

Seminar on TEN-T

Project Finance and PPPs



“How to prepare yourself for a successful PPP”

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DIF

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1. Introduction DIF and role infrastructure funds
2. Development of successful PPP projects
3. Responses to crisis
5. Conclusions



1 - Introduction to DIF



- Independent infrastructure equity funds manager since 2005
- Three infrastructure funds:
 - DIF PPP - W-Europe - closed at €150m
 - DIF Infrastructure II – fund raising to €500m
 - DIF Renewable Energy – closed €140m
- DIF's investors include of long term institutional investors
 - European Investment Bank, Dutch Insurance company, Swiss Asset Manager
 - pension funds: APG, Railway PF, DSM PF, Graphical Industry PF
 - lending institutions: Helaba, SMBC
 - 'family offices'
- Teams in Amsterdam, Paris, London and Frankfurt, 20+ professionals from Infrastructure, Energy, project finance backgrounds
- 60+ assets (PPP and renewable Energy) mostly in Western Europe



1 - Introduction to DIF

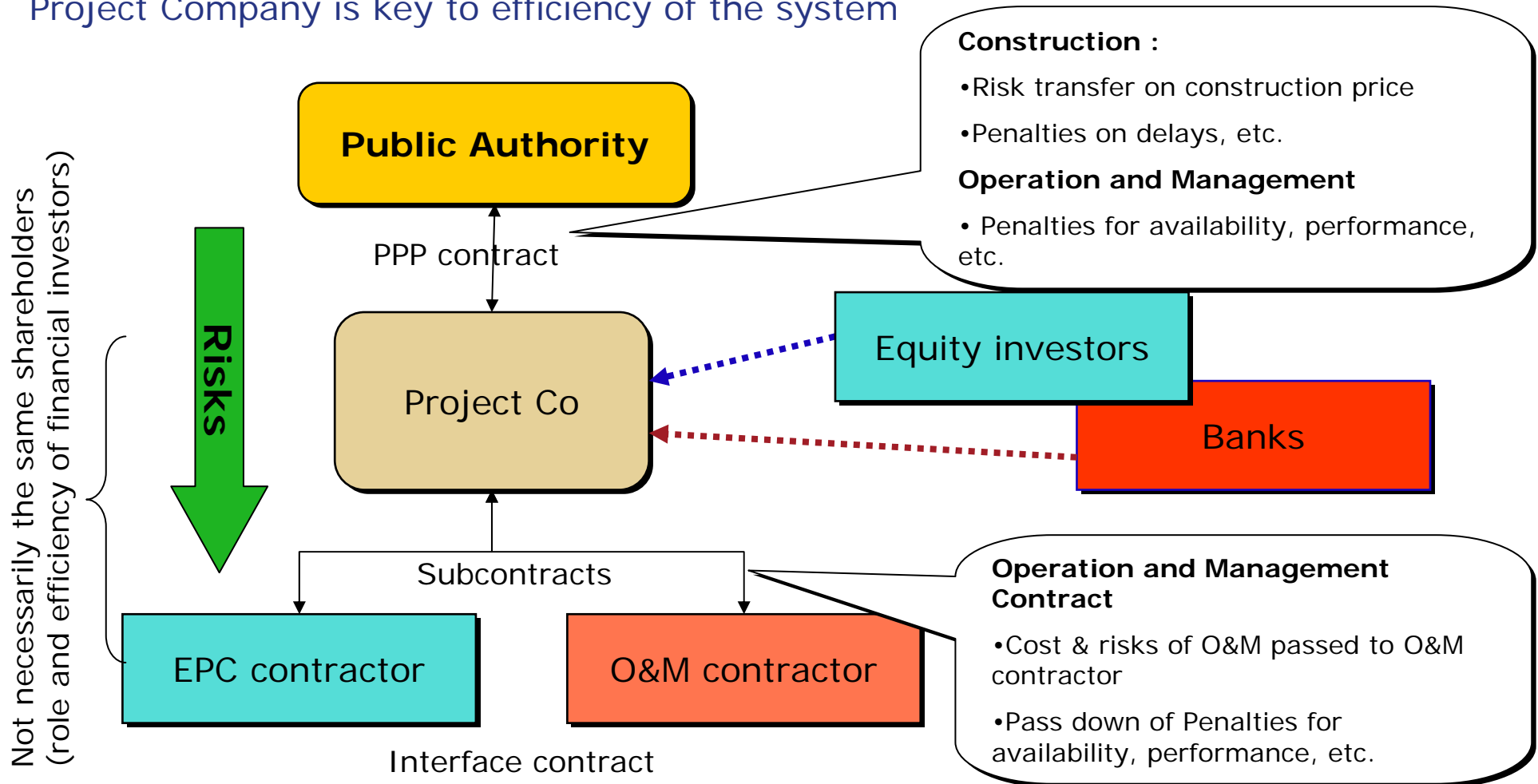
A financial investor, what's it in for?

- Well structured projects require competitive funding and are all about proper risk assessment & risk allocation
- Financial investors can play a role in enforcing the finance side of a project / bid
- Added value in the following areas:
 - providing equity funding and adding to industrial sponsors who wish to protect their balance sheet
 - represent alignment of SPV (Project company) and funders interests (bankability)
 - provide in-depth knowledge of finance markets/parties to the Sponsors' table (team background)
- Alignment with the SPV/project company and Public Authorities' interest

2 - Know your End-Product - Risk Allocation

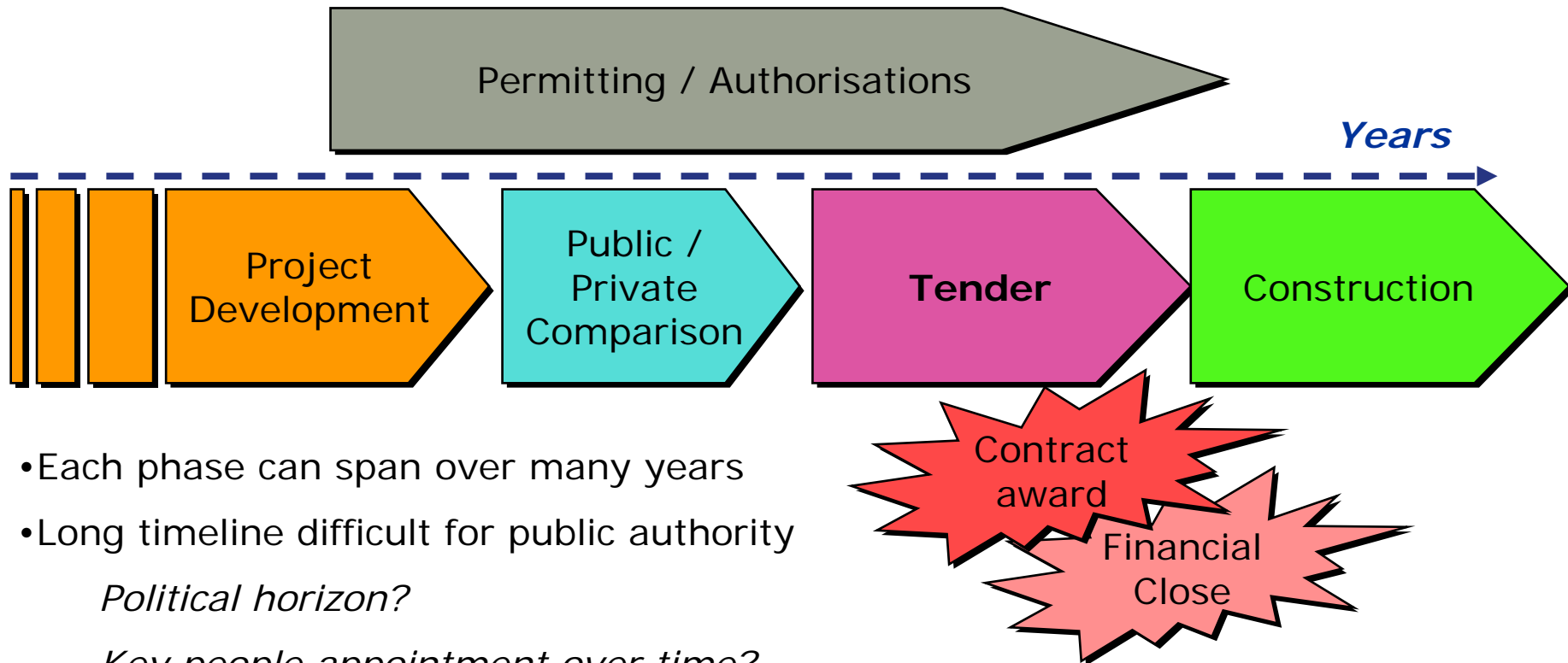
Pass-through of risks using contractual structure

Efficient risk sharing is ensured by back to back subcontracts : 'transparent'
Project Company is key to efficiency of the system



2 – PPP projects take a very long time

Very long process to manage for project developers & other stakeholders



- Each phase can span over many years
- Long timeline difficult for public authority
 - Political horizon?*
 - Key people appointment over time?*
- Getting advisors early in the process is essential
- Rushing up phases might jeopardize the project

2 – PPP contracts are complex

How to deal with smaller projects?

PPP contracts are big, complex, costly to put in place, costly to monitor

- Think of the criteria and number of performance indicators beforehand, keeping in mind the size of the project (cost/benefit)
- Pragmatic risk sharing approach
- Long contract life, and contracts have to be understandable by new parties on the project
- try to keep documentation simple / light when project is smaller








Contract modifications always happen

- During construction : a PPP contract is a transfer of project ownership, and therefore the project is not fully in the hands of the public sector as with a 'standard' public procurement project
- Design modification process has to be precise in the contract documentation
- O&M/FM modifications also always happen – 20+ year lifetime, how could it be different?
- try to keep documentation simple / light

Alternative methods for tendering smaller scale projects?

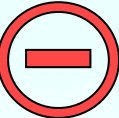
3. Response to crisis


Some positive observations


-  Infrastructure / PPP Projects (“ESA neutral”) survived the current crisis, and governments continue to invest
-  Equity liquidity not as constrained as bank senior debt
-  Banking markets / projects appetite and capacity improving (underwriting?!?)
-  Project risk perspective sponsors fundamentally unchanged, with contractors increasingly interested by public projects vs. private ones
-  Fund Investors continue being positive on infrastructure (“asset class survived”), but are stepping in later
-  Secondary market increasingly developing (Europe wide)
-  Slightly more equity required
(gearing, reduced equity appetite industrial sponsors, banks’ appetite disappeared)


3. Response to crisis


Some less positive observations

-  Availability of senior debt funding seriously constraint and more expensive (both in amounts and terms and conditions)
 - *liquidity related issues (incl. commitment periods, tenors, market flex, etc)*
 - *generic requirements (e.g. less aggressive gearing, more risk adverse)*
 - *looking for absolute 'clean' transactions*

-  Contracting Authorities are developing very different solutions to market situation (contractual, but also guarantees, funding, etc.)

-  Some funds' liquidity constraint (UK) and contractors more balance sheet conscious

-  **Refinancing** is an issue given long term nature of infra projects (incl. mini perm element)

-  Funds finding it more difficult to achieve investor closings, are are more picky on projects/risk allocation

3. Response to crisis

Wide range of Contracting Authorities' responses

Some examples on 'standard issues' by various contracting authorities experienced last year:

- Slovakian roads: internationally recognised and appreciated contract
- Dutch roads : internationally recognised contract with significant lump-sum payments to reduce external funding requirements
- Belgium PPP (Flanders) : 'participative' PPP model public transport projects (difficult)
'DBM+F' model for small projects (difficult)
Government guaranteed bank take-out end of mini-perm period
- France : numerous very large schemes in tender
- Ireland : deal flow PPP on 'standard' structure
- UK : strong secondary activity

4. Conclusions

From a fund perspective after a full-blown crisis

- European Governments responding uncoordinated, so far, to market challenges
- After a very difficult 2H2008 and 2009, European infrastructure markets seem stabilised
- More and more projects will be put to the market. Would that generate funding competition?
- Investors more focussed, “picky”, look for stable cash flows, clean projects and processes. And are not particularly in a hurry to invest!
- Various contractors looking for investing less equity but more Government backed PPP projects, so funds expect to participate even more



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