WestLB
Bank der neuen Antworten

WestLB Bank Polska S.A.

How to provide financing
for infrastructure projects

To be covered

- WestLB A.G. Group
- Infrastructure Projects specifics
- PPP Projects specifics
- PPP projects financing
- What are the next steps

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Represented in the Leading Economic Regions of the World

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Shareholder Structure

Sparkassen and Giro Association of the Rhineland (NR)
Düsseldorf

25.032%

NRW.BANK
(Aa1/AA-/AAA)
Düsseldorf

30.862%

State of NRW
(Aa1/AA-/AAA)

17.766%

Sparkassen Association of Westphalia-Lippe
(Aa3/NR/NR)
Münster

25.032%

WestLB
Düsseldorf
Moody´s A2
S&P BBB+
DBRS A (high)

Shareholder structure valid since December 5, 2008

Balance of 0.654% each is held by the Regional Association of the Rhineland and by the Regional Association of Westphalia-Lippe (held indirectly by Westfälisch-Lippische Vermögensverwaltungsgesellschaft mbH, Münster).

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Key Financials

Performance, € millions	Jan. – Sept. 2009	Jan. – Sept. 2008
Profit before income tax	262	604*
Administrative expenses	863	1.040
Ratios	**Sept. 30, 2009**	**Dec. 31, 2008**
Core capital ratio	6.2%	6.4%
Overall ratio	9.3%	10.1%
Balance Sheet Figures	**Sept. 30, 2009**	**Dec. 31, 2008**
Total assets, € billions	258.8	288.1
Equity, € billions	4.2	3.8
Employees (full-time equivalent)	5,153	5,663

* incl. Phoenix effect of € 962 million

Current Ratings	Short Term	Long Term	Public Pfandbrief
Moody‘s Investors Service	P-1	A2	Aaa
Standard & Poor‘s	A-2	BBB+	AAA
Dominion Bond Rating Service	R-1 (middle)	A (high)	(–)

Comprehensive, State-of-the-Art Product Range

Client Coverage

Product Platforms

Operating Platform

Governance & Control

Corporate and Structured Finance

- Integrated Corporate Finance platform for all important financing products
- Special product family for savings bank clients and smaller SMEs
- Leading project finance house for selected national and international clients

Track Record

- Leading provider of financings for corporate clients in Germany
  - **Top 4** provider of Schuldscheindarlehen
  - **Top 7** provider of syndicated loans
  - **No 1** provider of ABS financings for companies
- **Top 12** position in project finance worldwide, largest German project financing bank

Capital Markets

- Service across the entire debt and equity value chain
- Effective link-up of issuers and investors through broad product spectrum, structuring expertise and professional trading platform

Track Record

- Leading platform supports position as
  - **Top 5** global issuers of public-sector bonds in Germany
  - **Top 3** equity researcher in Germany
  - **Top 5** broker
  - **Top 5** provider of retail derivatives in Germany
  - **No 1** provider of guarantee certificates in Germany
  - **Top 3** manager of debt instruments for municipalities in Germany

Transaction Banking

- Comprehensive product spectrum and state-of-the-art services
- Modern, expandable transaction banking platform with ISO-certified processes

Track Record

- **Top 3** provider of payment services in Germany, **No 1** for the public sector
- **No 1** provider for European payment transactions within the Sparkassen-Finanzgruppe
- **No 1** provider of customer cards in Germany

WestLB Recent Infra Deals

UK/Hungary June 2007

Budapest Airport

EUR 1.52bn
Syndicated Acquisition Financing

Mandated Lead Arranger

East Africa December 2007

Doraleh Container Terminal Djibouti

US$ 263,000,000
Syndicated Islamic Finance Project Facility

Mandated Lead Arranger

Turkey September 2007

Fraport - IC Antalya Airport

€ 600,000,000

Project Financing

Joint Mandated Lead Arranger

Australia May 2007

A$5.2 billion Acquisition Facilities

MLAU & Bookrunner

Australia January 2007

A$2.3 billion Construction & Term Loan Refinancing

Senior Arranger

Turkey April 2007

Republic of Turkey Undersecretariat of Treasury

$65,000,000
Gaziantep - Birecik Motorway

Joint Mandated Arranger

France Mars 2007

Annemasse Car Parks

EUR 25,000,000

Sole Arranger

Italy December 2007

Milan Metro Line 5

EUR 275m

Project Finance

Coordination Bank, Bookrunner & Mandated Lead Arranger

Turkey February 2006

TAV Istanbul Airport

USD 700,000,000

Syndicated Project Finance Facility

Joint Mandated Lead Arranger

France Juillet 2007

40 Military Police Stations from Finistère

EUR 61,000,000

Sole Arranger

UK/Australia December 2007

Challenger Investment Acquisition Facility

AUD$580,000,000

Lead Arranger

WestLB – experience in infrastructure projects

WestLB has played an important role in the following transactions:

London Luton airport	Airports	Arranger
Norfolk & Norwich Hospital	Hospital	Advisor, Arranger
DERL	Waste-to-energy	Advisor
Tornado Training	Aircraft simulators	Advisor
A1 motorway, Poland	Toll motorway	Advisor
Thessaloniki Underground	Underground	Advisor, Arranger
Peterborough Hospital	Hospital	Advisor, Arranger

WestLB Bank Polska S.A.

- Rep-Office opened in 1993
- Banking operations started 1995
- Regional coverage: Poland and Baltic countries
- Equity: 247 mln PLN
- Headquartered in Warsaw

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WestLB Bank Polska S.A.
– changes in credit strategy

Up-do-date core business of WestLB Bank Polska covered:

- Project financing in two main sectors: i) energy, oil and gas, and ii) infrastructure
- Corporate Acquisition Finance
- German customers - full operations service

WestLB Bank Polska has been just sold to the new investors, who intend to maintain and expand the business strategy upon the existing experience. Therefore, we build a new value by extending the business targeting:

Our up-to-date transaction policy (to be continued based on the co-operation agreement with WestLB AG)

- Minimum project size EUR 80 - 100 m
- Direct exposure to the municipal risk was not welcomed

New activities:

- Financing of smaller projects: reasonable amounts in terms of arrangement costs remuneration
- Direct financing of strong municipalities, including the availability payment PPP projects
- Medium size private partners increase their credit worthiness against the acceptable municipal risk stall be most welcomed

WestLB Bank Polska S.A.
– project financing experiences (including PPP)

- WestLB Bank Polska has actively pursued PPP structures in line with the WestLB group financing standards; mainly in the infrastructure and energy sectors, but also in the social area.
- WestLB Polska has been active with negotiations for all the big ticket PPP projects including mainly the motorway projects:

  i) WestLB was Lead Arranger and Lender of A4 – financial closing in 2005 – Mandate for Lead Arrangement obtained in 1999

  ii) WestLB co-arranged A2 in 2000 and the II phase in 2009 (Nowy Tomyśl - Świeck)
- We constantly conduct initiatives related to PPP projects with the most significant players on the private side – attempting to structure deals approvable in our Bank and acceptable to the Polish public partners.
- We continue initiative with the financial institutions interested in Polish projects and not present in Poland trying to engage their interest in our local projects such as by-pass roads, railways and railway stations, infra projects, prisons, schools and hospitals.

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WestLB Bank Polska S.A.- major tombstones

Name of the Company	Transaction	Maturity	Role of WestLB
PGNiG S.A.	EUR 900 m, corporate financing, syndicated loan	up to 5 years	Member of Club Deal
PAK	EUR 227 m, project finance	14 years	Mandated Co-Lead Arranger
BOT EB S.A.	EUR 879 m, hybrid project finance/corporate financing	12 / 16 years	Lead Arranger
Elektrownia Nowa Sarzyna	PLN 173 m, project finance/PLN 40 m WC-Facility	12.5 / 3 years	Mandated Lead Arranger
Zespół Elektrowni Dolna Odra	PLN 50 m, short term corporate financing	1 year	Arranger
Basell Orlen Polyolefins	Eur 320 m, structured corporate finance, club deal	5 years	Lender
KGHM "Polska Miedz"	Advisory mandate for financing of modernisation & extension of two heat-power generators (164MW & 84 MW)		
Stalexport Autostrada Małopolska S.A.	EUR 98 m, project finance	14 years	Co-Lead Arranger
Polskie Koleje Państwowe S.A.	EUR 130 m, corporate financing, syndicated euro loan	7 years	Mandated Lead Arranger
Polskie Koleje Państwowe S.A.	EUR 130 m, corporate financing, syndicated euro loan	7 years	MLA
PBG	PLN 50 m, corporate financing/club deal	5 years	MLA
PBG	PLN 50 m, multi purpose loan	5 years	Mandated Lead Arranger
City of Cracow	PLN 120 m, bilateral loan	9 years	Lender
City of Cracow	PLN 90 m, bilateral loan	7 years	Lender
City of Cracow	PLN 165 m, bilateral loan	8 years	Lender
Hipoteku Banka	EUR 100 m, syndicated loan	7 years	Lender
Polsat	EUR 60 m, syndicated loan	4,5 years	Mandated sole Arranger
Grupa ITI	EUR 39 m, sell and lease back transaction	12 years	Co-Lead Arranger
Trasko Inwest R.	USD 10 m, export finance	5 years	Lender

New Answers in Banking

Infra Asset Life Circle

Impact on the Financing scheme

Recognising Infrastructure Assets

Infrastructure assets are typically defined by the following characteristics:

essential in nature;

strategic competitive advantage;

high barriers to entry;

predictable cashflows;

inflation-linked returns;

low volatility;

low operational costs;

long-term sustainable yield;

low correlation to other asset classes

Profitability & Revenue Certainty

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Infrastructure assets can be divided into -

Transport Infrastructure;

Social Infrastructure; and

Utilities

Transport Infrastructure	Social Infrastructure	Utilities
Airports;	Schools;	Power Generation Facilities;
Toll Roads;	Hospitals;	Transmission Systems;
Public transit systems;	Prisons;	Distribution Systems;
Docks Facilities;	Public Housing;	Communication Assets;
Bridges;		Water & Sewerage Facilities
Rail Facilities;		
Ferries		

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Using the Infra Life Cycle

Infrastructure assets yields vary at different stages of development –

	Toll-road/Transport	Airport	Utilities	Social
Early stage projects				
Target IRR	>12%			
Standard deviation of return	~16%			
Typical leverage at asset level	30%			
Growth stage projects				
Target IRR	>10%	>12%	>10%	>12%
Standard deviation of return	~10%	~16%	~10%	~15%
Typical leverage at asset level	40%	35%	55%	90%
Late stage projects				
Target IRR	>8%	>9%	>9%	>12%
Standard deviation of return	~7%	~10%	~8%	~15%
Typical leverage at asset level	50%	50%	65%	90%

Source: Institute of Fiduciary Education, 2005

Investment in earlier stages brings greater reward, but carries greater risk

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Historical Comparisons Vs. Other Asset Classes (Qualitative)

Infrastructure & other traditional institutional investor products:

	Institutional Bonds	Institutional Real Estate	**Infrastructure Investments**	Private Equity
Income	Interest rate sensitive; fixed coupon	Mix of fixed and variable interest rate	**Mature assets: very stable, inflation/GDP-linked**	Capital returns
Growth	Low	Modest to high	**Modest (later stage) to high (early stage)**	Typically high
Volatility	Moderate	Moderate to low	**Moderate (early stage) to low (later stage)**	High (early stage) to moderate (late stage)
Average Expected Annual Total Return*	5-7%	8-15%	**Mature Portfolio: 7-10%** **Development Portfolio: >10%**	Diversified Portfolio: >15%
Average Size of Investment	>€40m per portfolio	€10-40m per asset	**>€100m per asset**	>€10m per asset
Asset Nature	Financial security	Physical property	**Typically operating company with control of asset**	Operating company
Competition	Minimal pricing disparity between bond issues	High competition for assets	**High**	High
Availability	Deep volumes in most markets	Moderate to deep	**Asset scarcity**	Moderate
Liquidity	Very high	Moderate	**Moderate**	Moderate

Source: NALEDI Pension Fund Unit Research Series; Infrastructure Investment
*** Post fees**

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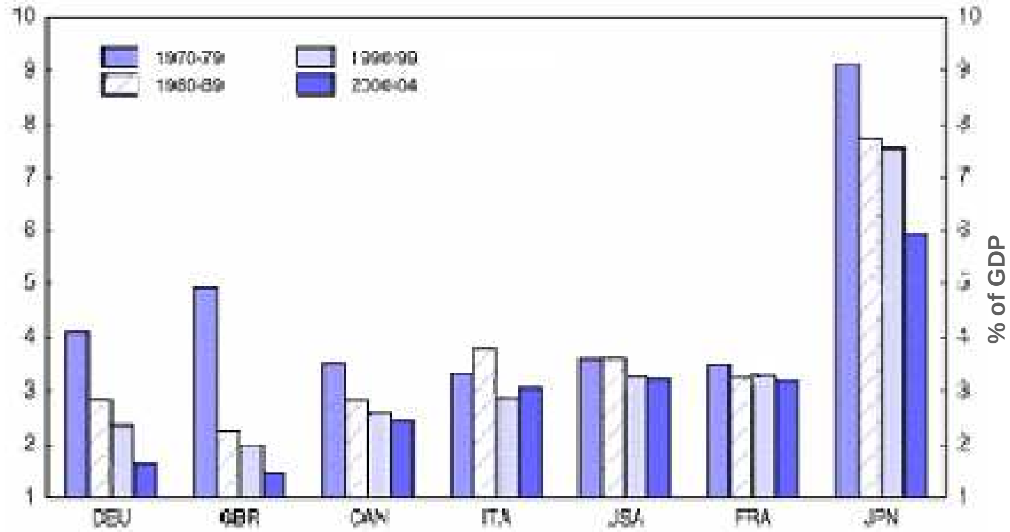
‘The Infrastructure Funding Gap’

An increasing pressure on governments to cut taxes and balance budgets has led to continually falling infra investment in developed countries. Combined with rising demand for infrastructure, has led to an …

INFRASTRUCTURE FUNDING GAP

Government Investment in Fixed Infrastructure



Global pop. projected to grow by **MORE THAN ONE BILLION** over next decade; housing and infrastructure to provide them with basic needs has been estimated to cost **over $20 TRILLION**. All developed countries additionally face a **MULTI-TRILLION DOLLAR** backlog of deferred maintenance and upgrading of their public infrastructure

Graph Source: OECD Economic Outlook 77 Database
Period Averages.
Statistics Source: CRGP at Stanford University

Bridging the Funding Gap

Public sector constrained by combination of limited fiscal resources, the scale of required infrastructure and the cost of replacing aging assets

Change in regulatory conditions allowing private sector investment in equity of businesses that have traditionally been associated with government ownership and control

Wave of privatisations following Thatcher/Reagan era

Governments becoming aware that it is unnecessary or the public sector to own infrastructure assets and that projects can often be delivered faster and cheaper by private sector

Fundamental imbalance in demand and supply; user demand for infra services is typically strong, even in times of sluggish economic growth

Increasing demand from citizens to improve quality of infrastructure

Available capital and investment opportunities

Global economic growth leading to transport bottlenecks (especially regarding dock facilities)

EXPLODING PRIVATE SECTOR INVESTMENT & COMPETITION FOR INFRA ASSETS

Source: OECD ‘Economic Survey of the United Kingdom 2005: Public Services and Infrastructure: Tracking the Improvements‘
-Investment and expenditure series are on a fiscal year basis. The projections beyond fiscal year 2000/01 are taken from the
-government's 2000 “Transport Ten Year Plan” (*Source*: Department for Transport)

The Determinants of Market Growth

Driver	Comment
Macroeconomic Factors	Political pressure on governments to reduce taxes and balance budgets, combined with growing cost of continued improvement in infrastructure provision has led to public to private market shift
Growing acceptance of ‘user-pays’ schemes	Governments’ role is changing from provider to regulator of services
Wider recognition of infrastructure as a stable asset class	The success of several infrastructure funds over the past few years has highlighted the potential for premium returns for such investments
Significant global liquidity	Has led to falling bond yield and increasing scarcity of more traditional asset investment opportunities
Growing size of pension funds	Pension funds, with their appetite for low-risk, stable assets are realising the value of including infrastructure assets in their portfolios
Rising value of individual assets	Rise in global trade has led to increased demand for ports, resurgence of tourism and emergence of ‘no-frills’ airlines have raised value of airports

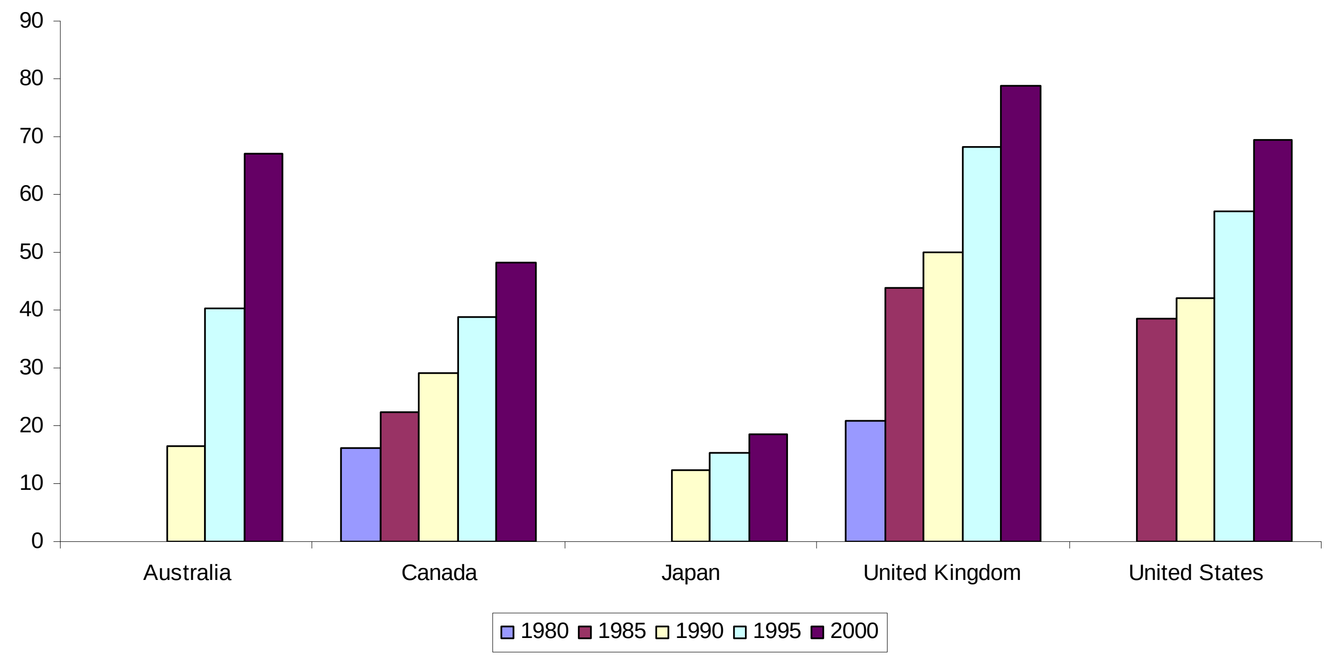
Infra Assets & Pension Funds

Another key source of infra investment are pension funds

There has been a consistent and strong growth in the capital available to these funds, making them major players in infrastructure and financial markets in general

Pension Fund Assets as percentage of GDP

Str



provide

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A Perfect Match – What Pension Fund Investors Like

- ✓ Predictable & stable high-yield returns
- ✓ Regular cash distributions form large part of returns
- ✓ Inflation/GDP linked returns
- ✓ Escalating cash yields

Good Returns

- ✓ Resilience to the economic cycle
- ✓ Long term assets to match long term liabilities
- ✓ Diversification lowers portfolio risk & volatility of returns
- ✓ Risk profile declines over time

Good Protection

- ✓ Direct community value & provide important services to society

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New Answers in Banking

PPP project finance

How to match private enterpreneurships with public requirements

Does PFI deliver ?
Securing and Optimized Time & Cost

Over 700 PFI projects totalizing over € 75 billions signed since 1992 in the UK

UK Treasury Report 2006 “PFI Strengthening long-term partnerships” :

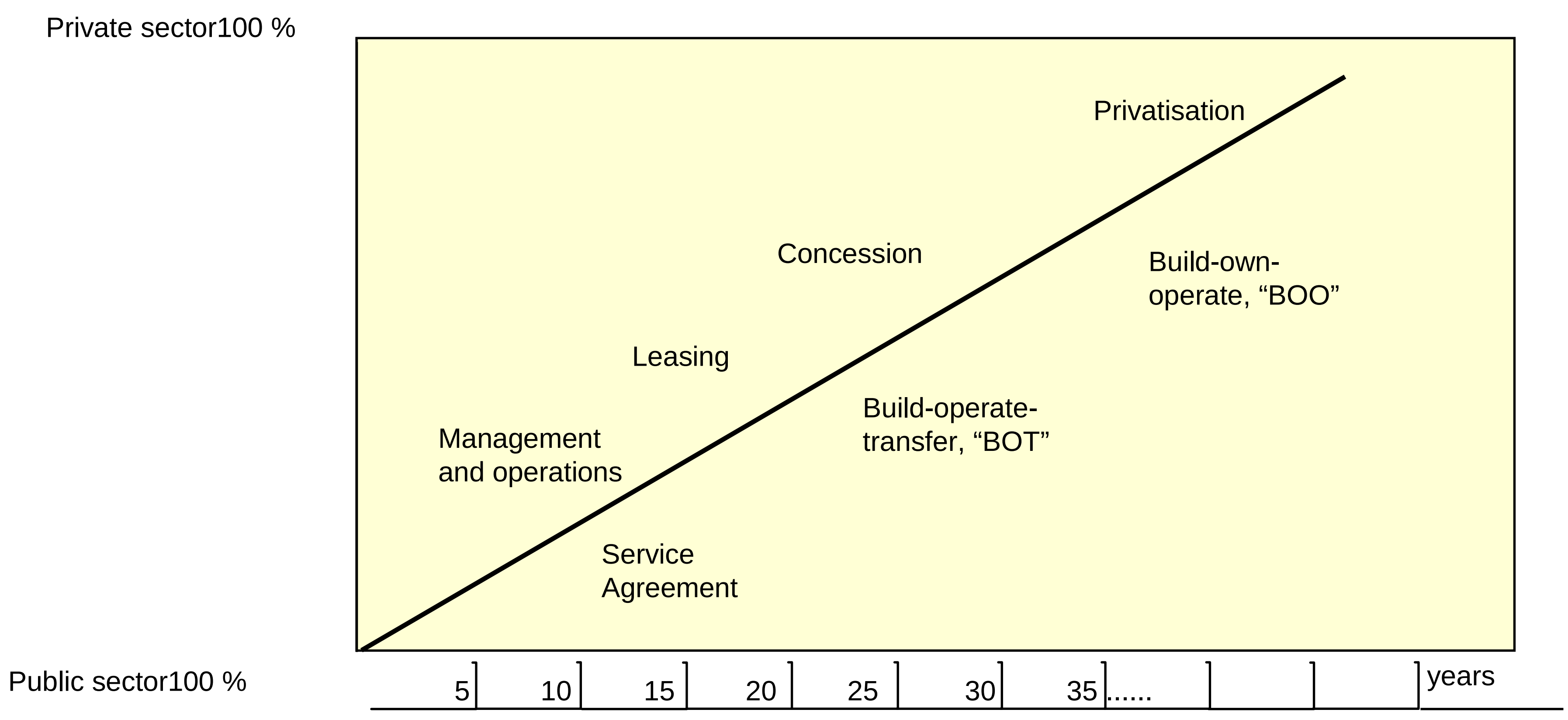
- 96%of projects performing at least satisfactorily
- 89%of projects achieving contract service levels
- 80%of all users satisfied with service

Public sector managers believe:

Effective partnerships developed

Incentivised contracts delivering effective contract management

PPP models – time breakdown



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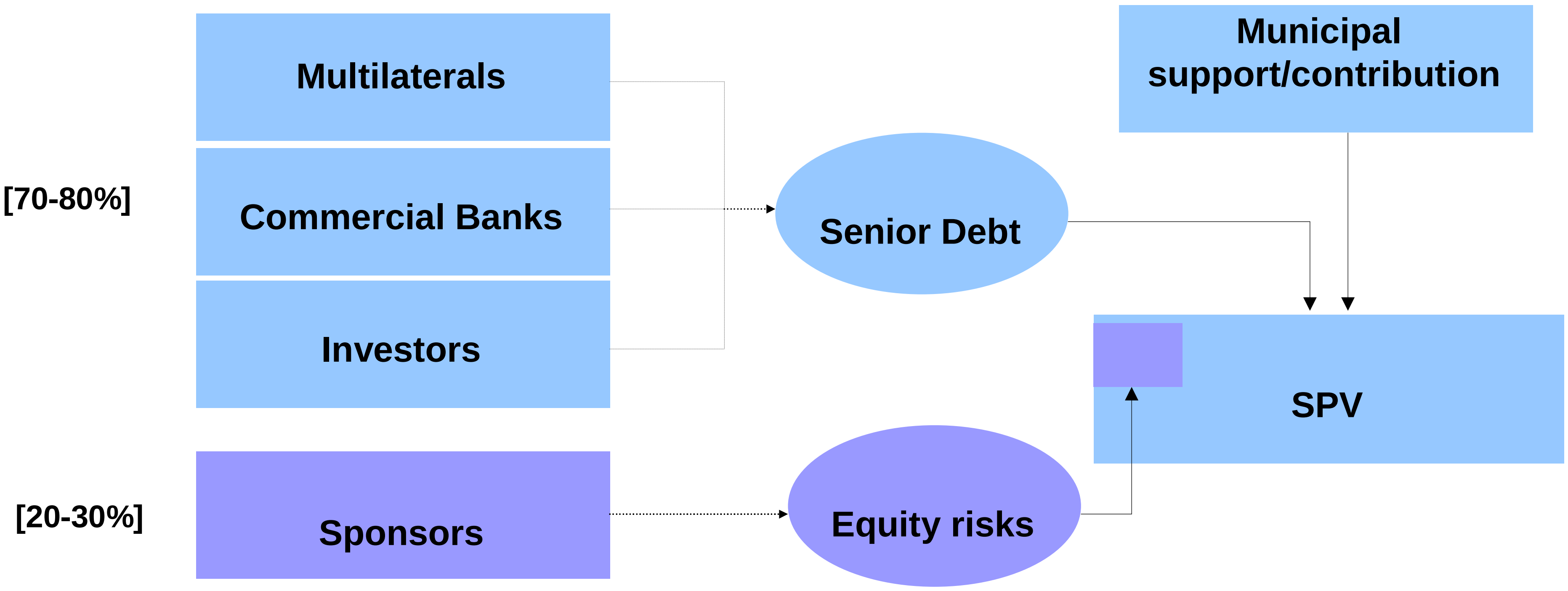
PPP financing structure – flexibility depending on market conditions



Market risk on the public partner => higher debt ratio possible

=> Lower cost of financing

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What private equity brings to the project

- Determines technological and financial sophistication of the project: efficiency and economics
- Qualifies and attracts interest of financial institutions to the project – a regular equity buffer
- Financial control driven by the profitability ratios – benefit of the private partner; co-related to the debt service ratios required by the financial institution

Equity costs:

- Private equity investments require IRR on average well above 20% vs total fixed cost of commercial lending at c.a. 7-8%
- Private investors head for minimal engagement of the equity, an alternative way are investors' subordinated loans
- The higher the equity ratio, the more the projects needs to offer privatisation options (in the end of the project instead of pure transfer of the public side – a legal way to full privatisation)

Concluding: a proper match between the private equity injection, investors' loans, mezzanine and preference junior loans and the pure senior commercial lending is the fundamental issue of any PPP project. Definition of proportions depends on the market conditions and project specifics.

Senior Debt Terms - Outline

Debt Amount – €350M represents Debt: EBITDA of [13.7x] at financial close.

€[xxx]M to be used for construction of the new airport. Capex facility to be drawn down against a Debt to EBITDA schedule to be agreed.

WestLB to underwrite approximately 50% of the senior debt

Optimal structuring to be determined based on TAV's best interest.

Facility Amount	€ 350M
Tranches	Acquisition Facility Construction Facility
WestLB Underwriting Amount	€ 175M
Maturity	14 years including 3 years grace
Margin	Years 1-7: 260 bps Year 7-14: 275 bps
Commitment Fee	40% of applicable margin pa
Arrangement/ Underwriting Fee	190 bps on full facility amount

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Senior Debt Key Terms

A base case Cover Ratio of 1.60x (Interest Only) at financial close.

A debt service reserve of 6 months.

A cashsweep of mechanism from year [10-12] onwards.

Additional financial indebtedness and drawdown under the capex facility controlled through Debt: EBITDA multiples. The Capex facility in particular would be dependent on projected Debt:EBITDA multiples (based on forecasts approved by the Lenders) at the Final Maturity Date demonstrating an acceptable level of deleverage sufficient to provide comfort with regard to refinancing risks.

Full interest rate hedging through the life of the facility.

Min senior debt: equity ratio of 70:30 (“equity” to include all forms of funding fully subordinated to the senior debt).

Political risk insurance

Due diligence requirements (for Senior and Mezzanine) include:

- Model Auditor;
- Insurance review;
- Traffic Forecast;
- Technical (Capex) Review;
- Commercial review including tax and accounting; and
- Usual legal representation
- For the avoidance of doubt we are happy to share advisers subject to a letter of reliance in favour of the banks

How shall municipalities support the project?

Availability payment:

- Stable project cash flow allows the banks for better risk assessment as combination of a private partner experience and the payment reliability of the public sector
- Market risk analysis in view of the global credit crunch became rather of „limited liability”
- Construction and operations risks covered by the performance bonds presented by the private partners; driven by their expertise and track record references

Regulatory obligations:

- Successful project performance depends on legal (local, regional etc.) environment
- Subventions and subsidies (projects like park & ride)

Securing infrastructure development:

- In any area of communication and telecommunication
- Accessibility: how easy the project can be accessed

Direct support

- Guarantees
- Capital contribution Agreement
- The municipality get externally rated by international rating agencies.

PPP in Polish reality: what needs to be amended?

Currently existing law allows for:

- Relative flexibility of the project documentation and structure
- Use of various financing instruments
- Rational functional project performance control

It is still needed to:

- Clarify and simplify the common structure – British PFI analogy
- Implement a platform to judge on the off-budget projects: practicably determining rationale for projects

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When PPP does not add value?

- Projects of purely commercial character (like hotels, commercial centres)
- The project execution has limited economic multiplication factor – i.e. it does not increase the economic efficiency or social value.
- The private partner takes on too many risks that he is not fully able to mitigate and control – a project gets exposed to high insolvency risk.
- Public side does not have a proper influence on the environment of the project.
- Project specification is ambiguous.

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What are the other ways of financing infrastructure municipal projects?

Bank instruments

- Forfaiting & Factoring
- Bonds and revenue bonds

Lease type instruments

- Operating (off-budget) leasing
- Sell-and-leas back

Direct Investments:

- Specialised investment funds
- Mezzanine capital

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PPP projects in Poland –so far … not good

Despite major legal and mental obstacles, there have been vital examples of PPP projects that were realised on the Polish market.

countrywide:

Concessions on toll motorways– A1, A2 (both sections), A4

in the local scale:

Schools and kindergardens – fully financed from own equity or special funds
Healthcare: private service financed from equity and assigned in agreements with NFZ on the medium term basis
Commuting concessions: 110 bus service in Warsaw – lease financing

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Experience and Credentials

Infrastructure Arranging Experience

Over the past five years, WestLB has gained the reputation of a successful arranger of some of the largest and most challenging deals in the infrastructure sector.

Of late, we have been extremely active in the airports sub-sector in Europe. As a result, we have developed significant proficiency and expertise in structuring acquisition finance facilities for our clients bidding on Airports and Airport related businesses. We have developed a firm understanding of the risk profile and revenue potential of Airports and as such, are best placed to structure acquisition facilities to enable our client to bid a price which reflects full value of the airport and its facilities, but which still constitutes a sustainable capital structure.

A comprehensive list of our recent Airports financing experience is provided below.

Syndication Market Experience

Reading the bank market accurately and being able to sell the final transaction structure to the market are critical to achieving the optimum funding terms for the transaction.

Recently we have found that many of our clients favour adopting a mini-perm structure to support acquisition bids or to re-finance existing facilities. Mini-perm's are still a relatively recent development in the European infrastructure market, but have become common-place in Airport acquisition financings.

Thanks to acting as Bookrunner on many high-profile infrastructure transactions over the last few years, WestLB has developed proven distribution channels to efficiently place airport related paper.

Over the past three years WestLB has acted as book-runner for eleven European infrastructure projects, totaling in excess of €5billion. Acting in this capacity ensures real-time efficient market pricing and regular feedback as to the liquidity of the market through its participant banks.

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