

# French roads and A65 case study

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14/02/2007

The trend of project financing motorway construction is gathering pace in France with the close of the €1.2 billion A65, a 150km toll motorway between the towns of Langon and Pau in south west France

The tender for the Pau-Langon section of the A65 motorway - the longest and highest value project of its type to make it off the drawing board in France - was launched in August 2005, reaching financial close on 26 January 2007. Syndication is expected to be launched in the coming week.

The real toll road, the third project finance motorway to reach financial close in France, is one of a number of transport projects on the market in France.

Currently the market is waiting for results on three motorway projects that are moving through the process.

They are:

- A88 - final bids are due in for this road on 2 April. It runs from Ses to Falaise in Normandy, not far from the A28
- A150 - first round of bids due in at the end of March. This road runs from Croix Mare to Baientin, Normandy
- A63 - north of Bordeaux in the Landes region. This is a short-term concession to expand and upgrade an existing section of road. Bids are expected in during the summer and concession award by the end of the year
- A355 - the Strasbourg bypass for which prequalification is currently running. Bids are expected in during the second half of 2007 and award some time in 2008

Tenders soon to be launched include:

- Amberieu to Bourgoin section of the A48
- Balbigny to La Tour de Salvagny - an extension to the A89
- Fontenay-le-Comte to Rochefort - A831
- Grenoble to Sisteron - an extension to the A51

There are also plans for the N88 which passes through Aveyron in the south west Massif Central. This project is for the upgrade of the 100km road and is being financed on a PPP basis.

This project is being designed as a market tester - one that the French government hopes will attract second tier construction companies.

There were also plans for a road to the north of Marseille which was ditched by the regional authority on political grounds.

To date, we have seen closes on the [A41](#) providing a direct link between two cities in France and Switzerland - Annecy and Geneva - and the [A19](#) concession DBFO contract for the motorway between Artenay and Courtenay in central France.

In addition to project financing the motorways, France also has ambitious plans for the heavy [rail sector](#):

- the €5 billion South Europe to Atlantic rail line
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- the €1.2 billion Nîmes-Montpellier link
- the €680 million express line from Charles de Gaulle (CDG) to Paris
- the €600 million GSMR communications project

#### The A65 transaction

Project company A'Lienor - a consortium of Efficage (65 per cent) and Sanef (35 per cent) - was awarded the DBFOM concession in December 2006 for the new toll motorway.

The construction of the highway will be undertaken by two subsidiaries of the Eiffage Group:

- Eiffage TP
- Appia Grands Travaux

Operation and routine maintenance of the A65 is to be carried out by Sanef under a separate contractual agreement.

The A65 motorway is expected to be completed by 2010. The concession runs for 55 years and includes a four-year construction phase.

Scott Wilson was appointed by Eiffage and Sanef to act as lenders' technical adviser, undertaking due diligence prior to financial close. The firm has also been retained to provide monitoring and certification for the design and construction period.

#### Financing

The €1.2bn deal is funded by a 20 per cent cash equity contribution from the sponsors - €230m - and an 80 per cent senior bank debt amounting to €980 million. It is being financed through a mini-perm structure.

This full amount of debt is underwritten by the MLAs and includes a €45m VAT tranche.

The tenor for the debt is eight years with an option to extend for a further five. The price of debt is Euribor +110-120bp.

MLAs on the deal were:

- Fortis
- Helaba
- ING
- Natixis
- Grupo Santander

Helaba provided only one ninth of the debt, the banks provided two ninths each. This equates to, roughly, €110m from Helaba and €220 from the four banks - which all acted as bookrunners.

General syndication is expected to take place in the first half of 2007. It is being discussed by the bookrunners in the coming few days and is expected to be similar in size to the A41 syndication.

Ixis Corporate and Investment Bank - a subsidiary of Natixis - was financial adviser to the consortium. Depfa Bank acted as financial adviser to the government.

One of the bankers involved in the transaction said: 'It is a country road, but the price of the motorway is not so high when you take into account its length. It is nearly the same cost of the A41 which was only 19km but which does have to go through the Alps.'

A great deal of the negotiations on pricing came down to traffic flow which is not as high as will be seen on the A41 - but,

according to the bankers - they are sufficient to guarantee the return.

'It was a traffic-oriented transaction because the construction risk is quite low,' he adds. 'There are hardly any bridges or viaducts, and the ones it have to build are not very long. There is no management or construction risk, so the risk is all on the traffic.

'We analysed this point very carefully and we found that there is sufficient traffic to have comfortable ratios on debt.'

This deal is the third such deal and the third one on which IXIS has acted as financial adviser.

'The mini-perm structure is quite standard now,' said one source in IXIS. 'This deal will be a good reference for the next projects that are mini-perm.'

Conclusion

France is looking like a healthy destination for project finance with a good pipeline of projects making its way through the system.

The A65 is a landmark deal for France as the third such deal to be project financed as well as being the longest greenfield road to be funded through a mini-perm structure.

The country will have no problems attracting financing for future projects and the French construction giants look set to dominate the market. Though pricing has already dropped below the 100 mark for deals being negotiated at the moment.

The N88 is an interesting project in that it is clearly targeting second tier construction firms - for once moving away from the French giants - and there is certainly plenty of work to be keeping the market busy.

It, however, remains to be seen if construction firms from outside France will be able to break into the market in any noticeable manner.

On the same point, the coming months will prove interesting to see if they French government is going to stay true to a statement it came out with earlier last year when it announced it was keen to see non-French companies win PPP transactions.

As for the A65, this is not the best example of a French road financing as it is in a fairly provincial route that suffers congestion, but has poor future growth potential. And the construction element is not challenging.

However, the bankers are happy that the traffic flow is sufficient to repay the loans and the deal still stands alone as the largest one to have been project financed in the country.

The project at a glance

Project Name	A65 Motorway
Location	Running from Langon to Pau in south west France
Description	A 150km fast link between Langon and Pau
Sponsors	A'Lienor is a consortium of:  Eiffage - 65 per cent Sanef - 35 per cent
Operator	Sanef
Project Duration (Including construction)	55 years 4 years construction
Construction Stage	construction undertaken by two subsidiaries of the Eiffage Group: Eiffage TP Appia Grands Travaux
Total Project Value	€1.2bn (US\$1.57 bn)

Total equity	€230m (US\$300m)
Total senior debt	€980m (US\$1280m)
Senior debt breakdown	€935m senior debt (US\$1.2 bn) €45m VAT tranche (US\$59m)
Senior debt pricing	Euribor +110-120bp
Debt:equity ratio	80:20
Mandated lead arrangers	Fortis Helaba ING Natixis Grupo Santander
Bookrunners	Fortis ING Natixis Grupo Santander
Legal Adviser to sponsor	Ashurst
Financial Adviser to sponsor	Ixis Corporate and Investment Bank - a subsidiary of Natixis
Legal adviser to banks	White & Case
Legal adviser to government	Clifford Chance
Financial adviser to government	Depfa Bank
Date of financial close	26 January 2007

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