A28

01/02/2003

European Transport Deal of the Year 2002

The French market has not traditionally been friendly to big-ticket project finance, so the A28 transaction, which set several financing precedents for the European infrastructure market, is all the more impressive for its financial ingenuity. If, as has long been promised, private infrastructure becomes more important to the French market, this deal provides a very serviceable template for future concessionaires. Moreover, it breaks open the market for long-dated index-linked debt, long a fixture of the UK PFI market, in mainland Europe.

The A28-E402, or to be more exact the stretch between Rouen and Alencon, marks the final part of an ambitious project to link the north of France to the south west of the country, and thence to Spain. As such it forms part of the EU-promoted Trans-European Networks initiative. The 125km stretch that this Eu460.5 million bond issue will finance, however, has to be integrated into the French road system, which presented unique challenges to the sponsors.The French government granted the build-operate-transfer (BOT) concession for a term of 62.5 years, mirroring the length common on the Spanish real toll roads programme. One reason for the length of the concession is that while French motorists are comfortable with paying tolls for the use of motorways, the level at which these are set, and to which the A28 concession would have to conform, are too low to support a short concession.The other important part of the concession was the direct provision of a grant to the project ? again to make its economics more amenable to private finance. This grant, of Eu341.3 million, does not bring with it any conditions, and is tied largely to simply getting the route running. It is provided 50/50 by central and local government. The concession was awarded in December 2001 to the Autoroute de Liaison Seine-Sarthe (ALIS) consortium.ALIS' driving force is Bouygues Construction, whose subsidiaries together hold 44.84% of the project's equity. The remainder is made up by CDC IXIS, HBOS, EGIS and French public sector-owned concessionaire SAPN. The mix is a telling one ? the blending of expertise from international BOT players (EGIS and Bouygues), a UK PFI bank (HBOS), a French municipal finance house (CDC) and a government-owned motorway company. The French roads market is dominated by the state, with the exception of a few private players, such as Cofiroute.CDC IXIS, the investment banking arm of public service bank Caisse des depots, was retained as financial advisor in 1999, at the start of bidding. According to the sponsors, the initial plan was to look at areas such as traditional bank debt, from one of the European mortgage banks, or a private placement. The European Investment Bank, which usually takes a prominent role in opening up new infrastructure markets, also figured heavily in financial planning.Two developments have made the issue of an index-linked bond possible. The first is the aggressive expansion of the monoline insurers into the European infrastructure market, beginning with XL's wrap of the Algarve shadow toll road in Portugal. Here, FSA, a seasoned player in municipal finance through its parent Dexia, stepped up to provide a wrap on the financing. The second is the emergence of substantial institutional appetite for inflation-linked debt. This is a common financial tool amongst French municipal issuers, but generally carries short maturities. Investors, however, with long-dated liabilities often linked to inflation, are keen to diversify. Appetite, was good, and the bonds, issued through Luxembourg, were snapped up by French-dominated group of investors. Caisse d'Epargne alone bought up 80% of the project's shorter-term tranche.The bonds broke down in to three tranches, launched by CDC IXIS Capital Markets. These were a Eu200 million issue with a 30-year tenor, that came in at 85bp over Oati (the French government inflation-linked bond) with a coupon of 4.3%. A Eu180 million tranche maturing in 25 years had a spread of 81bp over Oati with a 4.25% coupon. Finally, a Eu80.5 million issue maturing in 15 years came in at 60bp over the Oati with a 3.99% coupon.

The deal also featured a mezzanine of Eu37.9 million provided by HBoS, which has proved to be very fond of working this side of a project's economics.The two most important issues for the lender, FSA, were traffic risk and working within the French legal framework. For the first, the traditionally high volume of traffic expected of a TENS project, as well as French acceptance of tolls, was something that FSA was able to work with. The second involved ensuring that the French codified legal system and it concession law was friendly enough to creditors. In the end the concession was still subject to French law and general principles while the financing was governed by English law. Appropriately enough, the issue was through a Jersey-domiciled special purpose company.It will be difficult to predict how useful the structure will be to other upcoming deals. Certainly the mixture of a grant and real tolls is still suggestive of a uniquely French attitude towards infrastructure provision. Nevertheless, there are a number of rail projects linking up France with both Italy and Spain that may decide to opt for the use of private funds. Moreover, road operators across Europe have ALIS to thank for making an index-linked Euro-denominated bond market a reality.

Autoroute de Liaison Seine-Sarthe

Status: Closed August 2002

Size: Eu900 million

Location: France

Description: Bond financing of a greenfield real toll road

Sponsors: Bouygues Construction subsidiaries (namely Bouygues
Travaux Publics, DTP Terressement and Quille), HBOS, CDC IXIS, EGIS and SAPN

Monoline: FSA

Lead manager and bookrunner: CDC IXIS Capital Markets

Senior debt: Eu460 million senior debt bonds, broken down into three tranches with bullet maturities at 2017, 2027 and 2032

Subordinated debt: Eu37.9 million mezzanine facility put up by HBOS
Financial adviser to sponsor: CDC IXIS

Lawyers to the lenders: Freshfields

Lawyers to the borrower: Bouygues in-house counsel, with a assistance from Gide Loyrette Nouel

Technical advisor: Symonds Group

Traffic auditor: Steer Davies Gleaves

Financial model auditor: Salustro Reydel