



POLISH INVESTMENTS PROGRAM

PROGRAM SUPERVISION:



Ministerstwo
Skarbu
Państwa



BANK
GOSPODARSTWA
KRAJOWEGO

OBJECTIVE

To support the implementation of selected infrastructure investments ensuring:

Projects are economically justified

Public debt is not increased

Long-term private capital is activated

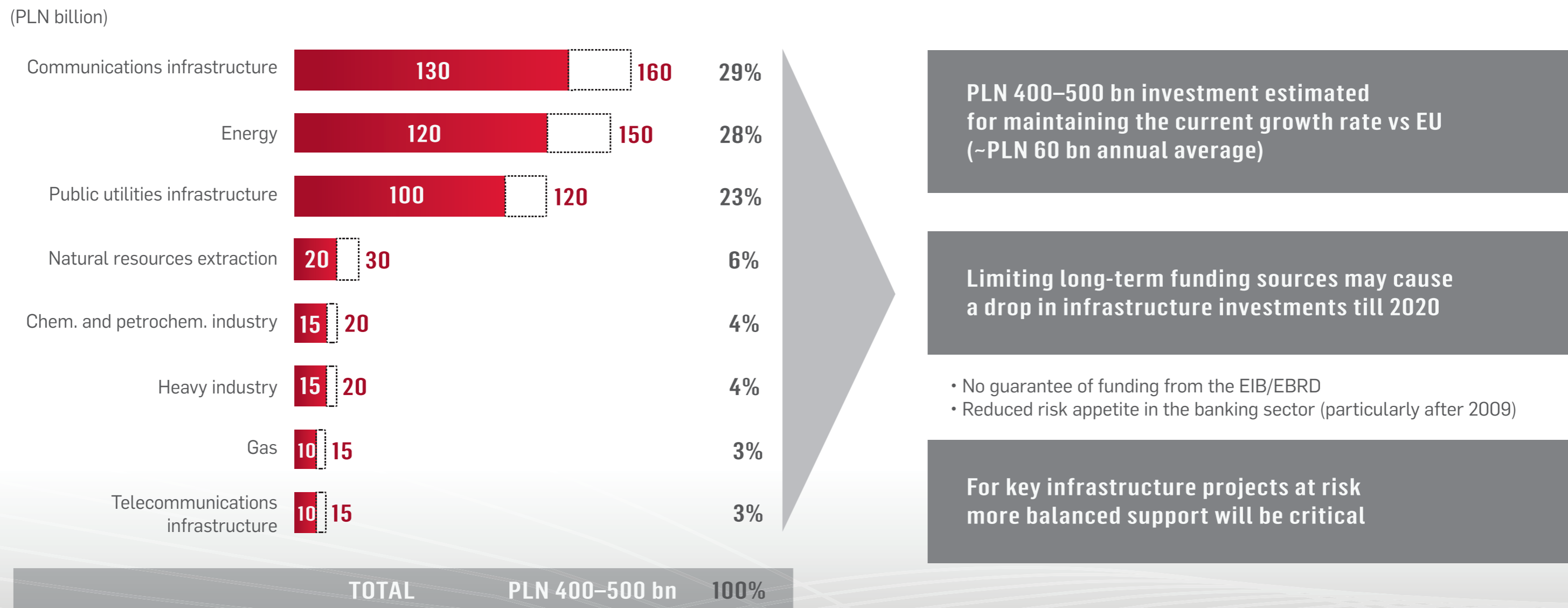
MAIN INFRASTRUCTURE INVESTMENT TARGETS

- **Energy** – distribution and manufacturing
- **Gas** – transmission, extraction and storage
- **Natural Resources** – hydrocarbon deposits, including shale gas
- **Port, maritime, rail, and road networks**
- **Municipal projects** e.g. waste management, transport and communication infrastructure, town rejuvenation
- **Industrial and telecommunication networks**



THE PROGRAM AIMS TO ENSURE THE CURRENT INVESTMENT DYNAMICS INTO INFRASTRUCTURE ARE MAINTAINED

PLANNED INFRASTRUCTURE EXPENDITURE TILL 2020 ESTIMATED AT PLN 400–500 BILLION REQUIRES THE PROVISION OF LONG-TERM FINANCING

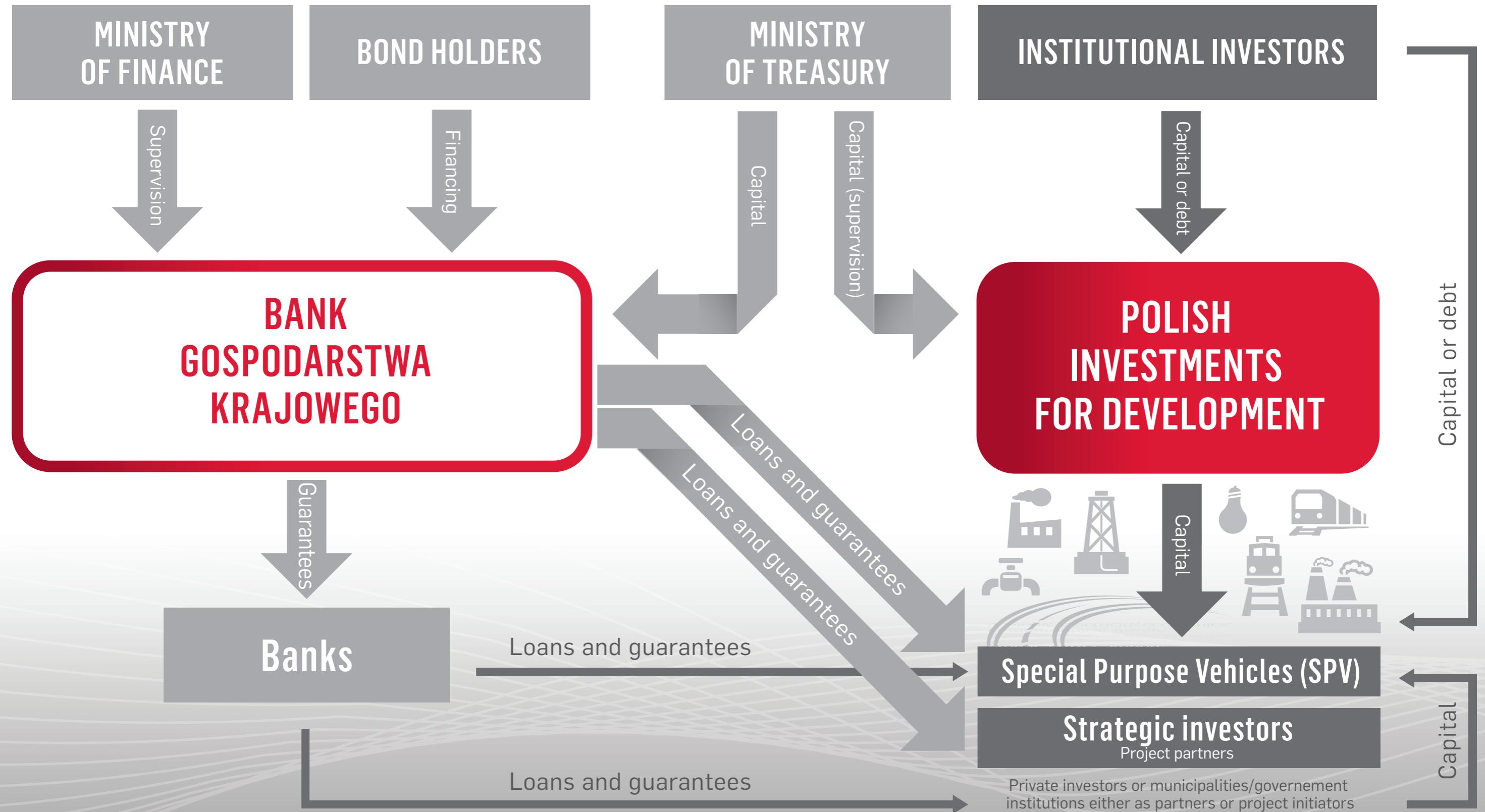


THE POLISH INVESTMENTS PROGRAM A CATALYST TO STIMULATE INVESTMENTS INTO INFRASTRUCTURE

**THE PROGRAM'S UNIQUE STRUCTURE
WILL SATISFY DIFFERENT
STAKEHOLDER INTERESTS**



**POLISH
INVESTMENTS
PROGRAM**





		POLISH INVESTMENTS							
		PRIVATE EQUITY	COMMERCIAL BANKS	PENSION/ MUTUAL FUNDS	EIB/EBRD	COMPANIES ²	BGK	POLSKIE INWESTYCJE ROZWOJOWE S.A.	EU FUNDS
SECTOR		Sectors with a high rate of return	Low risk	Low risk Stability of investment	Strategic sectors for the country	Sector in which it is active	Strategic sectors for the country	Strategic sectors for the country	Strategic sectors for the country
TYPES OF FUNDING		Equity (LBO) ⁶	Loans Guarantees Mezzanine Other ¹	Equity	Loans Guarantees Mezzanine	Own equity	Loans Guarantees	Equity Mezzanine ⁵	Not applicable
AMOUNT INVESTED		Limited by AUM (Assets under Management)	< PLN 500 mln, depending on the strategy to risk exposure	< PLN 1 billion, depending on the portfolio management strategy	< PLN 1 billion, depending on the strategy for the region's development	Depends on company's financial standing	< PLN 2 billion	PLN 50–750 mln, depending on the project	Limited by the size of the development program
PARTICIPATION IN INVESTMENT FUNDING	D ³		Minority (10-30%)		Minority (~30%)		Depends on project profile		
	E ⁴	Majority > 50%		Minority (10-15%)		Depends on the availability of resources		< 50%	15-85%, depending on the program
EXPECTED RETURN									
		Short	Project finance horizon					Long	Not applicable

1. Includes all forms of debt financing (including obligations)
 2. Companies that invest in their own assets
 3. Debt
 4. Equity
 5. Mezzanine – capital with limited risk
 6. LBO – redemption aided by debt financing

PROGRAM INSTRUMENTS

- **Debt financing** (loans and guarantees, subscribing to bonds) provided by BGK
- **Capital investments by Polskie Inwestycje Rozwojowe (PIR)** (by subscribing to shares in a future resale) with private capital
- **Available for Municipalities:**
 - Debt financing (loans and guarantees provided by BGK)
 - Purchase of bonds issued by community partnerships
 - PIR to act as a private co-investor in PPP's

FINANCING THE PROGRAM

- **BGK and PIR will be recapitalised with funds of up to PLN 10 bn each.**
The funds will be raised through the sale of shares of shares held by MSP (whilst maintaining control in strategic companies).

THE PROGRAM IS AIMED AT

- **Private entities (also those with foreign capital) and entities with Treasury shareholding**
- **Public institutions, local authorities** (e.g. public-private partnerships)

LONG-TERM TIMETABLE

Cumulative effect of investments of PLN 40 bn possible within 3-4 years.

2012

- Program **launch**
- **Establish** Polskie Inwestycje Rozwojowe S.A. (PIR)

2013

- **Increase BGK's statutory reserves and recapitalise PIR**
- **Obtain external funding** for BGK to leverage the increased statutory reserves
- **Intensification of BGK's activity**
- **PIR to start investing**

2014-2016

- **Continue BGK's lending campaign**
- **PIR continues its activities**
- **Continue recapitalising PIR and BGK**



- Investments in selected **strategic sectors in Poland**
- Polskie Inwestycje Rozwojowe S.A. to take up **minority interests** (possible exception in PPP projects) in the form of equity (mainly) and mezzanine
- Minimum commitment ~ **PLN 50 million** (target), maximum commitment ~ **PLN 750 million** (preferred ~ **PLN 250 million**)
- Maximum commitment period = construction phase + debt repayment; exit preference **as quickly as possible**
- PIR shall **invest on terms no less favourable** than other investors, taking into account the type of capital risk
- Project returns are calculated as equity IRR; **IRR at above average market rate** for debt financing, taking into account project risk



CORPORATE GOVERNANCE RULES AIMED AT FULL TRANSPARENCY, ACCOUNTABILITY AND EFFECTIVENESS

Commercial project evaluation and investment decisions

- Ultimate decisions made by Polskie Inwestycje Rozwojowe S.A.
 - no external influences possible
- The decision-making process concerning potential involvement in a project must be supported by independent and documented analysis prepared by/on behalf of Polskie Inwestycje Rozwojowe S.A. (similar to Private Equity principles and processes)

Critical is the separation of the project preparation and recommendation from investment decision making processes

3-tier investment process

- PIR Board, Investment Committee, Supervisory Board

A stable Supervisory Board to be actively involved in key decision making, consisting of up to 9 members:

- Up to 5 independent members with business/investment experience
- 4 members representing the Ministries/BGK (2 members from the Ministry of Treasury, one member from the Ministry of Finance, one member from BGK)

PIR Board of Directors is responsible for preparing the investment recommendation, the investment process and its monitoring

▶ Supervisory Board with a majority from industry – 9

The prevalence of independent members ensures a fully market-driven (based on commercial criteria) selection of projects

5
Independent members

5
Inv.
banking/PE
/business

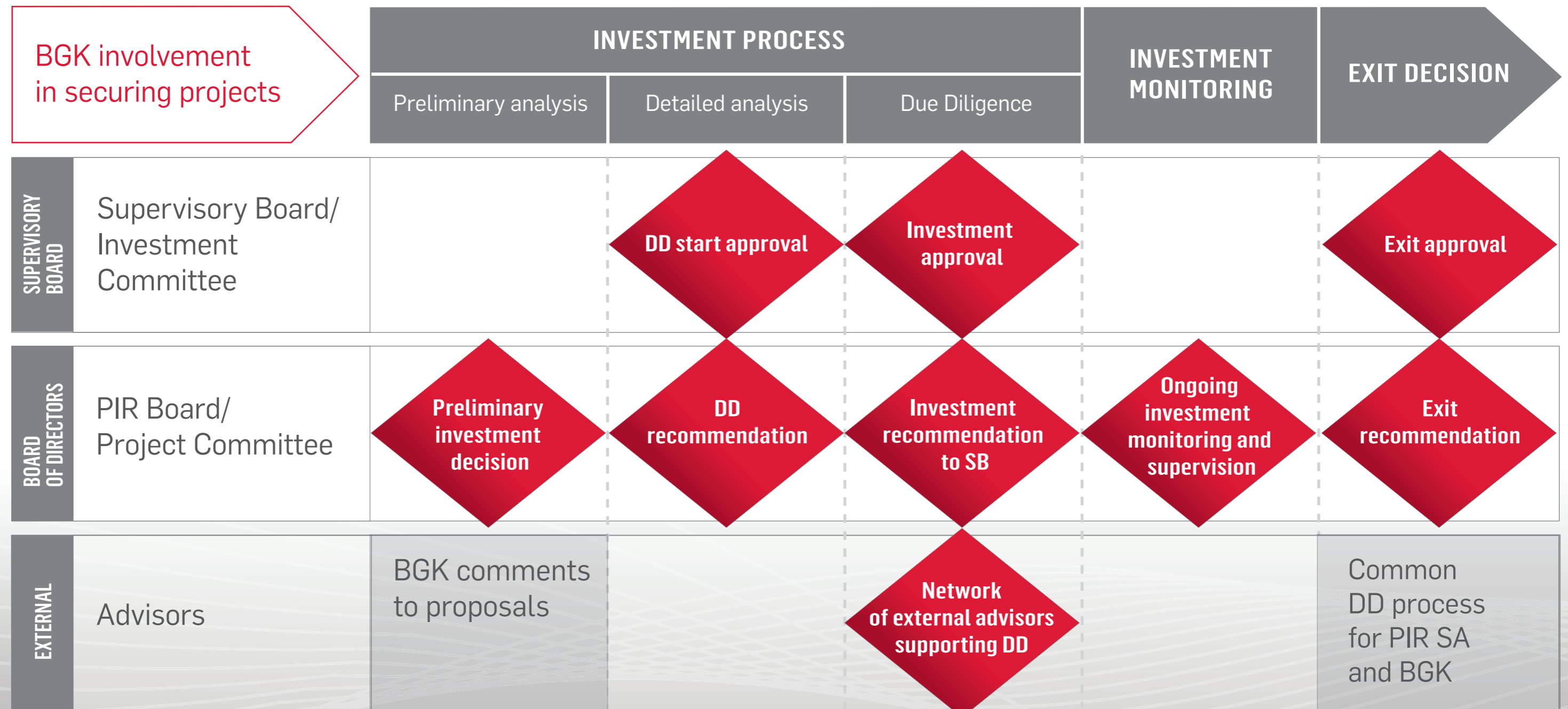
4
Government
representatives

1 MF

1 BGK

2 MSP

BOTH THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD OF POLSKIE INWESTYCJE ROZWOJOWE S.A. ARE INVOLVED IN THE DECISION-MAKING PROCESS, SUPPORTED BY BGK



BGK engagement in reviewing proposals (BGK representative on SB and an early stage advisor)

TODAY

- Financing local government units and projects in the public sector
- **Market oriented** commercial operations in line with the Bank's mission
- **Strategic funding** of key industries

TOMORROW

- Continuation of current activities and focus on the long-term financing of local infrastructure
- Larger scale of operations due to recapitalisation
- Additional counter cyclical activities

Like other banks in Europe with a similar profile, **BGK wants to provide** 'the first penny' or 'the last penny' needed to finance a project

Cooperation with other banks in the financing of large projects

Acting **according to commercial market principles**

Financing consortium projects supported by Polskie Inwestycje Rozwojowe

Complementary support role by BGK but on commercial market terms

Mobilisation of private capital

1. The privatisation process continues
2. Revenues from privatisation will be used to support private capital in infrastructure investments

2012

Revenue: **PLN 9.2 bn**

111 companies in which
ownership changes
were implemented

Dividends: **PLN 7.8 bn**

2013

Revenue: **PLN 5 bn**

Implementation
of privatisation projects:
– trade
– stock market: planned
IPO of Energa S.A.

Dividends: **PLN 5 bn**

2014-2016

No further privatisation plans

Sale/liquidation of remaining
companies

**The Treasury to retain majority/
controlling stakes in companies
of strategic importance**

Dividend plan for the coming years

– PLN 2 bn pa expected MINIMUM

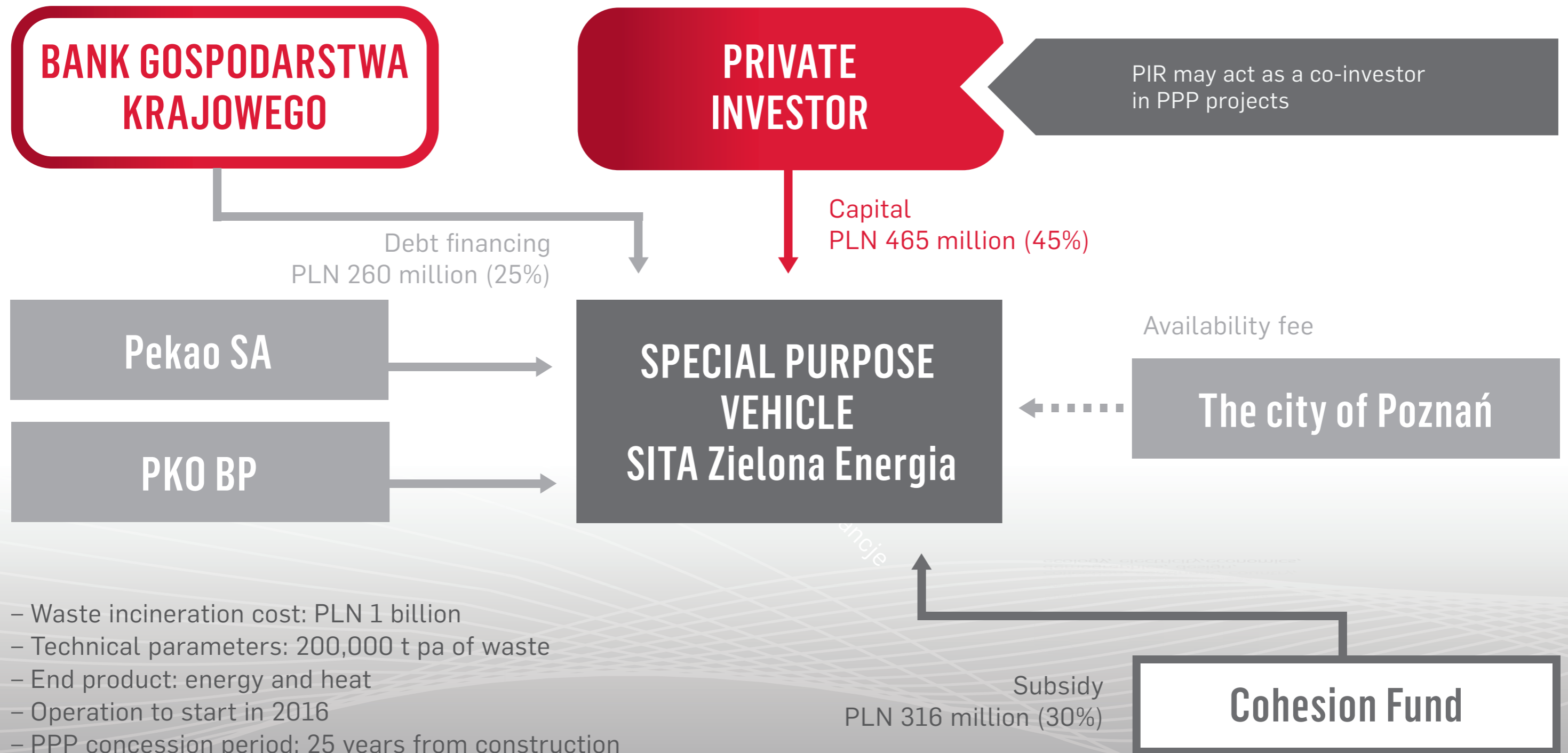
FINANCING OPTIONS USED IN THE POLISH INVESTMENT PROGRAM

Infrastructure projects can be executed directly by its initiator or separately as a special purpose entity. Project finance is a form of financing which separates cash flows of the project from the operational activity of the project sponsor. In the case of direct project execution, assets of the sponsor may serve as a guarantee. In both cases, funding may take the form of a loan or bond issue.

Both infrastructure financing options can be used in the Polish Investments Program

PROJECT FINANCE	VS	LOANS
A typical method of financing infrastructure projects		Charged to the balance sheet of the project sponsor
Limits the charge on the balance sheet of the project sponsor and the loss in the event of failure		In the event of failure the loss is not limited

INCINERATION PLANT IN POZNAŃ EXAMPLE



- Waste incineration cost: PLN 1 billion
- Technical parameters: 200,000 t pa of waste
- End product: energy and heat
- Operation to start in 2016
- PPP concession period: 25 years from construction

The financing amounts are based on publicly available information and may differ slightly from the actual.

THE PROGRAM

- Ensures the current dynamics of investment into long term infrastructure projects are maintained by providing attractive financing options
- Complements the current offering of financial institutions on the Polish market

Pillars of the program

BANK GOSPODARSTWA KRAJOWEGO

POLSKIE INWESTYCJE ROZWOJOWE S.A.

The products are offered together or independently	Loans, bond guarantees, guarantees	Equity, Mezzanine
Projects	Profitable projects only – energy (distribution and production) and gas infrastructure (transmission networks, mining and storage facilities), development of hydrocarbon deposits (including shale gas), transport infrastructure, local government infrastructure (waste disposal, communication), as well as industrial and telecommunications infrastructure.	
Size of engagement	Up to PLN 2 billion	From PLN 50 million to PLN 750 million with no more than 50% in the SPV for a specific project (preferred PLN 250 million)
Length of commitment	Consistent with the financial model of the project	Maximum = construction phase + cost of debt; preferred exit as quickly as possible
Product Availability	Immediate	Second half of 2013
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