

Airport PPPs

Trends, PPP Relevant Issues

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Airport Sector - At a Glance

Main Activities

Handling passengers and freight
Provision and maintenance of airport infrastructure
Services Provision – airport security, fire fighting, cleaning and maintenance
Allocation of space between airlines and commercial concessionaires
Handling agents, Control Authorities, Other services -- retailing, catering, banking, car hire

Commercial Activities



Non - Commercial Activities

Airport Revenues

Airport charges
Take-off or landing charges
Apron or parking charges
Passenger handling charges by airlines
Delay in take-off or landing charges
Commercial revenue
Duty free sales
Catering
Car Park
Rentals from other retail outlets
Advertisement
•Hotel and lounges

Airport Sector

The Revolutionary Change

Before

- Domain of traditional Airlines practice of charging high prices
- Relatively low mobility from passengers
- Prevalence of Europe and the U.S. as the dominant sector locations
- Field of hubs over the local / regional airports with weak expression
- Airports focused almost exclusively on the development of business aviation - rates as the main source of revenue.

- ✓ Low diversification of business
- ✓ Low bargaining power of Airlines
- ✓ Rigid Offer

Nowadays

- Strong growth of Low-Cost Airlines with discounted rates - *Low Cost Carriers* and the Premium Services
- Sustained increase in air passenger traffic and cargo
- Emergence of new relevant locations in the sector as Asia and Latin America
- Increased use of regional / local airports for Low-Cost Airlines
- Airports aim to develop complementary business to its core business

- ✓ High competitive pressure on airlines
- ✓ Effort to diversify non-aviation business
- ✓ Increase the bargaining power of companies

Globalization

Airport PPP Scenario

Increasing
Trend

International passengers increases are stagnant -- from 952 Mio. in 2009 to 1.264 bn. passengers in 2014

Growth

313 Mio. traveler increase reflects a compound annual growth rate of 5.9%

Increasing
Traffic

Fastest growing market for International passengers:

China (10.8%), UAE (10.2%), Vietnam (10.2%), Malaysia (10.1%) and Sri Lanka (9.5%)

Airport Traffic

Increase Since 2007

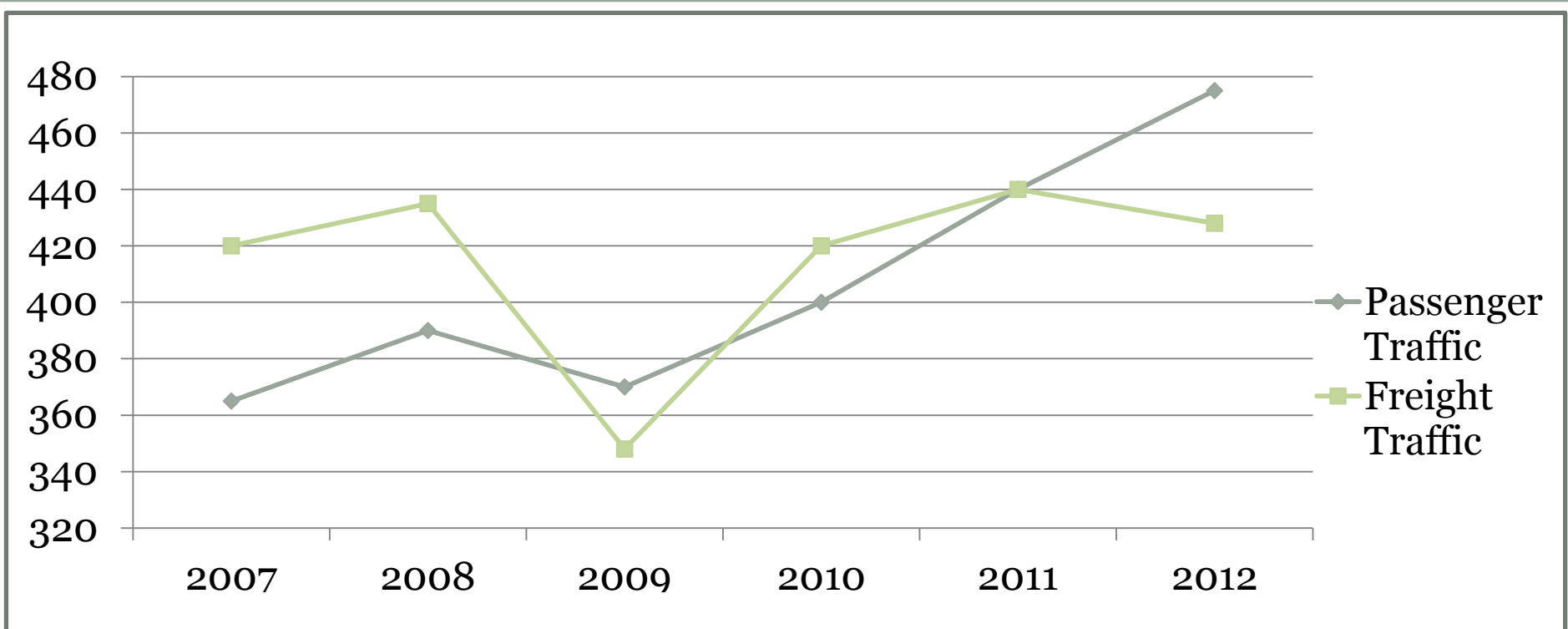


Chart 10: Total Passenger and Air Freight Traffic, Seasonally Adjusted
Source: IATA

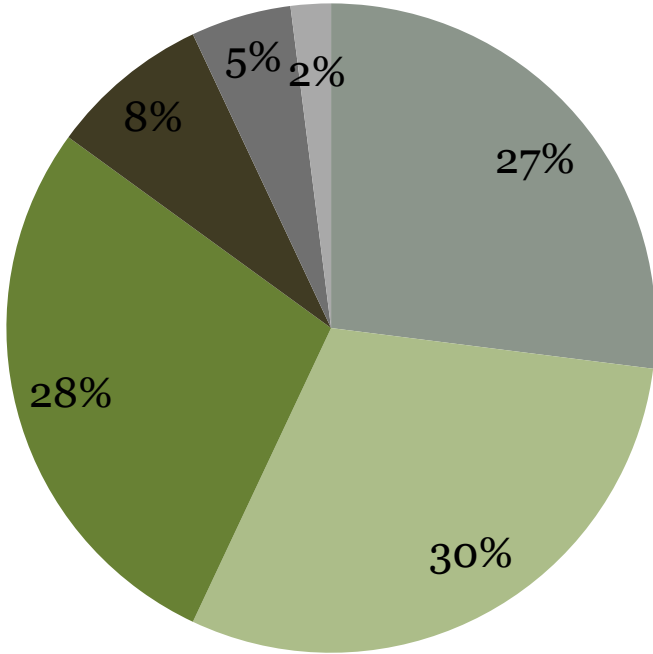
In 2012, strong economic growth in emerging markets resulted in expansion of passenger traffic and greater aviation connectivity. Despite of hike in fuel prices, the high volume in the passenger market led to high profitability in airline industry than it was expected.

However, due to shrinking markets, falling utilization and lower yields, the freight business suffered a second year of shrinking market

Passenger Share Worldwide

Total Passenger Market Share (Revenue Passenger Kms)

- Europe
- Asia Pacific
- North America
- Middle East
- Latin America
- Africa



Total Freight Market Share (Freight Tonne Kms)

- Europe
- Asia Pacific
- North America
- Middle East
- Latin America
- Africa

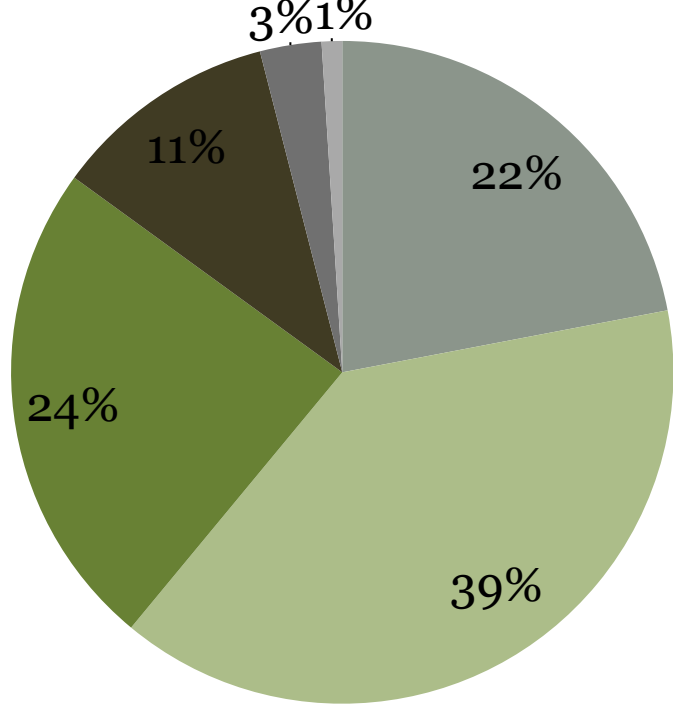


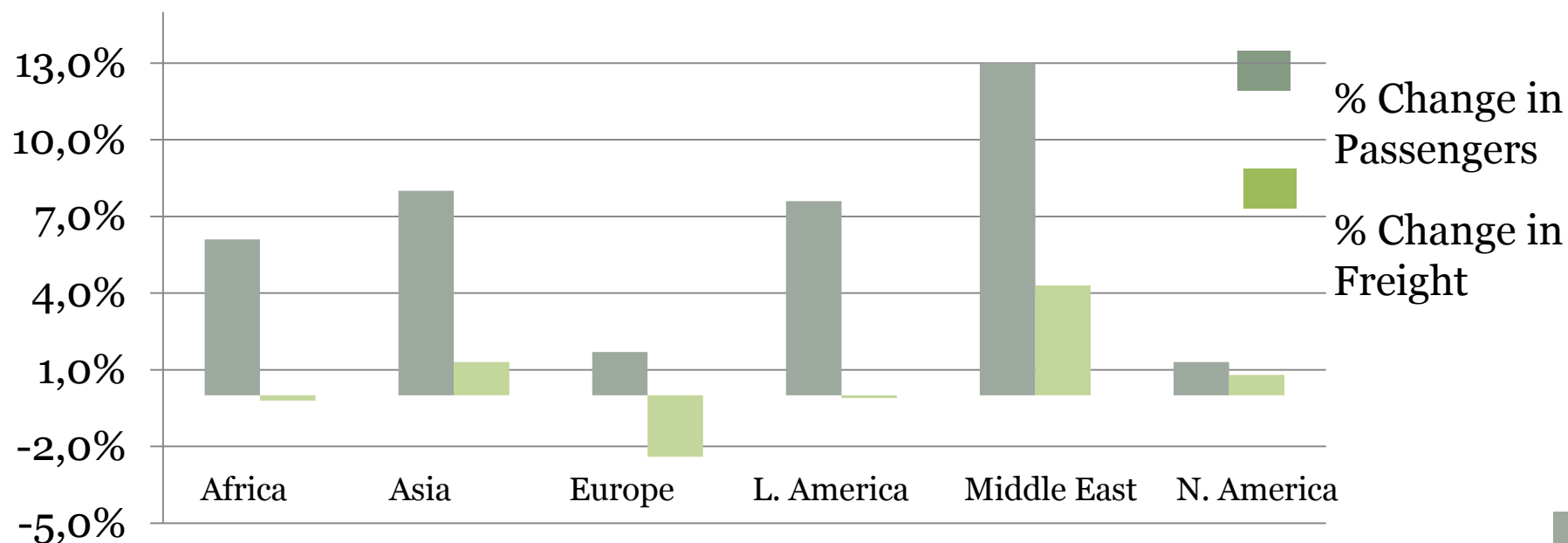
Chart 10:
Source: IATA

Key Statistics – FY 2012

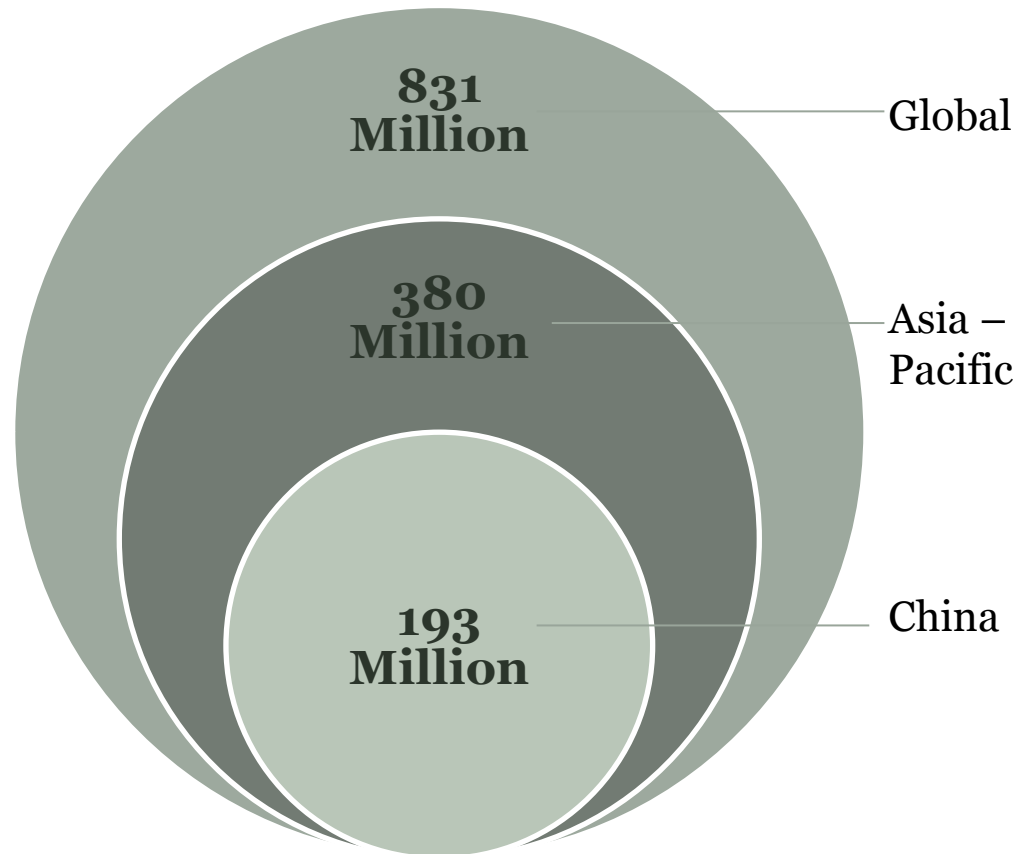
Region	Total Aircrafts	% Change	Total Passengers	% Change	Total Cargo	% Change
Africa	2,671,813	0.8	163,302,610	6.1	1,841,173	(0.2)
Asia-Pacific	15,441,854	6.5	1,685,367,153	8.0	33,845,411	1.3
Europe	20,041,817	(2.5)	1,614,933,901	1.7	17,798,008	(2.4)
Latin America	8,390,670	3.5	444,399,160	7.6	5,036,090	(0.1)
Middle East	2,366,870	6.3	253,810,113	13.0	5,865,035	4.3
North America	30,101,663	(1.4)	1,562,073,726	1.3	28,138,374	0.8
World	79,014,687	0.6	5,723,886,663	4.4	92,524,090	0.5

Key Statistics – Worldwide FY 2012

Worldwide Statistics	% Change
Total Passengers	+4.0%
Total International Passengers	+5.6%
Total Cargo	0.0%
Total International Freight	-0.1%
Total Aircraft Movement	-0.2%



Estimated Increase in Passengers 2016



Asia-Pacific passenger traffic is forecast to grow at 5.7% CAGR. Traffic within the Asia-Pacific region will represent 31.7% of global passengers in 2017, up from 28.2% in 2012. North America and Europe will continue to see their share decline, from 26%, and 24%, respectively, to 24% and 23%.

The Middle East will report the strongest international passenger growth with 6.3% CAGR.

Europe will see international passenger demand growth of 3.9% CAGR.

North America will record the slowest international passenger demand growth—3.6% CAGR.

Latin America will see international passenger demand grow 4.5% CAGR.

Chart 10: Estimated Additional Passenger Volume 2016
Source: IATA

ASIA PACIFIC

Asia Pacific's international passenger expected to grow by 5.7% CAGR by 2016

In 2014, China, Japan and Hong Kong reported to be the biggest hub of international passenger market in this region, where China dominating the international as well as domestic passenger market

The region will see the highest growth rate for international freight at 9.8% with Hong Kong, Japan, China, South Korea and Chinese Taipei comprises the region top five markets.

MIDDLE-EAST

The Middle East is expected to have the fastest growth rate 6.3 % CAGR.

The UAE, Kuwait, Jordan will be among the top 10 fastest growing countries, with the UAE ranked 7th for international passengers at 82.3 million.

International freight demand will grow 8.1% as freight links to and via the region continue to develop. The UAE will lead the region, handling 2.7 million tones of cargo.

EUROPE

Europe: International passenger demand growth of 3.9%.

The United Kingdom, Germany, Spain, France and Italy will remain among the top ten international passenger markets.

International freight demand will grow 6.5%, with Germany, the UK and the Netherlands leading the region.

Russian Federation: Fastest growth rate of 11%

AMERICA

Latin America will see international passenger demand grow by 4.5%. International freight demand will increase 6.4%, with Peru leading the region freight growth at 9%.

North America will grow 3.6% for international passenger demand and 7.6% for international freight.

The US will continue to be the largest international and domestic passenger market in the world, and is expected to remain the largest international freight market by some margin.

Belarus Airport

Public Airports	Cargo	Passenger	
Brest Airport		8,400	8.7%
Gomel Airport	65 tons	45,000	3.3%
Hrodna Airport			
Minsk-1 Airport			
Minsk National Airport		2,182,177	18.7%
Mogilev Airport			
Polotsk Airport			
Vitebsk Vostochny Airport		2,300	

In 2013, the airport in Belarus served more than 2.2 million passengers (20% more than in 2012) and almost 10,56,000 tons of cargo and mail (an increase of 7.4%). Currently, there are 7 main airports in Belarus, all airports are equipped with certified systems of radio and lighting equipment airports and airfields are certified in accordance with ICAO requirements.

Activities in an Airport

Aviation

Adapting Offer to Airport Demand

expansion of infrastructure to meet the needs for greater capacity, increased uptake of traffic and tourism development in the region, exploration of strategic positioning for new routes, etc.

Airport Marketing

Philosophy of Client Oriented management - airlines - and extension of the marketing function in service to passengers, with the development of several initiatives in both areas, with positive impact on Client loyalty.

Pricing Policy

Focused on cost recovery and competitiveness of the rates charged.

Promotion of increased traffic

Increased number of destinations served by airports and Sustain the increase in air traffic at airports.

Non-aviation

Retail Refurbishment of facilities and developing partnerships with retailers to face growing competition

Real State Developing partnerships for construction and operation of hotels near the airports

Parking Adaptation of infrastructure and development of new services (Valet Xpress, online reservations)

Rent-a-car Providing space for rent a car facility

Advertising Installation of new equipment and new advertising formats on the airport facilities. New creative decorations of the spaces.

Activities in an Airport

Others

Handling

Sustained growth of the business. Increased productivity through efficiency gains managing people. Distinction under the Environmental Certification

Security Assistance to Passengers with Reduced Mobility

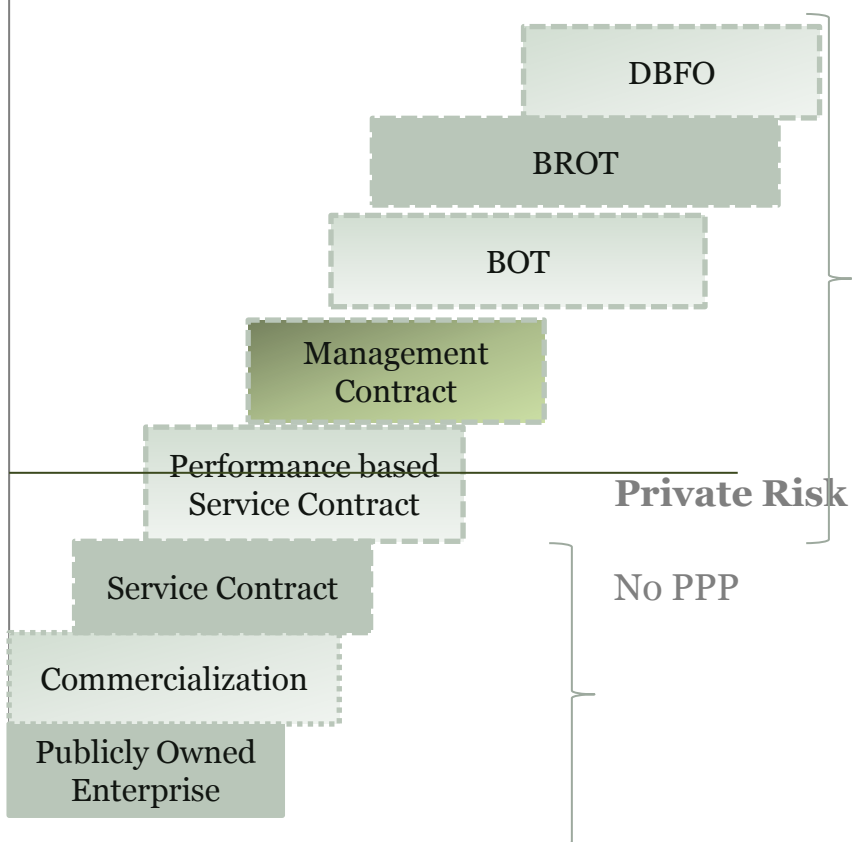
High level of compliance with safety standards. Development of MyWay service assistance to persons with reduced mobility

International Business

Moderate strategy of internationalization with aviation and non aviation services, based on experience ANA, within various markets(Eg: Brazil, China, Middle East, ...)

Various Forms of PPP

Level of Private Involvement



Private sector has continued to be essential for development of airport infrastructure worldwide.

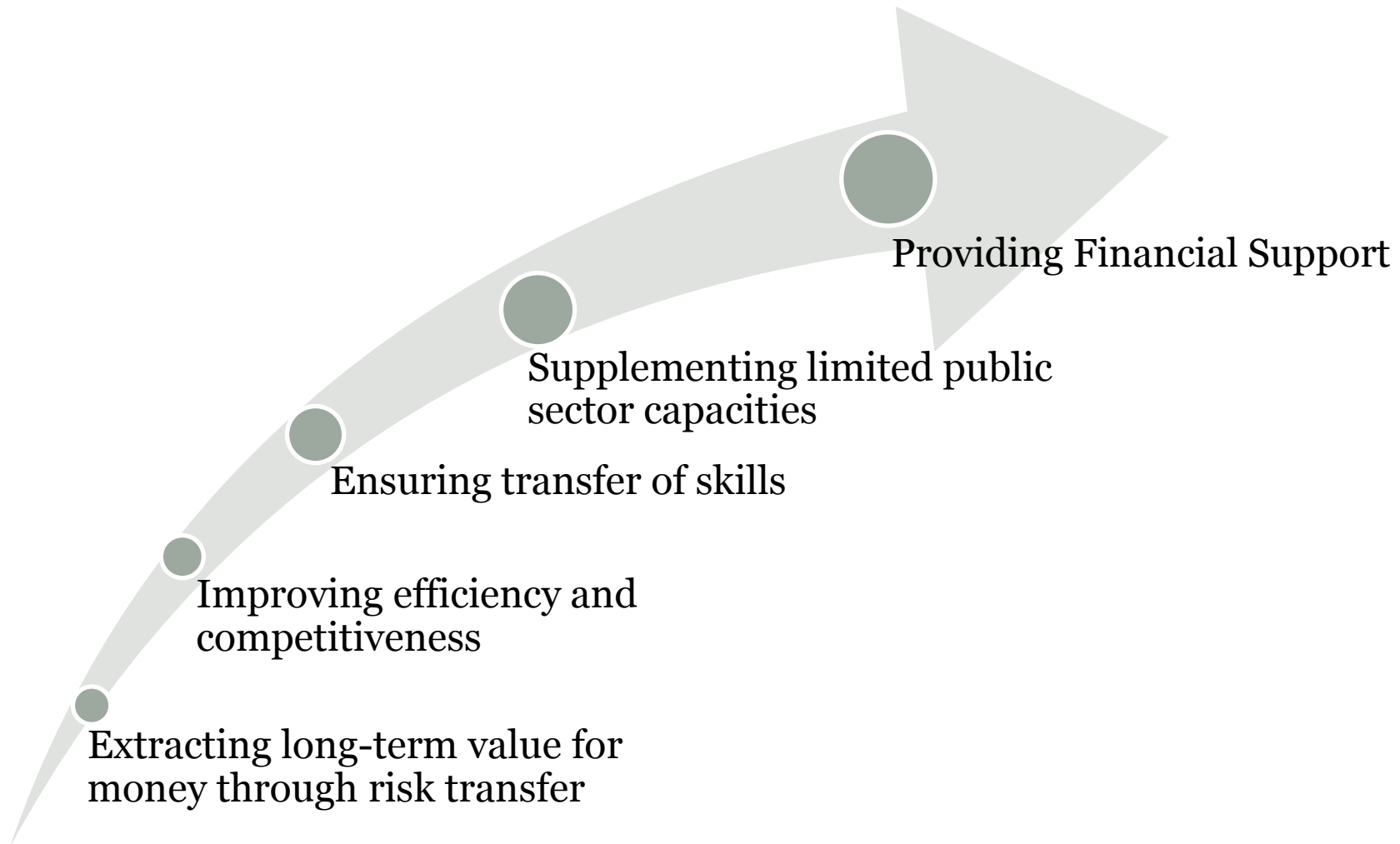
Private sector participation can be found in different countries around the world.

According to the 2012 ACI report, 450 airports had some form of private sector participation.

The most common being concessions (251 airports), followed by outright ownership (152 airports) and management contracts (47 airports).

Amongst those 25 are listed on stock exchanges, of which five are Chinese, three Mexican and two from Southeast Asia.

Key Challenges for a PPP Setup



Challenges and Risks

**High Development,
bidding and ongoing
costs**

Does the benefit of a PPP model outweigh costs?

**Higher return
expectations**

Need for sufficient commercialization potential to incentivize private sector

Financing challenges

Ensuring the ability to finance the project, especially under uncertain demand through adequate supporting clauses

Challenges and Risks

Political and social challenges

Perceptions on various issues including tariff increases, perceived loss of control, land procurement and job losses

Incomplete transfer of performance risks

Even if the government has minimal stake in the project, public will continue to hold the government responsible

Unanticipated events in the long run

Re-negotiation of contract terms may ensue during the project implementation to factor in unanticipated externalities

Conditions Precedent to a Successful PPP

Macro Factors

- Political stability
- Favorable policy environment
- Effective legislative, legal and controls framework
- Internal government expertise in PPPs
- Need for strong sponsor units
- Robust project prioritization and preparation
- Standardization of agreements and track record for sanctity of contracts

Project-Specific Factors

- Adequate scope and complexity of the project
- Sufficient demand and commercialization potential
- Demonstrable social and economic benefits
- Measurable output indicators
- Framework to ensure adequate competition for the project
- Clearly defined value addition for government

Size - A factor for PPP Contract

Relatively larger airports can be commercialized

Higher volumes and typically more predictable growth pattern leading to lower risk profiles

Greater ability for private sector to finance the project purely on the basis of revenues and concession contracts

Larger potential for non-traffic revenues, leading to off-airport development

Relatively smaller airports present challenges for commercialized

Uncertainty in pace of growth (leading to high demand risk)

Less attractive to investors and need for substantial concessions and grants

Lower potential for commercialization inside the fence

Minimal scope for non-traffic revenues, and limited scope to operations within airport premises, possibly restricting investor classes