



Regulatory Model

Concession of São Gonçalo do Amarante International Airport

Brasília, June 7th 2011

DISCLAIMER

This presentation provides only an overview of Contract and Bidding Documents. The information presented does not exempt a comprehensive analysis of the original documents in Portuguese.

Therefore, In case of divergence, original documents in Portuguese shall prevail.



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Esta apresentação fornece apenas os principais aspectos do Edital e Contrato de Concessão: a informação não exime a leitura completa dos documentos originais.

Portanto, em caso de divergência, devem prevalecer os documentos originais em português.

Initial Remarks

- Aim
 - Induce private efficiency in service provision, sharing gains with users
 - Assure regulatory stability and business attractiveness
- How efficiency gains are split with users
 - Auction selects the most efficient investor
 - X factor shares efficiency gains from technological progress
 - Commercial revenues are partially directed to lower tariffs (hybrid single till)
- Model assures a minimum level of service
 - Investment trigger
- Model encourages higher service quality
 - Q factor



Legal Documents

Bidding Process - Summary

Participation

**Declarations,
Representation
and Proposal
Guarantee**

**Economic
Proposal**

**Business Plan
and
Implementation
Methodology**

**Qualification
Documents**

Bidding Stages

**Prior
Obligations to
Contract
Signature**

**Contract
Signature**



Bidding Process - Participation

- Brazilian or foreign legal entities may take part
 - Alone or in a consortium
- Participation Limits
 - Legal entities who are unsuitable; are impeded of being contracted by the State; have been convicted of environmental crimes; took part in the project structuring studies; whose staff were part of ANAC's or Defense Ministry's staff up to 180 days before the bidding documents were disclosed
 - Airlines as well as their parent, subsidiary and/or affiliate companies
 - A consortium in which airlines as well as their parent, subsidiary and/or affiliate companies have a share above 10%

- Foreign legal entities, alone or in a consortium, must:
 - Provide all equivalent qualification documents attested by the Brazilian consular authority in their country of origin
 - Provide a certificate from their embassy in Brazil acknowledging the legal and administrative validity of the qualification documents in their country of origin
 - Be legally represented in Brazil in order to answer judicially and administratively



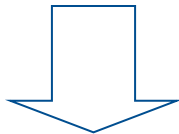
ANAC

Bidding Documents - Guarantees

- Money, Federal Bonds, Surety Bonds or Bank Guarantees
- Up to 1% of estimated investment
- Estimated investment along the Concession term:

R\$ 650 million

- Proposal Guarantee



R\$ 6.5 million

- Initial bid: minimum of R\$ 51.7 million
- Payments due from 37th month onwards
- Payments will be SELIC adjusted (SELIC rate – *Taxa Especial de Liquidação e Custódia* – benchmark base interest rate set by the Central Bank of Brazil)

- After the opening of envelopes, an open ascending price auction may take place
- Who will take part in it:
 - The highest bidder
 - All proponents whose bids were up to 15% below the highest bid
 - If there are no proponents inside the 15% interval, the three highest bidders will carry on to the open ascending price auction

Joint presentation of all envelopes

Envelope opening sequence

1st

- **Declarations, Representation and Proposal Guarantees**

2nd

- **Economic Proposal**

3rd

- **Qualification Documents**

4th

- **Business Plan and Implementation Methodology**

Bidding Documents

- At first, only the highest bidder in the open ascending price auction will have its Qualification Documents, Business Plan and Implementation Methodology analyzed
- If the highest bidder does not comply in any form with all the requirements:
 - Its proposal guarantee will be forfeited
 - The Bid Commission will proceed to analyze the 2nd highest bidder's documents

Contract – Main Dispositions

Object

**Rights and
Duties**

**Concessionaire
Remuneration**

Risk Allocation

**Financial
Equilibrium**

**Enforcement
and Penalties**

**Subcontracting
and
Subconcession**

**Intervention
and Extinction**

**Final
Dispositions**



Stages

STAGE I – Airport construction by concessionaire, after ANAC’s approval of the Basic Design

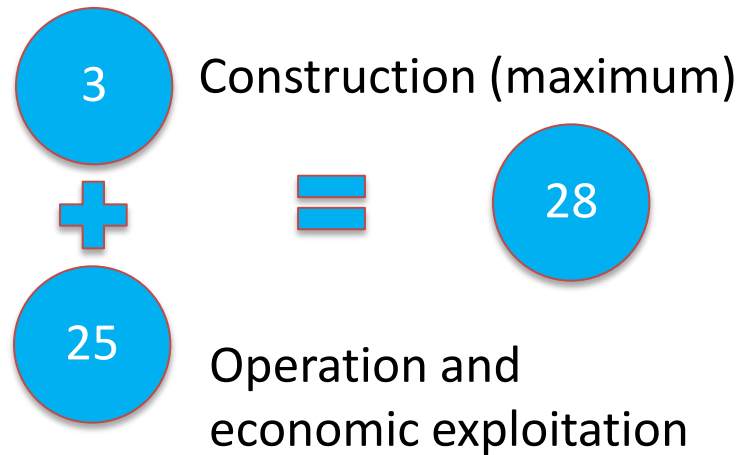
STAGE II – Maintenance, operation and exploitation of São Gonçalo do Amarante International Airport, according to the Airport Exploitation Plan, given that all ANAC’s and DECEA’s requirements are fully satisfied

Contract - Object



Contract Term and Value

28 years



Contract Value:

R\$ 650 million

(estimated total investment)



Concessionaire Duties and Rights

- General duties (legal, operational, educational etc.)
- Service Provision
- Operational Activities
- Information Transparency
- Investments (Airport Exploitation Plan, investment trigger)
- Corporate Governance
- Social Capital
- Accountability
- Insurance
- Contract Implementation Guarantees



Regulator Duties and Rights

- General legal duties
- Make all airport area available to the Concessionaire free of charge
- Inspection and Oversight
- Approve/Reject airport design, plans, services etc.
- Assist concessionaire in its relationship with other State institutions
- Restore financial equilibrium when due



Concessionaire Remuneration

- Tariff Revenues
 - Concessionaire may only charge tariffs foreseen in Annex 4 of Contract
 - Tariffs limited by a cap (price-cap regulation)
 - Concessionaire may give non-discriminatory discounts, based on previously released parameters
- Non-Tariff Revenues
 - Concessionaire may commercially exploit airport areas, as long as they do not compromise safety and level of service
 - Concessionaire may not enter into a contract with its related partners to exploit commercial activities
 - Concessionaire must keep individualized accountancy records for each subsidiary, which may be audited by ANAC at any time
 - A share of these revenues will be reverted to lower tariffs – Annex 11

- Principles
 - Allocate risk to the agent best prepared to manage it
 - Provide the right incentives for all agents
 - Regulator risks are listed in their totality
 - Therefore, all remaining risks are allocated to the Concessionaire
- Extraordinary Revision
 - If risks allocated to the Regulator materialize, the Concessionaire may request an extraordinary revision to reinstate financial equilibrium

Regulator Risks

- Delays/deficiencies related to the works done by the regulator before transferring the site to the Concessionaire
- Regulatory changes
 - service specification due to new Regulator's requirements
 - taxes and subsidies
 - operational restrictions due to Public entities' decision or omission
- Unilateral alteration of Concession terms by the regulator
- “Acts of God”, unless covered by insurance institutions in the Brazilian market at the time of insurance hiring
- Social or environmental drawbacks which can be imputed to State institutions
- Unavailability of basic infrastructure for adequate airport operation

Main Concessionaire Risks

- Market related risks - variations in:
 - demand
 - input prices
 - interest, exchange and default rates
 - works mistakes and schedules due to concessionaire malpractices
 - project or technology not required by ANAC
- Social, safety or environmental issues imputed to the concessionaire which may delay works, cause losses etc.
- Any other risks which are not expressively foreseen to be under the Regulator's responsibility (subclause 5.2 in Contract)

Financial Equilibrium

- As long as all contract dispositions hold, financial equilibrium is sustained
- Financial equilibrium will be preserved by:
 - Yearly tariff readjustments
 - Revision of Concession Parameters (RPC)
 - Q factor – computation method
 - X factor – estimation method and parameter value
 - Discount rate – estimation method and parameter value
 - Extraordinary revision: materialization of Regulator risks

Tariff Readjustments

- Aims
 - Monetary update of tariffs to sustain financial equilibrium
 - IPCA (*Índice de Preços ao Consumidor Amplo* – Broad CPI)
 - Encourage productivity gains from airport operator
 - Share gains with users
 - X factor
 - Encourage service quality increases
 - Q factor
 - Partial reversion of commercial revenues to lower tariffs and encourage economic exploitation of commercial activities

First Readjustment

- IPCA and an X factor accumulated between the disclosure of bidding documents and the beginning of STAGE II will be applied in the 1st readjustment to determine tariff caps, as below:

$$T_1 = T_0 \times (IPCA_1/IPC A_0) \times (1 - X_{ac})$$

$$X_{ac} = (1 + X_m)^n - 1$$

$$X_m = 0,0010686959582$$

where:

T_1 – readjusted tariff at the beginning of STAGE II

T_0 – initial tariff (Annex 4 of Contract)

$IPCA_1/IPC A_0$ – accumulated inflation between the disclosure of bidding documents and the month before the beginning of STAGE II

n – how long STAGE I lasts, in months

X_{ac} – cumulative productivity factor between the beginning and end of STAGE I

X_m – monthly productivity factor, given by $X_m = [(1 + 0,0129)^{1/12} - 1]$

Following Readjustments

- Tariffs will be readjusted taking as reference the date of the previous readjustment, as below:

$$T_t = A_t + B_t$$

Such as

when $t = 2$: $A_t = T_1 \times (IPCA_t / IPCA_{t-1}) \times (1 - X_t) \times (1 - M_t)$

when $t > 2$: $A_t = A_{t-1} \times (IPCA_t / IPCA_{t-1}) \times (1 - X_t) \times (1 - M_t)$

for any given "t": $B_t = A_t \times (-Q_t)$

where:

T_t is the readjusted tariff

A_t is the readjusted tariff component which takes into account the X factor and the reversion of non-tariff revenues

A_{t-1} is the same as above, but in the previous period

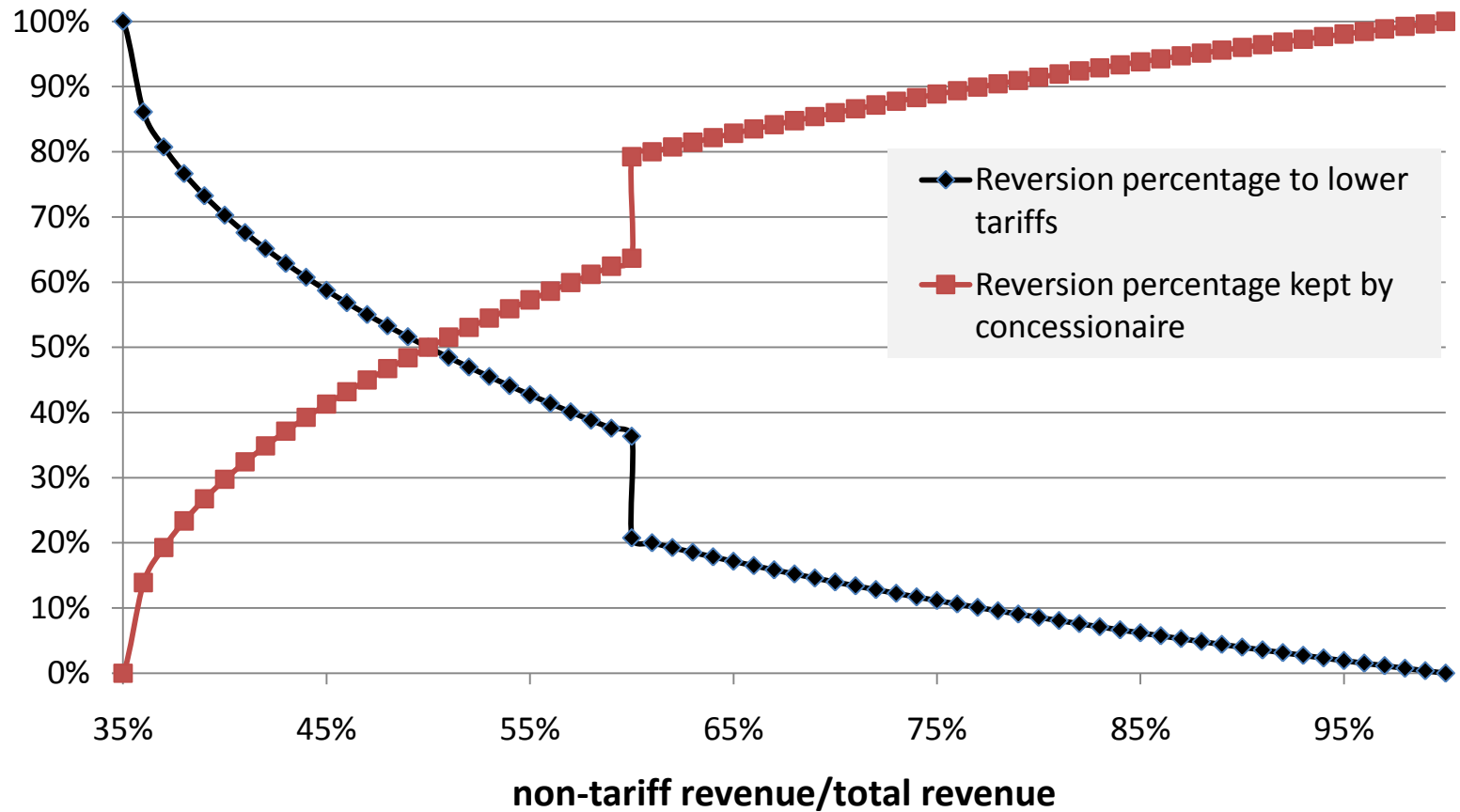
B_t is the readjusted tariff component which takes into account the Q factor

X_t is the productivity factor to be defined at each RCP cycle

M_t is the parameter of non-tariff revenue reversion to be computed every year

Q_t is the quality factor measured every year

Revenue Reversion – Hybrid single till



Revision of Concession Parameters

Parameters	1st event	Duration	Last event	Frequency	Aim	Criteria/Rules
X factor	At the end of STAGE I (1 st RCP). X factor will be 1,29% per year up to then	For the next 5 years of concession (until the next revision)	6 years before the concession end	Every 5 years	Set an X factor to be applied in order to share efficiency and productivity gains with users	(i) Future regulation guided by widespread public debate during each RCP (ii) X factor and discount rates are not limited by any bounds (iii) Q factor will be limited by a 7.5% upper bound and a -2% lower bound (Q factor is negatively defined – see Readjustments) (iv) All bounds, criteria and rules may be reviewed following widespread public debate
Q factor	At the end of the 1 st year after STAGE II begins. Q factor will be zero up to then				Set a Q factor computation method to enhance service quality	
Discount rate	At the end of STAGE I (1 st RCP)				Set a discount rate to be used in the marginal cash flows (only in the extraordinary revisions) during the following 5 years	



Extraordinary Revision

- Aim
 - Reinstatement of financial equilibrium when any Regulator risk materializes, as long as they significantly change Concessionaire costs and/or revenues
- Instruments – ANAC may choose any from:
 - Change tariffs
 - Change Concession time span (up to 5 more years)
 - Change Concessionaire contractual obligations
 - Any other form agreed by ANAC and Concessionaire

Extraordinary Revision

- Main conditions
 - Procedures to formulate the Marginal Cash Flow of each financial destabilizing event are described in Annex 5 – *Fluxo de Caixa Marginal*
 - May be requested by Concessionaire (backed up by technical evidence of revision need) or performed by ANAC at any time
 - ANAC may request any documents or reports it judges necessary
 - All financial reports' and due diligence studies' costs will be undertaken by Concessionaire, even if ordered by ANAC
 - A revision must be concluded at most in 90 days, unless a deadline extension is plausibly justified



Supervision and Enforcement

- ANAC will directly or indirectly supervise all activities
- ANAC may determine the implementation of actions or suspend those which have been proved to be inconsistent with the Airport Exploitation Plan, Contract or legislation
- ANAC officials will have total access, at any given time, to:
 - management and financial records
 - data related to financial, economic and technical Concessionaire resources
 - works being carried out, equipments and facilities
- The Civil Aviation Supervision Charge (TFAC) will be paid by Concessionaire

Penalties

- The non-compliance with Contract and Bidding clauses and acting legislation will lead to the application of the following penalties, among other legal provisions:
 - **Warning:** due to unsevere infringements without recidivism
 - **Fines:** due to non-compliances with certain activities or deadlines foreseen by Contract
 - **Suspension of up to 2 years from contracting with ANAC:** due to continued infringement of clauses or legislation; it also applies to the Concessionaire controlling shareholder
 - **Concession Expiry:** due to insurance requirements or Implementation Guarantee not being kept, among other causes listed by Law nº 8.987 from February 13th 1995

Subcontracting

- Concessionaire may subcontract services
- Concessionaire may not subcontract an airport operator
- Subcontracting does not exempt the Concessionaire's responsibility from contract clauses, legislation or enacting rules and regulations

Subconcession

- Subconcession is permitted, as long as it is expressly authorized by the Regulator
- Subconcession may only be carried through an auction process
- Subconcessionaire will be accountable for the agreed duties, respected subconcession limits



Main Scheduled Events

Legal documents disclosure	12/05/11
Deadline to request clarifications on legal documents issues	01/07/11
Delivery to BM&FBOVESPA of all required documents	12/07/11
	9am-4pm
Disclosure of motives why Volume I documents were not compliant with requirements	14/07/11
Open Auction	19/07/11
<ul style="list-style-type: none">• Disclosure of economic proposals by eligible parties• Open ascending price auction session	
Disclosure of economic proposals' classification order	20/07/11



Main Scheduled Events

Analysis of highest bidder's Qualification Documents, Business Plan and Implementation Methodology	22/07/11 to 10/08/11
Disclosure of highest bidder's papers	11/08/11
Deadline to appeal against highest bidder's papers	19/08/11
Disclosure of appeals' answers	02/09/11
Result ratification	05/09/11
Deadline for the Concessionaire to confirm its compliance with obligations foreseen in Section I, Chapter VI of Bidding Documents	20/10/11
Celebration of Contract	21/10/11

Final Dispositions

- At the end of Concession term, all airport exploitation goods and facilities will be returned to the Federal Government
- Any disputes regarding due indemnities at the end of Contract will be settled by International Chamber of Commerce Regulations

Final Remarks

- There will be an open session to clarify any doubts which may arise on June 15th, from 10am to 6pm, at BM&FBOVESPA, São Paulo
- Any enquiries may be directed to the Bid Commission
 - comissao.asga@anac.gov.br