessor in which the lease meets any of the criteria defining a capital lease, and for which (a) collectibility of the minimum lease payments is reasonably assured; and (b) there exists no important uncertainties as to costs yet to be incurred by the lessor under the lease.	Discount window	A facility provided by the US Federal Reserve Bank enabling member banks to borrow reserves against collateral in the form of government securities or acceptable paper.
Direct lease	A lease in which the lessor provides the entire purchase price for the leased asset from the lessor's own funds.	Discounted cash flow	A cash flow occurring some time in the future which has been discounted by a given discount factor on a compounded basis; the present value of a future cash flow.
Direct paper	Commercial paper sold directly by the issuer to investors.	Discounted note	An instrument of indebtedness specifying the full repayment amount at par or face value. The current proceeds of the note are thus less than the face value, the difference representing the interest portion or the discount amount.
Direct placement	Selling a new issue not by offering it for sale publicly but by placing it with one or several institutional investors.	Discounted rate of return	The effective periodic rate that would equate the present value of an investment with the accumulated present values of a stream of future cash flows, each appropriately discounted by the periodic rate.
Direct reduction loan	A loan in which the interest portion of the periodic payment is computed for the amount of the principal base outstanding for that period. The new principal base is then established by subtracting the remaining portion of the loan payment amount that was not designated as interest.	Discounted value	The computation of the present value of a given stream of future cash payments.
Disbursement	A term used in accounting and finance to indicate the actual paying out of cash.	Disintermediation	The investing of funds that would normally have been placed with a bank or other financial intermediary directly into debt securities issued by ultimate borrowers; for example, into bills or bonds.
		Dividend	A return on an investment in stock, usually in the form of cash or stock.
		Dividend yield	The annual dividend payment divided by the market price of a share of the stock.
		DM	Deutsche (German) marks.
		Documentary letter of credit	A letter of credit that requires documents to accompany the draft or demand for credit.
		Documented discount notes	Commercial paper backed by normal bank lines plus a letter of

	requirements, divided by the number of outstanding common shares.	End-taker	The user taking the product produced by a project. The term is often used in connection with a take-or-pay contract.
Earnings per share	Same as earnings per common share.	EPS	Earnings per share.
Earnings yield	Earnings per share divided by stock price.	Equity	Net worth; assets minus liabilities. The stockholder's residual ownership position.
Economic life of property	The estimated period during which the property is expected to be economically usable by one or more users, with normal repairs and maintenance, for the purpose for which it was intended at the inception of the lease.	Equity kicker	A share of ownership interest in a company, project or property, or a potential ownership interest in a company, project or property in consideration for making a loan. The kicker may take the form of stock, stock warrants, purchase options, a percentage of profits, or a percentage of ultimate ownership.
Edge act subsidiary	A subsidiary established under section 25(a) of the US Federal Reserve Act passed on December 24 1919 with the title "Banking Corporations Authorized to do Foreign Banking Business". Regulation K governs operations of Edge Act Corporations. Their purpose is to aid in financing and stimulating international trade.	Equity warrants	Equity warrants may be included with either bonds or equity issues. An equity warrant gives the holder the right to buy shares in the company at a fixed price at some time in the future. The lower the exercise price for the shares, the more valuable the warrants will be, because the holder has a greater chance of exercising his rights profitably.
Efficient market	A market in which asset prices instantaneously reflect new information.	Equivalent bond yield	The annual yield on a short-term, non-interest-bearing security calculated so as to be comparable to yields quoted on coupon securities.
Eligible acceptance	A banker's acceptance that meets US Federal Reserve requirements related to its financing purpose and term. Most business transactions eligible for acceptance financing arise out of the importation or exportation of goods to or from the United States or between two foreign countries. Other eligible transactions include the domestic or foreign storage of readily marketable staples, goods that are either under sales contract or expected to move into a channel of trade within a certain time period and the domestic movement of goods. In the case of storage, the bank creating the acceptance must hold the title documents for the goods to be stored for the entire storage period. In the case of domestic shipment, when the bank is asked to accept a draft, it must have evidence that the shipment did take place, when it was made, and what the merchandise was. The bank usually has a copy of the bill of lading or invoice for this purpose. Financing for transactions that meet these criteria generally costs less than financing for ineligible acceptances.	ERTA	Economic Recovery Tax Act, 1981.
		ESOT	Employee stock ownership trust. ESOTs are used to provide deferred compensation to employees. Since ESOTs are permitted to invest in stock or property owned by the corporation sponsoring the ESOT Banks lending to ESOTs sometimes can treat a portion of the interest income as free from federal tax.
		Euro CDs	CDs issued by a US bank branch or foreign bank located outside the United States. Almost all Euro CDs are issued in London.
		Euro-commercial paper (ECP)	A non-underwritten or uncommitted note issuance programme in which one or more dealers place the issuer's paper
		Euro French Franc Bonds	A Euro French Franc bond is a bond denominated in francs but

	<ul style="list-style-type: none"> - before the conclusion of the fixed term and renewals. The lessee can renew the lease for a term that is consistent with a remaining useful life at the end of the renewal term of at least 20% of the original useful life. Stated another way, the lease term can be renewed such that the sum of the base term and fixed rate renewals do not exceed 80% of the reappraised useful life. 		
Exchange controls	Restrictions that are applied by a country's monetary authority, or central bank, to limit the convertibility of the local currency into other specific foreign currencies.		does not compete with, private capital. Its assistance falls into four categories: a medium-term guarantee programme, a direct loan and financing guarantee programme, a discount loan programme, and a cooperative financing facility programme. The Eximbank guarantees commercial banks and reinsures the Foreign Credit Insurance Association against all political risks and substantial parts of commercial risks taken on both insurance programmes and commercial bank guarantee programmes.
Exchange rate	The price at which one currency trades for another.	Extended term agreement	An agreement to renew a lease, commonly used to describe a guaranteed renewal of a lease by a third party.
Exchange traded currency options	Options traded in organized markets whose participants are committed to quoting both buy and sell prices.	Extension swap	Extending maturity through a swap; for example, selling a two-year note and buying one with a slightly longer current maturity.
Ex dividend	Without dividend; refers to a share of stock purchased after a dividend was declared.	Face value	The maturity value of a bond or other debt instrument. Sometimes referred to as the bond's par value or nominal value.
Exempt securities	In the United States, instruments exempt from the registration requirements of the Securities Act of 1933 or the margin requirements of the Securities and Exchange Act of 1934. Such securities include commercial paper, and private placements.	FAD note	Fixed-at-disbursement notes fix the interest rate at time of disbursement, based upon reference to some index.
Expected return	The future revenue which investors anticipate will be received from their investments.	FAS 13, etc.	Technically: Statement of Financial Accounting Standards No. 13, Accounting for Leases: Financial Accounting Standards Board, Stamford, Connecticut, November 1976, which sets forth financial accounting standards on accounting for leases. Other financial standards are identified with other numbers.
Export credit incentive programmes	The governments of most of the world's industrial and trading nations sponsor trade support programmes that are designed to promote the host country's exports. The programmes usually include a variety of short-, medium-, and long-term financing, guarantee, or insurance programmes in which governments share both commercial and political risks ranging from currency inconvertibility and bankruptcy to war, riot, and revolution.	FASB	Financial Accounting Standards Board.
Export-Import Bank of the United States (Eximbank)	An independent, self-sustaining, and wholly-owned agency of the US government that aids in financing and facilitating US exports. The Eximbank supplements and encourages, but	FCIA	Foreign Credit Insurance Association.
		Fed	Short for Federal Reserve Board.
		Fed wire	A computer wire transmission service established by the Federal Reserve to link member banks and to the Fed to facilitate the movement of funds of member bank accounts at the Fed.
		Fed funds	See Federal Funds.
		Federal funds	Non-interest bearing deposits held by member banks at the Federal

Floating currency	<p>A currency whose rate of exchange is allowed to fluctuate according to the forces of supply and demand. All currencies are subject to some degree of central bank intervention to soften the effects of market forces. Conversely, governments also manipulate their domestic economies to boost their currencies.</p>	Foreign Credit Insurance Association (FCIA)	<p>may also be sold to international investors as well as domestic investors.</p> <p>An unincorporated consortium of over 50 leading US insurance companies that cooperate with the Eximbank to cover commercial and political risks for short-term and medium-term export credit transactions. Policies are issued in relation to transactions in two broad categories: those involving multiple sales, and those involving single sales. The policies for multiple sales transactions require the insured to include a representative spread of his foreign sales. The policies for single sales transactions are written for each transaction.</p>
Floating interest rate	<p>An interest rate which fluctuates during the term of a loan and which is adjusted upwards or downwards during the term of a loan in accordance with some index of short-term rates.</p>	Foreign currency futures	<p>A formal contract to sell or to buy a certain amount of foreign currency at a specified rate for delivery at a future time.</p>
Floating rate notes	<p>A floating rate note issue has no fixed rate of interest. The coupon is set periodically according to a predetermined formula tied to short term interest rates in the appropriate market. Usually refers to floating rate notes issued in Europe, although all kinds of floating rate instruments are issued in the United States. The holder may have the right to demand redemption at par on specified dates.</p>	Foreign currency option	<p>A contract that gives the purchaser the right to buy or sell a fixed amount of currency at a fixed rate on or before a specified expiration date.</p>
Floating rental rate	<p>Rental rate under a lease which is subject to upward or downward adjustments during the lease term, as short-term interest rates change. Usually an interest rate index is used as a reference for change.</p>	Foreign draft	<p>A draft drawn by any bank or other drawer in one country on a bank or other drawee in another country. It may be in any currency.</p>
Floor broker	<p>Any person who, in or surrounding any pit, ring or other place provided by a contract market for the assembly of persons similarly engaged, executes for another any orders for the purchase or sale of any commodity for future delivery and receives a prescribed fee or commission.</p>	Forex	<p>Foreign exchange.</p>
Floor trader	<p>Member of an exchange who normally executes his own trades by being personally present in the pit or place for futures trading; also known as a local.</p>	Foreign exchange	<p>The currency of foreign countries; and the process of converting the currency of one country to that of a second country.</p>
Floored FRN	<p>A Floating Rate Note with a minimum of interest.</p>	Foreign exchange exposure management	<p>The strategies adopted and actions taken by companies to minimize the possibilities of loss in transactions involving foreign exchange.</p>
Footings	<p>The bottom line of an institution's balance sheet; total assets equal total liabilities plus net worth.</p>	Foreign exchange rate	<p>The price at which the currency of one country can be bought with the currency of another country.</p>
Foreign bond	<p>A bond issue for a foreign borrower offered in the domestic capital market of a particular country and denominated in the currency of that country. They</p>	Foreign exchange risk	<p>The risk that a long or short position in a foreign currency will have to be closed out at a loss, due to an adverse movement in the relevant exchange rate. The long or short position which may arise out of a financial or commercial transaction.</p>
		Foreign leasing	<p>As used in international leasing, foreign leasing refers to a lease in</p>

Grey market	In the Eurobond market, the trading in the bonds from the date that the issue announced, on what is known as an "if, as and when issued" basis, is called the grey market.	anticipated cash or commodity position, or by shorting a security similar to one in which a long position has been established.
Gross lease	Opposite of a net lease. The lessor pays property tax, insurance, and maintenance costs on a gross lease of equipment.	Hedging See Hedge.
Guideline lease	A lease which qualifies as a true lease in Revenue Procedure 75-21.	Hell-or-high-water clause A requirement that an obligation, such as rent payments, be carried out "come hell-or-high-water". An unconditional, absolute obligation not subject to defence of non-performance by the other party to the contract.
GUN	An acronym for grantor underwritten note. In connection with Euronotes, a floating rate note facility similar to a Euronote facility whereby a group of banks (grantors) commit to purchase any notes put back to them by investors on any FRN interest rate fixing date. Any put notes thus accumulated are then auctioned out to the market between the grantors.	High gearing A high debt to equity ratio.
HERMES	HERMES Kreditversicherungs AG. The trade finance agency for Germany.	High-low debt Debt with higher payments early in the term.
Haircut	A discount.	High-low rent A lease in which rents are higher early in the term.
Hard currency	A currency considered by the market to be likely to maintain its value against other currencies over a period of time and not likely to be eroded by inflation. A soft currency, on the other hand, is one whose value melts away as you hold it. Hard currencies are usually freely convertible. The most obvious hard currencies in recent times have been the US dollar, Deutschemark, yen, Swiss franc and sterling.	Hire-purchase agreement Same as Conditional Sale Lease.
Harmless warrant	Warrants attached to a host bond that protect the issuer from the potential doubling of debt in the event of warrant exercise by allowing the issuer to call a corresponding amount of the host bond.	Historical-cost depreciation Depreciation based on amount originally paid for asset.
Heat supply contract	A nuclear fuel lease.	Host bond A Eurobond issue carrying warrants.
Hedge	A method whereby currency exposure (the risk of possible loss due to currency fluctuations) or commodity exposure is covered or offset for a fixed period of time. This is accomplished by taking a position in futures equal and opposite to an existing or	Hurdle rate Minimum acceptable rate of return on investment.
		IDC Intangible drilling costs.
		IFC International Finance Corporation, a subsidiary of the International Bank for Reconstruction and Development (World Bank).
		Incipient default An event or condition that, after the giving of notice or the lapse of time, or both, would become an event of default under a lease or a mortgage, entitling the lease to be terminated or the mortgage to be foreclosed.
		Income Earnings.
		Income statement A report of a company's revenues, associated expenses, and resulting income for a period of time. The profit and loss statement.
		Income warrant A debt warrant that carries interest on its issue price.
		Incremental borrowing rate The interest rate which a person would expect to pay for a certain loan at a certain time.
		Indemnitee A term used to describe the class of persons entitled to indemnification under the general indemnity and general tax indemnity provisions of an agreement.

Indemnity agreement	When used in the context of a leveraged lease, an agreement whereby the owner participants and the lessee indemnify the trustees from liability as a result of ownership of the leased equipment.	Interest	Cash amounts paid by borrowers to lenders for the use of their money. Normally expressed as a percentage.
Indemnity clauses	Refers to the indemnity provisions in a lease or loan.	Interest Equalization Tax	A tax applied on securities issues of foreign borrowers offered within the United States, intended to discourage such offerings. First applied in 1963, finally repealed in 1974. Significant Eurodollar loans came into widespread use partially as a result of IET.
Indenture of a bond	A legal statement spelling out the obligations of the bond issuer and the rights of the bondholder.	Interest rate exposure	Risk of gain or loss to which a company is exposed due to possible changes in interest-rate levels.
Indenture trustee	An indenture trustee holds the security interest in property for the benefit of the lenders.	Interest rate implicit in a lease	The discount rate which, when applied to minimum lease payments (excluding executory costs paid by the lessor) and unguaranteed residual value, causes the aggregate present value at the beginning of the lease term to be equal to the fair value of the leased property at the inception of the lease.
Indexed loan	A loan with debt service repayment tied to some standard which is calculated to protect the lender against inflation and/or currency exchange risk.	Interim rent	Daily rental occurring from delivery, acceptance and/or funding until a later starting date for a basic lease term. Often used when equipment delivers over a period of time.
Indexed rate notes	A note with the interest rate set at take-down on the basis of an agreed interest rate index.	Internally generated funds	Cash that a firm generates from retained earnings and depreciation.
Industrial Revenue Bond	See Revenue Bond.	International Primary Markets Association	A group which endeavours to standardize the way which new Eurobond issues are launched, encouraging common standards and greater disclosure. The London or Luxembourg, stock exchanges will require the issuer to comply with its relevant listing procedures.
Ineligible acceptance	An acceptance that does not meet the Federal Reserve eligibility requirements but that does offer advantages in certain financing situations.	Inventory turnover ratio	A measure of management's control of its investment in inventory, usually defined as cost of goods sold divided by ending inventory.
Inflation premium	The increased return on a security or an investment which is required to compensate investors for expected inflation.	Investment bank	A financial institution specializing in the original sale and subsequent trading of company securities.
Insider trading	Buying or selling of a company's securities by persons having access to nonpublic information relating to the company in question.	Investment bank	A term applied to a financial institution (usually US) engaged in the issue of new securities including management and
Institutional investors	Investors such as banks, insurance companies, trusts, pension funds, foundations, and educational, charitable, and religious institutions.		
Intangible assets	Intangible assets include such items or accounts as: goodwill, patents and patent rights, deferred charges, and unamortized bond premium.		
Intangible expenses	Development expenses of an oil or gas well or mine, which are deductible for income tax purposes in the year incurred.		
Inter-creditor agreement	An agreement between the lenders to a company as to the rights of creditors in the event of default,		

	participants in the bond market is to achieve Lead Manager status.		
Lease backed collateralized securities	Securities collateralized by leases on plant and equipment.	Lessee	The user of equipment being leased.
Lease intended as security	A lease in which the lessee is considered the owner for both state law and federal income tax purposes. A conditional sale or instalment purchase for income tax purposes.	Lessee's incremental borrowing rate	The interest rate which the lessee at the inception of the lease would have incurred to borrow over a similar term the funds necessary to purchase the leased assets. In a leveraged lease the rate on the bonds is normally used as the lessee's incremental borrowing rate.
Lease line	A lease line of credit similar to a bank line of credit that allows a lessee to add equipment to a lease, as needed, under the same basic terms and conditions, without negotiating a new lease.	Lessor	The owner of equipment which is being leased to a lessee or user.
Lease multiple	The number of lease payments due a lessor against which a lender is willing to lend. The lease multiple reflects the lender's assumptions as to interest rate, cash flow, yield, credit, and other variables.	Letter of credit	A guarantee limited as to time and amount.
Lease rate	The equivalent simple annual interest rate implicit in minimum lease rentals. Not the same as interest rate implicit in a lease.	Level payments	Equal payments over the term of a loan or lease.
Lease term	The fixed, non-cancellable term of the lease includes, for accounting purposes, all periods covered by fixed rate renewal options which, for economic reasons, appear likely to be exercised at the inception of the lease, and for tax purposes, all periods covered by fixed rate renewal options.	Leveraged lease	A lease which meets the definition criteria for a direct financing lease, plus all of the following characteristics: <ul style="list-style-type: none"> a. At least three parties are involved: a lessee, a lessor, and a long-term creditor. b. The financing provided by the creditor is substantial to the transaction and without recourse to the lessor. c. The lessor's net investment typically declines during the early periods of the lease and rises during the later periods of the lease.
Lease underwriting	An agreement whereby a packager commits firmly to enter into a lease on certain terms and assumes the risk of arranging any financing.	Liability	An obligation to pay an amount or perform a service.
Legal lending limit	A limit under the United States National Banking Act which states the total obligations to any national banking association of any person, co-partnership, association, or corporation shall at no time exceed 10% of the amount of the capital stock of such association actually paid in and unimpaired, and 10% of its unimpaired surplus fund. There are numerous qualifications and exceptions to the limit.	Libor	The London Interbank Offered Rate of interest on Eurodollar deposits traded between banks. There is a different Libor rate for each deposit maturity. Different banks may quote slightly different Libor rates because they use different reference banks.
Legal reserves	The portion of its deposits which a bank is required by law to maintain in the form of cash or readily available balances to meet the demands of the depositors.	Lien	A security interest on property to secure the repayment of debt and the performance of related obligations.
		Lifting a leg	Closing out one side of a long-short arbitrage before the other is closed.
		Limited partnership	A partnership consisting of one or more general partners, jointly and severally responsible as ordinary partners, by whom a business is conducted; and one or more limited partners, contributing in cash payments a specific sum as

	agreement provides that the product will be supplied from some other source controlled by the sponsor.		
Mandate	Authorization from a borrower to proceed with arranging a financing.	Mezzanine financing	An unusually structured transaction, usually with an equity kicker offered in order to get better terms from investors.
Manufacturer's bill of sale	The bill of sale from the manufacturer or supplier of the property usually containing the manufacturer's warranty that the purchaser has received good title to the equipment being purchased by it.	Micro factors	Factors that pertain to supply, demand, and pricing.
Marginal cost of capital	The incremental cost of financing above a previous level.	Middle rate	In exchange rate terms, this is the median between a bid and an offer.
Marginal tax rate	The tax rate that would have to be paid on an additional dollar of taxable income earned.	Mini/max FRN	A floating rate security with upper and lower bounds set.
Market value	The price at which an item can be sold.	*Mini max FRN	An FRN with both minimum and maximum rates of interest.
Master lease	A lease line of credit that allows a lessee to add equipment to a lease under the same basic terms and conditions without negotiating a new lease contract.	*Mismatched FRN	A floating rate security with coupon reset and coupon payment occurring at different frequencies.
Maturity	The date on which a given debt security or any obligation to pay money becomes due and payable to the holder in full.	Mismatch FRN	Under a mismatch FRN, the borrower sets its interest rate monthly, and pays out the average for each six month rate as the rate for the period. Usually an FRN pays interest twice a year at the three month or six month rate. The payment under a mismatch FRN is still made half yearly, but the technique protects investors who have borrowed at the cheaper one-month rate, to buy their FRNs.
Merchant bank	A British term for a European form of investment bank which specializes not in lending out its own funds but in providing various financial services such as accepting bills arising out of trade, underwriting new issues, and providing advice on project finance, acquisitions, mergers, foreign exchange, and portfolio management. Merchant banks also act as intermediaries between the corporation which wishes funds for as new equipment, new buildings, or plant expansions, and the investor, who wishes to invest his savings. Merchant banks may promote a new industry, handle the finances of a corporation for expansion purposes, or act as brokers with other investment banking firms in the flotation of stocks and bonds.	*Mismatch FRN	An FRN having a coupon structure re-fixed more often and for different maturities than the interest periods.
Merger	The combining of two or more enterprises. Corporate mergers involve the exchange of securities or the issuance of new securities or both.	MOF (Japan)	Ministry of Finance.
		MOF	An acronym in Euronotes for multi-option facility. A MOF is broader than the typical underwritten Euronote facility (NIF) in that the banks' medium-term commitment is to backstop, not only the issuance of Euronotes, but also a wide range of other short-term instruments, such as bankers acceptances and short-term advances in a variety of currencies.
		Monetary asset	Any asset having a value defined in units of currency. Cash and accounts receivable are monetary assets; inventories and plant and equipment are physical assets.
		Money centre bank	See money market bank.
		Money market	The market for shorter-term securities, generally those with one year or less remaining to maturity, handled by such financial institutions as commercial banks

Net income	Earnings.		
Net lease	In a net lease, the rentals are payable net to the lessor. All costs in connection with the use of the equipment are to be paid by the lessee and are not a part of rental. For example, taxes, insurance, and maintenance are paid directly by the lessee. Most finance leases are net leases.	Nonpayout lease	A lease in which cash flows from rents and nominal residual value are insufficient to cover the cost of financing and administration of the lease. The lessor relies on a renewal or release of equipment to recover its investment and realize a profit.
Net-net lease	Same as Net lease.	Nonperforming loan	A loan on which interest or some payment due under the loan agreement is not paid as it accrues. Since banks are examined only periodically, a nonperforming loan may or may not be classified.
Net present value (NPV)	Present value of cash inflows less present value of cash outflows.	Note	An instrument recognized as a legal evidence of a debt that is signed by the maker, promising to pay a certain sum of money, on a specified date, at a certain place of business, to the payee or other holder of the note. The difference, if any, between notes and bonds is normally that of maturity, notes having a shorter life. Coupon issues with a relatively short original maturity are often called notes. However, US Treasury notes are coupon securities that have an original maturity of up to 10 years.
Net profit	Earnings.	Note issuance facility	Called a NIF. A note issuance facility is a general reference used to describe all types of underwritten Euronote facilities.
Net profit margins	Net profits after taxes divided by sales.	Notional amount	The nominal or principal amount of a swap as measured in a base currency, usually US dollar.
Net sales	Total sales revenue less certain offsetting items such, as returns and allowances and sales discounts.	NOW accounts	These are in effect checking accounts on which depository institutions (banks and thrifts) may pay a rate of interest. NOW stands for negotiable order of withdrawal.
Net working capital	Current assets minus current liabilities, used as an indication of liquidity.	OKB	Osterreichische Kontrollbank AG The trade finance bank for Austria
Net worth	Equity, shareholders' equity.	Offshore entity	A generalization for an entity located outside the boundary of the country of origin.
New-issues market	The market in which a new issue of securities is first sold to investors.	Off-take	The product produced by a project
NIBOR	New York Interbank Rate, which a few bankers promote as a term equivalent to Libor.	Offering circular	Also called a Prospectus. The offering circular usually contains a complete description of the terms of the securities being offered, together with financial information relating to the borrower and any guarantor
NIF	Stands for: note issuance facility, which is general reference to describe for all types of underwritten Euronote facilities.	Off-taker	The user taking the product produced by a project. The term is
Nominal rate	A stated rate which is usually subdivided for compounding purposes, resulting in a higher effective rate.		
Non-commercial risk	Risks such as: casualty risk, political risk, expropriation, acts of God, currency, convertibility, technological risks, failure of management. A non-commercial risk can usually be covered by insurance.		
Non-convertible currency	Non-convertible currencies are those whose circulation is restricted by the local authorities and where the exchange rate is artificially set by those authorities (usually well above the inevitable local black market rate).		
Nondollar FRNs	FRNs in currencies other than the dollar such as Deutschmark and yen-denominated FRNs.		

	receive par value for their bonds on maturity.		and a modest expectation of residual value.
Pari passu	Instruments which rank equally in right of payment with each other and with other instruments of the same issuer.	PEFCO	See Private Export Funding Corporation.
Partly paid bond	In a partly paid bond, part of the purchase price is deferred so that only a relatively small portion, say 20%, is payable on issue, with the balance being due in one or more instalments at later dates. If the investor fails to subscribe the subsequent calls, the bond is forfeit, and the issuer benefits to the extent of the subscriptions abandoned.	Performance bond	A bond to motivate a contractor to perform a contract. Some performance bonds require satisfactory completion of the contract. Other performance bonds provide for payment of a sum of money for failure of the contractor to perform under a contract.
Partnership	A voluntary contract between two or more persons to place their money, efforts, labour and skill in lawful commerce or business with the understanding that there shall be a proportional sharing of profits and losses between them.	*Performance bond	A bond supplied by one party to protect another against loss in the event of default of an existing contract.
Partnership	A business entity by two or more persons (or corporations) and conducted for a profit.	Perpetual FRNs	A type of FRN which investors can (in theory) sell at close to par on coupon dates. Consequently investors are less concerned regarding the life of the bonds that are held. However, market prices for perpetual FRNs have been erratic.
Partly paid FRN	After an initial payment for the first part of a floating rate security issue, the purchaser must subscribe to future parts of the issue.	Perpetuity	An annuity forever; periodic equal payments or receipts on a continuous basis.
Pass-through	A mortgage-backed security on which payment of interest and principal on the underlying mortgages are passed through to the security holder by an agent.	Physicals	Actual commodity delivered to the contract buyer at the completion of a commodity contract in either the futures markets or the spot market such as corn, cotton, gold, coffee, oil, wheat and soya beans.
Payables period	A measure of a company's use of trade credit financing, defined as accounts payable divided by purchases per day.	Placement	A bank depositing Eurodollars with or selling Eurodollars to another bank is often said to be making a placement.
Payback period	The amount of time required to recover the initial investment in a project.	Plug	The unknown quantity in a pro forma forecast.
Payee	Partly named on a cheque or draft as recipient of the payment.	Point	100 basis points is equal to 1%. However, 1% of the face value of a note or bond is also called a point.
Paying agents	Paying agents are appointed in different financial centres, to arrange for the payment of interest and principal due to investors under the terms of a bond issue. Paying agents are usually banks.	Poison pill	An anti-takeover defence in which a new diluting security is issued to existing shareholders if control of the firm is about to shift.
Payout lease	A lease in which the lessor expects to recover its investment, plus interest, over the life of the lease from any or all of the following: rentals, cash flow from tax benefits	Pooling of interest	A merger that involves the combination of the assets, the liabilities, and the equity positions of two companies. This method differs from the purchase approach, which involves goodwill on any excess payment over book value.

Production payment	A mineral production payment is a right to a specified share of the production from a certain mineral property (or a sum of money in place of production). The payment is secured by an interest in the minerals in place. Payment is dischargeable only out of runs of oil or deliveries of gas or minerals accruing to certain property charged with the production payment. It cannot be satisfied out of other production. The right to the production is for a period of time shorter than the expected life of the property. A production payment usually bears interest payable out of future production for payment.		services if furnished or sold by Comsat, or (d) transportation of gas or steam by pipeline if the rates for such furnishing or sale have been established or approved by a state (or political subdivisions thereof), by an agency or instrumentality of the United States, or by a public service or public utility commission.
		PUF	Prime underwriting facility. Same as a RUF except that the maximum margin is expressed in relation to the US prime interest rate.
Production payment loan	A loan secured by a production payment.	Purchase option	An option to purchase property during a certain period of time or on the happening of certain events.
Profitability index	The ratio of the present value of future cash flows from a project to the initial investment in the project.	Put	An option one person has to sell an asset to another person at a set price at some established point in time in the future. A contract allowing the holder to sell some property to some person at a fixed price for a given period of time.
Project, as used in the term project financing	An economic unit capable of generating sufficient cash flow to conservatively cover operating costs and debt service for financing the project over a reasonable time period which is less than the economic life of the asset.	Put bond	A bond with an indenture provision allowing it to be sold back to the issuer at a prespecified price.
Proprietorship	An operation owned by one person and conducted for a profit.	Put option (generally)	A contract sold for a price that gives the holder the right to sell to the writer of the contract, over a specified period, a specified property or amount of securities at a specified price.
Prospectus	Also called a Offering Circular. The offering circular contains a complete description of a loan offering or securities issue, including a complete statement of the terms of the issue and a description of the issuer, as well as its historical and latest financial statements. A prospectus for a public offering must be filed (in the US) with the SEC prior to the sale of a new issue.	Put options (in a bond)	In a bond or loan, a put option gives investors the chance to demand repayment early, affording them the opportunity to redeem low-coupon bonds at par and to reinvest elsewhere at higher rates. For this right in the future investors will have to accept a lower coupon today than that the coupon on a comparable instrument which does not incorporate a put option.
Public issue	Newly issued securities sold directly to the public.		
Public offering	Same as public issue.	Put-or-pay contract	See Supply-or-pay contract.
Public utility property	As defined in the Internal Revenue Code, public utility property includes property used predominantly in the trade or business of furnishing or selling (a) electrical energy, water, or sewage disposal businesses, (b) gas or steam through a local distribution system, (c) telephone services or other communications	Quick ratio	Cash, accounts receivable, government securities and cash equivalents to current liabilities. This ratio nets out all current asset items of questionable liquidity such as inventories. This is a measure of how quickly a company can pay off short-term obligations without relying on

Risk adjusted discount rate	-A discount rate which includes a premium for risk.	Sale and leaseback	A transaction in which an investor purchases assets from the owner and then leases such assets back to the same person. The lessee receives the sale price (and can return it to his capital) and continues to enjoy the use of the assets.
Risk aversion	- An unwillingness to either bear any risk or to bear risk without compensation of some form.		
Risk-free interest rate	The interest rate prevailing on a default-free bond in the absence of inflation.	Sales-type lease	The same as a direct financing lease except that manufacturer or dealer profits are involved. A lease that meets the definitional criteria of a capital lease under FAS 13, plus two additional criteria: (a) collectibility of the minimum lease payment is reasonably predictable; and (b) no important uncertainties surround the amount of unreimbursable costs yet to be incurred by the lessor under the lease.
Risk premium	An additional required rate of return that must be paid to investors who invest in risky investments to compensate for the risk.		
ROA	Return on assets.		
ROE	Return on equity.		
ROI	Return on Investment.		
Rollover term loan	Most term loans in the Euromarket are made on a rollover basis, which means that the loan is periodically repriced at an agreed spread over the appropriate, currently prevailing Libor rate.	Samurai bond	A Samurai bond is a foreign bond denominated in yen and issued in the Japanese domestic bond market in Tokyo.
RUF	Stands for revolving underwriting facility. A medium-term commitment by a group of underwriting banks to purchase one, three or six month Euronotes at a fixed Libor related margin should a sole-placing agent or tender panel fail to sell the notes to investors at or under that margin.	Samurai lease	A yen-denominated lease subsidized by MITI to finance equipment located outside Japan. The Samurai lease is funded from domestic Japanese yen.
Rule 415	An SEC rule allowing shelf registration of a security which may then be sold periodically without separate registrations of each part.	Sandwich	An agreement essentially between two parties with a third party in between the two parties, usually adding some value, such as a lease, sublease, for example.
Running the books, or book-running manager	The manager who has total control over an offering (usually appears on the upper left of the list of underwriters in a tombstone advertisement).	Savings and loan association	In the US, a federal- or state-chartered institution that accepts savings deposits and invests the bulk of the funds thus received in mortgages. In recent years savings and loan associations have been authorized and have engaged in some commercial lending including fixed rate term loans
S&L	See Savings and loan association.	Savings deposit	An interest-bearing deposit at a savings institution that has no specific maturity.
SACE	Sezione Speciale per l'Assicurazione del Credito all'Esportazione. The trade finance agency for Italy.	Sawtooth rents	Rents that vary throughout the term of the lease, usually to match debt payments and tax payments in a leveraged lease so as to lessen the need for a sinking fund.
Safe harbour lease	A safe harbour lease was a lease which met the criteria of Section 168(f) (8) of the Internal Revenue Code which was added by ERTA and amended by TEFRA, and repealed by DRA.	Scale	A bank that offers to pay different rates of interest on CDs of varying maturities is said to post a scale. Commercial paper issuers also post scales.
Salvage value	The estimated selling price of an asset once it has been fully depreciated.	SDRs	Special Drawing Rights. Credit extended by the International

Short	A market participant assumes a short position by selling a commodity or security he does not own.		often require that the issuer make annual payments to a sinking fund, the proceeds of which are used to retire randomly selected bonds in the issue. Another type of sinking fund permits the issuer to retire the bond by a market purchase.
Short bonds	Bonds with a short current maturity.		
Short coupons	Bond or note interest payments with a short current maturity.	Sinking fund rate	The rate of interest allocated to a sinking fund.
Short hedge	The sale of a future contract to hedge, for example, a position in cash, a commodity, securities or an anticipated borrowing need.	SNIF	Stands for short-term note issuance facility. A RUF with a tender panel placement facility. Otherwise structurally the same as a RUF.
Short position	An individual who has sold a future or option contract to establish a market position and who has not yet closed out this position through an offsetting purchase.	Soft currency	A currency perceived by the market to be reasonably unlikely to maintain its value against other currencies over a period of time. The convertibility of soft currencies usually is, or may become, restricted.
Short sale	The sale of securities or commodities not owned by the seller in the expectation that the price of these securities or commodities will fall or as part of an arbitrage. A short sale must eventually be covered by a purchase of the securities or commodities sold.	Solvency	The state of being able to pay debts as they come due.
		Sources and uses statement	A document showing where a company got its cash and where it spent the cash over a specific period of time. It is constructed by segregating all changes in balance sheet accounts into those that provided cash and those that consumed cash.
Short-term debt	An obligation maturing in less than one year.		
Short-term lease	Generally refers to an operating lease.	Sovereign risk	The special risk, if any, that attaches to an investment or loan because the borrower's country of residence differs from that of the investor's. Also referred to as country risk.
Sight draft	A draft calling for payment at first presentation, or at sight of the draft.	Special drawing rights	SDR. The currency of the International Monetary Fund (IMF) which is used to settle international balances; it represents a composite of five currencies weighted according to each country's share of world exports
Simple interest	The charge for the loan of money or for a deferment of the collection of an account, computed by applying a rate (of interest) against the amount of the loan or account. - Contrasts with compound interest in that only the principal earns interest for the entire life of the transaction.	Special purpose corporation	An independent corporation with nominal capital which is a party to a project financing for purposes of holding title as a nominee or acting as a conduit of funds.
Single-investor lease	Same as Direct Lease or Direct Financing Lease.	Special-purpose property	Property that is uniquely valuable to the user and is not valuable to anyone else except as scrap. A lease of special-purpose property will not qualify as a true lease because the lessee controls the residual value. Also referred to as limited use property.
Sinking fund	A fund of cash set aside for the payment of a future obligation. A bond sinking fund is a payment of cash to creditors.		
Sinking fund	A reserve or a sinking fund established or set aside for the purpose or payment of a liability anticipated to become due at a later date. Indentures on corporate issues		

Specialized tender panel	- In connection with Euronotes, a specialized tender panel is similar to a direct bid facility except that members of the STP are limited to a nucleus of houses with perceived note placement strength who are expected to make a market in the issuer's paper.	Stepped FRN	A Floating Rate Note where the spread changes with time on a preset basis.
Sponsor	A party interested in supporting a project financing. A party providing the credit to support a project financing.	Stock dividend	A dividend in the form of additional shares of stock, issued in lieu of a cash dividend. This type of dividend increases the common stock par value and capital surplus and is taken out of retained earnings.
Spot market	The market for buying and selling a specific commodity, foreign currency or asset at the current price for immediate delivery.	Stock split	The issuing of more shares of stock to current stockholders without increasing stockholders' equity. It reduces the par value of common stock but does not alter the equity values in the balance sheet.
•Spot market	Markets in which goods, currencies, assets or commodities are sold for cash and delivered immediately, except in the spot market for foreign exchange, settlement is two business days ahead. Trades that occur in futures contracts expiring in the current month are also called spot market trades. The spot market tends to be conducted over-the-counter (via telephone trading) rather than on the floor of an organized commodity exchange. Known also as actual market, cash market or physical market.	Stop out bid	In Euronote facilities, a method of tender panel bidding whereby one or more of the tender panel participants have an option to post a bid for all or part of an issue tranche at a price which other tender panel members must then better.
Spot rate	The price prevailing in the spot market.	Stop payment order	Instructions issued to a bank which direct the bank not to honour a previously issued draft or check. The order must meet legal requirements.
Spot transaction	A foreign exchange transaction in which foreign currency is bought at the current rate of exchange and delivered within two business days after the transaction date.	Story credit	A credit that looks poor from the standpoint of its financial statements but that looks more favourable in light of the story about its prospects for the future.
Standard & Poors	A credit rating agency.	Straddle	Strategy comprising an equal number of put options and call options on the same underlying stock, stock index, or commodity future at the same strike price and maturity date. Each option may be exercised separately, although the combination of options is usually bought and sold as a unit.
Standard deviation	- The volatility of returns, or the average deviation from an expected value or mean.	Straight debt	A standard bond issue or loan lacking any right to convert into the common shares of the issuer.
Standby letter of credit	A letter of credit that provides for payment to the beneficiary when he presents a certification that certain obligations have not been fulfilled. For example, if a construction company does not complete work in time, the beneficiary (generally the building owner) can recover payment from the bank issuing the standby letter of credit.	Straight letter of credit	A letter of credit in which the opening bank limits its promise to pay to the beneficiary.
Stepped appreciation on income-realization securities	Zero-coupon bonds for an initial period, after which they are converted to interest-bearing securities.	Straightline depreciation	Depreciating an asset by equal dollar amounts each year over the life of the asset.
		Strike price	The price at which an option to purchase can be exercised.
		Striking price method	In connection with Euronotes where the issue price for the whole tranche is set at the level of the last

	<p>on a pro rata basis under identical terms and conditions evidenced by a single credit agreement. These facilities are generally floating rate in nature, with or without amortization, and the pricing will normally consist of a fixed spread over a short-term base rate (which base rate is adjusted periodically during the life of the loan), with commitment fees, agency fees, management fees, offsetting balances, security, etc., often included as well. Tenors may range from 1-12 years.</p>		
Syndicated loan	<p>A commercial banking transaction in which two or more banks participate in making a loan to a borrower. Interest is typically paid on a floating rate basis linked to short-term interest rates in a particular currency.</p>	TAP basis	<p>In the Eurocommercial paper market, the method of issuance whereby the dealer approaches the issuer for paper in direct response to particular investor demand rather than the issuer seeking bids from the dealer.</p>
Tacar	<p>A broker who arranges a transaction and disappears immediately upon collection of a fee. Stands for "take a commission and run".</p>	Tap issue	<p>A Eurobond issue where the initial issue may be followed by subsequent issues within one programme.</p>
Take-and-pay contract	<p>A take-and-pay contract is sometimes used to describe a contract in which payment is contingent upon delivery and the obligation to pay is not unconditional, as in a take-or-pay contract.</p>	Tap stocks	<p>In the case of a tap stock issue, usually between one third and one half of an issue of bonds is issued in an initial tranche. Subsequent tranches are then issued at later dates at the option of the issuer. They are often placed on a best efforts basis, at prices reflecting market conditions at the time of the placement. These type of securities issued in the Eurobond market are similar in effect to shelf registrations in the US.</p>
Take-or-pay contract	<p>A take-or-pay contract is a long-term contract to make periodic payments over the life of the contract in certain minimum amounts as payments for a service or a product. The payments are in an amount sufficient to service the debt needed to finance the project which provides the services or the product, and to pay operating expenses of the project. The obligation to make minimum payments is unconditional, and must be paid whether or not the service or product is actually furnished or delivered.</p>	Tax-exempt bonds	<p>Bonds issued by political subdivisions which bear interest exempt from US income tax.</p>
Taking a view	<p>A London expression for forming an opinion as to where interest rates are going and acting on it.</p>	TBT lease	<p>A tax benefit transfer (TBT) lease was a type of safe harbour lease with little economic substance structured like a leveraged lease in which the lessee loans the lessor leveraged debt and the transaction was equivalent to a sale of tax benefits. TBT leases were repealed by ERTA although many continue in existence.</p>
Tangible expenses	<p>Capital expenditures subject to depreciation and depletion in connection with an oil well or mine.</p>	Tender acceptance facility	<p>The same structure as an underwritten Euronote facility using a tender panel except that the short-term instruments under auction are bankers acceptances not Euronotes.</p>
Tangible net worth	<p>Tangible net worth is shareholders' equity adjusted for intangible</p>	Tender bond	<p>Another name for a bid bond.</p>
		Tender panel	<p>In connection with Euronotes, a group, which includes Euronote facility underwriters and</p>

such as depreciation. The criteria for a true lease for purposes of obtaining a tax ruling under Revenue Procedure 75-21 are:

1. At the beginning of the lease, the estimated remaining useful life of the leased property at the end of the lease term must be equal to at least 20% of the original cost of the leased property (excluding front-end fees, inflation and any cost to the lessor for removal).
2. At the beginning of the lease, the estimated remaining useful life of the leased property at the end of the lease term must be equal to at least 20% of the original estimated useful life of the equipment and never less than one year.
3. The lessee must not have a right to purchase or release the leased property at the end of the lease term at a price which is less than its fair market value. The lessee must not have a right to purchase the equipment at less than its fair market value at any time such right is exercised.
4. At the beginning of the lease and at all times during the entire lease term, the lessor must have a minimum unconditional at-risk investment equal to at least 20% of the cost of the leased property (applicable in practice only to leveraged leases).

TRUF An acronym for transferrable revolving underwriting facility. In connection with Euronotes, whereby the banks' contingent liability to purchase notes in the event of non-placement is fully transferable.

Trust deed In a loan, a contract defining the obligations of the borrower and appointing a trustee to represent the interests of lenders. Also known as a trust indenture in the United States.

Trust indenture See Trust deed.

Trust receipt A legal instrument allowing a party to receive custodial control over goods for a short, predetermined period of time and for a particular purpose. After this time, either the goods are paid for or custodial control is returned to

the party acting as agent in the transaction, usually the collecting bank.

Trustee A bank or other third party which administers the provisions of a trust agreement. In financing transactions these provisions may relate to a loan.

UCC The Uniform Commercial Code, which has been adopted by every state except Louisiana to govern commercial transactions.

UCC Financing Statement A document filed with the county (and sometimes the secretary of state) to provide public notice of a security interest in personal property.

US dollar index contract A futures contract on the dollar's trade-weighted value.

Underwrite An arrangement under which a financial house agrees to buy a certain agreed amount of securities of a new issue on a given date and at a given price, thereby assuring the issuer the full proceeds of the financing.

Underwriter A financial firm engaged in the business of underwriting securities issues.

A dealer who purchases new issues from the issuer and distributes them to investors. Underwriting is one function of an investment banker.

In a Eurobond offering the Lead Managers and Co-Managers act as underwriters for the issue, taking on the risk of interest rates moving against them before they have placed the bonds. Additional banks may be invited to act as sub-underwriters, so forming a larger underwriting group.

Underwriting syndicate A group of investment banks that band together for a brief time to guarantee a specified price to a company for newly issued securities.

Undivided interest A property interest held by two or more parties whereby each shares according to their respective interest, in profits, expenses and enjoyment, and whereby ownership of the respective interest of each may be transferred, but physical partition of the asset is prohibited.

Yield	Rate of return on a loan, expressed as a percent and annualized.		the account always maintains a balance of zero. As checks drawn against a zero-balance account clear, the total dollar amount accumulates and results in a debit total. At the close of the business day, a transfer of funds is made from a master account of the corporation to cover this debit total and to return the account to a zero balance.
Yield curve	The relationship between yield and current maturity is depicted in graphic form as a yield curve. This curve plots yield on the vertical axis and maturity on the horizontal axis. A normal yield curve slopes upward from left to right, from short maturities to long maturities.		
Yield to maturity	The rate of return yielded by a debt security held to maturity when both interest payments and the investor's capital gain or loss on the security are taken into account.	Zero coupon bonds	A bond which does not pay interest. The security is sold at a discount and its yield interest rate is determined by a rise in value per unit of time. Its maturity value equals par.
Zaiteku	A Japanese term for making money purely from financial operations.	Zero-coupon convertible	Zero coupon bond with option to convert to common stock or other security.
Zero-balance account	A type of corporate checking account used by firms to provide centralized cash control and decentralized disbursement control. The primary characteristic of a zero-balance account is that	Zero coupon note	See zero coupon bond.
		Zero coupon swap	A swap of an interest-bearing coupon security for a discount-basis zero-coupon security.