

*Infrastructure
investing in the US*
Sound decisions.
Sound investments.



The emergence and complexity of infrastructure investing

Several factors are intensifying the stress on infrastructure, such as increased use by a growing population and less investment in maintenance than needed. With federal and state governments facing unprecedented fiscal challenges, government bodies may be forced to privatize infrastructure assets that need urgent attention. This could lead to attractive income streams for investors.

A substantial gap still exists between the appropriated spending and the actual spending needed to tackle urgent infrastructure projects. This could lead to pressure for the government to develop a more innovative approach to addressing infrastructure, which could result in opportunities for more public-private partnerships in the near future.

Recent years have seen growth in infrastructure deal activity. The range of assets of interest to infrastructure investors has broadened considerably and includes airports, roads, bridges, ports, utilities, energy, hospitals, schools, railroads, water, sewers, tunnels, and prisons.

The primary factors driving growth in infrastructure investments include:

- The relatively stable cash flow generated by infrastructure assets, considered to be more resilient to fluctuating market conditions.
- The increase in US federal and state government receptiveness to public-private partnerships due to budget deficits, which are creating new opportunities for private participation in infrastructure projects.

To capitalize on these trends, private equity investment firms, banks and other major financial services institutions are launching infrastructure funds and building their infrastructure portfolios.

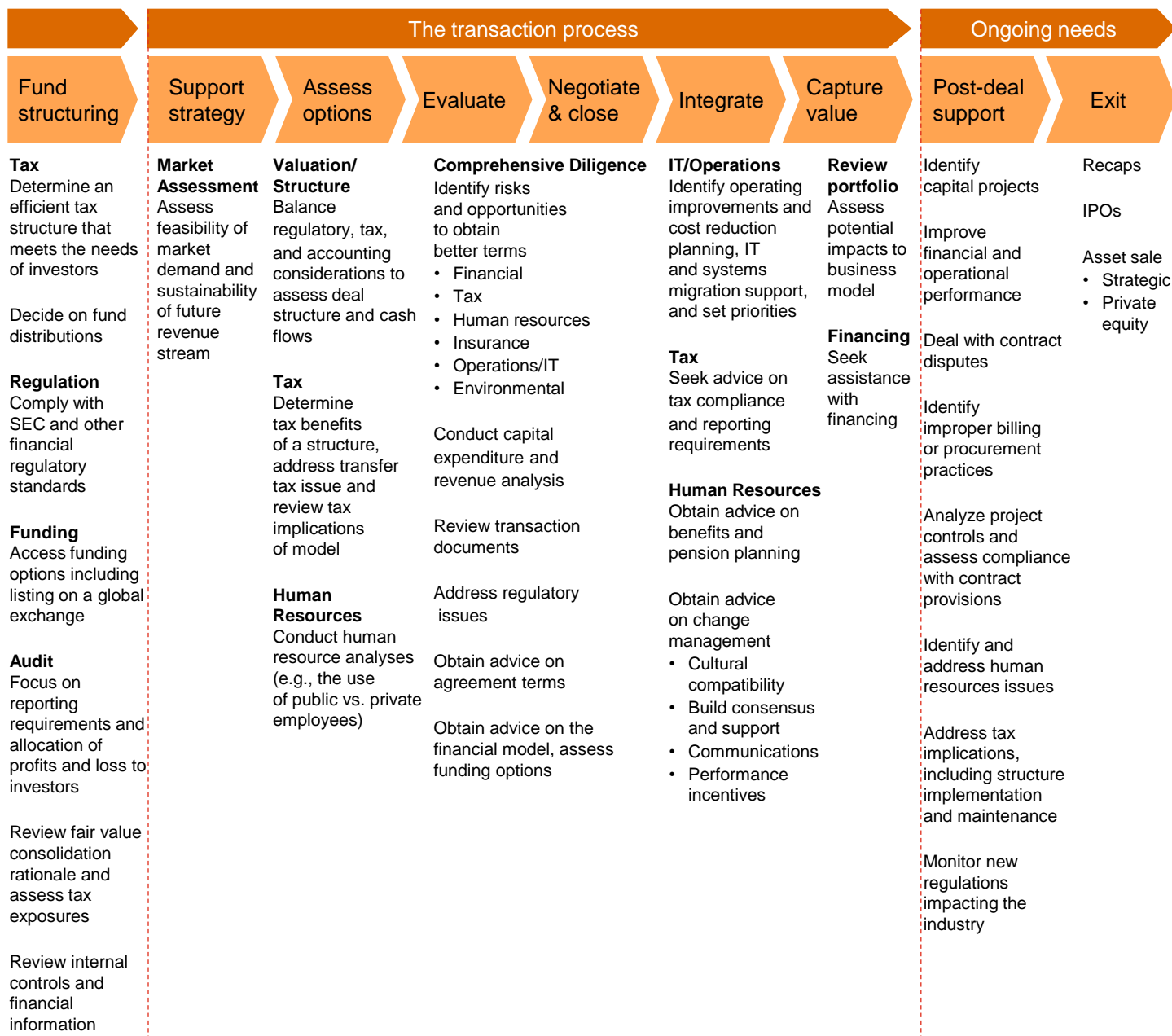
However, forming a fund is a complex process, particularly with joint-venture investments that require an up-front determination of the ownership and distribution structure. Furthermore, investors often have different funding and yield requirements that may necessitate complex acquisition structures which, at times, may result in conflicting objectives. In addition, an efficient tax structure that meets the needs of a variety of investors is essential.

Investment strategies are also complicated by the fact that the sector is not immune to cyclical risk. Some investments have not fared well in a recession – either as a result of too much leverage or from overly optimistic forecasting. Other existing projects need to be re-financed in the current challenging debt market.

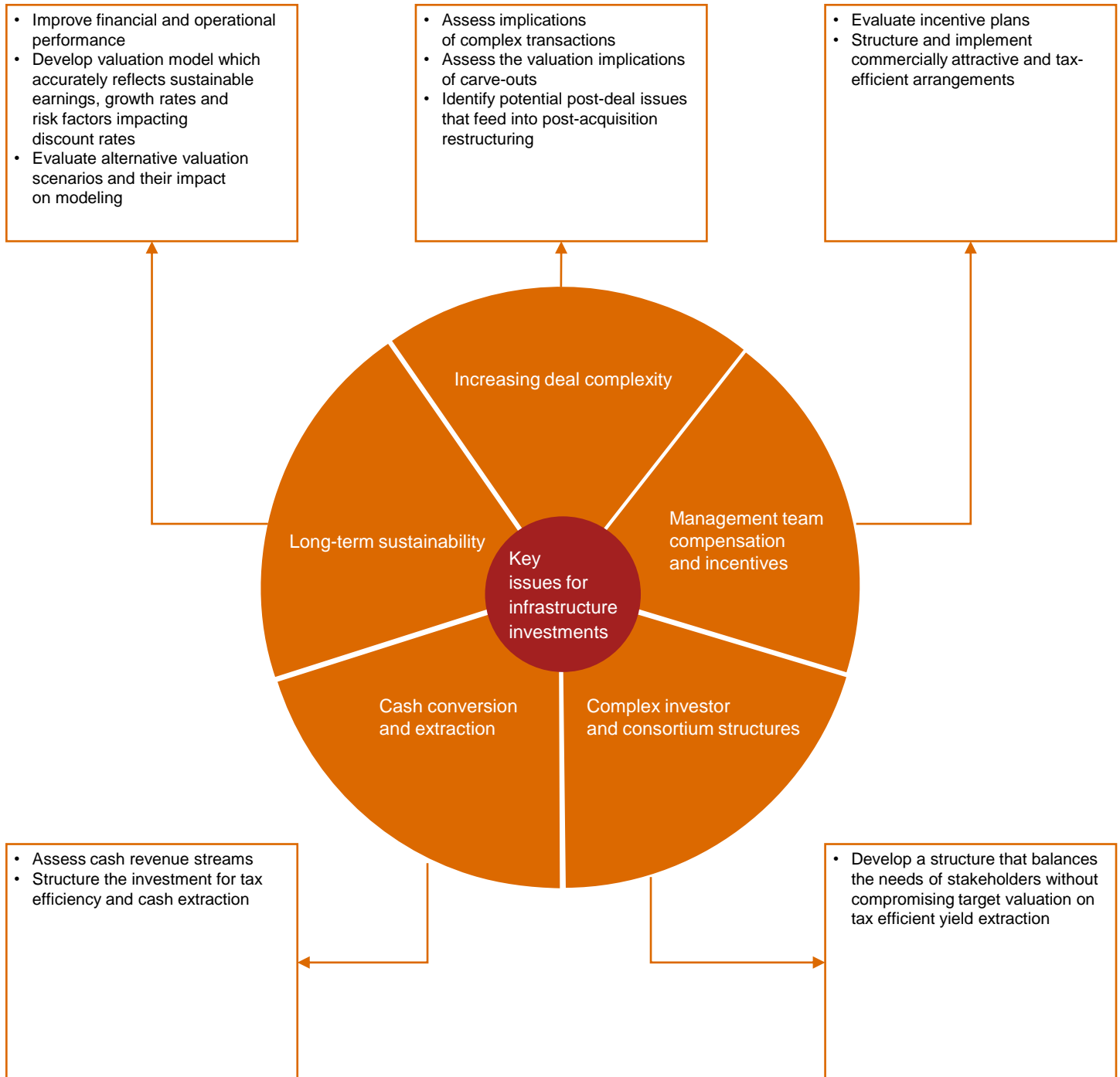
Infrastructure investments also involve unique financial and tax issues that must be addressed prior to the execution of a deal. For example, listing the fund on a major exchange adds a layer of complexity.

Nonetheless, the growth in infrastructure deal activity is expected to continue as investors turn to infrastructure funds and building portfolios as a countercyclical investment option, and capitalize on the demand for new infrastructure and the governments' receptiveness to public-private participation. Despite this, the sector remains susceptible to economic cycles. Indeed, executing infrastructure deals involves many inherent risks and complexities and requires careful due diligence and structuring to align the deal dynamics with the investors' business objectives.

The infrastructure investment deal process



Resolving key issues for investing in existing infrastructure



Managing the complexities of executing public-private partnerships

A public-private partnership ("PPP" or "P3") is a contractual arrangement whereby the resources, risks, and rewards of both a public agency and a private sector entity combine to hopefully provide greater efficiency and better access to capital. In such partnerships, the public's interests are assured through provisions in the contracts that provide for securing effective risk transfer as well as on-going monitoring and oversight of the operation of a service or development of a facility.

Options for public-private partnerships have expanded enormously over the past several years and continue to evolve. Agreements between public and private entities take many shapes and sizes for both new ("greenfield") and existing ("brownfield") projects or services. Greenfield PPP projects are typically the predominant form of public-private partnership. At one end of the spectrum is a management or service contract, where a private company is paid a fee for a service. At the other end is full privatization or divestiture, where a government sells assets to a private company.

One of the most frequently cited reasons for public-private partnerships is the need for capital. The private sector can supply capital in return for a profit opportunity. Another driving consideration is the concept that better value for money can be achieved through the utilization of private sector enterprise due to its focused, core competencies and by allocating the risk to the party best able to manage it.

Efforts to implement these partnerships at the local level, however, face many challenges. For governments, the challenge is to find ways to fulfill their responsibility for ensuring that all citizens have access to basic services, while meeting the needs of private investors. This requires a new and often difficult transition for many governments, from provider and manager of basic services, to enabler and regulator. For private firms, the challenge is to be convinced that investing in any particular project offers more attractive returns than other available investment opportunities. Drawing that conclusion depends on the firm's comparison of the potential returns against the potential risks, including both political and project risk.

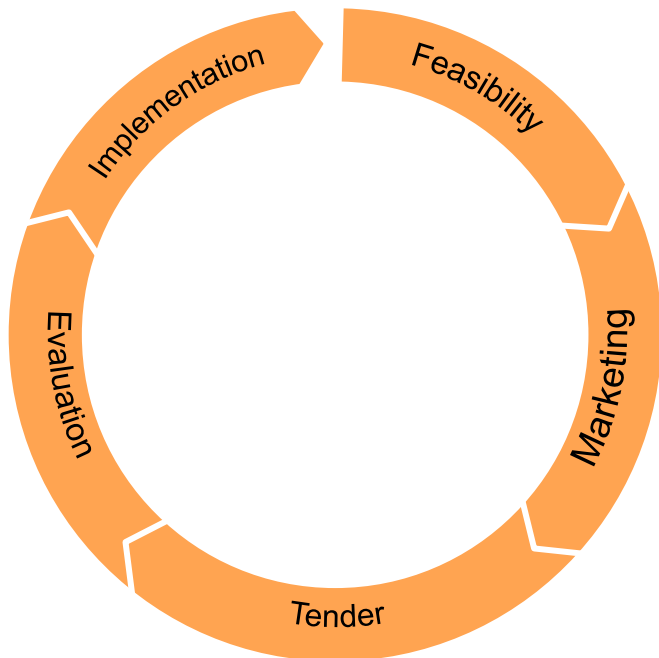
In addition to the political and organizational challenges that may accompany PPPs, the contractual arrangements often raise nuanced financial and tax concerns. For example, financial reporting may be based on Governmental Accounting Standards (GAS). In order for the private sector to utilize such information, it may be necessary to apply GAAP or IFRS standards for modeling or reporting purposes.

There could also be common tax concerns, as well as infrastructure industry-specific issues, such as whether the contractual arrangement creates a partnership for tax purposes, identification of the tax owner of infrastructure assets, questions surrounding the capitalization and timing of capital expenditures, and interest deductibility. PPPs will need to find ways to manage these types of issues, mitigate their exposure, and leverage structuring opportunities (e.g., transaction structure, contractual indemnification).

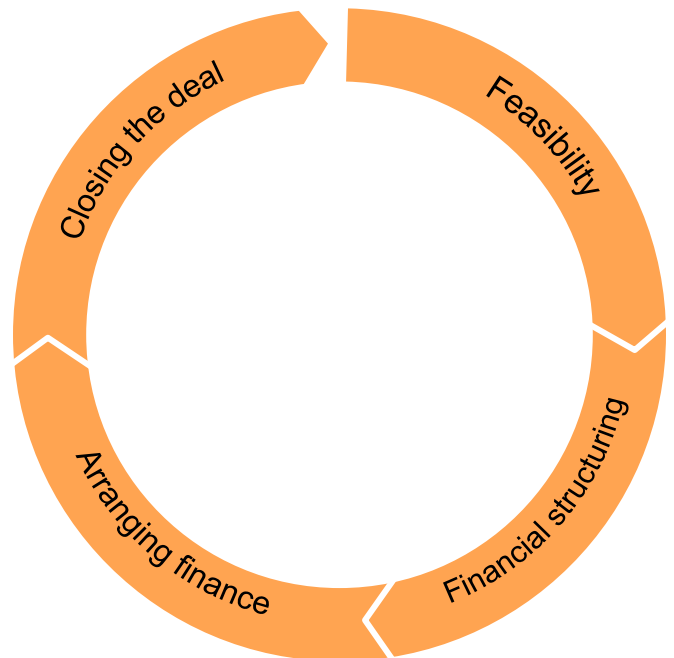
Addressing the different needs of the public and private sectors

Whether it is a brownfield or a greenfield project, the needs of public sector entities are different from those of the private sector and the process for each can vary greatly. Understanding these disparities is vital to tailoring an approach to meet the needs of the public or private client. An advisor who is knowledgeable of both sides of the PPP process offers valuable insights and can help clients optimize risk allocations and maximize equity returns.

The public sector process



The private sector process



How PwC's global network can help

Capital projects and infrastructure

Capital projects require much more than just financing; management, governance, and assurance are also critical to project success. Even organizations that undertake capital procurement regularly need to ensure that their strategies and processes continue to support delivery of their project portfolio. And global infrastructure growth has created new risk profiles for major projects such as new contracting methodologies (e.g., incentive contracts), concessions and alliance approaches, high demand for raw materials and severe cost escalation, and lack of qualified resources.

PwC's Capital Projects and Infrastructure professionals brings together functional and industry expertise to help clients solve these types of complex issues related to large capital projects and infrastructure investing, including:

- Infrastructure fund structuring, due diligence, deal structuring, and post-deal support
- Government spending, procurement, and monitoring
- Advice enabling clients to plan, manage and deliver their individual projects

Capital projects and infrastructure investment team

PwC's Capital Projects and Infrastructure Investment team is part of PwC's broader Capital Projects and Infrastructure professionals and part of an integrated global network. The combination of our experienced infrastructure investment professionals and our presence in key regions enables us to assemble multidisciplinary and multinational teams with a wealth of industry experience in various markets to meet our clients' specific needs. Our robust global network provides valuable local insights to facilitate informed business decisions. We provide:

- Experienced professionals with an established global infrastructure practice
- Tax structuring professionals with considerable experience working with complex consortia to ensure the fund's investment requirements do not compromise tax efficient yield extraction
- Dedicated infrastructure deal professionals who have in-depth experience in doing infrastructure deals and who bring industry focus to identify issues, risks and opportunities. Our deal team has deep experience in executing infrastructure deals including: toll roads, bridges, utilities, airports, ports, ferries, water, waste, parking lots, and telecom
- A full spectrum of integrated fund, M&A and post-deal services provided by a dedicated group of functional and industry professionals
- A single point of contact to marshal all your infrastructure needs

PwC's – In-depth infrastructure deal experience

Infrastructure industry	Clients/projects	Service provided
Power and utilities	US power and utilities corporate acquisitions and divestitures	<ul style="list-style-type: none"> • Provided financial, tax, structuring, human resource, valuation and risk due diligence services on most of the announced 2004 through 2006 corporate transactions in the US • Provided same services as described above, as well as reverse financial due diligence services, for several multi-billion dollar proposed power and utility transactions which were not ultimately consummated
Power and utilities	US gas-fired combined cycle facilities	<ul style="list-style-type: none"> • Provided advisory services to an electric utility developing a gas-fired cogeneration project, which would also produce steam and chilled water for sale to a state entity • Reviewed client's economic model, interfaced with their outside consultants, evaluated the business, financial and tax implications of alternative structures and reviewed the various project documents as they were being drafted
Power and utilities	A significant regional transmission and distribution company	<ul style="list-style-type: none"> • Provided diligence and purchase advice for client seeking to leverage scale and capture geographic economies by purchasing a contiguous utility • Distilled complex issues that created value gaps such as customer choice margin erosion, nuclear asset impairment and generation contract buy-out commitments, which enabled our client to successfully negotiate around these issues to achieve a purchase price reduction
Merchant energy	A US merchant power generation company	<ul style="list-style-type: none"> • Provided financial, structuring and tax due diligence services to a newly formed entity in connection with merchant power generation assets acquired in an auction of an entity in bankruptcy. Subsequently, PwC was appointed as independent accountant for the company.
Merchant energy	A US energy company	<ul style="list-style-type: none"> • Provided comprehensive financial and tax due diligence services to an energy company relating to its planned acquisition of a privately owned US-based major merchant generation company with a portfolio of both domestic and international projects
Merchant energy	A major US merchant energy company	<ul style="list-style-type: none"> • Assisted our client in evaluating its M&A strategy and investment opportunities • Assisted management in the development of separate financial models for 15QF projects to determine the stream of economic benefits in accordance with FERC guidelines
Port services	A large port owner	<ul style="list-style-type: none"> • Conducted financial, tax, human resource, information technology and risk management due diligence • Provided analyses on rates and volumes, margins, EBITDA on a per-port basis, employment and union costs, information systems, and self insurance programs for workers compensation
Toll road services	A large infrastructure fund	<ul style="list-style-type: none"> • Provided financial, tax, human resource and insurance due diligence to the purchaser of an interest in the operations of a tunnel
Toll road services	Investors	<ul style="list-style-type: none"> • Conducted diligence and advised on the tax structuring and financial reporting for potential investors in four separate toll roads
Toll road services	A private equity firm's investment in toll bridges	<ul style="list-style-type: none"> • Conducted due diligence on seven toll bridge facilities located throughout the US and one tunnel operation

pwc.com/us/capitalprojects

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