



WORLD AIRPORT PRIVATISATION 2008 AND BEYOND

A detailed analysis of historic and contemporary deals and of future investment opportunities in the airport sector

Researched, written and published by David J Bentley, author of:

The World Airport Privatisation Study (2000/02) *1

Global Airport Privatisation (2004/06) *2

Low Cost Airports and Terminals (2008)

Financing Emerging Airlines (2004)

Airport Security report (2003)

Airline Globalisation (2001)

(*1 published by Euromoney plc, *2 published by Centre for Asia Pacific Aviation)

A 70,000-word report covering:

- An historic overview of privatisation in the sector
- The different methods of privatisation by example
 - Analysis of privatisation by world regions
 - Analysis of contemporary investment levels
 - Who are the key players?
- An update on present day and projected opportunities
- The implications of macroeconomic policies and developments
 - The implications of political and geopolitical issues

Appropriate to:

Airport Directors and management, banks, investors, airport service and product suppliers, airlines, government officials and politicians, lawyers, academic staff.

Written in an easy to read, no-nonsense format

"David Bentley continues to raise the bar higher each time he writes about airport privatisation. His work is like a textbook in its comprehensive coverage, but is much more readable and practical. This new publication features examples of privatisation models, an update on current opportunities for investment and an analysis of political and economic factors that impact the market value of airports. David's new work, as always, will be compulsory background material for my own research and teaching on the subject of airport economics."

Paul Behnke, airport industry expert and author, previously Director of Economics, Airports Council International

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(80 companies)

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WORLD AIRPORT PRIVATISATION 2008 & BEYOND

SAMPLE TEXT

Chapter 1 - An historical review of privatisation and acquisition in the airport sector, including some case studies of major transactions and models used

Privatisation of BAA (UK) by IPO

The earliest examples of airport privatisation were of small airports and often outright trade sales, with one notable exception, the 1987 privatisation of the British Airports Authority, the world's second largest airport operator into BAA plc, a transaction that stands as a watershed to this day and which has consequently led (2006) to its purchase by a predatory foreign company, subsequent de-listing from the London Stock Exchange and now (2008) a potential break-up of the empire...

...It must be understood that this privatisation was an intensely political act. A (right wing) Conservative government had come to power in 1979, after many years of (left wing) Labour government rule, during which the UK had been forced to its knees by excessive trade union power. Apart from embarking on destroying the trade unions, the government, led by Margaret Thatcher also introduced a wide-ranging policy of selling public bodies to the general public (who, in practice, 'owned' them already) via Initial Purchase Offerings (IPOs) of equity on the London Stock Exchange.

...Nevertheless the privatisation of BAA was an initial success. Shares were rapidly traded by a general public that had become obsessed with the concept of making a 'quick kill'. BAA was reorganised into a series of subsidiary companies and went well beyond its earlier brief merely to manage its seven airports, becoming selectively involved in office management, property, hotel investment, road transport/logistics, the Heathrow Express rail link and even management of restaurants in hospitals...

...It probably never occurred to the British government that privatised the BAA that one day it might be subject to a successful hostile takeover by a private foreign company and de-listed from the Stock Exchange. But that is exactly what happened in 2006 when a

consortium, Airport Development & Investment Ltd, a subsidiary of FGP Topco Ltd., and led by the Spanish property and construction conglomerate Group Ferrovial (56%), mounted a successful challenge and bought BAA for a debt-laden GBP10.3 billion...

... Meanwhile Ferrovial has been trying to reschedule its debts but found it to be very difficult because of the credit crunch, which some analysts believe will affect Britain worse than the US. In August 2008 it appeared that Ferrovial has at last been successful in rescheduling GBP13 billion of debt...

... In August 2008 the CC made an initial recommendation that BA ought to divest two of its London airports and one in Scotland. The current favourites are Gatwick, Stansted and Glasgow. Heathrow will remain in BAA control unless there are impractical reasons for selling Gatwick and/or Stansted...

Chapter 2 - Analysis on a region-by-region basis covering Europe, North America, Latin America, the Middle East, Africa, Asia and Australasia, covering both existing privatisation and opportunities, highlighting key features of each

France

The partial privatisation of Aeroports de Paris (AdP) in 2006 has opened the door to further privatisation in France. Prior to AdP there were only two 'pilot' examples – Grenoble and Chambéry airports, where a consortium of French companies Vinci and Keolis has concession-based management contracts, and which have been received favourably by the airlines operating to them.

Most French airports are still run by the local Chambre de Commerce, under license from the central government and charges are kept high, ensuring that LCCs tended to look elsewhere (e.g. Ryanair, which shifted many of its aircraft on to Spanish routes) while there are no French LCCs, Air France and its subsidiaries carrying most of the traffic (and Britain's easyJet is the second largest carrier).

The AdP IPO meant that up to ten regional airports might be privatised, once the government could perceive confidently that there were no serious issues at Paris. Those airports include: Bordeaux; Nice; Marseille; Lyons and Nantes. The first example is at Nantes, where indicative bids have been sought to operate the existing airport for 3 – 4 years while constructing a new nine million passenger per annum facility in two phases on a green or brown field site. This will be an interesting mix of a wrapped concession and BOT.

Vinci, which had scaled down its foreign airport interests, took a small stake in AdP in 2007, declared an interest in upcoming airport privatisations within France, and could be open to future co-operation.

Having invested heavily in Paris, AdP now intends to take stakes in six to 12 airports outside France by 2015, within consortia. It aims to have at least 51% ownership in one or two of the airports and around 10% in the other five to ten. In its 1H08 report, AdP declared its interest in the privatisation of French regional airports, also Greek regional airports, the delayed Prague Airport privatisation in 2009 (in equal partnership with Ontario Teachers Pension Plan), ANA and the new Lisbon airport in 2010, as well as in continuing opportunities in India and China, potentially forthcoming ones in Brazil and Abu Dhabi, and, unusually perhaps, Romania. It has been pre-selected for the lease of Chicago Midway Airport with HMS Host and Morgan Stanley Infrastructure Fund.

Chapter 3 - Overview of the key players in the airport sector and their key strengths and objectives where these can be assessed, including an overview of their existing airport portfolios

Airports Company South Africa (ACSA)

Largest airport operator in RSA and on the continent. Corporatised. AdR was an investor until 2005. Some small investors (e.g. black empowerment funds) hold collectively 4.2% of the equity. Has responsibility for the three main RSA airports (Johannesburg, Cape Town, Durban) and other provincial ones – 98% of all passenger air traffic. Heavily committed to environmental and corporate social investment.

Struggling to cope with the construction demands of the forthcoming Soccer World Cup (2010) but profitable, see table:

Table: ACSA. Key figures

ZAR million	2007	2006
Revenues	2564 (+18%)	2174 (+23%)
Ebitda	1,600 (+20%)	1,359 (+19.76%)
Capex	1,700 (+37%)	1259

Source: ACSA website.

Note: 2006 = y/e 31-Mar-06; 2007 = y/e 31-Mar-07

Committed to aiding African airport development (usually through consulting or management projects) and selective foreign investor as part of the GVK-led consortium that won the contract to modernise Mumbai Airport in India in 2005. ACSA continues to seek opportunities in the developing world, with a keen eye on opportunities in Africa. These opportunities are assessed as and when they arise.

Web. www.airports.co.za

Caisse de dépôt et placement du Québec (a.k.a. Caisse) (Quebec Deposit & Investment Fund)

One of the original (1965) state-owned Canadian pension funds that invested, or tries to invest, in airports and airport operators with a track record that includes Hochtief Airport Capital, BAA (as part of the Ferrovial consortium with GIC Special Investments of Singapore), and several smaller ones. Caisse injected roughly CAD200 million into the German airport manager Hochtief AirPort Capital GmbH (q.v.) in 2005, along with Australian and German investment partners. The investment gave Caisse a 40% stake in the company.

SOVEREIGN WEALTH FUNDS

Although mentioned infrequently in this report, Sovereign Wealth Funds (SWF) cannot be ignored as a potential source of funding for airport projects. GIC Special Investments of Singapore is an example.

Although there is no universally agreed definition of a SWF, it is broadly defined as 'a government investment vehicle which is funded by foreign exchange assets, and which manages these assets separately from official reserves.'

Chapter 6 - Global trends in the aviation industry that will have an impact on airport operations

1. Fuel price and its effects on airlines and airports

Evidently, the price of oil will continue to impact the airline business and have consequences for the airport sector. As this report is prepared oil exceeded USD140/barrel for the first time and there were analysts at respected organisations that expected it to reach USD200/barrel. That sort of price level would kill off the business as we know it and return us to the days when air travel was for the few very wealthy.

Then it dropped back to closer to USD100/barrel amidst uncertainty as to what the next move would be from OPEC, which controls 40% of the world's crude oil. One suggestion is that with the high prices OPEC has enjoyed finally having an effect on the marketplace and cultivating economical actions – especially in the richer nations of Europe and the Americas, together with a slowdown in the growth in China, a further decrease in their production is

unlikely as it might lead to more cutbacks in consumption and switches to alternative sources of energy that it may not be able to get back. So its action might be quietly to cutback some of the overproduction that has been taking place among several members – notably Saudi Arabia. This would forestall major action until the OPEC meeting in December 2008.

2.4 UK & Europe

In the UK, opinion in the City of London is that the worst effects on financial institutions are still working their way through the system and will not be revealed until the second, third or even fourth quarters of 2008 or beyond. The worst-case scenario is that the UK will take a bigger hit even than the US.

Many countries did not become involved to anything like the same degree in the speculation that emanated out of the 'sub-prime' and 'A-' housing markets in the US and have been relatively untouched; those whose financial markets are not as 'sophisticated' as those of Wall Street, Chicago and the City of London and those that do not feel obliged to be a part of such speculative, uncertain procedures...

...In many ways the UK has led the way in the development of aviation services over the last 10 years, especially in the budget airline sector and it is a useful barometer of macroeconomic trends and how they affect air transport. Until (northern) autumn 2008 UK consumers continued to book flights, especially low cost flights. But the party may well come to an end during the winter if the country goes officially into recession (two successive quarters of negative growth) as it is expected to do. Economic growth in 2Q08 was static...

...The European Union is not confident the UK can avoid recession, nor Spain and Germany, both of which it expects to see experiencing two successive negative growth quarters in 2008. It also revised downwards growth prospects for the 15-member Euro zone to 1.3% from 1.7%.

Chapter 7 - Geopolitical issues that are likely to affect regulatory developments and investment patterns

Environmentalism

...One quite possible scenario arising from the situation in London is that, even if it is taken as a last minute, desperate vote-winning measure to avoid a landslide defeat at the polls, the UK government, which is increasingly left-leaning for the first time in 20 years, could decide to suspend all future airport expansion projects in the country and even begin actively to campaign for the 'consolidation' of airports. Such a seismic shift in attitudes in a country that has popularised privatisation in all sectors, and which was responsible for the stock market listing (and eventual de-listing) of the BAA, would send out a message far beyond its shores that the game has changed entirely

Such a scenario is not as bizarre as it might sound. In June 2008 the German government was reported as saying that it does not see any need to construct new airports in the country and that any expansion of existing airports should only be made when it can be proven that fresh capacity is required. Like the UK, the Merkel-led German government is highly influential within the EU and beyond.

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