

Market Update

Review of the European PPP Market in 2010

Headlines

- The European PPP market bounced back in 2010
- 112 PPP transactions reached financial close for an aggregate value in excess of EUR 18 billion
- The UK remains the most active market in terms of number of deals but Spain has become the largest market in value terms
- The market appears to be returning to large PPPs
- For the first time, non-transport sectors account for more than half of the PPP market value
- Overall, debt tenors are continuing to lengthen and margins are slowly reducing

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This publication has been prepared to contribute to and stimulate discussions on public-private partnerships (PPPs) as well as to foster the diffusion of best practices in this area.

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Data Collection and Methodology

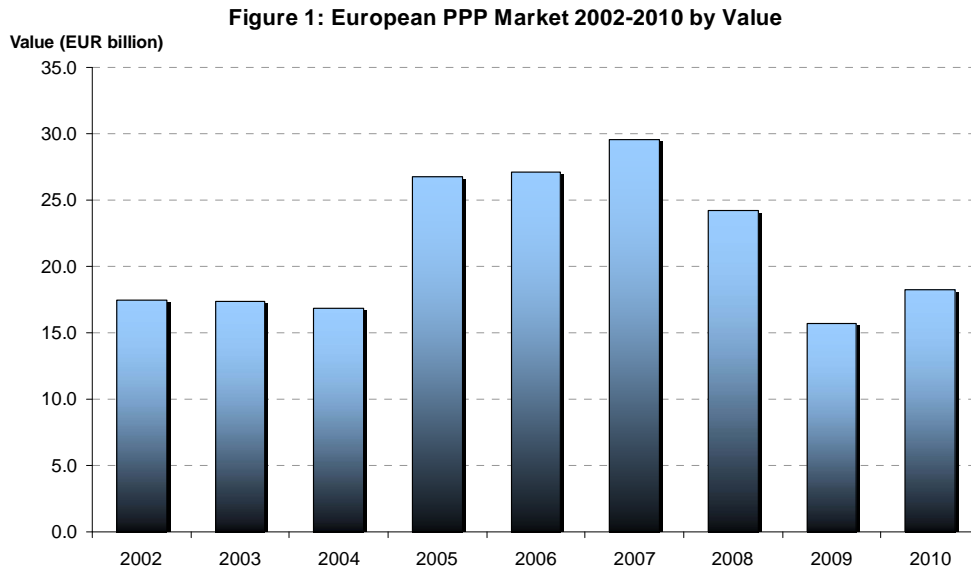
The data used in this paper is an EPEC elaboration of information collected from a variety of sources, in particular Dealogic ProjectWare, InfraNews and Infrastructure Journal, cross-checked where appropriate against EIB's own project files. The list of PPP projects forming the database of this paper has been validated, where possible, by EPEC members. The data however remains incomplete. As a consequence, the conclusions drawn in this report should be handled with caution.

The data covers PPP transactions financed through *project financing* and that reached financial close over the period from 1 January 2010 to 31 December 2010. It does not include projects with a capital value of less than EUR 5 million.

The project values referred to in this paper represent the project funding requirements at the time of financial close (i.e. the sum of debt and equity).

1. GLOBAL VIEW

- In 2010, the **value of PPP transactions** reaching financial close in the European market totalled EUR 18.3 billion. As Figure 1 below shows, 2010 marks a clear improvement on 2009 and breaks with the declining trend observed since 2007. The market value in 2010, whilst well below the record years (2005, 2006 and 2007), has returned to its 2002-2004 level.

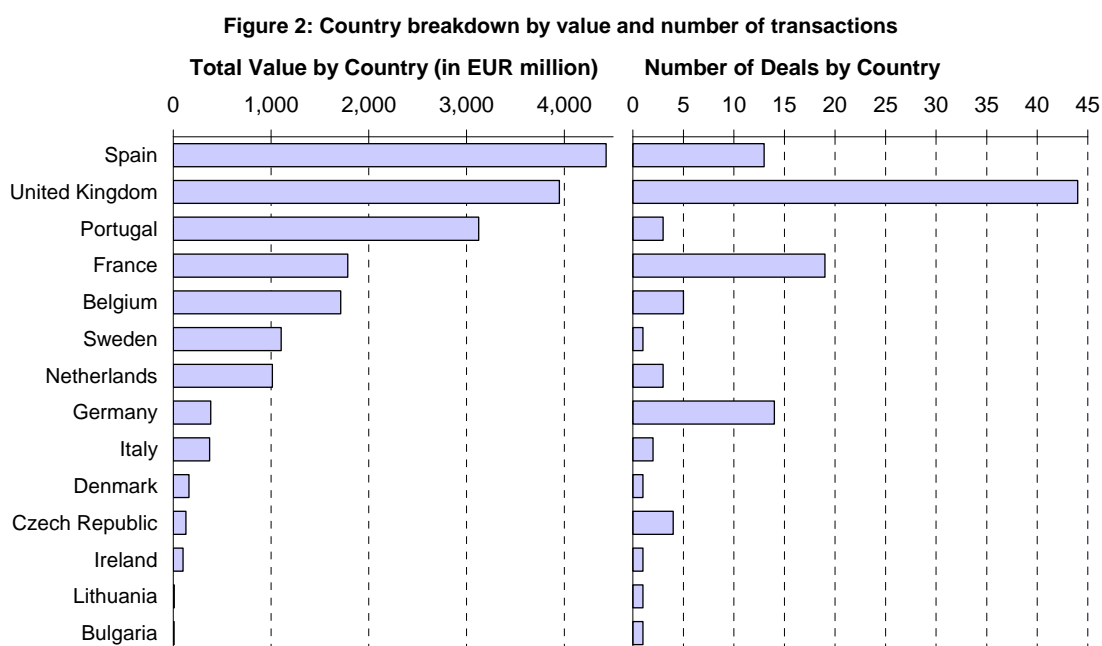


- 112 **PPP transactions reached financial close** in 2010. This is in line with the 118 deals of the previous year.
- The **average transaction size** increased considerably in 2010: EUR 163 million compared to EUR 91 million in 2009. However, the 2010 average is well below the levels observed in 2007 and 2008.
- The increase in the average transaction size results from a **large number of deals exceeding EUR 500 million** in value. These include:
 - the Flemish Schools in Belgium;
 - the High-Speed Rail Poceirao to Caia in Portugal;
 - the Pinhal Interior Shadow Toll Road in Portugal;
 - the Barcelona Metro Lines in Spain;
 - the GSM-R Rail Communication project in France;
 - the A15 Maasvlakte-Vaanplein in the Netherlands;
 - the New Karolinska Solna University Hospital in Sweden; and
 - the Southmead Hospital in the UK.
- The role of **governments and public international financial institutions** is increasing as European PPPs rely more and more on their funding and financial support.

2. DETAILED ANALYSIS

Country breakdown

- 44 deals reached financial close in the UK in 2010. In terms of number of transactions, the **UK remains by far the most active market** across the EU followed by France (19 deals), Germany (14) and Spain (13). The four countries together accounted for 80% of all European PPPs in 2010.
- As Figure 2 below shows, **Spain was the largest PPP country in value terms**, overtaking the UK for the first time. Portugal ranked third, thanks to two very large projects. These three countries accounted for 63% of the overall market value.
- In 2010, 6 deals reached financial close in **Eastern Europe**, compared to 2 in 2009. However, the aggregate value of the transactions concluded in 2010 was relatively low (EUR 150 million compared to over EUR 2 billion in 2009).



Large PPPs

- 9% of the deals signed in 2010 were of a value in excess of EUR 500 million (“large PPPs”). **Large PPPs** accounted for more than 55% of the global EU value.
- Figure 3 (in annex) shows that the **geographic mix** between small and large PPPs varies significantly. In 2010, the proportion of small PPP deals proved very

high in countries such as Germany, the UK and France. In contrast, Portugal, Sweden and Belgium witnessed almost exclusively large PPP transactions.

- Few large PPPs closed in the **UK** in 2010. The average PPP deal size was EUR 90 million compared to EUR 156 million in 2009.
- Excluding Sweden (where a single transaction was closed), **Portugal** recorded the highest average deal size. Two of its three transactions closed for a funding requirement of approximately EUR 3 billion in aggregate.
- Several relatively large transport deals also closed in **Spain**. For instance, the three stretches of the Barcelona Metro Line 9 had an aggregate funding requirement of around EUR 2.5 billion.

Sector breakdown

- Figure 4 (in annex) shows that “**transport**” accounted for just under 50% of the European PPP market value in 2010. For the first time¹, **non-transport sectors** represented more than half of the PPP market value.
- The share of “**education and healthcare**” transactions increased to 35% of the PPP market value and 51% of the number of deals. Three very large transactions (i.e. the Flemish Schools PPP, the New Karolinska Solna University Hospital in Sweden and the Southmead Hospital PFI in the UK) closed for a combined value of EUR 3.3 billion.
- A significant number of “**general public services**” projects were concluded: 18 deals for leisure and sport centres, libraries, street-lighting, a communication centre, an exhibition centre and a zoo reached financial close, accounting for 16% of the total number of PPP transactions.
- France accounted for all the PPP transactions closed in the “**telecoms**” sector. The EUR 660 million GSM-R Rail Communications project was the largest transaction in the sector.
- Seven “**public order and safety**” deals (i.e. prisons, law courts, police and fire stations) closed for a value of EUR 530 million in aggregate, confirming the increasing trend observed since 2005. Before that date, no such deal had closed outside of the UK.

¹ Since 2002, the start of the comparable data series collected by EPEC.

3. FINANCING TERMS

Banks seem to progressively return to PPP assets. Loan tenors are increasing and margins are slowly easing. Soft “mini perm” structures are less frequent.²

Commercial debt tenors

- The average tenor of senior debt financings³ **exceeded 20 years** in 2010. Half of the PPP transactions had debt tenors in excess of **25 years**. Some deals in Sweden, Belgium, UK, Spain and France had loan tenors in excess of 27 years.
- Figure 5 (in annex) highlights **important country differences**. Average loan tenors appear to be the shortest in Italy (where only two projects reached financial close).
- In France one third of the deals closed with a tenor comprised between 10 and 15 years (although this appears to be the result of a number of relatively short **PPP contract durations** rather than banking market constraints).

Commercial debt pricing

- Our partial data sample across the EU indicates that:
 - the **average** loan margin was around 240 bps for the construction phase and around 275 bps approaching maturity;
 - the **lowest and highest** margins for construction phase stood respectively at 180 bps and 425 bps.
- Margins often step down after construction probably reflecting reduced project risks. However, in many deals, margins subsequently increase probably reflecting financing risks at longer tenors.
- The loan margins for construction risk observed in **the UK** ranged from 220 bps to 260 bps in the first three quarters of 2010. They lowered to 200 - 240 bps in the last quarter of the year.
- Road projects in **Portugal and Spain** were priced at 275 bps during construction. The first high speed rail PPP project in Portugal was priced at 300 bps during construction. The construction risk of one of the stretches of Barcelona Metro Line 9 was priced at 340 bps.

² As the quality of data on financing terms is weak in places, these conclusions should be treated with caution.

³ Non-weighted average calculated on projects for which the maturity data is available.

4. NOTEWORTHY TRANSACTIONS

The following noteworthy transactions reached financial close in 2010:

- The **GSM-R Rail Communications** project in France. The contract covers the building, operation and maintenance of a new train-to-surface radio system to be rolled out over 14,000 km of conventional and high-speed railway lines in the country. The EUR 660 million project is the largest PPP transaction to reach financial close under the “Contrat de Partenariat” framework since its inception in France in 2004.
- The **Flemish schools** project closed in June 2010. This EUR 1.5 billion project concerns the refurbishing, construction and redevelopment of up to 211 primary and secondary schools in Flanders.
- The EUR 160 million **Vincennes Zoo** (France) closed in February and is the world’s first zoo PPP project.
- Portugal closed its first high speed rail PPP project in May 2010 (the 180 km line between **Poceirao to Caia**). The EUR 1.6 billion deal is the largest PPP project in the country’s history.
- Two **broadband telecommunication** projects carried out through PPP arrangements reached financial close in France in 2010.

ANNEXES

Figure 3 - Incidence of large PPP projects in 2010

Value EUR million

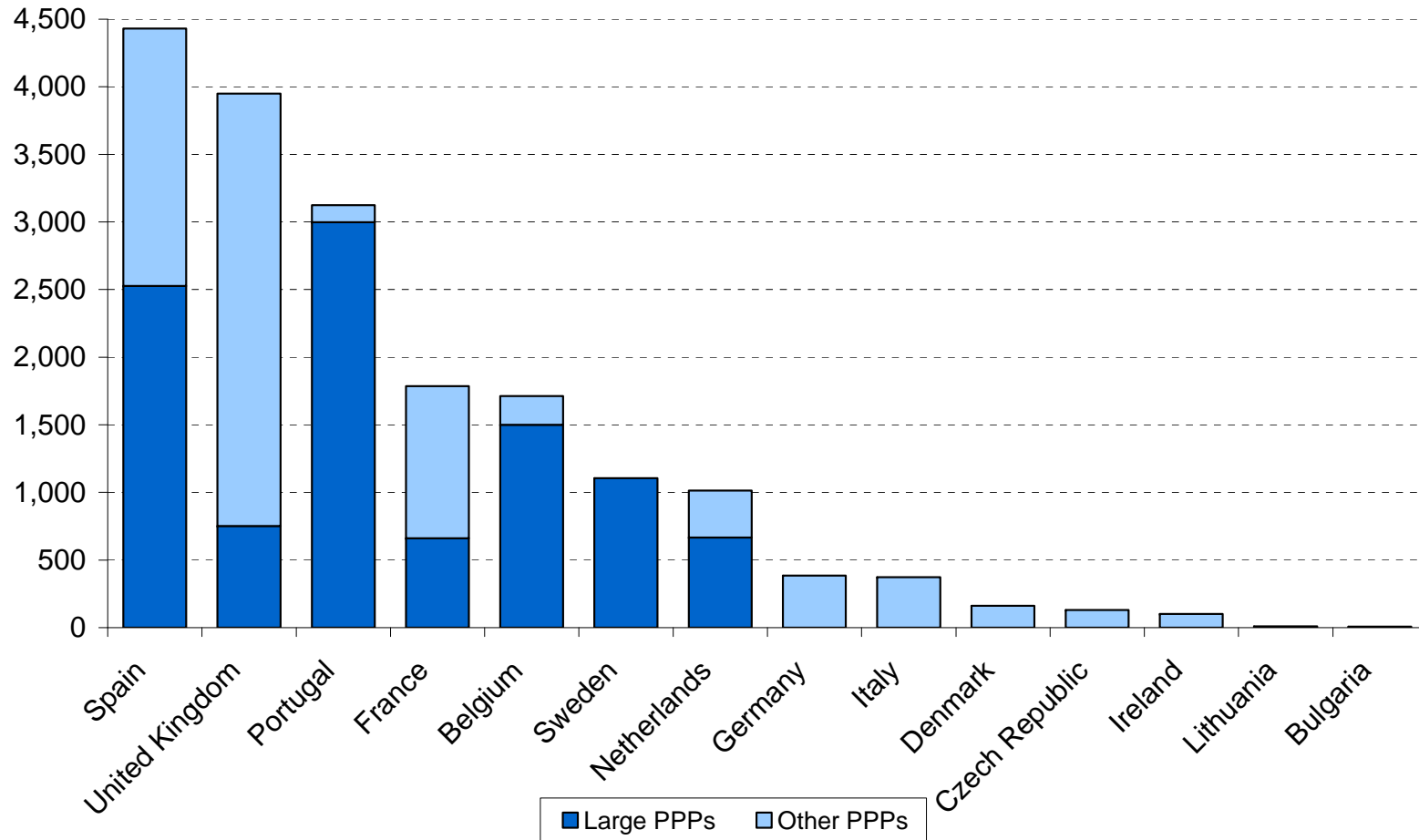


Figure 4 – Sector breakdown in 2010

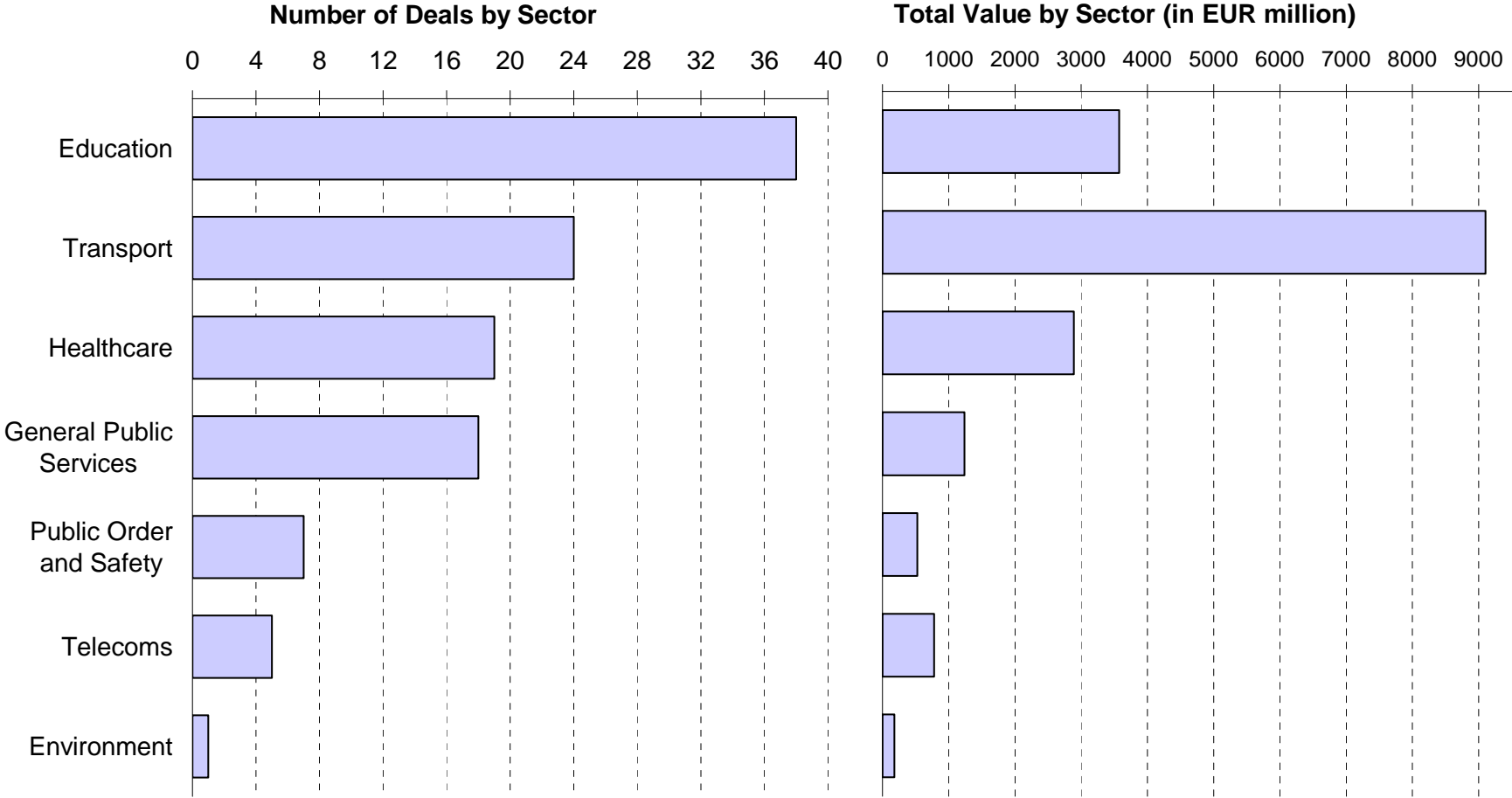


Figure 5 – Loan tenors in 2010

