

Project Finance and the Equator Principles

Reporting on performance FY2015

The Equator Principles

In 2003, Westpac was one of 10 global founding signatories to the Equator Principles. In adopting the Principles, we agreed to only provide loans for projects whose sponsors can demonstrate their ability and willingness to develop these projects in a socially responsible manner, according to the Equator Principles and sound environmental management practices.

In 2013, we adopted the third version of the Equator Principles (EP III), which expands the range of financing activities from project finance to project-related corporate loans or bridge loans, as well as enhancing the disclosure requirements and carbon considerations.

About Project Finance

Project finance is the most common form of finance to which the Equator Principles are applied. Project finance is a form of debt financing that relies on repayment from the underlying project cash flows, with no recourse provided to other assets or from parent company support. Project financing typically require relatively large capital commitments and their operation can be more easily “ring-fenced” from other projects.

Typical projects include transport infrastructure (e.g. roads, airports, ports), social infrastructure (e.g. schools, hospitals, prisons), power generation (e.g. wind, solar, hydro, gas) and natural resources. A range of environmental and social risks can be attached to these types of projects which heightens the need to conduct detailed assessments of their potential impact along with an assessment of risk mitigation and management.

Applying the Equator Principles

The Equator Principles are an integral part of our financing evaluation and decision-making. EP III must be applied when supporting the following types of new projects:

- Project finance transactions
- Project-related corporate loans
- Bridge loans with a tenor of less than two years that are intended to be refinanced by project finance or a project-related corporate loan

The EPIII formally apply only to project finance with a capital cost of \$US10m or more. However, we apply the Principles to all project finance transactions, as we do not consider size minimises environmental and social risk.

In addition to meeting these requirements, Westpac also undertakes EPIII assessments for certain refinancings of operational projects to ensure our portfolio meets the high standards of our Sustainability Risk Management Framework.

We apply a detailed process of assessment against the Principles, including:

- Categorising all projects as category A, B or C²
- Using the Equator Principles as the process benchmark
- Detailing any special conditions or covenants to apply
- Monitoring ongoing compliance

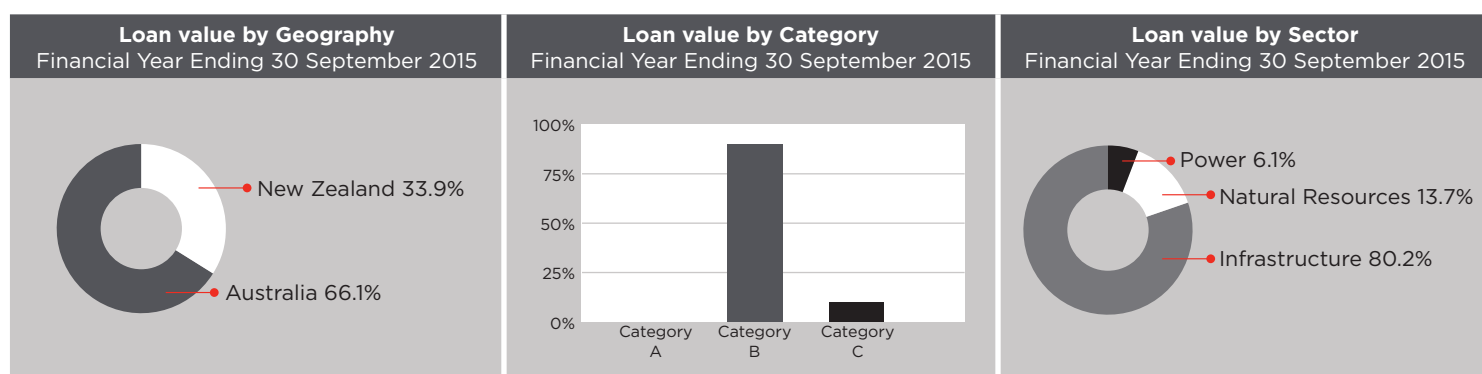
All personnel involved in the evaluation and approval process are aware of the EPIII requirements and implications of each project, and the Head of Project Finance (or a delegate) is required to approve the assessment of each project finance transaction against the Principles.

¹ EPIII also requires their application to Project Finance Advisory Services – not relevant for the Westpac Group based on the products and services we offer.

² Category A – Projects with potential significant adverse social or environmental impacts which are diverse, irreversible or unprecedented; Category B – Projects with potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures; and Category C – Projects with minimal or no social or environmental impacts.

Reporting on Performance

In 2015, Westpac financed six greenfield and two operating project finance transactions. The projects ranged across a number of asset classes including transport infrastructure, social infrastructure, natural resources and power.



Total value of project related finance assessed under EP III	AUD \$ million
Value of loans drawn for 12 months to 30 September 2015	1065.2

Details of Greenfield Project Finance Transactions in Accordance with EP III

Sector	Project Name	Independent Due Diligence
New Zealand		
Infrastructure	Auckland East Prison PPP	✓
	NZ Schools PPP	✓
Australia		
Infrastructure	East West Link PPP	✓
	Northern Beaches Hospital PPP	✓
	Toowoomba Bypass PPP	✓
Natural Resources	Nova Nickel Project	✓

Note: In 2015 Westpac also assessed the refinancing of two operational project to the value of \$100.52m, against the Equator Principles.

Assessing Impacts

The main environmental impacts assessed for each of the sectors included:

Main environmental impacts

Transport and Social Infrastructure	Power	Natural Resources
<ul style="list-style-type: none"> Noise pollution Air pollution Ground and surface water management Archaeological and heritage Impact on terrestrial flora and fauna 	<ul style="list-style-type: none"> Carbon emissions and Containment Noise pollution Contaminant management Archaeological and heritage Impact on terrestrial flora and fauna 	<ul style="list-style-type: none"> Noise pollution Air pollution Contaminant management Ground and surface water management Archaeological and heritage Impact on terrestrial flora and fauna

Project case study



Nova Nickel Project, Fraser Range, Western Australia, Australia

- In December 2014, financial close was achieved for the project financing of the Nova Nickel Project for Sirius Resources NL.
- The Nova Nickel Project involves the development of a magmatic nickel-copper project in Fraser Range, WA. Further detail about the project is available at www.igo.com.au.
- Westpac was one of four financiers, and the project was subject to an Equator Principles assessment.
- The assessment involved a detailed biological survey, hydrological and hydrogeological study and assessment of fire prevention and management. It also assessed the Native Title process and formal agreement with the Traditional Owners.
- The assessment concluded that Nova Nickel Project was a Category B Project. A Category B project is defined as having potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures.
- Sirius Resources NL has subsequently been acquired by Independence Group NL and the project financing of the Nova Nickel Project has been repaid.

Project case study



Toowoomba Bypass, Toowoomba Region, Queensland, Australia

- In August 2015, Nexus Infrastructure was awarded the contract to design, construct, operate and maintain the 41km-long Toowoomba Second Range Crossing (“TSRC”) in Qld. Further detail about the project is available at nexustsrc.com.au.
- Westpac was one of four financiers, and the project was subject to an Equator Principles assessment.
- A comprehensive Environmental and Social Impact Assessment has been undertaken for TSRC. Issues considered included:
 - Surface water and groundwater management
 - Noise and vibration compliance management
 - Impact on flora and fauna
 - Ground contamination
- The assessment concluded that TSRC was a Category B Project.