



Crédit Local

**Financing PPP in the Water sector
Dexia Experience**

Public-Private Partnerships and Urban Services

Płock, Poland, 6-10 December 2004

DEXIA PPP EXPERIENCE IN THE WATER SECTOR

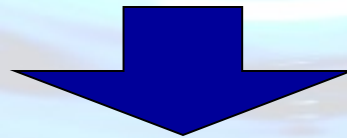
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- ✓ PPP schemes in the water sector Page 4
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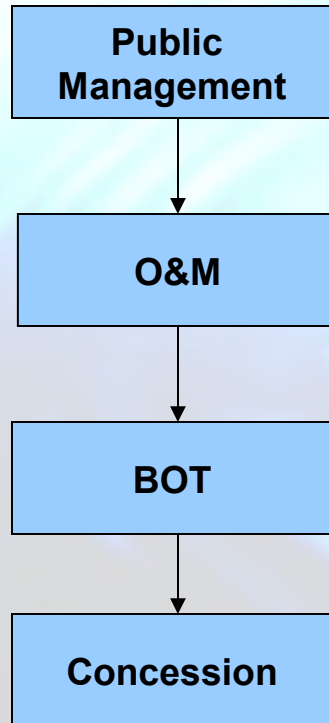
Challenges facing the Water Sector

- ✓ Increasingly demanding standards for quality of service under new EU regulations
- ✓ Local authorities confronted with long term investment needs.
- ✓ Public sector facing constraining budgetary policies.
- ✓ Water projects are politically sensitive, and decisions are driven by political and social parameters as much as by purely economic considerations.



Recourse to Public/Private Partnership schemes

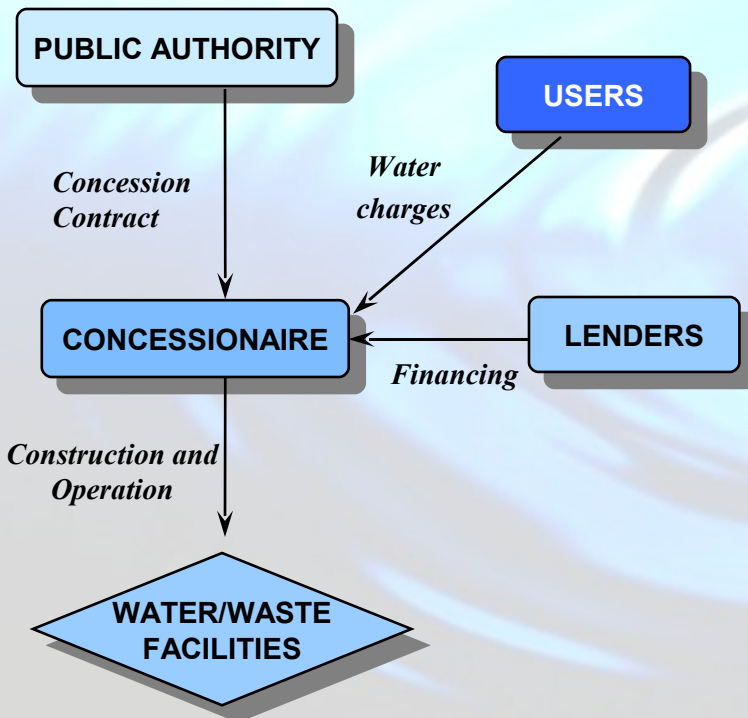
The PPP concept covers a broad range of schemes involving different degrees of private sector participation :



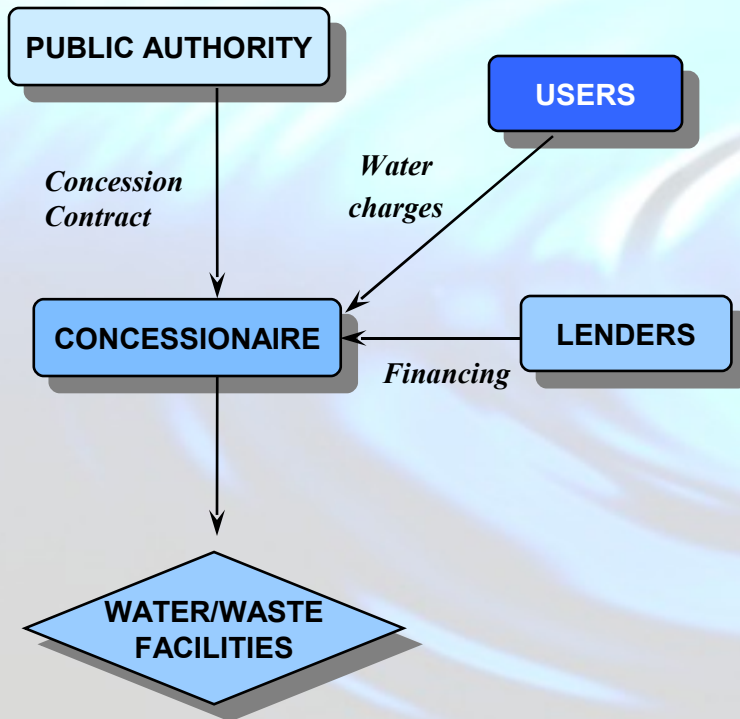
- ✓ **The Concession scheme** : “the French model”
All investment and operations responsibilities are transferred to the private sector, for the full range of treatment and distribution services
- ✓ **The DBFO scheme**: “the UK PFI model” but also the Dutch model
The private sector undertakes the construction and operation of bulk water or wastewater treatment facilities.
- ✓ **The O&M model**: a “Central Europe Model “ ?
Outsourcing the operation and management of water and sewage services to a private operator while investments remain on the public side.



Each scheme involves a different set of merits and challenges.



- ✓ Private sector is responsible for the whole range of water related services and facilities : operation, investment and distribution.
 - The concessionaire is typically exposed to tariff and volume risks
 - The project's financing plan has therefore to provide for sizeable contingencies
 - The experience and track record of the private operator in managing similar large and complex utilities is key
 - The concessionaire benefits from the high flexibility available under this scheme, allowing an on-going adjustment of its expenditure plans to match its actual cash flows
- ✓ Public sector retains control through regulatory monitoring, as well as performance, coverage and quality of services targets set in the concession agreement.

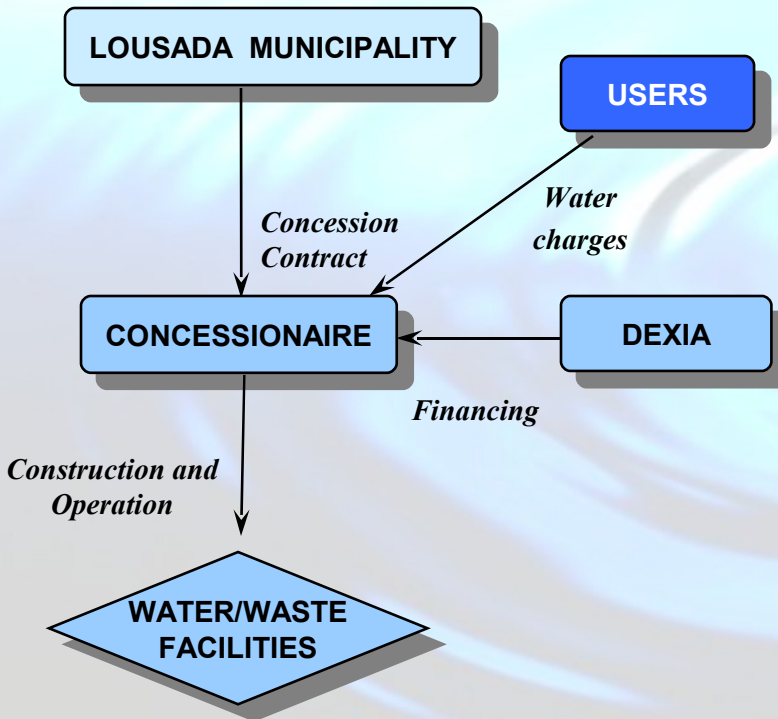


- ✓ A comprehensive solution offering maximum flexibility to the private sector in terms of construction and operations,
- ✓ and allowing the public sector to transfer a high level of risks to the private sector

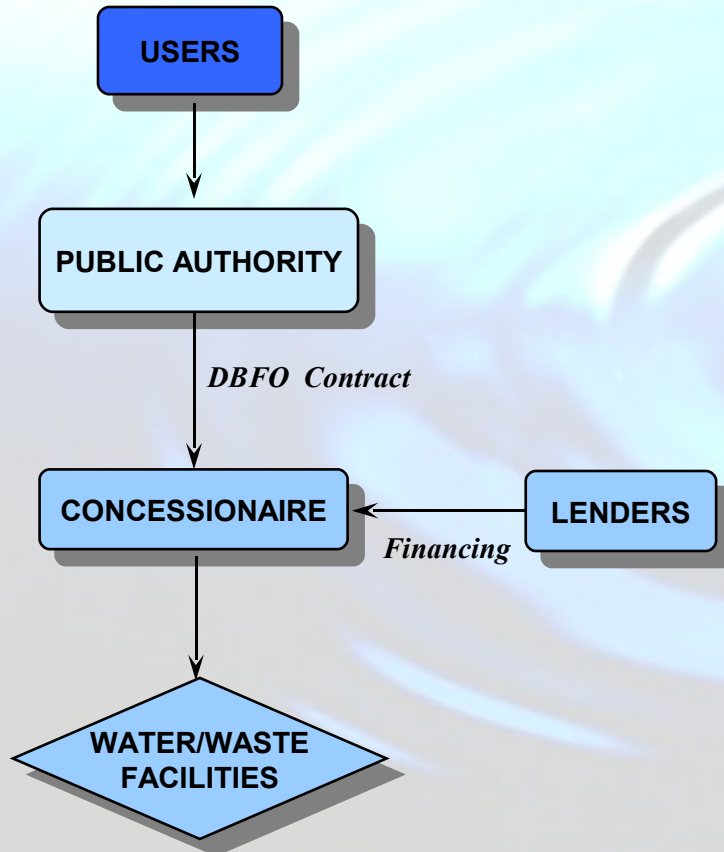
BUT

- ✓ A scheme which remains constraining in terms of sponsors investment capacity
- ✓ A challenging scheme in terms of political acceptability.

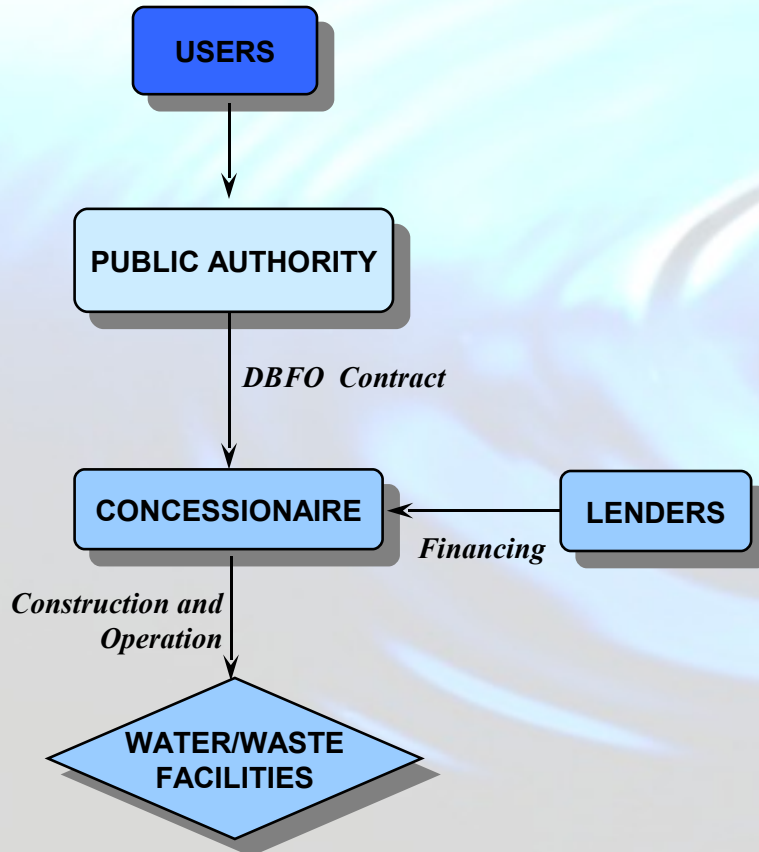
Water Concession in the Municipality of Lousada



- ✓ 35 year concession for the extension, management and operation of the drinking water and waste water systems in Lousada, Portugal
- ✓ Population covered by the project : 50 000 inhabitants
- ✓ Dexia supporting a consortium led by Somague.



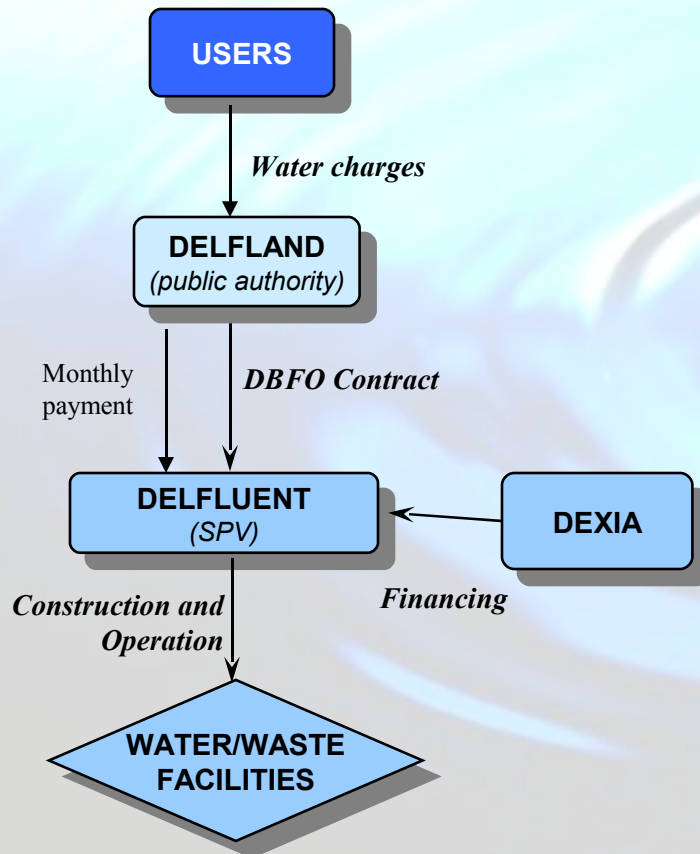
- ✓ Private sector undertakes the construction and operation of bulk water or wastewater treatment facilities against a fixed payment from the public sector.
 - Payments deductions in case of poor performance in accordance with an extensive payment mechanism
 - The tariff formula has to allow adjustments to key parameters such as inflation, change in law or change to the Services
 - Private sector bears no tariff risk but can take a certain level of volume risk (Scottish projects) mitigated by a revenue banding structure.



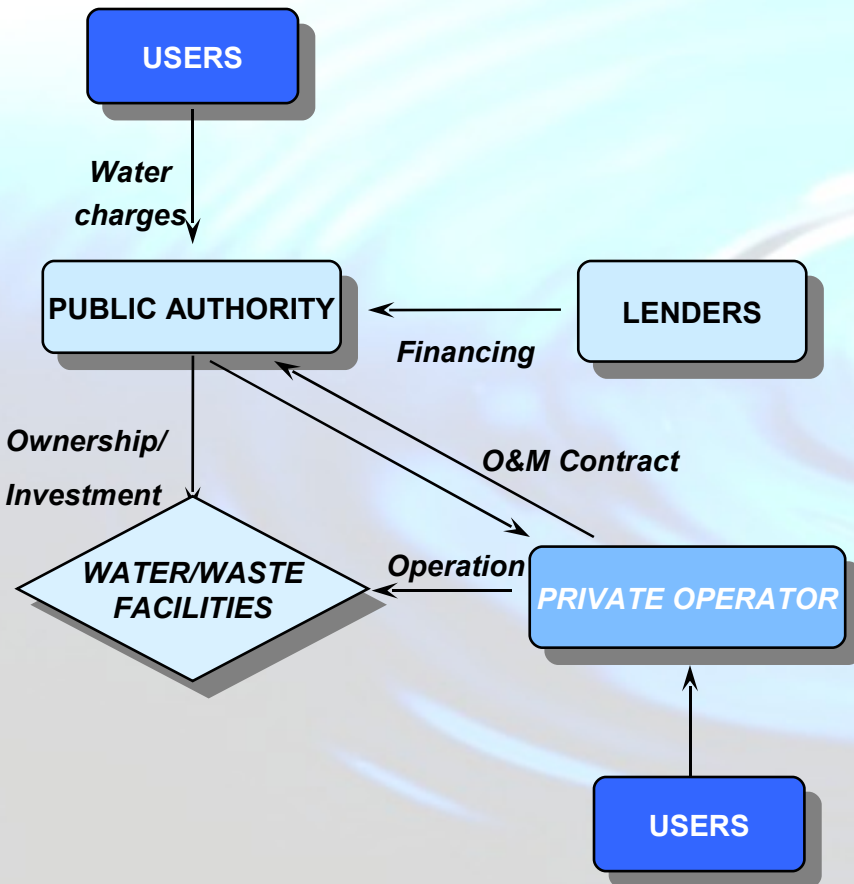
- ✓ Private sector adds value through competition-based and cost effective project management skills.
 - Capital expenditure is sub-contracted under a fixed price, date certain, turnkey EPC contract
 - The O&M activities is subcontracted under an O&M fixed price contract
 - If and when required, additional support from the parent companies of the EPC and O&M contractors.

 - ✓ Public sector retains control over the distribution networks and the interface with end-users, keep step-in rights in pre-defined cases, and has a close control on the performance through penalties
- BUT**
- ✓ Scheme which can still be sensitive politically
 - ✓ And remains capital consuming for the private sector

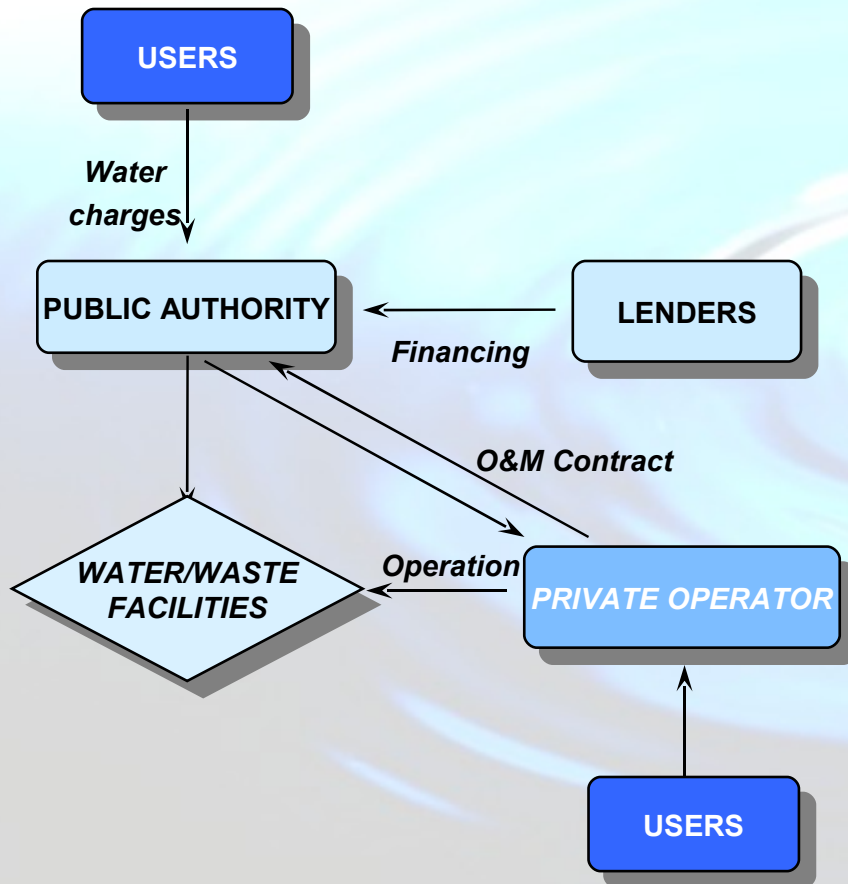
The Hague Waste Water Project



- ✓ DBFO Agreement for the upgrading of an existing plant and the construction of a new plant in the area of The Hague in the Netherlands. No interruption in the waste water treatment
- ✓ Population covered by the project : 1.8 mio population equivalent. Total debt : 390 M€
- ✓ Main shareholders of the Consortium Delfluent : Veolia water : 40%, Delta/WBE 40%,
- ✓ Dexia's role : Arranger / Underwriter, along with RaboBank
- ✓ First PFI scheme in Continental Europe
- ✓ No volume/tariff risk (availability payment) but only a performance risk (penalties in accordance with a performance mechanism)
- ✓ Step-in rights of Delfland in case of "calamities"

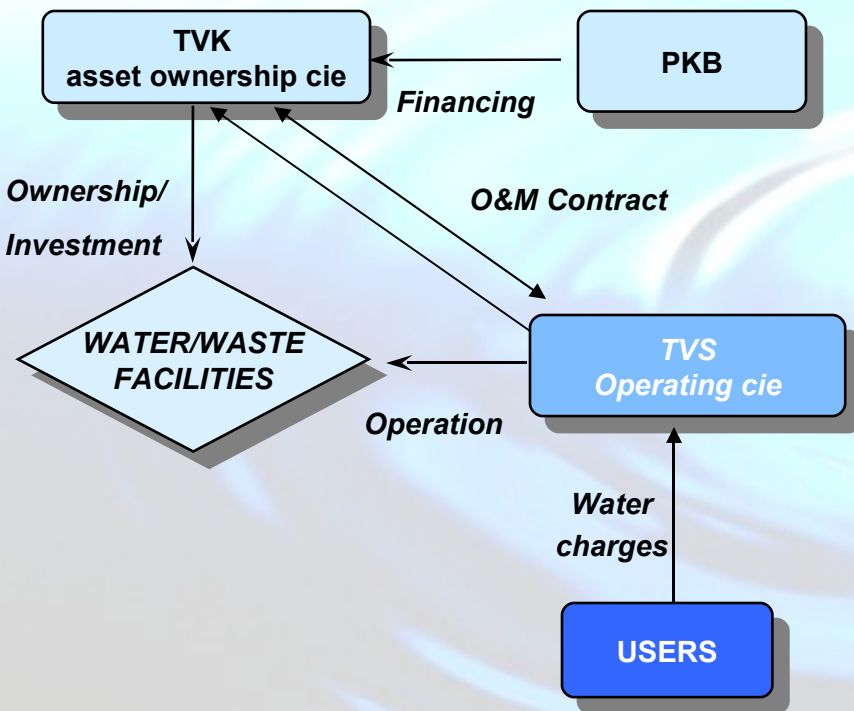


- ✓ Public sector retains control and ownership over the assets directly or through an asset ownership company and only the operating responsibilities are transferred to the private sector.
- ✓ Private sector adds value through its management and efficiency skills (productivity gains...).
- ✓ Private operator is either paid by end-users (taking revenue risks) or by the public authority through a fixed fee.
- ✓ Contract with the private operator shall draw clear lines between operating expenditure under the operator's scope and capital expenditure under public sector responsibility

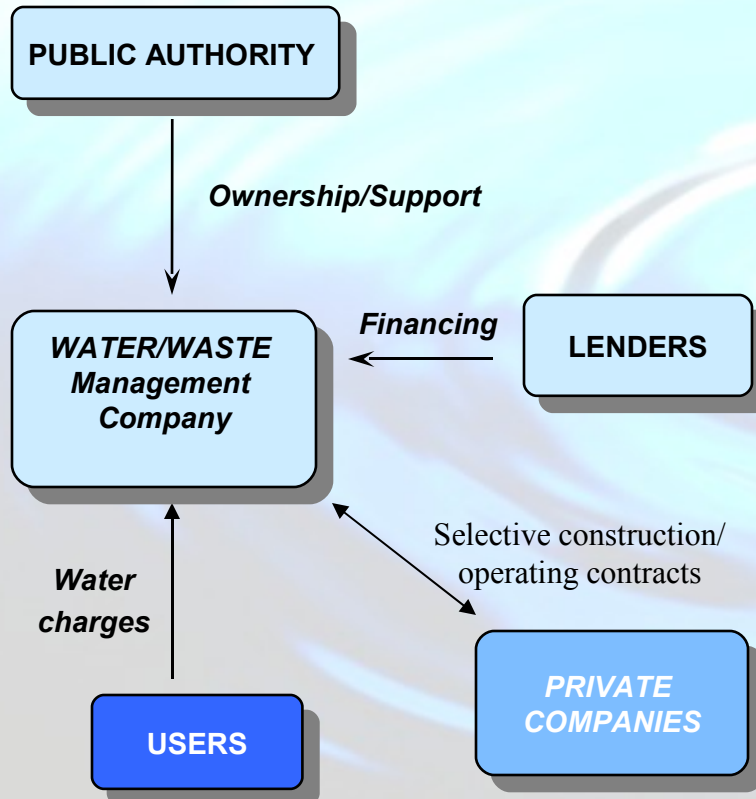


- ✓ A close coordination and clear interface arrangements are required, in order to optimise the overall cost of operating and maintaining the systems.
 - ✓ Private operator shall be comforted that the assets' conditions, availability and performance are consistent with its own operating plans
 - ✓ A model which leaves the asset condition risk to the public sector
- But
- ✓ Can make the partnership with the private sector politically less sensitive
 - ✓ And is less capital consuming for the private sector

Water Treatment Plant in Trencin

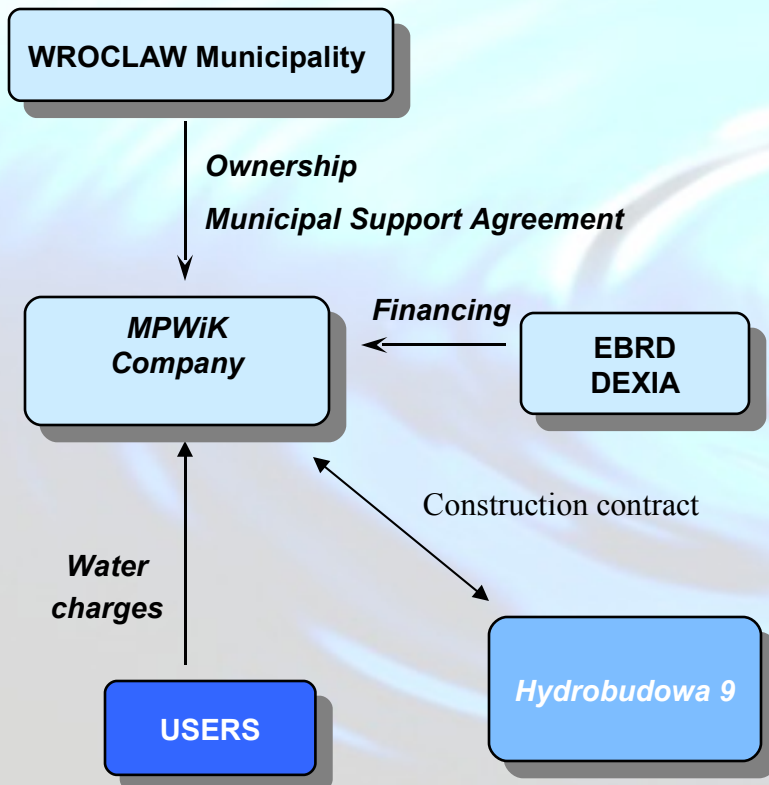


- ✓ Construction and operation of a waste water plant in Trencin, Slovakia
- ✓ Population covered by the project : 78 000 inhabitants.
- ✓ Separation of asset ownership and operation with an asset ownership company owned by the public sector
- ✓ Operating company owned by private sector (Suez), collecting the revenues, and paying a rent to the ownership company
- ✓ Dexia's role : Lead Arranger (through our Slovak subsidiary PKB) of financing to the asset company.

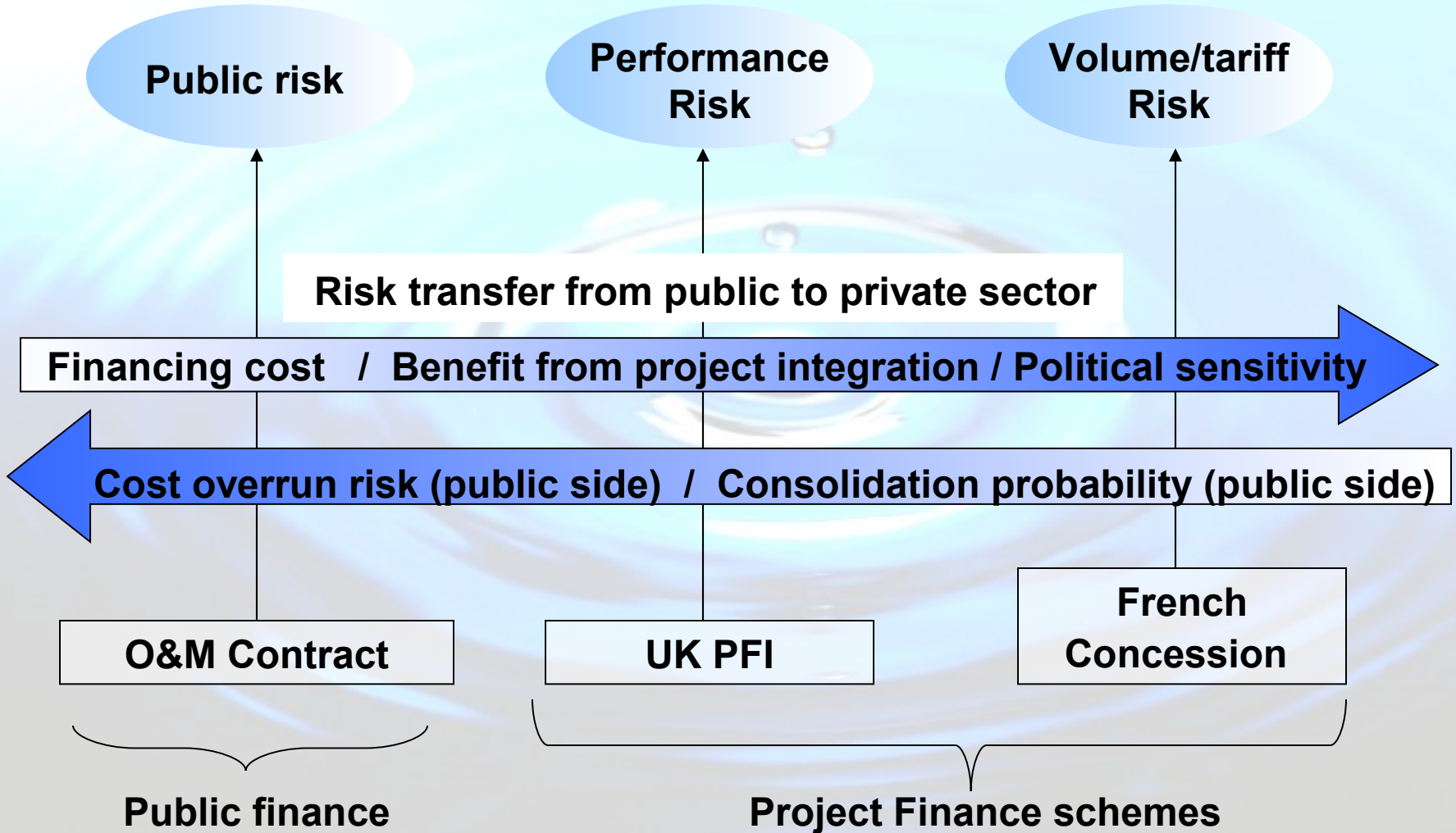


- ✓ Public sector retains control and ownership of the company in charge of the upgrade/maintenance of the assets and the water treatment/distribution
 - ✓ Selective contracts with private entities with reduced scope of work
 - ✓ A model which leaves the asset condition and the operation risks to the public sector
- But
- ✓ Give a high level of control to the public sector
 - ✓ Allow a flexible involvement of the private sector

Water Treatment Plant in Wrocław

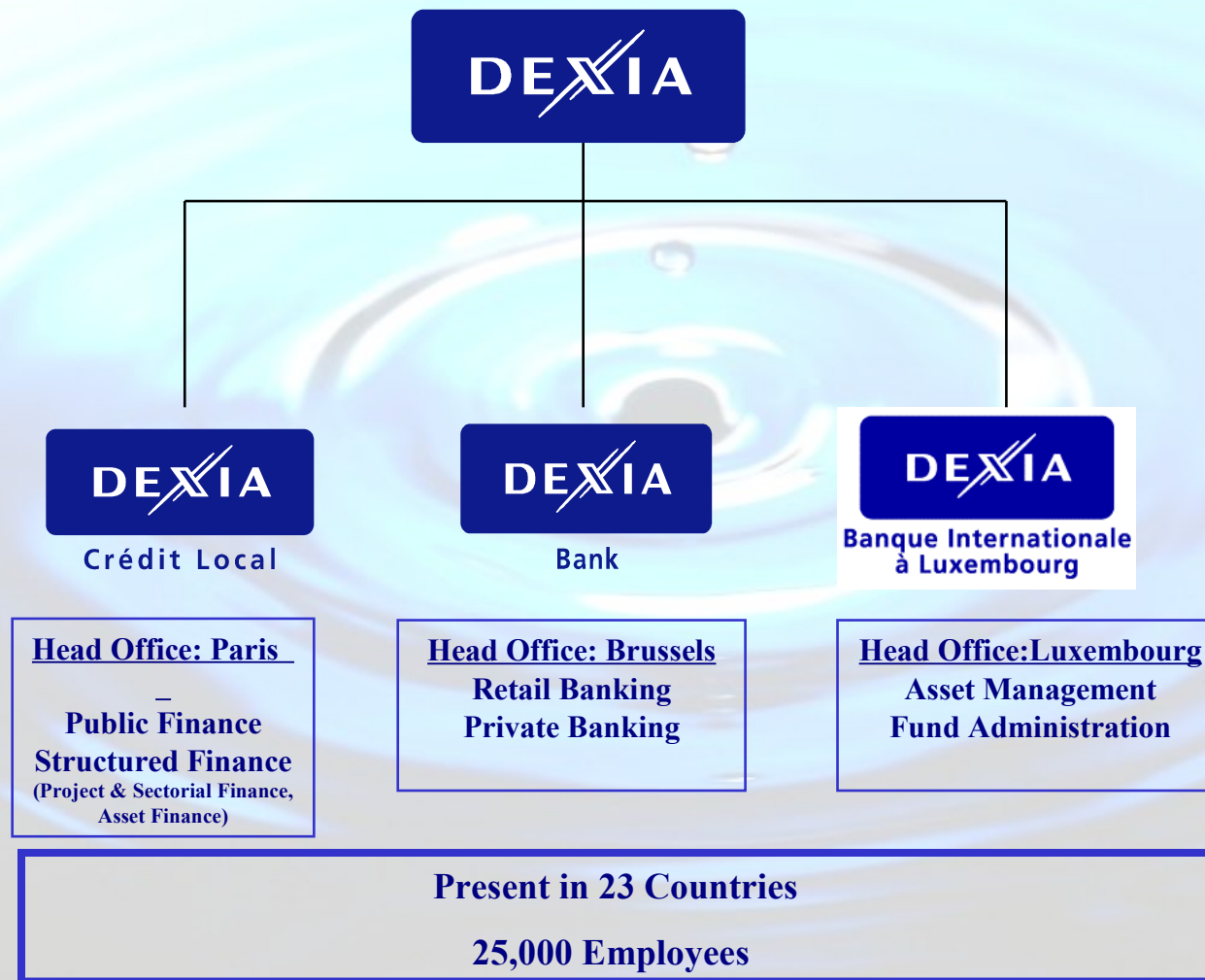


- ✓ Extension and upgrade of a Water Treatment plant belonging to Miejskie Przedsiębiorstw o Wodociągów I Kanalizacji SA a company responsible for the treatment and the distribution of water in the area of Wrocław
- ✓ MPWiK is 100% owned by the Municipality of Wrocław
- ✓ Financing from ISPA funds and a loans from EBRD (A-Loan) and Dexia (B-Loan)
- ✓ Municipal Support Agreement which secures an appropriate coverage of the debt service requirements



DEXIA GROUP

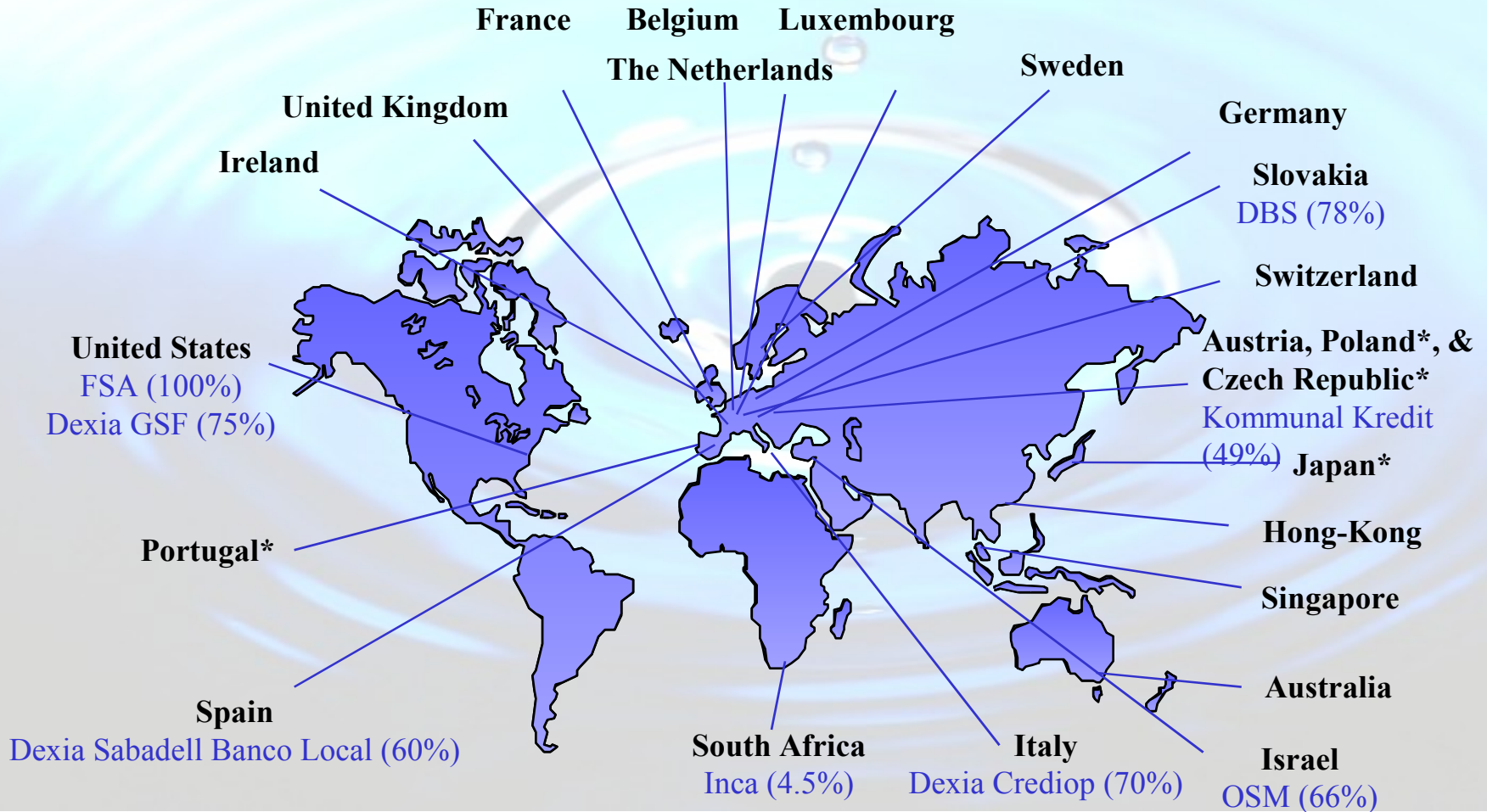
A EUROPEAN BANKING GROUP WITH A GLOBAL REACH



DEXIA GROUP

OUR INTERNATIONAL PRESENCE

As of 31 December 2003



*Representative Offices

As of 31st December 2003

RATING: AA (Standard & Poor's)

Aa2 (Moody's)

AA+ (Fitch)

MARKET CAPITALISATION : € 16.0 Billion

TOTAL ASSETS : € 350 Billion

NET INCOME : € 1,431 Million

RETURN ON EQUITY : 16,5 %

CAPITAL ADEQUACY RATIO: 11.2%

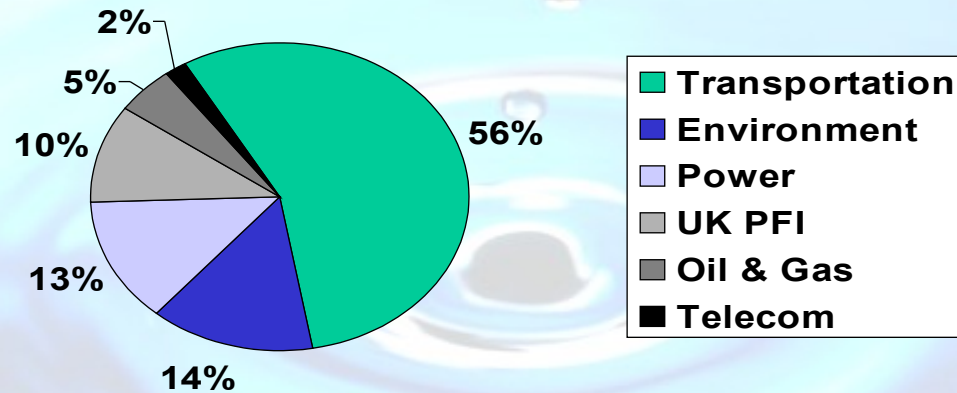
DEXIA CREDIT LOCAL PROJECT FINANCE ACTIVITIES

- **FOCUSES ON FIVE AREAS :**
 - TRANSPORTATION**
 - ENVIRONMENT**
 - ACCOMMODATION PFI**
 - ENERGY**
 - TELECOMMUNICATIONS**
- **TOTAL LOAN COMMITMENTS OF EUR 7 BILLION AS OF DECEMBER 2003**
- **SERVICES PROVIDED :**
 - FINANCIAL ADVISORY**
 - DEBT ARRANGING**
 - DEBT UNDERWRITING**
 - LONG TERM LENDING**
 - EQUITY/FUNDS INVESTMENTS**
 - EXPORT CREDITS**
- **CARRIED OUT BY TEAMS BASED IN PARIS (head office), BRUSSELS, LONDON, MADRID, NEW YORK, ROME, SYDNEY, AND WASHINGTON DC**
- **OVER 60 PROFESSIONALS WORLDWIDE**

PROJECT FINANCE

A SUSTAINED LEVEL OF ACTIVITY IN 2003

- EUR 2.4 billion of new loans commitments booked during the year, as follows:



- 14 lead arranging mandates closed
- EUR 1.4 billion of senior long-term debt arranged and/or underwritten
- 25 financial advisory mandates won, closed, or in progress

PROJECT FINANCE

2001-2002 EUROMONEY AWARDS

- **Emasesa, Spain**
Water, €100m
Dexia Mandated Lead Arranger
European Municipal Finance Deal of the Year 2002
- **A28, France**
Toll Road, €460m
FSA Financial Guarantor
European Transportation Deal of the Year 2002
- **Tube Lines, UK**
London Underground PFI, £1,785m
Dexia Lead Arranger/Underwriter
European PPP Deal of the Year 2002
- **Fluvanna, USA**
Gas-fired Power Plant, US\$495m
Dexia Mandated Lead Arranger
North America Power Deal of the Year 2002
- **Rutas del Pacifico, Chile**
Toll Road, US\$285m
Dexia/FSA Mandated Lead Arranger/Credit Enhancer
Latin American Deal of the Year 2002
- **HSL, Netherlands**
Rail Transportation, €1,217m
Dexia Mandated Lead Arranger
European Deal of the Year 2001
- **Tecnoborgo, Italy**
Waste to Energy, € 62 m
First Italian PPP Financing, 2001
Dexia Sole Mandated Lead Arranger

PROJECT FINANCE

2003 EUROMONEY AWARDS

- **Delfluent, Netherlands**

Water, €388m

Dexia Mandated Lead Arranger

European Water Deal of the Year 2003

- **Metronet, UK**

London Underground PFI, £2,650m

FSA Financial Guarantor, Dexia Arranger

European Bond Deal of the Year 2003

- **Sistemas Electricos Cando, Spain**

Wind Power, €62m

Dexia Mandated Lead Arranger

European Renewable Energy Acquisition Deal of the Year 2003

- **Lake Bonney, Australia**

Wind Power, A\$166m

Dexia Co-Arranger

Australian Power Deal of the Year 2003

- **Tlalnepantla de Baz, Mexico**

Water Treatment & Conservation, M\$96m

Dexia Financial Guarantor

Latin American Municipal Finance Deal of the Year 2003

- **Gasoducto GasAndes, Chile**

Gas Pipeline, US\$136m

Dexia Mandated Lead Arranger

Latin American Oil & Gas Deal of the Year 2003

- **Western Sydney Orbital, Australia**

Toll Road, A\$1,250m

Dexia Underwriter

Australian Transportation Deal of the Year 2003

PROJECT FINANCE

POSITION IN THE 2003 LEAGUE TABLES

INFRASTRUCTURE JOURNAL:

- **Dexia Renewables Arranger of the Year**
- **# 8 - Global Arrangers (Closed Deals by Volume: USD 947 million)**
- **# 6- Global Arrangers (Closed Deals by Number: 21 transactions)**

EUROMONEY PROJECT FINANCE MAGAZINE (DEALOGIC):

- **# 11 - Global Project Finance Providers (Q1-Q3)**
(USD 646 million, 22 transactions)

PROJECT FINANCE INTERNATIONAL MAGAZINE (THOMSON FINANCIAL):

- **# 6 - Global Project Finance Advisors by Number of Mandates Won (24 mandates)**
- **# 13 - Mandated Lead Arrangers, Europe (USD764 million, 14 mandates)**

MULTILATERALS:

- **EIB: #1 Banking Counterpart**
- **EBRD: #8 Co-Financier**

Main references in Central Europe in the Water Sector

**An extensive
co-financing
experience
with EBRD**

**Maribor Waste
Water Treatment
Plant**

Slovenia

EUR 35m

**Co-Financer
with EBRD
B-Loan**

1999

**Brno Waste
Water Treatment
Plant**

Czech Republic

EUR 47m

**Co-Financer
with EBRD
B-Loan**

2001

**Zagreb Water
Treatment Plant**

Croatia

EUR 170m

**Co-Financer
with EBRD
B-Loan**

2003

**Wroclaw Water
Treatment Plant**

Poland

EUR 60m

**Co-Financer
with EBRD
B-Loan**

2004

**An active provider
of funds to
Municipal Water
Companies**

**Kosice Waste
Water Treatment
Plant**

Slovakia

EUR 12m

Lead –Arranger

2001-2004

**Trencin Water
Treatment Plant**

Slovakia

EUR 7m

Lead –Arranger

2004

RECENT REFERENCES IN ENVIRONMENT

Delfluent
Water Treatment

Netherlands

€ 400 M

Lead-Arranger

2003

ZOV
Water Treatment

Croatia

€ 170 M

Co-Arranger

2003

Tlalnepantla
Water Treatment

Mexico

M\$ 96 M

Guarantor

2003

Emasesa
Water Treatment

Spain

€ 100 M

Lead-Arranger

2002

Cydel
Waste to Energy

France

€ 85 M

Lead-Arranger

2002

Thun
Waste to Energy

Switzerland

€ 85 M

Lead-Arranger

2002

Butarque
Waste Treatment

Spain

€ 19 M

Lead-Arranger

2001

Piacenza
Waste Treatment

Italy

€ 62 M

Lead-Arranger
& Agent

2001

Creteil Incineration
Energie

France

€ 122 M

Lead-Arranger
& Agent

2001

Kirklees Waste
Services

UK

£ 44 M

Lead-Arranger

2000

SECTOR FOCUS

WATER / WASTE TREATMENT

WASTE TO ENERGY

WATER SUPPLY / DISTRIBUTION