

# Ostregion Vienna A5 Motorway

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A brand new financing model, a team of international players and a tense bidding process make up for a groundbreaking deal in Europe - the €978 million Ostregion PPP Package 1 road project, Austria's first pure PPP

The deal was closed by Austria's road authority - ASFINAG - and the Hochtief-led Bonaventura consortium just before the end of 2006 - a few months after the losing consortia had filed complaints against Bonaventura putting the project on hold.

This PPP deal breaks a number of records, being the first pure PPP motorway in Austria and one of the first in central Europe.

Moreover - and this was the financiers' and sponsors' intention - it sets a benchmark for transport PPP projects in Europe both from the financing and legal side.

The motorway project - forming part of the Trans-European Network - tickles project financiers' minds with its mixture of senior and junior debt, mezzanine bonds and the innovative payment mechanism.

## Rationale

The Ostregion PPP Package 1 road project is part of the wider Ostregion PPP scheme. This is a €3bn programme of road DBFOM concessions which cover a network of urban and inter-urban motorways to the north, east and south of the Austrian capital Vienna - and most importantly between the capital and the border with the Czech Republic.

The Ostregion - (East region) - PPP scheme was kicked off in 2002 with the Austrian government's 'White Paper on Traffic and Transport'. The paper focused on increasing road capacity and making the transport network more efficient - especially in the greater Vienna area.

According to the White Paper, the Ostregion programme sought to:

- solve the congestion on arterial commuter routes into Vienna
- enhance road links between Vienna and the Czech Republic
- form part of a wider strategy to complete a ring-road of Vienna

Additionally, with the White Paper the government showed its intention to bring private finance into the construction of new roads and motorways - and subsequently ASFINAG launched in December 2003 the 'PPP Konzessionsmodell Ostregion'.

The Ostregion PPP scheme put forward envisages the construction of 113 km of new roads. Among these is the A5 - a new motorway from the junction with the S1 near Eibesbrunn to the Czech border at Drasenhofen.

The A5 is to be developed in three sections:

- A5 South
- A5 North A
- A5 North B

Other new road sections included in the Ostregion scheme are the new S1 Vienna ring-road - to be developed to the north and east of Vienna in three sections:

- S1 West
- S1 East to the S2
- Lobau Crossing - from the S2 to the Danube

Additionally, the Ostregion PPP programme includes:

- extension of the S2 urban radial to the S1 - Süssenbrunn bypass
- new crossing of the River Danub
- construction of an extension of the A22 along the northern bank of the River Danube to the new crossing (S1)

The authority broke down the work in four packages:

- Package 1 - S1 East, S2, A5 South, S1 West
- Package 2 - A5 North A and A5 North
- Package 3 - Danube crossing, Lobau crossing
- Package 4 - operation S1 South and operation A4 until Schwechat

To recap, the Package 1 project involves a 33-year DBFOM concession involving construction of 51.5km of strategic motorways in the north of Vienna. The roads will serve commuter traffic from the north east of Vienna and facilitate heavy goods transport through the east of Austria from and to the Czech Republic and Italy.

#### Package 1 - tender process

The build up to the close of the deal was held by a tense bidding process which was described by sources close to the deal as being 'politically sensitive'.

Ian Andrews of Linklaters - which was a legal adviser to ASFINAG - said: 'The procurement phase was the most challenging part of the project, in legal terms. There was very little precedent in Austrian law and Austria sadly has a history of fierce challenges between bidders.'

However, he adds: 'Asfinag should be proud of what it did - it has done better than Germany and Italy on the procurement front, giving the project to one of the two German-led consortia, instead of the only Austrian one. It's one of the rare cases in Central Europe when a public firm goes towards foreign contractors facing harsh criticism from the local public.'

The tender process officially began in September 2005. In June 2006 there were three consortia battling for the contract:

- Bonaventura - grouping Hochtief, Alpine Mayreder and Egis Projects
- a Bilfinger Berger, Laing Roads and APRR consortium
- AKOR - a consortium of Austrian contractors led by Strabag and Porr

Bonaventura came out on top in September 2006 and construction was scheduled to start - but the losing consortia did not miss the chance to file legal complaints over ASFINAG's decision, within the two-week period established by Austrian procurement law.

Andrews said: 'It was assumed that they would complain. The public was putting ASFINAG under pressure to avoid it giving the project to a foreign consortium.'

The two losing consortia refused to take the decision lying down with their legal counsel for Walter Schwartz claiming 'numerous indiscretions' in the tender process.

Bonaventura is understood to have bid €944 million in the opening round in 2005. The consortium's final bid was over 20 per cent lower than its initial estimate, prompting accusations that national network operator ASFINAG had accepted an 'unrealistic' and 'speculative' bid.

AKOR also lodged a request for reassessment of the bidding process, which it said showed 'inconsistencies in the evaluation of bids.'

The deal went to a procurement court to decide over the award - and more breaking news shook the process. ASFINAG received an anonymous letter which led to a late reconstitution of the procurement law court.

But by then - while the sponsors and the financial advisers were structuring the financing - the Bilfinger consortium had withdrawn the complaint, and so did the Strabag team before the reconstituted court had concluded its deliberations.

The final confirmation came in mid-December 2006. The parties then rushed to the close of the deal as interest rates were climbing up and every day that passed was costing more. However, the deal closed on 21 December 2006 with a significantly lower price than the preliminary bid one.

Andrews at Linklaters said: 'ASFINAG was very pleased with the price - which proved to be substantially lower than if the project were to be developed on a standard public procurement basis. And again on the bid row - the other consortia wanted more money from ASFINAG.'

## Financing

The financing structure put in place by Deutsche Bank, KPMG and the two infrastructure funds RREEF and Meridiam is an example of innovation and risk-sharing which sets an impressive example for future transport transactions.

The interesting payment mechanism - which allowed the bidders to fine tune their bids to meet their demand risk appetite - and the use of a wide range of debt instruments prove the flexibility and strength of the model.

RREEF and Meridiam are providing the mezzanine debt. Their involvement in the project signs another step in their increasingly active role in the European infrastructure market - which in turn benefits by cheap instruments and flexible and innovative funding.

Jens Genkel, senior investment director at Meridiam said: 'This is a project in which Meridiam has been taking an active role in the development. This is our first asset of this kind and, we hope, the first of a long series.'

'The project includes with regard to equity a comparatively high share of mezzanine. For Meridiam it clearly helped to have known all the other parties involved and to be able to understand language and culture.'

The mezzanine bonds solution worked particularly well for Austria as the country's financial regulations treat mezzanine like equity - with mezzanine debt being cheaper than shares.

A total project value of €978 million was structured through:

- €425m floating-rate, monoline wrapped, multi draw-down senior bonds - underwritten and placed by Deutsche Bank
- €350m floating-rate, monoline wrapped EIB loan
- €78 million mezzanine bonds provided by RREEF and Meridiam
- €27 million in cash/equity commitment raised by the consortium
- €98 million of internally generated funds - largely receipts from construction stage payments paid by ASFINAG for

construction of connection roads

The equity financing is bridged by Junior Fund Bridge Bonds until construction is completed.

The equity breakdown is:

- Hochtief - 44.4 per cent
- Alpine Mayreder - 44.4 per cent
- Egis Projects - 11.2 per cent

The EIB loan and the senior bonds are wrapped by Ambac - which grants them AAA rating.

A Luxembourg-registered special purpose vehicle was set up to be liable for the debt instruments - Ostregion Investmentgesellschaft Nr. 1. Luxembourg was preferred over Austria to avoid Austrian stamp duty.

The multi draw-down structure for the senior bonds means that the Luxembourg-based investment vehicle issues them and then they are immediately purchased by Deutsche Bank.

Deutsche Bank then holds them and sells them back to the investment vehicle as the funds are required. The bonds, due 2039, were priced on 21 December 2006 and are to be listed on the Luxembourg stock exchange.

This allows Bonaventura - to which the proceeds of the bonds placement are eventually on-lent - to borrow money only when it needs it, on the basis of loan agreements with the investment vehicle.

The concession contract is based on a blend of European road PPP precedents. KPMG were financial advisers to ASFINAG, the team led jointly by Jens Kaden and Erich Thewanger in Vienna and Richard Threlfall in London.

Richard Threlfall said: 'We were determined to create and deliver an international-standard PPP, to attract the best bidders in the market and set a benchmark for future PPP deals in Austria.'

One of the most innovative features of the deal is the payment mechanism. ASFINAG has the statutory right to the tolls which are levied on both cars and HGVs on the strategic road network in Austria. To maximise value for money in the PPP, ASFINAG decided that it should take the direct benefit of the tolls on the Package 1 roads, and pay the concessionaire through a combination of availability payments and shadow tolls.

Bidders were invited to structure their bids such that the availability payments would form 65-75 per cent of payments and shadow tolls 35 - 25 per cent. Moreover, bidders were given very wide freedom in the setting of the shadow toll bands and the payments for each vehicle within each band.

This flexibility in the mechanism allowed bidders to optimise their bids to balance the demand risk appetite of their sponsors with the requirements of debt providers and rating agencies.

Richard Threlfall said: 'The innovation and flexibility in the payment mechanism is one of the outstanding features of this deal. It is the platform on which Bonaventura have built their competitive financing structure'.

## Conclusion

Groundbreaking has been recognised as a suitable adjective for this project. From the bidding row to the complex financial structure, a great amount of work was needed and an example of financial innovation was put together.

Whether politicians in Central Europe will take this as a model for future projects remains a question - although now they would have the proof that cooperation and flexibility should work very well.

ASFINAG had to face some key challenges to bring the deal to an end. Andrews at Linklaters said: 'There was very little room for manoeuvre - we were faced with the problem of how to allow each bidder to be innovative and give all of them the same chance.'

Ultimately, however, the deal which has been struck appears very good for all parties. Richard Threlfall said 'ASFINAG can be very proud of this deal. It has shown that PPP offers value for money, and provides a sound basis for future PPP projects in Austria'.

The chances are that they have succeeded with shaping a solid concession model and a stable financial plan - which makes the most of the cheap instruments now available in Europe.

The project at a glance

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| Project Name                                 | Ostregion PPP Package 1 road project   |
| Location                                     | Vienna, Austria  |
| Description                                  | 33-year DBFOM concession involving construction of 51.5km of strategic motorways in the north of Vienna        |
| Sponsors                                     | Bonaventura consortium - including Hochtief, Alpine Mayreder and Egis Projects                                 |
| Project Duration<br>(Including construction) | 33 years   |
| Total Project Value                          | €978 million   |
| Total equity                                 | €27 million  |
| Equity Breakdown                             | Hochtief - 44.4 per cent<br>Alpine Mayreder - 44.4 per cent<br>Egis Projects - 11.2 per cent                   |
| Total senior debt                            | €425m floating-rate, monoline wrapped, multi draw-down senior bonds - underwritten and placed by Deutsche Bank |
|  | €350m floating-rate, monoline wrapped EIB loan   |
| Mandated lead arrangers                      | Deutsche Bank  |
| Junior debt                                  | €78 million mezzanine bonds provided by RREEF and Meridiam   |
| Legal adviser to government                  | Linklaters   |
| Financial adviser to government              | KPMG   |
| Date of financial close                      | 21 December 2006   |

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