

# Summary

## BRAZILIAN CIVIL AVIATION:

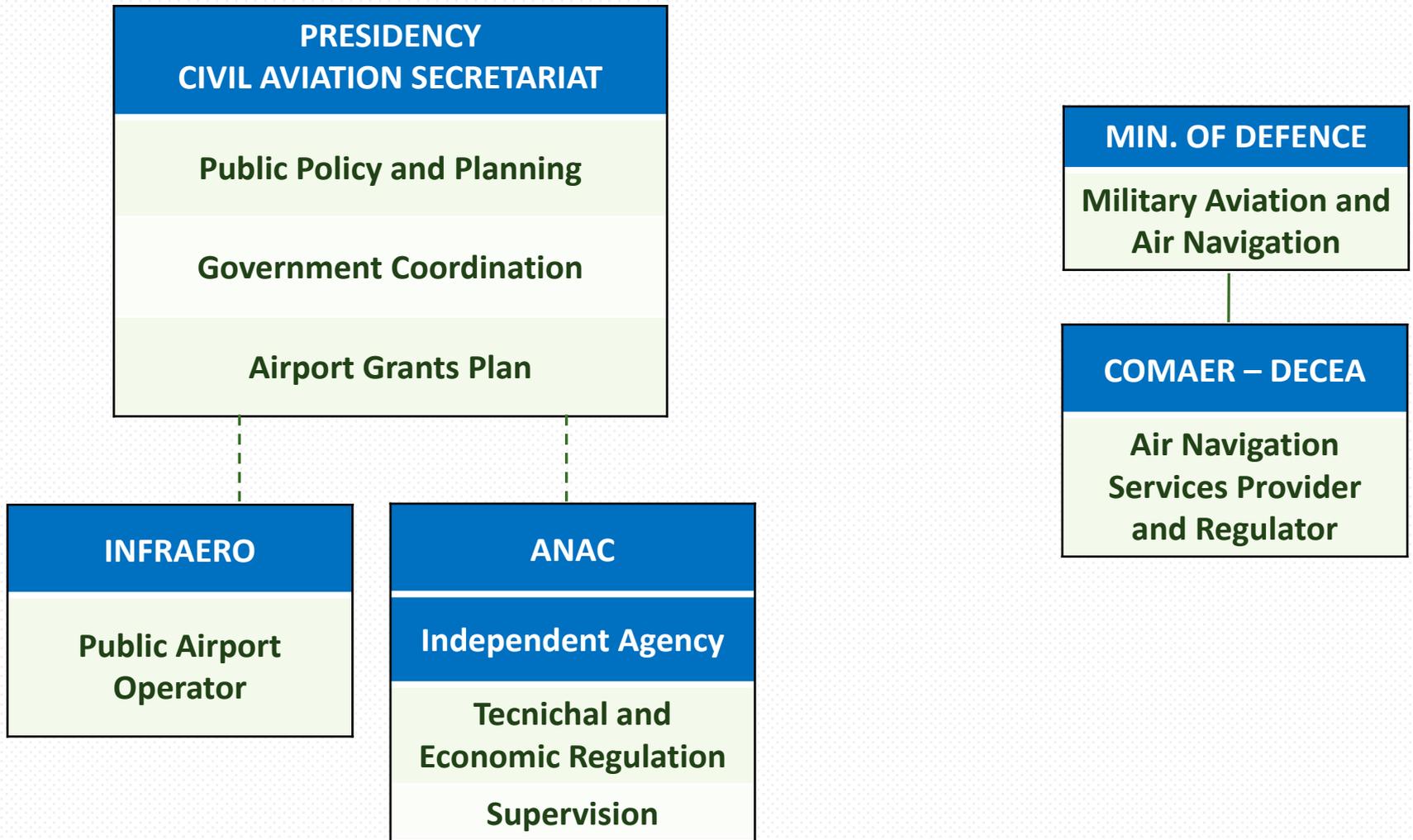
- Institutional FRAMEWORK
- Overview
- Main challenges

## AIRPORT CONCESSIONS PROCESS

- Main features
- Current cases

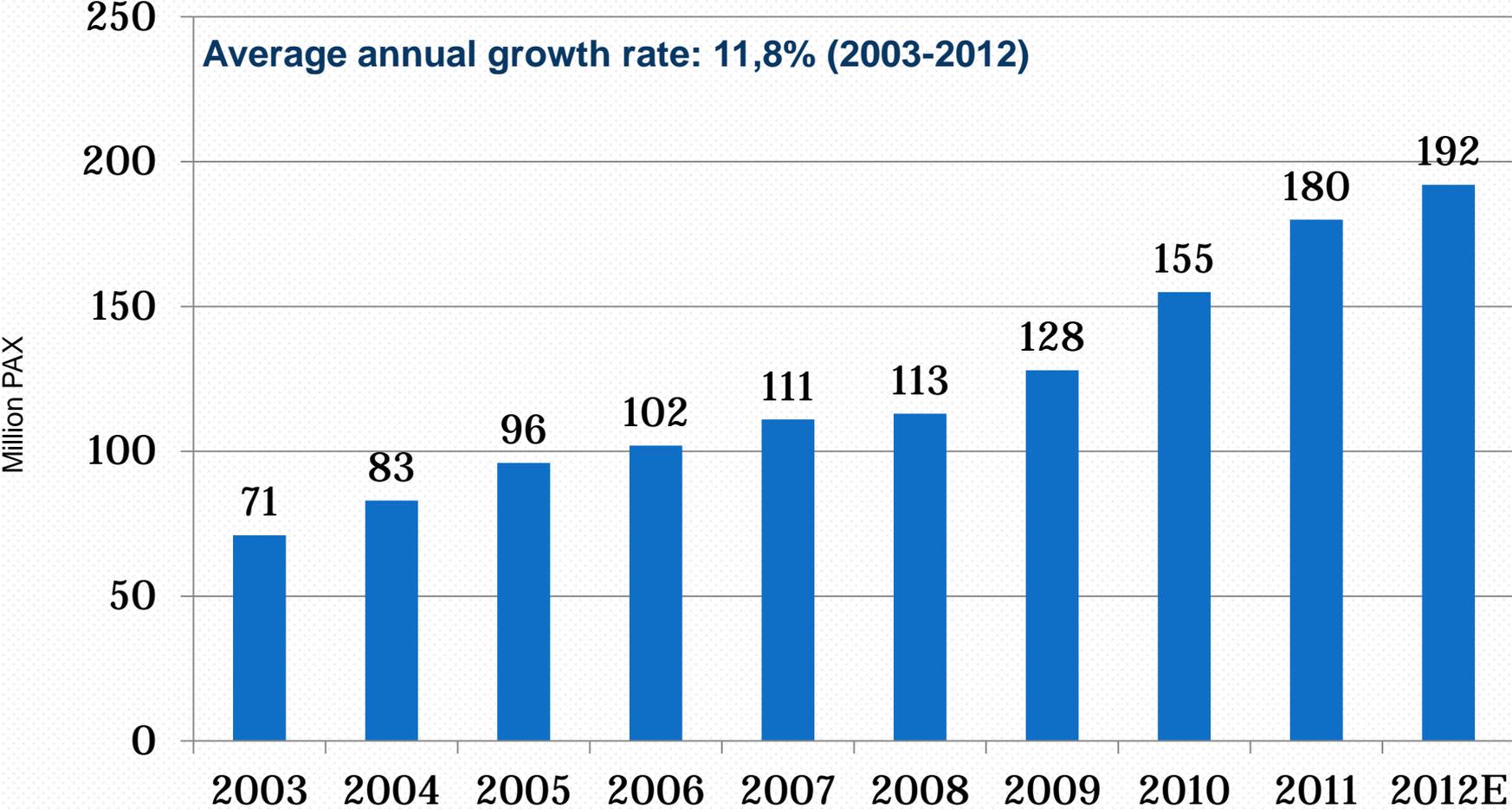
## MAJOR PUBLIC INVESTMENTS

# Institutional Framework





# Passengers - Infraero Airports



Source: Infraero

# Average Air Fare and Yield (2002-2011)



\* 1 US\$ = R\$ 2,03 (oct/2012)

— Average Air Fare

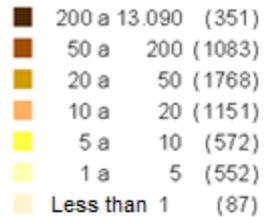
— Yield

# Routes in Brazil

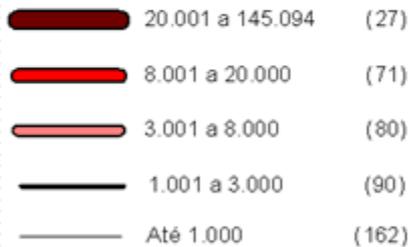
*Demographic density in Brazil (2010) and weekly available seats in regular flights (2011).*

Number of flights between city pairs and weekly supply of seats

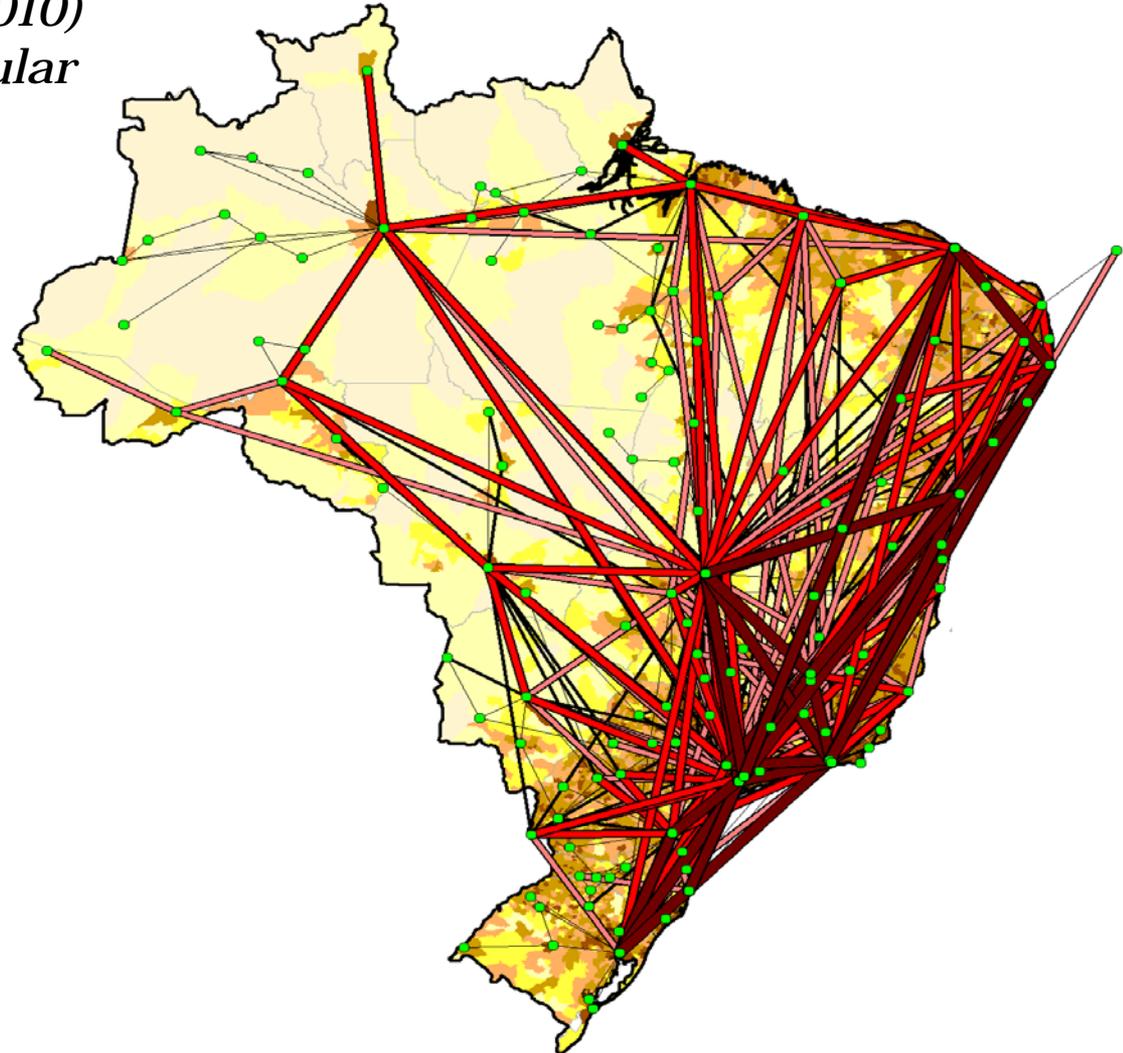
## Population Density (hab./km2)



## Number of flights between city pairs and weekly supply of seats



## Airports with regular flights



# Brazilian Civil Aviation Overview

## Fast-growing air transport demand

- Dynamic and competitive sector
- Leading drivers: higher income and lower air ticket fares

## Air transport demand will keep growing

- Brazilian air transport is still expanding and all forecasts point at this direction
  - 0.3 trip/inhab against 1.7 trip/inhab in developed markets (source: McKinsey&Co, 2010)
- FIFA World Cup (2014) and Olympic Games (2016)

## Infrastructure must be aggressively expanded

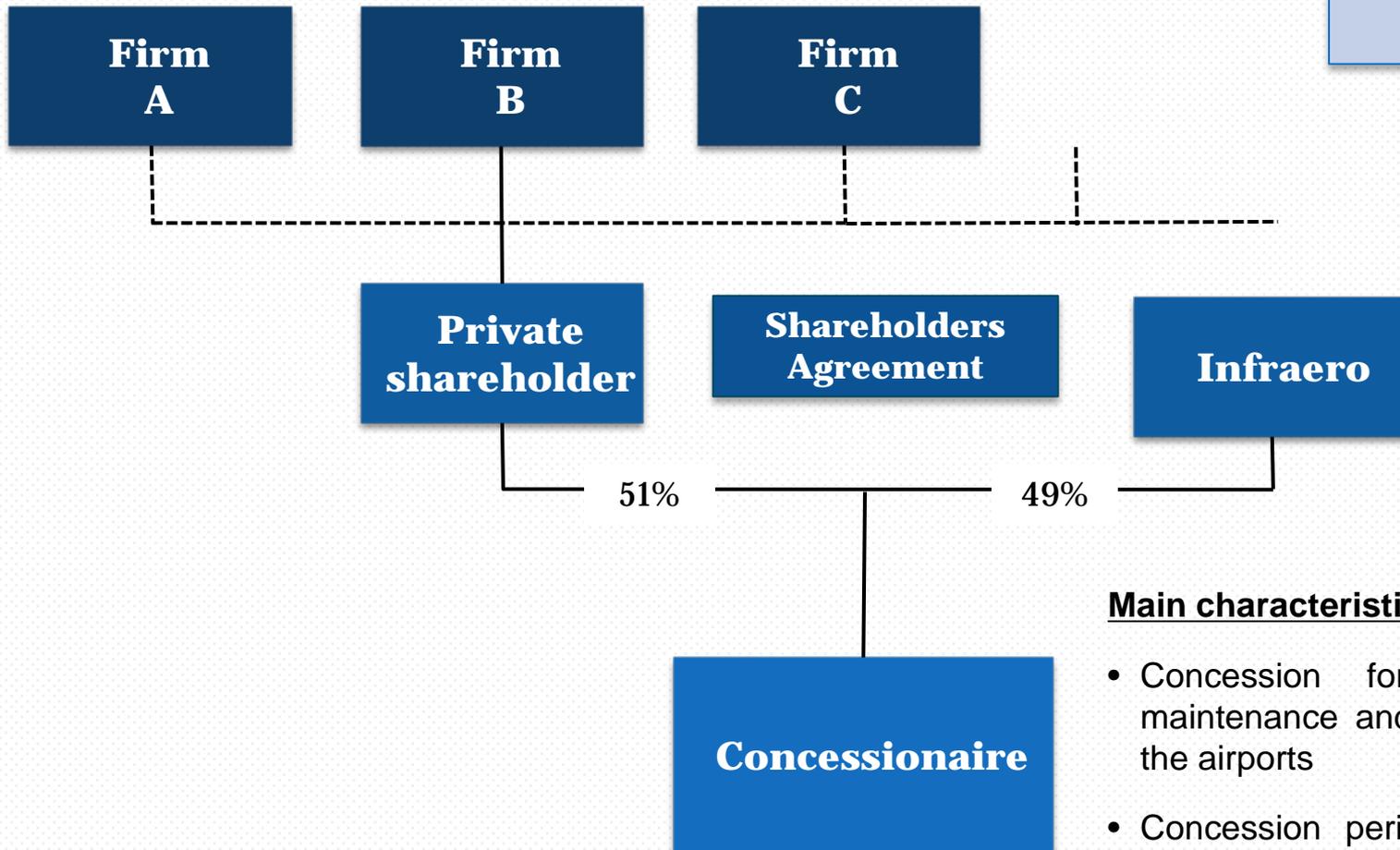
- Enhance service level (population's claim)
- Meet the natural forthcoming demand (investments must triple the capacity by 2030)

## To face these challenges the federal government has decided to:

- Open the market to private participation (airport concessions)
- Strengthen the Investment Program of Infraero

# Airports Concession Model

**Illustrative**



## Main characteristics

- Concession for expansion, maintenance and operation of the airports
- Concession period: VCP (30 years) BSB (25 years) e GRU (20 years)

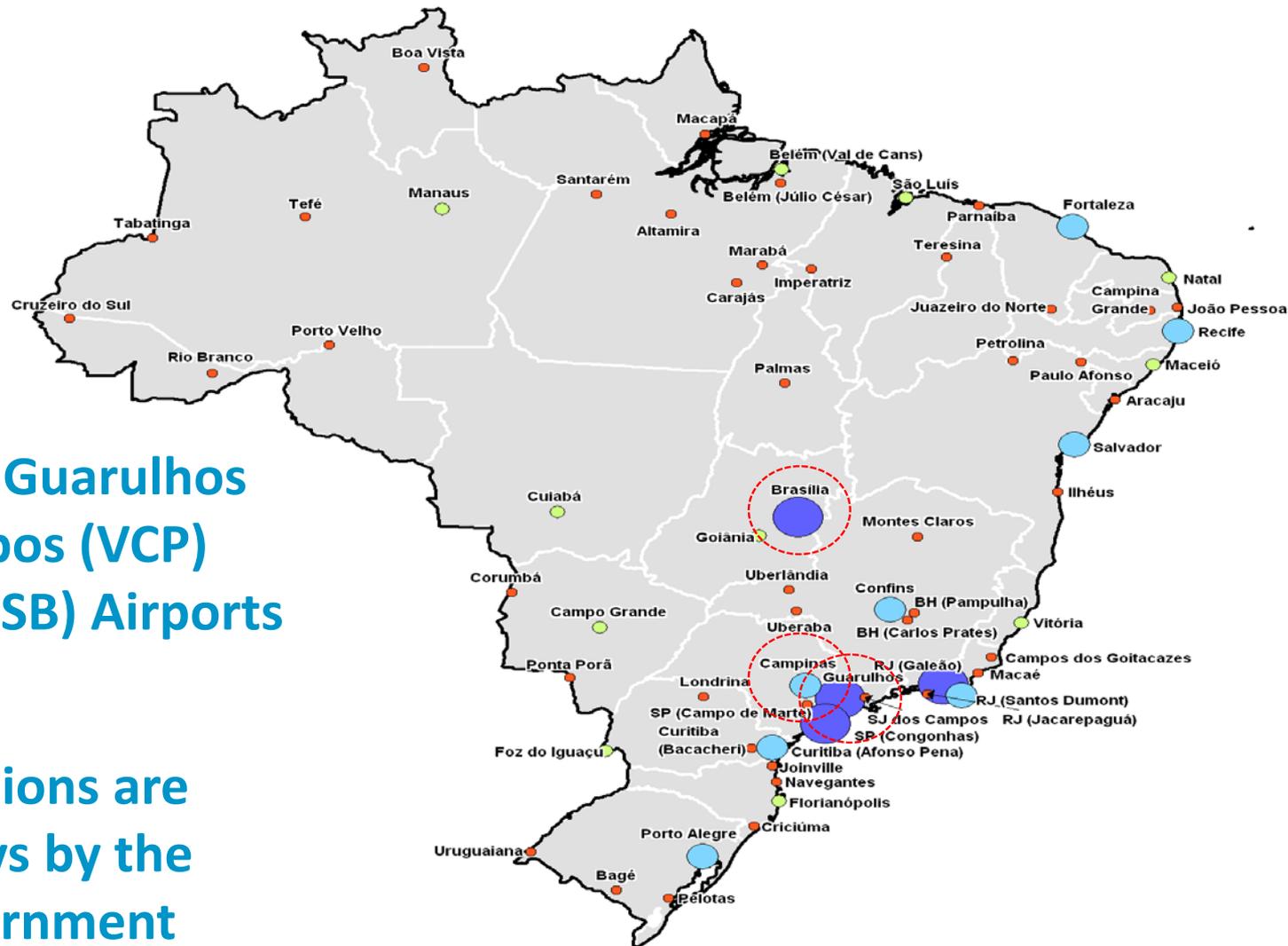
# Airport Concessions: latest cases

**TIMELINE**

**RESULTS**

Concession of Guarulhos (GRU), Viracopos (VCP) and Brasília (BSB) Airports

New Concessions are under analysis by the Federal Government



# Airport Concessions: GRU - VCP - BSB

<b>Basic concepts</b>	<ul style="list-style-type: none"><li>▪ Airports with a high level of CAPEX required</li><li>▪ Meet the demand with a good service level (IATA Level C)</li><li>▪ Competition and benchmarking in airport operation</li></ul>
<b>Participation</b>	<ul style="list-style-type: none"><li>▪ Brazilian or foreign entities may take part alone or in a consortium</li><li>▪ The proponents can bid for the three airports, but no proponent can win more than one airport</li></ul>
<b>Bidding process</b>	<ul style="list-style-type: none"><li>▪ Criteria: highest economic proposal</li><li>▪ 1<sup>st</sup> phase: sealed-bid auction (envelopes)</li><li>▪ 2<sup>nd</sup> phase: open ascending price simultaneous auction</li><li>▪ Payment divided throughout the concession length</li></ul>
<b>Object</b>	<ul style="list-style-type: none"><li>▪ Build, Operate and Transfer</li><li>▪ ATC is not included</li></ul>
<b>INFRAERO's share</b>	<ul style="list-style-type: none"><li>▪ Up to 49% (pre-defined)</li><li>▪ Shareholders Agreement (pre-established)</li></ul>
<b>Revenues</b>	<ul style="list-style-type: none"><li>▪ Aero and non-aero revenues</li></ul>
<b>CAPEX</b>	<ul style="list-style-type: none"><li>▪ Based on demand triggers and with initial investment obligations</li></ul>
<b>Transition rules</b>	<ul style="list-style-type: none"><li>▪ An operational transition is set in the concession agreement</li></ul>

# Economic Regulation Issues

<p><b>Tariffs (dom-int diff.)</b></p>	<ul style="list-style-type: none"> <li>▪ Boarding fee</li> <li>▪ Connecting fee (<u>new tariff</u>)</li> <li>▪ Landing and Parking fees</li> <li>▪ Cargo and Storage fees</li> </ul>
<p><b>Basic rules</b></p>	<ul style="list-style-type: none"> <li>▪ Price-cap (non-discriminatory discounts are widely admitted)</li> <li>▪ Annually adjusted by IPCA (Brazilian CPI)</li> <li>▪ Adjustment rule: <math>CPI - X - Q</math></li> </ul>
<p><b>X factor</b></p>	<ul style="list-style-type: none"> <li>▪ Zero during the first 2 years</li> <li>▪ Parametric formula from the 3<sup>th</sup> to the 5<sup>th</sup> year (-2,06% to 0%)</li> <li>▪ After the 5<sup>th</sup> year the regulator may review the methodology</li> </ul>
<p><b>Q factor</b></p>	<ul style="list-style-type: none"> <li>▪ One-off basis (non-cumulative effects)</li> <li>▪ Range: -7,5% to +2%</li> <li>▪ Measured through objective parameters and satisfaction survey</li> </ul>
<p><b>Ordinary review</b></p>	<ul style="list-style-type: none"> <li>▪ Do not change the tariff (non cost-based model)</li> <li>▪ Five-yearly public consultation process</li> <li>▪ Definition of X and Q factors methodology to be applied in the next 5 years</li> </ul>
<p><b>Concession fees</b></p>	<ul style="list-style-type: none"> <li>▪ Fixed fee (result of the bidding process)</li> <li>▪ Percentage fee: share of the gross revenue annually paid to the Government</li> </ul>

# Major Public Investments

Exchange rate PTAX (October 22nd, 2012)  
R\$ 2,03 =1,00 US\$

- **Infraero - Investment Plan**

Investment Plan	2012	2013	2014	2015	2016
<b>Total - US\$</b>	1.148.237.621,43	1.408.217.995,32	1.544.494.955,17	1.180.376.294,58	905.262.715,76

- **Major Initiatives (2012-2016)**

Work Initiative	Total (US\$)
ADEQUATION OF THE INTERNATIONAL AIRPORT OF PORTO ALEGRE (RS)	487.942.992
ADEQUATION AND EXPANSION OF THE INTERNATIONAL AIRPORT OF VITÓRIA (ES)	365.688.243
ADEQUATION OF THE AIRPORT OF GOIÂNIA (GO)	288.069.783
ADEQUATION OF THE INTERNATIONAL AIRPORT OF RIO DE JANEIRO/GALEÃO (RJ)	283.128.959
ADEQUATION OF THE INTERNATIONAL AIRPORT OF CONFINS (MG)	243.767.958
CONSTRUCTION OF THE PASSENGER TERMINAL 2 OF THE INTERNATIONAL AIRPORT OF FORTALEZA (CE)	224.258.060
CONSTRUCTION OF PASSENGER TERMINAL, SYSTEM OF RUNWAYS AND AIRCRAFT LANDING, PARKING LOT AND ACCESS ROADS TO THE INTERNATIONAL AIRPORT OF FLORIANÓPOLIS (SC)	193.494.234
REFORM AND ADEQUATION OF THE PASSENGER TERMINAL 1 OF THE INTERNATIONAL AIRPORT OF MANAUS (AM)	174.959.777
ADEQUATION OF THE INTERNATIONAL AIRPORT OF SÃO PAULO/GUARULHOS (SP)	128.475.033