Ministry of Transport and Maritime Affairs

Montenegro Airports Concession Project

Concession Act

August 6th 2018

1) Introduction

Pursuant to the Law on Concessions (Official Gazette of Montenegro, no. 08/09) ("Law on Concessions"), the Ministry of Transport and Maritime Affairs of Montenegro ("MoT") has prepared the Concession Act for awarding a concession (the "Concession") for the right to use the airports of Tivat and Podgorica (the "Airport" or "Airports" as the case may be) to a competitively selected concessionaire (the "Concessionaire").

Throughout the Concession Act, the public notice and the Instructions to Bidders, the term right of use refers to the performance of a service of public interest through the use of assets of public interest which is state-owned, and which includes the payment of a concession fee by the Concessionaire.

2) Subject matter of the concession

The principal subject matter of the Concession is the design, construction and financing of the expansion of the Airports' facilities, and the operation and maintenance of the Airports.

Designing implies the development of technical documentation and all necessary document required for the issuance of the construction permit; construction implies the construction of the infrastructure until the issuance of completion certificates and exploitation permits; operation and maintenance implies technical and economic exploitation of the assets.

The Concession involves the transfer to the Concessionaire of the right to:

(i) the full operations of the complete civil aviation activities with respect to Podgorica International Airport:

a. real estate development and terminal associated businesses (e.g. logistics center, hotel, car parking),
b. transport accesses within the boundaries of the site
c. passenger and cargo terminal buildings, administrative buildings, and associated facilities buildings (fire and safety…)
d. apron
e. taxiway
f. runway

and

(ii) the full operations of the complete civil aviation activities with respect to Tivat International Airport:

a. real estate development and terminal associated businesses (e.g. logistics center, hotel, car parking),
b. transport accesses within the boundaries of the site
c. passenger and cargo terminal buildings, administrative buildings, and associated facilities buildings (fire and safety…)
d. apron
e. taxiway (when built)
f. runway

The Concessionaire shall also be responsible for:

- the preparation of a preliminary feasibility report for the redevelopment of Berane Airport, in accordance with applicable law, within an agreed period of time to be defined in the Concession Agreement;
- the preparation of a preliminary feasibility report for the redevelopment of Ulcinj Airport, in accordance with applicable law, within an agreed period of time to be defined in the Concession Agreement;

The Concessionaire shall be responsible for the security within the Sites, and for ensuring security of the Sites' perimeter.

For clarity, the subject of the Concession does **NOT** include:

(i) air traffic control, which shall remain within the scope of responsibilities of SMATSA
(ii) custom and passport control, which shall remain within the scope of responsibilities of the Custom Administration - Ministry of Finance and Ministry of Internal Affairs respectively.

The grantor of the concession shall be the Government of Montenegro, acting through the MoT.

3) Site where the activities of the concession will be performed

The activities of the Concession will be performed at the following Sites:

(i) Podgorica International Airport site, and
(ii) Tivat International Airport site,

4) Ownership structure of the land where the Concession activities will be performed

(i) Podgorica International Airport site

The site of Podgorica International Airport with total surface area of 2,526,334 m2, comprises 3 cadastral lots: 541/6, 541/12 and 15047 all in Cadastral Municipality Golubovci. The State of Montenegro is registered as the owner of the land on the site, while Public Company Airports of Montenegro (in Montenegrin: "Javno preduzeće Aerodromi Crne Gore") is registered with the management right over the site. Joint stock company Airports of Montenegro Podgorica (in Montenegrin: "Akcionarsko društvo Aerodromi Crne Gore Podgorica") (the "Airports of Montenegro") is the legal successor of the Public Company Airports of Montenegro.

(ii) Tivat International Airport site

The site of Tivat International Airport with total surface area of 544.601 m2, comprises 11 cadastral lots: 1254, 1268/1, 1269, 1270, 1271, 1272, 1273, 1274, 1275, 1276 and 1277 all in Cadastral Municipality Mrčevac. The State of Montenegro is registered as the owner of the land on the site, while the Public Company Airports of Montenegro (in Montenegrin: "Javno preduzeće Aerodromi Crne Gore") is registered with the management right over the site. Joint stock company Airports of

Montenegro Podgorica (in Montenegrin: “Akcionarsko društvo Aerodromi Crne Gore Podgorica”) (the “Airports of Montenegro”) is the legal successor of the Public Company Airports of Montenegro.

The MoT commits that it will obtain complete ownership title to the all sites, free of any encumbrances and court proceedings, by the date of signing the Concession Agreement with the winning bidder (the “Concession Agreement”).

The maps of Podgorica Airport site and Tivat Airport site are included in appendix 8.

5) Inventory of properties

The principle of the concession envisages that the right to use all assets and properties of Airport of Montenegro JSC shall be transferred to the Concessionaire for the term of the concession. Nevertheless, the final lists of properties to be transferred shall be established during the tender process.

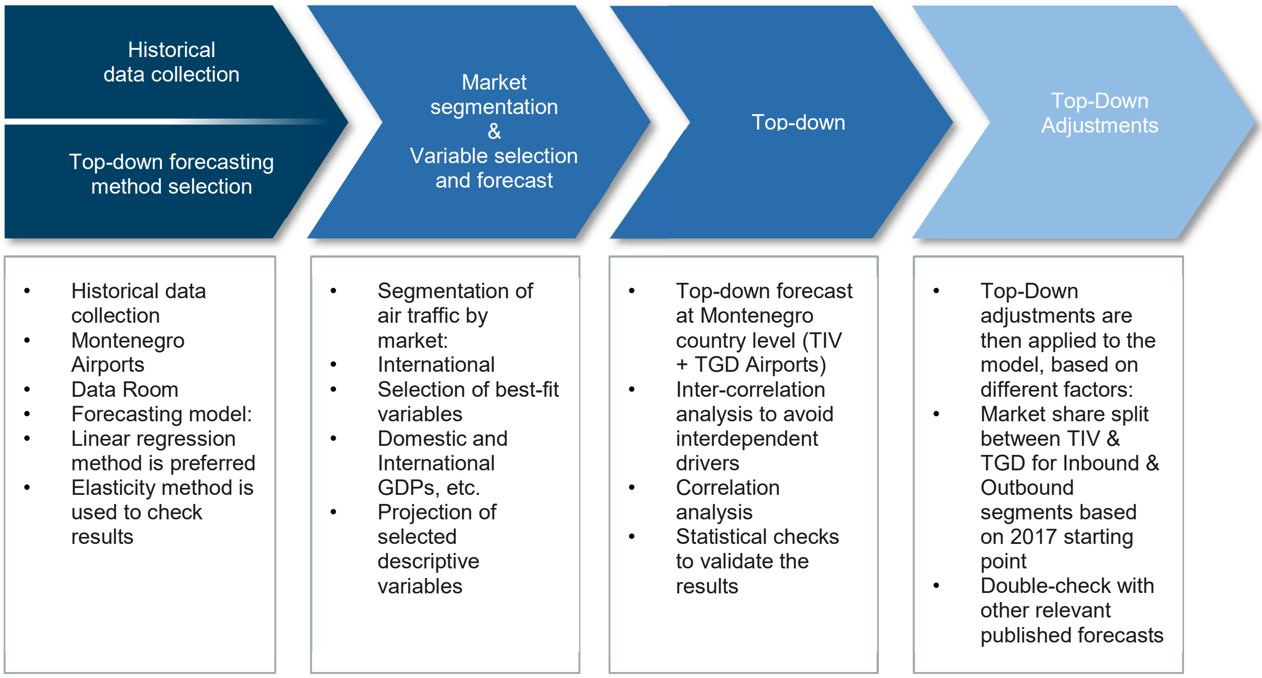
The inventory of properties can be consulted in the ledger of the public company Airports of Montenegro JSC.

6) Economic Feasibility

The economic feasibility analysis of the project performed by the MoT on the basis of past performance, and projections of future performances, concluded that the project is sustainable and economically viable. Refer to Appendices 4 and 5 for detailed information on the assessment of the cost-benefit analysis of implementing the project as a PPP or under different options, and for the value-for-money analysis of the PPP option.

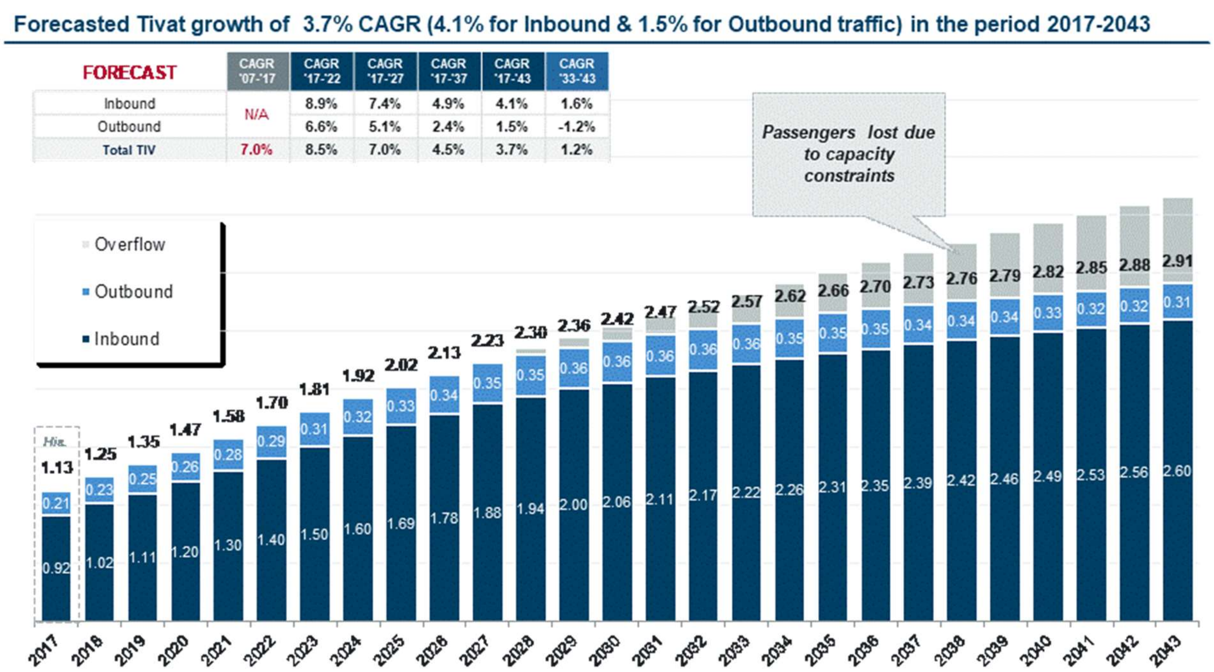
Firstly, the MoT developed traffic forecasts for the two airports at a horizon of 25 years, using the following methodology:

Diagram 4: Traffic forecast methodology



The resulting traffic projections are illustrated below:

Graph 1: Traffic forecasts at Tivat airport

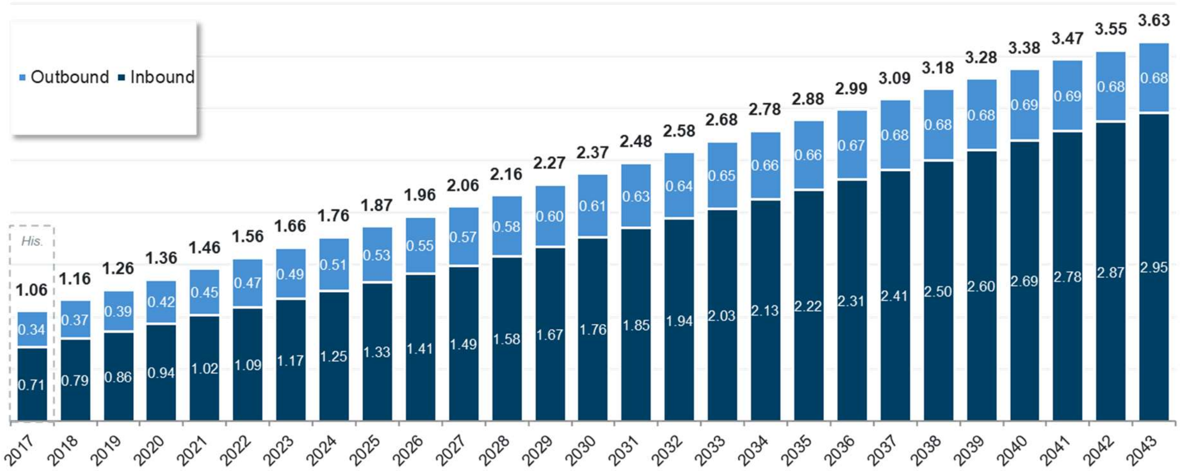


FORECAST	CAGR '07-'17	CAGR '17-'22	CAGR '17-'27	CAGR '17-'37	CAGR '17-'43	CAGR '33-'43
Inbound	N/A	8.9%	7.4%	4.9%	4.1%	1.6%
Outbound		6.6%	5.1%	2.4%	1.5%	-1.2%
Total TIV	7.0%	8.5%	7.0%	4.5%	3.7%	1.2%

Graph 2: Traffic forecast at Podgorica airport

Forecasted Podgorica growth of 4.9% CAGR (5.6% for Inbound & 2.7% for Outbound traffic) is expected in Podgorica during the period 2017-2043

FORECAST	CAGR '07-'17	CAGR '17-'22	CAGR '17-'27	CAGR '17-'37	CAGR '17-'43	CAGR '33-'43
Inbound	N/A	8.9%	7.6%	6.3%	5.6%	3.8%
Outbound		6.6%	5.2%	3.5%	2.7%	0.5%
Total TGD	8.7%	8.2%	6.9%	5.5%	4.9%	3.1%



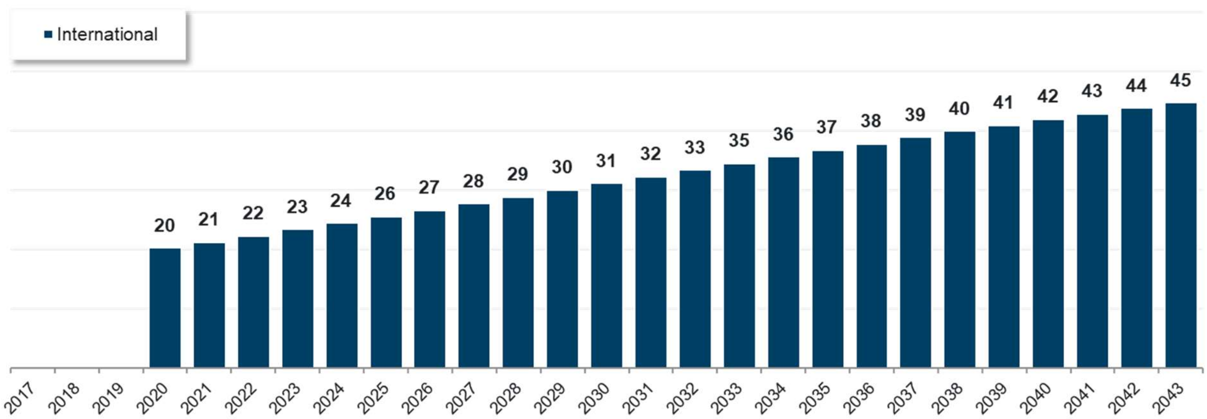
<u>Graph 3: Traffic forecast at Berane Airport</u>

Berane: assumed operations with starting passenger traffic of 20kpppa growing at 3.5% CAGR during the period 2020-2043 and ending at 45Kppa (only International)

(Kppa)

ALG top-down	CAGR '20-'27	CAGR '20-'33	CAGR '20-'37	CAGR '20-'43	CAGR '33-'43
International	4.6%	4.2%	3.9%	3.5%	2.6%
Total IVG	4.6%	4.2%	3.9%	3.5%	2.6%

The availability of alternative modes of transport and uncertain tourism demand make it difficult to forecast passenger traffic.



Then, based on the premise of the transfer of existing agreements between the Airport of Montenegro and the airlines currently operating routes to/from Montenegro, thus assuming existing airport charges and fees would remain unchanged, the MoT developed aeronautical revenue projections for the duration of the Concession. Considering that according to the regulatory framework of the aviation sector in Montenegro, the MoT provides its prior consent to aeronautical charges, these charges can be set in the Concession Agreement. Nevertheless, the Concession Agreement shall include a clause envisaging a change in the methodology to set airport charges to comply with EU Directives when it becomes necessary (see section 17 for more details).

Using past performance as a starting point, and assuming that the Concessionaire will optimize non-aeronautical activities shortly after the end of the construction period, the MoT projected non-aeronautical revenue in line with industry benchmarks in the region. Similarly, operating costs were developed assuming historical performance, the Concessionaire offering an employment contract to all permanent employees of Montenegro Airports (with the exception of the management team and the board) for a minimum period of two years, and achievement by the Concessionaire of industry benchmark within a period of 7-8 years from takeover. As a result, the projected EBITDA is expected to be about 40%.

In terms of macro-economic and financing assumptions, the following were used:

Senior Debt Parameters’	
Leverage	70:30
Term	16 years (4 years of grace + 12 years of repayment)
Interest Rate	6.50%, variable
Commitment Fee	1.50%
Drawdown	Together with equity drawdowns
Repayment type	Mortgage repayment
Covenants	Min DSCR: 1.20x
Debt Service Reserve Account	6 months of debt service

Equity Parameters	
Leverage	70:30
Dividend moratorium	1 year from the end of construction
Pay-out ratio	100% of available cash

Inflation Assumptions	2019-2043
Annual inflation	2.00%

Taxes	
Corporate tax rate	9%
VAT	21%

The revenue sharing mechanism between the Concessionaire and the MoT is structured in the form of an annual or semi-annual payment, calculated as a proportion of the gross revenues generated by the airports’ business (aeronautical and non-aeronautical revenues). The proportion to be shared is the parameter upon which the preferred bidder shall be selected. It is one single percentage, fixed for the term of the Concession.

Gross revenues are defined as the sum (as determined in Euros in accordance with IFRS) of:

a) the aggregate gross revenues received by the Concessionaire deriving from Aeronautical Revenues;

b) the aggregate gross revenues received by the Concessionaire deriving from Non-Aeronautical Revenues;

c) amounts received or receivable from sales and services which the Concessionaire would or should credit or attribute to the Airport Business;

d) any Insurance Proceeds received by the Concessionaire, only to the extent that such proceeds are in respect of lost gross revenues set out under Paragraphs (a) or (b) above (including under business interruption insurance policies) and shall exclude any reimbursement of utility charges and any other Insurance Proceeds (including under property damage insurance policies); and

e) any and all other revenue of the Concessionaire generated by the Airport Business not otherwise included in the calculation of aggregate gross revenues under sub-clauses (a) to (d) above, such as interest earnings and penalties and fines assessed to third parties for late payment of Aeronautical Revenues and Non-Aeronautical Revenues

Based on the financial analysis of the Airports, it is financially feasible to request the payment of a fixed, upfront fee, payable at financial close, in order to bring forward the payment of the Concession fee. This enables the MoT to cash in upfront some of the future value of the Concession. The financial analysis shows that that an upfront fee of EUR50 to EUR100M is a reasonable sum, taking into account the size of the capital investment (~EUR120M) that the Concessionaire will finance upfront, and the risks associated with tourism traffic forecasts.

Assuming an upfront payment of EUR100M, it is estimated that the MoT will receive a substantial proportion of the annual gross revenues generated by the Concessionaire. Given that the proportion of gross revenues to be shared constitutes the bid parameter, and given that the Concession Act is a public document, estimates of the level of revenue shared have not been included in this document. However, a detailed financial analysis of this parameter has been performed by the MoT.

7) The Concession Agreement

a. Draft of the Concession Agreement

The Concession Agreement defines in detail the scope of the Concession and the rights and obligations of the parties.

A draft of the Concession Agreement is attached in Appendix 1. The main risks associated with the project are proposed to be allocated in accordance with the terms of the draft Concession Agreement.

The tender procedure is designed in a way to allow the MoT and GoM to optimize the risk allocation in the context of the dialogue with qualified bidders in order to achieve the best value for money for the public sector. Therefore this draft Concession Agreement is indicative and subject to change.

b. The Concession services

The scope of the Services to be provided by the Concessionaire will be defined in detail in Schedule 3 – Airport Services of the Concession Agreement. A draft of this Schedule 3 is attached in Appendix 2.

The tender procedure is designed in a way to allow the MoT and GoM to optimize the structure of the project in the context of the dialogue with qualified bidders in order to achieve the best value for money for the public sector. Therefore this draft is indicative and subject to change.

c. Duration of the Concession

The Concession is expected to be awarded for a period of 25 to 30 years from the commencement date, i.e. the date when the Concessionaire has fulfilled all preconditions necessary for the transfer of the airport activities (financial close, permits, transfer of employees) to be completed ("Commencement Date").

This parameter shall be defined by the MoT during the final phase of the tender based on the economic and financial analysis of the project, so as to meet the Concessionaire's required return on investment, deliver value-for-money to the GoM, and to maximize public interest.

The duration of the Concession may be extended at expiry of the original contract period, for a period of 5 years, in accordance with applicable law, if it is originally awarded for 25 years.

d. List of technical documents required to perform the Concession

In order to perform the Concession, the special purpose company incorporated by the winning bidder shall obtain:

1) Construction permit(s) for the construction of the Airports' facilities, issued by the Ministry of Sustainable Development and Tourism of Montenegro in accordance with the applicable law;
2) Usage permit(s) for the use of newly constructed Airports' facilities, issued by the Ministry of Sustainable Development and Tourism of Montenegro in accordance with the applicable law;
3) Airport operator certificate from the Montenegro Civil Aviation Agency, as per the terms and conditions prescribed by the applicable law.

e. Environmental and social protection measures

The Concessionaire shall have the obligation to implement the project in accordance with applicable legislation of Montenegro, and in accordance with IFC Performance Standards[1]. Refer to clause 21 of the attached template Concession agreement for detailed in formation.

f. Energy efficiency measures

The Concessionaire shall be naturally incentivized to operate in an energy-efficient manner in order to maximize the profitability of the business.

In addition, the Concession Agreement shall include service requirements regarding energy efficiency measures at the Sites where the Concession activities will be performed.

g. Concession fee

The Concession fee shall be made of two components:

(i) An upfront Concession fee, payable by the Concessionaire to the MoT at the Commencement Date, and
(ii) Periodic share of gross revenues, payable by the Concessionaire to the MoT semi-annually (or at a periodicity to be agreed by the parties).

The amount of the upfront payment will be prescribed in the instructions to bidders and in the Concession Agreement.

The periodic Concession fee shall be the financial evaluation parameter for the purpose of determining the winning bidder. The bidder will be asked to bid on a share proportion, expressed in percentage of gross revenues, flat over the duration of the Concession period. Gross revenue shall be defined as the aggregate gross revenues received by the Concessionaire deriving from aeronautical activities, non-aeronautical activities, sales and services rendered by the Concessionaire attributable to the airport business, and any insurance proceeds.

Relief from payment of 25% of the periodic Concession fee may be granted to the Concessionaire during the first 5 years of the Concession to account for the payment upfront of a portion of the Concession fee, and the substantial capital expenditures incurred in the first four years of operation.

h. Methodology to determine the tariffs of the services to be provided

Aeronautical charges shall be defined in the Concession Agreement. Charges shall be expressed in Euros, and subject to indexation adjustment mechanism. The Concession Agreement shall include a provision foreseeing the amendment of the methodology to set the aeronautical charge in order to comply with the relevant EUR Directives, when it becomes necessary.

At present, the maximum amounts of Aeronautical Charges are calculated under current Pricelist of Airport of Montenegro, which is attached in Appendix 3. For the purpose of the Concession Agreement, the Concessionaire shall have the right to increase charges, within certain conditions and limits, with reference to the ECAA agreement, EU Aquis (Directives) and ICAO, and including airline consultation and potential justification of charges on a cost reflective basis.

[1] means the IFC Performance Standards on Environmental and Social Sustainability dated January 1, 2012 available at http://www.ifc.org/performancestandards.

The Concessionaire may negotiate discounts to those charges with each individual airline, on a non-discriminatory basis.

Non-aeronautical charges shall be market-driven.

All existing agreements shall be transferred by the Airport of Montenegro to the Concessionaire, subject to approval from the counterparty.

i. Extent of investments

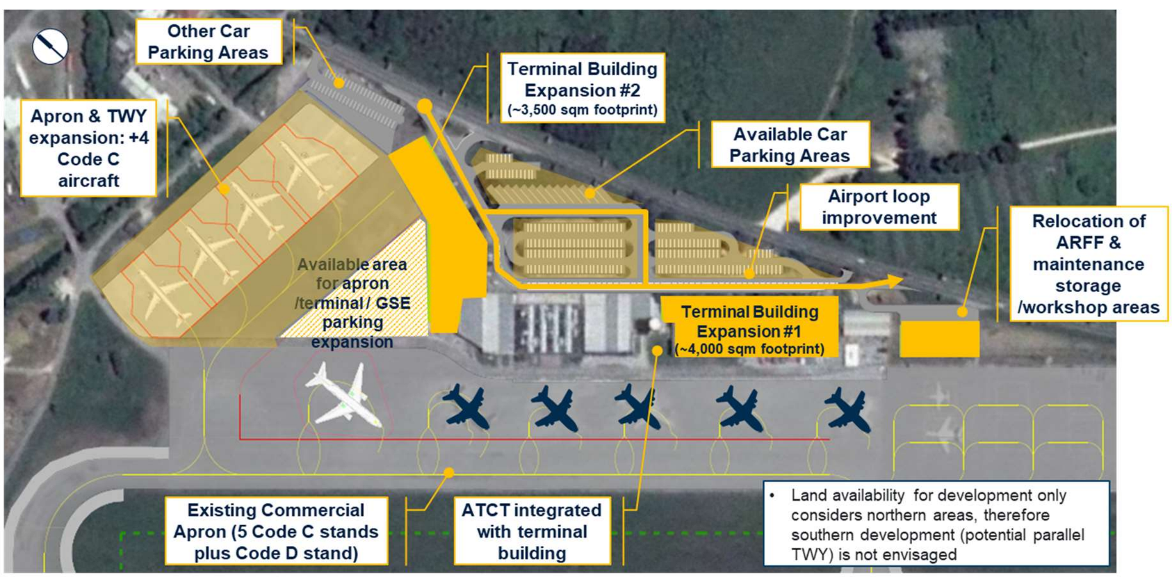
The following general approach shall be followed:

1) The Concession Agreement will prescribe minimum requirements for the first phase of the investment program in the first 4 years of the Concession. The objective of this first phase shall be, at minimum, to:
    a. Comply will Montenegrin and ICAO standards, i.e. mitigate the non-compliances identified during the certification process, at all Airports
    b. Expand capacity at Tivat Airport to meet reasonably projected traffic, within the limit of the site provided to that effect
    c. Expand capacity at Podgorica Airport to meet reasonably projected traffic
    d.
2) Thereafter, the obligations of the Concessionaire shall be output based, that is to say that the Concession Agreement will define the minimum service standards that the Concessionaire must meet, and investment will be made by the Concessionaire as and when triggered based on achievement of actual passenger flow thresholds.

The following graphs illustrate the possible developments at the Airports. While the MoT has performed a detailed assessment of the estimated total investment required in replacement and expansion at each airport, figures have not been disclosed in this document. This is because capital investment figures have an impact on the outcome of the bid, and cannot be made public before the tender is completed.

<u>Diagram 1: Podgorica Airport</u>

Diagram 2: Tivat Airport



*This may depend on the land plot ultimately handed over by the Government of Montenegro.

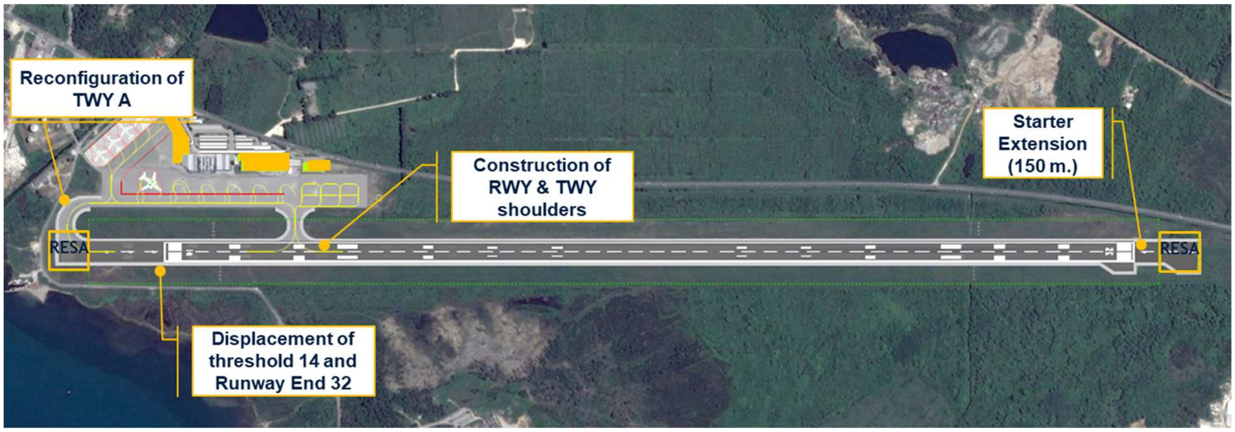
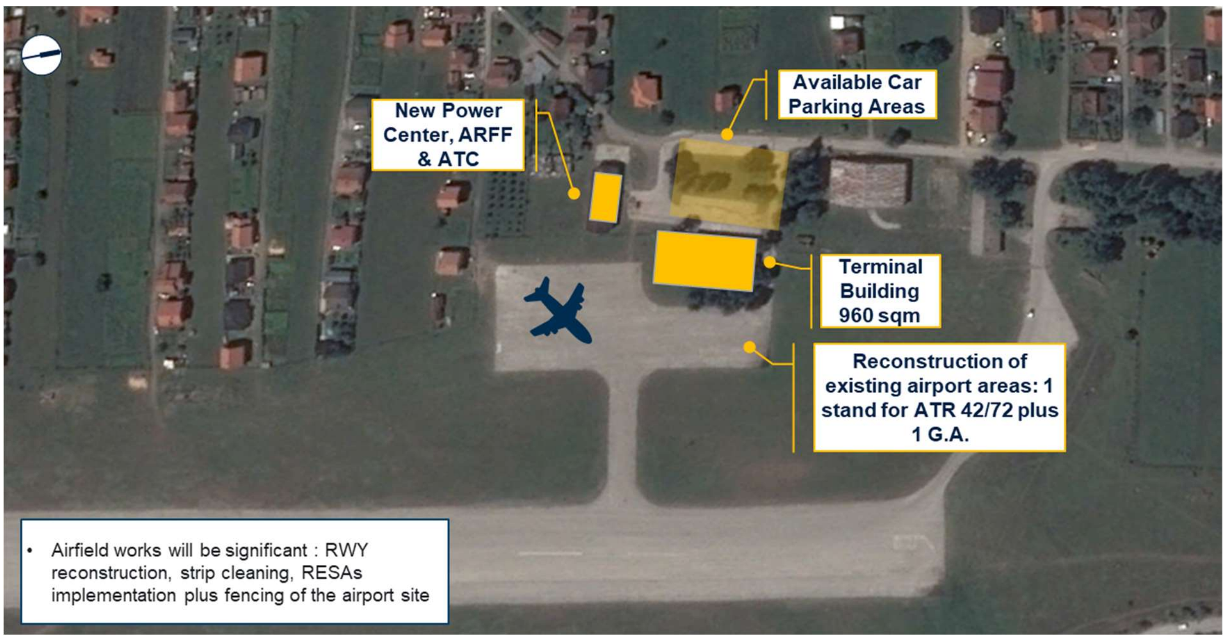


Diagram 3: Berane Airport



Nevertheless, bidders shall be free to propose the investment program that they deem fit to fulfill the requirements of the Concession Agreement. This approach is designed to maximize the benefits of bringing in private sector expertise and efficiencies.

j. Status of the facilities at handover

The Concession Agreement includes provisions to ensure that the airport operations are maintained as a going concern at handover, without discontinuation of services. All consents, licenses, staff etc. shall therefore be maintained.

At least 9 months before the expiry, the Concessionaire must provide complete operation and maintenance training to the MoT's managerial and operational personnel in preparation for handover. The Concessionaire must also handover operating manuals kept current throughout the term of the Concession.

No less than 24 months before the expiry of the Concession Agreement, the Concessionaire and the MoT shall conduct jointly an inspection to estimate and agree upon the required handback works to be completed by the Concessionaire. The inspection shall be repeated 12 months priori to expiry, and three months prior to expiry. The Concessionaire shall also provide to the MoT a handback security for the agreed amount of the handback works.

All immovable assets and all movable assets required to maintain the Airprots operational shall be transferred back to the MoT on expiry, including staff.

8) The tender process

a. Approach

In accordance with applicable law, the MoT shall form the tender commission ("Tender Commission") tasked with the implementation of the tender process for the Concession.

In accordance with the Law on Concessions, the tender process will be conducted in two consecutive stages:

(i) Stage 1: Request for pre-qualification ("RFQ"), followed by
(ii) Stage 2: Request for proposal ("RFP"),

At each stage, the MoT will publish a public invitation notice, and instructions to bidders ("ITB").

A local or foreign legal entity or natural person, acting as a single bidder or in a consortium, shall have the right to participate in the public competition. A consortium may not be comprised of more than 5 Members. All consortium members shall have joint and several liability for the purpose of the bid. No prospective bidder may prequalify if it owns more than 5% of the shares (directly or indirectly), in another prospective bidder. If it owns 5% or less, this information must be disclosed to the MoT, for clearance by the Tender Commission.

No individual bidder or consortium member may prequalify if it controls or is controlled by an airline company (or any other commercial aircraft operator).

i. Stage 1 - RFQ

For stage 1, the ITB shall include, but may not be limited to:

(i) a description of the context of the Project,
(ii) a description of the intended procurement process,
(iii) the criteria and tests that will be used to evaluate the pre-qualification statement (but not necessarily the precise details to be used in the scoring or ranking since it could lead to manipulation by bidders),
(iv) the documentation that bidders can put forward (e.g. parent's or subsidiary's qualification) as evidence of fulfilment of the criteria, and
(v) an indicative timetable of the tender process.

Responses to the RFQ will provide basic information necessary to pre-qualify and select the parties who will be invited to participate in the second stage. The Tender Commission will determine which entity/consortia passes the threshold in all the relevant respects in a pass/fail test. Most of the criteria (such as revenues, experience) are expressed in terms of clear and objective thresholds that must be met in order to qualify.

Once the Tender Commission has pre-qualified the participants for the RFP stage, it will publish a second public invitation notice for stage 2.

ii. Stage 2 - RFP

For stage 2, the ITB shall include, but may not be limited to:

(i) the draft of the Concession documents;
(ii) the draft output specifications and scope of Services;
(iii) instructions to bidders concerning all the information they must submit and the detailed procedure for submission, including deadlines and time and place for purchase of the tender documents;
(iv) the evaluation criteria; and
(v) requirement for bid security

Bids submitted in response to the RFP must contain "all elements required and necessary" for the performance of the activities subject of the Concession. Bids must also contain a bid security, in a form acceptable to the MoT.

After submission of final bids, these can be clarified, specified and fine-tuned to the extent permitted under applicable law, provided that this does not involve changes to the basic features of the tender when those variations are likely to distort competition or have a discriminatory effect.

The Tender Commission will then determine which bidder offers the most favorable bid against the criteria for most favorable bid determined in the ITB.

b. Qualification Criteria

Bidders will have to demonstrate compliance with all mandatory eligibility criteria, pursuant to Article 23 of the Law on Concessions. The following shall be considered as ineligible to participate in a public competition for Concession award:

- business organisations, other legal entities and entrepreneurs against which bankruptcy or liquidation procedure was initiated, except for the reorganization procedure in line with the law governing insolvency of business organisations;
- business organisations, other legal entities, entrepreneurs, and natural persons that were convicted by a final judgement for a crime in performance of the professional activity; and
- business organisations, other legal entities, entrepreneurs, and natural persons that have unsettled tax liabilities and liabilities arising from penalties pronounced in criminal or misdemeanour procedure in a period of at least three years prior to publishing of the public notice.
- business organisations, other legal entities, entrepreneurs, and natural persons that have operations (directly or through any subsidiary) or carry out transactions that are not in compliance with the sanctions promulgated by the UN Security Council or its Committees or national sanctions in Montenegro;

Bidders will demonstrate compliance with above mandatory eligibility criteria, by submitting evidences issued by the relevant competent bodies, with date of issuance not older than 90 days starting from the day of public invitation notice announcement.

Further, bidders will have to demonstrate that they fulfill the minimum technical and financial criteria in order to be qualified to participate in the RFP stage. The criteria are set as follows:

(i) Technical criterion 1: the bidder, or if a consortium, the airport operator member, must demonstrate that it currently actively operate both landside and airside activities in at least 1 airport serving at least 5 million international passengers per year in the last three years, and at least 1 airport serving at least 2 million passengers each per year in the last three years.

(ii) Technical criterion 2: the bidder, or if a consortium, any member, must demonstrate that it has been responsible to (i) develop, design, engineer, procure and build, or (ii) manage and monitor airports construction, with a minimum aggregate value of EUR300million during the past 10 years, with an aggregate construction value of EUR100million in at least 1 airport.

(iii) Financial criterion 1: the bidder, or if a consortium, the financial member, must demonstrate that it has a net worth of EUR200 million in the past five reporting years. In case of a consortium, the aggregate net worth of all the consortium members shall be at least EUR400 million in the past five reporting years.

(iv) Financial criterion 2: the bidder, or if a consortium, the financial member, must demonstrate that it has financed infrastructure projects with an aggregate value of at least EUR300 million, including at least one project of EUR100 million, in the past 10 years.

The bidders will be required to submit evidence of the fulfilment of these qualification criteria.

The Tender Commission will perform the detailed evaluation of the applications, to assess the responsiveness and compliance with these qualification criteria, in accordance with the applicable law.

c. Selection criteria for most favorable bid

The qualified bidders will be invited to submit a technical and a financial proposal, in line with the ITB for stage 2. No conditional bid shall be accepted.

Technical proposals shall be evaluated first, based on a combination of scoring of non-subjective parameters and on a pass/fail basis against pre-defined criteria (e.g. functionality, binding business plan, level of financial commitment).

Qualified bidders which submitted passing technical proposals shall have their financial proposal opened and evaluated on the basis of the highest proportion of gross revenue share.

The Tender Commission will perform the detailed evaluation of the proposals, to assess the responsiveness and compliance with the submission requirements, in accordance with the applicable law.

In case of a single bid, the Tender Commission may decide to continue with the Concession award, if the proposal fulfil the technical criteria.

d. Indicative tender timeline

The table below illustrates the envisaged timeline for the tender process[2]:

Date	Milestone
August 2018	Public invitation to participate in the Request for Qualification
September 2018	Prequalification Application Submission Deadline, Evaluation, Announcement of Prequalified Bidders
September 2018	Public invitation to qualified bidders to participate in the Request for Proposal
October-December 2018	Bid preparation, submission, evaluation, announcement of Preferred Bidder, commercial close
June 2019	Financial closing (signing of all financing documents)/ completing all requirements for Concession Agreement effectiveness

9) List of applicable regulation

Law on Concessions (Official Gazette of Montenegro, no. 08/09);

Decree on Detailed Procedure for Implementing the Public Tender Procedure in an Open and Two-stage Concession Award (Official Gazette of Montenegro, no. 67/09);

Rulebook on Content and Manner of Keeping of Concession Agreements Registry (Official Gazette of Montenegro, no. 47/2009, 32/2015);

Air Traffic Law (Official Gazette of Montenegro, no. 30/2012 and 30/2017);

Rulebook on Detailed Requirements for Issuance of Airport Operator Certificate (Official Gazette of Montenegro, no. 12/2014);

Rulebook on Standards and Criteria for Undisturbed Use of Operational Surface, Objects, Devices and Equipment at the Airport (Official Gazette of Montenegro, no. 29/2014, 56/2015, 19/2017 and 8/2018);

Rulebook on Conditions and Manner for Professional Training, Acquiring, Issuing, Renewing and Extending the Validity of License and Authorization of the Aircraft Crew for Preparation, dispatch and Tracking of the Flight (Official Gazette of Montenegro, no. 65/2012 and 18/2018);

Rulebook on Content and Manner of the Keeping Airports Registry (Official Gazette of Montenegro, no. 43/2017);

Rulebook on Providing Ground Handling Services at the Airport (Official Gazette of Montenegro, no. 68/2015);

Rulebook on the Manner for Expanding and Limitations of Airport's Capacity, Harmonization of the Flights Schedule and Awarding Flight Slots (Official Gazette of Montenegro, no. 49/2014);

[2] Subject to MoT making timely decisions, providing all necessary information for bidders to respond, and bidders being able to mobilize resources to meet this timeline.

Rulebook on Professional Training of the Persons who Perform Services Essential for Air Traffic at the Airport (Official Gazette of Montenegro, no. 20/2014);

Rulebook on Conditions and Manner for Emergency or Medical Help at the Airport (Official Gazette of Montenegro, no. 62/2012);

Rulebook on Performing Rescue-Fire Protection Services at the Airports (Official Gazette of Montenegro, no. 47/2012);

Order on Airports' Obligatory Open Time for Air Traffic (Official Gazette of Montenegro, no. 25/2018 and 28/2018);

Law on Obligations and Basis of the Property Relations in Air Traffic (Official Gazette of Montenegro, no. 18/2011 and 46/2014);

Law on Urban Planning and Construction (Official Gazette of Montenegro, no. 64/2017);

Rulebook on Manner for Drafting, Scale and Closer Content of the Technical Documentation (Official Gazette of Montenegro, no. 23/2014, 32/2015 and 75/2015);

Law on Obligations (Official Gazette of Montenegro, no. 47/2008, 4/2011 and 22/2017);

Law on Companies (Official Gazette of Montenegro, no. 17/2007, 80/2008, 40/2010, 36/2011 and 40/2011);

Law on State Property (Official Gazette of Montenegro, no. 21/2009 and 40/2011);

Law on Proprietary Relations (Official Gazette of Montenegro, no. 19/2009);

Appendix 1 – Draft Concession Agreement and draft of the ancillary contracts necessary for realizing the Concession

Refer to separate attachment

Appendix 2 – Draft Airport Services

The Airport Services shall include, but may not be limited to, the following activities, for each Airport:

(a) the provision of apron space for parking of aircraft;

(b) the handling of parked aircraft (including the supply of fuel, in-flight catering, servicing the aircraft between flights and other provisions as determined by the aircraft operator) [including the control of moving aircraft on the ground between the runway(s) and taxiways and parking areas][3];

(c) the access for aircraft and equipment for hangarage (based on availability) and facilitation for the provision of aircraft maintenance, repair and overhaul services;

(d) the handling of cargo at all stages while on land including the transfer of cargo to and from the aircraft and parking /access pavements for ground transportation (trucks, cars, etc.) related thereto;

(e) the handling (inc. screening) of Passengers and their baggage at all stages while on land, including the transfer of Passengers and their baggage (including transfer and transit passengers) to, from and between aircraft and the provision of information services to Passengers;

(f) the provision of car parking facilities for passengers, meeters and greeters and employees / other users at the Airport;

(g) the offering of food and beverage to passengers, general public and employees at the Airports and other persons visiting the Airports;

(h) the offering of consumer goods (whether duty paid or, to the extent permitted by Applicable Law, duty free) and essential services (including bureau de change, tourist information, ground transportation, hotel reservation) to passengers and staff at the Airport and other Persons visiting the Airport;

(i) the provision of fuel services as necessary to operate the Airport and the provision of fuel (and related services with service stations) for vehicles accessing the premises; and

(j) the provision, operation and maintenance of visual aids and airfield accessories such as approach and runway lights, taxiways lights, directional signage, runway and taxiway markings, apron lighting, security lighting and other lighting fixed to the Airport Sites relating to the landing, take-off and movement of aircraft over, around or on the Airport Sites and for general safety and security purposes;

(k) the access and provision of space for the movement of passengers and staff to connect with ground transportation within the Airport Sites;

[3] To be confirmed with SMATSA

(l) the letting of land and property and general estate management of the Site;

(m) the maintenance, enhancements and expansion, when and where necessary, of the airport and its systems, (including offices, personnel, equipment, security fence, etc.)

(n) the provision of facilities for the physically disabled to be incorporated in any Works and maintenance projects, including retrofitting projects;

(o) the provision of up-to-date technological advances in relation to the efficient operation of the Airports; and

(p) the provision of facilities and services ordinarily provided at the Airports prior to Execution Date and facilities and such other services reasonably incidental to the operation of an international airport.

(q) the provision of the Security and Fire Fighting Services;

(r) the provision and management of Utility Services;

(s) the provision of office spaces for the Grantor, Airlines and Government Entities;

(t) the facilitation of passenger access to connecting transportation modes, i.e. roads, and/or water transport in the vicinity of Tivat Airport.

Appendix 3 – Current Pricelist

Refer to separate attachment

Appendix 4 – cost benefit analysis and value for money analysis

Part 1: cost benefit analysis

1. Introduction

The purpose of the cost-benefit analysis ("CBA") is to determine if the Project is feasible and if it increases social welfare. Our analysis shows that the net present value incremental net benefit of the Project is positive, ie 64.6% higher (and 14.09% higher in "Economic Rate of Return" or ERR) than the "do nothing" case. Therefore, the project is feasible and increases social welfare.

2. Methodology

The CBA is an analysis of the expected costs and benefits of a project. We evaluate these costs and benefit impacts by considering the parties affected by the project and estimating a monetary value for the effect the project is expected to have on their welfare.

The objective of the CBA is therefore to determine whether or not the Project is economically viable—that is, if the economic benefits of doing the Project outweigh the economic costs. We determine whether the project is economically viable by estimating the net present value (NPV) of the Project's net benefits (benefits less costs). If the NPV of the net benefits is positive, we can conclude that the Project is economically viable and increases social welfare.

To estimate the Project's net benefits, we compare the costs and benefits in two scenarios: a 'With Project' scenario and a 'Without Project' scenario.

	"With Project" Scenario	"Without Project" Scenario
Ownership and Operations	Concession Structure, whereby MoT continues to own the airports, and the private company leases the airport assets and acquires all operational and management control over the airport assets for the duration of the concession	No concession project. Airports of Montenegro JSC continues to own and operate the airport assets in the same manner as is the case today (with all funding, operational and management constraints remaining).
Capital Expenditure ("CAPex") Programs for Expansion, Compliance, Efficiency and Modernization (2019 – 2043)	Concessionaire has the obligation to invest to meet minimum performance standards	"Do minimum", which assumes that in the absence of the Project, there will be a minimum level of investment to maintain and upgrade the airport facilities, or "Do nothing", which assumes that in the absence of the Project, no investment would take place, due to fiscal space constraints.
Repair and Replacement (Major Maintenance) Capital	Concessionaire has the obligation to invest to meet minimum performance standards	"Do minimum", which assumes that in the absence of the Project, there will be a minimum level of investment to maintain and upgrade the airport facilities, or "Do nothing", which assumes that in the

Expenditure ("REPex") Programs (2019 – 43)	absence of the Project, no investment would take place, due to fiscal space constraints.

3. Cost Benefit Analysis Result

We estimate that the Project produces an additional + 14.09% in terms of incremental Economic Rate of Return, relative to the "Without Project" Scenario. As a result the concession project is an economically viable project. The Project significantly increases social welfare and results in a net-gain to the public, government and the successful private sector bidder.

Part 2: Value for money analysis

1. Introduction

The Government of Montenegro conducted a comparative analysis of the two procurement methods available for making the required public investment in Montenegro Airports. The aim of the Value for Money ("VfM") analysis and report is to determine whether the proposed PPP model offers superior value than a conventional public sector funding, financing, developmental and operational approach. Thus, MoT via IFC commissioned Dean Capital Strategies GmbH ("Dean Capital") to prepare a VfM analysis and report on the envisaged PPP project. The analysis was conducted on the basis of the information made available by the MoT to IFC as of June 14th 2018, and Dean Capital's independent analysis.

2. Methodology

As a part of the research and due diligence in producing the VfM analysis and report, the existing and proposed legal framework in Montenegro have been reviewed, including procurement and concession laws and other relevant laws that impact the Project.

VfM methodology evaluates the two alternative procurement and contractual alternatives: one in which the publicly owned enterprise ("POE") remains the investor, developer and operator who assumes all of the asset risks, and an alternative PPP model in which most risks are transferred to an experienced international private sector airport concessionaire company. In the former alternative (the PSC), the government retains full control over the management and operations of the airports and therefore, it benefits from all of the potential net profits of the airports (and correspondingly is exposed to all potential losses), just as it does today. Under the alternative PPP approach, in exchange for transferring most risk to the private concessionaire, it is also necessary to allow the concessionaire to earn a reasonable profit in exchange for taking on such risks and exhibiting a high level of performance under the contractual agreements.

We quantify this value for money by calculating the adjusted net present cost of the services to GoM (via its role to provide high quality air transport facilities and services to the traveling public) under both scenarios.

The following Table details the comparative advantages and disadvantages of each potential alternative.

Option or Alternative[4]	Advantages	Disadvantages
Fund or Finance Recommended Expansion CAPex and REPex through public sector sources – Continually operate the airports as today	✓ Potentially lower capital costs (Government Borrowing or funding) ✓ Limited or no transaction costs ✓ GoM to retain all net profits ✓ GoM to retain full operational and management control of the airports	✗ Higher probability of capital and operational cost overages and delays ✗ Potential higher long-term maintenance costs (deferred maintenance) ✗ Fiscal and budgetary constraints may limit access to capital ✗ Relatively smaller gains in customer service and amenities ✗ Limited access to international best practices and resources in comparison to private companies ✗ Limited resources to optimize non-aeronautical revenue, promote tourism, etc. ✗ Lack of innovation initiative
Tender the airports through a long-term (twenty-five (25) year) PPP contract, whereby an experienced private sector company shall be responsible for mandatory CAPex and REPex capital investments, capital financing and management, operations and maintenance of the airports	✓ Up-front PPP payment "de-risks" a portion of the transaction ✓ Annual revenue sharing payment limits GoM "downside risk" and provides some sharing of the potential "upside gains" ✓ Private company brings international standards and best practices to MNE Airports ✓ Private sector efficiency and productivity gains ✓ Private company is motivated to promote tourism and economic development ✓ Network portfolio of airports results in greater bargaining strength with airlines and contractors	✗ Potentially higher financing costs (debt + equity) ✗ Potentially higher transaction costs ✗ Less direct GoM control of management and operations of airports ✗ Lower potential "upside" gains if exogenous factors significantly drive up traffic and revenue

[4] GoM also considered a "do nothing" approach, where all expansionary capital (other than essential safety, security, environmental and other compliance capital) investments are avoided and the POEs continue to operate the airports under a capacity constrained situation. As such, this comparative analysis was performed under DCS's "*Montenegro Airports Business Case Analysis*", Dated June [15], 2018.

3. Evidence of VfM in PPPs

This section presents both the qualitative evidence and our quantitative analysis of value for money in the PPP structure. Identifying where this value is derived from is an important component for projecting the life cycle costs to the government of procuring the airport development, operations, management and maintenance services. The costs are primarily: (i) airport expansionary capital expenditures (CAPex); (ii) rehabilitation, repair and replacement (major maintenance) capital expenditures (REPex); (iii) costs of operations and maintenance (OPex); (iv) financing costs; and, (v) transactional costs.

The evidence suggests that the PSC airport scenario is likely to have the following relative cost implications as set forth below in the table:

Summary of Quantitative Difference in Costs Between PPP and PSC

Cost Category	PSC Compared to PPP[5]
Expansionary & Maintenance CAPex & REPex	15 percent higher than the PPP
Operations & Maintenance OPex	15 percent higher than the PPP
Financing Costs	79 percent lower than the PPP
Transactional Costs	68 percent lower than the PPP

Additionally, the evidence suggests that the PSC airport scenario is likely to have the following relative revenue implications as set below in the table:

Summary of Quantitative Difference in Revenues Between PPP and PSC

Cost Category	PSC Compared to PSC[4]
Aeronautical Revenues	15 percent lower than the PPP
Non-Aeronautical Revenues	15 percent lower than the PPP

The evidence and analysis used to reach these conclusions are as follows:

1) Evidence of PPP Cost Savings in Mature Infrastructure Markets
2) Survey of Private Sector Participation in Airport Markets
3) Comparable VfM for Comparable Airport
4) National experience with PPPs
5) European Standards for VfM in PPPs

4. Net benefits of PPP vs PSC

The projected total net present value (NPV) of the net benefits (up-front payment, the annual revenue share payments, tax revenue and costs associated with the PPP) of the PPP to GoM is EUR 246.8 million.

[5] Based on the Net Present Values (NPV) of each cost or revenue component

Based on mature international markets experience with PPPs versus traditional public sector procurement, there is evidence supporting the following assumptions that were used in the "Base Case" PSC assumptions:

- The "whole life" cost of the capital expenditures (CAPex) and maintenance (REPEx) are likely to be at least 15% higher for the PSC versus the PPP:
    - Based on relative lack of expertise and resources for tender and project management, accommodation of value engineering, lack of life cycle cost methodology, lack of proactive maintenance, etc.
- The operational costs (OPex) cost are assumed to be at least 15% higher for the PSC versus the PPP:
    - Lower propensity, latitude and focus to optimize the productivity and efficiency of the labor force.
    - Less innovation with respect to implementing adaptive cost cutting investments and measures with respect to energy efficiency and similar initiatives.
    - Relative disadvantages with respect to contract negotiations with third-party supplier and contractors.
- The financing costs are assumed to be lower (5.5% Project IRR relative to 12.47% project IRR for PPP):
    - In the event that government has budgetary resources to fund or finance the project CAPex, we assume an "all in" (unlevered) project IRR of 5.5%. This assumes that any government financing is at low-cost, GoM cost of funds (recent long-term bond sale at 3.375%) plus an allowance for a project risk premium and/or equity injection of the publicly owned airport company.
- The airport revenues are assumed to be at least 15.0% lower for the PSC vs. the PPP:
    - Relatively less bargaining power with airlines on rates and charges than a private company able to negotiate from a network portfolio platform.
    - Lower propensity for innovative private-private partnerships in the tourism, travel and leisure sector to drive additional traffic through the airports and to Montenegro.
    - Fewer resources and capabilities to expand and optimize non-aeronautical revenues at the airports

The projected total net present value (NPV) of the net benefits of the PSC to GoM is EUR 200.2 million.

5. Summary

Based on all of the information available, and the specific PPP and PSC scenarios envisaged herein, in particular the following reasonable specific assumptions:

- The capital and operational costs are expected to be 15% higher for the PSC relative to the PPP
- The financing costs for the PPP are expected to be 79% higher for the PPP relative to the PSC

- The transaction costs for the PPP are expected to be 68% higher for the PPP relative to the PSC

The PPP provides positive value for money. The comparative net present value benefits of the PPP and the PSC are presented below in the table below. The VfM analysis concludes that there is a EUR 46.6 million net present value in the PPP scenario relative to the PSC.

Summary of Relative Value for Money (PPP vs. PSC)

	PPP	*PSC*	*VfM = PPP minus PSC*
NPV Net Benefits	**EUR 246.8 million**	**EUR 200.2 million**	**EUR 46.6 million**

The VfM benefits above do not include additional secondary and indirect benefits in the areas or tourism and economic development and other social utility. While these additional benefits are difficult to quantify they are real economic benefits that should also be taken with serious consideration.

6. Conclusion

Based on the information and data that we reviewed in our analysis, the PPP alternative provides material value for money relative to the PSC. While the sensitivity analysis shows that the PSC is most sensitive to the traffic and revenue risk and to operational cost risk, this is to be expected as each impacts directly the net profits of the POE. Since in the PSC case GoM has 100% exposure to this risk (and benefit) the PPP option serves as a "hedge" against many of the important project risks, but it should be understood that this also limits the potential "upside" gain to GoM (as is the case with any "hedge").

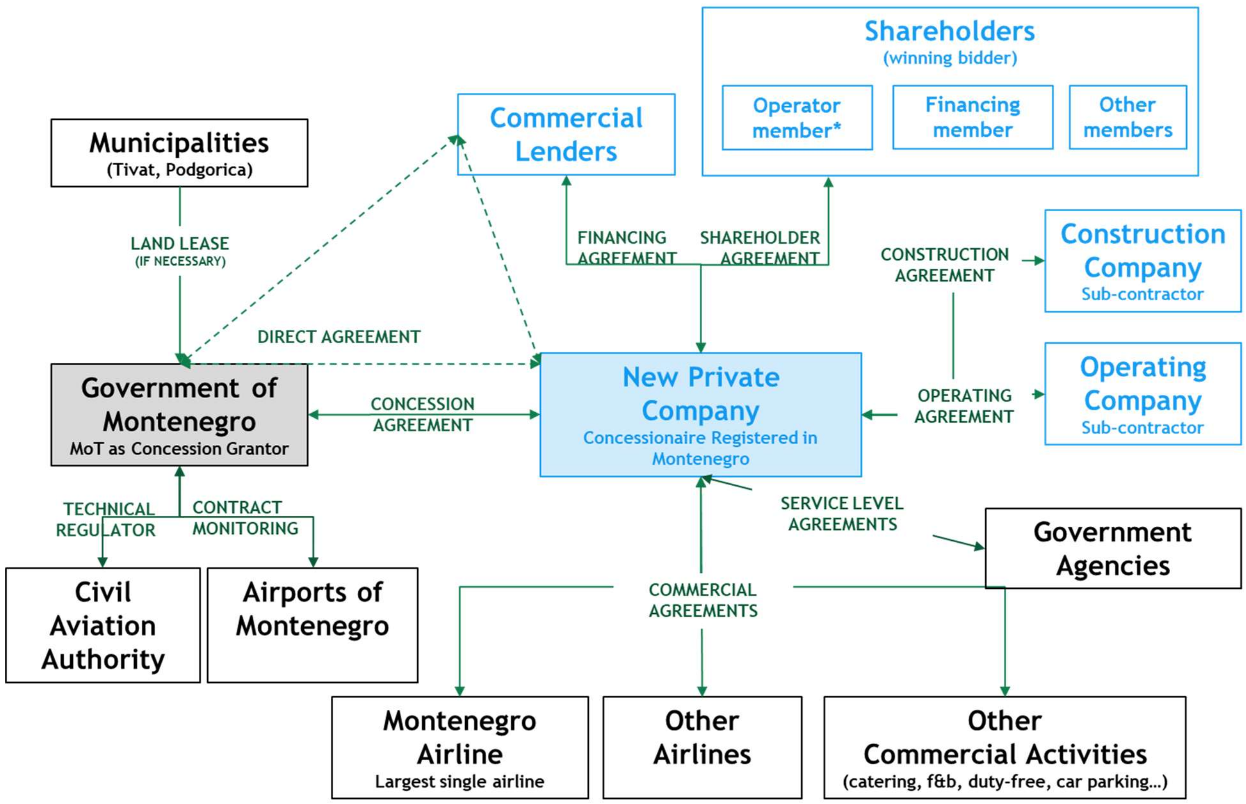
Appendix 5 – Indicative risk allocation matrix

The main risks associated with the proposed Concession Agreement are indicatively set out in **Error! Reference source not found.**the table below. The tender procedure is designed in a way to allow the MoT to optimize the risk allocation in the context of the dialogue with qualified bidders in order to achieve the best value for money for the public sector.

Risk	Indicative Allocation	Indicative Details
Land acquisition, resettlements	MoT	All costs associated with land acquisition and resettlement shall be borne by the MoT.
Site conditions, Environmental and social condition	Concessionaire	The Concessionaire shall comply at all times with the applicable law and IFC Performance Standards.
Planning delay	Shared	Concessionaire shall bear construction indexation and financing carry costs, subject to a long stop date.
Financing	Concessionaire	The Concessionaire shall be responsible for securing financing for the project
Construction and completion	Concessionaire	The Concessionaire will be required to satisfy itself as to the Sites conditions. The Concessionaire will take full risk on construction cost and time overrun. This is subject to availability of sufficient relevant information at the time of the bid.
Usage / Demand / traffic	Concessionaire	The Concessionaire will bear the risks of actual passenger traffic; Note that the revenue-share is calculated as a proportion of gross revenues, therefore it shall fluctuate depending on the level of traffic
Credit risk	Concessionaire, with the exception of risk associated with Montenegro Airline.	The Concessionaire shall bear the risk of default of all its counterparty, with the exception of Montenegro Airline; The MoT and/or the Government of Montenegro, shall provide to the Concessionaire certain mitigation and relief mechanisms in case of a default of payment of Montenegro Airlines.
Opex and maintenance	Concessionaire	The Concessionaire will bear all the costs associated with operating and maintaining the Airports throughout the term of the Concession
Force Majeure	Shared	Private Partner bears the risk, up to a time cap; if the event prolongates beyond the cap, the parties may terminate the Agreement, bearing their own costs; Lenders shall be repaid fully
Early Termination	Shared	Lenders will seek to be repaid (with a haircut in some instances) in case of early termination.
Change in law	Shared	Private partner bears the risk of general changes in law, while the City shall retain the risk of waste specific regulation changes at the City level, except where foreseeable at time of contract.

Appendix 6 – capital structure

The diagram below illustrates the stakeholders associated with the Project. As shown below, it is not envisaged that the Ministry of Transport, the Government of Montenegro or the Airports of Montenegro company participate in the capital structure of the new private company.



* The level of equity participation of the operator remains to be determined

Appendix 7 – Planning documents

The approved planning document for Tivat Sektor 24 is attached in a separate document. Please note that while the planning documents include several options, the MoT shall decide on the final option to be implemented on the basis of the finalization of the on-going land acquisition process during the tender phase.

The draft planning document for Aerodrom Podgorica is attached in a separate document. Please note that the planning document shall be submitted to the competent authorities for approval in October 2018. In addition, the MoT shall decide on the final option to be implemented during the tender phase.

Appendix 8 – Site Maps

Refer to separate attachment

Appendix 9 – report on the public debate

To be inserted by MoT at the end of the consultation period