

# The A1 legacy

## 1. Introduction

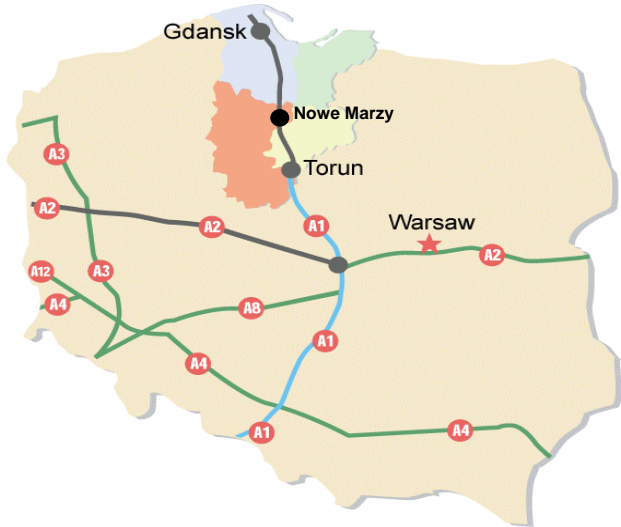
For transition economies in Central and Eastern Europe with huge infrastructure problems PPP's provide sources of funding in addition to EU Structural and Cohesion Funds. Without the use of PPP's such governments would not have the budgetary resources to fund the infrastructure spending necessary to upgrade their transport systems to international standards within a reasonable timeframe. Poland is a typical example of such a country. PPP's also bring additional benefits such as transfer of know-how from the private to the public sector and the improvement of the efficiency of procurement in the form of overall more cost efficient projects and shorter construction times.

This is the story of the giant Polish Public Private Partnership, the A1 Motorway, which first phase took eight years to bring from tender award to financial close.

## 2. The Project

The A1 Motorway (European Road E 75) is part of the priority Trans European Network from the Baltic Sea to the Czech Republic, Slovakia and Austria, providing a motorway from Gdansk to Vienna via Katowice and Brno.

This corridor is of crucial importance to Poland linking the Baltic Sea ports of Gdynia and Gdansk with the industrial area of Silesia in the Katowice region. It therefore constitutes the heart of the Polish road network connecting Poland to the neighbouring countries of Central Europe.



- Part of the TEN priority network from Baltic Sea to Vienna
- Links ports of Gdynia and Gdansk with Central Poland (Gdansk to Torun in current concession)
- Promotes the Pomeranian region
  - Improved infrastructure necessary to attract investors
- Promotes road safety

The total length of the concession awarded to the Skanska led special purpose company, Gdansk Transport Company (GTC) in 1997 is approximately 152 km from Gdansk to Torun and will be constructed in two phases:

- Phase 1 being the 89.5 km of motorway from Gdansk to Nowe Marzy, (currently under construction) and;
- Phase 2 incorporating the balance of 62.5 km from Nowe Marzy to Torun; (remain to be negotiated).

The Concession Agreement provides for construction of Phase 1 to be concluded and the road to be open to traffic by November 2008. GTC is then responsible for the operation and maintenance of the road until the concession ends in 2039 and the road is handed over to the government of Poland.

### **3. The History**

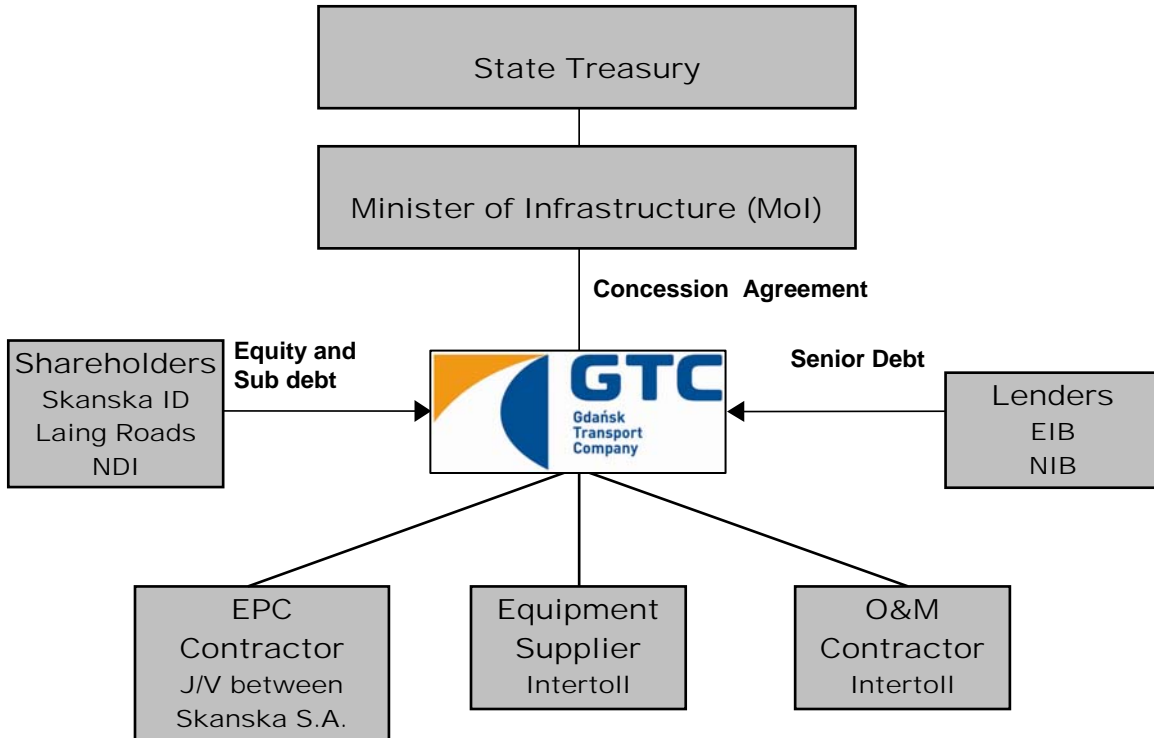
GTC was awarded the A1 concession from Gdansk to Torun on 25<sup>th</sup> August 1997 following a competitive tender process. Political instability with continuous changes of administration as result made the development of the project a lengthy and very difficult task for GTC. Following a long deadlock in the negotiations Jan Ryszard Kurulczyk, who was appointed Deputy Minister of Infrastructure only weeks before, in mid August 2004 instructed the Polish road authority (GDDKiA) and GTC to reach an agreement on the construction pricing, being the only major issue then delaying the finalisation of the concession agreement. A series of negotiations followed where GTC agreed to a further reduction in the construction price which accommodated minor scope reductions which had been under discussion with GDDKiA for some time. The construction price was finally accepted by the Deputy Minister on 5<sup>th</sup> August 2004 and a MoU signed on 9<sup>th</sup> August 2004.

Following intense negotiations the concession agreement was signed in Gdansk on 31<sup>st</sup> August 2004. Negotiations continued with GDDKiA and the Ministry of Finance until 4<sup>th</sup> December 2004 when the last of the 26 schedules to the Concession Agreement finally was signed.

Finance negotiations with European Investment Bank (EIB) and Nordic Investment Bank (NIB) continued to be concluded end of July 2005 with all conditions met two months later, in September 2005.

Today, one year later, the construction work is at its peak with more than 2100 men and women working along the right of way of phase 1.

#### 4. The Structure



#### 4.1 GTC

The shareholders of GTC during many years were:

Bechtel Engineering (USA), the American construction conglomerate; GPRD, the Polish construction group; BGZ, the Polish banking group; and Intertoll, the South African concession developer and toll road operator.

These four shareholders each held approximately 25% of the equity. Skanska acquired its equity in GTC through a progressive purchase of GPRD. By 2002, Skanska had bought out all the equity in GPRD. Before the project was brought to financial close Skanska purchased Bechtel's shares and NDI., the Polish developer, and Laing Roads, the U.K. road concession developer, were introduced as shareholders resulting in the current ownership structure:

- Skanska Infrastructure Development 30.0%
- Laing Roads 29.7%
- NDI 25.3%
- Intertoll 15.0%

## 4.2 Subcontractors

The EPC-contract is valued well above €500m and carried out by Skanska Poland in cooperation with NDI. Skanska is leading the team with an 80% share of the contract

The MESCO (Motorway Equipment Supply Contract) and the Operation & Maintenance contract are both carried out by Intertoll which has a documented experience of motorway operations in central and eastern Europe.

## 4.3 Financing

The project is benefiting from a multilateral financing under a guarantee structure with EIB providing a €500m loan which amounts to 79% of the senior debt and NIB is providing the remaining 21%. In addition GTC is providing risk capital amounting to 5% of the total financing.

## 4.4 Payment Structure

In terms of payment the project offers a quite complex model including availability payment, shadow tolls and ordinary road tolls.

### 4.4.1 Payment Model

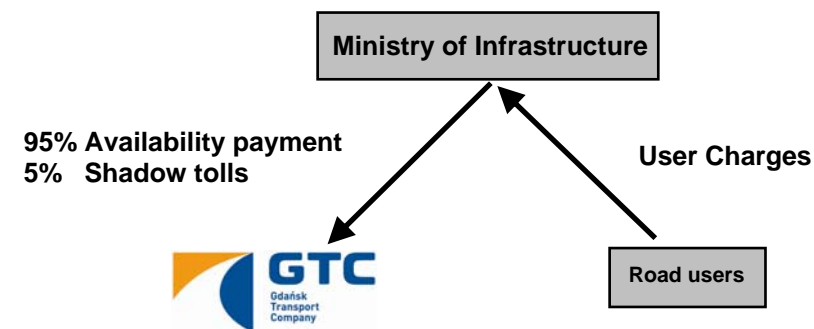
#### Availability Payment

- Covers fixed costs, tax and debt service
- Defined in both EUR and PLN, escalated with inflation
- Subject to deductions depending on availability and performance

#### Shadow Tolls

- Covers variable costs depending on traffic
- Defined in PLN and escalated with inflation

### 4.4.2 Payment Mechanism



## 5. Success Factors

So, why did GTC finally succeed in its efforts to bring this project to a close, almost a decade after tender award? Several factors contributed:

- **Committed government**  
Poland was finally governed by an administration firmly convicted to realise the A1 Motorway. Some of the important officials had their political base in the Baltic region and understood the true importance of the A1.
- **Consortium with strong local presence**  
GTC now had a robust and balanced structure with shareholders strongly tied to Poland. Skanska as one of the largest road contractors in the country brought valuable know-how to the negotiating table. So did NDI with extensive experience of project development in the Baltic region.
- **Professional negotiating teams**  
We put together a small, efficient and experienced negotiating team which more or less resided in Poland the year it took to bring the negotiations to an end. You can't fly in and out if you want to land a project like this.
- **Competent advisors**  
Both parties enjoyed the support of competent advisors:  
Advisors of the government of Poland were Wardynski & Partners (legal) and Ernst & Young (financial)  
GTC was supported by Cameron McKenna (legal), Citigroup (financial) and Faber Maunsell (traffic advise).
- **Important project for regional development**  
The Motorway brings undisputed benefits to the region in terms of attracting investors, facilitating transportation to and from the great ports and promoting traffic safety.
- **Value for money**  
We managed to show the benefits and savings in terms of time and money that the PPP concept brought to the project.