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THE CZECH PPP KICK-OFF – TRANSPORT INFRASTRUCTURE

FINANCEABILITY OF INFRASTRUCTURE PROJECTS IN THE CZECH REPUBLIC

Overview of current financing market



BUILDING TEAM SPIRIT TOGETHER



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- The same trend can currently be observed in relation to credit providers in all sectors and products in today's markets:

Too much capital chasing too few opportunities

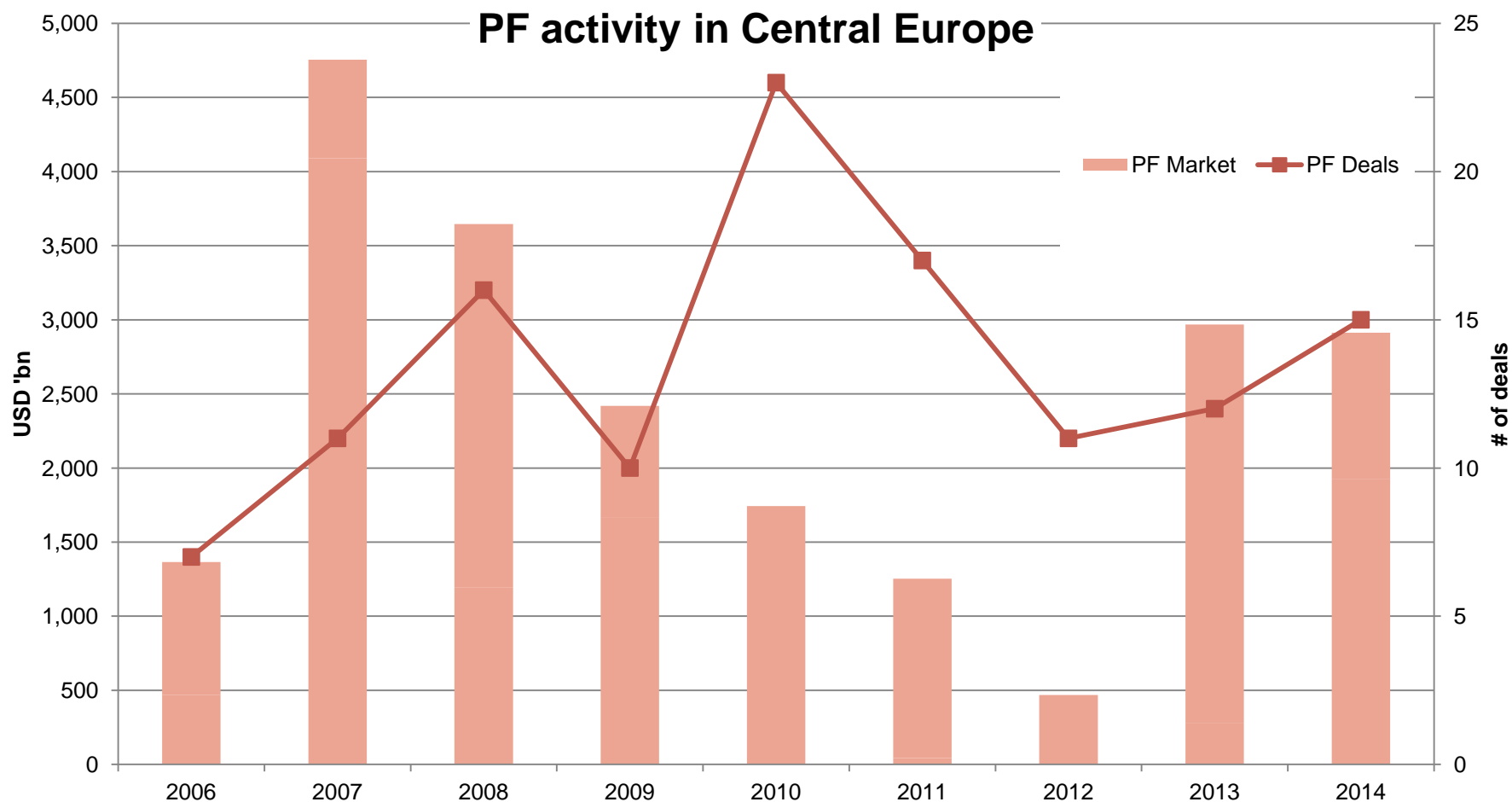
- Yields across asset classes are depressed following years of near-zero interest rates in the developed world and massive quantitative easing
- Financing opportunities in European PPPs are in short supply after years of governmental budget tightening and lack of long-term infrastructure projects during the recession
- These dynamics are driving capital providers to chase all opportunities strongly and manifests in:
 - lower margins
 - more robust risk appetite from financiers
 - willingness to look at more complicated projects, or projects in more “exotic” jurisdictions

These characteristics – excess supply of financing and limited demand for financing – make this a highly auspicious time to use private sector financing to finance new infrastructure projects

THE REDUCTION IN FINANCING OPPORTUNITIES...

... is particularly pronounced in Central Europe

Project Finance activity as a whole has recovered somewhat...

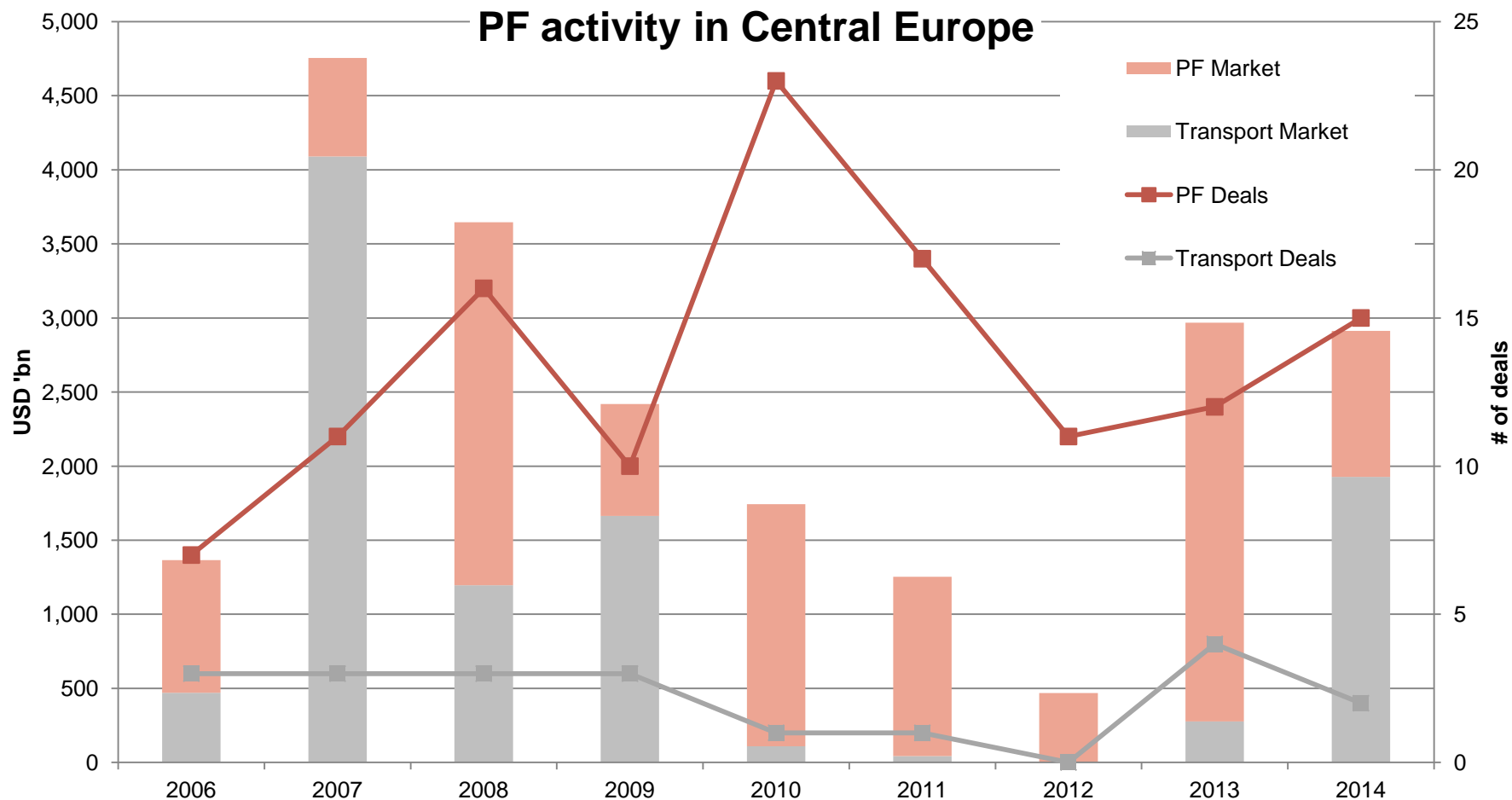


Source: IJ Global. "Central Europe" means Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia

THE REDUCTION IN FINANCING OPPORTUNITIES...

... is particularly pronounced in Central Europe

...but the transport sector remains weak



Source: IJ Global. "Central Europe" means Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia

- **Commercial bank debt** continues to dominate, providing liquidity and flexibility
 - The current low liquidity costs of financial institutions and the supply / demand imbalance for assets of this nature continue to drive down pricing and improve terms
 - International and local financiers are likely to want to compete for roles
- Investment grade projects provide the opportunity for **institutional investors** (pension funds, infrastructure debt funds, insurance funds) to provide long-term fixed-rate financing
 - Over recent years the features of financing provided by the most advanced of these institutions has aligned close to banks
 - The EIB has provided subordinated credit enhancement to a number of these “project bonds”
- Multilateral institutions like **EIB and EBRD** continue to make senior financing available for infrastructure projects which meet development and environmental criteria
 - The EIB is active providing highly competitive financing even in developed markets (e.g. UK, France, Germany etc.)
 - The EBRD is more likely to target largest, more difficult projects which might not progress without its involvement

RISK ALLOCATION

Financiers expect to see a tried-and-tested risk allocation

Risk	Private	Public	Shared
Land acquisition		X	
Design			X
Construction	X		
Demand (traffic)		X	
Fluctuations of the CZK against the EUR		X	
Operation / Maintenance	X		
Financing	X		
Changes in interest and inflation rates before financial close		X	
Changes in interest and inflation rates after financial close	X		
Tax changes – general	X		
Tax changes – specific		X	
Political changes		X	
Changes in legislation			X
Force Majeure			X

Source: Adapted by SG from D4 Highway and R7 Expressway Teaser issued by the Ministry of Transport, Construction and Regional Development of the Slovak Republic

CONCLUSIONS FOR DISCUSSION

Ingredients for a successful PPP project

