



# Regulatory Model

## Concession of Galeão and Confins International Airports

November, 2013



# DISCLAIMER

This presentation only provides an overview of Contract and Bidding Documents.

The information here presented does not exempt a thorough and comprehensive analysis of the original documents in Portuguese.

If the contents of the original documents conflict or diverge in any way from this presentation, the information in the original documents should prevail.

# DISCLAIMER

Esta apresentação fornece apenas os principais aspectos do Edital e Contrato de Concessão.

As informações aqui presentes não dispensam a leitura completa e compreensiva dos documentos originais em português.

Havendo qualquer divergência entre os documentos originais e o conteúdo desta apresentação, considera-se que aqueles se sobrepõem a esta.

# Summary

**Initial Remarks**

**Legal Documents**

**Bidding Documents**

**Contract**

# Initial Remarks

## Tariff Structure

- Connection Fee: R\$ 7,64 (domestic and international)

## Concession Fee

- 5% of gross revenue

## Contract Term

- Confins: 30 years
- Galeão: 25 years

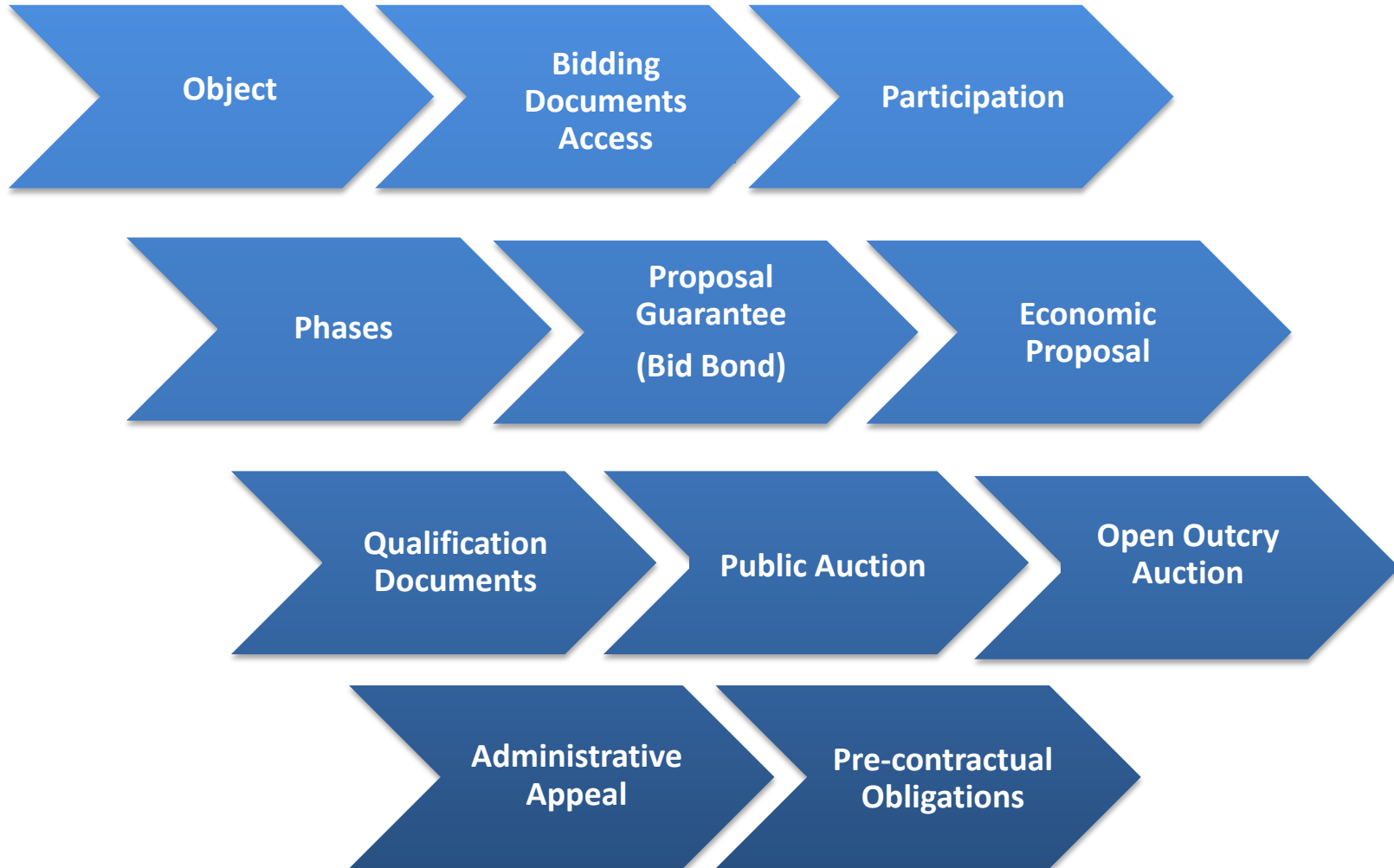
## Capacity Assumptions

### Master Plan

- Confins: 2 mandatory independent runways
- Galeão: extra independent parallel runway availability

Minimum Separation: from 5 NM to 3 NM

# Bidding Documents – Main Dispositions



# Contract - Objects

- Concession for expansion, maintenance and operation of the Airports
- There are 2 distinct objects:
  - Confins International Airport (**SBCF or CNF**)
  - Galeão International Airport (**SBGL or GIG**)
- **A single participant may present economic proposals for both airports**
- **Each participant may only win the auction for 1 airport**

- **Final Bidding Documents will be available to the public through**
  - electronic media, at the National Civil Aviation Agency - ANAC
  - the website [www2.anac.gov.br/Concessoes/galeao\\_confins](http://www2.anac.gov.br/Concessoes/galeao_confins)
- **Technical Visits are optional**
- **Notice of appeal**
  - Final deadline: up to 5 (five) work days prior to the submission of economic proposals
  - It can be submitted for both airports or for each airport individually
- **Feasibility Studies**
  - Studies findings are only indicative and does not bind ANAC or the future Concessionaire





- **Possibilities:**

It is allowed the participation of the following bidders, individually or in consortium\*:

- Brazilian or foreign legal entities
- Pension funds
- Investment Funds

\* A single entity, its parent, subsidiaries, affiliates or entities under common control may not participate in more than one consortium

\*There can be no change in the consortium until the date of contract signature

\*Airport Operator must have at least 25% of consortium participation

# Participation

- **Restrictions:**

General: inapt, unable to bid and contract, convicted of environmental crimes, officials or technical managers who have worked at ANAC, Ministry of Defense (MD), Secretary of Civil Aviation (SAC) and Infraero in the last 180 days

Airlines, its parents, subsidiaries and affiliates, individually or in consortium, in a proportion equal to or greater than 4%

Brazilian public airport infrastructure concessionaires shareholders, its parents, subsidiaries, and affiliates, in a proportion equal to or greater than 15%

# Phases

Joint submission of all the envelopes for both airports

Sequential opening of envelopes

1<sup>st</sup>

- **Statements, representations and Proposal Guarantee (1 envelope)**

2<sup>nd</sup>

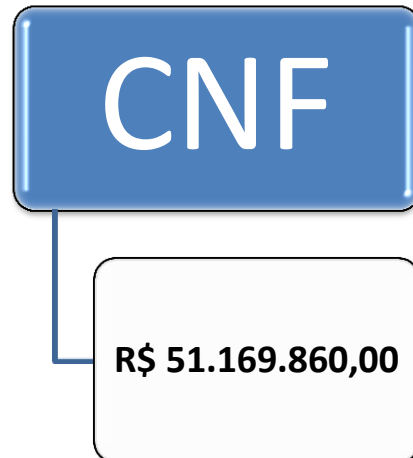
- **Economic Proposal (1 envelope for each airport)**

3<sup>rd</sup>

- **Qualification Documents (1 envelope)**

# Proposal Guarantee (Bid Bond)

- Cash, federal government bonds, surety bond or bank guarantee.
  - 1% of contract value.
  - The Bidder shall provide a guarantee for each airport that he intends to submit a proposal, according to the following values :
- **The Proposal Guarantee may be executed in the following cases:**
    - Total or partial default on obligations to participate in the auction
    - Qualification Documents or winning bidder's economic proposal inconsistent with bidding documents provisions
    - Failure to comply with pre-contractual obligations
    - Successful bidder's refusal to celebrate the concession contract
    - Fines, penalties and compensations enforcement



# Economic Proposal



**Total Fixed  
Contribution Value  
offered for each  
airport**

- Annual Payments
- Adjusted annually by IPCA (price index)

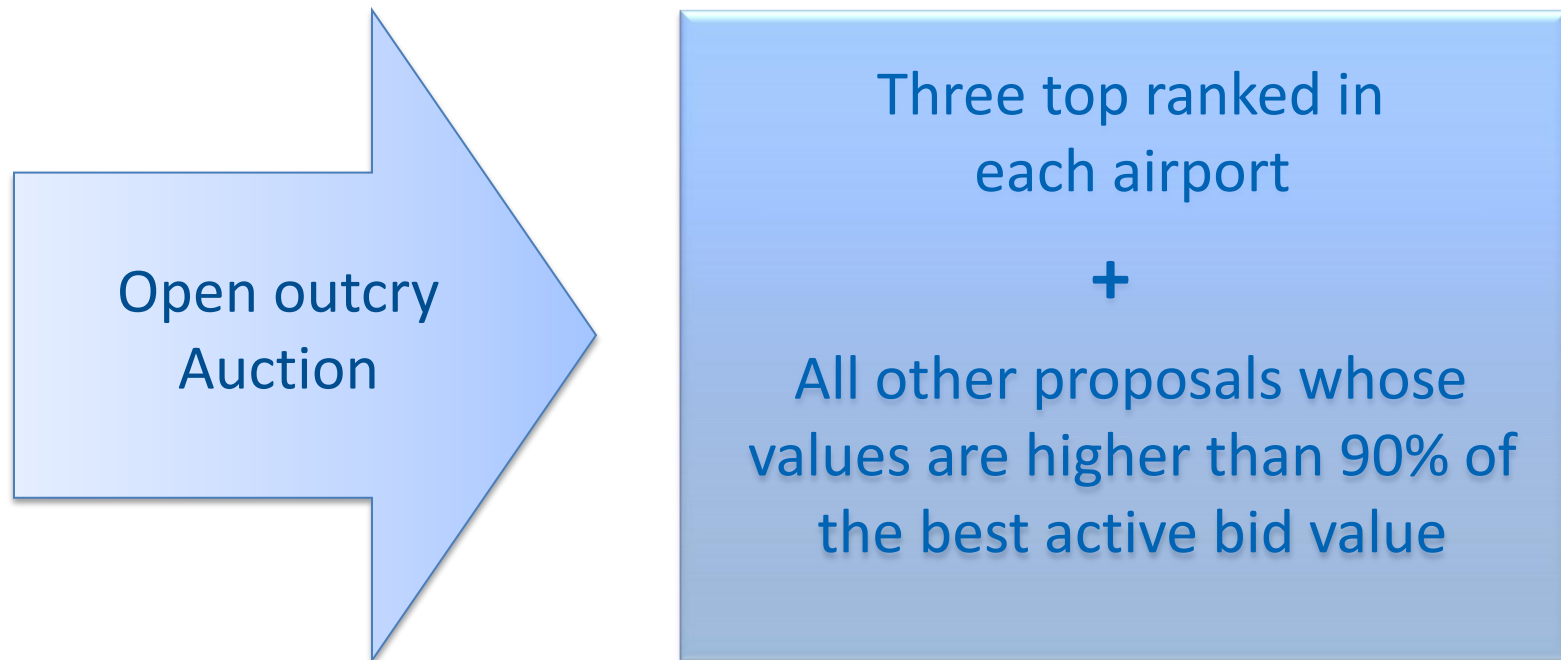
- **Statement of a financial institution stating that:**
  - Has examined the bidding documents, the business plan and the economic proposal
  - Considers that the economic proposal and business plan are economically feasible
  - Has considered feasible to grant funding for the Concessionaire's future obligations
- **Financial institutions must meet the following:**
  - Net worth of over R\$ 2.5 billion
  - Must not be related to the bidder's economic group and must not participate in the auction

# Qualification Documents

- **Legal Qualification**
- **Economic and Financial Qualification**
- **Fiscal and Labor Regularity**
- **Technical Qualification**
  - ✓ Minimum experience of 5 years operating airport
  - ✓ GIG: Must have operated airport, in the last 5 years, that has processed at least 22 million passengers in one year, including boarding, landing and connecting.
  - ✓ CNF: Must have operated airport, in the last 5 years, that has processed at least 12 million passengers in one year, including boarding, landing and connecting.

# Public Auction

- **Opening of Economic Proposals**
- **Classification of Bidders in descending order of Total Fixed Contribution Value for each airport**



# Public Auction - Example

Bidders	Object	% of best offer	Open outcry auction participation
Bidder 1	R\$ 200	-	Yes - Automatic
Bidder 2	R\$ 190	-	Yes – Automatic
Bidder 3	R\$ 189	-	Yes – Automatic
Bidder 4	R\$ 185	92,5%	Yes - higher than 90%
Bidder 5	R\$ 150	75%	No – lower than 90%
Bidder 6	R\$ 100	50%	No – lower than 90%
Bidder 7	R\$ 76	38%	No – lower than 90%

# Open outcry auction

- **Simultaneously for both airports**
- **Each bidder may take part of the auction for both airports, but may not be awarded with more than one**

## General Procedures:

If the same bidder submits the highest economic proposal for more than one airport, the result yielding a lower Global Fixed Contribution Value will be considered inactive

If there is only one bidder to one airport and he presents the highest economic proposal (before the open outcry auction), he may select which one is going to be active

The bidder that submitted the highest active bid to the airport by the end of the auction will be awarded with it

The auction ends only with the absence of new bids

If the winning bidder is disqualified, the winner will be the second highest active bid of its airport



# Administrative Appeals

- **Unique appellate stage for the public session:**
  - Possibility of a single appeal after the decision on the auction winners
  - Appeal may include all previous decisions of the Session Public Committee
  - Deadline of 5 working days for the submission of the appeal, starting from the publication of the decision that will declare the winners of the public session

# Pre-contractual Obligations

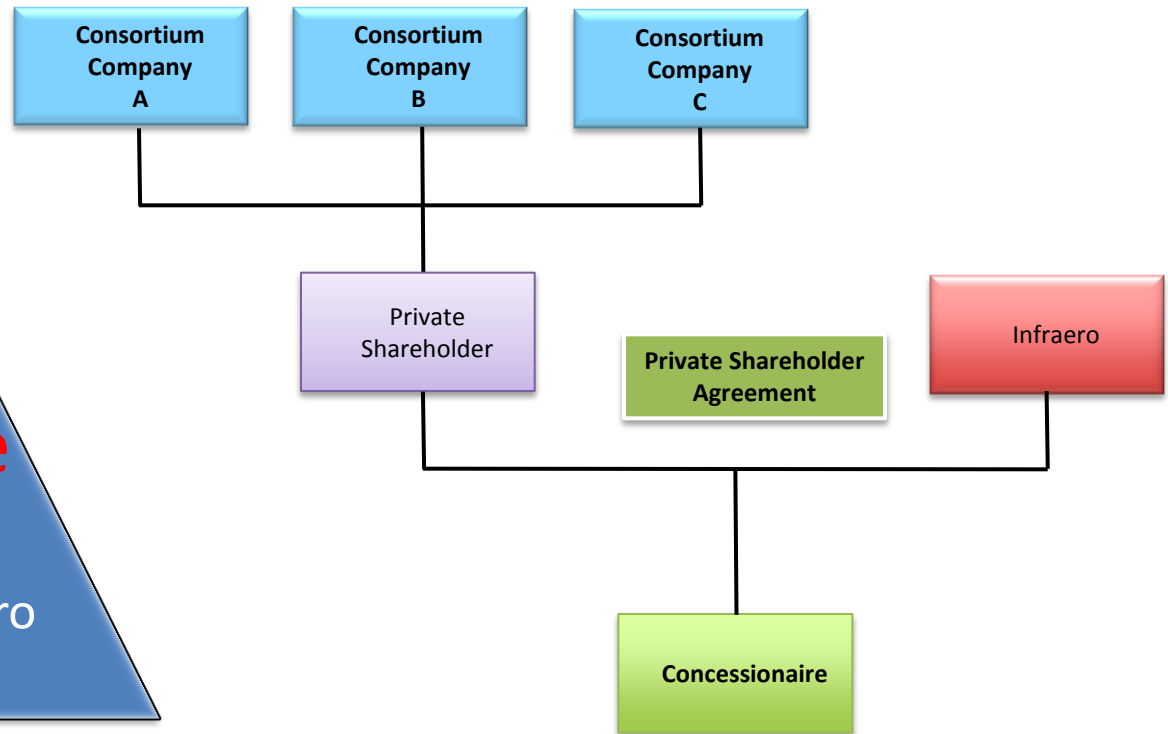
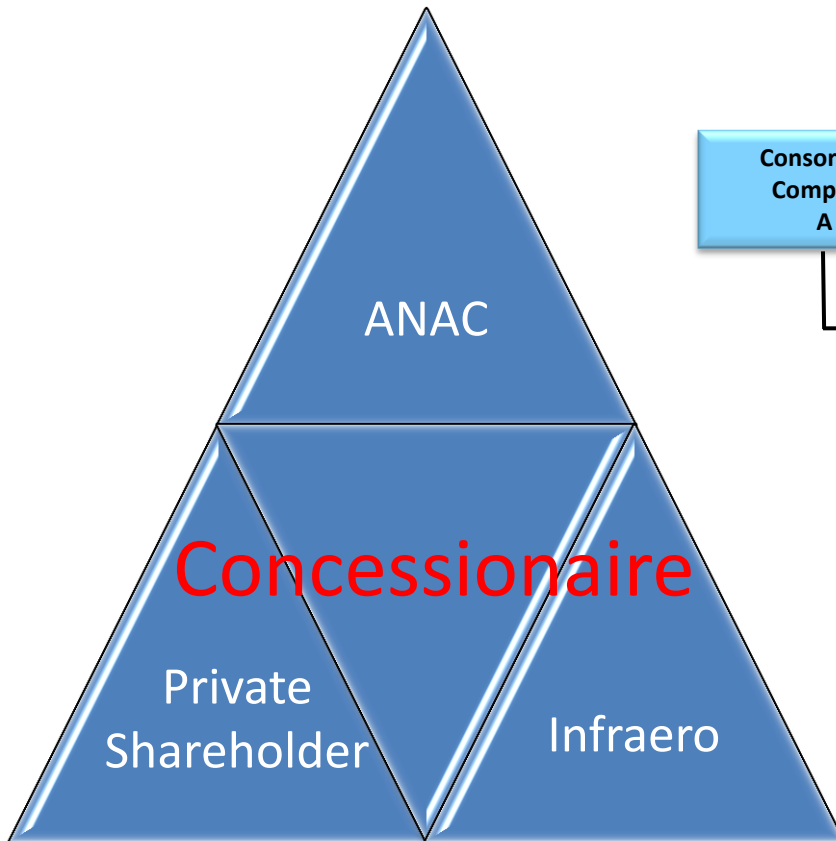
- **Private Shareholder Formation**
  - SPE composed by the companies that won the auction and presentation of its bylaws
- **Indication of its corporate structure**
- **Minimum Share Capital Payment:** (corresponding to the need for capital relative to first investments cycle):
  - **Galeão:** R\$ 722,770,000.00
  - **Confins:** R\$ 526,940,000.00
- **Signing of Private Shareholders' agreement**
  - Binding 50% plus one of the voting capital shares of the Private Shareholder
- **Performance Security Guarantee** (corresponding to 5% of contract value):
  - **Galeão:** R\$ 647,653,550.00
  - **Confins:** R\$ 255,849,300.00
- **Refund to preliminary studies to the auction:**
  - **Galeão:** R\$ 9,524,272.74
  - **Confins:** R\$ 9,612,570.72

# Contract – Main Dispositions

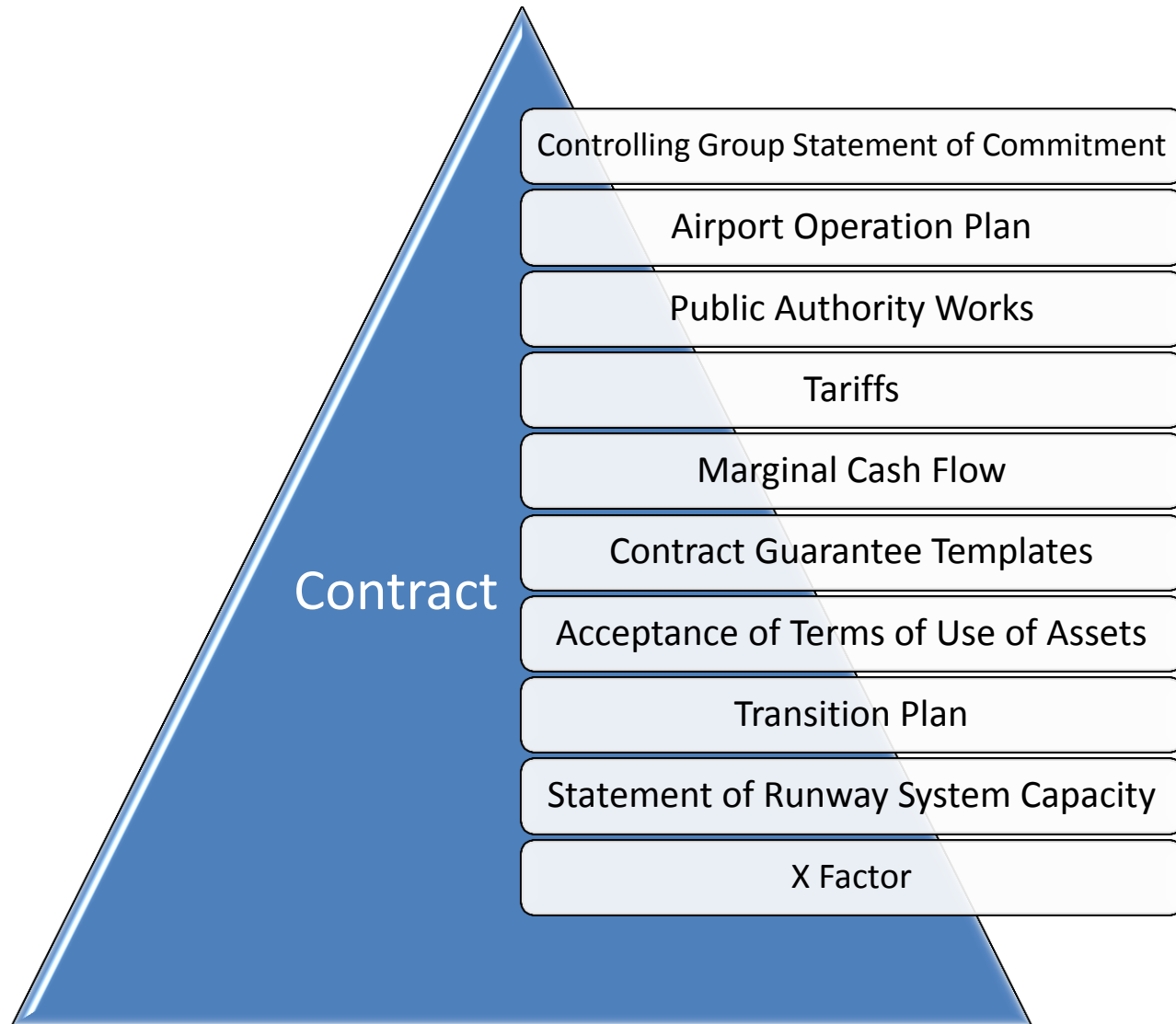


# Parties to the Contract

- Concessionaire corporate structure chart:



# Contract Annexes



# Object of the Concession

## Airport infrastructure services

- Passengers embarkation and disembarkation
- Aircraft Landing and Parking
- Storage and Handling
- Maintenance of the entire airport complex

## Provision of auxiliary services

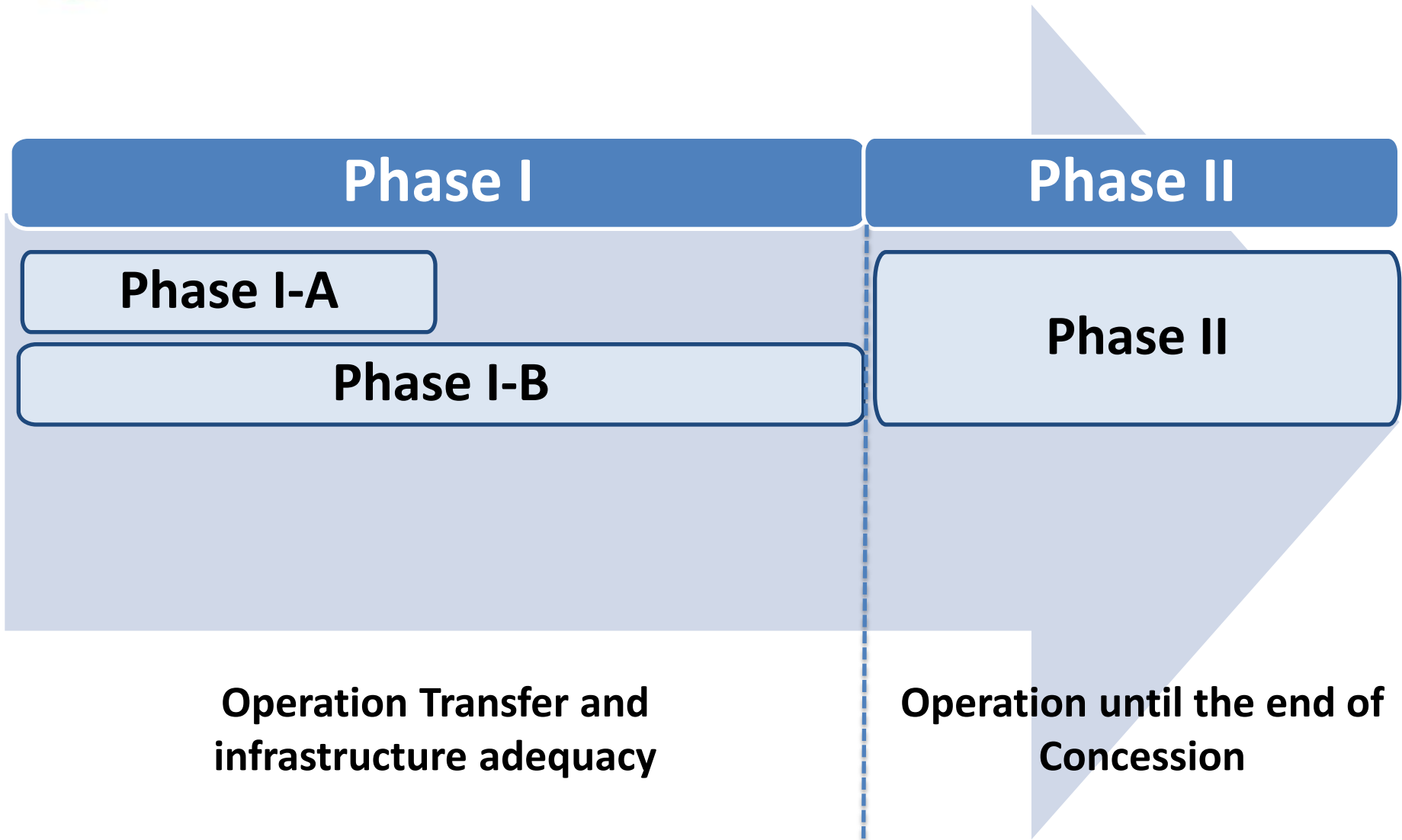
- Stores, duty free, banks, restaurants and others
- Rental of areas, cars, parking lots and others
- Transport, telephony, internet access and others

## Necessary investments to meet demand

- Fulfillment of Service Quality Indicators
- Service quality independent research to allow worldwide comparisons

**Equipment supply and the provision of air traffic services are not included in the object of concession**

# Implementation phases of the object



## Phase I

### Phase I-A: Operation Transition

#### Stage 1

- ✓ Deliver of PTO, MOPS and PSA (30 days)
- ✓ Concessionaire has total access

50 days

#### Stage 2

- ✓ Infraero operates (revenues and expenses)
- ✓ Company Notifications

+ 70 days



#### Stage 3\*

- ✓ Concessionaire operates (revenues and expenses)
- ✓ Infraero monitors
- ✓ Assignment of employees (indemnity)

\* Only after Aug 11th 2014

+ 3-6 months

**Phase I-B:** Initial investments in runways, apron and passenger terminal. Infrastructure adequacy and level of service compliance

**April 30<sup>th</sup>, 2016**



## Phase II

### Airport Operational Plan (*PEA*)

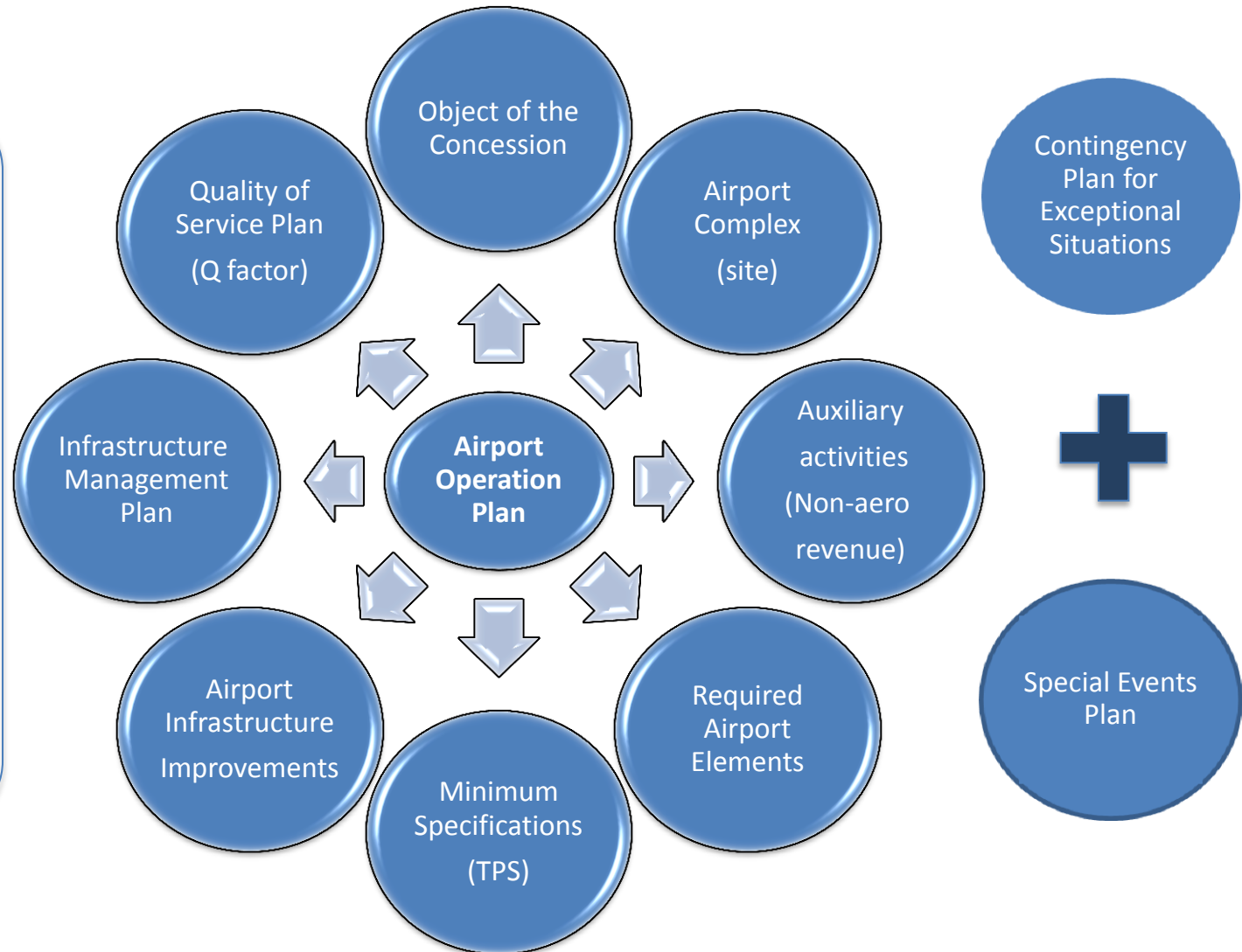
- Expansion
- Maintenance
- Operation
- Plans
  - ✓ Infrastructure Management
  - ✓ Quality of Service
  - ✓ Special Events
  - ✓ Contingency on Special Situations

**...until the end of concession**

# Airport Operation Plan (PEA)

## Monitoring

- ✓ Planning
- ✓ Investment trigger
- ✓ Quality of Service Indicators
- ✓ Q Factor



# PTO and PAI

The Immediate Action Plan (PAI) aims to systematically structure a set of short-term investments and operational interventions to be followed by ANAC through indicators displayed by the concessionaire. Shall contain activities to be performed by:

- review of escalators, moving walkways, elevators and baggage claim systems;
- availability of high speed wi-fi across the passengers terminal;
- expansion of food options for the passenger at the airport.



# Main mandatory investments

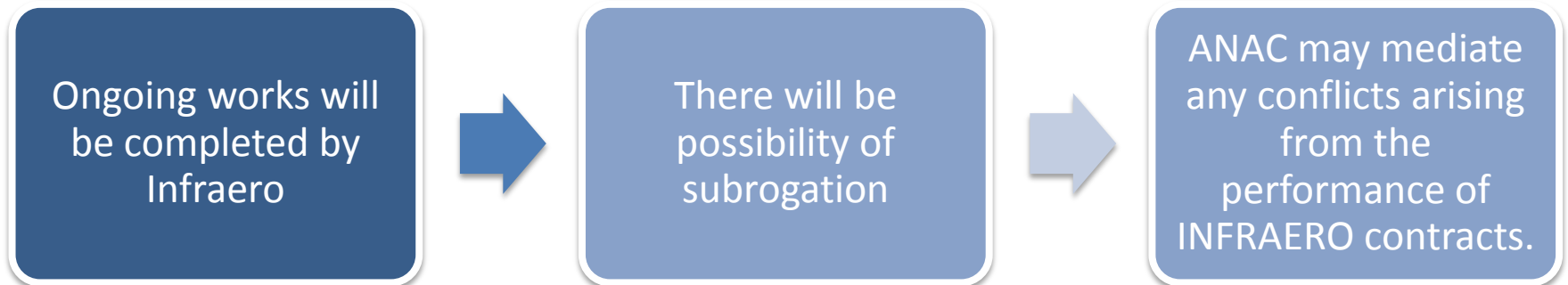
## Galeão

- **By 2016:**
  - New arrival and departure facilities with at least 26 additional boarding bridges and respective apron positions for Code C aircrafts
  - Total apron area for 73 Code C and 24 Code E aircrafts (see PEA 8.5.2 and 8.5.2.1)
- **Above 215,000 aircraft movements per year:**
  - Construction of independent 10/28 runway system (to be completed before reaching 262,900 movements per year)

## Confins

- **By 2016:**
  - New passenger terminal for additional 1,650 domestic passengers on departure and 1,700 on arrival (on peak hours), with at least 11 boarding bridges for Code C and 3 boarding bridges for Code E aircrafts, with respective apron positions.
  - Total apron area for 37 Code C and 7 Code E aircrafts (see PEA 8.1.2 and 8.1.2.1).
- **Above 144,000 aircraft movements per year:**
  - Construction of 2<sup>nd</sup> independent runway (to be completed before reaching the event that happens first: 198,000 movements per year or Dec 31st 2020)

# Public Authority Works



# Term and Value of Contract

<b>Airport</b>	<b>Galeão</b>	<b>Confins</b>
<b>Term</b>	<b>25 years</b>	<b>30 years</b>
<b>Contract Value (aero and non-aero revenues)</b>	<b>R\$ 12,953,071,000.00</b>	<b>R\$ 5,116,986,000.00</b>

# Concession Fees

## Fixed Fee

- Paid annually based on the total amount defined in the auction
- Adjusted annually by the Consumer Price Index - IPCA

## Percentage Fee

- Pay annually and levied on the Concessionaire gross revenues:
  - **GIG/CNF: 5% (Without trigger)**



# Current Committed Capital Program

- Current committed capital program in progress will be completed by Infraero
- The Concessionaire can take over the contracts in progress
  - Rescind and indemnify contractors, being reimbursed by Infraero within the limits of the contract
  - Maintain the contract, being reimbursed for the costs of the works contracted within the limits of the contract
- ANAC may mediate any disputes arising from the execution of Infraero contracts



# Rights and Duties

## General Duties

- Fully comply with the contract
- Meet ANAC requirements
- Comply with labor and social security obligations

## Provision of Services

- Provide adequate, continued, quality service
- Maintain customer service system
- Maintain emergency care system
- Train and equip airport employees

## Operational Activities

- Obtain approval for the projects relating to the expansion and operation of the Airport
- Provide the necessary licenses
- Comply with the conditions of existing licenses
- Have Runway System Capacity assured by DECEA

# Rights and Duties

## Information

- Provide information and explanations required
- Generate reports
- Possess electronic database
- Inform financing terms
- Inform 30 days in advance every new charge rate

## Governance

- Observe standards of corporate governance
- Presentation of Financial Statements
- Independent Audit Report
- Ensure employees the right to appoint a member of the Board of Directors

## Insurance

- Engineering risk insurance
- Property damage insurance
- Liability insurance
- Insurance must be updated according to investment cycle

# Rights and Duties

## Share Capital

- Subscribe share capital (in cash, BRL) of at least:
  - GIG: R\$ 722,770,000.00
  - CNF: R\$ 526,940,000.00

## Performance Security Guarantee

Guarantee up to the end of Phase I-B:

GIG: R\$ 647,653,550.00

CNF: R\$ 255,849,300.00

After the end of Phase I-B:

GIG: R\$ 323,826,775.00

CNF: R\$ 127,924,650.00

At each investment trigger

10% of estimated investments

After the end of contract:

GIG: R\$ 40,881,951.00

CNF: R\$ 13,732,816.00

# Rights and Duties

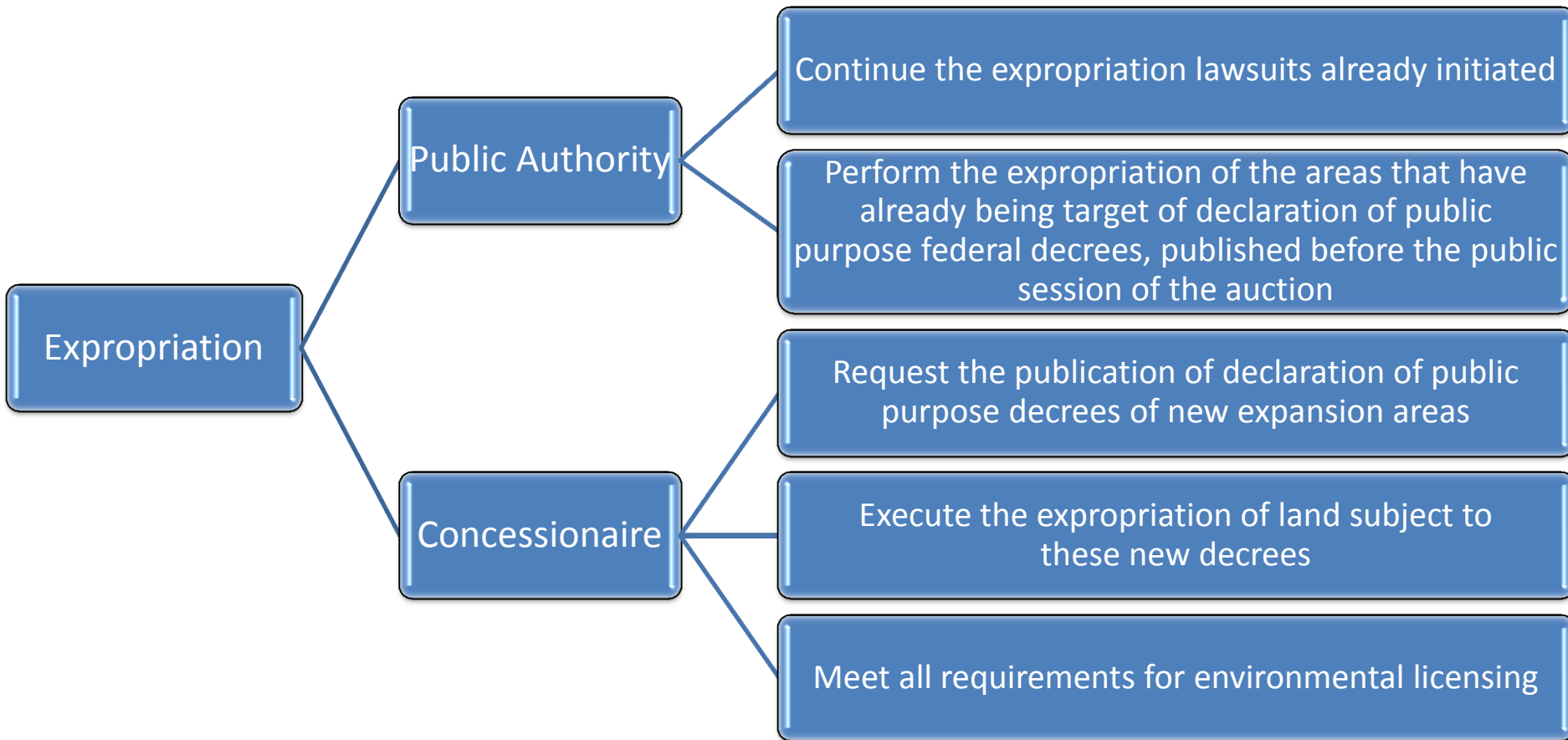
## Olympic Games

- Observe and comply with all commitments made by the Government to host the Olympic and Paralympic Games Rio 2016, even if subsequent to the date of the bidding documents publication.

## High Speed Train (GIG)

- The concessionaire must provide an area for the train station free of costs to the train operator.
- The train operator will be allowed to explore commercial activities inside the train station
- Financial losses originated from the train implementation and operation must be compensated in agreement with the train operator

# Rights and Duties



# Source of Revenue

## Tariff Revenue

- **Annex 4 – Price-Cap Tariffs**
  - Boarding charges
  - Connection charges
  - Landing and Parking charges
  - Storage and Handling charges
- **Price-caps**
  - Freedom to practice discounts (non discriminatory)

## Non-Aeronautical Revenues

- **Operational Areas and Activities**
  - Freely negotiated. ANAC may regulate prices of these areas and activities in presence of abusive or discriminatory practices.

- **Commercial Areas (*PEA*)**
  - Provision of services to airlines, retail and food concession areas, rental cars, hotels etc.
- **General Rule**
  - The Concessionaire may only operate ancillary services (catering, handling, etc.) by the formation of wholly owned subsidiary with separate accounts
  - The assignment of airport areas in the airport complex will follow its own rules in the contract

# Risk Allocation

- **ANAC**
  - Complete set of risks are allocated in the contract
  - Subject to Economic and Financial Balance (EFB)
- **Concessionaire**
  - Non-exhaustive set of allocated risks
  - Fully and exclusively accountable for all other risks related to the Concession
  - Not subject to Economic and Financial Balance



Concept

**Allocation of risks is determined by agent's capability to manage each risk**

# Risk Allocation

## ANAC

- Service changes caused by new security requirements
- Operational constraints due to government decision or omission
- Occurrence of events of force majeure or of unforeseeable circumstances, unless timely insured
- Commitments made by the Government to host the Olympic and Paralympics Games Rio 2016, subsequent to the date of the bidding documents publication.

## Concessionaire

- Demand risks, including new airports
- Input price increases
- Incorrect estimate of the cost of investments to be made by the Concessionaire;
- Other risks not pertaining to ANAC



## Regulatory tools

### Tariff Regulation

$$T = IPCA - X - Q$$

### Review of Concession's parameters

- Public Hearing
- X Factor
- IQS / Q Factor
- WACC to MCF

**Every 5 years**

### Extraordinary Revision

- Reset EFB
- Requested by Concession/ANAC
- Modification of charges, term, contract obligations
- Marginal Cash Flow

# Transfer of Concession/Control

## Direct or indirect change in Concessionaire's control:

Prohibited until the concession's 5<sup>th</sup> year

ANAC may consent after the concession's 6<sup>th</sup> year

Private shareholder must always control the Concessionaire

## Changes in shareholder's composition which does not change control

Requires authorization from ANAC until the concession's 5<sup>th</sup> year

Does not require ANAC's authorization after the concession's 6<sup>th</sup> year

## Admission of new shareholders who participate in the other two Concessions

Prohibited until the concession's 5<sup>th</sup> year

ANAC may consent after the concession's 6<sup>th</sup> year

# Airport Areas Assignment

## Airport area assignment contracts:

- General: Freely negotiated and limited to the term of the Concessions
- Exception: contracts longer than the term of contract must be approved by SAC

There must be full accounting transparency by the Concessionaire and the other parties

Current Infraero contracts are binding

# Airport Areas Assignment

- Pending ANAC's approval, the Concessionaire may enter into contracts with air carriers to build, maintain or operate, exclusively or preferably terminal or parts of it.

The following rules apply to auxiliary air transport services:

Free access to air carriers and other companies

In case of capacity constraints to new entrants, the Concessionaire must require ANAC to limit the minimum amount of companies

The Concessionaire may request ANAC for authorization to exclusively provide services, if infrastructure constraints requires so

# Employee Dispositions

- Concessionaire must select, within 18 months from the end of Phase I-A, which Infraero employees it intends to hire
- Employees may choose to either work for Infraero or for the Concessionaire

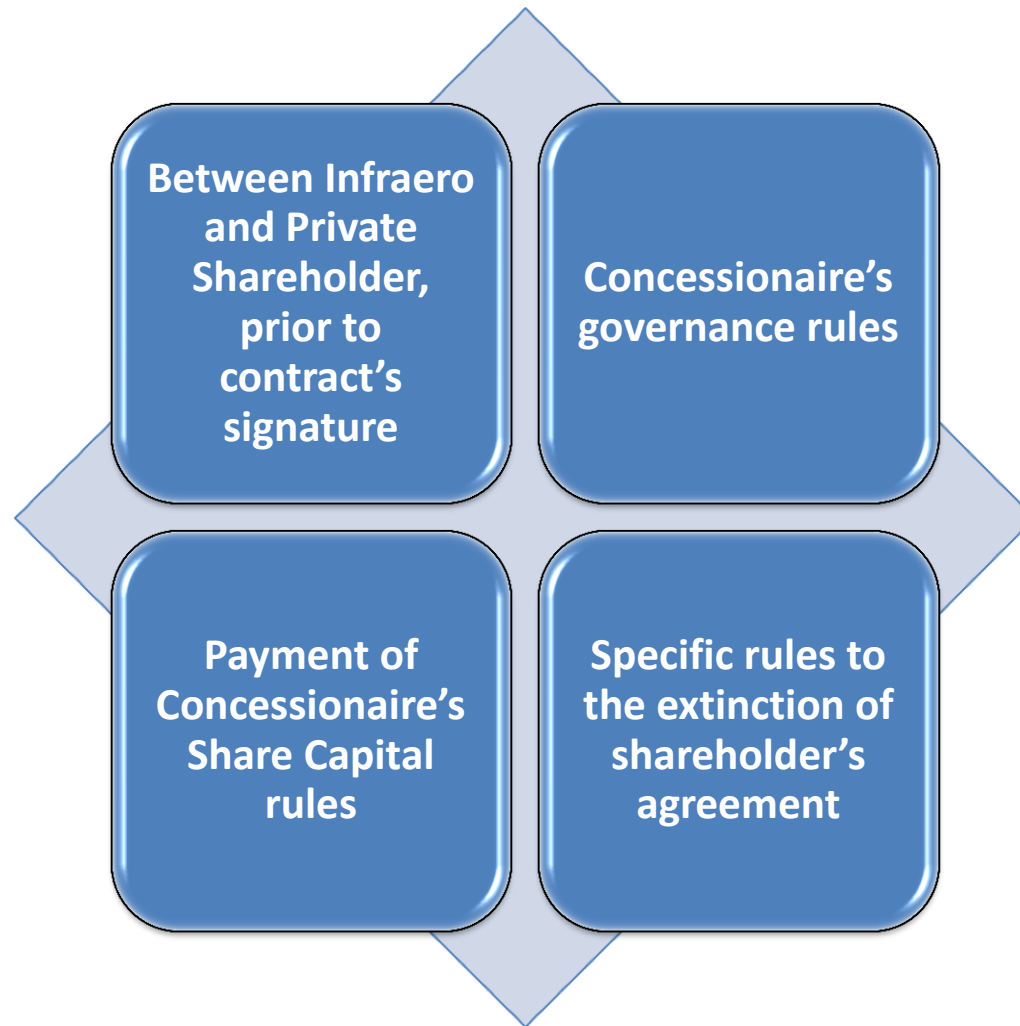
The employees transferred to the Concessionaire will be granted the following rights:

Stability until December 31<sup>st</sup>,  
2018

Contract conditions at least  
equivalent to Infraero's

Infraprev (contribution paid  
by Concessionaire)

# Shareholders' Agreement



# Shareholders' Agreement

## Infraero's Veto Rights

Any alteration or amendment to Bylaws

Any decision regarding Concession's extinction, except expropriation

Any partnership, consortium, joint venture or similar enterprise

Acquisitions or participation of other companies

Change of corporate purpose

Assignment or change in Independent Audit

Sale of essential assets of the Concessionaire below market value

Any indebtedness which is not connected to the fulfillment of investments according to the Airport Operation Plan

Any contract with a Related Party, except if its terms and conditions are according to market or permitted by the financier

Change of dividend distribution policy

Internal auditor appointment

One name of the triple list for Chairman

# Shareholders' Agreement

## New terms over GRU, VCP & BSB

Choice of the Concessionaire Chairman among professionals indicated in a triple list presented by a specialized professional recruiting company.

The appointment of the Director of Operations will be arising from a triple list indicated by the operating partner of the Private Shareholder, for choice by the Chairman and subsequent submission to the Board of Directors.

The Director of Operations will integrate the CONAERO

The board of directors will have, at least, the following Advisory Committees: Engineering and Investments, Operation and Commercial.



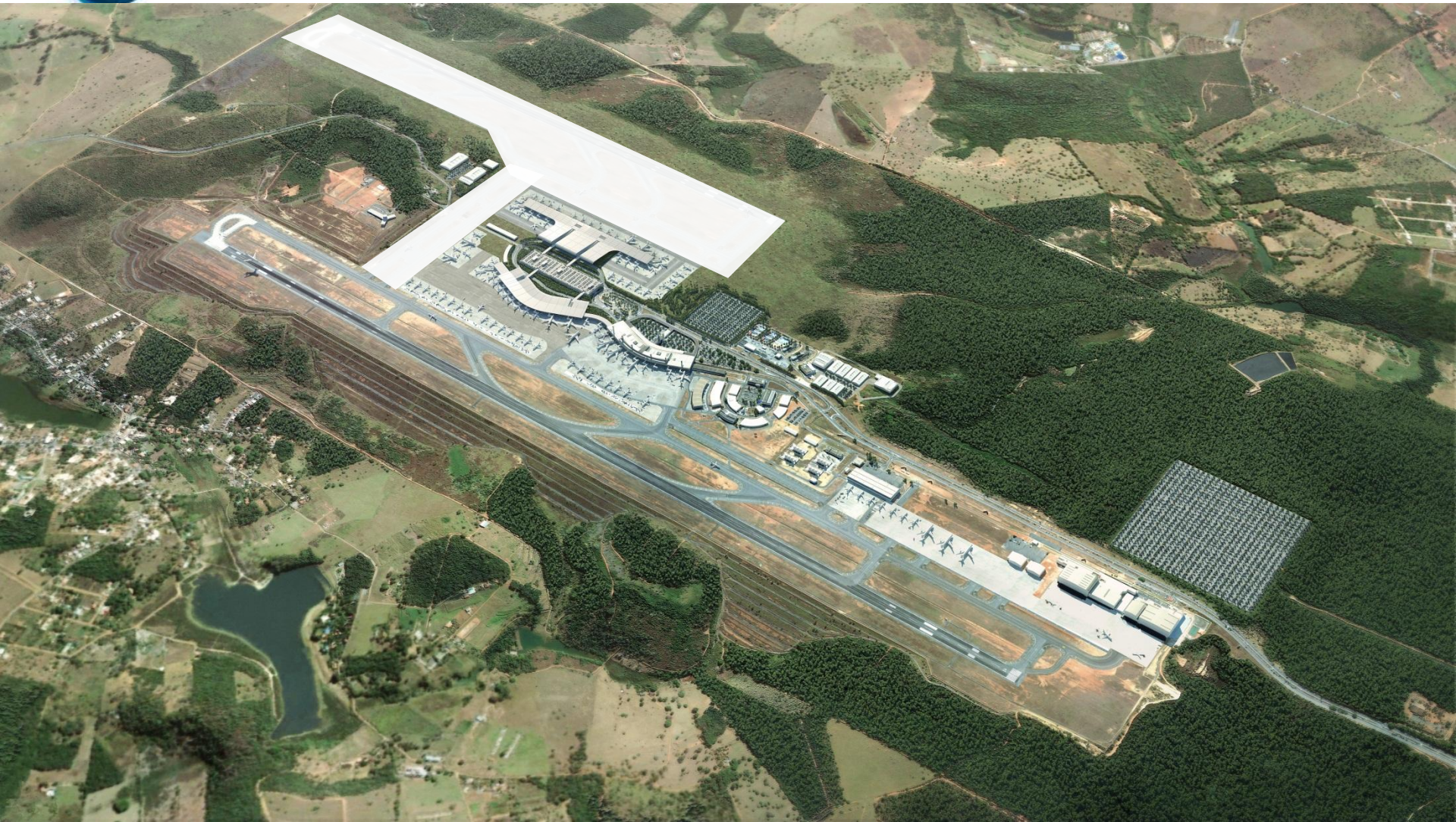
# Galeão – Current Situation



# 3D Final Project – Galeão



# Confins – Current Situation



# 3D Final Project – Confins

