Glossary

Acceleration After a default, the loan is fully due and payable. Repayments are accelerated to the present.

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.

Accrued interest Interest earned but not collected.

Acid test or quick ratio Current assets, less inventories divided by current liabilities.

Ad valorem Off the gross or stated value, usually a percentage.

ADB Asian Development Bank.

Advance agent A loan drawdown is advanced by the funder.

After tax cash flow Total cash generated by the project annually, defined as profit after tax plus depreciation.

Agent The bank charged with administering the project financing. Generic: a party appointed to act on behalf of a principal entity/person.

All-in rate Interest rate which includes margin, commitment fees, up-front fees.

Amortisation The process of paying off an amount gradually by spreading the payments over several years.

Annual report The company's annual accounts, audit statements and narrative account of the year at hand. Presentations vary considerably.

Annuity The sum of principal and interest is equal for each period.

Arbitrage Take advantage of discrepancies in price or yields in different markets.

Arranger The senior tier of a syndication. This implies the entity that agreed and negotiated the project finance structure. Also refers to the bank/underwriter entitled to syndicate the loan/bond issue.

Asset The physical project and its associated contracts, rights and interests of every kind, in the present or future, which can be valued or used to repay debt.

Asset turnover ratio A broad measure of asset efficiency, defined as net sales divided by total assets.

Asset-backed securities Securities collateralized by a pool of assets. The process of creating securities backed by assets is referred to as asset securitization.

Assets Any item owned by a company or individual that can be given a monetary value and used if necessary to pay debts. There are many kinds of assets, described by terms like current assets and fixed assets.

Assignment Grant of the right to step in to the position of a party to a contract or legal agreement.

Audit An official examination and checking of a company's accounts by an independent accountant called an auditor, to certify that the accounts (as presented by the directors) comply with the law, and in their opinion give a true and fair view of the company's affairs.

Auditors Accountants who certify that the company's accounts have been reviewed in accordance with FRS (Financial Reporting Standards for the UK – see below) and note the findings of their inquiry.

Authorized signatories Persons authorized to sign on behalf of the company borrowing the money. Specimen signatures are usually in a booklet provided by the company. It is the bank's (i.e. analyst's) responsibility to verify this: if the signatory is not authorized, the company does not have to pay the money back.

Availability The project financing is available for drawdown. A period prior to financial close may also be included.

Available cash flow Total cash sources less total cash uses before payment of debt service.

Average life Average for all repayments, usually weighted by amounts outstanding.

Avoided cost The capital and expense that would otherwise have to be spent if the project did not proceed.

Balance sheet The accounts which show assets, liabilities, net worth/shareholders' equity.

Balloon payment A large single repayment.

Barter The physical form of countertrade.

Basis point (bp) One hundred bp equals 1 percentage point.

Bearer bond The bond certificate is itself negotiable. (It is not recorded as being owned by any particular Investor.)

Best efforts A very high standard of undertaking, nevertheless excusable in the event of force majeure or failure to execute the matter in question after trying to do so on a sustained, dedicated basis.

BI Business interruption insurance available once the project is in business.

Bid bond A small percentage (1–3%) of the tender contract price is established as a bid 'performance' bond. Once the contract is awarded, bid bonds are refunded to the losers.

Blocked currency Due to inconvertibility or transfer risk, a currency cannot be moved out of the country.

Bond The paper evidence of a legal promise by the issuer to pay the investor on the declared terms. Bonds are usually negotiable. Bonds are customarily longer term, say 5–25 years. Short term bonds are usually referred to as notes.

BOO Build Own Operate (and Maintain).

Book runner The arranger or bank extending the invitations for a syndication and tallying final take.

Borrower risk Risks pertaining to the company, including management, profitability, non-performance and bankruptcy: all factors relating to the borrower.

BOT Build Own Transfer where the project is transferred back to the party granting the concession. The transfer may be for value or at no cost.

Break even The reduction of a project finance net cash flow to zero by changing an input variable such as price or costs.

Broker A party which brings together sponsors, finance or insurances but is not acting as a principal.

Builders All Risk The standard insurance package during construction.

Bullet repayment A loan whose interest is payable at intervals agreed in the loan agreement, and whose principal is repayable in a lump sum at final maturity. The source of repayment is usually a new facility that is put into place.

Buy-back A promise to repurchase unsold production. Alternatively, a promise to repay a financial obligation.

Buydown A once-off payment out of LDs to reflect cash flow losses from sustained underperformance. Often used to 'buy' down the project finance loan.

Buyer credit A financing provided to a buyer to pay for the supply of goods or services usually by an exporting country or the supplier company.

Call An option to buy a security or commodity for a set price at a given time in the future.

Call option A contract sold for a price that gives the holder the right to buy from the writer of the option, over a specified period, a specified property or amount of securities at a specified price.

Cap A ceiling on an interest or FX rate through a swap, options, or by agreement.

Capex Capital expenditures, usually by way of direct investment.

Capital markets A broad term to include tradable debt, securities and equity as distinct from private markets or banks.

Capitalized interest Prior to completion, the convention is to capitalize interest into the project financing, i.e. to borrow to pay Interest. See IDC.

Cash flow The generation of cash by a project.

CDC Commonwealth Development Corp., a British development finance institute.

Certificates of registration These certify that the company has registered with the state authorities. Photocopies are usually available from the company on request.

Charge Under Crown Law, the document evidencing mortgage security. A fixed charge refers to a defined set of assets and is usually registered. A floating charge refers to other assets which change from time to time, e.g. cash at bank, inventory, etc., which become a fixed charge after a default.

Claw back The ability to recover prior project cash flow that may have been distributed/paid away as dividends to the sponsors.

Club A group of underwriters who do not need to proceed to syndication.

Coface The French ECA.

Co-financing Where the different lenders agree to fund under the same documentation and security packages yet may have different interest rates, repayment profiles and term, perhaps via A and B tranches.

Collar A ceiling and floor to an interest or FX rate structured through swaps, options, hedging, or by agreement.

Collateral Additional security pledged to support a project financing.

Collateral See Security.

Co-Manager A second-tier participant, ranked by size of participation.

Commitment fee A per annum fee applied to the portion of the unused project financing (the amount not yet drawn down) until the end of the availability period.

Compensation trade The form of countertrade where an incoming investment is repaid from the units/revenues generated by that investment.

Complementary financing Where different lenders agree to fund under similar yet parallel documentation and a pro-rata security package.

Completion In a project financing, when the project's cash flows become the primary method of repayment. It occurs after a completion test. Prior to completion, the primary source of repayment is usually from the sponsors or from the turnkey contractor.

Completion risk Construction, development, or cost overrun risk. The risk that a project will not be able to pass its completion test.

Completion test A test of the project's ability to perform as planned and generate the expected cash flows. The time when the project can move from recourse to a project financing.

Compound Interest is reinvested to earn additional interest in the following period.

Consortium All of the participants or developers. For the early stages of a project, it may be a loose association, not a legal or contractual entity/JV.

Constant dollar Inflation or escalation is not applicable. Prices and costs are de-escalated/re-escalated to a single point in time.

Contingency An additional amount/percentage to any cash flow item. e.g. Capex. Care is needed to ensure it is either 'to-be-spent' or a cushion.

Contingent liabilities Items that do not represent a liability on the balance sheet at the time of statement date but which could do so in the future. Such items include guarantees issued in favour of third parties, and lawsuits currently in progress whose outcome is uncertain.

Convertible A financial instrument that can be exchanged for another security or equity interest at a pre-agreed time and exchange ratio.

Counterparty The other participant, usually in a swap or contract and includes intermediaries.

Countertrade One party supplies a unit/funding in return for other material/funding. See Barter.

Country risk Includes sovereign risk but usually an estimate of the likelihood of a country debt rescheduling which will prompt currency Inconvertibility. Sometimes referred to as sovereign risk.

Coupon The interest amount or rate payable on a bond. A coupon may be physically attached to the bond certificate.

Covenants Conditions in the loan agreement signed by the bank and the borrower which the borrower must respect. Covenants can cover conditions on management performance, disposal of subsidiaries, negative pledges, amounts of debt incurred and adherence to financial ratios. Non-compliance is known as an event of default.

Cover The amount above unity of a debt service ratio.

CPI Consumer Price Index, a measure of inflation at the consumer level.

Credit enhancement The issuance of a guarantee, L/Q or additional collateral to reinforce the credit strength of a project financing.

Credit scoring Technique used to evaluate a potential borrower according to a pre-defined matrix procedure. Usually used in retail banking and credit card processing, may be used in evaluating corporates.

Creditworthy The risk of default on a debt obligation by that entity is deemed low.

Cross default A default by another project participant or by the sponsor (other than the project financing) triggers a default.

Cross-collateral Project participants agree to pool collateral, i.e. allow recourse to each other's collateral.

Crown Law Law derived from English law, e.g. England, Ireland, Canada, Australia, Papua–New Guinea, Hong Kong, Singapore, India, Malaysia.

Cure Make good a default.

Current asset Cash or assets that can be converted to cash within one year.

Current dollar Actual or real prices and costs. Escalation/inflation effects are included.

Current liabilities Liabilities payable within one year.

Current ratio Current assets divided by current liabilities (a liquidity ratio).

Cushion The extra amount of net cash flow remaining after expected debt service.

D:E ratio The amount of debt as a ratio of equity, often expressed as a percentage.

D:E swap Debt in a blocked currency is swapped for equity in a local company project, usually at a discount.

DCF Discounted cash flow where net cash flow is brought to a present value using a given percentage discount rate.

Debenture A legal security over the Issuer's general credit/balance sheet.

Debottle-necking Each transition of a project's flowsheet or sequence is optimized to increase output. This may require minimal Capex.

Debt The obligation to repay an agreed amount of money.

Debt service Principal repayments plus interest payable; usually expressed as the annual dollar/currency amount per calendar or financial year.

Deductible An amount or period which must be deducted before an insurance payout or settlement is calculated.

Default A covenant has been broken or an adverse event has occurred. A money default means a repayment was not made on time. A technical default means a project parameter is outside defined/agreed limits or a legal matter is not yet resolved.

Default interest A higher interest rate payable after default.

Defeasance Some or all of the debt is cash collateralized usually indirectly or via zero-coupon structures.

Deficiency The amount by which project cash flow is not adequate for debt service.

Deficiency agreement Where cash flow, working capital or revenues are below agreed levels or are insufficient to meet debt service, then a deficiency or make-up agreement provides the shortfall to be provided by the sponsor or another party, sometimes to a cumulative limit.

Defined event The definition applicable to the trigger of a loss in an insurance policy, particularly PRI.

Depreciation Amortization for accounting (book), tax calculations, or income calculations. A regular reduction in asset value over time.

Derivative A financial instrument based on an underlying contract or funding such as a swap, option or hedge.

Devaluation Either a formal reduction in the FX rate or gradually according to FX market forces.

DIS Delay-in-start-up insurances which can cover all non-site forces majeures, change in a law and contingent contractor liability (efficacy). Sometimes called advanced loss-of-profits insurances or advanced business interruption insurance.

Discount rate The annual percentage applied to NPV or PV calculations (and is often the all-in interest rate or the interest rate plus margin for project financing). The discount rate may be the WACC.

Dividend The amount paid out per share, usually once or twice a year, by a company from its profits as decided by the board of directors.

Documentation Anything (such as certificates of registration, loan agreements, guarantees, etc.) relating to the legal agreements and guarantees governing the facility extended to the borrower.

Documentation risk The risk of non-repayment due to a defect in the loan agreement or security arrangements. This can arise due to faulty drafting, mitigating circumstances, juridically non-enforceable and faulty collateral, or guarantees which have expired and not been renewed. The analyst is not expected to assess legal issues, but is expected to obtain legal opinions when necessary and note them in the credit analysis.

Double dip Tax depreciation is accessed in two countries concurrently.

Drawdown The borrower obtains some of the project financing, usually progressively according to construction expenditures plus IDC.

Drop-dead A fee payable when the underlying transaction does not proceed.

DSCR Debt service cover ratio; usually annual.

DTI Department of Trade and Industry. It is a valuable source of information on companies and many business matters in the UK and abroad.

Earnings Net income, net profit.

EBIT Earnings before interest and taxes.

EBIT DA Earnings before interest and tax, depreciation and amortization.

EBRD European Bank for Reconstruction and Development targeted at Eastern Europe and the former Soviet Union, an MIA.

ECA Export Credit Agency established by a country to finance its national's goods, investment, and services. They often offer PRI.

ECGD Export Credit Guarantee Department, the UK ECA.

EDC Export Development Corp., Canada's ECA.

EFIC Export Finance Insurance Corp., Australia's ECA.

EIS Environmental Impact Statement, which may have been subject to public comment.

Engineering risk Design risk. The impact on project cash flow from deficiencies in design or engineering.

Environmental risk Economic or administrative consequence of slow or catastrophic environmental pollution.

Equity In a project financing, the cash or assets contributed by the sponsors. For accounting, it is the net worth or total assets minus liabilities. In the context of credit analysis, this refers to the net value of all assets after deduction of all charges. Also known as share capital or shareholder's funds.

Equity kicker A share of ownership interest in a company, project or property, or a potential ownership in them. The kicker may take the form of stock, warrants, purchase options, percentage of profits, or percentage of ownership.

Escrow Where documents or money accounts are put beyond the reach of the parties.

Eurobonds Bonds issued in any currency and are commonly listed in Luxembourg. They cannot be traded in the USA. Eurobonds are often bearer bonds.

Eurodollar US$ deposited with banks outside the USA.

Events of default A pledge in the loan agreement which the borrower fails to meet, enabling the bank to call the loan in for prepayment. Such events can range from the Channel Tunnel boring failing to reach mile 12.75 on a specified date, to mailing an annual report three days late to the lending bank.

Evergreen A contract that rolls over after each agreed (short term) period until cancelled by one party.

Evergreen facility A facility that automatically renews itself unless the borrower or lender gives notice to cancel.

Execute Formal signing of documentation. Implement an action required under the documentation.

Expropriation The state has taken over a company or project, implying compensation will be paid. Nationalization. Creeping expropriation occurs when a government squeezes a project by taxes, regulation, access, or changes in law.

Factoring Selling of invoices to raise cash. Debts of various kinds are put together and sold to banks or corporate treasurers. A term used in international trade.

Fee A fixed amount or a percentage of an underwriting or principal.

Final take The final participation.

Finance lease The lessor receives lease payments to cover its ownership costs. The lessee is responsible for maintenance, insurance and taxes. Some finance leases are conditional sales or hire purchase agreements.

Financial close When the documentation has been executed and conditions precedent have been satisfied or waived. Drawdowns are now permissible.

Financial year end The close of the year accounts (FYE).

Financing agreements The documents which provide the project financing and sponsor support for the project as defined in the project contracts.

Fiscal year end The end of the tax year as defined by the tax authorities.

Fixed cost Operating cost which does not vary per unit of output.

Fixed rate Interest rate that is fixed for a defined period.

Float See IPO.

Floating rate Interest rate that is reset periodically, usually every couple of months or sometimes daily.

Floor A level which an interest rate or currency is structured not to go below.

Force majeure Events outside the control of the parties. These events are acts of man, nature, governments/regulators, or impersonal events. Contract performance is forgiven or extended by the period of force majeure.

Forward contract Forwards. An agreement to exchange currency or interest obligations in the future. For tradable commodities or securities, an agreement to buy or sell at a future date.

FRNs Floating rate notes where the interest is reset by a panel or by reference to a market Floating Rate.

FRS/SSAP Financial Reporting Standard/Statement of Standard Accounting Practices. A set of standardized guidelines and procedures which have become mandatory for directors in the UK for all company accounts.

Full recourse No matter what risk event occurs, the borrower or its guarantors guarantee to repay the debt. By definition, this is not a project financing unless the borrower's sole asset is the project.

Funding risk The impact on project cash flow from higher funding costs or lack of availability of funds. Interest Risk.

Futures Agreements to purchase a commodity or financial instrument at a price agreed today. These are usually tradable on exchanges or computer trading screens.

Futures These are formal agreements to purchase a given item in the future at a price agreed today. The purpose is to hedge against price changes. The practice began in Chicago in the 19th century and centred around the agricultural market, but records show that it was common in Holland and Japan in the 16th century.

Futures market A market where forward contracts can be traded before their maturity.

FX Foreign exchange; the conversion of one currency into another.

FX rate Foreign exchange rate; one currency unit expressed in terms of another.

FX risk The effect on project cash flow or debt service from a movement in the FX rate for revenue, costs, or debt service.

Gearing This is a ratio that sums up the financial standing of a company. It is obtained by dividing the total interest-bearing debt by the shareholders' funds. The higher the number, the greater the risk. A company that has a large proportion of its permanent capital from debt is referred to as being highly geared.

General partner The partner with unlimited liability.

Goodwill The amount paid in excess of book value on the balance sheet, usually for intangible assets such as trademarks or licences.

Grace After a default, days of grace may be stated within which the cure is effected. A period when interest or principal is not yet payable, usually a period after start-up/commissioning/completion in a project financing.

Guarantee Usually an undertaking by a third party to assume the debts of the borrower in the event of default. A common situation with parent/affiliate lending arrangements. Guarantees can and do expire, and the analyst should ensure in the credit review that they are either still valid, or have been renewed.

Guarantor A party who will guarantee repayment or performance of a covenant.

Hedge To take a forward contract or option to effect an anticipated change in a currency, commodity, interest rate, or security, so that gains or losses are offset.

Hell-or-high-water An absolute commitment, with no contractual defence.

Hermes The trade finance agency for Germany.

Hire purchase The user of the asset is entitled to purchase the asset according to a pre-agreed method. The user may be the owner for tax purposes.

Hurdle rate A minimum IRR.

IDC Interest during construction. It usually equals capitalized interest.

IFC International Finance Corporation, the private enterprise arm of the World Bank.

Illiquid Not easily traded or not readily converted to cash.

Incipient default Potential default.

Income Operating cash flows less overheads and depreciation, either before tax (BT) or after tax (AT). Earnings.

Inconvertibility Where a local currency cannot be exchanged for another currency. Often includes transfer risk.

Indemnity A legal obligation to cover a liability, however arising.

Indexed rate An interest rate linked to an index, usually the CPI.

Information memorandum A document detailing the project and project financing, usually in connection with a syndication.

Infrastructure risk The impact on project cash flows from infrastructure problems. Sometimes labelled transportation risk.

Institutions Insurance companies, pension funds, trusts, foundations, mutual funds, funds managers, bank investment departments.

Instrument A financial tool. Sometimes a discrete type of funding or a security.

Intangible assets Good will, patents and trademark valuation, deferred charges, and share/bond premiums.

Interest Rate The percentage payable to the lender calculated at an annual rate on the principal. May be all-in.

Interest risk The impact on project cash flow from higher interest costs or lack of availability of funds. Funding risk.

Intermediary An entity standing between parties to funding or a swap. An intermediary may be at risk.

Inverse order Applied to the periodic repayment schedule and means from the end, expected maturity. 'Current order' means the next periodic principal repayment.

Investment bank The US term for a merchant bank.

Investment grade For a rating, the rating level above which institutional investors have been authorized to invest.

Investor/creditor community Entities which provide funds to companies. Investors buy shares in the company (equity), while creditors lend money to companies (debt).

IPO An initial public offering of shares. A float.

IPP Independent power plant; an example of a BOO development.

IRR The discount rate to make the NPV zero. Multiple IRRs occur mathematically if the periodic cash flows change sign more than once.

Islamic loan Interest cannot be charged. Rather the loan is structured using discounts, sale/lease, profit participation, or repurchase agreements.

Joint venture JV. The legal means of dividing the project's equity either by shareholdings in a company (incorporated JV) or by way of a contract (unincorporated JV).

Junk A high-yield bond of speculative grade.

L/C Letter of credit, a guarantee to pay limited to an amount and time triggered by defined events or exchange of agreed documents. Used for credit enhancement.

Latent default A potential default that may have always been present but unidentified.

Lawsuit In financial terms, this is a contingent liability, e.g. an item that does not appear on the balance sheet but can have a financial impact on the company. Lawsuits should be explained in the notes to the financial statements.

LDs Liquidated damages. The amount payable for delays and substandard performance under a construction, equipment supply, or O&M contract.

Lead arranger The senior tier of arranger.

Lead bank A senior bank involved in the negotiations for a project financing. Subordinate to an arranger. Lead manager.

Lead manager Senior tier of lender in a loan syndication.

League tables A ranking of lenders and advisers according to the underwriting, final take or number of project finance loans or advisory mandates.

Lease The owner of an asset (lessor) agrees to receive lease payments/rentals from the user (lessee), usually at a fixed rental level. The lessor/owner takes the benefit of depreciation as a tax deduction. Its primary security is the asset.

Lease rate The equivalent interest rate calculated from a stream of lease payments.

Lease term The life of a lease including any renewal options.

Legal risk A risk that a defect in the documentation will affect cash flow or debt service.

Lending risk The risk the bank is getting into by putting the loan into place. Often more narrowly defined as risk arising from inadequate or faulty loan documentation.

Lessee The user who pays lease rentals to the owner/lessor.

Lessor The owner of a leased asset.

Leverage The American term for gearing. In the UK this is the same as gearing, with the addition of non-interest bearing external debt.

Leveraged lease A lessor borrows to finance a leased asset. Recourse may be limited to the lease rentals or the asset.

Liability The obligation to repay a defined amount or to perform a service.

LIBOR London Interbank Offered Rate, often quoted as a 1,3,6-month rate for US$.

Lien A legal security interest in an asset.

Limited recourse Under certain conditions (legal or financial), there is access to the sponsor(s)' credit or other legal security for repayment (besides the project's cash flows). There is usually recourse in the event of fraud or misrepresentation/non-disclosure. Thus non-recourse is better described as 'limited recourse'.

Liquid Easily traded or converted to cash.

Liquidation Selling off the company's assets to satisfy creditors during a winding up. The main risk in a liquidation is asset shrinkage: whether the assets being liquidated can fetch a market value sufficient to satisfy all the creditors.

Liquidity The ability to convert asset into cash. A measure of how easily assets can be converted into cash.

Loan agreement Every loan should have one. These define the rules and obligations binding on the lenders, borrowers guarantors and related parties.

Loan officers The persons who look after client relations and new business opportunities. The analyst's work is to evaluate objectively the companies and businesses loan officers are proposing to lend to, and submit their evaluations in the credit review process.

Loans, short term Loans under one year's duration.

Loans, term Loans of between 2 and 7 years' duration.

Long term Three years or more. In accounting: more than 1 year.

Loss payee A party to whom an insurance loss payment or settlement may be paid directly.

LP Limited partner who is not liable for the debts of the partnership beyond the funds contributed.

Make-up Where a cash flow or capital item is deficient, the amount of such deficiency, e.g. an interest make-up relates to the interest amount above a ceiling percentage.

Manager A medium-level participant established according to final take.

Mandate The formal appointment to advise on or arrange a project financing.

Margin The amount expressed in % per annum above the interest rate basis or cost of funds. For hedging and futures contracts, the cash collateral deposited with a trader or exchange as insurance against default.

Market risk Changes to the amounts sold or the price received which impacts on gross revenue. Sometimes called sales risk.

Maturity The final date a project finance loan is repayable. The end of the term.

Maturity schedules The repayment dates on the loan. A good set of company financial statements will break out all the various debt which it has, the interest rates and periods of repayment. The analyst should pay particular attention to the impact of bullet repayments on future cash flow.

Medium term Two to six years.

Merchant bank A bank which, besides lending and deposit taking (usually not from the public), engages in trading, advisory services and as an underwriter and funds manager of securities.

MIGA Multilateral Investment Guaranty Agency, the PRI arm of the World Bank.

MILA Multilateral agency such as IFC, ADB.

MITI Ministry of International Trade and Industry of Japan.

Monetization Securitization of the gross revenues of a contract.

Monte Carlo Simulations using random numbers.

Negative pledge The borrower agrees not to pledge any of its assets as security and/or not to incur further indebtedness.

Negotiable A financial instrument can be bought or sold by another investor, privately or via a stock exchange/computer trading.

Non-recourse The financiers rely on the project's cash flows and collateral security over the project as the only means to repay debt service. This usually occurs after completion.

NPV The periodic net cash flows are each discounted by the discount rate to a present date and the appropriate cash outflows/ investment for construction or acquisition are deducted from the total.

O&M Operations and maintenance.

Off-take(r) The purchase(r) of the project's output.

Operating cash flow Project revenues less (cash) Opex.

Operating risk Cost, technology and management components which impact Opex and project output/throughput. Costs includes inflation.

Opex Operating expenses, always expressed as cash. Therefore, depletion and depreciation are excluded.

Option A contract in which the writer of the option grants the buyer of the option the right, but not the obligation, to purchase from or sell to the writer something at a specified price within a specified period of time (or a specified date).

Oversubscription Underwriting commitments from a syndication exceed the amount sought by the amount of oversubscription.

Overrun The amount of Capex or funding above the original estimate to complete the project.

p. a. per annum, yearly.

Pari passu Equal ranking of security pro-rata to the amount owed.

Participant A party to a funding. It usually refers to the lowest rank/smallest level of funding. Alternatively, it is one of the parties to the project financing/or the project documents.

Participant risk The credit of the participants and the risk of non-performance under the project contracts or financing agreements.

Participation The amount of loan/bond issue taken directly or from another direct lender/underwriter.

Partnership The partners agree to a proportional share of profits and losses and thus have the same tax treatment.

Payback The period in years to recover the investment or loan. It may be calculated on a discounted, non-discounted, leveraged, or unleveraged basis.

Payment The amount is that required to repay a loan with interest and fees.

Performance bond A bond of 5–10% of a contract payable if a project is not completed as specified. Usually part of a construction contract or supply agreement.

Physical completion The project is physically functioning, but not yet (fully) generating cash flow.

Placement Securities are placed with a small group of Investors.

Point One percentage point on a note or bond.

Political risk Eight risks usually comprising currency inconvertibility, expropriation, war and insurrection, terrorism, environmental activities, landowner actions, non-government activists, legal, and bureaucratic/approvals. The first three are insurable. It overlaps with the political component of force majeure risk.

Potential default A condition where a default would occur in time or where a notice or default event has not yet been formalized.

PPA Power purchase agreement, a long term power supply contract.

Premium The cost of an insurance policy. The price of an option. An extra margin payable with prepayment of principal.

Prepayment Repayment of greater than the scheduled amount. If forced, it is referred to as a mandatory prepayment.

PRI Political risk insurance.

Prime rate A (US) bank interest rate charged to prime customers for loans (in excess of $100 000).

Principal The quantity of the outstanding project financing due to be paid. Generic: a principal is a party bearing an obligation or responsibility directly (as distinct from an agent).

Private placement The placement of debt or equity investment is not publicized and may not be tradable.

Pro rata Shared or divided according to a ratio or in proportion to their participations.

Production A defined portion of the proceeds of production up to a dollar amount.

Production loan A project financing where the repayment is linked to the production, often on a $/unit basis.

Proforma A financial projection based on assumptions.

Project The asset constructed with or owned via a project financing which is expected to produce cash flow at a debt service cover ratio sufficient to repay the project financing.

Project contracts The suite of agreements underlying the project.

Project financing A loan structure which relies for its repayment primarily on the project's cash flow with the project's assets, rights and interests held as secondary security or collateral.

Prospectus A formally approved document describing the business and affairs of the issuer and the terms and conditions of the security. An offering circular in the USA, filed with the SEC, e.g. for an IPO or a Rule 144a Bond Issue.

Purchasing power parity A view that differential escalation rates (in different countries) determine the systematic change in FX rates.

Put An option to sell (back) a security or commodity at a set price at a given.

PV Present value where a stream of cash flows or accounting flows are discounted to the present at a discount rate.

Rating The ranking, usually grades of A to E, of the creditworthiness/ability to repay. The ranking of bonds is related to its estimated percentage default rate. Countries are similarly ranked and may include an estimation of political risk.

Ratio analysis The technique of analysing company performance by calculating financial ratios for historical and comparative purposes.

Receiver A person/entity appointed under the legal security documents to administer the security on behalf of the project financiers.

Recourse In the event that the project (and its associated escrows, sinking funds, or cash reserves/standby facilities) cannot service the financing or completion cannot be achieved, then the financiers have recourse to either cash from other sponsor/corporate sources or other non-project security.

Refinancing Repaying existing debt and entering into a new loan, typically to meet some corporate objective such as the lengthening of maturity or lowering the interest rate.

Regulatory actions Legal requirements on a company; for example, a government passes a law forcing a chemical companies to process carcinogenic waste instead of dumping it. Regulatory actions can adversely impact a company's profitability and viability.

Representations A series of statements about a project, a sponsor, or the obligations under the project contracts or the financing agreements.

Reserve account A separate amount of cash or L/C to service a payment requirement such as debt service or maintenance.

Residual The assumed value of an asset at the end of a loan, lease, or proforma cash flow. It is sometimes insured.

Residual cover The cash flow remaining after a project financing has been repaid expressed as a percentage of the original loan.

Residual cushion The amount of net cash flow from the project after the project financing has been repaid. If it is expressed as a percentage of the original loan amount, it is the 'residual cover'.

Retention An amount held back from construction contract payments to ensure the contractor completes the construction before the retention (5–15% of the contract price) is returned to the contractor.

Return on assets (ROA) Net profits after taxed divided by assets. This ratio helps a firm determine how effectively it generates profits from available assets.

Return on equity (ROE) Net profits after taxes divided by stockholders' equity.

Revenues Sales or royalty proceeds. Quantity times price realized.

Risk The event which can change the expected cash flow forecast for the project financing. 'At risk' means the cash or loan. For insurance, it means the total amount or type of event insured.

ROCE Return on capital employed.

Royalty A share of revenue or cash flow to the government or grantor of the concession or licence.

Rule 144a Under US SEC regulations, a Rule 144a security (usually bonds but can be equity/shares) can be placed with professional investors who are prequalified/registered and take minimum US$100 000 amounts. Less strict document/disclosure/due diligence is permitted than a full prospectus.

SACE The Italian ECA.

Sales completion The project has reached physical completion and has delivered product or generated revenues in satisfaction of a sales completion test.

Salvage value The estimated selling price of an asset once it has been fully depreciated.

SEC Securities & Exchange Commission, which regulates disclosure and practices for companies and public issues of debt and equity in the USA.

Securitization Bundling up a stream of receivables (e.g. mortgage payments or credit card payments) to sell on the capital markets as an investment, with future payments comprising the 'return on investment'.

Security A legal right of access to value through mortgages, contracts, cash accounts, guarantees, insurances, pledges, or cash flow including licences, concessions and other Assets. A negotiable certificate evidencing a debt or equity obligation/shareholding.

Security The assets or guarantees you claim when the loan is in default. Forms of security can vary from high grade government bonds to partially completed stock, and are defined in the loan agreement.

Security agreement An agreement in which title to property is held as collateral under a financing agreement, usually by a trustee.

Senior Ranking for repayment, security, or action. Most project financings are senior debt obligations with first, senior security.

Sensitivity A change to a cash flow input to determine the change to DSCR.

Setoff Money held on behalf of a borrower may be applied to repay the loan. It usually implies without the permission of the borrower.

Shareholders' equity Net worth. Book value of total assets less total liabilities.

Short term Up to 12 months.

Sinking fund A regular payment is set aside in anticipation of a future payment.

SOE State-owned enterprise.

Sovereign risk The government's part of political risk.

Sponsor A party wishing to develop a project. A developer. A party providing financial support.

Spreadsheet The analyst's main tool in unscrambling a typical set of company accounts.

Steam turbine Electricity generation from steam pressure.

Structure How a project financing is drawn down, repaid and collateralized secured.

Subordinated The subordinated party accepts a lower priority of repayment and/or security than senior debt.

Sunk costs Capital already spent.

Supplier credit The supplier of goods or services agrees to deferred repayment terms.

Supply risk The raw materials or input to a project change from those assumed/projected. For a resources production project, this is called reserves risk.

Swap An exchange of the basis of obligations to repay principal, interest, or currency. For interest-rate swaps (floating to fixed), the underlying principal may not be exchanged.

Sweep All available cash flow is used for debt service.

Syndication The selling of a project finance to a group of prospective participants, the syndicate.

Tail The remaining reserves after the project financing has been repaid. Sometimes means the residual.

Take-and-pay If the project's output is deliverable and can be taken, it will be paid for.

Take-or-pay In the event the project's output is not taken, payment must be made whether or not the output is deliverable.

Takeout A financing to refinance or take out another, e.g. construction, loan.

Tenor The number of years a loan is outstanding. The term.

Term The loan life or tenor; the period to a loan's maturity. Generic: a condition attached.

Throughput A throughput agreement is a hell-or-high-water contract to put and pay for material through a facility. Force majeure gives no relief.

TNW Total net worth.

Tolling A contract to process or convert a raw material into a saleable or finished product. The tolling contract does not require the purchase of the raw material or the sale of the output.

Tombstone An advertisement listing the sponsor, amount funded, participants and key roles.

Tranche A separate portion of a project financing, perhaps with different financiers, margins, and term.

Transfer risk Currency cannot be sent out of the country, usually due to central bank restrictions or a national debt rescheduling.

Trustee An independent or nominated third party who administers corporate or financial arrangements.

Turnkey The construction of a project to meet a standard or the completion test where it is ready to produce cash flow. Turnkey contracts usually have LDs and retentions.

Underwriting The commitment to fund is not contingent on syndication.

Unsecured The financier has no security, merely the obligation/undertaking to repay.

Unwind To reverse a swap or hedge.

WACC Weighted average cost of capital calculated from the returns on interest rates payable on the different components of a company's or a project's deemed capital structure.

Withholding A tax on interest, royalty, or dividend payments, usually those paid overseas. It may be deducted at source.

Working capital Cash required to fund inventories and accounts receivable. Accounting definition is current assets less current liabilities. It is recovered entirely when the project ceases.

Workout The project financiers are responding to work out a potential problem or have arranged to take over the operation after a default to attempt to rehabilitate the cash flow generating capacity of the project.

World Bank An MILA based in Washington, DC. The International Bank for Reconstruction and Development. Usually involved in government-related deals.

Yield Usually expressed as a percentage, this represents the return earned from an investment.

Zero coupon No interest is paid. A bond or note is issued at a discount which is calculated to yield a compound interest equivalent return.