

# Douro Litoral toll road - Portugal

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Portugal has great potential and enthusiasm for project finance, but hesitancy due to frequent political changes the past six years has tempered a market that started with a bang, but evaporated quickly.

The trials and tribulations that have plagued the Portuguese roads sector in recent years have been well documented. As one government is axed, the next reverses the out-going party's decisions.

For now, the current Socialist government - led by Jose Socrates since 2005 - looks set to reform the transport infrastructure with a number of deals in the pipeline, these include:

- the new Lisbon airport, to be located in [Alcochete](#), 25km from the city centre and south of the Tagus River (location confirmed 10 January 2008) - €5 billion
- Tagus rail bridge - the city's third bridge over the river (part of a larger planned high speed rail link project running from Madrid to Lisbon)
- [Portuguese high speed rail project](#) - a new rail PPP programme which consists of six projects with a combined value of €8.5 billion

This year, the government will also launch 900km of new PPP roads in seven concessions to be developed by state-owned road operator Estradas de Portugal. Of that, about 550km will be financed through a toll system and the remainder will be provided on an availability basis.

Under the new concessions, private companies may also be awarded the maintenance of about 500km of existing roads.

The concessions include:

- Auto-estrada Transmontana
- Douro Interior
- Baixo Alentejo
- Baixo Tejo
- Auto-estrada do Centro
- Litoral Oeste

The concession programme also includes the [Marao tunnel concession](#) which has Brisa Autoestradas de Portugal and Somague vying for it and the Douro Litoral concession which was won by a Brisa and reached financial close on 11 January this year.

## A history of toll road concessions in Portugal

In 1996, the Portuguese government decided to launch a programme of road concessions with 16 public tenders

released for the design, construction and operation of 1,610km of new motorways (seven SCUTs and nine real toll road concessions).

The aim of the government was to maximise public interest by building new roads in a shorter period of time, at a lower cost and following an alternative procurement method.

Faced with limited public funds and realising the need for rapid expansion of its infrastructure, the country provided an illustrative model for toll road legislation. Private participation in road projects was made official in 1997 with the enactment of a Decree-Law.

The Decree designates a special agency with responsibility for overseeing a two stage procurement process where initial bidders are narrowed to two finalists which then negotiate the terms of the concession with the government and submit best and final offers.

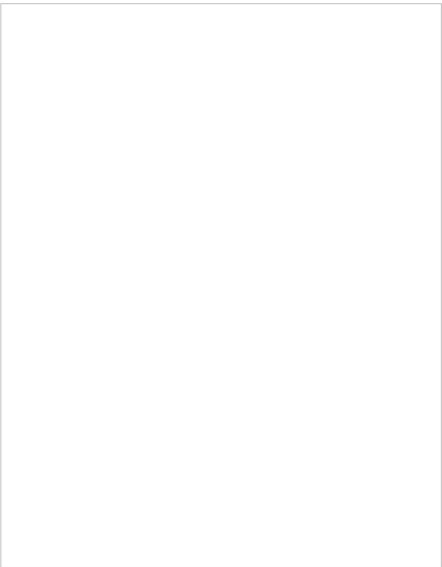
It allows for both real and shadow toll roads for which the government reimburses the concessionaire based on traffic volume. The concession is then awarded to a special purpose project company organised as a Sociedade Anonima, responsible for arranging financing, construction, and operation of the toll road.

Initially, partnerships between the public and private sector were implemented mainly in the transport sector (highways, railways, and tramways).

Reflecting their effectiveness in rapidly developing infrastructure assets and in improving the quality of services, they were welcomed by users and the public in general.

**Douro Litoral**

The project involves the DBFO of 127km of road from which 76.5km will be tolled under a long-term, real toll concession. The rest will consist of the widening, operation and maintenance of existing motorway stretches.



A tender was launched for the project in 2004 for a real toll, 30-year concession.

Brisa and Mota-Engil were the leaders of the two consortia making the final bids after Somague and Dragados were eliminated from the running in October 2006.

The remaining teams submitted BAFOs in October 2007, they comprise:

- Mota Engil and Banco Espirito Santo
- Auto-Estradas do Douro Litoral - Brisa, Teixeira Duarte, Alves Ribeiro, Construtora do Tâmega and Zagope

The Brisa team was officially awarded the concession in November 2007.

## Financing

Syndication of Brisa's financing for the €1.2 billion Douro Litoral concession in Portugal is expected to be launched in the coming weeks.

Financial close on the 27-year concession was reached on 11 January with four MLAs arranging the loan.

The MLAs and the amount they each contributed are:

- Banco Santander Totta - €370.3 million
- Caixa Banco de Investimento - €370.3 million
- Royal bank of Scotland - €370.3 million
- Millennium BCP - €90 million

The variable tenor debt package comprises a €372.5 million 24 year commercial tranche priced at 100bp during years 1-4 (construction), rising to 105bp in year five and then 5bp per year until maturity.

The commercial lenders have also guaranteed a €350 million 24-year EIB tranche, a €285 million equity bridge priced at 50bp and an eight year €120 million medium-term tranche also priced at 50bp.

A €26 million 13-year liquidity facility has also been put in place and a bank guaranteed (bond performance) of €30 million.

The debt:equity ratio is 64:36.

Banco Santander Totta, Caixa Banco de Investimento and Royal bank of Scotland will be acting as bookrunners once syndication has been launched, Millennium BCP will not be taking part.

Millennium BCP acted as financial adviser to the sponsors with Vieira de Almeida & Associados providing legal advice.

Uría Menéndez acted as legal adviser to the banks with KPMG acting as financial adviser to the government.

Capita Symonds worked on traffic and technical with Jardine Lloyd Thompson on insurance.

## Conclusion

Portugal has the boldest shadow toll program of any European nation.

While previous shadow toll projects involved upgrade to existing facilities - where historic traffic levels were well documented, several of the Portuguese shadow toll corridors cross areas where roads were either nonexistent or in very poor condition.

The risks and sheer magnitude of the Portuguese shadow toll program have tested the shadow toll concept.

Junta Autónoma de Estradas (JAE - the Portuguese highway agency) is hoping to convert all of its shadow toll corridors to real toll operations, but it is not clear if there will be political support for this controversial move. With relatively limited traffic volumes on several of its shadow toll corridors, it is not clear that toll revenues would be able to meet debt servicing needs.

Although the shadow toll approach generated significant interest in several European countries when it was first introduced in the mid 1990s, very few new European partnership projects are currently being proposed as shadow toll arrangements.

While there may be instances where the concept is appropriate, it seems unlikely that major European shadow toll

initiatives on the scale of the Portuguese program will be proposed.

The project at a glance

Project Name	Douro Litoral toll road
Location	Portugal
Description	The DBFO of 127km of road from which 76.5km will be tolled under a long-term, real toll concession. The rest will consist of the widening, operation and maintenance of existing motorway stretches
Sponsors	<b>Auto-Estradas do Douro Litoral:</b> Brisa - 55 per cent Teixeira Duarte - 18 per cent Alves Ribeiro - 9 per cent Construtora do Tâmega - 9 per cent Zagope - 9 per cent
Project Duration	27 years
Total equity	€285 million
Total senior debt	€ 1.2 billion (covering construction and operation costs, interest during construction and an equity bridge)
Senior debt breakdown	<b>tranche A</b> - €372.5 million <b>tranche B</b> (granted by Brisa) - €120 million EIB (guaranteed) - €350 million equity bridge - (guaranteed) €285 million liquidity facility - €26 million bank guarantee (performance bond) - €30 million
Tranche A and EIB tenor	24 years
Senior debt pricing	100bp rising to 125bp
Debt:equity ratio	64:36
Mandated lead arrangers	Royal Bank of Scotland (€370.3 million) Grupo Santander (€370.3 million) Caixa Banco de Investimento (€370.3 million) Millennium BCP (€90 million)
Legal Adviser to sponsor	Vieira de Almeida & Associados
Financial Adviser to sponsor	Millennium BCP
Legal adviser to banks	Uría Menéndez
Financial adviser to government	KPMG
Technical & traffic adviser	Capita Symonds
Insurance	Jardine Lloyd Thompson
Date of financial close	11 January 2008

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