French PPP market : lessons & prospects

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A-Strong progress to date

B-But limited visibility…

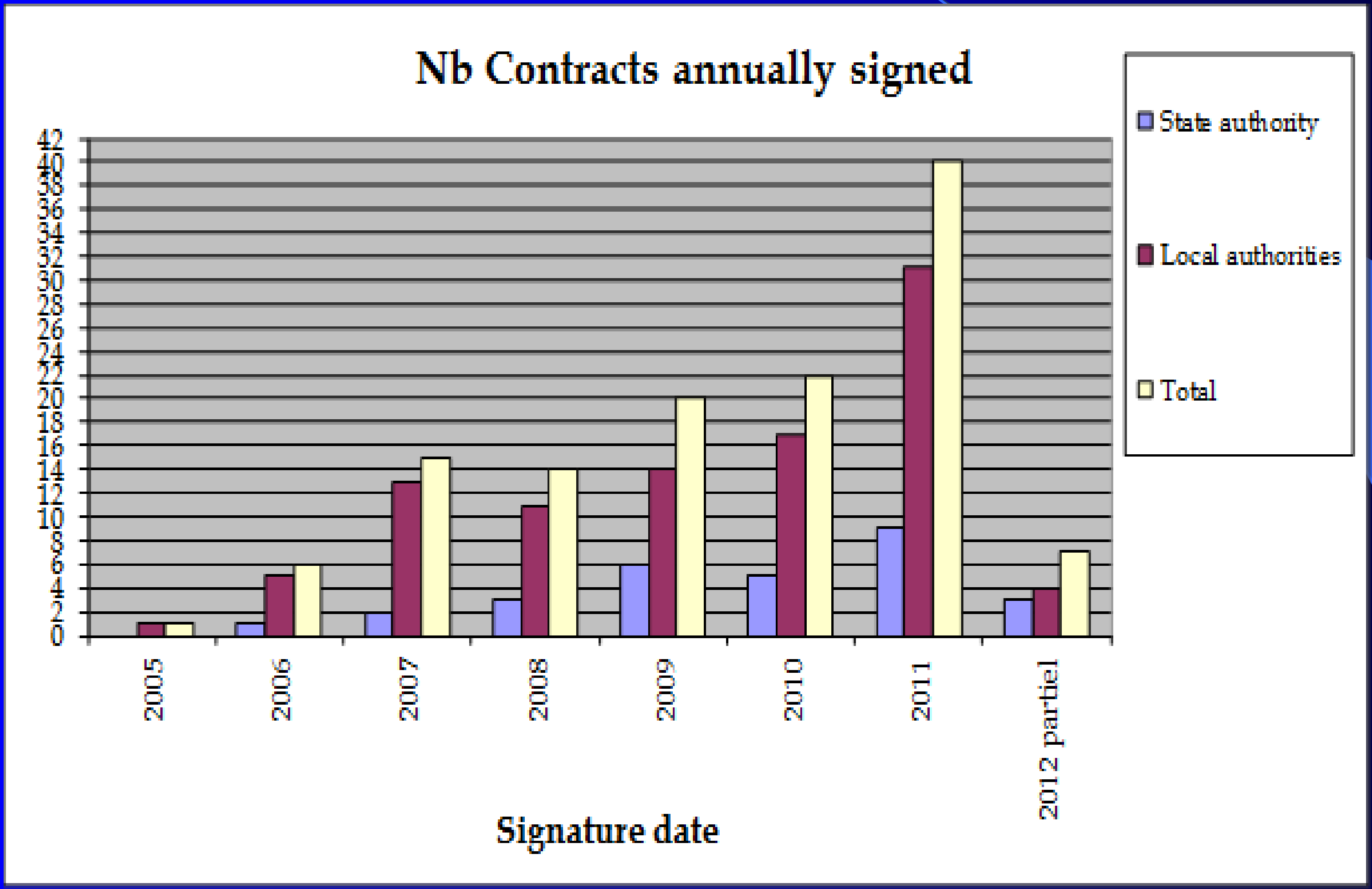
C-Linked to new challenges

A-Strong progress to date

2011 : a decisive year for the French PPP market

- A great leap forward in investment flows generated by new PPPs signed : from 2bn in 2010 to 15bn€ in 2011
- Cumulative amount x5 (from 3.5 to over18bn€)
- Overall number of projects launched in 7 yrs in excess of 400 …

Development of market (new PPP projects signed per year)



Main projects signed since 2011 (by CAPEX)

Central Gov't level:

1 Concession

- HSL Tours-Bordeaux « Sud Europe Atlantique » (8 bn€)

And 4 PPPs:

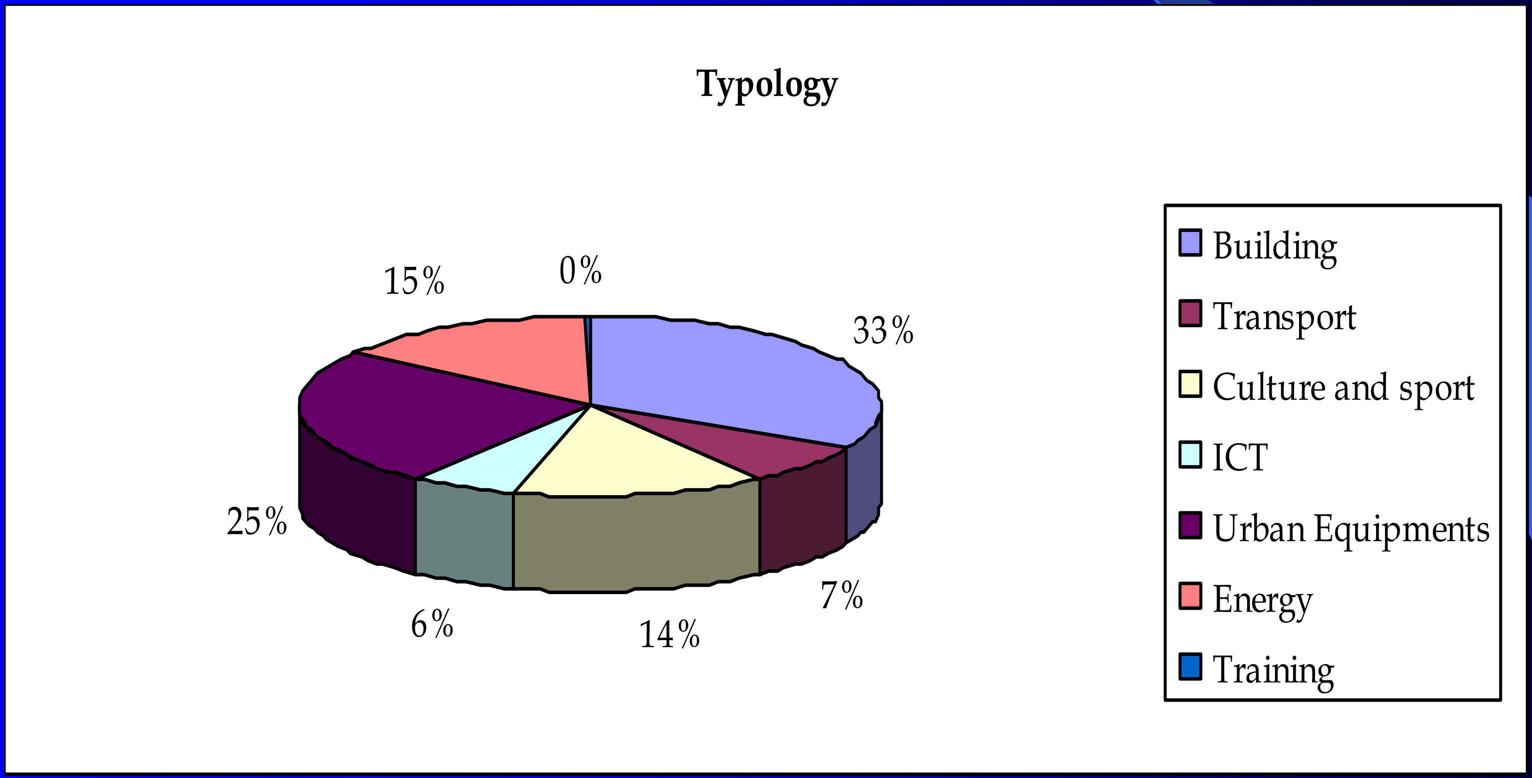
- Ministry of Defense HQ at Paris-Balard (1bn)
- Paris new Court of Justice (1bn)
- HSL LeMans-Rennes « Bretagne -Pays de Loire » (3.5 bn€)
- EcoTaxe (vignette on truck traffic) (0.7bn)

Local Gov't level

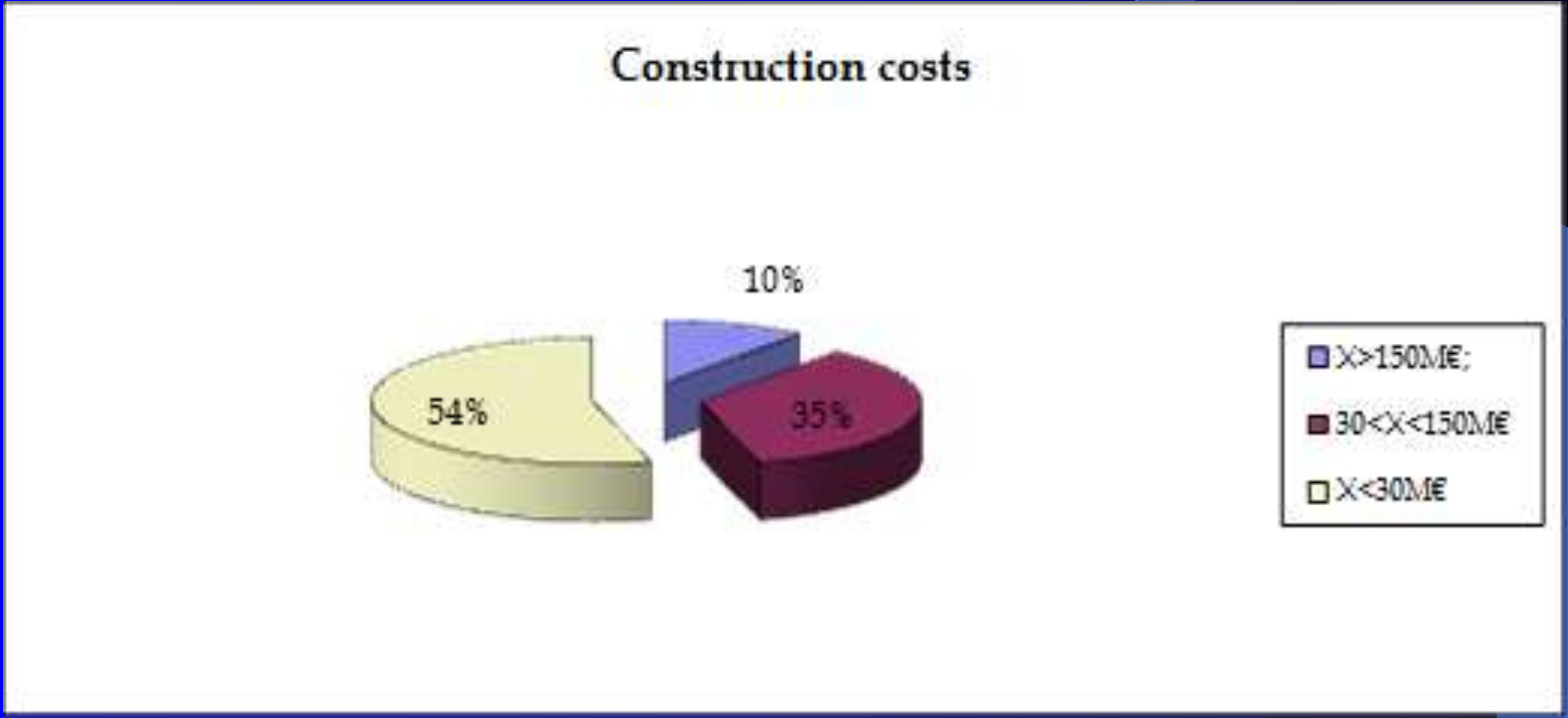
- Marseille stadium (250M€)
- Nice stadium(250M€)
- Bordeaux stadium (170M€)

Breakdown of all projects per sector

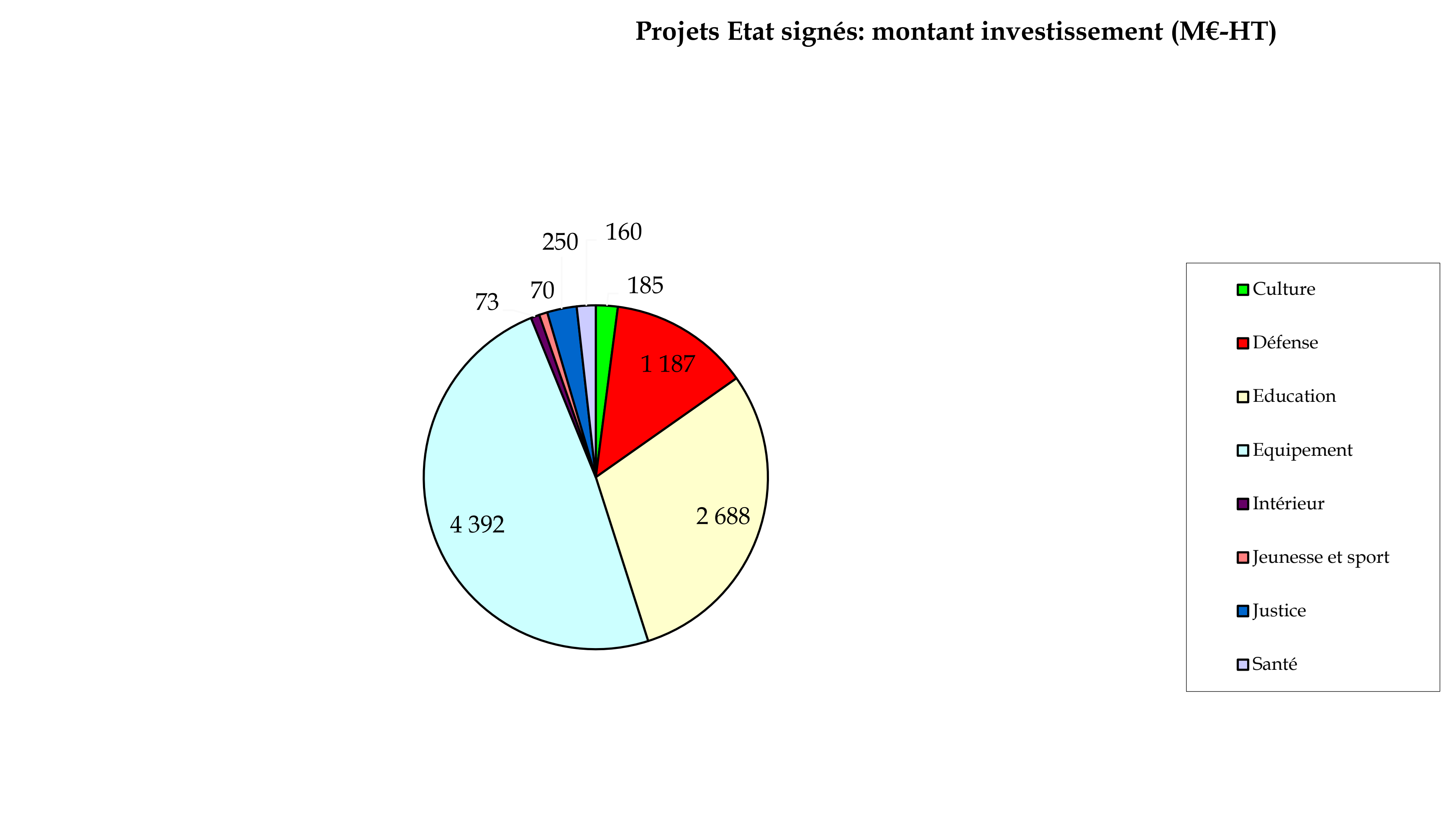
(Availability-payment PPPs only)



Assessment of PPP – March 2012 Unit investment costs/project



State projects' investment breakdown by ministry (in M€-Jan 2012)



First encouraging assessment for PPPs

- **415 projects launched** (cumulative)
- **100** in process of attribution …
- **140 projects attributed** (incl 110 for local govts) for an aggregate amount of investment of 15 bn€
- **170 favorable opinions** signed by MAPPP
- Large number of admin. Buildings & urban planning projects of limited size (street lighting, road works…) but

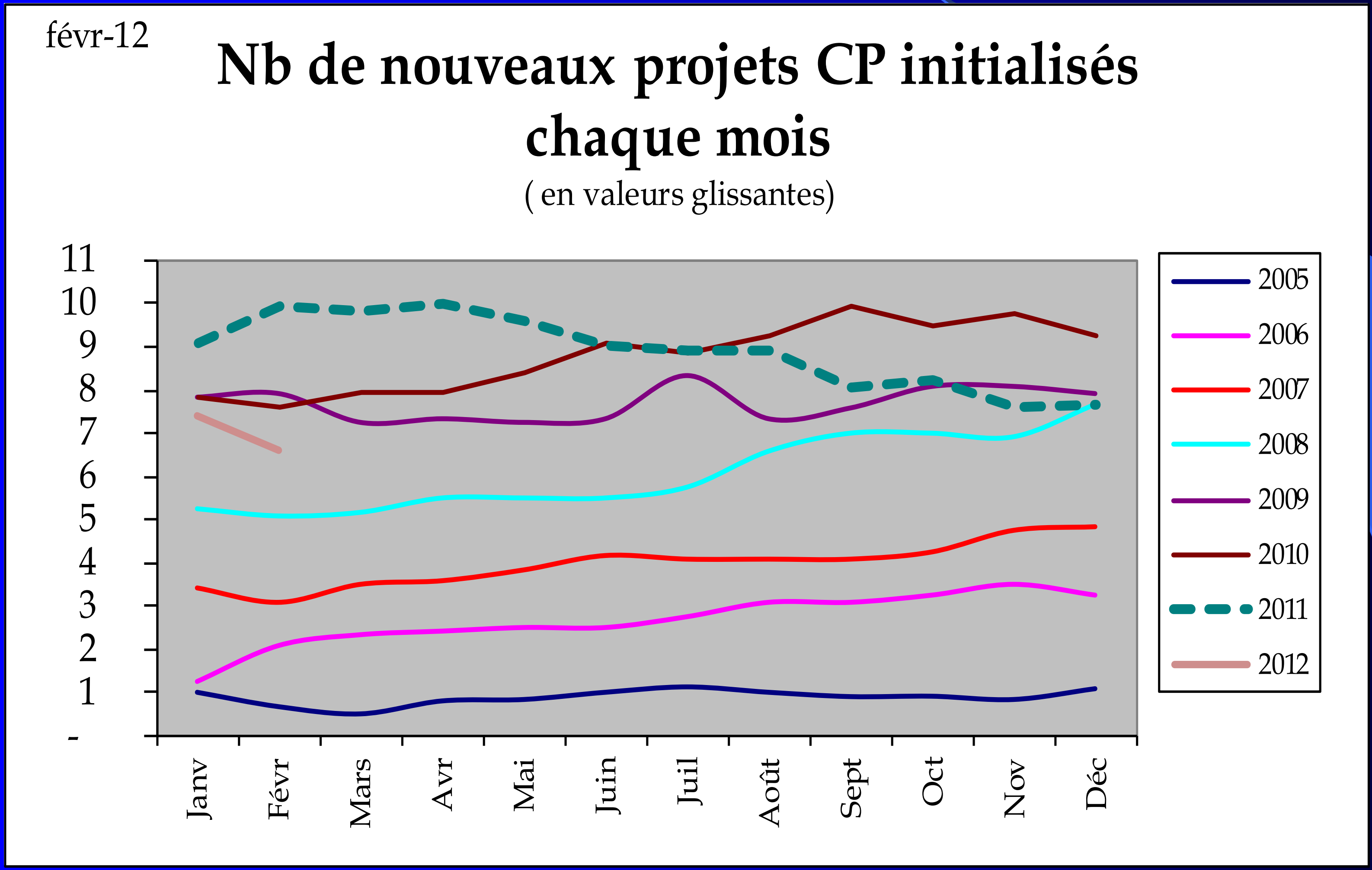
  lately surge of projects in complex & transportation infras
- 90% of project equipment delivered on time

⇒ **First feedback promising quality- & quantity-wise, but limited visibility on future deal flow**

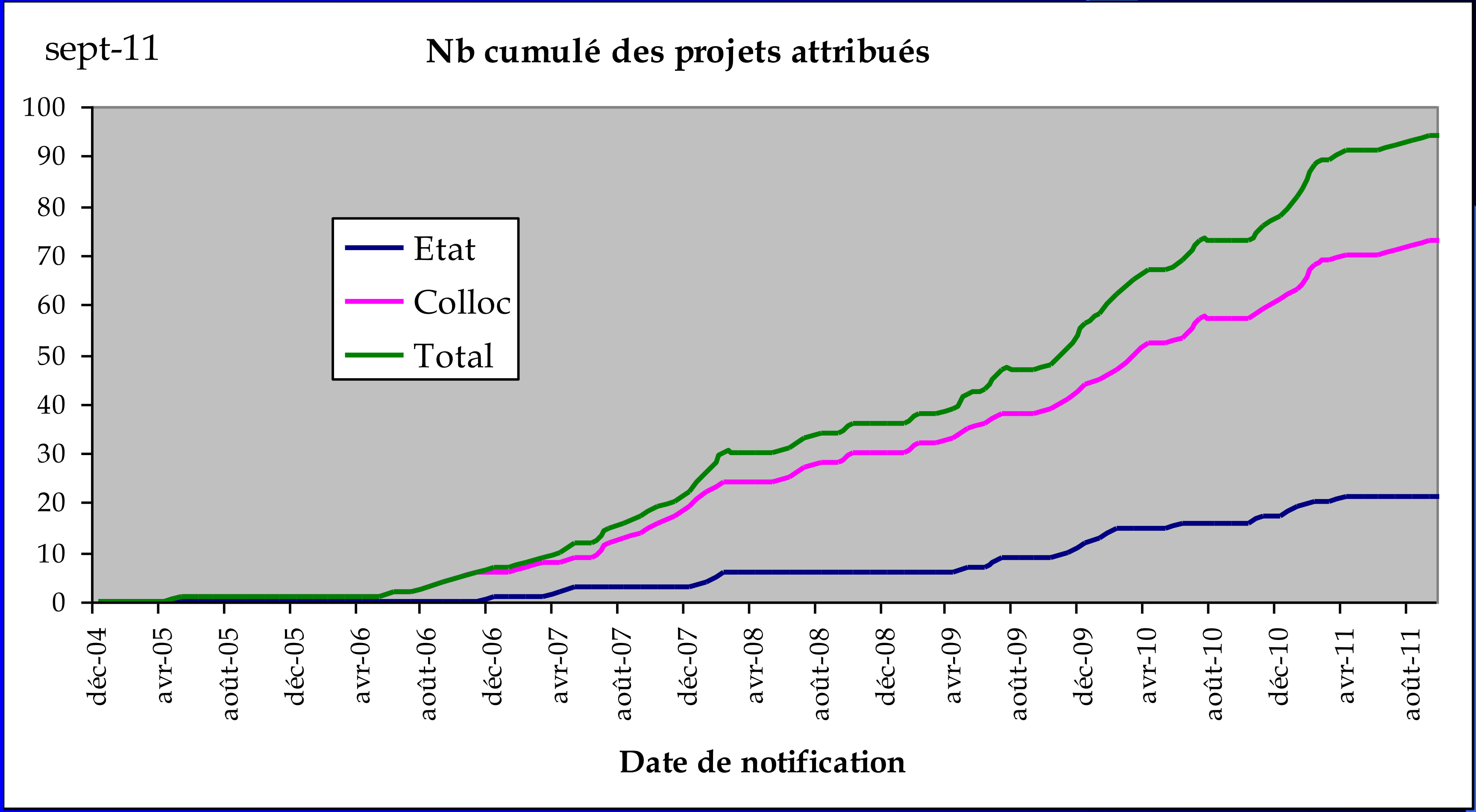
B-But limited visibility for 2012 & beyond

- Handful of big-ticket projects signed over last months, but overall number of signed Projects has levelled off in 2011…
- While less new projects are launched upstream
- And clouded economic environment deters investment by potential public sector candidates for PPPs

Development of market (new PPP projects initiated each month)



Market expansion plateauing for newly attributed PPPs…



Beyond the crisis:

-increasing worries about LT adaptability & sustainability of PPPs

-First projects gone wrong (Evry Hospital: 320M€)

-Complexity management both on public and private sides (cumbersome procedures & co-financing agreements,..)

-Off-balance sheet constraint in view of evolving IPSAS & Eurostat criteria

C-Linked to new Challenges ahead

1 Budgetary sustainability
2 Financing issues
3 Complexity management

1-Budgetary sustainability..?

1. Fiscal constraint stronger than ever at central level
2. National projects depend on local govt's participation , but departements & regions more reluctant to share the burden
3. Projected Fiscal base of local procuring authorities revised downwards
4. Global lifecycle costing in PPPs makes real cost over time appear more clearly

=> More selectivity in new projects

2-Financing issues: a lingering crisis impact

- French market for big PPP projects impacted in since 2008-9 by the financial crisis and the corresponding Credit crunch :
  - -Reduced banking capacities
  - -Club deals to replace the syndication market
  - -Increased cost of funding & Reduced tenor
  - -fewer active players on financial side

=> Several big-ticket PPP projects in the pipe at risk of being deferred or cancelled for unavailability of financing at a time when public investment retained as priority tool to boost economy

2.1Temporarily mitigated by Economic stimulus package for 2009-2010

- Boosting the economy thru Investment in Infras (public & private) => Support priority PPP projects by facilitating financing

3 main measures adopted :

1. **10bn€ State Guarantee scheme (Budget law for 2009)**
2. **8 bn€ Co-funding from Caisse des dépôts**
3. **Adjustable financing terms (no longer need to fully underwrite a final bid)**

+Partial upfront public funding of PPP projects

2.2 New financing equation for PPP project debt in 2012:

- **Banks MIA?**

  Latest crisis in Europe+ new financial regulations (Basel 3…) => how to make up for missing banks?

- **Alternatives:**

  Develop LT solutions for infrastructure financing by both

  -Public funding: through AFITF

  -and private funding: equity, mezzanine debt & infra debt funds

  +find new sources of LT financing on capital markets (through securitization…) to complement bank credits;

2.3 Bond financing?

- Aim: Attract large volume of LT financings for PPPs through bond solutions, & improve competition on financing costs
- Based on the assets quality after completion of works & implementation of « Dailly » guarantee
- Working Group (companies, banks, institutional investors …) managed by MAPPP & French Treasury in 2011
- Technical Aspects & due diligences performed (competition rules, Solvency II, Basel 3..) by June 2011
- Insurance code revised in Oct 2011 to allow for investment by life-insurance companies

2.4 Envisioned scheme

- Creation of a FCT (Securitisation Fund)
  - Assets = irrevocable debt over a public structure (cession Dailly acceptée) bought back from banks
  - Liabilities = Bonds issued

- 2 possible intervention modes :

  - Refinancing brownfield PPPs (after construction stage)

  - Financing greenfield PPPs (=> adapt procedures)

- Reserved for State & central-level public agencies' large PPPs => quasi-sovereign risk for bond-holders
- First market –test by H-2 2012
- Articulation with EU Project bonds?

3- Complexity

- Latest « big » deals have been highly complex: treatment of architecture/design, number of technical experts/providers, different funding sources => intercreditor issues,
- Ex: Tours-Bordeaux HSL: A highly complex deal 10 banks + EIB (both as a senior lender and as a guarantor through LGTT)+ CDC (both as an equity investor and as a fonds d'epargne lender with 750M€) + French state (and RFF) as guarantors + 55 local gov'ts as providers of subsidies
- Overall: 4.1Bn€ of public subsidies + 3.8Bn€ private (0.8 equity+3 debt, incl. State guarantee: 1.06Bn for commercial banks & 0.4 for EIB)
- At issue: Cost of long protracted procedures for bidders

Prospects 2012 & beyond

Identified potential projects = 50 bn€ over 10-15 years (6 to 8% of total public investment): Grenelle Environnement, Plan Numerique, Plan Campus, Grand Paris..

- Financing issues: half of total for big projects to be financed by private sector, rest by public subsidies upfront+CDC)
- Need for better pipeline programming & regular dealflow to attract compétition
- Other issues (legal, procedural…) : secondary
- \+ Political issues???

Long term impact of the crisis and the PPP paradox :

Against:

- Financing crisis increasing the odds against PPP projects
- Greater selectivity in projects due to debt & deficit

But:

- Eager contractors & operators
- New emphasis on sustainable development
- Need for increased budget visibility in time of growing constraint on public finances

=> may drive recourse to public-private partnerships :

PPP= stable or growing share of a declining public investment ?

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