



**CPH**

# **Copenhagen Airports A/S**

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*Mexico Case Study*

# Interests in Airports

## Public sector

Optimizing socioeconomic utility by providing sufficient infrastructure

- Airports as a growth driver
- Airports as a community trademark
- Airports as a public service

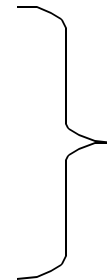


Stake holder value

## *Versus*

Exploiting market opportunities by taking business decisions

- Cost efficiency
- Market driven capacity planning
- Developing commercial activities



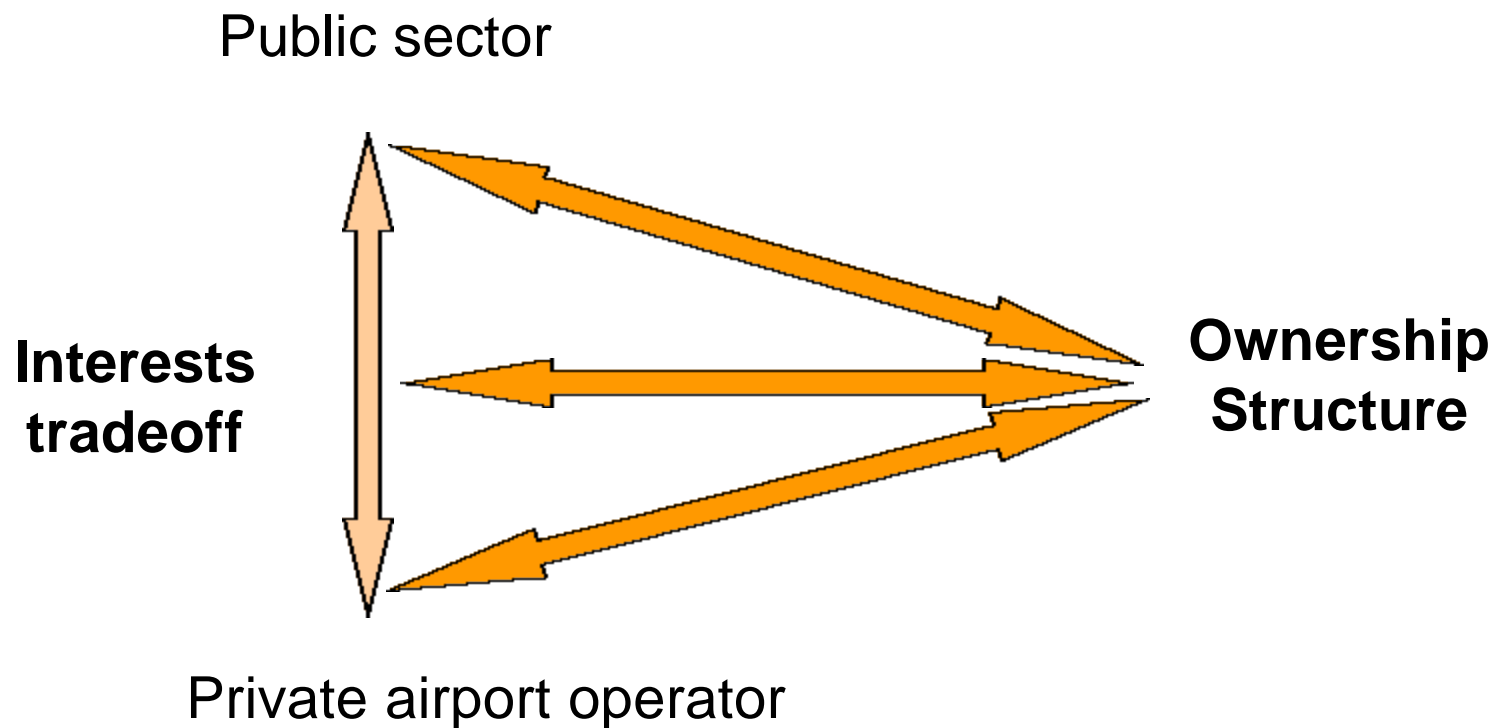
Share holder value

## Private sector operator

# Why involve a private sector operator? - the public sector point of view -

- Disengage airport development from public fiscal policies and political regimes
- Obtain greater operational efficiency
- Attract new sources of investments funds
- Attract new technology
- Develop airport related commercial activities

How is the interests of both the public sector and a private airport operator met in a privatization?

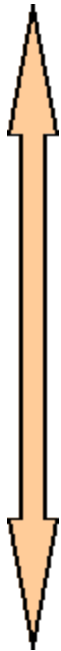


The ownership structure is the key to balance of the interests of the public sector and a private sector operator in a privatization process

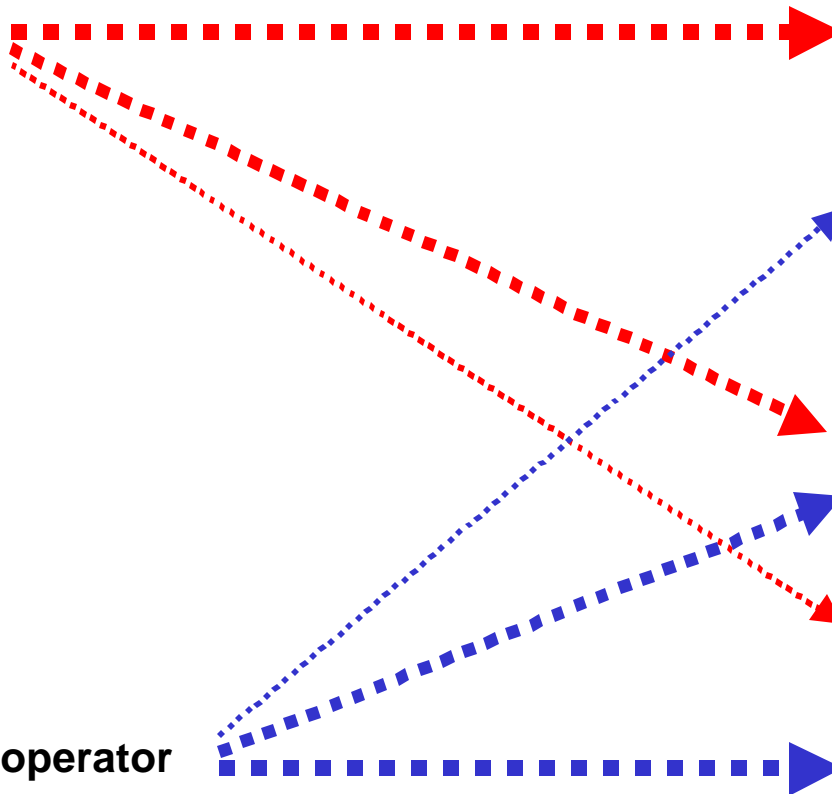
# Ownership structure

## Interests

Public sector



Private sector operator



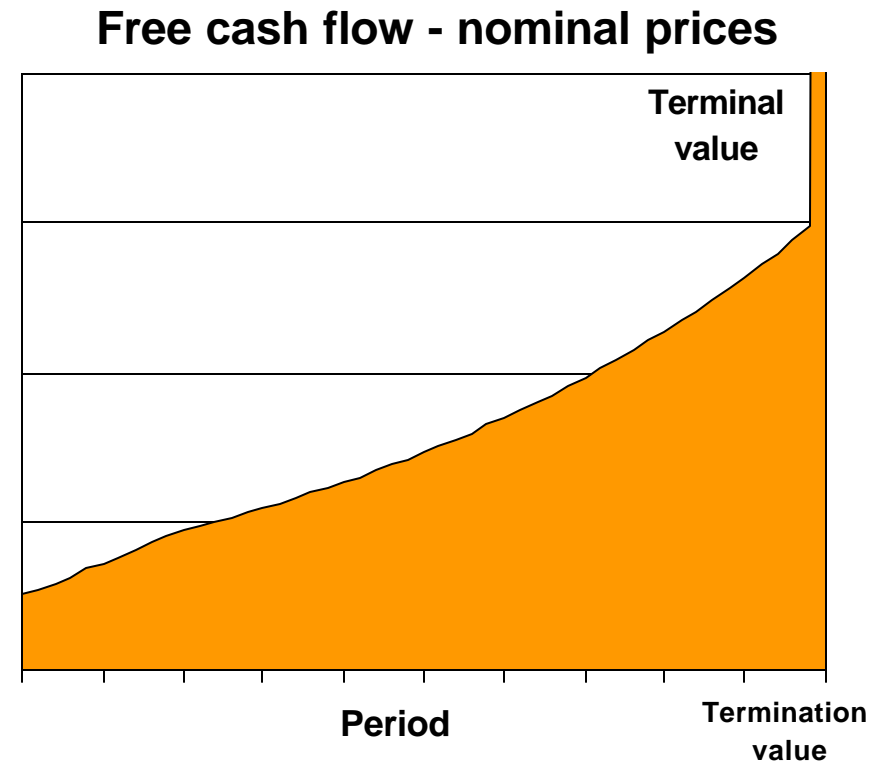
## Ownership Structure

- Public owned with a public budget
- Management contracts
- Wraparound addition
- BTO
- BOT**
- BOOT
- Perpetual franchise
- Fully privatized without regulation

## BOT - valuation

The value of the concession for the concessionaire is the Net Present value of the free cash flow available as dividends.

*Does a limited time horizon of  $n$  years matter in the valuation of free cash flow?*



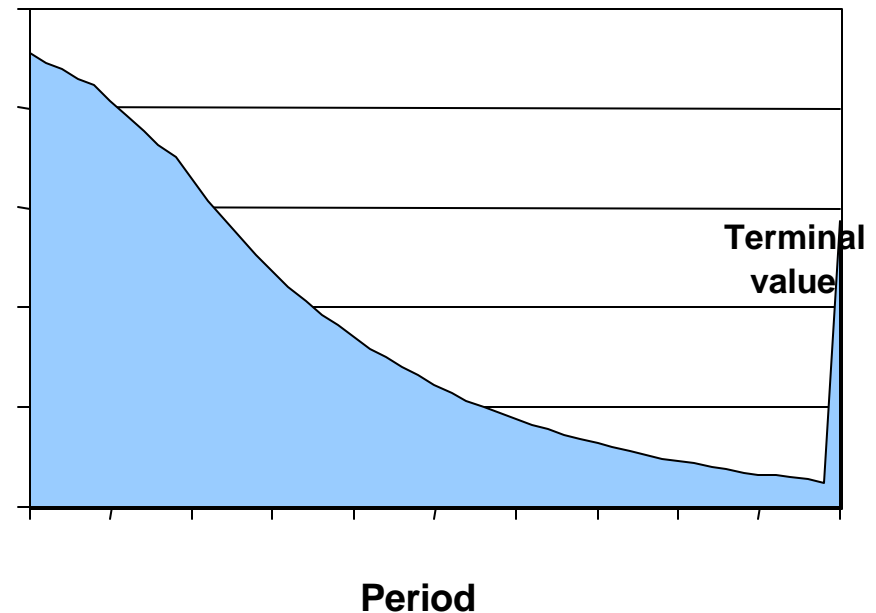


## BOT - valuation

### Artificial case - no termination

NPV of the terminal value at a long term horizon typical equals 2-4% of the total NPV - no significant impact on valuation

### Free cash flow - Net Present Value



### But other termination issues matter

## BOT - termination issues

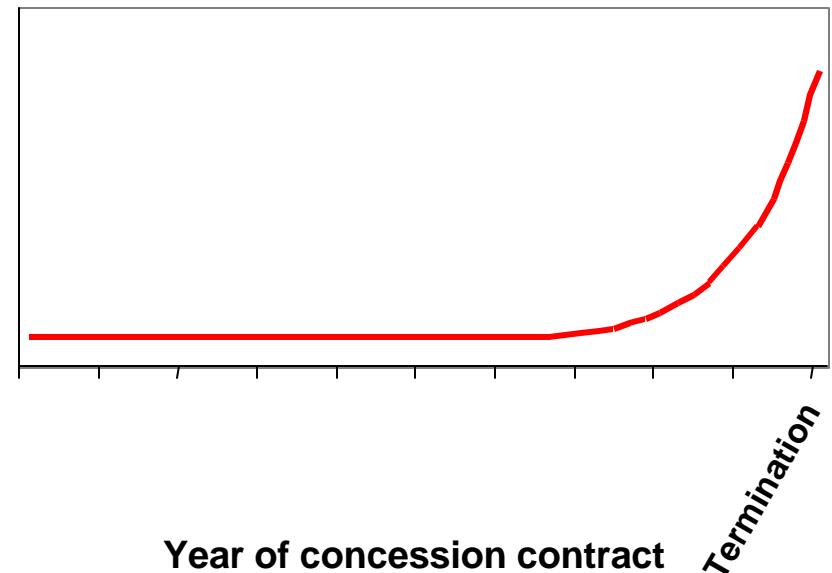
**If the concession contract shall be of value at the end of the concession period dividends must be paid out throughout the whole concession period**

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**Issues of matter at the end of the concession period**

- Capital investments versus dividend pay out
- The take-over valuation of capital investments
- The level of maintenance

Degree of conflict about the use of cash if no agreement on the take-over valuation of capital investments has been arranged



# The use of BOT for an airport system

## **Public sector interest**

- Possibility to privatize less profitable airports or airports with deficit
- Development of infrastructure at less developed areas
- Cross-subsidization between airports
- Effective use of resources in the airport system

## **Public sector risks**

- Abuse of monopoly status in the airport system region
- Limited competition between the airports
- Uncontrolled diversification in the pursuit for profit
- Conflicts with airlines and other users in the pursuit for profit

# What to privatize in an airport system

## Operational objectives

- Obtain full synergy between all operational areas
- Full operational flexibility
- Controlling conflict of interest in capacity planning

## Areas of question

- Control of airspace
- Security
- Customs and passport control
- Fuel supply

## Mexico Case

- **During 1997, the Mexican government started a privatization process for 35 profitable airports**
- **ASA will continue operating 27 minor airports around the country**
- **The privatization process has two stages:**
  - A public tender for the purchase of 15% of the company by a Strategic Partner**

**The sale of shares in the domestic and international equity markets**

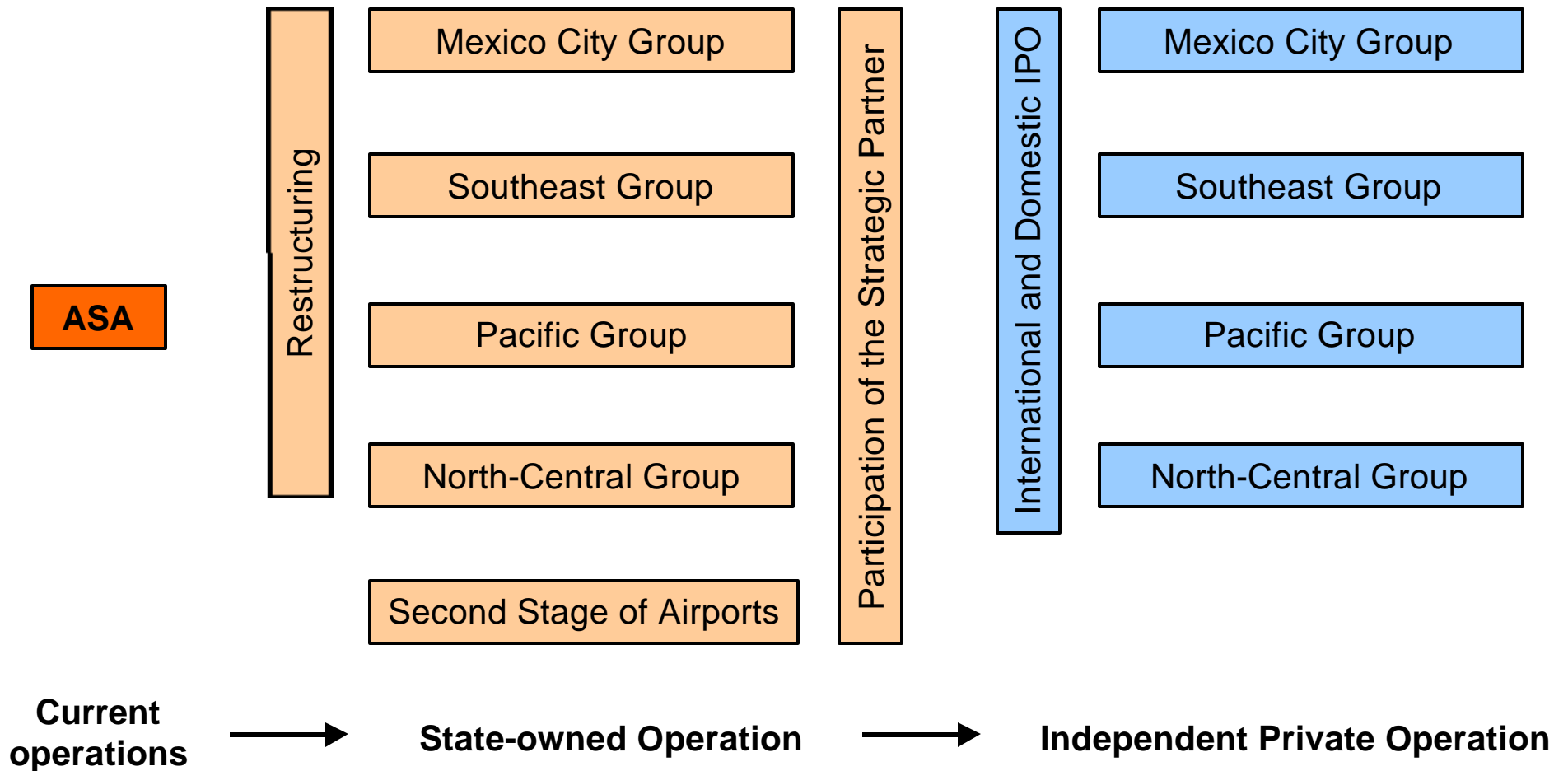
- **With the sale to the Strategic Partner, the airport companies exit the government sector without any governmental budget controls**

# The Privatization Objectives

The strategy was chosen in order to support the following objectives:

- To maintain, modernize and expand airport infrastructure
- To increase safety and efficiency
- To improve airport and commercial services in a competitive and non-discriminatory manner
- To support the development of the air transport and airport industry
- To secure at all times the continuous operation of all airports

# The Privatization Strategy



Our nine concessions have the following characteristics:

**Right to exploit, manage, operate, maintain and commercialize the airports for a 50 year period as of November 1, 1998**

**Option to extend period for another 50 years**

**A concession can be cancelled if ASUR does not comply with terms of the concession**



## The Concessionaire's main obligations include:

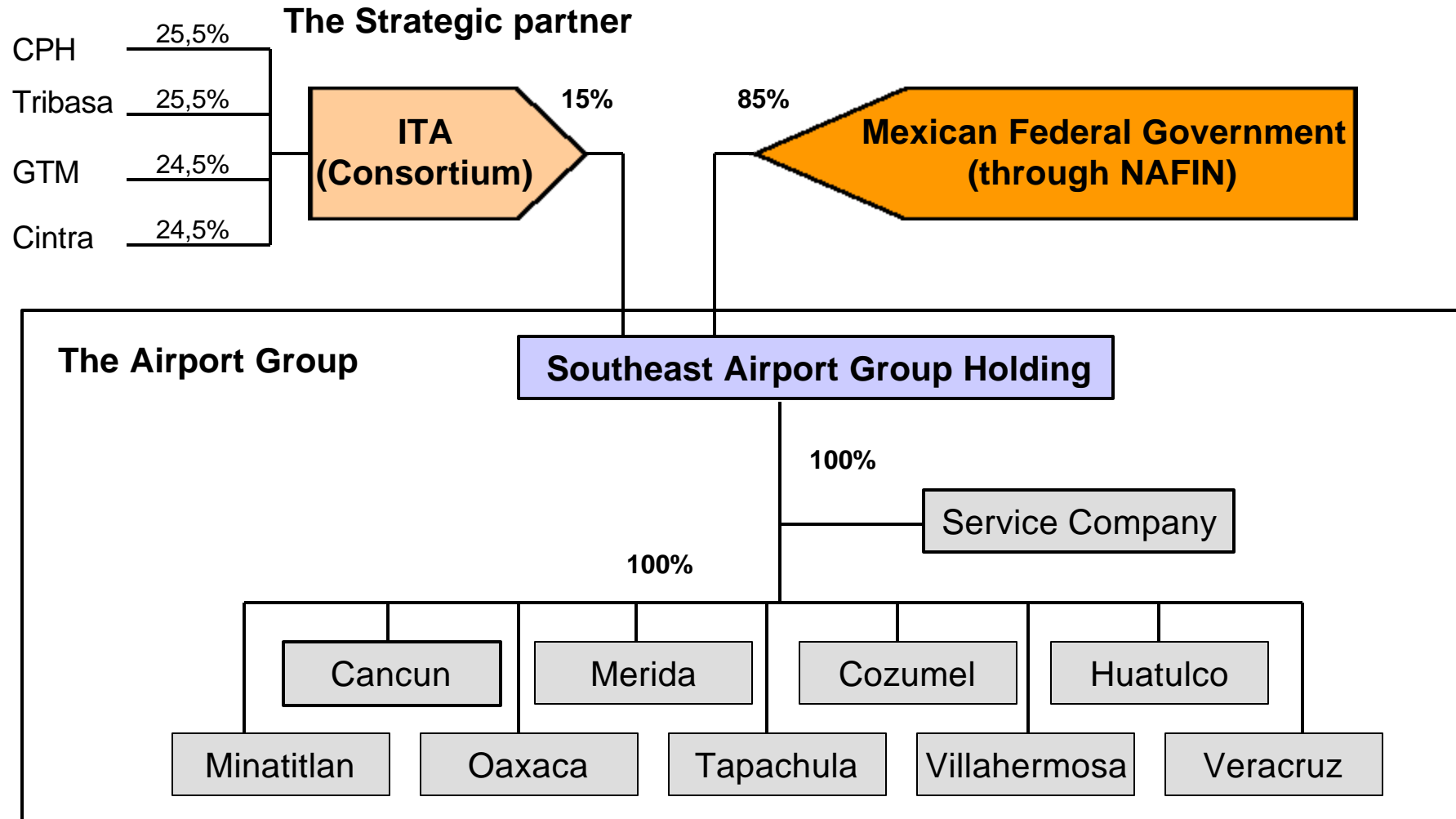
- **Rendering airport services, which include landing, aircraft parking, airport security, fire brigade and basic services to airlines and passengers**
- **Minimum investment requirements (contained in bid)**
- **Comply and exceed international quality service standards**
- **Prepare and submit Master Development Plan by September 30, 1999**
- **Based on anticipated air traffic and service standards, concessionaires must develop required airport infrastructure**
- **Contains new capex requirements for next five years**

# Mexico Case: Southeast Airport Group

- The use of BOT for an airport system -



# Ownership Organization



# The Participation Agreement

- Participation Contract (15 years)
- Stock Purchase Agreement
- Stock Option Agreement
- Shareholders Agreement
- Trust Agreement
- Technical Assistance and Technology Transfer Agreement

# Covering risk

## **Public sector risk**

- Management contract
- Regulation

## **Operator risk**

- Dual till
- Return on aeronautical activities
- Management contract

# Mexico Case: Southeast Airport Group

## - Summary -

- BOT: Build-Operate-Transfer
- Airport group of 9 airports
- 50 year concession period
- Regulation
  - ▮ 5 year review of master plan
  - ▮ aeronautical income regulated based on the master plan
- Dual till
- 15 years management contract - transfer of technology
- Performance fee

***ICAO Airport Privatization Seminar/Forum - Guatemala, 13-16 December 1999***

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