

PRIVATIZATION PPP AND CONCESSIONS IN AIRPORTS IN SOUTH EAST EUROPE

AN OVERVIEW MAY 2013 – S. TRAVLOS

AN OVERVIEW OF TRENDS IN SOUTH EAST EUROPE

AIRPORT PRIVATISATION

TENDENCY

Airport privatisation is an ongoing international trend which has brought a diverse range of new operators and investors into the industry.

MOTIVES

Potential key benefits include access to new funding and more efficient and commercial Operations but also increased network economies as part of larger group.

OPTIONS

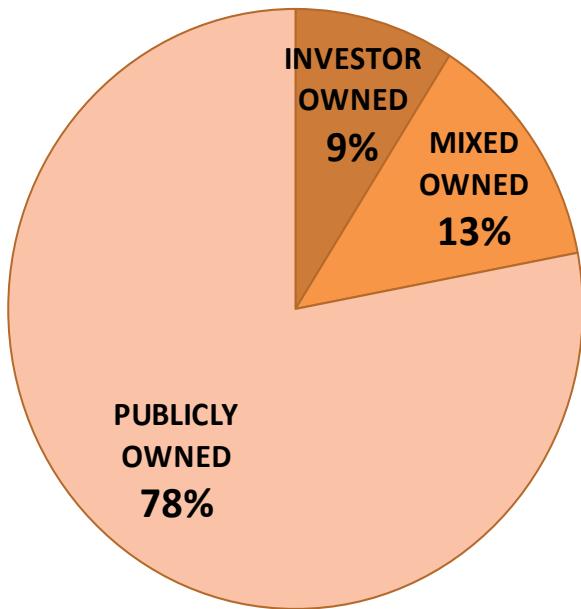
Each privatization option has a number of advantages and drawbacks and each airport requires a different approach.

AIRPORT PRIVATISATION TRENDS

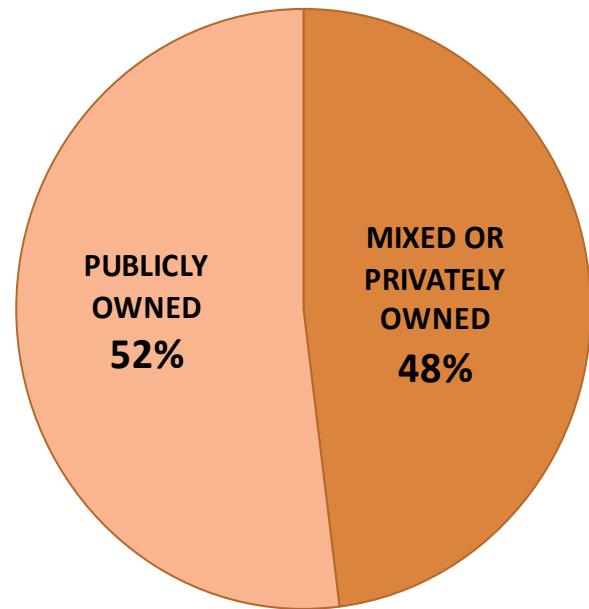
- The airport business is very capital intensive and substantial investment is needed to accommodate traffic growth. Attracting private capital was seen as an option for airport development.
- The privatisation run of the 1990s slowed down after 2000 and recovered prior to the 2007 crisis in Europe and North America, where we saw the highest level of activity – in line with anticipated worldwide traffic increases. Following another slow down in the period 2008-2011 privatisation activity restarted with major initiatives undertaken in UK, Portugal and several countries in the CEE region.
- Still only a limited percentage of the world's airports can be considered as being privatised.
- Projects embrace all types of concessions and models and a wide range of financial instruments; in developing countries (Asia in particular) Public-Private-Partnerships are increasing.
- Investor groups are diversifying and expanding their business scopes; IPOs and green-field developments are increasing (with mixed success).
- Activity in CEE is diverse in terms of privatisation structures, but initiatives are constrained by investment climate and air traffic considerations.

OWNERSHIP OF EUROPE'S AIRPORTS

OWNERSHIP STRUCTURE IN TERMS OF
NUMBERS OF 404 EUROPEAN AIRPORTS



OWNERSHIP STRUCTURE
IN TERMS OF PASSENGERS HANDLED



SOURCE: REASON FOUNDATION, ANNUAL
PRIVATIZATION REPORT 2011.

MODELS OF PRIVATE SECTOR PARTICIPATION IN AIRPORTS

POLICY OPTIONS/ROLES	OPTION 1	OPTION 2	OPTION 3
PPP OPTIONS	<ul style="list-style-type: none"> ▪ Service Concessions ▪ Management Contracts ▪ Multiple Concessions 	<ul style="list-style-type: none"> ▪ BOT, BOOT, BTO etc. ▪ Long Term Leases ▪ Master Concessions ▪ Multiple Concessions 	<ul style="list-style-type: none"> ▪ Trade Sales ▪ Capital Markets
OWNERSHIP	STATE	STATE	PRIVATE SECTOR
INVESTMENT	STATE	PRIVATE SECTOR	PRIVATE SECTOR
MANAGEMENT /OPERATION	PRIVATE SECTOR	PRIVATE SECTOR	PRIVATE SECTOR
DURATION	SHORT	MEDIUM TO LONG	INDEFINITE
REVENUE CONSIDERATIONS	Annual fee	A combination of up front fee and annual fees	Priority for up front payment

BOT = Build -Operate-Transfer

BOOT = Build -Own-Operate-Transfer

BTO = Build-Transfer-Operate

LDO = Lease-Develop-Operate

MAJOR AIRPORT PPPs CEE & TURKEY

COUNTRY	PROJECT	TYPE OF PPP	VALUE Mil euro	INVESTORS	COMPLETION YEAR
CROATIA	ZAGREB	CONCESSION BFOT	236	AEROPORT DE PARIS,	2012
RUSSIAN FEDERATION	PULKOVO	CONCESSION BROT	1530	FRAPORT (36%) VTB GROUP (58%)	2011
TURKEY	ZAFER AIRPORT	GREENFIELD BOT	71.65	IC HOLDING	2010
KOSOVO	INTERNATIONAL AIRPORT	CONCESSION BOT	127	LIMAK HOLDING (90%)	2010
MACEDONIA FYR	SKOPJE AND OCHRID	CONCESSION RLT	295	TAV AIRPORT HOLDINGS (100%)	2009
TURKEY	ANTALYA GAZIPASA	CONCESSION RLT	500	TAV AIRPORT HOLDINGS (100%)	2009
TURKEY	INSTABUL SABIHA	CONCESSION BRT	1343	MALAYSIA BERHAD (20%), GMR (40%), LIMAK (40%).	2009
ARMENIA	SHIRAK	CONCESSION ROT	10	CASA (100%)	2007
GEORGIA	BATUMI	LEASE CONTRACT	28.5	TAV (60%) URBAN (30%)	2007
KAZAKHSTAN	ASTANA	MANAGEMENT CONTRACT	CANCELLED	MALAYSIA BERHAD (100%)	2007

MAJOR AIRPORT PPPs CEE & TURKEY

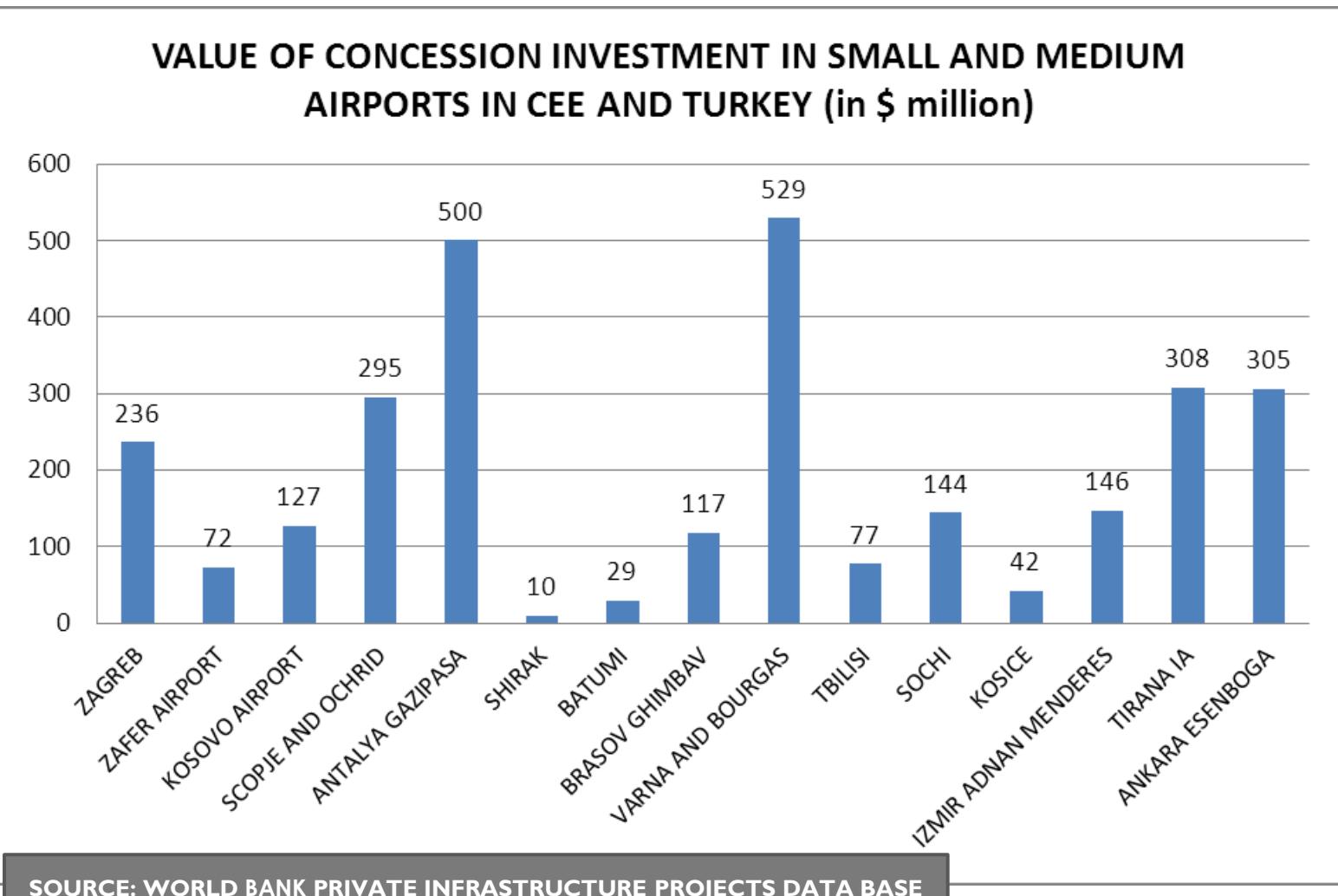
COUNTRY	PROJECT	TYPE OF PPP	VALUE Mil euro	INVESTORS	COMPLETION YEAR
ROMANIA	BRASOV GHIMBAV	GREENFIELD BOT	116.8	INTELCAN TECHNOSYSTEMS (100%)	2007
RUSSIAN FEDERATION	SHEREMETYEVO	MANAGEMENT CONTRACT	N.A.	CHANGI AIRPORTS (49%)	2007
TURKEY	ANTALYA	LEASE CONTRACT	1556	FRAPORT AG (51%) IC HOLDING (49%)	2007
BULGARIA	VARNA AND BOURGAS	CONCESSION	529	FRAPORT AG (60%) BM STAR (40%)	2006
GEORGIA	TBILISI	CONCESSION	76.5	URBAN (30%) TAV (30%)	2006
RUSSIAN FEDERATION	SOCHI	DIVESTURE	144	BAZOVT ELEMENT (100%)	2006
SLOVAK REPUBLIC	KOSICE	DIVESTURE	42	FLUGHAFEN WIEN (32%) PENTA HOLDING (22%)	2006
TURKEY	IZMIR ADNAN MENDERES	CONCESSION	146	TAV (35%)	2006
ALBANIA	TIRANA IA	CONCESSION BROT	308	HOCHTIEF (47%)	2005

MAJOR AIRPORT PPPs CEE & TURKEY

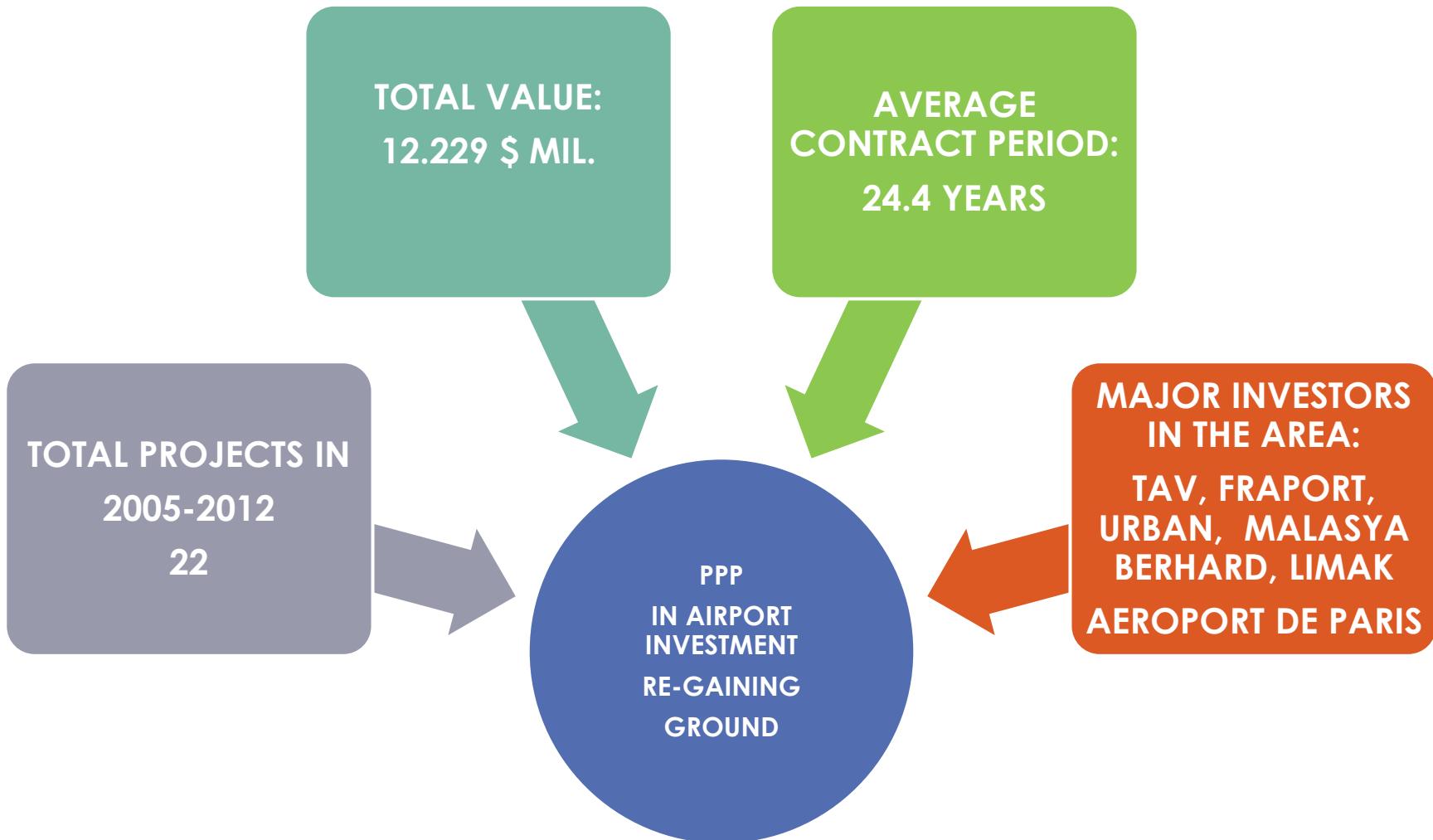
COUNTRY	PROJECT	TYPE OF PPP	VALUE	INVESTORS	COMPLETION YEAR
HUNGARY	BUDAPEST INTERNATIONAL	CONCESSION ROT	2320	HOCHTIEF (49.7%)	2005
TURKEY	ANKARA ESENBOGA	GREENFIELD BOT	305	TAV (95%)	2005
TURKEY	ATATURK AIRPORT	CONCESSION	2543	TAV (90%)	2005

SOURCE: WORLD BANK PRIVATE INFRASTRUCTURE PROJECTS DATA BASE

SMALL AND MEDIUM AIRPORTS HAVE ATTRACTED CONSIDERABLE INTEREST



CEE AIRPORT PPP OVERVIEW



NEW PPP AND PRIVATIZATION AND PUBLIC INVESTMENT PROJECTS IN THE PIPELINE

- In the near future major Airport PPP projects in the Europe area are expected to come into the market:
 - **Regional airports in Greece:** Greece plans to privatise 37 regional airports, 8 of which have a passenger traffic of between 250 and 1 million passengers (with total investment requirement of 95 million euro). Airports will be grouped in packages so the concession is more attractive.
 - **Slovenia:** The master plan for Ljubljana's expansion includes the construction of a new terminal facility, multi-modal logistics centre and airport rail link. at a cost of €60 million would have eventually provided additional terminal capacity of 2.5 million passengers per year.
 - **Montenegro:** Tivat Airport plans for investment of 23 million Euro by 2017 and further 76 by 2030.
 - **Spain:** Postponed privatization of the management of Barcelona El Prat and Madrid-Barajas airports on a concession basis is expected to come to the market within 2013.

CASE STUDY I-STRAIGHT CONCESSION: PRISTINA INTERNATIONAL AIRPORT

BASIC FACTS

- **PIA is one of the busiest airports in the Balkans, serving 1.2 million passengers and handling 14,000 aircraft operations in 2008.**
- **Before PPP over 35 aviation companies operate at PIA, serving over 30 destinations and providing direct connections to many of Europe's largest cities, including Zurich, Vienna, and Istanbul.**
- **In 2008 aeronautical revenues have already reached 21.8 million euro.**

June 2008	Initial Kosovo Government Decision 14/24
February 2009	Transaction Advisor Appointed
June 2009	Kosovo Government Decision 05/68 PPP structure
August 2009	RFQ published
October 2009	Submission of offers
December 2009	RFP published and draft contract prepared
March 2010	Final version of RFP and Contract
April 2010	Submission of offers
June 2010	Limak Aeroport de Lyon selected
August 2010	PPP agreement signing
April 2011	Transfer of PIA to Limak International Airports



22 MONTHS FROM
START TO FINISH

TRANSACTION STRUCTURE

- **Contract Structure:** Design-Build-Finance-Operate-Transfer (DBFOT)
- **Contract Duration:** 20-years
- **Required Minimum Investment Plan:** Master Plan Option 2, including, amongst others:
 - New Landmark Terminal (25,000m²)
 - New control tower and related facilities
 - Relocation of the NAVAIDS equipment (radar, localizer)
 - New apron: 9 Code C (B 737) aircraft parking positions
 - New automobile parking (1,750 new bays)
 - New taxi and bus staging areas
 - New airport access lane
 - New water treatment plant
 - Airport equipment
 - Widening of taxiway shoulders (to accommodate code E aircraft)
- **Minimum Performance and Capacity Levels:** IATA level C (within 2 years of contract inception)
- **Scope of Service:** All airport services, excluding Air Navigation Services.
- **Concession Fee:** Payments by the Private Operator to the Government in the form of a percentage of gross revenues.
- **Rates and Charges:** Aeronautical rates and charges are to be capped at current levels over the term of the contract, with potential inflation adjustments subject to regulatory approvals.
- **Employment Considerations:** Private Operator will honor existing employment contracts for a predefined period of time.
- **Ownership:** Moveable and immovable assets will be leased to the Private Operator, while ownership of all assets remains with the State.
- **Competitive Tender:** Contract award will be based on a competitive and transparent international procurement process.

BIDDERS AND THE WINNING BID

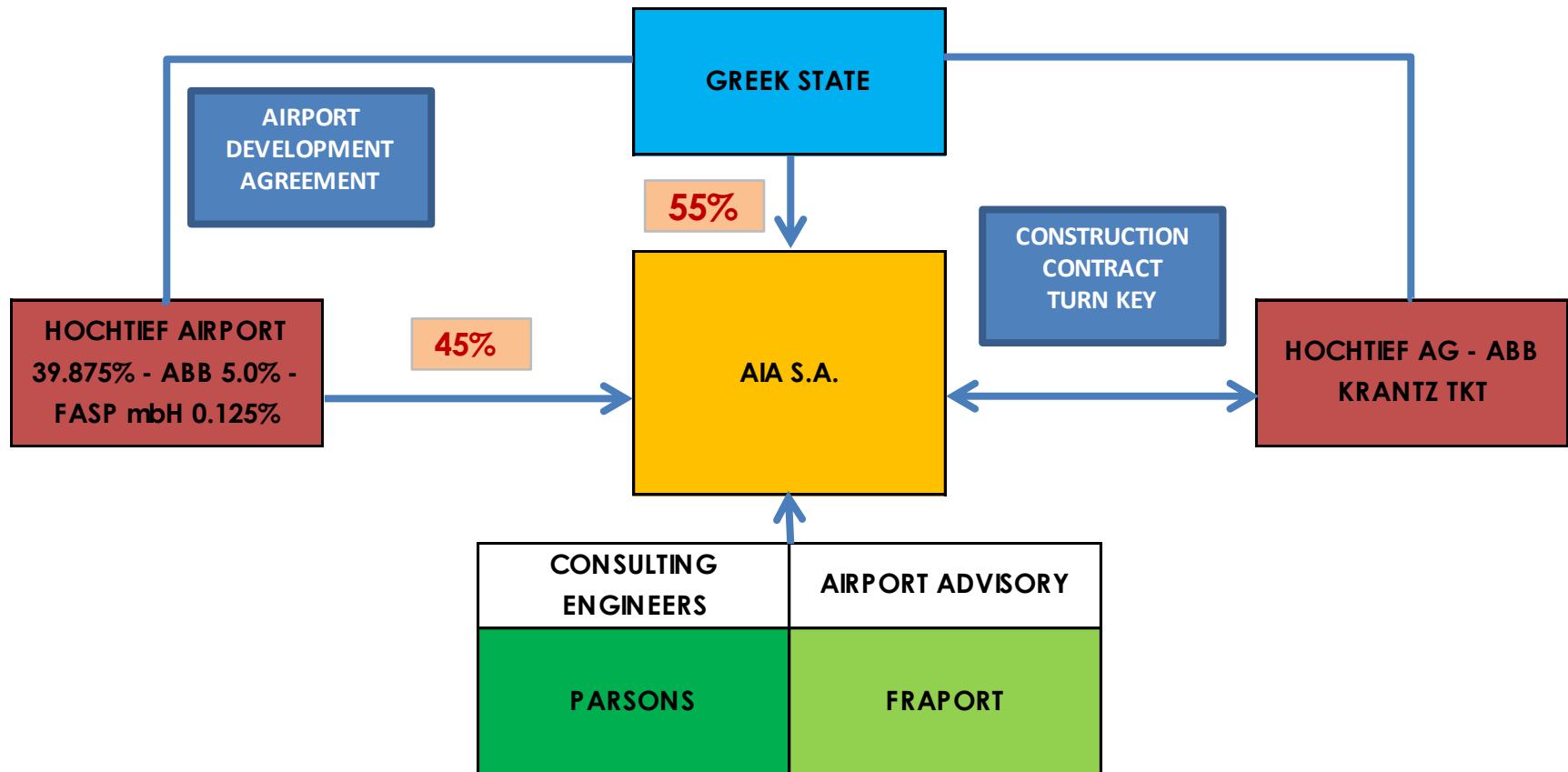
- Three bidders took part in the final stages of the tender process:
 - German-Turkish airport operating and construction alliance of Fraport IC and ICTAS;
 - Consortium comprised of French concession companies Bouygues Batiment International and Egis Group; And
 - Consortium consisting of the Turkish construction company Limak Group and the French airport operator Aéroport de Lyon.
- The winning bid based on offered concession fee:
- Limak Group- Aeroport de Lyon have offered an average of **39.42%** of gross revenues, in exchange for concession rights.
- IC Fraport Havamanli ICTAS, the bidder that has occupied the second place, has offered an average of **30.37%** of gross revenues.

CASE STUDY II-PPP: ATHENS INTERNATIONAL AIRPORT

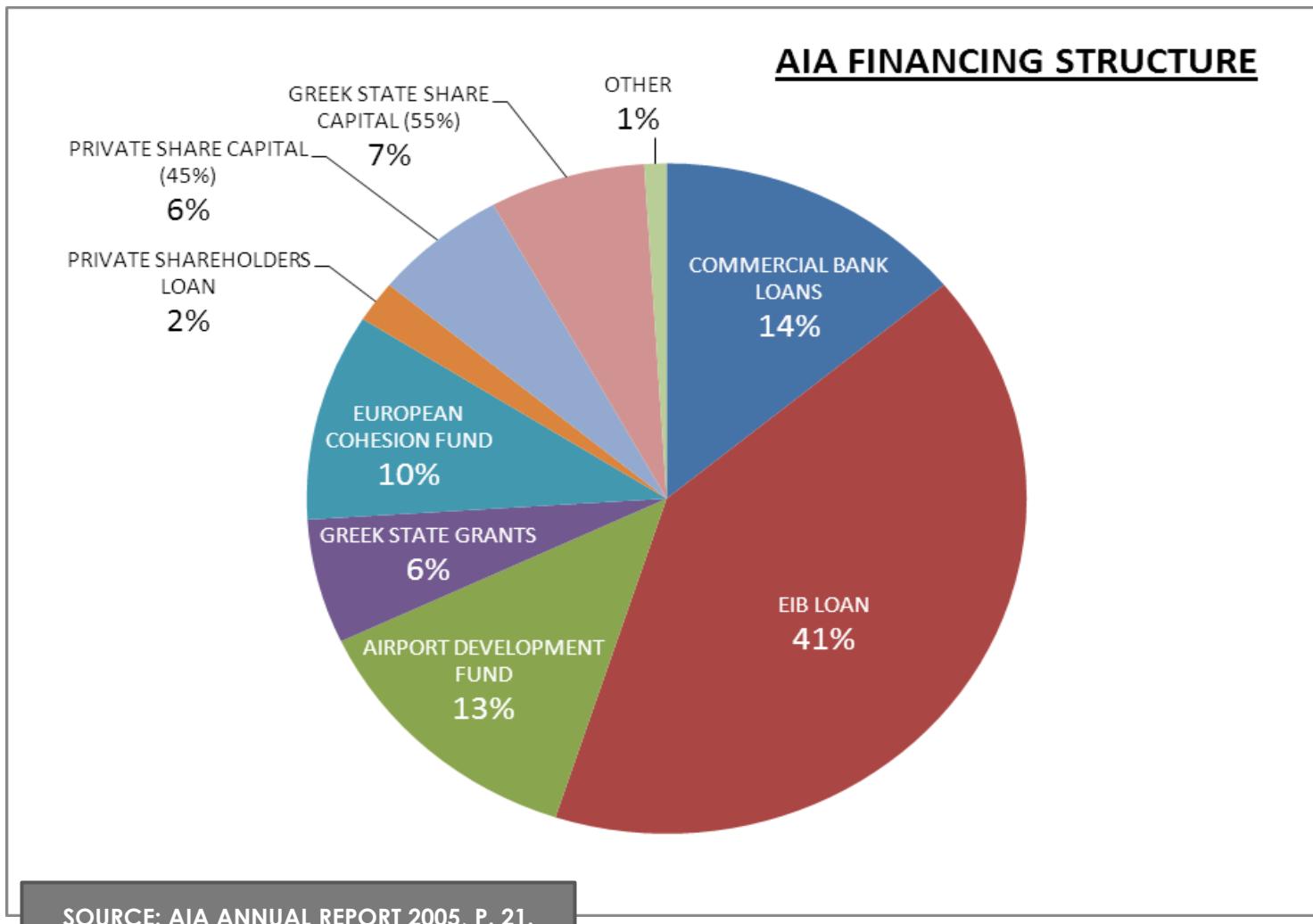
ALTERNATIVE PPP STRUCTURES: THE CASE OF ATHENS INTERNATIONAL AIRPORT

- The Athens International Airport project consisted of a 30-year BOOT concession which received EU grants amounting to approximately €250 million or 11% of the project cost.
- An EIB loan of €997 million supported approximately 45% of the initial project cost. The Hellenic Republic and a private consortium created a private company, Athens International Airport SA, to own and operate the airport for a period of 30 years.
- A grant from the Hellenic Republic amounted to €150 million and share capital amounted to €134 million, additional project financing came from commercial loans. A consortium led by Hochtief and also comprising ABB and TKT Krantz GmbH, undertook the construction project. Subcontractors, of which 80% were Greek companies, carried out 70% of the construction work.

AIA STRUCTURE AND PARTNERS RELATIONS



AIA FINANCING STRUCTURE



KEY ISSUES FOR CONSIDERATION

STATE PARTICIPATION

- Hellenic Republic participated with 55% following upfront contribution in capital.
- Hellenic Republic provided assistance through the allocation of special tax to the AIA company.
- Hellenic Republic secured EU funding for the AIA development.

MANAGEMENT

- The Board of Directors was split evenly among the Greek State and the private investor (5 members each) and an independent member (from EIB) kept the balance.
- The management was allocated to the private investor through the right to appoint the Chief Executive Officer.

EXIT STRATEGY

- The Hellenic Republic is currently considering the sale of its participation to AIA.
- The private investor Hochtief - acquired by Spanish Group ACS - is also in the process of selling its participation.
- HR in discussions with ACS to extend concession by 20 years and jointly sell their shareholdings¹.

(1) ACS has finally decided to sell separately all its airport holdings to PSP Investments, a Canadian pension fund.

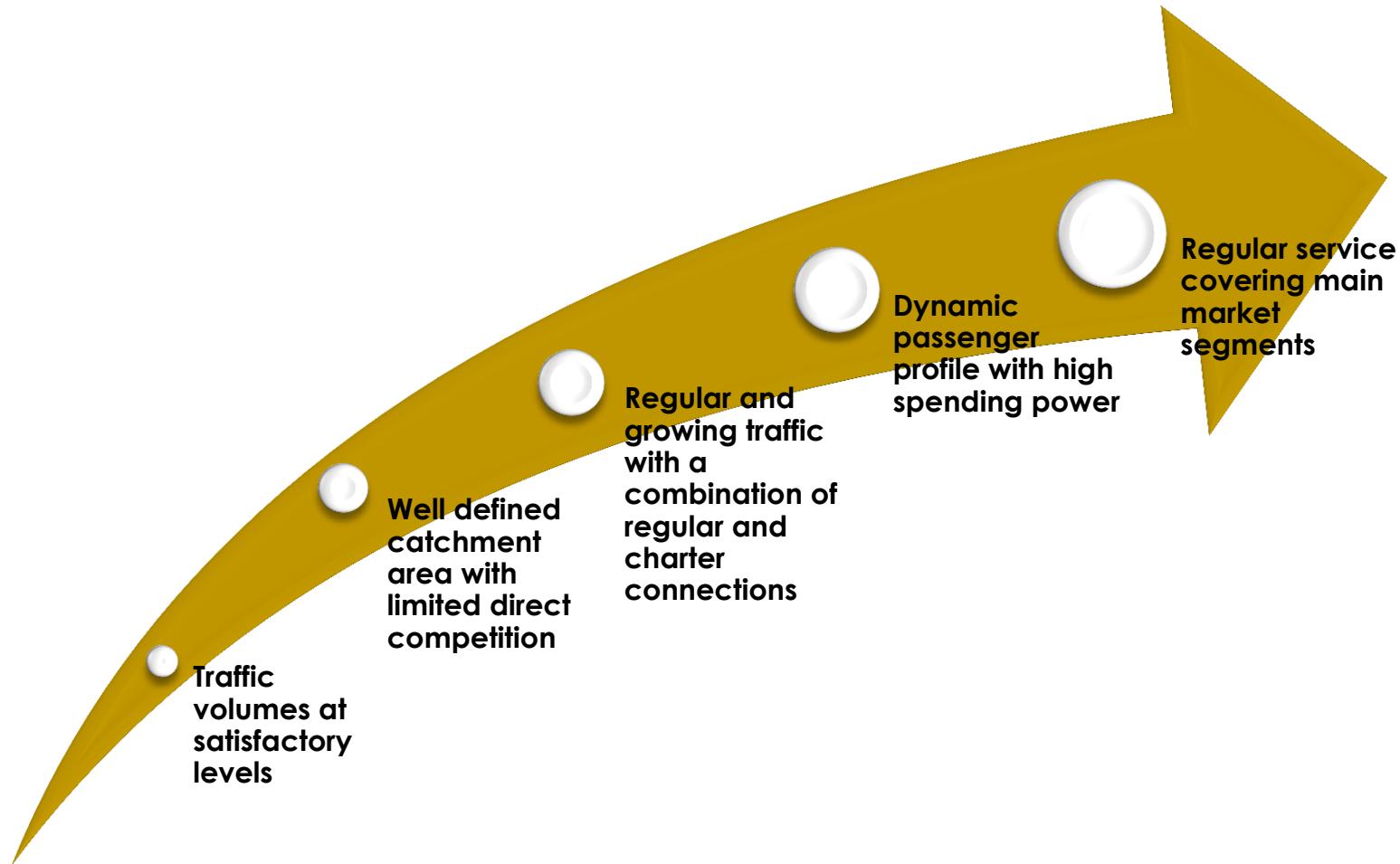
MAJOR CONSIDERATIONS FOR AIRPORT PPP STRUCTURE

PPP PARTNERS MUST RECONCILE DIVERGENT CONSIDERATIONS

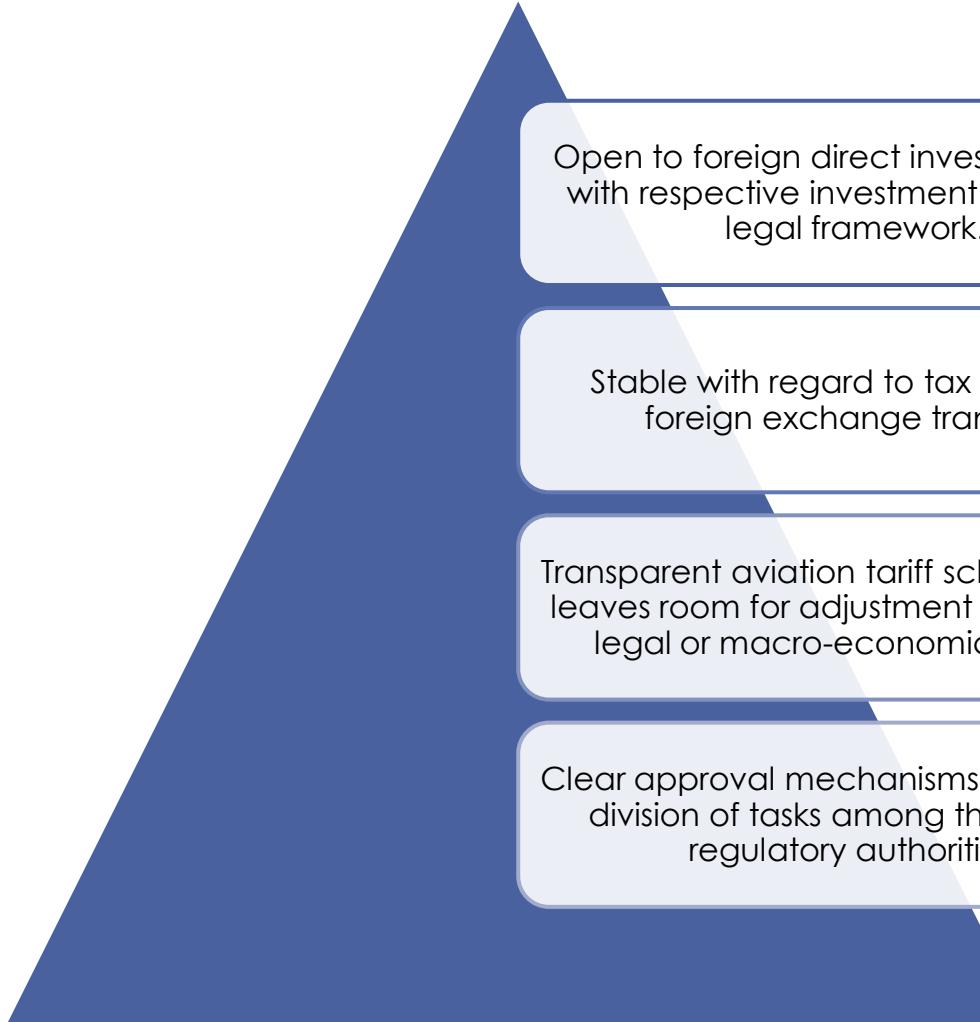
PUBLIC SECTOR	PRIVATE SECTOR	FINANCIAL INSTITUTIONS
<ul style="list-style-type: none">• Attract new capital for infrastructure.• Increase efficiency in project delivery, and operation and management.• Shift responsibilities and risks to the private sector.	<ul style="list-style-type: none">• Strategic considerations of managing a portfolio of investments.• Reduce various types of risk and shift to other partners.• Exploit profit opportunities through better management.	<ul style="list-style-type: none">• Proper assessment and allocation of risks especially demand risk.• Secure repayment of loans on time.• Selection of the best consortium in terms of management in order to secure long term viability of project.

REALISTIC BUSINESS PLAN ACCEPTABLE BY ALL PARTIES AND SOUND CONCESSION AGREEMENT ARE REQUIRED

KEY AIRPORT CHARACTERISTICS FOR SUCCESS



SOUND REGULATORY ENVIRONMENT REQUIRED



Open to foreign direct investment (FDI) with respective investment code and legal framework.

Stable with regard to tax laws and foreign exchange transfers.

Transparent aviation tariff scheme which leaves room for adjustment induced by legal or macro-economic factors.

Clear approval mechanisms and a clear division of tasks among the various regulatory authorities.

QUALIFIED PROJECT PARTNERS

Have the necessary know-how for the development of the project.

Have the financial capacity to fulfill necessary equity payments and sponsor support obligations.

Have good knowledge of local market and conditions.

Have specified their relationship among each other and third parties in a well drafted contractual and financial structure.

RISK CONSIDERATIONS IN PPPs



- **Construction risk** – wholly undertaken by the private sector.
- **Availability risk** – a government will be assumed not to bear availability risk if it is entitled to reduce significantly its periodic payments.
- **Demand risk** – a government may assume this risk where it is obliged to ensure a given level of payment to the partner, independently of the effective level of demand expressed by the final user, rendering irrelevant the fluctuations in level of demand on the partner's profitability.

MAJOR RISK PARAMETERS

AIRPORT INDUSTRY RISK

NATIONAL AND REGIONAL COMPETITION
PASSENGER AND CARGO VOLUMES
INDUSTRY RISKS
REGULATORY FRAMEWORK

MACROECONOMIC RISK

ECONOMIC REFORMS
CURRENCY RISK
COUNTRY RATING
GROWTH PROSPECTS
INVESTMENT CLIMATE

RISKS

PRIVATISATION STRATEGY
NATIONAL STABILITY
GOVERNMENT CONTINUITY

POLITICAL RISK

MARKET CONDITIONS
AVAILABILITY OF FINANCE
MANAGEMENT CAPABILITIES
SOUNDNESS OF CONCESSION

PROJECT RISK

KEY DESIGN RISK TO BE ADDRESSED

- “Forecasting traffic demand is crucial in transport PPPs since traffic influences both project costs (through capital and maintenance expenditures) and project revenues, especially if direct user charges, such as tolls, are the main source of cash flow for the PPP Company.
- An accurate estimation of the future level and composition of traffic volumes is, however, a difficult task as: traffic forecasts tend to overestimate actual traffic levels (the so-called “optimism bias”) ; and inflated traffic forecasts may be linked to traffic modeling flaws but also to strategic decisions of PPP consortia when they bid.
- Traffic forecasts commissioned by the lending banks, for example, are less prone to traffic optimism bias.
- Given such uncertainty, the allocation of traffic revenue risk is a key decision in the design of a transport PPP contract and the payment mechanism”.

SOURCE: European PPP Expertise Centre, The Guide to Guidance How to Prepare, Procure and Deliver PPP Projects, p. 20.

THREE MAIN OPTIONS TO ADDRESS DEMAND RELATED RISK

