



Ministry of Transport Czech Republic

# D35 Highway PPP Project

Preliminary Information Memorandum  
&  
Market Consultation Questions

14 April 2021



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# Introduction

## Background and purpose of this document

The Czech Ministry of Transport (“MoT”) is contemplating the implementation of selected sections of the D35 Highway via a PPP model (“D35 Highway PPP Project” or the “Project”). To this purpose, MoT requested technical assistance from the European Investment Bank (EIB) through the European Investment Advisory Hub (EIAH) to undertake a thorough analysis of the feasibility of delivering the D35 highway project as a Public-Private Partnership (PPP). EIB has appointed PwC EU Services EESV represented by PricewaterhouseCoopers Česká republika s.r.o. for the execution of the PPP Feasibility Study for the D35 highway project in the Czech Republic. This Preliminary Information Memorandum (PIM) and market consultations are an integral component of the feasibility study being prepared.

The purpose of this document is to both provide preliminary information on the D35 Highway PPP Project and on this basis consult through a set of consultation questions on selected aspects of the Project with various Project stakeholders, including project sponsors, construction and operations contractors, investors, lenders, professional associations, etc.

It is envisaged that the decision on approval of the D35 Highway PPP Project and its launch will take place only after the parliamentary elections (taking place in October 2021) with the new Government making the key decisions.

We are particularly interested in your answers to questions raised in this PIM. For your convenience, the consolidated list of questions is also provided in Annex 1 to this document. Feedback on any additional areas of your interest would also be very much appreciated.

## The Consultation Process

The outcome of the market consultation is expected to contribute and impact the shape of the Project in this preparation stage. We also specifically note that your participation in this consultation process as well as the extent of your answers and feedback is at your full discretion.

The questions raised in this document cover a wide range of important Project issues and as such respondents should feel free to answer any questions which they feel relevant to their organisation. The MoT expressly recognises and accepts that any answers and feedback you may provide are of indicative and non-binding nature. All responses will be treated as confidential in the sense of (i) being anonymized and (ii) only aggregated conclusions will be drawn and presented from the responses received. Additionally, should the MoT and its advisors wish to clarify and discuss with individual respondents in more detail any provided answers and feedback we would kindly request that we may contact you at your convenience.

If you opt to participate in the consultation process, you are kindly asked to send your responses to the following email addresses by April 30, 2021:

- [martin.janecek@mdcr.cz](mailto:martin.janecek@mdcr.cz)
- [karel.kolar@pwc.com](mailto:karel.kolar@pwc.com)

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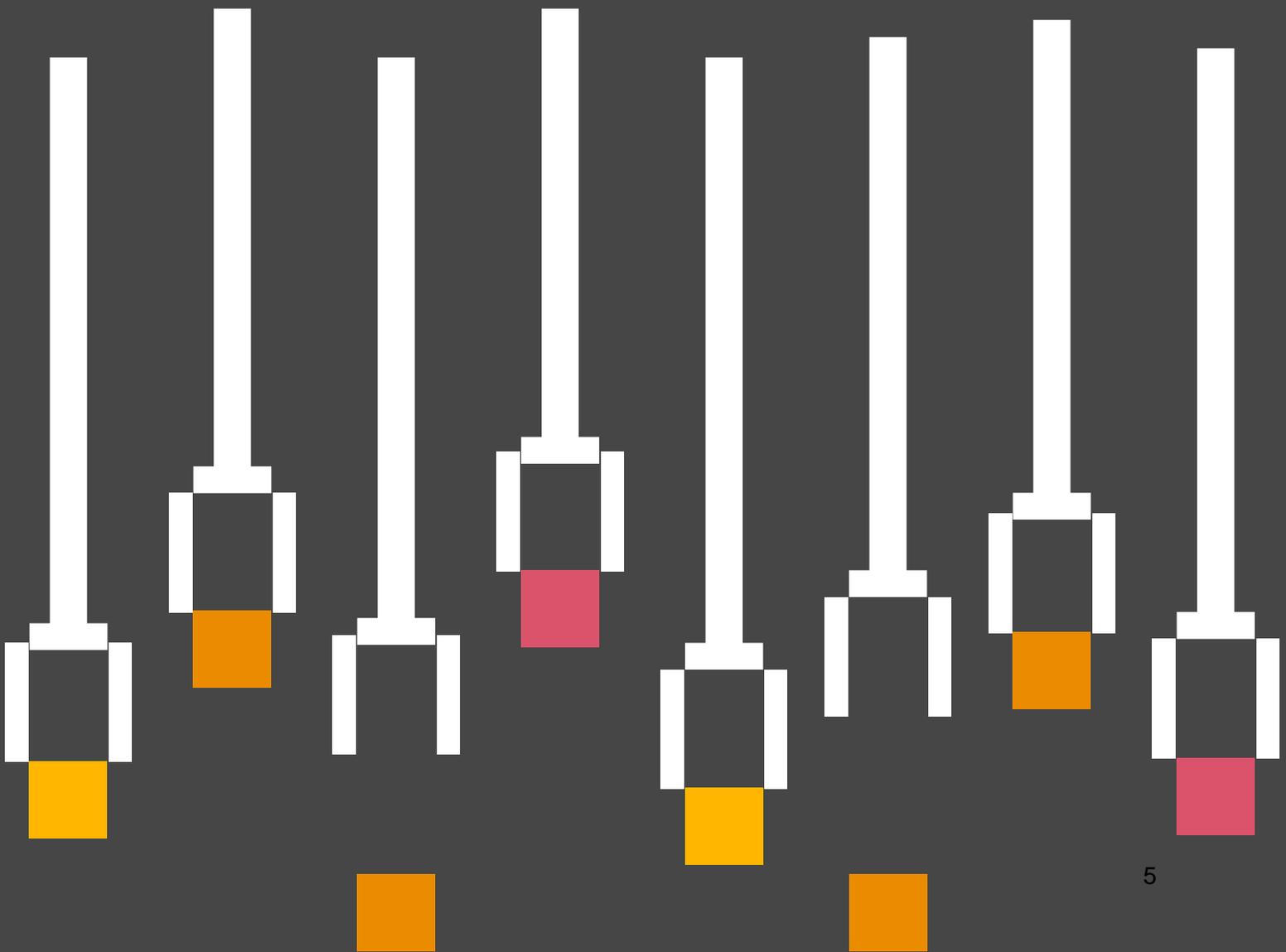
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# Part A Preliminary Information Memorandum



## Key Project Highlights

<b>Contracting Authority</b>	<b>Ministry of Transport of the Czech Republic</b>
<b>Project</b>	<p>The concessionaire should be responsible for the Design, construction, finance, operation and maintenance of selected sections of the D35 highway which will form the PPP Project.</p> <p>For the purpose of PPP Project <b>three variants</b> involving a different number of sections are contemplated:</p> <p>Variant <b>A</b>: Dzbanov ●———— 64.5 km ———● Mohelnice  Variant <b>B</b>: Litomyšl ●———— 56.9 km ———● Mohelnice  Variant <b>C</b>: Janov ●———— 46.5 km ———● Mohelnice</p>
<b>Project Support</b>	<p>The Project itself is part of the government's long-term infrastructure plan to complete development of the highway network in the Czech Republic.</p> <p>The Project is also part of the TEN-T comprehensive network and has been recognised by the Czech authorities as strategic for international and inter-regional connectivity.</p>
<b>Capital Expenditures (CAPEX)</b>	<p>Variant <b>A</b>: approx. EUR 1.66 B.<sup>1</sup>  Variant <b>B</b>: approx. EUR 1.50 B.  Variant <b>C</b>: approx. EUR 1.36 B.</p>
<b>Key Technical Structures</b>	<p>All three variants include two tunnels (3,983 m &amp; 1,313 m)</p> <p>Variant A: 85 bridges (subject to change on Litomyšl bypass)  Variant B: 76 bridges (subject to change on Litomyšl bypass)  Variant C: 62 bridges</p>
<b>Payment Mechanism</b>	<p>Availability based payment mechanism subject to deductions for underperformance (Project road unavailability and failure to meet performance standards)</p>
<b>Key Risks Allocation</b>	<p>The concessionaire will bear construction and availability risk; demand risk will be borne by the public sector.</p> <p>The risk allocation will be designed in compliance with ESA 2010 rules for off-balance treatment of the Project in national accounts.</p>
<b>Contract Period</b>	<p><b>Construction period:</b> approximately 4 years</p> <p><b>Operating Period:</b> up to 26 years</p>
<b>Preliminary Procurement Timetable</b>	<p>Prequalification is envisaged to start in <b>1Q 2022</b> at the earliest, subject to Project approval by the newly established government after the Parliamentary election (scheduled October 2021).</p>

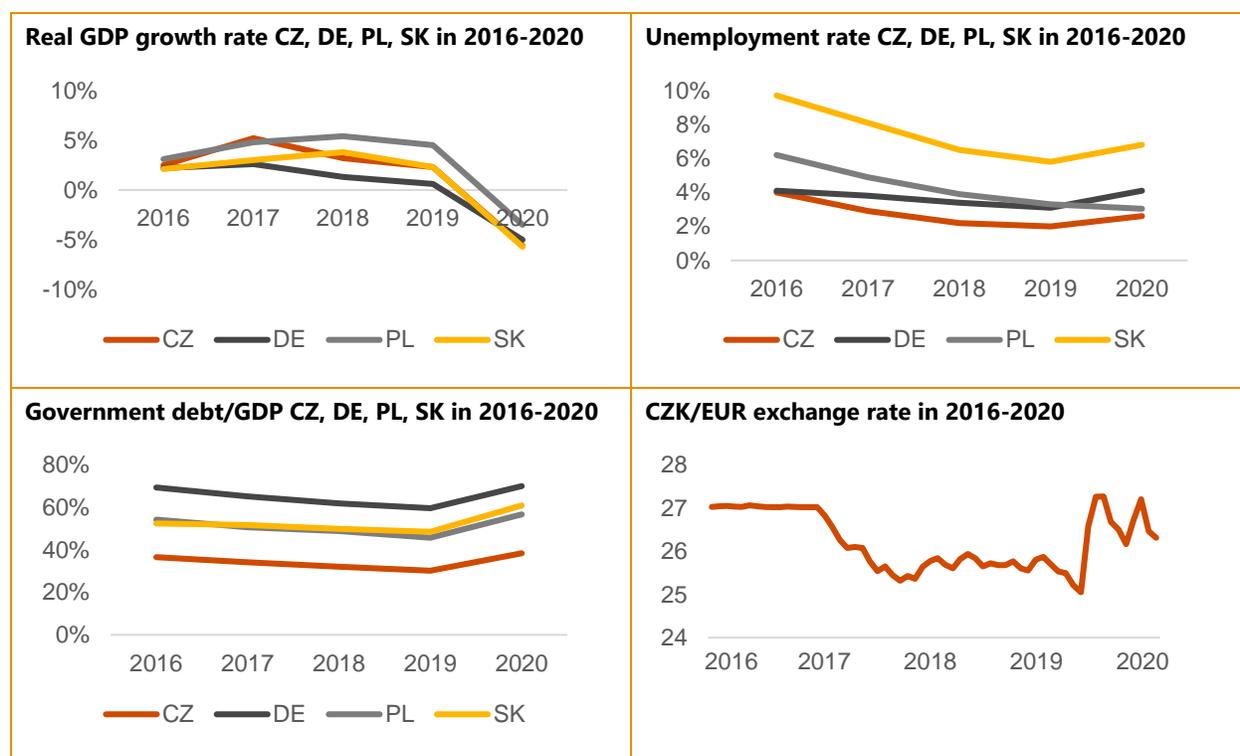
<sup>1</sup> 2019 prices as provided by the MoT. CZK/EUR=25.75 rate used throughout the document

# Overview of the Czech Republic

## Economic Overview

The Czech Republic is one of the most developed and industrialised economies in Central and Eastern Europe with a well-developed banking sector. It boasts a highly skilled and relatively cheap labour force. The economic performance is highly dependent on exports (almost 75% of GDP). EU markets absorb about 84% of total exports with Germany representing almost one third. Inflation in 2020 reached 3.2%, which is a slight increase from 2.8% in 2019.

Comparison of key macroeconomic indicators with its main neighbours is depicted in the following graphs:



Source: Czech National Bank (CNB), Eurostat, National Statistical Offices

The Czech Republic is not a Eurozone member and although by the signed EU accession treaties it is obliged to join the Eurozone, currently there is no specific date set for the process. Whilst relatively stable during the pre-Covid-19 period when the CZK exchange rate floated in a CZK 25-26 per Euro band, the Covid-19 period brought more volatility due to both external but also internal factors.

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### Credit Rating

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The Czech Republic benefits from a strong investment grade rating; it is rated by S&P and Fitch as AA- with Stable outlook (long term foreign currency) and AA (long term local currency). Moody's improved its rating in 2019 to Aa3 (for both long term foreign and local currency).

The rating reflects the country's conservative fiscal and monetary policy resulting in low levels of government debt supported by a strong banking sector operating in a relatively diversified industrial economic base and makes the Czech Republic one of the least risky countries in the EU.

Similar to other countries, the Covid-19 pandemic, with the GDP drop and numerous supporting measures introduced by the government, had considerable impact on the state budget and its deficit in 2020 resulting in an increase of government debt to GDP to 38.4% in 2020 from 30.2% in 2019. However, the actual impact during 2020 was, in the end, smaller than originally estimated. Due to the winter 2020/2021 wave of pandemic further impact is expected also in 2021 and the new 2021 approved state budget deficit assumes the government debt to reach some 43%. This is still notably below both the Maastricht criteria and comparing to many other EU countries.

Despite these developments, the latest rating reviews available from Fitch and Moody's, as of February 2021, are confirming previous enhancements achieved during 2018-2019.

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### Political Overview

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The current Czech government is a coalition led by the ANO party as the 2017 elections winner and the Social Democratic party. Both parties were supportive of the Czech's D4 highway PPP pilot project which was approved in the parliament in February 2021 with no opposing votes, except for the Pirates party and Mayors and Independents party who abstained.

With respect to transport infrastructure, there is a wide political consensus that the completion of the overall backbone network, which as of now is significantly overdue, is one of the highest priorities. This is also reflected in the country's National Investment Plan for Europe. With expected diminishing EU transfers for major infrastructure projects in the coming planning periods, new types of financing resources and procurement methods are being sought and tested by the Czech government.

The upcoming elections shall take place in October 2021 and it is envisaged that the decision to approve the D35 Highway PPP Project will only be made after the elections by the new Government.

## Legal and Legislative Framework

The legislative framework in the Czech Republic is mostly in line with the standard EU legislative framework. The Concession Agreement including the arbitration arrangements as well as all non-contractual obligations is governed by the laws of the Czech Republic.

An amendment to the legislature governing linear infrastructure in the Czech Republic is applicable from 1.1.2021. It mainly aims at facilitating the permitting process by so called “interim decision”. Analogous with the Polish approach, the interim decision enables the applicant to commence construction works on expropriated land while the ongoing expropriation proceeding regarding the price for expropriation continues in parallel. The interim decision cannot be appealed, only judicial review is allowed (a process under which a court examines conformity with the relevant executive actions). The interim decision can be issued in the same proceeding together with the zoning permit (enabling the construction works commencement subject to obtaining building permit), building permit or joint permit. Given the conditions for issuing the joint permit have also been modified by the legislative amendment, it has the potential to speed up the permitting process considerably.

The procurement process to award the concession contract is run on the basis of the Public Procurement Law and for authorizing PPPs in the Czech Republic both the required governmental and the parliamentary approvals are in line with the Roads Transport Act (Zakon o pozemnich komunikacich). As such, achieving political and public support for the project is crucial.

## Contracting Authority

The Contracting Authority for the Project will be the Ministry of Transport of the Czech Republic.

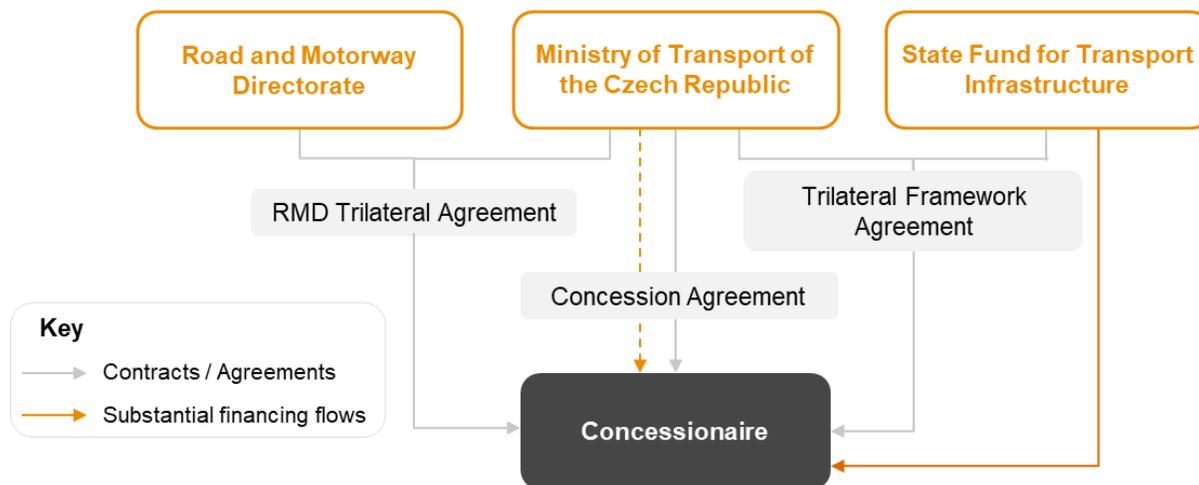
The MoT is responsible for setting the overall strategy for development of the road transport infrastructure in the Czech Republic. The implementation of the strategy is carried out by the Road and Motorway Directorate (RMD) which is responsible for all management and organisational aspects of the construction, modernisation, operation, and maintenance of the backbone road transport infrastructure (highways and 1<sup>st</sup> class roads). RMD is set up by the MoT as a special purpose state subsidised organisation and its activities are funded by the State Fund for Transport Infrastructure (SFTI).

SFTI is a legal entity established by law and operating under the MoT umbrella. Under its defined role the SFTI is the recipient of transport related funding sources which are then used in financing of the development of new and maintenance of existing transport infrastructure in the Czech Republic. Similarly to the current pilot PPP project on D4 highway (“D4 Pilot PPP”), SFTI will be responsible for the facilitation of some or all availability and compensation payments on behalf of the MoT. Yet, the ultimate responsibility for any payments stays with MoT. The overall budget of the SFTI in 2020 reached CZK 87.3 billion (EUR 3.3 billion) and for 2021 its budget is approved at CZK 127.5 billion (EUR 4.9 billion), representing an increase of 46%.

## D35 Highway PPP Project in the Czech Republic

The key Contracting Authority representatives participating in the Project can be seen in the figure below:

Figure 1: Contracting Authority representatives to the Project<sup>2</sup>



## PPP Experience and potential project pipeline

During 2019-2020 the Contracting Authority has selected a winner for the D4 highway PPP project, a first of its kind in the Czech Republic and in 2021 signed the Concession Agreement with the selected VINCI/Meridiam consortium. This pilot road PPP project with a CAPEX of ca. EUR 450 mil. involves a 28-year DBFOM contract.

The Contracting Authority expects to significantly leverage on the experience gained from this pilot project during both the preparation of the D35 highway as its next potential PPP project, and then its implementation if approved by the new government after the parliamentary elections.

For the longer term the Contracting Authority has also identified other potential compact segments of its highway network which might be potentially procured as PPP, namely the D3 in the Central Bohemia region.

<sup>2</sup> Please note that the dotted line represents the MoT's ultimate responsibility for any payments which the SFTI would not be able to contribute.

## Strategic importance and objectives

D35 highway, as a whole, with its 260 km represents, next to the main highway artery (D1), a significant part of the country's highway network which at the beginning of 2021 consisted of more than 1,300 km. To complete the network the MoT plans to build another circa 700 km, substantially during the next 20 years.

The specific priorities of the Czech transport infrastructure are identified in the two latest strategic documents prepared by the Czech Authorities. The importance of the D35 project has been recognized in the Transport Sector Strategies<sup>3</sup>, where the construction of several missing sections of the D35 highway were identified as essential in order to complete the backbone road network of the Czech Republic. Furthermore, the D35 highway, in its entire length, is part of the TEN-T comprehensive network and has been recognised as strategic for international and inter-regional connectivity. This aligns the D35 PPP project with the Transport policy of the Czech Republic<sup>4</sup> which states that PPPs should be applied exclusively to the crucial parts/sections of the Czech road network.

Once completed, the D35 highway is expected to ease pressure on the strained D1 highway between Prague and Brno by diverting some traffic to D35 highway via D11 (which starts in Prague) and with which it merges near the city of Hradec Kralove and then continues eastwards to city of Olomouc (please see the map on h next page).

It is in this segment, i.e. between Hradec Kralove and Olomouc, that the highest traffic intensities out of the entire D35 are expected, ranging from 31,000 to 53,000 vehicles per 24 hours in both directions as in 2040<sup>5</sup>.

For the D35 highway PPP the MoT has established the following strategic objectives:

- Foster value engineering and innovative approaches in design, construction and operation of Project road
- Provide better service for road users through proper operation and maintenance
- Project implementation in the planned time horizon
- Improve traffic access, reduce travel time and thus improve the quality of life and the environment
- Hand back of the Project road at defined standard and quality to the Authority at the end of the Project period
- Optimum allocation and management of risks
- Achieve value for money for the Authority.

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<sup>3</sup> Transport Sector Strategies, Phase 2 (Update 2017 - approved by the government in 02/2018) [https://www.dopravnistrategie.cz/images/projekt/ke-stazeni/Aktualizace2017/III\\_DSS-Aktualizace2017\\_Materil\\_PoZZ.pdf](https://www.dopravnistrategie.cz/images/projekt/ke-stazeni/Aktualizace2017/III_DSS-Aktualizace2017_Materil_PoZZ.pdf)

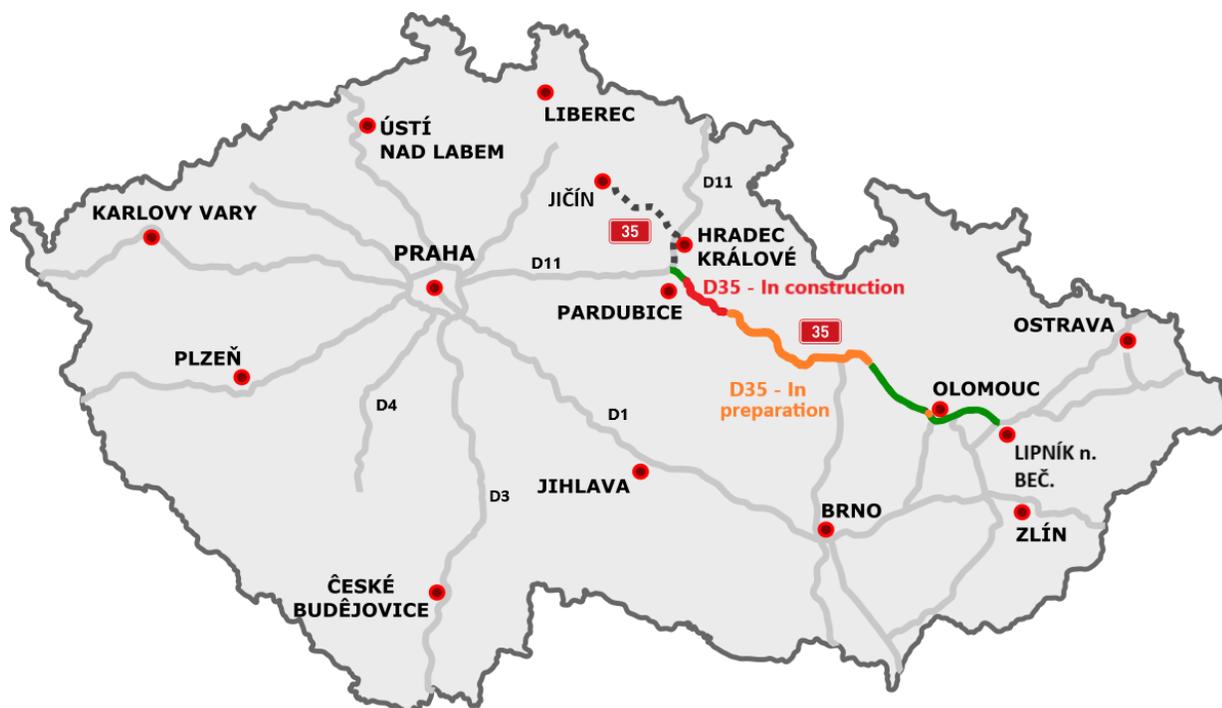
<sup>4</sup> Transport policy of the Czech Republic for the period 2021 - 2027 with a view until 2050 <https://www.mdcz.cz/Dokumenty/Strategie/Dopravni-politika-CR-pro-obdobi-2014-2020-s-vyhled>

<sup>5</sup> D35 Opatovice – Mohelnice HDM-4 Economic Assessment - Final Report (2017)

## Project road description

The D35 highway in its entirety provides for the major northern route connecting Bohemia with Moravia. As such it is also designated to serve as an alternative East-West route (E442) to the D1 highway (E50/E65) in the section Jičín – Hradec Králové – Olomouc – Lipník nad Bečvou.

Figure 2: Map of the Czech Republic and selected highway infrastructure



Source: Ministry of Transport / RMD

Together with the D11 highway the D35 segment between Hradec Králové and Olomouc forms the backbone part of the D35 highway thus facilitating eastward connection from Prague as shown in the map above. Additionally, it connects important towns and regions of the country and will provide also by-pass diverting traffic currently passing through a number of towns on the route.

As the map also shows the D35 highway is in various stages of completion and out of its total length there are several sections already in operation (depicted in green colour) while other sections are currently under construction (depicted in red colour) and are expected to be put into operation in 2022.

The remaining part (depicted in orange colour) is currently in the preparation stage which consist of land acquisition, zoning and building permitting processes managed by the MoT together with RMD. It consists of 7 sections with total length of 77.5 km and the achieved degree of preparation significantly differs from section to section. This is also one of the critical factors in optimising the procurement approach for individual sections of this remaining part.

In this respect, the MoT considers the completion of the western sections, namely Ostrov – Vysoké Mýto and Vysoké Mýto – Džbánov (depicted in red in the map below), of the highest priority and their construction should start as soon as practicably possible.

## D35 Highway PPP Project in the Czech Republic

However, given the envisaged PPP procurement timeline including these two sections under the PPP procurement would cause delays to their implementation (given their advanced stage of their preparedness). For this reason, these sections would most likely be procured using the traditional procurement model, while the remaining sections are subject to analysis of being procured using the PPP approach (as described further in Project scope section below).

Furthermore, one of O&M centres is also envisaged to be located in between the two high-priority sections mentioned above and two western-most sections, which are currently under construction. Hence, it would be sensible that all these sections would be serviced and administered by one party from one place, which in this case would be the RMD.

As it is also not envisaged by the Contracting Authority that any brownfield sections would be part of the potential D35 Highway PPP Project the sections currently under construction would not be included in the PPP project under an operation & maintenance scheme.

The highway's envisaged route, including the proposed tunnels, is planned such that it does not negatively impact any environmentally sensitive areas in the region.

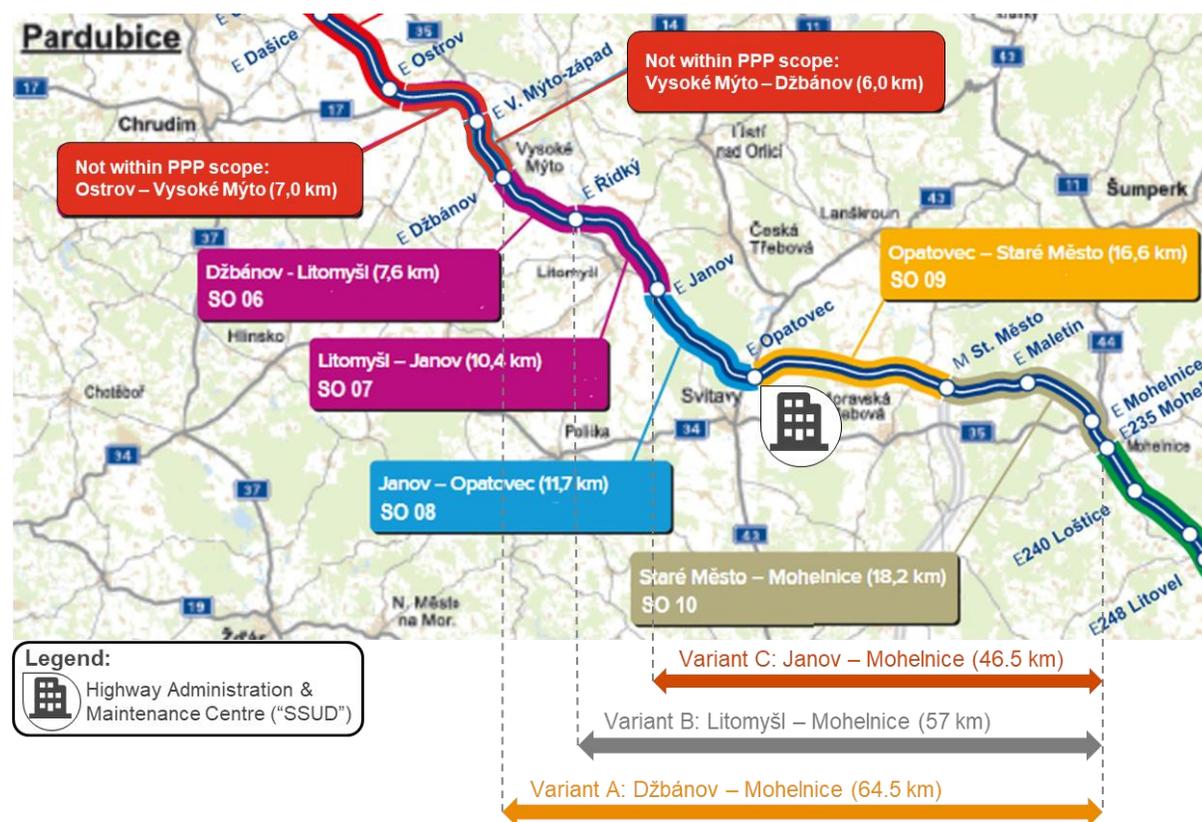
## Scope of the Project

The concessionaire will be responsible for the design, construction, finance, operation and maintenance (DBFOM) of selected sections of the D35 highway. The operation and maintenance obligations of the concessionaire are envisaged to include, *inter-alia*, winter maintenance, routine maintenance, heavy maintenance (life-cycle works), traffic management and safety, surveillance, accident and hazard removal, traffic signalling.

As described above and also based on other initial analyses as part of this feasibility study, the MoT currently considers as most likely candidates for the PPP purposes up to five sections of the D35 highway stretching between towns of Džbánov and Mohelnice.

Three variants of the considered composition of sections for PPP procurement are depicted in the below map:

Figure 3: Map of the D35 sections considered for the PPP project



Source: Ministry of Transport / RMD

Due to its ideal location the MoT also offers the use of lands for construction of an O&M Centre as depicted above and which would efficiently serve under any of the considered variants.

## D35 Highway PPP Project in the Czech Republic

The three DBFOM variants and some key parameters of the road sections are summarised in the table below:

Sections (from west to east)	Variant A	Variant B	Variant C	Length (Km)	CAPEX in EUR mil.	Structures
Dzbanov – Litomyšl (SO 06)				7.6	153	Bridges: 9
Litomyšl – Janov (SO 07)				10.4	148	Bridges: 14
Janov – Opatovec (SO 08)				11.7	174	Bridges: 15 (1,218 m)
Opatovec – Stare Mesto (SO 09)				16.6	634	Bridges: 18 (700 m) Tunnel: 1 (3,983 m)
Stare Mesto – Mohelnice (SO 10 + SO 11)				18.2	548	Bridges: 29 (3,542 m) Tunnel: 1 (1,312.5 m)
<b>Total length (Km)</b>	<b>64.5</b>	<b>56.9</b>	<b>46.5</b>			
<b>Total CAPEX in EUR mil.</b>	<b>1,657</b>	<b>1,504</b>	<b>1,356</b>			

O&M  
Centre  
possible  
location

Source: MoT, Road and Motorway Directorate of the Czech Republic (EIA: Environmental Impact Assessment; ZP: Zoning Permit; BP: Building Permit; RMD: Road and Motorway Directorate)

The two tunnels form part of the last two eastern-most road sections and the MoT would seek the most efficient management of these tunnels from one location due to logistics and necessary utilities.

Market consultation question #1:

**What are your views on the scale of the Project (CAPEX)? In particular, what are your views on the aforementioned variants of the scope of the PPP project?**

**What are your views on the technical features (detailed in Annex 2) and structures (summarized above) of the highway? Do you concur that it is sensible to tender the two sections which include tunnels jointly, such that the tunnels can be operated and maintained efficiently? Please elaborate on any issues related to the technical aspects, particularly in relation to tunnels, their management/monitoring, operation and maintenance and other critical functions which you could foresee.**

Table 2: Overview of the status of preparedness of the individual D35 sections

## D35 Highway PPP Project in the Czech Republic

Sections (linear from west to east)	EIA	Zoning permit	Docs for building permit	Building permit	Land acquisition	Comment
Dzbanov – Litomyšl (SO 06)	Obtained	Obtained & appealed	Preparation ongoing	Not started	Not started	Memorandum of understanding is being prepared so that the ZP appeal is withdrawn
Litomyšl – Janov (SO 07)	Obtained	Obtained & appealed	Preparation ongoing	Not started	Not started	Memorandum of understanding is signed; ZP appeal could be withdrawn
Janov – Opatovec (SO 08)	Obtained	Obtained & in force	Completed	Not started	Not started	
Opatovec – Stare Mesto (SO 09)	Obtained	Obtained & in force	Preparation ongoing	Not started	Not started	
Stare Mesto – Mohelnice (SO 10 + SO 11)	Obtained	Collecting documents for ZP procedure	Not started	Not started	Not started	

Source: MoT / RMD

With respect to the site and different degrees of preparation achieved for the Project sections under consideration, it is envisaged that the following documentation and surveys will be provided to potential bidders during the competitive dialogue as part of due diligence phase of the Project:

- Zoning permits including related documentation (Dokumentace pro územní rozhodnutí - DUR)
- Building permit documentation
- Geotechnical engineering surveys, an exploratory borehole (for the tunnel parts) could be realised in parallel with the competitive dialogue

Following the D4 Pilot PPP project procurement, and with respect to the degree of preparation of documentation for building permits and the process to obtain them which may be achievable on D35 before bid submission, the MoT contemplates options how to engage the concessionaire more actively in final stages of those processes and obtaining building permits.

This particularly takes into account (i) the fact that due to now quite advanced process of preparation of documentation for building permits for some D35 sections the MoT may as part of the PPP procurement (similar to what had been done on D4 Pilot PPP) introduce certain additional minimum technical requirements which may differ from the documentation as produced until now, (ii) encouraging the concessionaire to introduce as many design improvements as it deems necessary or fit for the Project purposes which would require changes to already produced

documentation for building permits or changes to building permits issued before bid submission themselves and (iii) thus as a result also save time in the re-designing and re-permitting process if the completion of the procurement would be dependent on substantial delivery of all such permits.

Market consultation question #2:

**Please provide your view on the extent of technical information to be provided in the data room, and in particular in relation to the tunnels to maximise the value for money for the Contracting Authority. What other documentation and/ or surveys you would find necessary or useful for better managing related risks?**

**Please provide your view on the possibility, scale, and scope of your potential involvement in completing the preparation of the documentation for building permit and/or obtaining building permits themselves in the context of this project, please outline major risks and issues connected with such approach and under what conditions such approach could work. Please also elaborate from your experience (as relevant) on any conditions precedent in this area and any other suggestions you may have regarding this.**

## Envisaged risk allocation

It is envisaged that the risk allocation will be in principle based on the recently procured PPP projects, such as in the Czech Republic and Slovakia. The risk allocation will also be designed to comply with ESA 2010 rules for off-balance treatment of the Project in national accounts.

The concessionaire will have the responsibility for a significant part of the risk related to construction, operation and maintenance (availability) and financing of the Project, whereas the public sector will bear the demand risk.

The Concession Agreement will include residual life provisions which will require that the Project road sections be handed back at the end of the operation period in a condition which will not require disproportionate spending on renewals or maintenance after the hand back. The provisions of the Concession Agreement will cover inspection regimes, renewal programmes, hand back inspections, and associated commercial arrangements.

The Project road will be in the legal ownership of the Czech Republic.

## D35 Highway PPP Project in the Czech Republic

The envisaged risk allocation is presented in the following risk matrix.

Risk category	Risk allocation		
	Private	Public	Shared
Land acquisition		X	
Building Permits	X <sup>6</sup>		
Design & Construction	X		
Unforeseen findings (dangerous materials, utilities, archaeological)		X	
Demand		X	
Operation / Maintenance	X		
Asset condition at hand-back	X		
Insurance	X		
Financing	X		
Interest rates risk after financial close	X		
Inflation during construction	X		
Inflation during operation (indexation of the availability payments)		X	
Forex (Availability payment related)		X	
Forex (capex related) after financial close	X		
Tax changes – general	X		
Tax changes – specific		X	
Compensation on early contract termination – SPV default	X <sup>7</sup>		
Compensation on early contract termination – Contracting Authority default		X	
Compensation on early contract termination – Relief and Force Majeure reasons			X
Political changes		X	
Changes in legislation			X
Force majeure			X

<sup>6</sup> Please see section “Scope of the Project” where the MoT’s intentions with regard to this aspect are addressed.

<sup>7</sup> Compensation subject to establishment of the market value of the Concession Agreement (by retendering or expert valuation)

Market consultation question #3:

**Please provide your views on the envisaged risk allocation between public and private sector.**

## Payment mechanism

The payment mechanism will be structured to provide availability payments from the public sector to the concessionaire during the operational period.

To maximise flexibility in arranging the financing and to mitigate the currency risk for the Concessionaire, it is envisaged that the Contracting Authority would enable the availability payments to be made in both currencies (CZK and/or EUR) at the discretion of the Concessionaire while meeting relevant Eurostat conditions where availability payments in EUR cannot exceed the Concessionaire's outflows (during operating phase including servicing its financing) contracted in EUR. This approach was utilized in the D4 Pilot PPP project.

The availability payments will be made subject to 1) deductions for unavailability and 2) deductions for failing to maintain performance standards (penalty points).

The level of deductions for unavailability will reflect the relative significance of the unavailability (both in terms of Project road use and road safety) and will consider aspects such as:

- Duration of unavailability.
- The length of road affected.
- The number of lanes directly affected.
- The need to use any contraflow.
- The traffic levels during the day.
- Specific deduction regimes for tunnels.
- Unavailability during specifically defined days of the year (e.g. national holidays).

Additionally, deductions for failing to meet contractually set performance standards will take into account the qualitative parameters defined in the contractual documentation, including items such as: quality of maintenance, operating procedures, response times, accuracy of data recording, etc.

Consistent with Eurostat rules, it is anticipated that the amount of deductions will not be capped (i.e. they can reach up to the level of availability payments). For both types of deductions, the contractual documentation may include reduced and/or zero deductions for certain agreed relief and compensation events. Also, for deductions that occur for reasons outside the concessionaire's control (e.g. accident, Police instructed closures, etc.), an agreed rectification period may be included during which the deductions are not applied.

It is also anticipated that part of the availability payment will be indexed in line with inflation. Indexation will apply to the part of the availability payment that goes to meet the concessionaire's underlying operating costs.

The payment mechanism will be developed in detail by the MoT in the period leading up to the commencement of the procurement process, and then during the procurement process itself as a result of dialogue with bidders to ensure a clear and measurable link between project outcomes and the way in which the eventual private partner is incentivised. A draft payment mechanism will be circulated as part of the tender documentation. At this stage comments are invited on the broad principles only.

Market consultation question #4:

**What are your views on the general principles of the payment mechanism?**

## Financial structure

The MoT envisages bidders to implement a typical long-term project financing structure where a special purpose vehicle secures financing by way of non-recourse debt with maturities aligned with the envisaged contract duration.

It is also the MoT's intention to enter into discussions with the EIB early in the process regarding its participation as a multilateral lender in the Project. Due to the size of the project, it is anticipated that debt financing will be denominated in a combination of EUR and CZK financing sourced from both local and international commercial banks and institutional investors.

To extend liquidity available for the Project and to improve Value For Money for the public sector, the MoT would also be considering the involvement of and enter into discussions with the Czech-Moravian Guarantee and Development bank (Českomoravská záruční a rozvojová banka - CMZRB) and the National Development Fund (NDF) in the co-financing of the Project.

CMZRB is the Czech state-owned guarantee and development bank. In line with the Czech government economic policy, the bank is involved in facilitating easier access to financing for SMEs, as well as in the field of financing infrastructure projects.

NDF is a multi-compartment collective investment scheme (Société d'investissement à Capital Variable – SICAV) regulated under the Alternative Investment Fund Managers Directive (AIFMD) with a variable share capital, where 100% of the founding shares are owned by CMZRB. Its main objective is to provide riskier layers of project financing, especially in the area of infrastructure financing, through sub-funds in which private investors invest. The NDF co-financing through the subordinate form aims to add liquidity to the project and also reduce financial risks from the point of view of other creditors and thus enabling larger mobilization of other private resources. Key driver is a return on invested funds provided by sub-fund investors. To date participating investors have made commitments of ca. EUR 270 mil. for various projects.

Available financial instruments would include equity, mezzanine debt, long-term debt, project guarantees (payment, early termination, loans), among others. The use of these instruments for the Project's financial structure would be made on the basis of their availability and at competitive terms to ensure Value for Money for the Contracting Authority.

Market consultation question #5:

**What financial structure would you consider to be the most appropriate to deliver this Project? What is your estimate of the following parameters (Please provide separate answers for the Project for the three variants separately):**

- Gearing
- Debt maturity
- Approximate debt margins
- Blended IRR (equity + shareholder loan)
- Potential and/or preferred financing currency mix (including proportion split if possible) for the Project given its parameters

**Please state any other critical / key potential financing issues of the Project given its parameters and potential/preferred financing currency mix.**

**Please provide your views on the involvement of CMRZB and NDF in financing the project? Please share your preference regarding the financial instruments, should you have any. What key issues would you see related to their involvement, if any?**

**If you are a financial institution, please also provide a preliminary estimate of the following parameters:**

- Potential (approximate) ticket size of your institution for this Project (in EUR equivalent), please also state which currency would be available for the Project (CZK and/or EUR)
- Length of commitment period.

## Procurement process

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### Procurement procedure

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The MoT is contemplating using the competitive dialogue procedure to procure the Project.

After potential bidders submit their requests for qualification, their technical qualification criteria will be assessed and only four bidders will be shortlisted for the competitive dialogue stage.

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### Qualification criteria

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Through the pre-qualification process, the MoT will emphasise selecting candidates with the necessary competence, experience and capacity to be able to handle a project of this type, size and complexity. It is anticipated that the qualification criteria will be focused on the following aspects:

- Technical and professional expertise and capacity to design and construct highway sections and structures (bridges & tunnels) of similar size to the Project
- Technical and professional experience, competence and capacity to be able to maintain and operate highway sections and structures (bridges & tunnels) of similar nature, scale and complexity to the Project

## D35 Highway PPP Project in the Czech Republic

- Experience in realisation of road DBFOM (or similar PPP structure) projects of similar nature, scale and complexity to the Project.

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### Evaluation criteria

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It is anticipated that the MoT will award the contract to the private partner that, based on an overall evaluation of the tender, has submitted the most economically advantageous tender. Net present value of availability payments will be the key evaluation criterion. In the D4 Pilot PPP project this criterion was attributed a 99% of the total weight of the evaluation and the remaining 1% was related to technical criteria.

A more detailed specification of qualification and evaluation criteria will be available in the tender documents.

Market consultation question #6:

**What are your views on the use of competitive dialogue? What are your views on the envisaged qualification and evaluation criteria? What are your views on the number of shortlisted bidders?**

## Preliminary timetable

Indicative timetable	Duration	Estimated timing
Government approval		January 2022
PPP tender prequal start		March/April 2022
Competitive dialogue	7-9 months	
BAFO (including evaluation)	3 months	
Commercial close (including approval processes)	2-3 months	
Financial close	4 months	
Construction period	ca. 4 years	
Operation period	Up to 26 years	

Market consultation question #7:

**Please provide your views on the envisaged timeline for the Project (length of the procurement process, the construction period, and the operation period).**

## General consultation questions

Market consultation question #8:

**Within the scope of your future plans, would you see this Project as a:**

- **High priority**
- **Medium priority**
- **Low priority**

**Please indicate the reasons for your response.**

Market consultation question #9:

**What makes this Project attractive to you? Are there any other considerations that would influence the attractiveness of the Project to you? What aspects / actions could the Ministry of Transport undertake to maintain your interest and commitment?**

Market consultation question #10:

**Having considered the information you have been given regarding this Project, would you be likely to tender for it?**

# Part B

# Annexes

## Annex 1 – Market consultation questions

The following is a consolidated list of questions for market consultation drawn from the Preliminary Information Memorandum.

Please provide answers to the questions below and any further comments and suggestions you may have with regard to the attached Preliminary Information Memorandum.

**1. What are your views on the scale of the Project (CAPEX)? In particular, what are your views on the aforementioned variants for the scope of the PPP project?**

**What are your views on the technical features (detailed in Annex 2) and structures (summarized above) of the highway? Could you please concur that it is sensible to tender the two sections which include tunnels jointly, such that the tunnels can be operated and maintained efficiently? Please elaborate on any issues related to the technical aspects which you could foresee**

**2. Please provide your view on the extent of technical information to be provided in the data room, and in particular in relation to the tunnels to maximise the value for money for the Contracting Authority. What other documentation and/ or surveys you would find necessary or useful for better managing related risks?**

**Please provide your view on the possibility, scale, and scope of your potential involvement in completing the preparation of the documentation for building permit and/or obtaining building permits themselves in the context of this project, please outline major risks and issues connected with such approach and under what conditions such approach could work. Please also elaborate from your experience (as relevant) on any conditions precedent in this area and any other suggestions you may have regarding this.**

**3. Please provide your views on the envisaged risk allocation between public and private sector.**

**4. What are your views on the general principles of the payment mechanism?**

**5. What financial structure would you consider to be the most appropriate to deliver this Project?**

**What is your estimate of the following parameters (Please provide separate answers for the Project for the three variants):**

<b>Variants:</b>	<b>A</b>	<b>B</b>	<b>C</b>
Gearing			
Debt maturity			
Approximate debt margins			
Blended IRR (equity + shareholder loan)			
Potential and/or preferred financing currency mix (including proportion split if possible) for the Project given its parameters			

**Please state any other critical / key potential financing issues of the Project given its parameters and potential/preferred financing currency mix.**

**Please provide your views on the involvement of CMRZB and NDF in financing the project? Please share your preference regarding the financial instruments, should you have any. What key issues would you see related to their involvement, if any?**

**If you are a financial institution, please also provide a preliminary estimate of the following parameters:**

Potential (approximate) ticket size of your institution for this Project (in EUR equivalent), please also state which currency would be available for the Project (CZK and/or EUR)	
Length of commitment period	

**6. What are your views on the use of competitive dialogue? What are your views on the envisaged qualification and evaluation criteria? What are your views on the number of shortlisted bidders?**

**7. Please provide your views of the envisaged timeline for the Project (length of the procurement process, the construction period, and the operation period).**

<b>8. Within the scope of your future plans, would you see this Project as a priority:</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Please indicate the reasons for your response.</b>			
<b>9. What makes this Project attractive to you? Are there any other considerations that would influence the attractiveness of the Project to you? What aspects / actions could the Ministry of Transport undertake to maintain your interest and commitment?</b>			
<b>10. Having considered the information, you have been given regarding this Project, would you be likely to tender for it?</b>	<b>Yes</b>	<b>No</b>	
	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Thank you for the time you dedicated to the questionnaire. You are kindly asked to send your responses to the following email addresses by <u>April 30, 2021</u>:</b>			
<ul style="list-style-type: none"><li><b>To: martin.janecek@mocr.cz</b></li><li><b>Cc: karel.kolar@pwc.com</b></li></ul>			

## Annex 2 – Detailed sections' descriptions<sup>8,9</sup>

### Dzbanov – Litomyšl (SO 06)

This section's route begins after the Dzbanov interchange where it connects to the previous section "Vysoké Myto – Dzbanov SO 05". It is routed through scattered settlements south of the existing road I / 35. Between the villages of Hrusova and Cerekvice nad Loucnou it crosses the existing road I / 35 and further continues north through rugged terrain towards Litomyšl. The section ends north of the village of Sedliste, where it connects to the section "Litomyšl – Janov SO 07" of the D35 highway.

A total of nine bridge structures are designed in this highway section due to the rugged terrain. The largest bridge is over the road I / 35 and the railway line No. 018 Chocen – Litomyšl at km 47.48 with a length of 317 meters. Then the bridge over the valley of the Koncinsky brook at km 49.77 with a total length of 429 meters. Furthermore, an overpass over the main route is proposed, which reroutes the road III / 03529. One bridge also leads over the main route at the Ridky interchange.

In terms of height, the main route runs in longitudinal slopes of up to 2.35%. Due to the rugged terrain, the embankment and notch sections alternate. The maximum depth of the notch is 12 m, the maximum height above the ground is 20 m on the bridge over the valley of the Koncinsky stream.

EIA	Zoning permit	Building permit	Construction start	Operation start
10/2013 <sup>10</sup>	12/2019	2022	2023	2026

Source: MoT, Road and Motorway Directorate of the Czech Republic

#### Technical data:

##### Main route:

Length: 7,589 m

Category: D 26,0/130

##### Bridges:

As part of the highway: 7

Over the highway: 2

##### Modifications of other roads:

1<sup>st</sup> class road: 2 (length: 410 m)

3<sup>rd</sup> class road: 2 (length: 810 m)

Local roads: 1 (length: 600 m)

Private roads: 17 (length: 11,110 m)

Access and temporary roads: 7 (2,140 m)

Field and forest paths: 2 (length: 360 m)

##### Estimated construction cost:

EUR 153.4 mil. (without VAT)

##### Interchanges:

Interchange Ridky

##### Total volume of earthworks:

Excavations: 2,200,143 m<sup>3</sup>

Embankments: 1,540,812 m<sup>3</sup>

##### Noise barriers:

Number: 10 (total length: 5,100 m)

##### Annual average of daily traffic in

the first year of operation <sup>11</sup>:

19,966

Source: MoT, Road and Motorway Directorate of the Czech Republic

<sup>8</sup> A website dedicated to the highway is available in Czech language: <http://www.dalnice-d35.cz/>

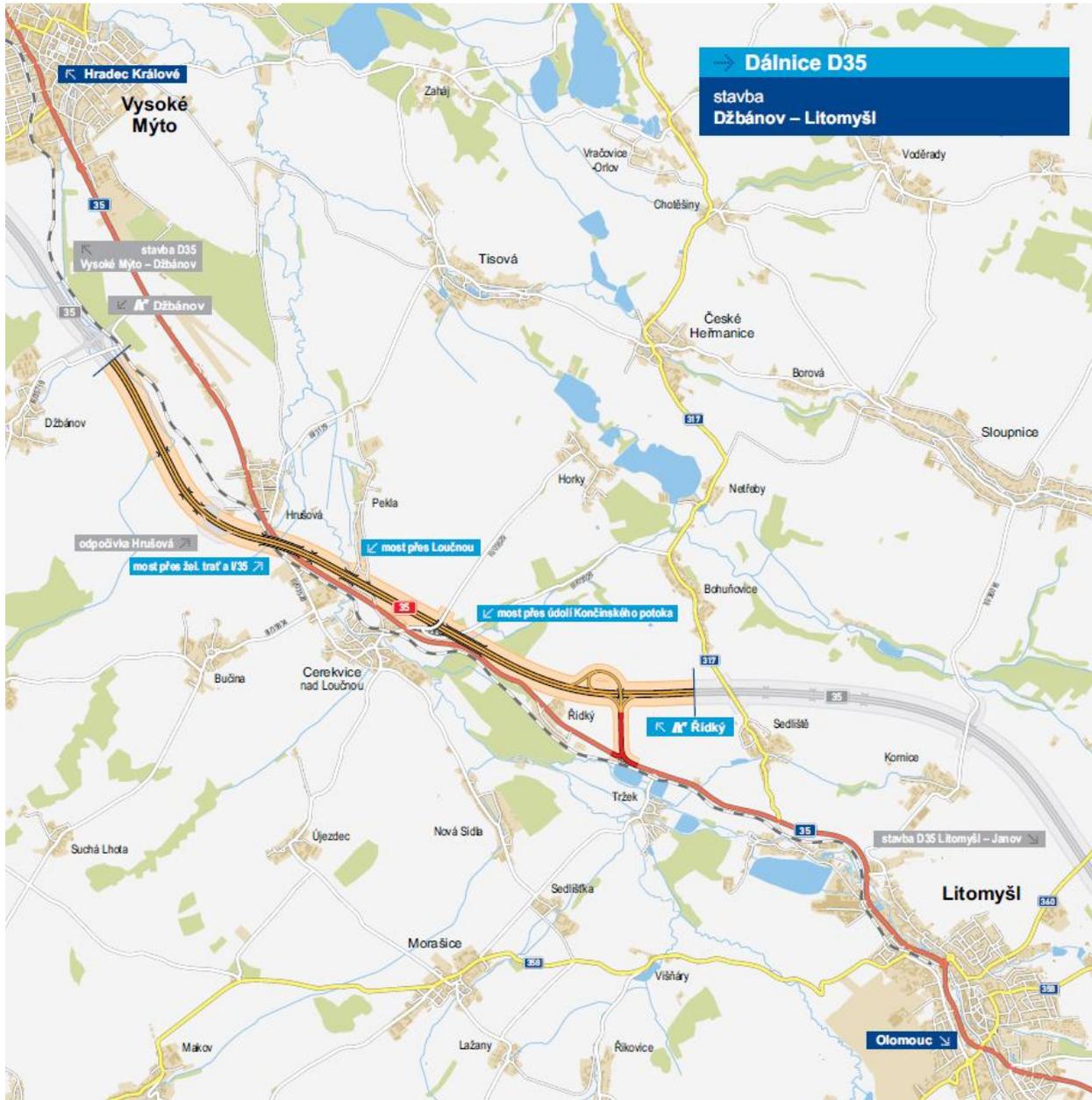
<sup>9</sup> To avoid any misunderstanding please note that no detailed description is currently available for the envisaged O&M centre

<sup>10</sup> Extended in 12/2019 for five years until 12/2024 (EIA does not have to be extended once the building permit is acquired).

<sup>11</sup> Source: D35 HDM-4 study (2017)

## D35 Highway PPP Project in the Czech Republic

Figure 4: Map of the Džbánov – Litomyšl (SO 06) section considered for the D35 PPP project



Source: MoT, Road and Motorway Directorate of the Czech Republic

## Litomysl – Janov (SO 07)

The section begins after the Ridky interchange, which is part of the previous section "D35 Dzbanov – Litomysl". From there, the route leads along vacant agricultural lands northeast of Litomysl. The route is planned outside built-up areas with minimum distance from surrounding buildings being about 370 m. The section "D35 Litomysl – Janov" ends approximately 70 m behind the beltline / delta interchange near Janov. In terms of height, the main route runs along longitudinal slopes of up to 1.52%.

In terms of construction complexity, the most complex structure is the Janov interchange at the end of the section. The beltline / delta interchange will serve as the main access to Litomysl from Olomouc and to provide a continuous route to the existing I / 35 road above the highway. Part of the construction of this intersection will be the modification and partial relocation of the I / 35 road in a total length of about 782 m.

The construction will also include several bridge structures both on the main route across lower class roads and across the main route. Overpasses are designed mainly by relocation of crossing roads. The total length of the bridge structures will not exceed 350 meters.

Included in the construction is the relocation of five lower-class roads, seven bridge structures (four on the D35 and three overpasses), and three noise barriers with a total length of 2,074 m will take place.

EIA	Zoning permit <sup>12</sup>	Building permit	Construction start	Operation start
10/2013 <sup>13</sup>	12/2019 12/2020	2023	2023	2027

Source: MoT, Road and Motorway Directorate of the Czech Republic

### Technical data:

#### Main route:

Length: 10,350 m

Category: D 26,0/130

#### Bridges:

As part of the highway: 7

Over the highway: 7

#### Estimated construction cost:

EUR 147.7mil. (without VAT)

#### Interchanges:

Janov interchange (delta-shaped)

#### Total volume of earthworks:

Excavations: 2,588,971m<sup>3</sup>

Embankments: 481,458 m<sup>3</sup>

#### Noise barriers:

Number: 3 (total length: 2,074 m)

#### Modifications of other roads:

1<sup>st</sup> class road: 1 (length: 782 m)

2<sup>nd</sup> class road: 3 (length: 1,410 m)

3<sup>rd</sup> class road: 3 (length: 1,985 m)

Private roads: 25 (length: 11,025 m)

Temporary roads: 1 (length: 940 m)

Field paths: 13 (length: 10,670 m)

#### Annual average of daily traffic in the first year of operation <sup>14</sup>:

18,461

Source: MoT, Road and Motorway Directorate of the Czech Republic

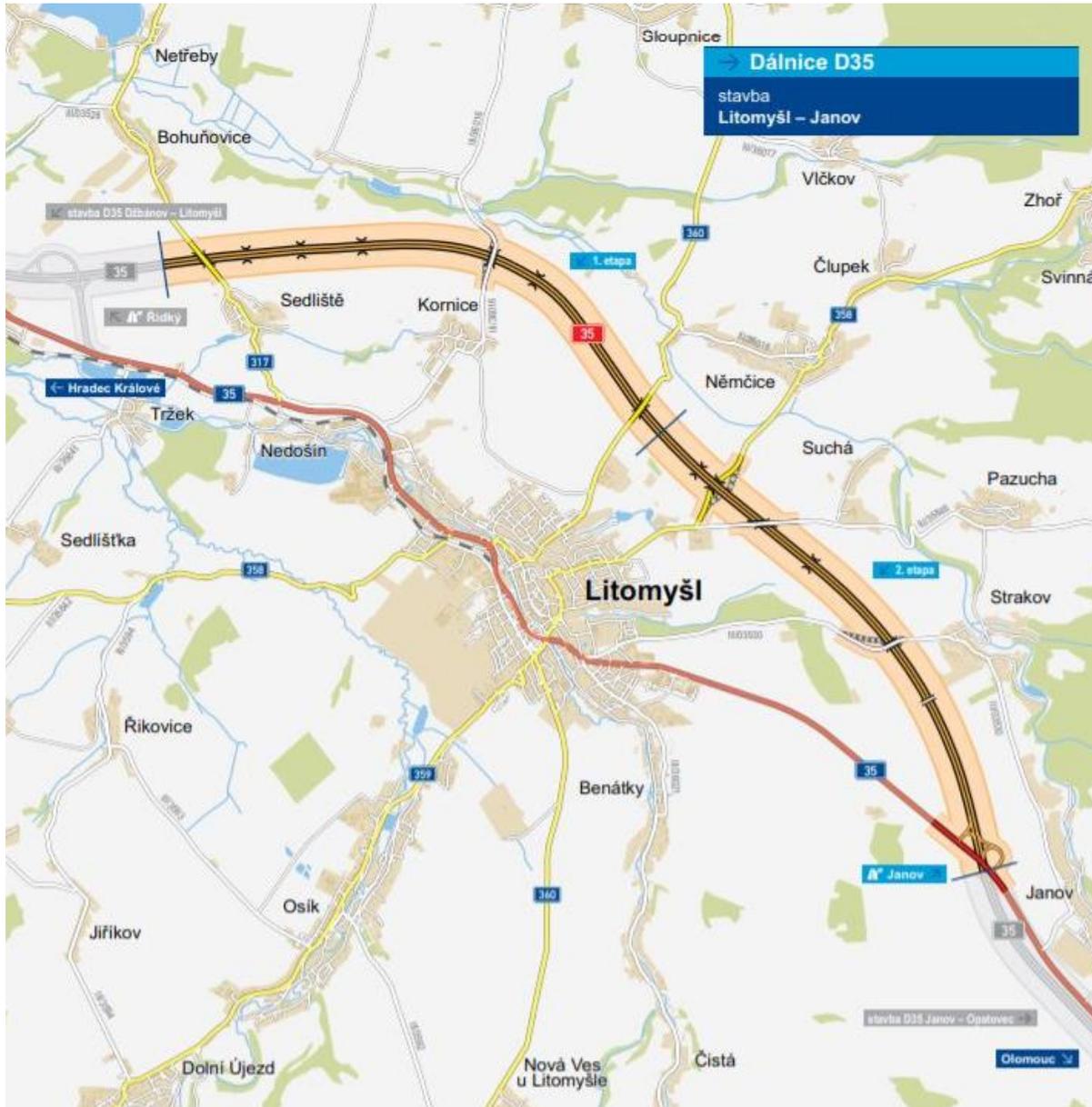
<sup>12</sup> Not yet in legal force

<sup>13</sup> Extended in 12/2019 for five years until 12/2024 (EIA does not have to be extended once the building permit is acquired).

<sup>14</sup> Source: D35 HDM-4 study (2017)

# D35 Highway PPP Project in the Czech Republic

Figure 5 Map of the Litomyšl - Janov (SO 07) section considered for the D35 PPP project



Source: MoT, Road and Motorway Directorate of the Czech Republic

## Janov – Opatovec (SO 08)

The section's route is connected to the previous section "D35 Litomysl – Janov" behind the Janov interchange. The route is led in parallel with the existing I / 35 road which it is intertwined in several places. The route ends behind the Opatovec interchange, which connects roads I / 35 and I / 43.

At the km 74.120, at the intersection of the existing road I / 43 southeast of Opatovec village, the Opatovec interchange is designed in the shape of partial cloverleaf interchange with a roundabout on the side branch. The existing I / 35 road is also connected to the junction.

Seven bridge structures, with a total length of 626 m, have been designed on the section due to the rugged terrain. The largest of them is the bridge over the road I / 35 and the Mikulecsky stream with a length of 439 meters. Furthermore, there are four overpasses designed over the main D35 route. At the km 73.9 of the highway, a railway bridge will be built to overpass the highway.

In terms of height, the main route runs in longitudinal slopes of up to 2.30%, respecting the course of the terrain. The maximum height above ground is eight meters at the bridge over the I / 35 and Mikulecsky stream. The maximum depth of the notch is at the end of the section and is eight meters. The construction also includes relocation of utilities, drainage, security and protection measures and vegetation adjustments.

EIA	Zoning permit	Building permit	Construction start	Operation start
10/2013 <sup>15</sup>	11/2018	2022	2022	2025

Source: MoT, Road and Motorway Directorate of the Czech Republic

### Technical data:

#### Main route:

Length: 11,713 m

Category: D 26,0/130

#### Bridges:

As part of the highway: 7

Over the highway: 4

Railway bridges: 1

As part of other routes: 1

Eco-ducts: 2

#### Modifications of other roads:

1<sup>st</sup> class road: 3 (length: 4,450 m)

2<sup>nd</sup> class road: 1 (length: 330 m)

3<sup>rd</sup> class road: 4 (length: 880 m)

Private road: 1 (length: 720 m)

Field paths: 13 (length: 11,736 m)

#### Estimated construction cost:

EUR 173.600 mil. (without VAT)

#### Interchanges:

Opatovec interchange (partial cloverleaf interchange)

#### Total volume of earthworks:

Excavations: 1,022,112 m<sup>3</sup>

embankments: 1,120,236 m<sup>3</sup>

#### Noise barriers:

Number: 7 (total length: 3,946 m)

#### Annual average of daily traffic in the first year of operation <sup>16</sup>:

24,491

Source: MoT, Road and Motorway Directorate of the Czech Republic

<sup>15</sup> Extended in 12/2019 for five years until 12/2024 (EIA does not have to be extended once the building permit is acquired).

<sup>16</sup> Source: D35 HDM-4 study (2017)

# D35 Highway PPP Project in the Czech Republic

Figure 6 Map of the Janov – Opatovec (SO 08) section considered for the D35 PPP project



Source: MoT, Road and Motorway Directorate of the Czech Republic

## Opatovec – Stare Mesto (SO 09)

The section begins 350 meters behind the Opatovec interchange and runs eastwards to Stare Mesto along vacant agricultural land and through forests with broken terrain between the villages of Detrichov and Nova Ves and between hills Cervena Hora and Mladejovske vrchy north of Moravska Trebova. The elevation of the terrain there reaches approximately 200 meters. The route of the D35 motorway is led outside the built-up area of the affected municipalities with a minimum distance of about 200 meters from the peripheral built-up area near the village of Detrichov.

Existing roads, local roads, paths, and railways are crossed by bridges on the D35 or overpasses over the D35. The broken terrain near Detrichov is to be addressed via a 3,983 m long tunnel, which is designed to have two two-lane tubes and a maximum speed of 100 Km/h.

There is no interchange contemplated for this section. The closest interchange is located 490m after the beginning of the following section Stare Mesto – Mohelnice (SO 10 + SO 11). It is assumed that the section Opatovec – Stare Mesto (SO 09) will be put into operation either separately (with connection from the future interchange at Stare Mesto to the road I / 35) or simultaneously with the section Stare Mesto – Mohelnice (SO 10 + SO 11) which would be the preferred approach.

EIA	Zoning permit	Building permit	Construction start	Operation start
10/2013 <sup>17</sup>	03/2019	2022	2023	2026

Source: MoT, Road and Motorway Directorate of the Czech Republic

### Technical data:

#### Main route:

Length: 16,600 m

Category: D 26,0/130

#### Bridges:

As part of the highway: 13

Over the highway: 3

Eco-duct: 1

Railway: 1

#### Estimated construction cost:

EUR 634 mil. (without VAT)

#### Tunnels:

Detrichov – mined (length: 3,983 m)

#### Noise barriers:

Number: 4 (total length: 2,150 m)

#### Annual average of daily traffic in the

first year of operation<sup>18</sup>:

26,911

#### Connector from D35 to I / 35:

Length: 3,677 m

Category: S 11,5/90

Bridges on the main road: 3

Bridges on other routes: 3

Modifications of I / 35 road: 1

Intersections: 3

#### Modifications of other roads:

2<sup>nd</sup> class road: 1 (length: 620 m)

3<sup>rd</sup> class road: 2 (length: 1,330 m)

Access roads: 3 (length: 850 m)

Field paths: 25 (length: 21,280 m)

Source: MoT, Road and Motorway Directorate of the Czech Republic

<sup>17</sup> Extended in 12/2019 for five years until 12/2024 (EIA does not have to be extended once the building permit is acquired).

<sup>18</sup> Source: D35 HDM-4 study (2017)

# D35 Highway PPP Project in the Czech Republic

Figure 7 Map of the Opatovec – Staré Město (SO 09) section considered for the D35 PPP project



Source: MoT, Road and Motorway Directorate of the Czech Republic

## Stare Mesto – Mohelnice (SO 10 + SO 11)

The route leads along the edge of the Forest Petrusov, and then right through it. Here, the highway runs in the 1312.5-meter-long Maletin tunnel and the subsequent Mirovka valley is crossed by a 160-meter-long bridge. Then the D35 section continues along permanent grasslands and along the edge of the forest above the village of Maletin, where the Maletin partial cloverleaf interchange is designed – the junction with the III / 31519 road connecting the villages of Javori and Krchleby. Furthermore, the route bypasses the system of directional arches from the north of the Obora u Mirova forest hill and runs in a parallel with the built-up area of the Krchleby and Repova municipalities, which are distanced by 250 – 820 meters. From the north, the route further bypasses Kremacov and runs southwest around Mohelnice, where it crosses the existing I / 35 road between the Podoli suburbs and Mohelnice.

The highway then continues by the Mohelnice-North interchange, which is a three-level cloverleafed interchange with a semi-direct branch in the direction of Olomouc-Zabreh, with the adjoining construction in the direction of Zabreh (I / 44 Mohelnice – Vlachov). This complex intersection has ten intersection branches. Along the main route in the direction of Olomouc - Hradec Kralove, a collector belt is designed, which ensures safe disconnection from the main route in the direction of Zabreh.

The section ends south of Mohelnice at Mohelnice-South interchange with a connection to the D35 at the km 110. The interchange has four crossroad branches. Omnidirectional traffic is ensured by the 312 m long overpass of the interchange with a roundabout. Another two roundabouts are connected to the Mohelnice-South branch. At the end of the section (at the point of connection to the existing D35) from km 16.9, either the milling of the existing road is considered, or the extension of the earth body and the construction of a complete road structure at the site of the newly designed additional lanes.

EIA	Zoning permit	Building permit	Construction start	Operation start
01/2018 <sup>19</sup>	2021	2023	2025	2028

Source: MoT, Road and Motorway Directorate of the Czech Republic

### Technical data:

<u>Main route:</u>	<u>Estimated construction cost:</u>	<u>Total volume of earthworks:</u>
Length: 18,230 m (out of which 1,330 m is reconstruction of the existing D35)	EUR 548 mil. (without VAT)	Excavations: 3,363,900 m <sup>3</sup> Embankments: 2,148,700 m <sup>3</sup>
Category: D 26/130		
<u>Bridges:</u>	<u>Interchanges:</u>	<u>Noise barriers:</u>
Total: 31 (29 new and 2 reconstructed)	Maletin	Number: 21 (total length: 7,612 m)
As part of the highway: 21	Mohelnice-North	
Over the highway: 7	Mohelnice-South	
As part of other routes: 3		

<sup>19</sup> Valid until 01/2025 (EIA does not have to be extended once the building permit is acquired).

## D35 Highway PPP Project in the Czech Republic

### Tunnels:

Maletín (length: 1,312.5 m) - Portals are expected to be cut & cover and the middle section bored.

### Modifications of other roads:

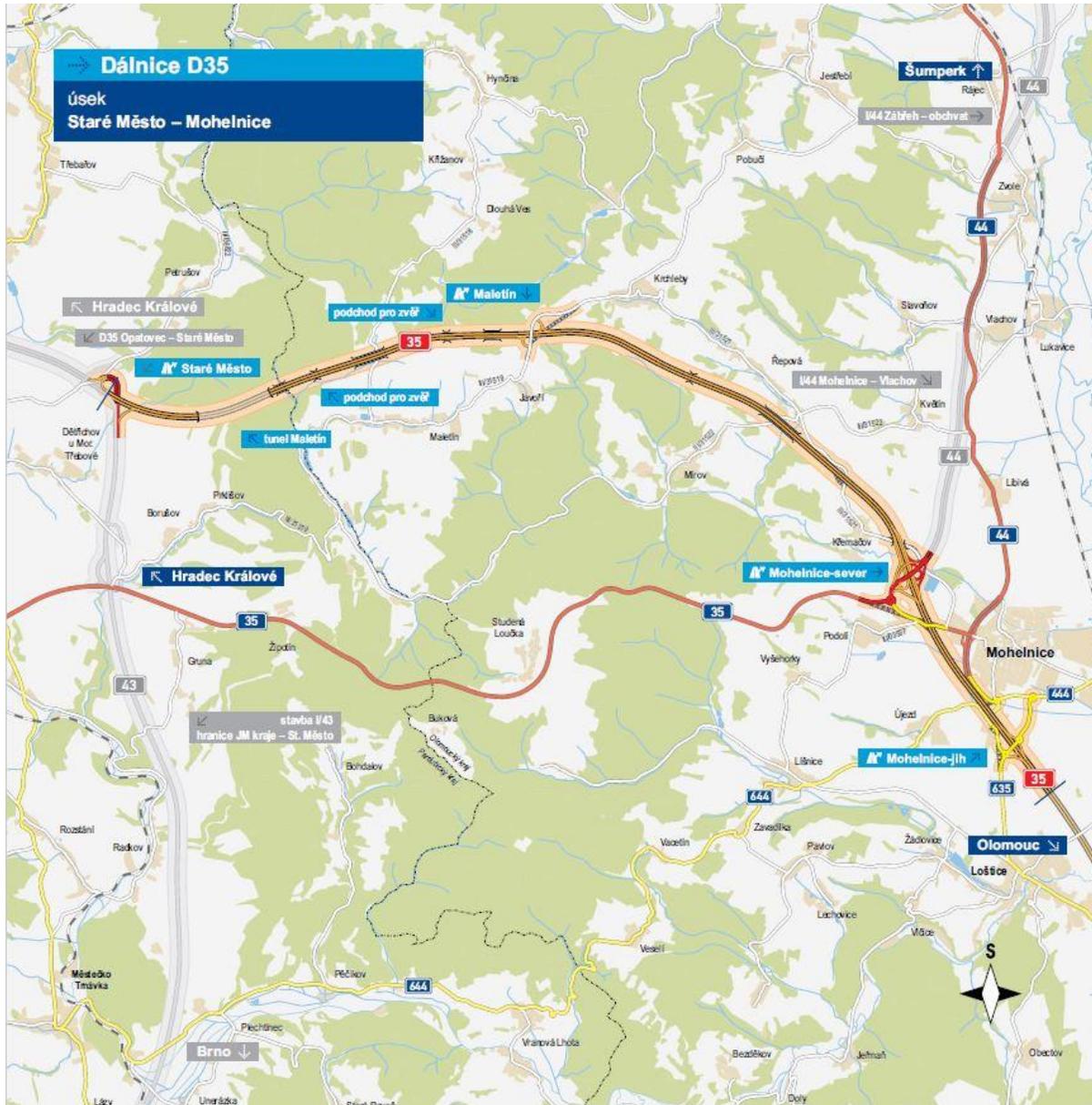
1<sup>st</sup> and 3<sup>rd</sup> class road: 5 (length: 2,551 m)  
 Field and forest paths: 13  
 Connectors to the interchange: 2 (length: 717 m)

### Annual average of daily traffic in the

first year of operation<sup>20</sup>:  
 25,950

Source: MoT, Road and Motorway Directorate of the Czech Republic

Figure 8 Map of the Staré Město – Mohelnice (SO 10 + SO 11) section considered for the D35 PPP project



Source: MoT, Road and Motorway Directorate of the Czech Republic

<sup>20</sup> Source: D35 HDM-4 study (2017)