Deals of the Year

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European transport A2

The A2 real toll road project, one of the largest motorway financings in Central and Eastern Europe, closed at the end of October, setting a formidable benchmark for financing regional infrastructure projects. The deal marks the first public/private partnership in Poland and is a considerable turning point for project finance transactions for Central and Eastern Europe, given the absence of any such road infrastructure projects in the region of late. It is also the first greenfield motorway to be built on a concession basis.

The Eu235 million transaction was lead arranged by Crédit Lyonnais and Commerzbank for the Polish concessionaire Autostrada Wielkopolska S.A. (AWSA).

Total project cost weighs in at approximately Eu875million, of which Eu235 milion is supplied through shareholder equity and subordinated bonds. Also available at financial close is contingent shareholder support of Eu32 milion, primarily covering post-completion revenue shortfalls.

Debt splits into a Eu235 million senior bank debt (including interest during construction) and a Eu275 million structurally subordinated zero coupon EIB-backed bond.

The commercial loan flaunts a scheduled maturity of 17 years, although a cash-sweep mechanism will reduce the final maturity to 13 years (target maturity) on the basis of availability. Interest rate hedging will cover 78.7% of the senior debt based on the 13-year target maturity profile. The remaining 21.3% of the senior debt may be drawn in Polish Zloty (partial devaluation risk hedge) if the majority banks consider that advantageous to the project. Credit Lyonnais expects this to be attractive, especially in the event of the Polish WIBOR converging with EURIBOR by that time. Zloty financing would provide a natural hedge against devaluation.

The EIB portion, backed by the Polish government, represents the first time the bank has directly extended a 17-year facility to a project. This deferred-coupon bullet repayment facility was structured to allow the repayment of the commercial loan first ? vital for the entire deal. The proceeds of Eu275 milion accrue over the loan life to Eu800 milion at maturity.

Also noteworthy is the deal's innovative repayment structure, set up with two options: a minimum 17 year plan and an optimal 13 year plan, according to project cashflows. If the project performs well, repayment kicks in over a maturity of 13 years. In a sub-optimal case, repayment will extend up to 17 years. In the banking base case, bank maturity is 13.5 years.

Excess cashflow available after repayment is then used either to credit the debt service reserve account or to make additional repayment up to the 13 year maturity target profile.

Pricing varies according to the structure ? 180bp for the 4.5 year construction period, and then 220bp until 2012 and then 235bp thereafter. The margin will step down to 200bp prior to 2013 if AWSA achieves the pre-agreed target maturity profile. The commitment fee is 70 bp.

The A2, a ?TENs? (Trans-European Networks) project, is one of the most strategically important infrastructure links between Western and Central Europe. It is also the first BOT toll motorway project in Poland.

The project has assumed profound importance for Poland, which is just shy of EU ascension and is in dire need of rehabilitating decrepit infrastructure.

Commenting on the difficulties ultimately overcome, AWSA's director of finance, Wojciech Gebicki, explains ?we had to contend with the fact that we're dealing with an EU-aspiring country with no recorded history of customer reactions to toll motorways, against the background of an unsuccessful precedent in another country of the region.? ?But,? he adds, ?the project fundamentals were strong enough for a comfortable sell.?

The 40-year concession, totalling 254km, will terminate in 2037 and comprises two segments between the German border at Swiecko and Konin, 180km west of Warsaw.

The financing will only cover the 149km initial segment between Nowy Tomysl and Konin (of which 88km is to be built and 48 km to be rehabilitated ? a 13km bypass of Poznan will be built under the responsibility of the Government of Poland and handed over by the latter).

The motorway will be built and designed for a fixed price of Eu 638 million by a consortium made up of Strabag (50%) and NCC (50%), on a date certain, turn-key contract. The consortium is committed to build the motorway within 4.5 years (21 months less than the concession requires), but the first two sections (totaling 86 km) are to be completed within 3.5 years (only 3 years for the Poznan bypass). Liquidated damages are set at 5% of the construction price for each section. This amount will provide cover for approximately 12 months of lost revenues for each section.

Egis, a French company wielding extensive experience in toll motorway operation throughout Europe, and Kulczyk Holding both lead the consortium mandated to operate the motorway facilities, under a contract with the concessionaire, spanning the concession life (until 03/2037). The operator will receive a fixed fee, a variable fee depending on traffic volume and an additional incentive fee.

Three consecutive traffic studies undertaken have resulted in ever more conservative assumptions. More specifically, lower value of time, lower perceived vehicle operating costs, and higher speeds on alternative road have now resulted in a reduction in traffic capture, with the additional assumption of lower traffic growth rates. Accordingly, the assumptions would result in a further decrease in revenues of approximately 16% in 2002 to 50% in year 2022.

Among Autostrada Wielkopolska's shareholders are Elektrim, the telecoms-focused conglomerate, Kulczyk-Holding, the investment conglomerate that recently participated in state telecom TPSA's privatization in a consortium with France Telecom, Orbis, the hotels and tourism group, and PSE, the national power grid.

The project, it is hoped, will help kickstart a $15 billion program to build 2,600km (1,616 miles) of motorways over the next 15 years, a plan which has been effectively frozen since 1994.

European telecoms WIND

The burgeoning telecoms industry, demanding ever larger sums from the market, has forced participants to develop innovative methods of financing deals. Italian telecommunications company Wind SpA signed a Eu2.4 billion deal on 31 July 2000, notable for more than merely its size. Secured in order to finance the build out of Wind's fixed and mobile telecommunications network, this deal ensured that Wind was well on the way to securing a place as on of the Italian telecommunication giants. In the 12 months of its existence prior to this financing, Wind had secured 3.5 million customers and it has subsequently been proved that continued growth is on the cards.

Syndication of the senior debt, split into a Eu2 billion term loan and a Eu400 million non-amortising revolver, closed roughly two and a half times over subscribed. A third tranche was provided by EIB but bank guaranteed. Set against growing wariness amongst investors of the levels of money being demanded to fund the build out of largely untested technology, the level of enthusiasm for this deal is well highlighted. Mauro Re, financial director of Wind, also points to the fact that this was the first instance in which a significant appetite for a non-recourse start up telecoms financing was created within Italian banks. The strength of the sponsors, Enel, France Telecom and then Deutsche Telecom and the highly experienced management of Wind, commanded significant confidence: Deutsche Telecom has subsequently been bought out of the consortium.

Crucially, this financing is the first such deal for development of an intelligent telecommunications network designed to handle all fixed, mobile and convergence services. Being the first to make this step in an industry in which players have traditionally stuck only to what they know best, was vital in securing an acceleration for Wind's performance in the current Italian telecommunications race.

It is within the wider context of Wind's plans for corporate development in which the deal was set that really throws up the innovative aspects. Mauro Re highlights how, unlike typical project finance deals, which tend to be very rigid, this financing actually created considerable flexibility for Wind. The financing was taken out when the company was already fairly strong financially, having just had L3 trillion of equity injected into it, an amount sufficient to cover the company's first year. Thus, although taken out for a specific purpose, the non-recourse facility created considerable further funding capacity, to be used to fulfil the longer term aim of expansion and diversification. The subsequent acquisition of Infrostrada and purchase of a UMTS license illustrates just how successful Wind was in achieving this goal. Re states that, although this could not be disclosed at the time, the business plan drawn up at the time of this financing specifically allocated Eu200 million to be used on the bid for the then impending UMTS licenses. This financing, therefore, ensured that Wind was both technologically and financially in the lead at the onset of what may have the make or break moment in the market.

European power Intergen/Enka

Despite Turkey's disturbing economic flutters of late, the country's power market has just seen through its most ambitious undertaking yet. At $1.5 billion, the loan for Turkey's largest private power sector investment backs arguably the most innovative and electrifying deal to date in the Turkish power market. Intergen and its Turkish partner Enka, in a 60/40 shareholding split, signed the loan agreement in September for three Build Own Operate (BOO) gas-fired facilities ? Gebze (1,554MW), Adapazari (777MW) and Izmir (1,524MW).

The deal marks one of the largest greenfield project financings ever completed, with total project costs for all three plants in excess of $2 billion. It follows swiftly behind the successful financing of Siemens/Steag $1 billion Iskenderun coal-fired scheme, the first BOO project of a scheme which envisions five such plants. The remaining BOO is International Power/Bayinder's Ankara plant.

Lead arranging the deal was ABN Amro, joined by BNP Paribas, SG and West LB. Drawdown of the facility took place in October with syndication reaching full close on December 13.

The tenor on the loan is 2.5 years for construction, with an additional 12 years. The project has a debt/equity split of 75/25. The sponsors have already injected $350 million into the site, upon which construction has already begun. The capital is being taken out by an equity bridge loan. Beyond this, the financing divides into seven, predominantly ECA backed tranches.

Fundamental to the financing is the involvement of US Exim. More specifically, the deal flaunts a bold structuring advance in the form of a new Exim product, which features pre-completion and comprehensive cover. The product, described by Exim's chairman, James Harmon, as indicative of Exim Bank's new strategy, calls for the bank to provide full political and commercial cover for the banks funding the deal. In contrast, Exim previously offered construction funding or take out loans post construction.

The new comprehensive product, though never before deployed, successfully set up the framework for the all three deals to be done together, thus trumping an earlier plan for three individual deals ? all three, however, remain as separate financings. The fully covered Exim debt cuts an $860 million tranche, with a 10bp margin. Beyond refining the structure with this deal, Exim also pioneered the product with another Intergen scheme, the Baijo project in Mexico, which reached financial close in June, 2000.

Exim also backs the GE Power turbine supply. Acting as Exim agent is ABN Amro.

Opic is the other US multilateral on the deal, bringing in $300 million under its standard direct funding route. Debt funding will initially come from the short term CP market, rather than the bank market, and will ultimately be taken out with fixed long term bonds. Opic was initially to have dug up $500 million, but the terms proved less attractive than the revised option. Intergen/Enka moved to reduce the project funding requirement by taking the debt service reserve obligation onto their own balance sheet.

Also joining the deal is Hermes, which covers its $185 million tranche with a 95% political and commercial risk and guarantee, with a margin of 62.5bp. ABB steam turbines enjoy Hermes backing as well. WestLB is the agent on this portion.

The Belgian OND fraction pulls in at $125 million, with 98% political and 90% commercial guarantees. The margin on this slice is 70bp. Additionally, OND backs the CMI boilers. SG is the OND agent.

Also in place is a $35 million contingent (or ?clean?) tranche, committed and drawn, and a $24 million standby tranche uncovered by multilaterals. The margin is 400bp, and runs for construction plus 5 years. BNP Paribas acts as contingent and standby agent. $30 million is the tag on the debt service reserve letter of credit tranche, which runs for 5 years after completion. And finally, the equity bridge loan, at $395 million, bears a margin of 35bp, guaranteed by Intergen/Enka. Local Finansbank provided $120 million through letters of credit on the gas contract.

Throughout the process, the sponsors have been advised by ABN Amro, who also provide a backstop commitment to underwrite the whole loan. Bids for the arranging mandate, apparently all very similar in net present value of pricing, were finally awarded to WestLB, SG and BNP Paribas.

Intergen/Enka assisted banks in syndication, which recently closed fully.

Commenting on the deal's success, Intergen's vice-president and director of finance, David MacMillan, explains that ? given the size and time scale of the project, this was one of the smoothest processes we've ever had. We actually hit it dead on the nose.?

He attributes this accuracy to precise assumptions at the outset, as well as the fact that the company is ?delivering the least expensive and, with in the case of two of the projects advanced dry cooling systems, the highest technology gas-fired plants to Turkey.?

And Turkey certainly needs it. With a significant power shortfall, the government has been scrambling to overhaul the power market through various investor-friendly gestures, and, significantly, even changing the constitution. The Intergen scheme, taken together, will boost Turkey's installed capacity 17%. The plants are expected to reach full commercial operation by 2002, providing long term relief from Turkey's current power demand crunch. The plants will also give way to substantial related economic activity.

The BOO scheme, and its five plants, are notable for their state guarantees, to be provided on an ongoing basis. The Energy Sales Agreements (ESAs) between the project company and the state utility TEAS are fully propped up by treasury guarantees, despite the fact that the government is moving to scale back the number of guarantees it issues. Given, also, the weary state of TEAS' balance sheet, the unconditional backing of its strength make the projects significantly more bankable.

Also noteworthy is the fact that the plants will be entirely gas-fired. Turkey is shifting heavily towards sourcing natural gas, and, over the next decade, demand for gas is expected to quintuple to some 50 billion cubic meters. State gas company Botas will coordinate gas supply, which is in turn guaranteed by the Turkish treasury. Intergen/Enka secured a priority allocation of gas, with non-interruptable gas contracts, and will receive its capacity payment in any eventuality.

European mining Julietta

The first Russian mining deal to close for four years, since the Cyprus Amax Kubaka financing, Standard Bank London and HypoVereinsbank closed financing on the $50 million Julietta mine project in July 2000.

Julietta, sponsored by Canadian mining international Bema (89%) and various Russian concerns, is located in the Magadan Province of Russia. Clive Johnson, chief executive officer of Bema Mining, says the breaks on VAT and other taxes afforded by Magadan's special economic zone were one of the greatest advantages for the project, whose total production over its lifespan is estimated at 113,000 oz.

Johnson says the Mineral Base Replenishment Duty, which is charged at 7.8% and is a major cost for Russian mine projects, has been reduced after negotiations to a single $1.7 million payment. ?We were able to settle on a lower payment because Julietta was discovered very late in the Soviet period. We estimate our operating costs will be $75 per ounce, or $93 per ounce including taxes and royalties.?

Standard Bank London and HypoVereinsbank put together the final $30 million in finance for the Julietta project company, Omsukchansk Mining & Geological Company, while the IFC put up an added $10 million.

Around $8 million of equity has been spent on laying the ground for the project, including ancillary roads and the camp. Construction is being carried out by Orocon of Vancouver.

The commercial bank facility is priced at 450bp over libor and carries a tenor of 2.5 years, a length believed to be adequate since the mine will produce high levels of revenue quickly. The arrangers will sell on a portion of their debt, but serious syndication will wait until operations have begun.

The Multilateral Investment Guarantee Agency (MIGA) has extended $26.2 million in political risk insurance to the New Arian Resources Corporation, Julietta's project company. It is extending the cover under its Co-operative Underwriting Programme (CUP), and has brought in Brockbank Syndicate Management (part of Lloyd's) to take on $10.1 million of risk. The remainder stays with MIGA, which covers the commercial portion against transfer restriction, expropriation, and war. The premiums are on the account of the sponsor.

Mayer Brown & Platt advised the lenders, whilst Macleod Dixon (Russia) and Fasken Martineau DuMoulin (Canada) advised the borrowers. Endeavour Financial Corporation acted as sole financial adviser to BEMA.

A crucial element in Julietta's structuring is an agreement with the Central Bank allowing revenues to be paid into dollar-denominated offshore accounts. As Frank Biburger, vice-president, global project finance at HypoVereinsbank, says, ?without offshore accounting we would not have gone for the deal.? Johnson adds that here the trail had been blazed by Kinross Gold Corporation of Canada, the major partner at the nearby Kubaka mine: ?in this respect, as in many others, the fact they had broken ground made it much easier for us?.

European oil & gas Blue Stream

After years of negotiations the go-ahead has finally been given for construction of the deepest ever sub-sea pipeline, signaled by the close of syndication for the $3 billion financing for Blue Stream Pipeline Co. (BSPC).

Approximately 760km of pipeline will carry gas at a depth of 2200m underneath the Black Sea from Russia to Turkey, commanded by a 25-year agreement with Turkish state gas company BOTAS. According to Daniella Ferrari at Mediocredito, one of the three lead arranging banks, ?The central feature of this deal is its specific and very secure security structure.? Certainly that syndication closed roughly 30% oversubscribed indicates a level of confidence unexpected of a Russian project.

In fact, the credit risk associated with Russia has been drastically minimised, although not totally eliminated, and the loans protected by a host of guarantees. Being the first time that Gazprom has invited a foreign co-sponsor, BSPC's financing moved confidently into the international arena. A 50:50 venture, BSPC is registered in the Netherlands. The partnership between Gazprom and Snam, a subsidiary of Eni, is rooted in a history of relationships between Italy and Russia on matters of gas. Specifically, the loan is secured against a 1986 contract of gas supply from Gazprom to Snam, the same security that was placed on a $1.6 billion credit in 1993 for Italian exports to Gazprom.

Stemming from related connections, Sace were one of the first to climb on board and with them in the driving seat, a number of other export credit agencies were approached. Sace provided their standard 95% guarantee on commercial and political risk on a $1.1 billion tranche. The remaining 5% of this is the only true project risk with which investors are faced. According to Steve McPhie, of the syndication department at BCI, this was sufficient to put off a number of banks, still reluctant to leave themselves vulnerable to any risks associated with Russia. Others, however, were allegedly more wary of the security of a guarantee by Snam on a second, $866 million, tranche. These concerns are a product of the impending restructuring of the Italian gas market and the possible effect that this may have on Snam. These are accentuated by the fact that the guarantee is glaring in its omission of a backing from parent Eni. No concerns seemed to cut deep enough, however, to pose any great problem to the syndication of these two tranches, with joining banks coming in pro rata.

As stated, this syndication, which closed in December 2000 and signed on 5 January 2001, came in 30% oversubscribed. Lead arrangers Banca Commerciale Italiana, Mediocredito Centrale and West LB offered tickets of 80bp for commitments of $75 million or over, 60 bp for $50 million, 50bp for £30 million or 40 bp for $15 million. Five banks actually came in pledging more than the maximum of $75 million, BNP Paribas the highest bidder. As a result of over subscription, these were all scaled back to $65 million, the 18 banks coming in at $75 million were dropped to $56 million, the 6 at $50 million to $39 million and the 2 at $30 million to $24 million. The five that came in for $15 million tickets will put up this amount and the lead arrangers, $99.9 million each. The structure in place then, is evidently secure enough to satisfy more than a sufficient number of banks.

A particularly innovative feature of this deal was the reinsurance of $120 million of the Sace backed loan by ECGD. Established in the autumn of 2000, it set a precedent and has subsequently been copied in a number of instances. A third tranche of $626 million was backed by Japanese agencies, the Ministry of International Trade & Industry (MITI) and the Japan Bank for International Co-operation (JBIC). This was arranged by Fuji and syndicated successfully in Japan in the summer of 2000. All three tranches are dictated by the same structure, running for 13 years, with a tailored repayment structure.

Another characteristic that sets Blue Stream apart from many of its gas pipeline counterparts is the fact that it does not cross any other international boundaries. In the past, the need to cross through other countries has thrown up an array of political and economic ramifications and Russia in particular has claimed to experience considerable problems transporting gas through central and eastern European countries.

The price paid for mitigation of this risk, however, is the construction of a pipeline at a depth of 2200m along the bed of the Black Sea. The deepest pipe preceding this was at 2000ft, and the contractors are thus entering totally uncharted territory with regard to technical risks and problems. Construction, has been fragmented into onshore and offshore sections, with each receiving specific allocations from the financing.

The Russian onshore section, already under construction, is the sole responsibility of Gazprom, receiving financing from the Sace and Japanese backed loan as well as internally generated funds. The offshore portion has been contracted out by BSPC to contractors, Sapiem, Bouygues Offshore and a Japanese consortium comprised of Mitsui, Sumitomo and Itochu, thought to be responsible for the production of the pipes. Preliminary work has begun and construction proper will being in the spring, with the injections of finance needed coming from all three tranches. Turkey is responsible for the construction and financing of its onshore section in an agreement outside of this contract.

Having overcome a host of administrative stumbling blocks, the last of which was an issue concerning rouble convertibility resolved by a signed letter from President Putin's office, a green light has been secured. Furthermore, with a recent gas purchase agreement with Turkmenistan under its belt, Gazprom can be sure of having the supply required to feed Turkish appetite.

European independent powerElcho

Poland's largest IPP financing, the landmark Elektrocieplownia (ELCHO) deal, sponsored by PSEG, was launched into syndication last November. Both the $193 million and PLN345 million tranches are being sold to the market, with both portions sole lead arranged and underwritten by Dresdner Kleinwort Wasserstein. The deal also flaunts the longest tenor for such a deal (18.5 years) and covers both a brownfield and a greenfield development.

The funds will fuel the construction of a 560MW cogeneration heat (360MW) and coal-fired power (200MW) plant in the town of Chorzow, Upper Silesia, Poland. Financing splits into three tranches of which one, at PLN7.5 million, will not be syndicated. The tranches in syndication sport terms of 18.5 years apiece. Margins on the loans start at 115bp during construction, ratcheting down to 110bp at the end of construction and commissioning, and then notching up stepwise to 175bp.

Dresdner is currently offering participation on the two tranches in the following amounts. On the dollar tranche, co-arranger commitments pull in at $25 million, with a 50bp participation fee; the lead manager level claims a commitment of $20 million with participation fees at 45bp; and the amount for the managing banks is $15 million and a 40bp participation fee.

Co-arrangers for the Zloty tranche will commit PLN 90 million at a 45bp participation fee; lead managers are to provide PLN70 million at 40bp; and managers come in at PLN50 million, with participation fees of 35bp. BNP Dresdner Bank Polska acts as the Zloty Facility Agent and security agent. Dresdner suggests sizeable international market interest in the syndication.

The new plant will be set up adjacent to an existing facility owned by Elektrownia Chorzow (EC Chorzow), one of the country's oldest established heat and power generators, to be replaced by the new facility. The old generator will, however, continue to operate during construction. Commercial operation is slated for 2003. EPC contract for the project was awarded to Polish and Finnish subsidiaries of Foster Wheeler at the beginning of February this year ? the company plans to employ its advanced circulating fluidized bed boiler technology. Construction is also expected to create around 1150 local jobs.

There are 20-year Power Purchase Agreements with the Polish National Power Grid for the electricity, and PEC Katowice, the district heating company serving the city of Katowice and its surrounding communities, for the thermal energy. The power will be delivered into the GZE local distribution system.

A fuel supply agreement was hatched with a subsidiary of coal company Nadwislanska Spolka Weglowa (NSW) SA in April for the delivery of 1 million tons of coal a year, for 20 years, from the Janina and Ziemowit mines in Upper Silesia. NSW is Poland's largest coal producer with a 19% share of the market and, although having recorded damaging losses last year, is expected to have rebounded this year.

Commenting on the deal's success, PSEG cites unprecedented cooperation from a wide range of individuals ? government, lenders, lawyers, unions, and its strategic partner, Elektrownia Chorzow. PSEG Global holds a 93% interest in ELCHO with EC Chorzow holding the remaining 7%.

Says Jens Rosebrock, manager in DrKW's global project finance team, ?it takes a while to make people comfortable with an 18.5 year deal in Poland, since they're typically used to terms of around 15 years. But the cost effective, long-term contractual fuel supply and product offtake arrangements, the competitive nature of the plant and its life span of well over 20 years all combine to make the terms of our financing quite reasonable.?

PSEG, although shortlisted for the privatization of between 10% and 25% of the southern Poland electricity distributor GZE, recently lost its bid to Swedish Vattenfall AB. German energy firm RWE, also unsuccessful, was also short-listed by the Treasury. GZE hopes to focus on building medium and low-voltage lines to assist regional development. With a market share of 12%, the firm is the largest of over 30 energy distributors in Poland.

The Elcho deal, however, is at the crest of the recent surge in generating asset sales. In contrast, power project financing activity in Poland had been negligible in recent years, primarily owing to the slow pace of growth in electricity demand throughout the country. Hence, only a handful of new plants were commissioned, with virtually no investment in upgrading and expanding existing plants.

But now, with the strengthening of Poland's macro fundamentals, and with EU ascension looming, industrial growth rates are increasing and a determined privatization and restructuring program is well under way. These factors have boosted investor confidence in the Polish power sector and many heavyweight power project developers are eyeing the sector with interest.

As the power sector becomes more competitive, the cost of producing power is expected to reduce. But the sector's future is very much dependent on the success of the privatization program. Poland has no integrated electricity enterprises and all 33 regional distribution companies are separate corporate entities, their only activities being distribution. Power production is controlled by 34 enterprises whilst PSE owns and operates the grid, acting as the de facto single buyer of electricity from the generators.

Apart from the few shareholdings in generation that have already been sold, the sector remains entirely state-owned. Minority stakes in each distribution company will also be sold off and trade unions will be awarded up to 15% of the shares, while the State Treasury will keep the residual share.

The privatization process is essential for the government as it will bring competition and best practice to the industry and move the burden of future capital spending for these plants to the private sector.

A major barrier for investors, however, still remains the lack of sufficiently modernized laws to regulate the production, distribution and pricing of energy, with industry restructuring still in its infancy.

Nonetheless, most suggest that the process is largely on schedule and, as such, future power generation and distribution sales will have little problem courting investors. Elcho, it seems, bears out this point.

Middle East Africa power Al Taweelah A1

Abu Dhabi's latest independent water and power project (IWPP), Tractebel/TotalfinaElf's Al Taweelah A1 sets a new and encouraging benchmark for project finance in the Middle East. At $1.3 billion, it is the largest of its kind, backed by a $1 billion loan which sports an 18.5 year tenor, an unprecedented length for the region. As such, the deal has expanded the possibilities for doing innovative projects in an area which is swiftly moving to meet its substantial power and water needs.

Despite its lengthy tenor, the loan received sizeable interest; it is lead arranged by BNP Paribas and Citibank, who courted a group of banks to join the arranging group. Subunderwriting and syndication took place concurrently. BNP Paribas' Francis Ballard explains, ?it was the quality of the sponsors that convinced the market that the deal warranted such a tenor. We worked hard to make sure it sticks to traditional project finance structures.?

The deal reached financial close mid December. Pricing pulls in at 110bp during construction and notches up to 125bp-145bp during operation. Fees are alleged to be 90bp for $100 million and 80bp for $75 million. BNP Paribas supported TotalFinaElf/Tractebel during the bidding, before bringing Citibank into the deal.

This pricing, comment bankers close to the deal, is comfortable enough to sell the particularly bulky and drawn out loan. Much of the deal's alleged appeal stems form the success of UAE's first IWPP deal ? last year's Al Taweelah A2 ? which itself lugged a 17-year tenor (despite Abu Dhabi's AAA credit rating). The pricing on that deal (winner of Project Finance's 1999 Water/Power Deal of the Year) hit 105bp during the construction phase, ratcheting down to 80bp during operation. That deal, shouldered by sponsor CMS, took less than 12 months to attract an international team of lenders and scurry towards financial close.

The progress of the A1, however, had been hampered by prolonged negotiations. The selection process for the project was drawn out by Abu Dhabi government demands for refurbished bid documents. The project initially entailed the rehabilitation of an existing 255MW cogeneration facility, estimated to cost $900 million. The Abu Dhabi Water and Electricity Authority (ADWEA), however, asked for modified bids to be submitted for a larger project, on a build, own, operate (BOO) basis, to meet revised demands ? the upgrade of the existing facility to 1,350MW, and the expansion of water capacity from 29 million g/day to 40 million g/day. ADWEA asked bidders to match the prices of the earlier project ? $0.0244 /kWh.

TotalFinaElf/Tractebel and CMS Energy were the final two listed bidders and rumours abounded in March that CMS would secure the concession. But TotalFinaElf/Tractebel won the race, on the basis of pricing, and the alliance will take a 40% stake in the project, with ADWEA holding the remaining 60%.

The revamping of the existing, 11 year old plant is expected to be completed by Spring, 2002, and the new IWPP should be finished by April, 2003. The cost includes a $283 million payment by the consortium for its 40% share of the existing plant. This payment follows a back-ended equity structure, to be made after the term loan has been fully drawn out. This approach is similar to that used in earlier regional LNG and petrochemical deals.

According to the revised documents, power will be sold at $0.0244/kWh. Gas will be supplied by the Abu Dhabi National Oil company.

The offtake arrangement calls for ADWEA to purchase power and water from the plant for 20 years, with payment to the project company on an availability, rather than dispatch, basis.

The completed plant is slated to supply about 25% of the country's power and water needs. ADWEA plans to increase total electricity output from the present level of 2,500MW to 7,536 MW by 2010. Additionally, desalinated water production is set to rise from 262 million g/day to 573million g/day over the same period.

This will be distributed throughout the emirate by a reinforced 400kV transmission network. Contract awards are also imminent for a new substation at Musaffah, the extension of an existing substation at Taweelah, and the extension of the 220kV substation also at Musaffah.

The transparency of the tender process is a feature which is repeatedly celebrated by all parties. Says Abdulla Al Neaimi, director of IWPP's at ADWEA, ?from the outset our procedure has been clear to all involved. The tariffs and rate of return were established. And the tender process was as straightforward as possible. Ultimately, whoever can do it more competitively will win.?

With a rapidly expanding downstream industrial base and an ever growing consumer population demand that the emirate shores up its power generation and water desalination capacity ? fast. This is a recent but familiar maxim throughout the Gulf States which, until recently, had scant experience with traditional project financing.

Abu Dhabi, it seems, is learning quickly.

Indeed, the emirate has embarked on a fervent privatization scheme propped up by a highly sophisticated regulatory environment. The process for the power and water sectors began in 1999, with Al Taweelah A2. Next to slide into the Abu Dhabi market will be the $400 million Shuweihat IWPP deal. The teams reportedly poised for the forthcoming final bids are Tractebel/Mitsui, CMS/International Power, PSEG/Marubeni, and AES. The tendering process for this third IWPP, 250km west of Abu Dhabi city, had been delayed by the A1 holdup. But with the latter's successful sell-down, the next project is moving quickly ahead, with final bids due this month.

Middle East Africa telecomsThuraya

For Abu Dhabi-based Thuraya Satellite Company to pull off its recent $520 million financing package, ingenuity was not the only requirement. Convincing the market of the viability of a half billion dollar satellite mobile phone loan, in the wake of recent high profile satellite phone system bankruptcies (Iridium LLC and ICO Global Communications) proved to be as much of a challenge. But it worked. And the deal recently edged through a successful syndication. As such, it is the first major telecoms financing for the region while also being the first such project whose sponsors are predominantly regional.

The Thuraya financing consisted of two facilities ? a $420 million full recourse loan together with a $100 million Islamic financing facility, another first for a telecoms transaction. The package was initially pegged at $600 million, but was subsequently reduced to $520 million. The tenor extends over six years with drawdown staggered over the first two years, followed by eight semi-annual repayments thereafter. The $420 million portion was lead arranged by ANZ Investment Bank and Societe Generale (SG) together with the Union National Bank (UNB). Abu Dhabi Islamic Bank provided the Islamic portion.

Noteworthy is the deal's innovative guarantee release structure in which the initial full guarantee of the shareholders can be gradually dismantled, provided that the borrower meets certain performance criteria. At the outset, funds are priced at 120bp over Libor, rising to 230bp if the guarantees fall away or ratchet down to 120bp on the basis of a debt/EBITDA margin grid.

Given a patchy history for satellite transactions, the market was not especially upbeat or receptive. Mandated by Thuraya in July 1999, ANZ faced a tough sell. But it fought off the skeptics to conclude a particularly lengthy transaction. The bank explains the deal's execution with appeal to common sense: address the lingering industry concerns and then use them to benchmark the deal.

Most importantly, then, emphasis was placed on the contrast between Thuraya and its more dubious predecessors. First, the satellite itself is an entirely different animal. The Thuraya-1 satellite has a 12 year lifespan and is positioned in geo-synchronous orbit 36,000km above the earth at 44 degrees east longitude and inclined at 6.3 degrees. It has a footprint of 99 countries across Europe, north and central Africa, the Middle East, central Asia and the Indian subcontinent. It offers voice, fax and data telephony together with messaging and global positioning within 10m accuracy.

The contrast is vast. The Iridium project, for example, involved 88 different orbiting satellites, and, accordingly, a profound level of complexity. Thuraya, however, is much simpler technologically. As importantly, it is highly efficient, and boasts a much lower projected rate of dropped calls. It is, claims ANZ, a lower cost and more reliable system. The satellite was eventually sea launched on October 21, 2000.

Another factor bolstering the Thuraya case is the strength of its shareholders. The bulk of the company's 18 shareholders are Middle East based. And most of the regional shareholders are majority owned by their respective states. This means a solid shareholder group ready to fully guarantee the deal.

Together, the sponsor group has injected $500 million in equity to the project, providing a certain comfort level for the market and marking out another selling point for the deal.

The deal structure allows for the guarantees to mitigate against the market and technical risk. Bearing the start-up technical risks proved critical, particularly in a post-Iridium market. But the structure also features several test windows which, if successfully met, let the guarantees fall away. The tests are largely technical, but certain market tests are also in place ? for example, meeting a minimum number of subscribers at certain points and fulfilling certain covenant tests such as debt to cash flow ratios. If these tests are not met within their appropriate window the guarantees stay in place and the margin alters accordingly.

But despite this durable guarantee structure, the deal took over seven months to syndicate, a period which witnessed the failed launch of another satellite, and then concerns over Y2K trouble. Nonetheless the arrangers felt confident enough to launch the sub-underwriting phase in two stages, a regional sell-down and an international sell-down.

Regional reception was considerable, resulting in a quick sell down to Arab Banking Corporation and National Bank of Abu Dhabi, with Mashreq Bank co-arranging. As expected, though, the international phase proved a little more tricky, but was eventually syndicated to Credit Lyonnais and Standard Chartered Bank. Full syndication is now complete. Eight participants also came on board. They are: Arab Investment Company, British Arab Commercial Bank, Bank Muscat, Commercial Bank of Qatar, DG Bank, Doha Bank, First Gulf Bank and United Arab Bank.

Nevertheless, the transaction had been cut in size, perhaps reflecting the overall hesitation over satellite lending. A contingency facility already built into the financing accounted for this shortfall, however. The Islamic component, included at the request of Thuraya, was structured by the co-arrangers. It involves a leasing component in which the

Islamic banks own the ground station assets and then lease them to Thuraya over the lifetime of the deal. Also of note is the fact that the deal is full recourse to the sponsors. As such, it is a good, relatively low-risk opportunity for banks to raise their profile in the region.

The project company ordered three satellites from manufacturer Hughes. Besides Thuraya-1, the second is a ground standby for the first, and the third will provide additional payload for the network as and when required. Thuraya-1 can provide services to 1.8 billion subscribers and was the heaviest commercial payload ever.

Middle East Africa oil & gas Oman Gas

Aptly described as the cornerstone of the Sultante's foreign investment and diversification plans, the $442 million debt financing for the Oman Gas Company (OGC) is the first such deal for an Omani project since the Oman LNG project closed in 1997. The deal is particularly significant for having mustered a hitherto unthinkable maturity without export credit backing, with very attractive pricing.

The project entails the construction of two separate gas pipelines. One pipeline will supply Salalah in the south of the country, to fuel an independent power plant under development. The second pipeline will pump gas to Sohar, on the north coast, where the government hopes to attract a host of gas-based downstream activity in an industrial zone, as part of a move to diversify away from the capital, Muscat.

The project had been in various stages of gestation over the last few years and, as such, the final deal reflects vastly different local circumstances. Arguably the most noticeable of these was the decision to use commercial bank finance rather than export credits. When the deal was first planned, export credits were deemed indispensable for financing the pipelines, given the lack of capacity in the commercial bank market. Accordingly, when bid documents were initially sent out to potential engineering, procurement and construction (EPC) contractors in July 1999, part of the bidding requirement called for export credit financing.

But by the time the EPC bids had been received and evaluated, by December 1999, financing conditions for Oman had changed substantially, for the better. Commercial bank market capacity increased considerably, to the extent that it proved cost effective compared to ECA financing. OGC was advised throughout by HSBC.

The deal was again put to seven contractor groups, who were required to submit financing solutions, each to mandate a maximum of three arranging banks, but this time based on commercial, not ECA, financing. But the banks were not secured the deal, even if their developer team won, since OGC retained the exclusive right to match the best construction offer with the best financing offer. Ultimately, and not uncontroversially, this happened.

Dodsal picked up the mandate for the Salalah pipeline with a Saipem/Snamprogetti/CCC consortium winning the Sohar pipeline, both of them having already been selected as preferred bidders. On the banking side, Arab Banking Corporation (regional bookrunner), BNP Paribas (international bookrunner) and Industrial Bank of Japan (documentation, facility agent, intercreditor agent and security trustee) were awarded the lead arranging package, although they had supported unsuccessful developer bids.

Nonetheless, the final deal represents an aggressive combination of price and maturity. The margin pulls in at 65bp over Libor pre-completion; after commissioning, it steps up to 100bp for the first five years, rising to 115bp for years six to eight, then 130bp years nine and ten, and finally reaches a high of 145bp through to maturity, at 12 years.

Repayments are to be made in semi-annual installments beginning six months from completion. A commitment commission of 32.5bp is payable semi-annually in arrears on undrawn amounts.

With, at the time, a lack of comparable projects from Oman itself, to benchmark the deal arrangers looked closely at the more recently active Qatari project market. Those deals, combined with the pricing achieved on Oman's sovereign loan, provided a good point of departure.

Unlike the sovereign, however, this deal flaunts a tenor of 12 years ? by far the longest for a non-export based and quasi-sovereign guaranteed project in the country. According to a banker close to the deal, such a maturity in the commercial markets without associated export credits would have been inconceivable at the outset of the project. Nevertheless, long-term debt proved to be the most attractive solution, despite the fact the deal is not sovereign guaranteed. Both availability payments, the chief risk to the banks, and termination payments are backed by the government.

And the banking market swallowed what was until then an unthinkable maturity, with selldown following swiftly thereafter. The response of both local markets and international investors involved in the deal has been, by all accounts, charismatic, with debt facilities closing heavily oversubscribed at the end of October.

The arranging group invited around 23 banks to join the deal at two main levels ? $15 million for 65bp in fees and $10 million for 55bp. The local banking market joins at the following offering: $7.5 million for 50bp and $5 million for 45bp.

The final allocation fits the following banks: lead arrangers ? Apicorp, GIB, Mediocredito Centrale and RBS/NatWest, each with final takes of $19 million. Senior co-arranger, also with $19 million, is Sumitomo Bank.

At $18 million each, co-arrangers are as follows: ANZ Investment Bank, Credit Lyonnais and Bank of Tokyo-Mitsubishi. Senior lead managers, at $14 million each: Arab Bank, Abbey National Treasury Services, Bank Dohar, Bank Muscat, Commerzbank, Credit Agricole Indosuez, KBC Bank, Oman International Bank, National Bank of Bahrain, National Bank of Oman and Riyad Bank.

At final takes of $10 million each, lead managers are Natexis, Commercial Bank of Oman, National Bank of Abu Dhabi and Oman Arab Bank.

Managers, at $5 million each, are Industrial Bank of Oman and Majan International Bank.

The loan will feature quasi-sovereign guarantees with the construction risk government guaranteed. Both availability payments and termination payment are backed by the government. The debt/equity split is marked at 90/10, with the government supply 80% of equity, and the rest furnished by Oman Oil Company.

The Sultanate's government has also signed a concession agreement with OGC that gives it the right to operate the pipelines and transfers some existing assets to the project company's control. The government has also signed a tariff agreement with the company that is linked to volumes of gas shipped.

African Mining Geita

In a slow year for mining financiers, only Africa and Russia saw any meaningful level of activity. In Africa, Mali and Tanzania were the locations for all four of the deals that took place there. Tanzania, the most stable of the countries in the Lake Victoria goldfields, attracted $335 million of project financing. The Geita deal demonstrates how far the template has developed from Golden Pride, Tanzania's first project financing of any sort.

Geita has stretched the limits of what private political risk insurers can add to a project and, as development banks and ECAs reassess what their commitment to mining should be, offers a useful pool of cover in a market with continuing potential. Yet it is in many ways unique, brought together out of the financial distress of its half-owner, Ashanti Goldfields. But the way in which Ashanti and its new partner, Anglogold, have taken it off balance-sheet is the model for the other producing majors sniffing around the region to follow.

Ashanti has financed several of its projects outside Ghana on a non-recourse basis, but had become accustomed to using its hedge book as an important source of development cash. It had put in place one of the more exotic, not to say risky, hedging and derivatives programs, which had become cash generative. The assumption underpinning most hedging at the end of 1999 was that gold prices were on long-term downward trend, largely because central banks were moving towards holding less bullion.

This was true, but instead of a market-flooding free-for-all of auctions, the banks unexpectedly agreed to phase in sales and the gold price rallied. Ashanti was left exposed to some seriously high margin calls. The sale of a half stake in Geita to Anglogold was the most direct result of this cash crunch, and was provisionally approved on 26 June 2000.

The sale of the 50% interest and Ashanti's proceeds of the refinancing ($335 million, in all) went towards paying down its obligations to hedge counterparties and a bridge from Barclays Capital. Several of the counterparties and CIBC, as advisor to Ashanti, went about putting together a $135 million deal to put to the project finance market. Barclays, NM Rothschild and Dresdner Kleinwort Benson (now Dresdner Kleinwort Wasserstein) became lead arranger for the deal and, for the sake of fairness, were also significant counterparties.

Geita is one of Ashanti's most valuable assets, with a production cost in the region of $175/oz, and was almost constructed at the time of the sale. For this last reason it was difficult to find any ECA or multilateral cover ? the usual prerequisite for African deals. The Bulyanhulu deal, which closed earlier in the year, was much larger, at $200 million, and carried innovative parental gold price support from sponsor Barrick. It, however, was able to access political risk insurance (PRI) from the Export Development Corporation and the Multilateral Investment Guarantee Agency.

As recently as April, the commercial market was confident in offering in 15 years' cover for African projects, but viewed co-insurance with a sovereign- or super-sovereign-owned entity as desirable. The banks were able to go out to seven years, and were eventually able to persuade the private PRI providers to go this far as well. Deal participants have been unable to disclose the insurers' identities, although market rumour fingers AIG and Zurich.

Their willingness essentially comes down to faith in the operating capabilities of the two African-centred sponsors and a positive view of the Tanzanian government's commitment to the sector. Offshore accounting, and a supportive legal framework have been provided in exchange for royalties, foreign exchange earnings and a chance to diversify the employment base away from agriculture. Government officials have been actively wooing foreign investors prepared to explore in the country.

The banks' comfort with the project is summed up by Milo Carver from Barclays Capital's Mining and Metals group: ?The Geita financing is another example of how a well structured transaction with strong sponsorship can be successfully brought to market. Following from the success of Bulyanhulu in May, that a second large project deal in Tanzania has been successfully syndicated is a credit to the structuring and distribution skills of the arrangers and the experience of AngloGold and Ashanti in developing large scale gold projects in Africa.?

Anglo has been responsible for raising the finance, as one of the conditions of the sale, and has provided a pre-completion guarantee for the remainder of the work. It has also been responsible for raising project level hedging. Given the current unequal strength of the two venture partners, this imbalance of capabilities, not to say the absence of a more novel gold price support, is understandable.

The debt was syndicated to a group of ten banks, whose names have not been released. Titles were as follows: Barclays Capital ? bookrunner, syndication agent, security trustee, offshore account bank, insurance bank, Dresdner Kleinwort Wasserstein ? facility and documentation agent, NM Rothschild ? technical bank and hedging co-ordinator. Shareholder agreement was gained on 27 November, with signing taking place on 12 December 2000.

PFIBirmingham Northern Relief Road

The concept of a Birmingham Northern Relief Road (BNRR), an alternative to the highly congested section of the M6 between Junctions 4 and 11, was initially born as a publicly financed scheme in the 1980s. Shrouded in controversy, it has been consistently and vocally opposed by Friends of the Earth and other environmental groups, who have accused it of cutting a huge swathe through the green belt and potentially acting as a catalyst for further, unwanted, development. Proponents in favour of it however, including the Birmingham Chamber of Commerce, claim that it will give the regional economy a vital boost as investors are currently put off by the severe congestion.

On September 29 2000, over 10 years after it was initially proposed, the deal has reached financial close. The long-winded process leading up to this financing of Britain's first ever real toll motorway has thrown up some innovative aspects, some of which may well be seen recurring in British infrastructure financing.

In 1989, with PFI in the UK taking off, a privately financed BNRR was proposed and in 1992 a DBFO concession was awarded to Midlands Expressway Limited (MEL), then a consortium of Trafalgar House, later Kvaerner (50%) and

Autostrada (50%). Securing environmental and planning permission was an exceptionally drawn out process, involving the longest Public Inquiry into a UK road scheme during 1994 and 1995, with a decision on its outcome then taking until 1996. Following that there were legal challenges by the opposing environmental groups, delaying things a further 18 months. In 1999, Kvaerner sold their stake to Macquarie Infrastructure, an investment fund managed by Macquarie Bank, but retained the contract for construction. In the event, however, this also fell through, leaving MEL in the unusual situation of needing to tender both the construction and the financial contracts, a scenario usually reserved for government bodies.

Nicholas James, divisional director of Macquarie Infrastructure, points to the speed at which this was completed as a particularly distinguishing feature of the deal, with financial close achieved less than two months after submission of initial bids. James outlines the time saving approach. ?Notably, both the technical and commercial aspects were considered in parallel, in contrast to the government's preferred methodology of analysing all technical bids before moving on to other components. In addition, bidders were provided with exceptionally detailed information of the deal both before and during the bidding process.?

On September 29, 2000, the BNRR finally looked set to become a reality. CAMBBA Construction Group, a joint venture comprised of Carillion, Alfred McAlpine, Balfour Beatty and AMEC secured the £485 million design and construction contract. Preliminary work has started and the consortium is on target to deliver the completed 27 miles of dual 3-lane carriageway within the projected time frame of 3 years and 4 months. The financial tender was won by Bank of America and Abbey National Treasury Services plc., who have underwritten the entire £685m senior debt. This is split between a 10 year term loan, priced at 120bp over libor during the construction period and 110bp post-completion and a £36.7 million bridge facility. Syndication for these two tranches was launched in November and is nearing completion. William Bishop, principal syndicated finance at Bank of America has stated that 15 banks have been secured to date, with a number of responses still outstanding. Signing will co-incide with EIB's commitment to refinance a portion and is projected for the end of January 2001. In the region of £250 million, EIB's contribution will be injected only after construction is completed and thus will not be demanding a bank guarantee.

Financial close also marked a further change in ownership of MEL, with Macquarie Infrastructure Group purchasing a further 25% from Autostrada and securing an option to acquire the remaining 25% in five years.

Being the UK's first ever toll road, the BNRR is obviously subject to significant financial risk, relying on projected revenues for which there can necessarily be no certainty. Given the sums demanded investors may initially have had reason to be wary but in the final analysis, market appetite was abundant. This can be explained by considering both the unique circumstances that gave rise to the project and the specific elements of flexibility woven into its financing. Jim Barry, head of project finance at Dresdner, highlights the unusually long concession period of 53 years, combined with the total power of MEL to control toll rates. He also points to the fact that the M6 is so congested that a diversion of only 10 to 15% of current traffic flow to the BNRR would be sufficient to ensure that the latter achieved its projected revenue targets. Moreover the BNRR, crucially, will not in practice be a diversion but rather the straightforward route through, more direct than the M6's equivalent.

This was an arrangement reached between MEL and DETR as part of a policy of mutual co-operation, which may have been a central key to minimising risk in the eyes of the investors. Although the toll scheme is to be absolute, with all costs recouped through toll revenues and no regular subsidies from any government bodies, DETR assistance has played a significant role in the development of the project. In particular the Public Inquiry was jointly funded by the DETR and MEL, with both parties working together to promote the evidence in support of the deal and to rebut objections to it. The BNRR is a greatly needed public highway and has been awarded the government support and input that this status deserves.

The BNRR is undoubtedly a one off, having arisen as a result of a set of unique conditions and requirements. Flow on toll roads is very difficult to predict and there are not many routes in the UK that could be certain to attract sufficient traffic. Thus until the day when charges are imposed on all motorways, the risk of real tolls remains too high except for in a handful of exceptional cases. However, although unlikely to open the floodgates, the BNRR financing will be reflected on as a benchmark in many ways, not least because it is the largest road project ever tendered in the UK the first stand alone road financing and the speed at which it reached financial close. It will also be used to help develop a better understanding of traffic patterns and such information could be integrated into future plans for infrastructure financing. Certainly financing through a combination of tolls and grants, as proposed by the Irish government for their upcoming PPP road scheme is an option that we may see an increasing a trend towards.

PFIGOGGs

The refurbishment of the Government Offices Great George Street (GOGGS), which signed on 5 May 2000 was a prestigious and high profile deal, certain to attract attention from all quarters. This, combined with the fact that it was relatively straightforward in structure, made it an ideal project for the establishment of two new techniques the treasury hopes to see becoming mainstream within PFI deals. It was the first to use the standardised contract guidelines set out by the treasury and also the first to hold a funding competition.

Contract standardisation in particular has been a driving ambition of the Treasury Task Force (TTF), the body set up to monitor and shape the development of PFI in the UK. It is not intended to dictate a totally standard format for all deals, but rather to create a shared platform onto which deals can be built, thus speeding up the process by minimising bureaucracy. Jim Barry, head of project finance at Dresdner, which advised the treasury, outlined that there had been a general wariness within the market surrounding the acceptance of standardised terms and conditions, so the successful completion of this deal was certainly a benchmark. In particular, the standardised contract forces people to address the issue of compensation for market value. This has now become a norm but when GOGGS reached financial close on July 1999 it was a fairly innovative proposal. The standardised guidelines for PFI contracts, in their revised and flexible form, have now generally become accepted.

This project for partial refurbishment of the Treasury's offices in Whitehall was initially proposed in 1995 and in 1996 the conservative government chose consortium Exchequer Partnership (EP), comprised of Bovis Lend Lease, Stanhope and Chestertons, as the preferred bidder. Following the arrival of Labour, the project was then frozen, pushed aside in favour of hospital and school deals. In October 1998, however, with PFI well established as a component of the government's regime, Paymaster-General Geoffrey Robinson resurrected it, although scaling down the refurbishment considerably.

EP retained the contract for the 37-year concession only on the condition that it held a funding competition for the senior debt, a measure to ensuring that the treasury got the best value. EP chose to include the mezzanine debt in the competition as well. 28 banks were invited to submit proposals, of which nine declined and eight were shortlisted. Judged simply on the grounds of best value, UBS Warburg won the mandate for the £127.9 million senior debt, raised through the issue of index linked bonds. Linked to inflation and thus not creating any risk for the investor, they were snapped up shortly after their release, mainly by pension funds. Ambac was chosen to insure the bonds and also to underwrite the mezzanine. The entire process took about eight weeks to complete. A two stage transaction such as this is necessarily going to save time, since all initial bidders do not need to put together complex financial bids, as is the case with the protracted process that is the London Underground PPP.

A high profile deal that successfully used two innovative features w