

Contents

Introduction	5
Chapter 1 – Overview of Project Finance	7
1.1. Definition of Project Finance	7
1.2. Forms of Project Finance	8
1.3. Project Finance and Other Sources of Financing	12
1.4. Historical Perspective and Development of Project Finance	13
1.5. Project Finance versus Corporate Finance	14
1.6. Stages in Project Finance	17
1.7. SPV and Transactional Stakeholders	19
Summary	25
Chapter 2 – Global Project Finance Market	27
2.1. Project Finance – Statistics based on Dealogic	27
2.2. How Does Project Finance In Emerging Markets Differ From Developed Countries?	34
2.3. What Makes Project Finance Particularly Suitable To Emerging Markets?	34
2.4. Project Finance Investments post the Financial Crisis	35
2.5. Recent Trends in Project Finance	36
2.6. PPI in Europe	38
2.7. PPI in Poland	41
Summary	43
Chapter 3 – Risk Management in Project Finance	45
3.1. Risk Identification	45
3.2. Risk Allocation	47
Summary	57
Chapter 4 – Financial Statements of Project	59
4.1. Accounting Principles	59
4.2 Financial Statements	59
4.2.1. Income Statement	60
4.2.2. Balance Sheet	64
4.2.3. Cash Flow Statement	68

4.3 Relationship Between the Financial Statements and the Project Cash Flows	69
4.4. Case Study	70
4.4.1. Project Financials	71
4.4.2. Income Statement	72
4.4.3. Cash Flow Statement	73
4.4.4. Balance Sheet.	74
Summary	76
Chapter 5 – Cost of Capital.	77
5.1. Cost of Capital - Introduction	77
5.2. Cost of Equity	77
5.2.1 Calculating the Cost of Equity from the CAPM	78
5.2.2 Calculating the Cost of Equity from the Growth Model	79
5.3 Interest Rates and the Cost of Debt	81
5.4 Weighted Average Cost of Capital	84
5.5 Entity Versus Equity Basis	85
Summary	88
Chapter 6 – Methods of Investment Appraisal	91
6.1. Creating Value for the Investor	91
6.2. Non-Discounted Cash Flow Methods	91
6.2.1. Payback Period.	91
6.2.2. Return on Investment.	95
6.3. Discounted Cash Flow Methods.	96
6.3.1. Net Present Value	96
6.3.2. Profitability Index	101
6.3.3. Internal Rate of Return	102
6.3.4 Modified Internal Rate of Return.	108
6.3.5. Discounted Payback Period.	109
6.4. Comparison Between Discounted Cash Flow Methods.	111
6.4.1 Relative and Absolute Measures	111
6.4.2 Agreement and Conflict Between Measures	111
6.5. Sensitivity Analysis	117
6.6. Scenario Analysis	121
Summary	122
Annex: Excel's functions in Investment Appraisal	125
Bibliography.	130
Glossary of Terms.	132