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Success story: Slovak D4 R7 PPP & lessons learnt for Czech PPPs

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Agenda

- 1 Key highlights of the D4/R7 PPP project
- 2 EU financial instruments
- 3 Key outcomes of the Competitive dialogue
- 4 Success factors and lessons learnt

Why PPPs?

Pros and Cons of PPPs compared to traditional public sector schemes



PPPs and the infrastructure investment gap

PPPs enable the inclusion of private capital, which helps solving the infrastructure gap problem.



Budgetary constrains

PPPs may also be chosen as private finance may be the only option available due to public sector financing constraints (i.e. limitations on what it can borrow)



Optimal risk allocation

It is generally assumed that the private sector is better suited to managing commercial risk such as construction and operation efficiency / overrun and service performance.

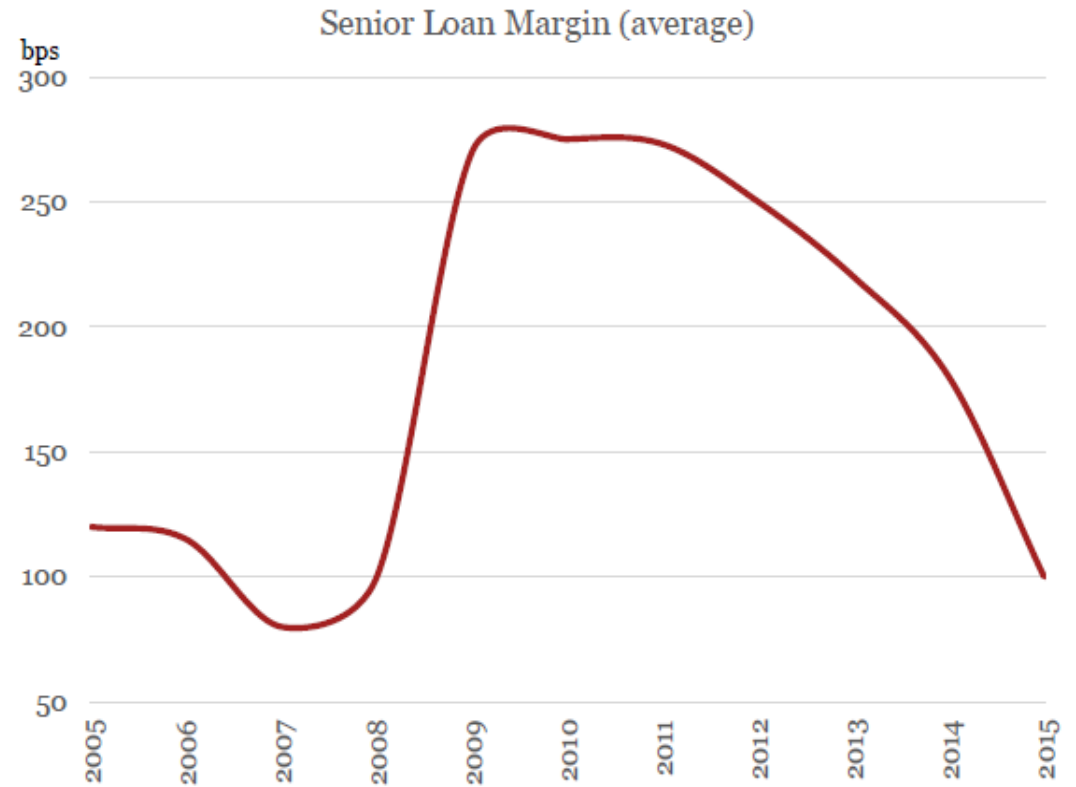
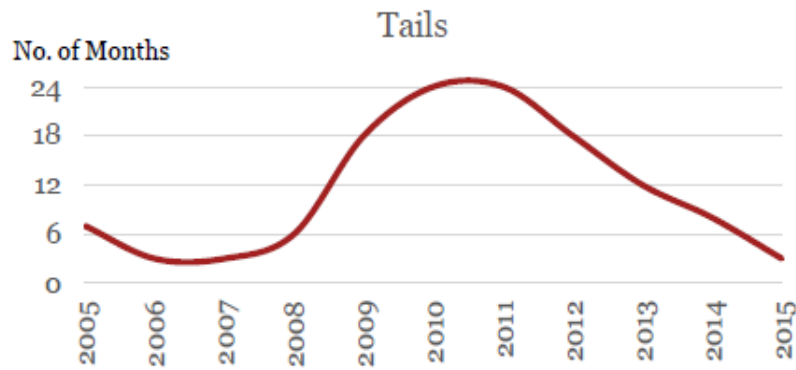
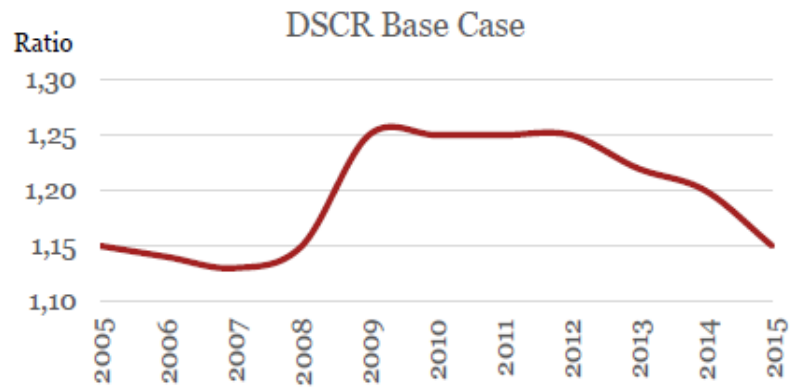


Higher cost and inflexibility

Private sector financing costs are higher than the government's cost of debt. To overcome uncertainties around the future outcomes, PPPs are often burdened by complex contractual arrangements and high transaction costs.

Current situation on financial markets

Back to pre-crisis period?



Source: PwC

Key highlights of the D4/R7 project

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Key highlights of the D4/R7 project

Contracting Authority

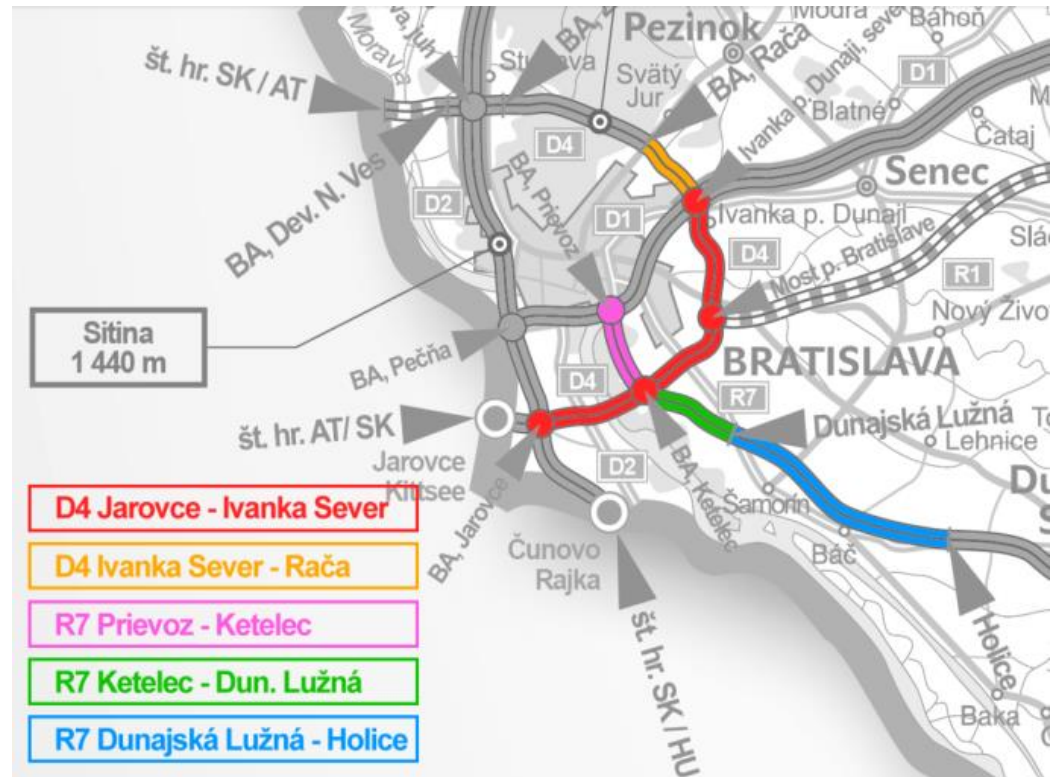
Ministry of Transport, Construction and Regional Development of the Slovak Republic

Project

Two sections of D4 highway representing 27 km of Bratislava bypass and three sections of two-lane R7 dual expressway at the length of 33 km

PPP Scope

Design, construction, finance, operation and maintenance



Key highlights of the D4/R7 project

Payment mechanism

Payments subject to achievement of availability and performance criteria

Key risks allocation

- The private partner will bear construction and availability risk, demand risk will be borne by the public sector
- Project structured as off-balance sheet (Compliance with ESA 2010)

Contract period

Construction 4 years + 30 years of operation period

Procurement

Competitive dialogue (with 4 shortlisted bidders)

All shortlisted international consortia submitted final offers:

- ViaDunaj (Vinci, Meridiam)
- BratislaVia (Hochtief, Iridium, DIF)
- Obchvat Nula (Cintra, Porr, Macquarie)
- ASTRELA (Strabag, John Laing, Reding)
- Contract signed with Obchvat Nula

Current status

Financial close achieved in June 2016, construction has just begun

Risk allocation matrix

Risk category	Risk allocation		
	Public sector	Private sector	Shared
Land acquisition	✓		
Design & Construction		✓	
Demand (Traffic)	✓		
Operation & Maintenance		✓	
Financing		✓	
Changes in rate of inflation during construction		✓	
Tax changes – specific	✓		
Tax changes – general		✓	
Changes in legislation			✓
Force majeure			✓

EU financial instruments

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New EU financial instruments successfully tested and used in the Slovak D4/R7 PPP

Use of innovative financial instruments

European Fund for Strategic Investments (EFSI)

- ◇ EIB with support of EFSI could increase its lending capacity to a single project
- ◇ **D4/R7 PPP:** EIB offered senior financing up to EUR 500 mil. (EUR 350m of direct funding and EUR 150m guaranteed facility) at very competitive terms an investment vehicle to support long-term investment from European funds

Slovak Investment Holding (SIH)

- ◇ The Slovak Republic has set up SIH as
- ◇ Financial resources available to SIH include funds from European Structural and Investment Funds: minimum 3% of the allocations for each operational programme, approximately 450m EUR in total
- ◇ **D4/R7 PPP:** SIH providing mezzanine financing, up to EUR 50m at very competitive terms (4,5% interest rate)

Key challenges and outcomes of the Competitive dialogue

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Key challenges and outcomes of the Competitive dialogue

- Optimisation of the financial structure (involvement of multilaterals including EIB and Slovak Investment Holding)
- Technical optimisation of the Project (particularly design of junctions and bridges, road levels, highway technology)
- Reduction in CAPEX
- Development of bankable off-balance sheet concession contract and project documentation (documented by 4 binding offers) →
- Very competitive pricing in final offers compared to pre-tender estimates (approx. EUR 100m-135m):

Bidder	AVP (EUR m)
ViaDunaj (Vinci, Meridiam)	69
BratislaVia (Hochtief, Iridium, DIF)	77
Obchvat Nula (Cintra, Porr, Macquarie)	57
ASTRELA (Strabag, John Laing, Reding)	91

Value for Money



Why such attractive offers?

- Project very attractive, with high priority due to following factors:
 - Macroeconomic and political stability + favourable country rating (A)
 - **Attractive size of the project**
 - **Use of innovative financial instruments (mezzanine financing provided by Slovak Investment Holding), EIB funding increased due to European Fund for Strategic Investments**
 - **Lack of well prepared similar PPP projects in Europe**
 - Risk allocation and paymech principles deemed appropriate

Success factors and lessons learnt

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Success factors and lessons learnt (1/2)



Political support to the Project is fundamental



Experienced advisers



Attractive size of the project



Availability based payment mechanism



Risk matrix typical for road PPPs – don't be innovative!

Success factors and lessons learnt (2/2)



Involvement of multilateral banks (time to perform eligibility assessment) in early stages of project development



Early involvement of MinFin and Statistical Office into project preparation



Ex ante consultations with EUROSTAT are crucial (if project is structured as off-balance sheet)



Well-prepared projects can happen relatively fast

Questions?



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