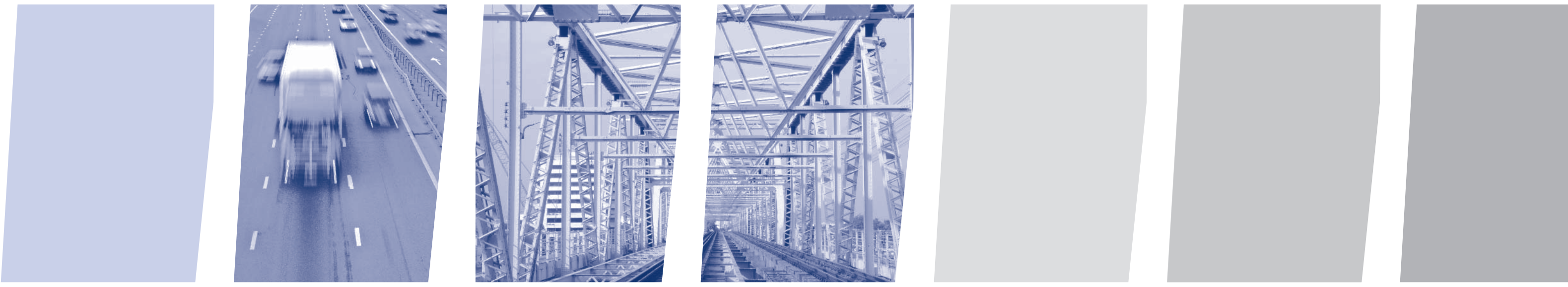

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Market Update

Review of the European PPP Market in 2013

Headlines

- The European PPP market showed signs of improvements in 2013
- 80 PPP transactions reached financial close for an aggregate value of EUR 16.3 billion
- The UK was the most active market by both number of projects and value
- 14 countries closed at least one PPP project, significantly more than in 2012
- The most active sectors were transport (by value) and education (by number)
- Over 90% of the transactions closed were authority-pay PPPs
- 2013 saw a growing role for institutional investors (e.g. insurance companies, pension funds) as providers of debt to PPPs

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Terms of Use of this Publication

Data Collection and Methodology

The data used in this publication is an EPEC aggregation of information collected from a variety of sources, in particular Dealogic ProjectWare, InfraNews, Infrastructure Journal and Inspiratia, cross-checked, where appropriate, against the EIB's own project files. The list of PPP projects forming the dataset has been reviewed, where possible, by EPEC members. The data therefore has its limitations and, as a consequence, the findings of this publication should be treated with caution.

This publication deals with:

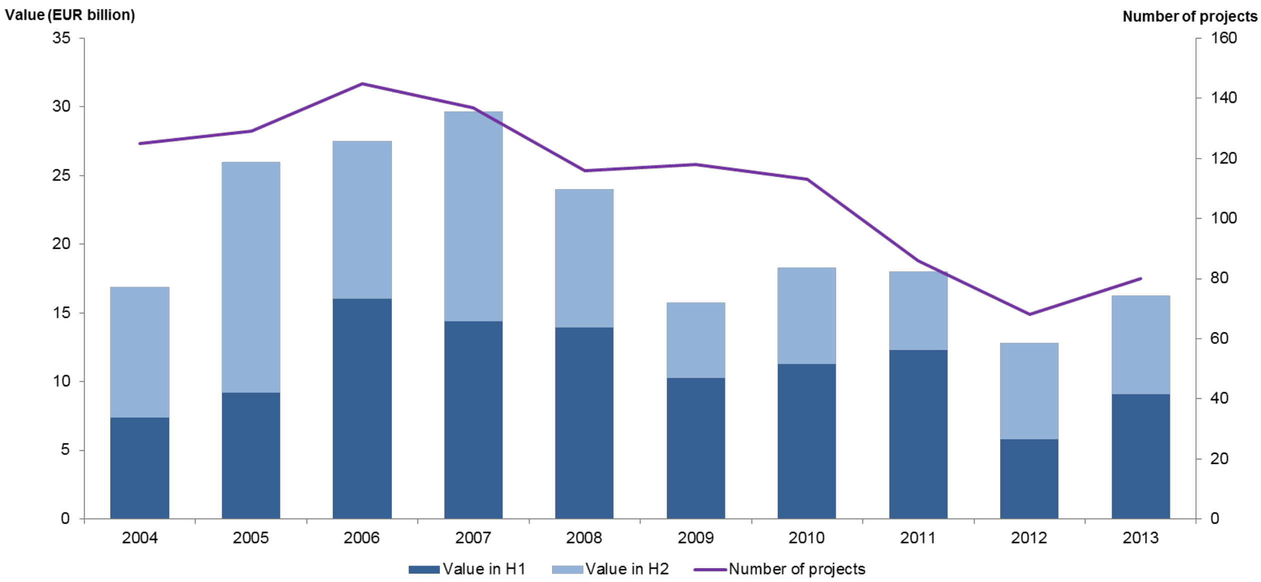
- PPP transactions in the EU;
- transactions of a design-build-finance-operate (DBFO) nature or a design-build-finance-maintain (DBFM) nature or concession arrangements which feature a construction element, the provision of a public service and a genuine risk sharing between the public and the private sector;
- transactions utilising 'project finance' and which reached financial close in the year; and
- transactions for a value of at least EUR 10 million.

The project values quoted in this publication refer to the projects' external funding requirements at the time of financial close (i.e. the sum of debt and equity) and exclude public capital contributions. The external funding requirement of a project can be significantly different to its capital investment cost.

1. OVERVIEW

– In 2013, **the aggregate value** of PPP transactions which reached financial close in the **European market**[1] totalled **EUR 16.3 billion**, a 27% increase over 2012 (EUR 12.8 billion).

Figure 1: European PPP Market 2004-2013 by Value and Number of Projects



– **80 PPP transactions** reached financial close, significantly more than the 68 recorded for 2012.

– The **average transaction size increased** to reach EUR 203 million (EUR 188 million in 2012).

– **Six large transactions**[2] **closed**, compared to five the previous year. Their aggregate value amounted to EUR 8.6 billion, which represented more than half of the total market volume. The large transactions reaching financial close in 2013 were:[3]
  – the BreBeMi motorway (EUR 2.3 billion) in Italy;
  – the Thameslink rolling stock (EUR 1.9 billion) in the UK;
  – the Milan eastern ring road (EUR 1.8 billion) in Italy;
  – phase 1 of the Gebze-Izmir road (EUR 1.1 billion) in Turkey;
  – the A1/A6 Schiphol-Amsterdam-Almere motorway (EUR 1 billion) in the Netherlands; and
  – the Royal Liverpool Hospital (EUR 509 million) in the UK.

– Over **90%** of the transactions closed were **authority-pay PPPs** (e.g. availability payments). Only six projects involved user payments or the transfer of demand/traffic risk.

1 Defined as EU-28, countries of the Western Balkans and Turkey.

2 Defined as deals exceeding EUR 500 million in value.

3 A more detailed country breakdown is available in Annex 1.

2. COUNTRY BREAKDOWN

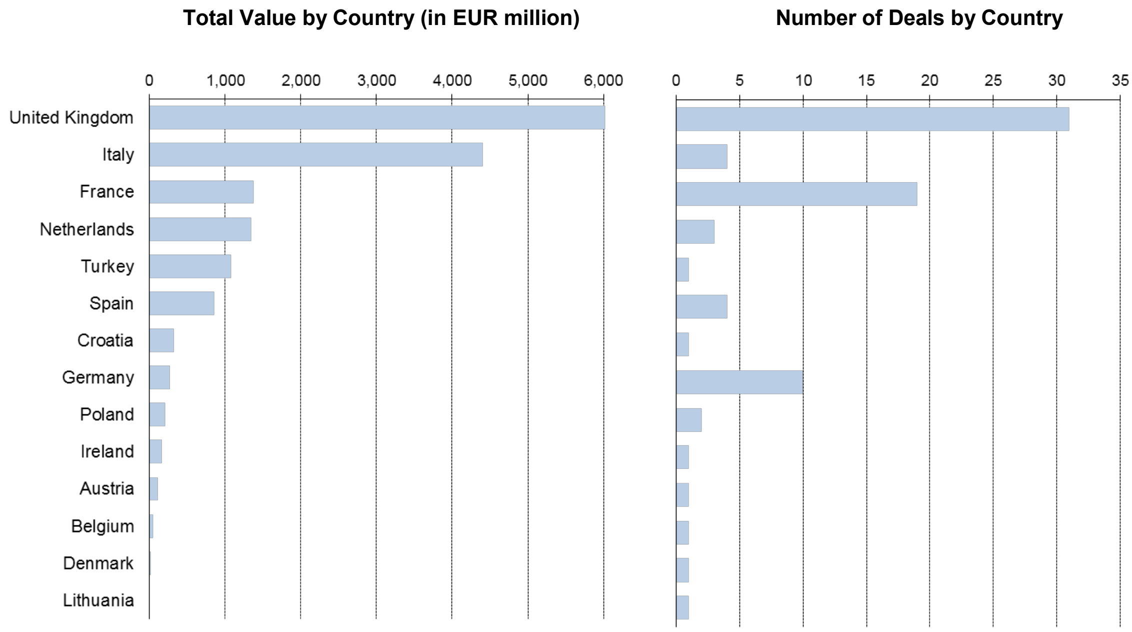
– As Figure 2 shows, the **UK remained the largest PPP market** in Europe both in terms of value and number of projects. 31 transactions closed (compared to 26 in 2012) for a value of about EUR 6 billion (EUR 5.6 billion in 2012).

– In value terms, **Italy was the second largest PPP market** (EUR 4.4 billion). Two very large projects accounted for the vast majority of the Italian PPP market by value.

– With regard to the number of transactions closed, the UK was followed by **France with 19 deals** (22 in 2012) and **Germany with 10 transactions** of a relatively small size (6 in 2012).

– In 2013, **14 countries closed at least one PPP transaction**, a significant increase over the previous year (10 countries). Portugal dropped out of the European PPP market, while Austria, Lithuania and Poland returned after a few years of absence.

Figure 2: Country Breakdown by Value and Number of Transactions



3. SECTOR BREAKDOWN

– As shown in Figure 3, the **transport sector** remains the most active in value terms. With EUR 9.6 billion, the sector represents more than a half the total market value. In addition, five out of the six large projects closed in 2013 were in the transport sector.

– The **environment** sector witnessed significant activity in 2013. 13 transactions closed (compared to 4 in 2012) for a total value of EUR 2.3 billion (EUR 651 million in 2012). In line with the last two years, most of the PPPs in the environment sector were in the UK (10 transactions in 2013).

– The **healthcare** sector was the fastest growing major sector in 2013 in value terms. 12 projects reached financial close in 2013 worth an aggregate value of EUR 1.5 billion (EUR 382 million in 2012).

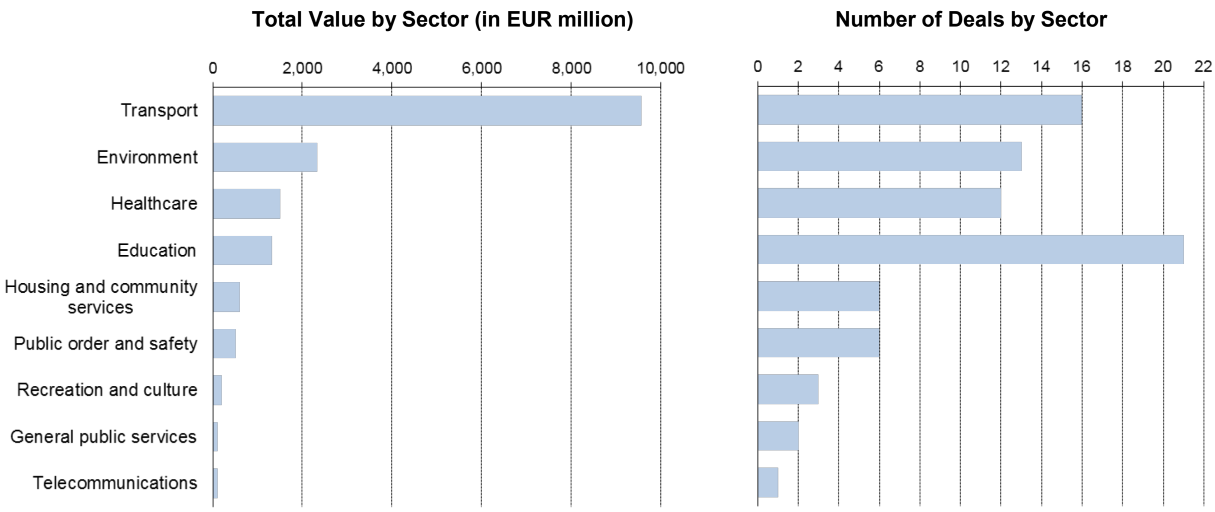
– The number of deals closed in the **education** sector reached 21, making it the most active sector in 2013 in terms of number of projects.

– The **public order and safety** and **recreation and culture** sectors contracted significantly in value terms (a 59% and 41% decrease respectively).

– For the first time since 2010, one project reached financial close in 2013 in the **telecommunication** sector (an ultra-high-speed internet PPP in Auvergne, France).

– No projects closed in the **defence** or **RDI** sectors in 2013.

Figure 3: Sector Breakdown by Value and Number of Transactions



4. FINANCING [4]

– 2013 saw a **growing role for institutional investors** (e.g. insurance companies, pension funds) as providers of **debt** to European PPPs. **16 transactions** (20% of the total number of deals) involved institutional investor debt through a variety of financing models. Overall, institutional investors provided **around EUR 2.5 billion** of debt to European PPPs at **very long maturities** (on average 30 years, with a maximum of 45 years). All the transactions involving institutional investors' debt closed in the **UK, France or the Netherlands**.

– The role of **governments and public financial institutions** (domestic or supranational) **remained significant** in 2013, with 14 PPP transactions benefiting from some form of public financing and/or guarantee commitment.

[4] As the quality of data on financing terms is limited in places, the information provided in this section should be treated with caution.

- The **average tenor of commercial bank senior debt**[5] remained stable at around **20 years** in 2013. In the data sample, the longest debt tenor recorded was 30 years. **28%** of the projects had tenors **in excess of 25 years.** Annex 2 shows that there were significant country differences in commercial bank loan tenors in 2013. The **longest tenors** were recorded in **the Netherlands, France and the UK**.

- The available data sample indicates that in 2013 the average **commercial bank loan margin** stood at around **320 bps** (340 bps in 2012). On average, bank loan margins were 286 bps for the construction phase (300 bps in 2012) and 341 bps near the loan maturity (350 bps in 2012). The lowest and highest loan margins stood at 210 bps and 550 bps respectively (220 bps and 450 bps in 2012).

5. NOTEWORTHY TRANSACTIONS

The following noteworthy PPP projects reached financial close in the second half of 2013:[6]

- The **Zagreb airport expansion** is the first PPP project that has reached financial close in Croatia since its accession to the EU. The 30-year concession involves the design, construction and financing of a new terminal, together with the operation and maintenance of the existing airport assets. The project cost amounts to approximately EUR 330 million. The debt package includes a loan from the EIB for EUR 80 million.

- The EUR 300 million **Zaanstad prison** in the Netherlands involves a mixed bond and bank financing package using the Pebble and Commute financing schemes developed by two domestic banks.

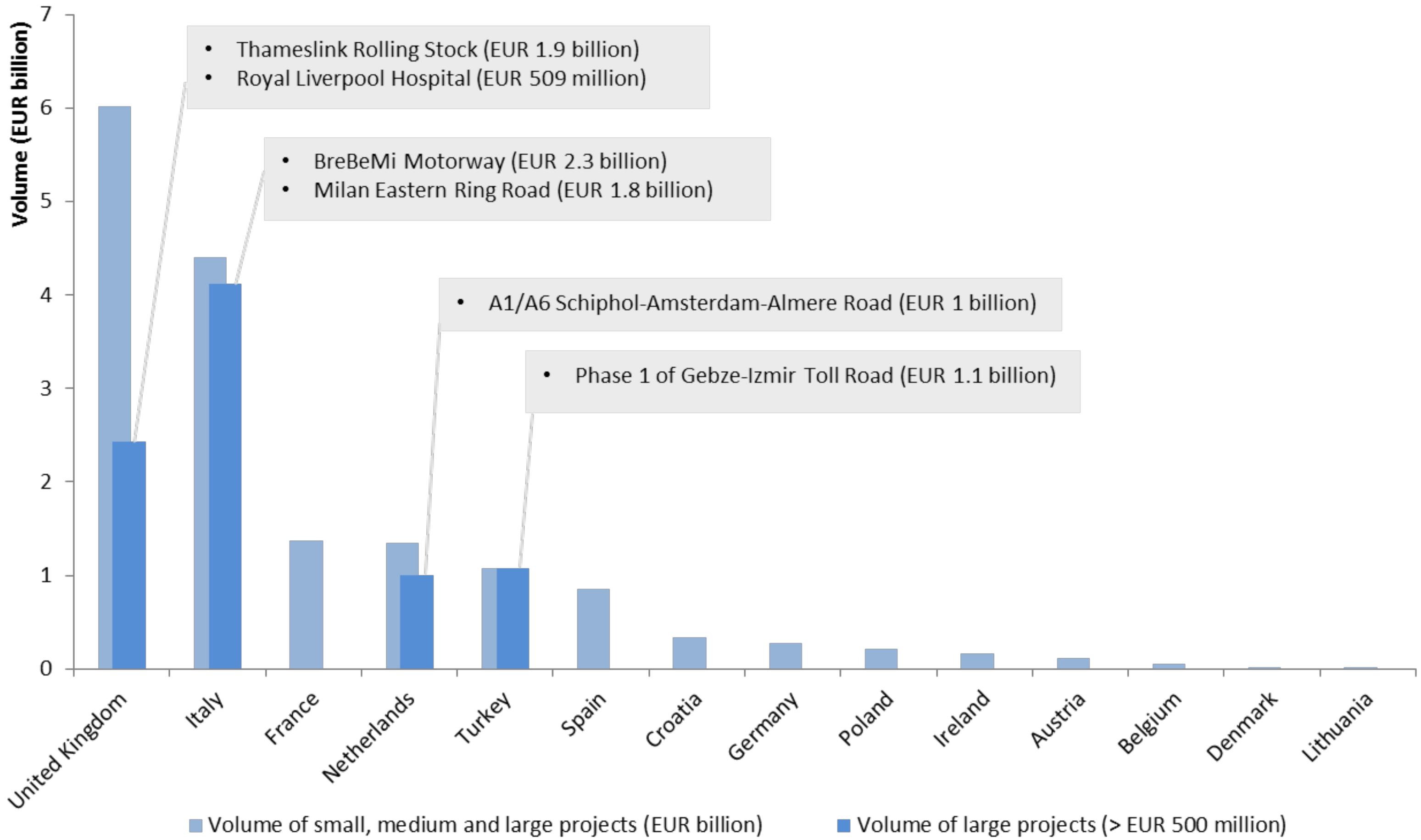
- The **Marseille L2 bypass** project provides another example of the involvement of institutional investors in PPPs. The project is financed through a EUR 165 million bond issue structured, and subsequently bought, by an insurance company.

5 Non-weighted average calculated on projects for which the maturity data was available.

6 For the first half of 2013, see: www.eib.org/epec/resources/Market%20Update%20First%20half%20of%202013.pdf

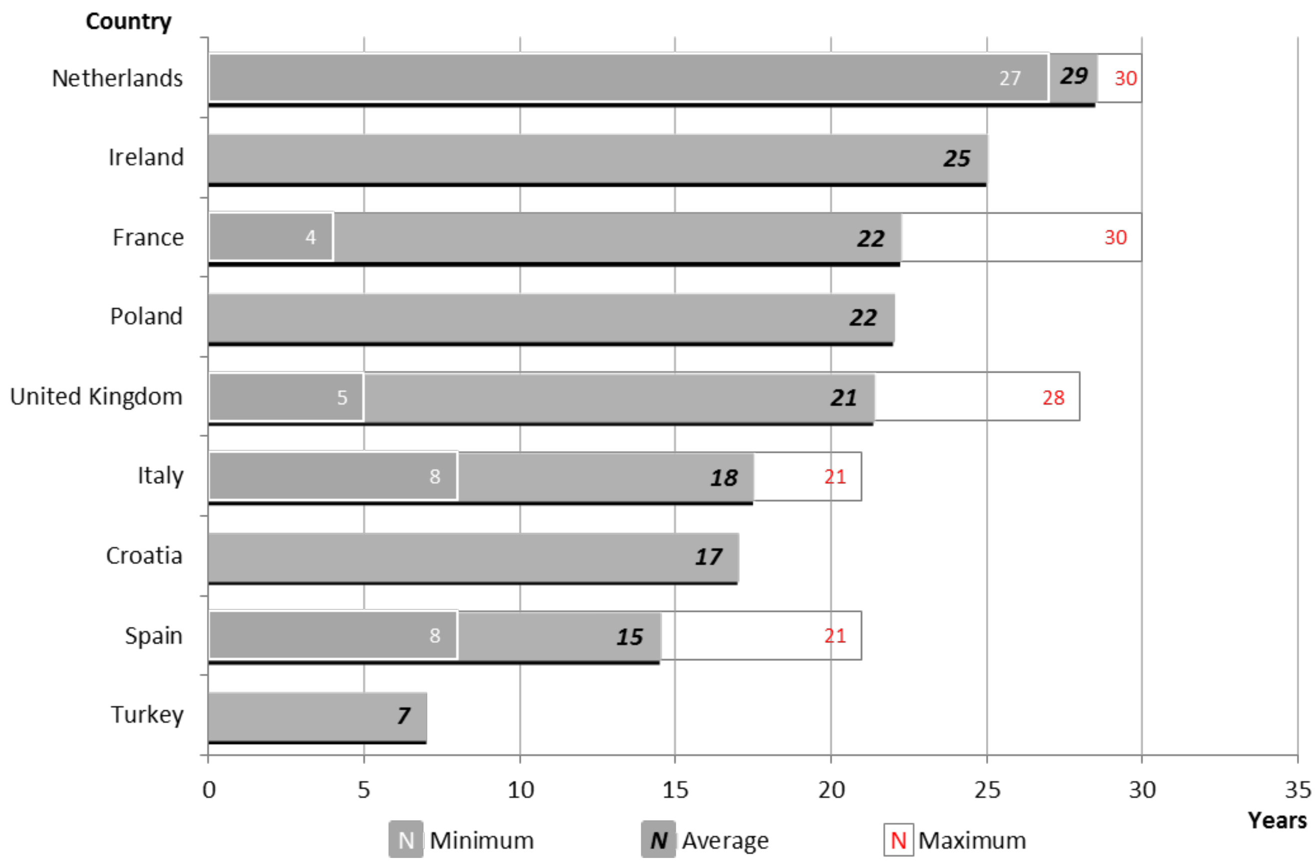
Annex 1

Location of large projects in 2013 (> EUR 500 million)



Annex 2

Loan maturities of senior debt by country in 2013



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