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## Caisse Nationale des Autoroutes

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### Table Of Contents

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Major Rating Factors

Outlook

Rationale

Business Description: State-Owned Funding Body That Is Becoming A Debt-Amortization Vehicle

Budgetary Performance: In Line With Non-Profit Mandate

Debt Burden: Declining Gradually

Related Criteria And Research

# Caisse Nationale des Autoroutes

## Major Rating Factors

### Strengths:

- Integral link with the central government, given its status as a public administrative body, which implies strong state monitoring.
- Critical role for France, despite the transition to an amortization structure from a financing fund, given that a default would hurt the government's reputation.
- Matching cash inflows and outflows, and no delays in the transfer of funds from concessionaires.
- High predictability of stress situations at the concessionaires, owing to government monitoring and regulation.

### Issuer Credit Rating

AA/Negative/--

### Weaknesses:

- No explicit guarantee from the French government for the company's financial obligations.
- Reliance on concessionaires to service debt.
- Lack of explicit back-up lines to bridge potential delays in revenue.
- Concessionaires' debt to the company is not senior to their other obligations.
- High concentration risk, given that at year-end 2014 four entities represented 90% of the loans due to the company.

## Outlook

The negative outlook on French toll-road financing agency Caisse Nationale des Autoroutes (CNA) mirrors that on France and reflects Standard & Poor's Ratings Services' expectation that CNA will retain its "critical" role for and "integral" link with the French government.

We expect the ratings on CNA will move in line with those on France. Any indication of a weakening of CNA's role for or link with the central government would likely lead to a negative rating action on CNA.

## Rationale

We equalize our ratings on CNA with those on France (unsolicited AA/Negative/A-1+) because we consider CNA to be a government-related entity (GRE) and believe there is an "almost certain" likelihood that the French government would provide timely and sufficient extraordinary support to CNA in the event of financial distress. This is despite the company's progressive transformation from a public financing vehicle into a debt-amortization vehicle with mainly private counterparties. In accordance with our criteria for GREs, our view of an "almost certain" likelihood of extraordinary government support hinges on our assessment of CNA's:

- "Integral" link with its sole owner, the French government, underpinned by CNA's status as an "établissement public à caractère administratif" (EPA), which legally obliges the state to ultimately assume CNA's liabilities. Although this obligation falls short of a timely, callable guarantee, we believe the state would provide timely support if necessary,

mainly by subscribing to CNA's commercial paper issuance. This is because the government would face significant reputation risk if CNA were in financial distress because one of the concessionaires (tunnel operators and toll road operators "TROs"), which provide all of CNA's cash inflows, were to default. We believe there are efficient processes to alert the government to any situation in which tight liquidity at the TROs could affect CNA. Moreover, the government regulates the concessionaires, and the risk of contract cancellation provides a strong incentive for the TROs to honor their debt obligations to CNA; and

- "Critical" role, because a default of CNA would hurt the government's reputation and that of other GREs, given CNA's public statutory status. CNA remains the largest lender for the development of France's highway network, including tunnel operators and TROs. The TROs can no longer access CNA for funding, but CNA will continue financing the needs of the main tunnel operators. It has mainly become an amortization structure for the debt used to develop the national motorway network. We understand that at this stage there are no plans to change CNA's role or mission.

Created in 1963 for an unlimited duration, CNA's mission was to obtain long-term financial resources from domestic and foreign capital markets, and lend the proceeds to the concessionaires at the same cost and on identical terms. The TROs were privatized in 2006, and since 2010 can no longer benefit from privileged access to CNA as the central government's financing arm. Only the two smaller tunnel operators retain such access, but their funding needs are very low. Consequently, CNA has become a debt-amortization vehicle.

CNA's debt, which peaked at about €22.3 billion in 2002, dropped to €10.3 billion by December 2012, and we estimate it at about €7.7 billion at the end of 2013. The company's outstanding debt should continue to decline by about €1.6 billion a year through to 2018 because new issues fund only the tunnel operators' limited needs.

CNA's unrestricted cash and cash equivalents of €1.6 million on June 30, 2013, have traditionally been negligible compared with its total assets, outstanding debt, and annual debt service. CNA has no explicit liquidity policy. However, this is mitigated, in our view, by the state's ultimate responsibility for CNA.

The company's liquidity position mainly reflects those of the TROs and tunnel operators, because they transfer the funds necessary to cover its financial obligations two weeks before they are due. We assess this time frame as short should the TROs face difficulties in repaying CNA. We understand, however, that since CNA's creation, the concessionaires have consistently met their obligations.

We anticipate that the timely provision of funds will continue. Although the debt to CNA ranks *pari passu* with the TROs other debt, the TROs have strong incentives to service their debt to CNA on time because, otherwise, they risk losing their profitable concessionary contracts, which include tax deductions on interest payments or investment subsidies.

Furthermore, because CNA has no liquidity lines, we consider that the state would provide liquidity support, if necessary, given our view of CNA's role for and link with the French government. Although the state does not have a formal or explicit mechanism for ensuring CNA's liquidity, we consider that the French treasury or the state's public debt fund ("caisse de la dette publique") would intervene in a timely manner, by subscribing to CNA's debt issues if the company is experiencing liquidity stress. The concessionaires' liquidity has generally remained resilient, even in difficult economic conditions.

## Business Description: State-Owned Funding Body That Is Becoming A Debt-Amortization Vehicle

### CNA's well-defined mission is unlikely to change fundamentally

CNA was created in 1963 for an unlimited duration to obtain long-term financial resources from domestic and foreign capital markets and the European Investment Bank. CNA lends the proceeds of this funding to the concessionaires at the same cost and on identical terms, given that some of the financing programs that are drawn up in collaboration with these concessionaires and are strictly state controlled. The concessionaires have been responsible for designing, building, financing, and operating most of the national highway system in France since 1963. CNA has successfully acted as a conduit, pooling the borrowing requirements of these companies for new projects or refinancing existing debt. However, since 2010, privatized TROs can no longer access financing from CNA.

Although CNA's role is likely to be maintained and there are no plans to transform its mandate, its scope of activity is reducing because:

- Since 2010, CNA has not participated in funding the TROs' new capital investments, only the two tunnel operators, Société française du tunnel routier du Fréjus (SFTRF) and Autoroute et tunnel du Mont-Blanc (ATMB), which are both state owned and have lower funding needs than the TROs; and
- CNA will no longer finance new concessionaires, in compliance with European competition regulations.

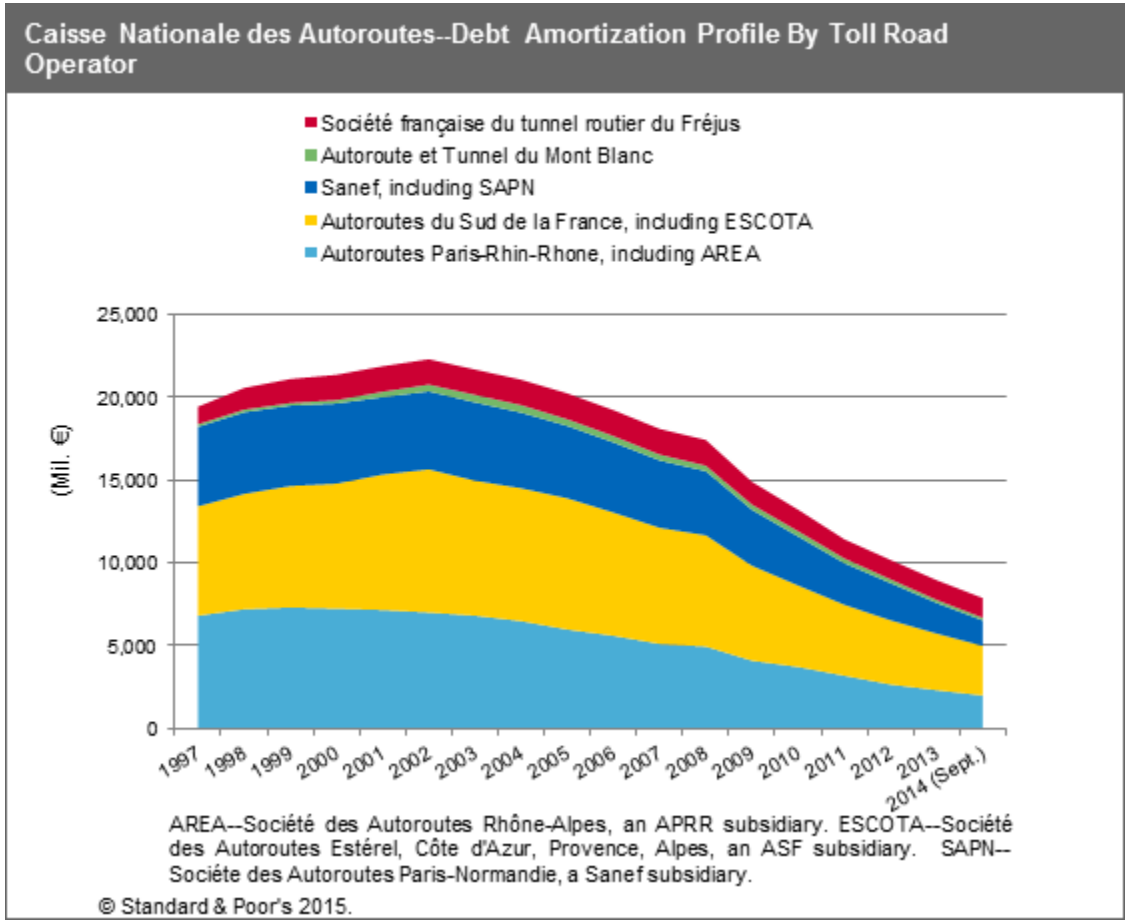
Although CNA's planned issuances will be much lower than in the past, its current mission continues to be the financing of two critical national tunnel and road infrastructure operators, SFTRF and ATMB. The tunnel operators' financing needs could reach almost €700 million over 2015-2017.

In our view, CNA's role remains "critical" for France, despite its declining financing activity, due to the impact on the country's reputation if CNA were to default.

**Table 1**

Caisse Nationale des Autoroutes Outstanding Loans To Concessionaires*											
--Year ended Dec. 31--											
(Mil. €)	Sept. 2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Autoroutes Paris-Rhin-Rhone, including AREA	2,009	2,326	2,674	3,204	3,733	4,106	4,962	5,123	5,616	5,992	6,493
Autoroutes du Sud de la France, including ESCOTA	2,995	3,421	3,875	4,281	4,917	5,735	6,717	7,010	7,437	7,924	8,027
Sanef, including SAPN	1,529	1,843	2,244	2,511	2,955	3,371	3,867	4,065	4,230	4,362	4,560
Autoroute et tunnel du Mont-Blanc	169	194	235	291	322	323	342	357	394	413	462
Société française du tunnel routier du Fréjus	1,184	1,184	1,164	1,150	1,292	1,367	1,547	1,547	1,553	1,553	1,528

\*Data as of Dec. 31, 2012. AREA--Société des Autoroutes Rhône-Alpes, an APRR subsidiary. ESCOTA--Société des Autoroutes Estérel, Côte d'Azur, Provence, Alpes, an ASF subsidiary. SAPN--Société des Autoroutes Paris-Normandie, a Sanef subsidiary. Source: Annual reports and Caisse Nationale des Autoroutes.



**CNA's status is a strength for the rating**

We consider CNA's status as an EPA to be key to the rating. CNA's business and financial activities are subject to French commercial law, with certain important differences. As public entities, EPAs are immune from the seizure or attachment of their assets or funds, as we understand. Law 80-539 of July 16, 1980, ensures that the ultimate responsibility to unpaid creditors resides with the French government, and an EPA may not be subject to bankruptcy proceedings. If an EPA defaults, the law assigns responsibility to the relevant supervisory authority--the French government in the case of CNA--which must either give the EPA new resources or guarantee the sums for which the EPA is liable according to a court order.

CNA was created by decree and can only be dissolved or changed by decree. In addition, such a decree would set the conditions under which assets and liabilities were to be transferred, either directly to the authority responsible for its creation (in this case, the French government) or, typically, to another public institution.

Although there is no timely, callable guarantee, CNA's EPA status and the reputation-based incentives for the government to support the entity lead us to conclude that France would provide extraordinary support if CNA is in financial distress. CNA is 100% state owned and in light of its field of activity, we understand that it will remain so. Privatization is not under consideration and appears neither likely nor viable. The president and vice president of

CNA's board of directors are the state minister of transport and the minister of the economy, respectively. Other board members include various state ministers, including the minister of the interior. Therefore, the government directly controls CNA's decision-making, approves its budgets and accounts, and sets the limits on its annual borrowings. CNA is also subject to the control of the national Court of Audits ("Cour des Comptes").

### **An expected regulatory change regarding supervision should not affect the link between CNA and the state**

In our view, regulatory challenges to CNA's links with the French government are unlikely. Because CNA fully phased out its 'AAA' funding to the private TROs in 2010, is not involved in commercial activities, and will restrict its funding to the public tunnel operators, we do not anticipate that the European regulatory framework will constrain support from the French government to CNA or request changes to CNA's status and mission.

Following a report of the competition authority, which concluded, among other things, that the tariffs set by the private TROs are prohibitive and not in line with the progression of the number of highway users, the government has proposed to shift supervision from the ministry of transport to the current railway regulator ("L'Autorité de régulation des activités ferroviaires"; ARAF). This would lead to a new entity, the roads and railways supervisory authority (ARAFER), which would monitor tariff setting and increase competition in the highway network. We believe that ARAFER's intervention would strengthen the state's negotiating power in finalizing concession contracts. There are unlikely to be changes in tariffs until the current concession contracts end (by 2020). Furthermore, we see a low probability that the TROs would be nationalized before the contracts expire, given the government's budgetary constraints. In the long term, if this were to happen, it would reinforce the link between CNA and the state.

## **Budgetary Performance: In Line With Non-Profit Mandate**

CNA is financially autonomous insofar as it does not depend on the state budget. Its revenues stem mainly from the tunnel and toll-road concessionaires.

CNA is a not-for-profit agency and its business charter prohibits it from earning positive net margins on its loans or engaging in ancillary activities. However, the concessionaires reimburse CNA on a pro rata basis for the financing fees and financial interest it incurs, other operating expenses, foreign exchange gains or losses, and personnel and other costs. In turn, CNA distributes gains on short-term assets to the concessionaires. As a result, CNA's net income is zero every year.

Given that it is a public undertaking with EPA status, CNA has no share capital. CNA must pass all loan proceeds from its borrowing program on to the concessionaires. The liabilities side of CNA's balance sheet is matched against loan assets in terms of maturities, interest rates, and currency composition. CNA's balance-sheet assets totaled €9.4 billion on Dec. 31, 2013, of which €9.1 billion comprised loans to the concessionaires.

Covenants protect CNA from major adverse business and financial changes at the TROs. CNA may request full repayment of outstanding debt if a TRO breaches one of the following financial and operating covenants:

- Net debt to EBITDA should not exceed 7x;
- Interest coverage should be at least 2.2x;

- Contribution of toll-road, parking, and related activities should not fall to less than 80% of consolidated revenues and 85% of consolidated assets; and
- Merger and acquisition activity require CNA's approval.

However, we believe that the TROs' headroom under these covenants is still significant, as underlined by the French Competition Authority's report, published in September 2014 that emphasized the TROs' high profitability.

Additionally, the combination of the TROs' business strength, adequate to strong liquidity, and good access to capital markets should continue to support their ability to repay or eventually refinance their debt to CNA.

## Debt Burden: Declining Gradually

CNA's outstanding debt stood at €7.7 billion at the end of 2014. We believe annual amortization will average €1.6 billion in 2015-2018. The concessionaires reimburse CNA for the operating and financial costs that it incurs, as well as planned debt and interest repayments.

Interest rate risk remains very limited because most of the debt--about 80% on Dec. 31, 2014--is at fixed rates. Bonds, which represented 66% of CNA's financial debt on Dec. 31, 2014, are denominated in euros. Derivatives contracts are only used for hedging purposes, with no open trading positions. Interest rate swaps totaled €150 million at year-end 2014. We believe that the amount of derivatives contracts should decrease in the future alongside the decrease in outstanding debt.

**Table 2**

Caisse Nationale des Autoroutes Financial Summary											
	--Year ended Dec. 31--										
(Mil. €)	2014 (H1)	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Interest income on loans from tunnel and toll-road concessions	209	458	570	646	736	839	967	1,051	1,153	1,220	1,290
Interest expenses payable by CNA	209	458	570	646	736	839	973	1,058	1,160	1,225	1,297
Net result	0	0	0	0	0	0	0	0	0	0	0
Total assets	8,214	9,482	10,756	12,000	13,812	15,541	17,095	18,754	19,950	20,986	21,784
Of which outstanding loans to concessionaires	7,886	8,968	10,311	11,544	13,312	14,986	17,003	18,676	19,883	20,919	21,735
Total financial debt	7,902	9,091	10,311	11,544	13,312	14,986	17,003	18,661	19,878	20,918	21,735

Source: Caisse Nationale de Auroroutes.

## Related Criteria And Research

### Related criteria

- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

### Related Research

- France Outlook Revised To Negative; 'AA/A-1+' Ratings Affirmed, Oct. 10, 2014

**Ratings Detail (As Of February 11, 2015)****Caisse Nationale des Autoroutes**

Issuer Credit Rating	AA/Negative/--
Senior Unsecured	AA

**Issuer Credit Ratings History**

14-Oct-2014	AA/Negative/--
12-Nov-2013	AA/Stable/--
17-Jan-2012	AA+/Negative/--
07-Dec-2011	AAA/Watch Neg/--

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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