

# Why to invest in concession business ?

WTC 2007

Prag, May 8th 2007

# CONCESSIONS : A specific skill

- VINCI is the world leader for concession/construction
- 142 500 staff
- 84 000 in France
- Present in more than 80 countries
- A network of 2 500 companies
- 300 000 projects/works per year
- Created with a tramway concession in 1890, Vinci has now more than 100 years of existence,

## VINCI Concessions

Delegation of public service and concession. Design, construction, financing and operation of infrastructures

## VINCI Energies

Leader in France and major company in Europe for energy and information technologies

## EUROVIA

European leader for roads construction, crushed stone supply and quarries

## VINCI Construction

N°1 for design and construction of civil works and buildings

Turn over 2006 = 26 000  
(in millions euros)



Roads and motorways  
Airports  
Car Parks  
Stade de France  
Services

**4 292**



Industry  
Energy  
Telecommunications  
Equipements

**3 654**



Road works  
Environment  
Quarries  
Crushed stones supply,..  
Services

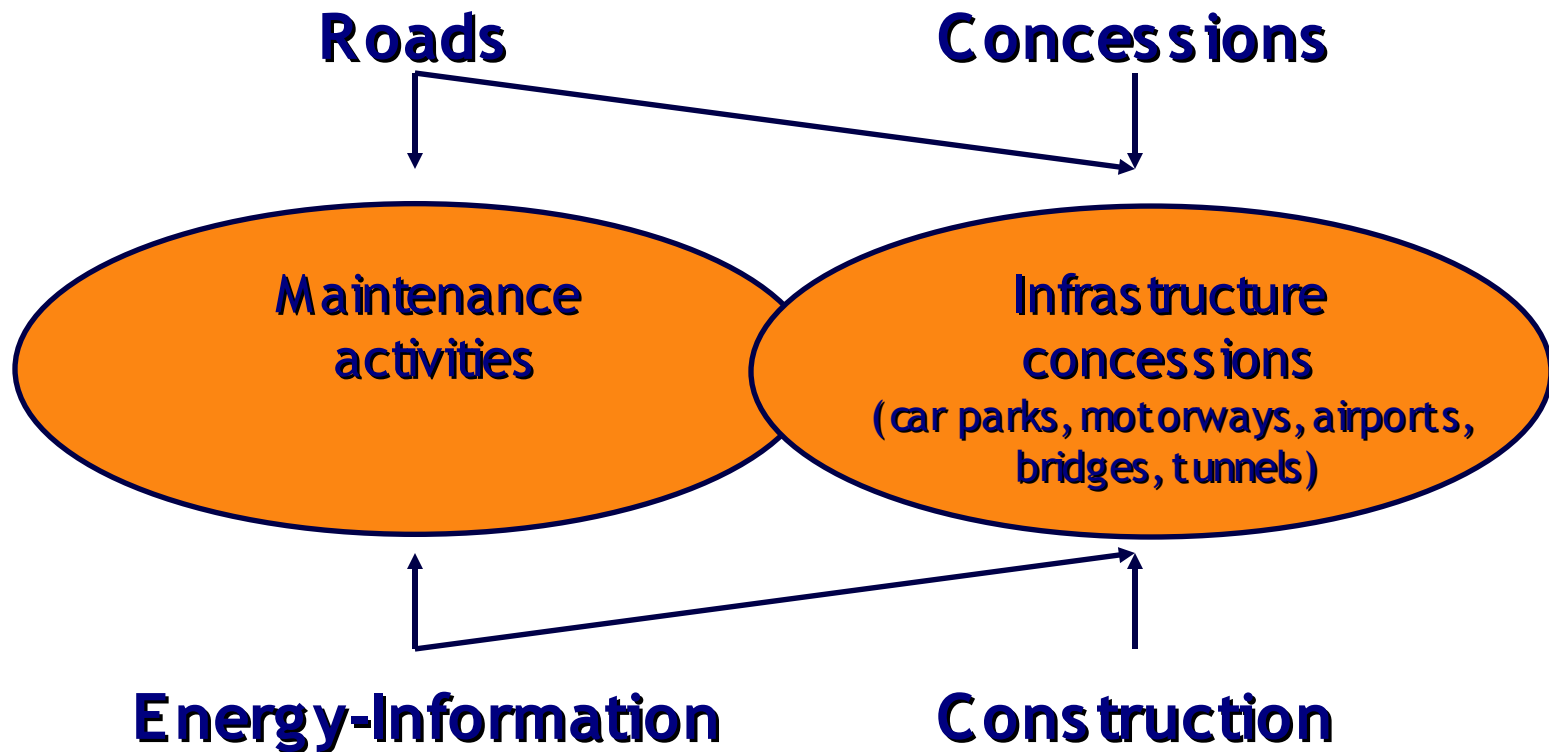
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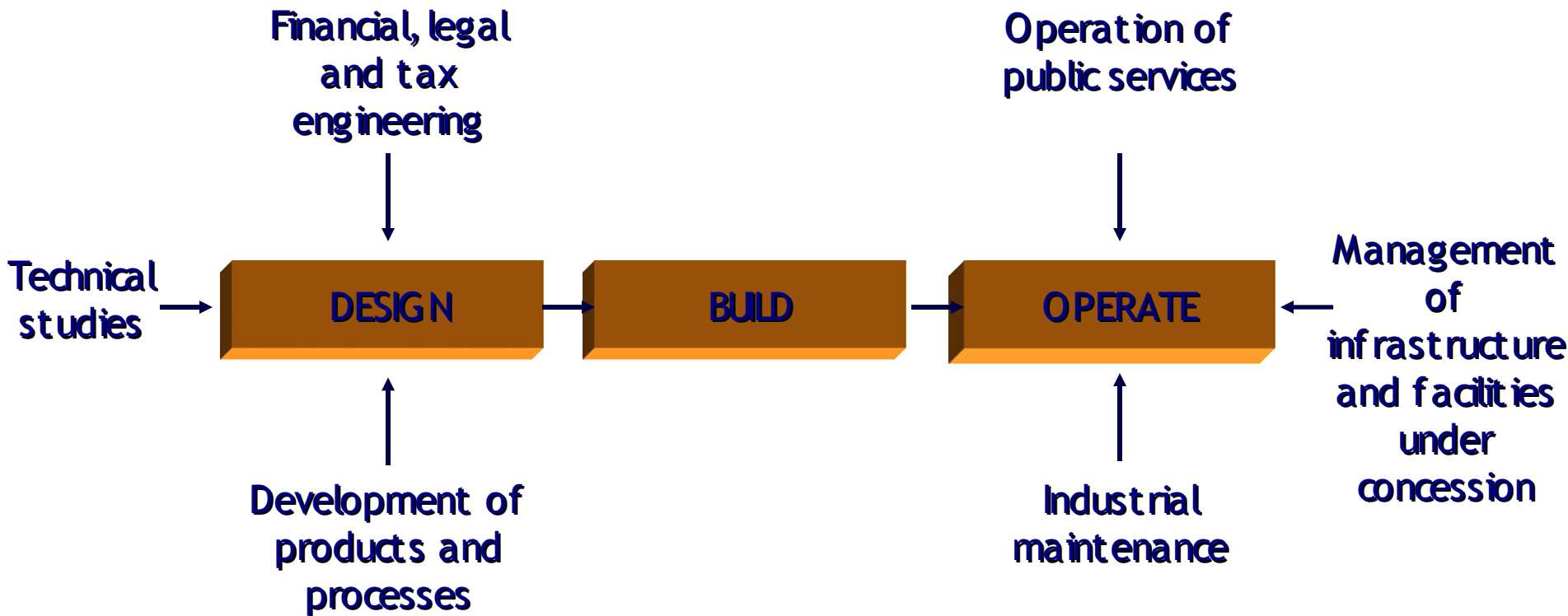
Buildings  
Civil works  
Specialized Civil works  
Hydraulics  
Services

**10 617**

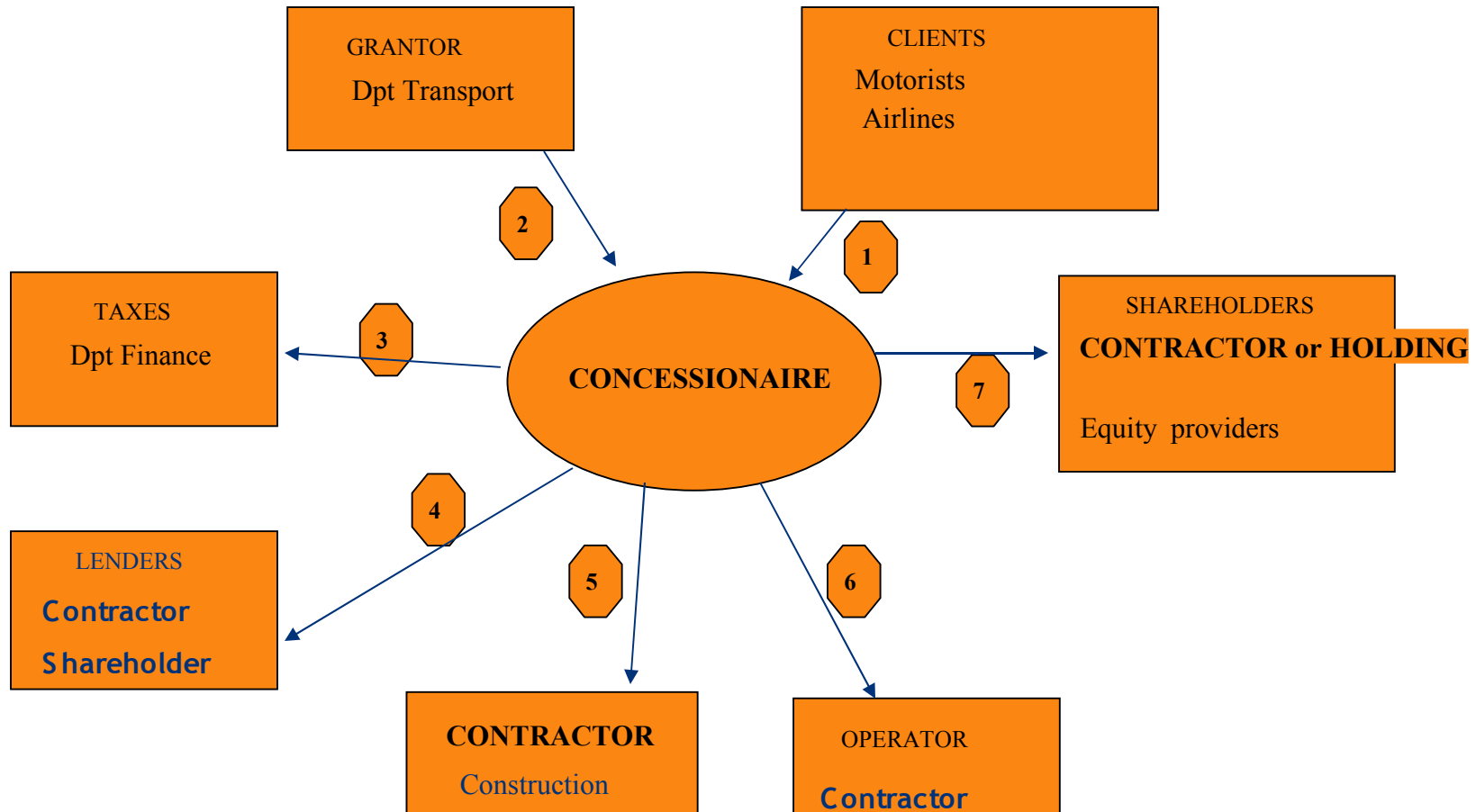
4 business lines directed towards maintenance and concessions activities



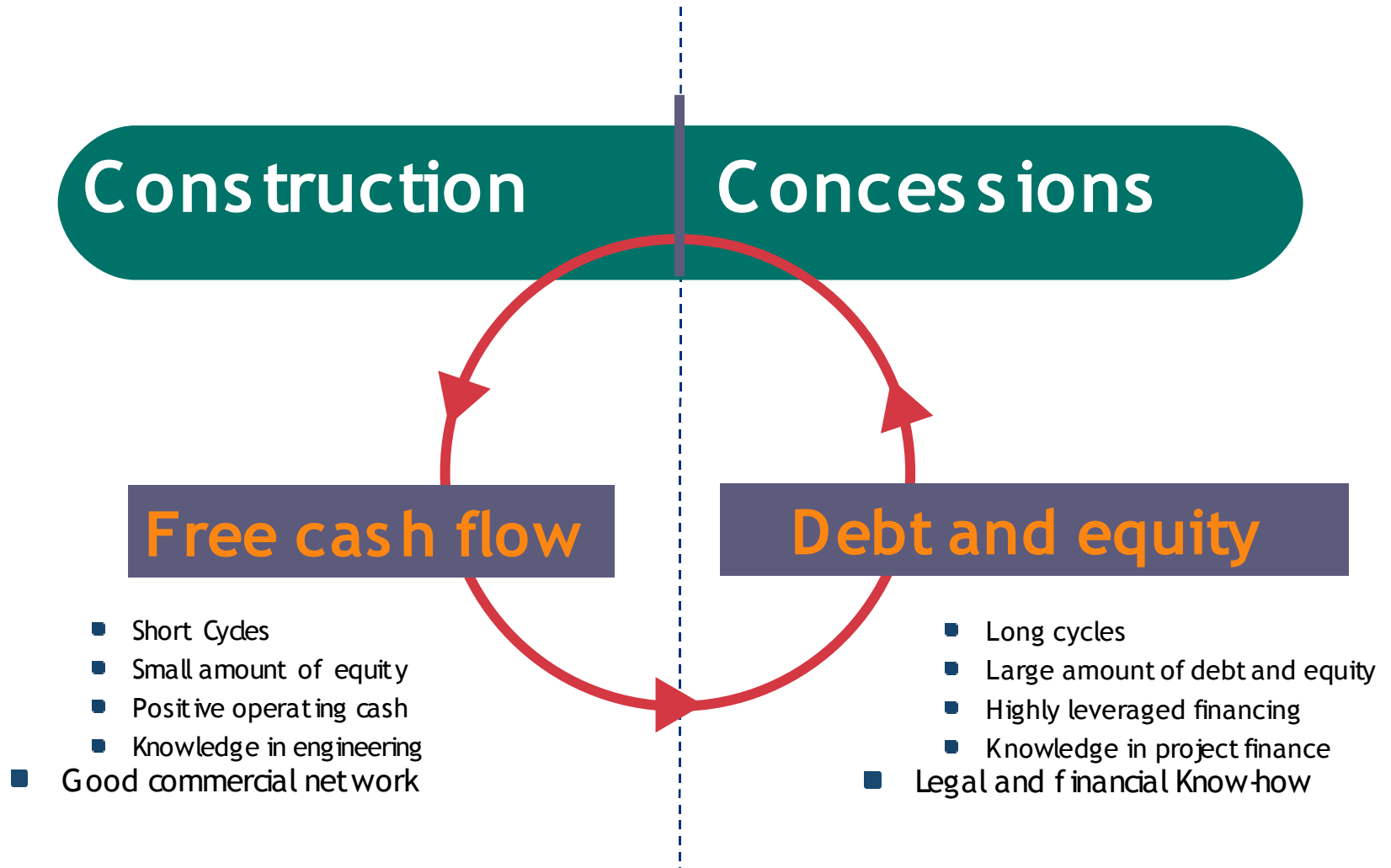
The synergy comes from a full range of expertise and a permanent close cooperation between the various divisions



- Design : maximum efficiency, no over-investment
- Whole life costs optimization
- Best commercial efficiency for selling the service
- Flexibility in staff management
- Optimum risk sharing matrix and profit sharing procedure
  
- Permanent co-operation with the grantor to adjust the goals to be reached and the administrative bodies to be set up for optimizing the procurement with a long term view
  
- Then market is developing and creates new opportunities and turn over



Concessions / Construction : complementary activities





# CONCESSIONS : Results



<i>In millions euros</i>	PF	PF	$\Delta$ /0 5 PF
Turn over	4 0 24	4 292	+7%
Operational result (*)	1433	1581	+10 %
<i>% of turn over</i>	35,6%	36,8%	
Net result	562	694	+24%
<i>% of turn over</i>	14,0%	16,2%	
Financing from cash flow	2 48	2 624	+9%
<i>% of turn over</i>	60,0%	61,1%	
Net Financial Debt	( 1578)	( 852)	

PF = pro forma: consolidation of ASF at 100% since January 1 as well in 2005 as in 2006

(\*) after damping of the variation of evaluation of contracts ASF/Escota: (268) m€

<i>in € millions</i>	Actual 2005	Actual 2006	Δ 06/05
<b>Concessions</b>	(3,638)	<b>(13,852)</b>	<b>(10,214)</b>
<i>ASF / ASF Holding</i>		<b>(9,569)</b>	<b>(9,569)</b>
<i>Cofiroute</i>	(2,544)	<b>(3,006)</b>	<b>(462)</b>
<i>VINCI Park</i>	(391)	<b>(874)</b>	<b>(483)</b>
<i>Other infrastructure</i>	(703)	<b>(403)</b>	<b>300</b>
<b>Construction, roads, energy, property</b>	<b>2,705</b>	<b>2,610</b>	<b>(95)</b>
<b>Holding companies &amp; misc.</b>	<b>(646)</b>	<b>(3,554)</b>	<b>(2,908)</b>
<b>Net financial debt</b>	<b>(1,579)</b>	<b>(14,796)</b>	<b>(13,217)</b>



## French concessions

- First motorway concessionnaire (4 300 km)
- First car park concessionnaire in Europe with 445. 000 places (out of which 293.000 as concessions or full ownership)
- Everywhere in France, and mainly in the most dynamic regions

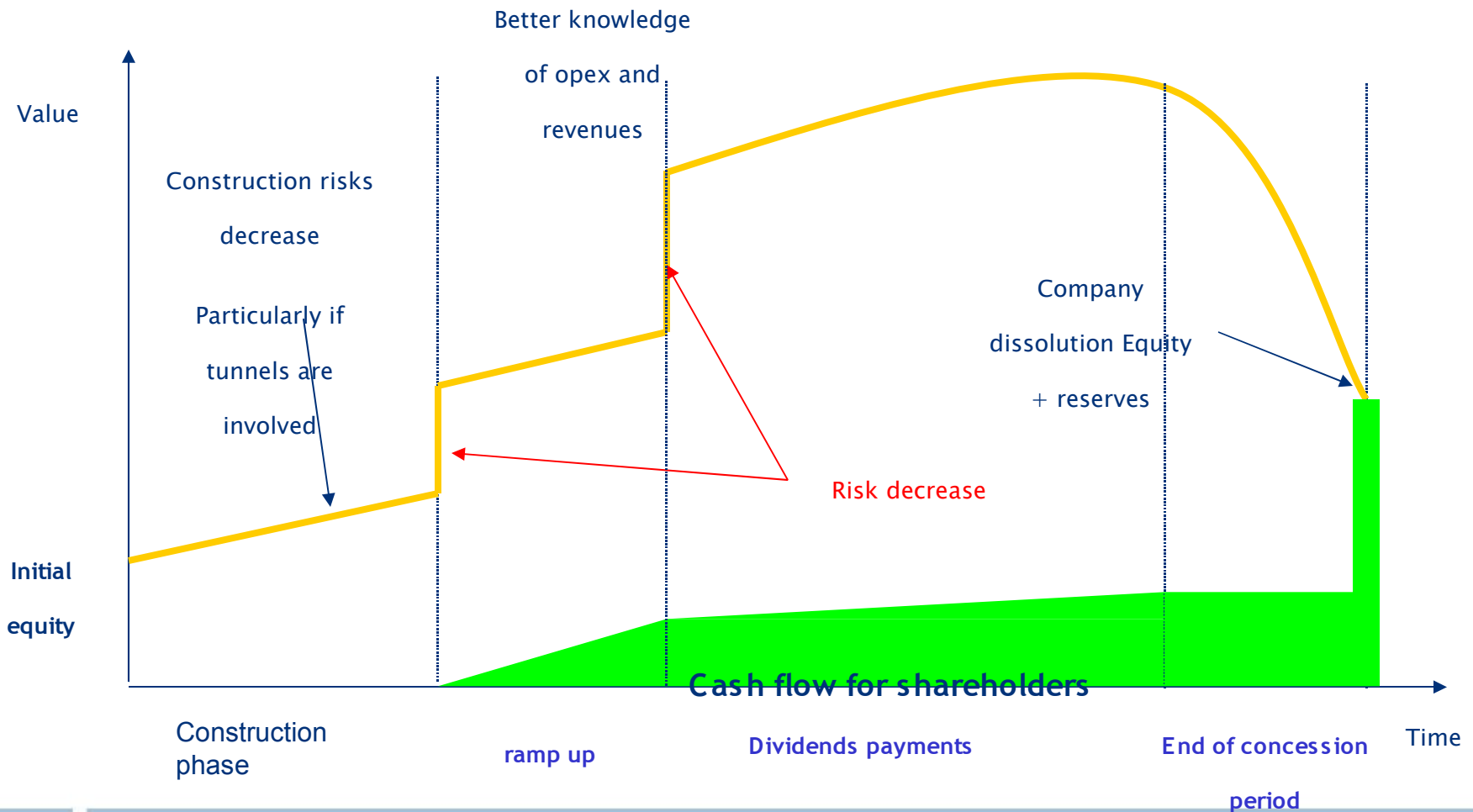


- Ouvrages de VINCI en concession
- Gestion aéroportuaire
- Villes où VINCI Park est présent

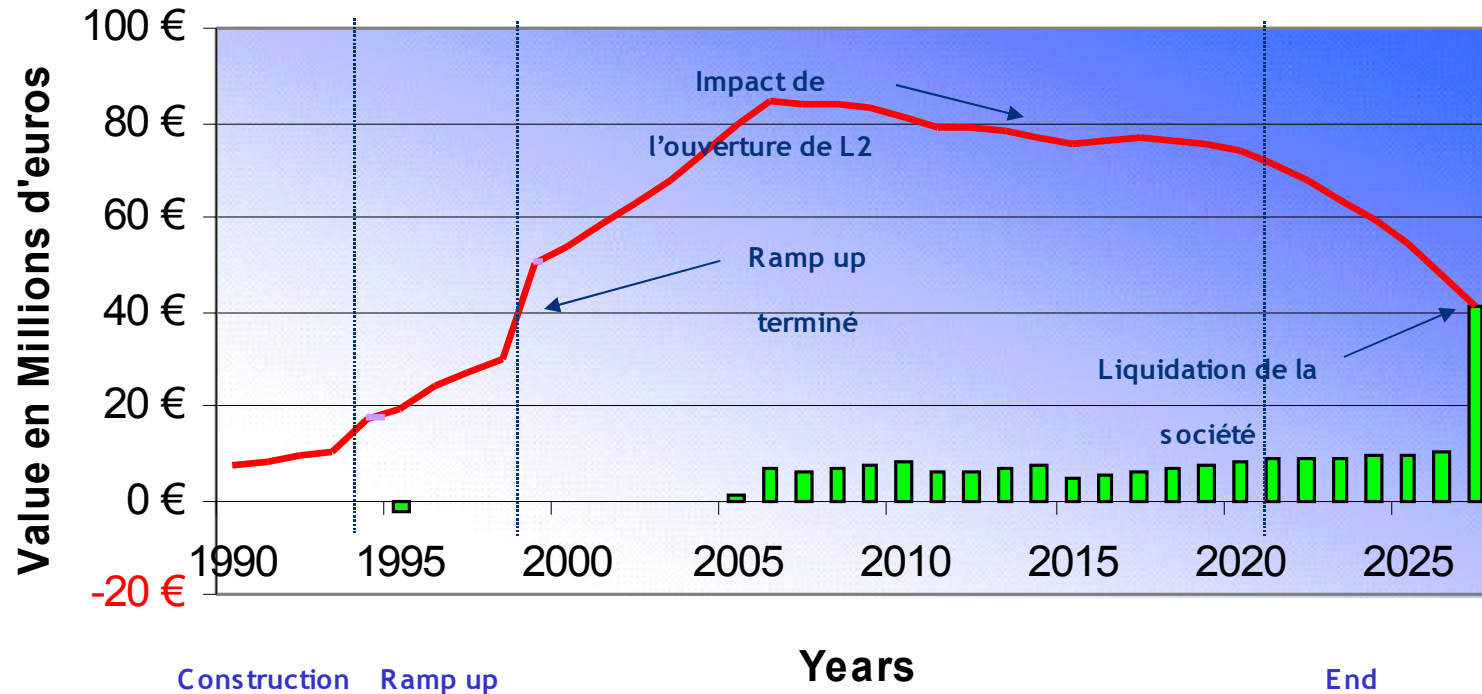
- Autoroutes
- Cofiroute
- Arcour (A19)
- Groupe ASF
- Autres réseaux concédés
- Réseau public

- Methodologies for evaluating a concession value :
  - Discounted Cash Flow Method » : the futur dividends cash flows are discounted at a rate which correspond to the WACC of the company.
  - Change in discount rate after the different phases of the concession life (function of the risk profile of the business). Example just for an illustration :
    - 12% at the beginning of the concession life, according to the 3 main risks (construction, beginnig of operation and ramp up period)
    - 10% at the beginnig of operation, i.e. after the end of the construction and end of the construction risk
    - 7.5% after the ramp up period and correct evaluation of operation risks
  - The decrease of the discount rate creates entreprise value and is a remuneration of the sponsor

## ■ Theoretical example : cash flow and value evolution



## Value of SMTPC versus time



- The main part of the value is created during the first two phases of the concession life :
  - Infrastructure Construction
  - « Ramp-up » phase with
  - all the opex optimisation and
  - revenues optimisation ( toll policy)
  
- After it is a matter of routine operation and large dividends, with only economical and political risks
  
- It is not the main job of VINCI just to keep existing concessions
  
- The concession portfolio has to be managed in a dynamic way so as to create further opportunities to sponsor new projects and be in the phses one and two of the process
  
  
- But having existing mature concessions gives better financing opportunities for new concessions : it is a matter to be balanced

- Marseilles : it was only a widening of an old existing tunnel
- Lyon northern bypass : problems arose when the TBM was stopped by an unexpected boulder. Compensation have been given by the grantor to the concessionaire and then to the contractor
- Lumpsum or cost + fee ? Financing is requesting lumpsum prices, but with the TBM uncertainty in final cost is decreasing
- Three ways to overcome the specific tunnel risks
  - A specific Insurance
  - A stand by equity
  - A protecting contract
- The grantor has to understand that the best way to manage risks is not to push on the contractor shoulders the maximum of risks but to keep the risk he is better able to manage
- Underground risk is better managed by the grantor than by the contractor or by the sponsor

- Strong expertise in both construction and concession activities to evaluate and manage
  - construction risk
  - financing risk
  - operating risk
- Selective approach to new concession projects in order to keep all involved parties happy at the top level of the company
  - strict financial criteria ( IRR, impact on EPS)
  - financial and operational control
  - approval of the VINCI Risk Committee and of the Board of Directors' Investment Committee
- Operating at arm's length level with our contractor
- Top management is always largely involved in concession contracts and are structurally in a position of arbitrator, without the formal procedures linked to this process when between independent companies