

# Telecom Infrastructure - a Financing Perspective

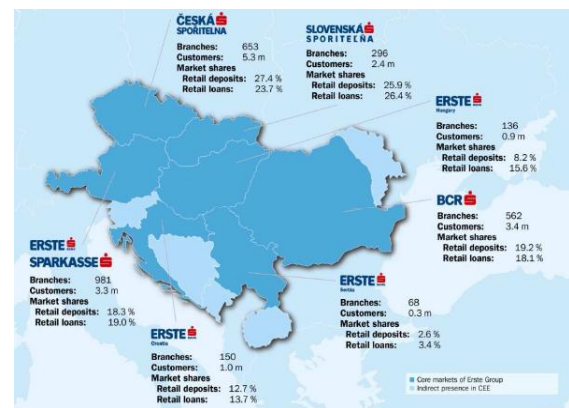
**Ioana Anca Gheorghiane**  
Executive Director  
Public & Infrastructure Finance Division

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# Erste Group at a glance

## Customer banking in the eastern part of the EU

- Founded in 1819 as the first Austrian savings bank
- Erste Group is strongly committed to offering a comprehensive range of financial products to meet its customer needs.
- Around 46,000 employees serve 16.6 million customers with approx. 2,900 branches in 7 countries in the eastern part of the EU
- Market leadership in AUT, RO, SK and CZ
- No. 1 asset manager in CEE with EUR 47bn assets under management
- TOP position in debt capital markets in Austria and CEE with more than 11% market share
- TOP Mandated Lead Arranger of syndicated loans in CEE



*We successfully operate in a region with high potential aiming to provide a high standard in personal service and a comprehensive range of financial products to our 16.6 million customers*



### KEY FINANCIALS

Total assets	EUR 210.2 bn
Total equity	EUR 16.2 bn
Net profit after tax H1/13	EUR 301.2 mn

# BCR - part of Erste Group

## Profile and strategy of Banca Comerciala Romana



### BCR – Key Facts

- BCR is the **leading financial group in Romania** with a 20% market share (over 3.4 million customers) currently managing **assets of over EUR 15.2 bn** (as of September 2013)
- Operates 562 branches and 41 corporate centers employs close to 7,800 employees
- No.1 in total assets, loans, deposits, ATMs
- No.1 on EU funds market
- BCR is member of Erste Group since 2006

#### Commitment to Romania:

- Erste Group investments in Romania larger than EUR 7.5 bn
- BCR doubled the volume of its outstanding loan portfolio since 2006
- Financial results as of September 2013 - BCR posts net profit of RON 559.8 mil



“...every credit committee in BCR we look to **support Romanian infrastructure building and deployment of EU funds**. We are willing to tackle public private partnerships to speed up build-up of the country. And we are also strongly dedicated and willing to stand behind small and medium clients. In one sentence, we wish to finance the REAL economy and we wish to achieve “good growth” - **Mr. Tomas Spurny, CEO of BCR**

# Group Infrastructure Finance

## Targets and Products



## Areas of Expertise

- Long term infrastructure financing
- Financial engineering
- PPP advisory
- PPP financing
- EU Funding support

# Digital Agenda 2020 – EU wide broadband strategy

## A connected continent

### European Union is supporting investments in ICT sector



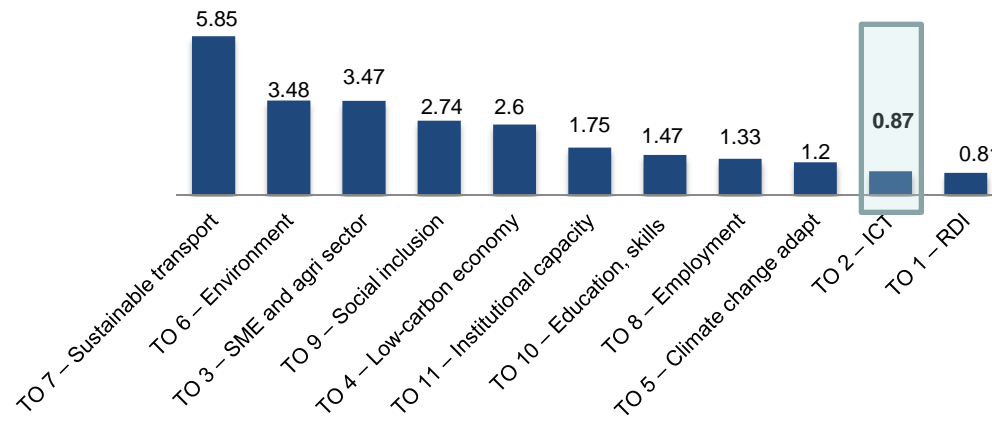
### Tomorrow's Programmes (2014-2020) - Funding opportunities

- **Programs at EU level**

- ✓ **Horizon 2020:** running from 2014 to 2020 with EUR 80 bn budget, EU's new programme for research and innovation is driving economical growth and creating new jobs across Europe
- ✓ **Connecting Europe Facility (CEF):** proposal to use EUR 50 bn of the EU budget to boost transport, energy and digital networks. Aim is to remove bottlenecks and fill in the missing links in the EU's Single Market (EUR 1 bn assigned for digital support)

- **Programs at national level**

- ✓ **Structural Funds:** Indicative EU Funds allocation for Thematic Objectives in Romania for 2014-2020 (in bn EUR)

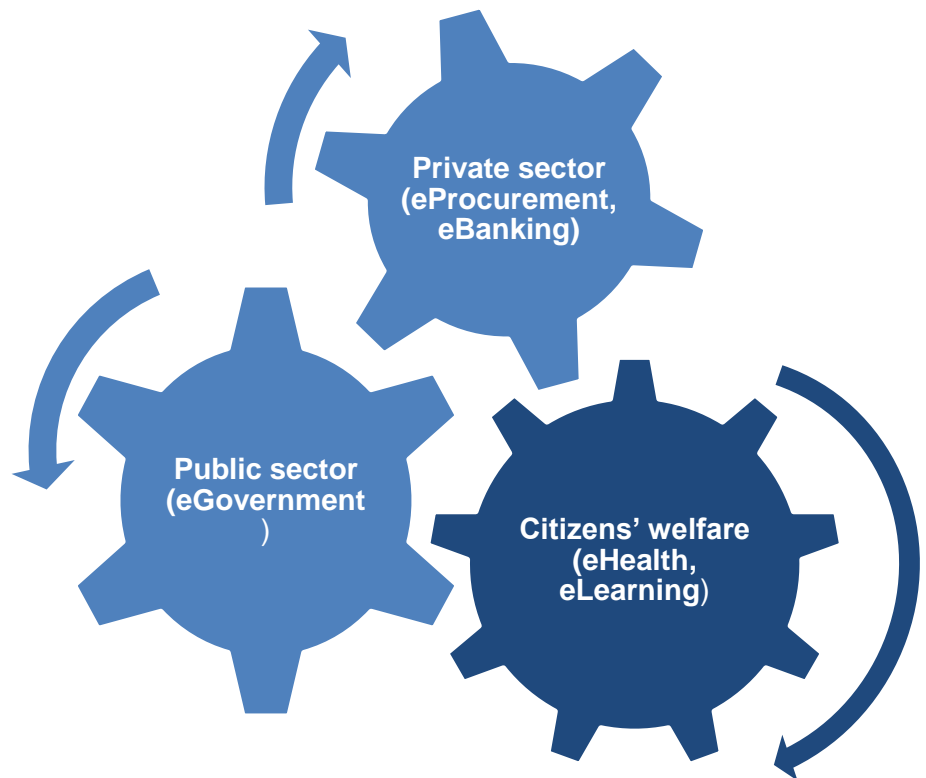
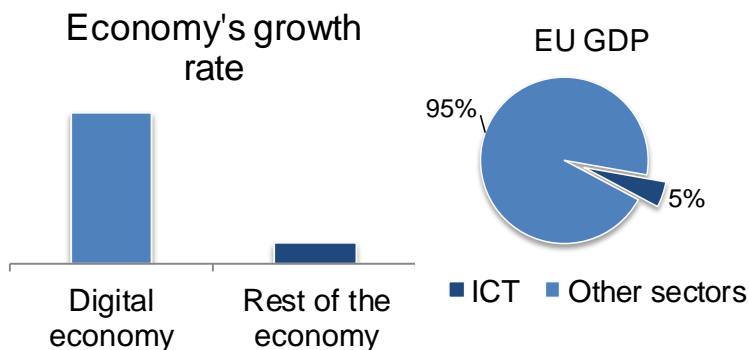


# Why to invest in broadband?

## Creation of added value

### Did you know that....?

- ICT sector is directly responsible for 5% of European GDP with market value of EUR 660 bn annually
- Digital economy is growing at 7x the rate of the rest of the economy
- Major investments of EUR 200 bn in broadband network deployment will be necessary over the next 5 to 10 years, as per EU Commission estimates



# Broadband models implementation across Europe

## A guide for further investments

Out of a panel of 12 selected projects in broadband infrastructure across EU, below find our conclusions:

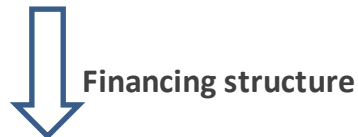
# of projects	Total value	Lowest value	Highest value	Average value
12	1078	6	450	90
%	100%	1%	42%	8%

MEUR



Fiber To The Home (FTTH)	Fiber To The Cabinet (FTTC)	Wireless & satellite	Asymmetric Digital Subscriber Line (ADSL)	Core & backhaul
6	2	3	3	8

# of projects



Public Funds	EU funds	Private contribution
778	174	126
72%	16%	12%

MEUR

*Public national authorities are the main sponsors of these projects, with a contribution overpassing 72% of total project value. This orientation is a natural one, taking into consideration the strategic importance, capital-intensive requirements and the long-term pay back period*

*Private support is required both in terms of know-how and process optimization*

Source: EU Regional Policy – Guide to broadband investment

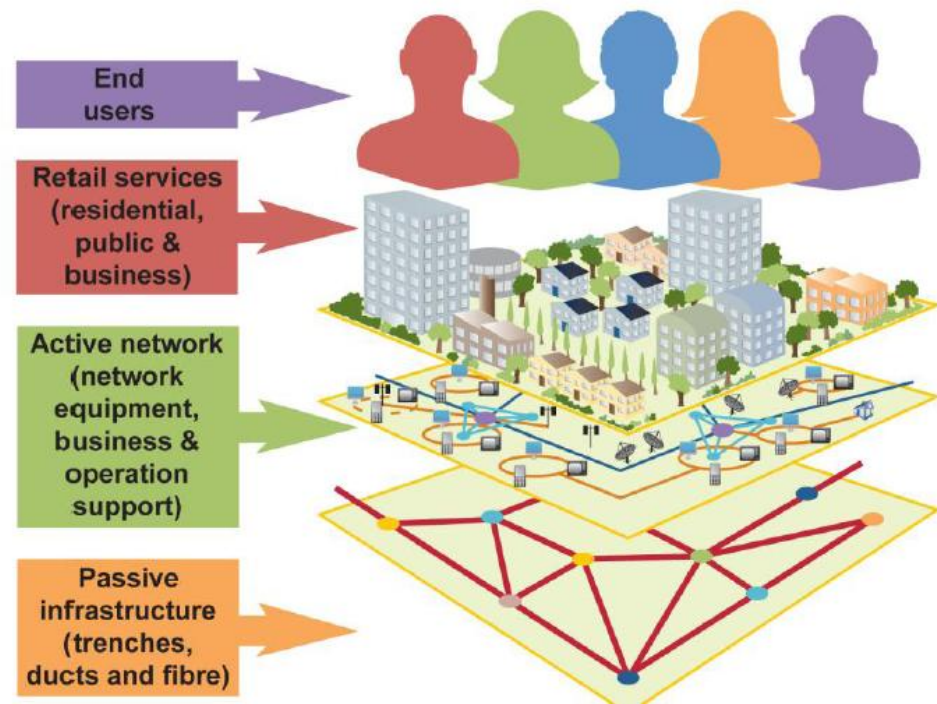
# Stockab Project

## A successful Citynet model

Public company, wholly-owned by the City of Stockholm, providing a passive fiber optic communications network

*Public project -> 100% public initiative and financial support*

- **Achievement:** 90% of all Stockholm's households and nearly 100% of all companies have FTTH connections with speeds of up to 1 Gigabit-per-second
- **Commercial activity:** wholesale renting of broadband infrastructure to service providers (50%), public entities (10%) and other private companies (40%)
- **Total investment:** hiked up to EUR 450 mil
- **No public subsidies** were granted, all funds coming from customer revenues
- **Gradual deployment (project started in 1994):** allow for cash flow generation early on



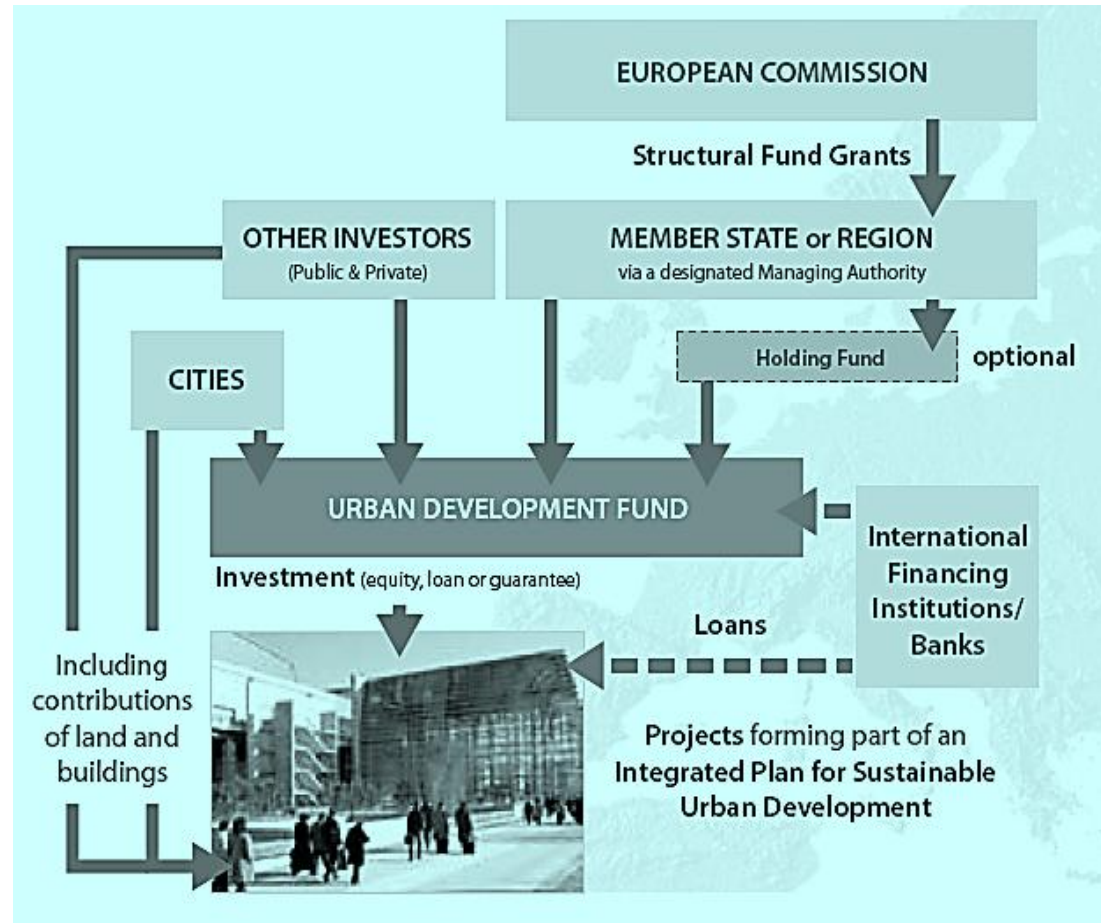


# Smart City – the future's concept

## A financing model for Smart City projects

**Innovative model implying set-up of an Urban Development Fund financed from a pool of sources, such as: municipalities, EU, national authorities, international financing institutions, commercial banks and other investors**

- Among a large range of EU programs for supporting urban development of a Smart City, an EIB program (JESSICA) has been already successfully implemented in several countries (i.e. Lithuania) and is serving as a model for future similar investments
- From the lender's perspective, a financing structure comprising both elements as cash (i.e. grants) or/and non-cash (i.e. EIB guarantees, land concession) is key in reaching an adequate risk sharing mechanism that would allow successful financing

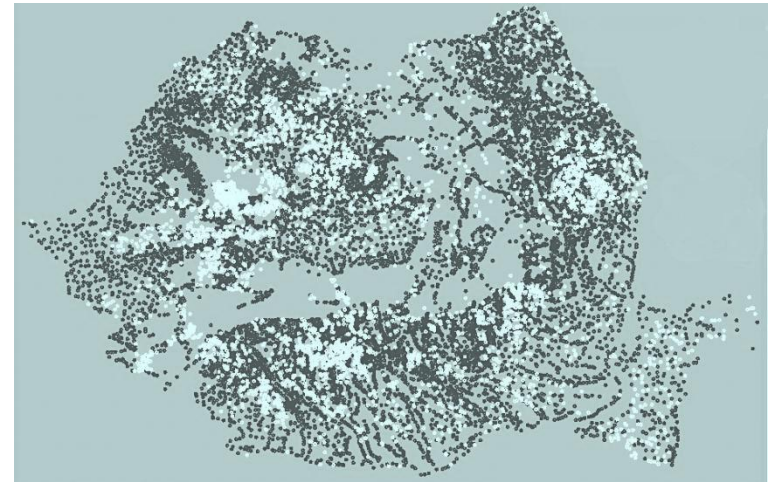


# Broadband infrastructure projects in Romania

## A step toward modern local access networks

### RO-NET – development of broadband services in Romania

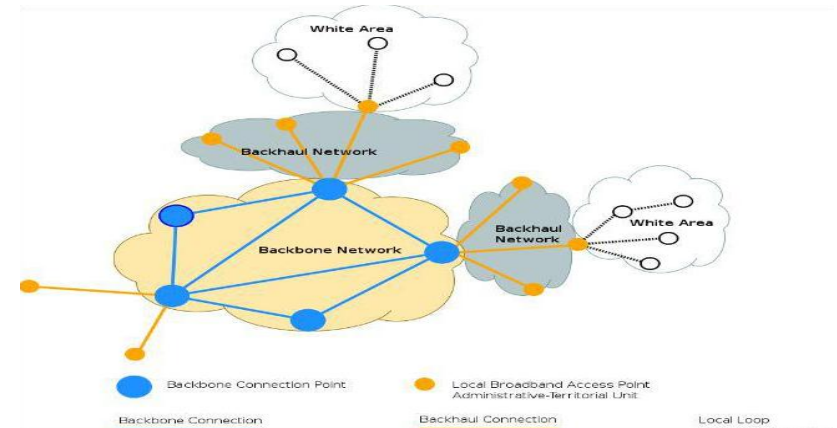
- Project aims to increase broadband coverage at national level, by developing 7 regional networks connected to the broadband backbone; main purpose is to cover the “white-spot” areas (please see enclosed map)



- **Main characteristics:**

- ✓ Sponsor: Ministry for Information Society
- ✓ PPP structure (private DBO model)
- ✓ 18 years concession
- ✓ Secured financing (82.6% - EU funds, 17.4% - Ministry for Information Society)
- ✓ Fees to be collected from the operator – min. 18% of the investment value
- ✓ Claw-back mechanism
- ✓ Flexibility of used technology – WiMax, optical fiber, 4G, etc

- **Total estimated value** of the project: EUR 84 mil



# Broadband market in Romania and EU

## Comparative analysis

ROMANIA	INDICATOR	EU AVERAGE
89.8%	Standard fixed broadband coverage	95.5%
63.7%	Next Generation Access (>30Mbps download)	53.8%
46.8%	Share of high speed connections (>30 Mbps)	14.8%
43%	Rate of regular internet users	70%

Availability of fixed broadband connections lags behind the EU average but the availability of fast & ultra-fast broadband overpasses the EU average, mainly on the back of later deployment allowing the use of latest available technology in broadband networks (i.e. optical fiber)

Romania is a country of contrasts as the rate of regular internet users stands at only 43% (vs. 70% EU average) but the share of high speed connections is 3x higher than the average across EU

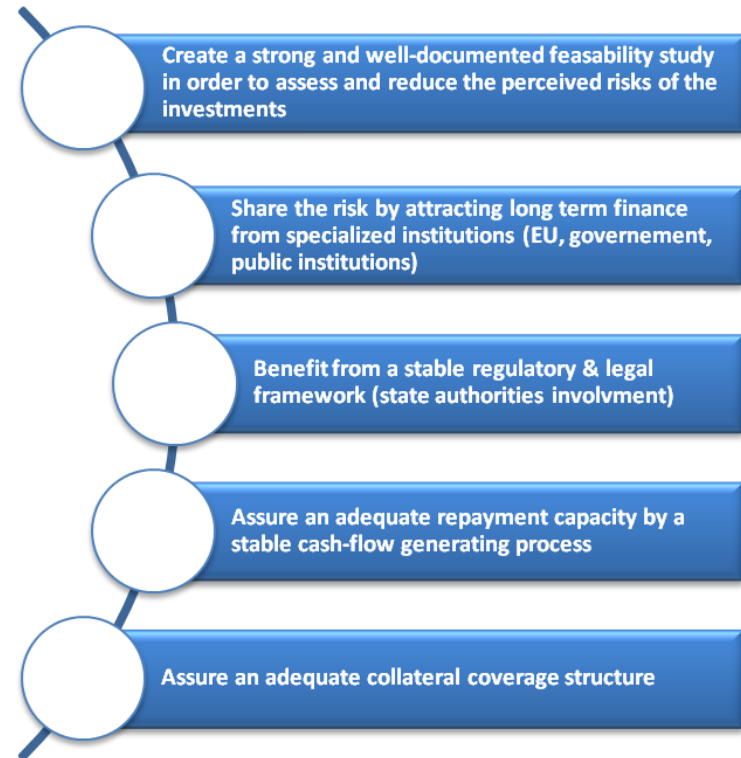
# Bankability of the project

## Main issues and how to address them

- Main risks related to the bankability of infrastructure projects are **long time to maturity of investments** and **impossibility to monetize the benefits** of the infrastructure:

- When positive impacts can not be charged directly (such as an increase in the population's health, better investment framework in the region, etc.) and the Internal or Financial Rate of Return is too low, public assistance instruments are required to compensate the private financiers
- Long time to maturity should be mitigated by an adequate phasing of the project or additional funding from the sponsor/authorities
- **As a rule of thumb, the risks should be allocated to the party best able to handle that risk**

- In order to create **bankable and sizeable investments** with reduced transaction costs, the following steps should be followed:



# Project Finance: Four Fundamental Characteristics

**Special Purpose Company (SPC)**



**Relevance of Cash-Flow**



**No/limited Recourse**



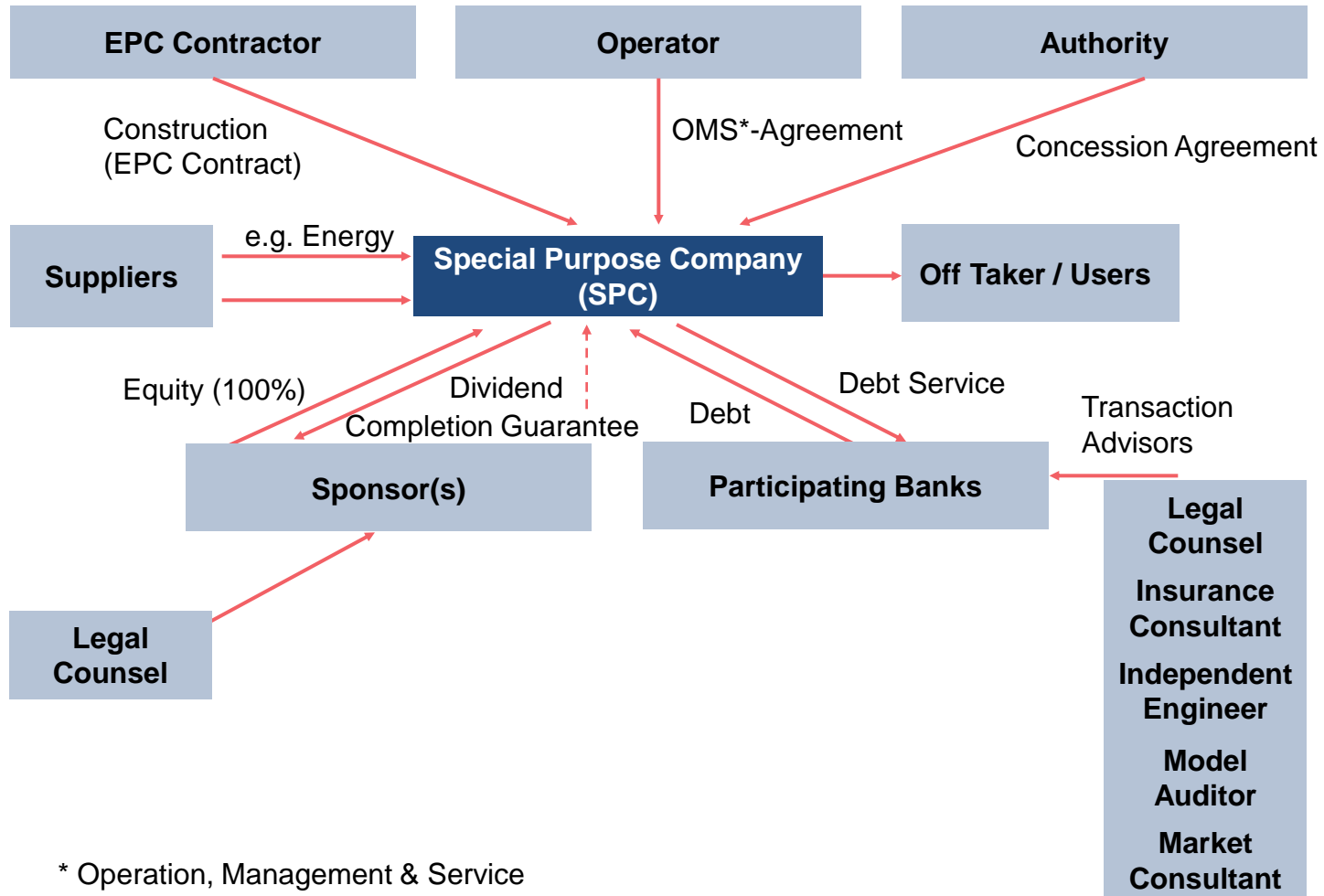
**Risk Sharing**



**Project Finance**

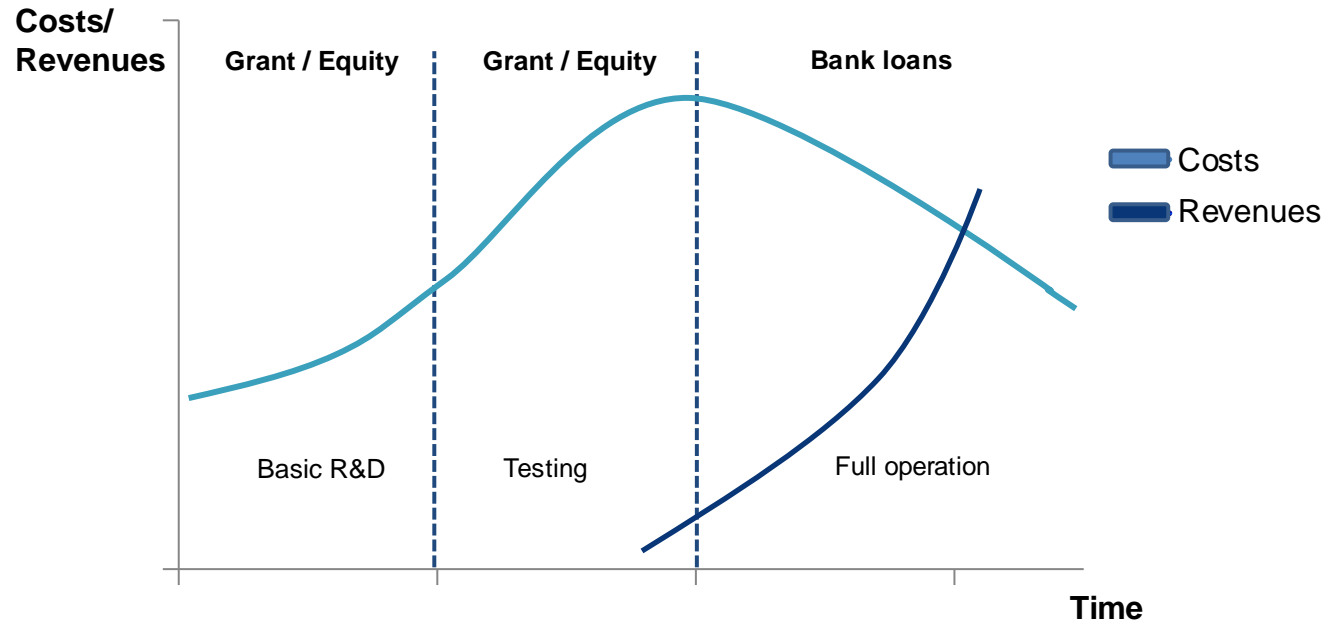
- **Project Company (Special Purpose Entity):**  
The Project Company is carrier of all rights and duties in connection with the project and its financing. It is a legally and economically separate entity
- **Relevance of Cash-Flow:**  
The borrower's financial standing depends significantly on expected Cash-Flows of the Project Company and not on other common rating criteria (i.e. balance sheet ratios)
- **Recourse options for the banks:**  
After project completion the banks have no (non-recourse financing) or only limited (limited-recourse-financing) recourse to the project sponsors
- **Structuring of the risks:**  
Project risks are structured in a way to adequately allocate them among the involved parties

# Typical Project Finance Structure



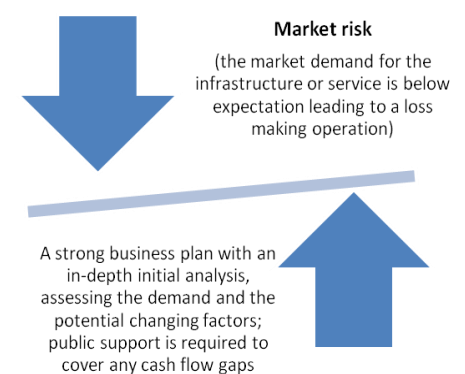
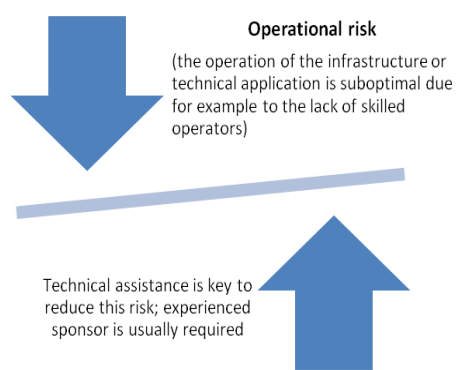
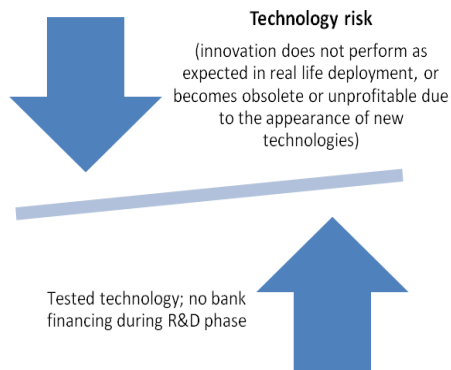
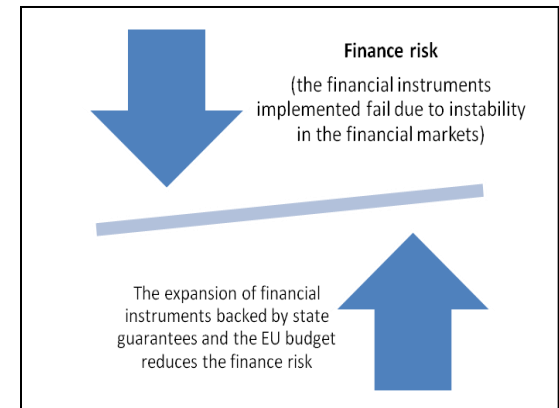
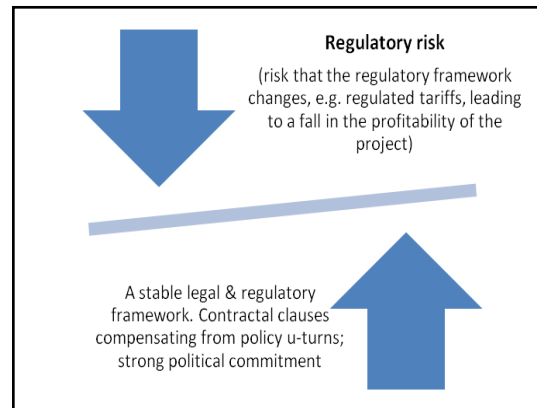
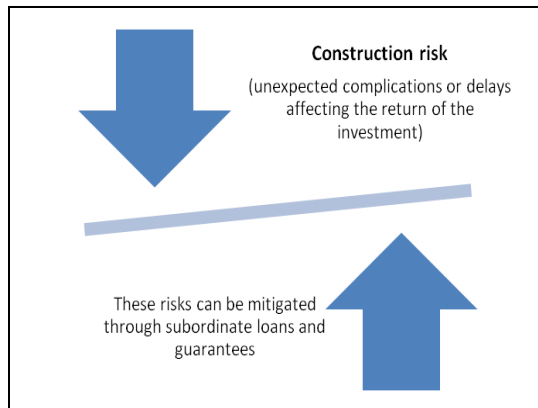
# Correlation between each project phase and financing

- Large scale infrastructure projects, in particular ICT investments comprising high-tech solutions, involve high risks in the first phases (R&D, planning, construction), due to long implementation period
- Banks usually step-in only after the project starts to generate revenues and therefore alternative funding (EU grants, national grants, supplier credit) has to be used to finance first stages of the project



# Risks related to urban development projects...

...and how to mitigate them





# Erste Group Infrastructure Definition

Infrastructure that is essential for the growth of a modern community

**Roads**



**Airports**



**Harbors**



**Wind parks**



**Solar PV**



**Motorways**



**Railway systems**



**Energy networks**



**Utility systems**



**Oil/Gas Generation**



**Solar Thermal**



**Rolling Stock**



**Education**



**Healthcare**



**Social Infrastructure**



**Public Systems**



**Car Parks**



**Water & Waste Treatment**



**Efficiency Investment**



**Wind parks**



**Hydro Plants**



**Biomass Plants**



**Public Transport**



**Railways**

